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BEFORE THE ARIZONA CORPORATION COMMISSION

BOB STUMP
Chairman

Arizona Corporation Commission

DOCKETED

GARY PIERCE
Commissioner

JUN 03 2014

BRENDA BURNS
Commissioner

DOCKETED BY 

SUSAN BITTER SMITH
Commissioner

ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

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BOB BURNS
Commissioner

IN THE MATTER OF THE APPLICATION OF
PRESIDIO TRAILS DEVELOPMENT, LLC
FOR DELETION OF ITS PROJECT FROM
THE CERTIFICATE OF CONVENIENCE AND
NECESSITY HELD BY HALCYON ACRES
ANNEX NO. 2 WATER COMPANY, INC.

DOCKET NO. W-02312A-13-0326
RESPONSE TO STAFF REPORT

Halcyon Acres Annex No. 2 Water Company, Inc. ("Halcyon") and Presidio Trails Development, LLC ("Presidio") (jointly, the "Applicants") file the following response to the Staff Report filed in this matter on May 23, 2014.

I. Background.

On September 20, 2013, Presidio filed with the Commission an application to have Presidio's apartment project deleted from Halcyon's Certificate of Convenience and Necessity ("CC&N") (the "Application"). Administrative Law Judge ("ALJ") Belinda A. Martin stayed formal proceedings in this matter via a procedural order filed on October 29, 2013.

On December 23, 2013, the Applicants formalized a settlement agreement regarding the issues described in the Application. As part of this settlement, Halcyon agreed to join this docket as a co-applicant and support Presidio's request to have its property deleted from Halcyon's CC&N.

201 E. Washington St., Suite 1200
Phoenix, AZ 85004-2595

**LEWIS ROCA
ROTHGERBER**

1 The Applicants filed a status update on January 27, 2014 notifying Commission
2 Utilities Division Staff (“Staff”) and ALJ Martin of the settlement. This filing also
3 requested the joinder of Halcyon as a co-applicant with Presidio and requested that the
4 procedural stay be lifted. ALJ Martin granted both of these requests by a Procedural Order
5 dated February 11, 2014.

6 On March 13, 2014, Staff issued a sufficiency letter, initiating Staff’s substantive
7 review of the Application.

8 ALJ Martin issued another procedural order on April 15, 2014. Among other
9 things, this order scheduled a hearing in this matter for June 12, 2014.

10 On May 9, 2014, two individuals, Mr. John Moritz and Mr. Jonathan Kent, filed
11 motions to intervene. ALJ Martin granted these motions on May 19, 2014.

12 The Staff Report filed on May 23, 2014 recommends denial of the Application.
13 Instead of deletion, Staff recommends that the Applicants pursue an agreement with
14 Tucson Water whereby Halcyon purchases water from Tucson Water and then resells it to
15 Presidio Trails. Staff indicates a willingness to reconsider its recommendation if its
16 solution “is shown to not be viable.”¹

17 **II. Presidio’s Response.**

18 Presidio appreciates Staff’s prompt attention to this matter and acknowledges, to a
19 degree, the logic behind Staff’s proposal. Presidio is not aware of any mistakes or
20 inaccuracies in the Staff Report that merit comment or response. Presidio does, however,
21 respectfully disagree with Staff’s ultimate recommendation.

22 In the six business days since the filing of the Staff Report, the Applicants have
23 explored Staff’s recommended solution with Tucson Water and with Halcyon’s
24 management. Based on the information gathered to date, it appears that Staff’s
25 recommendation is not viable.

26

¹ At p.5, last sentence of second paragraph.

1 Tucson Water’s provision of water on a wholesale basis is governed by the City’s
2 “Water Policies”, adopted by the Mayor and City Council in 1998 as Resolution No.
3 17929, attached as Exhibit A. Under Section III.C.6.g of the Water Policies, Tucson Water
4 cannot deliver water to a wholesale customer that is debited against a City groundwater
5 account as recorded by the Arizona Department of Water Resources. As interpreted by the
6 City Attorney’s office, this restriction prohibits Tucson Water from providing water to a
7 wholesale customer unless that customer has its own source of renewable (i.e., CAP) water
8 that can be “wheeled” through the Tucson Water system. Since Halcyon does not have an
9 allotment of CAP water, any water provided by Tucson Water would be considered
10 groundwater, which is not allowed by the Water Policies.²

11 In addition to the policy obstacle to implementing Staff’s proposal, the City
12 Attorney’s office has also informed the Applicants that any wholesale agreement between
13 Tucson Water and Halcyon would require approval from the Mayor and City Council.
14 This approval may be opposed by the same individuals who opposed – and thwarted –
15 Halcyon’s zoning efforts, as described in the Application. Presidio has been pursuing a
16 solution to this problem since 2012 and should not be required to begin a new
17 administrative process at the City.

18 At the hearing on June 12th, Presidio intends to offer evidence that Staff’s proposal
19 is not viable from the perspective of Tucson Water. This evidence is expected to come
20 through the testimony of Mr. Christopher Avery, Chief Water Counsel and Principal
21 Assistant City Attorney for the City of Tucson.

22 **III. Halcyon’s Response.**

23 Halcyon is intrigued by Staff’s recommendation, but cannot contemplate any
24 consideration of elimination or evisceration (as opposed to the partial deletion requested)
25

26 ² Note that Halcyon’s current Interconnection Agreement with Tucson Water, attached as Exhibit B, addresses only the provision of water on a “temporary emergency” basis. According to the City Attorney’s Office, this is not the same type of interconnection agreement that would be required to implement Staff’s proposal.

1 of Halcyon's Certificate of Convenience and Necessity. Halcyon is continuing to
2 investigate, but at this time has no reason to controvert the response set forth by Presidio
3 hereinabove and continues to believe that the settlement agreement with Presidio is in the
4 best interest of Halcyon's customers and shareholders.

5 **IV. Conclusion.**

6 The Applicants respectfully request that the Commission grant the Application and
7 allow the development of Presidio's apartment complex to proceed.

8
9 RESPECTFULLY SUBMITTED this 3rd day of June, 2014.

10 GOOD LAW, P.C.

11
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1 ORIGINAL and thirteen (13) copies
2 of the foregoing filed this 3rd day
of June, 2014, with:

3 The Arizona Corporation Commission
4 Utilities Division – Docket Control
1200 W. Washington Street
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5
6 Copy of the foregoing hand-delivered
this 3rd day of June, 2014, to:

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EXHIBIT A

CITY OF TUCSON

MAYOR AND COUNCIL

WATER
POLICIES

ADOPTED

JANUARY 26, 1998

RESOLUTION NO. 17929

TABLE OF CONTENTS

	PAGE
I. DEFINITIONS	2
II. ASSUMPTIONS	3
III. POLICIES	3
A. Finance	3
1. <i>Enterprise Basis</i>	3
2. <i>Water Rates and Charges</i>	3
a. <i>cost-of-service basis</i>	3
b. <i>water rate design elements</i>	4
3. <i>System Development Requirements</i>	5
4. <i>Service Area Expansion</i>	6
5. <i>Capital Improvements</i>	6
B. Acquisitions	6
C. Water Supply, Management and Development	7
1. <i>Water Quality</i>	7
2. <i>Contingency Plans</i>	8
3. <i>Service Area Management</i>	8
4. <i>Non-Potable Water</i>	9
5. <i>Recharge</i>	12
6. <i>Wholesale Water Service</i>	12
7. <i>Design Standards</i>	13
8. <i>Aura Valley Land</i>	13
9. <i>Protection of Hydraulically-Connected Riparian Areas</i>	14
a. <i>identification of areas</i>	14
b. <i>drilling of new wells</i>	14
c. <i>operation and evaluation of existing wells</i>	15
d. <i>preservation through conservation</i>	15
D. Conservation	15
E. Policy Review Process	15

I. DEFINITIONS

A. ADEQ	Arizona Department of Environmental Quality
B. ADWR	Arizona Department of Water Resources
C. A MA	Active Management Area
D. Applicant	Owner, authorized representative, or corporation requesting service, use and/or construction of Tucson Water facilities
E. CAP	Central Arizona Project
F. City	City of Tucson
G. Cost of Service	Charges for water service shall be made in direct proportion to the cost of securing, developing and delivering water to the Utility's various customer classes.
H. CWAC	Citizens' Water Advisory Committee
I. Effluent	The product of a treatment plant, having received primary and/or secondary treatment.
J. EPA	U.S. Environmental Protection Agency
K. GWMA	1980 Groundwater Management Act
L. Hydraulically Connected Riparian Area	An aquatic or terrestrial ecosystem that relies, at least in part, on subsurface water flows.
M. IGA	Intergovernmental Agreement
N. Non-potable water	Water not fit for human consumption, such as effluent, reclaimed water and untreated CAP water.
O. Potable water	Water which meets EPA and ADEQ water drinking water standards
P. Reclaimed	Effluent receiving post-secondary water treatment.
Q. Utility	The Tucson Water Department
R. Water Provider	Private water companies, districts, or municipalities that provide water service.
S. Tucson Water Department	The City Of Tucson's municipally-owned water utility
T. Tucson Water Service Area	The lands represented on the service area maps filed annually with the Arizona Department of Water Resources
U. Waste water	Water which carries waste to a treatment facility through a conveyance system.
V. Water revenue	Revenue derived from the operations of Tucson Water.
W. Emergency Supply	A temporary water supply provided by Tucson Water to local private water companies for equipment or system failures and not for the purpose of resolving deficiencies in the system requesting the emergency supply

II. ASSUMPTIONS

- A. All financing shall be done in accordance with all city, state and federal requirements.
- B. To the extent that conservation programs succeed in reducing demand, capital improvement programs may be deferred and rate increases adjusted accordingly.

III. POLICIES

A. Finance

1. Enterprise Basis

- a. The Utility shall be a self-supporting enterprise with all costs associated with the Utility to be funded from revenues derived from the sale of water and other water-related income sources.
- b. An annual average debt service coverage of 1.75 shall be maintained.
- c. Revenues collected in excess of operating needs of the Utility shall be carried forward for future capital bond funding requirements and shall not be transferred to the City's General Fund.
- d. The Utility shall maintain cash reserves adequate for known future obligations plus an allowance for unbudgeted contingencies set at five percent (5%) of revenues from water sales.
- e. Low-income water users living within the City may be supplied a minimum amount of water at reduced rates or other form of subsidized water service at the discretion of Mayor and Council. The cost of this subsidy will be funded from the general fund of the City and not from water rates.

2. Water Rates and Charges

a. cost-of-service basis

- (1) Insofar as possible charges for water utility service shall be made on a cost-of-service basis.
- (2) Marginal cost aspects of the water utility will be continually studied by staff and considered as a factor in the making of rates.

- (3) The substitution of effluent and reclaimed water for potable water is an important element in achieving safe yield in the Tucson Basin. Rate setting for effluent shall be in accordance with the following precepts:
- (a) charges for effluent and reclaimed water shall be based on the cost of service whenever possible;
 - (b) to the extent that charges for effluent and reclaimed water based on cost of service do not provide an adequate price incentive, the price of reclaimed water shall be based on a market value which encourages its use;
 - (c) CWAC shall review and make recommendations and the Mayor and Council shall hold a duly advertised public hearing prior to entering into any agreement to sell reclaimed water to any customer at a rate other than that rate established by ordinance and contained in the Tucson Code.
- (4) In the event that Tucson Water enters into contract with other water providers for treatment and delivery of CAP allocations, the City shall recover its total cost of providing this service.

b. water rate design elements

- (1) Commodity charges shall reflect the costs of service across customer classes and seasons, using rate structure features such as: seasonal rates; isolated areas service charge and reserve fund surcharge.
- (2) Customers shall be charged for fixed and recurring costs of service such as:
 - (a) new connections
 - (b) re-connections
 - (c) meter reading
 - (d) billing
- (3) Rate structures shall be designed so as to encourage water conservation and to control peak demand.
- (4) Water rates and charges shall be reviewed annually and changes in the rate structure shall be implemented so as to avoid sudden and large-scale shifts in water rates.

- (5) Water rates for customers inside and outside the City limits shall be the same within each customer class unless there is reasonable justification based on cost-of-service rate differentials.
- (6) The City shall provide an open process for determination of competitive wholesale water service rates. This process shall include formal participation by the governing bodies of other cities and towns within which wholesale water service may occur.
- (7) The City shall work cooperatively with wholesale water customers to develop rate structures which avoid excessive retail water rate increases in any given year, with appropriate consideration for City policy regarding full cost recovery.
- (8) The City shall work cooperatively with wholesale water customers to establish rate structures which comply with Arizona Corporation Commission requirements.
- (9) With regard to existing agreements for wholesale water service, the City will develop rates consistent with the provisions of the agreements.

3. System Development Requirements

- a. All costs of water system facilities necessary to serve a new applicant shall be paid by that applicant.
- b. A provision shall be made to refund that portion of the costs not directly attributable to the development as follows:
 - (1) the cost differential of any oversizing of mains beyond what is required for the applicant shall be refunded by Tucson Water; and
 - (2) properties not financially participating in the construction of certain Tucson Water facilities shall be assessed a charge upon connection. Funds collected shall be reimbursed to the party that financed the original facility installation. The charge shall be updated annually to reflect current construction costs.
- c. Area-specific charges shall be assessed to developments within Tucson Water Service Area where significant capital investment for the importation and distribution of water solely to serve the specific area is required.

4. Service Area Expansion

- a. The City shall not expand its water utility service area into areas not presently served by other providers unless:
 - (1) Costs to existing rate-payers are considered;
 - (2) Water supply factors are considered; and
 - (3) Regional plans are considered.

5. Capital Improvements

- a. Various combinations of revenue, general obligation bonds, tax-secured bonds and water revenues shall be used to finance water capital improvements.
- b. Repayment of the bonds shall be made from water system revenues.
- c. The type of bond financing to be used shall result in the least total cost to rate-payers based on present value.
- d. The term of repayment of debt shall not exceed the useful life of the improvement funded by such debt.
- e. Capital requirements for relocations or other modifications to the water system required to accommodate other public works shall be derived from sources other than the water utility.
- f. Revenues accumulated in any reserve fund shall be set aside for specific purposes, such as water augmentation or water quality projects.

B. Acquisitions

1. Systems Acquisitions

- a. The City shall purchase other water delivery systems only if such purchase is beneficial to the customers of Tucson Water. Delivery systems whose purchase may contribute to the achievement of Tucson Water's aims should:
 - (1) possess water resources that might have a significant effect on water quality, availability, and supply;
 - (2) be located adjacent to or near the Utility's existing service area; and
 - (3) not raise the cost of providing water to existing customers of the Utility.

- b. The CWAC shall review all potential water system acquisitions and make recommendations to the Mayor and Council.
- c. Whenever Tucson Water supplies water to another water provider, the contract or agreement governing this transaction shall encourage the water provider to implement a program that includes conservation incentives.

2. Water Rights Acquisitions & Sales

- a. The City may purchase or sell grandfathered water rights or stored water credits when the Mayor and Council determine the transaction is consistent with short and long-term goals and policies of the City.
- b. Water rights and stored water credits may be considered in price negotiations for reclaimed water and CAP water.

C. Water Supply, Management and Development

1. Water Quality

- a. Tucson Water shall provide all customers water which is safe and palatable, and which meets all primary Federal and State standards, including that all water shall:
 - (1) contain no substance naturally occurring or man-made in amounts that exceed the maximum contaminant level established by the EPA Interim Drinking Water Standards, the Arizona Department of Environmental Quality or the Arizona Department of Health Services
 - (2) meet local standards to protect health and safety in the absence of national or state standards
 - (3) contain no pathogens
 - (4) be tested for contaminants at representative locations throughout the distribution system as appropriate or required by regulatory agencies to apprehend possible health, economic, or environmental threats
- b. All non-potable water use shall be consistent with all local, state, and federal regulations.

- c. Tucson Water shall be responsive and responsible to concerns regarding water quality and will provide the public with timely and accurate information on matters relating to water quality issues.
- d. Tucson Water will fund remediation of groundwater contamination commensurate with its responsibility for the problem.

2. Contingency Plans

- a. The Utility shall develop and maintain contingency plans to manage a water loss, shortage, delivery interruption, contamination, severe land subsidence or other water emergency. Any emergency demand reduction strategy will not be based solely on an across-the-board-percentage reduction on historic, residential, commercial or industrial water usage. The emergency conservation measure shall focus on the reduction or elimination of water intensive uses that don't affect public health or safety.
- b. Emergency water supplies shall be provided to local private water companies subject to Tucson Water's ability to meet the demands of its customers.

3. Service Area Management

- a. The City shall maintain the right of control of effluent in accordance with adopted IGA's.
- b. Tucson Water shall maintain a 100-year assured water supply in accordance with ADWR assured water supply rules.
- c. The City shall encourage other water providers to participate financially in the regional management of water.
- d. The City shall continue to work cooperatively with all potential CAP water users in Pima County and with all agencies of government to facilitate implementation of the CAP in Pima County.
- e. The City may enter into agreements to treat and deliver CAP water to other water providers to ensure that their CAP allocations are utilized in the Tucson AMA.
- f. The City shall cooperate fully with the ADWR to develop augmentation programs that may include water importation and storage and/or artificial groundwater recharge.
- g. Tucson Water shall cooperate in the planning and implementation of regional recharge programs.

- h. The City shall continue to seek Tucson AMA wide groundwater management through cooperation between water users and agencies of government, including ADWR.
- i. In considering funding projects which are sponsored by entities other than the Tucson Water Department, CWAC shall review the rate impacts and policy implications of participation in the project.
- j. The City of Tucson shall strive to become the sole retail water provider within its corporate boundaries, as they may exist, now or in the future.
- k. The City shall offer to negotiate intergovernmental agreements with other cities and towns governing the provision of new retail water service within the boundaries of those jurisdictions in order to clarify the relationship among the City, the other cities and towns and the affected retail customers.
- l. Where legally and physically feasible, ownership and control of existing Tucson Water retail service facilities within the boundaries of other cities and towns shall be negotiated with those entities. The City shall work in cooperation with those entities to determine fair market value of the facilities.

4. Non-Potable Water

Priority shall be given to the development of treatment capacity and delivery systems for non-potable water. Wherever possible, the use of non-potable water in place of potable water shall be required for landscape irrigation and industrial uses.

- a. The following shall be considered for potential uses of non-potable water:
 - (1) Landscape irrigation and industrial uses
 - (2) Direct recharge
 - (3) Agricultural irrigation and livestock watering
- b. The following priorities, from highest to lowest, are established for utilization of non-potable water:
 - (1) Direct use to replace an existing use of potable water
 - (2) Storage and recovery within the area of hydrologic impact to replace an existing use of potable water
 - (3) Direct use to replace a new use of potable water

- (4) Storage and recovery within the area of hydrologic impact to serve a new use that otherwise would use potable water
- (5) Storage and recovery outside the area of hydrologic impact to replace either an existing or a new use of potable water
- c. Since contractual rights to the use of effluent may result in added value to a user's property, contracts shall recognize that possibility and require waiver by the owner of any such added value in the event of purchase or condemnation of the property by the City through negotiation.
- d. The City shall monitor effluent sales and deliveries by the Pima County Wastewater Management Department to ensure compliance with the sewer system transfer IGA and shall take steps to correct any failure to so conform when necessary.
- e. The potential for using reclaimed water shall be evaluated and included in all new and existing water and land use plans.
- f. Tucson Water shall actively work with new and existing large water users, including golf courses, parks, schools, cemeteries, industrial and multi-family complexes, to provide practical and economic service by the reclaimed water system.
- g. New turf facilities and golf course development shall use effluent or reclaimed water for irrigation purposes.
- h. Any conditions of interim use of potable water shall be made a part of water service agreements and other appropriate contracts to assure prompt action converting to the maximum use of effluent or reclaimed water for irrigation purposes. These conditions shall include, but not be limited to:
 - (1) the date by which the City is required to have its portion of the system in place;
 - (2) requirements for financial participation by the developer in the construction of the project;
 - (3) penalties for non-compliance; and
 - (4) a surcharge equaling 50% of the potable water rate in addition to the regular rates and charges. This surcharge shall not apply when the continued use of potable water is required solely due to deficiencies in the City's system or delays in City construction.

- i. When private development requires reclaimed water service in advance of the City's construction schedule, developers shall work with Tucson Water to formulate a plan of service to be implemented at the sole expense of the developer with facilities to be dedicated to Tucson Water upon completion.
- j. When funding is available, the City will finance or participate in the construction of reclaimed water pipelines in the Tucson Water service area to serve customers whose estimated reclaimed water usage is sufficient to justify pipeline construction on the basis of economic feasibility.

k. effluent control (IGA)

(1) Effluent use shall be controlled as follows:

- (a) The use of all effluent derived from water developed by the City, including the City's allocation of CAP water, shall be directly controlled by the City.
- (b) Effluent from any County treatment plant derived from water developed by entities other than the City may be controlled by the City on a case-by-case basis through contracts between the City and others subject to applicable conditions to include:
 - i) conditions requested by Pima County in the development of their waste water systems that are consistent with the water management plans and goals of the Tucson AMA.
 - ii) that the use of effluent shall reduce the amount of groundwater which the other party could otherwise lawfully have pumped.
 - iii) that the terms of the contract shall be sufficient to amortize the cost of system improvements.

(2) The City may only enter a contract with the County under the terms of which the County would control the effluent under conditions mutually agreed upon, with no payment by the County to the City, except for sharing net profits as provided in the Sewer Transfer IGA, when the City:

- (a) is not using the effluent;
- (b) has no plans to use the effluent;
- (c) has no contract with another party for use of effluent;
- (d) has no plans for entering into a contract with another for the use of the effluent;
- (e) has no existing or proposed projects which could be negatively impacted.

5. Recharge

- a. Groundwater recharge shall be used as a strategy for augmenting the groundwater and for providing long-term operational flexibility to Tucson Water's supply system.
- b. Tucson Water shall develop demonstration projects as required to assess the feasibility of recharging various water sources for operational and long-term storage.
- c. Tucson Water shall fully participate with other agencies to develop programs for water supply augmentation within the Tucson AMA.
- d. The City may provide recharge water only to entities which have the legal authority to store water.

6. Wholesale Water Service

- a. Tucson Water shall offer to provide wholesale water service to other retail water providers in the region.
- b. Tucson Water shall offer both interruptible and non-interruptible water service to wholesale customers.
- c. Tucson Water shall be responsible for delivering a specified flow rate at a specified pressure range to the point of delivery to wholesale customers.
- d. Each wholesale customer shall be responsible for all necessary storage and transmission facilities beyond the point of wholesale delivery, unless otherwise provided for in separately negotiated agreements.
- e. Tucson Water shall be responsible for delivering wholesale water in accordance with the primary water quality standards established pursuant to the Federal Safe Drinking Water Act (42 United States Code Sections 300F et seq.) at the point of delivery to the retail water service provider.
- f. Each wholesale customer shall be solely responsible for maintaining water quality within its own retail water distribution system.
- g. Tucson Water shall deliver to a wholesale customer only water which is not debited against a City of Tucson groundwater account established by the Arizona Department of Water Resources.
- h. Central Arizona Project water held under subcontract by any wholesale water customer may be treated and directly delivered or may be stored underground by Tucson Water on behalf of the wholesale customer.
- i. Agreements to treat and deliver or to recharge wholesale customers' CAP water shall be separately negotiated.

7. Design Standards

- a. Tucson Water shall utilize its published design criteria for the development of all utility facilities, except when rezoning, neighborhood plans, or other Mayor and Council actions set aesthetic standards for the area that differ from Tucson Water's standard. In these cases, Tucson Water shall work with the City Planning Department, the developer and the neighborhood to design facilities that are consistent with the architectural theme or prevailing landscape type of the area.

8. Avra Valley Land

a. Ground water use, storage, and recovery

- (1) No lands with appurtenant water rights shall be sold.
- (2) City staff shall take all necessary actions to establish, maximize and preserve water rights on lands.
- (3) No users other than Tucson Water shall export any ground water extracted from Tucson Water Avra Valley properties.
- (4) Facilities to store and recover imported water may be constructed on Avra Valley lands.
- (5) Imported water, including CAP and effluent, which is recharged on Avra Valley lands, may be recovered within the area of hydrologic impact.

b. Land use

- (1) Land use shall:
 - (a) Benefit the Tucson Water Department rate payers
 - (b) Be consistent with all land use requirements and environmental regulations
 - (c) Be undertaken only in conjunction with notice to adjoining property owners and/or a public process to inform area residents of the use
 - (d) To the extent possible, preserve those lands having abundant vegetative cover in their natural state
 - (e) In conjunction with on-site construction, vegetation shall be replaced or restored as part of the project.

c. Leases

- (1) Use shall include all economically reasonable water-saving designs, techniques and equipment.**
- (2) The quantity of water to be used as well as other non-monetary benefits to Tucson Water rate payers shall be considered**
- (3) Any use shall result in reduction or elimination of the City's maintenance costs.**
- (4) Use shall produce significant income to Tucson Water and/or value in excess of the City's cost of contract administration benefiting Tucson Water rate payers.**
- (5) In flood-prone areas, uses shall conform to flood plain regulations.**
- (6) Lessees shall be responsible for all necessary licenses, permits and all applicable fees and taxes.**
- (7) User shall be required to post a bond at the beginning of the lease guaranteeing reclamation and revegetation of the land at lease expiration.**
- (8) Where appropriate users shall be required in the lease to construct and/or maintain appropriate fencing.**
- (9) Leases shall contain provisions to protect against risk of environmental damage, including groundwater pollution.**
- (10) Where appropriate all users shall be required to construct and/or maintain all necessary on-site flood control structures.**

9. Protection of Hydraulically-Connected Riparian Areas

a. identification of areas

- (1) the areas on the City's Environmental Resource Zone and Pima County Flood Control District maps shall be subject to the policies described in this section.**

b. drilling of new wells

- (1) except under circumstances involving special conditions in which no hydrologic impacts can be identified, Tucson Water shall not drill any new wells inside or within one (1) mile of designated hydraulically-connected riparian areas.**

c. operation and evaluation of existing wells

- (1) Tucson Water wells located inside or within one (1) mile of designated hydraulically-connected riparian areas shall be operated so as to preserve these riparian areas
- (2) the feasibility of CAP recharge inside or within one (1) mile of designated hydraulically-connected riparian areas shall be evaluated.

d. preservation through conservation

- (1) Tucson Water shall utilize conservation as a mechanism to reduce the need for local pumping in areas having designated hydraulically-connected riparian habitats.
- (2) Tucson Water shall work with private water companies and private well owners to develop conservation programs to reduce local groundwater pumping in areas having designated hydraulically-connected riparian habitats.

D. Conservation

1. The City of Tucson is required to meet conservation targets as established by the Arizona Department of Water Resources. Conservation program elements, such as public information and education, incentives and ordinances, will be developed and implemented to achieve conservation targets.
2. The City of Tucson will "Lead by Example" by promoting water conservation and environmental aesthetics by applying the principles of Xeriscape to public projects and following adopted regulations.

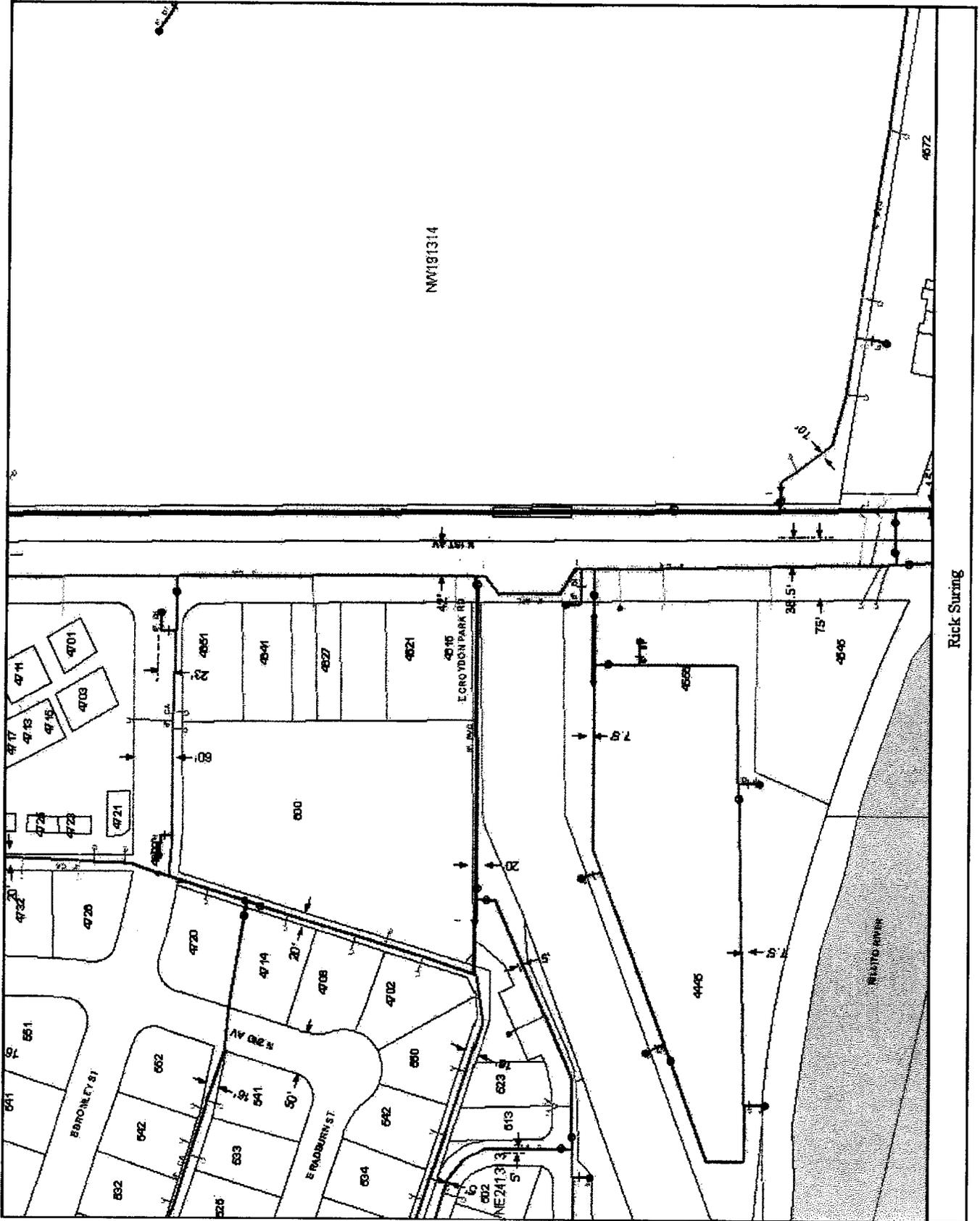
E. Policy Review Process

1. Policies review

- a. Mayor and Council policies shall be reviewed annually or more frequently as warranted.

2. Long-range plan

- a. The long-range plan, including a comprehensive water conservation program, shall be annually reviewed and revised.



NW181314

Rick Suring

EXHIBIT B

WATER SERVICE INTERCONNECT AGREEMENT

-Potable Water System

-Reclaimed Water System

This Agreement is entered into this 9th day of November, 2012, by and between Tucson Water and Halcyon Acres Annex No. 2 (hereinafter "Company").

WHEREAS, Company has requested that Tucson Water provide temporary emergency water service pursuant to Mayor and Council Resolution No. 15283; and

WHEREAS, in specific consideration of Tucson Water providing water service(s) to the Company, Company agrees, on behalf of itself and its heirs, successors and assigns, to certain covenants to Tucson Water regarding Company's proposed use of said water service.

NOW, THEREFORE, Tucson Water and Company agree, covenant and warrant as follows:

I. DEFINITIONS.

CAP: Central Arizona Project surface water treatment and delivery systems.

Company: A private or public corporation, water district, cooperative, or government, authorized by the appropriate local, state, national or federal agency(s) to purvey, sell or distribute water to users or customers within the Tucson Active Management Area; and the entity requesting water service(s) under this Agreement.

Discontinuance Notice: written notice of termination of service, sent via U.S. mail, to Company to notify of turn-off, or removal of metered service and cancellation of Agreement.

Potable Water: Groundwater or treated surface water for residential, commercial, or industrial domestic use only.

Reclaimed Water: Treated secondary effluent for irrigation and certain limited industrial uses only, as permitted by the Arizona Department of Environmental Quality.

Service Area: Geographical boundary of the Company's water service area, as legally described and authorized by the Arizona Corporation Commission or established pursuant to appropriate governmental authority.

System Failure: Severe water supply deficiency due to a substantial breakdown or incapacitation of the Company's production or delivery system, including, but not limited to pumping plant equipment, wells, major pipelines or contamination which cannot be immediately rectified. System failure does not include on-going supply deficiencies.

Service: Metered interconnection between the Company and Tucson Water used to supply Company potable water or reclaimed water.

II. CONVENANTS.

A. Type of Service, Activation.

1. The water service shall be designated for distribution for domestic potable purposes only, extended pursuant to paragraph B.

B. Capacity Limit.

1. The capacity of the water service(s) shall be limited to the maximum allowable capacity of the water meter(s) based on meter size, as determined by Tucson Water.

2. Fire flow capacity is not guaranteed through this connection.

C. Location.

1. The meter(s) shall be set by Tucson Water at the boundary of, or within, the Company's service area, at the following location(s): approximately 750 feet south of Gollob Road and 180 feet north of 21st Street adjacent to an existing Company well site (Section 15, T 14 S, R14 E).

2. Tucson Water will make the final site determination and Company agrees to accept the service at the pressure and flow available.

D. Costs Responsibility of Company.

1. Meter fees shall be paid by the Company. The standard and area specific service connection fees will be charged based upon the size of the meter approved and installed by Tucson Water.

2. Rate charge, or cost of water, shall be equal to the standard commercial potable water rate, including the monthly service charge.

3. Reduced Pressure (Backflow) Assembly(s) shall be installed by the Company as per Tucson Water Standard Detail SD-1802, under the direction of the Tucson Water Cross-Connection Control Inspector, at each interconnection.

4. Pipeline extensions and water system improvements, including all materials and installation of valves, pumping plants, interconnections and easement acquisitions, required to reach the boundary of Company's service area, are the responsibility of the Company. All plans, construction and components shall meet the latest edition of the Tucson Water "Standard Specifications and Details" and "Design and Construction Procedures".

E. Limitations.

1. Both parties agree to abide by all local, state and federal regulations, laws and ordinances, and if notification is made by a regulatory or enforcement authority that a violation has occurred, this Agreement may be terminated by either party without consent of the other party.

2. No warranty is expressed or implied that sufficient pressure or capacity is available for any specific use which may depend on certain minimums, such as fire services, hydrants or sprinklers. Tucson water will make every effort in good faith to provide standard pressure and capacity to the meter, consistent with service a typical Tucson Water customer enjoys from a meter of the same size, at the same elevation, in the immediate vicinity. The Company will be responsible to boost or reduce pressures as desired, for Company preference or requirements within its own service area.

3. This service connection(s) is not intended to extend Tucson Water's assured water supply to the Company.

F. Terms of Agreement. Extension.

1. This Agreement shall not exceed a term of ten (10) years from the date of execution and must be renegotiated at termination if further extension of water service is desired, considering and accommodation changing conditions of both systems; or this Agreement shall be terminated upon execution of other forms of water service agreements.

2. An addendum, signed by both parties, is required to vary from the terms of this Agreement.

III. CERTIFICATION.

The Company certifies that the Company's water system is sufficiently sized and maintained to provide its customers continuous, high quality water service, and that service from Tucson Water will only be used to supplement the Company's existing demand requirements.

IV. HOLD HARMLESS.

The Company shall indemnify, defend and hold the City of Tucson, its Mayor and Council, offices and employees, boards, committees and commissions, harmless from all claims of liability for any damage to property (real or personal) or injury to persons, including death, which arise or are alleged to have arisen, in whole or in part, as a result of the delivery or non-delivery of water service, including excess or deficient water pressure, under this Agreement.

Tucson Water will deliver to the service connection(s) water which meets all Federal and State quality standards.

The Company will hold the City harmless from all liability from any contamination caused by the Company which may occur beyond the service connection(s).

