



ORIGINAL

April 5, 2010

Honorable Judge Sarah N Harping
Arizona Corporation Commission
1200 West Washington
Phoenix, AZ 85007

Re: Response to ALJ Procedural Order dated March 30, 2010 to Granite Mountain Water Company, Inc.
Docket No: W-02467A-09-0333 ET AL.
W-02467A-09-0334

Judge Harping.

Please find hereafter the responses to your questions set forth in Exhibit A of the Procedural Order dated March 30, 2010.

Regards,

Matthew Lauterbach
Water Administrator
Granite Mountain Water Company
(928) 717-2616

Arizona Corporation Commission
DOCKETED

APR 21 2010

DOCKETED BY

Cc: Paul D. Levie, President, Granite Mountain Water Company

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April 5, 2010

Response to ALJ Procedural Order dated March 30, 2010 to Granite Mountain Water Company, Inc.

Docket No: W-02467A-09-0333 ET AL.

Judge Harping,

A short history of the relationship of land ownership and water service to the area where the current wells (Wells #3 and #4) are located in the valley and subdivisions in the valley and those on top of the hill and Administrative Law Judge to understand some of the problems that have surfaced over the last 31 years – and they have been very minimal.

The area of Granite Mountain Water Company's two wells were part of a water coop before Granite Mountain Water Company was organized. The coop water system, installed by Daniel Paul Levie (Paul Levie's son), served the Granite Mountain Stables and twelve one-acre lots down in the valley. A few of the lots were sold and homes placed on them. The coop was operated for a number of years prior to the establishment of Granite Mountain Water Company. That coop area became a part of Granite Mountain Water Company in about 1991 when Daniel Levie (as water operator for both the coop and Granite Mountain Water Company) was required to install a water main from well #3 to the storage tank of Granite Mountain Water Company upon the hill about a ½ mile from the wells. This water main was needed to provide additional water that could not be provided by the existing wells (Wells #1 and #2), which were up on top of the hill but never tapped an adequate aquifer.

Well #3 had been drilled as a test well some years before to prove water availability for establishing water rights to obtain the CC&N. Water was actually served through the coop system from a "grandfathered" well owned by Paul Levie, the land and well were later sold to Daniel Levie. After sometime of operation the coop (whose members were failing to provide funds [monthly water assessments] to supply their own water) was merged into Granite Mountain Water Company and its members were then served water by Granite Mountain Water Company, which had enforceable authority to collect water bills.

Paul D Levie who had originally set up the coop merged it into Granite Mountain Water Company without payment for its original well (now called Well #5) or any of the coop's facilities and assets, which are still in service of Granite Mountain Water Company. This included the water infrastructure which never got included in the Granite Mountain Water Company base. This

April 5, 2010

Response to ALJ Procedural Order dated March 30, 2010 to Granite Mountain Water Company, Inc.
Docket No: W-02467A-09-0333 ET AL.

included a 4" water line loop which served all customers by the original well. Well #5 is located on the lot owned by Daniel Levie at 2465 W Shane Dr, which is the location of Granite Mountain Water Company's present office (rented from Daniel Levie).

An additional well (Well #4) was drilled as a "test well" to establish water rights and to accommodate the 29 lot Granite Park Ranch subdivision. Daniel Levie provided without cost the well site which now provides essentially all the water for Granite Mountain Water Company and well site #3 which was also a test well and is now a production well. Granite Park Ranch was fully inundated with problems of subdividing a subdivision based upon water supply from individual wells, but they could not provide an assured 100 years of water supply. To accommodate service to Granite Park Ranch and provide the 100 year certificate it necessitated a new well which Granite Mountain Water Company agreed to drill and it became well #4. Granite Mountain Water Company then expanded the CC&N to provide water for them. Granite Mountain Water Company was not allowed to include in its base the sum of about \$300,000 that Granite Park Ranch had spent on their intended wells and water delivery system. I thought it should have been included.

Daniel Levie also owns and is holding for Granite Mountain Water Company the pre-1980 "grandfathered well" at 2465 Shane Drive which gives Granite Mountain Water Company the right to drill a replacement well within 660 feet to supply additional water (when needed) for the company. Granite Mountain Water Company included in the application for financing the site for that future well. The new 50,000 gallon tank, tank site, and retro fitting of the old 19,000 gal tank has used up a big part of the requested \$125,000 in funds for the new well.

When setting up the easements for well sites, well houses and delivery system on and over Daniel Levie's property, the rights and easements, existing and future were granted without charge for 99 years for the single consideration of a free hookup for Daniels home water meter adjacent to the stables. Daniel's tenant at the stables is supplied water on a bulk rate basis and several of Dan's tenants are supplied metered water. There was an inadvertent failure to charge a tenant or two who were hooked onto the old coop line which when discovered were not but are now metered.

April 5, 2010

Response to ALJ Procedural Order dated March 30, 2010 to Granite Mountain Water Company, Inc.
Docket No: W-02467A-09-0333 ET AL.

Daniel Levie who has run both the coop system and Granite Mountain Water Company part of the time since they were formed has always acted as a resource person and is available for help and trouble shooting in case of need. He owns the lot adjacent to our current office and the grandfathered well which is the optimum location for Granite Mountain Water Company future well when and as needed.

We will make future application for financing that well, when needed, before work is done and money is spent. Likewise, application will be made for subdivision facilities including water facilities in phases 4, 5, & 6 of Granite Mountain Homesites. Applicants will break out the bids for the roads, utilities and water extensions from the overall construction contract and apply for financing for the water improvements portion before we raise funds and bond for such improvements with Yavapai County. This is what we failed to do timely with water improvements in Granite Mountain Homesites Unit 5, phases 2 and 3.

Levie group had a new manager, Craig Garvin, at the time of development of phases 2 and 3 and there was a failure of communication at the time to assure that the approval of financing was obtained before the money was spent.

The owner Paul D. Levie has felt however that those improvements should be included in the rate base even though (through failure of communication and proper instructions in procedures) financing of those water plant improvements was not approved prior to construction. Payment was however in fact made as was evidenced by the notes that have now been paid. The water improvements are part of the plant and should be a part of the rate base. Likewise the new tank, its facilities, and a new well at the appropriate time will be a part of the water production facilities and should be or become a part of the rate base.

I guess I should never attempt to retire. At least I should try to properly explain procedures to new help and employees and be sure to keep the Corporation Commission fully advised and follow completely and accurately its procedures.

April 5, 2010

Response to ALJ Procedural Order dated March 30, 2010 to Granite Mountain Water Company, Inc.
Docket No: W-02467A-09-0333 ET AL.

If I do say so however, the Levie Group has run a very good operation at both Granite Mountain Water Company and Chino Meadows II Water Company.

It has been fortunate that lot sales for the Levie Group continued as long as they did, so we have been able to help support the two small fledgling water companies. Hopefully someday the water companies will become self supporting.

Respectfully,

A handwritten signature in black ink, appearing to read "Matthew Lauterbach", with a large, sweeping flourish extending to the right.

Matthew Lauterbach, Manager

for

Paul D. Levie, President

Granite Mountain Water Company

April 5, 2010

Response to ALJ Procedural Order dated March 30, 2010 to Granite Mountain Water Company, Inc.

Docket No: W-02467A-09-0333 ET AL.

1. Who made the filing on December 1, 2009?

We believe that the filings made on December 1, 2009 may have been provided by Mr. Charles R. Mylousen, ACC Public Utilities Analyst. Mr. Mylousen requested additional information via email (Exhibit 04-05-10 1a) regarding the company's depreciation schedules from 1993 through 2008; a General Ledger for the test year; clarification of customer deposits; and the plant in service subsidiary ledger for 1993 through 2008. Mr. Mylousen submitted additional questions via email on 11/24/09 (Exhibit 04-05-10 1b) and 12/01/09 (Exhibit 04-05-10 1c). The responses to Mr. Mylousen's questions can be provided upon request.

2. What is the company's explanation for its excessive water loss?

Granite Mountain Water company was created to aid in the development of home sites for sale in Granite Mountain Estates in Prescott, AZ. Throughout the years, as the building and populations grew so did the demand for water throughout Granite Mountain Estates, Equestrian Estates #2 and Granite Park Ranch. Over the years and with this development came changes in the water company's software system. We did update software and also updated our maps of the system locating all meters and taps.

a) In the conversion software, it is believed that the company did not account for additional meters used for landscaping in the Granite Mountain Estates area. These include meters at the company's tank site, one at a drainage (public easement) site, and another at our prior water company office on Rainmaker Road. These meters were not being read as they were not in the software system. These meters were discovered and input into the software systems as non-billed accounts in April 2009, to ensure that the water used was accounted for.

April 5, 2010

Response to ALJ Procedural Order dated March 30, 2010 to Granite Mountain Water Company, Inc.

Docket No: W-02467A-09-0333 ET AL.

- b) Additionally, three residential properties were found to be on a historically unknown water line attached to the water main. This line was the coop line installed prior to the formation of Granite Mountain Water Company. The water line was discovered in April 2009 while repairing a broken water main on West Shane Dr. Once discovered the company installed a single 1" meter on the line at the owner's request. The company owner was aware of the lines to the three properties in the old coop area and does not consider this a case of "theft" and will not prosecute for such. The owner does not suspect any theft anywhere in the system and the system has been very reliable as far as leaks are concerned.

On September 30th, 2009 the company provided Ms. Dorothy Hains, ACC Engineer, at her request a copy of the 2009 water usage summary from January 2009 through September 2009, showing only a 7.90% water loss after the discovery and monitoring of the previously unknown/unread meters.

It should be noted that in 2009 Granite Mountain Water Company;

- Had a total water loss of only 9.4% for 2009 as of December 31, 2009, which included all known meters.
- Did a comprehensive field audit of all meter boxes in the company's CC&N to ensure that all inactive meters were locked, all known active meters were being read and that all vacant lots did not have meters installed.
- Used GPS, satellite images and engineering drawings to compile the most extensive utility map of the system that the company has ever had at its disposal. This map includes every known meter, valve, well, fire hydrant, sample station, blow off, tanks, buildings and pressure reducing stations. The company used this map to ensure that all known meters were added to the company's software system and meter reading list.

April 5, 2010

Response to ALJ Procedural Order dated March 30, 2010 to Granite Mountain Water Company, Inc.

Docket No: W-02467A-09-0333 ET AL.

3. If the water loss is due to theft, when and how was that first detected, and how much water was stolen?

The company did not and still does not consider the unmonitored use of water as theft. The loss of water and unread meters were first discovered in April 2009. The average monthly use of the three residential properties accounted for approximately 45,116 gallons per month. The water usage for landscaping of Granite Mountain Estates was approximately 21,962 gallons per month.

4. Why did the company not detect the water loss sooner, if the company tracks its water pumped and sold each month?

The excessive water loss was determined after administrative and personnel changes in the fall of 2008. The company was unable to determine the direct cause of loss until the spring of 2009 at which time the company was considering using a leak detection contractor, although the company did not have enough capital to invest in such an expense.

5. Have the owners of the properties at which meters apparently went unread been held responsible in any way for the water usage? If so, how?

Since the company determined that the usage of water was not intentional and the company does not consider it theft of water the company is refusing prosecution and is not seeking reimbursement. Since April 2009, the meters that were discovered and/or added have been monitored accurately.

6. Whose responsibility is it to ensure that water cannot be obtained at an inactive property?

Granite Mountain Water company through association with Chino Meadows II Water Company has two fulltime field technicians who manually read the meters monthly. These field technicians are provided a list of current, active meters to read. They are also advised to check inactive meters for usage, tampering or breaks/leaks. The responsibility to ensure that the field technicians are checking for these indicators is with the company water administrator.

April 5, 2010

Response to ALJ Procedural Order dated March 30, 2010 to Granite Mountain Water Company, Inc.

Docket No: W-02467A-09-0333 ET AL.

7. What actions has the company taken to ensure that it will not again have water usage at inactive properties?

In the fall of 2009 the company purchased approximately 50 new locks to install on all inactive meters throughout Granite Mountain Water Company's service area as well as our Chino Meadows II Water Company service area. All inactive meter boxes were checked for tampering, vandalism, theft and then locked if not previously locked.

8. Why did the company not seek Commission approval for the line of credit or the three loans described in the financing application before obtaining them?

Mr. Paul Levie was concerned about not only obtaining a loan for the tank and well but was also concerned with getting the rate application filed with its implications. One implication was getting the tank financed so that it could be included in the rate base. The other implication was getting the tank actually built (e.g. plans, permission to construct and approval of construction). He failed in neglecting or forgetting the right order and so failed to instruct his capable manager of the regulations.

The line of credit could only be secured by a deposit account in the name of the Paul D. Levie and Rae Levie Trust. The line of credit was intended and required for the planning and construction of the company's new 50,000-gallon tank. The proceeds are also intended to be used to re-drill a replacement well.

The company did not seek prior approval for the three loans described in the financing application because these loans were provided by the Paul D. Levie and Rae Levie Trust and by bonding for all subdivision improvements. They were inadvertently not broken out of the contract and by failure of Mr. Paul Levie to properly instruct water company management at the time to get to corporation commission authority to finance the same. As owners of the water company and on the basis of Promissory Notes with zero interest were prepared and signed at or near the time the statements

April 5, 2010

Response to ALJ Procedural Order dated March 30, 2010 to Granite Mountain Water Company, Inc.

Docket No: W-02467A-09-0333 ET AL.

were paid but no authorization for financing was obtained. The loans were used strictly for the improvement of services to the water customers within Granite Mountain Water Company's service area.

9. Looking at the Commission Decisions, it appears that the company has been specifically ordered by the Commission on several occasions not to obtain long-term debt without first obtaining Commission approval. (See Decision No. 54902 (February 20, 1986); Decision No. 55921 (March 25, 1988); Decision No. 61731 (June 4, 1999) Does the company believe that it has complied with the Commission orders?

The owner and attorney Mr. Paul Levie acknowledges that he did not timely comply with the requirements of the regulations relative to obtaining authority for financing. In regards to financing application included in Docket W-02467A-09-0333 ET AL, the company's purpose in listing the three prior loans was due to the requirement in the rate application to show all prior long term debts, during the test year.

The three prior loans were funded, carried and paid in full by the end of 2008. Staff stated that the three prior loans "need no further consideration as they are paid in full". The company would agree with this gratuitous statement and would contend that the loans be considered for the purpose of determining rate, as all three loans were used for the improvement of the water system (see response #14 for further details of those improvements). Although, considering these funds as long-term debt during the test year, they were included in the financing application.

The current line of credit for the tank and well was put together at the same time as plans were being prepared for filing the rate case. The line of credit was included in the financing application was sought and funded in 2009, but was relative to the company's rate application to determine rate. A line of credit without collateral was sought from JPMorgan Chase Bank and if approved the company would have sought prior approval from the Commission prior to funding the loan. The

April 5, 2010

Response to ALJ Procedural Order dated March 30, 2010 to Granite Mountain Water Company, Inc.
Docket No: W-02467A-09-0333 ET AL.

bank would not loan the funds without collateral to secure the loan. Therefore, Mr. Levie as trustee of the Paul D. Levie & Rae Levie Trust used a deposit account to secure the loan from the bank. Since the construction projects funded by the line of credit are not yet complete, the company would like for the Commission to consider concurrently approving the loan. We would be very happy to pay the bank loan with the pledged account and pay payments to the Paul and Rae Levie Trust. The funds are being used to construct a 50,000 gallon storage tank, a retaining wall, and fencing and may be used to fund the drilling of a replacement well. Since the construction is still in process and has not yet been completed, the additions to the company have not been added as "plant in service" items. The completion of the tank project is anticipated for later this year.

10. If not, why has the company failed to comply with those Commission orders?

The company does not believe that it failed to comply with the Commissions orders regarding prior approval of "loans" in regards to the three prior promissory notes. The company did not seek "prior" approval from the Commission for the line of credit, but is seeking concurrent approval of the financing.

11. The rate application originally showed that all three loans were outstanding during the test year.

Why did the rate application show they were outstanding if they had already been paid off?

The original application showed the three loans as outstanding in error. The loans/promissory notes were paid in full, without interest in December 2008. The loans were indented to be shown only as a requirement to comply with the financing application, which was a requirement of the rate application.

12. When were the three loans paid off, using what funds?

The three loans were paid off on December 31, 2008 when it was decided to funds in the company's savings account should be used to pay off the debt. The funds used from the savings

April 5, 2010

Response to ALJ Procedural Order dated March 30, 2010 to Granite Mountain Water Company, Inc.
Docket No: W-02467A-09-0333 ET AL.

account were generated by both long term savings, interest on the deposit account, and repayment of loans from associated companies.

13. Has the company claimed any of the expenses of those three loans as test year operating expenses?

The expenses from the three loans were not claimed as operating expenses with the exception that they did contribute to the plant-in-service depreciation expense.

14. What were the proceeds from the three loans used for?

- a) Promissory Note #2 dated January 5, 2004 in the amount of \$27,773.65 was used for the extension of transmission and distribution mains to Unit V, Phase 1A of Granite Mountain Homesites subdivision.
- b) Promissory Note #3 dated March 23, 2006 in the amount of \$26,365.00 was used for the extension of transmission and distribution mains including hydrants to Unit V, Phase 2 of Granite Mountain Homesites subdivision.
- c) Promissory Note #3 dated April 23, 2007 in the amount of \$78,665.00 was used for the extension of transmission and distribution mains including hydrants to Unit V, Phase 3 of Granite Mountain Homesites subdivision.

The owner now recognizes that it was follie to extend these lines, get Real Estate Department approval and record the plant in as much as economic catastrophe hit the real estate market, owner has not been to sell even one lot and all the lots are being taxed not as un-subdivided real estate, but as subdivided and improved lots at a much higher Actual Cash Value.

15. What was the line of credit used for? (Was it the "storage tank project", which includes a 50,000-gallon tank, a retaining wall, and fencing?)

April 5, 2010

Response to ALJ Procedural Order dated March 30, 2010 to Granite Mountain Water Company, Inc.

Docket No: W-02467A-09-0333 ET AL.

The line of credit to date has been used solely for the 50,000-gallon tank, the retaining wall and the fencing. Please see Exhibit 04-05-10 #15 for a detailed explanation of expenses on the tank project.

16. When was the storage tank project completed?

The storage tank project has not been completed as of 04/05/2010.

17. Why did the company not get an Approval to Construct before constructing its storage tank project?

The company's tank design engineer submitted the required paperwork to the Arizona Department of Environmental Quality in approximately October 2008 and applied for the Approval to Construct.

Due to budgetary and personnel constraints at the ADEQ the time to process the application took almost a year and a half. In April of 2009 the engineer advised that we had verbal authorization from the ADEQ to begin construction after their review of the engineering plans. The ADEQ was unable to provide the official Approval to Construct until February 17, 2010 (Exhibit 04-05-10 #17).

18. Has the company now obtained an Approval to Construct and/or an Approval of Construction for the storage tank project? When was each obtained?

Answered in response to question #17 and shown in Exhibit 04-05-10 #17.

19. Is the 50,000-gallon storage tank now in service?

The 50,000-gallon water storage tank is not in service.

20. Why was there a \$2,000 penalty on Well #4? By whom was it assessed, and for what?

The \$2,000 civil penalty was assessed by the Arizona Department of Water Resources. Both wells #3 and #4 were put into service shortly after the time of extension of the CC&N, the drilling of well #4 and the obtaining of the 100 year water supply for Granite Park Ranch. Paul Levie was living at his family ranch in Utah much of the time this was done. If the one page application for change from a test well to a service well was prepared and filed with the ADWR it could not be found. Then about 10 years later when it was discovered as not being in their files. Dewey J Levie, son #3 was at

April 5, 2010

Response to ALJ Procedural Order dated March 30, 2010 to Granite Mountain Water Company, Inc.

Docket No: W-02467A-09-0333 ET AL.

the time the water operator and operating Granite Mountain Water Company and could not find copies to prove its filing. ADWR admitted that all or part of the records on Granite Mountain Water Company had been lost and had made prior request that we provide for them all the records that we had in our files, which we did.

The ADWR contended that Well #4 (55-554078) was never converted from a "test" well to a production well. In June 2008, some 10 years later, the ADWR cited Granite Mountain Water Company for exceeding the permitted 2 acre-feet limit of a test well. We had been using well #4 all that time.

GMWC paid the \$2,000.00 penalty on June 11, 2008. (Exhibit 04-05-10 #20)

21. Does the company plan to drill a replacement well? If so, for what well, where, and who owns the wellsite?

The company, in anticipation of projected growth due to raising demands in the area, plans to drill a replacement well. As stipulated in Staff's 3rd Data Request response;

"Granite Mountain Water Company has begun planning and development to drill a replacement well for one of our non-active wells, within our CC&N. Water production from our two active wells is currently adequate for our existing customers. Although, as shown in our response letter to Staff's Second Set of Data Requests the projected growth, based on 1) households in the immediate area that have private wells and may potentially be facing water supply issues in the near future, 2) subdivided vacant lots within our service area that will need water service, and 3) the additional subdivided lots adjacent to our service area, water production would not be adequate. In anticipation of this inevitable growth, Granite Mountain Water Company is planning to drill a replacement well. Current plans are to drill the replacement well within 660 feet of Well 55-622083 (2465 Shane Drive, Prescott, AZ), an inactive well owned by Granite Mountain Water Company. This

April 5, 2010

Response to ALJ Procedural Order dated March 30, 2010 to Granite Mountain Water Company, Inc.

Docket No: W-02467A-09-0333 ET AL.

well has a well filing date of 06/14/1982 and is a "grandfathered" well". (The well was an existing well in use when we bought the land in 1969.)

"The preliminary design of the replacement well shows an estimated depth of 700 feet, with an 8" bore hole to be build with approximately 400 feet of 6 inch solid steel casing and an additional 300 feet of 6 inch perforated steel casing. The meter size is anticipated to be a 3 inch meter. A

hydrological study of the area has not been completed as of this date and the amount of ground water that could be produced has not been determined, because however this is a "grandfathered" well, the replacement well capacity and production will be based on DWR criteria.

An estimate for the replacement well was completed in February 2009 by Drill-Tech, Inc (Attached as Exhibit "08/26/09 #1") (Shown herein as Exhibit 04-05-10 #21) in the amount of \$25,337.90.

According to the Prescott AMA a replacement well for Well 55-622083 may be drilled within 660 feet of the current location. The groundwater rights would be determined per DWR 55-41 Revised 7/08 that calculate as follows: 65gpm (original registry of well) multiplied by 525,600 = 34,164,000 divided by 325,851 = approximately 104.85 acre feet annually."

The wellsite is located on property owned by Mr. Daniel Paul Levie.

22. What is the company's reaction to Staff's recommendation for a new 110,000-gallon storage tank?

GMWC contends that the 110,000-gallons storage tank is not required by law or practical at this time. The recommendation by Staff to add the additional 110,000 gallons is based on peak demand and to meet fire flow requirements. GMWC has a valid and binding "Fire Flow Variance" from the Central Yavapai Fire District. This variance has not been revoked. Staff recommends that we meet fire flow requirements and GMWC is working to that goal, although it is not required. In a meeting with Mr. Charlie Cook (CYFD Assistant Chief) on December 14, 2009, Mr. Cook stated that the

April 5, 2010

Response to ALJ Procedural Order dated March 30, 2010 to Granite Mountain Water Company, Inc.

Docket No: W-02467A-09-0333 ET AL.

department is encouraged that GMWC is increasing its storage capacity by adding the 50,000 gallon tank. He stated that the department is satisfied that the current addition is being made but would like the company to work towards meeting fire flow requirements in the future.

23. What is the company's reaction to Staff's recommendations that the approval of the line of credit be denied and that no action be taken regarding the three loans?

Applicant has no problem with the denial of the \$125,000 line of credit. Because of the world economic circumstances, Granite Mountain Water Company was required to secure the line with a \$125,000 cash deposit of funds which owner Paul D Levie deposited with the bank at a lower interest rate than is being paid on the loan. The objective was simply to get it in the rate base. If it is included in the rate base and is paid back on the same terms to Paul D Levie it is a preferable treatment of the loan. Until now it has never been a problem to get a loan at market with a six figure loan. We do not think that Granite Mountain Water Company should have to capitalize the loan.

Granite Mountain Water Company is satisfied with the recommendation that the three prior loans which have been paid in full should not require further action or approval from the Commission. Since all three loans were contracted and used specifically for the extension of the water system they should be considered for rate determination purposes and should not be considered paid in capital.

24. What is the company's reaction to Staff's recommended rates and charges?

The company worked closely with Staff to determine and modify the proposed rates and fee schedules. The company concurs with Staff's recommendations on all rates and charges at this time.

25. Is the easement agreement between the company and Daniel Paul Levie still in effect?

April 5, 2010

Response to ALJ Procedural Order dated March 30, 2010 to Granite Mountain Water Company, Inc.
Docket No: W-02467A-09-0333 ET AL.

The easement agreement between GMWC and Daniel Paul Levie is still in effect. The ninety-nine year agreement was entered into on December 28, 2001.

26. Are the two properties owned by Daniel Paul Levie the properties on which Wells #3 and 4 are located?

The properties that Wells #3 and #4 are located are owned by Mr. Daniel Paul Levie.

27. How is Daniel Paul Levie related to Paul D. and Rae Levie, the owners of the company?

Daniel Paul Levie is the son of Mr. Paul D. and Mrs. Rae Levie.

28. Is Daniel Paul Levie receiving water at a rate of \$2.00 per 1,000 gallons for the property described in the easement agreement and at no charge for the property described in the easement agreement?

Daniel Paul Levie is receiving water at a rate of \$2.00 per 1,000 gallons for the "Stables Property" per the agreement that is located on his property. He is also receiving water at no charge for his home property shown in Exhibit "A" of the easement agreement.

29. Has the Commission approved the easement agreement in any way? If so, how and when?

The easement agreement was recorded with the Yavapai County Records office on Book 4025 Page 866 on April 28, 2003. The company is unable to determine if the Commission has previously approved the easement agreement. It is not to the knowledge of Paul D Levie. If required we would request approval of the easement.

30. What meter size is used to serve each of the two properties owned by Daniel Paul Levie?

Both properties shown in the easement agreement are equipped with a 5/8 x 3/4 inch meter.

31. Does Daniel Paul Levie pay a monthly minimum charge for the water used at either of those two properties?

Mr. Daniel Paul Levie is not charged a monthly minimum charge per the easement agreement, which stipulates "D.P. Levie shall have free use of water for domestic purposes, gardens..." at his home.

April 5, 2010

Response to ALJ Procedural Order dated March 30, 2010 to Granite Mountain Water Company, Inc.

Docket No: W-02467A-09-0333 ET AL.

32. How much water is used by Daniel Paul Levie for each of those properties during the test year? Is that water usage included in the company's water pumped and sold as reported to the Commission?

a) During the test year the property reference as Exhibit "A" in the easement agreement used a total of 329,610 gallons of water which was reported in the water usage given to the commission.

b) During the test year the property reference as Exhibit "B" in the easement agreement used a total of 381,430 gallons of water which was reported in the water usage given to the commission.

33. How much did Daniel Paul Levie pay for water for these two properties during the test year? Is the revenue from Daniel Paul Levies' water usage for those two properties included in the company's test year revenues?

a) Mr. Daniel Paul Levie did not pay for water for the property (his home) reference as Exhibit "A" in the easement agreement. Therefore there was nothing added to the company's revenues for the test year.

b) Mr. Daniel Paul Levie leased the property reference as Exhibit "B" in the easement agreement to Granite Mountain Stables during the test year. They were charged a minimum monthly fee and were charged for water at a rate of \$2.00 per 1,000 gallons. During the test year the revenue related to this property was \$917.87, which was included in the company's test year revenues.

34. Was the water usage for Daniel Paul Levies' two properties during the test year representative of the usage by Daniel Paul Levie for those two properties during the years prior and subsequent to the test year?

April 5, 2010

Response to ALJ Procedural Order dated March 30, 2010 to Granite Mountain Water Company, Inc.

Docket No: W-02467A-09-0333 ET AL.

The water usage for the two properties shown on the easement agreement during the test year were relatively similar to the same properties in the years prior to and the year after the test year.

35. How did Daniel Paul Levie come to own the properties that include the two wellsites? From whom did he obtain them, at what price, and when?

A Quit-Claim Deed was recorded December 31, 2001 with the Yavapai County Records office and was executed by Paul D. Levie, Trustee of the Paul D. and Rae Levie Trust, dated November 20, 1973 in the amount of \$10.00, for the properties (Reference Yavapai County Book 3890 Pg 858).

Matt Lauterbach

From: Charles Myhlousen [CMyhlousen@azcc.gov]
Sent: Friday, November 20, 2009 3:30 PM
To: mattlauterbach@leviegroupp.com
Cc: Charles Myhlousen
Subject: Clarification of data requests items or additional records to response to data request No. 5.

Matt:

1. 5.1 Please send the electronic copy of the PDF Format of the depreciation schedules for the plant in service for years 1993 through 2008.
2. 5.2 Please send the electronic copy of Microsoft Excel Format of the general ledger for the test year. Only hardcopy was sent after the DR requested the electronic version.
3. 5.5 Please clarify the amounts for customers meter deposits and advances in aid of construction. For meter deposits on page 22 the amount is \$1,695, on page 23 the amount is \$14,710. Which amount is correct? For advances in aid of construction on page 22 the amount is \$14,710, on page 24 \$14,710. Is that correct?
4. 5.11 Please reference 5.11 which asked for copy of the plant in service subsidiary ledger for the years 1993 through 2008. What was sent were copies of the balance sheets and not the subsidiary ledger. Please send the plant in service subsidiary ledger.

Charles R. Myhlousen
Public Utilities Analyst
602-542-0863

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Version: 8.5.425 / Virus Database: 270.14.61/2497 - Release Date: 11/20/09 08:02:00

Matt Lauterbach

From: Charles Myhlousen [CMyhlousen@azcc.gov]
Sent: Tuesday, November 24, 2009 2:23 PM
To: mattlauterbach@leviegroupp.com
Cc: Charles Myhlousen
Subject: Additional questions for Granite Mountain Water Company

Matt: I reviewed the general ledger and I have four questions that I need additional information or clarification. Please answer these questions.

1. Account No. 620. Material and Supplies. The entry for Triple D Trucking or 34 ton ab base for Shane Dr for \$415. How was this used in the direct operations of the water company?
2. Account No. 630.2. Contract Labor. Please explain what services were provided by Shane Levie and Isak Larson. Will these services be provided by them or some one else in the future?
3. Account No. 665. Regulatory Commission Expense-Rate Case. Please provide a schedule listing each individual amount in the account as to what the \$1.646 was paid for, who received payment and what services were provided. Also which of these items were for water testing expense?
4. Account No. 665 Regulatory Commission Expense. Please explain the penalty of \$2,000 for Well # 4 and why was it assessed and paid?

Thanks
Charles R. Myhlousen
Arizona Corporation Commission

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been scanned to detect malicious content. If you experience problems, please e-mail postmaster@azcc.gov
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Matt Lauterbach

From: Charles Myhlousen [CMyhlousen@azcc.gov]
Sent: Tuesday, December 01, 2009 3:51 PM
To: mattlauterbach@leviegroupp.com
Cc: Charles Myhlousen
Subject: Granite Mountain Water Company Financing Application.

Matt. I am again reviewing the financing application that was submitted June 30, 2009. I have questions concerning the amount of financing requested and the estimate of the cost of the project. The financing application is requesting a line of credit for \$125,000. The 50,000 gallon storage tank project estimate cost is \$96,020. Please explain why these two amounts are different. Why is the Company asking for more financing amount than the estimated cost of the project? Please just reply by e-mail.

Thanks
Charles R. Myhlousen
Public Utilities Analyst
602-542-0863

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Granite Mountain Water Company, Inc
50K Gallon Storage Tank Project

Function	Company	Estimate	Paid	Date
Tank Structural Engineering/Design	Robbins Engineering	\$2,850.00	\$2,850.00	1/30/2008
Tank Structural Engineering/Design	Glen Vortherms	\$7,200.00	\$5,700.00	10/15/2008
Permit for Storage Tank-Deposit	Yavapai County	\$100.00	\$100.00	10/7/2008
Copies of Tank Plans	A&E Reprographics	\$68.91	\$68.91	11/5/2008
Permit for Storage Tank-Balance	Yavapai County	\$400.00	\$400.00	11/10/2008
Engineering Services Oct/Nov 2008	Glen Vortherms	\$750.00	\$750.00	12/9/2008
GM Tank Excav Hammer for Bobcat	Chino Rentals	\$470.21	\$470.21	12/9/2008
Excavation for Tank	Danny Levie	\$1,000.00	\$1,000.00	12/11/2008
Copies of Approval to Construct/ADEQ Permit Required	Matt Lauterbach	\$4.00	\$4.00	2/4/2009
Permit for Retaining Wall-Deposit	Yavapai County	\$50.00	\$50.00	2/5/2009
Debris Removal from Site	City of Prescott	\$18.26	\$18.26	2/17/2009
Survey Easement Pins	M Haywood & Assoc	\$275.00	\$275.00	2/17/2009
Retaining Wall Structural Engineering/Design	M Haywood & Assoc (Bill Carnes)	\$2,557.80	\$2,557.80	2/17/2009
Permit for Retaining Wall-Balance	Yavapai County	\$328.34	\$328.34	2/17/2009
Copies of Retaining Wall Plans	A&E Reprographics	\$19.99	\$19.99	3/4/2009
Retaining Wall Construction	Desert Snow Construction	\$7,800.00	\$15,415.86	4/2/2009 4/14/2009 5/14/2009
Subcontract CMU Wall	Masonry of Arizona (Kelly Vaughn)	\$3,043.00	\$3,043.00	4/6/2009
Spec AB	Asphalt Paving & Supply	\$333.43	\$333.43	4/1/2009
Grout & 3000 PSI w/Air w/Ash	Hanson Aggregates	\$3,222.36	\$3,222.36	4/1/2009
PG 2500 Grout n/Air w/Ash	Hanson Aggregates	\$679.13	\$679.13	4/14/2009
Retaining Wall Backfill (Proctor)	Hanson Aggregates	\$353.51	\$353.51	4/28/2009
CMU Block Materials	Yavapai Block	\$2,373.94	\$2,373.94	5/5/2009
Wrought Iron Fencing	Desert Snow Construction (Steve)			
Wrought Iron Anchors-1 1/2" Sq Tubing	ACE Hardware	\$49.06	\$49.06	4/14/2009
Wrought Iron Anchors-1 1/2" Sq Tubing	Prescott Steel & Welding Supply	\$23.19	\$23.19	4/3/2009
Wrought Iron Fencing-1 1/4" & 1/2" Sq Tubing	Glendale Steel Supply	\$856.20	\$856.20	4/23/2009
Wrought Iron Fencing-(18) 12" x 1 1/4"	Glendale Steel Supply (amex)	\$336.95	\$336.95	5/26/2009
Wrought Iron Fencing-Materials for Gate and Fence	Home Depot	\$302.42	\$302.42	5/14/2009
Driveway Rock-Fill for Ring	Asphalt Paving & Supply	\$236.40	\$236.40	4/23/2009
Driveway Rock-Fill for Ring	Asphalt Paving & Supply	\$48.30	\$48.30	5/26/2009
Bedding Material to Level Tank Foundation	Hanson Aggregates	\$125.87	\$125.87	5/14/2009
Bedding Transport to Level Tank Foundation	Triple D Trucking	\$140.00	\$140.00	5/14/2009
Compaction Report	Engineering & Testing Consultants (Steve)	\$300.00	\$515.00	5/26/2009
Tank Construction - Draw #1	David Larson	\$54,600.00	\$10,000.00	4/28/2009
Draw #2	David Larson		\$15,000.00	5/15/2009
Draw #3	David Larson		\$5,000.00	6/22/2009
Draw #4	David Larson		\$5,000.00	12/17/2009
Landscaping	Windmill Farms Nursery	\$2,000.00	\$896.00	5/5/2009
Driveway Rock-Landscaping Front	Asphalt Paving & Supply	\$129.80	\$129.80	7/10/2009
Driveway Rock-Landscaping Front Delivery	Triple D Trucking	\$75.00	\$75.00	7/13/2009
Rock Wall Construction-Rock Work	Richard Mason	\$3,950.00	\$3,950.00	7/21/2009
Reimb for (8) Trees (Home Depot)	Tony Uhler	\$388.26	\$388.26	9/21/2009
Painting Tanks/Wall/Structure	Mark Manrique	\$3,000.00	\$822.00	7/27/2009
Paint for Walls/Fence/Building (Benjamin Moore)	David Larson	\$404.69	\$404.69	7/13/2009
Paint for Walls/Fence/Building (Benjamin Moore)	David Larson	\$30.87	\$30.87	8/25/2009
Paint Spray Can and Tape	Home Depot	\$125.05	\$125.05	8/7/2009
Metal Pad and Sandscreens (Mark)	Farm Plan	\$43.48	\$43.48	9/9/2009
Microfiber, Sandscreen and Thinner (Mark)	Farm Plan	\$37.13	\$37.13	9/9/2009
Permit for Storage Tank-Extension	Yavapai County	\$25.00	\$25.00	11/2/2009
Pipe and Valves for Tank Connection	Ferguson Waterworks	\$1,772.21	\$1,058.34	12/17/2009
	Ferguson Waterworks		\$244.40	1/12/2010
		Totals \$102,897.76	\$85,877.15	



ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY
CERTIFICATE OF APPROVAL TO CONSTRUCT
WATER FACILITIES

Page 1 Of 3

ADEQ File No: 20080542	LTF No: 48840
System Name: Granite Mountain Water Co	System Number: 13-150
Project Owner: Paul Levie	
Address: 2465 W. Shane Dr., Prescott, AZ 86305	
Project Location: Prescott	County: Yavapai
Description: GRANITE MOUNTAIN WATER COMPANY. ATC PERMIT TO CONSTRUCT 1-50,000 GALLON STORAGE TANK AND ASSOCIATED YARD PIPING. TO SERVE 175 SINGLE-FAMILY RESIDENTIAL LOTS IN THE COMMUNITY OF PRESCOTT VALLEY.	

Approval to construct the above-described facilities as represented in the approved documents on file with the Arizona Department of Environmental Quality is hereby given subject to provisions 1 through 6 continued on page 2 through 3

1. This project must be constructed in accordance with all applicable laws, including Title 49, Chapter 2, Article 9 of the Arizona Revised Statutes and Title 18, Chapter 5, Article 5 of the Arizona Administrative Code.
2. Upon completion of construction, the engineer shall fill out the Engineer's Certificate of Completion and forward it to the Central Regional Office located in Phoenix. If all requirements have been completed, that unit will issue a Certificate of Approval of Construction. R18-5-507(B), Ariz. Admin. Code. At the project owner's request, the Department may conduct the final inspection required pursuant to R18-5-507(B); such a request must be made in writing in accordance with the time requirements of R18-5-507(C), Ariz. Admin. Code.
3. This certificate will be void if construction has not started within one year after the Certificate of Approval to Construct is issued, there is a halt in construction of more than one year, or construction is not completed within three years of the approval date. Upon receipt of a written request for an extension of time, the Department may grant an extension of time; an extension of time must be in writing. R18-5-505(E), Ariz. Admin. Code.
4. Operation of a newly constructed facility shall not begin until a Certificate of Approval of Construction has been issued by the Department. R18-5-507(A), Ariz. Admin. Code.

Reviewed by: FMS

By: Janak K. Desai 2/17/2010
Janak K. Desai, P.E. Unit Manager Date
Engineering Review Section
Water Quality Division

cc: File No : 20080542
Regional Office: Central
Owner: Paul Levie
County Health Department: Yavapai
Engineer: Glen Vortherms
Planning and Zoning/Az Corp. Commission
Engineering Review Database - Etr021

Exhibit 04-05-10 #17

**APPROVAL TO CONSTRUCT
STORAGE TANKS & YARD PIPING
ADEQ FILE No. 20080542
PAGE 2 OF 3: PROVISIONS CONTINUED**

5. Approval of Construction (AOC) will not be issued until data is obtained and verified for Pressure and Leakage Tests of waterlines and Disinfection Sampling of constructed well, storage and hydropneumatic tanks, booster pumps and potable water lines. **Engineering Bulletin No. 10, Chapter 2.E.20, Disinfection Requirements**; requires that... "Every new, modified or reconditioned groundwater source shall be disinfected after placement of final pump equipment". Information on disinfection procedures can be obtained from "**Engineering Bulletin No. 8, "Disinfection of Water Systems"**".

It is recommended that the Engineer's Certificate of Completion (ECC) Data Required Sheet be completed in full, showing actual pressures and sampling data. Data required with ECC sheet can be found under heading - Safe Drinking Water and subheading - Technical Engineering/Plan Reviews

<http://www.azdeq.gov/function/forms/appswater.html#sdw>.

6. Before construction of a modification, expansion, or alteration of this distribution system begins, a separate Approval to Construct applicable to each addition must be obtained. A.A.C. R18-5-505(B). The Arizona Department of Environmental Quality's review of this application was subject to the requirements of the licensing time frames ("LTF") statute under Arizona Revised Statutes ("A.R.S.") § 41-1072 through § 41-1079 and the LTF rules under Arizona Administrative Code ("A.A.C.") R18-1-501 through R18-1-525. This Notice is being issued within the overall time frame for your application.

ADEQ hereby approves your application for Approve to Construct Drinking Water Facilities under A.R.S. § 49-351. Your copy is enclosed.

This decision is an appealable agency action under A.R.S. § 41-1092. You have a right to request a hearing and file an appeal under A.R.S. § 41-1092.03(B). You must file a written Request for Hearing or Notice of Appeal within **30 days** of your receipt of this Notice. A Request for Hearing or Notice of Appeal is filed when it is received by ADEQ's Hearing Administrator as follows:

Judith Fought, Hearing Administrator
Office of Administrative Counsel
Arizona Department of Environmental Quality
1110 W. Washington Street
Phoenix, AZ 85007

**APPROVAL TO CONSTRUCT
STORAGE TANKS & YARD PIPING
ADEQ FILE No. 20080542
PAGE 3 OF 3: PROVISIONS CONTINUED**

The Request for Hearing or Notice of Appeal shall identify the party, the party's address, the agency and the action being appealed and shall contain a concise statement of the reasons for the appeal. Upon proper filing of a Request for Hearing or Notice of Appeal, ADEQ will serve a Notice of Hearing on all parties to the appeal. If you file a timely Request for Hearing or Notice of Appeal you have a right to request an informal settlement conference with ADEQ under A.R.S. § 41-1092.06. This request must be made in writing no later than **20 days** before a scheduled hearing and must be filed with the Hearing Administrator at the above address.

Please contact Frank M. Smaila at (602) 771-4237 or fms@azdeq.gov if you have questions regarding this Notice or the Certificate of Approved to Construct.

CITATION

NOTICE OF VIOLATION OF ARIZONA REVISED STATUTES AND/OR
ARIZONA ADMINISTRATIVE CODE

THE ARIZONA DEPARTMENT OF WATER RESOURCES
TO THE RESPONDENT: Granite Mountain Water Company, Inc.
VIOLATION: A.R.S. §45-521
WELL NUMBER: 55-554078

Your use of groundwater in excess of the permitted volume allowed is in violation of Arizona Revised Statutes § 45-521. The Granite Mountain Water Company, Inc. exceeded the permitted volume of Well No. 55-554078 in the amount of 25.81 acre-feet according to the Annual Water Withdrawal and Use Report associated with Service Area Right No. 56-003024.0000 for Calendar year 2007.

Execution of this Citation by the Respondent does not resolve any violation or other matters not described herein.

You are hereby afforded an opportunity to avoid further sanctions, provided:

You pay a civil penalty in the amount of Two Thousand Dollars (\$2,000).

FAILURE TO SATISFY THESE CONDITIONS MAY RESULT IN INCREASED PENALTIES.

If you comply with these terms and return this agreement to the Docket Supervisor within 30 days of receipt, the Department of Water Resources will not take further enforcement action regarding this violation.

If you have any questions regarding this matter, contact Scott Deeny of the Department's Legal Division at (602) 771-8472.

I AGREE THAT THE FACTS AND VIOLATIONS STATED ABOVE ARE ACCURATE AND ENCLOSE THE CIVIL PENALTY OF \$2,000.00 DOLLARS.

By: 

Date: 6/11/08

PLEASE MAKE CHECKS PAYABLE TO: ARIZONA DEPARTMENT OF WATER RESOURCES

And return the signed Citation and check to:

Docket Supervisor
Arizona Department of Water Resources
3550 North Central Avenue
Phoenix, Arizona 85012

ARIZONA DEPARTMENT OF WATER RESOURCES

Prescott Active Management Area
2200 E. Hillsdale Road, • Prescott, Arizona 86301
Telephone (928) 778-7202 • Fax (928) 776-4507



Janet Napolitano
Governor

Herbert R. Guenther
Director

June 2, 2008

Granite Mountain Water Company, Inc.
Attn: Paul Levie
P.O. Box 350
Chino Valley, AZ 86323

NOTICE OF NON-COMPLIANCE

The Department of Water Resources has recently reviewed the information contained in the Annual Water Withdrawal and Use Reports for Granite Mountain Water Company, Inc. Based on this review, it appears that the water company was not in compliance with provisions of the Groundwater Code (Chapter 2, Title 45, Arizona Revised Statutes) for the calendar years 1997, 2002, 2003, 2004, 2005, 2006 and 2007. The Department has identified the following apparent violation:

Exceeding the permitted volume of well No. 55-554078.

Well No. 55-554078 was permitted under 59-554005.0000 as a hydrological testing well from February 21, 1996 through May 21, 1996. The permitted volume of the well was 2 acre-feet.

Based on water use information you submitted for 56-003024.0000 and 59-554005.0000, well No. 55-554078 was used in a volume greater than 2 acre-feet and beyond the expiration date of the hydrological testing permit. The annual reported withdrawals from well No. 55-554078 are shown in the following table:

1997 ¹	2002 ²	2003	2004	2005	2006	2007
9.7 AF ³	24.82 AF	24.64 AF	30.45 AF	32.5 AF	45 AF	25.8 AF

¹ Reported annual use was from 59-554005.0000.

² From 2002 through 2007 the reported annual use was from 56-003024.0000.

³ AF means acre-feet.

If you have any questions, please contact Jack McCormack at (928) 778-7202. Your anticipated cooperation is greatly appreciated.

Sincerely,

Jack McCormack, Water Resource Specialist
Prescott Active Management Area

cc: Andrew Craddock
Scott Deeny

ARIZONA DEPARTMENT OF WATER RESOURCES

Prescott Active Management Area
2200 E. Hillsdale Road, • Prescott, Arizona 86301
Telephone (928) 778-7202 • Fax (928) 776-4507



June 2, 2008

Janet Napolitano
Governor

Herbert R. Guenther
Director

Granite Mountain Water Company, Inc.
Attn: Paul Levie
P.O. Box 350
Chino Valley, AZ 86323

RE: Well No. 55-554078 (CDH 08-0029)

Dear Mr. Levie:

The Department of Water Resources (Department) has recently reviewed the information contained in the Annual Water Withdrawal and Use Reports for Service Area Right No. 56-003024.0000. Based on this review, it appears that the Granite Mountain Water Company, Inc. was not in compliance with provisions of the Groundwater code (Chapter 2, Title 45, Arizona Revised Statutes) for the 2007 calendar year.

Well maximum annual permitted volumes are governed by Arizona Revised Statutes § 45-512 and are determined to be values that will not cause unreasonable increasing damage to surrounding land or water users. According to the Annual Water Withdrawal and Use Reports for years 1997, 2002, 2003, 2004, 2005, 2006 and 2007 associated with Service Area Right No. 56-003024.0000 it appears that the Granite Mountain Water Company, Inc. operated well No. 55-554078 in excess of the permitted volume.

The Department is offering to resolve this enforcement action with the enclosed Citation. The Department is aware that there are on-going efforts to permit well No. 55-554078 as a non-exempt service area well operated by Granite Mountain Water Company, Inc. with a permitted volume of approximately 80 acre-feet. If through this permitting process there are complications that will not allow well No. 55-554078 to be permitted, the use of this well should cease immediately. Please be aware that the Department will seek increased civil penalties in the event of repeat violations.

The Citation affords the opportunity to settle this matter without further enforcement action by the Department. The Citation sets forth the nature of the violation, and provides that the Granite Mountain Water Company, Inc. may avoid further sanctions provided civil penalties are paid.

If the Granite Mountain Water Company, Inc. agrees that the civil violation set forth in the Citation has been committed, and wishes to resolve this matter, return the signed Citation to the Docket Supervisor, along with payment of the civil penalty *within thirty days of the date of receiving this letter*.

If the Granite Mountain Water Company, Inc. chooses not to sign the Citation, the Department may give written notice to appear at a hearing at the Office of Administrative Hearings regarding the violations, A.R.S. § 634. In the event the Department prevails at the hearing, the director of the Department may issue an order recommending civil penalties which will be pursued in Superior Court, and could amount to as much as ten thousand dollars per day of violation for each violation. A.R.S. §§ 45-634, 45-635. The penalty amounts at which the Department is willing to resolve this matter via the Citation are significantly less than the penalties the Department will seek in the event of an administrative hearing.

Drill-Tech Inc.,
 3320 N. Hwy 89
 Chino Valley, AZ 86323

Estimate

Date	Estimate #
2/3/2009	1

Name / Address
Paul Levi

Project

Description	Qty	Rate	Total
8" Bore Hole	700	20.00	14,000.00
10" Steel Surface Pipe	20	60.00	1,200.00T
6" Steel Casing Solid	400	20.00	8,000.00T
6" Steel Casing Perforated	300	4.00	1,200.00T
DWR Permit in AMA	1	150.00	150.00
Yavapai County	1	127.50	127.50
<p>Levi, Please keep in mind that if the property is over 5 acres there is no county permit required & if the property is out of the AMA the state permit will only be \$100.00</p> <p>If you want a 12" Surface Pipe instead of the 10" Surface Pipe the cost is \$300.00 more If there are problems with the formations. i.e... running into cinders, the hole falling apart due to formations, additional cost may be incurred. The costs include but are not limited to additional concrete, mud drilling costs, hourly rates, ect...</p>			
Thank You for considering Drill Tech Inc. for your Drilling needs		Subtotal	\$24,677.50
		Sales Tax (6.35%)	\$660.40
		Total	\$25,337.90