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BEFORE THE ARIZONA CORPORATION COMMISSION

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CARL J. KUNASEK
CHAIRMAN
JIM IRVIN
COMMISSIONER
WILLIAM A. MUNDELL
COMMISSIONER

Arizona Corporation Commission

DOCKETED

OCT 04 2000

2000 OCT -4 P 3:44

ARIZONA CORPORATION COMMISSION
DOCUMENT CONTROL

DOCKETED BY *Sig*

IN THE MATTER OF THE APPLICATION OF
H2O, INC., FOR AN EXTENSION OF ITS
EXISTING CERTIFICATE OF CONVENIENCE
AND NECESSITY.

DOCKET NO. W-02234A-00-0371

IN THE MATTER OF THE APPLICATION OF
JOHNSON UTILITIES, L.L.C., DBA JOHNSON
UTILITIES COMPANY FOR AN EXTENSION
FOR ITS CERTIFICATE OF CONVENIENCE
AND NECESSITY TO PROVIDE WATER AND
WASTEWATER SERVICE TO THE PUBLIC IN
THE DESCRIBED AREA IN PINAL COUNTY,
ARIZONA.

DOCKET NO. W-02987A-99-0583

DIRECT TESTIMONY
OF
PAUL T. GARDNER
QUEEN CREEK WATER COMPANY

OCTOBER 4, 2000

1 Q. Please state your name, present position and place of employment.

2 A. My name is Paul T. Gardner. I am the president of Queen Creek Water Company ("Queen
3 Creek" or "Company"). Queen Creek's business address is 22036 South Ellsworth Road,
4 Queen Creek, Arizona 85242.

5 Q. What are your responsibilities with Queen Creek?

6 A. As President of Queen Creek, I have responsibility for the management and operations of
7 the Company.

8 Q. How long have you been employed by Queen Creek?

9 A. I first joined the Company in 1985. I have been president of the Company since 1988.

10 Q. Have you previously appeared before the Commission?

11 A. Yes. I have given testimony on behalf of Queen Creek in various regulatory matters before
12 the Commission.

13 Q. What is the purpose of your testimony?

14 A. The purpose of my testimony is to provide the Commission with information relevant to
15 deciding which company, including Queen Creek, is best able to provide water service in
16 the areas that are being sought to be certificated by both H2O, Inc. ("H2O") and Johnson
17 Utilities Company ("Johnson"), which consist of all or portions of Sections 28, 29, 31 and
18 33, T2S, R8E, and Sections 5 and 6, T3S, R8E, Pinal County, Arizona (the "contested
19 areas"). My testimony will address the facilities and operations of Queen Creek, including
20 those facilities and operations that are in proximity to the contested areas, the capability of
21 Queen Creek to serve the contested areas, and the reasons why Queen Creek is best able to
22 provide such service.

23 Q. Please describe Queen Creek's facilities and operations.

24 A. Queen Creek is an Arizona public service corporation which has been certificated by
25 Commission in prior decisions to provide water service in approximately 31 square miles
26 located in southeastern Maricopa County and northern Pinal County. Queen Creek presently
27 serves over 2,000 metered customers. Its facilities includes five production wells and 1.5
28 million gallons of storage capacity. Queen Creek plans to install additional storage capacity

1 of 1 million gallons during 2001, and is also in the process of acquiring several new wells
2 and storage sites. The certificated area of Queen Creek, along with the Company's wells,
3 tank sites and main lines, are shown in Exhibit I of Queen Creek's application for an
4 extension of its Certificate of Convenience and Necessity ("CC&N") filed on October 4,
5 2000 (the "Application") and incorporated herein by this reference.

6 In recent years 100-year assured water supply certificates have been secured for over
7 30 subdivisions through their enrollment in the Central Arizona Groundwater Replenishment
8 District ("CAGRDR"). At buildout of these subdivisions Queen Creek will still have excess
9 groundwater available in its service area.

10 Q. Please describe the history of Queen Creek relative to the contested areas.

11 A. During the latter half of 1999 and the early part of 2000, and after having had discussions
12 with several landowners in the contested areas, Queen Creek identified a firm from British
13 Columbia in Canada with whom it could partner to bring sewer service to landowners in the
14 contested areas in addition to the water service which could be provided by Queen Creek.
15 At that time Queen Creek anticipated that it would file an application for an extension of its
16 CC&N for water service and a CC&N for sewer service in the spring of 2000. The Company
17 also made known to both H2O and Johnson that it had been contacted by approximately one
18 dozen landowners who were interested in securing such service. In the Spring of 2000 most
19 of these landowners advised Queen Creek that they were prepared to accept service from
20 Johnson inasmuch as Johnson intended to provide both water and sewer service. Queen
21 Creek did not see a need at that time to contest Johnson's intentions to provide service in
22 such areas inasmuch as not only water but also sewer service would be provided. At that
23 time Queen Creek's principal concern was that priority should be given to ensure that both
24 water and sewer service would be provided to these areas. Queen Creek intended to stay
25 informed about the nature of the services to be provided in the area in order to ensure that
26 its own water supplies would not be threatened, and that any applicant (or applicants) for a
27 CC&N would be capable of providing adequate service.

28 As a consequence of monitoring these matters, Queen Creek became aware that

1 certain areas that it had originally investigated for inclusion within its own CC&N were the
2 subject of applications for CC&N extensions by both H2O and Johnson. More recently
3 Queen Creek has become aware of the Commission Staff's recommendation that H2O's
4 application be approved as to all contested areas except for portions of Sections 5 and 6, T3S,
5 R8E, Pinal County, Arizona.

6 Based on Queen Creek's evaluation of Staff's recommendations, and in particular the
7 criteria used by Staff in reaching the conclusion that H2O's application be granted as to most
8 of the contested areas, Queen Creek came to the conclusion that it, and not H2O, was in the
9 best position to provide water service to the contested areas.

10 Q. What is the basis for Queen Creek's position that it is best able to serve the contested areas?

11 A. There are several reasons. First, the criteria used by Staff in its report includes: (1) the
12 proximity of existing facilities to the contested areas, and (2) the existence of a structural
13 boundary (the Southern Pacific Railroad) relative to the location of existing facilities in the
14 area. As to the first criterion, a review of Exhibit I of the Application shows that one of
15 Queen Creek's wells is located along the north side of Riggs Road in Section 30, T2S, R8E.
16 This well location and the associated water storage site lie across the street from that portion
17 of Section 31 which is part of the contested areas. In other words, Queen Creek already has
18 facilities immediately adjacent to the contested areas.

19 Contrary to the conclusions drawn by Staff in its report, the portion of H2O's
20 facilities that are located adjacent to the contested areas would not be capable of providing
21 the service described by H2O in its application. Specifically, while H2O currently has a 6-
22 inch main line along Vineyard Road north of Chandler Heights Road, that line would not
23 have the capacity to provide the service anticipated for the contested areas. For that reason
24 a major extension of H2O's system would be required. Based on Queen Creek's review,
25 H2O would need to install a 12-inch main line from Queen Creek Wash one mile north to
26 Ocotillo Road, then two miles east to Schnepf Road, than one half mile north along Schnepf
27 Road to H2O's current well and storage site.

28 As to Staff's second criterion, Queen Creek already has a main line crossing the

1 railroad right-of-way. Equally important, Queen Creek's facilities are south of Queen Creek
2 Wash. According to the plans offered by H2O, there will be up to three locations where their
3 main lines will need to cross Queen Creek Wash to serve the contested areas, practically all
4 of which are south of the wash. This wash is over 300 hundred feet wide and will require
5 upgraded construction measures, including the use of ductile iron instead of PVC, a deeper
6 location for the line, and adequate cover of riprap and other materials. In addition, H2O
7 would need to secure a Clean Water Act Section 404 permit from the Army Corps of
8 Engineers for each crossing of the wash. Depending on the particular locations selected, the
9 securing of the required permits may be delayed considerably if the crossings are determined
10 to be within endangered species habitat areas or if cultural resources are present. Until the
11 necessary investigations are completed, it cannot be assumed that such permits could be
12 obtained in a timely manner. Queen Creek does not face such hurdles in that its facilities are
13 already located south of Queen Creek Wash.

14 In sum, when applying Staff's own criteria, Queen Creek has a clear advantage over
15 H2O, as well as Johnson.

16 Second, consideration of the respective facilities of H2O and Queen Creek leads to
17 the conclusion that Queen Creek is better able to serve in the contested areas. In particular,
18 Staff concludes that H2O's system's current well capacity and storage capacity could
19 adequately serve up to 1,300 connections, and that H2O has adequate storage and well
20 production to serve its current and future customers. These conclusions are contradicted by
21 statements recently made by H2O. Less than three months ago H2O filed with the Water
22 Infrastructure Finance Authority of Arizona ("WIFA") for funds from Arizona's Drinking
23 Water Revolving Fund. In that application, H2O makes the following statement:

24 The only existing (200,000-gallon) reservoir and 5,000 hydro
25 tank are 28 years old and inadequate to serve the current demand.
26 The reservoir weld seams are coming apart on the bottom 1/3rd of the
27 tank and is in danger of bursting. All the lining inside the tank is
28 virtually gone with no way to take this tank off-line and perform

1 needed repairs without shutting the entire system down, rendering
2 2,000 population without water for several weeks. The hydro tank
3 has numerous seeps and large wet rust build-ups indicating weakened
4 wall structure placing this tank in danger of bursting without notice.

5 The (Well #1) source has reached its connection maximum
6 capacity and the only Backup (Well #4) is of poor quality both in
7 turbidity (the water is chocolate brown up to 2-hours after startup)
8 and Nitrate levels testing above 10-MCL rendering it inadequate as
9 a source and must be disconnected from the system as soon as
10 possible.

11 H2O's WIFA application at p.4. A copy of H2O's application with WIFA is given in
12 Exhibit QC1 attached hereto and incorporated herein by this reference.

13 Compared to the situation for H2O, Queen Creek's system is in good condition and
14 is more than adequate to commence service to the contested areas. As previously noted,
15 available well capacity and storage capacity currently existing within the Queen Creek
16 service area are substantially greater than that of H2O. In addition, Queen Creek is in the
17 process of acquiring several new wells and storage sites.

18 Third, as previously noted, Queen Creek has always been concerned that adequate
19 sewer service should be available in newly developed areas in addition to providing an
20 adequate supply of water. It is for this reason that Queen Creek had successfully investigated
21 participating with another firm in the development of a wastewater treatment system. H2O,
22 on the other hand, has offered no such approach. By default, one can only assume that if
23 H2O were granted the CC&N for the contested areas, wastewater package plants would
24 become the norm throughout the newly developed areas. Package plants for long term
25 wastewater treatment have been banned in Maricopa County based on the potential threat to
26 groundwater quality. Considering that issuance of a CC&N to H2O for the contested areas
27 would likely result in a proliferation of these wastewater package plants, the groundwater
28 aquifer relied on by Queen Creek, H2O, Johnson, and other utilities and municipalities in

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the area is at risk. A CC&N should not be granted to H2O without first evaluating this risk.

Fourth, a consideration of costs to customers would favor granting a CC&N to Queen Creek. Queen Creek has meter fees, usage fees and offsite facilities hook-up fees which are 30%-60% less than those in place or currently proposed by H2O or Johnson.

Fifth, as shown in Exhibit G of the Application, Queen Creek has received requests for service from landowners in the contested areas.

Finally, it should be obvious that H2O's projections of new hook-ups in the contested areas are greatly exaggerated. In its application H2O represents that it has approximately 380 water service customers today, but anticipates that within five years of water service to the contested areas the number of residential customers alone would surpass 8,000. Even more troubling, if one were to accept as true H2O's projections for annual operating revenues and expenses for the next five years, the projected expenses at \$4,811,247 are only approximately \$134,000 less than the projected revenues. If H2O's projections are off by as little as 3%, H2O could be suffering financial losses which would create a risk to its ability to serve.

Queen Creek is in the best position to provide water service to the contested areas at less cost to customers, less risk of harm to the environment, less risk of water supply interruption due to system or equipment failures, less cost for new investment, and less risk of delays in providing service. In addition to these points, Queen Creek is a large untreated water provider, which gives it greater flexibility in working with developers as water delivered through its untreated water supply has its own water conservation requirements, and is not charged against the GPCD conservation requirement. For all of the foregoing reasons, the Commission should deny issuance of a CC&N for water service to H2O for the contested areas, and instead determine that Queen Creek is best able to serve the contested areas.

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BEFORE THE ARIZONA CORPORATION COMMISSION

CARL J. KUNASEK
CHAIRMAN
JIM IRVIN
COMMISSIONER
WILLIAM A. MUNDELL
COMMISSIONER

IN THE MATTER OF THE APPLICATION OF
H2O, INC., FOR AN EXTENSION OF ITS
EXISTING CERTIFICATE OF CONVENIENCE
AND NECESSITY.

DOCKET NO. W-02234A-00-0371

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JOHNSON UTILITIES, L.L.C., DBA JOHNSON
UTILITIES COMPANY FOR AN EXTENSION
FOR ITS CERTIFICATE OF CONVENIENCE
AND NECESSITY TO PROVIDE WATER AND
WASTEWATER SERVICE TO THE PUBLIC IN
THE DESCRIBED AREA IN PINAL COUNTY,
ARIZONA.

DOCKET NO. W-02987A-99-0583

Paul T. Gardner, of lawful age being first duly sworn, deposes and states:

1. My name is Paul T. Gardner. I am President of Queen Creek Water Company in Queen Creek, Arizona.
2. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct to the best of my knowledge and belief.

Paul T. Gardner
Paul T. Gardner

SUBSCRIBED AND SWORN to before me this 4th day of October 2000.



[Signature]
Notary Public

My Commission Expires:

10-3-02

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**PROOF OF SERVICE AND
CERTIFICATE OF MAILING**

I hereby certify that on this 4th day of October, 2000, I caused the foregoing document to be served on the Arizona Corporation Commission by hand-delivering the original and ten (10) copies of said document to:

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

and a copy of the foregoing was mailed/delivered this 4th day of October, 2000 to:

Karen E. Nally
Assistant Chief Administrative Law Judge
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Lyn Farmer, Chief Counsel
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Deborah R. Scott
Utilities Division Director
Arizona Corporation Commission
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Phoenix, Arizona 85012-2913
Attorneys for H2O, Inc.

Diversified Water Utilities, Inc.
P.O. Box 17357
Phoenix, Arizona 85011



EXHIBIT QC1

H2O, INC.

P. O. BOX 40340, MESA, ARIZONA 85274-0340 ☎ (480) 491-6971 ☒ FAX (480) 491-6739

July 20, 2000

Greg Swartz,
Executive Director
WIFA
202 E. Earl Drive, Suite 480
Phoenix, AZ 85012

Dear Mr. Swartz:

Please find enclosed, pursuant to your letter of July 7, 2000, our updated and revised Finance Application to reflect the new WIFA DWRF NGO Project Finance Application format.

We have completed the application to the extent we have the data at this time. We are proceeding with arrangements to have the old existing pump removed from the well so we can do the investigation to determine exactly what is necessary to convert this well from irrigation to potable uses.

We are also proceeding with the bidding process for the construction of the 500,000-gallon reservoir and pipeline to connect the well to the system.

We are desirous of proceeding with the application without further delay as we now have the required approvals from ADEQ and ACC. We will provide you with contracts for construction and schedules as soon as we have them.

Please let us know of any questions or concern regarding this Project Funding Application.

Sincerely,



Donald L. Schnepf
President

WIFA Project Finance Application for Non-Governmental Organizations

Arizona's Drinking Water Revolving Fund

Water Infrastructure Finance Authority of Arizona

Arizona's Source for Water and Wastewater Financing

\\NTSVR\HOME\BOARD\OPPS\PROCEDURES\A\APPROVED\A_001_7.DOC

Today's Date: 05/23/2000



Section 1: Applicant Information

- 1.1 Name of Applicant:** H2O, INC., an Arizona corporation
- 1.2 Taxpayer Identification Number:** 86-0271929
- 1.3 Mailing Address:** P.O. Box 40340
Mesa, Arizona 85274-0340
- 1.4 Principal Plan of Business -- Address where system's books and records are located:**
832 West Baseline Road, Suite 18
Mesa, Arizona 85210
- 1.5 System Identification Number:** ADEQ #11-060
- 1.6 County or Counties in which Service Area is located:** Pinal and Maricopa
- 1.7 Description of Area Served by System -- Attach additional pages, if necessary:**

Mostly Suburban Ranch Zoned (3.33ac) rural, un-incorporated, low density & medium density Single Family and Manufactured Housing Units on acreages ranging for 4,000 sq ft lots to 10 acre parcels. A considerable number of new connections result from parcel splitting down to as small as 1.25 acres. We have several new Planned Area Developments under construction and in various beginning stages.

1.8 Designated Contact Person (for all matters relating to the submission of this application)

Name: Donald L. Schnepf Title: President
Telephone: 480-491-6971 FAX: 480-491-6739
Mailing Address: P.O. Box 40304
Mesa, Arizona 85274

1.9 Authorized Representative (individual authorized by applicant to execute assistance agreements)

Name: Donald L. Schnepf Title: President
Telephone: 480-491-6971 FAX: 480-491-6739
Mailing Address: P.O. Box 40304, Mesa AZ 85274

1.10 Section in Articles of Incorporation or Operating Agreement that identifies the Authorized Representative:

Article IV

1.11 Project Officer (individual assigned by applicant to monitor project development, monitor construction, and monitor contractors to ensure proper work quality)

Name: Donald L. Schnepf

Title: President

Telephone: 480-491-6971

FAX: 480-491-6739

Mailing Address: P.O. Box 40340
Mesa, Arizona 85274

Resume -- attach a resume of the Project Officer

1.12 Finance Officer

Name:

Title:

Telephone:

FAX:

Mailing Address:

1.13 Organization which Controls the System

Name of Organization: H2O, Inc.

Telephone: 480-491-6971

Mailing Address: P.O. Box 40340
Mesa, Arizona 85274

1.14 Officers of the Organization

Members Name	Title	Term of Position	Time in Position
Donald L. Schnepf	President	Annual	28-years
Darel W. Schnepf	Sec/Treas.	Annual	28-years

1.15 Shareholders of the Organization -- Attach additional pages, if necessary.

Members Name	Shares Held	% of Total Shares	Date Shares Acquired
<p><u>SEE ATTACHED</u></p>			

1.16 Professional Services

- A. Project Engineer: Bartholomew Engineering Inc.
 Mailing Address: 3420 East Shea Blvd, Ste 161
 Phoenix, Arizona 85028-3347
 Telephone: 602-953-5648 FAX: 602-953-7570
- B. Consulting Engineer: Richard F. Bartholmew
 Mailing Address: 3420 East Shea Blvd, Ste 161
 Phoenix, Arizona 85028
 Telephone: 602-953-5648 FAX: 602-953-7570
- C. Auditor:
 Mailing Address:
 Telephone: FAX:
- D. Financial Advisor:
 Mailing Address:
 Telephone: FAX:
- E. Legal Counsel: Richard L. Sallquist
 Mailing Address: 2525 E Arizona Biltmore Cricle, Ste 117
 Phoenix, Arizona 85016
 Telephone: 602-224-9222 FAX: 602-224-9366
- F. Other -- Professional Services/Contractors related to the project:
 Mailing Address:
 Telephone: FAX:

Company Name H2O, INC

Year Ending 12/31/99

OWNER(S)

SOLE OWNER: NAME, ADDRESS, AND PHONE NUMBER (INCLUDING AREA CODE)
 PARTNERSHIP: EACH PARTNER'S NAME, ADDRESS, PHONE NUMBER (INCLUDE AREA CODE), AND AMOUNT OF EQUITY
 CORPORATION: THREE LARGEST STOCKHOLDERS NAMES, ADDRESSES, PHONE NUMBERS (INCLUDE AREA CODE), AND NUMBER OF SHARES HELD

TYPE (MARK "X")			PHONE NUMBER (INCLUDE AREA CODE)	AMOUNT OF EQUITY OR NUMBER OF SHARES
OWNER	PARTNERSHIP	SHARE HOLDER		
		X	DONALD SCHNEPF, TEMPE AZ	1940
		X	DESERT GROWERS, INC., MESA AZ	970
		X	BRAD SCHNEPF, LAS VEGAS, NV	194
		X	RUSS SCHNEPF, ST LOUIS, MO	194
		X	DEEANN-SCHNEPF-KNIGHT, PHOENIX AZ	194
		X	MATT SCHNEPF, PHOENIX AZ	194
		X	MIKEL J SCHNEPF-HANSON, SALT LAKE CITY, UT	194

DIRECTORS (IF CORPORATION)

NAME AND ADDRESS	PHONE NUMBER (INCLUDING AREA CODE)	TERM EXPIRATION			NUMBER OF SHARES
		MONTH	DATE	YEAR	
DONALD SCHNEPF TEMPE, AZ	480/491-6971				1940
DAREL SCHNEPF SCOTTSDALE, AZ	480/491-6971				

PRINCIPAL OFFICERS (IF CORPORATION)

TYPE (MARK "X")					NAME AND ADDRESS	PHONE NUMBER (INCLUDING AREA CODE)	DATE ENTERING OFFICE		
PRES.	V.P.	SEC.	TREAS.	OTHER			MONTH	DAY	YEAR
X					DONALD SCHNEPF	480/491-6971	10	5	72
		X	X		DAREL SCHNEPF	480/491-6971	10	5	72

Section 2: Project Information

2.1 Explain the reason or need for the Project – *Attach additional pages, if necessary:*

The only existing (200,000-gallon) reservoir and 5,000 gallon hydro tank are 28 years old and inadequate to serve the current demand. The reservoir weld seams are coming apart on the bottom 1/3rd of the tank and is in danger of bursting. All the lining inside the tank is virtually gone with no way to take this tank off-line and perform needed repairs without shutting the entire system down, rendering 2,000 population without water for several weeks. The hydro tank has numerous seeps and large wet rust build-ups indicating weakened wall structure placing this tank in danger of bursting without notice.

The (Well#1) source has reached its connection maximum capacity and the only Backup (Well #4) is of poor quality both in turbidity (the water is chocolate brown up to 2-hours after startup) and Nitrate levels testing above 10-MCL rendering it inadequate as a source and must be disconnected from the system as soon as possible.

2.2 Description of past and future project actions by Project Phase – *Attach additional pages, if necessary:*

Planning

Design & Engineering

Bartholomew Engineering

Legal/Debt Authorization

Arizona Corporation Commission Docket No. W-02234A-99-0679
Decision No. 62620

Land/System Acquisition

Equipment/Materials Acquisition

Construction/Installation/Improvement by Applicable Phase -- *Attach additional pages to describe additional phases as necessary.*

Phase 1

Phase 2

Phase 3 -- *Attach additional pages for phases beyond Phase 3.*

Inspection & Construction Management

Administration/Management

Staff Training for System Operation & Management after Project Completed

Other as Applicable

2.3 What is the life expectancy of the Proposed Improvements? 30-40 years

2.4 Estimated Project Schedule

Task	Date
Planning, Design & Specifications Submitted	COMPLETED
Approval to Construct	COMPLETED
Advertisement for Bids	SEPTEMBER 2000
Construction Commencement	SEPTEMBER 2000
Construction Completion	DECEMBER 2000
Initiate Operation	DECEMBER 2000

2.5 Engineering

- A. When was an Engineering/Feasibility Study Completed?
B. Who Completed the Study? Bartholomew Engineering
C. Project Information H2O, Main Plant

Attach copies of available Project Technical Information, such as:

- Plans and Specifications *For Reservoir & Pipeline*
 Project Engineering Reports
 Project Feasibility Studies
 Other Technical Data, if related to the Project
ADEQ Certificate of Approval to Construct Drinking Water Well Facilities
 Capital Improvement Plan

- D. Does the Engineering Consultant have Errors & Omissions Liability Insurance in place?
 Yes No If "Yes," insert the amount of insurance below. If "No," explain how the system will protect its interests in the absence of such insurance.

\$1,000,000

- E. Does the Engineering Consultant have General Liability Insurance in Place?
 Yes No If "Yes," insert the amount of insurance below. If "No," explain how the system will protect its interests in the absence of such insurance.

\$2,000,000

2.6 Contractors

- A. Have you selected Construction Contractors? Yes No If "Yes," summarize the bidding process. If "No," on what date will the Contractors be selected?

SEPTEMBER 2000

- B. Please describe efforts to seek bids from Minority-Owned Businesses, Woman-Owned Businesses, and Small Businesses in Rural Areas:

None known engaged is Water Facilities & Well construction

- C. Do the Contractors have General Liability Insurance in place? Yes No
If "No," explain how the system will protect its interests in the absence of such insurance.

- D. Do the Construction Contracts include warranty provisions and performance bond requirements? Yes No If "No," explain how the system will protect its interests in the absence of warranties.

2.7 Licenses and Permits

List all Local, State, and Federal Licenses and Permits required for the Proposed Project.

License/Permit Approvals	Date Expected	Date Approved
A.D.E.Q. Approval to Construct Pinal County	September 2000	July 12, 2000

2.8 Project Funding Sources & Uses

Uses by Budget Item	WIFA Funding	Local Funding	Other:	Total By Use
Planning				
Design & Engineering	100%			
Legal/Debt Authorization	100%			
Financial Advisor				
Land/System Acquisition				
Equipment/Materials	100%			
Construction/Installation/Improvement	100%			
Inspection & Construction Management	100%			
Project Officer				
Administration				
Staff Training				
Capitalized Interest				
Other				
Total by Source				
Total for Project				

2.9 Project Costs Expended to Date: \$

Will you seek reimbursement for Project Costs Expended to Date? Yes No
 If "Yes," identify the costs and explain why WIFA should reimburse these costs.

Legal costs to process financing application with A.C.C.
 Engineering costs to gain approval to construct from A.D.E.Q.

These are required by WIFA

2.10 Estimated WIFA Draw Schedule

Month	2000	2001	2002
January			
February			
March			
April			
May			
June			
July			
August			
September			
October	1/3rd		
November	1/3rd		
December	1/3rd		
Annual Total			
Grand Total for WIFA Portion of Total Project Costs			

Section 3: Legal Capacity

3.1 Date of Debt Authorization – or expected Date of Authorization:

June 9, 2000

3.2 Amount Authorized for Proposed Project: \$ 254,117

In two separate loans for \$92,711 and \$161,406.

3.3 Revenue Source Pledged for Repayment -- Check appropriate box. If more than one source is pledged, list percentages dedicated from each source:

- Water System User Fees & Charges
- Water System Surcharges per Connection
- Other:

3.4 Date Rate Increase Requested or expected Date of Request: N/A

3.5 Attach appropriate evidence of corporate authority and organization:

- Corporations
 - Articles of Incorporation
 - Good Standing Certificate from the Arizona Corporation Commission
 - Corporate By-Laws including any amendments as certified by Corporate Secretary
- Limited Liability Organizations
 - Articles of Incorporation
 - Articles of Organization
 - Operating Agreement
 - Good Standing Certificate from the Arizona Corporation Commission
 - By-Laws including any amendments as certified by Organization's Secretary

Section 4: Managerial Capacity

Managerial Capacity represents the ability of the management structure of the system to conduct its affairs in a manner which enables the system to maintain compliance with all regulatory and infrastructure design requirements. Managerial Capability depends on staffing, organization, accountability, legal policy, administration, and effective linkages.

4.1 Are the terms of the Officers of the Organization staggered? Yes No
If "No," explain below.

4.2 Has any past or present Officer of the Organization been recalled or is any recall action pending? Yes No *If "Yes," explain below.*

4.3 Does the organization have by-laws, rate ordinances, and connection ordinances in place?
 Yes No *If "No," explain below.*

4.4 Do the Officers of the Organization have experience in managing similar organizations and/or experience in managing projects similar to the proposed project?
 Yes No *If "Yes," describe below. If "No," describe intended actions to mitigate this lack of experience.*

4.5 Who oversees day-to-day management of the system?

- System Manager
 Officer of the Organization
 Other:

4.6 Does the Manager, Officer, or other individual with day-to-day system management responsibility have experience in managing similar organizations and/or experience in managing projects similar to the proposed project? Yes No *If "Yes," describe below. If "No," describe intended actions to mitigate this lack of experience.*

4.7 Will there be significant management impacts as the result of the proposed technology?

- Yes No *Explain response below.*

This infrastructure and others has been anticipated for several years.

4.8 Is there an actual or potential financial impact on the Applicant as a result of any current or past litigation? Yes No *If "Yes," explain below.*

4.9 Attach evidence of insurance coverage appropriate to the size and scope of the facility and its operations.

Section 5: Technical Capacity

Technical Capacity represents the ability of system personnel to implement and utilize the past, present, and future technology of the system for the term of the loan in compliance with all regulatory and infrastructure design requirements. Technical Capacity measures the ability of system personnel to identify and correct problems with infrastructure, operations, maintenance, and, if applicable, water sources.

5.1 Service Area

- A. Attach Map of Service Area
- B. # of Square Miles within Service Area:
- C. Estimated Total Population Served:
- D. # of Connections:

Type of Connection	Current	1999	1998	1997	1996
Residential		621	566	515	462
Commercial		56	17	29	14
Industrial		3	20	6	6
Other		1			
Total		681	603	550	482

- E. Are any water customers supplied through unmetered connections? Yes No
If "Yes," how many?

- F. Water System Utilization:

	Annual Usage (Gallons)	% of Total Usage	Annual Revenues (\$)	% of Total Revenue
Residential	120,899,405	89	348,246	89
Commercial	10,569,905	8	32,211	8
Industrial	3,741,390	3	12,113	3

G. Customer Concentration -- List the five largest customers of the system.

Customer	Annual Usage (Gallons)	% of Total Usage	Annual Revenue (\$)	% of Total Revenue
1.				
2.				
3.				
4.				
5.				

H. List any water agreements where the system is obligated to provide water and the duration of those agreements.

I. List the five largest employers in the Applicant's Service Area: UNKNOWN

Employer	Primary Products	# of Employees
1.		
2.		
3.		
4.		
5.		

J. Does the Service Area include more than one Political Subdivision? Yes No
If "Yes," explain below.

Mostly in Pinal County (location of production plant) with distribution lines in Maricopa County and other proposed developments in the Town of Queen Creek.

K. Has the Service Area expanded or decreased in the last five years? Yes No
If "Yes," describe the area added or lost, the number of customers added or lost, and the revenues added or lost as a result of the expansions or contractions:

5.2 Current Facilities

A. Design Capacity (MGD): 1,440,000

B. Average Daily Usage (MGD):

C. Peak Daily Usage (MGD):

D. Number and Capacity of Wells: #1 = 1060 gpm (current only source)
#3 = 600 gpm (manual backup only)

E. Distribution Lines:

- 1. Type of Material: PVC
- 2. Diameter: 4" 6" 8"
- 3. Length: 7,800' 133,907' 8,924'

F. Is the system in compliance with Local, State, and Federal health and environmental requirements? Yes No If "No," what actions are being taken to achieve compliance?

G. Existing Facilities – Attach additional pages, if necessary:

Item	Year Constructed or Manufactured	Year Constructed or Installed	Condition
Storage Facilities	1973	1973	Poor (weld seams failing)
Pressure Tank(s)	1971	1971	Poor (numerous seeps)
Pump(s)	2-1971 1-1998 1-1999	2-1971 1-1998 1-1999	Fair Good Good

5.3 System Employees

A. Name the key personnel with day-to-day operational responsibility.

Name	Title	Certification Grade	Total Years Experience	Time in Position
Donald L. Schnepf	President	1	28-years	28-years
Darel W. Schnepf	Sec/Treas	1	28-years	28-years
Don Dixon	Service Rep.	N/A	1-year	1-year

B. Attach resumes, biographies, or statement of qualifications for each of the System's key personnel listed above.

5.4 Has a Project Officer been hired to oversee Project Development? Yes No

If "No," explain how the system will ensure appropriate project oversight.

5.5 Will additional staff be hired to operate the proposed technology? Yes No
Explain your response.

New facilities are expansion/addition to existing facilities

5.6 Are system personnel trained and certified to operate the proposed technology?
 Yes No *If "No," describe intended actions to ensure appropriate ongoing operation of the facilities.*

5.7 Will there be significant operating or technical impacts as the result of the proposed technology? Yes No *Explain response below.*

New facilities are expansion/addition to existing facilities

5.8 Water Source Capability

A. Is the system's water supply within an Arizona Active Groundwater Management Area?
 Yes No *If "Yes," which management area? If "No," how many years of assured water supply does the system presently have?*

PHOENIX AMA

B. Does the system purchase water? Yes No *If "Yes," how much, what is the source, and what is the annual cost? If a contract is in place, attach a copy.*

1999=496,030 Queen Creek Water Co. \$721.75

C. Are there any outstanding water rights issues? Yes No *Explain response.*

Section 6: Financial Capacity

Financial Capacity is the capability of the system to acquire and manage sufficient financial resources to maintain compliance with lending requirements, regulatory concerns, managerial concerns, and with technical requirements.

6.1 Financial Information

- A. Budgets – *Calendar or Fiscal Year, as appropriate to the circumstance:*
- Current Year, if available 2000 1999 1998
- B. Financial Statements and/or Arizona Corporation Commission Annual Reports:
- Current Year, if available 1999 1998 1997 1996 1995
- C. Department of Revenue Reports
- Current Year, if available 1999 1998 1997 1996 1995
- D. Monthly Financial Data
- Monthly Revenue Data for the most recent 12 months.
 Monthly Operating Expenditure Data for the most recent 12 months.
- E. Balance Sheet
- Most Recent Balance Sheet for Current Fiscal Year
 Most Recent Balance Sheet for Previous Fiscal Year
- F. Federal and State Tax Returns including K-1 Statements
- Current Year, if available 1999 1998 1997 1996 1995
- G. Principal Corporate Bank Account

List the name, contact, contact's phone number, and address of the financial institution which holds your principal bank accounts:

Name of Financial Institution:	BANK ONE OF ARIZONA McClintock/Southern	NATIONAL BANK OF AZ
Account Number(s)	8659901 DDA (CKG) 41531764 SAV (FCA)	8010005775 SAV (FCA) 0106007948 MM (TAX)
Contact:	480-890-6340	Phone: 480-345-8800
Address:	1744 E Southern Ave Tempe, AZ 85282	1400 E Southern Ave Tempe, AZ 85282

H. Corporate Bank Statements

Please attach the corporate bank statements for the water system for:

- Most Recent End-of-Year Bank Statement
- Most Recent Monthly Statement

- I. Does the System Maintain Financial Reserves? Yes No *If "Yes", how much and for what purpose? If "No," how does the system respond to emergencies and other unanticipated events?*

SEE ATTACHED 6.1.I.

6.2 Asset Information

A. Ownership of Property

1. Do you own or lease the property upon which the facilities are located?

Own Lease

2. If the property is leased, who owns the property?

Name:

Contact:

Phone:

Address:

- B. Describe the location and description of the system's assets, including fixtures, furnishings, personal property, inventory, and equipment -- *Attach additional pages, if necessary.*

SEE ATTACHED 6.2.B.

- C. Attach a legal description of the real property on which the system's assets are located.

6.3 Utility Rates

A. Current Utility Rates -- or attach the Rate Ordinance / Schedule. ATTACHED

Type of User	Connection Fee	Monthly Base Fee	Commodity Charge/Use Fee	Average Monthly Bill
Residential				
Commercial				
Industrial				
Other Users				

B. Does the current rate structure adequately provide sufficient revenue for the system's operation and maintenance? Yes No Explain your response.

C. Date of last review of user charge structure/revenues: 6/2000

D. Are any changes to the water use ordinance/tariff and rate structure currently under consideration? Yes No If "Yes", describe below.

E. What action is taken against delinquent ratepayers? Are other measures legally available?

All applicants for service are required to sign an Agreement with promise to pay bills when rendered, Delinquent in 15 days and deposit with the company an \$80.00 deposit or voluntarily grant the company a lien right if they provide proof of ownership of the property. Company policy is to enforce collection of all unpaid water bills with discontinuance of service if payment is not received prior to the second month delinquent date. When a customer skips with an unpaid water bill the company forwards the customer's identity and account information to a collection agency which implements skip-tracing and collection enforcement procedures.

6.4 Outstanding Indebtedness

- A. Attach copies of resolutions, loan agreements, notes, official statements and any other documentation for any indebtedness payable by the system.
- B. Is the applicant now or at any time in the past 10 years been in default as to principal, interest, or any other requirement on any debt obligation? Yes No *If "Yes", describe the circumstances leading to the default and describe the status of the default.*

By mutual agreement between the parties, the company suspended all payments on a Note payable to The Schnepf Family Non-Revocable Trust ("SNRT") covering the purchase of Well & Pump #4 when it became apparent that the source well was not suitable for long term use as a potable water well within the companies system. To date there has been no attempt nor demand to the surrender of the facilities back to SNRT and SNRT has made no attempt to either enforce collection or foreclose the Agreement. The Company anticipates it will return the facilities to SNRT with some rent as liquidated damages as soon as it has a suitable substitute (Well #4) online and operating. At such time Well #4 will be disconnected from the system.

- C. Have any agreements or legal proceeding relating to any debt obligation been declared invalid or unenforceable? Yes No *If "Yes", describe the circumstances leading to the declaration and describe the status of the invalid or unenforceable agreement or legal proceeding.*

6.5 Credit Reports

WIFA will order credit reports on the Applicant from Dunn & Bradstreet or TRW. Furthermore, WIFA will order personal credit reports on the principals. *WIFA will preserve the confidentiality of these reports.*

6.6 Personal Financial Statements

WIFA reserves the right to require a personal or corporate guarantee and, therefore, reserves the right to request personal financial statements. *If WIFA determines that a personal guarantee is necessary, WIFA will request personal financial statements and tax returns of those owners/shareholders who own 20% or more of the system. WIFA will preserve the confidentiality of these statements.*

6.7 Schedule of Outstanding Indebtedness – Attach additional pages, if necessary.

Complete a Similar Form for each separate Outstanding Indebtedness

A. Purpose of Indebtedness: Short Term Note (Fund Pinal County Treasurer Settlement)

B. Lender: Desert Growers, Inc.

C. Contact at Lender: Donald L. Schnepf, President

D. Closing Date: December 30, 1999

E. Security: N/A

1. Secured or Unsecured:

2. Describe Security:

F. Principal: \$30,000.00

1. Current Principal Outstanding: \$30,000.00

2. Principal Payable: monthly / semi-annually / annually / other:

3. Principal Repayment Date(s): December 30, 2000

G. Interest:

1. Current Interest Rate: 8.0%

2. Interest Payable: monthly / semi-annually / annually / Other:

H. ***Attach Amortization Schedule for Outstanding Indebtedness.***

Section 7: Summary Checklist of Required Documents

Below is a summary of documents requested throughout this Project Finance Application.
If applicable, please enclose with Project Finance Application.

Section	Page #	Required Documentation	Status
1.8	2	Resume of Project Officer	✓
2.5 C	6	Project Information	✓
3.5	10	Evidence of Corporate Authority	✓
4.9	12	Evidence of Insurance Coverage	✓
5.1 A	13	Map of Service Area	✓
5.3 B	16	Resumes of Key System Personnel	✓
5.8 B	17	Water Contracts	✓
6.1 A	18	Budgets	✓
6.1 B	18	Financial Statements and/or Reports	✓
6.1 C	18	Arizona Department of Revenue Reports	✓
6.1 D	18	Monthly Financial Data	✓
6.1 E	18	Balance Sheet Data	✓
6.1 F	18	Tax Returns	✓
6.1 H	19	Corporate Bank Statements	✓
6.2 C	19	Legal Description of Property	✓
6.3 A	20	Rate Ordinance	✓
6.4 A	21	Outstanding Indebtedness Information	✓
6.1 I	19	Bank Account Balances	✓
2.2	4	Debt Authorization	✓
2.5 C	6	ADEQ Certificate of Approval to Construct	✓

LOAN AMOUNT 40,000.00
 PAYMENT AMOUNT 360.00
 INTEREST RATE 9.00
 TERM IN PERIODS 240
 TERM IN YEARS 20

PAYMENT DATE	PMT NO.	INT	PMT	PRIN.	PMT	BALANCE
<i>1991 TOTALS - - - -</i>						
		3,034.83		1,285.17		33,014.40
1/01/92	85	247.61	<i>1/23/92</i>	112.39	<i>CK-5761</i>	32,902.01
2/01/92	86	246.77	<i>2/28/92</i>	113.23	<i>CK-5817</i>	32,788.78
3/01/92	87	245.92	<i>5/14/92</i>	114.08	<i>CK-5814</i>	32,674.70
4/01/92	88	245.06	<i>8/1/92</i>	114.94	<i>6028</i>	32,559.76
5/01/92	89	<i>1229 SK</i> 244.20	<i>9/22/92</i>	115.80	<i>6027</i>	<u>32,443.96</u>
6/01/92	90	243.33	<i>11/16/92</i>	116.67		32,327.29
7/01/92	91	242.45	<i>5/70/92</i>	117.55		32,209.74
8/01/92	92	241.57		118.43		32,091.31
9/01/92	93	240.68		119.32		31,971.99
10/01/92	94	239.79		120.21		31,851.78
11/01/92	95	238.89		121.11		31,730.67
12/01/92	96	<i>3/23/93</i> 237.98	<i>11/6/92</i>	122.02	<i>635-32</i>	31,608.65
		2,914.25		1,405.75		31,608.65
1/01/93	97	237.06		122.94		31,485.71
2/01/93	98	236.14		123.86		31,361.85
3/01/93	99	235.21		124.79		31,237.06
4/01/93	100	234.28		125.72		31,111.34
5/01/93	101	233.34		126.66		30,984.68
6/01/93	102	232.39		127.61		30,857.07
7/01/93	103	231.43		128.57		30,728.50
8/01/93	104	230.46		129.54		30,598.96
9/01/93	105	229.49		130.51		30,468.45
10/01/93	106	228.51		131.49		30,336.96
11/01/93	107	227.53		132.47		30,204.49
12/01/93	108	226.53		133.47		30,071.02
		2,782.37		1,537.63		30,071.02
1/01/94	109	225.53		134.47		29,936.55
2/01/94	110	224.52		135.48		29,801.07
3/01/94	111	223.51		136.49		29,664.58
4/01/94	112	222.48		137.52		29,527.06
5/01/94	113	221.45		138.55		29,388.51
6/01/94	114	220.41		139.59		29,248.92
7/01/94	115	219.37		140.63		29,108.29
8/01/94	116	218.31		141.69		28,966.60
9/01/94	117	217.25		142.75		28,823.85
10/01/94	118	216.18		143.82		28,680.03
11/01/94	119	215.10		144.90		28,535.13
12/01/94	120	214.01		145.99		28,389.14
		2,638.13		1,681.88		28,389.14
1/01/95	121	212.92		147.08		28,242.06
2/01/95	122	211.82		148.18		28,093.88
3/01/95	123	210.70		149.30		27,944.58

Section 8: Application Certification and Authorization

The Undersigned, being duly authorized agent(s), principal(s), and officer(s) of the proposed borrower ("Applicant"), request that this Project Finance Application ("Application") be accepted for review. Applicant hereby acknowledges that the Application includes the information contained herein, the attachments hereto and the information previously or subsequently provided to the Water Infrastructure Finance Authority of Arizona ("WIFA"). The Applicant certifies that the Application is accurate and complete. Applicant understands that any material misstatement or misleading statement herein is cause for denial or rescission of any approval or assistance received in connection with this Application.

Applicant further authorizes WIFA, as it may deem appropriate, to obtain or to furnish and release all or any portion of the Application to all sources for financial or technical assistance, in its efforts to promote and make a determination on this Application for assistance. Applicant further agrees that WIFA shall not be held liable for any assistance or advice given by any such referral entity. It is further understood that WIFA is held without liability or any loss whatsoever that might be incurred by Applicant in any business or personal relationship that may be established in any activity Applicant should hereinafter undertake.

Applicant acknowledges that WIFA, its directors, officers, employees, auditors, counsel, agents, including, but not limited to Project Finance committee members ("WIFA Representatives"), are in possession of, or may access financial or other information concerning Applicant, or any of Applicant's principals, guarantors, subsidiaries or affiliates, and that such information may be shared in the consideration of the Application. Applicant consents to the disclosure of such information among WIFA Representatives and releases WIFA and WIFA Representatives from any and all claims and causes of action that Applicant may have against WIFA or WIFA Representatives arising out of such disclosure and the consideration and disposition of the application.

Applicant hereby acknowledges that WIFA does not guarantee any specific performance and that all approvals will be in writing and subject to the terms and conditions set forth in a commitment letter signed by an officer of WIFA.

Signature: 

Date: 7-20-00

Title: President

MANAGEMENT RESUME

WIFA Check List
Item No. 1.8 page 2

Name: DONALD L. SCHNEPF SS#: 526-56-2940
Date of Birth: August 12, 1937 Place of Birth: Mesa, Arizona
Home Telephone: (602) 839-8421 Business Telephone: (602) 491-6971
Home Address: 1402 East Steamboat Bend, Tempe, Arizona 85283 From Jan. 1982
Previous Address: _____ How Long
Current Employment: H2O, Inc. From Oct. 1972
How Long

Have you ever been convicted, charged with or arrested for any criminal offenses other than a minor motor vehicle violation? Yes No . Have you ever been involved in bankruptcy or insolvency proceedings? Yes No . Are you involved in any pending or prior lawsuits? Yes No . If you answered yes to any of the above, please furnish details in a separate exhibit. Are you a U.S. citizen? Yes No . If no, please provide a copy of both sides of your alien registration card.

EDUCATION

College or Technical Training Name and Location	Dates Attended From/To	Major	Degree Certificate
BYU Provo, Ut	Sep 1955-Jun 1956	Ag Econ	N/A
Farmed 3,000+ acre field/vegetable crops	1956-1976		
Subdivided 960 acres into 180 4-5 ac lots	1970-1971		AZ Brokers License
Organized/built water company	1970-Present		Grade I operator

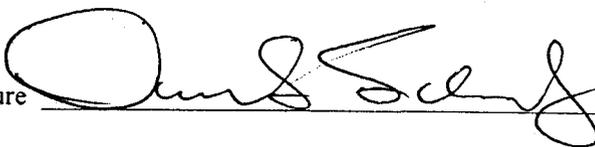
MILITARY SERVICE BACKGROUND

Branch USAF ROTC From Sept 1955 To Dec 1955 Honorable Discharge? N/A
Rank at Discharge N/A Major assignment/accomplishment _____

WORK EXPERIENCE (List chronologically, beginning with present employment)

- 1.) Company Name/Location H2O, Inc., 832 W Baseline Rd., #18, Mesa, AZ 85210
From Oct 1972 To Present Title President/Manager, Director, Shareholder
Duties: All facets of planning, construction, regulation, operation and management of potable water utility serving a population of <10,000 beginning from the 1" meter connection to current 631 meters.
- 2.) Company Name/Location DESERT GROWERS, INC., (same)
From 1960 To Present Title President/Manager, Director, Shareholder
Duties: Farm development, Growing Field & Vegetable Crops / Subdividing / Real Estate Marketing & Sales
- 3.) Company Name/Location D & J LEASING - CONSULTING Real Estate (same)
From 1980 To Present Title Owner
Duties: Real Property Competitive Market Research analysis for various Title Company Ownership Departments
- 4.) Company Name/Location YOUR BROKER, INC. Real Estate (same)
From 1987 To Present Title President/Designated Broker
Duties: Real Estate Brokerage company setup, operation, management

Note: See attachments for additional relevant information

Signature  Date 7-20-00