VAIL WATER

VAIL WATER COMPANY
1010 N Finance Center Dr., Suite 200, Tucson, AZ 85710

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AZ CORP COMMISSION
DOCKET CONTROL

November 19, 2014

Arizona Corporation Commission
DOCKETED
NOV 19 2014
DOCKETED BY

ORIGINAL

Arizona Corporation Commission
Utilities Division Director
1200 West Washington
Phoenix, AZ 85007-2996

RE: Docket W-01651B-12-0339 Decision No. 73995
Calendar 2014

Dear Sir or Madam:

Attached is the CAP Surcharge Mechanism as required by the above referenced Decision, Section C, paragraph 53 for the year 2014.

As Page 11 of the subject decision requires Vail Water to file a request to the Commission for approval for the initial surcharge. The amount Vail Water is requesting is $2.40/1000 gallons.

If you have any questions please do not hesitate to contact me at (520) 571-1958, extension 7105, via fax at (520) 571-1961 or email at kvolpe@estesco.net.

Sincerely,

Christopher T. Volpe
Vice President

Attachments

520-571-1958 520-571-1961 (Fax)

Vail Water Company
CAP Surcharge Mechanism
Computation of CAP Surcharge (Year 1)
Docket Number W-01651B-12-0339
Decision Number 73995

	Component 1 - Variance from Combined CAP M&I Capital and CAP Delivery Charges included in Base Rates				
[1]	CAP Allocation (a.f.)		1,857		attached
[2]	CAP M&I Capital and Delivery Charges (per a.f.) using base year (test year CAP rate)	$	105.87	paragraph 54 line 20 of Dec. 73995	
[3]	CAP M&I Capital and Delivery Charges (per a.f.) using next year's firm rate	$	166.00	M & I recharge rate for 2014	attached
[4]	CAP Rate Increase (decrease) [3]-[2]	$	60.13		
[5]	Total CAP M&I Capital and Delivery Charges Increase(decrease) [4]x[1]	$	111,661		
	Component 2 - Tucson Water Wheeling Fees				
[6]	CAP Water Delivered to Vail Service Territory (a.f.)		200		attached
[7]	Wheeling fee (per a.f.)	$	606.33	Tucson Water fee	attached
[8]	Total Wheeling Fees	$	121,266		
	Component 3 - Periodic Unrecovered Recharge Credits				
[9]	CAP Water Recharged (a.f.) [1]-[6]		1,657		
[10]	CAP Rate Increase (per a.f.) = [4]	$	60.13		
[11]	Total Recharge Credits for Future Use [9]x[10]	$	(99,635)		
	Component 4 - Prior Year Under/(Over) Recovery (Not applicable in Year 1)				
[12]	Total amount to be recovered via surcharge =[38] from prior year calc	$	-		
[13]	Gallons sold in previous 12 months (in 1,000s) (provide support)		-		
[14]	Prior year surcharge rate (per 1,000 gallons) = [40] from prior year	$	-		
[15]	Amounts recovered via surcharge [13]x[14]	$	-		
[16]	Prior Year Under (Over) recovery [12]-[15]	$	-		
	Component 5 - Long-Term Storage Credit Recovery				
[17]	Long-term Storage Credits Used (a.f.) (provide support)		-		
[18]	Average Cost (provide support)	$	-		
[19]	Total Cost [17]x[18]	$	-		
	Component 6 - Gain on Sale of Long-Term Storage Credits				
[20]	Long-term Storage Credits Sold (a.f.) (provide support)		283.34		
[21]	Average Cost per a.f. (provide support) (18)	$	150.55		
[22]	Total Cost of Long-term Storage Credits Sold [20]x[21]	$	42,656.84		
[23]	Total Sales of Long-term Storage Credits	$	42,656.84	dlg sales AF x price	
[24]	Gain on Sale of Storage Credits [23]-[22]	$	-		
[25]	Shared with Ratepayers (%)		50.00%		
[26]	Credit for Rate Payer's Share of Gain [24]x[25]x(-1)	$	-		
	Component 7 - Excess Water Loss Disallowance				
[27]	Gallons Sold in Prior Year (in 1,000's) (provide support)		55,487	Nov-Dec 2013	attached
[28]	Accounted for Water Not Sold (in 1,000's) (provide support)		-	Nov-Dec 2013	
[29]	Total Gallons Sold and Accounted For (in 1,000's) [27] + [28]		55,487		
[30]	Total Gallons Allowed (in 1,000s) [29]/0.90		61,652		
[31]	Gallons Pumped in Prior Year (in 1,000's) (provide support)		59,572	Nov-Dec 2013	attached
[32]	Water Loss (in 1,000's) [31] - [30]		(2,080)		
[33]	Percent Water Loss [32]/[31]x100		-3.49%		
[34]	Allowed Water Loss Percentage		10.00%		
[35]	Percent Reduction in Total Costs Recovered [34]-[33] (if positive then 0%)		0.00%		
[36]	Total Base Costs [5]+[8]+[11]+[16]+[19]+[26]	$	133,292		
[37]	Water Loss Credit [35]x[36]	$	-		
	Computation of Commodity Surcharge				
[38]	Total Net Costs to be Recovered [36]+[37]	$	133,292		
[39]	Gallons sold in prior year (in 1,000's) (27)		55,487		
[40]	Cost per 1,000 gallons [38]/[39]	$	2.40		

COMPONENT 1

LINE #1

(See page 4 of CAP Subcontracting Status Report and page 19 of the US Department of the Interior Bureau of Reclamation subcontract)

CAP SUBCONTRACTING STATUS REPORT
October 1, 2013
CAP Non-Indian
Municipal and Industrial Subcontracts

NAME	DATE (date amended subcontracts executed by USBR)	ENTITLEMENT (acre-feet/year)
Arizona State Land Dept. Contract No. 07-XX-30-W0503	July 13, 2007	32,076 1/
Arizona Water Co. (Superstition System-formerly Apache Junction) Contract No. 07-XX-30-W0455	March 29, 2007	6,285 2/
Arizona Water Co. (Casa Grande) Contract No. 07-XX-30-W0456	March 29, 2007	8,884
Arizona Water Co. (Coolidge System) Contract No. 07-XX-30-W0457	March 29, 2007	2,000
Arizona Water Co. (White Tank System) Contract No. 07-XX-30-W0458	March 29, 2007	968
ASARCO Incorporated (Ray Mine) Contract No. 07-XX-30-W0508	August 7, 2007	21,000 3/
Avondale Contract No. 07-XX-30-W0511	Oct. 3, 2007	5,416 4/
AVRA Water Co-op, Inc. Contract No. 07-XX-30-W0459	March 29, 2007	808 5/
Buckeye Contract No. 07-XX-30-W0510	Aug. 17, 2007	25 6/
Carefree Water Co. Contract No. 07-XX-30-W0461	March 29, 2007	1,300 7/
Cave Creek, Town of Contract No. 08-XX-30-W0537	Dec. 29, 2008	2,606 8/
Central Arizona Water Conservation District (for Central Arizona Groundwater Replenishment District) Contract No. 14-06-W-245, Amendment No. 1, Supplement No. 1	Aug. 14, 2007	7,996 9/

NAME	DATE (date amended subcontracts executed by USBR)	ENTITLEMENT (acre-feet/year)
Chandler Contract No. 07-XX-30-W0482	May 25, 2007	8,654 [10/]
Chandler Heights Citrus I.D. Contract No. 07-XX-30-W0492	May 25, 2007	315
Chaparral City Water Co. Contract No. 07-XX-30-W0460	March 29, 2007	8,909 [11/]
Circle City Water Co. Contract No. 07-XX-30-W0463	March 29, 2007	3,932 [12/]
Community Water Company Of Green Valley Contract No. 07-XX-30-W0489	May 25, 2007	2,858 [13/]
El Mirage, City of Contract No. 07-XX-30-W0504	July 13, 2007	508 [14/]
Eloy Contract No. 07-XX-30-W0464	March 29, 2007	2,171
EPCOR, INC. (Agua Fria) (formerly Arizona-American Water Co.) Contract No. 07-XX-30-W0485	May 5, 2007	11,093 [15/]
EPCOR, INC. (Paradise Valley) (formerly Arizona-American Water Co.) Contract No. 07-XX-30-W0486	May 25, 2007	3,231 [16/]
EPCOR, INC. (Sun City) (formerly Arizona-American Water Co.) Contract No. 07-XX-30-W0488	May 25, 2007	4,189 [17/]
EPCOR, Inc. (Sun City West) (formerly Arizona-American Water Co.) Contract No. 07-XX-30-W0487	May 25, 2007	2,372 [18/]
Florence Contract No. 07-XX-30-W0481	May 25, 2007	2,048 [19/]
Flowing Wells Irrigation District Contract No. 07-XX-30-W0465	March 29, 2007	2,873 [20/]

NAME	DATE (date amended subcontracts executed by USBR)	ENTITLEMENT (acre-feet/year)
Freeport--McMoran (formerly Phelps Dodge Miami, Inc.) Contract No. 07-XX-30-W0514	Oct. 17, 2007	2,906 [21/]
Gilbert Contract No. 07-XX-30-W0497	May 25, 2007	7,235
Glendale, City of Contract No. 07-XX-30-W0493	May 25, 2007	17,236 [22/]
Goodyear Contract No. 07-XX-30-W0498	May 25, 2007	10,742 [23/]
Green Valley Domestic Water Improvement Dist. Contract No. 07-XX-30-W0466	March 29, 2007	1,900 [24/]
H2O Water Co. Contract No. 07-XX-30-W0467	March 29, 2007	147 [25/]
Marana, Town of Contract No. 07-XX-30-W0470	March 29, 2007	1,528 [26/]
Maricopa County Parks & Rec. Contract No. 07-XX-30-W0500	May 25, 2007	665
Mesa, City of Contract No. 07-XX-30-W0501	June 27, 2007	43,503 [27/]
Metropolitan Domestic Water Improvement District Contract No. 07-XX-30-W0468	March 29, 2007	13,460 [28/]
Oro Valley, Town of Contract No. 07-XX-30-W0495	May 25, 2007	10,305 [29/]
Peoria, City of Peoria Contract No. 07-XX-30-W0480	May 25, 2007	25,236 [30/]
Phoenix, City of Contract No. 07-XX-30-W0507	July 30, 2007	122,204 [31/]
Pine Water Company Contract No. 07-XX-30-W0469	March 29, 2007	161 [32/]

NAME	DATE (date amended subcontracts executed by USBR)	ENTITLEMENT (acre-feet/year)
Queen Creek, Town of (formerly Queen Creek Water Co.) Contract No. 09-XX-30-W0542	Nov. 2, 2009	348 [33/]
Rio Verde Utilities, Inc. Contract No. 07-XX-30-W0512	Oct. 3, 2007	812
San Tan Irrigation District Contract No. 07-XX-30-W0499	May 25, 2007	236
Scottsdale, City of Contract No. 07-XX-30-W0490	May 25, 2007	52,810 [34/]
Spanish Trail Water Co. Contract No. 07-XX-30-W0471	March 29, 2007	3,037 [35/]
Surprise, City of Contract No. 07-XX-30-W0505	July 13, 2007	10,249 [36/]
Tempe, City of Contract No. 07-XX-30-W0506	July 13, 2007	4,315
Tonto Hills Domestic Water Improvement District Contract No. 10-XX-30-W0552	June 22, 2010	71 [37/]
Tucson, City of Contract No. 07-XX-30-W0484	May 25, 2007	144,172 [38/]
Vail Water Company Contract No. 07-XX-30-W0472	March 29, 2007	1,857 [39/]
Valencia Water Company Contract No. 10-XX-30-W0550	March 29, 2007	43 [40/]
Water Utilities Community Facilities District Contract No. 07-XX-30-W0494	May 25, 2007	2,919 [41/]
Water Utility of Greater Tonopah Contract No. 07-XX-30-W0475	March 26, 2007	64 [42/]
TOTAL:		**620,678**

Subcontract No. 07-XX-30-W0472

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF RECLAMATION

SUBCONTRACT AMONG THE UNITED STATES,
THE CENTRAL ARIZONA WATER CONSERVATION DISTRICT,
AND THE VAIL WATER COMPANY
PROVIDING FOR WATER SERVICE

CENTRAL ARIZONA PROJECT

1. PREAMBLE:

THIS SUBCONTRACT, made this 29th day of March, 2007, in pursuance generally of the Act of June 17, 1902 (32 Stat. 388), and acts amendatory thereof or supplementary thereto, including but not limited to the Boulder Canyon Project Act of December 21, 1928 (45 Stat. 1057), as amended, the Reclamation Project Act of August 4, 1939 (53 Stat. 1187), as amended, the Reclamation Reform Act of October 12, 1982 (96 Stat. 1263), and particularly the Colorado River Basin Project Act of September 30, 1968 (82 Stat. 885), as amended, and the Arizona Water Settlements Act (118 Stat. 3478), all collectively hereinafter referred to as the "Federal Reclamation Laws," among the UNITED STATES OF AMERICA, hereinafter referred to as the "United States" acting through the Secretary of the Interior, the CENTRAL ARIZONA WATER CONSERVATION DISTRICT, hereinafter referred to as the "Contractor," a water conservation district organized under the laws of Arizona, with its principal place of business in Phoenix, Arizona, and the VAIL WATER COMPANY, hereinafter referred to as the "Subcontractor," with its principal place of business in Vail, Arizona;

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WITNESSETH, THAT:

2. EXPLANATORY RECITALS:

WHEREAS, the Colorado River Basin Project Act provides, among other things, that for the purposes of furnishing irrigation and municipal and industrial water supplies to water deficient areas of Arizona and western New Mexico through direct diversion or exchange of water, control of floods, conservation and development of fish and wildlife resources, enhancement of recreation opportunities, and for other purposes, the Secretary of the Interior shall construct, operate, and maintain the Central Arizona Project; and

WHEREAS, pursuant to the provisions of Arizona Revised Statutes §§ 48-3701, *et seq.*, the Contractor has been organized with the power to enter into a contract or contracts with the Secretary of the Interior to accomplish the purposes of Arizona Revised Statutes, §§ 48-3701, *et seq.*; and

WHEREAS, pursuant to Section 304(b)(1) of the Colorado River Basin Project Act, the Secretary of the Interior has determined that it is necessary to effect repayment of the cost of constructing the Central Arizona Project pursuant to a master contract and that the United States, together with the Contractor, shall be a party to contracts that are in conformity with and subsidiary to the master contract; and

WHEREAS, the United States and the Contractor entered into Contract No. 14-06-W-245, Amendment No. 1, dated December 1, 1988, hereinafter referred to as the "Repayment Contract," a copy of which is attached hereto as Exhibit "A" and by this reference made a part hereof, whereby the Contractor agrees to repay to the United States the reimbursable costs of the Central Arizona Project allocated to the Contractor; and

WHEREAS, the Subcontractor is in need of a water supply and desires to subcontract with the United States and the Contractor for water service from water supplies available under the Central Arizona Project; and

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WHEREAS, upon completion of the Central Arizona Project, water shall be available for delivery to the Subcontractor;

NOW THEREFORE, in consideration of the mutual and dependent covenants herein contained, it is agreed as follows:

3. DEFINITIONS:

Definitions included in the Repayment Contract are applicable to this subcontract; provided, however, that the terms "Agricultural Water" or "Irrigation Water" shall mean water used for the purposes defined in the Repayment Contract on tracts of land operated in units of more than 5 acres. The first letters of terms so defined are capitalized herein. As heretofore indicated, a copy of the Repayment Contract is attached as Exhibit "A." In addition, the following definitions shall apply to this subcontract:

(a) "Available CAP Supply" shall mean for any given Year all Fourth Priority Water available for delivery through the Central Arizona Project, water available from CAP dams and reservoirs other than Modified Roosevelt Dam, and return flows captured by the Secretary for CAP use.

(b) "Fourth Priority Water" shall mean Colorado River water available for delivery within the State of Arizona for satisfaction of entitlements: (1) pursuant to contracts, Secretarial reservations, perfected rights, and other arrangements between the United States and water users in the State entered into or established subsequent to September 30, 1968, for use on Federal, State, or privately owned lands in the State (for a total quantity not to exceed 164,652 acre-feet of diversions annually); and (2), after first providing for the delivery of water under 43 U.S.C. §1524(e), pursuant to the Repayment Contract for the delivery of Colorado River water for the CAP including use of Colorado River water on Indian lands.

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4. DELIVERY OF WATER:

4.1 Obligations of the United States. Subject to the terms, conditions, and provisions set forth herein and in the Repayment Contract, during such periods as it operates and maintains the Project Works, the United States shall deliver Project Water for M&I use by the Subcontractor. The United States shall use all reasonable diligence to make available to the Subcontractor the quantity of Project Water specified in the schedule submitted by the Subcontractor in accordance with Article 4.4. After transfer of OM&R to the Operating Agency, the United States shall make deliveries of Project Water to the Operating Agency which shall make subsequent delivery to the Subcontractor as provided herein.

4.2 Term of Subcontract. This subcontract shall become effective upon the later of: (i) the date on which it is confirmed as provided for in Article 6.12; (ii) the date on which the Secretary of the Interior publishes in the Federal Register the statement of findings described in section 207(c)(1) of the Arizona Water Settlements Act, 118 Stat. 3478; and (iii) the date on which the Subcontractor has paid or provided for payment of past M&I water service capital charges as required by the Contractor. This subcontract shall be for permanent service as that term is used in Section 5 of the Boulder Canyon Project Act of 1928, 43 U.S.C. §617d. Project Water shall be delivered under the terms of this subcontract for a period of 100 years beginning January 1 of the Year following that in which the subcontract becomes effective; provided, that this subcontract may be renewed upon written request by the Subcontractor upon terms and conditions of renewal to be agreed upon not later than 1 year prior to the expiration of this subcontract; and provided, further, that such terms and conditions shall be consistent with Article 9.9 of the Repayment Contract.

* * * *

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4.3 Conditions Relating to Delivery and Use. Delivery and use of water under this subcontract is conditioned on the following, and the Subcontractor hereby agrees that:

(a) All uses of Project Water and Return Flow shall be consistent with Arizona water law unless such law is inconsistent with the Congressional directives applicable to the Central Arizona Project.

(b) The system or systems through which water for Agricultural, M&I (including underground storage), and Miscellaneous purposes is conveyed after delivery to the Subcontractor shall consist of pipelines, canals, distribution systems, or other conduits provided and maintained with linings adequate in the Contracting Officer's judgment to prevent excessive conveyance losses.

(c) The Subcontractor shall not pump, or within its legal authority, permit others to pump ground water from within the exterior boundaries of the Subcontractor's service area, which has been delineated on a map filed with the Contractor and approved by the Contractor and the Contracting Officer, for use outside of said service area unless such pumping is permitted under Title 45, Chapter 2, Arizona Revised Statutes, as it may be amended from time to time, and the Contracting Officer, the Contractor, and the Subcontractor shall agree, or shall have previously agreed, that a surplus of ground water exists and drainage is or was required; provided, however, that such pumping may be approved by the Contracting Officer and the Contractor, and approval shall not be unreasonably withheld, if such pumping is in accord with the Basin Project Act and upon submittal by the Subcontractor of a written certification from the Arizona Department of Water Resources or its successor agency that the pumping and transportation of ground water is in accord with Title 45, Chapter 2, Arizona Revised Statutes, as it may be amended from time to time.

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(d) The Subcontractor shall not sell, lease, exchange, forbear or otherwise transfer Project Water; provided, however, that this does not prohibit exchanges of Project Water within the State of Arizona covered by separate agreements; and provided, further, that this does not prohibit effluent exchanges with Indian tribes pursuant to Article 6.2; and provided, further, that this does not prohibit the resale or exchange of Project Water within the State of Arizona pursuant to Subarticle 4.3(e).

(e)(i) Project Water scheduled for delivery in any Year under this subcontract may be used by the Subcontractor or resold, or exchanged by the Subcontractor pursuant to appropriate agreements approved by the Contracting Officer and the Contractor. If said water is resold or exchanged by the Subcontractor for an amount in excess of that which the Subcontractor is obligated to pay under this subcontract, the excess amount shall be paid forthwith by the Subcontractor to the Contractor for application against the Contractor's Repayment Obligation to the United States; provided, however, that the Subcontractor shall be entitled to recover actual costs of transportation, treatment, and distribution, including but not limited to capital costs and OM&R costs.

(ii) Project Water scheduled for delivery in any Year under this subcontract that cannot be used, resold, or exchanged by the Subcontractor may be made available by the Contracting Officer and Contractor to other users. If such Project Water is sold to or exchanged with other users, the Subcontractor shall be relieved of its payments hereunder only to the extent of the amount paid to the Contractor by such other users, but not to exceed the amount the Subcontractor is obligated to pay under this subcontract for said water.

(iii) In the event the Subcontractor or the Contracting Officer and the Contractor are unable to sell any portion of the Subcontractor's Project

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Water scheduled for delivery and not required by the Subcontractor, the Subcontractor shall be relieved of the pumping energy portion of the OM&R charges associated with the undelivered water as determined by the Contractor.

(f) Notwithstanding any other provision of this subcontract, Project Water shall not be delivered to the Subcontractor unless and until the Subcontractor has obtained final environmental clearance from the United States for the system or systems through which Project Water is to be conveyed after delivery to the Subcontractor at the Subcontractor's Project turnout(s). Such system(s) shall include all pipelines, canals, distribution systems, treatment, storage, and other facilities through or in which Project Water is conveyed, stored, or treated after delivery to the Subcontractor at the Subcontractor's Project turnout(s). In each instance, final environmental clearance will be based upon a review by the United States of the Subcontractor's plans for taking and using Project Water and will be given or withheld by the United States in accordance with the Final Environmental Impact Statement -- Water Allocations and Water Service Contracting (FES 82-7, filed March 19, 1982) and the National Environmental Policy Act of 1969 (83 Stat. 852). Any additional action(s) required on behalf of the Subcontractor in order to obtain final environmental clearance from the United States will be identified to the Subcontractor by the United States, and no Project Water shall be delivered to the Subcontractor unless and until the Subcontractor has completed all such action(s) to the satisfaction of the United States.

4.4 Procedure for Ordering Water.

(a) At least 15 months prior to the date the Secretary expects to issue the Notice of Completion of the Water Supply System, or as soon thereafter as is practicable, the Contracting Officer shall announce by written notice to the Contractor the amount of Project Water available for delivery during the Year in which said Notice of Completion is issued (initial Year of water delivery) and during the following Year. Within

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30 days of receiving such notice, the Contractor shall issue a notice of availability of Project Water to the Subcontractor. The Subcontractor shall, within a reasonable period of time as determined by the Contractor, submit a written schedule to the Contractor and the Contracting Officer showing the quantity of water desired by the Subcontractor during each month of said initial Year and the following Year. The Contractor shall notify the Subcontractor by written notice of the Contractor's action on the requested schedule within 2 months of the date of receipt of such request.

(b) The amounts, times, and rates of delivery of Project Water to the Subcontractor during each Year subsequent to the Year following said initial Year of water delivery shall be in accordance with a water delivery schedule for that Year. Such schedule shall be determined in the following manner:

(i) On or before June 1 of each Year beginning with the Year following the initial Year of water delivery pursuant to this subcontract, the Contracting Officer shall announce the amount of Project Water available for delivery during the following Year in a written notice to the Contractor. In arriving at this determination, the Contracting Officer, subject to the provisions of the Repayment Contract, shall use his best efforts to maximize the availability and delivery of Arizona's full entitlement of Colorado River water over the term of this subcontract. Within 30 days of receiving said notice, the Contractor shall issue a notice of availability of Project Water to the Subcontractor.

(ii) On or before October 1 of each Year beginning with the Year following said initial Year of water delivery, the Subcontractor shall submit in writing to the Contractor and the Contracting Officer a water delivery schedule indicating the amounts of Project Water desired by the Subcontractor during each month of the following Year along with a preliminary estimate of Project Water desired for the succeeding 2 years.

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(iii) Upon receipt of the schedule, the Contractor and the Contracting Officer shall review it and, after consultation with the Subcontractor, shall make only such modifications to the schedule as are necessary to ensure that the amounts, times, and rates of delivery to the Subcontractor are consistent with the delivery capability of the Project, considering, among other things, the availability of water and the delivery schedules of all subcontractors; provided, that this provision shall not be construed to reduce annual deliveries to the Subcontractor.

(iv) On or before November 15 of each Year beginning with the Year following said initial Year of water delivery, the Contractor shall determine and furnish to the Subcontractor and the Contracting Officer the water delivery schedule for the following Year which shall show the amount of water to be delivered to the Subcontractor during each month of that Year, contingent upon the Subcontractor remaining eligible to receive water under all terms contained herein.

(c) The monthly water delivery schedules may be amended upon the Subcontractor's written request to the Contractor. Proposed amendments shall be submitted by the Subcontractor to the Contractor no later than 15 days before the desired change is to become effective, and shall be subject to review and modification in like manner as the schedule. The Contractor shall notify the Subcontractor and the Contracting Officer of its action on the Subcontractor's requested schedule modification within 10 days of the Contractor's receipt of such request.

(d) The Contractor and the Subcontractor shall hold the United States, its officers, agents, and employees, harmless on account of damage or claim of damage of any nature whatsoever arising out of or connected with the actions of the Contractor regarding water delivery schedules furnished to the Subcontractor.

(e) In no event shall the Contracting Officer or the Contractor be required to deliver to the Subcontractor from the Water Supply System in any one month

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a total amount of Project Water greater than eleven percent (11%) of the Subcontractor's maximum entitlement; provided, however, that the Contracting Officer may deliver a greater percentage in any month if such increased delivery is compatible with the overall delivery of Project Water to other subcontractors as determined by the Contracting Officer and the Contractor and if the Subcontractor agrees to accept such increased deliveries.

4.5 Points of Delivery--Measurement and Responsibility for Distribution of Water.

(a) The water to be furnished to the Subcontractor pursuant to this subcontract shall be delivered at turnouts to be constructed by the United States at such point(s) on the Water Supply System as may be agreed upon in writing by the Contracting Officer and the Contractor, after consultation with the Subcontractor.

(b) Unless the United States and the Subcontractor agree by contract to the contrary, the Subcontractor shall construct and install, at its sole cost and expense, connection facilities required to take and convey the water from the turnouts to the Subcontractor's service area. The Subcontractor shall furnish, for approval of the Contracting Officer, drawings showing the construction to be performed by the Subcontractor within the Water Supply System right-of-way 6 months before starting said construction. The facilities may be installed, operated, and maintained on the Water Supply System right-of-way subject to such reasonable restrictions and regulations as to type, location, method of installation, operation, and maintenance as may be prescribed by the Contracting Officer.

(c) All water delivered from the Water Supply System shall be measured with equipment furnished and installed by the United States and operated and maintained by the United States or the Operating Agency. Upon the request of the Subcontractor or the Contractor, the accuracy of such measurements shall be

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investigated by the Contracting Officer or the Operating Agency, Contractor, and Subcontractor, and any errors which may be mutually determined to have occurred therein shall be adjusted; provided, that in the event the parties cannot agree on the required adjustment, the Contracting Officer's determination shall be conclusive.

(d) Neither the United States, the Contractor, nor the Operating Agency shall be responsible for the control, carriage, handling, use, disposal, or distribution of Project Water beyond the delivery point(s) agreed to pursuant to Sub-article 4.5(a). The Subcontractor shall hold the United States, the Contractor, and the Operating Agency harmless on account of damage or claim of damage of any nature whatsoever for which there is legal responsibility, including property damage, personal injury, or death arising out of or connected with the Subcontractor's control, carriage, handling, use, disposal, or distribution of such water beyond said delivery point(s).

4.6 Temporary Reductions. In addition to the right of the United States under Subarticle 8.3(a)(iv) of the Repayment Contract temporarily to discontinue or reduce the amount of water to be delivered, the United States or the Operating Agency may, after consultation with the Contractor, temporarily discontinue or reduce the quantity of water to be furnished to the Subcontractor as herein provided for the purposes of investigation, inspection, maintenance, repair, or replacement of any of the Project facilities or any part thereof necessary for the furnishing of water to the Subcontractor, but so far as feasible the United States or the Operating Agency shall coordinate any such discontinuance or reduction with the Subcontractor and shall give the Subcontractor due notice in advance of such temporary discontinuance or reduction, except in case of emergency, in which case no notice need be given. Neither the United States, its officers, agents, and employees, nor the Operating Agency, its officers, agents, and employees, shall be liable for damages when, for any reason whatsoever, any such temporary discontinuance or reduction in delivery of water occurs. If any such

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discontinuance or temporary reduction results in deliveries to the Subcontractor of less water than what has been paid for in advance, the Subcontractor shall be entitled to be reimbursed for the appropriate proportion of such advance payments prior to the date of the Subcontractor's next payment of water service charges or the Subcontractor may be given credit toward the next payment of water charges if the Subcontractor should so desire.

4.7 Priority in Case of Shortage. On or before June 1 of each Year, the Secretary shall announce the Available CAP Supply for the following Year in a written notice to the Contractor.

(a) Prior to January 1, 2044, a time of shortage shall exist in any Year in which the Available CAP Supply for that Year is insufficient to satisfy all of the entitlements set forth in subparagraphs (i) through (iii) below:

(i) Three hundred forty-three thousand seventy-nine (343,079) acre-feet of CAP Indian Priority Water;

(ii) Six hundred thirty-eight thousand eight hundred twenty-three (638,823) acre-feet of CAP M&I Priority Water; and

(iii) Up to one hundred eighteen (118) acre-feet of CAP M&I Priority Water converted from CAP NIA Priority Water under the San Tan Irrigation District's CAP Subcontract.

(b) On or after January 1, 2044, a time of shortage shall exist in any Year in which the Available CAP Supply for that Year is insufficient to satisfy all of the entitlements as set forth in subparagraphs (i) through (iv) below:

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(i) Three hundred forty-three thousand seventy-nine (343,079) acre-feet of CAP Indian Priority Water;

(ii) Six hundred thirty-eight thousand eight hundred twenty-three (638,823) acre-feet of CAP M&I Priority Water;

(iii) Up to forty-seven thousand three hundred three (47,303) acre-feet of CAP M&I Priority Water converted from CAP NIA Priority Water pursuant to the Hohokam Agreement; and

(iv) Up to one hundred eighteen (118) acre-feet of CAP M&I Priority Water converted from CAP NIA Priority Water under the San Tan Irrigation District's CAP Subcontract.

(c) Initial distribution of water in time of shortage.

(i) If the Available CAP Supply is equal to or less than eight hundred fifty-three thousand seventy-nine (853,079) acre-feet, then 36.37518% of the Available CAP Supply shall be available for delivery as CAP Indian Priority Water and the remainder shall be available for delivery as CAP M&I Priority Water.

(ii) If the Available CAP Supply is greater than eight hundred fifty-three thousand seventy-nine (853,079) acre-feet, then the quantity of water available for

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delivery as CAP Indian Priority Water shall be determined in accordance with the following equation and the remainder shall be available for delivery as CAP M&I Priority Water:

$$I = \{[32{,}770 \div (E - 853{,}079)] \times W\} + (343{,}079 - \{[32{,}770 \div (E - 853{,}079)] \times E\})$$

where

I = the quantity of water available for delivery as CAP Indian Priority Water

E = the sum of the entitlements to CAP Indian Priority Water and CAP M&I Priority Water as described in subparagraphs 4.7(a) or (b), whichever is applicable; and

W = the Available CAP Supply

Example A. If, before January 1, 2044, the sum of the entitlements to CAP Indian Priority Water and CAP M&I Priority Water as described in subparagraph 4.7(a) is nine hundred eighty-one thousand nine hundred two (343,079 + 638,823 + 0) acre-feet, then the quantity of water available for delivery as CAP Indian Priority Water would be ninety-three thousand three hundred three (93,303) acre-feet plus 25.43800% of the Available CAP Supply.

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Example B. If, after January 1, 2044, the sum of the entitlements to CAP Indian Priority Water and CAP M&I Priority Water as described in subparagraph 4.7(b) is one million twenty-nine thousand three hundred twenty-three (1,029,323) acre-feet (343,079 + 638,823 + 47,303 + 118), then the quantity of water available for delivery as CAP Indian Priority Water would be one hundred fifty-one thousand six hundred ninety-one (151,691) acre-feet plus 18.59354% of the Available CAP Supply.

(d) In time of shortage unscheduled CAP Water shall be redistributed as follows:

(i) Any water available for delivery as CAP Indian Priority Water that is not scheduled for delivery pursuant to contracts, leases or exchange agreements for the delivery of CAP Indian Priority Water shall become available for delivery as CAP M&I Priority Water.

(ii) CAP M&I Priority Water shall be distributed among those entities with contracts for the delivery of CAP M&I Priority Water in a manner determined by the Secretary and the CAP Operating Agency in consultation with M&I water users to fulfill all delivery requests to the greatest extent possible. Any water available for delivery as CAP M&I Priority Water that is not scheduled for delivery pursuant to contracts, leases or exchange agreements for the delivery of

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CAP M&I Priority Water shall become available for delivery as CAP Indian Priority Water.

(e) Any water remaining after all requests for delivery of CAP Indian Priority Water and CAP M&I Priority Water have been satisfied shall become available for delivery as CAP NIA Priority Water.

(f) Nothing in this paragraph 4.7 shall be construed to allow or authorize any CAP Contractor or CAP Subcontractor to receive, pursuant to such contracts, CAP water in amounts greater than such contractor's entitlement.

4.8 Secretarial Control of Return Flow.

(a) The Secretary reserves the right to capture all Return Flow flowing from the exterior boundaries of the Contractor's Service Area as a source of supply and for distribution to and use of the Central Arizona Project to the fullest extent practicable. The Secretary also reserves the right to capture for Project use Return Flow which originates or results from water contracted for from the Central Arizona Project within the boundaries of the Contractor's Service Area if, in his judgment, such Return Flow is not being put to a beneficial use. The Subcontractor may recapture and reuse or sell its Return Flow; provided, however, that such Return Flow may not be sold for use outside Maricopa, Pinal, and Pima Counties; and provided, further, that this does not prohibit effluent exchanges with Indian tribes pursuant to Article 6.2. The Subcontractor shall, at least 60 days in advance of any proposed sale of such water, furnish the following information in writing to the Contracting Officer and the Contractor:

* * * *

* * * *

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(i) The name and address of the prospective buyer.

(ii) The location and proposed use of the Return Flow.

(iii) The price to be charged for the Return Flow.

(b) The price charged for the Return Flow may cover the cost incurred by the Subcontractor for Project Water plus the cost required to make the Return Flow usable. If the price received for the Return Flow is greater than the costs incurred by the Subcontractor, as described above, the excess amount shall be forthwith returned by the Subcontractor to the Contractor for application against the Contractor's Repayment Obligation to the United States. Costs required to make Return Flow usable shall include but not be limited to capital costs and OM&R costs including transportation, treatment, and distribution, and the portion thereof that may be retained by the Subcontractor shall be subject to the advance approval of the Contractor and the Contracting Officer.

(c) Any Return Flow captured by the United States and determined by the Contracting Officer and the Contractor to be suitable and available for use by the Subcontractor may be delivered by the United States or Operating Agency to the Subcontractor as a part of the water supply for which the Subcontractor subcontracts hereunder and such water shall be accounted and paid for pursuant to the provisions hereof.

(d) All capture, recapture, use, reuse, and sale of Return Flow under this article shall be in accord with Arizona water law unless such law is inconsistent with the Congressional directives applicable to the Central Arizona Project.

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4.9 Water and Air Pollution Control. The Subcontractor, in carrying out this subcontract, shall comply with all applicable water and air pollution laws and regulations of the United States and the State of Arizona and shall obtain all required permits or licenses from the appropriate Federal, State, or local authorities.

4.10 Quality of Water. The operation and maintenance of Project facilities shall be performed in such manner as is practicable to maintain the quality of water made available through such facilities at the highest level reasonably attainable as determined by the Contracting Officer. Neither the United States, the Contractor, nor the Operating Agency warrants the quality of water and is under no obligation to construct or furnish water treatment facilities to maintain or better the quality of water. The Subcontractor waives its right to make a claim against the United States, the Operating Agency, the Contractor, or another subcontractor because of changes in water quality caused by the commingling of Project Water with other water.

4.11 Exchange Water.

(a) Where the Contracting Officer determines the Subcontractor is physically able to receive Colorado River mainstream water in exchange for or in replacement of existing supplies of water from surface sources other than the Colorado River, the Contracting Officer may require that the Subcontractor accept said mainstream water in exchange for or in replacement of said existing supplies pursuant to the provisions of Section 304(d) of the Basin Project Act; provided, however, that a sub-contractor on the Project aqueduct shall not be required to enter into exchanges in which existing supplies of water from surface sources are diverted for use by other subcontractors downstream on the Project aqueduct.

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(b) If, in the event of shortages, the Subcontractor has yielded water from other surface water sources in exchange for Colorado River mainstream water supplied by the Contractor or the Operating Agency, the Subcontractor shall have first priority against other users supplied with Project Water that have not yielded water from other surface water sources but only in quantities adequate to replace the water so yielded.

4.12 Entitlement to Project M&I Water.

(a) The Subcontractor is entitled to take a maximum of 1,857 acre-feet of Project Water for M&I uses including but not limited to underground storage.

(b) If at any time during the term of this subcontract there is available for allocation additional M&I Project Water, or Agricultural Water converted to M&I use, it shall be delivered to the Subcontractor at the same water service charge per acre-foot and with the same priority as other M&I Water, upon execution or amendment of an appropriate subcontract among the United States, the Contractor, and the Subcontractor and payment of an amount equal to the acre-foot charges previously paid by other subcontractors pursuant to Article 5.2 hereof plus interest. In the case of Agricultural Water conversions, the payment shall be reduced by all previous payments of agricultural capital charges for each acre-foot of water converted. The interest due shall be calculated for the period between issuance of the Notice of Completion of the Water Supply System and execution or amendment of the subcontract using the weighted interest rate received by the Contractor on all investments during that period.

4.13 Delivery of Project Water Prior to Completion of Project Works. Prior to the date of issuance of the Notice of Completion of the Water Supply System by

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the Secretary, water may be made available for delivery by the Secretary on a "when available" basis at a water rate and other terms to be determined by the Secretary after consultation with the Contractor.

5. PAYMENTS:

5.1 Water Service Charges for Payment of Operation, Maintenance, and Replacement Costs. Subject to the provisions of Article 5.4 hereof, the Subcontractor shall pay in advance for Project OM&R costs estimated to be incurred by the United States or the Operating Agency. At least 15 months prior to first delivery of Project Water, or as soon thereafter as is practicable, the Contractor shall furnish the Subcontractor with an estimate of the Subcontractor's share of OM&R costs to the end of the initial Year of water delivery and an estimate of such costs for the following Year. Within a reasonable time of the receipt of said estimates, as determined by the Contractor, but prior to the delivery of water, the Subcontractor shall advance to the Contractor its share of such estimated costs to the end of the initial month of water delivery and without further notice or demand shall on or before the first day of each succeeding month of the initial Year of water delivery and the following Year advance to the Contractor in equal monthly installments the Subcontractor's share of such estimated costs. Advances of monthly payments for each subsequent Year shall be made by the Subcontractor to the Contractor on the basis of annual estimates to be furnished by the Contractor on or before June 1 preceding each said subsequent Year and the advances of payments for said estimated costs shall be due and payable in equal monthly payments on or before the first day of each month of the subsequent Year. Differences between actual OM&R costs and estimated OM&R costs shall be determined by the

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Contractor and shall be adjusted in the next succeeding annual estimates; provided, however, that if in the opinion of the Contractor the amount of any annual OM&R estimate is likely to be insufficient to cover the above-mentioned costs during such period, the Contractor may increase the annual estimate of the Subcontractor's OM&R costs by written notice thereof to the Subcontractor, and the Subcontractor shall forthwith increase its remaining monthly payments in such Year to the Contractor by the amount necessary to cover the insufficiency. All estimates of OM&R costs shall be accompanied by data and computations relied on by the Contractor in determining the amounts of the estimated OM&R costs and shall be subject to joint review by the Subcontractor and the Contractor.

5.2 M&I Water Service Charges.

(a) Subject to the provisions of Article 5.4 hereof and in addition to the OM&R payments required in Article 5.I hereof, the Subcontractor shall, in advance of the delivery of Project M&I Water by the United States or the Operating Agency, make payment to the Contractor in equal semiannual installments of an M&I Water service capital charge based on a maximum entitlement of 1,857 acre-feet per year multiplied by the rate established by the Contractor for that year.

(b) The M&I Water service capital charge may be adjusted periodically by the Contractor as a result of repayment determinations provided for in the Repayment Contract and to reflect all sources of revenue, but said charge per acre-foot shall not be greater than the amount required to amortize Project capital costs allocated to the M&I function and determined by the Contracting Officer to be a part of the Contractor's Repayment Obligation. Such amortization shall include interest at 3.342

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percent per annum. If any adjustment is made in the M&I Water service capital charge, notice thereof shall be given by the Contractor to the United States and to the Subcontractor on or before June 1 of the Year preceding the Year the adjusted charge becomes effective. The M&I Water service capital charge payment for the initial Year shall be advanced to the Contractor in equal semiannual installments on or before December 1 preceding the initial Year and June 1 of said initial Year; provided, however, that the payment of the initial M&I Water service capital charge shall not be due until the Year in which Project Water is available to the Subcontractor after Notice of Completion of the Water Supply System is issued. Thereafter, for each subsequent Year, payments by the Subcontractor in accordance with the foregoing provisions shall be made in equal semiannual installments on or before the December 1 preceding said subsequent Year and the June 1 of said subsequent Year as may be specified by the Contractor in written notices to the Subcontractor.

(c) Payment of all M&I Water service capital and corresponding OM&R charges becoming due hereunder prior to or on the dates stipulated in Articles 5.1 and 5.2 is a condition precedent to receiving M&I Water under this subcontract.

(d) All payments to be made to the Contractor or the United States under Articles 5.1 and 5.2 hereof shall be made by the Subcontractor as such payments fall due from revenues legally available to the Subcontractor for such payment from the sale of water to its water users and from any and all other sources which might be legally available; Provided, That no portion of the general taxing authority of the Subcontractor, nor its general funds, nor funds from ad valorem taxes are obligated by the provisions of this subcontract, nor shall such sources be liable for the payments,

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contributions, and other costs pursuant to this subcontract, or to satisfy any obligation hereunder unless duly and lawfully allocated and budgeted for such purpose by the Subcontractor for the applicable budget year; and Provided, further, That no portion of this agreement shall ever be construed to create an obligation superior in lien to or on a parity with the Subcontractor's revenue bonds now or hereafter issued. The Subcontractor shall levy and impose such necessary water service charges and rates and use all the authority and resources available to it to collect all such necessary water service charges and rates in order that the Subcontractor may meet its obligations hereunder and make in full all payments required under this subcontract on or before the date such payments become due.

5.3 Loss of Entitlement. The Subcontractor shall have no right to delivery of water from Project facilities during any period in which the Subcontractor may be in arrears in the payment of any charges due the Contractor. The Contractor may sell to another entity any water determined to be available under the Subcontractor's entitlement for which payment is in arrears; provided, however, that the Subcontractor may regain the right to use any unsold portion of the water determined to be available under the original entitlement upon payment of all delinquent charges plus any difference between the subcontractual obligation and the price received in the sale of the water by the Contractor and payment of charges for the current period.

5.4 Refusal to Accept Delivery. In the event the Subcontractor fails or refuses in any Year to accept delivery of the quantity of water available for delivery to and required to be accepted by it pursuant to this subcontract, or in the event the Subcontractor in any Year fails to submit a schedule for delivery as provided in Article

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4.4 hereof, said failure or refusal shall not relieve the Subcontractor of its obligation to make the payments required in this subcontract.

5.5 Charge for Late Payments. The Subcontractor shall pay a late payment charge on installments or charges that are received after the due date. The late payment charge percentage rate calculated by the Department of the Treasury and published quarterly in the Federal Register shall be used; provided, that the late payment charge percentage rate shall not be less than 0.5 percent per month. The late payment charge percentage rate applied on an overdue payment shall remain in effect until payment is received. The late payment rate for a 30-day period shall be determined on the day immediately following the due date and shall be applied to the overdue payment for any portion of the 30-day period of delinquency. In the case of partial late payments, the amount received shall first be applied to the late charge on the overdue payment and then to the overdue payment.

6. GENERAL PROVISIONS:

6.1 Repayment Contract Controlling. Pursuant to the Repayment Contract, the United States has agreed to construct and, in the absence of an approved Operating Agency, to operate and maintain the works of the Central Arizona Project and to deliver Project Water to the various subcontractors within the Project Service Area; and the Contractor has obligated itself for the payment of various costs, expenses, and other amounts allocated to the Contractor pursuant to Article 9 of the Repayment Contract. The Subcontractor expressly approves and agrees to all the terms presently set out in the Repayment Contract including Subarticle 8.8(b)(viii) thereof, or as such terms may be hereafter amended, and agrees to be bound by the actions to be taken

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and the determinations to be made under that Repayment Contract, except as otherwise provided herein.

6.2 Effluent Exchanges. The Subcontractor may enter into direct effluent exchanges with Indian entities that have received an allocation of Project Water and receive all benefits from the exchange.

6.3 Notices. Any notice, demand or request authorized or required by this subcontract shall be deemed to have been given when mailed, postage prepaid, or delivered to the Regional Director, Lower Colorado Region, Bureau of Reclamation, P.O. Box 61470, Boulder City, Nevada 89006-1470, on behalf of the Contractor or Subcontractor; to the Central Arizona Water Conservation District, P. O. Box 43020, Phoenix, Arizona 85080, on behalf of the United States or Subcontractor; and to the Vail Water Company, P.O. Box 100, Vail, Arizona 85641, on behalf of the United States or Contractor. The designation of the addressee or the address may be changed by notice given in the same manner as provided in this Article for other notices.

6.4 Water Conservation Program.

(a) While the contents and standards of a given water conservation program are primarily matters of State and local determination, there is a strong Federal interest in developing an effective water conservation program because of this subcontract. The Subcontractor shall develop and implement an effective water conservation program for all uses of water that is provided from or conveyed through Federally constructed or Federally financed facilities. That water conservation program shall contain definite goals, appropriate water conservation measures, and time schedules for meeting the water conservation objectives.

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(b) A water conservation program, acceptable to the Contractor and the Contracting Officer, shall be in existence prior to one or all of the following: (1) service of Federally stored/conveyed water; (2) transfer of operation and maintenance of the Project facilities to the Contractor or Operating Agency; or (3) transfer of the Project to an operation and maintenance status. The distribution and use of Federally stored/conveyed water and/or the operation of Project facilities transferred to the Contractor shall be consistent with the adopted water conservation program. Following execution of this subcontract, and at subsequent 5-year intervals, the Subcontractor shall resubmit the water conservation plan to the Contractor and the Contracting Officer for review and approval. After review of the results of the previous 5 years and after consultation with the Contractor, the Subcontractor, and the Arizona Department of Water Resources or its successor, the Contracting Officer may require modifications in the water conservation program to better achieve program goals.

6.5 Rules, Regulations, and Determinations.

(a) The Contracting Officer shall have the right to make, after an opportunity has been offered to the Contractor and Subcontractor for consultation, rules and regulations consistent with the provisions of this subcontract, the laws of the United States and the State of Arizona, to add to or to modify them as may be deemed proper and necessary to carry out this subcontract, and to supply necessary details of its administration which are not covered by express provisions of this subcontract. The Contractor and Subcontractor shall observe such rules and regulations.

(b) Where the terms of this subcontract provide for action to be based upon the opinion or determination of any party to this subcontract, whether or not

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stated to be conclusive, said terms shall not be construed as permitting such action to be predicated upon arbitrary, capricious, or unreasonable opinions or determinations. In the event that the Contractor or Subcontractor questions any factual determination made by the Contracting Officer, the findings as to the facts shall be made by the Secretary only after consultation with the Contractor or Subcontractor and shall be conclusive upon the parties.

6.6 Officials Not to Benefit.

(a) No Member of or Delegate to Congress or Resident Commissioner shall be admitted to any share or part of this subcontract or to any benefit that may arise herefrom. This restriction shall not be construed to extend to this subcontract if made with a corporation or company for its general benefit.

(b) No official of the Subcontractor shall receive any benefit that may arise by reason of this subcontract other than as a water user within the Project and in the same manner as other water users within the Project.

6.7 Assignment Limited--Successors and Assigns Obligated. The provisions of this subcontract shall apply to and bind the successors and assigns of the parties hereto, but no assignment or transfer of this subcontract or any part or interest therein shall be valid until approved by the Contracting Officer.

6.8 Judicial Remedies Not Foreclosed. Nothing herein shall be construed (a) as depriving any party from pursuing and prosecuting any remedy in any appropriate court of the United States or the State of Arizona which would otherwise be available to such parties even though provisions herein may declare that determinations

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or decisions of the Secretary or other persons are conclusive or (b) as depriving any party of any defense thereto which would otherwise be available.

6.9 Books, Records, and Reports. The Subcontractor shall establish and maintain accounts and other books and records pertaining to its financial transactions, land use and crop census, water supply, water use, changes of Project works, and to other matters as the Contracting Officer may require. Reports thereon shall be furnished to the Contracting Officer in such form and on such date or dates as he may require. Subject to applicable Federal laws and regulations, each party shall have the right during office hours to examine and make copies of each other's books and records relating to matters covered by this subcontract.

6.10 Equal Opportunity. During the performance of this subcontract, the Subcontractor agrees as follows:

(a) The Subcontractor shall not discriminate against any employee or applicant for employment because of race, color, religion, sex, or national origin. The Subcontractor shall take affirmative action to ensure that applicants are employed, and that employees are treated during employment without regard to their race, color, religion, sex, or national origin. Such action shall include, but not be limited to the following: Employment, upgrading, demotion, or transfer; recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. The Subcontractor agrees to post in conspicuous places, available to employees and applicants for employment, notices to be provided setting forth the provisions of this nondiscrimination clause.

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(b) The Subcontractor shall, in all solicitations or advertisements for employees placed by or on behalf of the Subcontractor, state that all qualified applicants shall receive consideration for employment without discrimination because of race, color, religion, sex, or national origin.

(c) The Subcontractor shall send to each labor union or representative of workers with which it has a collective bargaining agreement or other contract or understanding, a notice, to be provided by the Contracting Officer, advising said labor union or workers' representative of the Subcontractor's commitments under Section 202 of Executive Order 11246 of September 24, 1965, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.

(d) The Subcontractor shall comply with all provisions of Executive Order No. 11246 of September 24, 1965, as amended, and of the rules, regulations, and relevant orders of the Secretary of Labor.

(e) The Subcontractor shall furnish all information and reports required by said amended Executive Order and by the rules, regulations, and orders of the Secretary of Labor, or pursuant thereto, and shall permit access to its books, records, and accounts by the Contracting Officer and the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations, and orders.

(f) In the event of the Subcontractor's noncompliance with the nondiscrimination clauses of this subcontract or with any of such rules, regulations, or orders, this subcontract may be canceled, terminated, or suspended, in whole or in part, and the Subcontractor may be declared ineligible for further Government contracts in

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accordance with procedures authorized in said amended Executive Order and such other sanctions may be imposed and remedies invoked as provided in said amended Executive Order, or by rule, regulation, or order of the Secretary of Labor, or as otherwise provided by law.

(g) The Subcontractor shall include the provisions of paragraphs (a) through (g) in every subcontract or purchase order unless exempted by the rules, regulations, or orders of the Secretary of Labor issued pursuant to Section 204 of said amended Executive Order, so that such provisions shall be binding upon each subcontractor or vendor. The Subcontractor shall take such action with respect to any subcontract or purchase order as may be directed by the Secretary of Labor as a means of enforcing such provisions, including sanctions for noncompliance; provided, however, that in the event a Subcontractor becomes involved in, or is threatened with, litigation with a subcontractor or vendor as a result of such direction, the Subcontractor may request the United States to enter into such litigation to protect the interest of the United States.

6.11 Title VI, Civil Rights Act of 1964.

(a) The Subcontractor agrees that it shall comply with Title VI of the Civil Rights Act of July 2, 1964 (78 Stat. 241), and all requirements imposed by or pursuant to the Department of the Interior Regulation (43 CFR 17) issued pursuant to that title to the end that, in accordance with Title VI of that Act and the Regulation, no person in the United States shall, on the grounds of race, color, or national origin be excluded from participation in, be denied the benefits of, or be otherwise subjected to discrimination under any program or activity for which the Subcontractor receives

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financial assistance from the United States and hereby gives assurance that it shall immediately take any measures to effectuate this agreement.

(b) If any real property or structure thereon is provided or improved with the aid of Federal financial assistance extended to the Subcontractor by the United States, this assurance obligates the Subcontractor, or in the case of any transfer of such property, any transferee for the period during which the real property or structure is used for a purpose involving the provision of similar services or benefits. If any personal property is so provided, this assurance obligates the Subcontractor for the period during which it retains ownership or possession of the property. In all other cases, this assurance obligates the Subcontractor for the period during which the Federal financial assistance is extended to it by the United States.

(c) This assurance is given in consideration of and for the purpose of obtaining any and all Federal grants, loans, contracts, property, discounts, or other Federal financial assistance extended after the date hereof to the Subcontractor by the United States, including installment payments after such date on account of arrangements for Federal financial assistance which were approved before such date. The Subcontractor recognizes and agrees that such Federal financial assistance shall be extended in reliance on the representations and agreements made in this assurance, and that the United States shall reserve the right to seek judicial enforcement of this assurance. This assurance is binding on the Subcontractor, its successors, transferees, and assignees.

6.12 Confirmation of Subcontract. The Subcontractor shall promptly seek a final decree of the proper court of the State of Arizona approving and confirming the

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subcontract and decreeing and adjudging it to be lawful, valid, and binding on the Subcontractor. The Subcontractor shall furnish to the United States a certified copy of such decree and of all pertinent supporting records. This subcontract shall not be binding on the United States, the Contractor, or the Subcontractor until such final decree has been entered.

6.13 Contingent on Appropriation or Allotment of Funds. The expenditure or advance of any money or the performance of any work by the United States hereunder which may require appropriation of money by the Congress or the allotment of funds shall be contingent upon such appropriation or allotment being made. The failure of the Congress to appropriate funds or the absence of any allotment of funds shall not relieve the Subcontractor from any obligation under this subcontract. No liability shall accrue to the United States in case such funds are not appropriated or allotted.

IN WITNESS WHEREOF, the parties hereto have executed this subcontract No. 07-XX-30-W0472 the day and year first above-written.

Legal Review and Approval

By: Katherine Ott Verburg
Field Solicitor
Phoenix, Arizona

THE UNITED STATES OF AMERICA

By: Larry Walkoski
Acting Regional Director
Lower Colorado Region
Bureau of Reclamation

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CENTRAL ARIZONA WATER
CONSERVATION DISTRICT

Attest: _____
Secretary

By: _____
President

VAIL WATER COMPANY

Attest: _____

Title: Secretary

By: _____

Title: President

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COMPONENT 1

LINE #3

Final
June 6, 2013

CENTRAL ARIZONA PROJECT
REVISED 2014 - 2015 RATE SCHEDULE

DELIVERY RATES FOR VARIOUS CLASSES OF WATER SERVICE

Units = $/ acre-foot

(The Letter Designations in the Formulas Refer to the Rate Components Shown Below)

	2012	2013	Firm 2014	Advisory 2015
Municipal and Industrial				
Long Term Subcontract (B+C) [1]	$ 122	$ 129	$ **146**	$ 157
Non-Subcontract (A+B+C)	137	144	**166**	178
Recharge (A+B+C) [2]	137	144	**166**	178
AWBA Interstate Recharge (A+B+C+D) [3]	165	168	**189**	202
Federal (B+C)	$ 122	$ 129	$ **146**	$ 157
Agricultural				
Settlement Pool (C) [4]	$ 49	$ 53	$ **67**	$ 74
Agricultural Incentives [4]				
Meet Settlement Pool Goals	(4)	(6)	**(14)**	(17)
Meet AWBA/CAGRD GSF Goals	(1)	(1)	**(2)**	(2)
Meet Recovery Goals	(1)	(1)	**(2)**	(2)

RATE COMPONENTS

Units = $/acre-foot

	2012	2013	Firm 2014	Advisory 2015
Capital Charges				
(A) Municipal and Industrial - Long Term Subcontract [5]	$ 15	$ 15	$ **20**	$ 21
Delivery Charges				
(B) Fixed OM&R [6]	$ 73	$ 76	$ **79**	$ 83
(C) Pumping Energy Rate 1 [7]	49	53	**67**	74
(D) Property Tax Equivalency [8]	28	**24**	**23**	24

Long-Term Municipal and Industrial (M&I) Subcontract: M&I subcontractors.
Non-Subcontract: M&I users who are not subcontractors and the CAGRD.
Recharge (AWBA/CAGRD and M&I Underground Water Storage): The Arizona Water Banking Authority, M&I subcontractors, BOR and other Arizona entities who have valid Arizona Department of Water Resources permits and accrue long-term recharge/storage credits from this activity.

DIRECT UNDERGROUND WATER STORAGE

Units = $/acre-foot

	2012	2013	Firm 2014	Advisory 2015
Underground Water Storage O&M [9]				
Phoenix AMA	$ 8	$ 8	$ **8**	$ 9
Tucson AMA	15	15	**15**	15
Underground Water Storage Capital Charge [10]				
Phoenix AMA	$ 15	$ 15	$ **15**	$ 15
Tucson AMA	9	9	**9**	9

COMPONENT 2

LINE #6

2014 Tucson Water CAP Water Order - updated 10/21/2014

All Volumes in Acre-Feet

2014 Tucson Month	CAVSARP	SAVSARP	Pima Mine Road	Plant	Lower Santa Cruz	BKW Milewide	BKW Farms	Total Tucson	AWB (CAVSARP)	AWB (SAVSARP)	Lower Santa Cruz	AWB Total	Oro Valley (CAV)	Pascua Yaqui (SAV)	Tohono O'odham (SAV)	Vail (SAV)	Municipal Total	Total All	
January	363	2,375	1,000	0	0	0	200	**3,938**	0	2,000	0	2,000	200	250	0	0	450	10,388	January
February	3,335	4,475	2,400	0	0	0	250	**10,460**	0	1,000	0	1,000	200	250	0	0	450	13,910	February
March	7,721	5,958	1,800	0	0	50	250	**15,779**	0	1,000	0	1,000	200	200	0	0	400	19,179	March
April	7,543	3,799	1,800	36	0	50	1,750	**14,978**	0	3,000	0	3,000	200	200	0	0	400	24,378	April
May	7,802	4,020	2,600	27	0	50	1,300	**15,799**	0	3,000	0	3,000	200	200	0	0	400	25,199	May
June	6,529	2,771	1,900	50	0	50	1,800	**13,100**	0	800	0	800	200	200	0	0	400	15,900	June
July	5,500	2,338	1,000	0	0	50	2,200	**11,088**	0	600	0	600	200	200	0	0	400	13,288	July
August	3,755	6,433	2,000	0	0	50	2,000	**14,238**	0	500	0	500	120	200	0	0	320	16,058	August
September	6,736	6,213	2,500	0	0	0	800	**16,249**	0	614	0	614	120	200	0	0	320	18,411	September
October	3,140	3,047	1,000	50	0	0	300	**7,537**	0	500	0	500	120	200	0	50	320	9,407	October
November	3,335	1,889	1,500	37	0	0	100	**6,861**	0	966	0	966	120	200	0	75	320	10,154	November
December	7,065	5,480	1,500	0	0	0	100	**14,145**	0	1,400	0	1,400	120	405	0	75	525	18,945	December
TOTAL	**62,824**	**48,798**	**21,000**	**200**	**0**	**300**	**11,050**	**144,172**	0	15,380	0	15,380	2,000	2,705	0	200	4,705	195,217	

Total by Facility	CAVSARP					SAVSARP						Grand		
Month	**TW**	**AWB**	**Oro Valley**	**Total**		**TW**	**AWB**	**Pascua Yaqui**	**Tohono O'odham**	**Vail**	**Total**	**Total**		
January	363	0	200	**563**	January	2,375	2,000	250	0	0	**4,625**	5,188		
February	3,335	0	200	**3,535**	February	4,475	1,000	250	0	0	**5,725**	9,260		
March	7,721	0	200	**7,921**	March	5,958	1,000	200	0	0	**7,158**	15,079		
April	7,543	0	200	**7,743**	April	3,799	3,000	200	0	0	**6,999**	14,742		
May	7,802	0	200	**8,002**	May	4,020	3,000	200	0	0	**7,220**	15,222		
June	6,529	0	200	**6,729**	June	2,771	800	200	0	0	**3,771**	10,500	*fixed total*	10900
July	5,500	0	200	**5,700**	July	2,338	600	200	0	0	**3,138**	8,838	*fixed total*	8900
August	3,755	0	120	**3,875**	August	6,433	500	200	0	0	**7,133**	11,008	*fixed total*	11407
September	6,736	0	120	**6,856**	September	6,213	614	200	0	0	**7,027**	13,883		
October	3,140	0	120	**3,260**	October	3,047	500	200	0	50	**3,747**	7,007		
November	3,335	0	120	**3,455**	November	1,889	966	200	0	75	**3,055**	6,510		
December	7,065	0	120	**7,185**	December	5,480	1,400	405	0	75	**7,285**	14,470		
TOTAL	**62,824**	**0**	**2,000**	**64,824**		**48,798**	**15,380**	**2,705**	**0**	**200**	**66,883**	131,707		

*07/18/20014the majority of TW volume was shifted to SAVSARP

**SAVSARP will be permitted for 100,000AF/year 10/2014

***Flowing Wells 19AF transfer is pending and will not likely be executed in 2014

****10/21/2014 Additional 1380AF stored for AWBA

COMPONENT 2

LINE #7

(See Tucson Water pricing)

Table 1

VWC Water Wheeling Study

Summary of Wheeling Costs and Rates

	Prior Estimate (2013)		Revised (Prelim 2015)	
Description	Wheeling $	$/AF	Wheeling $	$/AF
Operation & Maintenance	$15,943,300	$166	$13,623,015	$147.89
Taxes	$512,942	$5	$512,450	$5.56
Capital Requirements	$22,383,500	$234	$23,646,619	$256.71
Total	**$38,839,741**	**$405.60**	**$37,782,084**	**$410.16**
Potable Water Sales (Ccf)	$41,018,347		39,257,144	
Potable Water Sales (AF)	$94,159		90,116	
Oro Valley Water Sales (AF)	$1,600		2,000	
Total Water Sales (AF) [1]	95,759		92,116	
Base Usage Rate		$405.60		$410.16
Estimated Power Rate [2]		$196.17		$196.17
Total usage rate		**$601.77**		**$606.33**
				1.1%

[1] AF = Ccf X 100 X 7.48 / 325851

[2] From CH2M HILL

Table 1
VWC Water Wheeling Study
Summary of Operation and Maintenance Costs (FY2014/15) [1]

Description	Total Costs	Wheeling Allocation %	Wheeling Cost	$/AF
Director's Office	$4,294,377	3.99%	$171,433	$1.86
Customer Services	8,132,040	0.00%	$0	$0.00
Business Services	4,342,827	2.30%	$99,698	$1.08
Water Quality and Operation	43,233,344	13.86%	$5,993,095	$65.06
Planning & Engineering	6,459,060	18.26%	$1,179,437	$12.80
Water Maintenance	21,914,736	26.84%	$5,881,681	$63.85
Other Budgetary Requiremer	16,401,374	1.81%	$297,671	$3.23
Total	$104,777,757	13.00%	$13,623,015	$147.89

[1] Refer to Attachment Table 1 for line item detail

Table 2
VWC Water Wheeling Study
Summary of Plant Investment Allocations and Capital Requirements (FY2014/15)

Description	Net Plant Investment [1]	Current Depreciation	Wheeling Allocation %	Rate[1,2] Base	Wheeling[3] Depreciation
Land	47,396,247	-	36.82%	17,449,589	0
Wells	91,929,292	3,751,240	61.55%	56,580,479	2,308,807
Water Treatment Plant	77,417,703	2,636,474	63.00%	48,772,809	1,660,967
Land - CAP Treatment Plant	2,636,985	-	63.00%	1,661,306	0
Reclaimed Water System	139,870,334	2,924,763	0.00%	-	0
Buildings	8,653,024	895,716	63.00%	5,451,340	564,294
Pumping Equipment	65,319,026	2,207,869	63.00%	41,150,654	1,390,946
Tanks and Reservoirs	151,852,374	4,226,698	35.96%	54,600,966	1,519,777
Transmission Mains	184,599,007	4,253,332	61.86%	114,187,599	2,630,988
Distribution Mains	171,236,761	5,816,960	0.00%	-	0
Services and Meters	90,154,279	3,066,183	0.00%	-	0
Hydrants	27,661,770	643,149	0.00%	-	0
General Plant	31,608,160	3,731,945	29.61%	9,359,191	1,105,031
Total	1,090,334,962	34,154,328	32.03%	349,213,933	11,180,809
Rate of Return[4]				3.57%	
Return on Rate Base				12,465,810	

1. Refer to Attachment Table 2
2. Wheeling Allocation excludes peak-day costs, peak-hour costs, direct fire protection costs, meters and service costs, and reclaimed.
3. See Attachment Table 3
4. Cost of Debt as of July 1, 2013

Table 3
VWC Water Wheeling Study
Summary of Wheeling Costs and Rates (FY2014/15)

Description	Wheeling $	$/AF
Operation & Maintenance	$13,623,015	$147.89
Taxes[1]	$512,450	$5.56
Capital Requirements	$23,646,619	$256.71
Total	**$37,782,084**	**$410.16**
Potable Water Sales (Ccf)	39,257,144	
Potable Water Sales (AF)	90,116	
Oro Valley Water Sales (AF)	2,000	
Total Water Sales (AF) [2]	92,116	
Base Usage Rate		$410.16
Estimated Power Rate [3]		$196.17
Total usage rate		$606.33

[1] Payment in Lieu of Tax
[2] AF = Ccf X 100 X 7.48 / 325851
[3] From Tucson Water

Attachment: Water Wheeling Cost Allocation
Table 4: Rate of Return Calculation
Tucson Water Department

Capital Structure[1]

		Capital Share
Bonds Payable	498,211,520	40.08%
Assets net of Bonds	744,824,964	59.92%
Total	1,243,036,484	100.00%

Rate of Return

		Return Share
Cost of Debt[2]	3.57%	1.43%
Equity Return[3]	3.57%	2.14%
Rate of Return		3.57%

[1] See City of Tucson Statement of Net Assets (June 30, 2011)
[2] Weighted average interest rate on outstanding debt
[3] Discounted ACC equity return

COMPONENT 2

LINE #7

(Storage Permit 73-211276.0600)

JANICE K. BREWER
Governor

MICHAEL J. LACEY
Director

ARIZONA DEPARTMENT of WATER RESOURCES
3550 North Central Avenue, Second Floor
Phoenix, Arizona 85012-2105
602.771.8500
azwater.gov

October 7, 2014

Vail Water Company
Attn: Mr. Christopher T. Volpe
1010 N. Finance Center Drive, Suite 200
Tucson, AZ 85710

Re: Vail Water Company, Application for a Water Storage Permit,
Permit No. 73-211276.0600

Dear Mr. Volpe:

Enclosed is the signed Water Storage Permit, Permit No. 73-211276.0600, for Vail Water Company to store CAP water at the Southern Avra Valley Storage and Recovery Project Underground Storage Facility.

Please contact Andrew J. Craddock, Recharge Program Manager at (602) 771-8615, or Shannon Reif at (602) 771-8517 with any additional questions.

Sincerely,

FOR

Thomas Buschatzke
Assistant Director of Water Planning

Enclosure

TB/slr

ARIZONA DEPARTMENT OF WATER RESOURCES

WATER STORAGE PERMIT

PERMIT NO. 73-211276.0600

STATE OF ARIZONA)ss.
)
COUNTY OF MARICOPA)

This is to certify that I have examined Application No. 73-211276.0600 for a Water Storage Permit to store water in a storage facility, and I have determined that the application meets the requirements of Arizona Revised Statutes Title 45, Chapter 3.1, Article 3 for a Water Storage Permit. The Department hereby grants authority to the Vail Water Company to store water, subject to the following limitations and conditions:

Permit Limitations

Permittee: Vail Water Company
1010 N. Finance Center Drive, Suite 200
Tucson, AZ 85710

Storage Facility Name:	Southern Avra Valley Storage and Recovery Project (SAVSARP)
Storage Facility Permit Number:	No. 71-211276
Active Management Area:	Tucson AMA
Sub-basin:	Avra Valley
Water To Be Stored:	Central Arizona Project (CAP) water
Legal Basis for Acquiring Water To Be Stored:	Contract with Central Arizona Water Conservation District, No. 07-XX-30-W0472, dated March 29, 2007, including any renewals thereof, and any other contracts under which Permittee acquires the right to receive CAP water.
Maximum Permitted Storage:	4,000 acre feet per annum
Effective Date:	October 7, 2014
Expiration Date:	Expiration of Underground Storage Facility Permit No. 71-211276

Permit Conditions

1. The quantity of water stored shall be reported to the Recharge, Assured & Adequate Water Supply Program, Water Planning Division, Arizona Department of Water Resources, 3550 North Central Ave., Phoenix, Arizona, 85012 in the form of annual data reports. The annual report shall be submitted no later than March 31 following the end of each completed annual reporting period. The first annual reporting period shall be from the effective date of this permit through December 31, 2014. Subsequent annual reporting periods shall be January 1 through December 31.

2. The Permittee shall continue to meet the requirements of A.R.S. § 45-831.01 during water storage.

3. Recovery of stored water is prohibited unless a recovery well permit is obtained pursuant to A.R.S. § 45-834.01, and such stored water shall be recovered only in the same active management area in which it is stored.

4. Stored water shall not be recovered in excess of the amount allowed by Title 45, Chapter 3.1, Article 4, Arizona Revised Statutes.

5. The Permittee shall report all assignments of long-term storage credits accrued pursuant to this permit to the Recharge, Assured & Adequate Water Supply Program, Water Planning Division, Arizona Department of Water Resources, 3550 North Central Ave., Phoenix, Arizona, 85012 in accordance with A.R.S. § 45-854.01.

6. Water may be stored pursuant to this permit only at the Constructed Southern Avra Valley Storage and Recovery Project Constructed Underground Storage Facility (Permit No. 71-211276), and any amendments thereto.

7. If the Permittee's contract with Central Arizona Water Conservation District dated March 29, 2007 is renewed, or if the Permittee acquires any additional contract for the receipt of Central Arizona Project water, the Permittee shall submit a copy of the renewed or additional contract to the Recharge, Assured & Adequate Water Supply Program, Water Planning Division, Arizona Department of Water Resources, 3550 North Central Ave., Phoenix, Arizona, 85012 prior to storing water received under the renewed or additional contract pursuant to this permit.

8. The Director may withhold long-term storage credits or prohibit recovery on an annual basis for water stored under this permit during any period of time in which permittee's storage activities are not in compliance with all state and federal water quality standards if the Director determines, after consultation with the director of environmental quality, that the violation has had or will have a significant adverse

9. Please note that under A.R.S § 45-852.01(B)(1), water stored pursuant to a water storage permit may be credited to a long-term storage account only if the water is water that cannot reasonably be used directly as defined by A.R.S. § 45-802.01(22).

Witness my hand and seal of office this 7th day of October, 2014.

Thomas Buschatzke, ADWR Assistant Director
Water Planning Division

COMPONENT 2

LINE #7

(Approved Wheeling Agreement)

DEPUTY RECORDER
305

TCCWB
CITY OF TUCSON-CITY CLERK
PICKUP

SEQUENCE: 20132000975
NO. PAGES: 3
RES 07/19/2013
18:00
PICK UP
AMOUNT PAID: $7.00

CERTIFICATE OF CLERK
City of Tucson

State of Arizona
County of Pima } *ss*

I, Roger W. Randolph, the duly appointed and qualified City Clerk of the City of Tucson, Arizona, do hereby certify pursuant to Tucson Code § 2-102 that the following is a true and correct copy of Mayor and Council Resolution No. 22081, which was passed and adopted by the Mayor and Council of the City of Tucson, Arizona, at a meeting held on July 9, 2013, at which a quorum was present.

In Witness Whereof, *I have hereunto set my hand and affixed the seal of the City of Tucson, Arizona on July 16, 2013.*

Total of 2 page(s) certified.
(Exhibits not included)

CITY OF TUCSON
ARIZONA

City Clerk

ADOPTED BY THE
MAYOR AND COUNCIIL

July 9, 2013

RESOLUTION NO. 22081

RELATING TO WATER; AUTHORIZING AND APPROVING THE EXECUTION OF AN AGREEMENT WITH THE VAIL WATER COMPANY TO WHEEL CENTRAL ARIZONA PROJECT WATER TO THE VAIL WATER COMPANY; AND DECLARING AN EMERGENCY.

BE IT RESOLVED BY THE MAYOR AND COUNCIL OF THE CITY OF TUCSON, ARIZONA, AS FOLLOWS:

SECTION 1. The Agreement between the City of Tucson and the Vail Water Company to wheel Central Arizona Project (CAP) water to the Vail Water Company, attached hereto as Exhibit "A," is approved.

SECTION 2. The Mayor is authorized and directed to execute the Agreement for and on behalf of the City of Tucson, and the City Clerk is authorized and directed to attest the same.

SECTION 3. The various City officers and employees are authorized and directed to perform all acts necessary or desirable to give effect to this Resolution.

SECTION 4. WHEREAS, it is necessary for the preservation of the peace, health and safety of the City of Tucson that this Resolution become

immediately effective, an emergency is hereby declared to exist, and this Resolution shall be effective immediately upon its passage and adoption.

PASSED, ADOPTED AND APPROVED by the Mayor and Council of the City of Tucson, Arizona, July 9, 2013.

MAYOR

ATTEST:

CITY CLERK

APPROVED AS TO FORM:

CITY ATTORNEY

REVIEWED BY:

CITY MANAGER

CA/dg
6/5/13

F. ANN RODRIGUEZ, RECORDER
Recorded By: JCC
DEPUTY RECORDER
305

TCCWB
CITY OF TUCSON-CITY CLERK
PICKUP

SEQUENCE: 20132000974
NO. PAGES: 24
AG 07/19/2013
18:00
PICK UP
AMOUNT PAID: $16.50

AGREEMENT BETWEEN THE VAIL WATER COMPANY AND THE CITY OF TUCSON RELATING TO THE DELIVERY OF CENTRAL ARIZONA PROJECT WATER

WHEREAS, This Agreement is entered into this 9th day of July, 2013, by and between the City of Tucson ("City" or "Tucson Water") and the Vail Water Company ("Vail" or "Company"), a public service corporation regulated by the Arizona Corporation Commission relating to the delivery of the Company's Central Arizona Project (CAP) water through the Tucson Water potable distribution system, also referred to as wheeling.

RECITALS

WHEREAS, The Company and the City may contract for services and enter into agreements with one another; and

WHEREAS, The Company has an annual allocation of 1,857 acre-feet of Central Arizona Project water, all or a portion of which can be delivered to Tucson Water underground storage facilities in Avra Valley and subsequently recovered and conveyed through the City's potable water distribution system; and

WHEREAS, The City currently has excess underground storage and system delivery capacity to store and deliver the Company's CAP water; and

WHEREAS, The Tucson Water potable distribution system has the current hydraulic capacity to deliver a substantial portion of the Company's CAP water to the Company, and potentially storing the remainder in long-term storage. Both parties are interested in providing an amount equal to Vail's annual water usage for delivery to the Company during the term of this Agreement; and

WHEREAS, The Company and City desire to mutually cooperate to deliver additional renewable CAP water supplies to protect and preserve groundwater in Southern Arizona.

WHEREAS, The Company and City desire to mutually cooperate to deliver renewable CAP water supplies of the Company for base load demand conditions only and not for meeting peak demands or fire flow requirements.

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein, set forth and for other good and valuable consideration, the parties agree to the Agreement memorialized below.

Exhibit A to Resolution No. 22081

AGREEMENT

1. Delivery to the Vail Water Service Area. City will take delivery of up to 1,857 acre-feet for recharge of CAP water, and recover a volume sufficient to deliver the Company's annual expected water usage to the Company's Service Area ("VSA"). The location of this service area is depicted on Exhibit "A".

   1.1 The Company will store its CAP water in City underground storage facilities located at the Central Avra Valley Storage and Recovery Project (CAVSARP) and the Southern Avra Valley Storage and Recovery Project (SAVSARP), for subsequent delivery to the VSA.

   1.2 The Company will make the necessary arrangements with the Central Arizona Water Conservation District for the Company's CAP water to be delivered to City underground storage facilities at CAVSARP and SAVSARP.

   1.2.1 Company will annually coordinate with the City regarding the monthly schedule for delivery of the Company's CAP water for recharge at least 30 days prior to each Party's final placement of the order with the Central Arizona Water Conservation District for the following calendar year. The Company is responsible for placing its order with CAP each year. If the City and Company are unable to reach an agreement about the timing of the Company's deliveries, the Company will place its order according to an even 11 month delivery schedule, with no anticipated deliveries during the month of November.

   1.2.2 The volume of the delivery of up to 1,857 acre-feet of the Company's CAP water will be calculated annually to include adequate storage volumes to account for any cut to the aquifer for long term storage that will be required by the Arizona Department of Water Resources (ADWR) This cut is currently established at 5%, pursuant to A.R.S. § 45-852.01.

   1.2.3 The volume of the delivery of up to 1,857 acre-feet of the Company's CAP water will be calculated in accordance with Exhibit "B," attached, on an annual basis This calculation will include 4% system losses during transmission from the storage and recovery facility to the delivery point to the Company. The Company agrees that for purposes of accounting for "Lost and Unaccounted-For Water" under ADWR calculations, this 4% loss will be debited from Vail's water resources portfolio unless the parties and ADWR mutually agree to modifying current methods for calculating "Lost and Unaccounted-For Water".

1.2.4 Tucson Water is capable of delivering Vail's annual expected water usage to the VSA; the VSA connection will be from the Tucson Water Old Vail Road G-Zone Tank to a point of interconnection located approximately ten feet (10') inside of the northeast property line, hereinafter referred to as the "Ten Foot" connection point, as depicted on Exhibit "C", attached hereto and incorporated herein by this reference.

1.3 The City may deliver potable water recovered from the Company's stored CAP water to other points of connection subject to mutual written agreement of the parties.

2. Term. The term of this agreement will be ten (10) years with a ten (10) year renewable term based upon mutual written agreement of the Director of Tucson Water and the authorized representative of the Company.

2.1 The term shall commence on the first date of actual delivery through the Ten Foot connection point.

2.2 The City and Company shall work together to commence delivery to Company on or before January 1, 2015.

3. Volume Charge. Vail will pay Tucson Water a volumetric charge for each unit of potable water delivered to Vail, currently $601.77 per acre-foot for each acre-foot of potable water delivered to Vail within the terms of this agreement. This charge will be calculated annually, according to the Tucson Water rate cycle, using the agreed-upon methodology documented in the Technical Memorandum: Analysis of Water Wheeling Rates for Vail Water Company, attached as Exhibit "D."

3.1 Tucson Water will be responsible for reading the meter and billing the Company for water delivered. Payments due will be invoiced monthly by Tucson Water.

3.2 Vail will pay Tucson a power charge for each acre-foot of potable water delivered to Vail; the current power charge is $196.17 per acre-foot, and is included as a component of the current $601.77 cost per acre-foot. The power charge will be calculated annually, according to the Tucson Water rate cycle, using the agreed-upon methodology documented in the Technical Memorandum: Tucson Water Department Wheeling Study-Cost of Power Estimates for Wheeling to Vail Water Company, dated October 22, 2012, attached as Exhibit "E."

3.3 In addition to the volume charge, there will be a monthly service charge based on the diameter of the meter used to measure the rate and volume of water delivered to the Company. This monthly service charge will be the Reclaimed monthly service charge, which changes annually.

according to the rates and charges adopted by the City of Tucson Mayor and Council.

3.4 Tucson Water will send all invoices to Vail Water Company at 1010 North Finance Center Drive, Suite 200, Tucson, Arizona 85710.

3.5 Vail will pay the monthly invoices within thirty (30) days of receipt.

4. Infrastructure Requirements.

4.1 Tucson Water will design all of the pumping equipment located inside the perimeter fence of the Old Vail Road G-Zone Tank Site from the existing 200,000 gallon storage tank to the Ten Foot connection point including, but not limited to: the pump, motor, the discharge header, valves, flow meter, electrical equipment, monitoring equipment, the pressure tank, and the below ground pipe.

4.2 Vail will compensate Tucson Water for the design of these facilities at the "Developer–Required Facilities Rate for Electrical and Control System Design Fee", which fee is part of Tucson Water's standard rate schedule.

4.3 Vail will be responsible for the construction of all infrastructure required to connect Tucson Water potable infrastructure to the Vail potable distribution system at the Ten Foot connection point including but not limited to: pumps, motors, meters, valves, monitoring and control equipment, the pressure tank, pipe and other appurtenances. Vail will obtain three bids from qualified contractors to perform this work, and will grant Tucson Water the right to inspect and approve any installed infrastructure.

4.4 Company will pay for all infrastructure construction costs in paragraph 4.3.

4.5 Tucson will furnish Company with any rights to the land underlying the Company-owned infrastructure as may be necessary to allow Company to include these assets as part of its Capital Rate base calculations with the Arizona Corporation Commission. Should such rights require transfer of a fee title, Company agrees to re-convey the fee interests to the City upon expiration of this Agreement, under the same terms as the initial conveyance. Vail and Tucson will grant each other respective cross-access easements to allow each other's employees to maintain and inspect each other's infrastructure.

4.6 Vail will prepare designs for the new sixteen inch (16") I-Zone water main installation from the Ten Foot connection point to the connection point with the existing Vail Water Company I-Zone.

4.7 Company will furnish and install a Remote Terminal Unit (RTU) with cabinet and antenna inside the perimeter fence of the site. This work will be coordinated with Tucson Water.

4.8 The meter for measuring deliveries to Vail will be located on the above ground discharge header downstream from the G to I-Zone booster pumps.

4.9 Warranties of workmanship and equipment will be provided through standard construction contract documents and manufacturer's warranty for any repair or replacement of infrastructure paid for by Company and still under warranty. Beyond the warranty periods, Company will be responsible to pay the costs to repair or replace all equipment that was paid for by Company and installed by City on City-owned property. This includes installation of any new meters, pumps, motors, pressure tanks, pipe, valves, controls, instrumentation or other equipment or appurtenances provided by Company, but does not include any pre-existing City infrastructure.

5. Operation and Maintenance. City will perform all routine maintenance for the safe and reliable delivery of the Company's CAP up to the facilities that the Company constructed.

5.1 The facilities constructed by the Company will be maintained by the Company.

5.2 For all deliveries to the VSA, Tucson Water will be responsible to provide and pay for electrical power to supply water to the Company

5.3 All day-to-day operations and delivery amounts will be determined and implemented by Tucson Water and Vail certified water operators.

5.4 When Vail needs to access the Tucson Water portion of the Old Vail G to I--Zone Booster site, Vail must notify the Tucson Water system operator.

5.5 Maintenance activities that affect subject pumping equipment will be coordinated and scheduled with both Tucson Water and Vail operators.

6. Delivery Flow and Pressure. Tucson Water will deliver a daily amount of CAP-based water allotment based upon request by Vail.

6.1 Tucson Water will deliver an annual amount to Vail based on the mutually agreed upon schedule in Section 1.2.1, above.

6.2 The daily amount of the Company's CAP-based allotment delivered through the Ten Foot connection point may vary based upon daily decisions made by the Tucson Water and Vail certified water operators.

6.3 For the VSA, Tucson Water will deliver water to the Vail Water Company I-Zone based on Tucson Water's design standards.

6.4 Vail will have automated control of the operation of the pumping equipment installed under this agreement to deliver the Company's CAP-based allotment to the VSA.

6.5 Tucson Water will have an interlock with the Vail's RTU cabinet that allows turn-off of the pump in the event of an issue in the Tucson Water system. Notice of a turn-off will be provided to Tucson Water Operators and Vail Operators. In an emergency, Tucson Water will have the ability to shut off all deliveries to the Company for the duration of the emergency and will notify the Vail certified water operators immediately. Tucson Water shall have discretion to determine whether such an emergency condition exists within the Tucson Water potable distribution system.

6.6 If Vail does not maintain a regular minimum flow through these facilities, Tucson Water cannot warrant that the water quality in the lines will be maintained in adequate condition for potable water deliveries, and water necessary for flushing or refilling will be included as part of Vail's total deliveries.

7. Regulatory Requirements. Vail and Tucson Water will cooperate to meet all regulatory requirements and acquire any permits required.

7.1 City and Company will comply with all Arizona Department of Water Resources regulations regarding the recovery and delivery of potable water.

7.1.1 The Company will obtain a storage permit to store its CAP water in Tucson Water's CAVSARP and SAVSARP recharge facilities.

7.1.2 The Company will obtain recovery well permits to allow the recovery of its CAP water from Tucson Water's CAVSARP and SAVSARP facilities.

7.1.3 Company will pay all permit fees and storage costs, and will be responsible for preparing and submitting all reports associated with its storage and recovery well permits based upon information provided by the City.

7.1.4 Whenever possible, all water stored by Tucson for the Company will be used in the same year stored. To the extent that long-term CAP storage credits are generated for Vail at City facilities, Vail will pay storage costs based on the City of Tucson "Water Bank" storage rate for each acre-foot of CAP water delivered to the City facilities. Due to evaporation losses and the cut to the aquifer, this will result in paying storage fees for the percentage of each delivery that does not result in a corresponding amount of annual or long-term storage credits.

7.1.5 In accordance with Paragraph 1.2.2 and 1.2.3, the Company is responsible for ordering sufficient amounts of CAP water from its CAP allocation to account for its total deliveries to the VSA through the Ten Foot connection point. In the event that the storage balance is less than what is ordered by the Company, or an outage on the CAP canal or other event prevents the Company from delivering a sufficient volume of CAP water to the City's storage facilities during any calendar year and the Company desires to continue deliveries, then the Company will transfer to City an equivalent number of credits from its existing long-term storage accounts of credits the City has already recharged at the SAVSARP facility to offset any negative storage balance, and will be responsible for locating alternate storage capacity for the balance of its order in other facilities.

7.1.6 If, after termination of this agreement, there should be a negative storage balance of Company's CAP water in City storage facilities, the Company will transfer sufficient credits from its storage accounts to eliminate the negative storage balance.

7.2 Tucson Water and Vail will comply with all National Primary Drinking Water Regulations (NPDWRs or primary standards) as enforced by the Arizona Department of Environmental Quality (ADEQ).

7.2.1 Tucson Water is responsible for complying with all NPDWRs and policies enforced by ADEQ as they relate to wholesale systems that deliver finished water to a consecutive system.

7.2.2 City and Company will comply with all NPDWRs and policies enforced by ADEQ, including regulatory requirements that are applicable to a consecutive water system.

7.2.3 City will provide applicable water quality data to Company at least annually to be used for the Company's consumer confidence report, and upon the Company's request.

7.2.4 City and Company will acquire all the required approvals of construction.

8. Storage Balance Reconciliation. By end of February, City and Company will provide each other with sufficient information to complete its required ADWR reporting by March of each calendar year and Tucson will calculate the preceding calendar year's volume of the Company's water in storage. The amount purchased can exceed annual deliveries to the Vail service area so long as there is an Arizona Department of Water Resources accounting of Vail credits in Tucson Water's recharge facilities

8.1 The Tucson Water CAP allocation will have first priority for storage during any scheduled delivery month, immediately followed by Oro Valley, Pascua Yaqui, the Company and other parties with storage agreements with Tucson Water on the effective date of this agreement.

8.2 This reconciliation process will be necessary to account for unexpected problems such as CAP canal outages, changes in facility infiltration rates, power interruptions, or failures in water system assets.

8.3 An outline for the methodology of this reconciliation process is given in Exhibit "B."

9. Priority of Storage. The following describes the priority that entities have to store CAP water in Tucson Water recharge facilities:

9.1 The City will have priority of storage for its water orders over all other entities and agreements.

9.2 Any pre-existing contracts that the City has, at the date of this Agreement, with other entities to store their CAP M&I water will have priority above the Company to store in City recharge facilities.

9.3 Company will have priority to store its water in Tucson's recharge facilities over the Arizona Water Banking Authority.

10. Additional Documents. The parties agree to execute such further documents as may be necessary to carry out the terms and intent of this Agreement.

11. Entire Agreement. This Agreement and the Exhibits hereto contain the entire agreement between the parties, and the terms of this Agreement are contractual, not merely a recital

12. Recordation. This Agreement shall be recorded with the County Recorder of Pima County, Arizona after the Agreement has been approved and executed by the Parties.

13. Successors and Assigns. This Agreement and all of the terms and provisions hereof shall inure to the benefit of and be binding upon the successors and assigns of all of the parties hereto.

14. Notices. All notices shall be in writing and together with other mailings pertaining to this Agreement shall be made to:

FOR THE COMPANY:

Vail Water Company
1010 North Finance Center Drive, Suite 200
Tucson, AZ 85710.

WITH COPY TO:

Vail Water Company Legal Counsel
1010 North Finance Center Drive, Suite 200
Tucson, AZ 85710.

FOR TUCSON:

Director
Tucson Water
P.O. Box 27210
Tucson, AZ 85726

With Copy to:

City Attorney
City of Tucson
P.O. Box 27210
Tucson, AZ 85726

or as otherwise specified from time to time by each party.

15. Miscellaneous. The parties agree and acknowledge that time is of the essence with respect to this Agreement. If any lawsuit or other enforcement proceeding is brought to enforce this Agreement, the prevailing party shall be entitled to recover the costs and expenses of such action and reasonable attorneys' fees incurred. The Agreement shall be governed by and construed in accordance with the laws of the State of Arizona.

16. Effective Date. This Agreement shall become effective when the Agreement has been executed by all of the parties and their respective legal counsel and has been recorded at the office of the Pima County Recorder and in accordance with paragraph 2.1 subject to Section 2 of this agreement entitled "Term."

17. Conflict of Interest. This Agreement is subject to A.R.S. § 38-511 which provides for cancellation of contracts by municipalities for certain conflicts of interest.

18. Arizona Corporation Commission. The parties acknowledge that the Company's rate case is currently pending at the Arizona Corporation Commission ("ACC") and as part of that rate case, the Company and Commission staff have entered into a Settlement Agreement ("Settlement Agreement"), which, among other items, addresses a surcharge to allow the Company to recover its expenses under this present Agreement. Company shall have the right to terminate this Agreement without further liability to City within thirty (30) days of the entry of a final, non-appealable decision of the ACC if that surcharge is not approved by the ACC as set forth in the Settlement Agreement.

IN WITNESS WHEREOF, the Parties hereto have hereunto set their hands the day and year first written above.

CITY OF TUCSON,

Jonathan Rothschild, Mayor

VAIL WATER COMPANY,

Christopher T. ("Kip") Volpe, Authorized Representative

ATTEST:

Roger Randolph, City Clerk

Date: July 9, 2013

ATTEST:

Date: July 8, 2013

Approved as to form:

June 20, 2013

Principal Asst. City Attorney

Vail Water Company Service Area

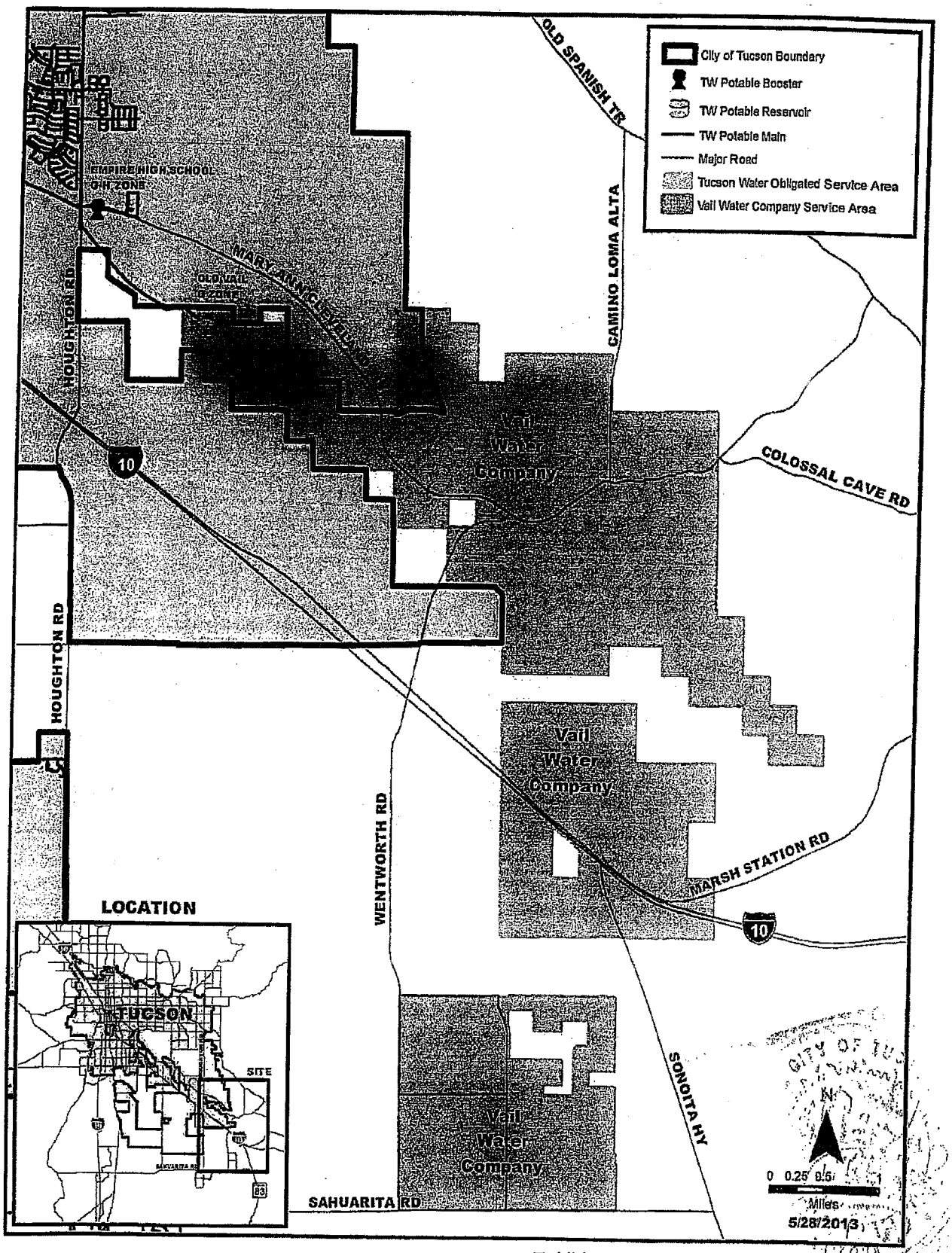


Exhibit A to Exhibit A to Resolution No. 22081

Exhibit B to Exhibit A to Resolution No. 22081

to City of Tucson - Vail Water Wheeling Agreement

OUTLINE FOR WHEELING AGREEMENT CALCULATIONS AND REPORTING

Based on Annual Recharge and Recovery Option and targeting 1000 ac-ft and realizing 990 ac-ft delivered through interconnection (billing meter)

blue highlight indicates cells for data entry, other values are calculated

Calculations for Placing Order with CAWCD

		Annual planned delivery total through interconnection	System Transmission Loss Adjustment	Storage necessary to meet delivery and system losses	Estimated ET (2% of CAWCD delivery)	CAWCD delivery necessary to meet storage need, annual basis
		(a)	(b)	(c)	(d)	(e)
		assumed	[(a) / 96%] - (a)	(a) + (b)	[(c) / 98%] - (c)	(c) + (d)
1)*	Volume in acre-feet	1,000.00	41.67	1,041.67	21.26	1,062.93

Calculations for Reporting and Storage Billing

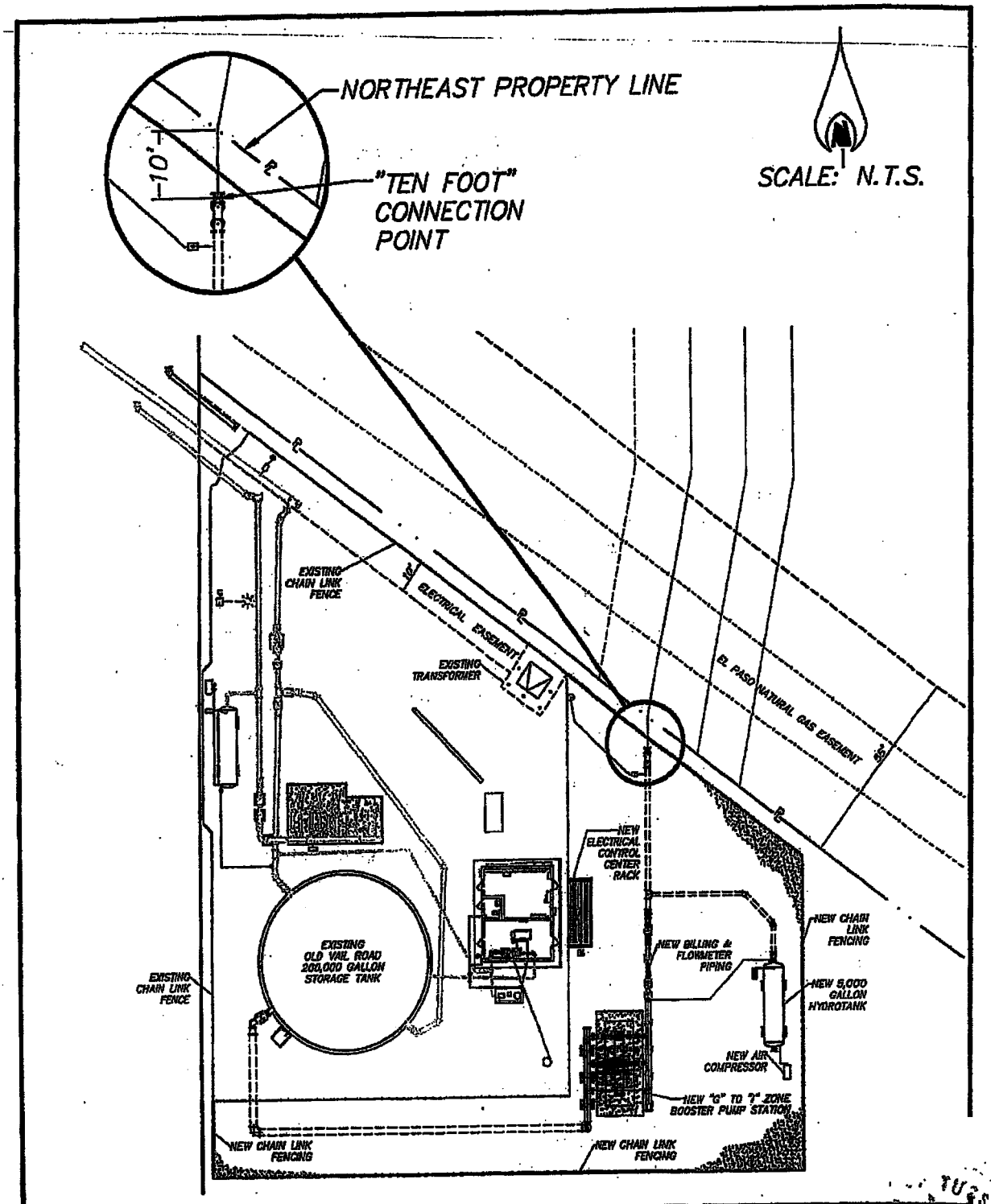
		Actual CAWCD Delivery	Actual ET	Actual Storage	Actual Delivery to VSA	System Transmission Loss Adjustment (as 4% of production)	Actual Recovery to meet delivery and system losses	Long Term Storage Credit Accrual (after losses, recovery, cut to aquifer)
		(a)	(b)	(c)	(d)	(e)	(f)	(g)
		assumed	assumed 2%	(a) - (b)	assumed	[(d) / 96%] - (d)	(d) + (e)	[(c) - (f)] - 5%[(c) - (f)]
2)	Volume in acre-feet	1,063.00	21.26	1,041.74	990.00	41.26	1,031.25	9.97
3)	Record Source for data	CAWCD Annual Accounting Report (provided by CAWCD to both entities)	TW storage project data records, total ET at USF proportioned based on delivery	CAWCD / TW storage project data records, calculation as above	billing meter, billing records	billing meter, calculation as above	billing meter, calculation as above (Recovery Well info for reporting via from TW SCADA)	CAWCD, TW project data records, calculation as above
4)**	VAIL Reporting Requirement	UWS Summary and Schedule, WS Summary and Schedule 73	N/A - TW will provide to Vail for informational purposes, ADWR LTSC report provides confirmation post-reporting	N/A - TW will provide to Vail for informational purposes, ADWR LTSC report provides confirmation post-reporting	Well Worksheet W1	Well Worksheet W1	RW Summary, RW Schedule 74, Well Worksheet W1	N/A - TW will provide to Vail for informational purposes, ADWR LTSC report provides confirmation post-reporting
5)**	TUCSON WATER Reporting Requirement	UWS Summary and Schedule, USF Summary and USF Schedule 71, Supplemental reporting data	Underground Storage Facilities Supplemental Reporting Data	Underground Storage Facilities Supplemental Reporting Data	Well Worksheet W1	Well Worksheet W1	Well Worksheet W1	Underground Storage Facilities Supplemental Reporting Data

6) Calculation of Storage Fee:

Total Long Term Storage (ac-ft)		9.97
Unit Storage Cost ($/ac-ft)	$	16.00 ***
Total Long Term Storage Fee ($)	$	159.45

Notes:

- * Annual calc only, does not address monthly schedule / CAP delivery order
- ** Based on current understanding of ADWR accounting and reporting requirements, to be adapted by mutual agreement should requirements change
- *** To be updated based on AWBA rate for storage in the given year



TUCSON WATER

Exhibit C
TO EXHIBIT "A" RESOLUTION NO._____
TUCSON WATER OLD VAIL RD.
"G" TO "I" ZONE BOOSTER STATION
"TEN FOOT" CONNECTION POINT

Exhibit C to Exhibit A to Resolution No. 22081

TECHNICAL MEMORANDUM

Analysis of Water Wheeling Rates for Vail Water Company

PREPARED FOR: Belinda Oden, Tucson Water

PREPARED BY: Deb Galardi, Galardi Rothstein Group

DATE: May 31, 2013

Introduction

Study Purpose and Scope

The purpose of this study is to develop a methodology and rates that provide for an equitable allocation of costs to Vail Water Company (VWC) for the wheeling services to be provided by Tucson Water. Consistent with prior wheeling analyses and Tucson Water's regular rate setting practice, the methodology presented in this report is based on detailed operating and capital cost analyses and allocations. Under this approach, costs are categorized by utility functions (e.g., water quality, maintenance, customer service, etc.) and then allocated to service characteristics (e.g., base demand, peak demands, meters, billing, etc.), so that they may then be allocated to customers in proportion to the services provided. Wheeling rates are generally considered "special services" of a utility, and as such are developed on a case-by-case basis, reflecting local policy issues and service delivery plans, in addition to standard pricing principles.

In addition to the base usage rates, Tucson Water will "pass through" actual power costs to VWC. Estimates of power costs have been developed by CH2M HILL (Technical Memorandum dated October 22, 2012). Furthermore, Tucson Water will assess charges related to VWC's long term storage of Central Arizona (CAP) water.

Vail Water Company Service Assumptions

VWC has an allocation of CAP water in the amount of 1,857 acre-feet (AF) per year, and it is required to file engineering plans and cost information for delivering the water with the Arizona Corporation Commission (ACC) by June 2013. VWC is considering use of Tucson Water's infrastructure to recharge, recover, and deliver (collectively referred to as "wheel") a portion of the CAP water to a point of connection between Tucson Water and VWC, with a meter at the Tucson Water Old Vail G Zone Tank site. Preliminary estimates indicate an initial flow rate of 1,290 AF per year will be wheeled to VWC, with the remaining 567 AF (the balance of the CAP allocation) held in long term storage.

The following summarizes additional key assumptions related to the service to be provided:

- Tucson Water will provide a base load (constant monthly amount) of water, with no peaking component.

Exhibit D to Exhibit A to Resolution No. 22081

JUN/24/2013

- There will be no fire flow supply provided by Tucson Water through the point of connection.

- Service to Tucson Water customers will be first priority, and flows of wheeled water may be lessened or interrupted due to fire flows or other emergencies or outages on the Tucson Water system.

- VWC will pay for the construction of booster facilities at the point of connection needed to deliver the wheeled water to VWC's system. Furthermore, VWC will be required to participate in an electrical service upgrade at the Old Vail G Zone Tank.

- Tucson Water will maintain the wheeling facilities; the costs of maintenance will be included in the wheeling rates charged to VWC[1].

- VWC will secure the necessary permits from ADWR and ADEQ, such as a Storage and Recovery permit to use Tucson Water facilities.

Previous Wheeling Analyses

In June 2011 Tucson Water completed a water wheeling methodology study that established rates for wheeled water for Metro Water and Oro Valley Water Utility. Subsequent to the study completion, Tucson Water entered into an agreement with Oro Valley for water wheeling. While the prior methodology generally followed industry standard principals for water rate setting, particular components of the methodology were tailored to conform to an earlier (2001) settlement agreement, and reflect negotiations among the parties.

Overview of Methodology

As with the prior wheeling analysis, this study relies on current costs and water sales to determine a system-wide average rate per unit of volume for wheeling services. For this study, revenue requirements (costs) are structured under the utility basis approach, as opposed to the cash basis approach that was used in the prior study. Under the utility basis approach, revenue requirements consist of operation and maintenance (O&M) expenses, taxes or payments in lieu of taxes, depreciation, and a return on rate base. This differs from the cash basis approach for capital only, where annual debt service requirements and current revenue funded capital improvements are included. The utility basis approach is the most commonly used methodology to establish rates for outside-city customers, special services, and for regulated utilities.

Wheeling Costs and Rates

Water wheeling costs were determined for fiscal year (FY) 2012-13 based on the Tucson Water's budget and corresponding rate analysis and model. Each major component of the system revenue requirements is summarized below.

[1] Tucson Water estimates that the incremental maintenance costs of the booster facility will be small, and that the average maintenance costs of booster facilities (included in the wheeling usage rates presented in this memo) will not change materially.

Operation and Maintenance Costs

Operation and Maintenance costs include labor, materials and services, CAP purchases, and other costs associated with operating and maintaining the system. Tucson Water's budget reports costs by functional area – for example, Water Quality and Operations, Water Maintenance, Customer Services, etc. Furthermore, reclaimed water costs are identified separately from potable system costs. For the purposes of developing the wheeling usage rates, the following costs are excluded from O&M based on the type of service to be provided:

- CAP commodity costs
- Extra capacity costs (max day and max hour)
- Reclaimed water costs
- Distribution system maintenance[2]
- Direct fire protection costs
- Meter-related costs
- Backflow prevention
- Customer services and billing[3]
- Tucson Airport Remediation Project (TARP) Management
- Planning & Engineering (Water System Evaluation)
- Other Budgetary Requirements (Groundwater Withdrawal Tax, Superfund Tax, SAWARSA Settlement, CAP Capital payments, Low Income program)
- Power costs[4]

Consistent with standard industry ratemaking practices, Tucson Water allocates a number of general and overhead expenses (e.g., Admin Service and Director's Office) indirectly to water system functional categories in proportion to directly allocated O&M costs. For these types of costs, adjustments are made to exclude the indirect costs related to the programs and functions listed above.

Table 1 provides a summary of the O&M cost allocations. Of total budgeted costs for FY2012-13, about 17 percent ($15.9 million) are included in the wheeling costs. More detailed information on O&M allocations are provided in the attached tables (Table 1).

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[2] These are entirely excluded given the interruptible nature of the wheeling services such that distribution system assets will not be called upon in the event of an outage of direct system connections.

[3] Consistent with prior wheeling analyses, VWC would be charged a monthly service charge based on the meter size, to recover meter and billing costs. The usage charges are therefore exclusive of any customer and meter costs.

[4] Power costs are excluded from the wheeling costs allocations for purposes of developing the base usage rates, but are to be included as a direct assignment and have been estimated per a separate analysis by CH2M HILL.

Table 1
VWC Water Wheeling Study
Summary of Operation and Maintenance Costs (FY2012/13)[1]

Description	Total Costs	Wheeling Allocation	Wheeling Cost	$/AF
Director's Office	$4,742,656	28.33%	$1,343,458	$14.03
Customer Services	7,018,331	0.00%	$0	$0.00
Business Services	4,098,335	4.09%	$167,812	$1.75
Water Quality and Operations	41,368,788	15.05%	$6,225,957	$65.02
Planning & Engineering	7,217,642	25.26%	$1,822,821	$19.04
Water Maintenance	19,685,516	32.21%	$6,340,567	$66.21
Other Budgetary Requirements	11,048,650	0.39%	$42,684	$0.45
Total	$95,179,918	16.75%	$15,943,300	$166.49

[1] Refer to Attachment Table 1 for line item detail

Taxes

Taxes for Tucson Water include water sales taxes and Payment In Lieu of Taxes (PILOT). Sales taxes are paid by inside-City customers only, and are remitted to the taxing authority. In FY 2012-13, sales taxes are estimated to total about $4.0 million. Payment in Lieu of Taxes of $1.6 million is paid to the City of Tucson. For purposes of calculating the wheeling costs, sales taxes are excluded, since they apply only to inside-city customers; however, PILOT is included, based on the portion of assets related to wheeling (32 percent, discussed under Capital Costs below). The portion of PILOT included in the wheeling rates is $0.5 million.

Capital Costs

For determination of capital costs under the utility basis approach, an allocation of net plant assets in service is made to wheeling components. Similar to the O&M allocations, the plant allocations exclude the following assets in their entirety:

- Reclaimed water system
- Distribution system
- Fire hydrants
- Meters and services

In addition to the assets listed above, the wheeling cost allocation considers the portion of costs of other assets types (e.g., wells, treatment, and transmission) that are associated with extra capacity – both for peak demands and public fire protection. Using the capacity allocations from the rate model, extra capacity costs are also excluded from the wheeling costs. Finally, adjustments have been made to exclude isolated area or other assets that are not part of wheeling services. A summary of the plant in service allocations is provided in Table 2. A more detailed allocation of assets is provided in the attachment (Table 2).

As mentioned previously, the utility basis approach includes depreciation and a return on rate base as the capital components for determining revenue requirements. The rate base for wheeling is equal to the portion of the net plant investment allocated to wheeling (32 percent overall, as shown in Table 2). Total annual depreciation expense for each asset type

is allocated to wheeling using the same percentages as the plant investment. Annual depreciation expense related to wheeling is about $10.3 million, as shown in Table 2.

Table 2
VWC Water Wheeling Study
Summary of Plant Investment Allocations and Capital Requirements (FY2012/13)

Description	Net Plant Investment[1]	Current Depreciation	Wheeling Allocation %	Rate[1,2] Base	Wheeling[3] Depreciation
Land	46,479,470	-	36.32%	16,882,787	0
Wells	89,423,175	3,668,132	61.49%	54,982,654	2,255,384
Water Treatment Plant	73,899,810	2,552,077	63.00%	46,557,024	1,607,813
Land - CAP Treatment Plant	2,636,985	-	63.00%	1,661,306	0
Reclaimed Water System	118,547,448	2,584,085	0.00%	-	0
Buildings	311	-	63.00%	196	0
Pumping Equipment	62,571,338	2,143,248	63.00%	39,420,278	1,350,258
Tanks and Reservoirs	127,797,203	3,717,460	35.95%	45,942,574	1,336,412
Transmission Mains	165,005,714	3,927,757	61.74%	101,870,029	2,424,890
Distribution Mains	190,928,621	6,228,375	0.00%	-	0
Services and Meters	52,708,662	2,062,252	0.00%	-	0
Hydrants	25,748,517	610,762	0.00%	-	0
General Plant	39,383,939	4,380,262	29.74%	11,711,041	1,302,496
Total	995,131,194	31,874,410	32.06%	319,027,889	10,277,253
Rate of Return[4]				3.79%	
Return on Rate Base				12,106,246	

1. Refer to Attachment Table 2
2. Wheeling Allocation excludes peak-day costs, peak-hour costs, direct fire protection costs, meters and service costs, and reclaimed.
3. See Attachment Table 3
4. Based on cost of outstanding debt

For purposes of determining the return on rate base, a rate of return of 3.79 percent was used, which is equal to Tucson Water's current cost of debt[5]. Applying the rate of return to the rate base yields a return of $12.1 million, as shown in Table 2. The total capital requirements for wheeling are about $22.4 million ($10.3 million depreciation, plus $12.1 million return on investment).

Wheeling Rates

Table 3 summarizes the FY2012/13 wheeling costs and rates. The wheeling rates are determined by dividing the net wheeling costs by the total annual potable water sales. As shown in Table 3, annual water sales are estimated to be 41,018,347 hundred cubic feet (Ccf) or 94,159 AF. Sales to Oro Valley are an additional 1,600 AF, for a total of 95,759 AF. Dividing water sales into the total wheeling costs yields a rate $405.60/AF. These rates are exclusive of power costs which are to be assigned directly. A separate analysis of power costs by CH2M HILL has estimated an additional rate for power of $196.17/AF, yielding a total rate of $601.77/AF. Figure 1 provides a breakdown of wheeling cost components.

[5] Based on a weighted average cost of currently outstanding debt.

CITY OF TUCSON

Table 3
VWC Water Wheeling Study
Summary of Wheeling Costs and Rates (FY2012/13)

Description	Wheeling $	$/AF
Operation & Maintenance	$15,943,300	$166.49
Taxes (PILOT)	$512,942	$5.36
Capital Requirements	$22,383,500	$233.75
Total	**$38,839,741**	**$405.60**
Potable Water Sales (Ccf)	41,018,347	
Potable Water Sales (AF)[1]	94,159	
Oro Valley Water Sales (AF)	1,600	
Total Water Sales (AF)	95,759	
Base Usage Rate		$405.60
Estimated Power Rate[2]		$196.17
Total usage rate		$601.77

[1] AF = Ccf X 100 X 7.48 / 325851
[2] From CH2M HILL

In addition to the usage charges, VWC will be charged a monthly service charge to recover costs associated with meter and billing costs. The monthly service charges for reclaimed water customers include meter and billing costs, but exclude fire protection and a portion of CAP capital costs that are included in the potable customer monthly service charges. The current monthly service charges for reclaimed customers with 6-inch and 8-inch meters are $211.22 and $317.38, respectively.

An additional storage charge will be assessed on the volume of water stored in Tucson Water's facilities. The current storage charge applicable to the Arizona Water Banking Authority is $15.17/AF.

Rate Implementation

The costs and rates presented in this memorandum are based on Tucson Water's FY 2012/13 rate analysis (completed in May 2012). It is recommended that Tucson Water update the wheeling rates annually, as part of the overall rate process, so that future year rates continue to result in an equitable allocation of costs among customers.

CITY OF TUCSON

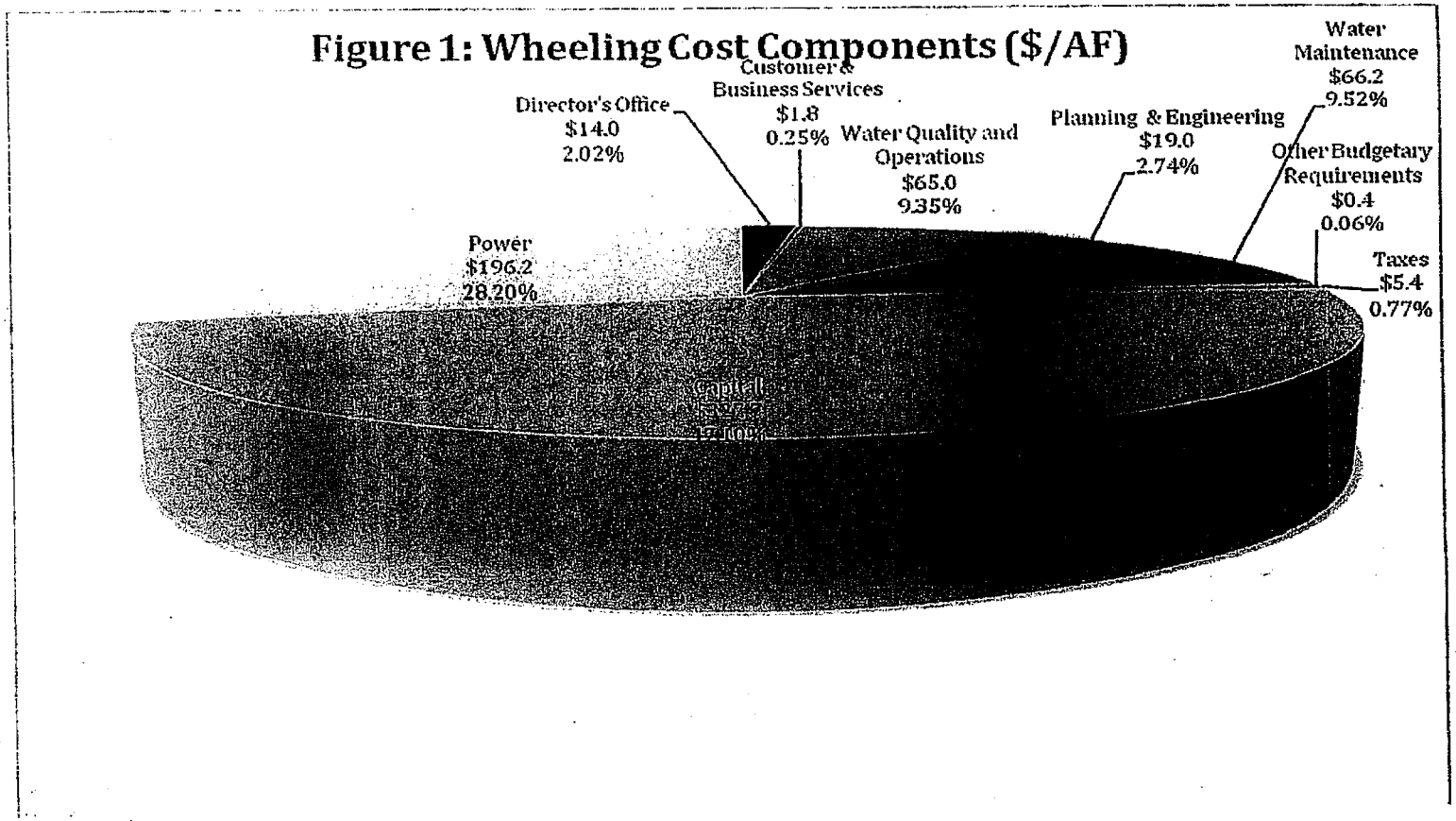
Figure 1: Wheeling Cost Components ($/AF)
Director's Office
$14.0
2.02%
Customer &
Business Services
$1.8
0.25%
Water Quality and
Operations
$65.0
9.35%
Planning & Engineering
$19.0
2.74%
Water
Maintenance
$66.2
9.52%
Other Budgetary
Requirements
$0.4
0.06%
Taxes
$5.4
0.77%
Power
$196.2
28.20%

Tucson Water Department Wheeling Study – Cost of Power Estimates for Wheeling to Vail Water Company

PREPARED FOR:	Tucson Water Department
PREPARED BY:	CH2M HILL
DATE:	October 22, 2012
PROJECT NUMBER:	460348.03

The purpose of this TM is to describe the methodology used to estimate the direct energy costs required to deliver ("wheel") Vail Water Company's (VWC) Central Arizona Project (CAP) water to VWC using Tucson Water Department's (Tucson Water) existing and future planned infrastructure. The estimated direct energy costs for existing Tucson Water facilities were derived for two different months (January 2012 and July 2012) based on actual billing data provided by Tucson Water. The estimated direct energy costs for future planned Tucson Water facilities were derived from the pump data and average energy costs provided by Tucson Water.

Description of Energy Requirements for Water Delivery

Delivering recovered CAP water from the Southern Avra Valley Storage and Recovery Project (SAVSARP) site to the delivery point in Vail requires the following energy use at the following sites:

1) SAVSARP Recovery Wells:
SAVSARP recovery wells deliver water to the planned SAVSARP booster station wet-well. Currently the existing well field is not fully developed and additional electric powered wells will be constructed in the future. As directed by Tucson Water, SAVSARP well AV-025B was used as the model well and was the energy cost basis for this study. Tucson Water also directed that the TRICO Electric rate category IS2 be used to approximate the energy costs for future SAVSARP recovery wells.

2) SAVSARP Booster Station:
At the time of this study, the planned SAVSARP Booster Station has not been constructed. To estimate energy costs for this study, a 400 Horsepower (HP) electric motor, 290-ft total dynamic head (TDH), and a 4,400 gallons per minute (gpm) flow rate were assumed, and were based on data points and a pumps curve provided by Tucson Water. The SAVSARP booster station pumps water to the Snyder Hill Pump Station. The assumed rate of energy cost was based on $0.08/kWhr (as provided by Tucson Water in September 28, 2012 meeting).

3) Snyder Hill Pump Station:
The Snyder Hill Pump Station pumps water from its wet-well to the Clearwell. Energy costs for the operation of the Snyder Hill Pump Station are not the responsibility of

Exhibit E to Exhibit A to Resolution No. 22081

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Tucson Water and therefore were not evaluated as part of this study. From the Clearwell, water flows by gravity to the Kolb Booster.

4) Kolb Booster C to D Zone:
The Kolb Booster is located near the intersection of Golf Links Road and Kolb Road and consists of electric and gas powered booster pumps. Data provided by Tucson Water for the Kolb Booster consisted of July 2012 daily flows, discharge and suction pressures, and electric and gas bills. Existing Kolb flow data prior to July 2012 was determined by Tucson Water to be unreliable. Water is pumped from the Kolb Booster Station to the Rausher Booster.

5) Rauscher Booster D to E Zone:
The Rauscher Booster is located near the intersection of Golf Links Road and Harrison Road and consists of only electric pumps. Data provided by Tucson Water for the Rauscher Booster consisted of 2012 daily flows, discharge and suction pressures, and electric bills. Water is pumped from the Rauscher Booster to the Danforth Booster.

6) Danforth Booster E to F Zone:
The Danforth Booster is located near the intersection of Golf Links Road and Houghton Road and consists of only electric pumps. Data provided by Tucson Water for the Danforth Booster consisted of 2012 daily flows, discharge and suction pressures, and electric bills. Water is pumped from the Danforth Booster to the Houghton Booster.

7) Houghton Booster F to G Zone:
The Houghton Booster is located on Houghton Road near the intersection with Drexel Road and consists of only electric pumps. Data provided by Tucson Water for the Houghton Booster consisted of 2012 daily flows, discharge and suction pressures, and electric bills for January and July 2012. Water is pumped from the Houghton booster to the Old Vail Tank Booster.

8) Old Vail Tank Booster:
Old Vail Tank is located off of the Old Vail Connection Road south of Houghton Road and Old Vail Road. At the time of this study, the new booster at the Old Vail Tank had not been constructed. To estimate energy costs for this study, a 75 HP electric motor, 215 ft head, and 1000 gpm flow rate were assumed based on data points provided by Tucson Water.

Estimating Direct Energy Costs

As noted above, at the time of this study not all of the facilities used to convey water from the SAVSARP well field to the delivery point in Vail were in operation. Tucson Water provided facility operating criteria which were used to estimate energy use and power costs for these facilities. For the Rauscher, Danforth and Houghton Booster facilities that were in use at the time of this study, Tucson Water provided two months of hourly water meter data (January 2012 and July 2012). For the Kolb Booster, Tucson Water provided one month of hourly water meter data (July 2012). The purpose for investigating two separate months was to determine if there were significant differences in pumping costs in the winter and summer months either due to increased pump use or differences in seasonal energy rates. In addition to meter data, Tucson Water also provided 2012 monthly electric and gas meter/billing data for existing booster stations used in the evaluation. The combination of the meter data and billing data were

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used to calculate unit cost of delivering water to VWC's delivery point. Costs were calculated on a cost per Acre-Foot (AF) of water delivered.

A summary of the unit cost of water delivery is provided in Table 1.

Table 1
Unit Costs for Delivering Recovered CAP Water to Vail Water Company

	January 2012				July 2012			
Water Supply	Volume Pumped (AF)	Billing Amount	Study Rate ($/kwhr)	Unit Delivery Cost ($/AF)	Volume Pumped (AF)	Billing Amount	Study Rate ($/kwhr)	Unit Delivery Cost ($/AF)
SAVSARP Wells	--	--	$0.09186	$60.93	--	--	$0.09060	$60.10
SAVSARP Booster	--	--	$0.0800	$29.36	--	--	$0.08000	$29.36
Snyder Hill Pump Station	not included in study							
Clearwell	not included in study							
Kolb Booster**	**	**	**	$19.18	1,369	$26,261	--	$19.18
Rauscher Booster	485	$2,760	--	$5.69	693	$6,153	--	$8.88
Danforth Booster	254	$5,486	--	$21.59	291	$7,365	--	$25.31
Houghton Booster	83	$3,095	--	$37.34	33	$881	--	$26.80
Old Vail Tank Booster	--	--	$0.0800	$24.30	--	--	$0.08000	$24.30
Total (to Vail Delivery Point)				$198.40				$193.93

**Kolb Booster data for January 2012 not available. Used July 2012 delivery cost ($/AF) for January 2012

Discussion of Data Results

SAVSARP recovery wells and SAVSARP Booster

A review of the SAVSARP recovery wells shows that the modeled well AV-025B running at full capacity will need approximately 2.47 hours to deliver one acre-foot of water based on a TDH of 457.7 feet. The stated efficiency is 0.70. Based on the unit delivery cost of $60.93/AF (Table 1) and using the TRICO IS2 rate, results in a cost of $24.67/hour.

In comparison, the SAVSARP Booster has a design head of 290 feet at 4,400 gpm. The calculated efficiency is 0.805 and will run for approximately 1.23 hours to deliver one acre-foot. This results in a cost of $23.87/hour.

In conclusion, the difference of unit costs shown in Table 1 for SAVSARP recovery wells and SAVSARP Booster are comparable based on the required duty.

Kolb Booster

Flow meter data for Kolb Booster was available for July 2012. All meter data prior to July was determined to be unreliable due to the management of the gas and electric pumps. For the purposes of this study, it was assumed that the July 2012 cost per acre foot be used for January 2012.

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CITY OF TUCSON ARIZONA

The Kolb Booster winter flows will require validation at the end of January 2013.

Houghton Booster

The Houghton Booster has the mechanical ability to pump flows downstream to the Old Vail Tank and to direct flows into F Zone. The meter data does not discriminate between two directions of flow, however, Tucson Water was able to observe pump run-time and related flows in the SCADA data set and determine the quantity of flow for this study.

Providing Future Direct Energy Cost

Based on the evaluation presented in Table 1 the cost of delivering water to Vail Water Company may vary from $198.40 / AF in January to $193.93/ AF in July. Once the complete system is fully functional new data should be included in this evaluation as well as Kolb Booster data included.

The Vail CAP allotment is a monthly delivery based on the allotment divided by 12 months. No peaking factors are assumed. Therefore, based on the assumptions in this study the running average cost to deliver water is $196.17/AF.

CITY OF TUCSON
ARIZONA

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AGREEMENT FOR TRANSFER
OF LONG-TERM STORAGE CREDITS

THIS AGREEMENT is made and entered into effective the 1st day of December, 2013, by and between DEL LAGO GOLF LLC, an Arizona limited liability company (hereinafter "Del Lago") and VAIL WATER COMPANY, an Arizona corporation, (hereinafter "Owner").

WITNESSETH:

1. Transfer of Long Term Storage Credits: In consideration for the transfer to Del Lago of 283.34 acre feet of Owner's long term CAP water storage credits, Del Lago agrees to pay Owner the sum of Forty Two Thousand Six Hundred and Fifty Six Dollars and Eighty-Four Cents ($42,656.84) ($150.55 per acre foot), which sum shall be payable in eleven monthly installments of no less than Three Thousand Five Hundred Fifty Four Dollars and Seventy-Four Cents ($3,554.74), commencing on the 1st day of January 2014 and on the first day of each month thereafter and one payment of no less Three Thousand Five Hundred Fifty Four Dollars and Seventy Cents ($3,554.70) Upon execution of this Agreement by both parties, Owner will file the Long-Term Storage Credit Transfer Form attached hereto as Exhibit "A" and by this reference incorporated herein with the Arizona Department of Water Resources.

2. Reconveyance of Long Term Storage Credits: In the event all of the assets or stock of Del Lago is sold, or Del Lago becomes insolvent, is adjudicated a bankrupt, or is dissolved either voluntarily or involuntarily, Del Lago shall immediately transfer the balance of the long-term storage credits conveyed hereunder back to Owner at the same price per acre foot upon which Del Lago purchased the long-term storage credits from Owner.

3. Regulatory Filings. Upon execution of this Agreement and filing of the Long-Term Storage Credit Transfer Form, Del Lago shall be responsible for all notifications and filings relating to the terms and conditions of this Agreement with any and all regulatory agencies including, but not limited to, the Arizona Department of Water Resources.

4. Assignment. Del Lago may not assign its rights under this Agreement or any interest herein without the prior written consent of Owner.

5. Notices: All notices, demands, elections or other communications required or permitted to be given pursuant to the terms and provisions hereof shall be either personally delivered or deposited in a regularly maintained receptacle of the United States mail, with first class postage prepaid, addressed to the parties as follows:

Owner: Vail Water Company
c/o Christopher T. Volpe
1010 North Finance Center Dr., Suite 200
Tucson, Arizona 85710

Del Lago: Del Lago Golf LLC
c/o Robert Neill
14155 East Via Rancho del Lago
Vail, Arizona 85641

Delivered notices shall be effective upon receipt. Mailed notices shall be effective upon the earlier of (i) actual receipt, or (ii) forty-eight hours after being postmarked in the United States.

6. Entire Agreement: This Agreement states the entire agreement between the parties and merges in this Agreement all statements, representations and covenants heretofore made, and any other agreements not incorporated herein are void and of no force and effect. This Agreement cannot be amended except by a writing executed by the parties.

7. Binding Effect: This Agreement will inure to the benefit of and bind the respective successors and permitted assigns of the parties hereto.

8. Governing Law: This Agreement is to be performed in the State of Arizona and shall be construed and enforced in accordance with the laws and statutes of the State of Arizona.

IN WITNESS WHEREOF, the parties have executed this Agreement effective on the day and year first above written.

"Owner"

VAIL WATER COMPANY

By _____
Christopher T. Volpe, Vice-President

"Del Lago"

DEL LAGO GOLF LLC

By: MDC Arizona Corp., an Illinois corporation, Manager

By _____
Its: President

C:\USERS\M HUGHES.NATWRECKING\APPDATA\LOCAL\MICROSOFT\WINDOWS\TEMPORARY INTERNET FILES\CONTENT.OUTLOOK\UGZ1A1KP\2013 LTSC AGR.DOC

EXHIBIT "A"

EXHIBIT "A"

ARIZONA DEPARTMENT OF WATER RESOURCES
Water Management Division
3550 North Central Ave, Phoenix, Arizona 85012
Telephone (602) 771-8599
Fax (602) 771-8689

LONG-TERM STORAGE CREDIT TRANSFER FORM A.R.S. § 45-854.01

For Official Use Only
DATE RECEIVED: _____

The fee for a Long-Term Storage Credit Transfer is $250.00 per water storage transfer. Only one transaction may be requested per form. Payment may be made by cash, check, or credit card.. Checks should be made payable to the Arizona Department of Water Resources. Failure to enclose the fee will cause the form to be returned. Fees for a Long-Term Credit Transfer are authorized by A.A.C. R12-15-104.

[FOR SELLER]

Vail Water Company
Name of Seller

Kip Volpe 520-571-1958 x7105
Contact Person/Telephone Number

1010 N. Finance Center Dr #200
Mailing Address

Tucson, Az 85710
City/State/Zip

70-411210.00
Long-Term Storage Account No.

72-558092
Facility Permit Number (where source water was stored)

73-558092.0700
Water Storage Permit Number (authority to store source water)

Number of long-term storage credits (in acre-feet) transferred by type(s) of water and year credits were earned.

Type: CAP acre-feet 283.34 year earned 2013

Type: _____ acre-feet _____ year earned _____

[FOR BUYER]

Del Lago Golf
Name of Buyer

Robert Neill
Contact Person/Telephone Number

14155 E. Via Rancho Del Lago Blvd.
Mailing Address

Vail, Az. 85641
City/State/Zip

70-411310.0000
Long-Term Storage Account No. (if any)

If the transfer includes long-term storage credits earned from the storage of Central Arizona Project (CAP) water in an Active Management Area (AMA), please state:

1. The date of Buyer's formation (if Buyer is a legal entity): 11-4-98.

2. The amount of groundwater withdrawn by Buyer in the AMA during the calendar year that the credits were earned: 283.34.

   a. The groundwater right number(s) the Buyer withdrew the groundwater pursuant to: _____

Revised January 2012

Pursuant to A.R.S. § 45-854.01(C), the director of the Arizona Department of Water Resources may reject and invalidate any assignment of long-term storage credits in which the stored water would not have met the requirements for long-term storage credits as prescribed by A.R.S. § 45-852.01 if the assignee had stored the water.

The undersigned hereby certify, under penalty of perjury, that the information contained in this report is, to the best of their knowledge and belief correct and complete and that they are authorized to sign on behalf of the party for whom their signature appears.

1/8/14	By: MDE Arizona Corp, an Illinois corporation, its manager
Authorized Signature for Seller DATE	Authorized Signature for Buyer DATE
Christopher J. Volpe	Sheldon J. Mandell
Vice-President	President
Title	Title

Vail Water Company

14155 E Via Rancho del Lago
P.O. Box 100
Vail, AZ 85641

Invoice

DATE	INVOICE #
12/31/2013	209

BILL TO
Del Lago Golf 14155 E Via Rancho del Lago Vail, AZ 85641

MAIL PAYMENT TO
Vail Water Company 1010 N Finance Center Dr, Ste 200 Tucson, AZ 85710

TERMS
Monthly 2014

ITEM	DESCRIPTION	RATE	QTY	AMOUNT
Recharge Water	Purchase 283.34 AF of CAP recharge water 11 monthly payments of $3,554.74 1 final payment of $3,554.70	150.55	283.34	42,656.84
			Total	$42,656.84

COMPONENT 6

LINE #21

(Average Cost of Long Term Storage Credits)

ADWR Long Term Storage Account Summary

VAIL WATER COMPANY

WSP 73-558092.07 Facility Permit 74-583016.01

			PER UNIT	
Year	AF	COST	COST	COMMENTS
2012				
BEG BALANCE	6,922.30	$ 1,081,027.62	$ 156.17	
WATER ENTERING FACILITY	1,857.00	$ 245,124.00	$ 132.00	GL 174-005
OTHER ACQUISITIONS				
PURCHASED LTSC	-	$ -		GL 174-004
Sub - Total	8,779.30	$ 1,326,151.62	$ 151.05	
ANNUAL RECOVERY	1,189.00	$ 179,603.64	$ 151.05	Per Well consumption report w/o flushing
LTSC RECOVERED		$ -		
LTSC SOLD/LEASED (DLG)	243.00	$ 36,706.21	$ 151.05	
5% CUT TO AQUIFER	33.40			
ENDING BALANCE	7,313.90	$ 1,109,841.77	$ 151.74	
2013				
BEG BALANCE	7,313.90	$ 1,109,842	$ 151.74	
WATER ENTERING FACILITY	1,857.00	$ 265,865	$ 143.17	GL 174-005
5% CUT TO AQUIFER	(32.99)			
OTHER ACQUISITIONS				
PURCHASED LTSC	-	$ -		GL 174-004
Sub - Total	9,137.91	$ 1,375,707	$ 150.55	
ANNUAL RECOVERY	1,197.23	$ 180,242	$ 150.55	Per Well consumption report w/o flushing
LTSC RECOVERED	-	$ -		
LTSC SOLD/LEASED (DLG)	283.34	$ 42,657	$ 150.55	
ENDING BALANCE	7,657.34	$ 1,152,808	$ 150.55	

COMPONENT 7

LINE #27/#31

(2013 ACC Annual Report – see page 12)

VAIL WATER COMPANY, INC.

ARIZONA CORPORATION COMMISSION
UTILITIES DIVISION
ANNUAL REPORT

FOR THE YEAR ENDING
December 31, 2013

LaVoie & Company, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
(520) 322-0966 FAX: 520-881-7392

ARIZONA CORPORATION COMMISSION
UTILITIES DIVISION

ANNUAL REPORT MAILING LABEL – MAKE CHANGES AS NECESSARY

ANNUAL REPORT
Water

FOR YEAR ENDING

12	31	2013

FOR COMMISSION USE

ANN 04	13

COMPANY INFORMATION

Company Name (Business Name) VAIL WATER COMPANY, INC.

Mailing Address 1010 N. FINANCE CENTER DR., #200
(Street)

TUCSON (City) AZ (State) 85710 (Zip)

520-571-1958 Telephone No. (Include Area Code) 520-571-1961 Fax No. (Include Area Code) Cell No. (Include Area Code)

Email Address

Local Office Mailing Address 1010 N. FINANCE CENTER DRIVE, #200
(Street)

TUCSON (City) AZ (State) 85710 (Zip)

520-571-1958 Local Office Telephone No. (Include Area Code) 520-517-1961 Fax No. (Include Area Code) Cell No. (Include Area Code)

Email Address KVOLPE@ESTESCO.NET

MANAGEMENT INFORMATION

☐ **Regulatory Contact:** CHRISTOPHER VOLPE

☐ **Management Contact:** CHRISTOPHER VOLPE (Name) Vice President/Treasurer (Title)

1010 N. FINANCE CENTER DRIVE (Street) TUCSON (City) AZ (State) 85710 (Zip)

520-571-1958 Telephone No (Include Area Code) 520-571-1961 Fax No. (Include Area Code) Cell No (Include Area Code)

Email Address KVOLPE@ESTESCO.NET

On Site Manager: MANNY OROS
(Name)

14155 E. VIA RANCHO DEL LAGO (Street) VAIL (City) AZ (State) 85641 (Zip)

520-647-3679 Telephone No (Include Area Code) 520-647-3825 Fax No. (Include Area Code) 520-730-4730 Cell No (Include Area Code)

Email Address OPERATOR@VAILWATER.COM

Statutory Agent: DAVID MCEVOY
(Name)

4560 E CAMP LOWELL (Street) | TUCSON (City) | AZ (State) | 85712 (Zip)

520-326-0133 (Telephone No (Include Area Code)) | 520-326-5938 (Fax No. (Include Area Code)) | Cell No. (Include Area Code)

Attorney: MICHAEL T. HALLAM LEWIS & ROCA
(Name)

40 N. CENTRAL AVE. (Street) | PHOENIX (City) | AZ (State) | 85004 (Zip)

602-262-5340 (Telephone No (Include Area Code)) | 602-734-3886 (Fax No. (Include Area Code)) | Cell No. (Include Area Code)

Email Address MHALLAM@LRLAW.COM

OWNERSHIP INFORMATION

Check the following box that applies to your company:

- ☐ Sole Proprietor (S)
- ☐ Partnership (P)
- ☐ Bankruptcy (B)
- ☐ Receivership (R)
- ☐ Other (Describe)
- ☐ C Corporation (C) (Other than Association/Co-op)
- ☒ Subchapter S Corporation (Z)
- ☐ Association/Co op (A)
- ☐ Limited Liability Company

COUNTIES SERVED

Check the box below for the county/ies in which you are certificated to provide service:

☐ APACHE	☐ COCHISE	☐ COCONINO
☐ GILA	☐ GRAHAM	☐ GREENLEE
☐ LA PAZ	☐ MARICOPA	☐ MOHAVE
☐ NAVAJO	☒ PIMA	☐ PINAL
☐ SANTA CRUZ	☐ YAVAPAI	☐ YUMA
☐ STATEWIDE		

COMPANY NAME	Vail Water Company	2013

UTILITY PLANT IN SERVICE

Acct. No.	DESCRIPTION	Original Cost (OC)	Accumulated Depreciation (AD)	O.C.L.D. (OC less AD)
301	Organization			-
302	Franchises			-
303	Land and Land Rights	17,750	-	17,750
304	Structures and Improvements	398,007	132,677	265,330
307	Wells and Springs	1,023,243	401,769	621,474
311	Pumping Equipment	1,534,473	597,978	936,495
320	Water Treatment Equipment			-
320.1	Water Treatment Plants			
320.2	Solution Chemical Feeders			
330	Distribution Reserviors and Standpipes	1,590,904	347,914	1,242,990
330.1	Storage Tanks			
330.2	Pressure Tanks			
331	Transmissions and Distribution Mains	14,795,200	3,140,862	11,654,338
333	Services	16,827	12,668	4,159
334	Meters and Meter Installations	975,991	255,589	720,402
335	Hydrants	536,309	118,251	418,058
336	Backflow Prevention Devices	7,901	7,074	827
339	Other Plant and Misc. Equipment	31,854	19,579	12,275
340	Office Furniture and Equipment	30,557	19,182	11,375
340.1	Computers & Software			
341	Transportation Equipment	67,027	48,386	18,641
343	Tools, Shop and Garage Equipment			-
344	Laboratory Equipment			-
345	Power Operated Equipment			-
346	Communication Equipment			-
347	Miscellaneous Equipment			-
348	Other Tangible Plant			-
	TOTALS	21,026,043	5,101,929	15,924,114

This amount goes on the Balance Sheet Acct. No. 108

COMPANY NAME	Vail Water Company	2013

CALCULATION OF DEPRECIATION EXPENSE FOR CURRENT YEAR

Acct. No.	DESCRIPTION	Original Cost (1)	Depreciation Percentage (2)	Depreciation Expense (1 x 2)
301	Organization			
302	Franchises			
303	Land and Land Rights	17,750		-
304	Structures and Improvements	398,007	2.80%	11,144
307	Wells and Springs	1,023,243	3.20%	31,818
311	Pumping Equipment	1,534,473	3.60%	53,869
320	Water Treatment Equipment			
320.1	Water Treatment Plants			
320.2	Solution Chemical Feeders			
330	Distribution Reserviors and Standpipes	1,590,904	2.00%	31,818
330.1	Storage Tanks			
330.2	Pressure Tanks			
331	Transmissions and Distribution Mains	14,795,200	2.00%	288,034
333	Services	16,827	3.30%	144
334	Meters and Meter Installations	975,991	3.60%	34,212
335	Hydrants	536,309	3.60%	18,526
336	Backflow Prevention Devices	7,901	3.60%	284
339	Other Plant and Misc. Equipment	31,854	3.60%	1,066
340	Office Furniture and Equipment	30,557	6.80%	2,063
340.1	Computers & Software			
341	Transportation Equipment	67,027	13.30%	6,014
343	Tools, Shop and Garage Equipment			
344	Laboratory Equipment			
345	Power Operated Equipment			
346	Communication Equipment			
347	Miscellaneous Equipment			
348	Other Tangible Plant			
	TOTALS	21,026,043		478,993

This amount goes on the Comparitive Statement of Income and Expense Acct. No. 403.

COMPANY NAME	Vail Water Company	2013

BALANCE SHEET

Acct. No.	ASSETS	BALANCE AT BEGINNING OF YEAR	BALANCE AT END OF YEAR
	CURRENT AND ACCRUED ASSETS		
131	Cash	$ 498,131	$ 776,738
134	Working Funds		
135	Temporary Cash Investments	3,251,463	3,050,471
141	Customer Accounts Receivable	198,146	222,231
146	Notes/Receivables from Associated Companies		
151	Plant Material and Supplies		
162	Prepayments	1,110,692	1,150,028
174	Miscellaneous Current and Accrued Assets	62,420	62,420
	TOTAL CURRENT AND ACCRUED ASSETS	$ 5,120,852	$ 5,261,888
	FIXED ASSETS		
101	Utility Plant in Service	$ 20,117,507	$ 21,026,043
103	Property Held for Future Use		
105	Construction Work in Progress	121,674	809,762
108	Accumulated Depreciation - Utility Plant	(4,624,475)	(5,101,929)
121	Non-Utility Property	81,050	155,736
122	Accumulated Depreciation - Non Utility	(15,620)	(26,838)
	TOTAL FIXED ASSETS	$ 15,680,136	$ 16,862,774
	TOTAL ASSETS	$ 20,800,988	$ 22,124,662

NOTE: The Assets on this page should be equal to **Total Liabilities and Capital** on the following page.

COMPANY NAME	Vail Water Company	2013

BALANCE SHEET (CONTINUED)

Acct. No.	LIABILITIES	BALANCE AT BEGINNING OF YEAR	BALANCE AT END OF YEAR
	CURRENT LIABILITIES		
231	Accounts Payable	$ 132,283	$ 455,549
232	Notes Payable (Current Portion)		
234	Notes/Accounts Payable to Associated Companies		
235	Customer Deposits	532,816	468,456
236	Accrued Taxes		
237	Accrued Interest		
241	Miscellaneous Current and Accrued Liabilities		
	TOTAL CURRENT LIABILITIES	$ 665,099	$ 924,005
	LONG-TERM DEBT (Over 12 Months)		
224	Long-Term Notes and Bonds		
	DEFERRED CREDITS		
251	Unamortized Premium on Debt	$ -	$ -
252	Advances in Aid of Construction	13,714,593	14,451,588
255	Accumulated Deferred Investment Tax Credits		
271	Contributions in Aid of Construction		
272	Less: Amortization of Contributions		
281	Accumulated Deferred Income Tax		
	TOTAL DEFERRED CREDITS	$ 13,714,593	$ 14,451,588
	TOTAL LIABILITIES	$ 14,379,692	$ 15,375,593
	CAPITAL ACCOUNTS		
201	Common Stock Issued	$ 638,099	$ 638,099
211	Paid in Capital in Excess of Par Value	2,445,314	2,445,314
215	Retained Earnings	3,337,884	3,665,657
218	Proprietary Capital (Sole Props and Partnerships)		
	TOTAL CAPITAL	$ 6,421,297	$ 6,749,070
	TOTAL LIABILITIES AND CAPITAL	$ 20,800,988	$ 22,124,662

COMPANY NAME	Vail Water Company	2013

COMPARATIVE STATEMENT OF INCOME AND EXPENSE

Acct. No.	OPERATING REVENUES	PRIOR YEAR	CURRENT YEAR
461	Metered Water Revenue	$ 2,109,644	$ 2,197,059
460	Unmetered Water Revenue		
474	Other Water Revenues	206,663	247,622
	TOTAL REVENUES	$ 2,316,307	$ 2,444,681
	OPERATING EXPENSES		
601	Salaries and Wages	$ 260,998	$ 271,078
610	Purchased Water		
615	Purchased Power	245,803	249,425
618	Chemicals	1,712	2,293
620	Repairs and Maintenance	28,289	30,158
621	Office Supplies and Expense	72,475	74,561
630	Outside Services	478,487	338,945
635	Water Testing	26,203	6,064
641	Rents	13,893	8,668
650	Transportation Expenses	28,132	24,849
657	Insurance - General Liability	39,718	39,762
659	Insurance - Health and Life	12,609	14,688
666	Regulatory Commission Expense - Rate Case	12,395	12,416
675	Miscellaneous Expense	265,806	261,424
403	Depreciation Expense	477,964	478,993
408	Taxes Other Than Income		
408.11	Property Taxes	118,744	133,237
409	Income Tax		
	TOTAL OPERATING EXPENSES	$ 2,083,228	$ 1,946,561
	OPERATING INCOME/(LOSS)	$ 233,079	$ 498,120
	OTHER INCOME/(EXPENSE)		
419	Interest and Dividend Income	$ 25,801	$ 27,516
421	Non-Utility Income	50,485	94,799
426	Miscellaneous Non-Utility Expenses		
427	Interest Expense	(5,037)	(5,162)
	TOTAL OTHER INCOME/(EXPENSE)	$ 71,249	$ 117,153
	NET INCOME/(LOSS)	$ 304,328	$ 615,273

COMPANY NAME	Vail Water Company	2013

SUPPLEMENTAL FINANCIAL DATA

Long-Term Debt

	LOAN #1	LOAN #2	LOAN #3	LOAN #4
Date Issued				
Source of Loan				
ACC Decision No.				
Reason for Loan				
Dollar Amount Issued	$ -	$ -	$ -	$ -
Amount Outstanding	$ -	$ -	$ -	$ -
Date of Maturity				
Interest Rate	%	%	%	%
Current Year Interest	$ -	$ -	$ -	$ -
Current Year Principal	$ -	$ -	$ -	$ -

Meter Deposit Balance at Test Year End	$ 468,456
Meter Deposits Refunded During the Test Year	$ 151,000

COMPANY NAME	Vail Water Company	2013
Name of System:	ADEQ Public Water System Number:	10-041

WATER COMPANY PLANT DESCRIPTION

WELLS

ADWR ID Number*	Pump Horsepower	Pump Yield (Gpm)	Casing Depth (Feet)	Casing Diameter (Inches)	Meter Size (inches)	Year Drilled
55-625703	100	600	614	12	8	1974
55-087817	200	700	759	14	8	1981
55-087816	300	1200	845	14	10	1981
55-087814	300	975	924	14	8	1981

* Arizona Department of Water Resources Identification Number

OTHER WATER SOURCES

Name or Description	Capacity (gpm)	Gallons Purchased or Obtained (in thousands)
N/A		

BOOSTER PUMPS		FIRE HYDRANTS	
Horsepower	Quantity	Quantity Standard	Quantity Other
10	3	454	
20	6		
25	4		
30	7		
50	2		

STORAGE TANKS		PRESSURE TANKS	
Capacity	Quantity	Capacity	Quantity
600,000	1	5,000	13
550,000	1		
500,000	2		
290,000	1		
100,000	2		

Note: If you are filing for more than one system, please provide separate sheets for each system.

COMPANY NAME	Vail Water Company	2013
Name of System:	ADEQ Public Water System Number:	10-041

WATER COMPANY PLANT DESCRIPTION (CONTINUED)

MAINS

Size (in inches)	Material	Length (in feet)
2	Galvanized	8,456
3		
4	PVC C-900	47,624
5		
6	PVC/Asbestos/Cement	161,227
8	PVC/Asbestos/Cement	169,749
10	PVC/Asbestos/Cement	16,609
12	PVC/Asbestos/Cement	114,237
16	Ductile Iron	1,923

CUSTOMER METERS

Size (in inches)	Quantity
5/8 X 3/4	3,902
3/4	123
1	25
1 1/2	23
2	40
Comp. 3	3
Turbo 3	
Comp. 4	
Turbo 4	
Comp. 6	
Turbo 6	
(TOTAL)	4,116

For the following three items, list the utility owned assets in each category for each system.

TREATMENT EQUIPMENT:

ACCUTAB TABLET PPG CHLORINATION SYSTEM WITH A .02 RESIDUAL OF CALCIUM HYPOCHLORIDE

STRUCTURES:

ADMINISTRATIVE OFFICE 57x35 1,995 SQ FT STEEL BUILDING

OTHER:

N/A

Note: If you are filing for more than one system, please provide separate sheets for each system.

COMPANY NAME	Vail Water Company	2013
Name of System	ADEQ Public Water System Number:	10-041

WATER USE DATA SHEET BY MONTH FOR CALENDER YEAR 2013

MONTH	NUMBER OF CUSTOMERS	GALLONS SOLD (Thousands)	GALLONS PUMPED (Thousands)	GALLONS PURCHASED (Thousands)
JANUARY	3,999	25,242	28,484	0
FEBRUARY	4,011	25,513	28,287	0
MARCH	4,024	22,742	24,656	0
APRIL	4,032	31,153	33,451	0
MAY	4,064	33,262	35,517	0
JUNE	4,068	36,604	38,444	0
JULY	4,087	37,421	39,928	0
AUGUST	4,097	34,436	36,328	0
SEPTEMBER	4,107	30,781	34,101	0
OCTOBER	4,098	29,228	31,351	0
NOVEMBER	4,107	30,894	32,932	0
DECEMBER	4,116	24,593	26,640	0
	TOTALS --->	361,869	390,119	0

What is the level of arsenic for each well in your system.

(If more than one well, please list each separately)

Well 1	n/a	mg/1
Well 2	n/a	mg/1
Well 3	0.0018	mg/1
Well 5	0.0017	mg/1
Well 6	0.0017	mg/1
Well 8	0.0035	mg/1

If system has fire hydrants, what is the fire flow requirement? 1,000 **GPM for** 2 **hrs**

If system has chlorination treatment, does this treatment system chlorinate continuously?

(X) Yes ( ) No

Is the Water Utility located in an ADWR Active Management Area (AMA)?

(X) Yes ( ) No

Does the Company have an ADWR Gallons Per Capita Per Day (GPCPD) requirement?

(X) Yes ( ) No

If yes, provide the GPCPD amount: 98 GPCD

Note: If you are filing for more than one system, please provide separate sheets for each system.

VERIFICATION
AND
SWORN STATEMENT
Taxes

VERIFICATION

STATE OF AZ — COUNTY OF (COUNTY NAME): PIMA

I, THE UNDERSIGNED — NAME (OWNER OR OFFICIAL) TITLE: CHRISTOPHER VOLPE, VP

OF THE — COMPANY NAME: VAIL WATER COMPANY

DO SAY THAT THIS ANNUAL UTILITY PROPERTY TAX AND SALES TAX REPORT TO THE ARIZONA CORPORATION COMMISSION

	MONTH	DAY	YEAR
FOR THE YEAR ENDING	12	31	2013

HAS BEEN PREPARED UNDER MY DIRECTION, FROM THE ORIGINAL BOOKS, PAPERS AND RECORDS OF SAID UTILITY; THAT I HAVE CAREFULLY EXAMINED THE SAME, AND DECLARE THE SAME TO BE A COMPLETE AND CORRECT STATEMENT OF BUSINESS AND AFFAIRS OF SAID UTILITY FOR THE PERIOD COVERED BY THIS REPORT IN RESPECT TO EACH AND EVERY MATTER AND THING SET FORTH, TO THE BEST OF MY KNOWLEDGE, INFORMATION AND BELIEF.

SWORN STATEMENT

I HEREBY ATTEST THAT ALL PROPERTY TAXES FOR SAID COMPANY ARE CURRENT AND PAID IN FULL.

I HEREBY ATTEST THAT ALL SALES TAXES FOR SAID COMPANY ARE CURRENT AND PAID IN FULL.

SIGNATURE OF OWNER OR OFFICIAL

520-571-1958
TELEPHONE NUMER

SUBSCRIBED AND SWORN TO BEFORE ME

A NORTARY PUBLIC IN AND FOR THE COUNTY OF COUNTY NAME: Pima

THIS 5th DAY OF MONTH: March 2014

OFFICIAL SEAL
LISA S. HOSKIN
NOTARY PUBLIC-ARIZONA
PIMA COUNTY
My Comm. Exp. Feb. 29, 2016
(SEAL)

Lisa S Hoskin
SIGNATURE OF NOTARY PUBLIC

MY COMMISSION EXPIRES 2/29/2016

Company Name VAIL WATER COMPANY, INC. **YEAR ENDING 12/31/2013**

INCOME TAXES

For this reporting period, provide the following:

Federal Taxable Income Reported	$0
Estimated or Actual Federal Tax Liability	$0
State Taxable Income Reported	$0
Estimated or Actual State Tax Liability	$0

Amount of Grossed-Up Contributions/Advances:

Amount of Contributions/Advances	N/A
Amount of Gross-Up Tax Collected	N/A
Total Grossed-Up Contributions/Advances	N/A

Decision No. 55774 states, in part, that the utility will refund any excess gross-up funds collected at the close of the tax year when tax returns are completed. Pursuant to this Decision, if gross-up tax refunds are due to any Payer or if any gross-up tax refunds have already been made, attach the following information by Payer: name and amount of contribution/advance, the amount of gross-up tax collected, the amount of refund due to each Payer, and the date the Utility expects to make or has made the refund to the Payer.

CERTIFICATION

The undersigned hereby certifies that the Utility has refunded to Payers all gross-up tax refunds reported in the prior year's annual report. This certification is to be signed by the President or Chief Executive Officer, if a corporation: the managing general partner, if a partnership; the managing member, if a limited liability company or the sole proprietor, if a sole proprietorship.

Christopher T. Volpe	3/5/14
SIGNATURE	**DATE**
Christopher T. Volpe	Vice President
PRINTED NAME	**TITLE**

VERIFICATION
AND
SWORN STATEMENT
Intrastate Revenues Only

VERIFICATION

STATE OF AZ — COUNTY OF (COUNTY NAME): PIMA

I, THE UNDERSIGNED — NAME (OWNER OR OFFICIAL) TITLE: CHRISTOPHER VOLPE, VP

OF THE — COMPANY NAME: VAIL WATER COMPANY

DO SAY THAT THIS ANNUAL UTILITY REPORT TO THE ARIZONA CORPORATION COMMISSION

FOR THE YEAR ENDING — MONTH: 12 DAY: 31 YEAR: 2013

HAS BEEN PREPARED UNDER MY DIRECTION, FROM THE ORIGINAL BOOKS, PAPERS AND RECORDS OF SAID UTILITY; THAT I HAVE CAREFULLY EXAMINED THE SAME, AND DECLARE THE SAME TO BE A COMPLETE AND CORRECT STATEMENT OF BUSINESS AND AFFAIRS OF SAID UTILITY FOR THE PERIOD COVERED BY THIS REPORT IN RESPECT TO EACH AND EVERY MATTER AND THING SET FORTH, TO THE BEST OF MY KNOWLEDGE, INFORMATION AND BELIEF.

SWORN STATEMENT

IN ACCORDANCE WITH THE REQUIREMENT OF TITLE 40, ARTICLE 8, SECTION 40-401, ARIZONA REVISED STATUES, IT IS HEREIN REPORTED THAT THE GROSS OPERATING REVENUE OF SAID UTILITY DERIVED FROM ARIZONA INTRASTATE UTILITY OPERATIONS DURING CALENDER YEAR 2012 WAS:

Arizona Intrastate Gross Operating Revenues Only ($)

$ 2,344,297

(THE AMOUNT IN BOX ABOVE INCLUDES $ 147,238 IN SALES TAX BILLED, OR COLLECTED)

** **REVENUE ON THIS PAGE MUST INCLUDE SALES TAXES BILLED OR COLLECTED. IF FOR ANY OTHER REASON, THE REVENUE REPORTED ABOVE DOES NOT AGREE WITH TOTAL OPERATING REVENUES ELSEWHERE REPORTED, ATTTACH THOSE STATEMENTS THAT RECONCLIE THE DIFFERENCE. (EXPLAIN IN DETAIL)**

SIGNATURE OF OWNER OR OFFICIAL

520-571-1958 x 7105
TELEPHONE NUMBER

SUBSCRIBED AND SWORN TO BEFORE ME

A NORTARY PUBLIC IN AND FOR THE COUNTY OF — COUNTY NAME: Pima

THIS 5th DAY OF — MONTH: March 2014

OFFICIAL SEAL
LISA S. HOSKIN
NOTARY PUBLIC-ARIZONA
PIMA COUNTY
My Comm. Exp. Feb. 29, 2016

MY COMMISSION EXPIRES 2/29/2016

VERIFICATION
AND
SWORN STATEMENT
RESIDENTIAL REVENUE
Intrastate Revenues Only

VERIFICATION

STATE OF ARIZONA — COUNTY OF (COUNTY NAME): PIMA

I, THE UNDERSIGNED — NAME (OWNER OR OFFICIAL): CHRISTOPHER VOLPE — TITLE: VP

OF THE — COMPANY NAME: VAIL WATER COMPANY

DO SAY THAT THIS ANNUAL UTILITY REPORT TO THE ARIZONA CORPORATION COMMISSION

FOR THE YEAR ENDING — MONTH: 12 DAY: 31 YEAR: 2013

HAS BEEN PREPARED UNDER MY DIRECTION, FROM THE ORIGINAL BOOKS, PAPERS AND RECORDS OF SAID UTILITY; THAT I HAVE CAREFULLY EXAMINED THE SAME, AND DECLARE THE SAME TO BE A COMPLETE AND CORRECT STATEMENT OF BUSINESS AND AFFAIRS OF SAID UTILITY FOR THE PERIOD COVERED BY THIS REPORT IN RESPECT TO EACH AND EVERY MATTER AND THING SET FORTH, TO THE BEST OF MY KNOWLEDGE, INFORMATION AND BELIEF.

SWORN STATEMENT

IN ACCORDANCE WITH THE REQUIREMENT OF TITLE 40, ARTICLE 8, SECTION 40-401.01, ARIZONA REVISED STATUES, IT IS HEREIN REPORTED THAT THE GROSS OPERATING REVENUE OF SAID UTILITY DERIVED FROM ARIZONA INTRASTATE UTILITY OPERATIONS RECEIVED FROM RESIDENTIAL CUSTOMERS DURING CALENDER YEAR 2012 WAS:

ARIZONA INTRASTATE GROSS OPERATING REVENUES

$ 1,971,119

THE AMOUNT IN BOX ABOVE AT LEFT

INCLUDES $ 124,687
IN SALES TAX BILLED, OR COLLECTED)

***RESIDENTIAL REVENUE REPORTED ON THIS PAGE MUST INCLUDE SALES TAXES BILLED.**

SIGNATURE OF OWNER OR OFFICIAL

520-571-1958 x7105
TELEPHONE NUMBER

SUBSCRIBED AND SWORN TO BEFORE ME

A NORTARY PUBLIC IN AND FOR THE COUNTY OF

THIS 5th DAY OF

(SEAL)

OFFICIAL SEAL
LISA S. HOSKIN
NOTARY PUBLIC-ARIZONA
PIMA COUNTY
My Comm. Exp. Feb. 29, 2016

MY COMMISSION EXPIRES 2/29/2016

NOTARY PUBLIC NAME: Lisa S. Hoskin

COUNTY NAME: Pima

MONTH: March 2014

Lisa Hoskin
SIGNATURE OF NOTORAY PUBLIC