FENNEMORE CRAIG, P.C.
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Attorneys for Payson Water Co., Inc.

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF PAYSON WATER CO., INC., AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO: W-03514A-13-0111
IN THE MATTER OF THE APPLICATION OF PAYSON WATER CO., INC., AN ARIZONA CORPORATION, FOR AUTHORITY TO: (1) ISSUE EVIDENCE OF INDEBTEDNESS IN AN AMOUNT NOT TO EXCEED $1,238,000 IN CONNECTION WITH INFRASTRUCTURE IMPROVEMENTS TO THE UTILITY SYSTEM; AND (2) ENCUMBER REAL PROPERTY AND PLANT AS SECURITY FOR SUCH INDEBTEDNESS.	DOCKET NO: W-03514A-13-0142

ORIGINAL

NOTICE OF LATE-FILED EXHIBIT

Payson Water Co., Inc. (the "Company") hereby submits this Notice of Late-Filed Exhibit in the above-referenced consolidated dockets. Attached as **Exhibit A-18** is a copy of the Design Assistance Grant Application which has been submitted to the Water Infrastructure Finance Authority of Arizona.

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RESPECTFULLY SUBMITTED this 20th day of February, 2014.

FENNEMORE CRAIG, P.C.

By _____
Jay L. Shapiro
2394 E. Camelback Road
Suite 600
Phoenix, Arizona 85016
Attorneys for Payson Water Co., Inc.

ORIGINAL and thirteen (13) copies of the foregoing were filed this 20th day of February, 2014, with:

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

COPY of the foregoing was hand-delivered this 20th day of February, 2014, to:

Dwight D. Nodes
Assistant Chief Administrative Law Judge
Arizona Corporation Commission
1200 W. Washington Street
Phoenix, AZ 85007

Robin Mitchell, Esq.
Legal Division
Arizona Corporation Commission
1200 W. Washington Street
Phoenix, AZ 85007

COPY of the foregoing was e-mailed/mailed this 20th day of February, 2014, to:

Kathleen M. Reidhead
14406 S. Cholla Canyon Dr.
Phoenix, AZ 85044

Thomas Bremer
6717 E. Turquoise Ave.
Scottsdale, AZ 85253

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Tempe, Arizona 85282

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405 S. Ponderosa
Payson, AZ 85541

By: _____
8914184.1/073283.0006

EXHIBIT A-18

DRINKING WATER APPLICATION
Water Infrastructure Finance Authority of Arizona (WIFA)
Planning And Design Assistance Grant Application

SECTION 1: APPLICANT AND FACILITY INFORMATION — APPLICATION NUMBER: TADW-020-2014 | PRINT

1.1 Applicant: Payson Water Company, Inc — Job Title: President

1.2 Contact Names: First Jason — Middle Initial: — Last: Williamson

1.3 Address: 7581 E Academy Blvd Ste 229 — City: Denver — State: CO — Zip: 80230

1.4 Phone: (720) -949-1384 — Fax: (720) 949-1360 — E-Mail: jw@jwwater.net

1.5 County in Which Project is Located: Gila

1.6 Number of Connections to System: 141 — Population Served by the System: 383

1.7 Average Monthly Fee (Base + Use): $27.00

1.8 Existing Debt (principal only) Payable by System Users: $0.00

1.9 Median Household Income: $35,466.00

1.10 ADEQ System Identification Number (PWS #): AZ 04-026

1.11 Has your facility received a system evaluation through ADEQ's free Technical Assistance Program? If so, was this project recommended in the final report? ○ Yes, Was Recommended ○ Not Recommended ◉ Not Applicable

SECTION 2: PROJECT INFORMATION

2.1 Project Title/Name (*Be specific to your project*):
East Verde Park Supply Study

2.2 Type of assistance required during this funding cycle? ○ Planning ◉ Design

2.3 These grants are intended to solve system problems or make system improvements.

a. Tell us about the problem that the grant project will solve. Be specific.

Payson Water Company provides drinking water supplies to the East Verde Park community of approximately 140 residential services in Gila County, Arizona. The community is located approximately 2 miles north of Payson, Arizona off of Highway 87/260. There are three (3) groundwater wells that provide a total pumping capacity of 13-gpm and up to 15,000-gpd under good conditions.

The capacity of the three (3) wells have diminished over the years and now the water company must haul water to maintain drinking water supplies during the summer months. In 2011, 2012, and 2013; the water company hauled 58,873 gallons, 207,000 gallons, and 10,900 gallons, respectively. These costs were substantial (see attached) and borne exclusively by the water company.

Additionally, The Arizona Corporation Commission engineering staff, in their general rate increase staff report, has recommended as compliance item that Payson Water Company file documentation within six months of their order (currently pending) to address a long-term solution to the water supply problem. Until that point, the ACC is recommending a moratorium on new connections in this subdivision.

To support your answer, please reference and attach documentation to Section 4 of this application including, but not limited to: photographs, system evaluations, maps, schematics, inspection reports, ADEQ Notices of Violation or Consent Orders, lab analyses, ACC findings, Engineer's proposal, etc.

b. What solution or improvements are you proposing in this application to solve the above referenced problem for your system, if awarded a grant?

We aren't yet sure the most efficient means to solve the long term water supply problems, hence the requirement by the ACC for the study, and our request for grant funding from WIFA. However, one option our engineer has suggested is to replace our old booster pumps with more efficient units. The pumps would be replaced with multi-stage pumps and VFD controllers. The station would include a low-flow pump that would lessen the start/stop frequency of the larger booster pumps and potentially save energy costs.

2.4 These grants are competitive and funding is limited. From a financial perspective, tell us why your system/community is in need of a grant. Please be specific.

In the pending rate application to the ACC, East Verde Park Customers are facing a 90% rate increase, just to cover the current costs of service. This does not include the likely annual summer costs to haul water, which would be borne directly by the customers. Without the WIFA program, the cost for the requested studies would require an additional rate case increase for the community, and consequent long delays to determine a solution to the water shortages.

The situation is similar to the water shortages at Mesa Del Caballo, for which WIFA recently approved a loan to connect the supply from the Town of Payson. East Verde Park's wells appear to have the same deteriorating geohydraulic conditions as Mesa Del Caballo.

2.5 Green projects are those in which the primary focus is water or energy efficiency. Energy or water efficiency projects may qualify for a waiver of the local match funding requirement. Please describe any green components of your project. Include an explanation of estimated water or energy savings once the project is constructed or implemented. If your project does not include these components, skip to question 2.6. See the WIFA Applicant's Guide and Request for Grant Applications for more information on green projects.

In the proposal, the engineering recommendation will evaluate cost effective options including booster stations using low-flow maintenance pumps and VFD-controlled main boosters to save electrical costs and prolong equipment life.

2.6 WIFA grants are awarded to hire an engineer/contractor to provide technical assistance. Who are the key personnel that would be involved in the project, and what will be the nature of their participation? Include the contractor, if selected, that will perform the work as well as in-house staff that will participate.
Note: In-house staff costs may be funded only through the local match share of the project.

Jason Williamson, President, Payson Water Company
Jeff Bower, PE (Tres Rios Consulting Engineers)
Chris Catalano, RG (Southwest Groundwater Consulting)

SECTION 3: SCOPE OF WORK AND WORK PRODUCTS/DELIVERABLES

3.1 To evaluate your project for grant award, WIFA needs to understand the tasks and costs to be funded.

a. Scope of Work

Describe the major project tasks that the engineer/contractor and applicant will complete. For example, a Preliminary Engineering Report (PER) should be reasonably itemized into its basic tasks with descriptions. Do NOT include construction tasks and costs. More detailed descriptions will allow better evaluation for funding. You may upload a scope of work/proposal in Section 4.

The engineered outlined three tasks based on the water company's three (3) scope of work items in their proposal (attached).

Task 1. Water System Map and Data Analysis
Task 2. Groundwater Source Evaluation
Task 3. Water Storage Improvements

b. Budget with Tasks

Provide a budget for your scope of work and tasks in the table below. A WIFA grant can fund no more than 60% of project planning/design costs, up to $35,000. The applicant will be responsible for 40% of the grant project planning/design costs and/or any expenses beyond WIFA's maximum funding limit.*

Task	Description	Total Cost	WIFA Funded	Applicant Funded	Percent WIFA Funded
1	Water System Map and Data Analysis	13,333.00	8,000.00	$5,333.00	60.00
2	Groundwater Source Evaluation	33,333.00	20,000.00	$13,333.00	60.00
3	Water Storage Improvements	11,667.00	7,000.00	$4,667.00	60.00
	Totals:	**$58,333.00**	**$35,000.00**	**$23,333.00**	**60.00%**

Green projects **may qualify for an applicant match funding waiver. Determination of qualifying green projects and waiver of applicant match funding is entirely at WIFA's discretion. **It is important to commit to match funding to ensure eligibility in the event the project does not qualify as green.** If you do not want to accept the grant unless it qualifies for a match waiver, you may leave the match column blank in the table above.*

3.2 Explain how the applicant match will be provided. List sources of funding and amounts. In-kind services may serve as the match, but must be described and assigned an approximate dollar amount.
Note: Federal funds (directly or indirectly) cannot be used to fund the match portion of your grant project. See the Applicant's Guide for examples of acceptable match, including in-kind services.

The Local Match provided by the Water Company will be a in-kind service commitments as needed to help gather data, review the program, field services to identify water mains locations, and pulling water meters for testing. The matching will include the ADEQ ATC permit fees and any water quality lab testing fees required by the investigation.

3.3 At the end of the grant project, you and your contractor will submit a final work product(s)/deliverable(s). Describe the final work product(s) associated with this project (e.g. Preliminary Engineering Report, other reports, maps, engineering plans, etc.).

The engineer will provide a final report that summarizes the results of the evaluation. The report will identify priority tasks that the water company should implement to help rectify the water shortage problems. Also, the engineer will provide an engineering report, drawings, and specifications for the water company to permit the storage tank and pumps with the ADEQ.

3.4 Is the project ready to proceed if selected for a grant award? ◉ Yes ○ No
If yes, give an estimated start date below. If no, explain why additional time will be needed to begin the project.

We would start as soon as funding became available. As a compliance item in the pending ACC rate increase application, the company will be required to submit its findings by no later than November, 2014.

3.5 Next Steps. Please address the following:

a. What will be the next phase of work once your grant project is complete?

The water company plans to begin funding and implementing water shortage recommendations as soon as financially feasible once the report is completed. In the report, the company expects to implement recommendations in stages over time so as to reduce the financial impacts on the company.

b. How do you plan to fund the construction/implementation of your project? Click here if you'd like more information on WIFA's design/construction loan program.

We plan to use equity funding of additional improvements followed by new rates to be approved in a second rate case which we will be required to file with the ACC by June 2017.

SECTION 4: REQUESTED AMOUNT AND CERTIFICATION/APPROVAL

4.1 Estimated Date WIFA Funding Required: 5/1/2014 [mm/dd/yyyy]

4.2 Estimated Costs & Funding Source *(Soft costs)*

Funding Source	Project Costs	Percentage
Amount Funded Locally:*(at least 40% of total)*	$23,333.00	40%
Amount Requested from WIFA:*(no more than 60%)*	$35,000.00	60%
Other Source: None	$0.00	
Total Cost:	**$58,333.00**	

4.3 The undersigned hereby offers and agrees to perform in compliance with all terms, conditions, specifications, and scope in this grant application. Signature certifies understanding and compliance with the application attached hereto. WIFA may approve the grant application with modifications to scope, methodology, and schedule, final projects, and/or budget.

First Name	Last Name	Title
Jason	Williamson	President

Authorized Signature: _____ **Date:** 2/12/14

This Grant Application Form must be signed by the individual legally authorized to act on behalf of the applicant in conducting all official business relating to the project. Signing this form and submitting a grant application package certifies that the applicant has authority to enter into the agreement, accept funding, and fulfill the terms of the proposed project if approved. **Applicant is required to read WIFA's Applicant's Guide and be legally authorized to enter into an agreement with WIFA.**

4.4 **Preparer's Information** *(enter the name and title of the person, if different from Section 1.2, who completed the application)*

Name: _____ Title: _____

4.5 **Supporting Documents**

Remember to upload, email or mail your supporting documentation. The grant review process begins immediately after the grant cycle closing date. **Your signed application (and any supporting documentation not already uploaded) must be received within two business days of the application due date.**

Reference Name	Document Name	Original Name	Date Added
Tres Rios Engineers Estimate/ Proposal	DOC-150001.pdf	IFA Proposal_EVWC_2-10-14-3 (3).pdf	2/12/2014
East Verde Park Hauling Costs	DOC-150002.xlsx	VP - 2011-2013 Hauling.xlsx	2/12/2014

Please mail it to:
Water Infrastructure Finance Authority of Arizona
1110 West Washington, Suite 290, Phoenix, Arizona 85007

Tres Rios
Consulting Engineers

PROPOSAL FOR PROFESSIONAL ENGINEERING SERVICES

Project Name: Source Water Shortage & Storage Evaluation

Client Name: East Verde Park Water Company
Location: Gila County, AZ.
Project No.: <pending>
Date: 10 February 2014
Engineer: Jeff Bower, PE

1.0 INTRODUCTION

The East Verde Park Water Company provides drinking water supplies to the East Verde Park community of approximately 140 residential services in Gila County, Arizona. The community is located approximately 2 miles north of Payson, Arizona off of Highway 87/260.

In 2012, the water provider's three (3) groundwater wells pump 3,800,760 gallons. However, during the summer months, the water company's wells could not maintain supplies and approximately 207,000 gallons were hauled in from an approved source. In 2011, the water company hauled in 58,873 and in 2013; 10,900 gallons were hauled.

The water company is requesting an evaluation of the existing wells for potential rehabilitation plans and other options that may be available for bolstering supplies to help meet summer demands. Also, the water company is in need of new water storage tanks.

Tres Rios Consulting Engineers ("Tres Rios") and our expert sub-consultant, Southwest Groundwater Consultants ("SGC") have experience working together in evaluating groundwater source potential and options. We have often found that a groundwater well that was once a substantial producer, but then slowly declined in production due to scaling build-up on the well screen (or obstructions or damage, etc.). The slow decline was essentially imperceptible, but over time it became an obvious problem.

Also, Tres Rios' engineers will assist the water company in deciding the type and amount of storage is required for the community based on the historical water use and requirements of the ADEQ. Our engineers work with very small water providers and have numerous cost-effective options to help address water storage improvements. The design will include a booster station designed around a low-flow maintenance pump and VFD-controlled main boosters to help save operational costs in the future.

Below is an outline of the project and fee proposal to complete the work.

2.0 TASK 1. WATER SYSTEM MAP AND DATA ANALYSIS

The existing water system maps for East Verde Park were prepared over forty (40) years ago – prior to AutoCAD and GIS – and are in need of updating. The water system maps are an important facet of the groundwater evaluation, as they will be used for planning and placement of any potential new wells.

Under this task, Tres Rios' engineers will obtain the GIS basemap data from Gila County (ie. Plats, streets, easements) and draw in the water system components and sites. The maps will be prepared in ¼ Section scale with blow-up details at key intersections and the well and storage sites. The work will include two (2) site reconnaissance visits to verify locations of updates that are not currently shown in the older maps.

3.0 TASK 2. GROUNDWATER SOURCE EVALUATION

The community's source water is from the following three (3) wells:

- EV Well #1 55-621332 4-gpm
- EV Well #2 55-621335 0.8-gpm
- EV Well #3 55-518599 7-gpm

The total production capability is approximately 13-gpm under excellent conditions (*the well production can vary with seasonal conditions). Production can be as high as 18,700 gpd with 24 hour run-times, but is more often measured at 15,000 gpd. This falls short of the 16,000gpd + summer day usage.

Under this task, SGC proposes to evaluate the East Verde Park Water Company's existing wells to determine the cause of the declining well yields – especially the summertime water table declines. Data will be collected using water level transducers to record drawdown, recovery, and static water level information. These data will be evaluated and recommendations will be provided.

Some of the more obvious recommendations may include well rehabilitation, well deepening, and new well construction. Based on a preliminary investigation, a new well or wells may be required to meet the elevated summer water demands, especially since Well #3 has been exhibiting lower water levels during the summer. As part of a new well project SGC can assist in the locating of the new well. For well siting SGC will consider local geology, drainages, fracture trace analysis, and surface geophysics.

4.0 TASK 3. WATER STORAGE IMPROVEMENTS

The existing water storage tank at East Verde Park is over forty (40) years old and leaking. The water company is in need of replacing the tank, but because of it only serves 140 lots, the cost is very prohibitive. Tres Rios' engineers can provide the water company with several cost-effective options to select the best-fit for new water storage.

> Under Arizona Revised Statutes Rule 18-5-503-a., "the minimum storage capacity...shall be equal to the average daily demand during the peak month of the year." Furthermore, Rule 18-5-503-b. states that "the minimum storage capacity for a multiple well system...may be reduced by the amount of the total daily production capacity minus the production from the largest producing well."

The rules allow for a reduction in the total storage capacity by the pumping rate of Well #3 or 10,000 gpd. Our engineers will provide an Engineering Report and construction drawings & specifications required by the ADEQ to permit the new storage tank construction.

The design will include a new pump station improvement. The pump station design will be two (2) domestic water pumps, each designed to handle the anticipated peak hour demands to the system. The pumps will be multi-stage centrifugal with VFD controllers. The design will include a very small maintenance or jockey pump designed to handle low flows, thus reducing the use of the larger boosters unless needed. The process logic will be as follows:

A new pressure transmitter will be installed on the pump station discharge. At a low-pressure start, the maintenance pump will start and pump on a VFD controller. If the unit is unable to maintain supplies, a booster pump will start and the maintenance pump will ramp down and shut-off.

3.0 PROJECT SCHEDULE & ENGINEERING FEE

Tres Rios will begin working on the project as soon as an authorization is received from the Owner and WIFA.

Tres Rios estimates approximately 2 months to prepare the new water maps (Task 1). The groundwater evaluation will include 1 month for data collection and field work, then approximately 1 additional month for the report preparation (Task 2). Task 3 will be completed within 1 month. The total project duration will be less than 6 months.

An engineering fee estimate worksheet was prepared during the planning of this scope of work. The fee estimate worksheet (attached) is only provided as a guide to demonstrate the

approximate allocation of engineering work effort and expenses required to complete the scope of work. The actual allocation will vary. The Engineer will provide partial payment requests at the end of each month while the project is underway.

The project work scope will be completed for a total Lump Sum total as follows:

LUMP SUM TO COMPLETE WATER MAPS .....$ 35,000.00

ENGINEERING FEE ESTIMATE Project: Source Water & Storage Location: East Verde Park Owner: East Verde Park Water Co. Date: 2/10/2014	Sr. Eng $120	W/W Eng $100	CAD Tech $75	Tot Hrs	LABOR COST	EXPEN-SES	SUB-CONST'S	TOTAL COSTS
DESIGN ENGINEERING								
Task 1. Water System Map and Data Analysis								
a. Senior Engineer	15			15	$ 1,800			$ 1,800
b. Water/Wastewater Engineer		30		30	$ 3,000			$ 3,000
c. CAD Designer			40	40	$ 3,000			$ 3,000
d. Expense: Mileage $0.05 x 400 miles						$ 200		$ 200
TOTAL TASK 1.	15	30	40	45				$ 8,000
Task 2. Groundwater Source Evaluation								
a. Senior Engineer	5			5	$ 600			$ 600
b. Water/Wastewater Engineer		27		27	$ 2,700			$ 2,700
c. CAD Designer			0	0	$ -			$ -
d. Expense: Mileage 200 x 2 @ $ 0.50						$ 200		$ 200
e. Expenses: Sub-Contract Geologist							$ 15,000	$ 15,000
f. Expense: Indirect Costs (10%)							$ 1,500	$ 1,500
TOTAL TASK 2	5	27	0	32				$ 20,000
Task 3. Water Storage Improvements								
a. Senior Engineer	20			20	$ 2,400			$ 2,400
b. Water/Wastewater Engineer		19		19	$ 1,900			$ 1,900
c. CAD Designer			36	36	$ 2,700			$ 2,700
TOTAL TASK 3	20	19	36	75				$ 7,000
LUMP SUM TOTAL	40	76	76	152				$ 35,000