SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2000

COMMISSION FILE NO.	REGISTRANT AND STATE OF INCORPORATION ADDRESS AND TELEPHONE NUMBER	IRS EMPLOYER IDENTIFICATION NO.
333-47647	American States Water Company (A California corporation) 630 East Foothill Boulevard San Dimas, California 91773-9016 909-394-3600	95-4676679
000-01121	Southern California Water Company (A California corporation) 630 East Foothill Boulevard San Dimas, California 91773-9016 909-394-3600	95-1243678

Securities registered pursuant to Section 12(b) of the Act:

AMERICAN STATES WATER COMPANY COMMON SHARES, $2.50 STATED VALUE	NEW YORK STOCK EXCHANGE
Title of Each Class	Name of Each Exchange On Which Registered

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark whether Registrant has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and has been subject to such filing requirements for the past 90 days.

American States Water Company Yes [X] No [ ]
Southern California Water Company Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K [ ]

The aggregate market value of the total voting stock held by non-affiliates of American States Water Company was approximately $301,654,000 on February 22, 2001. The closing price per Common Share on that date, as quoted in the Western Edition of The Wall Street Journal, was $30.00. Voting Preferred Shares of American States Water Company, for which there is no established market, were valued on February 22, 2001 at $1,764,000 based on a yield of 4.76%. As of February 22, 2001, the number of Common Shares of American States Water Company, $2.50 Stated Value, outstanding was 10,079,629. As of that same date, American States Water Company owned all 100 outstanding Common Shares of Southern California Water Company.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement will be subsequently filed with the Securities and Exchange Commission as to Part III, Item Nos. 10, 11, 12 and 13, in each case as specifically referenced herein.

AMERICAN STATES WATER COMPANY
AND
SOUTHERN CALIFORNIA WATER COMPANY

FORM 10-K

INDEX

ITEM 1. BUSINESS

This annual report on Form 10-K is a combined report being filed by two separate Registrants: American States Water Company (hereinafter "AWR") and Southern California Water Company (hereinafter "SCW"). References in this report to "Registrant" are to AWR and SCW, collectively, unless otherwise specified. SCW makes no representations as to the information contained in this report relating to AWR and its subsidiaries, other than SCW.

GENERAL

AWR, incorporated in 1998, is engaged in the business of holding, for investment, the stock primarily of utility companies. AWR's primary investment is the stock of SCW. SCW is a California public utility company engaged principally in the purchase, production, distribution and sale of water (SIC No. 4941). SCW also distributes electricity in one customer service area (SIC No. 4911). SCW is regulated by the California Public Utilities Commission (CPUC) and was incorporated on December 31, 1929 under the laws of the State of California. SCW is organized into three water service regions and one electric customer service area operating within 75 communities in 10 counties in the State of California and provides water service in 21 customer service areas. Region I incorporates 7 customer service areas in northern and central California; Region II has 4 customer service areas located in Los Angeles; Region III incorporates 10 water customer service areas. SCW also provides electric service to the City of Big Bear Lake and surrounding areas in San Bernardino County through its Bear Valley electric service division.

AWR also owns two other subsidiaries. American States Utility Services, Inc. (ASUS) contracts to lease, operate and maintain water and wastewater systems owned by others and to provide related services, such as billing and meter reading. Chaparral City Water Company (CCWC) is an Arizona public utility company serving approximately 11,000 customers in the town of Fountain Hills, Arizona and a portion of the City of Scottsdale, Arizona (SIC No. 4941). The Arizona Corporation Commission (ACC) regulates CCWC. AWR completed the acquisition of the common stock of CCWC on October 10, 2000 for an aggregate value of $31.2 million, including assumption of approximately $12 million in debt. Neither AWR nor ASUS is regulated by either the CPUC or the ACC.

SCW served 245,174 water customers and 21,484 electric customers at December 31, 2000, or a total of 266,658 customers, compared with 265,267 total customers at December 31, 1999. CCWC served 11,063 water customers as of December 31, 2000. ASUS has approximately 90,000 accounts under contract.

ACQUISITION OF PEERLESS WATER CO.

In December 1999, Registrant agreed to acquire Peerless Water Co., a privately owned water company in Bellflower, California, subject to satisfaction of certain conditions, including CPUC approval. The number of Common Shares to be issued will be determined at the closing, but will in no event be greater than 131,036 shares nor less than 107,538 shares. The transaction, if approved by the CPUC, is anticipated to close during the third quarter of 2001.

COMPETITION

The businesses of SCW and CCWC are substantially free from direct and indirect competition with other public utilities, municipalities and other public agencies. AWR's other subsidiary, ASUS, actively competes with other investor-owned utilities, other third party providers of water and wastewater services, and governmental entities on the basis of price and quality of service.

EMPLOYEE RELATIONS

SCW had 489 employees as of December 31, 2000 as compared to 492 at December 31, 1999. Seventeen positions in SCW's Bear Valley Electric customer service area are covered by a collective bargaining union agreement, which expires in 2002, with the International Brotherhood of Electrical Workers. Fifty-six positions in SCW's Region II ratemaking district are covered by a collective bargaining unit agreement, which expires in 2001, with the Utility Workers of America. SCW has no other unionized employees.

CCWC had 10 employees as of December 31, 2000, all of whom are non-unionized.

ITEM 2 - PROPERTIES

FRANCHISES AND CONDEMNATION OF PROPERTIES

SCW holds franchises from incorporated communities and counties, which it serves. SCW holds certificates of public convenience and necessity granted by the CPUC in each of the ratemaking districts it serves. SCW's certificates, franchises and similar rights are subject to alteration, suspension or repeal by the respective governmental authorities having jurisdiction.

CCWC holds certificates of public convenience and necessity granted by the ACC for the areas in which it serves. CCWC's certificates, franchises and similar rights are subject to alteration, suspension or repeal by the respective governmental authorities having jurisdiction.

The laws of the State of California and the State of Arizona provide for the acquisition of public utility property by governmental agencies through their power of eminent domain, also known as condemnation. Registrant has not been, within the last three years, involved in activities related to the condemnation of any of its water customer service areas or in its Bear Valley Electric customer service area.

ELECTRIC PROPERTIES

SCW's electric properties are all located in the Big Bear area of San Bernardino County in California. As of December 31, 2000, SCW operated 28.7 miles of overhead 34.5 kv transmission lines, 0.6 miles of underground 34.5 kv transmission lines, 173.6 miles of 4.16 kv or 2.4 kv distribution lines, 42.3 miles of underground cable and 14 sub-stations. Neither AWR nor SCW own any generating plants.

OFFICE BUILDINGS

Registrant's general offices are housed in a single-story office building located in San Dimas, California. The land and the building are owned by SCW. SCW also owns and occupies certain facilities housing regional, district and customer service offices while other such facilities are housed in leased premises. CCWC owns its primary office space.

WATER PROPERTIES

As of December 31, 2000, SCW's physical properties consisted of water transmission and distribution systems which included 2,704 miles of pipeline together with services, meters and fire hydrants and approximately 428 parcels of land, generally less than 1 acre each, on which are located wells, pumping plants, reservoirs and other water utility facilities, including five surface water treatment plants.

As of December 31, 2000, SCW owned 276 wells. Certain wells have been removed from service due to water quality problems. See the section entitled "Environmental Matters" in Management's Discussion and Analysis. All wells are equipped with pumps with an aggregate capacity of approximately 203 million gallons per day. SCW has 65 connections to the water distribution facilities of the Metropolitan Water District of Southern California (MWD) and other municipal water agencies. SCW's storage reservoirs and tanks have an aggregate capacity of approximately 103 million gallons. SCW owns no dams in its customer service areas. The following table provides, in greater detail, selected water utility plant of SCW for each of its water ratemaking districts:

	Pumps		Distribution Reservoirs			Facilities	
District	Well	Booster	Mains	Services	Hydrants	Tanks	Capacity
Arden Cordova	27	17	482,640	13,769	1,375	3	4,000
Barstow	22	37	873,310	8,458	1,012	14	8,025
Bay Point	3	12	161,504	4,900	343	7	4,046
Calipatria	0	8	139,180	1,149	84	8	13,241
Claremont	26	35	712,035	10,533	1,179	15	8,082
Clearlake	0	13	193,098	2,073	122	4	883
Desert	18	20	752,671	3,216	577	11	1,475
Los Osos	8	10	201,408	3,191	168	8	1,422
Metro	59	63	4,875,192	98,315	7,855	37	24,411
Ojai	5	11	234,329	2,781	348	5	1,494
Orange	36	38	2,220,903	41,082	4,591	14	11,755
San Dimas	11	38	1,198,261	15,758	865	15	10,149
San Gabriel	20	8	549,435	11,767	788	3	1,520
Santa Maria	31	25	961,851	12,742	777	9	3,076
Simi	2	23	503,642	12,890	874	8	8,250
Wrightwood	8	5	216,809	2,550	76	7	1,546
Total	276	363	14,276,268	245,174	21,034	168	103,375

Capacity is measured in thousands of gallons; Mains are in feet.

As of December 31, 2000, CCWC's physical properties consisted of water transmission and distribution systems, which included 180 miles of pipeline, together with services, meters, fire hydrants, wells, reservoirs with a combined storage capacity of 7.2 million gallons and other water utility facilities including a surface water treatment plant, which treats water from the Central Arizona Project (CAP).

MORTGAGE AND OTHER LIENS

As of December 31, 2000, SCW had no mortgage debt outstanding, and their properties were free of any encumbrances or liens securing indebtedness.

As of December 31, 2000, substantially all of the utility plant of CCWC was pledged to secure its Industrial Development Authority Bonds. The Bond Agreement, among other things, (i) requires CCWC to maintain certain financial ratios, (ii) restricts CCWC's ability to incur debt and make liens, sell, lease or dispose of assets, or merge with another corporation, and (iii) restricts the payment of dividends.

As of December 31, 2000, neither AWR nor ASUS had any debt outstanding.

ITEM 3 - LEGAL PROCEEDINGS

WATER QUALITY-RELATED LITIGATION

SCW is a defendant in fourteen lawsuits involving claims pertaining to water quality. Eleven of the lawsuits involve customer service areas located in Los Angeles County in the southern portion of the State of California; three of the lawsuits involve a customer service area located in Sacramento County in northern California. See the section entitled "Risk Factor Summary" of Management's Discussion and Analysis of Financial Conditions and Results of Operation for more information.

On September 1, 1999, the First District Court of Appeal in San Francisco, in a published opinion entitled Hartwell Corporation v. The Superior Court of Ventura County (Hartwell), held that the CPUC had preemptive jurisdiction over regulated public utilities and ordered dismissal of a series of lawsuits pertaining to water quality filed against water utilities, including SCW. Seven lawsuits against SCW have been ordered for dismissal by the state Court of Appeals -- the Adler (Case No. 1), Santamaria (Case No. 2), Anderson (Case No. 3), Dominguez (Case No. 4), Celi (Case No. 5), Boswell (Case No. 6), and Demciuc (Case No. 7) Matters. On October 11, 1999, one group of plaintiffs

appealed to the California Supreme Court, which has accepted the case. Management is unable to predict the outcome of this proceeding but, in any event, does not anticipate a decision prior to the fourth quarter of 2001.

On December 3, 1998, SCW was named as a defendant in a complaint in multiple counts, styled Abarca, et al. v. City of Pomona, et al. (Case No. 8), filed in Los Angeles Superior Court which seeks recovery for negligence, wrongful death, strict liability, permanent trespass, continuing trespass, continuing nuisance, permanent nuisance, negligence per se, absolute liability for ultrahazardous activity, fraudulent concealment, conspiracy/fraudulent concealment, battery and unfair business practices on behalf of 383 plaintiffs (the Abarca Matter). Plaintiffs seek damages, including general and special damages according to proof, punitive and exemplary damages, as well as attorney's fees, costs of suit and other unspecified relief. SCW was served on June 18, 1999.

SCW was named as a defendant, along with the City of Pomona, California and Xerox Corporation in the matter styled Adejare, et al. v. Southern California Water Company, et al. (Case No. 9), filed on July 22, 1999 in Los Angeles Superior Court which seeks recovery for wrongful death, battery and fraudulent concealment (the Adejare Matter). Plaintiffs seek damages, including general and special damages according to proof, punitive and exemplary damages, as well as attorney's fees, costs of suit and other unspecified relief.

In December 1997 SCW was named a defendant in the matter of Nathaniel Allen, Jr., et al. v. Aerojet-General Corporation, et al. (Case No. 10), which was filed in Sacramento Superior Court. The complaint makes claims based on wrongful death, personal injury, property damage as a result of nuisance and trespass, medical monitoring, and diminution of property values (the Allen Matter). Plaintiffs allege that SCW and other defendants have delivered water to plaintiffs which allegedly is, or has been in the past, contaminated with a number of chemicals, including TCE, PCE, carbon tetrachloride, perchlorate, Freon-113, hexavalent chromium and other, unnamed, chemicals. SCW filed Demurrers and Motion to Strike in this matter on June 5, 1998. A stay of all proceeding in the Allen matter is in effect pending the outcome of the California Supreme Court's proceeding in the Hartwell case.

In March 1998, SCW was named a defendant in the matter of Daphne Adams, et al. v. Aerojet General, et al. (Case No. 11) that was filed in Sacramento Superior Court (the Adams Matter). The complaint makes claims based on negligence, strict liability, trespass, public nuisance, private nuisance, negligence per se, absolute liability for ultrahazardous activity, fraudulent concealment, violation of California Business and Professions Code section 17200 et seq., intentional infliction of emotional distress, intentional spoilage of evidence, negligent destruction of evidence needed for prospective civil litigation, wrongful death and medical monitoring. Plaintiffs seek damages, including general, punitive and exemplary damages, as well as attorney's fees, costs of suit, injunctive and restitutionary relief, disgorged profits and civil penalties, medical monitoring according to proof and other unspecified relief. SCW filed its Demurrers and Motion to Strike in this matter on June 5, 1998. A stay of all proceedings in the Adams Matter is in effect pending the outcome of the California Supreme Court's proceeding in the Hartwell case.

In May 2000, SCW was named a defendant in the matter of Wallace Andrew Pennington, et al. v. Aerojet General, et al. (Case No. 12) that was filed in Sacramento Superior Court (the Pennington Matter). The complaint makes claims based on negligence, intentional infliction of emotional distress, strict liability, public liability for ultra hazardous activity and fraudulent concealment. Plaintiffs allege that SCW and other defendants knowingly operated and maintained wells, which provided contaminated drinking water to the surrounding communities. Plaintiffs seek damages, including general, punitive and exemplary damages, as well as attorney's fees, costs of suit, special damages, according to proof of medical bills and lost wages and lost income as occasioned by personal injury and plaintiff's inability to pursue employment, and other unspecified relief. All counsels in the Pennington matter have agreed to a stay in this matter, pending the outcome of the Hartwell case.

In April 2000, SCW was named a defendant in the matter of Almelia Brooks, et al. v. Suburban Water Sys., et al. (Case No. 13) that was filed in Los Angeles Superior Court which seeks recovery for negligence, wrongful death, strict liability, permanent trespass, continuing trespass, continuing nuisance, permanent nuisance, negligence per se, absolute liability for ultrahazardous activity, fraudulent concealment, conspiracy/fraudulent concealment, battery and unfair business practices on behalf of plaintiffs (the Brooks Matter). Plaintiffs seek damages, including general and special damages according to proof, punitive and exemplary damages, as well as attorney's fees, costs of suit and other unspecified relief. SCW was served in October 2000. Management is unable to predict the outcome of this proceeding.

In August 1999, SCW was named a defendant in the matter of Lori Alexander, et al. v. Suburban Water Sys., et al. (Case No. 14) that was filed in Los Angeles Superior Court which seeks recovery for negligence, wrongful death, strict liability, permanent trespass, continuing trespass, continuing nuisance, permanent nuisance, negligence per se, absolute

liability for ultrahazardous activity, fraudulent concealment, conspiracy/fraudulent concealment, battery and unfair business practices on behalf of plaintiffs (the Alexander Matter). Plaintiffs seek damages, including general and special damages according to proof, punitive and exemplary damages, as well as attorney's fees, costs of suit and other unspecified relief. SCW was served in October 2000. Management is unable to predict the outcome of this proceeding.

In light of the breadth of plaintiffs' claims in these matters, the lack of factual information regarding plaintiffs' claims and injuries, if any, and the fact that no discovery has yet been completed, SCW is unable at this time to determine what, if any, potential liability it may have with respect to these claims. Registrant believes there are no merits to these claims and intends to vigorously defend against them.

SCW is subject to self-insured retention provisions in its applicable insurance policies and has either expensed the self-insured amounts or has reserved against payment of these amounts as appropriate. SCW's various insurance carriers have, to date, provided reimbursement for costs incurred for defense against these lawsuits.

ORDER INSTITUTING INVESTIGATION (OII)

In March 1998, the CPUC issued an OII to regulated water utilities in the state of California, including SCW. The purpose of the OII was to determine whether existing standards and policies regarding drinking water quality adequately protect the public health and whether those standards and policies were being uniformly complied with by those water utilities. On November 2, 2000, a final decision from the CPUC concluded that the Commission has the jurisdiction to regulate the service of water utilities with respect to the health and safety of that service; that DOHS requirements governing drinking water quality adequately protect the public health and safety; and that regulated water utilities, including SCW, have satisfactorily complied with past and present drinking water quality requirements.

On December 26, 2000, SCW filed an Advice Letter with the CPUC seeking recovery of $879,000 in deferred expense incurred during the OII. The CPUC had previously authorized establishment of memorandum accounts to capture such expenses. Management believes that these expenses will be fully recovered but is unable to predict when, or if, the CPUC will authorize recovery of all or any of the costs.

OTHER LITIGATION

On October 25, 1999, SCW filed a lawsuit against the California Central Valley Regional Water Quality Control Board (CRWQCB) alleging that the CRWQCB has willfully allowed portions of the Sacramento County Groundwater Basin to be injected with chemical pollution that is destroying the underground water supply in SCW's Rancho Cordova customer service area. Management cannot predict the likely outcome of this proceeding.

In a separate case, also filed on October 25, 1999, SCW sued Aerojet General Corp. for causing the contamination of the Sacramento County Groundwater Basin. On March 22, 2000 Aerojet General Corp. filed a cross complaint against SCW for negligence and constituting a public nuisance. Registrant is unable to determine at this time what, if any, potential liability it may have with respect to the cross complaint, but intends to vigorously defend itself against these allegations. Management cannot predict the likely outcome of this proceeding.

The CPUC has authorized memorandum accounts to allow for recovery of costs incurred by SCW in prosecuting these cases from customers, less any recovery from the defendants or others. As of December 31, 2000, approximately $2,381,000 has been recorded in the memorandum accounts. SCW filed an Advice Letter on December 26, 2000 for recovery of approximately $1,800,000, in expenses that were incurred on or before August 31, 2000. Management believes that these costs are recoverable although it can give no assurance that the CPUC will ultimately allow recovery of all or any of the costs through rates.

Registrant is also subject to ordinary routine litigation incidental to its business. Other than as disclosed above, no legal proceedings are pending, except such incidental litigation, to which Registrant is a party or of which any of its properties is the subject, which are believed to be material. See Note 8 to the "Notes to Financial Statements".

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted during the fourth quarter of the fiscal year covered by this report to a vote of security holders through the solicitation of proxies or otherwise.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

(a) MARKET INFORMATION RELATING TO COMMON SHARES -

Common Shares of American States Water Company are traded on the New York Stock Exchange (NYSE) under the symbol AWR. The high and low NYSE prices on the Common Shares for each quarter during the past two years were:

	STOCK PRICES	
	HIGH	LOW
2000		
First Quarter	$36.2500	$26.0000
Second Quarter	32.2500	27.8100
Third Quarter	31.7500	25.0000
Fourth Quarter	37.9375	29.1875
1999		
First Quarter	$30.0000	$23.5625
Second Quarter	29.2500	22.1875
Third Quarter	37.1250	28.3750
Fourth Quarter	39.7500	31.7500

(b) APPROXIMATE NUMBER OF HOLDERS OF COMMON SHARES -

As of February 9, 2001, there were 3,495 holders of record of Common Shares of American States Water Company. AWR owns all of the Common Shares of SCW, CCWC and ASUS.

(c) FREQUENCY AND AMOUNT OF ANY DIVIDENDS DECLARED AND DIVIDEND RESTRICTIONS

For the last three years, Registrant has paid dividends on its Common Shares on March 1, June 1, September 1 and December 1. The following table lists the amount of dividends paid on Common Shares of American States Water Company for the last two years:

	2000	1999
First Quarter	$0.320	$0.320
Second Quarter	0.320	0.320
Third Quarter	0.320	0.320
Fourth Quarter	0.325	0.320
Total	$1.285	$1.280

Neither AWR, ASUS nor SCW is subject to any contractual restriction on its ability to pay dividends. CCWC is subject to contractual restrictions on its ability to pay dividends.

ITEM 6. SELECTED FINANCIAL DATA

(in thousand, except per share amounts)	2000	1999	1998	1997	1996
INCOME STATEMENT INFORMATION					
Total Operating Revenues	$ 183,960	$ 173,421	$ 148,060	$ 153,755	$ 151,529
Total Operating Expenses	151,653	144,907	122,999	130,297	128,100
Operating Income	32,307	28,514	25,061	23,458	23,429
Other Income	(99)	532	769	758	531
Interest Charges	14,122	12,945	11,207	10,157	10,500
Net Income	18,086	16,101	14,623	14,059	13,460
Preferred Dividends	86	88	90	92	94
Earnings Available for Common Shareholders	$ 18,000	$ 16,013	$ 14,533	$ 13,967	$ 13,366
Basic Earnings per Common Share	$ 1.92	$ 1.79	$ 1.62	$ 1.56	$ 1.69
Dividends Declared per Common Share	$ 1.29	$ 1.28	$ 1.26	$ 1.25	$ 1.23
Average Shares Outstanding	9,380	8,958	8,858	8,957	7,891
Average Number of Diluted Shares Outstanding	9,411	N/A	N/A	N/A	N/A
Fully Diluted Earnings per Common Share	$ 1.91	N/A	N/A	N/A	N/A
BALANCE SHEET INFORMATION					
Total Assets	$ 616,646	$ 533,181	$ 484,671	$ 457,074	$ 430,922
Common Shareholders' Equity	192,723	158,846	154,299	151,053	146,766
Long-Term Debt	176,452	167,363	120,809	115,286	107,190
Preferred Shares - Not subject to Mandatory	1,600	1,600	1,600	1,600	1,600
Preferred Shares - Mandatory Redemption	320	360	400	440	480
Total Capitalization	$ 371,095	$ 328,169	$ 277,108	$ 268,379	$ 256,036
Book Value per Common Share	$ 19.12	$ 17.73	$ 17.23	$ 16.86	$ 16.52
OTHER INFORMATION					
Ratio of Earnings to Fixed Charges	3.35%	3.27%	3.21%	3.35%	3.26%
Ratio of Earnings to Total Fixed Charges	3.31%	3.23%	3.17%	3.30%	3.21%
Return on Average Common Equity	10.5%	10.2%	9.6%	9.5%	10.7%

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

Unless specifically noted, the following discussion and analysis provides information on AWR's consolidated operations and assets. For the twelve months ended December 31, 2000, there is no material difference between the consolidated operations and assets of AWR and the operations and assets of SCW.

FORWARD-LOOKING INFORMATION

Certain matters discussed in this report (including the documents incorporated herein by reference) are forward-looking statements intended to qualify for the "safe harbor" from liability established by the Private Securities Litigation Reform Act of 1995. These forward-looking statements can generally be identified as such because the context of the statement will include words such as Registrant "believes," "anticipates," "expects" or words of similar import. Similarly, statements that describe Registrant's future plans, objectives, estimates or goals are also forward-looking statements. Such statements address future events and conditions concerning capital expenditures, earnings, litigation, rates, water quality and other regulatory matters, adequacy of water supplies, the California energy crisis, liquidity and capital resources, opportunities related to operations and maintenance of water systems owned by governmental entities and other utilities and providing related services, and accounting matters. Actual results in each case could differ materially from those currently anticipated in such statements, by reason of factors such as utility restructuring, including ongoing local, state and federal activities; future economic conditions, including changes in customer demand and changes in water and energy supply cost; future climatic conditions; and legislative, regulatory and other circumstances affecting anticipated revenues and costs.

RESULTS OF OPERATIONS

YEARS ENDED DECEMBER 31, 2000 AND 1999

Basic earnings per common share in 2000 increased by 7.3% to $1.92 per share as compared to $1.79 per share for the comparable period of 1999. The increase in the recorded results primarily reflects higher revenues at SCW during 2000, as is more fully discussed below. For the year ended December 31, 2000, fully diluted earnings were $1.91 per share. Registrant had no dilutive shares outstanding in 1999.

Water operating revenues increased by 5.7% in 2000 to $168.8 million from the $159.7 million reported in 1999. The increase was due to three factors (i) a 3.0% increase in water sales to customers of SCW, (ii) increased water rates authorized by the CPUC for certain of SCW's water customers, and (iii) additional sales from CCWC. New rates in four customer service areas and implementation of regional rates in the customer service areas that comprise SCW's Region III were effective June 27, 2000. Additional increases in 2000 reflected the general rate case step and attrition increases for a number of SCW's ratemaking areas effective 2000. See the section entitled "Regulatory Matters" for more information.

Electric operating revenues of $14.4 million were 7.7% higher in 2000 as compared to 1999 due to a 6.8% increase in kilowatt-hour sales, primarily by residential and industrial customers.

Other revenues rose from $390,000 in 1999 to $799,000 in 2000 due to higher management fees from increased non-regulated activities with existing contracts of Registrant's ASUS unit.

Purchased water costs in 2000 increased by 15.2% to $41.6 million as compared to $36.1 million in 1999 due to a 9.6% increase in volumes purchased. The increase was also affected by a total of $1.6 million in refunds from the Water Replenishment District of Southern California (WRD) received during 1999. There were no similar refunds received in 2000.

Costs of power purchased for resale to customers in SCW's Bear Valley Electric division in 2000 increased by 50.7% to $10.7 million from the $7.1 million recorded in 1999 due primarily to significant increases in wholesale market prices for energy in the state of California. Most of this increase has been included in the electric supply cost balancing account that, as described below, partially insulates earnings from the effects of the significantly increased power costs, unless recovery of these costs is disallowed. Due to the nature of the regulatory process, there is a risk of disallowance of full recovery of costs or additional delays in the recovery of costs during any period in which there has been a substantial run-up in costs. See the sections entitled "Regulatory Matters" and "Electric Energy Situation in California" for more information.

Costs of power purchased for pumping increased slightly by 1.6% to $7.5 million in 2000 as compared to $7.4 million recorded in 1999, chiefly as a result of an increase in energy costs, the effect of which was partially offset by a decrease in pumped groundwater in SCW's water supply mix.

Groundwater production assessments increased by 4.2% to $7.5 million in 2000 from $7.2 million in 1999 due primarily to increased costs for excess pumping in SCW's San Gabriel and San Dimas customer service areas to meet summer demands.

A negative entry for the provision for supply cost balancing accounts reflects an under-collection of previously incurred supply costs. Conversely, a positive entry for the provision for supply cost balancing accounts reflects recovery of previously under-collected supply costs. SCW has a higher net under-collected position in 2000 than in 1999 reflecting the increased energy costs in SCW's Bear Valley electric service area, the aggregate effect of which was partially offset by new water rates effective during 2000, authorized to collect previously incurred supply costs in SCW's various water customer service areas, as well as the WRD refunds during 1999 as discussed previously. See the section entitled "Regulatory Matters" for more information.

The balancing account mechanism insulates earnings from changes in the unit cost of supply costs, which are outside of the immediate control of SCW. However, the balancing account is not designed to insulate earnings against changes in the actual water supply mix as compared to that mix authorized for recovery in rates. In 2000, SCW's overall water supply mix improved slightly over that mix authorized in rates due to additional well production capability coming on-line during the year. There is no assurance that the favorable mix can be sustained in future periods since actual

results are affected by availability and quality of water, both purchased and produced from SCW's wells. See the section entitled "Water Supply" for more information.

Other operating expenses increased by 7.4% from the $15.6 million recorded in 1999 reflecting increased costs for water treatment, and increased labor and billing costs due to additional billing and customer service contracts obtained by ASUS.

Administrative and general expenses decreased by 8.7% to $26.1 million in 2000 from $28.6 million recorded in 1999. The decrease is due primarily to booking reduced reserves for litigation in 2000 and a reduction in pension expenses. See the section entitled "Legal Proceedings" in Part I for more information.

Depreciation expense in 2000 increased by 11.7% to $15.3 million reflecting the effects of recording approximately $50 million in net plant additions during 1999, depreciation on which began in 2000.

Maintenance expense increased to $10.3 million in 2000 compared to the recorded $9.8 million in 1999 due principally to increased maintenance on SCW's water supply sources and maintenance of water mains.

Taxes on income increased by approximately 13.5% to $15.1 million in 2000 as compared to the $13.3 million in 1999 due primarily to a 15.2% increase in pre-tax income, the effect of which was partially offset by slightly lower effective tax rate.

Property and other tax expense increased by 7.6% in 2000 to $7.1 million due to higher property valuation, increased franchise fees associated with higher revenues, and increased payroll taxes due to increased labor costs.

The loss of $99,000 in other income recorded for 2000 is related to the effect of recording amortization and interest expenses, starting January 2000, on SCW's entitlement in the State Water Project. See Note 8 of the "Notes to Financial Statements" for more information.

In 2000, interest expense increased by 9.3% to $14.1 million from the $12.9 million recorded in 1999 due to additional short-term borrowing at higher rates, incurred by SCW to temporarily fund its capital expenditures.

RESULTS OF OPERATIONS

YEARS ENDED DECEMBER 31, 1999 AND 1998

Basic earnings per Common Share in 1999 increased by 10.5% to $1.79 per share as compared to $1.62 per share for the comparable period of 1998. Registrant had no dilutive securities outstanding during 1998 and 1999, therefore basic and fully diluted earnings per share are the same. The increase in the recorded results primarily reflects higher revenues at SCW during 1999 as is more fully discussed below.

Water operating revenues increased by 18.5% in 1999 to $159.7 million from the $134.8 million reported in 1998. Water sales volumes in 1999 were 9.0% higher than 1998 due primarily to the much drier and warmer weather conditions throughout Southern California in 1999 than in 1998. Additional increases in revenues were due to the general rate increases in six of SCW's customer service areas effective January 1, 1999, which were applicable to 65% of SCW's water customers.

Electric operating revenues of $13.3 million were 1.0% higher in 1999 as compared to 1998 due to a 1.3% increase in kilowatt-hour sales, primarily by industrial power users. The sales increase was partially offset by the lower billing rates of industrial customers relative to residential customers.

Other revenues increased from $65,000 to $390,000 in 1999 due to increased management fees resulting from new ASUS service contracts established in the year and increased activities with existing contracts.

Purchased water costs in 1999 increased to $36.1 million as compared to $30.8 million in 1998 due to a 12.1% increase in volumes purchased. The increase also reflects reduced reimbursements in 1999 from potentially responsible parties related to groundwater contamination in SCW's Culver City customer service area of approximately $570,000, compared with reimbursements of $1.7 million in 1998.

Costs of power purchased for resale in 1999 to customers in SCW's Bear Valley Electric division increased by 42.0% to $7.1 million from the $5.0 million recorded in 1998 due primarily to additional energy demand charges from the energy supplier serving SCW's Bear Valley Electric Service unit in 1999. Most of this increase has been included in the electric supply cost balancing account that, as described below, partially insulates earnings from the effects of the significantly increased power costs, unless recovery of costs is disallowed. Due to the nature of the regulatory process, there is a risk of disallowance of full recovery of costs or additional delays in the recovery of costs during any period in which there has been a substantial run-up in costs. See the sections entitled "Regulatory Matters" and "Electric Energy Situation in California" for more information.

Costs of power purchased for pumping increased by 5.5% to $7.4 million in 1999 chiefly as a result of an increase in pumped groundwater in SCW's water supply mix due to increased sales volumes.

Groundwater production assessments decreased by 5.3% to $7.2 million in 1999 from $7.6 million in 1998 due to reduced quantity rates in SCW's Metropolitan and San Dimas customer service areas.

A positive entry for the provision for supply cost balancing accounts reflects recovery of previously under-collected supply costs. Conversely, a negative entry for the provision for supply cost balancing accounts reflects an under-collection of previously incurred supply costs. In 1999, recovery of previously under-collected supply costs was lower than 1998 due to the previously discussed increase in energy demand charges, the effect of which was partially offset by new rates effective January 1999 authorized to implement new supply costs and to increase collection of previously under-collected costs.

The balancing account mechanism insulates earnings from changes in the unit cost of supply costs that are outside of the immediate control of SCW. However, the balancing account is not designed to insulate earnings against changes in the actual water supply mix for water operation as compared to that mix authorized for recovery in rates. In 1999, SCW's overall water supply mix improved favorably over that mix authorized in rates resulting in additional income. There is no assurance that the favorable mix can be sustained in future periods since actual results are affected by availability and quality of water, both purchased and produced from SCW's wells.

Other operating expenses increased by 7.8% from the $14.5 million recorded in 1998 due to increased costs for water treatment, and higher uncollectible provisions as a result of increased revenues.

Administrative and general expenses increased by 30.0% to $28.6 million in 1999 from the $22.0 million recorded in 1998. The increase is due to costs associated with various acquisition projects, increased employee benefit costs, and additional amounts reserved for certain legal proceedings.

In 1999, maintenance expense increased to the $9.8 million level compared to the recorded $7.3 million in 1998 due principally to increased maintenance on Registrant's water supply sources, and costs incurred on main replacements. The wet weather conditions during the first part of 1998 also hampered planned maintenance activities, thereby reducing maintenance expense in 1998.

Depreciation expense in 1999 increased by 8.9% to $13.7 million reflecting the effects of recording approximately $38.2 million in net plant additions during 1998, depreciation on which began in 1999.

Taxes on income increased by approximately 31.7% to $13.3 million in 1999 as compared to the $10.1 million in 1998 due to a 24.5% increase in pre-tax income and a higher effective tax rate in 1999 resulting from the turn-around of depreciation related temporary differences, the benefits of which were previously flowed-through for ratemaking purposes.

Property and other taxes increased by 7.2% in 1999 to $6.6 million due primarily to increased franchise fees resulting from higher revenues, and increased payroll taxes from higher wages and additional personnel.

Other income decreased by 30.8% in 1999 due primarily to the flow-through of tax benefits related to refinancing of long-term debt in December 1998 for which there were no similar benefits in 1999.

Interest expense increased by 15.5% to $12.9 million primarily due to the issuance of $40 million in long-term debt in January 1999, partially offset by the retirement of $10 million of 10.10% Notes in December 1998.

LIQUIDITY AND CAPITAL RESOURCES

AWR funds its operating expenses and pays dividends on its outstanding Common and Preferred Shares principally through dividends from SCW. AWR has a Registration Statement on file with the Securities and Exchange Commission (SEC) for issuance, from time to time, of up to $60 million in Common Shares, Preferred Shares and/or debt securities. On August 16, 2000, AWR issued 1,107,000 Common Shares at $26.125 per share under this Registration Statement. Net proceeds from the offering have been used to fund a portion of the purchase price of CCWC and will be invested in SCW. As of December 31, 2000, approximately $31,074,000 remained for issuance under this Registration Statement. AWR completed the acquisition of the common stock of CCWC on October 10, 2000 for an aggregate value of $31.2 million, including assumption of approximately $12 million in debt.

AWR maintains a revolving credit facility with a $25 million aggregate borrowing capacity. At December 31, 2000, no amount was outstanding under this facility.

SCW funds the majority of its operating expenses, payments on its debt, and dividends on its outstanding Common Shares through internal sources. Internal sources of cash flow are provided primarily by retention of a portion of earnings, amortization of deferred charges, and depreciation expense. Internal cash generation is influenced by factors such as weather patterns, environmental regulation, litigation, changes in supply costs, and timing of rate relief. See the sections entitled "Risk Factors" and "Electric Energy Situation in California" for more information.

Because of the seasonal nature of its water and electric operations, SCW utilizes its short-term borrowing capacity to finance current operating expenses, including the expenses for its Bear Valley Electric customer service area. See the section entitled "Electric Energy Situation in California" for more information. The aggregate short-term borrowing capacity available to SCW under its three bank lines of credit was $60 million as of December 31, 2000, of which a total of $45 million was then outstanding. SCW routinely employs short-term bank borrowing as an interim-financing source prior to funding capital expenditures on a long-term basis as previously discussed.

SCW also relies on external sources, including equity investments from AWR, long-term debt, contributions-in-aid-of-construction, advances for construction and install-and-convey advances, to fund the majority of its construction expenditures. At December 31, 2000, $20 million was available for issuance by SCW as long-term debt under a Registration Statement filed in 1998. In January 2001, SCW issued the remaining $20 million of long-term debt with the proceeds used to reduce bank borrowing. During 2001, SCW anticipates filing a Registration Statement with the SEC for issuance, from time to time, of additional debt securities.

CCWC funds the majority of its operating expenses, payments on its debt and dividends, if any, through internal sources. CCWC also relies on external sources, including long-term debt, contributions-in-aid-of-construction, advances for construction and install-and-convey advances, to fund the majority of its construction expenditures.

ASUS funds its operating expenses primarily through contractual management fees.

ELECTRIC ENERGY SITUATION IN CALIFORNIA

The electric energy environment in California has changed as a result of the December 1995 CPUC decision on restructuring of California's electric utility industry and state legislation passed in 1996. On September 23, 1996, the State of California enacted legislation, California Assembly Bill 1890 as amended by California Senate Bill 477, to provide a transition to a competitive market structure, which was expected to provide competition and customer choice, beginning January 1, 1998, with all consumers ultimately participating by 2002. SCW's Bear Valley electric customer service area was exempted by the CPUC from compliance with most of the provisions of the CPUC order and the state legislation.

On January 17, 2001, the Governor of the State of California proclaimed a state of emergency in California due to shortages of electricity available to certain of California's utilities resulting in blackouts, the unanticipated and dramatic increases in electricity prices and the insufficiency of electricity available from certain of California's utilities to prevent disruption of electric service in California. The reasons for the high cost of energy are under investigation but are reported to include, among other things, limited supply caused by a lack of investment in new power plants to meet growth in demand, planned and unplanned outages of power plants, lower than usual availability of hydroelectric power from the Pacific Northwest due to lower than usual precipitation and higher demand for electricity in the region,

transmission line constraints and increased prices for natural gas, the fuel used in many of the power plants serving the region.

Legislation has been enacted and executive orders issued designed to encourage and accelerate the construction of additional power plants and the repowering and updating of existing power plants to increase the supply of electricity in the State. A number of investigations have also been instituted as to the causes of the California energy situation and numerous pieces of legislation have been introduced at the California Legislature to deal with different aspects of the situation. The long-term impact of these legislative initiatives on SCW's Bear Valley Electric division is difficult to predict. For the short-term, however, management expects energy costs to remain high and to continue to be volatile.

All electric energy sold by SCW to customers in its Bear Valley Electric customer service area is purchased from others. Historically, SCW purchased electric energy from the Southern California Edison (SCE) unit of Edison International. However, in order to keep electric power costs as low as possible, SCW entered into an energy brokerage contract with Sempra Energy Corporation (Sempra). SCW purchased electric energy for its Bear Valley electric service division from Sempra during the period beginning March 26, 1996 through April 30, 1999. SCW changed energy brokers to Illinova Energy Partners (Illinova) beginning May 1, 1999 through April 30, 2000, and with Dynegy Power Marketing, Inc. (Dynegy) since May 1, 2000. The change to Dynegy is a result of the merger between Dynegy and Illinova.

In response to the potential for rising electricity costs, in May 2000, SCW entered into a one-year, block forward purchase contract with Dynegy for 12 megawatts (MW's) of electric energy for its Bear Valley electric service division at a price of $35.50 per MW. This contract expires April 30, 2001. Dynegy also procured electric energy requirements above the 12 MW forward purchase contract. The average minimum load at SCW's Bear Valley electric service division has been approximately 12 MW. The average winter load has been 18 MW with a winter peak of 30 MW when the snowmaking machines at the ski resorts are operating.

Electric energy prices in California have risen rather steadily since the passage of the CPUC's electric restructuring decision, although the rate of increase in cost has accelerated in recent months. During 1999, SCW incurred approximately $2.5 million more in electric energy costs than were included in current rates for electric service. During 2000, an additional $5.7 million was incurred. As of December 31, 2000, SCW had approximately $8.6 million of under-collected electric energy costs included in the electric balancing account.

In May 2000, SCW filed an Advice Letter with the CPUC for recovery of approximately $2.4 million in then under-collected power costs over a five-year period. The CPUC has not yet issued a decision in that filing. SCW will file another Advice Letter for recovery of the additional under-collected amount as well as adjustment in base rates to recover over two years estimated electric power costs on a current basis. Management believes that the recovery of these amounts is probable but is unable to predict when, or if, the CPUC will authorize recovery of all or any of these expenses. See the section entitled "Regulatory Matters" for more information.

In January 2001, SCW filed Advice Letters to increase the costs of purchased power included in base water rates for each of its ratemaking districts. These filings resulted from the 10% increase in electric rates that Southern California Edison and Pacific Gas & Electric Company were authorized to implement by the CPUC. Management believes that these filings will be approved but is unable to predict when, or if, the CPUC will authorize recovery of all or any of these expenses. See the section entitled "Regulatory Matters" for more information.

In a continuing effort to control the escalation of electric energy costs for SCW's Bear Valley Electric division, SCW is considering a number of options including (i) renegotiation of the block forward purchase of electric energy, (ii) purchase of electric energy from on-site generation facilities installed by a third party and (iii) use of portable generation to avoid peak energy prices. Each of these options is expected to result in increased electric energy prices for customers of SCW's Bear Valley Electric division. Management believes that these solutions in whole or in part represent significant savings for customers relative to reliance on spot purchases in the open market. Management further believes that costs incurred are recoverable from customers although it can give no assurance that the CPUC will ultimately allow recovery of all or any of the costs through rates.

CONSTRUCTION PROGRAM

SCW maintains an ongoing distribution main replacement program throughout its customer service areas, based on the priority of leaks detected, fire protection enhancement and a reflection of the underlying replacement schedule. In addition, SCW upgrades its electric and water supply facilities in accordance with industry standards, local requirements and

CPUC requirements. SCW's Board of Directors has approved anticipated net capital expenditures of approximately $50.4 million for 2001. Of this amount, approximately $13 million is subject to CPUC approval of an advice letter filing. Absent such approval, this amount would be included in the next general rate case filing for SCW's Region II.

AWR, CCWC and ASUS have no material capital commitments. However, ASUS actively seeks opportunities to own, lease or operate water and wastewater systems for governmental entities, which may involve significant capital commitments.

REGULATORY MATTERS

SCW is subject to regulation by the CPUC, which has broad powers with respect to service and facilities, rates, classifications of accounts, valuation of properties, the purchase, disposition and mortgaging of properties necessary or useful in rendering public utility service, the issuance of securities, the granting of certificates of convenience and necessity as to the extension of services and facilities and various other matters. CCWC is subject to regulation by the ACC.

Rates that SCW and CCWC are authorized to charge are determined by the CPUC and the ACC, respectively, in general rate cases and are derived using rate base, cost of service and cost of capital, as projected for a future test year in California and using an historical test year, as adjusted in Arizona. Rates charged to customers vary according to customer class and rate jurisdiction and are generally set at levels allowing for all prudently incurred costs, including a return on rate base sufficient to pay principal and interest on debt securities, preferred stock distributions and a reasonable rate of return on equity. Rate base generally consists of the original cost of utility plant in service, plus certain other assets, such as working capital and inventory, less accumulated depreciation on utility plant in service, deferred income tax liabilities and certain other deductions. Balancing account adjustments for purchased water and power are permitted in California, but generally not Arizona.

Neither AWR nor ASUS are regulated by the CPUC. The CPUC does, however, regulate certain transactions between SCW and its affiliates. The ACC also regulates certain transactions between CCWC and its affiliates.

The 22 customer service areas (CSAs) of SCW are grouped into 9 water districts and 1 electric district for ratemaking purposes. Water rates vary among the 9 ratemaking districts due to differences in operating conditions and costs. SCW monitors operations on a regional basis in each of these districts so that applications for rate changes may be filed, when warranted. Under the CPUC's practices, rates may be increased by three methods: general rate case increases (GRC's), offsets for certain expense increases and advice letter filings related to certain plant additions and other operating cost increases GRC's are typically for three-year periods, which include step increases for the second and third year. Rates are based on a forecast of expenses and capital costs. GRC's have a typical regulatory lag of one year. Offset rate increases typically have a two to four month regulatory lag. The following table lists information on estimated annual rate changes during 2000, 1999, and 1998.

($ in 000's) Year	Supply Cost Offset	Balancing Account Amortization	General and Step Increases	Advice Letters	Total
2000	$ 0	$(1,474)	$ 6,973	$ 1,040	$ 6,539
1999	$ 23	$ 1,349	$15,175	$ 657	$17,204
1998	$ 786	$(2,852)	$ 3,590	$ 713	$ 2,237

GRC step increase for SCW's Region II and General Office Allocation step increases for the Arden-Cordova, Bay Point, Simi Valley and Santa Maria CSAs were effective beginning January, 2000. Step increase for Ojai became effective April 23, 2000. Attrition increases for Arden-Cordova and Bay Point CSAs were also in effect beginning January 2000.

Effective June 27, 2000, SCW was authorized by the CPUC to implement new increased rates for four water ratemaking districts in SCW's Region III and to combine tariff schedules into regional rates for the customer service areas that make up SCW's Region III. Despite the delay in obtaining CPUC approval of these rates, which resulted in a loss of approximately $1.4 million in revenues for the six months ended June 30, 2000, the new rates generated approximately $2.5 million in additional revenues during the third and fourth quarters of 2000.

New water rates with an annual increase of approximately $2.5 million for seven ratemaking districts in SCW's Region I were implemented in January 2001. SCW's application to combine the seven ratemaking CSAs into one regional rate was, however, denied by the CPUC. Step increases of approximately $1.7 million for CSAs in SCW's Region III were also effective in January 2001. An attrition increase of approximately $2.8 million for Region II was in effect from February 2001.

A CPUC Order authorizing SCW to increase rates by $830,000 per year went in effect on October 24, 2000 for recovery of capital expenditures associated with Y2K readiness, not already included in Registrant's water rates. See the section entitled "Year 2000 Issue" for more information.

In October 2000, the CPUC approved SCW's application to provide water and wastewater services to a new housing development located in Orange County, California.

An advice letter seeking recovery of approximately $2.4 million in under-collected supply costs for SCW's Bear Valley Electric service area has been filed with the CPUC. SCW has also filed for recovery of increased costs of electric power incurred to pump water for its water customers. See the section entitled "Electric Energy Situation in California" for more information.

On July 6, 2000, the CPUC concluded its Order Instituting Rulemaking on its own motion to set rules and to provide guidelines for privatization and excess capacity as it relates to investor owned water companies, including Registrant. The CPUC's order establishes a mechanism for sharing gross revenues, after pass-through of certain expenses, between customers of SCW and shareholders of Registrant. The order also requires water utilities, including Registrant, to file an advice letter with the CPUC for approval of services that utilize, in whole or in part, assets or employees reflected in the utility's revenue requirements.

Hearings before the CPUC have concluded on SCW's application to include an additional $1.6 million in rate base for a water treatment facility in SCW's Clearlake service area. In 1993, the CPUC disallowed the entire $1.6 million and Registrant wrote off the entire amount. SCW's application demonstrated that the previously disallowed portion of the treatment plant is now fully "used and useful" and is providing service to customers. A decision on the Company's application is anticipated during the second quarter of 2001, which could result in $1.6 million write-up. Recovery of the costs associated with the plant was included in the general rate increase application for SCW's Clearlake service area.

On April 22, 1999, the CPUC issued an order denying SCW's application seeking approval of its recovery through rates of costs associated with its participation in the Coastal Aqueduct Extension of the State Water Project (SWP). SCW's participation in the SWP commits it to a 40-year entitlement. SCW's investment of approximately $9.5 million in SWP is currently included in Other Property and Investments. The remaining balance of the related liability of approximately $7 million is recorded as other long-term debt. SCW intends to recover its investment in SWP either through contributions from developers on a per-lot or other basis, or from the sale of its 500 acre-foot entitlement in SWP.

On November 2, 2000, a final decision from the CPUC concluded that the CPUC has the authority to regulate the service of water utilities with respect to the health and safety of that service; that the Department of Health Services of the State of California (DOHS) requirements governing drinking water quality adequately protect the public health and safety; and that regulated water utilities, including SCW, have satisfactorily complied with past and present drinking water quality requirements. SCW has filed for recovery of $879,000 in expenses associated with this matter. Management believes that these costs are recoverable although it can give no assurance that the CPUC will ultimately allow recovery of all or any of the costs through rates. See the section entitled "Legal Proceedings" in Part I for more information.

On December 26, 2000, SCW filed an Advice Letter with the CPUC, in accordance with a prior CPUC resolution authorizing such a filing, seeking recovery of approximately $1,800,000 in expenses associated with its lawsuits against Aerojet General Corporation and the Department of Water Resources of the State of California. SCW believes that the recovery of these costs are probable although it can give no assurance that the CPUC will ultimately allow recovery of all or any of the costs through rates. See the section entitled "Legal Proceedings" in Part I for more information.

On January 26, 2001, the CPUC Staff, SCW and Peerless Water Co., a privately owned water company in Bellflower, California, signed a Settlement Agreement, which recommends approval of the proposed acquisition by SCW of Peerless. A final decision from the CPUC is anticipated by the second quarter of 2001.

There are no active regulatory proceedings affecting CCWC or its operations.

ENVIRONMENTAL MATTERS

1996 Amendments to Federal Safe Drinking Water Act

On August 6, 1996, amendments (the 1996 SDWA amendments) to the Safe Drinking Water Act (the SDWA) were signed into law. The 1996 SDWA revised the 1986 amendments to the SDWA with a new process for selecting and regulating contaminants. The U. S. Environmental Protection Agency (EPA) can only regulate contaminants that may have adverse health effects, are known or likely to occur at levels of public health concern, and the regulation of which will provide "a meaningful opportunity for health risk reduction." The EPA has published a list of contaminants for possible regulation and must update that list every five years. In addition, every five years, the EPA must select at least five contaminants on that list and determine whether to regulate them. The new law allows the EPA to bypass the selection process and adopt interim regulations for contaminants in order to address urgent health threats. Current regulations, however, remain in place and are not subject to the new standard-setting provisions. The DOHS, acting on behalf of the EPA, administers the EPA's program in California.

The 1996 SDWA amendments allow the EPA for the first time to base primary drinking water regulations on risk assessment and cost/benefit considerations and on minimizing overall risk. The EPA must base regulations on best available, peer-reviewed science and data from best available methods. For proposed regulations that involve the setting of maximum contaminant levels (MCL's), the EPA must use, and seek public comment on, an analysis of quantifiable and non-quantifiable risk-reduction benefits and cost for each such MCL.

SCW and CCWC currently test their wells and water systems according to requirements listed in the SDWA. Water from wells found to contain levels of contaminants above the established MCL's is treated to reduce contaminants to acceptable levels before it is delivered to customers.

Since the SDWA became effective, SCW has experienced increased operating costs for testing to determine the levels, if any, of the constituents in SCW's sources of supply and additional expense to lower the level of any contaminants in order to meet the MCL standards. Such costs and the costs of controlling any other contaminants may cause SCW to experience additional capital costs as well as increased operating costs.

AWR is currently unable to predict the ultimate impact that the 1996 SDWA amendments might have on the financial position or results of operation of its regulated utility subsidiaries. The CPUC and ACC ratemaking processes provide SCW and CCWC with the opportunity to recover prudently incurred capital and operating costs associated with water quality. Management believes that such incurred costs will be authorized for recovery by the CPUC and ACC, as appropriate.

Proposed Enhanced Surface Water Treatment Rule

On July 29, 1994, the EPA proposed an Enhanced Surface Water Treatment Rule (ESWTR), which would require increased surface-water treatment to decrease the risk of microbial contamination. The EPA has proposed several versions of the ESWTR for promulgation. The version selected for promulgation will be determined based on data collected by certain water suppliers and forwarded to the EPA pursuant to EPA's Information Collection Rule, which requires such water suppliers to monitor microbial and other contaminants in their water supplies and to conduct certain tests in respect of such contaminants. The EPA has adopted an Interim ESWTR applicable only to systems serving greater than 10,000 persons. On April 10, 2000, EPA published the proposed Long Term 1 Enhanced Surface Water Treatment Rule and Filter Backwash Rule (LT1FBR) in the Federal Register. This proposed rule will apply to each of SCW's five surface water treatment plants and the CCWC's surface water treatment plant. It basically extends the requirements of the ESWTR to systems serving less than 10,000 persons and will require some systems to institute changes to the return of recycle filter backwash flows within the treatment process to reduce the effects of recycle on compromising microbial control. Registrant is presently unable to predict the ultimate impact of the LT1FBR, but it is anticipated that all five SCW's plants and the CCWC's plant will achieve compliance within the three year to five-year time frames identified by EPA.

Regulation of Disinfection/Disinfection By-Products

SCW and CCWC are also subject to the new regulations concerning disinfection/disinfection by-products (DBP's), Stage I of which regulations were effective in November 1998 with full compliance required by 2001. Stage I requires reduction of trihalomethane contaminants from 100 micrograms per liter to 80 micrograms per liter. Two of SCW's systems are immediately impacted by this rule. SCW implemented modifications to the treatment process in its Bay Point and Cordova systems. It is anticipated that both systems will be in full compliance by 2001. A third SCW plant will require treatment modifications in order to comply with this rule. SCW is preparing to conduct studies in Calipatria to determine the best treatment methods to comply with this rule.

The EPA will adopt Stage II rules pertaining to DBP's by summer of 2001. The EPA is not allowed to use the new cost/benefit analysis provided for in the 1996 SDWA amendments for establishing the Stage II rules applicable to DBP's but may utilize the regulatory negotiating process provided for in the 1996 SDWA amendments to develop the Stage II rule. The final rule is expected by 2002.

Ground Water Rule

On May 10, 2000, the EPA published the proposed Ground Water Rule (GWR), which establishes multiple barriers to protect against bacteria and viruses in drinking water systems that use ground water. The proposed rule will apply to all U.S. public water systems that use ground water as a source. The proposed GWR includes system sanitary surveys conducted by the state to identify significant deficiencies; hydrogeologic sensitivity assessments for undisinfected systems, source water microbial monitoring by systems that do not disinfect and draw from hydrogeologically sensitive aquifer or have detected fecal indicators within the system's distribution system; corrective action; and compliance monitoring for systems which disinfect to ensure that they reliably achieve 4-log (99.99%) inactivation or removal of viruses. The GWR is scheduled to be issued as a final regulation in 2001. While no assurance can be given as to the nature and cost of any additional compliance measures, if any, SCW and CCWC do not believe that such regulations will impose significant compliance costs, since they already currently engages in disinfection of their groundwater systems.

Regulation of Radon and Arsenic

The final regulation on arsenic was published in January 2001 with a new federal standard of 10 parts per billion (ppb). Compliance with an MCL of 10 ppb will require implementation of wellhead treatment remedies for eight affected wells in SCW's system and three wells in CCWC's system. However, the new administration has put a temporary hold on the ruling and AWR is unable to predict if or when the rule will be officially released.

The EPA has proposed new radon regulations following a National Academy of Sciences risk assessment and study of risk-reduction benefits associated with various mitigation measures. The National Academy of Sciences study is in agreement with much of EPA's original findings but has slightly reduced the ingestion risk initially assumed by EPA. EPA established an MCL of 300 Pico Curies per liter based on the findings and has also established an alternative MCL of 4000 Pico Curies per liter, based upon potential mitigation measures for overall radon reduction. It is our understanding that the United States Office of Management and Budget has sent the radon rule back to EPA for reconsideration. The final rule was expected to be effective in August 2000, but has been delayed. SCW and CCWC currently monitor their wells for radon in order to determine the best treatment appropriate for affected wells.

Voluntary Efforts to Exceed Minimum Surface Water Treatment Requirements

SCW is a voluntary member of the EPA's "Partnership for Safe Water", a national program designed to further protect the public from diseases caused by cryptosporidium and other microscopic organisms. As a volunteer in the program, SCW commits to exceed minimum operating requirements governing surface water treatment, optimize surface water treatment plant operations and ensure that its surface water treatment facilities are performing as efficiently as possible.

Fluoridation of Water Supplies

SCW is subject to State of California Assembly Bill 733, which requires fluoridation of water supplies for public water systems serving more than 10,000 service connections. Although the bill requires affected systems to install treatment facilities only when public funds have been made available to cover capital and operating costs, the bill requires the CPUC to

authorize cost recovery through rates should public funds for operation of the facilities, once installed, become unavailable in future years.

Matters Relating to SCW's Arden-Cordova System

In January 1997, SCW was notified that ammonium perchlorate in amounts above the state-determined action level had been detected in three of its 27 wells serving its Arden-Cordova system. Aerojet-General Corp. has, in the past, used ammonium perchlorate in their processing as an oxidizer of rocket fuels. SCW took the three wells detected with ammonium perchlorate out of service at that time. Although neither the EPA nor the DOHS has established a drinking water standard for ammonium perchlorate, DOHS has established an action level of 18 parts per billion (ppb) which required SCW to notify customers in its Arden-Cordova customer service area of detection of ammonium perchlorate in amounts in excess of this action level. In April 1997, SCW found ammonium perchlorate in three additional wells and, at that time, removed those wells from service until it was determined that the levels were below the state-determined action level. Those wells were returned to service. SCW periodically monitors these wells to determine that levels of perchlorate are below the action level currently in effect.

In February 1998, SCW was informed that nitrosodimethylamine (NDMA) had been detected in amounts in excess of the EPA reference dosage for health risks in four of its wells in its Arden-Cordova system. The wells have been removed from service. Another well was also removed from service in September 1999 due to the contamination. NDMA is an additional by-product from the production of rocket fuel and it is believed that such contamination is related to the activities of Aerojet-General Corp. Aerojet-General Corp. has reimbursed SCW for constructing a pipeline to interconnect with the City of Folsom water system to provide an alternative source(s) of water supply in SCW's Arden-Cordova customer service area and has reimbursed SCW for costs associated with the drilling and equipping of two new wells. As of December 31, 2000, Aerojet-General Corp. has previously reimbursed SCW $4.5 million. The remainder of the costs is subject to further reimbursement, including interest. The reimbursement from Aerojet-General Corp. reduces SCW's utility plant and costs of purchased water.

On October 25, 1999, SCW filed a lawsuit against the California Regional Water Quality Control Board (CRWQCB) alleging that the CRWQCB has willfully allowed portions of the Sacramento County Groundwater Basin to be injected with chemical pollution that is contaminating the underground water supply in SCW's Rancho Cordova customer service area. In a separate case, also filed on October 25, 1999, SCW sued Aerojet General Corp. for causing the contamination. On March 22, 2000 Aerojet General Corp. filed a cross complaint against SCW for negligence and constituting a public nuisance. SCW is unable to determine at this time what, if any, potential liability it may have with respect to the cross complaint, but intends to vigorously defend itself against these allegations. Management cannot predict the outcome of these proceedings. See the section entitled "Legal Proceedings" for more information.

Matters Relating to SCW's Culver City System

The compound, methyl tertiary butyl ether (MTBE), an oxygenate used in reformulated fuels, has been detected in the Charnock Basin, located in the city of Santa Monica and within SCW's Culver City customer service area. At the request of the Regional Water Quality Control Board, the City of Santa Monica and the California Environmental Protection Agency, SCW removed two of its wells in the Culver City system from service in October 1996 to help in efforts to avoid further spread of the MTBE contamination plume. Neither of these wells has been found to be contaminated with MTBE. SCW is purchasing water from the Metropolitan Water District of Southern California (MWD) at an increased cost to replace the water supply formerly pumped from the two wells removed from service.

Pursuant to an agreement with SCW in December 1998, two of the potentially responsible parties (the Participants) have reimbursed SCW's legal and consulting costs related to this matter and for increased costs incurred by SCW in purchasing replacement water. However, a notice of termination from the Participants to the settlement agreement was received in October 1999 claiming overpayments for replacement water in excess of SCW's water rights. No assurances can be given that future negotiations will result in complete restoration of SCW's water rights or that continued reimbursement of SCW's costs will be forthcoming.

On September 22, 1999, the U.S. EPA and the Los Angeles Regional Water Quality Control Board ordered Shell Oil Company, Shell Oil Products Company and Equilon Enterprises LLC to provide replacement drinking water to both SCW and the City of Santa Monica due to MTBE contamination of the Charnock Sub-Basin drinking water. The EPA has ordered Shell Oil to reimburse SCW for water replacement costs. The agencies are continuing to investigate the causes of

MTBE pollution and intend to ensure that all responsible parties contribute to its clean up although SCW is unable to predict the outcome of the EPA's enforcement efforts.

Matters Relating to SCW's Yorba Linda System

The compound, MTBE, has been detected in three wells serving SCW's Yorba Linda system. Two of the wells are standby wells and the third well has not shown MTBE above the DOHS secondary standard of 5.0 ppb at this time. SCW has constructed an interconnection with the MWD to provide for additional supply in the event the third well experienced levels of detection in excess of the DOHS standard.

SCW has met with the Regional Water Quality Control Board, the Orange County Water District, the City of Anaheim, the DOHS and three potentially responsible parties (PRP's) to define the extent of the MTBE contamination plume and assess the contribution from the PRP's. The PRP's have voluntarily initiated a work plan for regional investigation. While there have not been significant disruptions to the water supply in Yorba Linda at this point in time, no assurances can be given that MTBE contamination will not increase in the future.

Bear Valley Electric

SCW has been, in conjunction with the Southern California Edison unit of Edison International, planning to upgrade transmission facilities to 115kv (the 115kv Project) in order to meet increased energy and demand requirements. The 115kv Project is subject to an environmental impact report (EIR) and delays in approval of the EIR may impact service in SCW's Bear Valley Electric Service customer service area. SCW has, however, taken other measures, that will be enacted on an emergency basis, to meet load growth and mitigate delays in approval of the EIR. In addition, third parties willing to construct gas-fired generating facilities, sufficient to meet the peaking and future capacity needs of Bear Valley Electric, in exchange for a long-term purchase contract have approached SCW. Management is unable at this time to predict if such an arrangement will be economically beneficial to customers or if the generating facility can meet all environmental requirements. See the section entitled "Electric Energy Situation in California" for more information.

WATER SUPPLY

During 2000, SCW supplied a total of 88,055,900 CCF of water. Of this amount, approximately 55.3% came from pumped sources and 42.7% was purchased from others, principally the MWD. The remaining amount was supplied by the Bureau of Reclamation (the Bureau) under a no-cost contract. During 1999, SCW supplied 85,327,800 CCF of water, 58.2% of which came from pumped sources, 40.2% was purchased, and the remainder was supplied by the Bureau.

The MWD is a water district organized under the laws of the State of California for the purpose of delivering imported water to areas within its jurisdiction. Registrant has 65 connections to the water distribution facilities of MWD and other municipal water agencies. MWD imports water from two principal sources: the Colorado River and the State Water Project (SWP). Available water supplies from the Colorado River and the SWP have historically been sufficient to meet most of MWD's requirements and MWD's supplies from these sources are anticipated to remain adequate through 2001. MWD's import of water from the Colorado River is expected to decrease in future years due to the requirements of the Central Arizona Project (CAP). In response, MWD has taken a number of steps to secure additional storage capacity and to increase available water supplies, by effecting transfers of water rights from other sources.

SCW's water supply and revenues are significantly affected by changes in meteorological conditions. After being buffeted by the weather extremes of the El Nino/La Nina Southern Oscillation phenomena, weather in SCW's service areas has returned to normal weather patterns. The October 1999 to September 2000 precipitation season was near normal. However due to lower than normal precipitation in the last three months of 2000, the California Department of Water Resources (DWR) has issued an early indication in January 2001 that if the trend continues, allocation of water to state water project contractors, including MWD, could be lowered. The allocation process in California depends on the Sierra snow pack and other sources of water and can vary significantly as the winter season progresses. January and February 2001 brought significant precipitation. For the water year to end of January 2001, precipitation was 19.9" or 61% of normal, which was higher than the historical average of 40% of normal. Reservoir storage statewide as of the end of January 2001 is 107% of historical storage level.

The MWD, in response to DWR's early indication, has publicly assured consumers that it is well prepared to help the region through one or more dry years. In order to meet anticipated needs, MWD has in the ten years since the

state's last drought invested billions of dollars in water conservation programs, and water recycling, storage and infrastructure programs. Foremost among the safeguards is Diamond Valley Reservoir, a 4,500 acre reservoir in southwest Riverside County. Capable of holding 800,000 acre-feet or 269 billion gallons, the reservoir is currently more than half full.

Although overall groundwater conditions remain at adequate levels, certain of SCW's groundwater supplies have been affected to varying degrees by various forms of contamination which, in some cases, have caused increased reliance on purchased water in its supply mix.

CCWC obtains its water supply from three operating wells and from Colorado River water delivered by the CAP. The majority of CCWC's water supply is obtained from its CAP allocation and well water is used for peaking capacity in excess of treatment plant capability, during treatment plant shutdown, and to keep the well system in optimal operating condition. CCWC has an Assured Water Supply designation, by decision and order of the Arizona Department of Water Resources, providing in part that, subject to its requirements, CCWC currently has a sufficient supply of ground water and CAP water which is physically, continuously and legally available to satisfy current and committed demands of its customers, plus at least two years of predicted demands, for 100 years.

Notwithstanding such a designation, CCWC's water supply may be subject to interruption or reduction, in particular owing to interruption or reduction of CAP water. In the event of interruption or reduction of CAP water, CCWC can currently rely on its well water supplies for short-term periods. However, in any event, the quantity of water CCWC supplies to some or all of its customers may be interrupted or curtailed, pursuant to the provisions of its tariffs.

BUSINESS SEGMENTS

AWR currently has three principal business units: water service and electric distribution utility operations conducted through its SCW subsidiary, water service utility operation conducted through its CCWC subsidiary, and non-regulated activities through its ASUS subsidiary. All activities of SCW currently are geographically located within the State of California. All activities of CCWC are located in the state of Arizona. Both SCW and CCWC are regulated utilities. On a stand-alone basis, AWR has no material assets other than its investments in its subsidiaries. See Note 11 to the "Notes to Financial Statements".

YEAR 2000 ISSUE

Registrant has had no Y2K incidents, business disruptions, failures or legal proceedings. There have been no actual or anticipated effects or changes to Registrant's operating trends or revenue patterns as a result of the transition. Not all Y2K problems were necessarily expected to surface in 2000. Registrant does not have, and may never fully have, sufficient information about the Y2K exposure of third parties to adequately predict the risks posed by them to Registrant. If the third parties later discover any Y2K problems that are not remedied, resulting problems could include temporary loss of utility services and disruption of water supplies. Costs related to Y2K incurred by SCW are recovered through water rates. The CPUC has authorized an increase in rates of $830,000 per year, effective October 24, 2000. See Note 13 to the "Notes to Financial Statements".

RISK FACTOR SUMMARY

This section (written in plain English to comply with certain SEC Standards) summarizes certain risks of our business that may affect our future financial results. We also periodically file with the Securities and Exchange Commission documents that include more information on these risks. It is important for investors to read these documents.

Litigation

SCW has been sued in fourteen water-quality related lawsuits:

- a suit filed on April 24, 1997 alleging personal injury and property damage as a result of the delivery of contaminated water from wells located in an area of the San Gabriel Valley that has been designated a federal superfund site

- a suit filed on July 29, 1997 alleging personal injury and property damage as a result of the delivery contaminated of water; few of our systems are located in the geographical area covered by this suit

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- a suit filed on December 8, 1997 alleging personal injury and property damage as a result of the delivery of contaminated water in SCW's Arden-Cordova service area

- a suit filed on February 2, 1998 alleging personal injury and property damage as a result of the delivery of contaminated water from wells located in an area of the San Gabriel Valley that has been designated a superfund site

- a suit filed on February 4, 1998 alleging personal injury and property damage as a result of the delivery of contaminated water from wells located in an area of the San Gabriel Valley that has been designated a superfund site

- a suit filed in March 2, 1998 alleging personal injury and property damage as a result of the delivery of contaminated water in SCW's Arden-Cordova service area

- a suit filed on June 29, 1998 alleging personal injury and property damage as a result of the delivery of contaminated water from wells located in an area of the San Gabriel Valley that has been designated a superfund site

- two suits filed on July 30, 1998 alleging personal injury and property damage as a result of the delivery of contaminated water from wells located in an area of the San Gabriel Valley that has been designated a superfund site

- a suit filed on December 3, 1998 alleging personal injury and property damage as a result of the delivery of contaminated water from wells located in an area of the San Gabriel Valley that has been designated a superfund site

- a suit filed on July 22, 1999 alleging personal injury and property damage as a result of the delivery of contaminated water from wells located in an area of the San Gabriel Valley that has been designated a superfund site

- a suit filed on May 16, 2000 alleging personal injury and property damage as a result of the delivery of contaminated water in SCW's Arden-Cordova service area

- a suit filed on April 13, 2000 alleging personal injury and property damage as a result of the delivery of contaminated water from wells located in an area of the San Gabriel Valley that has been designated a superfund site

- a suit filed on August 5, 1999 alleging personal injury and property damage as a result of the delivery of contaminated water from wells located in an area of the San Gabriel Valley that has been designated a superfund site

On September 1, 1999, the First District Court of Appeal in San Francisco, held that the CPUC had preemptive jurisdiction over regulated public utilities and ordered dismissal of a series of lawsuits against water utilities, including seven of the lawsuits against SCW. On October 11, 1999 one group of plaintiffs appealed the decision to the California Supreme Court, which has accepted the petition. Management cannot predict the outcome of the proceeding.

In March 1998, the CPUC issued an Order Instituting Investigation (the OII) as a result of these types of suits being filed against water utilities in California. On November 2, 2000, CPUC issued a final order concluding that the CPUC has the jurisdiction to regulate the service of water utilities with respect to the health and safety of that service; that DOHS requirements governing drinking water quality adequately protect the public health and safety; and that regulated water utilities, including SCW, have satisfactorily complied with past and present drinking water quality requirements.

The CPUC has authorized a memorandum account for legal expenses incurred by water utilities, including SCW, in the water quality lawsuits. Under the memorandum account procedure, SCW may recover litigation costs from ratepayers to the extent authorized by the CPUC. The CPUC has not yet authorized SCW to recover any of its litigation costs. As of December 31, 2000, Registrant had incurred $887,500 in the OII-related memorandum account.

Environmental Regulation

SCW and CCWC are subject to increasingly stringent environmental regulations that will result in increasing capital and operating costs. These regulations include:

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- the 1996 amendments to the Safe Drinking Water Act that require increased testing and treatment of water to reduce specified contaminants to minimum containment levels

- approved regulations requiring increased surface-water treatment to decrease the risk of microbial contamination; these regulations will affect SCW's five surface water treatment plants and one CCWC's plant

- additional regulation of disinfection/disinfection byproducts expected to be adopted before the end of 2002; these regulations will potentially affect two of SCW's systems

- additional regulations expected to be adopted in 2001 requiring disinfection of certain groundwater systems

- regulation of arsenic issued in January 2001 and potential regulation of radon

- new California requirements to fluoridate public water systems serving over 10,000 customers

SCW and CCWC may be able to recover costs incurred to comply with these regulations through the ratemaking process for our regulated systems. We may also be able to recover certain of these costs under our contractual arrangements with municipalities. In certain circumstances, we may recover costs from parties responsible or potentially responsible for contamination.

Rates and Regulation

SCW is subject to regulation by the CPUC. CCWC is subject to regulation by the ACC. AWR and ASUS are not directly subject to CPUC regulation. The CPUC may, however, regulate transactions between SCW and AWR, including the manner in which overhead costs are allocated between SCW and AWR and the pricing of services rendered by SCW to AWR. The ACC also regulates certain transactions between CCWC and its affiliates.

SCW's revenues depend substantially on the rates that it is permitted to charge its customers. SCW may increase rates in three ways:

- by filing for a general rate increase

- by filing for recovery of certain expenses

- by filing an "advice letter" for certain plant additions or other operating cost increases, thereby increasing rate base

In addition, SCW recovers certain water supply costs through a balancing account mechanism. Supply costs include the cost of purchased water and power and groundwater production assessments. The balancing account mechanism is intended to insulate SCW's earnings from changes in water supply costs that are beyond SCW's control. The balancing account is not, however, designed to insulate SCW's earnings against changes in supply mix. As a result, SCW may not recover increased costs due to increased use of purchased water through the balancing account mechanism. In addition, balancing account adjustments, if authorized by the CPUC, may result in either increases or decreases in revenues attributable to supply costs incurred in prior periods, depending upon whether there has been an under-collection or over-collection of supply costs. CCWC is not permitted to recover these types of costs through a balancing account mechanism.

There has been a substantial increase in the costs of purchased power in recent months. Due to the nature of the regulatory process, there is a risk of disallowance of full recovery of costs or additional delays in the recovery of costs during any period in which there has been a substantial run-up in costs.

There are also a number of matters pending before the CPUC that may affect our future financial results. These matters include:

- an advice letter filed by SCW seeking recovery of cost associated with various water quality litigations

- an advice letter filed to recover the previous disallowed portion of a water treatment facility in SCW's Clearlake service area

- an advice letter filed to recover the under-collection of supply costs for SCW's Bear Valley Electric service division

Adequacy of Water Supplies

The adequacy of water supplies varies from year to year depending upon a variety of factors, including

- rainfall
- the amount of water stored in reservoirs
- the amount used by our customers and others
- water quality, and
- legal limitations on use.

Reservoir storage statewide as of the end of January 2001 is 107% of historical storage level.

and the outlook for water supply in the near term is generally favorable. Population growth and increases in the amount of water used have, however, increased limitations on use to prevent over drafting of groundwater basins. The import of water from the Colorado River, one of SCW's important sources of supply, is expected to decrease in future years due to the requirements of the Central Arizona Project. We also have in recent years taken wells out of service due to water quality problems.

CCWC obtains its water supply from three operating wells and from the Colorado River through the CAP. CCWC's water supply may be subject to interruption or reduction if there is an interruption or reduction in CAP water.

Water shortages could be caused by the above factors and may affect us in several ways:

- they adversely affect supply mix by causing Registrant to rely on more expensive purchased water
- they adversely affect operating costs
- they may result in an increase in capital expenditures for building pipelines to connect to alternative sources of supplies and reservoirs and other facilities to conserve or reclaim water

We may be able to recover increased operating and construction costs for our regulated systems through the ratemaking process. We may also be able to recover certain of these costs under the terms of our contractual agreements with municipalities.

In certain circumstances, we may recover these costs from third parties that may be responsible, or potentially responsible, for groundwater contamination. As of December 31, 2000, Aerojet General Corp. has previously reimbursed us approximately $4.5 million for costs associated with the cleanup of the groundwater supply for our Arden-Cordova System and for the increased costs of purchasing water and developing new sources of groundwater supply. On October 25, 1999, we sued the California Regional Water Quality Control Board (CRWQCB) alleging that it has willfully allowed portions of the Sacramento County Groundwater Basin to be injected with chemical pollution that is contaminating the underground water supply in our Rancho Cordova customer service area. In a separate lawsuit, also filed on October 25, 1999, we sued Aerojet General Corp. for causing the contamination. On March 22, 2000 Aerojet General Corp. filed a cross complaint against us for negligence and constituting a public nuisance. We cannot predict the outcome of these lawsuits but we will defend ourselves against these allegations.

Two potentially responsible parties on matters relating to the clean-up and purchase of replacement water in the Charnock Basin, located in the cities of Santa Monica and Culver City, have previously reimbursed us for replacement water and certain legal and consulting expenses. The Charnock Basin is in our Culver City customer service area.

California Energy Situation

The Governor of the State of California has proclaimed a state of emergency in California due to shortages of electricity available to certain of California's utilities and the dramatic increases in electricity prices. A number of investigations have been instituted as to the causes of the California energy situation and numerous pieces of legislation have been introduced at the California Legislature to deal with different aspects of the situation. We are unable to predict the long-term impact of these legislative initiatives. In the short-term, we expect energy costs to remain high and to continue to be volatile. We have been able to partially reduce the effect of these higher energy costs by entering into a long-term contract with Dynegy for 12 MW of electric energy for its Bear Valley Electric division. This contract expires on April 30, 2001 and we expect renewal of this agreement will cost significantly more.

In a continuing effort to control the escalation of electric energy costs for SCW's Bear Valley Electric division, we are considering a number of options including (i) renegotiation of the block forward purchase of electric energy, (ii) purchase of electric energy from on-site generation facilities installed by a third party and (iii) use of portable generation to avoid peak energy prices. Each of these options is expected to result in increased electric energy prices for customers of SCW's Bear Valley Electric division. We believe that these solutions in whole or in part represent significant savings for customers as compared to reliance on spot purchases in the open market. We further believe that costs incurred are recoverable from customers. We cannot give assurance that the CPUC will ultimately allow recovery of all or any of the costs through rates.

ACCOUNTING STANDARDS

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 138, which establishes a new model for accounting for derivative and hedging activities, and supersedes and amends a number of existing standards. This statement as amended was adopted effective January 1, 2000 and has not had material impact on financial position or results of operation.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Registrant has no derivative financial instruments, financial instruments with significant off-balance sheet risks or financial instruments with concentrations of credit risk. The disclosure required is, therefore, not applicable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

American States Water Company

Consolidated Balance Sheets - December 31, 2000 and 1999

Consolidated Statements of Capitalization - December 31, 2000 and 1999

Consolidated Statements of Income - for the years ended December 31, 2000, 1999, and 1998

Consolidated Statements of Changes in Common Shareholders' Equity - for the years ended December 31, 2000, 1999 and 1998

Consolidated Statements of Cash Flows - for the years ended December 31, 2000, 1999 and 1998

Southern California Water Company

Balance Sheets - December 31, 2000 and 1999

Statements of Capitalization - December 31, 2000 and 1999

Statements of Income - for the years ended December 31, 2000, 1999 and 1998

Statements of Changes in Common Shareholders' Equity - for the years ended December 31, 2000, 1999 and 1998

Statements of Cash Flows - for the years ended December 31, 2000, 1999 and 1998

Notes to Financial Statements

Report of Independent Public Accountants

AMERICAN STATES WATER COMPANY

CONSOLIDATED BALANCE SHEETS

(in thousands)	December 31, 2000	1999
ASSETS		
UTILITY PLANT, AT COST		
Water	$ 608,032	$ 532,007
Electric	37,630	36,349
	645,662	568,356
Less - Accumulated depreciation	(173,367)	(151,733)
	472,295	416,623
Construction work in progress	36,801	32,972
Net utility plant	509,096	449,595
OTHER PROPERTY AND INVESTMENTS	25,222	10,583
CURRENT ASSETS		
Cash and cash equivalents	5,808	2,189
Accounts receivable-Customers, less reserves of $510 in 2000; $487 in 1999	10,481	10,135
Other account receivable	5,233	4,347
Unbilled revenue	11,363	11,345
Materials and supplies, at average cost	1,116	1,153
Supply cost balancing accounts	11,145	4,774
Prepayments	4,085	4,851
Accumulated deferred income taxes - net	3,249	5,546
Total current assets	52,480	44,340
DEFERRED CHARGES		
Unamortized debt expense and redemption premium	7,190	6,811
Regulatory tax-related assets	17,705	19,941
Other	4,953	1,911
Total deferred charges	29,848	28,663
TOTAL ASSETS	$ 616,646	$ 533,181

The accompanying notes are an integral part of these financial statements

AMERICAN STATES WATER COMPANY

CONSOLIDATED BALANCE SHEETS

(in thousands)	December 31, 2000	1999
CAPITALIZATION AND LIABILITIES		
CAPITALIZATION		
Common shareholders' equity	$192,723	$158,846
Preferred Shares	1,600	1,600
Preferred Shares - mandatory redemption	320	360
Long-term debt	176,452	167,363
Total capitalization	371,095	328,169
CURRENT LIABILITIES		
Notes payable to banks	45,000	21,000
Long-term debt and Preferred Shares - current	735	340
Accounts payable	11,857	13,777
Taxes payable	5,585	5,432
Accrued interest	1,783	1,584
Other	15,257	12,832
Total current liabilities	80,217	54,965
OTHER CREDITS		
Advances for construction	69,230	57,485
Contributions in aid of construction	39,670	38,895
Accumulated deferred income taxes - net	51,131	48,302
Unamortized investment tax credits	3,156	3,064
Regulatory tax-related liability	1,817	1,861
Other	330	440
Total other credits	165,334	150,047
TOTAL CAPITALIZATION AND LIABILITIES	$616,646	$533,181

The accompanying notes are an integral part of these financial statements

AMERICAN STATES WATER COMPANY

CONSOLIDATED STATEMENTS OF CAPITALIZATION

(in thousands)	December 31, 2000	1999
COMMON SHAREHOLDERS' EQUITY:		
Common Shares, no par value, $2.50 stated value		
Authorized 30,000,000 shares		
Outstanding 10,079,629 in 2000 and 8,957,671 in 1999	$ 25,199	$ 22,394
Additional paid-in capital	100,239	74,937
Earnings reinvested in the business	67,285	61,515
	192,723	158,846
PREFERRED SHARES: $25 PAR VALUE		
Authorized 64,000 shares		
Outstanding 32,000 shares, 4% Series	800	800
Outstanding 32,000 shares, 4 1/4% Series	800	800
	1,600	1,600
PREFERRED SHARES SUBJECT TO MANDATORY REDEMPTION		
Requirements: $25 par value		
Authorized and outstanding 14,400 shares in 2000 and		
16,000 shares in 1999, 5% Series	360	400
Less: Preferred Shares to be redeemed within one year	(40)	(40)
	320	360
LONG-TERM DEBT		
5.82% notes due 2003	12,500	12,500
6.64% notes due 2013	1,100	1,100
6.80% notes due 2013	2,000	2,000
8.50% fixed rate obligation due 2013	1,714	1,798
Variable rate obligation due 2014	6,000	6,000
Variable rate obligation due 2018	622	650
6.87% notes due 2023	5,000	5,000
7.00% notes due 2023	10,000	10,000
7.55% notes due 2025	8,000	8,000
7.65% notes due 2025	22,000	22,000
5.50% notes due 2026	7,950	8,000
6.81% notes due 2028	15,000	15,000
6.59% notes due 2029	40,000	40,000
9.56% notes due 2031	28,000	28,000
4% to 4.85% serial bonds due 2007	1,480	-
5.20% term bonds due 2011	1,000	-
5.40% term bonds due 2022	4,610	-
4.65% term bonds due 2006	215	-
5.30% term bonds due 2022	1,015	-
3.34% repayment contract due 2006	1,530	-
State Water Project due 2035	6,949	7,028
Other	462	587
	177,147	167,663
Less: Current maturities	(695)	(300)
	176,452	167,363
TOTAL CAPITALIZATION	$ 371,095	$ 328,169

The accompanying notes are an integral part of these financial statements

AMERICAN STATES WATER COMPANY

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share amounts)	For the years ended December 31, 2000	1999	1998
OPERATING REVENUES			
Water	$ 168,795	$ 159,693	$ 134,794
Electric	14,366	13,338	13,201
Other	799	390	65
Total operating revenues	183,960	173,421	148,060
OPERATING EXPENSES			
Water purchased	41,592	36,143	30,833
Power purchased for resale	10,664	7,119	5,013
Power purchased for pumping	7,509	7,394	7,009
Groundwater production assessment	7,489	7,170	7,567
Supply cost balancing accounts	(6,371)	(473)	28
Other operating expenses	16,748	15,594	14,459
Administrative and general expenses	26,135	28,600	21,987
Depreciation	15,339	13,650	12,538
Maintenance	10,280	9,799	7,311
Taxes on income	15,127	13,345	10,130
Property and other taxes	7,141	6,566	6,124
Total operating expenses	151,653	144,907	122,999
OPERATING INCOME	32,307	28,514	25,061
OTHER INCOME			
Total other income - net	(99)	532	769
Income before interest charges	32,208	29,046	25,830
INTEREST CHARGES			
Interest on long-term debt	11,623	11,294	9,612
Other interest and amortization of debt expense	2,499	1,651	1,595
Total interest charges	14,122	12,945	11,207
NET INCOME	18,086	16,101	14,623
Dividends on Preferred Shares	(86)	(88)	(90)
EARNINGS AVAILABLE FOR COMMON SHAREHOLDERS	$ 18,000	$ 16,013	$ 14,533
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	9,380	8,958	8,958
BASIC EARNINGS PER COMMON SHARE	$ 1.92	$ 1.79	$ 1.62
WEIGHTED AVERAGE NUMBER OF DILUTED SHARES OUTSTANDING	9,411	N/A	N/A
FULLY DILUTED EARNINGS PER COMMON SHARE	$ 1.91	N/A	N/A

The accompanying notes are an integral part of these financial statements

AMERICAN STATES WATER COMPANY

CONSOLIDATED STATEMENTS OF CHANGES IN COMMON SHAREHOLDERS' EQUITY

(in thousands)	Common Shares Number of Shares	Common Shares Amount	Additional Paid-in Capital	Earnings Reinvested in the Business
BALANCES AT DECEMBER 31, 1997	8,958	$ 22,394	$ 74,937	$ 53,722
Add:				
Net Income				14,623
Deduct:				
Dividends on Preferred Shares				90
Dividends on Common Shares - $1.26 per share				11,287
BALANCES AT DECEMBER 31, 1998	8,958	$ 22,394	$ 74,937	$ 56,968
Add:				
Net Income				16,101
Deduct:				
Dividends on Preferred Shares				88
Dividends on Common Shares - $1.28 per share				11,466
BALANCES AT DECEMBER 31, 1999	8,958	$ 22,394	$ 74,937	$ 61,515
Add:				
Net Income				18,086
Issuance of Common Shares for public offering	1,107	2,768	24,924	
Issuance of Common Shares, others	15	37	378	
Deduct:				
Dividends on Preferred Shares				86
Dividends on Common Shares - $1.28 per share				8,954
Dividends on Common Shares - $1.285 per share				3,276
BALANCES AT DECEMBER 31, 2000	10,080	$ 25,199	$100,239	$ 67,285

The accompanying notes are an integral part of these financial statements.

AMERICAN STATES WATER COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)	For the years ended December 31,		
	2000	1999	1998
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 18,086	$ 16,101	$ 14,623
Adjustments for non-cash items:			
Depreciation and amortization	15,339	14,364	15,368
Deferred income taxes and investment tax credits	5,848	2,440	5,241
Other - net	(1,043)	1,066	1,394
Changes in assets and liabilities:			
Customer receivables	(616)	(1,555)	(769)
Prepayments	915	1,037	1,688
Supply cost balancing accounts	(6,371)	(474)	(14)
Accounts payable	(2,567)	3,559	(1,552)
Taxes payable	153	(468)	(3,215)
Unbilled revenue	(18)	(2,042)	(197)
Accrued Interest	199	179	(463)
Other - net	862	4,803	1,097
Net cash provided	30,787	39,010	33,201
CASH FLOWS FROM INVESTING ACTIVITIES:			
Construction expenditures	(45,758)	(57,823)	(43,623)
Acquisition of Chaparral City Water Company Stock	(18,484)	-	-
Acquisition of Water Rights	(1,653)	-	-
Net cash used	(65,895)	(57,823)	(43,623)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issuance of Securities	28,107	47,028	15,000
Receipt of advances for and contributions	2,512	5,300	3,381
Refunds on advances for constructions	(2,961)	(2,957)	(2,651)
Retirement or repayments of long-term debt and redemption of Preferred Shares - net	(616)	(435)	(9,488)
Net change in notes payable to banks	24,000	(17,000)	12,000
Common and preferred dividends paid	(12,315)	(11,554)	(11,386)
Net cash provided	38,727	20,382	6,856
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,619	1,569	(3,566)
Cash and Cash Equivalents, Beginning of Year	2,189	620	4,186
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 5,808	$ 2,189	$ 620
TAXES AND INTEREST PAID:			
Income taxes paid	$ 9,430	$ 12,137	$ 5,430
Interest paid	$ 14,379	$ 11,834	$ 11,391
NON-CASH TRANSACTIONS:			
Property installed by developers and conveyed to Company	$ 2,570	$ 4,096	$ 1,797
Assumption of Chaparral's long-term debt and non-current portion of Customer Deposit	$ 11,425	N/A	N/A

The accompanying notes are an integral part of these financial statements.

SOUTHERN CALIFORNIA WATER COMPANY

BALANCE SHEETS

(in thousands)	December 31, 2000	1999
ASSETS		
UTILITY PLANT, AT COST		
Water	$ 570,836	$ 532,007
Electric	37,630	36,349
	608,466	568,356
Less - Accumulated depreciation	(165,002)	(151,733)
	443,464	416,623
Construction work in progress	36,605	32,972
Net utility plant	480,069	449,595
OTHER PROPERTY AND INVESTMENTS	9,711	10,233
CURRENT ASSETS		
Cash and cash equivalents	1,545	2,020
Accounts receivable-Customers, less reserves of $498 in 2000; $487 in 1999	10,071	10,135
Other	5,097	4,275
Intercompany receivable	376	-
Unbilled revenue	11,363	11,345
Materials and supplies, at average cost	1,039	1,153
Supply cost balancing accounts	11,145	4,774
Prepayments	3,756	4,851
Accumulated deferred income taxes - net	3,256	5,573
Total current assets	47,648	44,126
DEFERRED CHARGES		
Regulatory tax-related assets	17,705	19,941
Other	11,396	8,599
Total deferred charges	29,101	28,540
TOTAL ASSETS	$ 566,529	$ 532,494

The accompanying notes are an integral part of these financial statements

SOUTHERN CALIFORNIA WATER COMPANY

BALANCE SHEETS

(in thousands)	December 31, 2000	1999
CAPITALIZATION AND LIABILITIES		
CAPITALIZATION		
Common shareholders' equity	$164,808	$160,023
Long-term debt	167,062	167,363
Total capitalization	331,870	327,386
CURRENT LIABILITIES		
Notes payable to banks	45,000	21,000
Long-term debt and preferred shares - current	275	340
Accounts payable	11,203	13,615
Intercompany payable	4,746	4
Taxes payable	5,675	5,700
Accrued interest	1,722	1,584
Other	13,512	12,818
Total current liabilities	82,133	55,061
OTHER CREDITS		
Advances for construction	58,195	57,485
Contributions in aid of construction	39,642	38,895
Accumulated deferred income taxes - net	49,569	48,302
Unamortized investment tax credits	2,973	3,064
Regulatory tax-related liability	1,817	1,861
Other	330	440
Total other credits	152,526	150,047
TOTAL CAPITALIZATION AND LIABILITIES	$566,529	$532,494

The accompanying notes are an integral part of these financial statements

SOUTHERN CALIFORNIA WATER COMPANY

STATEMENTS OF CAPITALIZATION

(in thousands)	December 31, 2000	1999
COMMON SHAREHOLDERS' EQUITY:		
Common shares, no par value		
Outstanding 100 in 1998 and 1999	$ 98,391	$ 98,391
Additional paid-in capital	-	-
Earnings reinvested in the business	66,417	61,632
	164,808	160,023
LONG-TERM DEBT		
5.82% notes due 2003	12,500	12,500
6.64% notes due 2013	1,100	1,100
6.80% notes due 2013	2,000	2,000
8.50% fixed rate obligation due 2013	1,714	1,798
Variable rate obligation due 2014	6,000	6,000
Variable rate obligation due 2018	622	649
6.87% notes due 2023	5,000	5,000
7.00% notes due 2023	10,000	10,000
7.55% notes due 2025	8,000	8,000
7.65% notes due 2025	22,000	22,000
5.50% notes due 2026	7,950	8,000
6.81% notes due 2028	15,000	15,000
6.59% notes due 2029	40,000	40,000
9.56% notes due 2031	28,000	28,000
State Water Project due 2035	6,949	7,028
Other	462	588
	167,297	167,663
Less: Current maturities	(235)	(300)
	167,062	167,363
TOTAL CAPITALIZATION	$ 331,870	$ 327,386

The accompanying notes are an integral part of these financial statements

SOUTHERN CALIFORNIA WATER COMPANY

STATEMENTS OF INCOME

($ in thousand, except per share amounts)	For the years ended December 31, 2000	1999	1998
OPERATING REVENUES			
Water	$ 167,529	$ 159,693	$ 134,794
Electric	14,366	13,338	13,201
Total operating revenues	181,895	173,031	147,995
OPERATING EXPENSES			
Water purchased	41,450	36,145	30,833
Power purchased for resale	10,664	7,119	5,013
Power purchased for pumping	7,442	7,394	7,009
Groundwater production assessment	7,489	7,170	7,567
Supply cost balancing accounts	(6,371)	(473)	28
Other operating expenses	16,306	15,475	14,434
Administrative and general expenses	25,545	28,077	21,884
Depreciation	15,086	13,516	12,270
Maintenance	10,191	9,794	7,311
Taxes on income	14,881	13,473	10,360
Property and other taxes	7,037	6,563	6,124
Total operating expenses	149,720	144,253	122,833
OPERATING INCOME	32,175	28,778	25,162
OTHER INCOME			
Total other income - net	(140)	509	1,231
Income before interest charges	32,035	29,287	26,393
INTEREST CHARGES			
Interest on long-term debt	11,512	11,294	9,612
Other interest and amortization of debt expense	2,838	1,651	1,595
Total interest charges	14,350	12,945	11,207
NET INCOME	17,685	16,342	15,186
Dividends on Preferred Shares	-	-	(46)
EARNINGS AVAILABLE FOR COMMON SHAREHOLDER	$ 17,685	$ 16,342	$ 15,140
BASIC EARNINGS PER COMMON SHARE	$ 176,850	$ 163,420	$ 151,400
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	100	100	100

The accompanying notes are an integral part of these financial statements. All information has been adjusted to reflect formation of holding company in 1998.

SOUTHERN CALIFORNIA WATER COMPANY

STATEMENTS OF CHANGES IN COMMON SHAREHOLDERS' EQUITY

(in thousands)	Common Shares Number of Shares	Common Shares Amount	Additional Paid-in Capital	Earnings Reinvested in the Business
BALANCES AT DECEMBER 31, 1997	8,958	$ 22,394	$ 74,937	$ 53,722
Add:				
Transfer Preferred Shares & Investments			1,060	
Transfer Preferred Shares & Investments		75,997	(75,997)	
Net Income				15,186
Deduct:				
Dividends on Preferred Shares				46
Dividends on Common Shares - $.63 per share for 8,957,671 shares				5,643
Dividends on Common Shares - $58,890 per share for 100 shares				5,889
BALANCES AT DECEMBER 31, 1998	100	$ 98,391	-	$ 57,330
Add:				
Net Income				16,342
Deduct:				
Dividends on Common Shares - $30,900 per share				3,090
Dividends on Common Shares - $30,500 per share				3,050
Dividends on Common Shares - $29,000 per share				2,900
Dividends on Common Shares - $30,000 per share				3,000
BALANCES AT DECEMBER 31, 1999	100	$ 98,391	-	$ 61,632
Add:				
Net Income				17,685
Deduct:				
Dividends on Common Shares - $32,000 per share				3,200
Dividends on Common Shares - $31,000 per share				3,100
Dividends on Common Shares - $33,000 per share				3,300
Dividends on Common Shares - $33,000 per share				3,300
BALANCES AT DECEMBER 31, 2000	100	$ 98,391	-	$ 66,417

The accompanying notes are an integral part of these financial statements

SOUTHERN CALIFORNIA WATER COMPANY

STATEMENTS OF CASH FLOWS

(in thousands)	For the years ended December 31, 2000	1999	1998
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 17,685	$ 16,342	$ 15,185
Adjustments for non-cash items:			
Depreciation and amortization	15,086	14,229	15,100
Deferred income taxes and investment tax credits	5,685	2,430	5,224
Other - net	(479)	1,308	1,077
Changes in assets and liabilities:			
Customer receivables	64	(1,640)	1,046
Prepayments	1,095	(1,137)	660
Supply cost balancing accounts	(6,371)	(474)	(14)
Accounts payable	(2,412)	3,561	(1,716)
Taxes payable	(25)	(447)	(2,968)
Unbilled revenue	(18)	(2,042)	(197)
Accrued Interest	138	179	(463)
Other - net	4,352	7,074	362
Net cash provided	34,800	39,383	33,296
CASH FLOWS FROM INVESTING ACTIVITIES:			
Construction expenditures	(45,560)	(57,823)	(43,623)
Net cash used	(45,560)	(57,823)	(43,623)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issuance of Debt Securities	-	47,028	15,000
Receipt of advances for and contributions in aid of construction	2,512	3,883	3,381
Refunds on advances for construction	(2,961)	(1,540)	(2,651)
Repayments of long-term debt and redemption of Preferred Shares - net	(366)	(395)	(9,488)
Net change in notes payable to banks	24,000	(17,000)	12,000
Common and preferred dividends paid	(12,900)	(12,040)	(11,577)
Net cash provided	10,285	19,936	6,665
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(475)	1,496	(3,662)
Cash and Cash Equivalents, Beginning of Year	2,020	524	4,186
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 1,545	$ 2,020	$ 524
TAXES AND INTEREST PAID:			
Income taxes paid	$ 9,152	$ 12,241	$ 5,430
Interest paid	$ 14,120	$ 11,834	$ 11,391
NON-CASH TRANSACTIONS:			
Property installed by developers and conveyed to Company	$ 2,570	$ 4,096	$ 1,797

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

American States Water Company (AWR) is the parent company of Southern California Water Company (SCW), American States Utility Services, Inc. (ASUS) and Chaparral City Water Company (CCWC). SCW is a public utility engaged principally in the purchase, production, distribution and sale of water as well as in the distribution of electricity in several California mountain communities. The California Public Utilities Commission (CPUC) regulates SCW's water and electric business including properties, rates, services, facilities and other matters. CCWC is an Arizona public utility company regulated by The Arizona Corporation Commission (ACC) serving approximately 11,000 customers in the town of Fountain Hills, Arizona and a portion of the City of Scottsdale, Arizona. AWR completed the acquisition of the common stock of CCWC on October 10, 2000 for an aggregate value of $31.2 million, including assumption of approximately $12 million in debt. ASUS performs non-regulated, water related services and operations on a contract basis. There is no regulatory oversight of ASUS or AWR. The consolidated financial statements include the accounts of AWR, SCW, ASUS and CCWC. AWR's assets and revenues are primarily those of SCW.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements include the accounts of AWR and its wholly owned subsidiaries SCW, ASUS and CCWC and are collectively referred to as Registrant. Inter-company transactions and balances have been eliminated. The preparation of these financial statements required the use of certain estimates by management in determining Registrant's assets, liabilities, revenues and expenses.

The utility subsidiaries, SCW and CCWC, have incurred various costs and received various credits reflected as regulatory assets and liabilities. Accounting for such costs and credits as regulatory assets and liabilities is in accordance with Statement of Financial Accounting Standards No. 71 "Accounting for the Effects of Certain Types of Regulation" (SFAS 71). This statement sets forth the application of generally accepted accounting principles for those companies whose rates are established by or are subject to approval by an independent third-party regulator. Under SFAS 71, utility companies defer costs and credits on the balance sheet as regulatory assets and liabilities when it is probable that those costs and credits will be recognized in the rate making process in a period different from the period in which they would have been reflected in income by an unregulated company. These deferred regulatory assets and liabilities are then reflected in the income statement in the period in which the same amounts are reflected in the rates charged for service.

Property and Depreciation: SCW and CCWC capitalize, as utility plant, the cost of additions and replacements of retirement units. Such cost includes labor, material and certain indirect charges. Depreciation is computed on the straight-line, remaining-life basis. For the years 2000, 1999, and 1998 the aggregate provisions for depreciation for SCW approximated 2.6%, 2.5% and 2.5% of the beginning of the year depreciable plant, respectively. The aggregate provision for depreciation for CCWC is 2.5% for each of the same three years.

At December 31, 2000, Registrant has $13,179,000 in goodwill included in Other Property and Investments. This amount represents the difference between the purchase price of the common equity of CCWC and CCWC's book equity at the time of closing and is being amortized over a period of 40 years.

Interest: Interest is generally not capitalized for financial reporting purposes, as such procedure is not followed for ratemaking purposes.

Revenues: Revenues include amounts billed to customers and unbilled revenues representing amounts to be billed for usage from the last meter reading date to the end of the accounting period.

Basic Earnings Per Common Share: Basic Earnings per Common Share are based upon the weighted average number of Common Shares outstanding and net income after deducting preferred dividend requirements.

Fully Diluted Earnings Per Common Share: Diluted Earnings Per Common Share are based upon the weighted average number of Common Shares including both outstanding and potential shares issuable in connection with stock options granted under Registrant's 2000 Stock Incentive Plan, and net income after deducting preferred dividend requirements.

Supply Cost Balancing Accounts: As permitted by the CPUC, Registrant maintains water and electric supply cost balancing accounts for SCW to account for under-collections and over-collections of revenues designed to recover such costs. Recoverability of such costs is recorded in income and charged to balancing accounts when such costs are

incurred. The balancing accounts are reversed when such costs are recovered through rate adjustments. Registrant accrues interest on its supply cost balancing accounts at the rate prevailing for 90-day commercial paper. Registrant does not maintain a Supply Cost Balancing Account for CCWC.

Debt Issue Expense and Redemption Premiums: Original debt issue expenses are amortized over the lives of the respective issues. Premiums paid on the early redemption of debt, which is reacquired through refunding, are deferred and amortized over the life of the debt issued to finance the refunding. The redemption premium on debt reacquired without refunding is amortized over the remaining period the debt would have been outstanding.

Other Credits: Advances for construction represent amounts advanced by developers, which are generally refundable at rates ranging from 10% to 22% of the revenue received from the installations for which funds were advanced or in equal annual installments over periods of time ranging from 10 to 40-year periods. Contributions-in-aid of construction are similar to advances, but require no refunding and are amortized over the useful lives of the related property.

Cash and Cash Equivalents: For purposes of the Statements of Cash Flows, cash and cash equivalents include short-term cash investments with an original maturity of three months or less.

Financial Instrument Risk: Registrant does not carry any financial instruments with off-balance sheet risk nor does its operations result in concentrations of credit risk.

Fair Value of Financial Instruments: The table below estimates the fair value of each represented class of financial instrument held by Registrant. For cash and cash equivalents, accounts receivable and short-term debt, the carrying amount is used. Otherwise, rates available to Registrant at December 31, 2000 and 1999 for debt with similar terms and remaining maturities were used to estimate fair value for long-term debt. Changes in the assumptions will produce differing results.

	2000		1999	
(dollars in thousands)	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
Cash	$ 5,808	$ 5,808	$ 2,189	$ 2,189
Accounts receivable	27,077	27,077	25,827	25,827
Financial liabilities:				
Short-term debt	45,000	45,000	21,000	21,000
Long-term debt	$ 177,147	$ 186,475	$ 167,663	$ 161,843

NOTE 2 - CAPITAL STOCK

All of the series of Preferred Shares outstanding at December 31, 2000 are redeemable at the option of AWR. At December 31, 2000, the redemption price per share for each series of $25 Preferred Shares was $27.00, $26.50 and $25.25 for the 4%, 4 1/4% and 5% Series, respectively. To each of the redemption prices must be added accrued and unpaid dividends to the redemption date.

The $25 Preferred Shares, 5% Series, are subject to mandatory redemption provisions of 1,600 shares per year. The annual aggregate mandatory redemption requirement for this Series for the five years subsequent to December 31, 2000 is $40,000 each year.

AWR has a Registration Statement on file with the SEC for issuance, from time to time, of up to $60 million in Common Shares, Preferred Shares and/or debt securities. On August 16, 2000, AWR issued 1,107,000 shares under this Registration Statement. Net proceeds from this sale were used to fund a portion of the purchase price of CCWC and will be invested in SCW. As of December 31, 2000, approximately $31,080,000 remained for issuance under this registration statement.

For the year ended December 31, 2000, Registrant also issued 6,961 and 7,997 Common Shares under Registrant's Common Share Purchase and Dividend Reinvestment Plan (DRP) and the 401(k) Plan. There are 493,039 and 63,411 Common Shares authorized but unissued under the DRP and the 401(k) Plan, respectively, at December 31, 2000. For the years ended December 31, 1999 and December 31, 1998, all shares issued under Registrant's Common Share Purchase and Dividend Reinvestment Plan (DRP) and the 401(k) Plan were purchased on the open market. Shares

reserved for the 401(k) Plan are in relation to company matching contributions and for investment purposes by participants.

There are 250,000 Common Shares reserved for issuance under Registrant's 2000 Stock Incentive Plan. Under the Plan, stock options representing a total of 45,657 Common Shares upon exercise were granted to certain eligible employees on May 1, 2000.

As of December 31, 2000 there were no retained earnings restricted, under any of SCW's debt instruments, as to the payment of cash dividends on Common Shares. CCWC is subject to contractual restrictions on its ability to pay dividends. There were no dividends distributed from CCWC to AWR in 2000.

In 1998, the Board of Directors adopted a Shareholder Rights Plan (Rights Plan) and authorized a dividend distribution of one right (a Right) to purchase 1/1000th of Junior Participating Preferred Share for each outstanding Common Share. The Rights Plan became effective in September 1998 and will expire in September 2008. The Rights Plan is designed to provide shareholders' protection and to maximize shareholder value by encouraging a prospective acquirer to negotiate with the board.

Each Right represents a right to purchase 1/1000th of Junior Participating Preferred Share at the price of $120, subject to adjustment (the Purchase Price). Each Junior Participating Preferred Share is entitled to receive a dividend equal to 1000 times any dividend paid on each Common Share and 100 votes per share in any shareholder election. The Rights become exercisable upon occurrence of a Distribution Date. A Distribution Date event occurs if (i) any person accumulates 15% of the then outstanding Common Shares, (ii) any person presents a tender offer which caused the person's ownership level to exceed 15% and the board determines the tender offer not to be fair to AWR's shareholders, or (iii) the board determines that a shareholder maintaining a 15% interest in the Common shares could have an adverse impact on AWR or could attempt to pressure AWR to repurchase the holder's shares at a premium.

Until the occurrence of a Distribution Date, each Right trades with the Common Share and is not separately transferable. When a Distribution Date occurs, AWR would distribute separately Rights Certificates to Common Shareholders and the Rights would subsequently trade separate from the Common Shares and each holder of a Right, other than the acquiring person whose Rights will thereafter be void, will have the right to receive upon exercise at its then current Purchase Price that number of Common Shares having a market value of two times the Purchase Price of the Right. If AWR merges into the acquiring person or enters into any transaction that unfairly favors the acquiring person or disfavors AWR's other shareholders, the Right becomes a right to purchase Common Shares of the acquiring person having market value of two times the Purchase Price.

The board of directors may determine that, in certain circumstances, a proposal, which would cause a Distribution Date, is in the best interest of AWR's shareholders. Therefore, the board of directors may, at its option, redeem the Rights at a redemption price of $0.01 per Right.

NOTE 3 - COMPENSATING BALANCES AND BANK DEBT

AWR maintains a revolving credit facility with a $25 million aggregate borrowing capacity. At December 31, 2000, no amount was outstanding under this facility. The aggregate short-term borrowing capacity available to SCW under its three bank lines of credit was $60 million as of December 31, 2000, of which a total of $45 million was outstanding. There were no compensating balances required. Loans can be obtained at the option of Registrant and bear interest at rates based on floating prime borrowing rates or at money market rates.

SCW's short-term borrowing activities for the last three years were as follows:

	December 31,		
(in thousands, except percent)	2000	1999	1998
Balance Outstanding at December 31,	$45,000	$21,000	$38,000
Interest Rate at December 31,	7.19%	7.35%	5.86%
Average Amount Outstanding	$38,531	$ 8,775	$19,309
Weighted Average Annual Interest Rate	7.11%	5.11%	6.78%
Maximum Amount Outstanding	$50,000	$21,000	$39,000

There were no short-term borrowing activities at AWR parent or any of its other subsidiaries.

NOTE 4 - LONG TERM DEBT

In March 1998, SCW sold the remaining $15 million under its Series B Medium Term Note Program and in December 1998, SCW redeemed all of its outstanding 10.10% Notes. In January 1999, $40 million of Series C Medium Term Notes were sold. In January 2001, the remaining $20 million of Series C Medium Term Notes were sold. The funds resulting from the issuances were used initially to repay short-term bank borrowings and, after that, to fund construction expenditures. SCW has no mortgage debt, and leases and other similar financial arrangements are not material.

CCWC has long-term Industrial Development Authority Bonds (IDA Bonds) and a repayment contract due 2006. Substantially all of the utility plant of CCWC is pledged to secure its IDA Bonds. The Bond Agreement, among other things, (i) requires CCWC to maintain certain financial ratios, (ii) restricts CCWC's ability to incur debt and make liens, sell, lease or dispose of assets, merge with another corporation, and (iii) restricts the payment of dividends.

SCW has posted an Irrevocable Letter of Credit, which expires April 30, 2001 in the amount of $750,000 with an annual fee of 0.6% as security for its self-insured workers' compensation plan. SCW has also provided an Irrevocable Letter of Credit with a fee of 0.9%, which expires July 31, 2002, in the amount of $6,296,000 to a trustee with respect to the variable rate obligation issued by the Three Valleys Municipal Water District. Additionally, in November 2000, SCW posted an Irrevocable Letter of Credit with an annual fee of 2.0%, which expires in October 1, 2001, in the amount of $250,000 as security for the deductible in the company's new Business Auto insurance policy.

Annual maturities of all long-term debt, including capitalized leases, amount to $698,799, $749,787, $13,290,644, $839,486 and $893,362 for the five years ending December 31, 2001 through 2005, respectively.

NOTE 5 - TAXES ON INCOME

Registrant provides deferred income taxes for temporary differences under Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (SFAS No. 109), for certain transactions which are recognized for income tax purposes in a period different from that in which they are reported in the financial statements. The most significant items are the tax effects of accelerated depreciation, the supply cost balancing accounts and advances for and contributions-in-aid-of-construction. SFAS No. 109 also requires that rate-regulated enterprises record deferred income taxes for temporary differences accorded flow-through treatment at the direction of a regulatory commission. The resulting deferred tax assets and liabilities are recorded at the expected cash flow to be reflected in future rates. Since the CPUC has consistently permitted the recovery of previously flowed-through tax effects, SCW has established regulatory liabilities and assets offsetting such deferred tax assets and liabilities.

Deferred investment tax credits are being amortized to other income ratably over the lives of the property, giving rise to the credits.

The significant components of deferred tax assets and deferred tax liabilities, as reflected in the balance sheets, and the accumulated net deferred income tax liabilities at December 31, 2000 and 1999 were:

	December 31,	
(dollars in thousands)	2000	1999
Deferred tax assets:		
Balancing accounts	$ 3,103	$ (175)
State tax effect	146	5,721
	3,249	5,546
Deferred tax liabilities		
Depreciation	(46,540)	(44,939)
Advances and contributions	14,969	15,862
Other property related	(8,728)	(10,007)
Other non-property related	(9,270)	(9,218)
	(49,569)	(48,302)
Accumulated deferred income taxes - net	$(46,320)	$(42,756)

The current and deferred components of income tax expense are as follows:

(dollars in thousands)	December 31, 2000	1999	1998
Current			
Federal	$ 7,991	$ 9,360	$ 5,219
State	2,242	2,799	1,727
Total current tax expense	10,233	12,159	6,946
Deferred - Federal and State:			
Accelerated depreciation	3,556	3,405	3,319
Balancing accounts	2,863	(207)	6
Advances and contributions	-	-	-
California privilege year franchise tax	(1,216)	(970)	(544)
Other	(392)	(664)	(398)
Total deferred tax expense	4,811	1,564	2,383
Total income tax expense	15,044	13,723	9,329
Income taxes included in operating expenses	15,127	13,345	10,130
Income taxes included in other income and expenses - net	(83)	378	(801)
Total income tax expense	$ 15,044	$ 13,723	$ 9,329

Additional information regarding taxes on income is set forth in the following table:

(dollars in thousands, except percent)	December 31, 2000	1999	1998
Federal taxes on pre-tax income at statutory rates	$ 11,595	$ 10,438	$ 8,470
Increase (decrease) in taxes resulting from:			
State income tax expense	2,722	2,605	1,654
Depreciation	1,424	1,184	944
Federal benefit of state taxes	(953)	(912)	(579)
Adjustments to prior years' provisions	101	433	(97)
Payment of premium on redemption	66	66	(813)
Other - net	89	(91)	(250)
Total income tax expense	$ 15,044	$ 13,723	$ 9,329
Pre-tax income	$ 33,130	$ 29,824	$ 23,952
Effective income tax rate	45.4%	46.0%	38.9%

NOTE 6 - EMPLOYEE BENEFIT PLANS

Registrant maintains a pension plan (the Plan) that provides eligible employees (those age 21 and older, with one year of service) monthly benefits upon retirement based on average salaries and length of service. The normal retirement benefit is equal to 2% of the five highest consecutive years average earnings multiplied by the number of years of credited service, up to a maximum of 40 years, reduced by a percentage of primary social security benefits. There is also an early retirement option. Annual contributions are made to the Plan, which comply with the funding requirements of the Employee Retirement Income Security Act (ERISA).

Registrant also provides all active employees medical, dental and vision care benefits through a medical insurance plan. Eligible employees who retired prior to age 65, and/or their spouses, were able to retain the benefits under the active plan until reaching age 65. Eligible employees upon reaching age 65, and those employees retiring at or after age 65, and/or their spouses, receive coverage through a Medicare supplement insurance policy paid for by Registrant subject to an annual cap limit.

The CPUC has issued a decision, which provides for the recovery in rates of tax-deductible contributions made to a separate trust fund. In accordance with that decision, Registrant established two separate trusts in 1995, one for those retirees who were subject to a collective bargaining agreement and another for all other retirees. Registrant's funding policy is to contribute annually an amount at least equal to the revenues authorized to be collected through rates for post-retirement benefit costs. Post-retirement benefit costs for 1993, 1994 and 1995 were estimated at a total of $1.6 million

and have been recorded as a regulatory asset for recovery over a 20-year period. The unamortized balance at December 31, 2000 was approximately $539,500.

At December 30, 1999, Registrant had 728 participants in the Plan, 61 of these are employees covered by collective bargaining agreements, the earliest of which expires in 2001. The following table sets forth the Plan's funded status and amounts recognized in Registrant's balance sheets and the components of net pension cost and accrued post-retirement liability at December 31, 2000 and 1999:

	Pension Benefits		Other Benefits	
(dollars in thousands)	2000	1999	2000	1999
CHANGE IN BENEFIT OBLIGATION:				
Benefit Obligation at beginning of year	$ 35,513	$ 38,572	$ 4,431	$ 4,363
Service Cost	1,530	1,963	103	125
Interest Cost	2,649	2,538	313	305
Actuarial Loss/(Gain)	2,164	(6,255)	(32)	(171)
Benefits Paid	(1,335)	(1,305)	(230)	(191)
Benefit Obligation at end of year	$ 40,521	$ 35,513	$ 4,585	$ 4,431
CHANGES IN PLAN ASSETS:				
Fair Value of Plan Assets at beginning of year	$ 47,776	$ 39,541	$ 1,760	$ 1,442
Actual Return of Plan Assets	(1,336)	8,277	70	25
Employer Contributions	-	1,264	458	484
Benefits Paid	(1,335)	(1,305)	(230)	(191)
Fair Value of Plan Assets at end of year	$ 45,105	$ 47,777	$ 2,058	$ 1,760
RECONCILIATION OF FUNDED STATUS:				
Funded Status	$ 4,583	$ 12,263	$ (2,528)	$ (2,671)
Unrecognized Transition Obligation	-	57	5,868	6,288
Unrecognized Net Loss/(Gain)	(2,969)	(10,683)	(1,704)	(1,869)
Unrecognized Prior Service Cost	311	355	(3,028)	(3,228)
Prepaid/(Accrued) Pension Cost	$ 1,925	$ 1,992	$ (1,392)	$ (1,480)
WEIGHTED-AVERAGE ASSUMPTIONS AS OF DECEMBER 31:				
Discount Rate	7.25%	7.75%	7.25%	7.75%
Long-term Rate of Return	8.00%	8.00%	8.00%	8.00%
Salary Assumption	4.00%	4.00%	-	-

A sliding scale for assumed health care cost increases was used for both periods, starting at 7% in 1999 and then remaining at 6% thereafter.

The components of net periodic post-retirement benefits cost for 2000 and 1999 are as follows:

	Pension Benefits		Other Benefits	
(dollars in thousands)	2000	1999	2000	1999
COMPONENTS OF NET PERIODIC BENEFITS COST				
Service Cost	$ 1,530	$ 1,963	$ 103	$ 125
Interest Cost	2,649	2,538	313	305
Actual Return on Plan Assets	1,336	(8,277)	(70)	(25)
Net Amortization	(5,448)	5,207	23	58
Net Periodic Pension Cost	$ 67	$ 1,431	$ 369	$ 463

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

(dollars in thousands)	1-Percentage-Point Increase	1-Percentage-Point Decrease
Effect on Total of Service and Interest Cost Components	$ 12	$ (11)
Effect on Postretirement Benefit Obligation	$ 181	$ (160)

Registrant has a 401(k) Investment Incentive Program under which employees may invest a percentage of their pay, up to a maximum investment prescribed by law, in an investment program managed by an outside investment manager. Company contributions to the 401(k) are based upon a percentage of individual employee contributions and, for 2000, 1999 and 1998, totaled $968,019, $920,340, and $874,113, respectively.

NOTE 7 - BUSINESS RISKS AND CONCENTRATION OF SALES

Registrant's utility operations are engaged in supplying water and electric service to the public. Registrant is required to provide service and grant credit to customers within its defined service areas. Although Registrant has a diversified base of residential, industrial and other customers, revenues derived from commercial and residential water customers accounted for approximately 91% of total water revenues in 2000 and 90% in 1999. Registrant faces additional risks associated with weather conditions, adequacy and quality of water supplies, regulatory decisions, pronouncements and laws, water-related litigation, general business conditions and condemnation.

Approximately 43% of the SCW's water supply is purchased from wholesalers of imported water, with the remainder produced from company wells. The long-term availability of imported water supplies is dependent upon, among other things, drought conditions throughout the state, increases in population, water quality standards and legislation that may potentially reduce water supplies. Reservoir storage statewide is down at the end of 2000 from year ago levels. The California Department of Water Resources has issued an early indication in January 2001 that if the trend of lower than normal precipitation continues, allocation of water to state water project contractors, including Metropolitan Water District (MWD), could be curtailed. The MWD, however, has publicly assured consumers that it is well prepared to help the region through one or more dry years. January and February 2001 brought significant precipitation that contributed to return the reservoir levels to normal.

CCWC has a long-term water supply contract with the Central Arizona Water Conservation District through September 2043 and is entitled to take 6,978 acre feet of water per year from the Central Arizona Project (CAP). CCWC's water supply may be subject to interruption or reduction, in particular owing to interruption or reduction of CAP water. In the event of interruption or reduction of CAP water, CCWC can rely on its well water supplies for short-term periods. However, in any event, the quantity of water CCWC supplies to some or all of its customers may be interrupted or curtailed, pursuant to the provisions of its tariffs.

The electric energy environment in California has changed as a result of the December 1995 CPUC decision on restructuring of California's electric utility industry and state legislation passed in 1996. There has been a substantial increase in the costs of purchased power in recent months. On January 17, 2001, the Governor of the State of California proclaimed a state of emergency in California due to shortages of electricity available to certain of California's utilities resulting in blackouts, the unanticipated and dramatic increases in electricity prices and the insufficiency of electricity available from certain of California's utilities to prevent disruption of electric service in California. The reasons for the high cost of energy are under investigation but are reported to include, among other things, limited supply caused by a lack of investment in new power plants to meet growth in demand, planned and unplanned outages of power plants, lower than usual availability of hydroelectric power from the Pacific Northwest due to lower than usual precipitation and higher demand for electricity in the region, transmission line constraints and increased prices for natural gas, the fuel used in many of the power plants serving the region.

Legislation has been enacted and executive orders issued designed to encourage and accelerate the construction of additional power plants and the repowering and updating of existing power plants to increase the supply of electricity in the State. A number of investigations have also been instituted as to the causes of the California energy situation and numerous pieces of legislation have been introduced at the California Legislature to deal with different aspects of the situation. The long-term impact of these legislative initiatives on SCW's Bear Valley Electric division is difficult to predict. For the short-term, however, management expects energy costs to remain high and to continue to be volatile.

In response to the potential for rising electricity costs, in May 2000, SCW entered into a one-year, block forward purchase contract with Dynegy for 12 megawatts (MW's) of electric energy for its Bear Valley electric service division at a price of $35.50 per MW. This contract expires April 30, 2001. Dynegy also procured electric energy requirements above the 12 MW forward purchase contract. The average minimum load at SCW's Bear Valley electric service division has been approximately 12 MW. The average winter load has been 18 MW with a winter peak of 30 MW when the snowmaking machines at the ski resorts are operating.

In a continuing effort to control the escalation of electric energy costs for SCW's Bear Valley Electric division, SCW is considering a number of options including (i) renegotiation of the block forward purchase of electric energy, (ii) purchase of electric energy from on-site generation facilities installed by a third party and (iii) use of portable generation to avoid peak energy prices. Each of these options is expected to result in increased electric energy prices for customers of SCW's Bear Valley Electric division. Management believes that these solutions in whole or in part represent significant savings for customers relative to reliance on spot purchases in the open market. Management further believes that costs incurred are recoverable from customers, although due to the nature of the regulatory process, there is a risk of disallowance of full recovery of costs or additional delays in the recovery of costs during any period in which there has been a substantial run-up in costs.

NOTE 8 - CONTINGENCIES

On April 22, 1999, the CPUC issued an order denying SCW's application seeking approval of its recovery through rates of costs associated with its participation in the Coastal Aqueduct Extension of the State Water Project (SWP). SCW's participation in the SWP commits it to a 40-year entitlement with a value of approximately $9.5 million. SCW's investment in SWP is currently included in Other Property and Investments. The remaining balance of the related liability of approximately $7 million is recorded as other long-term debt. SCW intends to recover its investment in SWP through contributions from developers on a per-lot or other basis, and, failing that, sale of its 500 acre-foot entitlement in SWP. SCW believes that its full investment and on-going costs associated with its ownership will be fully recovered.

SCW has been named as a defendant in fourteen lawsuits that allege that SCW delivered contaminated water to its customers. Plaintiffs in these actions seek damages, including general, special, and punitive damages, according to proof of trial, as well as attorney's fees on certain causes of action, costs of suit, and other unspecified relief. Eleven of the lawsuits involve customer service areas located in Los Angeles County in the southern portion of California; three of the lawsuits involve a customer service area located in Sacramento County in northern California. On September 1, 1999, the Court of Appeal in San Francisco held that the CPUC had preemptive jurisdiction over regulated public utilities and ordered dismissal of a series of lawsuits pertaining to water quality filed against water utilities, including SCW. Seven out of fourteen lawsuits against SCW had been ordered for dismissal by the state Court of Appeals. On October 11, 1999, one group of plaintiffs appealed the decision to the California Supreme Court, which has accepted the case. Management is unable to predict the outcome of this proceeding but, in any event, does not anticipate a decision prior to the fourth quarter of 2001.

In light of the breadth of plaintiff's claims, the lack of factual information regarding plaintiff's claims and injuries, if any, the fact that no discovery has yet been completed, SCW is unable to determine at this time what, if any, potential liability it may have with respect to these claims. SCW intends to vigorously defend itself against these allegations. Management cannot predict the outcome of these proceedings and if SCW were found liable, SCW would pursue recovery through its insurance coverage providers.

In response to those lawsuits and similar actions, in March 1998 the CPUC issued an Order Instituting Investigation (OII) directed to all Class A and B water utilities in California, including SCW, into whether existing standards and policies regarding drinking water quality adequately protect the public health and whether those standards and policies are being uniformly complied with by those water utilities. The OII notes the constitutional and statutory jurisdiction of the CPUC and the California Department of Health Services (DOHS) to establish and enforce adherence to water quality standards for water delivered by utilities to their customers and, in the case of the CPUC, to establish rates which permit water utilities to furnish water that meets the established water quality standards at prices which are both affordable and that allow the utility to earn a reasonable return on its investment.

On November 2, 2000, a final decision from the CPUC concludes that, among other things, the Commission has the jurisdiction to regulate the service of water utilities with respect to the health and safety of that service; that DOHS requirements governing drinking water quality adequately protect the public health and safety; and that regulated water utilities, including SCW, have satisfactorily complied with past and present drinking water quality requirements.

Management believes that proper insurance coverage and reserves are in place to insure against anticipated property, general liability and workers' compensation claims.

On October 25, 1999, SCW filed a lawsuit against the California Regional Water Quality Control Board (CRWQCB) alleging that the CRWQCB has willfully allowed portions of the Sacramento County Groundwater Basin to be injected with chemical pollution that is destroying the underground water supply in SCW's Rancho Cordova customer service area. Management cannot predict the likely outcome of this proceeding.

In a separate case, also filed on October 25, 1999, SCW sued Aerojet General Corp. (Aerojet) for causing the contamination of the Sacramento County Groundwater Basin. On March 22, 2000, Aerojet filed a cross complaint against SCW for negligence and constituting a public nuisance. Registrant is unable to determine at this time what, if any, potential liability it may have with respect to the cross complaint, but intends to vigorously defend itself against these allegations. Management cannot predict the likely outcome of this proceeding.

The CPUC has authorized memorandum accounts to allow for recovery of costs incurred by SCW in prosecuting these cases from customers, less any recovery from the defendants or others. As of December 31, 2000, approximately $3,268,000 has been recorded in the memorandum accounts. SCW filed an Advice Letter on December 26, 2000 for recovery of costs incurred on or before August 31, 2000 in accordance with CPUC approved procedures. The filing was to recover approximately $1,800,000 for costs associated with lawsuits against Aerojet and the CRWQCB, and $879,000 for OII. Management believes that these costs are recoverable although it can give no assurance that the CPUC will ultimately allow recovery of all or any of the costs through rates.

NOTE 9 - CONSTRUCTION PROGRAM

Registrant's 2001 construction budget provides for gross expenditures of approximately $57 million, $5 million is to be obtained from developers and others. Of this amount, approximately $13 million is subject to CPUC approval of an advice letter filing. Absent such approval, this amount would be included in the next general rate case filing for SCW's Region II. ASUS and CCWC do not have material capital commitments; however, ASUS actively seeks opportunities to own, lease or operate municipal water and wastewater systems, which may involve significant capital commitments.

NOTE 10 - ALLOWANCE FOR DOUBTFUL ACCOUNTS

The table below presents Registrant's provision for doubtful accounts charged to expense and accounts written off, net of recoveries. Provisions included in 2000 represent both SCW and CCWC. Provisions in 1999 and 1998 represent SCW only.

	December 31,		
(dollars in thousands)	2000	1999	1998
Balance at beginning of year	$ 487	$ 403	$ 466
Provision charged to expense	630	852	631
Accounts written off, net of recoveries	(607)	(768)	(694)
Balance at end of year	$ 510	$ 487	$ 403

Neither AWR parent nor ASUS have established any provision for doubtful accounts.

NOTE 11 - BUSINESS SEGMENTS

AWR has three principal business units: water and electric distribution units, through its SCW subsidiary, a water service utility operation conducted through its CCWC unit, and a non-regulated activity unit through the ASUS subsidiary. All activities of SCW currently are geographically located within California. All activities of CCWC are located in the state of Arizona. Both SCW and CCWC are regulated utilities. On a stand-alone basis, AWR has no material assets other than its investments in its subsidiaries. The tables below set forth information relating to SCW's operating segments, CCWC and non-regulated businesses. Included in the amounts set forth, certain assets, revenues and expenses have been allocated. The identifiable assets are net of respective accumulated provisions for depreciation.

(dollars in thousands)	Year Ended December 31, 2000				
	SCW				
	Water	Electric	CCWC Water	Non-Regulated*	Consolidated AWR
Operating revenues	$167,529	$ 14,366	$ 1,266	$ 799	$183,960
Operating income before income taxes	42,542	4,520	292	80	47,434
Identifiable assets	453,538	26,531	29,027	-	509,096
Depreciation expense	13,685	1,401	253	-	15,339
Capital additions	$ 43,483	$ 2,107	$ 193	-	$ 45,786

(dollars in thousands)	Year Ended December 31, 1999				
	SCW				
	Water	Electric	CCWC Water	Non-Regulated*	Consolidated AWR
Operating revenues	$159,693	$ 13,338	N/A	$ 390	$173,421
Operating income before income taxes	38,430	3,821	N/A	(392)	41,859
Identifiable assets	423,870	25,725	N/A	-	449,595
Depreciation expense	12,172	1,344	N/A	134	13,650
Capital additions	$ 49,405	$ 2,173	N/A	-	$ 51,578

(dollars in thousands)	Year Ended December 31, 1998				
	SCW				
	Water	Electric	CCWC Water	Non-Regulated*	Consolidated AWR
Operating revenues	$134,794	$ 13,201	N/A	$ 65	$148,060
Operating income before income taxes	31,675	3,847	N/A	(331)	35,191
Identifiable assets	389,772	24,981	N/A	-	414,753
Depreciation expense	10,630	1,640	N/A	268	12,538
Capital additions	$ 37,109	$ 2,116	N/A	-	$ 39,225

* Includes amounts from ASUS and AWR parent.

NOTE 12 - SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

The quarterly financial information presented below is unaudited. The business of Registrant is of a seasonal nature and it is management's opinion that comparisons of basic earnings for the quarter periods do not reflect overall trends and changes in Registrant's operations.

(in thousands, except per share amounts)	Operating Revenues		Operating Income		Net Income		Basic Earnings per Share	
	2000	1999	2000	1999	2000	1999	2000	1999
First Quarter	$ 38,749	$ 36,132	$ 6,202	$ 5,854	$ 2,895	$ 2,977	$ 0.32	$ 0.33
Second Quarter	45,428	42,116	7,525	7,251	3,919	4,406	0.44	0.49
Third Quarter	55,248	51,597	11,791	10,266	8,218	6,690	0.86	0.74
Fourth Quarter	44,535	43,576	6,788	5,143	3,053	2,028	0.30	0.23
Year	$183,960	$173,421	$ 32,307	$ 28,514	$ 18,086	$ 16,101	$ 1.92	$ 1.79

NOTE 13 - YEAR 2000 READINESS UPDATE

Registrant has no Y2K incidents, business disruptions, failures or legal proceedings to report. There were no actual or anticipated effects or changes to Registrant's operating trends or revenue patterns as a result of the millennium turnover. Not all Y2K problems were necessarily expected to surface in early 2000. Registrant does not have, and may never fully have, sufficient information about the Y2K exposure of third parties to adequately predict the risks posed by them to Registrant. If the third parties later discover any Y2K problems that are not remedied, resulting problems could include loss of utility services and disruption of water supplies. Costs incurred to address Y2K issues are recovered

through water rates. The CPUC has authorized an increase in rates of $830,000 per year, effective October 24, 2000.

REPORT OF MANAGEMENT

The consolidated financial statements contained in the annual report were prepared by the management of American States Water Company, which is responsible for their integrity and objectivity. The consolidated financial statements were prepared in accordance with generally accepted accounting principles and include, where necessary, amounts based upon management's best estimates and judgments. All other financial information in the annual report is consistent with the consolidated financial statements and is also the responsibility of management.

Registrant maintains systems of internal control, which are designed to help safeguard, the assets of Registrant and provide reasonable assurance that accounting and financial records can be relied upon to generate accurate financial statements. These systems include the hiring and training of qualified personnel, appropriate segregation of duties, delegation of authority and an internal audit function, which has reporting responsibility to the Audit Committee of the board of directors.

The Audit Committee, composed of three outside directors, exercises oversight of management's discharge of its responsibilities regarding the systems of internal control and financial reporting. The committee periodically meets with management, the internal auditor and the independent accountants to review the work and findings of each. The committee also reviews the qualifications of, and recommends to the board of directors, a firm of independent accountants.

The independent accountants, Arthur Andersen LLP, have performed an audit of the consolidated financial statements in accordance with generally accepted auditing standards. Their audit gave consideration to Registrant's system of internal accounting control as a basis for establishing the nature, timing and scope of their work. The result of their work is expressed in their Report of Independent Public Accountants.

s/ Floyd E. Wicks	s/ McClellan Harris III
President, Chief Executive Officer	Chief Financial Officer, Vice President - Finance, Treasurer and Corporate Secretary

February 28, 2001

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders and the Board of Directors of American States Water Company:

We have audited the accompanying consolidated balance sheets and statements of capitalization of American States Water Company and the balance sheets and statements of capitalization of Southern California Water Company (California corporations), as of December 31, 2000 and 1999 and the related consolidated statements of income, changes in common shareholders' equity and cash flows for each of the three years in the period ended December 31, 2000 of American States Water Company and the related statements of income, changes in common shareholders' equity and cash flows for each of the three years in the period ended December 31, 2000 of Southern California Water Company. These financial statements are the responsibility of the Registrant's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of American States Water Company and its subsidiary, Southern California Water Company, as of December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

s/ Arthur Andersen LLP
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Arthur Andersen LLP
Los Angeles, California

February 16, 2001

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information responsive to Part III, Item 10 is included in the Proxy Statement, to be filed by Registrant with the Commission pursuant to Regulation 14A, under the captions therein entitled "Election of Directors" and "Executive Officers - Experience, Security Ownership and Compensation" and is incorporated herein by reference pursuant to General Instruction G(3).

ITEM 11. EXECUTIVE COMPENSATION

Information responsive to Part III, Item 11 is included in the Proxy Statement, to be filed by Registrant with the Commission pursuant to Regulation 14A, under the captions therein entitled "Election of Directors" and "Executive Officers - Experience, Security Ownership and Compensation" and "Performance Graph" and is incorporated herein by reference pursuant to General Instruction G(3).

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information responsive to Part III, Item 12 is included in the Proxy Statement, to be filed by Registrant with the Commission pursuant to Regulation 14A, under the captions therein entitled "Election of Directors" and "Executive Officers - Experience, Security Ownership and Compensation" and is incorporated herein by reference pursuant to General Instruction G(3).

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information responsive to Part III, Item 13 is included in the Proxy Statement, to be filed by Registrant with the Commission pursuant to Regulation 14A, under the captions therein entitled "Election of Directors" and is incorporated herein by reference pursuant to General Instruction G(3).

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) 1. Reference is made to the Financial Statements incorporated herein by reference to Part II, Item 8 hereof.

2. All required schedules may be found in the Financial Statements and Notes to Financial Statements incorporated herein by reference to Part II, Item 8 hereof or at the conclusion of this Item. Schedules II, III, IV, and V are omitted as they are not applicable.

(b) Registrant filed a Form 8-K with the Securities and Exchange Commission on August 11, 2000, which indicated that Registrant had agreed to issue up to 1,000,000 of its Common Shares pursuant the terms of an Underwriting Agreement dated August 10, 2000. Included as exhibits to the form 8-K were Underwriting Agreement dated August 10, 2000 among the Registrant and the underwriters, and Opinion of O'Melveny & Myers LLP as to the validity of the Common Shares. There were no financial statements filed with this Form 8-K.

(c) Exhibits -

3.1 By-Laws of American States Water Company incorporated herein by reference to Registrant's Form 8-K, dated November 2, 1998. Commission File No. 333-47647.

3.2 By-laws of Southern California Water Company incorporated by reference to Registrant's Form 10-K for the year ended December 31, 1998. Commission File No. 001-14431.

3.3 Amended and Restated Articles of Incorporation of American States Water Company incorporated herein by reference to Registrant's Form 8-K, dated November 2, 1998. Commission File No. 333-47647.

3.3.1 Certificate of Amendment of Amended and Restated Articles of Incorporation, dated August 25, 1998, of American States Water Company incorporated by reference to Registrant's Form 10-K for the year ended December 31, 1998. Commission File No. 001-14431.

3.3.2 Certificate of Amendment of Amended and Restated Articles of Incorporation of American States Water Company, dated August 25, 1999 incorporated herein by reference to Registrant's Form 10-K with respect to the year ended December 31, 1999.

3.3 Restated Articles of Incorporation of Southern California Water Company incorporated herein by reference to Registrant's Form 8-K, dated January 20, 1999. Commission File No. 000-01121.

4.1 Amended and Restated Rights Agreement, dated January 25, 1999, by and between American States Water Company and ChaseMellon Shareholder Services, L.L.C., as Rights Agent incorporated by reference to Registrant's Form 10-K for the year ended December 31, 1998. Commission File No. 001-14431.

4.2 Indenture, dated September 1, 1993 between Southern California Water Company and Chemical Trust Company of California incorporated herein by reference to Registrant's Form 8-K. Registration No. 33-62832.

10.1 Agreement of Merger dated as of June 25, 1998 by and among Southern California Water Company, SCW Acquisition Corp. and American States Water Company incorporated herein by reference to Registrant's Form 8-K, dated July 1, 1998. Commission File No. 333-47647.

10.2 Deferred Compensation Plan for Directors and Executives incorporated herein by reference to Registrant's Registration Statement on Form S-2. Registration No. 33-5151. (2)

10.3 Reimbursement Agreement, dated September 1, 2000, between Southern California Water Company and Bank of America, N.A. incorporated herein. (1)

10.4 Second Sublease dated October 5, 1984 between Southern California Water Company and Three Valleys Municipal Water District incorporated herein by reference to Registrant's Registration Statement on Form S-2. Registration No. 33-5151.

10.5 Note Agreement dated as of May 15, 1991 between Southern California Water Company and Transamerica Occidental Life Insurance Company incorporated herein by reference to Registrant's Form 10-Q with respect to the quarter ended June 30, 1991. Commission File No. 000-01121.

10.6 Schedule of omitted Note Agreements, dated May 15, 1991, between Southern California Water Company and Transamerica Annuity Life Insurance Company, and Southern California Water Company and First Colony Life Insurance Company incorporated herein by reference to

Registrant's Form 10-Q with respect to the quarter ended June 30, 1991. Commission File No. 000-01121.

10.7 Loan Agreement between California Pollution Control Financing Authority and Southern California Water Company, dated as of December 1, 1996 incorporated by reference to Registrant's Form 10-K for the year ended December 31, 1998. Commission File No. 001-14431.

10.8 Agreement for Financing Capital Improvement dated as of June 2, 1992 between Southern California Water Company and Three Valleys Municipal Water District incorporated herein by reference to Registrant's Form 10-K with respect to the year ended December 31, 1992. Commission File No. 000-01121.

10.9 Water Supply Agreement dated as of June 1, 1994 between Southern California Water Company and Central Coast Water Authority incorporated herein by reference to Registrant's Form 10-K with respect to the year ended December 31, 1994. Commission File No. 000-01121.

10.10 Amended and Restated Retirement Plan for Non-Employee Directors of American States Water Company, dated as of October 25, 1999, incorporated herein by reference to Registrant's Form 10-K with respect to the year ended December 31, 1999. (2)

10.11 Dividend Reinvestment and Common Share Purchase Plan incorporated herein by reference to American States Water Company Rule 424 (b) (3) filing dated October 27, 1999. Commission File No. 333-88979.

10.12 Key Executive Long-Term Incentive Plan incorporated herein by reference to Registrant's 1995 Proxy Statement, Commission File No.00 0-01121. (2)

10.13 Energy Management Services Agreement between Southern California Water Company and Dynegy Power Marketing. (1)

10.14 Amended and Restated Change in Control Agreements, dated as of October 25, 1999, between American States Water Company, Southern California Water Company and certain executives incorporated herein by reference to Registrant's Form 10-K with respect to the year ended December 31, 1999. (2)

10.15 Amended and Restated Change in Control Agreements, dated as of October 25, 1999, between Southern California Water Company and certain executives incorporated herein by reference to Registrant's Form 10-K with respect to the year ended December 31, 1999. (2)

10.16 Southern California Water Company Pension Restoration Plan incorporated herein by reference to Registrant's Form 10-K with respect to the year ended December 31, 1999. (2)

10.17 American States Water Company Annual Incentive Plan incorporated herein by reference to Registrant's Form 10-K with respect to the year ended December 31, 1999. (2)

10.18 American States Water Company 2000 Stock Incentive Plan. Commission File No. 333-39482. (2)

10.19 Loan and Trust Agreement between The Industrial Development Authority of The County of Maricopa, Chaparral City Water Company and Bank One, Arizona, NA,, dated as of December 1, 1997. (1)

10.20 Delivery Agreement between Central Arizona Water Conservation District and Chaparral City Water Company, dated as of December 6, 1984. (1)

	10.21	Repayment Contract between the United States Bureau of Reclamation and Chaparral City Water Company, dated as of December 6, 1984 for construction of a delivery and storage system to transport CAP water. (1)
	21.	Subsidiaries of Registrant incorporated herein by reference to Registrant's Form 10-K with respect to the year ended December 31, 1998. Commission File No. 001-14431.
	23.	Consent of Independent Public Accountants. (1)

(d) None.

- ----------

(1) Filed concurrently herewith

(2) Management contract or compensatory arrangement

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON SUPPLEMENTAL SCHEDULE

To American States Water Company:

We have audited in accordance with generally accepted auditing standards in the United States, the consolidated financial statements included in this Form 10-K, and have issued our report thereon dated February 16, 2001. Our audits of the consolidated financial statements were made for the purpose of forming an opinion on those basic consolidated financial statements taken as a whole. The supplemental schedule listed in Part IV of this Form 10-K is the responsibility of American States Water Company's management, is presented for purposes of complying with the Securities and Exchange Commission's rules, and is not part of the basic consolidated financial statements. This supplemental schedule has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

s/ Arthur Andersen LLP
- ------------------------------
Arthur Andersen LLP
Los Angeles, California

February 16, 2001

AMERICAN STATES WATER COMPANY
SCHEDULE I - CONDENSED FINANCIAL INFORMATION OF PARENT

CONDENSED BALANCE SHEETS

(in thousands)	December 31, 2000	1999
ASSETS		
Cash and equivalents	$ 294	$ 169
Other current assets	4,738	4,003
Total current assets	5,032	4,172
Investments in subsidiaries	189,383	160,370
Other deferred debits	121	123
Total assets	$ 194,536	$ 164,665
LIABILITIES AND CAPITALIZATION		
Accounts payable	$ 5	$ 4,116
Other current liabilities	(112)	(257)
Total current liabilities	(107)	3,859
Common shareholders' equity	192,723	158,846
Preferred shares	1,920	1,960
Total capitalization	194,643	160,806
Total liabilities and capitalization	$ 194,536	$ 164,665

CONDENSED STATEMENTS OF INCOME

(in thousands except per share amount)	December 31, 2000	1999
Operating Revenue And Other Income	-	$ 23
Operating Expenses	$ (206)	85
Income (Loss) Before Equity in Earnings of Subsidiaries	206	(62)
Equity in Earnings of Subsidiaries	17,880	16,163
Net Income	18,086	16,101
Dividends on Preferred Shares	(86)	(88)
Earnings Available For Common Shareholders	$ 18,000	$ 16,013
Weighted Average Number of Common Shares Outstanding	9,380	8,958
Basic Earnings Per Common Share	$ 1.92	$ 1.79
Weighted Average Number of Diluted Common Shares Outstanding	9,411	N/A
Fully Diluted Earnings per Common Share	$ 1.91	N/A

CONDENSED STATEMENTS OF CASH FLOWS

(in thousands)	December 31, 2000	1999
Cash Flows From Operating Activities	$ 13,075	$ 11,666
Cash Flows Used in Investing Activities	(24,340)	-
Cash Flows Used in Financing Activities	11,390	(11,593)
Increase (Decrease) in Cash and Equivalents	125	73
Cash and Equivalents at Beginning of Period	169	96
Cash and Equivalents at the End of Period	$ 294	$ 169
Cash dividends received from Southern California Water Company	$ 12,900	$ 12,040

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AMERICAN STATES WATER COMPANY
and its subsidiary
SOUTHERN CALIFORNIA WATER COMPANY

By : s/ McCLELLAN HARRIS III

McClellan Harris III
Vice President - Finance, Treasurer,
Chief Financial Officer and Secretary

Date: February 28, 2001

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of Registrant and in the capacities and on the dates indicated.

s/ LLOYD E. ROSS — Date: February 28, 2001

Lloyd E. Ross
Chairman of the Board and Director

s/ FLOYD E. WICKS — February 28, 2001

Floyd E. Wicks
Principal Executive Officer;
President, CEO and Director

s/ McCLELLAN HARRIS III — February 28, 2001

McClellan Harris III
Principal Financial and Accounting Officer;
CFO, VP - Finance, Treasurer and Secretary

s/ LINDA J. MATLICK — February 28, 2001

Linda J. Matlick
Controller - Southern California Water Company

s/ JAMES L. ANDERSON — February 28, 2001

James L. Anderson, Director

s/ JEAN E. AUER — February 28, 2001

Jean E. Auer, Director

s/ N. P. DODGE, JR — February 28, 2001
- ----------
N. P. Dodge, Jr., Director

s/ ANNE M. HOLLOWAY — February 28, 2001
- ----------
Anne M. Holloway, Director

s/ ROBERT F. KATHOL — February 28, 2001
- ----------
Robert F. Kathol, Director

EXHIBIT INDEX

3.1	By-Laws of American States Water Company incorporated herein by reference to Registrant's Form 8-K, dated November 2, 1998. Commission File No. 333-47647.
3.2	By-laws of Southern California Water Company incorporated by reference to Registrant's Form 10-K for the year ended December 31, 1998. Commission File No. 001-14431.
3.3	Amended and Restated Articles of Incorporation of American States Water Company incorporated herein by reference to Registrant's Form 8-K, dated November 2, 1998. Commission File No. 333-47647.
3.3.1	Certificate of Amendment of Amended and Restated Articles of Incorporation, dated August 25, 1998, of American States Water Company incorporated by reference to Registrant's Form 10-K for the year ended December 31, 1998. Commission File No. 001-14431.
3.3.2	Certificate of Amendment of Amended and Restated Articles of Incorporation of American States Water Company, dated August 25, 1999 incorporated herein by reference to Registrant's Form 10-K with respect to the year ended December 31, 1999.
3.3	Restated Articles of Incorporation of Southern California Water Company incorporated herein by reference to Registrant's Form 8-K, dated January 20, 1999. Commission File No. 000-01121.
4.1	Amended and Restated Rights Agreement, dated January 25, 1999, by and between American States Water Company and ChaseMellon Shareholder Services, L.L.C., as Rights Agent incorporated by reference to Registrant's Form 10-K for the year ended December 31, 1998. Commission File No. 001-14431.
4.2	Indenture, dated September 1, 1993 between Southern California Water Company and Chemical Trust Company of California incorporated herein by reference to Registrant's Form 8-K. Registration No. 33-62832.
10.1	Agreement of Merger dated as of June 25, 1998 by and among Southern California Water Company, SCW Acquisition Corp. and American States Water Company incorporated herein by reference to Registrant's Form 8-K, dated July 1, 1998. Commission File No. 333-47647.
10.2	Deferred Compensation Plan for Directors and Executives incorporated herein by reference to Registrant's Registration Statement on Form S-2. Registration No. 33-5151. (2)
10.3	Reimbursement Agreement, dated September 1, 2000, between Southern California Water Company and Bank of America, N.A. incorporated herein. (1)
10.4	Second Sublease dated October 5, 1984 between Southern California Water Company and Three Valleys Municipal Water District incorporated herein by reference to Registrant's Registration Statement on Form S-2. Registration No. 33-5151.
10.5	Note Agreement dated as of May 15, 1991 between Southern California Water Company and Transamerica Occidental Life Insurance Company incorporated herein by reference to Registrant's Form 10-Q with respect to the quarter ended June 30, 1991. Commission File No. 000-01121.
10.6	Schedule of omitted Note Agreements, dated May 15, 1991, between Southern California Water Company and Transamerica Annuity Life Insurance Company, and Southern California Water Company and First Colony Life Insurance Company incorporated herein by reference

to Registrant's Form 10-Q with respect to the quarter ended June 30, 1991. Commission File No. 000-01121.

10.7 Loan Agreement between California Pollution Control Financing Authority and Southern California Water Company, dated as of December 1, 1996 incorporated by reference to Registrant's Form 10-K for the year ended December 31, 1998. Commission File No. 001-14431.

10.8 Agreement for Financing Capital Improvement dated as of June 2, 1992 between Southern California Water Company and Three Valleys Municipal Water District incorporated herein by reference to Registrant's Form 10-K with respect to the year ended December 31, 1992. Commission File No. 000-01121.

10.9 Water Supply Agreement dated as of June 1, 1994 between Southern California Water Company and Central Coast Water Authority incorporated herein by reference to Registrant's Form 10-K with respect to the year ended December 31, 1994. Commission File No. 000-01121.

10.10 Amended and Restated Retirement Plan for Non-Employee Directors of American States Water Company, dated as of October 25, 1999, incorporated herein by reference to Registrant's Form 10-K with respect to the year ended December 31, 1999. (2)

10.11 Dividend Reinvestment and Common Share Purchase Plan incorporated herein by reference to American States Water Company Rule 424 (b) (3) filing dated October 27, 1999. Commission File No. 333-88979.

10.12 Key Executive Long-Term Incentive Plan incorporated herein by reference to Registrant's 1995 Proxy Statement, Commission File No.00 0-01121. (2)

10.13 Energy Management Services Agreement between Southern California Water Company and Dynegy Power Marketing. (1)

10.14 Amended and Restated Change in Control Agreements, dated as of October 25, 1999, between American States Water Company, Southern California Water Company and certain executives incorporated herein by reference to Registrant's Form 10-K with respect to the year ended December 31, 1999. (2)

10.15 Amended and Restated Change in Control Agreements, dated as of October 25, 1999, between Southern California Water Company and certain executives incorporated herein by reference to Registrant's Form 10-K with respect to the year ended December 31, 1999. (2)

10.16 Southern California Water Company Pension Restoration Plan incorporated herein by reference to Registrant's Form 10-K with respect to the year ended December 31, 1999. (2)

10.17 American States Water Company Annual Incentive Plan incorporated herein by reference to Registrant's Form 10-K with respect to the year ended December 31, 1999. (2)

10.18 American States Water Company 2000 Stock Incentive Plan. Commission File No. 333-39482. (2)

10.19 Loan and Trust Agreement between The Industrial Development Authority of The County of Maricopa, Chaparral City Water Company and Bank One, Arizona, NA,, dated as of December 1, 1997. (1)

10.20 Delivery Agreement between Central Arizona Water Conservation District and Chaparral City Water Company, dated as of December 6, 1984. (1)

	10.21	Repayment Contract between the United States Bureau of Reclamation and Chaparral City Water Company, dated as of December 6, 1984 for construction of a delivery and storage system to transport CAP water. (1)
	21.	Subsidiaries of Registrant incorporated herein by reference to Registrant's Form 10-K with respect to the year ended December 31, 1998. Commission File No. 001-14431.
	23.	Consent of Independent Public Accountants. (1)

(d) None.

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(1) Filed concurrently herewith

(2) Management contract or compensatory arrangement

EXHIBIT 10.3

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REIMBURSEMENT AGREEMENT

BY AND BETWEEN

SOUTHERN CALIFORNIA WATER COMPANY

AND

BANK OF AMERICA N.A.

==========

Dated as of September 1, 2000

TABLE OF CONTENTS

REIMBURSEMENT AGREEMENT

This Reimbursement Agreement dated as of September 1, 2000, is entered into by and between SOUTHERN CALIFORNIA WATER COMPANY, a California corporation, (the "Borrower") and BANK OF AMERICA, N.A., a national banking association organized and existing under the laws of the United States of America (the "Bank").

A. The Borrower has requested the Three Valleys Municipal Water District, a Municipal Water District of the State of California duly organized and existing under the Constitution and laws of the State of California (the "District"), to finance a portion of the costs of acquisition, construction, equipping and installing of certain water treatment, water transmission and hydroelectric generating facilities (the "Project") as described in Exhibit B to the Second Lease-Purchase Agreement dated as of November 1, 1984 (the "Second Lease-Purchase Agreement") between the District and Central Bank Leasing, a division of Cenval Leasing Corp., a corporation organized under the laws of the State of California (the "Leasing Firm") by the issuance pursuant to the Second Trust Agreement dated as of November 1, 1984, as amended and modified (the "Second Trust Agreement") among the District, the Leasing Firm, U.S. Bank Trust National Association, as trustee (the "Trustee") and the Borrower, of $6,000,000 principal amount of Certificates of Participation (Variable Rate Obligation), (Miramar Water Treatment, Water Transmission and Hydroelectric Generating Facilities Project) (the "Certificates").

B. The Borrower has requested the Bank to issue an irrevocable letter of credit substantially in the form of Exhibit A hereto (as amended or supplemented from time to time, the "Letter of Credit") in an amount not exceeding $6,296,000 (Six Million Two Hundred Ninety-Six Thousand Dollars) (the "Letter of Credit Commitment"), of which an amount not exceeding $6,000,000 (Six Million Dollars) may be drawn upon with respect to the principal, or portion of the purchase price equal to principal, of the Certificates, and of which an amount not exceeding $296,000, (Two Hundred Ninety-Six Thousand Dollars) may be drawn upon with respect to the payment of up to one hundred twenty (120) days' interest accrued on the Certificates at or prior to the Expiration Date of the Letter of Credit.

C. The Bank has agreed to issue the Letter of Credit on the terms and subject to the conditions set forth herein.

ARTICLE I

DEFINITIONS

1.01 Definitions. In addition to the terms defined in the Whereas clauses above and elsewhere in this Agreement, the following terms used in this Agreement and in any exhibits hereto shall, unless the context otherwise requires, have the following meanings:

"Advance" means the reimbursement obligation of the Borrower outstanding from time to time in respect of payments under the Letter of Credit pursuant to a Purchase Drawing.

"Agreement" means this Reimbursement Agreement, as it may be amended and supplemented from time to time.

"Bank" means the Bank.

"Borrower" means Southern California Water Company, a California corporation.

"Business Day" means any day other than a Saturday, Sunday or any other day on which banking institutions in California and New York are authorized or required to close.

"Certificates" shall mean the $6,000,000 Certificates of Participation (Variable Rate Obligation) (Miramar Water Treatment, Water Transmission and Hydroelectric Generating Facilities) issued pursuant to the Second Trust Agreement.

"Closing Date" means the date on which all conditions precedent under Section 6.01 have been satisfied or have been waived by the Bank.

"Code" means the Internal Revenue Code of 1986, as amended. "Collateral Documents" means the Pledge Agreement, the Security Agreement and each other document, agreement and

instrument granting to the Bank a lien as collateral security for the Borrower's obligations to the Bank hereunder.

"Credit Agreement" means the Business Loan Agreement dated as of October 4, 1999, by and between the Bank and the Borrower as the same may be amended, modified, renewed, extended and restated from time to time and shall refer to any successor agreement which restates and supersedes the Credit Agreement in its entirety.

"Default" means an event which with the giving of notice or lapse of time, or both, would constitute an Event of Default.

"District" means Three Valleys Municipal Water District, a Municipal Water District duly organized and existing under the Constitution and laws of the State of California.

"Encumbrance" means any deed of trust, pledge, assignment, lien, charge, encumbrance or security interest of any kind, or the interest of a vendor or lessor under any conditional sale, capitalized lease or other title retention agreement.

"ERTSA" means the Employee Retirement Income Security Act of 1974, as amended, and the rules and regulations issued thereunder as from time to time in effect.

"Event of Default" means any of the events specified in Section 8.01.

"Expiration Date" means the date of expiration of the Letter of Credit, which shall initially be at 3:00 p.m., Los Angeles time on November 15, 2003. The Expiration Date may be extended as provided in Section 2.08 hereof.

"Governmental Authority" means any government, foreign or domestic, and any political subdivision thereof, any court or any foreign or domestic, federal, state, municipal or other department, commission, board, bureau, agency, public authority or instrumentality.

"Governmental Requirement" means any law, ordinance, order, rule or regulation of a Governmental Authority.

"Indebtedness" means for any Person calculated on a

consolidated basis in accordance with generally accepted accounting principles (a) all indebtedness of such Person for borrowed money or for the deferred purchase price of property; (b) all direct or indirect guaranties of such Person in respect of, and all obligations (contingent or otherwise) of such Person to purchase or otherwise acquire, or otherwise to assure a creditor against loss in respect of, indebtedness of any other Person; and (c) all obligations of such Person as lessee under leases which have been or should be in accordance with generally accepted accounting principles recorded as capital leases. In calculating Indebtedness, no amount shall be included more than once in the aggregate of the above described amounts.

"Interest Drawing" means a drawing pursuant to Annex B of the Letter of Credit.

"Interest Purchase Drawing" means a drawing pursuant to Annex D of the Letter of Credit.

"Leasing Firm" means Central Bank Leasing, a division of Cenval Leasing Corp., a corporation organized under the laws of the State of California.

"Letter of Credit" means the letter of credit, substantially in the form of Exhibit A hereto, issued pursuant to Section 2.01(a) and any letter of credit issued in substitution therefor pursuant to the terms of this Agreement, as such Letter of Credit may be amended, renewed or extended from time to time.

"Obligations" means all obligations of the Borrower to the Bank hereunder, whether monetary or nonmonetary.

"Person" means any individual, firm, partnership, joint venture, corporation, association, business enterprise, trust, governmental authority or other entity whether acting in an individual, fiduciary or other capacity.

"Plan" means an employee benefit plan or pension plan covered by ERISA.

"Pledge Agreement" means the Pledge and Security Agreement in the form of Exhibit B hereto and required by Section 4.01, covering the Remarketing Certificates.

"Principal Drawing" means a drawing pursuant to Annex A of the Letter of Credit.

"Principal Purchase Drawing" shall mean a drawing pursuant to Annex C of the Letter of Credit.

"Project" shall have the meaning set forth in the Preamble.

"Prime Rate" means the rate of interest publicly announced from time to time by the Bank, as its reference rate. The Prime Rate is a rate set by the Bank based upon various factors including the Bank's costs and desired return, general economic conditions and other factors, and is used as a reference point for pricing some loans. The Bank may price loans at, above or below the Prime Rate. Any change in the Prime Rate shall take effect on the day specified in the public announcement of such change.

"Related Documents" means the Second Trust Agreement, the Certificates, the Second Lease-Purchase Agreement, the Second Miramar Project Sublease, this Agreement, the Pledge Agreement, the Security Agreement, the Remarketing Agreement and any exhibit, certificate, notice or other written information or document furnished by the Borrower on or prior to the Closing Date or to be furnished by the Borrower to the Bank in connection therewith.

"Remarketing Agent" shall have the meaning defined in the Second Trust Agreement.

"Remarketing Agreement" means that certain Remarketing Agreement dated December 5, 1984, among the Borrower, the Trustee and the Remarketing Agent, as such Remarketing Agreement may be amended or supplemented from time to time.

"Remarketing Certificates" shall have the meaning given in the Pledge Agreement.

"Second Lease-Purchase Agreement" means that certain Second Lease-Purchase Agreement dated as of November 1, 1984 by and between the District and the Leasing Firm.

"Second Miramar Project Sublease" means that certain Second Miramar Project Sublease dated as of October 5, 1984, by and between the District and the Borrower.

"Second Trust Agreement" means that certain Second Trust Agreement dated as of November 1, 1984, as amended among the District, the Leasing Firm, the Trustee and the Company.

"Security Agreement" means the Security Agreement (Second Trust Funds) in substantially the form of Exhibit C hereto, to be executed and delivered by the Trustee and the Bank, pursuant to which the Bank shall have a security interest subordinate to that of the Trustee in all moneys and investments held by the Trustee under the Second Trust Agreement.

"Trustee" means U.S. Bank Trust National Association or any successor trustee thereto pursuant to the terms of the Second Trust Agreement.

1.02 Accounting Terms and Determinations. Unless otherwise specified herein, all accounting terms used herein shall be interpreted, all accounting determinations hereunder shall be made, and all financial statements required to be delivered hereunder shall be prepared in accordance with, generally accepted accounting principles as in effect from time to time and consistently applied.

ARTICLE II

LETTER OF CREDIT

2.01 Issuance of the Letter of Credit.

(a) Subject to the terms and conditions of this Agreement, the Bank hereby agrees on the Closing Date, upon the request of the Borrower, to issue its Letter of Credit in favor of the Trustee for the account of the Borrower. The Letter of Credit shall be in a face amount not exceeding Six Million Two Hundred Ninety-Six Thousand Dollars ($6,296,000).

(b) The request for issuance of the Letter of Credit shall constitute a representation and warranty by the Borrower that as of the date of such request the representations and warranties set forth in Article V are true and correct and that no Default or Event of Default has occurred and is continuing.

2.02 Expiration Date. The Letter of Credit shall expire on the Expiration Date.

2.03 Pledge of Remarketing certificates on Principal Purchase Drawings. Upon any disbursement made under the Letter of Credit pursuant to a Principal Purchase Drawing, the Co-Paying Agent (as defined in the Second Trust Agreement) shall hold for the benefit of the Bank under the Pledge Agreement any Remarketing Certificates purchased with the proceeds of such Principal Purchase Drawing until such time as such Certificates are remarketed, redeemed or canceled. No Certificate held by the Co-Paying Agent or the Trustee pursuant to this Section nor any Certificate registered in the name of the Borrower shall be entitled to the benefit of the Letter of Credit until remarketed.

2.04 Reimbursement for Draws Upon the Letter of Credit. Subject to Section 3.04 and except as provided in Section 2.05, the Borrower agrees to reimburse the Bank, on each date that any amount drawn upon the Letter of Credit is honored by the Bank, for the amount of such drawing.

2.05 Reimbursement of Principal Purchase Drawings under the Letter of Credit; Mandatory Prepayment; Interest.

(a) Any Principal Purchase Drawing not reimbursed by the Borrower on the date the Purchase Drawing is honored by the Bank shall, subject to Section 6.02, be automatically converted into an Advance maturing on the day which is the earlier of (i) 364 days from the date that any amount is drawn under the Letter of Credit pursuant to any Principal Purchase Drawing or (ii) such date as (x) the principal amount of the Certificates purchased pursuant to such Principal Purchase Drawing shall become due and payable under Section 13.02 of the Second Trust Agreement or as a result of redemption or prepayment of such Certificates, (y) the Certificates purchased pursuant to such Principal Purchase Drawing shall be purchased pursuant to Sections 3.11(a)(4) or 3.12 of the Second Trust Agreement, or (z) the Letter of Credit shall terminate.

(b) Each Advance created pursuant to paragraph (a) of this Section 2.05 shall bear interest until due at a rate per annum equal to the Prime Rate plus one percent (1%). Any other amount drawn under the Letter of Credit and any amount not paid when due under this Agreement shall bear interest until paid in full at a

rate per annum equal to the sum of the Prime Rate plus three (3) percentage points. Interest shall be payable in arrears on each Interest Payment Date, and on the date of maturity of the Advance or upon the acceleration of an Advance or on the date of payment of the Advance, drawing or other amount due.

2.06 Obligation to Pay Unconditional.

(a) The Borrower's obligations to reimburse the Bank as provided herein either directly, or from the proceeds of the remarketing of the Certificates, is absolute, unconditional and irrevocable, and shall be paid strictly in accordance with the terms of this Agreement, under all circumstances whatsoever, including without limitation the following circumstances except as may be the result of the gross negligence or willful misconduct of the Bank:

(i) any lack of validity or enforceability of the Letter of Credit, the Certificates or any Related Document (provided payments are actually made under the Letter of Credit);

(ii) any amendment or waiver of or any consent to departure from all or any of such documents;

(iii) the existence of any claim, set-off, defense or other right which the Borrower may have at any time against the Trustee, the Remarketing Agent, or any other Person, whether in connection with this Agreement, the Certificates, the Related Documents or any unrelated transaction;

(iv) payment by the Bank under the Letter of Credit against presentation of a sight draft or certificate which complies in all material respects with the terms of the Letter of Credit but does not strictly comply therewith;

(v) any demand, statement or any other document presented under the Letter of Credit proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect whatsoever; or

(vi) any other circumstance, happening or omission whatsoever which is similar to any of the foregoing.

2.07 Prepayments. Pursuant to the Pledge Agreement, the Borrower has agreed to pledge to the Bank, and grant to the Bank a security interest in, its right, title and interest in Certificates purchased with the proceeds of any Principal Purchase Drawing and delivered to the Bank (the "Remarketing Certificates"; such Certificates when released by the Bank pursuant to Section 5 of the Pledge Agreement shall cease to be Remarketing Certificates). Remarketing Certificates shall be registered as provided for in Section 3 of the Pledge Agreement. Any amounts from time to time owing to the Bank may be prepaid at any time (i) by the Borrower on notice stating the amount to be prepaid, or (ii) on behalf of the Borrower by the Remarketing Agent on notice from the Remarketing Agent or its designee directing the Bank to deliver Certificates held by the Bank to the Remarketing Agent for sale pursuant to Section 3(c) of the Remarketing Agreement, and specifying the principal amount of Certificates to be so sold. Any notice furnished pursuant to clause (i) or (ii) of this Section 2.07 may be given by telephone and promptly confirmed in writing but shall not be effective unless received by the Bank on or prior to the Business Day preceding the day of the proposed prepayment referred to in clauses (i) and (ii) of this Section 2.07. In addition, the Borrower shall, for the purpose of paying the purchase price of any Certificate delivered to the Co-Paying Agent (as defined in the Second Trust Agreement) pursuant to Section 3.02(e) of the Second Trust Agreement forthwith upon demand by the Bank prepay any amount owing to the Bank if the Bank shall at any time determine that the Co-Paying Agent or the Remarketing Agent, as the case may be, failed for any reason to pay or tender payment of the purchase price of such Certificate when due to or for the account of the Person (as defined in the Second Trust Agreement) entitled thereto, and such failure is continuing or any other Person shall assert that such Person has a lien on or security interest in such Certificate and the Bank determines that such assertion is not manifestly unreasonable. Upon such prepayment, interest shall cease to accrue on the amount which has been prepaid and the Bank shall release and deliver to the Borrower, in the case of a prepayment pursuant to clause (i) of this Section 2.07, or the Co-Paying Agent, in the case of a prepayment pursuant to clause (ii) of this Section 2.07, from the pledge and security interest created by the Pledge Agreement, Remarketing Certificates as to which the

principal amount plus accrued interest to the date of such release and delivery is equal to the amount of such prepayment.

2.08 Right of Bank to Extend Letter of Credit. Upon written notice given by the Borrower to the Bank at least 195 days prior to the Expiration Date of the Letter of Credit requesting the Bank to extend the Letter of Credit for the period requested by the Borrower, the Bank shall have the right either (i) subject to such terms and conditions as agreed upon by the Bank and the Borrower, to extend the Letter of Credit for an additional period as requested by the Borrower, or, (ii) to decline to extend the Letter of Credit. The Bank shall have complete and absolute discretion in selecting one of the aforesaid options. If the Bank elects to extend the Letter of Credit, the Bank shall give written notice to the Borrower and the Trustee of such election at least 150 days prior to the Expiration Date of the Letter of Credit and shall issue to the Trustee an advice of amendment providing for the extension of the Expiration Date of the Letter of Credit provided, however, that the Bank shall also have the option to instruct the Trustee to surrender the outstanding Letter of Credit to the Bank and upon such instruction, the Trustee shall surrender the outstanding Letter of Credit to the Bank on the Business Day next following the day of such date and the Bank will issue a substitute irrevocable letter of credit in substantially the form of Exhibit A having a new Expiration Date, but otherwise having terms identical to the then outstanding Letter of Credit.

2.09 Optional Prepayment of Certificates; Custodial Account.

(a) Section 3.11(a)(2) of the Second Trust Agreement provides for the prepayment of all Outstanding Certificates on any Interest Payment Date on or after February 6, 1985 (as these terms are defined in the Second Trust Agreement) upon the exercise of the District's option at the direction of the Borrower pursuant to Section 8.2 of the Second Lease - Purchase Agreement to cause such prepayment. Section 8.2 of the Second Lease - Purchase Agreement requires the District to give the Leasing Firm, the Borrower and the Trustee notice of such prepayment at least 60 days prior to the Interest Payment Date on which such prepayment is to occur. The Borrower hereby agrees that it will give prior written notice to the Bank of its intention to

direct the District to exercise its option to prepay all Outstanding Certificates at least fifteen (15) Business Days prior to such direction. Such notice shall state (i) the date on which the Borrower intends to give such direction to the District, (ii) the Interest Payment Date on which all Outstanding Certificates are to be prepaid and (iii) the Borrower's intentions with respect to the deposit of monies pursuant to subsection (b) hereof sufficient to reimburse the Bank for a drawing under the Letter of Credit with respect to such prepayment pursuant to subsection (b) hereof. The Borrower agrees that it will not direct the District to exercise its option to prepay all Outstanding Certificates without the prior written consent of the Bank, provided however, that the Bank agrees that it will give such consent if (i) there has occurred no material adverse change in the financial condition of the Borrower and (ii) the Borrower has demonstrated to the satisfaction of the Bank that it will have sufficient moneys to make the deposit required under subsection (b) hereof.

(b) In order to facilitate the optional prepayment by the District of the Certificates pursuant to Section 3.11(a)(4) of the Second Trust Agreement, the Borrower agrees to deposit, in a custodial account maintained by and with the Bank for such purpose (the "Custodial Account"), on or prior to thirty-five (35) days prior to the date designated for such prepayment and in accordance with the Bank's instructions, in immediately available funds, in an amount equal to the amount of principal and accrued interest (if any) to be paid to prepay such Certificates on such prepayment date.

The Bank agrees to invest any moneys deposited pursuant to this section as directed by the Borrower in any investment permitted under the Second Trust Agreement with a maturity of thirty (30) days or less that is generally made available by the Bank to its customers. The Bank agrees to pay to the Borrower on the respective prepayment date to which such deposit pertains any amounts not needed to reimburse the Bank for any drawings under the Letter of Credit and any other amounts owing hereunder. Cash deposited into the custodial account described above shall be used solely to reimburse the Bank after any drawing by the Trustee under the Letter of Credit in respect of the prepayment of Certificates

pursuant to Section 3.11(a)(4) of the Second Trust Agreement and any other amounts owing hereunder and shall not be used by the Bank to fund any such drawing, which shall be funded only from moneys of the Bank held separately from such cash deposited. The Borrower hereby grants to the Bank, any participant in the Letter of Credit and the Trustee as representative of the holders from time to time for the Certificates, as security for the payment and performance of the Obligations, a lien upon and security interest in all amounts deposited in the Custodial Account. All funds deposited with the Bank pursuant to this Section 2.12 shall be held by the Bank on a pari passu basis with the interest in the Trustee in such funds.

Section 2.10 Receipt of Certain Funds by Bank. The Trustee has agreed that it will transfer the monies required to be transferred to the Bank pursuant to the Second Trust Agreement. All such moneys received by the Bank shall be credited by the Bank against any Obligations of the Borrower to the Bank and any other amounts owning hereunder. The Bank shall also be entitled to retain all or a portion of such moneys received equal to an amount which it reasonably anticipates may be necessary to reimburse the Bank for Obligations and any other amounts which may be incurred by the Bank in the future. The Bank shall transfer all such moneys not required to be so credited or retained to the Borrower.

Section 2.11 Removal and Replacement of Remarketing Agent. Section 9.10 of the Second Trust Agreement and Section 5(a) of the Remarketing Agreement grant the Borrower the right to remove the Remarketing Agent at any time with the concurrence of the District and Section 9.10 of the Second Trust Agreement grants the Company the right to appoint a successor Remarketing Agent with the concurrence of the District. The Borrower hereby agrees that (i) upon the receipt of written request by the Bank, it shall take such action so as to cause the removal of the Remarketing Agent, and (ii) it shall not remove the Remarketing Agent without the prior written consent of the Bank, which consent shall not be unreasonably withheld. The Borrower additionally agrees that it will not appoint a successor Remarketing Agent without the prior written consent of the Bank which consent shall not be unreasonably withheld.

ARTICLE III

FEES; PAYMENTS; CHANGES IN CIRCUMSTANCES

3.01 Letter of Credit Fee. The Borrower shall pay to the Bank a letter of credit fee equal to ninety hundredths of one percent (0.90%) per annum of the Stated Amount of the Letter of Credit (as defined therein) and as reduced or increased from time to time. The letter of credit fee shall be payable quarterly in advance, commencing on the Closing Date and on the last Business Day of each calendar quarter thereafter.

3.02 Transaction Fees. The Borrower shall pay to the Bank:

(a) on the date of each drawing under the Letter of Credit, a transaction fee in amount equal to Two Hundred Fifty Dollars ($250.00); and

(b) on the date of any transfer of the Letter of Credit, a transaction fee in an amount equal to Two Thousand Five Hundred Dollars ($2,500.00).

3.03 Computation of Fees and Interest. All computations of fees and interest under this Agreement shall be made on the basis of a three hundred sixty (360) day year and actual days elapsed (which results in a higher interest and higher fees than if a three hundred sixty-five (365) day year were used). Interest shall accrue during each period during which interest is computed from but excluding the first day thereof to and including the last day thereof.

3.04 Payments by the Borrower.

(a) On the date each drawing (other than a Purchase Drawing) under the Letter of Credit is honored by the Bank, the Borrower shall before 3:00 p.m. (California time) reimburse the Bank for any such drawing by making the amount of such drawing available to the Bank by payment in immediately available funds.

(b) Any payment received after 3:00 p.m. (California time) shall be deemed to have been received on the next Business Day.

3.05 Payment Due on Non-Business Day to be Made on Next Business Day. If any sum becomes payable pursuant to this Agreement on a day which is not a Business Day, the date for payment thereof shall be extended, without penalty, to the next succeeding Business Day, and such extended time shall be included in the computation of interest and fees.

3.06 Loan Accounts. The Bank shall open and maintain on its books one or more loan accounts in the Borrower's name covering each obligation of the Borrower under this Agreement. The entries made in the loan accounts shall constitute prima facie evidence, in the absence of manifest error, of the existence of the obligations of the Borrower recorded in the loan accounts.

3.07 Increased Costs. If after the date hereof any change in any law or regulation or in the interpretation thereof by any court or administrative or Governmental Authority charged with the administration thereof shall either (i) impose, modify or deem applicable any reserve, special deposit, assessment or insurance fee or similar requirement against letters of credit issued by the Bank or (ii) impose on the Bank any other condition relating to this Agreement or the Letter of Credit or affect the calculations relating to the Bank's capitalization, and the result of any event referred to in clause (i) or (ii) shall be to increase the cost to the Bank of issuing or maintaining the Letter of Credit or funding amounts drawn thereunder, then, upon demand by the Bank, the Borrower shall immediately pay to the Bank, from time to time as specified by the Bank, additional amounts which shall be sufficient to compensate the Bank for such increased cost from the date of such change, together with interest on each such amount from the date demanded until payment in full thereof at the Prime Rate plus

two percent (2%). A certificate setting forth with reasonable explanations such increased cost incurred by the Bank as a result of any event mentioned in clause (i) or (ii) of this paragraph, submitted by the Bank to the Borrower, shall be conclusive, absent manifest error, as to the amount thereof.

ARTICLE IV

SECURITY

4.01 Borrower Collateral. To secure the obligations of Borrower to the Bank under this Agreement, the Borrower agrees to execute and deliver on or before the Closing Date, the Pledge Agreement.

4.02 Security Agreement. To secure the obligation of the Borrower to the Bank under this Agreement, the Borrower will cause the Security Agreement to be executed and delivered by the Trustee on or before the Closing Date.

ARTICLE V

REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants that:

5.01 Existence and Power. The Borrower is a corporation duly organized, validly existing and in good standing under the laws of the State of California and has all powers and all governmental licenses, authorizations, consents and approvals required to carry on its business as now conducted.

5.02 Corporate Authorization; No Contravention. The execution and delivery and performance by the Borrower of this Agreement and the Related Documents to which the Borrower is a party are within the Borrowers powers, have been duly authorized by all necessary action and do not contravene, or constitute a default under, any provision of applicable law or regulation or of its articles of incorporation or by-laws or of any agreement, judgment, injunction, order, decree or other instrument binding upon the Borrower or the Project in any material respect or result in the creation or

imposition of any Encumbrance on any asset of the Borrower other than Encumbrances contemplated herein or require the consent, approval or authorization of any party (other than a party to agreements relating to the Certificates).

5.03 Authority of Officers. The officers of the Borrower who will execute this Agreement, who will request the issuance of the Letter of Credit and who have executed the Related Documents to which the Borrower is a party and all other documents, instruments and agreements required to be delivered or contemplated hereunder or thereunder are or will be duly authorized to execute the same.

5.04 Governmental Approvals. No order, permission, consent, approval, license or authorization by registration or filing with, or exemption by, any Governmental Authority is required by the Borrower to authorize, or is required by the Borrower in connection with, the execution, delivery and performance by the Borrower of this Agreement or the Related Documents to which the Borrower is a party or the taking by the Borrower of any action hereby or thereby contemplated, except as have been granted and which are in full force and effect except for such licenses, certificates, approvals, variances or permits as may be necessary for the operation of the Project which the Borrower has applied for (or will apply for in the ordinary course of business) and expects to receive.

5.05 Taxes. The Borrower has filed all tax returns and reports required to be filed and has paid all taxes shown to be due and payable on such returns and has paid all tax assessments, fees and other governmental charges upon it or its properties, income or assets otherwise due and payable except those presently payable without penalty or interest and further except those which are being contested in good faith by appropriate proceedings diligently conducted, and for which adequate reserves have been set aside in accordance with generally accepted accounting principles.

5.06 Financial Information. The financial information and other data furnished by the Borrower to the Bank fairly and accurately reflect the Borrower's financial condition as of the date and for the period indicated therein.

5.07 Binding Effect. This Agreement and the Related Documents to which the Borrower is a party constitute valid and binding agreements of the Borrower, enforceable against Borrower in

accordance with their respective terms, subject to the effect of applicable bankruptcy and other similar laws affecting the rights of creditors generally and the effect of equitable principles whether applied in an action at law or a suit in equity.

5.08 No Default. No material Default or any Event of Default has occurred and is continuing or would result from the obligations incurred by the Borrower hereunder or by the actions contemplated hereby.

5.09 Litigation. There are no suits, proceedings, claims or disputes pending or, to the knowledge of the Borrower, threatened against or affecting the Borrower or its property, the adverse determination of which might in any material respect affect the Borrower's financial condition or operations or impair the Borrower's ability to perform its obligations hereunder, under the Related Documents to which the Borrower is a party or under any instrument or agreement required hereunder or thereunder.

5.10 ERISA. The Borrower has fulfilled its obligations under the minimum funding standards of ERISA and the Code with respect to each Plan maintained by the Borrower and is in compliance in all material respects with the presently applicable provisions of ERISA and the Code, and has not incurred any liability to the Pension Benefit Guaranty Corporation or a Plan under Title IV of ERISA.

5.11 Disclosure. None of the representations or warranties made by Borrower in any of the Related Documents as of the date of such representations and warranties are or were made or deemed made, and none of the statements contained in each exhibit, report, statement, or certificate furnished by or on behalf of any such person in connection with the Related Documents as of the date furnished, contains or contained any untrue statement of material fact or omits or omitted any material fact required to be stated therein or necessary to make the statements made therein, in light of the circumstances, under which they are or were made, not misleading. There is no fact known to Borrower which materially and adversely affects the business, operations, properties, assets or condition (financial or otherwise) of Borrower and which has not been disclosed herein or in other documents, certificates, and statements furnished to Bank hereunder or pursuant hereto. The copies of all documents delivered to Bank from time to time in connection with this Agreement are and shall be true and complete

copies of the originals thereof and have not been or shall not be amended except as disclosed to Bank.

5.12 No Burdensome Restrictions. No contract, agreement or other instrument as to which the Borrower or its Subsidiaries may be bound materially adversely affect, or insofar as the Borrower may reasonably foresee may so affect, the business, operations, property or financial or other condition of the Borrower or its Subsidiaries taken as a whole.

The representations and warranties contained in this Article V shall be deemed to be made by the Borrower on the date of execution of this Agreement.

ARTICLE VI

CONDITIONS

6.01 Conditions Precedent to the Issuance of the Letter of Credit. The obligation of the Bank to issue the Letter of Credit is subject to the condition precedent that on or before the Closing Date the Bank shall have received the following, in form and detail satisfactory to the Bank:

(a) copies of the resolution of the Borrower authorizing the execution, delivery and performance of this Agreement and the transactions contemplated by this Agreement, certified by the Secretary or Assistant Secretary of the Borrower;

(b) a certificate of the Secretary or Assistant Secretary of the Borrower dated the Closing Date, as to the incumbency and signatures of each officer of the Borrower executing this Agreement and the Collateral Documents to which the Borrower is a party, on its behalf, together with exemplar signatures of such officers;

(c) copies of the articles of incorporation and bylaws of the Borrower, certified by the Secretary or Assistant Secretary of the Borrower;

(d) a certificate of good standing for the Borrower

from the Secretary of State of the State of California, dated as of a recent date;

(e) an opinion of counsel to the Borrower, dated the Closing Date, addressed to the Bank and in form and substance satisfactory to the Bank and its counsel and covering such matters as the Bank or its counsel may reasonably request;

(f) an executed copy of the Pledge Agreement;

(g) an executed copy of the Security Agreement;

(h) a copy of the opinion of Bond Counsel, with a letter addressed to the Bank permitting the Bank to rely on such opinion;

(i) copies of the Related Documents and all other documents executed or delivered in connection with the issuance of the Certificates as may be requested by the Bank;

(j) the fees required by Section 3.01;

(k) a UCC lien search, satisfactory to Bank, showing no other creditors with rights to, or claims against, Borrower's personal property unless approved by the Bank;

(l) such other evidence, documents, instruments, approvals or opinions as the Bank may reasonably request to establish the due execution of the transactions contemplated by this Agreement.

6.02 Conditions Precedent to the Creation of Any Advance. The creation of any Advance hereunder shall be subject to the further conditions precedent that:

(a) no Default or Event of Default shall have occurred and be continuing; and

(b) the representations and warranties set forth in Article V shall be true on and as of the date the relevant notice of borrowing is given.

ARTICLE VII

COVENANTS

The Borrower covenants and agrees that as long as the Letter of Credit is outstanding and until the full and final payment of all indebtedness of the Borrower incurred hereunder, unless the Bank shall otherwise consent in writing:

7.01 Notices. The Borrower shall promptly notify the Bank in writing of any material Default or any Event of Default.

7.02 Performance of Acts. Upon request by the Bank, the Borrower shall perform all acts which may be necessary or advisable to perfect any lien or security interest provided for in this Agreement or to carry out the intent of this Agreement and to reimburse the Bank for costs incurred to protect its security interests and liens.

7.03 Existence. The Borrower will do or cause to be done all things necessary to preserve and keep in full force and effect its existence, rights and franchises, maintain, preserve and protect all of its property used or useful in the conduct of its business (ordinary wear and tear excepted), and perform all its obligations under the Related Documents to which it is a party.

7.04 Obligations and Taxes. The Borrower will pay or discharge promptly all taxes, assessments and governmental charges or levies imposed upon it or upon its income or profits before the same shall be in default.

7.05 Related Documents. The Borrower makes each of the covenants made by it in the Related Documents to which it is or is to be a party, and to and for the benefit of the Bank as if the same were set forth at length herein.

7.06 Further Assurances. The Borrower will execute and deliver to the Bank all such documents, instruments and agreements (other than as specifically required by this Agreement) and do all such other acts and things as may be reasonably requisite to enable the Bank to exercise and enforce its rights hereunder and in connection with the Related

Documents.

7.07 Credit Agreement Covenants. The Borrower agrees to perform each and every covenant contained in Paragraphs 7.2 through 7.16, inclusive of the Credit Agreement. The above referenced covenants are hereby incorporated by reference into this Agreement as in effect on the date hereof and as such covenants may be further amended, modified, waived, or in any way changed; provided, however, if the Credit Agreement is terminated for any reason, the Borrower will still comply with the above referenced covenants as they exist on the date of termination, unless otherwise agreed to in writing by the Bank.

7.08 Related Agreements. The Borrower agrees that it shall not alter or amend any Related Document to which it is a party or any document, instrument or agreement required thereunder without the approval of the Bank, which approval shall not be unreasonably withheld or delayed.

ARTICLE VIII

EVENTS OF DEFAULT

8.01 Events of Default. The following events shall constitute "Events of Default":

(a) Non-Payment, The Borrower shall fail to pay when due any amount of principal, interest, fee or other amount payable by it hereunder;

(b) Representation or Warranties. Any representation or warranty made by the Borrower in this Agreement or which is contained in any certificate, financial statement or other document delivered at any time pursuant hereto or in connection with any transaction contemplated hereby shall prove to have been incorrect in any material respect when made or deemed to be made;

(c) Other Defaults. The Borrower shall fail to observe or perform any material term, provision, covenant, agreement or obligation contained in this Agreement not specifically mentioned in this Section 8.01;

(d) Cross-Default.

(i) The Borrower shall default under any other agreement involving the borrowing of money or the advance of credit to which it may be a party as obligor, if such default consists of the failure to pay any Indebtedness when due (other than in connection with trade financing for accounts which are contested in good faith) or results in the termination of a commitment to lend or, if such default consists of any other failure on the part of the Borrower, such default gives to the holder of the obligation concerned the right to accelerate the Indebtedness or terminate its commitment to lend taking into account any applicable period of grace;

(ii) Any event or condition shall occur which permits the acceleration of the maturity or the mandatory redemption of the Certificates;

(iii) An event of default shall occur under the Second Trust Agreement, the Second Lease-Purchase Agreement, the Second Miramar Project Sublease, the Remarketing Agreement or the Pledge Agreement;

(iv) A Determination of Taxability (as defined in the Second Lease-Purchase Agreement) shall occur.

(e) Voluntary Bankruptcy; Insolvency. The Borrower shall (i) suspend or discontinue its business, or (ii) make an assignment for the benefit of creditors, or (iii) generally not be paying its debts as such debts become due, or (iv) admit in writing its inability to pay its debts as they become due, or (v) file a voluntary petition in bankruptcy, or (vi) become insolvent (however such insolvency shall be evidenced), or (vii) file any petition or answer seeking for itself any reorganization, arrangement, composition, readjustment of debt, liquidation or dissolution or similar relief under any present or future statute, law or regulation of any jurisdiction, or (viii) petition or apply to any tribunal for any receiver, custodian or trustee for any substantial part of its property;

(f) Involuntary Proceedings. An involuntary case or other proceeding shall be commenced against the Borrower seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency or other similar law

now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, and such involuntary case or other proceeding shall remain undismissed and unstayed for a period of forty-five (45) days;

(g) Judgments. Any judgment or decree is issued in an amount exceeding Two Million Five Hundred Thousand Dollars ($2,500,000) not covered by insurance against the Borrower or against any of its property and such judgment or decree shall remain unvacated, unstayed, undischarged, or unsatisfied for forty-five (45) days after entry;

(h) Collateral. A court finds that the Pledge Agreement or any other agreement granting to the Bank a security interest in any collateral contemplated hereby shall fail to be valid or enforceable or shall cease to create a valid security interest on the property covered thereby;

(i) Amendments of Related Documents. Any of the Related Documents to which the Borrower is a party shall be amended, modified or supplemented without the Bank's consent, which consent shall not be unreasonably withheld or delayed;

(j) ERISA. Any Plan termination or any full or partial withdrawal from a Plan or Plans shall occur which could result in a material liability of the Borrower to the Pension Benefit Guaranty Corporation;

(k) Material Adverse Change. A material adverse change occurs in the Borrower's financial condition, properties or prospects, or in the Borrower's ability to repay any obligations hereunder;

(1) Other Bank Agreements. The Borrower fails to meet the conditions of, or fails to perform any obligation under any other agreement the Borrower has with the Bank or any affiliate of the Bank;

8.02 Remedies. If any Event of Default shall have occurred:

(a) The obligation of the Bank to issue, amend or

reinstate the Letter of Credit, if the Letter of Credit has not yet been issued, amended or reinstated, shall terminate; and/or

(b) The Bank may by written notice to the Trustee with a copy to the Borrower, require the Trustee to declare the Certificates due and payable as provided in the Second Trust Agreement; and/or

(c) The Bank may declare all amounts due hereunder (together with accrued interest thereon) to be, and such amounts shall thereupon become, due and payable without presentment, demand, protest or notice of any kind, all of which are hereby waived by the Borrower; and/or

(d) The Borrower will at the request of the Bank immediately pay to the Bank an amount equal to the aggregate amount which could be drawn under the Letter of Credit to be held by the Bank in a cash collateral account as security for the indebtedness hereunder and the Borrower agrees that such funds may be applied against the indebtedness hereunder as the same becomes due and payable; and/or

(e) The Bank may exercise all rights and remedies available to it under this Agreement or any other agreement.

8.03 Rights Not Exclusive. The rights provided for in this Article are cumulative and are not exclusive of any other rights, powers, privileges or remedies provided by law or in equity.

ARTICLE IX

MISCELLANEOUS

9.01 Notices. A11 notices, requests and other communications to any party hereunder shall be in writing (including cable or telex) and shall be given to such party at its address or telex number set forth below or such other address or telex number as such party may hereafter specify by notice to the Bank and the Borrower:

If to the Borrower:

SOUTHERN CALIFORNIA WATER COMPANY
630 East Foothill Boulevard
San Dimas, California 91773
Attn: Chief Financial officer

if to the Bank:

Bank of America N.A.
675 Anton Boulevard, 2nd Floor
Costa Mesa, California 92626
Attn: Deborah L. Miller
Senior Vice President

Each such notice, request or other communication shall be effective when received at the addresses specified in this Section.

9.02 Binding Agreement; Third Parties.

(a) This Agreement shall be binding upon and inure to the benefit of the Borrower and the Bank and their respective successors and assigns, provided that the Borrower may not assign or transfer any of its rights under this Agreement without the prior written consent of the Bank, which consent shall not be unreasonably withheld or delayed.

(b) This Agreement shall not be construed so as to confer any right or benefit upon any Person other than the parties to this Agreement and their respective successors and assigns.

9.03 Participations. The Bank may at any time, upon written notice to the Borrower, sell, assign, grant participations in, or otherwise transfer to any other financial institution (each a "Participant") all or part of the obligations of the Borrower under this Agreement. The Borrower agrees that each such disposition will give rise to a direct obligation of the Borrower to the Participant. The Borrower authorizes the Bank and each Participant, upon the occurrence of an Event of Default, to proceed directly by right of setoff, banker's lien, or otherwise, against any assets of the Borrower which may be in the hands of the Bank or such Participant, respectively. The Borrower

authorizes the Bank to disclose to any prospective Participant and any Participant any and all information in the Bank's possession concerning the Borrower, this Agreement and any collateral.

9.04 No Waivers. No failure or delay by the Bank in exercising any right, power or privilege hereunder shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies herein provided shall be cumulative and not exclusive of any rights or remedies provided by law.

9.05 Payment of Expenses.

(a) The Borrower agrees:

(i) to pay or reimburse the Bank for all of its out-of-pocket costs, attorneys' fees and expenses (including, without limitation, allocated costs of in-house counsel) incurred in connection with the preparation, review and execution of, and any amendment, supplement or modification to, this Agreement, the Letter of Credit, the Related Documents and any other document prepared in connection herewith or therewith and the consummation of the transactions contemplated hereby and thereby.

(ii) to pay the Bank's costs and expenses incurred in connection with the administration of this Agreement, including draw request fees and any other reasonable fees and costs for services, regardless of whether such services are furnished by the Bank's employees or agents or independent contractors

(iii) to pay or reimburse the Bank for all reasonable costs and out-of-pocket expenses incurred in connection with the enforcement or preservation of any rights under this Agreement, the Letter of Credit, the Related Documents and any other document prepared in accordance herewith or therewith or any refinancing or restructuring of this Agreement or such other documents in the nature of a "work-out", including, out-of-pocket fees and disbursements of counsel to the Bank (including without

limitation, allocated out-of-pocket costs of in-house counsel), and including any costs and attorneys fees incurred in any arbitration proceeding. In the event that any case is commenced by or against the Borrower under the Bankruptcy Code (Title II, United States Code) or any similar or successor statute, the Bank is entitled to recover costs and reasonable attorneys' fees incurred by the Bank related to the preservation, protection, or enforcement of any rights of the Bank in such a case.

(b) The obligations of the Borrower in this paragraph shall survive repayment of all disbursements made under the Letter of Credit and all other amounts payable hereunder.

(c) In the event that any party hereto shall incur legal fees and costs in connection with the actual or threatened breach of any provision hereof, or to enforce any right or remedy hereunder, such party shall be entitled to recover such fees and costs from the breaching party. In the event that an action or arbitration proceeding is brought in connection with this Agreement the prevailing party shall be entitled to recover from the losing party in addition to any money judgment or other relief, such actual attorney's fees (including allocated costs of staff counsel), disbursements and costs as may be incurred by the prevailing party instituting or defending such litigation or arbitration, together with such reasonable costs and expenses as may be allowed by the court or arbitrator.

9.06 Indemnity.

(a) The Borrower agrees to indemnify and hold the Bank harmless from any loss, liability, damages, judgments, and costs of any kind relating to or arising directly or indirectly out of (i) this Agreement or any document required hereunder, (ii) any credit extended or committed by the Bank to the Borrower hereunder, and (iii) any litigation or proceeding related to or arising out of this Agreement, any such document, or any such credit. This indemnity includes but is not limited to reasonable attorneys' fees (including the allocated cost of in-house counsel). This indemnity extends to the Bank, its parent, subsidiaries and all of their directors, officers, employees, agents, successors, attorneys, and assigns. This indemnity will survive termination of this Agreement and repayment of the Borrower's obligations to the Bank. All sums due to the Bank

hereunder shall be obligations of the Borrower, due and payable immediately without demand.

(b) The Borrower agrees to save, indemnify and hold harmless the Bank and its officers, directors, agents or employees from and against any and all losses, claims, damages and liabilities (including liabilities for penalties) resulting from any litigation brought in connection with the issuance or sale of the Certificates, unless such liability shall be due to gross negligence or willful misconduct on the part of the Bank or its respective officers, directors, agents or employees.

(e) The Bank shall not in any way be responsible for performance by the Trustee or any paying agent for the Certificates of its obligations to the Borrower, nor for the form, sufficiency, correctness, genuineness, authority of person signing, falsification or legal effect of any documents called for under the Letter of Credit if such documents on their face appear to be in order.

9.07 Amendment and Modification of Agreement, Waivers. No modification or waiver of any provision of this Agreement or any other document, instrument or agreement required, referred to or contemplated hereunder, nor consent to any departure by the Borrower or the Bank therefrom shall in any event be effective unless the same shall be in writing and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. No notice to or demand on either party in any case shall entitle such party to any other or further notice or demand in the same, similar or other circumstances.

9.08 Severability. In case any one or more of the provisions contained in this Agreement or any document, instrument, OR agreement required hereunder should be declared invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein or therein shall not in any way be affected or impaired thereby.

9.09 Arbitration and Waiver of Jury Trial.

(a) This paragraph concerns the resolution of any

controversies or claims between the Borrower and the Bank, whether arising in contract, tort or by statute, including but not limited to controversies or claims that arise out of or relate to; (i) this Agreement (including any renewals, extensions or modifications); or (ii) any document related to this Agreement (collectively a "Claim").

(b) At the request of the Borrower or the Bank, any Claim shall be resolved by binding arbitration in accordance with the Federal Arbitration Act (Title 9, U. S. Code) (the "Act"). The Act will apply even though this Agreement provides that it is governed by the law of a specified state.

(c) Arbitration proceedings will be determined in accordance with the Act, the rules and procedures for the arbitration of financial services disputes of JAMS/Endispute, LLC, a Delaware limited liability company or any successor thereof ("JAMS"), and the terms of this paragraph. In the event of any inconsistency, the terms of this paragraph shall control.

(d) The arbitration shall be administered by JAMS and conducted in any U. S. state where real or tangible personal property collateral for this credit is located or if there is no such collateral, in California. All Claims shall be determined by one arbitrator; however, if Claims exceed Five Million Dollars ($5,000,000), upon the request of any party, the Claims shall be decided by three arbitrators. All arbitration hearings shall commence within ninety (90) days of the demand for arbitration and close within ninety (90) days of commencement and the award of the arbitrator(s) shall be issued within thirty (30) days of the close of the hearing. However, the arbitrator(s), upon a showing of good cause, may extend the commencement of the hearing for up to an additional sixty (60) days. The arbitrator(s) shall provide a concise written statement of reasons for the award. The arbitration award may be submitted to any court having jurisdiction to be confirmed and enforced.

(e) The arbitrator(s) will have the authority to decide whether any Claim is barred by the statute of limitations and, if so, to dismiss the arbitration on that basis. For purposes of the application of the statute of limitations, the service on JAMS under applicable JAMS rules of a notice of Claim is the equivalent of the filing of a lawsuit. Any dispute

concerning this arbitration provision or whether a Claim is arbitrable shall be determined by the arbitrator(s). The arbitrator(s) shall have the power to award legal fees pursuant to the terms of this Agreement.

(f) This paragraph does not limit the right of the Borrower or the Bank to: (i) exercise self-help remedies, such as but not limited to, setoff; (ii) initiate judicial or nonjudicial foreclosure against any real or personal property collateral; (iii) exercise any judicial or power of sale rights, or (iv) act in a court of law to obtain an interim remedy, such as but not limited to, injunctive relief, writ of possession or appointment of a receiver, or additional or supplementary remedies.

(g) The procedure described above will not apply if the Claim, at the time of the proposed submission to arbitration, arises from or relates to an obligation to the Bank secured by real property located in California. In this case, both the Borrower and the Bank must consent to submission of the Claim to arbitration. If both parties do not consent to arbitration, the Claim will be resolved as follows: The Borrower and the Bank will designate a referee (or a panel of referees) selected under the auspices of JAMS in the same manner as arbitrators are selected in JAMS administered proceedings. The designated referee(s) will be appointed by a court as provided in California Code of Civil Procedure Section 638 and the following related sections. The referee (or the presiding referee of the panel) will be an active attorney or a retired judge. The award that results from the decision of the referee(s) will be entered as a judgment in the court that appointed the referee, in accordance with the provisions of California Code of Civil Procedure Sections 644 and 645.

(h) The filing of a court action is not intended to constitute a waiver of the right of the Borrower or the Bank, including the suing party, thereafter to require submittal of the Claim to arbitration.

(i) By agreeing to binding arbitration, the parties irrevocably and voluntarily waive any right they may have to a trial by jury in respect of any Claim. Furthermore, without intending in any way to limit this Agreement to arbitrate, to the

extent any Claim is not arbitrated, the parties irrevocably and voluntarily waive any right they may have to a trial by jury in respect of such Claim. This provision is a material inducement for the parties entering into this Agreement.

9.10 Confidentiality. The Bank agrees to use reasonable precautions to keep confidential, in accordance with its customary procedures for handling confidential information of the same nature, all non-public information supplied by the Borrower pursuant to this Agreement which (a) is identified as non-public at the time it is delivered to the Bank or (b) constitutes any financial statement, financial projections or forecasts, budget, compliance certificate, audit report, management letter or accountants' certification delivered hereunder or any contract or agreement not previously filed, or filed on a confidential basis, with any governmental authority (collectively, the "Confidential Information"), provided that nothing herein shall limit the disclosure of any such Confidential Information (i) to the extent required by statute, rule, regulation or judicial process, (ii) on a confidential basis, to the counsel to the Bank, (iii) to bank examiners, auditors or accountants and any analogous counterpart thereof, (iv) in connection with litigation related to this Agreement to which the Bank is a party, or (v) to any participant or prospective participant in the Letter of Credit so long as such participant or prospective participant agrees to keep such Confidential Information confidential on substantially the same basis as provided in this Section; provided, however, with respect to any disclosure required by judicial process or otherwise in connection with litigation, the Bank shall give Borrower prompt notice of any such disclosure requirement, to the extent permitted by applicable law.

9.11 Governing Law. This Agreement and the rights and obligations of the parties under this Agreement shall be governed by, and construed and interpreted in accordance with, the laws of the State of California.

9.12 Table of Contents and Captions. The table of contents and captions contained in this Agreement are for convenience of reference only and shall not limit or define the provisions of this Agreement or affect the interpretation or construction thereof.

9.13 Counterparts. This Agreement may be signed in any number of counterparts, each of which shall be an original with the same effect as if the signatures thereto and hereto were upon the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered by their proper and duly authorized officers as of the day and year first above written.

SOUTHERN CALIFORNIA WATER COMPANY, a California corporation

By:

Title:

BANK OF AMERICA N.A.

By:

Title:

EXHIBIT 10.13

[DYNEGY POWER MARKETING, INC. LETTERHEAD]

April 20, 2000

Mr. Raymond P. Juels
Manager of Energy Resources
Southern California Water Company
630 E. Foothill Blvd
San Dimas, CA 91773

Dear Mr. Juels;

We are pleased to announce that effective February 1, 2000, the merger between Dynegy Inc. and Illinova Corporation is complete, creating a premier national energy merchant, which will operate under the name of Dynegy Inc.

With this merger of the parent companies, we are consolidating and reorganizing our business in order to service our clients more efficiently. The wholesale power business of Illinova Energy Partners, Inc. ("IEPI") is being consolidated with Dynegy Power Marketing, Inc. ("DYPM") in an effort to create greater market and product optionalities for our clients. As an IEPI customer, we welcome you to Dynegy, a leading marketer of energy products and services with more than $12 billion in assets.

As a result of this merger, Dynegy now owns or controls more than 23,000 megawatts of generation capacity. Combine that with a complete line of energy management services that Dynegy can now offer you, and you have an even stronger energy partner that will deliver reliable energy supply and services.

The Dynegy Power Marketing team has been fully briefed on your account and your representative will be contacting you soon. Our commitment is to continue to deliver reliable supply and innovative energy solutions to you. On behalf of all of us at Dynegy, we value your business and we look forward to working with you.

Sincerely,

DYNEGY POWER MARKETING, INC.

CONSENT TO ASSIGNMENT

"Agreements", for the purposes of this Consent to Assignment, means all contracts in effect as of February 2, 2000, between Southern California Water Company ("SCWC") and Illinova Energy Partners, Inc. ("IEPI") listed, without limitation, on the attached Schedule A.

SCWC hereby consents to the assignment by IEPI all of IEPI's rights under the Agreements, and the delegation by IEPI of all IEPI's obligation under the Agreements to Dynegy Power Marketing, Inc. ("DYPM") effective April 12, 2000.

DYPM agrees that, on receipt of such assignment and delegation, it will assume all of IEPI's rights and obligations under the Agreements. The Agreements assigned to DYPM shall remain in full force and effect between DYPM and SCWC. DYPM and SCWC hereby each ratify and confirm the terms of the Agreements for all purposes, effective April 12, 2000.

Dynegy Power Marketing, Inc.	Southern California Water Company
By: /s/ [SIGNATURE ILLEGIBLE]	By: /s/ JOEL A. DICKSON
Name: [NAME ILLEGIBLE]	Name: Joel A. Dickson
Title: [TITLE ILLEGIBLE]	Title: Vice President
Date: [DATE ILLEGIBLE]	Date: 5/8/00

SCHEDULE A

Attached to and made a part of the Consent to Assign letter dated April 20, 2000 for assignment of certain contracts from Illinova Energy Partners, Inc. ("IEPI") to Dynegy Power Marketing, Inc.:

1. Interchange letter agreement between Southern California Water Company and IEPI dated April 5, 1999

2. Scheduling Coordination & Real-Time Services Agreement Southern California Water Company and IEPI dated April 7, 1999

[DYNEGY POWER MARKETING, INC. LETTERHEAD]

April 11, 2000

SOUTHERN CALIFORNIA WATER COMPANY - BEAR VALLEY

RE: CONFIRMATION NUMBER: 459296

CONFIRMATION LETTER

This letter shall confirm the agreement reached on March 21, 2000 between DYNEGY POWER MARKETING, INC. ("Seller") and SOUTHERN CALIFORNIA WATER COMPANY - BEAR VALLEY ("Buyer") regarding the sales/purchase of Power under the terms and conditions as follows:

Buyer:	SOUTHERN CALIFORNIA WATER COMPANY - BEAR VALLEY
Seller:	DYNEGY POWER MARKETING, INC.
Period of Delivery:	May 01, 2000 through April 30, 2001 including NERC Holidays
Contract Quantity:	12 MW/h Flat Around; Firm Energy with Liquidated Damages 105,120 MW/h total over the Delivery Period
Delivery Point	Sp 15
Scheduling:	Monday through Friday hours ending 0100 - 2400 PPT
SPECIAL PROVISIONS:	THIS TRANSACTION IS GOVERNED BY THE TERMS AND CONDITIONS ATTACHED HERETO AS ADDENDUM I.

Please confirm that the terms stated herein accurately reflect the agreement between you and DYPM by returning an executed copy of this letter by facsimile to DYPM at 713.787.8695. If you do not return this Confirmation Letter or object to this Confirmation Letter within two Business days of your receipt of it, you will have accepted and agreed to all of the terms included herein, including the terms and provisions of the Agreement. If you have any questions, please call me at 713.767.8200/8841.

DYNEGY POWER MARKETING, INC.		SOUTHERN CALIFORNIA WATER COMPANY - BEAR VALLEY	
By:	/s/ DAVID W. FRANCIS	By:	/s/ JOEL A. DICKSON
Name:	David W. Francis	Name:	Joel A. Dickson
Title:	Director of West Power Trading	Title:	Vice President Customer and Operations Support
Date:	4/11/00	Date:	4/11/00

ADDENDUM I

(2) Allocation of and Indemnity for Taxes: The Contract Price paid hereunder includes full reimbursement for and Seller is liable for and shall pay or cause to be paid, or reimburse Buyer if Buyer shall have paid, all Taxes applicable to the power sold hereunder prior to the delivery point(s) ("Seller's Taxes"). If Buyer is required to remit any of Seller's Taxes, the amount thereof shall be deducted from any sums becoming due to Seller hereunder. Seller shall indemnify, defend and hold Buyer harmless from any liability against all Seller's Taxes. The Contract Price does not include reimbursement for and the Buyer is liable for and shall pay, cause to be paid or reimburse Seller if Seller shall have paid, all taxes applicable to the power sold hereunder at and after delivery at the delivery point(s) including taxes imposed by a taxing authority with jurisdiction over the Buyer ("Buyer's Taxes"). Buyer shall indemnify, defend and hold Seller harmless from any liability against all Buyer's Taxes. If the Buyer is entitled to an exemption from any Taxes under this Transaction, Buyer shall be responsible for furnishing an exemption certificate to Seller in order to obtain the exemption. "Taxes" means all ad valorem, property, occupation, utility, gross receipts, sales, use, excise and other taxes, governmental charges, emission allowance costs, licenses, permits and assessments, other than taxes based on net income or net worth.

(3) New Taxes: If any New Tax is imposed for which Buyer or Seller is responsible, (i) if such New Tax can be passed by Buyer to another person or entity, Buyer shall pay, cause to be paid or reimburse the Seller for such New Tax; (ii) if (i) does not apply, the Party affected by the New Tax ("New Tax Affected Party") may require the other Party to enter into good faith negotiations to apportion liability for the New Tax equitably between the Parties. If, after fifteen business days the Parties are not able to resolve the issue, the New Tax Affected Party may terminate such "New Tax Affected Transaction", upon thirty days written notice. Unless otherwise agreed, the New Tax Affected Transaction shall be liquidated as though the New Tax Affected Party has defaulted on the New Tax Affected Transaction without taking into effect the impact of the New Tax. "New Taxes" means (i) any Taxes enacted and effective after the date this Transaction was entered into, including, without limitation, that portion of any Taxes or New Taxes that results in an increase in liability to either Party, or (ii) any law, order, rule or regulation, or interpretation thereof, enacted and effective after the date this Transaction was entered into resulting in such an increase.

GOVERNING LAW:

INCLUDING ANY COUNTERCLAIMS AND CROSS CLAIMS ASSERTED IN SUCH ACTION, THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF TEXAS, WITHOUT REGARD TO THE LAWS OF TEXAS REQUIRING THE APPLICATION OF THE LAWS OF ANOTHER STATE.

Notices:

NOTICES & CORRESPONDENCE	PAYMENTS BY WIRE TRANSFER
Electric Clearinghouse, Inc.	The First National Bank of Chicago
1000 Louisiana, Suite 5800	Account Title: Electric Clearinghouse, Inc.
Houston, Texas 77002-5050	Account Number: 552 7651
Attn: Director, Trading & Operations	ABA Number: 071 000 013

INVOICES

Electric Clearinghouse, Inc.
1000 Louisiana, Suite 5800
Houston, Texas 77002-5050
Attn: Accounts Payable-Electric

Payment Terms:

On or before ten (10) days after receipt of Seller's statement or if such day is not a business day, the immediately preceding business day, Buyer shall render to seller by electronic funds transfer (wire transfer or ACH), the amount set forth on such statement. If Buyer fails to pay all of the amount of any statement when that amount becomes due, Buyer shall pay Seller a late charge on the unpaid balance that shall accrue on each calendar day from the due date at the Interest Rate. "Interest Rate" means the lesser of (i) Prime Rate plus two percent and (ii) the maximum lawful rate permitted by applicable law.

Damages for Non Performance:

The Parties' sole remedies for failure to perform in accordance with the terms of this Transaction shall be as follows: if this Transaction is firm, performance is excused only if rendered impossible by an event of force majeure, as defined below. If Seller fails to deliver power and/or capacity in accordance with the terms herein, and such failure is not excused, Seller shall be liable to Buyer for the positive difference, if any, between Buyer's reasonably-incurred cost of replacing the power and/or capacity Seller failed to deliver and the Contract Price stated herein. If Buyer fails to take power and/or capacity in accordance with the terms herein, and such failure is not excused, Buyer shall be liable to Seller for the positive difference, if any, between the Contract Price stated herein for the power and/or capacity Buyer failed to take and the amount for which Seller, using commercially reasonable efforts to mitigate damages, is able to resell the power and/or capacity Buyer failed to take. If the transaction is non-firm or interruptible, either Party may interrupt deliveries or receipts hereunder without penalty. Both Parties hereby stipulate that such liquidated damages are reasonable in light of the anticipated harm and the difficulty of estimation or calculation of actual damages and each Party hereby waives the right to contest such damages as an unreasonable penalty. Neither Party shall be liable to the other for any consequential, incidental, punitive or special damages for failure to deliver or receive power in accordance with the terms of this Transaction.

Force Majeure:

In the event either Party is rendered unable, by an event of force majeure, to carry out wholly or in part its obligations under a Transaction and such Party gives notice and full particulars of such event of force majeure to the other Party as soon as practicable after the occurrence of the event relied on, then the obligations of the Party affected by such event of force majeure pursuant to such Transaction, other than the obligation to make payments then due or becoming due hereunder, shall be suspended from the inception and throughout the period of continuance of any such inability so caused, but for no longer period, and such event of force majeure shall, so far as practicable, be remedied with all reasonable dispatch. The term "force majeure" means any cause the Party claiming force majeure (the "Claiming Party") was unable, in the exercise of due diligence and in the observance of the applicable operating policies, criteria and/or guidelines of the North American Reliability Council and any regional or subregional requirement, to avoid and which is beyond the control, and without the fault or negligence, of the Claiming Party. Force majeure includes, but is not restricted to flood; earthquake; tornado; storm; fire; civil disturbance or disobedience; labor dispute; labor shortage; sabotage; action or restraint by court order or public or governmental authority (so long as the Claiming Party has not applied for or assisted in the application for, and has opposed where and to the extent reasonable, such government action). Nothing contained herein shall be construed to require a Claiming Party to settle any strike or labor dispute. In a firm Transaction, interruption by a transmitting utility shall not be deemed to be an event of force majeure unless (i) the Party contracting with such transmitting utility shall have made arrangement with such transmitting utility for the firm transmission of the Power to be purchased and sold hereunder and (ii) such interruption is due to an event of force majeure (or similar occurrence) as defined under the transmitting utility's tariff.

Taxes:

(1) Expenses: Seller shall be responsible for any costs or charges imposed on or associated with the delivery of the Contract Quantity, including control area services, inadvertent power flows, penalties or similar charges imposed by the transmission provider, transmission losses and charges relating to the transmission of the Contract Quantity, up to the Delivery Point. Buyer shall be responsible for any costs or charges imposed on or associated with the Contact Quantity, including control area services, inadvertent power flows, penalties or similar charges imposed by the transmission provider, transmission losses and loss charges relating to the transmission of the Contract Quantity, at and from the Delivery Point.

[ILLINOVA LETTERHEAD]

April 5, 1999

Mr. Joel Dickson
Vice President of Customer Service
and Operations Support
Southern California Water Company
630 E. Foothill Blvd.
San Dimas, CA 91773

Dear Mr. Dickson:

This letter constitutes an Agreement ("Agreement") between ILLINOVA ENERGY PARTNERS, INC, ("IEPI"), a Delaware corporation, and the Southern California Water Company (SCWC) and its Bear Valley Electric Division (BEAR VALLEY). IEPI and SCWC are each sometimes referred to herein as "Party" and are collectively referred to as "Parties." The purpose of this Agreement is to enable a Party to purchase, sell or exchange capacity, energy, and/or other services (a "Transaction") from, to, or with the other Party in accordance with the terms and conditions provided herein. This Agreement is not intended to obligate either Party to purchase, sell or exchange any amount of such capacity, energy, and/or other services from, to or with the other Party except as provided herein.

Terms and Conditions

1. Term of Agreement

This Agreement shall become effective upon execution by both Parties and commence on May 1, 1999, and shall remain in effect until April 30, 2002; provided, however, that this Agreement shall remain in effect as to any Transaction agreed upon by the Parties prior to termination until the completion of and final payment for such Transaction.

2. Availability for Purchase, Sale or Exchange of Capacity, Energy and/or Other Services

a. IEPI shall provide services under this section pursuant to the terms and conditions of the Scheduling Coordination and Real-Time Services Agreement between IEPI and SCWC, dated April 5, 1999.

3. Compensation for Capacity, Energy and/or Other Services

The compensation to be paid with respect to a Transaction hereunder shall be as specified in the agreement entered into pursuant to Section 2(b) or Section 2(c); provided, however, that the compensation for a sale of capacity, energy and/or other services by IEPI shall be pursuant to IEPI's then current FERC Electric Rate Schedule. IEPI's current schedule, Schedule No. 1, is attached hereto as Exhibit A and made a part hereof. Such Schedule may be amended from time to time.

4. Reliability

Both IEPI and SCWC shall comply with the operation and scheduling guidelines specified by the North American Electric Reliability Council and the Western Systems Coordinating Council.

5. Billing and Payment

a. All power Transactions hereunder shall be accounted for on the basis of scheduled hourly quantities. Each Party shall maintain records of hourly schedules for accounting and operating purposes. The billing period for Transactions hereunder shall be one (1) calendar month.

b. A bill shall be submitted within approximately ten (10) days following the last day of each month covering Transactions during that month. Payment shall be due within twenty (20) days of the date the bill was received. Payment shall be made by electronic wire transfer to the address set forth in this Section 5.

c. Amounts not paid on or before the due date shall accrue interest at one and one half percent (1 1/2%) per month or the maximum rate permitted by law, whichever is less, from the due date until payment is made.

d. In the event any portion of a bill is in dispute, the disputed amount shall be paid under protest when due. The dispute shall be discussed and resolved by the Authorized Representatives, who shall use their best efforts to amicably and promptly resolve the dispute. Upon determination of the correct billing amount, the proper adjustment shall be paid or refunded promptly with interest accrued in accordance with Section 5(c) and computed from the date payment was received to the date the adjustment is made.

e. All billings to SCWC shall be sent to:

Mr. Raymond P. Juels
Manager of Energy Resources
Southern California Water Company
630 E. Foothill Blvd.
San Dimas, CA 91773

or to such address as SCWC may specify by written notice given as provided herein.

f. All payments to IEPI greater than $50,000 shall be by wire transfer to:

American National Bank
2000 South Naperville Road
Wheaton, IL 60187
ABA#: 071000770
Account#: 1818-0752
For Illinova Energy Partners

All payments to IEPI less than $50,000 may be made by check to:

Illinova Power Marketing, Inc.
Attention: Jennifer Hughey, Controller
6955 Union Park Center, Suite 300
Midvale, Utah 84047

or to such other address as IEPI may specify by written notice given as provided herein.

6. Authorized Representatives

Within thirty (30) days after execution of this Agreement, each Party shall designate in writing its Authorized Representative(s) for purposes of this Agreement. Either Party may, by written notice to the other given as provided herein, change its Authorized Representative(s).

7. Tax Liability

All transactions are subject to any applicable sales, use, franchise, excise, ad valorem or other similar tax. Receipt of satisfactory evidence of exemption is required to avoid any applicable taxation.

8. Notices

All written notices under this Agreement (except bills given pursuant to Section 5) shall be deemed effective upon receipt if delivered in person or sent by facsimile, express courier, or registered or certified mail, postage prepaid, to the address specified below:

If to IEPI:

Illinova Power Marketing, Inc. Attention: Jennifer Hughey, Controller 6955 Union Park Center, Suite 300 Midvale, Utah 84047 Fax No.: (801) 568-2104

If to SCWC:

Mr. Raymond P. Juels
Manager of Energy Resources
Southern California Water Company
630 E. Foothill Blvd.
San Dimas, CA 91773

A Party may, by notice given as provided in this Section, change the address to which notice is to be given.

9. Necessary Authorizations

Each Party represents that it has the necessary corporate and/or legal authority to enter into this Agreement and to perform each and every duty and obligation imposed herein, and that this Agreement constitutes a valid, binding and enforceable obligation of such Party. Each individual affixing a signature to this Agreement represents and warrants that he or she has been duly authorized to execute this Agreement on behalf of the Party he or she represents.

10. Indemnification

Each Party agrees to protect, indemnify and hold harmless the other Party, its directors, officers, employees and agents, against and from any and all losses, claims, actions, suits and proceedings (including attorneys fees and costs) for or on account of injury to or death of persons or damage to property resulting from or arising out of the indemnifying Party's actions or facilities, excepting only such injury, death, or damage as may be caused by the fault or negligence of the other Party, its directors, officers, employees, or agents. This Section 10 is not intended to impose on a Party an obligation to protect, indemnify and defend the other Party with respect to injury or death of persons or damage to property, resulting from or arising out of the fault or negligence of entities or persons other than a Party, its directors, officers, employees or agents.

11. Uncontrollable Forces

Neither Party shall be considered to be in default in the performance of any obligations under this Agreement (other than obligations to pay bills) when and to the extent such failure of performance shall be due to any uncontrollable force. The term "uncontrollable force" shall mean any cause beyond the control of the Party affected, including but not restricted to, failure or threat of failure of facilities, flood, earthquake, geohydraulic subsidence, tornado, storm, fire, or other catastrophe, civil disobedience, labor dispute, or sabotage, restraint by court order or public authority (whether valid or invalid), and action or non-action by or inability to obtain or maintain the necessary authorizations or approvals from any governmental agency or authority. An "uncontrollable force" must be a cause which by exercise of due diligence the affected Party could not reasonably have been expected to avoid and which by exercise of due diligence it shall not be able to overcome. The failure to perform for any reason of any supplier of capacity, energy or other services to IEPI shall constitute an uncontrollable force affecting IEPI and entitling IEPI to relief under this Section 11. No Party shall, however, be relieved of liability for failure of performance if such failure is due to causes arising out of its own negligence or due to removable or remediable causes which it fails to remove or remedy within a reasonable time period.
Nothing contained herein shall be construed so as to require a Party to settle any strike or labor dispute in which it may be involved. A Party rendered unable to fulfill any of its obligations under this Agreement by reason of uncontrollable force shall give prompt written notice of such fact to the other Party and shall exercise due diligence to remove such inability with all reasonable dispatch.

12. Audit Rights

Upon prior notice, SCWC shall have the right to designate its own employee representative(s) or its contracted representative(s) with a certified public accounting firm who shall have the right to examine those accounts, books, records, or supporting documentation to verify the accuracy of any statement, charge, computation or demand made under or pursuant to any agreement and related capacity, energy, transmission or other electric services agreements. Any such audit(s) shall be at the auditing Parry's expense and undertaken at responsible times and in conformance with generally accepted auditing standards. The IEPI agrees to fully cooperate with any such audit(s).

The right to audit shall extend during the length of any agreement and for a period of not more than one (1) year following the month in which services were performed. The Parties shall retain all necessary records and documentation for the entire length of this audit period.

13. Control and Payment of Subordinates

SCWC retains IEPI on an independent contractor basis and not as an employee. The personnel performing the services contemplated by this agreement on behalf of SCWC shall at all times be under IEPI's exclusive direction and control and are not employees of SCWC. IEPI shall pay all wages, salaries, and other amounts due such personnel in connection with their performance of services under any agreement and as required by law. IEPI shall be responsible for all reports and obligations regarding such personnel including, but not limited to: social security taxes, income tax withholding, unemployment insurance, and worker's compensation insurance.

14. Fair Employment

Parties agree not to unlawfully discriminate in its employment practices against any employee, applicant for employment, or group of people on the basis of race, religion, color, sex, age, physical condition or national origin.

15. Assignment

No transfer or assignment of all or any part of this Agreement or of any rights, benefits, or duties hereunder by any Party shall be effective without the prior written consent of the other Party, which consent shall not be unreasonably withheld; provided, that this Section 15 shall not apply to interests which arise by reason of security agreements

heretofore granted or executed by a Party, or to an assignment to the successor of a Party by merger or corporate reorganization.

16. No Dedication of Facilities

Any undertaking by one Party under any provisions of this Agreement shall not constitute the dedication of the system or any portion thereof of such Party to the public or to the other Party or any other person or entity, and it is understood and agreed that any such undertaking by either Party shall cease upon the termination of such Party's obligations under this Agreement.

17. Choice of Laws

This Agreement shall be governed by and construed in accordance with the laws of the State of California, except to the extent preempted by the Federal Power Act and the rules and regulations of the FERC.

18. Binding Effect

The terms and provisions of this Agreement, and the respective rights and obligations hereunder of each Party, shall be binding upon, and inure to the benefits of, its successors and permitted assigns.

19. Non-Waiver of Defaults

No waiver by either Party of any default of the other Party under this Agreement shall operate as a waiver of a future default, whether of alike or different character.

20. Written Amendments

No modification of the terms and provisions of this Agreement shall be or become effective except by written amendment executed by the Parties.

21. Severability

Should any provision of this Agreement for any reason be declared invalid or unenforceable by final and applicable order of any court or regulatory body having jurisdiction, such decision shall not affect the validity of the remaining portions, and the remaining portions shall remain in force and effect as if this Agreement had been executed without the invalid

portion. This Agreement is subject to review by the California Public Utilities Commission "CPUC". The Agreement may be terminated if disapproved by the CPUC; however, SCWC shall be liable for any economic damages to IEPI with respect to any power transactions made under this Agreement with IEPI.

22. Survival

Any provision(s) of this Agreement that expressly or by implication comes into or remains in force following the termination or expiration of this Agreement shall survive the termination or expiration of this Agreement.

If the foregoing terms are acceptable to SCWC, please sign and return one copy of this Agreement. The remaining copy is for your files.

Sincerely,

/s/ MARK V. ALLEN

Mark V. Allen
Director, Regional Marketing
Illinova Energy Partners, Inc.

Accepted as of this 5 day of April, 1999 for:

The Southern California Water Company

/s/ JOEL DICKSON

By: Mr. Joel Dickson
Title: Vice President of Customer Service and Operations Support

EXHIBIT A

ILLINOVA ENERGY PARTNERS, INC.
FERC TARIFF NO. 1

1. Availability: Illinova Energy Partners, Inc. ("IEPI") makes electric energy and capacity available for resale under this Rate Schedule to any purchaser.

2. Applicability: This schedule is applicable to all sales of energy or capacity by IEPI not otherwise subject to a particular rate schedule of IEPI.

3. Rates: All sales shall be made at rates established by agreement between the purchaser and IEPI.

4. Other Terms and Conditions: All other terms and conditions shall be established by agreement between the purchaser and IEPI.

5. Affiliate Sales and Purchases Prohibited: No sale or purchase may be made pursuant to this Rate Schedule to or from any IEPI affiliate.

6. Effective Date: This Rate Schedule is effective on and after May 20, 1995.

[ILLINOVA LETTERHEAD]

April 7, 1999

Mr. Joel Dickson
Vice President of Customer Service
and Operations Support
Southern California Water Company
630 E. Foothill Blvd.
San Dimas, CA 91773

RE: SCHEDULING COORDINATION & REAL-TIME SERVICES AGREEMENT

Dear Mr. Dickson:

This agreement for Scheduling Coordination & Real-Time Services (Agreement) sets forth the rates, terms and conditions under which Illinova Energy Partners, Inc. (Illinova) agrees to provide twenty four (24) hour real-time services and Schedule Coordination to Southern California Water Company for its Division Bear Valley Electric Services (Customer). Illinova and Customer are hereinafter collectively referred to as "Parties" or individually as "Parry", and hereby agree as follows:

1. TERM AND EFFECTIVE DATE

This Agreement shall become effective on Hour Ending 0100 (Pacific Prevailing Time) May 1, 1999, and shall remain in force and effect until April 30, 2002.

2. SERVICES TO BE PROVIDED BY ILLINOVA

Illinova will provide the following hourly services for Customer:

Illinova shall act as Scheduling Coordinator, in accordance with the requirements of the California Independent System Operator ("ISO") tariff, for Customer's loads at associated take-out points.

Develop Customer's pre-schedules based on load forecasts or load profiles provided by Customer, or Illinova under a separate Daily Purchasing Agreement dated April 7, 1999, or any applicable Utility Distribution Company ("UDC").

Coordinate pre-schedules with any applicable UDC, Independent System Operator ("ISO"), Power Exchange ("PX") and/or other suppliers.

Maintain Customer's schedules every hour. Each transaction will describe the delivery of power from a supplying party's control area (the generator), through all intermediate Purchase Sale Entities, to a receiving party's control area (load). A full path must be included detailing all entities that take title to the energy and all transmission paths.

Monitor schedules in effect during the term of the Agreement twenty-four (24) hours per day.

Confirm scheduled transactions as required. It is anticipated that schedules will be confirmed on a pre-scheduled basis within twenty-four (24) hours prior to the transaction. Illinova shall confirm schedule start and stop times with each entity Customer is purchasing from and delivering to.

If conditions require a modification to a pre-scheduled transaction, Illinova will, as directed, make sales and purchase decisions for Customer on a best effort basis to minimize losses, scheduling inconsistencies, and imbalances. In the event that such a service is requested Illinova will not be held liable for any losses that may be incurred due to its marketing decisions.

Provide Customer an hourly accounting of each day's transactions, including any changes to pre-scheduled transactions.

Use reasonable efforts to resolve any discrepancies with other parties.

3. SERVICES PROVIDED BY CUSTOMER

Customer shall furnish Illinova, in a timely manner, with all information necessary for Illinova to carry out its responsibilities as Scheduling Coordinator in accordance with the ISO tariff, and shall carry out all directives from Illinova in performance of its role as Scheduling Coordinator in accordance with the ISO tariff.

If required by Illinova, Customer shall acquire and maintain, throughout the term of this agreement, a form and amount of credit protection acceptable to Illinova, not to exceed $3,000,000, for the performance of this Agreement. This will include any additional charges by Illinova to maintain credit for Customer schedules with the ISO.

By 3:00 PM (Pacific Time) on every normal work day observed by both parties, Customer, or Illinova as Customer representative under separate Daily Energy Purchasing Agreement dated April 7, 1999, shall provide Illinova with an hourly listing of all changes to standard pre-scheduled transactions for the following day or days.

Provide Illinova with a twenty-four (24) hour emergency contact and pager number.

4. CHARGES

The charge for the services described above will be billed according to the following

4.1 Illinova Charges

1. Initial setup charge (one time): $7,000.00
Due and payable upon execution of this Agreement

2. Monthly Base Fee: $2,500.00

3. Customer shall pay a Monthly Variable Fee equal to:

Monthly Variable Fee: $0.35/MWH

4. Monthly Administration and Billing Charge; $500.00

5. Illinova Re-marketing fee: $0.15/MWH

4.2 Imbalance Fees, Penalties, and Re-marketing

If Customer's actual energy usage exceeds the forecasted amount, Customer shall receive the ex-post price for this excess energy, and if such situation is expected to exist for any length of time, and Illinova can re-market this excess energy to other Scheduling Coordinators or counter-parties, Illinova will inform Customer of such an opportunity, and upon Customer concurrence, Illinova will re-market said excess. Customer will pay Illinova, the Energy Re-Marketing Fee listed above, for energy re-marketed. Customer shall also be responsible for any additional penalties or imbalance charges imposed by the ISO for imbalances due to Customer's energy usage deviating from the actual monthly energy amount defined by the forecast.

4.3 Pass-Through Costs

Unless specified under a separate power transaction between Customer and IEP, Customer shall be responsible for, and shall pay Illinova or any other provider of the service as applicable, for all charges imposed by the ISO, Automated Power Exchange (APX) and the California Power Exchange ("PX") in connection with the service provided under this Agreement, including but not limited to, charges for transmission (including Grid Management Charges, Grid Operations Charges, Ancillary Services Charges, Imbalance Energy Charges, Usage Charges, Wheeling Access Charges, Voltage Support and Black Start Charges, and Reliability Must-Run Charges, Losses, or Taxes imposed by the ISO), distribution, ancillary services (including costs for ancillary services purchased by Illinova from third parties for purpose of this Agreement), access charges, PX administration charges, whether such charges are billed directly to Customer or are billed to Illinova; provided, that Illinova shall be responsible for payment to the ISO of any imbalance charges as imposed by the ISO as a result of Illinova's failure to deliver energy to the ISO provided to Illinova by Customer. Any such imbalance charge for which Illinova is responsible shall be based on the difference between (i) the total energy scheduled by

Illinova to, and received by, the ISO and (ii) Illinova's total customer load within the Zone or Take-Out Points, as defined in the ISO tariff, where such imbalances occur. Where charges are billed to Illinova by the ISO, or PX in respect of service provided to Customer under this Agreement and to other scheduling clients, Illinova shall make appropriate allocations of such billed amounts to all scheduling clients inclusive of Customer.

4.4 Losses

Illinova shall bill Customer for energy losses provided in accordance with delivery of Customer energy under this Agreement based on the hourly registrations of energy on the meters installed at the Customer Direct Access Account interconnection points, increased by the corresponding percentage points to account for losses between the interconnection point or points at which Illinova delivers or schedules Customer supplied energy deliveries to the ISO Controlled Grid and the Customer interconnection points. If the amount of energy scheduled or delivered by Illinova to the interconnection point or points on the ISO Controlled Grid does not equal the amount of energy registered on the meters at the Customer interconnection points plus the appropriate loss factor in an hour, the variance shall be reconciled and billed in accordance with Sections 7 of this Agreement.

7. PAYMENT

Illinova will submit its invoices to Customer on a monthly basis. All billings to Customer will be sent to:

Mr. Raymond P. Juels
Southern California Water Company
630 E. Foothill Blvd.
San Dimas, CA 91773

or to such address as Customer may specify by written notice given as provided herein.

IEP and SCWC will develop an acceptable invoicing format and include quarterly fuel mix for supply, as can be determined with suppliers. Invoices should include line items to clearly identify charges herein.

Invoices submitted by Illinova to Customer shall be due and payable 20 days after the date of the invoice. Customer agrees to pay interest at the rate of 1.5% per month, or the maximum rate as permitted by law, on any invoiced amounts which are not paid on or before the due date, until the date of payment.

Payments to Illinova shall be mailed to:
Illinova Energy Partners, Inc.
6955 Union Park Center, Suite 300
Midvale, UT 84047
Attn: Jennifer Hughey

Payments over $50,000 shall be wired to:
American National Bank
2000 South Naperville Road
Wheaton, IL 60187
ABA #: 071000770
Account #: 1818-0752
For Illinova Energy Partners account

Illinova hereby represents that its bills will be based upon some estimated amounts. For example, ISO charges will be billed to Scheduling Coordinators, such as Illinova, on a quarterly basis. Accordingly, Illinova shall bill, or credit, for any adjustments to past billings for estimated amounts being reconciled with actual amounts.

All correspondence with regard to payment shall be made to the same address.

8. METERING & COMMUNICATION

Customer shall be responsible for the cost of establishing and maintaining communication equipment necessary to conduct the scheduling coordination services for energy management pursuant to this agreement. Such costs shall include meters, monthly communication & maintenance costs and other necessary equipment. Such costs shall be discussed and agreed to before they are actually incurred.

9. AUDIT

Either Party, at its own expense, shall have the right, at all reasonable times, to review and audit the books, records, documents of the other Party, directly pertaining to the billing and power delivery data required to administer this Agreement. The foregoing shall not be construed to permit either Party to conduct a general audit of the other Party's records. Information obtained by either Party's representatives in examining the other Party's applicable records to verify such billings and power delivery data shall not be disclosed to third parties without prior written consent of the audited Party, or unless in response to compulsory judicial or regulatory processes and after giving the other Party as much advance written notice as possible, with such time not to be less than (15) days. The right to audit shall extend for a period of one (1) year following the date of each payment. It will be incumbent upon the Parties to retain all necessary records and documentation during this audit period.

10. FORCE MAJEURE

Neither Party shall be liable for any delay or failure in performance of any part of this Agreement (other than obligations to pay money) from any cause beyond its reasonable control, including but not limited to flood, fire, lightning, epidemic, quarantine restriction, war, sabotage, act of a public enemy whether foreign or domestic, earthquake, insurrection, riot, civil disturbance, strike, work stoppage caused by jurisdictional or similar disputes, restraint by court order or public authority, action or non-action by or inability to obtain necessary authorization or approval from any governmental authority, or failure or inability of the ISO or the UDC to accept energy from Illinova or to deliver energy to Customer in amounts received from Illinova, or any combination of these causes, whether affecting the Party or the Party's suppliers, which by the exercise of due diligence and foresight such Party could not reasonably have been expected to avoid and which by the exercise of due diligence the Party has been unable to overcome. The Party claiming a force majeure condition shall give the other Party such notice of the condition as is reasonable under the circumstances. Upon notice of the force majeure condition being provided, the obligations of the Party invoking the force majeure, to the extent they are affected by the force majeure condition, shall be suspended during the continuation of such condition and

shall, so far as is possible, be remedied with all reasonable dispatch.

11. INDEMNIFICATION

11.1 To the fullest extent permitted by law, and subject to the limitations set forth in Section 21, "Limitation of Liability to Amount of Direct Damages", of this Agreement, each Party (the "Indemnifying Party") shall indemnify and hold harmless the other Party, its parent company or companies and affiliates, and their shareholders, officers, directors, employees, agents, servants, and assigns (collectively, the "Indemnified Party"), and at the Indemnified Party's option, the Indemnifying Party shall defend the Indemnified Party from and against any and all claims and liabilities for losses, expenses, damage to property, injury to or death of any person, including, but not limited to, the Indemnified Party's employees and its parent company's and affiliates' employees, subcontractors and subcontractors' employees, or any other liability incurred by the Indemnified Party, which shall include reasonable attorney fees, caused wholly or in part by any negligent, grossly negligent or willful act or omission by the Indemnifying Party, its officers, directors, employees, agents or assigns arising out of this Agreement, except to the extent such claim, liability, loss, expense, damage to property, injury or death is caused by any negligent, grossly negligent or willful act or omission of the Indemnified Party.

11.2 If any claim covered by Section 11.1 is brought against the Indemnified Party, then the Indemnifying Party shall be entitled to participate in, and unless in the opinion of counsel for the Indemnified Party a conflict of interest between the Parties may exist with respect to such claim, assume the defense of such claim, with counsel reasonably acceptable to the Indemnified Party. Even if the Indemnifying Party assumes the defense of the Indemnified Party pursuant to this subsection b, the Indemnified Party, at its sole option, may participate in the defense, at its own expense, with counsel of its own choice without relieving the Indemnifying Party of any of its obligations hereunder.

11.3 The Indemnifying Party's obligation to indemnify under this Section 10 shall survive termination of this Agreement, and shall not be limited in any way by any limitation on the amount or type of damages, compensation or benefits payable by or for the Indemnifying Party under any statutory scheme, including, without limitation, under any worker's compensation acts, disability benefit acts or other employee benefit acts.

12. GOVERNING LAW

This Agreement shall be governed by, and interpreted and construed in accordance with, the laws of the State of California, and shall exclude any choice of law rules that direct the application of the laws of another jurisdiction, irrespective of the place or places of execution or of the order in which signatures of the parties are affixed or of the place or places of performance; provided, that any provision of this Agreement that is subject to the jurisdiction of the Federal Energy Regulatory Commission ("FERC") shall be governed by, and interpreted and construed in

accordance with, the regulations of the FERC and such other laws of the United States as are applicable to that provision.

13. AMENDMENT

This Agreement may be modified only upon mutual written agreement of the Parties.

14. WAIVER

Any waiver at any time by either Party with respect to any of its rights under this Agreement or the failure of a Party to insist on the performance by the other Party of an obligation under this Agreement shall not be deemed an amendment or modification of this Agreement and shall not be deemed a waiver of such right, or acquiescence to non-performance of such obligation, during the remainder of the term of this Agreement.

15. PROPRIETARY INFORMATION

Illinova considers pricing information contained in this Agreement to be proprietary and confidential. Disclosure of any pricing information contained in this Agreement shall require the prior written consent of Illinova. Customer considers all information provided to Illinova under Section 3 of this Agreement and all information that Illinova obtains in carrying out the services described in Section 2 of this Agreement to be proprietary and confidential. Disclosure or use of any of the aforementioned information contained in this Agreement other than to carry out the services outlined in Section 2 of this Agreement shall require the prior written consent of Customer.

16. ASSIGNMENT AND DELEGATION

16.1 Neither Party shall assign any of its rights or obligations under this Agreement except with the prior written consent of the other Party, which consent shall not be unreasonably withheld or delayed. No assignment of any right or obligation under this Agreement shall relieve the assigning Party of any of its obligations under this Agreement until such obligations have been assumed in writing by the assignee. When duly assigned in accordance with the preceding two sentences, any obligation so assigned shall be binding upon the assignees, and the assignor shall be relieved of its rights and obligations that have been duly assigned. Any assignment in violation of this Section 16.1 shall be void.

16.2 Notwithstanding the provisions of subsection 16.1, either Party may delegate any of its duties under this Agreement to an agent or subcontractor, provided that the delegating Party shall remain fully responsible for performance of any delegated duties, shall serve as the point of contact between the delegatee and the other Party, and shall provide the other Party with 30 days prior written notice of any such delegation, which notice shall contain such information about the delegatee as the other Party shall reasonably require.

17. AUTHORITY TO EXECUTE AGREEMENT

Each Party acknowledges that it has read this Agreement and that the Party fully understands its rights and obligations under this Agreement. Each Party further acknowledges that it has had an opportunity to consult with an attorney of its own choosing to explain the terms of this Agreement and the consequences of signing it.

Each Party represents and warrants (i) that it has the full power and authority to execute and deliver this Agreement and to perform its terms, (ii) that execution, delivery and performance of this Agreement have been duly authorized by all necessary corporate or other action by such Party, and do not conflict with the Party's articles of incorporation or by-laws, or cause a default under any contract or other agreement to which such Party is subject, and (iii) that this Agreement constitutes such Party's legal, valid and binding obligation and is enforceable against such Party in accordance with its terms. Each person executing this Agreement for a Party represents and warrants that he or she has the authority to bind the Party on whose behalf he or she is executing this Agreement.

18. CONSTRUCTION SHALL NOT BE FOR OR AGAINST DRAFTER

No provision of this Agreement shall be construed or interpreted for or against any Party because that Party drafted or caused its legal representative to draft the provision.

19. DISPUTE RESOLUTION PROCEDURES

Any dispute between the Parties concerning the provisions, interpretation or implementation of this Agreement which remains unresolved for a period of six months shall, upon written notice given by one Party to the other Party, be forwarded to Customer's Chief Financial Officer and to Illinova's Vice President of the Western Region ("Executive" or "Executives"), who shall meet within 30 days following the date of the notice, or at such other time as agreed upon by the Executives, to discuss and attempt to resolve the dispute. Any resolution agreed upon by the Executives shall be binding upon the Parties. A resolution reached by the Executives shall not be effective until set forth in a writing signed by both Executives. If the Executives cannot resolve the dispute within 30 days following their initial meeting either Party may pursue any remedy available to the Party at law, in equity or under this Agreement to resolve the dispute. If the title of either Executive position referred to in this Section 19 is eliminated or changed, or if this Agreement is assigned pursuant to Section 16, the Party subject to the change, or the assignee of such Party, shall substitute a comparable executive for the purpose of this Section 19 and shall promptly notify the other Party in writing.

Each Party shall bear its own attorney fees and other costs incurred in connection with any dispute, except as otherwise (i) agreed by the Parties in the resolution of the dispute, (ii) ordered

by a court or administrative agency of competent jurisdiction, or (iii) determined by the arbitrator or other neutral in any alternative dispute resolution process used by the Parties, in accordance with the rules and procedures adopted and agreed to by the Parties for purposes of that process.

20. ENTIRE AGREEMENT

This Agreement, including all attachments hereto and agreements contemplated herein, constitutes the entire agreement and understanding between the Parties as to the subject matter of this Agreement, and merges and supersedes all prior oral or written agreements, understandings, commitments, representations and discussions between the Parties. The Agreement may be amended, modified or supplemented only in accordance with Section 13 or Section 16 of this Agreement.

21. LIMITATION OF LIABILITY TO AMOUNT OF DIRECT DAMAGES

Each Party's liability to the other Party for any loss, cost, claim, injury, liability or expense, including any reasonable attorney fees to which the other Patty is entitled, relating to or arising from an act or omission in the Party's performance of this Agreement, shall be limited to the amount of direct damage actually incurred. In no event shall either Party be liable to the other Party for any indirect, special, consequential or punitive damages of any kind whatsoever, whether in contract, tort or strict liability.

22. LIMITATION ON TIME TO MAKE CLAIMS

With the exception of claims for indemnity under Section 11, "Indemnification", of this Agreement, no claims may be made under this Agreement, or submitted to dispute resolution pursuant to Section 19, "Dispute Resolution Procedures", of this Agreement, more than three years after the date the claim accrued. The Parties agree that failure to make any claim falling within the scope of this Section 22 within three years shall bar any cause of action. Provided, however, that claims for indemnity under Section 11, "Indemnification", of this Agreement shall not be limited by the three year limitation of this Section, but shall be governed by the applicable statue of limitations.

23. NOTICES AND DEMANDS

Unless another means of notice is expressly provided for in another Section of this Agreement, all notices and demands given or made by a Party under this Agreement shall be sent by the sending Party by facsimile with a copy sent, by United States Mail, to the designated recipient of the receiving Party at the addresses set forth below.

If to SCWC:
Southern California Water Company
630 E. Foothill Blvd.
San Dimas, CA 91773

Attention: Mr. Raymond P. Juels

if to Illinova:

Illinova Power Marketing, Inc.
Attention: Jennifer Hughey, Controller
Union Park Center, Suite 300
Midvale, Utah 84047
Fax No.: (801) 568-2104

A Party may, by notice to the other Party provided in accordance with this Section, change the name of designated recipient, address, and facsimile number to which notices and demands shall thereafter be sent. Any notice provided pursuant to this Section shall be effective upon confirmation of receipt of the sending party's facsimile, if between the hours of 8:00 A.M. and 4:00 P.M. Pacific Time, and at 8:00 A.M. Pacific Time on the next business day if at any other time.

24. REMEDIES CUMULATIVE

Except as expressly provided otherwise in this Agreement, all remedies in this Agreement, including the right of termination, are cumulative, and use of any remedy shall not preclude any other remedy in this Agreement.

25. SECTION HEADINGS

The headings placed at the start of each Section of this Agreement are solely for the convenience of reference of the Parties, are not and shall not be deemed to be a part of this Agreement, shall in no way define, modify, or restrict any of the terms or provisions of this Agreement, and shall not be used in any manner in the interpretation or construction of this Agreement.

26. TAXES

Unless expressly provided otherwise in the Section or Sections of this Agreement establishing charges, the charge or charges specified in this Agreement for services and products provided hereunder do not include any amounts in respect of any State or local taxes that are assessed, imposed or owing as a function of the revenues, billings, purchase price, deliveries or usage under this Agreement. Illinova shall add the amount of any such taxes that are applicable to services or products for which Illinova is rendering an invoice to Customer to the amount of the billing stated on such invoice, with such amount to be calculated at the applicable rate or rates of tax. Customer shall be responsible for payment of any such taxes, and for the filing of returns, with respect to any tax not added to Customer's invoice by Illinova. Customer shall also be responsible to pay any penalties, interest or other charges resulting from Customer's failure to timely pay any such tax, or resulting from Illinova's failure to timely pay any such tax due to Customer's failure to timely provide Illinova with information necessary to determine or compute such tax or file a return.

27. THIRD-PARTY BENEFICIARIES

The provisions of this Agreement are for the benefit of the Parties and not for any other person or third party beneficiary. The provisions of this Agreement shall not impart rights enforceable by any person, firm or organization other than a Party, or a successor or assignee of a Party, to this Agreement.

28. SEVERABILITY

Should any provision of this Agreement for any reason be declared invalid or unenforceable by final and applicable order of any court or regulatory body having jurisdiction, such decision shall not affect the validity of the remaining portions, and the remaining portions shall remain in force and effect as if this Agreement had been executed without the invalid portion. This Agreement is subject to review by the California Public Utilities Commission "CPUC". The Agreement may be terminated if disapproved by the CPUC; however, SCWC shall be liable for any economic damages to IEP with respect to any power transactions made or service costs incurred under this Agreement with IEP.

29. TIME OF ESSENCE

The Parties agree that time is of the essence for all portions of this Agreement.

If the above accurately reflects your understanding of the agreement reached by representatives of Illinova and Customer, please so indicate by signing both originals of this Agreement in the space provided below and return one fully executed original to me.

Sincerely

/s/ MARK V. ALLEN
Mark V. Allen
Director, Regional Marketing
California & Desert Southwest

Accepted as of this 16th day of April, 1999, for Southern California Water Company

/s/ JOEL DICKSON
- ---------------------------------
Mr. Joel Dickson
Vice President of Customer & Support Services

[ILLINOVA LETTERHEAD]

May 13, 1999

Mr. Joel Dickson
Vice President of Customer Service and Operations Support
Southern California Water Company
630 E. Foothill Blvd.
San Dimas, CA 91773

RE: SCHEDULING COORDINATION & REAL-TIME SERVICES AGREEMENT -METERING & COMMUNICATIONS

Dear Mr. Dickson:

This represents an amendment to the Scheduling Coordination & Real-Time Services (Agreement) between Illinova Energy Partners, Inc. (IEP) and the Southern California Water Company for its Division Bear Valley Electric Services (Customer) dated April 7, 1999.

Pursuant to Section 8 Metering and Communications of the subject agreement,IEP is to provide Customer with the proposed costs for metering and communications prior to billing for such services. Accordingly, IEP has had a few visits to Bear Valley with one of its Meter Service Providers and designed a metering interrogation scheme that I believe is better than the prior configuration by our predecessor. In addition, this considers a permanent installation owned by Customer. The Exhibit A attached provides you with the detail of such installation, and the total cost for this service is a one-time charge of $7,200 (billable in the first month in which the equipment was installed). IEP's monthly charge for metering interrogation is hereby quoted as 535.00 per month.

If the above pricing meets with your approval, please so indicate by signing this Agreement in the space provided below and return a faxed copy to my attention at (801) 568-2103.

Sincerely,

/s/ MARK V. ALLEN

Mark V. Allen
Director, Regional Marketing
California & Desert Southwest

Accepted as of this 13th day of May, 1999, for Southern California Water Company

/s/ JOEL DICKSON
- --------------------------------
Mr. Joel Dickson
Vice President of Customer & Support Services

[ILLINOVA LETTERHEAD]

EXHIBIT A

BEAR VALLEY ELECTRIC SERVICE - METERING
CONVERSION PROPOSAL

DESCRIPTION	QTY
DATA STAR, TYPE D-102, 32K, 4 CHANNEL, SOLID STATE PULSE RECORDER - WITH TELEPHONE MODEM	2
PULSE SPLITTING RELAY - MERCURY WETTED WITH 3 RELAYS INSTALLED - 1 IN, 2 OUT	4
FUSE BLOCKS WITH DIRECT MOUNTING BASE AND TUBULAR SCREWS. SIMILAR OR EQUAL TO BUCHANAN CAT. #342 - INCLUDES TYPE 'KTK' OR 'KLM' FUSES	2
FASTENERS - CONNECTORS - TERMINALS - COUPLINGS	1
PROVIDE ALL LABOR NECESSARY TO INSTALL A COMPLETED METERING INSTALLATION	32
VEHICLE MILES TO AND FROM PROJECT	400
TECHNICIANS TRAVEL TIME FORM THEIR BASE TO THE JOB SITE AND RETURN	8
COSTS INCURRED FOR PERFORMING A SITE INSPECTION TO DETERMINE COMPONENTS NECESSARY TO COMPLETE PROJECT	4
PROJECT ENGINEERING AND COMPONENT ACQUISITION	3
TOTAL	57,00.00

[WEST AND EAST CIRCUIT FLOWCHART]

1. Add "Pulse Splitting Relays" #1A and #2A
2. Add Data Star Recorder inside "Bear Valley Cabinet
3. Use existing conduits for extending "K-Y-Z" Pulse Conductors

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Data & Metering Specialties, Inc.
16208 Springdale Street - Huntington Beach, CA 92649
Ph: (714) 903-3249 - Fax: (714) 903-3229

Sub-Metering Specification
For
"Goldhill" Substation

By: J.J. Tuso

Date: 05-05-99 2 CIR. TOT.

[WEST AND EAST CIRCUIT FLOWCHART]

Notes:

1. Add 2 Pulse Splitting Relays #1A and #2A if no vacant ports available
2. Add Data Star Recorder

Data & Metering Specialties, Inc.
16208 Springdale Street - Huntington Beach, CA 92649
Ph: (714) 903-3249 - Fax: (714) 903-3229

Sub-Metering Specification
For
"Harnish" Substation

By: J.J. Tuso

Date: 05-03-99 1 CIRCUIT

EXHIBIT 10.19
EXECUTION

LOAN AND TRUST AGREEMENT

by and among

THE INDUSTRIAL DEVELOPMENT AUTHORITY
OF THE COUNTY OF MARICOPA,

CHAPARRAL CITY WATER COMPANY

and

BANK ONE, ARIZONA, NA, as Trustee

The Industrial Development Authority of the County of Maricopa
Water System Improvement and Refunding Revenue Bonds
(Chaparral City Water Company Project)

$7,600,000	$1,320,000
Water System Improvement Revenue Bonds Series 1997A	Water System Refunding Revenue Bonds Series 1997B

Dated as of December 1, 1997

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THE PROJECT

ARTICLE V

COVENANTS AND WARRANTIES OF THE COMPANY AND OF THE ISSUER

ARTICLE VI

DEFAULT AND REMEDIES

ARTICLE I

INTRODUCTION AND DEFINITIONS

Section 1.01. Description of this Agreement and the Parties. This LOAN AND TRUST AGREEMENT (the "Agreement") is entered into as of December 1, 1997 by and among THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE COUNTY OF MARICOPA, a nonprofit corporation designated a political subdivision of the State of Arizona (the "State") incorporated with the approval of Maricopa County, Arizona (the "County"), pursuant to the provisions of the Constitution of the State and under Title 35, Chapter 5, Arizona Revised Statutes, as amended (the "Issuer"), CHAPARRAL CITY WATER COMPANY, an Arizona corporation (the "Company"), and BANK ONE, ARIZONA, NA, as trustee (with its successors, the "Trustee").

This Agreement is a financing document combined with a trust agreement under the Act and provides for the following transactions:

(a) the Issuer's issuance of its $7,600,000 Water System Improvement Revenue Bonds (Chaparral City Water Company Project), Series 1997A (the "Series 1997A Bonds");

(b) the Issuer's issuance of its $1,320,000 Water System Refunding Revenue Bonds (Chaparral City Water Company Project), Series 1997B (the "Series 1997B Bonds" and together with the Series 1997A Bonds, the "Bonds");

(c) the Issuer's loan of the proceeds of the Series 1997A Bonds to the Company for the purposes of (i) paying costs of certain improvements to the water furnishing facilities of the Company located in various locations in the Town of Fountain Hills, City of Scottsdale and unincorporated Maricopa County (as hereinafter more fully described, the "1997 Project"), which water furnishing facilities constitute a "project" within the meaning of the Act, (ii) funding a reserve fund and (iii) paying issuance expenses incurred in connection with the issuance and sale of the Series 1997A Bonds;

(d) the Issuer's loan of the proceeds of the Series 1997B Bonds to the Company for the purpose of refunding the 1985 Bonds, which 1985 Bonds were used to pay the costs of certain improvements to the Company's water furnishing facilities which constitute a "project" within the meaning of the Act (as hereinafter more fully described, the "1985 Project");

(e) the Company's repayment of the loan of Bond proceeds from the Issuer through payment to the Trustee of all amounts necessary to pay the Bonds issued by the Issuer;

(f) the Issuer's assignment to the Trustee in trust for the benefit and security of the Bond Insurer and the Bondholders of the Issuer's rights under this Agreement and

the revenues to be received from the Company hereunder except as otherwise provided herein; and

(g) the Company's securing, as permitted by Section 3.11 hereof, of Parity Debt.

In consideration of the mutual agreements and representations contained in this Agreement and other good and valuable consideration, the receipt of which is hereby acknowledged, the Company, the Issuer and the Trustee agree as set forth herein for their own benefit and for the benefit of the Bondholders and the Bond Insurer and holders of Parity Debt to the extent herein provided, provided that any financial obligation of the Issuer hereunder shall not be a general obligation of the Issuer nor a debt or pledge of the faith and credit of the Issuer or the County, but shall be payable solely from the funds and revenues assigned and pledged under this Agreement. The Issuer has no taxing power.

Section 1.02. Definitions. In addition to terms defined elsewhere herein, the following terms have the following meanings in this Agreement, unless the context otherwise requires:

"Accountant" means a firm of Independent certified public accountants (which may be the external auditing firm of the Company) and which is acceptable to the Trustee.

"Act" means Title 35, Chapter 5, Arizona Revised Statutes, unless otherwise specified herein, as amended from time to time.

"Additional Indebtedness" means any Indebtedness incurred by the Company subsequent to the issuance of the Bonds.

"Additional Parity Indebtedness" means any Additional Indebtedness of the Company that is secured by the Collateral on a parity basis, as provided hereunder, with the Bonds.

"Affiliate" of any specified corporation or other entity means any other entity directly or indirectly controlling or controlled by or under direct or indirect common control with such specified entity. For purposes of this definition, "control" when used with respect to any specified entity means the power to direct the management and policies of such entity, directly or indirectly, whether through appointment of the Governing Body, ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Aggregate Project" means the 1985 Project and the 1997 Project collectively.

"Agreement" means this Loan and Trust Agreement, dated as of December 1, 1997, as it may be supplemented and amended in accordance with its terms.

"Ambac Assurance" means Ambac Assurance Corporation, a Wisconsin-domiciled stock insurance company.

"Annual Debt Service" means, for the Fiscal Year in question, the aggregate of the payments made (other than from moneys irrevocably deposited with the Trustee or otherwise irrevocably held in trust in a segregated account for the benefit of a lender for purposes of such payments), in respect of principal of and interest on Indebtedness of the Company during such period, also taking into account with respect to Capitalized Interest, the provisions pertaining to credit for Capitalized Interest.

"Authorized Officer" means (i) in the case of the issuer, the President, any Vice President, Secretary/Treasurer or Assistant Secretary/Treasurer of the Issuer, and when used with reference to an act or document of the Issuer also means any other person authorized to perform the act or execute the document, and (ii) in the case of the Company, the Chairman, the President, any Vice President, the Secretary or Assistant Secretary of the Company, and when used with reference to an act or document of the Company, also means any other person or persons authorized to perform the act or execute the document.

"Beneficial Owners" means actual purchasers of the Bonds whose ownership interest is evidenced only in the Book-Entry System maintained by the Depository.

"Bond" or "Bonds" means, collectively, the Series 1997A Bonds and the Series 1997E Bonds, and any Bond or Bonds duly issued in exchange or replacement therefor and, where appropriate with respect to redemption, portions thereof in authorized denominations.

"1985 Bonds" means the Issuer's Industrial Development Revenue Bonds (Chaparral City Water Company Project) Series 1985, dated as of April 1, 1985 in the original principal amount of $3,023,000 and currently outstanding in the principal amount of $1,320,000.

"Bond Fund" means the fund by that name established pursuant to Section 3.03, including the Policy Payments Account therein established pursuant to Section 10.02.

"Bondholder," "Holder," "Owner" or "Registered Owner" means (a) with respect to the Parity Bonds, the registered owner of any of the Parity Bonds from time to time as shown in the books kept by the Trustee as bond registrar and transfer agent, and (b) with respect to Parity Debt, the persons or entities identified in accordance with the provisions of Section 3.11 (c) hereof.

"Bond Insurance Policy" means the municipal bond insurance policy issued by the Bond Insurer insuring the payment when due of the principal of and interest on the Bonds as provided therein.

"Bond Insurer" means, with respect to the Bonds, Ambac Assurance.

"Bond Purchase Agreement" means the Bond Purchase Agreement dated December 5, 1997 among the Issuer, the Company and Banc One Capital Corporation.

"Bond Year" means. during the period while any Bonds remain outstanding, the annual period (or, in the case of the first Bond Year, a period of 12 months or less) provided for the computation of Rebate Amount for the Bonds under Section 148(f) of the Code.

"Book-Entry System" means a system for clearing and settlement of securities transactions among participants of a Depository (and other parties having custodial relationships with such participants) through electronic or manual book-entry changes in accounts of such participants maintained by the Depository hereunder for recording ownership of the Bonds by Beneficial Owners and transfers of ownership interests in the Bonds.

"Business Day" means a day on which banks located in each of the cities in which the principal corporate trust offices of the Trustee and the Paying Agent are located are not required or authorized to remain closed and on which the New York Stock Exchange is not closed.

"Capitalized Interest" means the interest (exclusive of accrued interest paid by the initial purchasers upon delivery of the Bonds) accruing upon the Bonds during the period of construction of the 1997 Project.

"Capitalization Ratio" means the ratio of total Indebtedness of the Company to the sum of total Indebtedness and total shareholders' equity, as reflected in or derived from the most recent audited financial statements or unaudited quarterly financial statements of the Company, as applicable.

"Code" means the Internal Revenue Code of 1986, as amended from time to time, or where pertinent, its statutory predecessor, the Internal Revenue Code of 1954, as amended (the "1954 Code"). References to the Code and Sections of the Code include relevant applicable regulations and proposed regulations thereunder and under the 1954 Code; as amended from time to time, and any successor provisions to those Sections, regulations or proposed regulations and, in addition, all revenue rulings, announcements, notices, procedures and judicial determinations under the foregoing applicable to the Bonds.

"Collateral" means the Mortgage and any other Lien on or security interest granted in Property of Company herein and under any other mortgage or security agreement or other document of similar import.

"Company" means Chaparral City Water Company, a corporation for profit duly organized and validly existing under the laws of the State, and its lawful successors and assigns to the extent permitted by this Agreement.

"Computation Date" means each date (including the date on which the Bonds are paid in full) on which the Rebate Amount for the Bonds is computed or is required to be computed in accordance with Section 148(f) of the Code.

"Condemnation Proceeds" shall have the meaning set forth in Section 4.04.

"Consultant" means a person or firm which is not unacceptable to the Trustee or the Bond Insurer, is a recognized professional consultant of favorable reputation, having the skill and experience necessary to render the particular report or certificate required, and is Independent.

"Continuing Disclosure Agreement" means the Continuing Disclosure Certificate of the Company dated as of December 1, 1997.

"Costs of Issuance" means underwriter's discount or fees, counsel fees (including bond counsel, Issuer's counsel, Issuer's financial advisor, counsel to the Company, Trustee's counsel, and any other specialized counsel fees incurred in connection with the issuance of the Bonds), recording fees, title insurance, rating agency fees, Trustee fees incurred in connection with the issuance of the Bonds and the Trustee's acceptance fee and first year administration fee, Accountant fees related to the issuance of the Bonds, printing costs, costs incurred in connection with the public approval process for the Bonds, and any other fees or costs deemed costs of issuance for purposes of Section 147(g) of the Code.

"County" means the County of Maricopa, Arizona.

"Credit Facility" means any irrevocable transferable letter of credit, insurance policy, guaranty or other agreement constituting a credit enhancement or liquidity facility which is in a commercially reasonable form.

"Debt Service Coverage Ratio" means the ratio of Income Available For Debt Service of the Company to Annual Debt Service.

"Debt Service Reserve Fund" means the fund by that name established pursuant to Section 3.04.

"Debt Service Reserve Fund Requirement" means (a) for the Bonds, an amount which is equal to the maximum Annual Debt Service on Outstanding Bonds in the current or any future Fiscal Year and (b) for Parity Bonds secured by the Debt Service Reserve Fund, the amounts required by Section 3.11(b)(2) hereof.

"Defeasance Obligations" means the non-callable Permitted Investments defined in clauses (i) and (ii) of such definition.

"DEPOSITORY" MEANS The Depository Trust Company, New York, New York or any successor depository designated pursuant to Section 3.01(e).

"Event of Bankruptcy" MEANS if (i) the Company shall commence a voluntary case under the federal bankruptcy laws, or shall become insolvent or unable to pay its debts as, they become due, or shall make an assignment for the benefit of creditors, or shall apply for, consent to or acquiesce in the appointment of, or taking possession by, a trustee, receiver, custodian or similar official or agent for itself or any substantial pan of its Property; (ii) a trustee, receiver, conservator, custodian or similar official or agent shall be appointed for the Company or for any

substantial part of its Property and such trustee or receiver shall not be discharged within 90 days; or (iii) the Company shall have an order or decree for relief in an involuntary case under the federal bankruptcy laws entered against it, or a petition seeking reorganization, readjustment, arrangement, composition, or other similar relief as to it under the federal bankruptcy laws or any similar law for the relief of debtors shall be brought against it and shall not be discharged within 90 days.

"Event of Default" means any one of the events set forth in subsection 6,01(a).

"Fiscal Year" means the fiscal year ending December 31 or any other fiscal year designated from time to time in writing by the Company to the Trustee for purposes of making historical calculations or determinations set forth in the Agreement on a Fiscal Year basis, or for purposes of combinations or consolidation of accounting information. With respect to any successor or assignee of the Company whose actual fiscal year is different from that designated above, the actual fiscal year of such successor or assignee which ended within the Fiscal Year designated above shall be used.

"Funds," collectively, means the Bond Fund, the Refunding Fund, the Project Fund and the Debt Service Reserve Fund.

"Governing Body" means, with respect to the Company, its board of directors, board of trustees, or other board or group of individuals in which the power to direct the management and policies of the Company are vested.

"Government Obligations" means (i) direct obligations (other than an obligation subject to variation in principal repayment) of the United States of America ("United States Treasury Obligations"), (ii) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by the United States of America, (iii) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by any agency or instrumentality of the United States of America when such obligations are backed by the full faith and credit of the United States of America, or (iv) evidences of ownership of proportionate interests in future interest and principal payments on obligations described in clause (i) above held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying government obligations are not available to any person claiming through the custodian or to whom the custodian may be obligated.

"Government Restriction" means the occurrence of the following: (i) changes in applicable laws or governmental regulations shall have occurred which prevent, have prevented or will prevent the Company and all other investor-owned water utilities under similar circumstances, from generating sufficient income Available for Debt Service to comply with the particular requirement of the financing document in question, (ii) the effect upon the Company and all other such utilities under circumstances similar to the circumstances set forth in clause (i) above shall have been confirmed by a signed Consultant's opinion or report delivered to the Trustee, (iii) an Officer's Certificate shall have been delivered to the Trustee stating that the Company has generated the highest level of Income Available for Debt Service which, in the

opinion of such officer, could reasonably be generated given the circumstances set forth in clause (i) above, and (iv) there shall have been delivered to the Trustee, if requested by the Trustee, an Opinion of Counsel as to any conclusions of law supporting the opinion or report of the Consultant.

"Guaranty" shall mean a loan commitment or other financial obligation of the Company which loan commitment or obligation guarantees in any manner, whether directly or indirectly, any obligation of any other Person; provided, however, that notwithstanding the foregoing, none of the following shall be deemed to constitute a Guaranty: (a) the endorsement in the ordinary course of business of negotiable instruments for deposit or collection, (b) rentals payable in future years under leases, other than leases properly capitalized under generally accepted accounting principles, and (c) any indemnification agreement entered into by the Company in connection with surety bonds, performance bonds, bid bonds, material bonds, labor bonds, stay bonds, appeal bonds and other similar bonds, except to the extent that a surety bond requires reimbursement of cash deposits by the Company. Nothing in this definition or otherwise shall be construed to count a Guaranty more than once.

"Historic Test Period" means (i) the most recent Fiscal Year of the Company, if audited financial statements with respect to such Fiscal Year are available or (ii) if such audited financial statements are not available, the most recent period for which such audited financial statements are available,

"Income Available for Debt Service" means, as to any period of time, net income before depreciation, amortization and interest of the Company, as determined in accordance with generally accepted accounting principles consistently applied; provided, that no determination thereof shall take into account (a) any gain or loss resulting from either the extinguishment of Indebtedness or the sale, exchange, revaluation or other disposition of capital assets or other long term assets not in the ordinary course of business, (b) all items which under generally accepted accounting principles are considered extraordinary items and which are substantially non-cash charges, and (c) the net proceeds of insurance (other than proceeds of business interruption insurance and casualty insurance, but only to the extent that the loss resulting from the casualty is included in expenses for the applicable period of time) and condemnation awards.

"Indebtedness" means all obligations for payments of principal and interest with respect to money borrowed, incurred or assumed by the Company, all Guaranties, and all purchase money mortgages, financing or capital leases, installment purchase contracts or other similar instruments in the nature of a borrowing by which the Company will be unconditionally obligated to pay: Nothing in this definition or otherwise shall be construed to count any Indebtedness more than once.

"Indemnified Party" means the Issuer, the members of its Board of Directors, its officers, counsel, financial advisors and agents, the County, and its Board of Supervisors and agents and the Trustee, its directors, officers. agents, attorneys and employees (each of the foregoing is individually referred to herein as an "Indemnified Party" and collectively are referred to herein as the "Indemnified Parties").

"Independent" means an individual who is not, or a firm no member, stockholder, director, officer or employee of which is, an officer, member, director or employee of the Company or any Affiliate.

"Insurance Consultant" means an Independent Person or firm appointed by the Company, and satisfactory to the Trustee, who is qualified to survey risks and to recommend insurance coverage for water furnishing facilities and services and organizations engaged in like operations, has actuarial personnel experienced in the area of insurance for which the Company is insuring and who has a favorable national reputation for skill and experience in such surveys and such recommendations.

"Interest Payment Date" means the first (1st) day of each June and December commencing June 1, 1998, provided that, if such day is not a Business Day, any payment due on such date may be made on the next Business Day without additional interest and with the same force and effect as if made on the specified date for such payment.

"Issuer" means The Industrial Development Authority of the County of Maricopa, a nonprofit corporation designated a political subdivision of the State incorporated with the approval of the County pursuant to the provisions of the Constitution of the State and under Title 35, Chapter 5, Arizona Revised Statutes, as amended.

"Laws and Regulations" shall have the meaning given in Section 5.19(x).

"Lien" means any mortgage, pledge, security interest, lien, judgment lien or other material encumbrance on title, including, but not limited to, any mortgage or pledge of, security interest in or lien or encumbrance on any Property of the Company which secures any Indebtedness or any other obligation of the Company, or which secures any obligation of any Person, excluding liens applicable to Property in which the Company has only a leasehold interest unless the lien secures Indebtedness of the Company.

"Moody's" means Moody's Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and assigns.

"Mortgage" means the Deed of Trust, dated as of December 1, 1997, from the Company to Bank One, Arizona, NA, as trustee thereunder, with the Trustee as beneficiary, as amended in accordance with its terms.

"Mortgaged Property" means the real property subject to the Mortgage.

"1985 Project" means the Company's water furnishing facilities financed with proceeds of the Series 1985 Bonds and refinanced with the proceeds of the Series 1997E Bonds, as further described in Schedule E attached hereto.

"1997 Project" means the Company's water furnishing facilities financed with the proceeds of the Series 1997A Bonds, as further described in Schedule E.

"Officer's Certificate" means a certificate signed by an Authorized Officer, which if not otherwise specified herein may be an Authorized Officer of the Issuer or the Company.

"Opinion of Bond Counsel" means an opinion of any Independent firm of attorneys, of nationally recognized standing in matters pertaining to the federal tax exemption of interest on bonds issued by municipalities, and duly admitted to practice law before the highest court of any state of the United States.

"Opinion of Counsel" means a written opinion of an Independent attorney or firm of attorneys selected by the Authorized Officer of the Company and (except as otherwise provided in this Agreement) may be counsel for the Issuer, the Company or for the Trustee.

"Original Purchaser" means Banc One Capital Corporation.

"Outstanding," when used to modify the term "Bonds," refers to Bonds issued under this Agreement, excluding: (i) Bonds which have been exchanged or replaced, or delivered to the Trustee for credit against a sinking fund installment; (ii) Bonds which have been paid, subject to Section 2.03 herein; (iii) Bonds which have become due and for the payment of which moneys have been duly provided to the Trustee, subject to Section 2.03 herein; and (iv) Bonds for which there have been irrevocably set aside with the Trustee sufficient money or Defeasance Obligations bearing interest at such rates and with such maturities as will provide sufficient funds to pay the principal of, premium, if any, and interest on such Bonds as provided in Section 2.03; provided, however, that if any such Bonds are to be redeemed prior to maturity, the Issuer shall have taken all action necessary to redeem such Bonds and notice of such redemption shall have been duly mailed in accordance with this Agreement or irrevocable instructions so to mail shall have been given to the Trustee and provided further that if the Bonds have been paid by Ambac Assurance such Bonds shall remain outstanding in accordance with Section 2.03 hereof; and when used to modify other "Indebtedness," refers to Indebtedness which as of such date remains unpaid except Indebtedness for the payment or redemption of which sufficient moneys have been irrevocably deposited to such date in trust for the holders of such Indebtedness (whether upon or prior to the maturity or redemption date of any such Indebtedness), or which is deemed to have been paid with moneys or securities, pursuant to the provisions of the documents securing such Indebtedness; provided that if such Indebtedness is to be redeemed prior to the maturity thereof, notice of such redemption shall have been given or irrevocable instructions shall have been made therefor and provided further, that the 1985 Bonds shall not be considered to be outstanding from and after the issuance of the Bonds.

"Parity Bonds" means the Bonds and any other bonds issued by the Issuer pursuant to Section 3.11 secured by the Collateral on a parity basis, as provided hereunder, with the Bonds and any Additional Parity Indebtedness.

"Parity Debt" means, collectively, the Bonds, any Parity Bonds and any other Additional Parity Indebtedness, so long as they remain Outstanding,

"Paying Agent" means Bank One, Arizona, NA, and any successor Paying Agent designated from time to time pursuant to Section 3.14.

"Permitted Encumbrance" means a Permitted Encumbrance as described in Section 5.17.

"Permitted Investments" means any of the following:

(i) Cash (insured at all times by the Federal Deposit Insurance Corporation or otherwise collateralized with obligations described in paragraph (ii) below);

(ii) Direct obligations of (including obligations issued or held in book entry form on the books of) the Department of the Treasury of the United States of America;

(iii) Obligations of any of the following federal agencies, which obligations represent the full faith and credit of the United States of America, including:

- Export-Import Bank
- Farm Credit System Financial Assistance Corporation
- Rural Economic Community Development Administration (formerly the Farmers Home Administration)
- General Services Administration
- U.S. Maritime Administration
- Small Business Administration
- Government National Mortgage Association (GNMA)
- U.S. Department of Housing & Urban Development (PHA's)
- Federal Housing Administration
- Federal Financing Bank;

(iv) Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America:

- Senior debt obligations rated "AAA" by Moody's and "AAA" by S&P issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC)
- Obligations of the Resolution Funding Corporation (REFCORP)
- Senior debt obligations of the Federal Home Loan Bank System
- Senior debt obligations of other Government Sponsored Agencies approved by Atabac Assurance;

(v) U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of "A-1" or "A-1 +" by S&P and "P-1" by Moody's and maturing no more than 360 days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank.);

(vi) Commercial paper which is rated at the time of purchase in the single highest classification, "A-1 +" by S&P and "P-1" by Moody's and which matures not more than 270 days after the date of purchase;

(vii) Investments in a money market fund rated "AAAm" or "AAAm-G" or better by S&P, including funds for which the Trustee or its affiliates act as advisor or custodian;

(viii) Pre-refunded Municipal Obligations defined as follows: Any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and

(A) which are rated, based on an irrevocable escrow account or fund (the "escrow"), in the highest rating category of S&P and Moody's or any successors thereto; or

(B) (i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in paragraph (ii) above, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity DATE or dates specified in the irrevocable instructions referred to above, as appropriate;

(ix) General obligations of states of the United States of America with a rating of at least "A2/A" or higher by both Moody's and S&P;

(x) Investment agreements approved in writing by Ambac Assurance and supported by appropriate opinions of counsel with notice to S&P; and

(xi) Other forms of investments (including repurchase agreements) approved in writing' by Ambac Assurance with notice to S&P.

"Person" means any natural person, firm, joint venture, association, partnership (including without limitation, general and limited partnerships), society, estate, trust, corporation. limited liability company, public body, agency or political subdivision thereof or any other similar entity.

"project Fund" means the fund by that name established pursuant to Section 3.07.

"Property" means any and all land, leasehold interests, buildings, machinery, equipment, hardware, and inventory of the Company wherever located and whether now or hereafter acquired, and any and all rights, titles and interests in and to any and all property whether real or personal, tangible or intangible, and wherever situated and whether now or hereafter acquired.

"Property, Plant and Equipment" means all Property of the Company which is property, plant and equipment under generally accepted accounting principles.

"Rebate Amount" means as of each Computation Date for the Bonds, an amount equal to the sum of (i) plus (ii), computed in accordance with Section 14$(f) of the Code, where;

(i) is the excess of

(a) the aggregate amount earned from the date of issuance of the Bonds (or during the computation period in case of a variable yield issue) on all nonpurpose investments in which gross proceeds of the Bonds are invested (other than investments attributable to an excess described in this clause (i)) including any gain or deducting any loss from disposition of nonpurpose investments, over

(b) the amount that would have been earned if those nonpurpose investments (other than amounts attributable to an excess described in this clause (i)) had been invested at a rate equal to the yield on the Bonds; and

(ii) is any income attributable to the excess described in clause (i) of this definition.

"Rebate Consultant" means an Independent certified public accounting firm or other qualified Independent person or firm with knowledge of or experience in giving advice with respect to the provisions of Section 148(f) of the Code, designated by a Company Officer's Certificate and reasonably acceptable to the Trustee, and, initially, shall mean Arthur Andersen LLP..

"Rebate Fund" means the fund by that name established pursuant to Section 3.05.

"Rebate Instructions" means the letter of instructions set forth as an exhibit to the Tax Compliance Certificate of the Issuer dated the date of the initial delivery of the Bonds.

"Refunding Fund" means the fund by that name established pursuant to Section 3.06.

"Register" means the books kept and maintained by the Trustee, as registrar, for the registration and transfer of Bonds.

"Related Bond Documents" means the Bond Purchase Agreement and any other document relating to the Bonds, the security therefor or the federal tax-exempt status thereof.

"Release" shall have the meaning given in Section 5.19(a).

"S&P" means Standard & Poor's Rating Services, a division of The McGraw-Hill Companies. Inc., a corporation organized and existing under the laws of the State of New York, its successors and assigns.

"Series 1997A Bonds" means the $7,600,000 The Industrial Development Authority of the County of Maricopa, Water System Improvement Revenue Bonds (Chaparral City Water Company Project), Series 1997A, dated as of December 1, 1997.

"Series 19978 Bonds" means the $1,320,000 The Industrial Development Authority of the County of Maricopa, Water System Refunding Revenue Bonds (Chaparral City Water Company Project), Series 1997B, dated as of December 1, 1997.

"State" means the State of Arizona.

"Supplemental Agreement" means any indenture, loan agreement, financing document or other agreement amending or supplementing the terms of this Agreement or providing for the issuance or securing of Parity Bonds or Additional Parity Indebtedness.

"Tax Compliance Certificate" means, collectively, the separate tax compliance certificates dated the date of original issuance of the Bonds and signed by the Company, the Original Purchaser, the Bond Insurer, and, in reliance on the certificates of the foregoing, the Issuer, all regarding 'certain tax matters with respect to the Bonds.

"Trustee" means Bank One, Arizona, NA and any successor Trustee designated pursuant to Section 7.04.

"1985 Trustee" means The Valley National Bank of Arizona, now known as Bank One, Arizona, NA.

"Value" means (i) when used in connection with Property of the Company, the cost basis of such property, net of accumulated depreciation, as it is carried on the books of the Company and in conformity with generally accepted accounting principles consistently applied; provided, however that, at the option of the Company's Authorized Officer, the value of any item of real property of the Company may be determined using an MAI appraisal dated no more than one year from the date as of which such real property's value is used for purposes of a test under this Agreement, filed with the Trustee, and (ii) when used in connection with Permitted Investments, the value of such investments determined as follows:

(1) as to investments, the value determined by a nationally recognized pricing service that is used by the Trustee to reasonably determine the value of investments held in its capacity as a trustee;

(2) as to certificates of deposit and bankers acceptances: the face amount thereof, plus accrued interest; and

(3) as to any investment not specified above; the value thereof established by prior agreement between the Company, the Trustee and Ambac Assurance.

"Variable Rate Indebtedness" means any Indebtedness that bears interest at a variable, adjustable or floating rate.

Words importing persons include firms, associations and corporations, and the singular and plural forms of words shall be deemed interchangeable wherever appropriate.

Section 1.03. Content of Certificates and Opinions. Any certificate or opinion made or given by an officer of the Company may be based, insofar as it relates to legal, accounting or other specialized matters, upon a certificate or opinion of or representation by counsel, an Accountant or a Consultant, unless such officer has actual knowledge that the certificate, opinion or representation with respect to the matters upon which such certificate or statement may be based, as aforesaid, is erroneous. Any such certificate, opinion or representation made or given by counsel, such Accountant or Consultant may be based, insofar as it relates to factual matters (with respect to which information is in the possession of the Company's Authorized Officer) upon an Officer's Certificate or any certificate of or representation by an officer of the Company, unless such counsel, Accountant or Consultant has actual knowledge that the certificate or opinion or representation with respect to the matters upon which such person's certificate or opinion or representation may be based, as aforesaid, is erroneous. The same officer of the Company, or the same counsel, Accountant or Consultant, as the case may be, need not certify to all of the matters required to be certified under any provision of this Agreement, but different officers, counsel, Accountants or Consultants may certify to different matters, respectively.

Section 1.04. Accounting Principles. Where the character or amount of any asset, liability or item of revenue or expense required to be determined, or any consolidation, combination or other accounting computation is required to be made, for the purposes of this Agreement or any agreement, document or certificate executed and delivered in connection with or pursuant to this Agreement, this shall be done in accordance with generally accepted accounting principles at the time in effect, to the extent applicable, except where such principles are inconsistent with the requirements of this Agreement.

Where the application of generally accepted accounting principles shall require that with respect to any Fiscal Year of the Company, only a portion of the Company's income or expenses, or both, incurred during the Fiscal Year be included in any consolidation, combination or other accounting computation required to be made for purposes of this Agreement or any agreement, document, or certificate executed and delivered in connection with or pursuant to this Agreement, then for all such purposes the amount of such income and expenses so included shall be annualized by being multiplied by 365 (or 366) as appropriate) and divided by the number of days in the Fiscal Year of the Company determined under generally accepted accounting principles.

As applied to any enterprise of a type with respect to which particular accounting principles shall, from time to time, have been generally adapted or modified, the term "generally accepted accounting principles" shall include such adaptations or modifications,

Section 1.05. Action by Issuer and Company. Except as otherwise expressly provided herein, for all purposes of this Agreement, the Authorized Officer shall be authorized to act upon behalf of the Issuer, and the Authorized Officer shall be authorized to act upon behalf of the Company.

(End of Article I)

ARTICLE II

ASSIGNMENT AND PLEDGE OF SECURITY

Section 2.01. Assignment and Pledge of the Issuer and Company.

(a) The Issuer does hereby:

(i) transfer and absolutely and irrevocably assign to the Trustee, any right, title and interest of the Issuer in the Bond Fund, Refunding Fund, the Project Fund and the Debt Service Reserve Fund, including all accounts in those Funds, all moneys deposited therein and the investment earnings on such moneys and any securities in which moneys in those Funds are invested and the proceeds derived therefrom (except for any investment income that is required to be rebated to the United States under the Code); and

(ii) further does hereby grant a security interest in, assign, pledge and set over to the Trustee for the securing of the performance of the obligations of the issuer hereinafter set forth: (a) the rights, title and interest of the Issuer under this Agreement, except for the Issuer's rights to (1) inspect books and records, (2) give or receive notices, approvals, consents, requests, and other communications, (3) receive payment or reimbursement for expenses, (4) receive reimbursement for a portion of its annual administrative expenses, (5) immunity and limitation of liability, (6) indemnification from liability by the Company, and (7) security for the Company's indemnification obligation, including, but not limited to, the rights established under Sections 7.01, 8.01, 8.02, 8.03 and 8.05 of this Agreement, (b) all of the Issuer's rights, whether currently existing or hereafter acquired, to receive and enforce repayment of its loan of the proceeds of the Bonds and to enforce payment of the Bonds and all proceeds of such rights and loan and (c) all revenues to be received from the Company, but not including funds received by the Issuer for its own use, whether as administrative fees, reimbursement, or indemnification, and the rights thereto; and

(iii) subject to the provisions of this Agreement and, in particular, the foregoing absolute and irrevocable assignment to the Trustee of any right, title and interest of the Issuer in the Funds, any and all other real or personal property of every name and nature from time to time hereafter by delivery or by writing of any kind assigned, pledged or transferred, as and

for additional security hereunder by the Issuer or by anyone in its behalf, or with its written consent, to the Trustee, which is hereby authorized to receive any and all such property at any and all times and to hold and apply the same subject to the terms hereof.

(b) The Company joins in the pledge of, and grant of a security interest in, such Funds and investments to the extent of its interest therein.

(c) The transfer, assignment, pledge and security interest described in this Section 2.01 is for the benefit of the Bond Insurer, the Bondholders and the holders of subsequent Parity Bonds; provided, however, that funds and investments held in the Refunding Fund and Rebate Fund established under Section 3.06 and Section 3,05, respectively, shall not be pledged to the Bonds and shall be applied solely as provided in said Section 3.06 and Section 3.05, respectively; and provided further that the Debt Service Reserve Fund shall secure subsequent Parity Bonds only if the requirements of Section 3.11(b)(2) are satisfied.

Section 2.02. Further Assurance. The Issuer covenants that it will do, execute, acknowledge, and deliver or cause to be done, executed, acknowledged, and delivered by the parties within its control, such instruments supplemental hereto and such further acts, instruments, and transfers as the Trustee may reasonably require for the better assuring, transferring, mortgaging, conveying, pledging, assigning, and confirming unto the Trustee, the Issuer's interest in and to all interests, revenues, proceeds, and receipts pledged hereby to the payment of the principal of, premium, if any, and interest on the Bonds in the manner and to the extent contemplated herein. The Issuer shall be under no obligation to prepare, record, or file any such instruments or transfers.

Section 2.03. Defeasance. When the Parity Bonds have been paid or redeemed in full as provided in this Agreement, or after there have been deposited with the Trustee sufficient moneys, or Defeasance Obligations in such principal amounts, bearing interest at such rates and with such maturities as will provide, as determined by a nationally recognized Accountant's verification (which verification shall be addressed and delivered to the Issuer, the Trustee, the Bond Insurer and the Company), sufficient funds to pay the principal of, premium, if any, whether at maturity or upon earlier redemption, and interest on the Parity Bonds as the same shall become due and payable, and when all the rights hereunder of the Issuer, the Bondholders and Trustee have been provided for, and all other obligations secured hereby have been paid in full, upon written notice from the Company to the Issuer, the Bondholders and the Trustee, the Bondholders shall cease to be entitled to any benefit or security under this Agreement except the right to receive payment of the funds deposited and held for payment and other rights which by their nature cannot be satisfied prior to or simultaneously with termination of the lien hereof, the security interests created by this Agreement (except in such funds and investment) shall terminate, this Agreement shall cease and become null and void with respect to the Parity Bonds (except for those provisions surviving by reason of Section 2.04 hereof), and the Issuer and the Trustee shall execute and deliver (but the Issuer need not prepare) such instruments as may be necessary to discharge the lien and security interests created under this Agreement; provided, however, that if any such Parity Bonds are to be redeemed prior to the maturity thereof, the Company shall have taken all action necessary to redeem such Parity Bonds and notice of such redemption shall have been duly given in accordance with this Agreement or irrevocable

instructions so to give shall have been given to the Trustee; and provided further that the provisions of this Agreement relating to securing or for the benefit of Parity Debt, including, but not limited to, the sections herein creating the rights, duties and covenants of the Company relating to Parity Debt or the rights and duties of the Trustee with respect to defaults and remedies, shall survive such defeasance but shall terminate with respect to any series of Parity Bonds on the date on which such series of Parity Bonds is no longer Outstanding; and provided further, with respect to the Bonds, the Bond Insurer must consent to any forward supply contract in any defeasance escrow for the Bonds.

Upon such defeasance, the funds and investments required to pay or redeem the Parity Bonds in full shall be irrevocably set aside for the purpose and moneys held for defeasance shall be invested only as provided above in this section, provided that other Defeasance Obligations may be substituted for Defeasance Obligations deposited with the Trustee if the Trustee, the Bond Insurer and the Issuer receive (i) verification from nationally recognized Accountants which firm shall be satisfactory to the Trustee that the principal and interest becoming due on investments held by the Trustee after such transaction and any other moneys available therefor will provide the Trustee with moneys which at all times will be sufficient to pay the principal of, premium, if any, and interest on the Parity Bonds as the same shall become due and payable, and (ii) an Opinion of Bond Counsel to the effect that such transaction is in compliance with this Agreement and will not adversely affect the exclusion from gross income under Section 103 of the Code of interest paid on the Parity Bonds.

Any moneys held by the Trustee in accordance with the provisions of this Section may be invested by the Trustee only in Defeasance Obligations having maturity dates, or redemption dates, which, at the option of the holder of those obligations, shall be not later than the date or dates at which moneys will be required for the purposes described above. To the extent that any income or interest earned by, or increment to, the investments held under this Section is determined from time to time by the Trustee to be in excess of the amount required to be held by the Trustee for the purposes of this Section, that income, interest or increment shall be transferred at the time of that determination in the manner provided herein for transfers of amounts remaining in the Funds.

If any Parity Bonds are deemed to be paid and discharged pursuant to this Section and will not mature or be redeemed within 90 days, then, within 15 days after those Parity Bonds are so deemed to be paid and discharged, the Trustee shall cause a written notice to be given to each Holder at the close of business on the date on which the Parity Bonds are deemed to be paid and discharged at its address as it appears on the Register on that date on which the Parity Bonds are deemed to be paid and discharged. The notice shall: (i) state the numbers of the Parity Bonds deemed to be paid and discharged, or shall state that all Parity Bonds are deemed to be paid and discharged; (ii) set forth a description of the obligations held as described above; (iii) state whether any Parity Bonds will be called for redemption prior to their scheduled maturity or their redemption pursuant to mandatory redemption, including without limitation, the mandatory sinking fund requirements; and (iv) if any Parity Bonds will be so called for redemption, specify the date or dates on which those Parity Bonds are to be called for redemption pursuant to a notice of redemption given or irrevocable provision made for that notice pursuant to this Section.

Any funds or property held by the Trustee solely for the benefit of the Parity Bonds defeased and not required for payment or redemption of the parity Bonds in full or for payment of rebate obligations pursuant to Section 3.05 shall, after satisfaction of all the accrued rights of the Issuer, the Bondholders and the Trustee, be distributed pursuant to the written instructions of the Company's Authorized Officer upon such notification, if any, as the Issuer or the Trustee may reasonably require and upon receipt by the Issuer and the Trustee of an Opinion of Bond Counsel that such distribution will not adversely affect the exclusion from gross income under Section 103 of the Code of interest paid on the Parity Bonds.

Notwithstanding anything herein to the contrary, in the event that the principal and/or interest due on the Bonds shall be paid by Ambac Assurance pursuant to the Bond Insurance Policy, the Bonds shall remain Outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the Issuer, and the assignment and pledge of the trust estate created hereunder and all covenants, agreements and other obligations of the Issuer and the Company, respectively, to such Bondholders shall continue to exist and shall run to the benefit of Ambac Assurance, and Arribac Assurance shall be subrogated to the rights of such Bondholders.

Section 2.04. Survival of Certain Provisions, Notwithstanding the payment in full of the Parity Bonds and the termination or expiration of this Agreement, any provisions hereof which relate to (a) the maturity of Parity Bonds; (b) the interest payments and dates thereof; (c) the optional and mandatory redemption provisions; (d) the credits against the sinking fund installments; (e) the exchange, transfer and registration of Parity Bonds; (f) the replacement of mutilated; destroyed, lost or stolen Parity Bonds; (g) the safekeeping and cancellation of Parity Bonds; (h) the nonpresentment of Parity Bonds; (i) the holding of moneys in trust; j) the Rebate Fund and the payment of Rebate Amounts to the United States and other provisions which relate to exclusion of interest on the Parity Bonds from gross income for federal income tax purposes; (k) the repayments to the Company from the Funds; (1) the indemnification of the Issuer or the Trustee; (m) the limited liability of the Issuer as herein provided; (n) the limitation on recourse against the Issuer or any incorporator, director, officer, counsel, financial advisor or agent of the Issuer as herein provided; (o) the Issuer's rights to inspect books and records, to give or receive notices, approvals, consents, requests and other communications and to be paid or reimbursed for fees and expenses; (p) the Issuer's rights established pursuant to Sections 8.01, 8.02, 8.03 and 8.05; (q) the Trustee's rights established pursuant to Sections 7.02 and 8.05; (r) the duties of the Trustee in connection with all of the foregoing; (s) the interpretation of this Agreement; (t) the governing law; (u) the forum for resolving disputes; and (v) the Issuer's right to rely on facts or certificates shall remain in effect and shall be binding upon the Issuer, the Company, the Trustee, the Paying Agents and the Holders, notwithstanding the release, discharge and satisfaction of this Agreement. The provisions of this Article shall survive the release, discharge and satisfaction of this Agreement,

(End of Article II)

ARTICLE III

THE BONDS AND THE BORROWING

Section 3.01. The Bonds

(a) Details of the Bonds. The Bonds of each series shall be issued in fully registered form and shall be numbered from R-1 sequentially in the order of their issuance, or in any other manner deemed appropriate by the Trustee. The Bonds shall initially be issued in book entry form and Beneficial Owners may acquire beneficial interests in denominations of Five Thousand Dollars ($5,000) and integral multiples of $5,000. The Bonds shall be dated December 1, 1997, and shall bear interest from the Interest Payment Date to which interest has been paid or for which provision has been made or, if no interest has been paid or duly provided for, from December 1, 1997. The interest on the Bonds until they come due shall be payable on June 1 and December 1 of each year, beginning on June 1, 1998.

The Bonds shall be signed on behalf of the Issuer by the manual or facsimile signature of an Authorized Officer. The authenticating certificate of the Trustee shall be manually signed on behalf of the Trustee.

In case any officer whose facsimile signature shall appear on any Bond shall cease to be such officer before the delivery thereof, such facsimile signature shall nevertheless be valid and sufficient for all purposes as if he or she had remained in office until after such delivery.

The Series 1997A Bonds shall mature on December 1 of each of the years in the amounts and shall bear interest at the rates per annum as follows:

Year	Principal Amount	Interest Rate
1998	$ 160,000	4.00%
1999	170,000	4.10
2000	180,000	4.20
2001	185,000	4.30
2002	195,000	4.40
2003	200,000	4.50
2004	210,000	4.60
2005	220,000	4.70
2006	230,000	4.75
2007	240,000	4.85
2011	1,000,000	5.20
2022	4,610,000	5.40

The Series 19978 Bonds shall mature on December 1 of each of the years in the amounts and shall bear interest at the rates per annum as follows:

Year	Principal Amount	Interest Rate
2006	$ 305,000	4.65%
2022	1,015,000	5.30

The interest on the Bonds shall be computed on the basis of a 360-day year consisting of twelve 30-day months.

The Bonds are subject to optional redemption, extraordinary optional redemption and mandatory redemption through sinking fund installments, all as described in this Agreement and in the form of Bonds.

No Bond shall be valid or become obligatory for any purpose or shall be entitled to any security or benefit under this Agreement unless and until a certificate of authentication, substantially in the forms set forth in Exhibit I to this Agreement, shall have been signed by the Trustee. The authentication by the Trustee upon any Bond shall be conclusive evidence that the Bond so authenticated has been duly authenticated and delivered hereunder and is entitled to the security and benefit of this Agreement. The certificate of the Trustee may be executed by any person authorized by the Trustee, but it shall not be necessary that the same authorized person sign the certificates of authentication on all of the Bonds. In authenticating the Bonds, the Trustee shall add the actual date of its authentication of Bonds.

Additional details of the Bonds shall be as set forth in the forms of Bonds, as attached hereto as Exhibit I.

(b) Conditions to Issuance of Bonds. Prior to delivery by the Trustee of any Bond, there shall have been received by the Trustee:

(1) A request and authorization to the Trustee on behalf of the Issuer, signed by an Authorized Officer, to authenticate and deliver the Bonds to, or on the order of, the Original Purchaser, upon payment to the Trustee in immediately available funds of the amount specified therein (including without limitation, any accrued interest), which amount shall be deposited as provided in Sections 3.02 hereof.

(2) A copy of the resolution adopted by the Board of Directors of the Issuer authorizing, inter alia, the execution and delivery of this Agreement and the issuance of the Bonds, certified by the Secretary/Treasurer or Assistant Secretary/Treasurer.

(3) A copy of the resolution adopted by the Board of Directors of the Company authorizing, inter alia, the execution and delivery of this Agreement.

(4) A duly executed counterpart of this Agreement.

(5) The executed Bond Insurance Policy.

(6) The opinion of Squire, Sanders & Dempsey L.L.P., as Bond Counsel.

(c) Replacement Bonds. Replacement Bonds shall be issued pursuant to applicable law as a result of the destruction, loss or mutilation of the Bonds. The costs of a replacement shall be paid or reimbursed by the Bondholder, who shall indemnify the Issuer, the Trustee and the Company against all liability and expense in connection therewith.

(d) Transfer and Exchange of Bonds. The Bonds will be transferred in the bond register kept by the Trustee upon presentation thereof with a written instrument of transfer in form satisfactory to the Trustee (a form of such instrument being set out in Exhibit I and duly executed by the Owner or its authorized representative, and no transfer shall be effective as to the Issuer or the Trustee unless shown in such register and noted thereon with a record of payments.

The Issuer, the Company, and the Trustee may treat the person in whose name a Bond is registered as the absolute owner thereof for all purposes and shall not be affected by any notice to the contrary.

Any Bond may be subdivided into and exchanged (at the expense of the Company) for two (2) or more Bonds of the same series upon surrender thereof at the corporate trust office of the Trustee, whereupon the Issuer and the Trustee shall cause new Bonds to be issued. No Bond shall be subdivided by any such exchange, however, so as to produce any Bond having immediately after such exchange an outstanding principal amount of less than $5,000.

The Trustee shall not be required to make any exchange or transfer of any Bond (i) if such Bond (or any portion thereof) has been selected for redemption, (ii) during the ten (10) days preceding any date fixed for selection for redemption if such bond (or any portion thereof) is eligible to be selected for redemption or (iii) during the period of fifteen (15) days preceding any Interest Payment Date.

At the request herewith of the Company, the Trustee is hereby appointed bond registrar and transfer agent and accepts such appointment. The Trustee shall keep a bond register in accordance with law showing at least (i) the names and addresses of Bondholders, and (ii) the dates on which transfers of ownership are registered. The Trustee shall also keep a record of redemption of the Bonds showing the amounts, the dates on which Bonds are redeemed and the registered owner bf the Bond at the time of redemption. The Company shall be obligated to pay all costs of the Trustee incurred in connection with any exchange or the transfer of Bonds, including, without limitation, the cost of preparation of a new Bond or Bonds.

(e) Provisions for Book-Entry system. The Bonds will be subject to a Book-Entry System of ownership and transfer, except as provided in (iii) below. The general provisions for effecting such Book-Entry System are as follows:

(i) At the request herewith of the Company, the Issuer hereby designates The Depository Trust Company, New York, New York, as the initial Depository hereunder.

(ii) Notwithstanding the provisions regarding exchange and transfer of Bonds under (d) above the Bonds shall initially be evidenced by one typewritten certificate for each maturity, in an amount equal to the aggregate principal amount thereof. The Bonds so initially delivered shall be registered in the name of "Cede & Co." as nominee for The Depository Trust Company. The Bonds may not thereafter be transferred or exchanged on the registration books of the Trustee as bond registrar except:

(A) to any successor Depository designated pursuant to (iii) below;

(B) to any successor nominee designated by a Depository; or

(C) if the Company shall elect to discontinue the Book-Entry System pursuant to (iii) below, the Authorized Officer of the Company will cause the Trustee to authenticate and deliver replacement Bonds in fully registered form in authorized denominations in the names of the Beneficial Owners or their nominees as certified by the Depository, at the expense of the Company; thereafter the provisions of (d) above regarding registration, transfer and exchange of Bonds shall apply.

(iii) The Trustee, pursuant to a request in an Officer's Certificate for the removal or replacement of the Depository, and upon 30 days' notice to the Depository, may remove or replace the Depository. The Trustee agrees to remove or replace the Depository at any time pursuant to an Officer's Certificate. No action by the Issuer shall be required to effect such a removal or replacement. The Depository may determine not to continue to act as Depository for the Bonds upon 30 days written notice to the Trustee.

If the use of the Book Entry System is discontinued, then after the Trustee has made provision for notification of the Beneficial Owners of their book entry interests in the Bonds by appropriate notice to the then Depository, the Issuer and the Trustee shall permit withdrawal of the Bonds from the Depository, and authenticate and deliver Bond certificates in fully registered form and in denominations authorized by this Section to the assignees of the Depository or its nominee. Such withdrawal, authentication and delivery shall be at the cost and expense (including costs of printing or otherwise preparing, and delivering, such replacement Bond certificates) of the Company.

(iv) So long as the Book-Entry System is used for the Bonds, the Trustee will give any notice of redemption or any other notices required to be given to Owners of Bonds only to the Depository or its nominee registered as the Owner thereof. Any failure of the Depository to advise any of its participants, or of any participant to notify the Beneficial Owner, of any such notice and its content or effect will not affect the validity of the redemption of the Bonds called for redemption or of any other action premised on such notice. Neither the Company nor the Trustee nor the Issuer is responsible or liable for the failure of the Depository or any participant thereof to make

any payment or give any notice to a Beneficial Owner in respect of the Bonds or any error or delay relating thereto.

(v) Notwithstanding any other provision of this Agreement or the Bonds to the contrary, so long as the Bonds are subject to a Book-Entry System, it shall not be necessary for the Registered Owner to present his Bond for payment of sinking fund installments. The sinking fund installments may be noted on books kept by the Trustee and the Depository for such purpose and the Bonds shall be tendered to the Trustee at their maturity.

Section 3.02. Application of Bond Proceeds and Company Funds.

(a) All proceeds of the sale of the Bonds ($8,837,720.76, which is the aggregate face amount of the Bonds less $95,000 in underwriter's discount (from the Series 1997A Bonds only) plus $12,720.76 of accrued interest) shall be paid to the Trustee against receipt therefor. Such proceeds shall be deposited or transferred by the Trustee in the following manner:

(i) To the Bond Fund, $12,720.76, representing accrued interest on the Bonds from their date to the date of delivery of the Bonds.

(ii) To the Debt Service Reserve Fund, $557,070 from, proceeds of the Series 1997A Bonds and $98,690 from the Company.

(iii) To the Project Fund, $228,658.57 from the proceeds of the Series 1997A Bonds, to be transferred on the date of original issuance of the Bonds to the Bond Insurer for the premium for the Bond Insurance Policy.

(iv) To the Refunding Fund, $1,320,000, representing the principal amount of the Series 1997B Bonds, and $15,197.10 from the Company, to be transferred on the date of original issuance of the Bonds to the 1985 Trustee for purposes of reimbursing the issuer of the letter of credit supporting the 1985 Bonds for certain amounts utilized to refund the 1985 Bonds on December 11, 1997.

(v) To the Project Fund, $6,719,271.43, representing the balance of the principal amount of the Series 1997A Bonds.

(b) Company agrees to deposit with the Trustee, prior to the original delivery of the Bonds, the sum of $283,267.44 in immediately available funds.

Section 3.03. Bond Fund.

(a) Establishment and Purpose. A Bond Fund is hereby established with the Trustee and moneys shall be deposited therein as provided in this Agreement. The Trustee acknowledges that it holds the Bond Fund as agent for the Bondholders as their interests appear. The moneys in the Bond Fund and any investments held as part of such Fund shall be held in trust and, except as otherwise provided in this Agreement or any Supplemental Agreement, shall

be applied by the Trustee solely to pay principal (including sinking fund installments) of, premium, if any, and interest on the Bonds. Moneys transferred to the Bond Fund from the Debt Service Reserve Fund shall be applied only to payment of principal (including sinking fund installments) of, premium, if any, and interest on the Bonds and any Parity Bonds secured by the Debt Service Reserve Fund as permitted by Section 3.11(b)(2).

(b) Unclaimed Moneys. In case any moneys deposited with the Trustee for the payment of the principal (including sinking fund installments) of, premium, if any, or interest on any Bond remain unclaimed six months prior to the date when such moneys would escheat under applicable law, the Trustee shall so notify the Issuer and the Company in writing, and upon receipt of an Officer's Certificate so directing shall pay over to the Company the amount so deposited and thereupon the Trustee and the Issuer shall be released from any further liability with respect to the payment of such principal, premium or interest and the Owner of such Bond shall be entitled (subject to any applicable statute of limitations) to look only to the Company as an unsecured creditor for the payment thereof.

Section 3.04. Debt Service Reserve Fund.

(a) A Debt Service Reserve Fund is hereby established with the Trustee and moneys shall be deposited therein as provided in this Agreement. On the date of issuance of the Bonds, the Company shall cause to be deposited therein moneys or Permitted Investments in an amount which, together with the proceeds of the Series 1997A Bonds deposited thereto pursuant to Section 3.02, shall be at least equal to the Debt Service Reserve Fund Requirement. The moneys in the Debt Service Reserve Fund and any investments held as a part of such Fund shall be held in trust and, except as otherwise provided herein, shall be applied by the Trustee solely to the payment of the principal (including sinking fund installments) of and interest on the Bonds and any Parity Bonds secured by the Debt Service Reserve Fund.

(b) If on the third Business Day prior to any Interest Payment Date the amount in the Bond Fund is less than the amount then required to pay the principal (including sinking fund installments) and interest then due on such Interest Payment Date on the Bonds and Parity Bonds secured thereby, the Trustee shall apply the amount in the Debt Service Reserve Fund to the extent necessary to meet the deficiency. The Company shall remain liable for any required sums which it has not paid to the Bond Fund and any subsequent payment thereof shall be used to restore the funds so applied.

On any date on which a payment is due to the Rebate Fund pursuant to subsection 3.05, the Trustee shall transfer from the Debt Service Reserve Fund to the Rebate Fund an amount after any required transfer to the Bond Fund (to the extent available) equal to such payment.

(c) If the Value of the Permitted Investments in the Debt Service Reserve Fund on June 2 or December 2 of any year (less any payment made therefrom on that day pursuant to subsection 3.04(b)) exceeds the Debt Service Reserve Fund Requirement, the Trustee shall transfer the excess to the Bond Fund to be applied to the payment of interest or principal on the Bonds and Parity Bonds secured thereby on the next Interest Payment Date.

(d) If and to the extent that the Value of the Permitted Investments in the Debt Service Reserve Fund on any Valuation Date (as defined below) is less than the Debt Service Reserve Fund Requirement as a result of a payment made pursuant to subsection 3.04(b), the Company shall on or before the first day of each of the twelve succeeding months deposit into the Debt Service Reserve Fund an amount which, together with amounts deposited in prior months pursuant to this Section 3.04(d), shall be at least equal to 1/12th of the deficiency in the Debt Service Reserve Fund Requirement multiplied by the number of months elapsed since such valuation Date.

The Trustee shall determine the Value of the Debt Service Reserve Fund on each December 2 and on each June 2 (each, a "Valuation Date"). If and to the extent that the Value of the Permitted Investments in the Debt Service Reserve Fund on any Valuation Date is less than 90% of the Debt Service Reserve Fund Requirement (except as a result of a payment made pursuant to subsection 3.04(b)), the Trustee shall provide written notice to the Company and the Company shall on or before the first day of the sixth succeeding month deposit into the Debt Service Reserve Fund an amount which, together with amounts on deposit therein, shall be equal to the Debt Service Reserve Fund Requirement.

(e) On the terms and conditions specified in this subsection (e), all or any portion of the cash or investments held is the Debt Service Reserve Fund, as directed by an Officer's Certificate of the Company with consent of the Bond Insurer, may be withdrawn and used for any purpose permitted under the Act and replaced with a Credit Facility, or an existing Credit Facility in the Debt Service Reserve Fund may be replaced with a substitute Credit Facility, in the event the Company provides a Credit Facility from an insurer or bank which complies with the requirements of Schedule C; provided, however, that the issuer of such Credit Facility shall not have a senior security interest in any of the Funds; and provided further that any such transfer involving cash or investments constituting original proceeds of any Parity Bonds shall require an Opinion of Bond Counsel addressed to the Issuer, the Bond Insurer and the Trustee that such transfer will not adversely affect the exclusion from gross income under Section 103 of the Code of interest paid on the Parity Bonds and such transfer is permitted under the Act.

The Company shall obtain a substitute Credit Facility within six months of the rating on an existing issuer of such Credit Facility being reduced below "A+" or "A1" by S&P or Moody's, respectively, and shall, at least three months prior to the expiration of a Credit Facility, obtain a substitute Credit Facility or deposit cash into the Debt Service Reserve Fund to satisfy the Debt Service Reserve Requirement. If a Credit Facility has been drawn down, any monies available to repay the issuer of such Credit Facility must first be used to reinstate the Credit Facility.

If at any time the Company shall deliver to the Issuer, the Trustee and the Bond Insurer (i) a Credit Facility together with approval thereof by the Bond Insurer, (ii) an Opinion of Counsel stating that the delivery of such Credit Facility to the Trustee is authorized under this Agreement, complies with the terms thereof and will not result in interest on the Bonds being included in gross income for federal income tax purposes, and (iii) written evidence from S&P, if the Parity Bonds are rated by S&P, and from Moody's, if the Parity Bonds are rated by Moody's, to the effect that such rating agency has reviewed the proposed substitute Credit

Facility, and that (x) the issuance of the Credit Facility to the Trustee or (y) if a Credit Facility is then in effect, the substitution of the proposed Credit Facility for the Credit Facility then in effect, will not, by itself, result in a reduction or withdrawal of its rating on the Parity Bonds, then the Trustee shall accept such substitute Credit Facility and promptly surrender the previously held Credit Facility, if any, to the issuer thereof for cancellation.

(f) So long as no Event of Default exists under this Agreement, the Company may make withdrawals of money from the Debt Service Reserve Fund in accordance with the provisions of this subsection (f), Upon receipt by the Trustee of an Officer's Certificate of the Company not fewer than fifteen Business Days prior to an Interest Payment Date, the Trustee shall transfer moneys from the Debt Service Reserve Fund to the Bond Fund in the amount which is directed therein; provided, that any amounts of money withdrawn or transferred pursuant hereto shall not exceed the aggregate of (i) the amount of money the Company shall deposit concurrently with that withdrawal or request into the Debt Service Reserve Fund, and (ii) amounts of any investment income credited to the Debt Service Reserve Fund pursuant hereto, to the extent that the Trustee has not previously withdrawn or transferred moneys from the Debt Service Reserve Fund on account of such investment income. Notwithstanding anything to the contrary in this subsection (f), no withdrawal shall be made pursuant to this subsection (f) if, after such withdrawal, the Value of the Debt Service Reserve Fund would be less than the Debt Service Reserve Requirement.

(g) The Trustee shall give notice to the Bond Insurer within two Business Days after knowledge of any draw upon the Debt Service Reserve Fund other than (i) withdrawals of amounts in excess of the Debt Service Reserve Requirement and (ii) withdrawals in connection with a refunding of the Bonds.

Section 3.05. Rebate Fund. There is hereby created and ordered maintained as a separate deposit account in the custody of the Trustee a fund to be designated as the Rebate Fund. Money and investments in the Rebate Fund shall not be used for the payment of debt service on the Parity Bonds and any provision hereof to the contrary notwithstanding, amounts credited to the Rebate Fund shall be free and clear of any lien hereunder. Moneys and investments in the Rebate Fund are not included within the trust estate executed in the granting clauses hereof and shall be invested pursuant to the procedures and in the manner provided for investment of moneys in the Funds.

Unless otherwise provided in Subsequent Rebate Instructions (defined below), in accordance with the Rebate Instructions provided as Attachment A-1 to the Tax Compliance Certificate, promptly after the end of each Computation Date (which shall be done annually or such longer interval permitted in accordance with Section 5.04 hereof and when otherwise required hereby, including the payment in full of all Outstanding Bonds), the Authorized Officer of the Company shall engage, and furnish information to, the Rebate Consultant to calculate the Rebate Amount as of the end of the relevant computation period or the date of such payment in full and shall provide to the Trustee copies of such calculations. Upon the occurrence of an Event of Default and at the request of the Trustee, the Rebate Consultant shall calculate the Rebate Amount as of the date requested by the Trustee and provide such calculation to the Trustee on or before the date so requested. In either event, the Trustee shall then notify the

Authorized Officer of the Company in writing of the amount then on deposit in the applicable account in the Rebate Fund.

If the Rebate Consultant fails to make the calculation of Rebate Amount by the 30th day after the end of each Computation Date, including the date of payment in full of the Bonds, the Trustee shall retain an Independent certified public accounting firm or other qualified Independent Person, at the expense of the Company, to make or cause to be made such calculation and shall provide to such Authorized Officer copies of such calculations.

If the amount then on deposit in the Rebate Fund is in excess of the Rebate Amount as computed by the Rebate Consultant, the Trustee shall forthwith pay that excess amount to the Company. If the amount then on deposit in the Rebate Fund is less than the Rebate Amount, the Company shall, within five days after receipt of the aforesaid notice from the Trustee, pay to the Trustee for deposit in the Rebate Fund an amount sufficient to cause the Rebate Fund to contain an amount equal to the Rebate Amount.

If at any time when the Trustee is required to retain or pay a Rebate Consultant, there is an insufficient amount of money in the Rebate Fund to retain or pay for the fees and expenses of the Rebate Consultant, the Trustee, after delivering to the Company a demand for payment of an amount sufficient to pay the Rebate Consultant and the Company having failed to do so promptly, shall withdraw, with the prior consent of the Bond Insurer, from the Debt Service Reserve Fund, and second from any other fund established hereunder, such amount as may be needed to pay for the fees and expenses of the Rebate Consultant. If at any time when the Trustee is required to withdraw money from the Rebate Fund to make a payment to the United States of America the amount held by the Trustee in the Rebate Fund is insufficient to permit such withdrawal and payment, then the Trustee, after delivering a demand for such deficiency to the Company, shall withdraw, first, from the Debt Service Reserve Fund, and second, from any other fund established hereunder and transfer the amount so withdrawn in each case to the Rebate Fund in such amounts as may be needed to make the amount held for the credit of the Rebate Fund, after such transfers, equal to the amount required to be withdrawn and paid to the United States of America.

This Section shall supersede all other sections of this Agreement, to the end that the interest on the Bonds shall not be included in gross income for federal income tax purposes as a result of the inadequacy at any time of the Rebate Fund, unless the total amount held by the Trustee in all Funds established hereunder is insufficient, and no money for such purpose is provided by the Company.

Within 60 days after the end of the first Computation Date (which shall not be later than the end of the fifth Bond Year) and every Computation Date thereafter, the Trustee, acting on behalf of the Issuer, shall pay to the United States in accordance with Section 148(f) of the Code from the moneys then on deposit in the Rebate Fund an amount equal to 90% (or such greater percentage not in excess of 100% as the Company may direct the Trustee to pay) of the Rebate Amount earned during the relevant computation period.

Within 60 days after the payment in full of all Outstanding Bonds, the Trustee shall pay to the United States in accordance with Section 148(f) of the Code from the moneys then on deposit in the Rebate Fund an amount equal to 100% of the Rebate Amount earned during the relevant computation period. Any moneys remaining in the Rebate Fund following such payment shall be paid to the Company.

The Trustee shall comply with any written instructions relating to this Section 3.05 furnished after the issuance of the Bonds from the Company and accompanied by an Opinion of Bond Counsel addressed to the Issuer and the Trustee to the effect that compliance with such instructions will not adversely affect any exclusion of interest on any of the Bonds from gross income for federal income tax purposes (the "Subsequent Rebate Instructions"), even if such Instructions are different from or inconsistent with this Section. The Company, the Issuer, and the Trustee shall be entitled to rely conclusively on the calculations made pursuant to this Section and any Subsequent Rebate Instructions and shall not be responsible for any loss or damage resulting from any action taken or omitted to be taken in reliance upon those calculations.

The Trustee shall obtain and keep records of the computations made pursuant to this Section and all original source documents and other information necessary to, or from, such computations for a period ending six years after the last of the Bonds is retired.

The Trustee shall keep and make available to the Company such records concerning the investments of the gross proceeds of the Bonds and the investments of earnings from those investments as may be required by the Rebate Consultant in order to enable the Rebate Consultant to make the aforesaid computations as are required under Section 148(f) of the Code. The Company shall obtain and keep such records of the computations made pursuant to this Section as are required under Section 148(f) of the Code.

The Trustee shall establish in the Rebate Fund and any other Fund such accounts and subaccounts as it deems desirable in order to assist it in determining applicable accounting for tax purposes and record keeping activities in connection therewith.

All computations and determinations pursuant to this Section shall be made in accordance with Section 148(f) of the Code and the Rebate Instructions.

Notwithstanding any provision of this Agreement to the contrary, the undertaking of the Issuer to pay money to the United States shall be limited to the obligation to cause, when required by Code Section 148, funds held in the Rebate Fund to be paid to the United States.

Section 3.06. Refunding Fund. A Refunding Fund is hereby established to be held by the Trustee and proceeds of the Series 1997B Bonds shall be deposited therein as provided in Section 3.02. The moneys in the Refunding Fund shall be applied solely to reimburse certain amounts to the issuer of the letter of credit supporting the 1985 Bonds, which letter of credit will be drawn on to redeem the 1985 Bonds on December 11, 1997.

Section 3.07. Project Fund.

(a) The Project Fund is hereby established to be held by the Trustee and proceeds of the Series 1997A Bonds shall be deposited therein as provided in Section 3.02 hereof. Any moneys received by the Trustee from any other source for the payment of costs of the 1997 Project also shall be deposited to the credit of the Project Fund. The moneys in the Project Fund shall be held by the Trustee and shall pursuant to Section 3.09 be applied to the payment of the costs of the 1997 Project.

(b) The Authorized Officer of the Company may revise the definition of the 1997 Project by filing with the Issuer, the Trustee and the Bond Insurer;

(i) a revised description of the 1997 Project and an Opinion of Bond Counsel that such revised 1997 Project constitutes a "project" within the meaning of the Act and was included within the project described in the TEFRA notice published pursuant to Section 147(f) of the Code; and

(ii) a certificate of such Authorized Officer that the average reasonably expected economic life of the facilities being financed by the Series 1997A Bonds (after giving effect to such change or disbursement) is not less than 5/6ths of the average maturity of the Series 1997A Bonds or, if such certificate is not presented with the changes or disbursement or at the request of the Trustee, an Opinion of Bond Counsel addressed to the Issuer, the Trustee and the Bond Insurer to the effect that such change or disbursement will not cause the interest on the Series 1997A Bonds to be included in the gross income of the Holders for federal income tax purposes.

(c) Moneys in the Project Fund may be invested in Permitted Investments pursuant to Section 3.15 hereof.

Section 3.08. Costs of 1997 Project. For the purposes of this Agreement, the costs of the 1997 Project shall embrace the costs of acquiring, constructing, furnishing, renovating, remodeling, improving and equipping the 1997 Project as generally described in Schedule E hereto. Without intending to limit restrict any proper definition of costs under the Act, costs may include the following:

(a) obligations incurred for labor, materials and services and to contractors, builders and others in connection with the acquisition, construction and installation of the 1997 Project, for machinery, equipment and furnishings, for necessary water lines and connections, utilities and landscaping, for the restoration or relocation of any property damaged or destroyed in connection with such construction and installation, for the removal or relocation of any structures, and for the clearing of lands and further including such utilities and improvements as the Company determines to be reasonably necessary in connection with the 1997 Project;

(b) the cost of acquiring by purchase, if such purchase shall be deemed expedient, such other lands, property, rights, rights of way, easements, franchises and other interests as may be deemed necessary or convenient by the Company for the construction and installation

of the 1997 Project and options and partial payments thereon, the cost of demolishing or removing any buildings or structures on lands so acquired, including the cost of acquiring any lands to which such buildings or structures may be moved and the amount of any damages incident to or consequent upon the acquisition, construction and installation of the 1997 Project;

(c) Capitalized Interest and the reasonable fees of the Trustee and any other Paying Agent for the payment of such Capitalized Interest;

(d) the reasonable fees and expenses of the Trustee and Paying Agent, for its services prior to and during the construction, premiums on builder's risk insurance (if any) in connection with the 1997 Project during construction;

(e) the cost of borings and other preliminary investigations to determine foundation or other conditions, expenses necessary or incident to determining the feasibility or practicability of constructing and installing the 1997 Project and fees and expenses of engineers, architects and management and other consultants for making studies, surveys and estimates of costs and of revenues and other estimates, fees and expenses of engineers and architects for preparing plans and specifications and supervising construction, as well as for the performance of all other duties of engineers and architects set forth herein and the fees and expenses of construction managers or project supervisors, all in relation to the acquisition, construction, improvement, installation and equipping of the 1997 Project and the issuance of Bonds therefor;

(f) legal expenses and fees, and all other items of expense not specified elsewhere in this Section and incident to the acquisition, construction, remodeling, furnishing and equipping of the 1997 Project, the financing thereof and the acquisition of lands, property, rights, rights of way, easements, franchises and interests in or relating to lands, including abstracts of title, title insurance, title guaranty, cost of surveys and other expenses in connection with such acquisition, and expenses of administration properly chargeable to the acquisition, construction, remodeling, furnishing and equipping of the 1997 Project;

(g) any obligation or expense hereafter incurred or paid by the Company for any of the foregoing purposes;

(h) any other costs which may, pursuant to the Act, be paid from the Project Find;

(i) payment or reimbursement of Costs of Issuance of the Bonds upon receipt by the Trustee of a written requisition in substantially the form of Schedule B, signed by an Authorized Officer of the company; and

(j) on the date of original issuance of the Bonds, the bond insurance premium payable to the Bond Insurer for the issuance of the Bond Insurance Policy.

Section 3.09. Disbursements from and Records of the Project Fund. (a) Except with respect to the disbursement to be made pursuant to subparagraph (j) of Section 3.08, any disbursements from the Project Fund shall be made by the Trustee only upon the written order of the Authorized Officer of the Company. Except with respect to disbursements made pursuant

to subparagraph (e) of this Section 3.09, each such written order shall be in the form attached as Schedule B hereto consecutively numbered.

(b) Except with respect to disbursements made pursuant to subparagraph (e) of this Section 3.09, any disbursement for any item not described in the description of the 1997 Project attached hereto as Schedule E as of the original delivery of this Agreement shall be accompanied by items described in Section 3.07(b).

(c) Except with respect to disbursements made pursuant to subparagraph (e) of this Section 3.09, in the case of any contract providing for the retention of a portion of the contract price, the Officer's Certificate shall request disbursement from the Project Fund of only the net amount remaining after deduction of any such portion, and when the amount of any such retention is due and payable, then such retention may be paid upon such a written order from the Project Fund.

(d) Except with respect to disbursements made pursuant to subparagraph (e) of this Section 3.09, all requisitions, certificates and opinions received by the Trustee, as required in this Article as conditions of payments from the Project Find, may be relied upon by the Trustee, and shall be retained by the Trustee until the 60th month following certification of the substantial completion of the 1997 Project pursuant to Section 3.10, subject at all reasonable times to examination by the Issuer, and the Holders of not less than 25 percent (25%) in aggregate principal amount of the Parity Bonds then Outstanding.

(e) In the case of payment of Costs of Issuance and subject to the limitations set forth in Section 5.03 hereof, the Trustee shall disburse from the Project Fund, to each payee set forth on Schedule D hereto, moneys to pay Costs of Issuance upon receipt of an invoice (a copy of each such invoice shall also be provided by the Trustee to the Company) provided that the amount of each payment shall not exceed the amount for each payee set forth in Schedule D hereto, unless otherwise directed and agreed to by the Authorized Officer of the Company, and provided further the amount to be paid to the Bond Insurer for the premium for the Bond Insurance Policy shall be released by the Trustee without the need for such an invoice pursuant to the provisions of Section 3.02 hereof.

(f) Prior to any disbursement from the Project Fund, other than disbursements made pursuant to Sections 3.08(i) and 3.08(j), the Company shall deliver, or cause to be delivered, an opinion reasonably satisfactory in form and substance to Ambac Assurance addressed to Ambac Assurance relating to certain matters under the laws of the State of Arizona set forth in paragraphs 1 through 7 of the opinion dated December 11, 1997, delivered by Erik Eriksson, Managing Counsel of the Company, to the extent such matters are not covered by such opinion under Arizona law as a result of the third to last paragraph of such opinion; provided that, if such opinion is not rendered by January 15, 1998 the Company shall pay to Ambac Assurance an additional premium with respect to the Bond Insurance Policy in the amount of $134,083,46.

Section 3.10. Substantial Completion. When in its determination the 1997 Project shall be substantially completed and ready for use and operation, the Authorized Officer of the Company shall submit to the Issuer and the Trustee a signed certificate stating that (i) the

acquisition, construction, furnishing, renovating, remodeling, improving and equipping of the 1997 Project have been substantially completed and all costs then due and payable in connection therewith have been paid, (ii) such acquisition, construction, furnishing, renovating, remodeling, improving and equipping have been accomplished in such a manner as to conform in all material respects with all applicable zoning, planning, building, environmental and other regulations of all governmental authorities having jurisdiction, including, without limitation, the Arizona Corporation Commission, and (iii) such acquisition, construction, furnishing, renovating, remodeling, improving and equipping have been accomplished in all material respects to its satisfaction so as to permit efficient operation of the 1997 Project as a "project." Said certificate also shall specify the date by which the foregoing three events had occurred. Notwithstanding the foregoing, such certificate shall state that it is given without prejudice to any rights of or against third parties which then exist or subsequently may come into being.

The balance in the Project Fund not reserved by the Company for the payment of any remaining part of the costs of the 1997 Project shall be transferred by the Trustee first to the Debt Service Reserve Fund to the extent necessary to make the balance in the Debt Service Reserve Fund equal to the Debt Service Reserve Fund Requirement, then used upon an Officer's Certificate for payment of costs of any extension or improvement to the property of the Company, which costs were incurred subsequent to original delivery of the Bonds; provided that any such use shall be accompanied by the items described in Section 3.07(b) hereof. To the extent use of such balance is not so used within 60 days of delivery of the certificate described in the first paragraph this Section, the balance shall then be transferred to the Bond Fund.

Section 3.11. Issuance of Parity Debt. Although the Issuer shall be under no obligation to issue Parity Bonds, Parity Bonds may be issued by the Issuer and Additional Parity Indebtedness may be issued or incurred by the Company for the purpose of financing or refinancing projects to be owned or used by the Company, or for refunding of obligations previously issued, whether by the Issuer or another entity, or for any other use or purpose permitted by applicable law. Any Parity Bonds issued shall comply with the Issuer's procedures in effect at the time of issuance of such Parity Bonds. Parity Debt, to the extent applicable, shall bear such date or dates, interest rate or rates, maturities, redemption dates, redemption prices and other terms as shall be specified in the resolution or documents authorizing the issuance or incurrence thereof, or as provided in a Supplemental Agreement, which Supplemental Agreement shall not include the Issuer as a party if (i) the Parity Debt is not Parity Bonds and (ii) no provision of this Agreement which affects the Issuer is amended except with its written consent.

Parity Debt may be issued subsequent to the issuance of the Bonds only if:

(a) the Trustee receives an Officer's Certificate that the Indebtedness incurred by the Company in connection with such Parity Debt does not violate the covenants with respect to Indebtedness set forth in Section 5.13;

(b) the Trustee receives the following:

(1) in the case of Parity Bonds, (i) executed counterparts of a Supplemental Agreement providing for the payment of and terms of the Parity Bonds, and assigning to the Trustee the Issuer's rights under the Supplemental Agreement, which Supplemental Agreement may amend this Agreement to the extent permitted by Section 11.01(a)(3);

(2) in the case of Parity Bonds that the Company intends to be secured by the Debt Service Reserve Fund, as set forth in the related Supplemental Agreement, the Trustee shall hold in the Debt Service Reserve Fund upon the issuance of such Parity Debt, an amount of money, Permitted Investments or Credit Facility, which collectively are sufficient to make the Value of the Debt Service Reserve Fund at least equal to the lesser of (A) 10% of the original principal amount of such Parity Bends plus the maximum Annual Debt Service on the Bonds or (B) the maximum Annual Debt Service on the Outstanding Bonds and such Parity Bonds in the current or any future Fiscal Year.

(3) In the case of Parity Bonds, a copy or copies duly certified by an Authorized Officer of the Issuer, of the resolution or resolutions of the Issuer authorizing the execution and delivery on behalf of the Issuer of such Supplemental Agreement, any bond purchase agreement and the issuance of the Parity Bonds and the principal amount, interest rates, maturities, redemption provisions and other matters with respect to the Parity Bonds;

(4) A copy or copies of resolutions duly certified by an Authorized Officer of the Company authorizing the execution and delivery of the Supplemental Agreement, any bond purchase agreement, and the issuance of the Parity Debt;

(5) An Opinion of Counsel in form and substance acceptable to the Trustee substantially to the effect that (i) any Supplemental Agreement has been properly authorized and is or creates a valid, binding obligation of the Company, enforceable in accordance with its terms (subject to creditor's rights generally and other customary qualifications) and (ii) the issuance of Parity Debt have been duly authorized;

(8) In the case of Parity Bonds, an Opinion of Bond Counsel substantially to the effect that (i) the Parity Bonds constitute legal, valid and binding special limited obligations of the Issuer, and (ii) the issuance of Parity Debt is in conformity with the requirements of this Agreement;

(7) An Officer's Certificate that upon the issuance and delivery of the Parity Debt and the application of its proceeds, no Event of Default, or event which with the giving of notice or passage of time or both would become an Event of Default, will exist under this Agreement;

(8) An Opinion of Counsel in form and substance acceptable to the Trustee (and in the case of Parity Bonds, the Issuer) substantially to the effect that the documents

submitted to the Trustee in connection with the issuance of the Parity Debt comply with the requirements of this Agreement;

(9) An Opinion of Bond Counsel substantially to the effect that the issuance of the Parity Debt will not result in the interest of any Bond then Outstanding becoming included in gross income for federal income tax purposes; and

(10) Such other certificates, documents, instruments and opinions relating to the issuance of the Parity Debt or the security therefor as the Trustee (and in the case of Parity Bonds, the Issuer) may reasonably request, addressing, but not limited to compliance with the Act, tax exemption (the extent applicable), and compliance with applicable laws;

(c) the instrument evidencing such Parity Debt (which may be a Supplemental Agreement or other document satisfactory to the Trustee) shall include, to the reasonable satisfaction of the Trustee, (a) a cross default provision with this Agreement, (b) provisions under which the Trustee is advised as to whom the Trustee may conclusively treat as the Owners of such Parity Debt for purposes of this Agreement, and (c) provisions (which may be contained in a separate agreement to which the Trustee is a party) to the effect that the Holders of the Parity Debt (or a representative of their interests who shall be acceptable to the Trustee) shall agree to be bound by those provisions of this Agreement relating to the Collateral and enforcement thereof, including rights and obligations of the Trustee relating thereto, including, but not limited to, such provisions contained in Sections 3.16, Articles V, VI, VII and XI and in the Mortgage; provided, however, the Trustee shall not be obligated to assume additional duties or incur additional expenses or liabilities under such instrument except upon such terms and conditions as may be acceptable to the Trustee; and

(d) the Company shall provide to the Trustee and the Issuer, as necessary, direction to take such actions (including amending or supplementing this Agreement and any other collateral agreement or debt instrument entitled to be paid from the proceeds of such Collateral document) and the Company, the Trustee and the Issuer, if necessary, shall execute and deliver, and the Company and the Trustee shall file and record, such instruments of security as are required by this Agreement, the instrument evidencing the Parity Debt, or by law, or as the Company, the Trustee or Opinion of Counsel determines to be necessary or appropriate, to grant to or otherwise secure for the holders of the Parity Debt a security interest in or mortgage lien on (as applicable) the Collateral securing the Parity Debt so that the Holders of Parity Debt shall be entitled to be paid from the proceeds of such Collateral on a parity (subject to Permitted Encumbrances and other intervening Liens) with that of all other holders of Parity Debt; and the Trustee may rely upon an Opinion of Counsel that such actions and instruments are permitted under this Agreement.

Any Supplemental Agreement shall provide for the creation of separate funds and accounts and other security to be maintained for such Parity Debt.

If the Trustee shall determine that all the foregoing conditions have been satisfied, it shall certify in writing to the Company that the proposed indebtedness is Parity Debt for purposes of this Agreement, and upon such certification, such Indebtedness shall be so deemed. In making this determination the Trustee may rely upon an Opinion of Counsel.

Within 10 days following the incurrence of any Parity Debt, the Company shall file with the Trustee conformed copies of all documents and instruments supporting or evidencing such Parity Debt.

The Company may, but shall not be obligated to, provide a credit enhancement for one or more issues of Parity Debt or one or more maturities within one or more issues of Parity Debt. Credit enhancement provided for one or more issues of Parity Debt may but need not extend to the Bonds or a maturity thereof or to any other issue, or maturity within any other issue, of Parity Debt.

Parity Debt may, but need not, be issued in a manner that the interest thereon will be excludable from gross income for federal income tax purposes.

Section 3.12. Payments by the Company.

(a) Payments of Debt Service and Fund Requirements. The payments made by the Company shall be applied in the following offer of priority:

(i) The Company shall pay or cause to be paid to the Trustee for deposit in the Bond Fund on or before the fourth business day preceding each Interest Payment Date, (i) commencing prior to the June 1, 1998 Interest Payment Date, not less than one half of the amount necessary to pay the principal (including sinking fund installments) of and premium, if any, coming due on the next payment date on the Bonds (whether by stated maturity, redemption or otherwise), and (ii) commencing prior to June 1, 1998, not less than the amount necessary to pay the interest then coming due on the next Interest Payment Date on the Bonds, less the amount, if any, then held in the Bond Fund and available to pay the same. The Company may make payments to the Bond Fund earlier than required by this section, but such payments shall not affect the accrual of interest except to the extent that Bonds are redeemed.

(ii) The Company shall pay to the Trustee for deposit in the Rebate Fund the amounts required by Section 3.05 at the times required thereby ("Rebate Payments").

(iii) The Company shall pay to the Trustee for deposit in the Debt Service Reserve Fund the amounts required by Section 3.04 at the times required thereby.

(iv) At any time when any principal of the Bonds is overdue, the Company shall also have a continuing obligation to pay to the Trustee for deposit in the Bond Fund an amount equal to interest on the overdue principal (including sinking fund installments). Redemption premiums shall not bear interest.

(v) Notwithstanding anything herein to the contrary, the Company shall provide to the Trustee sufficient funds to pay all principal and interest on the Bonds, when and as due, whether or not provided for in the prior paragraphs.

The Company hereby acknowledges and agrees that payments made by the Bond Insurer for principal of and interest on the Bonds do not discharge the Company's responsibility to pay such principal and interest.

(b) Additional Payments. The Company shall make the following payments ("Additional Payments") within 30 days after demand:

(i) To the Issuer, reimbursement for any and all costs, reasonable expenses and liabilities paid or incurred by the Issuer, including, but not limited to, reasonable fees and disbursements of counsel and financial advisors which relate directly or indirectly to the 1997 Project or are in satisfaction of any obligations of the Company to the Issuer hereunder which are not performed in accordance with the terms hereof by the Company;

(ii) To the Issuer, reimbursement for or prepayment of any and all reasonable costs, expenses, and liabilities paid or incurred or to be paid or incurred by the Issuer or any of its directors, officers, employees and agents, including, but not limited to, reasonable fees and disbursements of counsel and financial advisors, and requested by the Company or required by this Agreement or by the Act in connection with the Issuer's rights and obligations hereunder;

(iii) the fees and expenses of the Rebate Consultant;

(iv) all attorneys' fees and disbursements or indemnity payments required under Section 5.20 or Article VIII hereof;

(v) a fee to the Issuer in an annual amount not in excess of 0.1% of the original principal amount of the Bonds for the purpose of defraying a portion of the Issuer's administrative expenses, with such obligation to be invoiced by the Issuer on a quarterly, semi-annual, or annual basis in the Issuer's sole discretion and continuing while any portion of the Bonds are outstanding; provided that the Borrower shall notify the Issuer if the Borrower's payment under this item would violate any applicable law, including, without limitation, any applicable law relative to arbitrage;

(vi) To the Trustee and the Paying Agent the reasonable fees, charges and expenses of the Trustee and Paying Agent under this Agreement, as well as reimbursement for any and all reasonable costs, expenses (including, without limitation, reasonable attorneys' fees) and liabilities paid or incurred by the Trustee or Paying Agent in satisfaction of any obligations of the Company hereunder which are not performed in accordance with the terms hereof by the Company; and

(vii) To the Trustee and the Paying Agent, all reasonable costs and expenses, whether ordinary or extraordinary (including, without limitation, reasonable attorneys' fees) incurred in the preparation, negotiation, execution, interpretation and administration of this Agreement, any amendments to any of the foregoing, as well as all costs and expenses (including, without limitation, reasonable attorneys' fees) related to or in respect of the Trustee's and/or any Bondholder's efforts to collect and/or enforce any of the Trustee's and/or such Bondholders' rights and remedies hereunder (whether or not legal action is instituted in connection with such efforts).

Section 3,13. Redemption of the Bonds. The Bonds shall be subject to redemption in denominations of $5,000 or multiples thereof prior to maturity under the circumstances, in the manner and subject to the conditions provided in this section and in the form of Bonds. Whenever Bonds of a series are called for redemption, the accrued interest on that series shall become due on the redemption date.

If less than all of the Bonds of a series are to be called for optional or extraordinary optional redemption, the Bonds to be redeemed shall be redeemed in the maturities designated in an Officer's Certificate, and if less than an entire maturity is redeemed, whether by mandatory, optional or extraordinary optional redemption, the Bonds to be redeemed within such maturity will be selected by the Trustee by lot or in any customary manner as determined by the Trustee.

(a) Mandatory Redemption from Sinking Fund Installments.

(i) The Series 1997A Bonds maturing on December 1, 2011 shall be redeemed at their principal amounts without premium, on each December 1, commencing December 1, 2008, in each of the years and in the amounts as follows:

Year	Principal Amount
2008	$255,000
2009	265,000
2010	280,000
2011*	200,000

* final maturity

The Series 1997A Bonds maturing on December 1, 2022 shall be redeemed at their principal amounts without premium, on each December 1, commencing December 1, 2011, in each of the years and in the amounts as follows:

Year	Principal Amount
2011	$ 95,000
2012	310,000
2013	330,000
2014	345,000
2015	365,000
2016	385,000
2017	405,000
2018	425,000
2019	450,000
2020	475,000
2021	500,000
2022*	525,000

* final maturity

(ii) The Series 1997B Bonds maturing on December 1, 2006 shall be redeemed at their principal amounts without premium, on each December 1, commencing December 1, 1998, in each of the years and in the amounts as follows:

Year	Principal Amount
1998	$30,000
1999	30,000
2000	30,000
2001	30,000
2002	35,000
2003	35,000
2004	35,000
2005	40,000
2006*	40,000

* final maturity

The Series 1997B Bonds maturing on December 1, 2022 shall be redeemed at their principal amounts without premium, on each December 1, commencing December 1, 2007, in each of the years and in the amounts as follows:

Year	Principal Amount
2007	$40,000
2008	45,000
2009	45,000
2010	50,000
2011	50,000
2012	55,000
2013	60,000
2014	60,000
2015	65,000
2016	65,000
2017	70,000
2018	75,000
2019	80,000
2020	80,000
2021	85,000
2022*	90,000

* final maturity

In lieu of redeeming Bonds pursuant to this Section 3.13(a) the Trustee may, at the written request of the Company, use such funds otherwise available hereunder for redemption of Bonds to purchase Bonds then subject to mandatory sinking fund redemption in the open market at a price not exceeding par plus accrued interest, such Bonds to be delivered to the Trustee for the purpose of cancellation. The Company may deliver to the Trustee any Bond then subject to mandatory sinking fund redemption for cancellation. It is understood that in the case of any such purchase of Bonds or any such Bonds so delivered, the Issuer and the Company shall receive credit against its required mandatory sinking fund payments in the manner specified in a certificate of the Company or, if no certificate is delivered, in the inverse order thereof.

In the event of a partial redemption of Bonds within a maturity, whether through optional redemption or extraordinary optional redemption, the amount of future sinking fund redemptions with respect to such maturity will be reduced as specified in a Company Officer's Certificate to take into account such partial redemption.

(b) Optional Redemption. Each series of the Bonds may be redeemed by the Trustee on behalf of the Issuer at the times and prices as provided in the form of Bond, at the option of the Company upon written notice given by the Authorized Officer of the Company to the Trustee at least 30 days before mailing of the notice of redemption required under subsection (f)(i).

(c) Extraordinary Optional Redemption. If proceeds derived from insurance or condemnation awards for damage, destruction or taking of any single item of property of the Company exceeds $50,000, then the Company may apply such proceeds to the redemption of

Bonds Outstanding in whole or pro rata between series in part, at any time on the earliest practicable date after receipt by the Trustee of an Officer's Certificate for which notice of redemption can practicably be given, at a redemption price equal to 100% of the principal amount of the Bonds redeemed, plus accrued interest to the redemption date, without premium.

(d) Payment of Accrued Interest. Whenever Bonds are called for redemption, the accrued interest thereon shall become due on the redemption date.

(e) Application of Moneys for Redemption. Notwithstanding any other provisions of this Agreement, if at any time the amounts held for the Parity Bonds in the Bond Fund and the Debt Service Reserve Fund are sufficient to pay the principal or redemption price of all Outstanding Parity Bonds and the interest accruing to such Parity Bonds to maturity or the next date of redemption when such Parity Bonds are redeemable pursuant to this Section 3.13, the Trustee shall so notify the Issuer and the Company. Upon receipt of such notice, the Company may request the Trustee to apply such amounts to pay or redeem all such Outstanding Parity Bonds, as the case may be, on the next date when such Parity Bonds are redeemable pursuant to Section 3.13(b). The Trustee shall, upon receipt of such notice, proceed to pay or redeem all such Outstanding Parity Bonds in the manner provided by this Section 3.13, and shall transfer to the Bond Fund from the Debt Service Reserve Fund such amounts as are needed in connection therewith.

(f) Notice of Redemption.

(i) The Trustee shall cause notice of any redemption of Bonds hereunder to be (A) mailed at the expense of the Company to the Holders of all Bonds to be redeemed at the registered addresses appearing in the Register kept for such purpose pursuant to Section 3.01 hereof, and (B) transmitted electronically to the Depository and to one or more national information services such as Financial Information, Inc.'s Financial Daily Called Bond Service, Kenny Information Service's Called Bond Service and Moody's Investors Service, Inc. Municipal and Government; provided, however, failure to deliver notice as described in (i)(B) shall not affect the validity of the redemption of any Bond. Each such notice shall (1) be mailed no more than 45 nor fewer than 30 calendar days prior to the redemption date, (2) identify the Bonds to be redeemed (specifying the CUSIP numbers, if any, assigned to the Bonds), (3) specify the Bonds being redeemed, their date of issue, their maturity date, redemption date and the redemption price, (4) set forth the name, address and telephone number of the person from whom information pertaining to the redemption may be obtained, and (S) state that on the redemption date the Bonds called for redemption will be payable at the designated corporate trust office of the Trustee, that from that date interest will cease to accrue, that no representation is made as to the accuracy or correctness of the CUSIP numbers printed therein or on the Bonds. No defect affecting any Bond, whether in the notice of redemption or mailing thereof (including any failure to mail such notice), shall affect the validity of the redemption proceedings for any other Bonds. In addition, failure to mail notice as described in (i)(B) shall not affect the validity of the redemption of any Bond.

(ii) If at any time of mailing of notice of an optional or extraordinary optional redemption of Bonds there has not been deposited with the Trustee moneys or Government Obligations sufficient to redeem all Bonds called for such redemption, such notice shall state that the redemption is conditional upon the deposit of moneys or Governmental Obligations sufficient for the redemption with the Trustee not later than the opening of business on the redemption date, and such notice will be of no effect and such Bonds shall not be redeemed unless such moneys are so deposited.

(iii) Any notice of redemption shall be mailed by first class mail, postage prepaid; provided that any notice of redemption given to any holder of $1,000,000 or more in aggregate principal amount of Bonds shall be transmitted electronically or mailed by certified mail, return receipt requested.

A certificate of the Trustee shall conclusively establish the mailing of any such notice for all purposes.

(g) Payment of Redeemed Bonds, Notice having been mailed in the manner provided in (f) above, the Bonds and portions thereof called for redemption shall become due and payable on the redemption date, and upon presentation and surrender thereof at the place or places specified in that notice, shall be paid at the redemption price, plus interest accrued to the redemption date.

If money or Government Obligations for the redemption of all of the Bonds and portions thereof to be redeemed, together with interest accrued thereon to the redemption date, is held by the Trustee or any Paying Agent on the redemption date, so as to be available therefor on that date and if notice of redemption has been deposited in the mail as aforesaid, then from and after the redemption date those Bonds and portions thereof called for redemption shall cease to bear interest and no longer shall be considered to be Outstanding hereunder. If those moneys shall not be so available on the redemption date, or that notice shall not have been deposited in the mail as aforesaid, those Bonds and portions thereof shall continue to bear interest, until they are paid, at the same rate as they would have borne had they not been called for redemption.

All moneys deposited in the Bond Fund and held by the Trustee or a Paying Agent for the redemption of particular Bonds shall be held in trust for the account of the Holders thereof and shall be paid to them, respectively, upon presentation and surrender of those Bonds.

Section 3.14. Paying. The Trustee, and any other banks or trust companies designated as paying agent in any Supplemental Agreement, shall be the Paying Agent for the Bonds.

Any bank or trust company with or into which any Paying Agent other than the Trustee may be merged or consolidated, or to which the assets and business of such Paying Agent may be sold, shall be deemed the successor of such Paying Agent for the purposes of this Agreement. If the position of Paying Agent shall become vacant for any reason, the Trustee shall, within 30 days thereafter, appoint a bank or trust company to fill such vacancy. Notwithstanding anything in this Section 3.14 to the contrary, no successor Paying Agent shall be appointed (or be deemed

to have succeeded to such function), unless Ambac Assurance approves such successor (or deemed successor) in writing.

The Paying Agent shall enjoy the same protective provisions in the performance of its duties hereunder as are specified in this Agreement, including but not limited to Section 7.01, with respect to the Trustee, insofar as such provisions may be applicable.

Section 3.15. Investments.

(a) Pending their use under this Agreement, moneys in all funds held by the Trustee, subject to the requirements set forth in the Tax Compliance Certificate and applicable federal tax laws, shall be invested by the Trustee in Permitted Investments maturing or redeemable at the option of the holder at or before the time when such moneys are expected to be needed and shall be so invested at the oral or written request of an Authorized Officer of the Company if there is not then an Event of Default known to the Trustee. Moneys in the Debt Service Reserve Fund shall be invested by the Trustee in Permitted Investments (a) of a type (i) customarily sold in a recognized market or (ii) subject to liquidation or prepayment to the extent required to meet draws on the Debt Service Reserve Fund and (b) with an average aggregate weighted term to maturity not greater than five years. In the event that the Trustee is not provided with such direction by an Authorized Officer of the Company, the Trustee shall invest moneys in any Fund on hand from time to time in Permitted Investments described in clause (g) of the definition thereof. Any investments pursuant to this subsection shall be held by the Trustee as a part of the applicable fund or account and shall be sold or redeemed to the extent necessary to make payments or transfers or anticipated payments or transfers from such fund.

(b) Except as set forth below, any interest realized on investments in any fund or account and any profit realized upon the sale or other disposition thereof shall be credited to the fund or account with respect to which they were earned and any loss shall be charged thereto. Earnings (which for such purposes include net profit and are after deduction of net loss) on moneys deposited in the Hoed Fund shall, subject to the provisions of Section 3.05 of this Agreement, be retained in the Bond Find. Earnings on moneys deposited in the Debt Service Reserve Fund shall, subject to Section 3.04(b) and (c), be retained in that Fund. Earnings on moneys in the Project Fund shall, subject to the provisions of Section 3.07, be retained in that Fund.

(c) The Trustee may hold undivided interests in Permitted Investments for more than one Fund (for which they are eligible) and may make interfund transfers in kind.

(d) Investments in all Funds shall be valued by the trustee in accordance with subparagraph (ii) of the definition of "Value" set forth in Section 1.02 hereof, plus accrued interest where applicable.

(e) Any investment made by the Trustee may be purchased from the Trustee or any of its affiliates.

(f) The Trustee shall sell and reduce to cash a sufficient portion of investments, whenever the cash balance in any Fund or Account is insufficient to pay the current requirements from that Fund or Account.

(g) The Trustee shall not be liable for any loss or the amount of any gain resulting from the making of any investment made in accordance with the provisions hereof except for its own negligence, willful misconduct or breach of trust.

The Trustee shall comply with the Tax Compliance Certificate and any subsequent written instructions from the Authorized Officer of the Company accompanied by an Opinion of Bond Counsel and addressed to the Issuer and the Trustee, to the effect that compliance with such subsequent written instructions will not adversely affect any exclusion of interest on any of the Bonds from gross income for federal and Arizona income tax purposes.

Section 3.16. Release of and Liens on Property.

(a) Anything herein to the contrary notwithstanding, any sale, transfer, other disposition, encumbrance or pledge of Property in compliance with Section 5.14 hereof, shall be made free and clear of any Lien or security interest granted hereby or by the Mortgage, by any Supplemental Agreement, and by any other instrument encumbering Collateral to secure the payment of Parity Debt.

(b) The Trustee is expressly authorized and directed, upon receipt of an Officer's Certificate, to execute and deliver all instruments and other documents as may be necessary or appropriate, in the judgment of the Company, to effectuate the releases and subordinations required under (c) and (d) above, including, without limitation, UCC amending or termination statements, requests for release and reconveyance, deeds of release, subordination agreements, and similar such documents.

(c) The Company, at its expense, shall cause any financing statements, including all necessary amendments, supplements and appropriate continuation statements, to be recorded and filed, and to be kept recorded and filed, in such manner and in such places as may be required in order to perfect the security interest granted by the Mortgage or in any Supplemental Agreement, subject only to Permitted Encumbrances, to the extent that such perfection can be accomplished by filing and recording. Within the period beginning six months prior to and ending 90 days prior to the expiration of six years after December 1, 1997, and within six months prior to but in no event less than 90 days prior to the expiration of each six year period following a filing with the Trustee pursuant to this Section 3.16(c) until this Agreement has been discharged, the Company will cause to be filed with the Issuer and the Trustee an Opinion of Counsel to the effect that steps requisite to continue the perfection of the security interests granted by the Mortgage or under this Agreement or in any Supplemental Agreement, to the extent that such perfection can be accomplished under applicable law by filing and recording, have been taken.

Section 3.17. Moneys to be Held in Trust. Except where moneys have been deposited with or paid to the Trustee or any Paying Agent pursuant to an instrument restricting their

application to particular Parity Bonds (including the Bond Insurance which restricts the application of the proceeds thereof solely to the payment of principal of and interest on the Bonds), all moneys required or permitted to be deposited with or paid to the Trustee or any Paying Agent under any provision of this Agreement and any investments thereof, shall be held by the Trustee or that Paying Agent in trust. Except for (i) moneys deposited with or paid to the Trustee or any Paying Agent for the redemption of Parity Bonds, notice of the redemption of which shall have been duly given or arrangements satisfactory to the Trustee made, and (ii) moneys held by the Trustee pursuant to Section 3.03(b) hereof and (iii) moneys in the Rebate Fund, all moneys described in the preceding sentence held by the Trustee or any Paying Agent shall be subject to the provisions hereof while so held.

Section 3.18. Rights to Funds. The Company agrees that all moneys held in the Funds and accounts created under the Agreement (other than amounts held in the Refunding Fund and Rebate Fund), including moneys in the Debt Service Reserve Fund and the Project Fund, are specifically pledged as security for the Holders of the Parity Bonds and the Bond Insurer, shall be under the control of the Trustee and, to the extent permitted by law, are not subject to attachment or any other lien by any creditor of the Company in the event the Company files a proceeding under the United States Bankruptcy Code, nor shall these movies be used for general operations of the Company in the event of such a filing.

(End of Article III)

ARTICLE IV

THE PROJECT

Section 4.01. Acquisition, Construction, Installation, Equipment and Improvement. The Company (a) has acquired the sites of the 1997 Project or rights of use and access therein and shall construct and equip the 1997 Project on those sites with all reasonable dispatch, and (b) shall pay when due all fees, costs and expenses incurred in connection with that construction, installation, equipment and improvement from funds made available therefor in accordance with this Agreement or otherwise. It is understood that the 1997 Project is that of the Company and any contracts made by the Company with respect thereto, whether acquisition contracts, construction contracts or otherwise, or any work to be done by the Company on the 1997 Project are made or done by the Company in its own behalf and not as agent or contractor for the Issuer.

Section 4.02. Company Required to Pay Costs in Event Project Fund Insufficient. If moneys in the Project Fund are not sufficient to pay all costs of the 1997 Project, the Company, nonetheless, will complete the 1997 Project and, unless Parity Bonds or other permitted Parity Debt shall have been issued for that purpose, shall pay all such additional costs of the 1997 Project from its own funds or other amounts made available to it for such purposes. The limitation of Section 147(g) of the Code notwithstanding, the Company shall pay all Costs of Issuance of the Bonds. The Company shall not be entitled to any reimbursement for any such additional costs of the 1997 Project or payment of Costs of Issuance from the Issuer, the Trustee

or any Holder; nor shall it be entitled to any abatement, diminution or postponement of the payments to be made in respect of the Bonds or otherwise.

(End of Article IV)

ARTICLE V

COVENANTS AND WARRANTIES OF THE COMPANY AND OF THE ISSUER

Section 5.01. Corporate Organization, Authorization and Powers. The Company represents and warrants that:

(a) it is a corporation duly organized, validly existing and in good standing under the laws of the State, with the power to enter into and perform this Agreement, and, that by proper corporate action it has duly authorized the execution and delivery of this Agreement;

(b) the Agreement is a valid and binding obligation of the Company enforceable in accordance with its terms except as enforceability may be subject to the exercise of judicial discretion in accordance with general equitable principles and to applicable bankruptcy, insolvency, reorganization, moratorium and other laws for the relief of debtors heretofore or hereafter enacted to the extent that the same may be constitutionally applied;

(c) the execution and delivery of this Agreement and the consummation of the transactions contemplated herein, including the application of the proceeds of the Bonds as so contemplated, is in compliance with the Order of the Arizona Corporation Commission, Decision No. 60473 (the "ACC Order"), will not conflict with or constitute a material breach of or default under any bond, indenture, note or other evidence of indebtedness of the Company, or any contract, lease or other instrument to which the Company is a party or by which it or its properties are bound or cause the Company to be in material violation of any applicable statute or order, rule or regulation of any court or governmental authority which breach, default, or violation would materially and adversely affect the consummation of the transactions contemplated hereby or the ability of the Company to perform its obligations hereunder;

(d) No consent of any other party and no consent, license, approval or authorization of, exemption by, or registration with any governmental body, authority, bureau or agency (other than those that have been obtained, including, without limitation, the ACC Order) is required in connection with the execution and delivery of this Agreement and the consummation of the transactions contemplated herein, including, the application of the proceeds of the Bonds as so contemplated, and the construction, installation, equipment and improvement of the 1997 Project, except for governmental permits required in connection with commencement and during construction of the 1997 Project; and

(e) it is not in breach, default, or in violation of any indenture, mortgage, deed of trust, note, loan agreement, or other agreement or instrument which would allow the obligee or

obligees thereof to take any action which would materially and adversely affect its performance under this Agreement or its compliance with the requirements and conditions of the ACC Order.

Section 5.02. Payment of Principal, Premium and Interest on Parity Debt; Interest on Overdue Payments. The Company covenants, so long as any Parity Debt is Outstanding, that it shall duly and punctually pay the principal of, the premium, if any, and the interest on each Parity Debt obligation at or prior to the due date thereof and at the times and at the place and in the manner provided therein when and as the same become payable, whether at maturity, upon call for redemption, by acceleration of maturity or otherwise, according to the true intent and meaning hereof. If any such payment is not so received, the Trustee upon actual notice of such nonpayment shall notify the Company by telephone, telegram, express mail or other expeditious means.

To the extent permitted by law, the Company hereby waives any requirement that the Trustee or any holder thereof protect, secure, perfect or insure any security interest or lien on any Property subject thereto or exhaust any right or take any action against the Company or any other Person or any collateral including, without limitation, rights under A.R.S. Section 12-1641, et seq., if applicable.

The obligations of the Company created pursuant to this section shall continue to be effective or be reinstated, as the case may be, if at any time any payments of any of the Parity Debt are rescinded or may otherwise be returned by the trustee or any holder thereof upon the insolvency, bankruptcy or reorganization of the Company or otherwise, all as though such payment had not been made.

To the extent permitted by law, the obligation of the Company to make payments on Parity Debt shall be absolute and unconditional, shall be binding and enforceable in all circumstances whatsoever, shall not be subject to setoff, recoupment or counterclaim and the Company agrees to make payment from all lawfully available sources.

Section 5.03. Covenants.

(a) The Issuer, to the extent within its control, covenants that it will not take any action, or fail to take any action, upon receipt of an Officer's Certificate and at the expense of the Company, if any such action or failure to take action would adversely affect the exclusions from gross income of the interest on the Bonds under Section 103(a) of the Code or cause the interest on the Series 1997B Bonds, or any portion thereof, to become as item of tax preference for purposes of the alternative minimum tax imposed on individuals and corporations under the Code.

The Issuer does not have the power to make or direct investments, but the Issuer, to the extent within its control, will not directly or indirectly use or permit the use of any Proceeds of the Bonds or any other funds of the Issuer or the Company, or take or omit to take any action, that would cause the Bonds to be or become "arbitrage bonds" within the meaning of Section 148(a) of the Code or to fail to meet any other applicable requirements of Sections 141 through 150 (or their statutory predecessor) of the Code or cause the interest on the Series 1997B Bonds,

or any portion thereof, to become an item of tax preference for purposes of the alternative minimum tax imposed on individuals and corporations under the Code. To that end, the Issuer will comply with all requirements of Sections 141, 142, 146, 147, 148, 149 and 150 (or their statutory predecessor) of the Code to the extent applicable to the Bonds. The Issuer is deemed to have complied with this paragraph if the Issuer complies with the Tax Compliance Certificate and any subsequent Officer's Certificate, accompanied by an Opinion of Bond Counsel, to the effect that compliance with such subsequent written instructions will not adversely affect any exclusions of interest on any of the Bonds from gross income for federal income tax purposes or cause the interest on the Series 1997B Bonds, or any portion thereof, to become an item of tax preference for purposes of the alternative minimum tax imposed on individuals and corporations under the Code.

The Company covenants that it will not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusions from gross income of the interest on the Bonds under Section 103(a) of the Code or cause the interest on the Series 1997B Bonds, or any portion thereof, to become an item of tax preference for purposes of the alternative minimum tax imposed on individuals and corporations under the Code.

The Company will not directly or indirectly (by parties within its control) use or permit the use of any Proceeds of the Bonds or any other funds of the Company, or take or omit to take any action, that would cause the Bonds to be or become "arbitrage bonds" within the meaning of Section 148(a) of the Code or to fail to meet any other applicable requirements of Sections 141 through 150 (or their statutory predecessor) of the Code or cause the interest on the Series 1997B Bonds, or any portion thereof, to become an item of tax preference for purposes of the alternative minimum tax imposed on individuals and corporations under the Code. To that end, the Company will comply with all requirements of Sections 141, 142, 146, 147, 148, 149 and 150 (or their statutory predecessor) of the Code to the extent applicable to the Bonds. In the event that at any time the Company is of the opinion that for purposes of this Section 5.03 it is necessary to restrict or limit the yield on the investment of any moneys held by the Trustee under this Agreement or otherwise, the Company shall so instruct the Trustee in writing, and the Trustee shall take such action as may be necessary in accordance with such instructions.

The Issuer and the Company each hereby covenant and agree that it shall not enter into any arrangement, formal or informal, pursuant to which the Company (or any "related party," as defined in Treasury Regulations Section 1.150-1(b)) shall purchase the Bonds. This covenant shall not prevent the Company from purchasing Bonds in the open market for the purpose of tendering them to the Trustee for purchase and retirement.

(b) The Company represents and warrants that the Aggregate Project is and will be located entirely within the limits of the County.

(c) The Company represents and warrants that the construction of the 1997 Project was not commenced prior to the adoption of the resolution of the Issuer on July 8, 1997, with respect to the 1997 Project. The Company represents and warrants that the construction of the 1985 Project was not commenced prior to the adoption of the resolution of the Issuer on November 13, 1984, with respect to the 1985 Project.

(d) The Company represents and warrants that it presently intends to use or operate the Aggregate Project in a manner consistent with its purposes as water furnishing facilities until the date on which the Bonds have been fully paid and knows of no reason why the Aggregate Project will not be so operated. If, in the future, there is a cessation of that operation, the Company will use its best efforts to resume that operation or accomplish an alternate use by the Company or others which will be consistent with the Act; provided, however, that this provision does not require the Company to operate any portion of the Aggregate Project after the Company shall determine in its discretion that such operations are no longer economic and does not prohibit the Company from selling the Aggregate Project in accordance with Section 5.14 or from merging into or consolidating with another corporation in accordance with Section 5.15.

(e) The use of the Aggregate Project as it is proposed to be operated, complies with all currently applicable material requirements of zoning, development, pollution control, water conservation, environmental, and other laws, regulations, rules and ordinances of the federal government and the State and the respective agencies thereof and the political subdivisions in which the Aggregate Project is to be located.

(f) The Company has obtained, or will obtain when required, all necessary approvals of and licenses, permits, consents and franchises from federal, state, county, municipal or other governmental authorities having jurisdiction over the Aggregate Project to acquire, construct, improve and equip the Aggregate Project, and to enter into, and execute and perform its obligations under this Agreement, in each case under presently applicable law and regulations, other than permits and licenses which are not now required and as otherwise provided in Section 5.11.

(g) To the best of the Company's actual knowledge, none of the current Indemnified Parties (as hereinafter defined) has any significant or conflicting interest, financial, employment or otherwise, in the Company, the Aggregate Project or in any of the transactions contemplated under this Agreement.

(h) There has been no material adverse change in the financial condition; prospects or business affairs of the Company or the feasibility or physical condition of the Aggregate Project subsequent to the date on which the Issuer granted its resolution approving the issuance of the Bonds.

(i) The Company acknowledges, represents, warrants and agrees that the Company (a) understands the nature of the structure of the transactions related to the financing of the Aggregate Project; (b) is familiar with all of the provisions of this Agreement and all documents and instruments related to such financing to which the Company or the Issuer is a party or to which the Company is a beneficiary; (c) understands the risk inherent in such transactions, including without limitation, the risk of loss of the Aggregate Project; and (d) has not relied upon the Issuer for any guidance or expertise in analyzing the financial consequences of such financing transactions or otherwise relied upon the Issuer in any manner, except to issue the Bonds.

(j) [RESERVED.]

(k) All representations of the Company contained herein or in any certificate or other instrument delivered by the Company pursuant hereto, to this Agreement or in connection with the transactions contemplated hereby, shall survive the execution and delivery hereof and thereof and the issuance, sale and delivery of the Bonds as representations of facts existing as of the date of execution and delivery of the instrument containing such representations.

(l) The Company represents and warrants that at least 95% of the net proceeds of the Series 1997A Bonds (as defined in Section 150 of the Code) will be used to provide land or property of a character subject to the allowance for depreciation under Section 167 of the Code and which constitute "facilities for the furnishing of water" within the meaning of Section 142(a)(4) of the Code. The Company will not request or authorize any disbursement pursuant to Section 3.07 hereof, which, if paid, would result in less than 95% of the net proceeds of the Series 1997A Bonds being used to provide land or property of a character subject to the allowance for depreciation under Section 167 of the Code and which constitute "facilities for the furnishing of water" within the meaning of Section 142(a)(4) of the Code. The Company represents and warrants that at least 90% of the net proceeds of the 1985 Bonds was used to provide land or property of a character subject to the allowance for depreciation under Section 167 of the Code and to provide facilities which constitute "facilities for the furnishing of water" within the meaning of Section 103(b)(4)(G) of the 1954 Code.

The Company is a public service corporation as defined in Article 15, Section 2 of the Constitution of the State of Arizona, and as such is authorized to furnish domestic water delivery services to all members of the public within its service area as set forth in its certificate of convenience and necessity issued by the Arizona Corporation Commission. The Company's rates and charges for such water furnishing services are regulated by the Arizona Corporation Commission. The Company, pursuant to regulations promulgated by the Arizona Corporation Commission, has responsibility for and control over the maintenance and repair of the Aggregate Project.

The 1985 Project is, and the 1997 Project will be, owned and operated by the Company and the 1985 Project is, and the 1997 Project will be, a part of the water furnishing facilities owned and operated by the Company, and the water furnished thereby is, and will be, made available to members of the general public (including electric utility, industrial, agricultural, or commercial users). The Company makes and will make available to residential users within its service areas, municipal water districts within its service area, or any combination thereof, at least 25% of the capacity of the Aggregate Project. The Company has not and will not enter into any contract or contracts which, individually or in the aggregate, will guarantee the right of any person to receive or an obligation of any person to take or pay for more than 75% of the maximum daily capacity of the Aggregate Facility.

(m) The Company represents and warrants that the costs of issuance financed by the Series 1997A Bonds will not exceed 2% of the proceeds of the Series 1997A Bonds (within the meaning of Section 147(g) of the Code), and the Company will not request or authorize any disbursement pursuant to Section 3.06 hereof or otherwise, which, if paid, would result in more than 2% of the aggregate face amount of the Series 1997A Bonds being so used. The Company

represents and warrants that no costs of issuance will be financed with proceeds of the Series 1997B Bonds. None of the proceeds of the Bonds will be used to provide working capital.

(n) The Company represents and warrants that in accordance with Section 147(b) of the Code, (1) the average maturity of the Series 1997A Bonds does not exceed 120% of the average reasonably expected economic life of the facilities being financed by the Series 1997A Bonds, and (2) the average maturity of the Series 1997B Bonds does not exceed 120% of the average reasonably expected economic life of the facilities being refinanced by the Series 1997B Bonds, in each case determined as of the later of the date the Bonds are issued or the date the facilities are expected to be placed in service.

(o) The Company represents and warrants that none of the proceeds of the Series 1997A Bonds will be, and none of the proceeds of the 1985 Bonds were, used to provide any airplane, skybox or other private luxury box, or health club facility; any facility primarily used for gambling; or any store the principal business of which is the sale of alcoholic beverages for consumption off premises.

(p) The Company represents and warrants that not more than 25% of the proceeds of the Series 1997A Bonds will be, and not more than 25% of the proceeds of the Series 1997B Bonds were, used directly or indirectly to acquire land or any interest therein, and such land has not been, and is not to be, used for farming purposes.

(q) The Company represents and warrants that no portion of the proceeds of the Series 1997A Bonds will be, and no portion of the proceeds of the 1985 Bonds were, used to acquire existing property or any interest therein unless such acquisition meets the rehabilitation requirements of Section 147(d) of the Code or met the rehabilitation requirements of Section 103(b)(17) of the 1954 Code, as appropriate.

(r) The information furnished by the Company and used by the Issuer in preparing the certification pursuant to Section 148 of the Code and information statement pursuant to Section 149(e) of the Code as well as the federal tax election referred to in the Tax Compliance Certificate of the Company, is accurate and complete as of the date of the issuance of the Bonds.

(s) The Aggregate Project does not include any offices except for offices (i) located at the site of the Aggregate Project and (ii) not more than a de minimis amount of the functions to be performed at which is not directly related to the day-to-day operations at the Aggregate Project.

(t) The Company represents and warrants that at no time will any funds constituting gross proceeds of the Bonds be used in any fashion as would constitute failure of compliance with Section 148 of the Code.

(u) The Company represents and warrants that the Bonds are not "federally guaranteed" within the meaning of Section 149(b) of the Code.

(v) The Issuer represents and warrants that the Authorized Officer of the Issuer having responsibility for issuing the Bonds is authorized and directed, alone or in conjunction with any other officer, employee, consultant or agent of the Issuer, Company or any officer, employee, consultant or agent of the Company, to give an appropriate Tax Compliance Certificate of the Issuer, for inclusion in the transcript of proceedings for the Bonds, setting forth the reasonable expectations of the Issuer regarding the amount and use of all the Proceeds of the Bonds and the facts, estimates and circumstances on which those expectations are based, such Certificate to be premised on the reasonable expectations and the facts, estimates and circumstances on which those expectations are based and other facts and circumstances relevant to the tax treatment of interest on the Bonds, as provided by the Company, all as of the date of delivery of and payment for the Bonds.

(w) Notwithstanding any provision of this Section 5.03 hereof, if the Company provides to the Issuer and the Trustee an Opinion of Bond Counsel to the effect that any action required under this Section is no longer required, or to the effect that some further action is required, to maintain the exclusions from gross income of the interest on the Bonds pursuant to Section 103(a) of the Code or to prevent interest on the Series 1997B Bonds, or any portion thereof, from becoming an item of tax preference for purposes of the alternative minimum tax imposed on individuals and corporations, the Company, the Issuer and the Trustee may rely conclusively on such opinion in complying with the provisions hereof, and the covenants hereunder shall be deemed to be modified to that extent.

(x) Tax Covenants Survive Termination of the Agreement. All covenants and obligations of the Issuer and the Company contained in this Section 5.03 shall remain in effect and be binding upon the Issuer and the Company until all of the Bonds have been paid, notwithstanding any earlier termination of this Agreement or any provision for payment of principal of and premium, if any, and interest on the outstanding Bonds.

Section 5.04. Annual Reports and Other Current Information. Within one hundred twenty (120) days after the close of each Fiscal Year, the Company shall furnish to the Trustee and the Bend Insurer, copies of audited financial statements of the Company prepared by an Accountant, together with a calculation of the ratios described in Section 5.12(a). The Company shall furnish to the Trustee and the Bond Insurer within one hundred twenty (120) days after the close of each Fiscal Year, a certificate signed by an Authorized Officer stating that the Company hag caused its operations for the year to be reviewed, that he is familiar with this Agreement, and that in the course of that review, the Company is in compliance with Section 5.12 and no default under this Agreement has come to its attention or, if such a default has appeared, a description of the default.

Within ninety (90) days after the close of the first, second and third quarters of its Fiscal Year, the Company shall furnish to the Bond Insurer copies of the quarterly unaudited Financial Statements of the Company, together with the calculations by an Authorized Officer of the Company of the ratios described in Section 5.12(a). In addition, the Company shall from time to time render such reports concerning compliance with this Agreement as the Trustee or the Bond Insurer (in order to ascertain compliance of the Company or the Trustee with this Agreement) may reasonably request.

Within sixty (60) days after the end of each Bond Year, the Trustee, in reliance upon a report of the Rebate Consultant, shall deliver to the Issuer and the County a certificate stating that all necessary actions have been taken as required by this Agreement and the Tax Compliance Certificate in order to ensure that all necessary actions have been taken, including, but not limited to, (a) the required annual arbitrage rebate calculations, (b) the transfer of funds to the Rebate Fund to reserve for the anticipated rebate requirement, and (c) payment of the Rebate Amount, if any, in accordance with Section 148(f) of the Internal Revenue Code of 1986; provided, however, that after delivery of the completion certificate pursuant to Section 3.10, the Company may request the Issuer to permit the Company to have the calculation of the Rebate Amount made on each Computation Date (rather than at the end of each Bond Year).

The Company will deliver to the Trustee, the Issuer and the Bond Insurer within one hundred twenty (120) days after the end of each of the Company's Fiscal Years a certificate executed by an Authorized Officer of the Company stating that:

(1) A review of the activities of the Company during such Fiscal Year and of performance hereunder has been made under such officer's supervision; and

(2) Such officer is familiar with the provisions of this Agreement and the Tax Compliance Certificate, and to the best of such officer's knowledge, based on such review and familiarity, the Company has fulfilled all its obligations hereunder and thereunder throughout such Fiscal Year, and there have been no defaults under thin Agreement or the Tax Compliance Certificate or, if there has been a default in the fulfillment of any such obligation in such Fiscal Year, specifying each such default known to such officer and the nature and status thereof and the actions taken or being taken to correct such default.

Section 5.05. Corporate Reorganization. The Company may cause a portion of its operations to be separately incorporated or otherwise organized or reorganized, but all such operations, whether separately incorporated or not, shall remain bound by this Agreement; provided, however, that prior to effecting any such reorganization, the Company shall deliver to the Issuer, the Trustee and the Bond Insurer, an Opinion of Bond Counsel that such reorganization will not affect the validity of the Bonds or the exclusions from gross income under Section 103 of the Code of interest paid on the Bonds. The Company shall preserve all its rights and licenses to the extent reasonably necessary or desirable in the operation of its business affairs, provided that the Company shall not be obligated hereby to retain or preserve any rights or licenses no longer used or, in the judgment of its Governing Body, reasonably useful in the conduct of its business.

Section 5.06. Right Notice. The Company shall, within 10 Business Days of the occurrence, give notice to the Trustee and the Bond Insurer of any Event of Default or occurrence which, with the passage of time or the giving of notice, may ripen into an Event of Default pursuant to this Agreement.

Section 5.07. Maintenance of Property. The Company shall at all times cause its business to be carried on and conducted in an efficient manner and its Property to be maintained,

preserved and kept in good repair, working order and condition and all necessary and proper repairs, renewals and replacement thereof to be made; provided, however, that nothing in the Agreement shall be construed (i) to prevent it from ceasing to operate any portion of its Property, if in the judgment of the Company, it is advisable not to operate the same for the time being, or if it intends to sell or otherwise dispose of the same as permitted hereunder and within a reasonable time endeavors to effect such sale or other disposition, or (ii) to obligate it to retain, preserve, repair, renew or replace any property, leases, rights, privileges or licenses that are no longer used or, in the judgment of the Company, useful in the conduct of its business or that may be sold, pledged, encumbered or transferred pursuant to this Agreement.

Section 5.08. Compliance With Laws. The Company shall do all things reasonably necessary to conduct its affairs and carry on its business and operations in such manner as to comply with any and all applicable laws of the United States and the several states thereof and duly observe and conform to all valid orders, regulations or requirements of any governmental authority relative to the conduct of its business and the ownership of its Property; provided, nevertheless, that nothing in the Agreement shall require it to comply with, observe and conform to any such law, order, regulation or requirement of any governmental authority so long as the validity thereof shall be contested in good faith.

Section 5.09. Payment of Taxes. The Company shall promptly pay all lawful taxes, governmental charges and assessments at any time levied or assessed upon or against it or any of its Property; provided, however, that it shall have the right to contest in good faith by appropriate proceedings any such taxes, charges or assessments or the collection of any such sums and pending such contest may delay or defer payment thereof, provided that, if by non-payment of any such sums, the security interest of the Trustee in the Collateral will be impaired or any Property of the Company will be subject to imminent material loss or forfeiture, such sum shall be paid immediately.

Section 5.10. Compliance with Covenants. The Company shall at all times comply with all material terms, covenants and provisions contained in any document or Lien at such time existing upon its Property or any part thereof or securing any of its Indebtedness and pay or cause to be paid, or to be renewed, refunded or extended, all of its Indebtedness secured by a Lien, as and when the same become due and payable.

Section 5.11. Licenses and Permits. The Company shall procure and maintain all licenses, permits, approvals, certifications and accreditations issued by any regulatory bodies which are reasonably necessary or desirable for the maintenance of its Property, conduct of its operations and performance of its obligations under the Agreement, including, without limitation, the ACC Order; provided, however, that it need not comply with this section if and to the extent that its Governing Body shall have determined in good faith, evidenced by an Officer's Certificate, that such compliance is not in the best interest of the Company and that lack of such compliance would not materially impair the ability of the Company to pay its Indebtedness when due.

Section 5.12. Financial Covenants.

(a) The Company covenants, unless waived by the Bond Insurer, that:

(1) At the end of each quarter of its Fiscal Year, its Capitalization Ratio shall not exceed sixty-five percent (65%).

(2) For its Fiscal Year ending December 31, 1998, its Debt Service Coverage Ratio shall be at least 1.7, for the Fiscal Year ending December 31, 1999 shall be at least 1.9 and for each Fiscal Year ending December 31, 2000 and thereafter its Debt Service Coverage Ratio shall be at least 2.0.

(b) Company covenants that it shall make no cash distribution to its shareholders during any period when its Capitalization Ratio, as computed for the quarter ended immediately prior to such distribution, exceeds 55%, except with the prior approval of the Bond Insurer.

Section 5.13. Limitations on Incurrence of Additional Indebtedness.

(a) The Company agrees that it shall not incur any Additional Indebtedness without meeting the financial tests set forth in (b) below; provided that, except as otherwise provided in this Agreement, at the time of incurrence thereof no Event of Default (or event which with notice or lapse of time, or both; would constitute an Event of Default) under this Agreement shall have occurred and shall be continuing unless such event will be cured upon incurrence of such Indebtedness and application of the proceeds thereof and the placing in service of any facilities financed thereby; and provided, further, that this requirement concerning no Event of Default shall not apply to Indebtedness incurred with the consent of the Bond Insurer.

(b) Prior to incurrence of any Indebtedness, the Company shall deliver to the Trustee an Officer's Certificate certifying the Debt Service Coverage Ratio and Capitalization Ratio for the Historic Test Period, taking into account the aggregate of (i) the current aggregate Outstanding principal amount of all existing Indebtedness to be Outstanding after the issuance of the proposed Additional Indebtedness and (ii) the proposed Additional Indebtedness, is not less than 2.0 times and 65%, respectively.

For the purpose of computing such Debt Service Coverage Ratio, the amount of Annual Debt Service on the proposed Additional Indebtedness shall be the amount of scheduled principal and interest to be paid thereon from the date of incurrence thereof to the end of the then Fiscal Year. For the purpose of computing Debt Service Coverage Ratio on any Additional Indebtedness to be incurred as Variable Rate Indebtedness, the amount of Annual Debt Service on such Variable Rate Indebtedness shall be deemed to be the average interest rate on such Variable Rate Indebtedness had it been outstanding and calculated during the 12 months prior to its incurrence.

Section 5.14. Sale, Lease or other Disposition of Property.

(a) The Company agrees that it will not, in any Fiscal Year sell, lease or otherwise dispose of Property, Plant and Equipment the Value of which would cause the aggregate Value of Property, Plant and Equipment so transferred in such Fiscal Year to exceed 5% of the total assets of the Company as shown on the financial statements for the Historic Test Period, except for the transfers, sales or leases of Property, Plant and Equipment as set forth in (b) below, provided, however, that the Company shall not sell, lease or otherwise dispose of the Aggregate Project, nor any portion thereof, without obtaining an Opinion of Bond Counsel that such sale, lease or other disposition will not adversely affect the validity of the Bonds or the exclusions from gross income under Section 103 of the Code of interest paid on the Bonds, and provided further that the following transfers, sales or leases as set forth in (b) below shall not be permitted without the prior written consent of the Trustee and the Bond Insurer in any period during which a Default has occurred and is continuing;

(b) In addition to transfers permitted under (a), and provided that for any sale, lease or other disposal of Property under subparagraphs (i) and (iii) below, the Company shall grant for the benefit of the beneficiary under the Mortgage a lien in such Property to be purchased, released or otherwise acquired similar to and in replacement of the lien in the Property to be sold, leased or otherwise disposed of, the Company may sell, lease or otherwise dispose of Property as follows:

(i) in return for other Property of equal or greater value and usefulness;

(ii) to any Person, if prior to such sale, lease or other disposition there is delivered to the Trustee an Officer's Certificate stating that, in the judgment of the signer, such Property has, or within the next succeeding 24 calendar months is reasonably expected to, become inadequate, obsolete, worn out, unsuitable, unprofitable, undesirable or unnecessary and the sale, lease or other disposition thereof will not impair the structural soundness, efficiency or economic value of the remaining Property;

(iii) upon fair and reasonable terms no less favorable to the Company than would obtain in a comparable arm's-length transaction, if following such transfer the proceeds received by the Company are applied to acquire Property or to repay the principal of Indebtedness; or

(iv) are distributions of cash to shareholders permitted under Section 5.12(c) of this Agreement.

Section 5.15. Consolidation, Merger, Sale or Conveyance. The Company may merge or consolidate with any other Person and may sell or convey all or substantially all of its assets to any Person, provided that any merger or consolidation pursuant to which the Company would cease to exist as a separate corporate entity, or any sale or conveyance of all or substantially all of the assets of the Company, shall be subject to an Opinion of Bond Counsel that such merger, consolidation, sale or conveyance will not adversely affect the validity of the Bonds or the exclusions from gross income under Section 103 of the Code of interest paid on the Bonds.

The Company covenants that it will not merge or consolidate with any other Person or sell or convey all or substantially all of its assets unless:

(a) either it will be the continuing corporation, or the successor corporation shall be a corporation organized and existing under the laws of the United States of America or a state thereof and such Person shall expressly assume in writing the due and punctual payment of the principal of and premium, if any, and interest on all Outstanding Bonds and Parity Debt, and the due and punctual performance and observance of all of the covenants and conditions of this Agreement, which document shall be executed and delivered to the Issuer, the Trustee and the Bond Insurer by such Person; and

(b) either it or the successor Person shall not immediately after such merger or consolidation, or such sale or conveyance, have failed to meet any of the covenants or agreements contained in this Agreement which could be an Event of Default in the performance or observance of any such covenant or agreement; and

(c) there shall have been delivered to the Trustee, the Bond Insurer and the Issuer an Opinion of Bond Counsel to the effect that under then existing law the consummation of such merger, consolidation, sale or conveyance would not adversely affect the validity of the Bonds or the exclusions from gross income under Section 103 of the Code of interest paid on the Bonds; and

(d) there is delivered to the Issuer, the Trustee and the Bond Insurer an Officer's Certificate demonstrating that immediately after such consolidation, merger, sale or conveyance, such Person could incur one dollar or more of Indebtedness under Section 5.13, taking into account such consolidation, merger, sale or conveyance;

(e) there is delivered to the Issuer, the Trustee and the Bond Insurer an Opinion of Counsel to the effect that such consolidation, merger, sale or conveyance complies with the requirements of this Agreement, and all conditions precedent have been satisfied, and that such consolidation, merger, sale or conveyance is legal, valid and binding and enforceable, subject to reasonable exceptions for bankruptcy, insolvency and similar laws and the application of equitable principles; and

(f) the Bond Insurer consents, which consent shall not be unreasonably withheld.

Section 5.16. Restrictions on Guaranties.

The Company agrees that it will not enter into, or become liable after the date of this Agreement in respect of, any Guaranty unless such Guaranty could then be incurred as Indebtedness under this Agreement of the type represented by the obligation guaranteed.

Section 5.17. Limitations on Creation of Liens.

(a) The Company agrees that it will not create or suffer to be created or exist any Lien upon Collateral, now owned or hereafter acquired by it other than Permitted Encumbrances.

(b) Permitted Encumbrances shall consist of the following:

(i) Liens arising by reason of good faith deposits with the Company in connection with leases of real estate, bids or contracts (other than contracts for the payment of money), deposits by the Company to secure public or statutory obligations, or to secure, or in lieu of, surety, stay or appeal bonds, and deposits as security for the payment of taxes or assessments or other similar charges;

(ii) Any lien arising by reason of deposits with, or the giving of any form of security to, any governmental agency or any body created or approved by law or governmental regulation for any purpose at any time as required by law or governmental regulation as a condition to the transaction of any business or the exercise of any privilege or license, or to enable the Company to maintain self-insurance or to participate in any funds established to cover any insurance risks or in connection with worker's compensation, unemployment insurance, pension or profit sharing plans or other social security, or to share in the privileges or benefits required for companies participating in such arrangements;

(iii) Any judgment lien against the Company so long as such judgment is being contested and execution thereon is stayed or, in the absence of such contest and stay, such judgment lien will not materially impair the Property or subject the Property to material loss or forfeiture;

(iv) (A) Rights reserved to or vested in any municipality or public authority by the terms of any right, power, franchise, grant, license, permit or provision of law, affecting any Property to (1) terminate such right, power, franchise, grant, license or permit, provided that the reasonable exercise of such right as a result of a default by the Company thereunder has not or would not materially altered or alter the use of such Property or materially and adversely affected or affect the value thereof, or (2) purchase, condemn, appropriate or recapture, or designate a purchaser of, such Property; (B) any liens on any Property for taxes, assessments, levies, fees, sewer charges, and other governmental and similar charges and any liens of mechanics, materialmen, laborers, suppliers or vendors for work or services performed or materials furnished in connection with such Property which are not due and payable or which are not delinquent or the amount or validity of which are being contested and execution thereon is stayed (or with respect to liens of mechanics, materialmen and laborers, have been due for less than 60 days) or the existence of which will not subject the Property to material loss or forfeiture; (C) easements, rights-of-way, servitudes, restrictions and other minor defects, encumbrances, and irregularities in the title to any Property which do not materially impair the use of such Property or materially and adversely affect the value thereof; (D)

rights reserved to or vested in any municipality or public authority to control or regulate any Property or to use such Property in any manner, the reasonable exercise of which rights as a result of a default by the Company thereunder have not or would not materially impaired or impair the use of such Property or materially and adversely affected or affect the value thereof; and (E) to the extent that it affects title to the Property, this Agreement;

(v) The Mortgage or Existing Liens on Property described in Schedule A hereto which are existing on the date of authentication and delivery of the Bonds, including renewals thereof, provided that no such Existing Lien may be extended or modified to apply to any Property of the Company not subject to such Existing Lien on such date, unless such Existing Lien as so extended or modified otherwise qualifies as a Permitted Encumbrance hereunder;

(vi) Any lease of Property which, in the judgment of the Company, is reasonably necessary or appropriate for or incidental to the use of such Property, taking into account the nature and terms of the lease and the nature and purposes of the Property;

(vii) any Lien in favor of a trustee or other representative of the creditor on the proceeds of Indebtedness deposited with such representative (including earnings thereon) prior to the application of such proceeds;

(viii) any Lien on Collateral securing all Parity Debt incurred in accordance with Section 5.13 on a parity (subject to any intervening Liens);

(ix) any lease, sale or similar agreement entered into in connection with the issuance of and providing for or securing the payment of Parity Debt; and

(x) Any Lien arising by reason of deposit in trust of cash (or securities permitted for such purpose pursuant to the terms of the documents governing the payment of or discharge of Indebtedness) in an amount the principal of, premium, if any, and interest on which will be sufficient to pay, without reinvestment, all or a portion of the principal of, premium, if any, and interest on, as the same shall become due (at maturity or earlier redemption), any Indebtedness which would otherwise be considered Outstanding.

Section 5.18. Insurance. The Company agrees that it will maintain, or cause to be maintained, insurance (including one or more self-insurance or captive insurance company programs) covering such risks of an insurable nature and of the character usually insured by persons with property and operations similar to the Property and operations of the Company. Insurance in effect on the date hereof shall be subject to the review and approval by the Bond Insurer. The insurance required to be maintained pursuant hereto shall be subject to the review of an insurance Consultant within 120 days after December 31, 1998 and the completion of every second Fiscal Year thereafter. Insurance shall be provided by carriers rated "A" or better by S&P or, if not rated by S&P, then rated at least "A" by Moody's.

The Company may self-insure if:

(1) The self-insurance program has been reviewed by an Insurance Consultant;

(2) The self-insurance program includes an actuarially sound claims reserve fund out of which each self-insured claim shall be paid; the adequacy of such fund shall be evaluated on an annual basis by an Insurance Consultant; and any deficiencies in any self-insured claims reserve fund will be remedied in accordance with the recommendation of the Insurance Consultant;

(3) The self-insured claims reserve fund shall be held in the United States of America in a separate trust fund by an independent corporate trustee; and

(4) In the event the self-insurance program shall be discontinued, the actuarial soundness of its claims reserve fund, as determined by an Insurance Consultant, shall be maintained.

The Company agrees that it shall not self-insure (except for deductibles determined not unreasonable by the Insurance Consultant) any Property, Plant and Equipment other than that of the Company.

The Company covenants that any self-insurance trust funds established by it with respect to comprehensive general liability insurance shall be subject to review by an Insurance Consultant on an annual basis, and that the Consultant's report thereon shall be delivered to the Trustee as soon as is practicable.

Section 5.19. Compliance with Laws an Regulations.

(a) The Company has, after reasonable inquiry, no knowledge and has not given or received any written notice indicating that its Property, or the past or present use thereof or any practice, procedure or policy employed by it in the conduct of its business materially violates any applicable law, regulation, code, order, rule, judgment or consent agreement, including, without limitation, those relating to the ACC Order, zoning, building, use and occupancy, fire safety, health, sanitation, air pollution, hazardous or toxic materials, substances or wastes, parking, architectural barriers to the handicapped, or restrictive covenants or other agreements affecting title to the Property (collectively, "Laws and Regulations"). Without limiting the generality of the foregoing, neither the Company nor to the best of its knowledge, after reasonable inquiry, any prior or present owner, tenant or subtenant of any of the Property has, other than as set forth in subsections (a) and (b) of this Section or as may have been remediated in accordance with Laws and Regulations, (i) used, treated, stored, transported or disposed of any material amount of flammable explosives, polychlorinated biphenyl compounds, heavy metals, chlorinated solvents, cyanide, radon, petroleum products, methane, radioactive materials, pollutants, hazardous materials, hazardous wastes, hazardous, toxic, or regulated substances or related materials, as defined in CERCLA, RCRA, CWA, CAA, TSCA AND Title III, and the regulations promulgated pursuant thereto, and in all other Environmental Regulations applicable to the Company, any of the Property or the business operations conducted by the Company

thereon (collectively, "Hazardous Materials") on, from or beneath any of the Property, (ii) pumped, spilled, leaked, disposed of, emptied, discharged or released (hereinafter collectively referred to as "Release") any material amount of Hazardous Materials on, from or beneath any of the Property, or (iii) stored any material amount of petroleum products at its Property in underground storage tanks.

(b) Excluded from the representations and warranties in subsection (a) hereof with respect to Hazardous Materials are those Hazardous Materials in those amounts ordinarily found in the inventory of or used in the maintenance of a water furnishing company, the use, treatment, storage, transportation and disposal of which has been and shall be in compliance with all Laws and Regulations.

(c) The Company has not received any notice from any insurance company which has issued a policy with respect to any of the Property or from the applicable state or local government agency responsible for insurance standards (or any other body exercising similar functions) requiring the performance of any repairs, alterations or other work, which repairs, alterations or other work have not been completed on any of the Property. Notwithstanding the foregoing, the Company acknowledges that it has undertaken, at the request of the Fountain Hills Fire District, to study (i) alternative means of storing chlorine gas used in connection with its operations, and (ii) alternative means of conducting such operations in order to discontinue the use of chlorine gas. The Company has not received any notice of default or breach which has not been cured under any covenant, condition, restriction, right-of-way, reciprocal easement agreement or other easement affecting its Property which is to be performed or complied with by it.

Section 5.20. Environmental Compliance.

(a) The Company shall not use or permit any of the Property or any part thereof to be used to generate, manufacture, refine, treat, store, handle, transport or dispose of, transfer, produce or process Hazardous Materials, except, and only to the extent, if necessary to maintain the improvements on any of the Property and then, only in compliance with all Environmental Regulations, and any state equivalent laws and regulations, nor shall it permit, as a result of any intentional or unintentional act or omission on its part or by any tenant, subtenant, licensee, contractor, employee and agent, the storage, transportation, disposal or use of Hazardous Materials or the Release or threat of Release of Hazardous Materials on, from or beneath any of the Property or onto any other property excluding, however, those Hazardous Materials in those amounts ordinarily found in the inventory of or used in the maintenance of water furnishing facilities. Upon the occurrence of any Release or threat of Release of Hazardous Materials, the Company shall promptly commence and perform, or cause to be commenced and performed promptly, without cost to the Issuer, all investigations, studies, sampling and testing, and all reasonable remedial, removal and other actions necessary to properly address all Hazardous Materials so released, on, from or beneath any of the Property or other property, in compliance with all Environmental Regulations. Notwithstanding anything to the contrary contained herein, underground storage tanks shall only be permitted subject to compliance with subsection (d) and only to the extent necessary to maintain the improvements on any of the Property.

(b) The Company shall comply with, and shall cause its tenants, subtenants, licensees, contractors, employees and agents to comply with, all Environmental Regulations, and shall keep all of the Property free and clear of any Liens imposed pursuant thereto (provided, however, that any such Liens, if not discharged, may be bonded). The Company shall cause each tenant under any lease, and use its best efforts to cause all of such tenant's subtenants, agents, licensees, employees and contractors to comply with all Environmental Regulations with respect to the Property; provided, however, that notwithstanding that a portion of this covenant is limited to the Company's use of its best efforts, the Company shall remain solely responsible for ensuring such compliance and such limitation shall not diminish or affect in any way the Company's obligations contained in subsection (c) hereof as provided in subsection (c) hereof. Upon receipt of any notice from any Person with regard to the Release of Hazardous Materials on, from or beneath any of the Property, the Company shall give written notice thereof within a reasonable time to the Trustee and the Bond Insurer.

(c) The Company shall defend, indemnify and hold harmless each Indemnified Party, the Bondholders and the Bond Insurer, its partners, depositors and each of its and their employees, agents, officer, directors, trustees, successors and assigns, for, from and against any claim, demands, penalties, fines, reasonable attorneys' fees (including, without limitation, attorneys' fees incurred to enforce the indemnification contained in this Section 5.20, consultants' fees, investigation and laboratory fees, liabilities, reasonable settlements, after the Company's failure to defend (five (5) Business Days' prior notice of which the Indemnified Party or the Bond Insurer, as appropriate, shall have delivered to the Company), court costs, damages, losses, costs or expenses of whatever kind or nature, known or unknown, contingent or otherwise, occurring in whole or in part, arising out of, or in any way related to: (i) the presence, disposal, Release, threat of Release, removal, discharge, storage or transportation of any Hazardous Materials on, from or beneath any of the Property, (ii) any personal injury (including wrongful death) or property damage (real or personal) arising out of or related to such Hazardous Materials, (iii) any lawsuit brought or threatened, reasonable settlement reached, after the Company's failure to defend (five (5) Business Days' prior notice of which the Indemnified Party or the Bond Insurer, as appropriate, shall be delivered to the Company), or governmental order relating to Hazardous Materials on, from or beneath any of the Property, (iv) any violation of Environmental Regulations or subsection (a) or (b), or (e) hereof by it or any of its agents, tenants, employees, contractors, licensees or subtenants, and (v) the imposition of any governmental Lien for the recovery of environmental cleanup or removal costs. To the extent that the Company is strictly liable under any Environmental Regulation, its obligation to the Indemnified Party, Bondholders and the Bond Insurer and the other indemnitees under the foregoing indemnification shall likewise be without regard to fault on its part with respect to the violation of any Environmental Regulation which results in liability to any indemnitee. Its obligations and liabilities under this Section 5.20(c) shall survive any foreclosure of the security interest in the Property or the delivery of any instrument in lieu of foreclosure, and the satisfaction of all Parity Bonds.

(d) The Company shall conform to and carry out a reasonable program of maintenance and inspection of all underground storage tanks, and shall maintain, repair, and replace such tanks only in accordance with Laws and Regulations, including but not limited to Environmental Regulations.

Notwithstanding the foregoing, no indemnification herein shall extend to the negligent action, or failure to act, or willful misconduct by the Indemnified Party, the Bondholders or the Bond Insurer.

Section 5.21. Survival of Representations. All representations of the parties hereto contained herein or in any certificate or other instrument delivered pursuant hereto or in connection with the transactions contemplated hereby, shall survive the execution and delivery hereof and the issuance, sale, and delivery of the Bonds as representations of facts existing as of the date of execution and delivery of the instrument containing such representation.

(End of Article V)

ARTICLE VI

DEFAULT AND REMEDIES

The provisions of this Article VI are subject to the provisions of Section 6.11.

Section 6.01. Default by the Company.

(a) Events of Default; Default. "Event of Default" in this Agreement means any one of the events set forth below and "Default" means any event that with the lapse of time or the giving of notice, or both, would be an Event of Default:

(i) Debt Service on Bonds. Any principal (including sinking fund installments) of, premium, if any, or interest on any Bond shall not be paid when due, whether at maturity, by acceleration, upon redemption or otherwise. In determining whether debt service payments have been paid for purposes of an Event of Default under this subparagraph (i), no payment from the Bond Insurer shall be taken into account.

(ii) Payments of Debt Service by the Company. The Company shall fail to make any payment required of it under subsections 3.12(a)(i) and (iii) when the same becomes due and payable.

(iii) Rebate Payments. Any amounts owed to the United States pursuant to Section 3.05 shall not be paid when due.

(iv) Parity Debt Defaults. An event of default shall occur with respect to any agreement securing Parity Debt and continue beyond any applicable grace period.

(v) Certain Violation. The Company shall make any distribution to shareholders in violation of Section 5.12(b) hereof.

(vi) Other Obligations. The Company shall fail to make any other required payment to the Trustee, Bond Insurer or the Issuer under this Agreement, and such

failure is not remedied within twenty (20) days after written notice thereof is given by the Issuer, the Bond Insurer or the Trustee to the Company; or the Company shall fail to observe or perform any of its other agreements, covenants or obligations under this Agreement or any Related Bond Document and such failure is not remedied within sixty (60) days after written notice thereof is given by the Issuer, the Bond Insurer or the Trustee to the Company, unless the breach is not curable within sixty (60) days and the Company notifies the Issuer, the Bond Insurer and the Trustee within such sixty (60) days that it is proceeding diligently in its efforts to cure said breach, in which event it shall be an Event of Default if said breach is not cured within ninety (90) days after such notice is given by the Company to the Issuer, the Bond Insurer and the Trustee.

(vii) Warranties. There shall be a material breach of warranty made herein by the Company as of the date it was intended to be effective and the breach is not cured within sixty (60) days after written notice thereof is given by the Issuer, the Bond Insurer or the Trustee to the Company, unless the breach is not curable within sixty (60) days and the Company notifies the Issuer, the Bond Insurer and the Trustee within such sixty (60) days that it is proceeding diligently in its efforts to cure said breach, in which event it shall be an Event of Default if said breach is not cured within ninety (90) days after such notice is given by the Company to the Issuer, the Bond Insurer and the Trustee.

(viii) Bankruptcy. An Event of Bankruptcy shall occur, provided that, in the event of a filing of an involuntary case in bankruptcy under the United States Bankruptcy Code or the commencement of a proceeding under any other applicable law concerning bankruptcy, insolvency or reorganization against the Company, such event shall not be an Event of Default unless such petition or proceeding remains undismissed for a period of ninety (90) days.

(ix) Breach of Other Agreements. A breach shall occur (and continue beyond any applicable grace period) with respect to the performance of any agreement securing Additional Indebtedness or other Indebtedness of the Company with an outstanding principal amount of at least equal to twenty percent (20%) of total operating revenues for the Historic Test Period or pursuant to which the same was issued or incurred, so that a holder or holders of such Indebtedness or a trustee or trustees under any such agreement accelerates such Indebtedness; but an Event of Default shall not be deemed to be in existence or to be continuing under this clause (ix) if (A) the Company is in good faith contesting the existence of such breach or event and if such acceleration is being stayed by judicial proceedings, (B) the power of acceleration is not exercised and the power of acceleration ceases to be in effect, or (C) such breach or event is remedied and the acceleration, if any, is wholly annulled. The Company shall notify the Issuer, the Bond Insurer and the Trustee of any such breach or event immediately upon the Company becoming aware of its occurrence and shall from time to time furnish such information as the Issuer, the Bond Insurer or the Trustee may reasonably request for the purpose of determining whether a breach or event described in this clause (ix) has occurred and whether such power of acceleration has been exercised or continues to be in effect.

(b) Waiver. If the Trustee determines that an Event of Default has been cured before the entry of any final judgment or decree with respect to it, the Trustee, with written consent of the Bond Insurer, shall, subject to Section 6.02(b), waive the Event of Default and its consequences, including any acceleration, by written notice to the Company.

(c) Notice. Under the circumstances set forth in Section 7.01(g), the Trustee shall give prompt written notice of all Events of Default to the Bond Insurer. The Trustee shall give written notice by first class mail to the Company and the Holders of Parity Debt, of all Events of Default known to the Trustee, unless such Events of Default have been cured within 30 days after the occurrence thereof. Such notices shall be mailed no later than 60 days following notice thereof to the Trustee of any such Event of Default.

Section 6.02. Remedies Upon Events of Default.

(a) Acceleration. If an Event of Default occurs and is continuing, the Trustee may, with the consent of Ambac Assurance, and shall, at the direction of Ambac Assurance or 25% of the Bondholders with the consent of Ambac Assurance, by written notice to the Issuer, the Company and Ambac Assurance, declare the principal of the Bonds to be immediately due and payable, whereupon that portion of the principal of the Bonds thereby coming due and the interest thereon accrued to the date of payment shall, without further action, become and be immediately due and payable, anything in this Agreement or in the Bonds to the contrary notwithstanding.

Such acceleration shall be automatic upon the occurrence of the Event of Default described in paragraph (vii) of subsection 6.01(a).

If an Event of Default occurs and is continuing, the Trustee shall accelerate the Bonds for payment (if not previously accelerated as provided herein) on a date not less than 10 days after the Trustee's receipt of money from the Bond Insurer upon the written direction of the Bond Insurer and the concurrent deposit by the Bond Insurer with the Trustee of sufficient money to pay all principal and interest due and payable upon such acceleration.

The Trustee shall give or cause to be given notice of acceleration of the Bonds by first-class mail to the Bondholders and of such date for payment upon acceleration, at least 8 days before such date for payment. The Trustee shall not be required to make payment to the Owner of any Bond until such Bond shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

(b) Annulment of Acceleration. At any time after the principal of the Parity Debt shall have been so declared to be due and payable and before the entry of final judgment or decree on any suit, action or proceeding instituted on account of such default, if (i) the Company has paid or caused to be paid or deposited with the Trustee (or with respect to Additional Parity Indebtedness, the representative of the holder thereof), moneys sufficient to pay all matured installments of interest and interest on unpaid installments of interest and principal and interest and principal or redemption prices then due (other than the principal then due only because of such declaration) of all Parity Debt Outstanding; (ii) the Company has paid or caused to be paid

or deposited with the Trustee moneys sufficient to pay the charges, compensation, expenses, disbursements, advances and liabilities of the Trustee and any paying agents in connection therewith; (iii) all other amounts then payable by the Company hereunder and under any Supplemental Agreement shall have been paid or a sum sufficient to pay the same shall have been deposited with the Trustee or other representative of the holders of Additional Parity Indebtedness; and (iv) every Event of Default (other than a default in the payment of the principal of such Parity Indebtedness then due only because of such declaration) shall have been remedied, then the Trustee shall annul such declaration and its consequences with respect to any Parity Debt or portions thereof not then due by its terms. No such annulment shall extend to or affect any subsequent Event of Default or impair any right consequent thereon.

(c) Court Proceedings; Mortgage. Upon the occurrence and continuance of any Event of Default, the Trustee may, and upon the written request of the Holders of not less than 25% in aggregate principal amount of the Parity Debt Outstanding, together with indemnification of the Trustee to its satisfaction therefor, shall proceed forthwith to protect and enforce its rights and the rights of such Holders by such suits, actions or proceedings as the Trustee, being advised by counsel, shall deem expedient, including but not limited to:

(i) enforcement of the right of the Holders to collect and enforce the payment of amounts due or becoming due under the Parity Debt;

(ii) suit upon all or any part of the Parity Debt;

(iii) civil action to enjoin any acts or things, which may be unlawful or in violation of the rights of the Holders of Parity Debt; and

(iv) enforcement of any other right of the Holders of Parity Debt conferred by law or hereby.

Upon occurrence of any Event of Default as defined in the Mortgage, the Trustee may, and upon written request of holders of not less than 25% in aggregate principal amount of the Parity Debt, together with indemnification of the Trustee to its reasonable satisfaction therefor, shall proceed to exercise such remedies under the Mortgage as directed by such holders or, in the absence of such direction, as the Trustee, being advised by counsel, shall deem expedient.

Notwithstanding anything else herein to the contrary, the Trustee shall have no obligation to institute or conduct any proceedings to realize on the Mortgage, to take any action regarding any activity or condition on the Mortgaged Property, or to exercise any remedy provided for or described herein or in the Mortgage upon the occurrence of any Event of Default if the Trustee, after investigation, reasonably determines that to do so may expose the Trustee to the risk of liability under any federal, state or local law, regulation or requirement now or hereafter in effect relating to human health or safety, or the protection of the environment. Such investigation shall constitute no active participation in any activity or condition on the Mortgaged Property. Failure to exercise any remedy provided for or described herein shall not waive the authority of the Trustee to exercise such remedy in its discretion at a later time.

(d) Payment of Parity Debt on Default. The Company covenants that in case any Event of Default under Section 6.01(a)(i), (ii), (iii), (iv) or (v) shall occur, upon demand of the Trustee, it will pay to the Trustee, for the benefit of the holders of the Parity Debt, the whole amount that then shall have become due and payable on all such Parity Debt for principal or interest, or both, as the case may be, with interest upon the overdue principal and installments of interest (to the extent permitted by law) at the rate of interest provided in the applicable Parity Debt; and, in addition thereto, such further amount (to the extent permitted by law) as shall be sufficient to cover the costs and expenses of collection, including a reasonable compensation to the Trustee, its agents, attorneys and counsel, and any expenses incurred by the Trustee other than as a result of its negligence or bad faith.

Section 6.03. Application of Moneys after Default. Proceeds from the exercise of the rights and remedies of the Trustee under subsection 6.02(c) and (d) with respect to any Collateral, after payment or reimbursement of the reasonable fees and expenses of the Trustee and the Issuer in connection therewith, including reasonable attorneys fees, shall be applied (without consideration of application of Debt Service Reserve Fund for payment of the Bonds and any other security for a particular series of Parity Debt) as follows:

(a) Subject to (d) below, unless the principal of all Outstanding Parity Debt and any holders of Permitted Encumbrances which by their terms are on a parity with the holders of Parity Debt (collectively "Permitted Parity Obligations") shall have become or have been declared due and payable:

First: To the payment to the persons entitled thereto of all installments of interest then due on Permitted Parity Obligations in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon to the persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the persons entitled thereto of the unpaid principal installments of any Permitted Parity Obligations which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, and if the amounts available shall not be sufficient to pay in full all Permitted Parity Obligations due on any date, then to the payment thereof ratably, according to the amounts of principal installments due on such date, to the persons entitled thereto, without any discrimination or preference.

(b) Subject to (d) below, if the principal of all Outstanding Permitted Parity Obligations shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon Permitted Parity Obligations without preference or priority of principal over interest or of interest over principal, or of any installment of interest, or of any Permitted Parity Obligations over any other Permitted Parity Obligations, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference.

(c) If the principal of all Outstanding Permitted Parity Obligations shall have been declared due and payable, and if such declaration shall thereafter have been rescinded and annulled under the provisions of this Article, then, subject to the provisions of paragraph (b) of this Section in the event that the principal of all Outstanding Permitted Parity Obligations shall later become due or be declared due and payable, the moneys shall be applied in accordance with the provisions of paragraph (a) of this Section.

(d) Notwithstanding the provisions of Section 6.03(a) and (b) above, the payment of the Permitted Parity Obligations is subject, as provided in this subsection (d), to the rights of holders of Liens on the Collateral that are prior to the Liens of the Permitted Parity Obligations. If the Trustee reasonably believes that prior Liens exist (without regard to whether such, prior Liens constitute Permitted Encumbrances), the Trustee may withhold payments until the relative rights of the claimants are determined. If the rights to Collateral of holders of Liens that do not constitute Permitted Encumbrances intervene in priority between the Liens and rights of the holders of the Permitted Parity Obligations granted under this Agreement or the documents creating the Collateral, then the Trustee shall itself or shall employ an accountant to perform the following calculations (and upon which the Trustee may conclusively rely): (i) calculate the ratio (the "Distribution Ratio") of (I) the aggregate amount payable on the Permitted Parity Obligations in accordance with (a) or (b) above, as applicable, to (II) the proceeds then available for distribution with respect to the Permitted Parity Obligations and the amount available for distribution (by the Trustee or otherwise) to the holders of intervening prior Liens known to the Trustee; and (ii) distribute such proceeds as follows; (A) first, the Holders of the Permitted Parity Obligations whose Lien or right to Collateral is superior to the intervening Liens shall be paid a sum determined by multiplying the amount calculated in accordance with Section 6.03(a) or (b), as applicable, times the Distribution Ratio; (B) second, the Holders of the Permitted Parity Obligations whose Liens or rights are inferior to intervening prior Liens shall be paid the difference between the sum determined by multiplying the amount calculated in accordance with Section 6.03(a) or (b), as applicable, times the Distribution Ratio, less the amount payable to holders of intervening prior Liens subject to any order of a court enters against the Trustee.

If the intervening Lien constitutes a Permitted Encumbrance that pursuant to Section 5.17 may be prior to rights of Holders of all Parity Debt, then the Trustee shall distribute such proceeds as follows: (A) first, the Trustee shall calculate the Distribution Ratio using only the aggregate proceeds available for distribution to the holders of Parity Debt, and (B) second, the Holders of all Parity Debt shall be paid an amount equal to the aggregate proceeds available to Holders of Parity Debt and, multiplied by the Distribution Ratio calculated in accordance with (A).

To illustrate the application of (d), assume the following: $15 million Bonds outstanding, $10 million Additional Parity Debt issued after the Bonds, $1 million of Liens that are prior to such Additional Parity Debt and that do not constitute Permitted Encumbrances, $20 million proceeds available for distribution and the Parity Debt has been accelerated. Under these assumptions, the Distribution Ratio (ignoring any interest payable) is 80% (20 (divided by) 25). Distribution of $20 million proceeds would be as follows: (1) the holder of the Bonds would share $12 million ($15m x 80%); (2) holders of intervening Lien prior to Additional Parity Debt

would get $1m; and (3) holders of Additional Parity Debt would get $7m (($10m x 80%) - $1m).

If, however, the $1 million intervening Lien constituted a Permitted Encumbrance that may be prior to rights of holders of Parity Debt, then the holder of the intervening Permitted Encumbrance would receive $1 million (so long as such proceeds were derived from Property subject to such prior Permitted Encumbrances), and the Distribution Ratio would be calculated with respect to the remaining proceeds of $19 million. Ignoring any interest payable, the Distribution Ratio would then be 76% (19 (divided by) 25). Distribution of the $19 million remaining proceeds would then be as follows: (1) the holder of Bonds would share the $11.4 million ($15m x 76%); and (2) holders of Additional Parity Debt would share the $7.6 million ($10m x 76%).

Whenever moneys are to be applied pursuant to this Section, the Trustee shall fix the date (which shall be the first of a month unless the Trustee shall deem another date more suitable) upon which such application is to be made, and upon such date interest on the amounts of principal paid on such date shall cease to accrue. The Trustee shall give or cause to be given notice of such payment, by fast-class mail, to the holders of Parity Debt at least 8 days before such date. The Trustee shall not be required to make payment to the Owner of any Bond until such Bond shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid. Any surplus thereof shall be paid to the Company as directed by an Officer's Certificate.

Section 6.04. Remedies Cumulative. The rights and remedies under this Agreement shall be cumulative and shall not exclude any other rights and remedies allowed by law, provided there is no duplication of recovery. The failure to insist upon a strict performance of any of the obligations of the Company or of the Issuer or to exercise any remedy for any violation thereof shall not be taken as a waiver for the future of the right to insist upon strict performance or of the right to exercise any remedy for the violation.

Section 6.05. Performance of the Company's Obligations. If the Company shall fail to pay or perform any obligation under this Agreement, the Trustee may pay or perform such obligation in its own name or in the Company's name and is hereby irrevocably appointed the Company's attorney-in-fact for such purpose. Unless an Event of Default exists, the Trustee shall give at least five (5) Business Days' notice to the Company before taking action under this Section, except that in the case of emergency as reasonably determined by the Trustee or the Holders of at least a majority in principal amount of the Outstanding Bonds, it may act on lesser notice or give the notice promptly after rather than before taking the action. The reasonable cost of any such action by the Trustee shall be paid or reimbursed by the Company with interest at the interest rate publicly announced by the Trustee as its prime rate.

Section 6.06. Holders' Control of Proceedings. If an Event of Default shall have occurred and be continuing, notwithstanding anything herein to the contrary, the Holders of at least 25% in aggregate principal amount of Parity Debt shall, with the consent of the Bond Insurer, have the tight, at any time, by an instrument in writing executed and delivered to the Trustee, to direct the time, method and place of conducting any proceeding to be taken in

connection with the enforcement of the terms and conditions hereof or, to the extent permitted by law, for the appointment of a receiver or any other proceedings hereunder, provided that such direction is not in conflict with any applicable law or the provisions hereof (including indemnity to the Trustee as provided herein) and provided further that nothing in this Section shall impair the right of the Trustee in its discretion to take any other action hereunder which it may deem proper and which is not inconsistent with such direction by Holders of the Parity Debt.

Section 6.07. Remedies Subject to Provision of Law. All rights, remedies and powers provided by this Article may be exercised only to the extent that the exercise thereof does not violate any applicable provision of law, and all of the provisions of this Article are intended to be subject to all applicable mandatory provisions of law which may be controlling and to be limited to the extent necessary so that they will not render this instrument or the provisions hereof invalid or unenforceable under the provisions of any applicable law.

Section 6.08. Limitation on Suits by Holders. No Holder of any Outstanding Parity Debt has any right to institute any proceeding, judicial or otherwise, with respect to this Agreement, or, to the extent permitted by law, for the appointment of a receiver or trustee, or for any other remedy hereunder unless all of the following conditions are satisfied:

(a) such Holder has previously given written notice to the Trustee of a continuing Event of Default;

(b) the Holders of not less than 25% in aggregate principal amount of Outstanding Parity Debt shall have made written request to the Trustee to institute proceedings in respect of such Event of Default is its own name as Trustee hereunder;

(c) such Holder or Holders have offered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request;

(d) the Trustee for 60 days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceeding; and

(e) no direction inconsistent with such written request has been given to the Trustee during such 60-day period by the Holders of a majority in aggregate principal amount of the Outstanding Parity Debt.

It being understood and intended that no one or more Holders of Outstanding Parity Debt shall have any right in any manner whatever by virtue of, or by availing of, any provision of this Agreement to affect, disturb or prejudice the rights of any other such Holders of Outstanding Parity Debt, or to obtain or to seek to obtain priority or preference over any other such Holders or to enforce any right under this Agreement, except in the manner herein provided and for the equal and ratable benefit of all the Holders of Outstanding Parity Debt.

Notwithstanding any other provisions in this Agreement, including Section 6.11, the right of a holder of any Parity Debt to receive payment of the principal of and interest on such Parity Debt, on or after the respective due dates expressed is such Parity Debt, or to institute suit for

the enforcement of any such payment on or after such respective dates, shall not be impaired or affected without the consent of such holder.

Section 6.09. Waiver of Certain Defenses. The Company hereby waives, to the extent permitted by law, any right to claim that any payment made pursuant to this Agreement is a "fraudulent conveyance" or "fraudulent transfer" pursuant to the fraudulent conveyance provisions of State law or that any such payment is a "voidable preference" or a "fraudulent transfer" under the Federal Bankruptcy Code.

Section 6.10. Opportunity to Cure. Any other provision of this Agreement notwithstanding, no event described in subsections (a)(iv), (v), (vi), (vii) and (viii) of Section 6.01 hereof shall constitute an Event of Default until the following conditions shall have been satisfied:

(a) All notices required under Section 6.01 shall have been given to the Company;

(b) The Company shall not have cured such default within the required cure period; and

(c) As to the events described in subsections (a)(vii) and (viii) of Section 6.01, the Company shall have failed to deposit with the Trustee within fifteen days of the Company's receipt of the required written notice, the amount sufficient to pay the amount then owed with respect to such Indebtedness or judgment, writ or warrant.

If the Company shall take the actions described in subsections (b) and (c) of this Section 6.10 within the period required, then the default shall be deemed to have been cured and no Event of Default shall result therefrom.

Section 6.11. Right of Bond Insurer Upon an Event of Default. Subject to Section 10.01, but otherwise notwithstanding anything in this Agreement to the contrary, upon the occurrence and continuance of an Event of Default, Ambac Assurance shall be entitled to control and direct the enforcement of all rights and remedies granted to the Bondholders or the Trustee for the benefit of the Bondholders under this Agreement, including, without limitation: (i) the right to accelerate the principal of the Bonds as described in Section 6.02(a) of this Agreement, and (ii) the right to annul any declaration of acceleration in accordance with Section 6.02(b) hereof, and Ambac Assurance shall also be entitled to approve all waivers of Events of Default.

(End of Article VI)

ARTICLE VII

THE TRUSTEE

Section 7.01. Rights and Duties of the Trustee.

(a) Moneys to be Held in Trust. All moneys received by the Trustee under this Agreement shall be held by the Trustee in trust and applied subject to the provisions of this Agreement.

(b) Accounts. The Trustee shall keep proper accounts of its transactions hereunder (separate from its other accounts), which shall be open to inspection by the Issuer and the Company and their representatives duly authorized in writing and shall provide monthly reports of such transactions to the Company.

(c) Certain Dues and Responsibilities.

(1) Except during the continuance of an Event of Default:

(i) the Trustee undertakes to perform such duties and only such duties as are specifically set forth in this Agreement, and no implied covenants or obligations shall be read into this Agreement against the Trustee; and

(ii) in the absence of bad faith on its part, the Trustee may conclusively rely as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Trustee and conforming to the requirements of this Agreement; but in the case of any such certificates or opinions which by any provisions hereof are specifically required to be furnished to the Trustee, the Trustee shall be under a duty to examine the same to determine whether or not they conform to the requirements of this Agreement.

(2) In case an Event of Default has occurred and is continuing, the Trustee shall exercise such of the rights and powers vested in it by this Agreement, and use the same degree of care and skill in their exercise, as a prudent corporate trustee would exercise or use under similar circumstances.

(3) No provision of this Agreement shall be construed to relieve the Trustee from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct or breach of trust, except that;

(i) this subsection shall not be construed to limit the effect of subsection (1) of this Section;

(ii) the Trustee shall not be liable for any error of judgment made in good faith by a chairman or vice chairman of the board of directors, the chairman or vice chairman of the executive committee of the board of directors, the president, any vice

president, the secretary, any assistant secretary, the treasurer, any assistant treasurer, the cashier, any assistant cashier, any trust officer or assistant trust officer, the controller and any assistant controller or any other officer of the Trustee customarily performing functions similar to those performed by any of the above designated officers or with respect to a particular matter, any other officer to whom such matter is referred because of his knowledge of and familiarity with the particular subject, unless it shall be proved that the Trustee was negligent or acted in bad faith or with gross misconduct;

(iii) the Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders of the majority in principal amount of the Outstanding Parity Debt or in connection with an action only relating to Bonds and/or Parity Bonds at the direction of the Holders of a majority thereof, relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, under this Agreement; and

(iv) except for sending notices under Section 6.01(c) and taking actions under Section 10.02, no provision of this Agreement shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

(4) Whether or not therein expressly so provided, every provision of this Agreement relating to the conduct or affecting the liability of or affording protection to the Trustee shall be subject to the provisions of this Section.

(d) Certain Rights of Trustee. Subject to (c) above:

(1) The Trustee may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, obligation, note or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties.

(2) Any request or direction of the Company mentioned herein shall be sufficiently evidenced by an Officer's Certificate and any action of the Governing Body may be sufficiently evidenced by a copy of a resolution certified by the secretary or an assistant secretary of the Company to have been duly adopted by the Governing Body and to be in full force and effect on the date of such certification and delivered to the Trustee.

(3) Whenever, in the administration of this Agreement, the Trustee shall deem it desirable that a matter be proved or established prior to taking, suffering or omitting any action hereunder, the Trustee (unless other evidence be herein specifically

prescribed) may, in the absence of bad faith on its part, rely upon an Officer's Certificate.

(4) The Trustee may consult with counsel and the written advice of such counsel (unless an Opinion of Counsel or Bond Counsel is required hereunder) shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon.

(5) The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Agreement at the request or direction of any of the Holders pursuant to this Agreement except actions taken in accordance with Section 10.02 and except for draws under the Bond Insurance Policy under Section 10.02 hereof, unless such Holders shall have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction.

(6) The Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, note or other paper or document, but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee shall determine to make such further inquiry or investigation, it shall be entitled to examine the books, records and premises of the Company, personally or by agent or attorney.

(7) The Trustee may execute any of the trusts or powers hereunder or perform any dudes hereunder either directly or by or through agents, attorneys, receivers or employees (but shall be answerable therefor only in accordance with the standard specified above), and shall be entitled to the advice of counsel concerning all matters of trust hereof and duties hereunder. The Trustee may in all cases pay such reasonable compensation to any and all such attorneys, agents, receivers and employees as may reasonably be employed in connection with the trusts hereof. The Trustee may act upon the opinion or advice of any attorney approved by the Trustee in the exercise of reasonable care. The Trustee shall not be responsible for any loss or damage resulting from any action taken or omitted to be taken in good faith in reliance upon that opinion or advice.

(8) The Trustee shall not be responsible for arty recital herein, the Bond Insurance Policy or in the Parity Bonds (except with respect to the certificates of the Trustee endorsed on the Parity Bonds), or for the recording or rerecording, filing or refiling of this Agreement, or for the validity or sufficiency of this Agreement or any other instruments executed in connection herewith (including but not limited to any financing statements), or for the sufficiency of the security for the Parity Bonds issued hereunder or intended to be secured hereby. The Trustee shall not be responsible or liable for any loss or delay suffered in connection with any investment of funds made by it in accordance herewith, including, without limitation, any loss suffered in connection with the sale of any investment pursuant hereto.

(9) The Trustee shall not be accountable for the use of the proceeds of any Parity Bonds after such proceeds are paid or disbursed as provided herein.

(10) The Trustee may reasonably demand any showings, certificates, reports, opinions, appraisals and other information, and any corporate action and evidence thereof, in addition to that required by the terms hereof, as a condition to the authentication of any Bonds or the taking of any action whatsoever within the purview hereof, if the Trustee reasonably deems it to be desirable for the purpose of establishing the right of the Issuer to the authentication of any Parity Bonds or the right of any Person to the taking of any other action by the Trustee; provided, that the Trustee shall not be required to make that demand. Any action taken by the Trustee pursuant hereto upon the request or authority or consent of any Person who at the time of making such request or giving such authority or consent is the Owner of any Parity Bond shall be conclusive or giving and binding upon all future Owners of the same Parity Bond and upon Parity Bonds issued in exchange therefor or upon transfer or in place thereof.

(11) As to the existence or nonexistence of any fact or as to the sufficiency or validity of any instrument, paper or proceeding, the Trustee shall be entitled to rely, in the absence of bad faith, upon a certificate signed on behalf of the Issuer by the Chairman, any Vice-Chairman, the Secretary, the Treasurer or any Assistant Secretary or Assistant Treasurer of the Issuer or a certificate signed upon behalf of the Company by an Authorized Officer thereof as sufficient evidence of the facts therein contained, and prior to the occurrence of an Event of Default of which the Trustee has been notified or, is deemed to have notice as provided in subsection (g) of this Section, or subsequent to the waiver, rescission or annulment of such a default as provided in Article VI hereof, shall also be at liberty to accept a similar certificate to the effect that any particular dealing, transaction or action is necessary or expedient, but may at its discretion secure such further evidence deemed necessary or advisable, but shall in no case be bound to secure the same. The Trustee may accept a certificate signed on behalf of the Issuer by the Chairman, any Vice-Chairman, the Secretary, the Treasurer or any Assistant Secretary or Assistant Treasurer of the Issuer or a certificate signed upon behalf of the Company by an Authorized Officer thereof to the effect that a resolution in the form therein set forth has been adopted by the Issuer or the Company, as applicable, as conclusive evidence that such resolution has been duly adopted, and is in full force and effect.

(12) The permissive right of the Trustee to do things enumerated herein shall not be construed as a duty, and the Trustee shall not be liable in the performance of its obligations hereunder except for its negligence, willful misconduct or breach of trust.

(13) All moneys received by the Trustee or any Paying Agent shall, until used or applied or invested as herein provided, be held in trust for the purposes for which they were received but need not be segregated from other funds except to the extent required by law or by the express terms of this Agreement.

(e) Ownership of Bonds. The Trustee may be or become the owner of or trade in Bonds with the same rights as if it were not the Trustee.

(f) Surety Bond. The Trustee shall not be required to furnish any bond or surety.

(g) Notice of Event of Default. The Trustee shall not be required to take notice, and shall not be deemed to have notice, of any Event of Default, except Events of Default described is Section 6.01(a)(i), (ii) and (iii), unless the Trustee shall be notified specifically of the Event of Default in a written instrument or document delivered to it by the Company, the Issuer, the Bond Insurer or by the Holders of at least ten percent of the aggregate principal amount of the Outstanding Parity Debt. In the absence of delivery of a notice satisfying those requirements, the Trustee may assume conclusively that there is no Event of Default, except as noted above.

Section 7.02. Fees and Expenses of the Trustee: Indemnification. Except to the extent the Trustee has been paid or reimbursed from the Project Fund, the Company shall pay to the Trustee reasonable compensation for its services and pay or reimburse the Trustee (within thirty (30) days after notice) for its reasonable expenses and disbursements, including attorneys' fees, hereunder. Any fees, expenses, reimbursements or other charges which the Trustee may be entitled to receive from the Company hereunder, if not paid when due, shall bear interest at the interest rate publicly announced by the Trustee as its prime rate.

The Company shall indemnify and save the Trustee and its agents and employees harmless for, from and against any reasonable expenses and liabilities which such person may incur in the exercise of its duties hereunder or under any documents related to the exercise of any duties hereunder and which are not due to its negligence, willful misconduct or breach of trust.

In addition, the indemnification obligation of the Company hereunder shall not include any loss, liability or expense incurred by the Trustee because the Trustee was held by a court of competent jurisdiction, to have acted in bad faith with respect to any action, omission or judgment described in Sections 7.01(c)(1)(ii), 7.01(c)(3)(ii) and (iii), 7.01(d)(3), 7.01(d)(4), and the first sentence of 7.01(d)(11).

Section 7.03. Resignation or Removal of the Trustee. The Trustee may resign on not fewer than sixty (60) days' notice given in writing to the Issuer, the Holders, the Bond Insurer and the Company. The Trustee will promptly certify to the Issuer that it has mailed or caused to be mailed such notice to all Holders and such certificate will be conclusive evidence that such notice was given iii the manner required hereby. The Trustee may be removed at any time by written notice from the Bond Insurer or Holders of a majority in principal amount of the Outstanding Parity Debt to the Trustee or, so long as no Event of Default has occurred and is continuing hereunder, by written notice from the Company to the Trustee. No removal or resignation shall take effect until a successor, acceptable to Ambac Assurance, has been appointed.

Section 7.04. Successor Trustee. Any corporation or association which succeeds to the corporate trust business of the Trustee as a whole or substantially as a whole, whether by sale,

merger, consolidation or otherwise, shall thereby become vested with all the property, rights and powers of the Trustee under this Agreement, without any further act or conveyance.

In case the Trustee resigns or is removed or becomes incapable of acting, or becomes bankrupt or insolvent, or if a receiver, liquidator or conservator of the Trustee or of its property is appointed, or if a public officer takes charge or control of the Trustee, or of its property or affairs, a successor shall be appointed by the Company. The Company shall notify the Holders of the appointment in writing within twenty (20) days from the appointment. The Company will promptly certify to the successor Trustee that it has mailed or caused to be mailed such notice to all Holders and such certificate will be conclusive evidence that such notice was given in the manner required hereby. If no appointment of a successor is made within sixty (60) days after the giving of written notice in accordance with Section 7,03 or after the occurrence of any other event requiring or authorizing such appointment, the outgoing Trustee or any Holder may apply to any court of competent jurisdiction for the appointment of such a successor, and such court may thereupon, after such notice, if any, as such court may deem proper, appoint such successor. Any successor Trustee appointed under this Section shall be a trust company or a bank having the powers of a trust company, exercisable in the State, having a capital and surplus of not less than $75,000,000 and be acceptable to Ambac Assurance. Any such successor Trustee shall notify the Issuer and the Company of its acceptance of the appointment and, upon giving such notice, shall become Trustee, vested with all the property, rights and powers of the Trustee hereunder, without any further act or conveyance. Such successor Trustee shall execute, deliver, record and file such instruments as are required to confirm or perfect its succession hereunder and any predecessor Trustee shall from time to time execute, deliver, record and file such instruments as the incumbent Trustee may reasonably require to confirm or perfect any succession hereunder, subject, however, to the terms and conditions herein set forth including, without limitation, the right of the predecessor Trustee to be paid and reimbursed in full for its reasonable charges and expenses (including reasonable fees and disbursements of its counsel) and to indemnification under Sections 7.02 and 8.05 hereof.

(End of Article VII)

ARTICLE VIII

THE ISSUER

SECTION 8.01. Rights and Duties of the Issuer.

(a) Remedies of the Issuer. Notwithstanding any contrary provision in this Agreement, the Issuer shall have the right to take any action or make any decision with respect to proceedings for indemnity against the liability of the Issuer, the members of its Board of Directors, its officers, counsel, financial advisors and agents and for collection or reimbursement from sources other than moneys or property held under this Agreement or subject to the lien hereof. The Issuer may enforce its rights under this Agreement which have not been assigned to the Trustee by legal proceedings for the specific performance of any obligation contained herein or for the enforcement of any other appropriate legal or equitable remedy, and may

recover damages caused by any breach by the Company of its obligations to the Issuer under this Agreement, including court costs, reasonable attorneys' fees and other costs and expenses incurred in enforcing such obligations.

(b) Limitation on Actions. The Issuer shall not be required to monitor the financial condition of the Company and, except as specifically provided herein, shall not have any responsibility with respect to notices, certificates or other documents filed with it hereunder, The Issuer shall not be required to take notice of any breach or default except when given notice thereof by the Trustee, the Bond Insurer or the Bondholders, as the case may be. The Issuer shall not be required to take any action unless indemnity reasonably satisfactory to it is furnished for expenses or liability to be incurred therein (other than the giving of notice). The Issuer, upon written request of the Bondholders or the Trustee, shall cooperate to the extent reasonably necessary to enable the Trustee to exercise any power granted to the Trustee by this Agreement. The Issuer shall be entitled to reimbursement pursuant to Section 8.02.

(c) Responsibility. The Issuer shall be entitled to the advice of counsel (who may be counsel for any parry or for any Bondholder unless an Opinion of Counsel or Opinion of Bond Counsel is required hereunder) and shall be wholly protected as to any actions taken or omitted to be taken in good faith in reliance on such advice. The Issuer may rely conclusively on any notice, certificate or other document furnished to it hereunder or pursuant to the Bond Purchase Agreement and reasonably believed by it to be genuine. The Issuer shall not be liable for any action taken by it in good faith and reasonably believed by it to be within the discretion or power conferred upon it, or in good faith omitted to be taken by it because it was reasonably believed to be beyond the discretion or power conferred upon it or taken by it pursuant to any direction or instruction by which it is governed hereunder or omitted to be taken by it by reason of the lack of direction or instruction required for such action hereunder, or be responsible for the consequences of any error of judgment reasonably made by it, and when any payment, consent or other action by the Issuer is called for by this Agreement, the Issuer may defer such action pending such investigation or inquiry or receipt of such evidence, if any, as it may require in support thereof. A permissive right or power to act shall not be construed as a requirement to act, and no delay in the exercise of a right or power shall affect the subsequent exercise thereof. The Issuer shall in no event be liable for the application or misapplication of funds, or for other acts or defaults by any person or entity except by its own directors, officers and employees. No recourse shall be had by the Company, the Trustee or any Bondholder for any claim based on this Agreement or the Bonds against any of the Issuer's directors, officers, counsel, financial advisors or agents unless such claim is based upon the willful dishonesty or intentional violation of law of such person.

(d) Financial Obligations. The Issuer shall have no liability or obligation with respect to the payment of the purchase price of the Bonds. None of the provisions of this Agreement shall require the Issuer to expend or risk its own funds or to otherwise incur financial liability in the performance of any of its duties or in the exercise of any of its rights or powers hereunder, unless payable from the revenues pledged hereunder, or the Issuer shall first have been adequately indemnified to its satisfaction against the cost, expense, and liability which may be incurred thereby. The Issuer shall not be under any obligation hereunder to perform any record keeping or to provide any legal services, it being understood that such services shall be

performed or provided by the Trustee or the Company. The Issuer covenants that it will faithfully perform at all times any and all covenants, undertakings, stipulations, and provisions expressly contained in this Agreement, in any and every Bond executed, authenticated, and delivered hereunder; provided, however, that (a) the Issuer shall not be obligated to take any action or execute any instrument pursuant to any provision hereof until it shall have been requested to do so by the Company or the Trustee, and (b) the Issuer shall have received the instrument to be executed, and, at the Issuer's option, shall have received from the Company assurance satisfactory to the Issuer that the Issuer shall be reimbursed for its reasonable expenses incurred or to be incurred in connection with taking such action or executing such instrument.

(e) Reliance by Issuer on Pacts or Certificates. Anything in this Agreement to the contrary notwithstanding, it is expressly understood and agreed by the parties hereto that the Issuer may rely conclusively on the truth and accuracy of any certificate, opinion, notice, or other instrument furnished to the Issuer or the Trustee as to the existence of any fact or state of affairs required hereunder to be noticed by the Issuer.

(f) Immunity of Issuer's Directors, Officers, Counsel, Financial Advisors, and Agents. No recourse shall be had for the enforcement of any obligation, covenant, promise, or agreement of the Issuer contained in this Agreement, any other Issuer Documents, or in any Bond or for any claim based hereon or otherwise in respect hereof or upon any obligation, covenant, promise, or agreement of the Issuer contained in any agreement, instrument, or certificate executed in connection with the 1997 Project or the issuance and sale of the Bonds, against any Indemnified Party (except for the Issuer and the Trustee), whether by virtue of any Arizona Constitutional provision, statute, or rule of law, or by the enforcement of any assessment or penalty or otherwise; it being expressly agreed and understood that no personal liability whatsoever shall attach to, or be incurred by, any Indemnified Party (except for the Issuer and the Trustee), either directly or by reason of any of the obligations, covenants, promises, or agreements entered into by the Issuer, the Company or the Trustee, or to be implied therefrom as being supplemental hereto or thereto, and that all personal liability of that character against every Indemnified Party (except for the Issuer and the Trustee), is, by the execution of the Bonds and this Agreement, and as a condition of, and as part of the consideration for, the execution of the Bonds and this Agreement, is expressly waived and released.

Section 8.02. Expenses of the Issuer. Except to the extent paid or reimbursed from the Project Fund, the Company shall pay or reimburse the Issuer upon demand for all administrative fees and expenses (including, but not limited to, reasonable attorneys' and financial advisory fees and disbursements) charged or incurred by the Issuer in connection with the issuance of the Bonds and all expenses reasonably incurred or advances reasonably made in the exercise of the Issuer's rights or the performance of its obligations hereunder or under the Bond Purchase Agreement. Any fees, expenses, reimbursements or other charges which the Issuer may be entitled to receive from the Company hereunder, if not paid when due, shall bear interest at the rate publicly announced by the Trustee as its prime rate plus 5%.

Section 8.03. Limitation on Recourse and Liability. No agreements or provisions contained herein, nor any agreement, covenant, or undertaking by the Issuer in connection with

the 1997 Project or the issuance, sale, and/or delivery of the Bonds shall give rise to any pecuniary liability of the Issuer or a charge against its general credit, or shall obligate the Issuer financially in any way, except as may be payable from the revenues pledged hereby for the payment of the Bonds and their application as provided in this Agreement. No failure of the Issuer to comply with any term, covenant, or agreement contained in the Bonds, this Agreement, or in any document executed by the Issuer in connection with the 1997 Project or the issuance and sale of the Bonds, shall subject the Issuer to liability for any claim for damages, costs, or other financial or pecuniary charge, except to the extent the same can be paid or recovered from the revenues pledged for the payment of the Bonds or other revenues derived under the Agreement. Nothing herein shall preclude a proper party in interest from seeking and obtaining, to the extent permitted by law, specific performance against the Issuer for any failure to comply with any term, condition, covenant, or agreement herein; provided that no costs, expenses, or other monetary relief shall be recoverable from the Issuer, except as may be payable from the revenues pledged under this Agreement for the payment of the Bonds or other revenue derived under this Agreement. No provision, covenant, or agreement contained herein, or any obligations imposed upon the Issuer, or the breach, thereof, shall constitute an indebtedness of the Issuer within the meaning of any State constitutional or statutory limitation or shall constitute or give rise to a charge against the Issuer's general credit. In making the agreements, provisions, and covenants set forth in this Agreement, the Issuer has not obligated itself, except with respect to the application of the revenues pledged in this Agreement for the payment of the Bonds or other revenues derived under this Agreement.

The County shall not in any event be liable for the payment of the principal of, premium, if any, or interest on any of the Bonds issued, or for the performance of any pledge, mortgage, obligation or agreement of any kind whatsoever herein or indebtedness by the Issuer, and none of the Bonds of the Issuer of any of its agreements or obligations herein or otherwise shall be construed to constitute an indebtedness of the County within the meaning of any constitutional or statutory provision whatsoever.

Section 8.04. Unrelated Bond Issues. Prior to the issuance of the Bonds, the Issuer has issued, and subsequent to the issuance of the Bonds the Issuer expects to issue various series of bonds in connection with the financing of other projects (said bonds together with any bonds issued by the Issuer between the date hereof and issuance of the Bonds shall be referred to herein as the "Other Bonds"). Any pledge, mortgage, or assignment made in connection with any Other Bonds shall be protected, and no funds pledged or assigned for the payment of principal, premium, if any, or interest on the Other Bonds shall be used for the payment of principal, premium, if any, or interest on the Bonds. Any pledge, mortgage, or assignment made in connection with the Bonds shall be protected, and no funds pledged or assigned for the payment of the Bonds shall be used for the payment of principal, premium, if any, or interest on the Other Bonds.

Section 8.05. Indemnification.

(a) The Company will pay, defend, protect, indemnify, and hold harmless each of the Indemnified Parties for, from and against all liabilities, losses, damages, costs, expenses (including, without limitation, legal fees and expenses), causes of action (whether in contract,

tort, or otherwise), suits, claims, demands, and judgments of every kind, character and nature whatsoever (collectively referred to herein as the "Liabilities") directly or indirectly arising from or relating to the authorization, issuance, sale or delivery of the Bonds, this Agreement, the 1997 Project or in any way relating to or arising out of the administration of the trust estate or the issuance and sale of the Bonds created pursuant to this Agreement including, but not limited to, the following: (i) any injury to or death of any person or damage to the Property or growing out of or connected with the use, non-use, condition, or occupancy of the Property or any part thereof; (ii) violation of any agreement, covenant or condition of the Company Documents; (iii) violation by the Company of any contract, agreement or restriction relating to the Property, including, without limitation, the ACC Order; (iv) violation of any law, ordinance, or regulation affecting the Property or any part thereof or the ownership, occupancy, or use thereof; (v) the issuance and sale of the Bonds or any of them; and (vi) any statement, information, or certificate furnished by the Company to the Issuer which is misleading, incomplete, untrue, or incorrect in any material respect.

(b) The Company also agrees to pay, defend, protect, indemnify and hold harmless each of the Indemnified Parties for, from and against the Liabilities directly or indirectly arising from or relating to (i) any errors or omissions of any nature whatsoever contained in any legal proceedings or other official representation or inducement made by the Issuer or the County pertaining to the Bonds (provided, however, nothing in this subsection shall be deemed to provide the Issuer with indemnification for the Issuer's omissions or misstatements contained in the official statement under the captions "the Issuer" or "Litigation" as it relates to the Issuer) and (ii) any fraud or misrepresentations or omissions contained in the proceedings of the Issuer or the County relating to the issuance of the bonds or pertaining to the financial condition of the Company which, if known to the Original Purchaser and the investors initially purchasing the Bonds from the Original Purchaser, might be considered a material factor in such person's decision to purchase the Bonds.

(c) Provided, however, that nothing in subsections (a) and (b) shall be deemed to provide indemnification to the Indemnified Parties with respect to liabilities arising from the fraud, gross negligence, or willful misconduct of the Indemnified Parties and, in the case of the Trustee, its officers, agents, attorneys and employees, also successfully alleged to have arisen from the negligence or breach of trust of the Trustee, its officers, agents, attorney or employees.

(d) Any party entitled to indemnification hereunder shall, notify the Company in writing of the existence of any claim, demand or other matter to which the Company's indemnification obligation applies and shall give the Company a reasonable opportunity to defend the same at its own expense and with counsel satisfactory to such Indemnified Party; provided that the Indemnified Parties shall at all times also have the right to participate in the defense of such action. If the Indemnified Party is advised in an opinion of counsel that there may be legal defenses available to it which are different from or in addition to those available to the Company, or if the Company shall, after notice and within a period of time necessary to preserve any and all defenses to any claim asserted, fail to assume the defense or to employ counsel for that purpose satisfactory to the indemnified party, the indemnified party shall have the right, but not the obligation, to undertake the defense of, and to compromise or settle the claim or other matter on behalf of, for the account of, and at the risk of, the Company, and the

Company shall be responsible for the reasonable fees, costs, and expenses of the Indemnified Party in conducting its defense.

(e) Each of the Indemnified Parties, other than the Issuer and the Trustee, shall be considered to be intended third party beneficiaries of this Agreement. Nothing in this Agreement shall confer any right upon any person other than the parties hereto and the specifically designated third party beneficiaries of this Agreement.

Section 8.06. Representations and Warranties of the Issuer. The Issuer hereby represents and warrants for the benefit of the Trustee, the Bond Insurer and the Company as follows:

(a) The Issuer is a nonprofit corporation designated as a political subdivision of the State, created and existing under the Arizona Constitution and laws of the State;

(b) The Issuer has found and hereby declares that the issuance of the Bonds to assist the refunding of the outstanding portion of the 1985 Bonds, the financing of the 1997 Project and the financing of certain operating expenses associated with the 1997 Project is in furtherance of the public purposes set forth in the Act;

(c) In order to refund the outstanding portion of the 1985 Bonds, finance the costs of the 1997 Project, and the refinancing of certain operating expenses associated with the 1997 Project in an amount estimated by the Company, the Issuer has duly authorized the execution, delivery, and performance on its part of the Bond Purchase Agreement and this Agreement;

(d) To accomplish the foregoing, the Issuer proposes to issue the Bonds immediately following the execution and delivery of this Agreement. The date, denomination or denominations, interest rate or rates, maturity schedule, redemption provisions and other pertinent provisions with respect to the Bonds are set forth in this Agreement;

(e) The Issuer makes no representation or warranty that the amount of the Loan will be adequate or sufficient to refund the outstanding portion of the 1985 Bonds, to finance the 1997 Project and to refinance certain operating expenses associated with the 1997 Project or that the 1997 Project will be adequate or sufficient for the purposes of the Company; and

(f) The Issuer has not pledged, assigned, or granted, and will not pledge, assign, or grant any of its rights or interest in or under this Agreement for any purpose other than as provided for in this Agreement.

(End of Article VIII)

ARTICLE IX

THE BONDHOLDERS

Section 9.01. Action by Bondholders. Any requests, authorization, direction, notice, consent, waiver or other action provided pursuant to this Agreement to be given or taken by Bondholders may be contained in and evidenced by one or more writings of substantially the same tenor signed by the requisite number of Bondholders or their attorneys duly appointed in writing. Proof of the execution of any such instrument, or of an instrument appointing any such attorney, shall be sufficient for any purpose of this Agreement (except as otherwise herein expressly provided) if made in the following manner, but the Issuer or the Trustee may nevertheless in its discretion require further or other proof in cases where it deems the same desirable.

The fact and date of the execution by any Bondholder or its attorney of such instrument may be proved by the certificate, which need not be acknowledged or verified, of an officer of a bank or trust company satisfactory to the Issuer or to the Trustee or of any notary public or other officer authorized to take acknowledgments of deeds to be recorded in the state in which the Trustee purports to act, that the person signing such request or other instrument acknowledged to him the execution thereof, or by an affidavit of a witness of such execution, duly sworn to before such notary public or other officer. The authority of the person or persons executing any such instrument on behalf of a corporate Bondholder may be established without further proof if such instrument is signed by a person purporting to be the president or a vice president of such corporation with a corporate seal affixed and attested by a person purporting to be its clerk or secretary or an assistant clerk or secretary.

The ownership of bonds and the amount, numbers and other identification, and date of holding the same shall be proved by the registration books.

Any request, consent or vote of the Bondholder of any Bond shall bind all future Bondholders of such Bond. Bonds owned or held by or for the account of the Issuer or the Company shall not be deemed Outstanding Bonds for the purpose of any consent or other action by Bondholders.

(End of Article IX)

ARTICLE X

THE BOND INSURER

Section 10.01. Provisions Regarding the Bond Issurer. All provisions herein regarding rights, consents, approvals, directions, appointments or requests by Ambac Assurance or the Bond Insurer shall be deemed to not require or permit such consents, approvals, directions, appointments or requests by Ambac Assurance or the Bond Insurer and shall be read as if Ambac Assurance or the Bond Insurer were not mentioned therein during any time in which (a)

Ambac Assurance or the Bond Insurer is in default in its obligation to make payments under the Bond Insurance, (b) Ambac Assurance or the Bond Insurance shall at any time for any reason cease to be valid and binding on Ambac Assurance or the Bond Insurer, or shall be declared to be null and void, or the validity or enforceability of any provision thereof is being contested by Ambac Assurance or the Bond Insurer or any governmental agency or authority, or if Ambac Assurance or the Bond Insurer is denying further liability or obligation under Ambac Assurance or the Bond Insurance, (c) a petition has been filed and is pending against Ambac Assurance or the Bond Insurer under any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation law of any jurisdiction, whether now or hereafter in effect, and has not been dismissed within 90 days after such filing, (d) Ambac Assurance or the Bond Insurer has filed a petition, which is still pending, in voluntary bankruptcy or seeking relief under any provision of any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation law of any jurisdiction, whether now or hereafter in effect, or consented to the filing of any petition against it under any such law or (e) the Bonds are no longer Outstanding and any amounts due or to become due to Ambac Assurance or the Bond Insurer have been paid in full; provided, however, that any rights of Ambac Assurance or the Bond Insurer arising as a result of a payment made pursuant to the Bond Insurance Policy shall continue to exist and be unaffected by any limitations on rights of Ambac Assurance or the Bond Insurer set forth in or arising as a result of this Section 10.01.

Section 10.02. Claims Upon the Bond Insurance Policy. As long as the Bond Insurance Policy shall be in full force and effect, subject to Section 10.01 hereof, the Issuer, the Trustee and any Paying Agent agree to comply with the following provisions:

(a) at least one (1) day prior to all Interest Payment Dates the Trustee or Paying Agent, if any, will determine whether there will be sufficient funds in the Funds to pay the principal of or interest on the Bonds on such Interest Payment Date. If the Trustee or Paying Agent, if any, determines that there will be insufficient funds in such Funds, the Trustee or Paying Agent, if any, shall so notify Ambac Assurance. Such notice shall specify the amount of the anticipated deficiency, the Bonds to which such deficiency is applicable and whether such Bonds will be deficient as to principal or interest, or both. If the Trustee or Paying Agent, if any, has not so notified Ambac Assurance at least one (1) day prior to an Interest Payment Date, Ambac Assurance will make payments of principal or interest due on the Bonds on or before the first (1st) day next following the date on which Ambac Assurance shall have received notice of nonpayment from the Trustee or Paying Agent, if any.

(b) the Trustee or Paying Agent, if any, shall, after giving notice to Ambac Assurance as provided in (a) above, make available to Ambac Assurance and at Ambac Assurance's direction, to the United States Trust Company of New York, as insurance trustee for Ambac Assurance or any successor insurance trustee (the "Insurance Trustee"), the Register maintained by the Trustee or Paying Agent, if any, and all records relating to the Funds maintained under this Agreement.

(c) the Trustee or Paying Agent, if any, shall provide Ambac Assurance and the Insurance Trustee with a list of registered owners of Bonds entitled to receive principal or interest payments from Ambac Assurance under the terms of the Bond Insurance Policy, and

shall make arrangements with the Insurance Trustee (i) to mail checks or drafts to the registered owners of Bonds entitled to receive full or partial interest payments from Ambac Assurance and (ii) to pay principal upon Bonds surrendered to the Insurance Trustee by the registered owners of Bonds entitled to receive full or partial principal payments from Ambac Assurance.

(d) the Trustee or Paying Agent, if any, shall, at the time it provides notice to Ambac Assurance pursuant to (a) above, notify registered owners of Bonds entitled to receive the payment of principal or interest thereon from Ambac Assurance (i) as to the fact of such entitlement, (ii) that Ambac Assurance will remit to them all or a part of the interest payments next coming due upon proof of Bondholder entitlement to interest payments and delivery to the Insurance Trustee, in form satisfactory to the Insurance Trustee, of an appropriate assignment of the registered owner's right to payment, (iii) that should they be entitled to receive full payment of principal from Ambac Assurance, they must surrender their Bonds (along with an appropriate instrument of assignment in form satisfactory to the Insurance Trustee to permit ownership of such Bonds to be registered in the name of Ambac Assurance) for payment to the Insurance Trustee, and not the Trustee or Paying Agent, if any, and (iv) that should they be entitled to receive partial payment of principal from Ambac Assurance, they must surrender their Bonds for payment thereon first to the Trustee or Paying Agent, if any, who shall note on such Bonds the portion of the principal paid by the Trustee or Paying Agent, if any, and then, along with an appropriate instrument of assignment in form satisfactory to the Insurance Trustee, to the Insurance Trustee, which will then pay the unpaid portion of principal.

(e) in the event that the Trustee or Paying Agent, if any, has notice that any payment of principal of or interest on a Bond which has become Due for Payment (as defined in the Bond Insurance Policy) and which is made to a Bondholder by or on behalf of the Issuer has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with the final, nonappealable order of a court having competent jurisdiction, the Trustee or Paying Agent, if any, shall, at the time Ambac Assurance is notified pursuant to (a) above, notify all registered owners that in the event that any registered owner's payment is so recovered, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available, and the Trustee or Paying Agent, if any, shall furnish to Ambac Assurance its records evidencing the payments of principal of and interest on the Bonds which have been made by the Trustee or Paying Agent, if any, and subsequently recovered from registered owners and the dates on which such payments were made.

(f) in addition to those rights granted Ambac Assurance under this Agreement, Ambac Assurance shall, to the extent it makes payment of principal of or interest on the Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Bond Insurance Policy, and to evidence such subrogation (i) in the case of subrogation as to claims for past due interest, the Trustee or Paying Agent, if any, shall note Ambac Assurance's rights as subrogee on the Register maintained by the Trustee or Paying Agent, if any, upon receipt from Ambac Assurance of proof of the payment of interest thereon to the registered owners of the bonds, and (ii) in the case of subrogation as to claims for past due principal, the Trustee or Paying Agent, if any, shall note Ambac Assurance's rights as subrogee

on the Register maintained by the Trustee or Paying Agent, if any, upon surrender of the Bonds by the registered owners thereof together with proof of the payment of principal thereof.

Section 10.03. Indemnification. The Company hereby agrees to protect, indemnify, pay and save the Bond Insurer harmless for, from and against any and all claims, demands, liabilities, damages, losses, costs, charges, fees and expenses (including reasonable attorneys' fees) which the Bond Insurer may, other than as a result of fraud, misrepresentation, negligence or willful misconduct of the Bond Insurer or failure of the Bond Insurer to comply with its payment obligations under the Bond Insurance Policy, incur or be subject to as a consequence, direct or indirect, of (i) the issuance of the Bond Insurance Policy, (ii) any breach by any party thereto or hereto of any representation or warranty, covenant, term or condition in, or the occurrence of any default under, this Agreement or any Related Bond Documents, and the pursuit of any remedies thereunder, including all reasonable fees or expenses resulting from the settlement or defense of any claims or liabilities arising as a result of any such breach or default, (iii) the holding or owning by the Bond Insurer or its nominee of any Bond, (iv) involvement in any legal suit, investigation, proceeding, inquiry or action as to which the Bond Insurer is involved as a consequence, direct or indirect, of its issuance of the Bond Insurance Policy, its holding or owning of any Bond, the holding or owning of any Bond by its nominee, or any other event or transaction contemplated by any of the foregoing. The Bond Insurer reserves the right to charge a reasonable fee as a condition to executing any amendment, waiver or consent proposed in respect of this Agreement or any Related Bond Document.

Section 10.04. Information to and Rights of Bond Insurer. While the Bond Insurance Policy is in effect, the Company or the Trustee, as appropriate, shall furnish to Ambac Assurance (to the attention of the Surveillance Department, unless otherwise indicated):

(g) as soon as practicable after the filing thereof, a copy of any financial statement of the Company and a copy of any audit and, if then prepared, annual report of the Company;

(h) a copy of any notice to be given to the registered owners of the Bonds, including, without limitation, notice of any redemption of or defeasance of Bonds, acrd any certificate rendered pursuant to this Agreement relating to the security for the Bonds; and

(i) such additional information it may reasonably request.

The Trustee or the Company, as appropriate, shall notify Ambac Assurance of any failure of the Company to provide relevant notices, certificates, reports and other like materials required under this Agreement.

The Company will permit Ambac Assurance to discuss the affairs, finances and accounts of the Company or any information Ambac Assurance may reasonably request regarding the security for the Bonds with appropriate officers of the Company. The Trustee or Company, as appropriate, will permit Ambac Assurance to have access to the Property and have access to and to make copies of all books and records relating to the Bonds at any reasonable time.

Ambac Assurance shall have the right to direct an accounting at the Company's expense, and the Company's failure to comply with such direction within thirty (30) days after receipt of written notice of the direction from Ambac Assurance shall be deemed a default hereunder; provided, however, that if compliance cannot occur within such period, then such period will be extended so long as compliance is begun within such period and diligently pursued, but only if such extension would not materially adversely affect the interests of any registered owner of the Bonds.

Notwithstanding any other provisions of this Agreement, the Trustee or the Company, as appropriate, shall immediately notify Ambac Assurance if at any time there are insufficient moneys to make any payments of principal and/or interest as required and immediately upon the occurrence of any Event of Default hereunder.

Ambac Assurance shall be a recipient of all filings made and/or notices given pursuant to the Continuing Disclosure Agreement.

Section 10.05. Consent of Bond Insurer.

(a) Any provision of this Agreement expressly recognizing or granting rights in or to Ambac Assurance may not be amended in any manner which affects the rights of Ambac Assurance hereunder without the prior written consent of Ambac Assurance.

(b) Unless otherwise provided in a section of this Agreement, Ambac Assurance's consent shall be required in addition to Bondholder consent, when required, for the following purposes: (i) execution and delivery of any amendment, supplement, change to or modification of this Agreement (other than pursuant to Section 11.01(a)(3)); (ii) removal of the Trustee or Paying Agent and selection and appointment of any successor trustee or paying agent in accordance with Sections 7.04 and 3.14 hereof, respectively, or otherwise; and (iii) initiation or approval of any action not described in (i) or (ii) above which requires Bondholder consent.

(c) Any reorganization or liquidation plan with respect to the Company must be acceptable to Ambac Assurance. In the event of any reorganization or liquidation, Ambac Assurance shall have the right to vote on behalf of all Bondholders who hold Ambac Assurance insured bonds absent a default by Ambac Assurance under the applicable Bond Insurance Policy insuring such Bonds.

(End of Article X)

ARTICLE XI

MISCELLANEOUS

Section 11.01. Amendment.

(a) This Agreement may be amended by the Company, the Trustee and the Issuer, with the prior written consent of the Bond Insurer (exclusive of amendments described in (3) below) but without Holder consent for any of the following purposes and the Bond Insurer and Trustee agree not to unreasonably withhold their consent to such amendments for such purposes upon the request of the Company, and the Issuer, the Bond Insurer and Trustee may rely upon an Opinion of Counsel that such amendment is permitted without consent of the Holders under this subparagraph (a):

(1) to add to the covenants and agreements of the Company or to surrender or limit any right or power of the Company;

(2) to cure any ambiguity or defect, or to add provisions which are not inconsistent therewith and which do not, in the judgment of the Trustee, materially impair the security for the Parity Debt;

(3) to provide for the issuance and establish the terms and provisions of additional Parity Debt, and provide for all other matters in connection with the issuance of Parity Debt, including, without limitation, provisions relating to, or required by the issuer of, any Credit Facility applicable to Parity Debt which is issued in accordance with Section 5.13 and 5.17 hereof, provided that no such amendment shall have a material adverse effect upon the security for the Bonds other than that implicit in the authorization of Parity Debt and shall not affect the restrictions applicable to the issuance of Parity Debt under Section 5.13 hereof;

(4) to amend the provisions of Section 3.05 as permitted therein;

(5) to permit the transfer of Bonds from one Depository to another and the succession of Depositories and to permit the withdrawal of Bonds issued to a Depository for use in a Book-Entry System and the issuance of replacement Bonds in fully registered form to other than a Depository;

(6) to permit the Trustee to comply with any duties imposed upon it by law;

(7) to achieve compliance of this Agreement with any applicable federal securities or tax law;

(8) to provide for the appointment of a successor trustee or co-trustee pursuant to the terms of Article VII; and

(9) to maintain or obtain a rating on Parity Debt from Moody's or S&P.

(b) In addition, this Agreement may be amended by the parties with the consent of the Bond Insurer but without Holder consent to modify, amend, change or remove any covenant, agreement, term or provision of the Agreement other than a modification of the type described in subsection (c) requiring the unanimous written consent of the affected Bondholders; provided that: (1) at the time of the proposed amendment the Bonds are rated by S&P or Moody's, and written notice of the substance of such proposed amendment is given by the Company not less than thirty days prior to the date such amendment is to take effect to any such rating agency that has rated the Bonds, and (2) the Company provides (i) evidence satisfactory to the Trustee that the ratings on the Bonds shall not be lowered or withdrawn by either S&P or Moody's as a result of such proposed amendment; or (ii) if the Bonds are then rated by either S&P or Moody's in one of their three highest rating categories, that the ratings on the Bonds will not be lowered to a rating category less than one of the three highest categories as a result of such proposed amendment; or (iii) with respect to the Bonds, if after written notice has been given to S&P and Moody's, and neither S&P nor Moody's has responded to such notice within thirty days of delivery, then (A) a Consultant's opinion or report is delivered to the Trustee prior to the date such amendment is to take effect, to the effect that the proposed amendment is consistent with then current industry standards for comparable utilities and demonstrating that the ratio of Income Available for Debt Service for the Historic Test Period to highest Annual Debt Service for the current or any future Fiscal Year immediately after the effective date of such proposed amendment is not less than 1.5, assuming the maximum implementation (or such lower implementation certified to the Trustee by the Company as being a reasonable basis for assumption) by the Company of the proposed amendment if the proposed amendment or supplement is to a provision of the Agreement that contains a quantitative restriction or covenant; or (H) a Consultant's opinion or report is delivered to the Trustee prior to the date such amendment is to take effect, to the effect that the proposed amendment is consistent with then current industry standards for comparable utilities and demonstrating that the average of the projected Debt Service Coverage Ratios for the two full Fiscal Years immediately after the effective date of such proposed amendment or supplement will be greater than the average of the Debt Service Coverage Ratios for such period had the proposed amendment not been implemented assuming the maximum implementation (or such lower implementation certified to the Trustee by the Company as being a reasonable basis for assumption) by the Company of the proposed amendment if the proposed amendment is to a provision of the Agreement that contains a quantitative restriction or covenant; or (C) a Consultant's opinion or report is delivered to the Trustee prior to the date such amendment is to take effect that the proposed amendment is consistent with then current industry standards for comparable utilities and demonstrating that (1) the average of the projected Debt Service Coverage Ratios for the two full Fiscal Years immediately after, the effective date of such proposed amendment will not be less than 1.5, and (a) the average of the projected Debt Service Coverage Ratios for the two full Fiscal Years immediately after the effective date of such proposed amendment will not be more than thirty-five percent lower than the average of the Debt Service Coverage Ratios had the proposed amendment not been implemented, assuming with respect to the projections made under (1) and (2) the maximum implementation (or such lower implementation certified to the Trustee by the Company as being a reasonable basis for assumption) by the Company of the proposed amendment if the proposed amendment is to a provision of the Agreement that contains a quantitative restriction or covenant. No amendment of this Agreement may be made pursuant to this paragraph unless there shall also be delivered to the Trustee an Opinion of Bond Counsel

to the effect that under then existing law the execution of the amendment contemplated in this paragraph, in and of itself, would not adversely affect the validity of the Bonds or the exclusion from gross income under Section 103 of the Code of interest paid on the Bonds. No amendment may be made in accordance with this paragraph unless the Bonds are rated by S&P or Moody's at the time such amendment is sought to be made. If the requirements of this paragraph have been met, neither the Trustee nor the Issuer shall withhold their consent to an amendment requested by the Company; however, the Issuer, acting through its Board of Directors, and Trustee may withhold their consent to any amendment which it reasonably determines affects the rights or responsibilities of the Issuer and Trustee.

(c) Except as provided in the foregoing subparagraphs (a) and (b), this Agreement may be amended only with the written consent of the Holders of a majority in principal amount of the affected Outstanding Parity Debt; provided, however, that no amendment of this Agreement may be made without the unanimous written consent of the affected Bondholders (in addition to the Bond Insurer) for any of the following purposes; (1) to extend the maturity of any Bond including any sinking fund redemption date therefor; (2) to reduce the principal amount or interest rate of any Bond; (3) to make any Bond redeemable other than in accordance with its terms; (4) to create a preference or priority of any Bond or Bonds over any other Bond or Bonds; or (5) to reduce the percentage of the Bonds required to be represented by the Bondholders giving their consent to any amendment.

The Bond Insurer shall be deemed to be the Holder of all Bonds for purposes of giving the consents required under this subsection (c) of this Agreement, other than consent to any amendment described in clauses (1) through (S) hereof.

When the Trustee determines that the requisite number of consents have been obtained for an amendment which requires Holder consent, it shall, within ninety (90) days, file a certificate to that effect in its records and mail, or cause to be mailed, notice to the Holders. The Trustee will promptly certify to the Issuer that it has mailed or caused to be mailed such notice to all Holders and such certificate will be conclusive evidence that such notice was given in the manner required hereby. A consent to an amendment may be revoked by a notice given by the Holder and received by the Trustee prior to the Trustee's certification that the requisite consents have been obtained. Notwithstanding any other provision of this Agreement, in determining whether the rights of the Bondholders will be adversely affected by any action taken pursuant to the terms and provisions of this Agreement, the Trustee shall consider the effect on the Bondholders as if there were no Bond Insurance Policy.

The Bond Insurer shall be provided with a full original transcript of all proceedings relating to the execution of any amendatory or supplemental Trust Agreement.

Section 11.02. Successors and Assign. The rights and obligations of the parties to this Agreement shall inure to their respective successors and assigns.

Section 11.03. Notices. Unless otherwise expressly provided, all notices, demands, requests, approvals and consents provided for in this Agreement of or to the Issuer, the Trustee, the Bond Insurer and the Company shall be in writing, including bank wire, Telex or similar

writing, and shall be deemed sufficiently given if sent by registered or certified mail, postage prepaid, or delivered during business hours as follows:

(i) to the Issuer at The Industrial Development Authority of the County of Maricopa, c/o Kutak Rock, 3300 North Central Avenue, 16th Floor, Phoenix, Arizona 85012, Attention: Charles W. Lotzar;

(ii) to the Trustee at Bank One, Arizona, NA, Corporate Trust Services, AZ1-1128, 201 N. Central Avenue, Phoenix, Arizona 85004;

(iii) to the Company at Chaparral City Water Company, 12021 Panorama Drive, Fountain Hills, Arizona 85269, Attention: Robert Laak, with a copy to the Company at 5847 San Felipe, Suite 2600, Houston, Texas 77057, Attention: Erik Eriksson; and

(iv) to the Bond Insurer at Ambac Assurance Corporation, One State Street Plaza, New York, New York 10004, Attention: Surveillance Department.

or as to all of the foregoing, to such other address as the addressee shall have indicated by prior written notice to the one giving notice. All notices to a Bondholder shall be in writing and shall be deemed sufficiently given if sent by mail, postage prepaid, to the Bondholder at the address shown on the registration books maintained by the Trustee. A Bondholder may direct the Trustee to change its address as shown on the registration books by written notice to the Trustee.

Notice hereunder may be waived prospectively or retroactively by the person entitled to the notice, but no waiver shall affect any notice requirement as to other persons.

Section 11.04. Business Days. Except as otherwise required herein, if this Agreement requires any party to act on a specific day and such day is not a Business Day, such party need not perform such act until the next succeeding Business Day, and such act shall be deemed to have been performed on the day required.

Section 11.05. Agreement Not for the Benefit of Other Parties; Bond Insurer is Third Party Beneficiary. Except as set forth in Section 5.20 and Article VIII hereof, nothing in this Agreement expressed or implied is intended or shall be construed to confer upon, or to give or grant to, any person or entity, other than the Issuer, the Company, the Trustee, Ambac Assurance, the Paying Agent, if any, and the registered owners of the Bonds, any right, remedy or claim under or by reason of this Agreement or any covenant, condition or stipulation hereof, and all covenants; stipulations, promises and agreements in this Agreement contained by and on behalf of the Issuer or the Company shall be for the sole and exclusive benefit of the Issuer, the Company, the Trustee, Ambac Assurance, the Paying Agent, if any, and the registered owners of the Bonds.

To the extent that this Agreement confers upon or gives or grants to Ambac Assurance (individually or as Bond Insurer) any right, remedy or claim under or by reason of this Agreement, Ambac Assurance is hereby explicitly recognized as being a third-party beneficiary

hereunder and may enforce any such right, remedy or claim conferred, given or granted hereunder.

Section 11.06. Severability. In the event that any provision of this Agreement shall be held to be invalid in any circumstance, such invalidity shall not affect any other provisions or circumstances.

Section 11.07. Counterparts. This Agreement may be executed and delivered in any number of counterparts, each of which shall be deemed to be an original, but such counterparts together shall constitute one and the same instrument.

Section 11.08. Captions. The captions and table of contents of this Agreement are for convenience only and shall not affect the construction hereof.

Section 11.09. Governing Law. This instrument shall be governed by the laws of the State of Arizona.

Section 11.10. Suspension of Publications or Mail. If, because of the temporary or permanent suspension of publication of any newspaper or financial journal, the suspension of delivery of first-class mail or, for any other reason, the Trustee shall be unable to publish in a newspaper or financial journal or mail first-class any notice required to be published or mailed by the provisions of this Agreement, the Trustee shall give such notice in such other manner as in the judgment of the Trustee shall most effectively approximate such publication or mailing thereof, and the giving of such notice in such manner shall be deemed for all purposes of this Agreement to be in compliance with the requirement for the publication or mailing thereof.

Except as otherwise provided herein, for all purposes of this Agreement, anything required to be mailed shall be deemed mailed upon the deposit of the item with the U.S. Postal Service, first-class postage paid and addressed to the addressee and the giving of any notice by any other means of delivery shall be deemed complete upon receipt of the notice by the delivery service.

Section 11.11. Conflict of Interest. To the extent A.R.S. Section 38-511 is applicable, all parties acknowledge that this Agreement is subject to cancellation without penalty or further obligation by the Issuer pursuant to A.R.S. Section 38-511, as amended, the provisions of which are incorporated herein. All parties represent that to the best of their knowledge, the parties are not in violation of A.R.S. Section 38-511 as of the date hereof. The Trustee and the Company each covenant not to employ as an employee, an agent or, with respect to the subject matter of this Agreement, a consultant, any person significantly involved in initiating, negotiating, securing, drafting or creating this Agreement on behalf of the Issuer within 3 years from execution of this Agreement, unless a waiver of A.R.S. Section 38-511 is provided by the Board of Directors of the Issuer.

Section 11.12. Continuing Disclosure. The Company acknowledges and agrees that the Issuer is not an "obligated person" (as defined in the Continuing Disclosure Agreement) with respect to the Bonds and represents that the Company is the only obligated person with respect

thereto. The Issuer and the Trustee hereby acknowledge the entry by the Company into the Continuing Disclosure Agreement under which the Company has assumed certain obligations for the benefit of the Holders and beneficial owners of the Bonds. The Company agrees to perform its obligations under the Continuing Disclosure Agreement. Notwithstanding any other provision of this Agreement, any failure by the Company to comply with any provision of the Continuing Disclosure Agreement shall not be a failure or a default, or an Event of Default, under this Agreement.

[Remainder of page left blank intentionally.]

IN WITNESS WHEREOF, the parties have caused this Agreement to be duly executed all as of the date first above written,

THE INDUSTRIAL DEVELOPMENT AUTHORITY OF
THE COUNTY OF MARICOPA

/s/ ROBERT K. WEXLER

By: Robert K. Wexler
Title: President

CHAPARRAL CITY WATER COMPANY

/s/ Erik Eriksson, Jr.

By: ERIK ERIKSSON, JR.

Title: ASSISTANT SECRETARY

BANK ONE, ARIZONA, NA, as Trustee

/s/ D. D. Melendez

By: D. D. Melendez

Title: Vice President

SCHEDULE A

EXISTING ENCUMBRANCES

1. Any action, by the Maricopa County Assessor and/or Treasurer, altering the current or prior tax assessment, subsequent to the date of the Policy of Title Insurance.

2. Taxes for the second half of 1997, a lien, payable on or before March 1, 1998 and delinquent May 1, 1998.

3. Mineral rights, water rights, reservations and exclusions as contained is the Patent conveying said land.

4. Inclusion within the following Special Districts:

   A. FOUNTAIN HILLS SANITARY DISTRICT

   B. FOUNTAIN HILLS FIRE DISTRICT

   C. FOUNTAIN HILLS ROAD DISTRICTS 9, 10 & 11

   D. NO FENCE DISTRICT NO. 62

   E. McDOWELL MOUNTAIN IRRIGATION AND DRAINAGE

5. The Right of Entry to prospect for, mine and remove all minerals in said land, as reserved in Patent to said land, as limited by Public Law 87-754 of the 87th Congress (76 Stat. 750) withdrawing said land from entry, a copy of which is recorded in Docket 6286, page 61. (Parcel Nos. 4, 5, 6. 7, 8, 9 and 10)

6. Covenant running with the land regarding special road districts recorded March 15, 1971 in Docket 8578, pages 707 through 715. (Affects all)

Continued an next Page

7. Covenant running with land regarding special flood control districts recorded July 13, 1971 in Docket 545, page 553. (Affects all)

8. Restrictions contained in instrument recorded July 15, 1971 in Docket 8821, pages 72 through 120, except that any restrictions based upon race, color, or religion are unenforceable.

9. Easements shown on the recorded plate in Book 149 of Maps, page 3; Book 155 of Maps, page 11, Book 164 of Maps, page 12; Book 164 of Maps, pages 41, 43 and 44; Book 373 of Maps, page 42; Book 156 of Maps, Page 45; Book 387 of Maps, page 30 and Book 142 of Maps, page 10.

10. Easement and rights incident thereto for cable television and related facilities as set forth in instrument recorded February 1, 1972 in Docket 9213, pages 469 through 472. (Affects all).

11. Easement and rights incident thereto for electric lines as set forth in instrument recorded March 22, 1972 in Docket 9317, pages 390 and 391. (Affects Parcels 9 and 10)

12. Restrictions contained in instrument recorded May 19, 1972 in Docket 9446, pages 963 through 965, except that any restrictions based upon race, color, or religion are unenforceable. (Affects Parcel 8)

13. Easement and rights incident thereto for communication and related facilities as set forth in instrument recorded March 15, 1973 in Docket 10045, pages 225 through 228. (Affects Parcels 6, 7, 9 and 10)

14. Restrictions contained in instrument recorded July 17, 1973 in Docket 10225, pages 789 through 791 and amended January 12, 1978 in Docket 12650, page 1335, except that any restrictions based upon race, color, or religion are unenforceable. (Affects Parcel 5)

15. Restrictions contained in instrument recorded September 5, 1973 in Docket 10298, pages 618 through 621, except that any restrictions based upon race, color, or religion are unenforceable. (Affects Parcel 3)

16. Restrictions contained in instrument recorded September 5, 1973 in Docket l0298, pages 642 through 645, except that any restrictions based upon race, color, or religion are unenforceable. (Affects Parcel 1)

Continued on next page

17. The Right of Entry to prospect for, mine and remove the gas, coal and minerals in said land, as implied by the reservation of same, all as set forth in Deeds recorded October 17, 1977 in Docket 12489, pages 876 (Parcel 1), 877 (Parcel 2); 879 (Parcel 3); 881 (Parcel 4); 883 (Parcel 5); 884 (Parcel 6); 886 (Parcel 7); 888 (Parcel 8); 892 (Parcel 9); 894 (Parcel 10) and thereafter the right of surface entry to a depth of 100 feet was relinquished by instrument recorded September 15, 1980 in Docket 14688, pages 133 through 138 affecting Parcel Nos. 1, 3 and 8.

18. Easement and rights incident thereto for electric lines as set forth in instrument recorded June 24, 1980 in Docket 14502, page 593. (Affects Parcel 1)

19. Easement and rights incident thereto for electric lines as set forth in instrument recorded October 29, 1981 in Docket 15610, page 806. (Affects Parcel 6)

20. The Rights of Entry to prospect for, mine and remove the oil, gases and other hydrocarbon substances, coal, stone, metals, minerals, fossils and fertilizers of every name and description, together with all uranium, thorium, or any other material which is or may be determined to be peculiarly essential to the production of fissionable materials, and all underground water in said land, as implied by reservation of the same, in instruments recorded February 25, 1985 at Recorders No. 85-079357 (Parcel 11); Recorders No. 85-079358 (Parcel 12) and Recorders No. 85-079359 (Parcel 13).

21. Easement and rights incident thereto for underground electrical facilities as set forth in instrument recorded October 9, 1987 at Recorders No. 87-625979, (Affects Parcel 4)

22. Easement and rights incident thereto for underground electrical facilities as set forth in instrument recorded October 17, 1995 at Recorders No. 95-0633235 and re-recorded December 27, 1995 at Recorders No. 95-0797077. (Affects Parcel 5)

23. Discrepancies, conflicts in boundary lines, shortage in area, encroachments or any other facts which a correct survey would disclose, and which are not shown by the public records.

24. Covenants, conditions and restrictions, easements, charges, assessments and other obligations contained in instrument recorded January 6, 1989 at Recorders No. 89-007564; Amended at Recorders No. 89-564872 and thereafter a Declaration of Annexation recorded at Recorders No. 94-0855305. (Affects Fountain Hills Final Plat 513 in Book 387 of Maps, page 30)

Continued on next page

25. Restrictions contained in instrument recorded December 14, 1972 in Docket 9881, page 443 and recorded June 37, 1974 in Docket 10716, page 731, exempt that any restrictions based upon race, color, or religion are unenforceable. (Affects Fountain Hills Final Plat 302 in Book 156 of Maps, page 45)

36. Restrictions contained in instrument recorded February 16, 1972 in Docket 9243, page 850 and thereafter as Addendum recorded April 6, 1993 at Recorders No. 93-0204469, except that any restrictions based upon race, color, or religion are unenforceable. (Affects Fountain Hills Final Plat 204 in Book 142 of Maps, page 10)

STEWART TITLE
GUARANTY COMPANY

SCHEDULE B

FORM OF PROJECT FUND REQUISITION

STATEMENT NO.___ REQUESTING DISBURSEMENT OF FUNDS FROM PROJECT FUND PURSUANT TO SECTION 3.09 OF THE LOAN AND TRUST AGREEMENT DATED AS OF DECEMBER 1, 1997 AMONG THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE COUNTY OF MARICOPA, CHAPARRAL CITY WATER COMPANY AND HANK ONE, ARIZONA, NA

Pursuant to Section 3.09 of the Loan and Trust Agreement (the "Agreement") among The Industrial Development Authority of the County of Maricopa (the "Issuer"), Chaparral City Water Company (the "Company") and Hank One, Arizona, NA, as trustee (the "Trustee"), dated as of December 1, 1997, the undersigned Authorized Officer of the Company hereby requests and authorizes the Trustee, as depository of the Project Fund created by the Agreement, to pay to the Company or to the person(s) listed on the Disbursement Schedule attached hereto out of the moneys deposited in the Project Fund the aggregate sum of $ to pay such persons) or to reimburse the Company in full, as indicated in the Disbursement Schedule, for the advances, payments and expenditures ~ made by it in connection with the items listed in the Disbursement Schedule.

In connection with the foregoing request and authorization, the undersigned hereby certifies that:

(a) Each item for which disbursement is requested hereunder is properly payable out of the Project Fund in accordance with the terms and conditions of the Agreement and none of those items has formed the basis for any disbursement heretofore made from said Project Fund.

(b) Each such item is or was necessary in connection with the construction, installation, equipment or improvement of the 1997 Project, as defined in the Agreement, or costs related thereto as permitted by the Agreement,

(c) Each item for which disbursement is requested hereunder, and the cost for each such item, is as described in the information statement Form 8038 filed by the Issuer in connection with the issuance of the Series 1997A Bonds (as defined in the Agreement), as required by Section 149(e) of the Code; provided that if any such item is not as described in that information statement, attached hereto is the additional information required to be submitted herewith in accordance with Section 3,09 of the Agreement.

(d) This statement and all exhibits hereto, including the Disbursement Schedule, shall be conclusive evidence of the facts and statements set forth herein

and shall constitute full warrant, protection and authority to the Trustee for its actions taken pursuant hereto.

(e) This statement constitutes the approval of the Company of each disbursement hereby requested and authorized.

This_____ day of_____,_____.

Authorized Officer

DISBURSEMENT SCHEDULE

TO STATEMENT NO._____ REQUESTING AND AUTHORIZING DISBURSEMENT OF FUNDS FROM PROJECT FUND PURSUANT TO SECTION 3.09 OF THE LOAN AND TRUST AGREEMENT DATED AS OF DECEMBER 1, 1997 AMONG THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE COUNTY OF MARICOPA, CHAPARRAL CITY WATER COMPANY AND BANK ONE, ARIZONA, NA.

PAYEE	AMOUNT	PURPOSE

SCHEDULE C

CREDIT FACILITY REQUIREMENTS

In the event the Company desires to obtain a credit instrument to fulfill the Debt Service Reserve Fund Requirement in lieu of funding such Debt Service Reserve Fund Requirement with cash or Permitted Investments, the following requirements shall be fulfilled to the satisfaction of the Bond Insurer:

1. A surety bond or insurance policy issued to the Trustee by a company licensed to issue an insurance policy guaranteeing the timely payment of debt service on the Bonds (a "municipal bond insurer") may be deposited in the Debt Service Reserve Fund to meet the Debt Service Reserve Fund Requirement if the claims paying ability of the issuer thereof shall be rated "Am" and "Aaa" by S&P and Moody's, respectively.

2. A surety bond or insurance policy issued to the Trustee by an entity other than a municipal bond insurer may be deposited in the Debt Service Reserve Fund to meet the Debt Service Reserve Fund Requirement if the form and substance of such instrument and the issuer thereof shall be approved by the Bond Insurer.

3. An unconditional irrevocable letter of credit issued to the Trustee by a bank may be deposited in the Debt Service Reserve Fund to meet the Debt Service Reserve Fund Requirement if the issuer thereof is rated at least "AA" by S&P. The letter of credit shall be payable in one or more draws upon presentation by the Trustee of a sight draft accompanied by its certificate that it then holds insufficient funds to make a required payment of principal or interest on the Bonds. The letter of credit shall be for a term of not less than three years. The issuer of the letter of credit shall be required to notify the Trustee, not later than 12 months prior to the stated expiration date of the letter of credit, as to whether such expiration date shall be extended, and if so, shall indicate the new expiration date.

If such notice indicates that the expiration date shall not be extended, the Company shall deposit in the Debt Service Reserve Fund an amount sufficient to cause the cash or Permitted Investments on deposit in the Debt Service Reserve Fund, together with any other qualifying Credit Facility, to equal the Debt Service Reserve Fund Requirement on all outstanding Bonds, such deposit to be paid in equal installments on at least a semi-annual basis over the remaining term of the letter of credit, unless such letter of credit is replaced by a Credit Facility meeting the requirements in any of 1, 2 or 3 above. The letter of credit shall permit a draw in full not less than two weeks prior to the expiration or termination of such letter of credit if the letter of credit has not been replaced or renewed. The Trustee is hereby directed to draw upon such letter of credit prior to its expiration or termination unless an acceptable replacement is in place or the Debt Service Reserve Fund is fully funded in its required amount.

4. The use of any Credit Facility shall be subject to receipt of an Opinion of Counsel of the issuer thereof (addressed to the Issuer, the Trustee and the Bond Insurer) as to the due authorization, execution, delivery and enforceability of such instrument in accordance

with its terms, subject to applicable laws affecting creditors' rights generally, and, in the event the issuer of such Credit Facility is not a domestic entity, an opinion of foreign counsel in form and substance satisfactory to the Bond Insurer. In addition, the use of an irrevocable letter of credit shall be subject to receipt of an Opinion of Counsel (addressed to the Issuer, the Trustee and the Bond Insurer) to the effect that payments under such letter of credit would not constitute avoidable preferences under Section 547 of the U.S. Bankruptcy Code or similar state laws with avoidable preference provisions in the event of the filing of a petition for relief under the U.S. Bankruptcy Code or similar state laws by or against the Issuer or the Company (or any other account party under the letter of credit).

5. The obligation to reimburse the issuer of a Credit Facility for any fees, expenses, claims or draws upon such Credit Facility shall be subordinate to the payment of debt service on the Bonds. The right of the issuer of a Credit Facility to payment or reimbursement of its fees, expenses, claims or draws may be on a parity with the cash replenishment of the Debt Service Reserve Fund. The Credit Facility shall provide for a revolving feature under which the amount available thereunder will be reinstated to the extent of any reimbursement of draws or claims paid. If the revolving feature is suspended or terminated for and reason, the right of the issuer of the Credit Facility to reimbursement will be subordinated to cash replenishment of the Debt Service Reserve Fund to an amount equal to the difference between the full original amount available under the Credit Facility and the amount then available for further draws or claims. If (a) the issuer of a Credit Facility becomes insolvent or (b) the issuer of a Credit Facility defaults in its payment obligations thereunder or (c) the claims-paying ability of the issuer of the insurance policy or surety bond falls below "A+" by S&P or "A1" by Moody's or (d) the rating of the issuer of the letter of credit falls below "A+" by S&P or "A1" by Moody's, then the obligation to reimburse the issuer of the Credit Facility shall be subordinate to the cash replenishment of the Debt Service Reserve Fund.

6. If (a) the revolving reinstatement feature described in the preceding paragraph is suspended or terminated or (b) the rating of the claims paying ability of the issuer of the surety bond or insurance policy falls below "A+" by S&P or "Al" by Moody's or (c) the rating of the issuer of the letter of credit falls below "A+" by S&P or "A1 " by Moody's, the Company shall either (i) deposit into the Debt Service Reserve Fund an amount sufficient to cause the cash or Permitted Investments on deposit in the Debt Service Reserve Fund to equal the Debt Service Reserve Fund Requirement on all outstanding Bonds, such amount to be paid over the ensuing five years in equal installments deposited at least semi-annually or (ii) replace such Credit Facility with a surety bond, insurance policy or letter of credit meeting the requirements in any of (1), (2) or (3) above within six months of such occurrence.

7. Where applicable, the amount available for draws or claims under the Credit Facility may be reduced by the amount of cash or Permitted Investments deposited in the Debt Service Reserve Fund pursuant to clause (i) of the preceding subparagraph 6.

8. If the Company chooses the above described alternatives to a cash-funded Debt Service Reserve Fund, any amounts owed by the Company to the issuer of such credit instrument as a result of a draw thereon or a claim thereunder, as appropriate, shall be included

in any calculation of Long-Term Indebtedness Service Requirement, Annual Debt Service and maximum Annual Debt Service under Sections 5.13 and 5.14 of the Agreement.

9. The Trustee is required to ascertain the necessity for a claim or draw upon the Credit Facility and to provide notice to the issuer of the Credit Facility in accordance with its terms not later than three days (or such longer period as may be necessary depending on the permitted time period for honoring a draw under the Credit Facility) prior to each Interest Payment Date.

10. Cash on deposit in the Debt Service Reserve .Fund shall be used (or investments purchased with such cash shall be liquidated and the proceeds applied as required) prior to any drawing on any Credit Facility. If and to the extent that more than one Credit Facility is deposited in the Debt Service Reserve Fund, drawings thereunder and repayments of costs associated therewith shall be made on a pro rata basis, calculated by referee to the maximum amounts available thereunder.

SCHEDULE D

COSTS OF ISSUANCE

Payee	Amount
Kutak Rock (Issuer's Counsel)	$ 16,000
Kutak Rock (Issuer's Counsel Expenses)	1,000
Squire, Sanders & Dempsey L.L.P. (Bond Counsel)	75,000
Bank One, Arizona, NA (Trustee Initial & 1st Yr. Admin.)	5,000
Jennings, Strauss & Solomon, P.L.C. (Trustee Counsel)	1,000
Kutak Rock (Blue Sky)	2.000
Banc One Capital Corporation (Preliminary & Final Official Statement)	3,750
Banc One Capital Corporation (Underwriter)	111,500
Banc One Capital Corporation for Lewis & Roca LLP (Underwriter Counsel)	7,500
Banc One Capital Corporation for Kutak Rock (Disclosure Counsel)	25,000
Banc One Capital Corporation for Kutak Rock (Disclosure Counsel Expenses)	5,000
Banc One Capital Corporation (Bond Clearance/CUSIP/IPSA)	4,460
Stewart Title (Title Insurance)	8,635
Stewart Title (Title Recording)	27
Banc One Capital Corporation for Standard & Poor's (Rating Agency)	6,000
Arthur Andersen	5,000
Bank One, Arizona, NA (Miscellaneous)	5,000

SCHEDULE E

DESCRIPTION OF 1997 PROJECT

The 1997 Project is expected to be undertaken within the entire area covered by the Company's certificate of convenience and necessity as approved by the Arizona Corporation Commission on April 20, 1971 (the "Service Area"). The Company's Service Area covers approximately 12,000 acres which encompass all of the Town of Fountain Hills as well as selected parcels located within unincorporated Maricopa County and the City of Scottsdale. The Service Area includes all of the master planned community known as Fountain Hills. The 1997 Project is expected to encompass a comprehensive capital improvements program for the Company that will include the construction of new reservoir and distribution lines necessary to accommodate the continued growth in the Company Service Area population as well as the replacement of equipment and those distribution lines, constructed as part of the Company's initial system, which have reached the end of their useful lives.

Without limiting the foregoing, portions of the 1997 Project include the following items, together with related and ancillary equipment and work, constituting portions of the Company's water service system, to be installed or performed within the Service Area:

CAP Filtration Expansion:

The Central Arizona Project ("CAP") water filtration expansion work includes a 5 million gallon per day clarifier/filter treatment system which will service the current demands, and a portion of the future demands, of the Service Area. This addition is expected to bring the Company's total treatment capacity for CAP water to approximately 10 million gallons per day. This expansion will also include a 200,000 gallon clear well which is being sized for the projected buildout population of the Service Area.

CAP Solids Disposal Expansion:

In connection with the expansion of the CAP water filtration plant, enhancements to the plant's filter backwash water system are required. The existing solids disposal facilities consists of a 150,000 gallon decant tank and a settling pond. This portion of the 1997 Project will include the design and construction of a second matching decant tank and necessary improvements to the settling pond to meet the needs of the expanded filter system.

Direct Zone 2 Pumping Project:

This portion of the 1997 Project includes the design and installation of a high-service pumping station and associated piping, so that finished water from the water filtration plant may be transmitted directly into pressure zone 2 of the Service Area.

Reservoir #7, pressure zone 2:

This portion of the 1997 Project includes a 1.25 million gallon above-ground welded steel storage tank which will service pressure zone 2 of the Service Area. The installation is needed to meet the current and projected demand of the southwest area of the zone.

Computer System Upgrade:

This will include upgrades to the software and hardware of the accounting, billing, telemetric and customer servicing computer systems.

Water Meter Replacement Program:

The water meter replacement program would replace old, inoperable and unreadable meters. It is anticipated that the Company will replace approximately 1,200 meters.

Service and Distribution Line Replacement Program:

Service Lines:

The replacement of approximately 3,600 residential unit service lines is a portion of the 1997 Project. This portion will include material and installation work including design, labor, material, pavement replacement and other items. The existing lines, which were made of a polyethylene material, are being replaced with copper lines, which are expected to be better capable of withstanding pressure and temperature changes within the water system.

Distribution Lines:

The replacement of approximately 35,500 linear feet of 4 inch distribution lines is another portion of the 1997 Project. The existing lines, made of a PVC material, are being replaced by an improved, thicker walled PVC material better capable of withstanding pressure and temperature changes within the water system.

Vehicle Replacement:

The 1997 Project is expected to include the periodic replacement of five half ton and over trucks, with varying necessary attachments.

Hydrant Replacement:

The Company expects to replace approximately 80 hydrants as a portion of the 1997 Project.

Miscellaneous portions of the 1997 Project will include, but not be limited to, the following:

(a) Various office equipment replacement/additions.

(b) Office renovation/expansion required in connection with other portions of the 1997 Project.

(c) New maintenance building within the Service Area. This building is expected to be a metal storage facility designed to store various equipment and materials used in the operations of the Company.

(d) Disinfection system upgrade.

(e) Equipment additions/replacements as reasonably needed by the Company are expected to include, but not be limited to, a backhoe, compressors, valve exercisers, meter read data loggers, compactors, replacement valves, well equipment, generators, controls and other electrical gear, and other water system equipment as needed in the operations of the water system.

DESCRIPTION OF 1985 PROJECT

The "1985 Project" consisted of various portions of a potable water treatment, transmission and distribution system, which included the acquisition, construction and equipping of a 9,000 gallon per minute pump station, 23,500 lineal feet of 24-inch diameter mortar lined and coated steel pipe, a 3.5 million gallon steel reservoir and water treatment plant and an interconnecting pipeline from the treatment plant to the then existing distribution systems of the Company to be used for the transportation, treatment and storage of Central Arizona Project water.

EXHIBIT I

FORM OF SERIES 1997A BOND

Registered No.

THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE COUNTY OF MARICOPA

WATER SYSTEM IMPROVEMENT REVENUE BOND
(CHAPARRAL CITY WATER COMPANY PROJECT)
SERIES 1997A

REGISTERED OWNER: CEDE & CO., as nominee of The Depository Trust Company — CUSIP:

PRINCIPAL AMOUNT: — DOLLARS

INTEREST PAYMENT DATES: June 1 and December 1, commencing June 1, 1998

INTEREST RATE PER ANNUM: _____%
MATURITY DATE: December 1, ____
DATE OF THIS BOND: December 1, 1997

The Industrial Development Authority of the County of Maricopa (the "Issuer"), for value received, promises to cause to be paid to the Registered Owner of this Bond, or registered assigns, but solely from the money to be provided under the Agreement (defined below), upon presentation and surrender hereof, in lawful money of the United States of America, the Principal Amount on the Maturity Date, unless paid earlier as provided below, with interest from the most recent Interest Payment Date to which interest has been paid or duly provided for or, if no interest has been paid, from the Date of this Bond, until paid in full at the Interest Rate, payable on each Interest Payment Date.

THE BONDS AND THE INTEREST THEREON ARE SPECIAL LIMITED OBLIGATIONS OF THE ISSUER PAYABLE EXCLUSIVELY FROM REVENUES AND RECEIPTS UNDER THE AGREEMENT. THE BONDS DO NOT CONSTITUTE A DEBT OR A LOAN OF CREDIT OR A PLEDGE OF THE FULL FAITH AND CREDIT OR TAXING POWER OF THE ISSUER, MARICOPA COUNTY, OR OF THE STATE OF ARIZONA, OR OF ANY POLITICAL SUBDIVISION THEREOF, WITHIN THE MEANING OF ANY STATE CONSTITUTIONAL PROVISION OR STATUTORY LIMITATION AND SHALL NEVER CONSTITUTE NOR GIVE RISE TO A PECUNIARY LIABILITY OF THE STATE OF ARIZONA OR MARICOPA COUNTY, ARIZONA. THE BONDS SHALL NOT CONSTITUTE, DIRECTLY OR INDIRECTLY, OR CONTINGENTLY OBLIGATE OR OTHERWISE CONSTITUTE A GENERAL OBLIGATION OF OR A CHARGE AGAINST THE GENERAL CREDIT OF THE STATE OF ARIZONA, MARICOPA COUNTY,

ARIZONA, OR THE ISSUER, BUT SHALL BE A SPECIAL LIMITED OBLIGATION OF THE ISSUER PAYABLE SOLELY FROM THE SOURCES DESCRIBED HEREIN AND IN THE AGREEMENT, BUT NOT OTHERWISE. THE ISSUER HAS NO TAXING POWER.

Interest on this Bond shall be computed on the basis of a 360-day year consisting of twelve 30-day months. From and after the date on which this Bond becomes due, any unpaid principal will bear interest at the same rate until paid or duly provided for.

The principal of and premium, if any, on this Bond are payable to the Registered Owner hereof upon presentation of this Bond at the designated corporate trust office of Bank One, Arizona, NA, or its successor as the Trustee and Paying Agent (the "Trustee"), and as provided below may be paid by wire transfer to any account in the United States of America if written instructions satisfactory to the Trustee in its sole discretion are delivered to the Trustee upon or prior to the presentation of this Bond. Interest on this Bond is payable by check or draft mailed by the Trustee to the Registered Owner, determined as of the close of business on the applicable record date, at its address as shown on the registration books, or, at the option of any such Registered Owner who owns at least $1,000,000 in principal amount of Bonds, as hereinafter defined, by wire transfer to any account in the United States if written instructions satisfactory to the Trustee in its sole discretion are delivered to the Trustee at its designated corporate trust office not later than five Business Days prior to the applicable record date.

The record date for payment of interest is the fifteenth day of the month preceding the Interest Payment Date. With respect to overdue interest or interest payable on redemption of this Bond other than on an Interest Payment Date or interest on any overdue amount, the Trustee may establish a special record date. The Trustee will mail notice of a special record date to the Bondholders at least 10 days before the special record date.

This Bond is one of a series of bonds consisting of the Issuer's $7,600,000 Water System Improvement Revenue Bonds (Chaparral City Water Company Project), Series 1997A (the "Bonds") issued pursuant to Title 35, Chapter 5, Arizona Revised Statutes (as amended from time to time, the "Act") and secured by a Loan and Trust Agreement (as amended from time to time in accordance with its terms, the "Agreement"), dated as of December 1, 1997, among Chaparral City Water Company (the "Company"), the Issuer and the Trustee. Pursuant to the Agreement, the Company has agreed to repay the borrowing in the amounts and at the times necessary to enable the Issuer to cause to be paid the principal of, premium, if any, and interest on the Bonds. The Company has secured its obligations under the Agreement by a Deed of Trust from the Company for the benefit of the Trustee, dated of even date herewith (the "Mortgage"). Reference is hereby made to the Agreement for a description of the funds pledged and for the provisions thereof with respect to the rights, limitations of rights, duties, obligations and immunities of the Company, the Issuer, the Trustee and the Bondholders, including conditions upon which Additional Parity Indebtedness may be secured on a parity with the Bonds under the Agreement and the Mortgage, the order of payments in the event of insufficient funds and restrictions on the rights of the Bondholders to bring suit, provisions for providing for the payments of the Bonds and conditions which must be satisfied before the Bonds are considered no longer Outstanding under the Agreement. The Agreement and the Mortgage may be amended to the extent and in the manner provided therein.

In case any Event of Default (as defined in the Agreement) occurs, the principal amount of this Bond together with accrued interest may, and, under certain circumstances, must, be declared due and payable in the manner and with the effect provided in the Agreement.

The Registered Owner of each Bond has only those remedies provided in the Agreement.

If the specified date for any payment hereon shall be a date other than a Business Day, then such payment may be made on the next Business Day without additional interest and with the same force and effect as if made on the specified date for such payment.

"Business Day" shall mean a day on which banks located in the city in which the principal corporate offices of the Trustee and the Paying Agent are located are not required or authorized to remain closed and on which the New York Stock Exchange is not closed.

The Bonds maturing after December 1, 2007 are redeemable pursuant to the Agreement prior to maturity beginning on December 1, 2007 at the written direction of the Company, as a whole at any time, or in part on any Interest Payment Date, at the following prices expressed in percentages of their principal amount, plus accrued interest to the redemption date:

Period During Which Redeemed	Redemption Price
December 1, 2007 to November 30, 2008	102%
December 1, 2008 to November 30, 2009	101%
December 1, 2009 and thereafter	100%

The Bonds maturing on December 1, 2011 are subject to mandatory redemption at a redemption price equal to 100% of the Bonds redeemed, plus accrued interest to the redemption date, on each December 1, commencing December 1, 2008, from sinking fund installments in each of the years and in the amounts as follows:

YEAR	Principal Amount
2008	$255,000
2009	265,000
2010	280,000
2011*	200,000

* final maturity

The Bonds maturing on December 1, 2022 are subject to mandatory redemption at a redemption price equal to 100 of the Bonds redeemed, plus accrued interest to the redemption date, on each December 1, commencing December 1, 2012, from sinking fund installments in each of the years and in the amounts as follows:

YEAR	Principal Amount
2011	$ 95,000
2012	310,000
2013	330,000
2014	345,000
2015	365,000
2016	385,000
2017	405,000
2018	425,000
2019	450,000
2020	475,000
2021	500,000
2022*	525,000

* final maturity

In the event of a partial redemption of Bonds within a maturity, whether through optional redemption or extraordinary optional redemption, the amount of future mandatory sinking fund redemptions will be reduced as specified by the Company to take into account such partial redemption.

The Bonds are subject to extraordinary optional redemption, in whole at any time or in pro rata part on any Interest Payment Date, at a redemption price equal to 100% of the principal amount of the Bonds redeemed, plus accrued interest to the redemption date, upon the occurrence of damage to or destruction or taking of the Property as provided in the Agreement.

If less than all of the outstanding Bonds are to be called for redemption, the Bond (or portions thereof) to be redeemed will be redeemed in the maturities designated by the Company and, if less than an entire maturity is redeemed, the Bonds to be redeemed within such maturity will be selected by the Trustee by lot or in any customary manner as determined by the Trustee. Redemption shall be in denominations of $5,000 or any integral multiple thereof, provided that Bonds must remain in authorized denominations after redemption.

In the event this Bond (or any portion thereof) is selected for redemption, notice will be mailed no more than 45 nor fewer than 30 calendar days prior to the redemption date to the Registered Owner. Failure to mail notice to the owner of any other Bond or any defect in the notice to such owner shall not affect the redemption of this Bond.

The Trustee shall give notice of any redemption of this Bond as provided above to the Registered Owner at its address shown on the registration books maintained by the Trustee. A certificate of the Trustee shall conclusively establish the mailing of any such notice for all purposes. Notice of redemption having been duly mailed, this Bond, or the portion called for redemption, will become due and payable on the redemption date at the applicable redemption price and, moneys for the redemption having been deposited with the Trustee, from and after the date fixed for redemption, interest on this Bond (or such portion) will no longer accrue.

This Bond is transferable by the Registered Owner, in person or by its attorney duly authorized in writing, at the designated corporate trust office of the Trustee, upon surrender of this Bond to the Trustee for cancellation. Upon the transfer, a new Bond or Bonds in authorized denominations of the same aggregate principal amount will be issued to the transferee at the same office. This Bond may also be exchanged at the designated corporate trust office of the Trustee for a new Bond or Bonds in authorized denominations of the same aggregate principal amount without transfer to a new registered owner. Exchanges and transfers will be without expense to the owner except for applicable taxes or other governmental charges, if any. The Trustee will not be required to make an exchange or transfer of this bond (i) if this Bond (or any portion thereof) has been selected for redemption, (ii) during the 10 days preceding any date fixed for selection for redemption if this Bond (or any portion thereof) is eligible to be selected for redemption, or (iii) during the period of 15 days preceding any Interest Payment Date.

The Bonds are initially to be issued in book entry form in the denominations of $5,000 and integral multiples of $5,000.

The Issuer, the Trustee, and the Company may treat the Registered Owner as the absolute owner of this Bond for all purposes, notwithstanding any notice to the contrary.

No recourse under or upon any obligation, covenant, or agreement or in any Bond, or under any judgment obtained against the Issuer, or by the enforcement of any assessment or by any legal or equitable proceeding by virtue of any constitution or statute or otherwise or under any circumstances, shall be had for the payment of the principal of or premium, if any, or interest on this Bond against any director, officer, counsel, financial advisor or agent, as such, past, present, or future, of the Issuer, either directly or through the Issuer, or any successor to the Issuer, and all liability of every nature, whether at common law or in equity, or by statute or by constitution or otherwise, of any such director, officer, counsel, financial advisor or agent, as such, is hereby expressly waived and released as a condition of and consideration for the execution of the Agreement and the issue of such Bonds.

The County of Maricopa, Arizona shall not in any event be liable for the payment of the principal of, premium, if any, or interest on any of the Bonds issued, or for the performance of any pledge, mortgage, obligation or agreement of any kind whatsoever herein or indebtedness by the Issuer, and none of the Bonds of the Issuer issued or any of its agreements or obligations herein or otherwise shall be construed to constitute an indebtedness of Maricopa County, Arizona within the meaning of any constitutional or statutory provision whatsoever.

This Bond shall not be entitled to any security or benefit under the Agreement or be valid until the Certificate of Authentication has been signed by the Trustee.

It is certified and recited that there have been performed and have happened in regular and due form, as required by law, all acts and conditions necessary to be done or performed by the Issuer or to have happened (i) precedent to and in the issuing of the Bonds in order to make them legal, valid and binding special limited obligations of the Issuer, and (ii) precedent to and in the execution and delivery of the Agreement; that payment in full for the Bonds has been received; and that the Bonds do not exceed or violate any constitutional or statutory limitation.

IN WITNESS WHEREOF, The Industrial Development Authority of the County of Maricopa has caused this Bond to be executed in its name by the manual or facsimile signature of its authorized officers.

THE INDUSTRIAL DEVELOPMENT AUTHORITY
OF THE COUNTY OF MARICOPA

By: Robert K. Wexler
President

Attest: Myra L.T. Jefferson
Secretary/Treasurer

Certificate of Authentication

This bond is one of the Bonds described in the Loan and Trust Agreement referred to herein.

BANK ONE, ARIZONA, NA, as Trustee

Date of Authentication: ----------

By ----------
Authorized Signature

Legal Opinion

The following is a true copy of the text of the opinion rendered to the Issuer by Squire, Sanders & Dempsey L.L.P. in connection with the issuance of the Bonds. That opinion is dated as of and premised on the transcript of proceedings examined and the law in effect on the date of the original delivery of the Bonds. A signed copy is on file in the office of the Trustee.

The Industrial Development Authority,
of the County of Maricopa.

Myra L.T. Jefferson
Secretary/Treasurer

The Industrial Development Authority
of the County of Maricopa
Phoenix, Arizona

We have examined the transcript of proceedings (the "Transcript") relating to the issuance by The Industrial Development Authority of the County of Maricopa (the "Issuer") of its $7,600,000 Water System Improvement Revenue Bonds (Chaparral City Water Company Project), Series 1997A (the "Series 1997A Bonds") and its $1,320,000 Water System Refunding Revenue Bonds (Chaparral City Water Company Project), Series 1997B (the "Series 1997B Bonds" and together with the Series 1997A Bonds, the "Bonds"), both dated as of December 1, 1997, pursuant to the provisions of Title 35, Chapter 5 of the Arizona Revised Statutes, as amended. The Series 1997A Bonds are being issued to pay a portion of the costs of acquiring, constructing, improving and equipping certain water furnishing facilities (the "1997 Project") to be owned and operated by Chaparral City Water Company (the "Company"). The Series 1997B Bonds are being issued to refund certain outstanding bonds issued by the Issuer in 1985

to finance a portion of the costs of certain water furnishing facilities (the "1985 Project") owned and operated by the Company. The 1997 Project and the 1985 Project are more particularly described in the Loan and Trust Agreement, dated as of December 1, 1997 (the "Agreement"), by and among the Issuer, the Company and Bank One, Arizona, NA, as trustee (the "Trustee"). The documents in the Transcript examined include an executed counterpart of the Agreement. We have also examined a conformed copy of a Bond of each series.

Based on such examination, we are of the opinion that, under existing law:

1. The Bonds and the Agreement are legal, valid, binding and enforceable in accordance with their respective terms subject to bankruptcy laws and other laws affecting creditors' rights and to the exercise of judicial discretion.

2. The Bonds constitute special, limited obligations of the Issuer, and the principal of and premium, if any, and interest (collectively, "debt service") on the Bonds are payable by the Issuer solely from the revenues to be derived by the Issuer under the Agreement and the other security pledged and assigned by the Agreement to secure that payment, including the payments required to be made by the Company under the Agreement. The Bonds and the payment of debt service are not secured by any obligation or pledge of any moneys raised by taxation and the Bonds do not represent or constitute a debt or pledge of the faith and credit of the Issuer, the County of Maricopa, the State of Arizona, or any political subdivision thereof.

3. The interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103(a) of the Internal Revenue Code of 1986, as amended (the "Code"), or its statutory predecessor under the Internal Revenue Code of 1954, as amended (the "1954 Code"), except for interest on any Bond for any period during which it is held by a "substantial user" or a "related person" as those terms are used in Section 147(a) of the Code or its statutory predecessor under the 1954 Code. The interest on the Series 1997A Bonds, but not on the Series 1997B Bonds, is an item of tax preference under Section 57 of the Code and, therefore, may be subject to the alternative minimum tax imposed by the Code on individuals and corporations. Interest on the Bonds is exempt from Arizona state income tax. We express no opinion as to any other tax consequences regarding the Bonds.

Under Code provisions applicable only to corporations (as defined for federal income tax purposes), a portion of the excess of adjusted current earnings (which includes interest on all tax-exempt bonds including the Series 1997B Bonds) over other alternative minimum taxable income may be subject to a corporate alternative minimum tax. Further, interest on the Bonds may be subject to a branch profits tax imposed on certain foreign corporations doing business in the United States and to a tax imposed on excess net passive income of certain S corporations.

In giving the foregoing opinions, we have assumed and relied upon compliance with the covenants of the Issuer and the Company and the accuracy, which we have not independently verified, of the representations and certifications of the Issuer and of the Company contained in the Transcript. The accuracy of certain of those representations and certifications, and compliance by the Issuer and the Company with certain of those covenants, may be necessary for the interest on the Bonds to be and to remain excluded from gross income for federal income

tax purposes and for certain of the other tax effects stated above. Failure to comply with certain requirements subsequent to the date hereof could cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date hereof.

We have also relied, without independent investigation, upon the opinion of in-house counsel for the Company, contained in the Transcript with respect to all matters relating to the Company contained in the Transcript. We have also assumed for the purposes of this opinion the due authorization, execution and delivery by and the binding effect upon and enforceability against the Trustee of the Agreement.

We have not been retained to pass upon, and express no opinion concerning, the 1997 Project, the 1985 Project, the Company, including its financial condition or its ability to pay debt service on the Bonds (collectively, "Company Matters"), or any matters describing or concerning the 1997 Project, the 1985 Project, the Company or Company Matters.

We express no opinion as to the statement printed on the Bonds referring to the municipal bond insurance policy issued by Ambac Assurance Corporation or as to the insurance referred to in that statement.

Respectfully submitted,

SQUIRE, SANDERS & DEMPSEY L. L. P.

Statement of Insurance

Municipal Bond Insurance Policy No. 14546 BE (the "Policy") with respect to payments due for principal of and interest on this bond has been issued by Ambac Assurance Corporation ("Ambac Assurance"). The Policy has been delivered to the United States Trust Company of New York, New York, New York, as the Insurance Trustee under said Policy and will be held by such Insurance Trustee or any successor insurance trustee. The Policy is on file and available for inspection at the principal office of the Insurance Trustee arid a copy thereof may be secured from Ambac Assurance or the Insurance Trustee. All payments required to be made under the Policy shall be made in accordance with the provisions thereof. The owner of this bond acknowledges and consents to the subrogation rights of Ambac Assurance as more fully set forth in the Policy.

Assignment

The following abbreviations when used in the inscription on the face of this Bond, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM -	as tenants in common
TEN ENT -	as tenants by the entireties
JT TEN -	as joint tenants with right of survivorship and not as tenants in common

UNIF GIFTITRANS MIN ACT -_____Custodian for_____ under
(Cust.) (Minor)

Uniform Gifts/Transfers to Minors Act of_____
(State)

Additional abbreviations may also be used though not in list above.

UNLESS THIS BOND IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION ("DTC"), TO THE TRUSTEE FOR REGISTRATION OF TRANSFER, EXCHANGE, OR PAYMENT, AND ANY BOND ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

ASSIGNMENT

FOR VALUE RECEIVED, the undersigned sells, assigns and transfers unto _____ whose address is and _____whose social security number (or other federal tax identification number) is

PLEASE INSERT SOCIAL SECURITY OR OTHER
IDENTIFYING NUMBER OF TRANSFEREE

---

the within Bond and does hereby irrevocably constitute and appoint_____ as attorney to transfer the said Bond on the books kept for registration thereof, with full power of substitution in the premises.

Date:

SIGNATURE(S) GUARANTEED BY:

Signature guarantee should be made by an eligible guarantor institution pursuant to S.E.C. Rule 17Ad-15

NOTICE: The signature to this assignment must correspond with the name of the Registered Owner as it appears upon the face of the within Bond in every particular, without alteration or enlargement or any change whatever.

FORM OF SERIES 1997B BOND

Registered No.

THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE COUNTY OF MARICOPA

WATER SYSTEM REFUNDING REVENUE BOND
(CHAPARRAL CITY WATER COMPANY PROJECT)
SERIES 1997B

REGISTERED OWNER: CEDE & CO., as nominee of The Depository Trust Company — CUSIP:

PRINCIPAL AMOUNT: — DOLLARS

INTEREST PAYMENT DATES: June 1 and December 1, commencing June 1, 1998

INTEREST RATE PER ANNUM:_____%
MATURITY DATE: December 1, ____
DATE OF THIS BOND: December 1, 1997

The Industrial Development Authority of the County of Maricopa (the "Issuer"), for value received, promises to cause to be paid to the Registered Owner of this Bond, or registered assigns, but solely from the money to be provided under the Agreement (defined below), upon presentation and surrender hereof, in lawful money of the United States of America, the Principal Amount on the Maturity Date, unless paid earlier as provided below, with interest from the most recent Interest Payment Date to which interest has been paid or duly provided for or, if no interest has been paid, from the Date of this Bond, until paid in full at the Interest Rate, payable on each Interest Payment Date.

THE BONDS AND THE INTEREST THEREON ARE SPECIAL LIMITED OBLIGATIONS OF THE ISSUER PAYABLE EXCLUSIVELY FROM REVENUES AND RECEIPTS UNDER THE AGREEMENT. THE BONDS DO NOT CONSTITUTE A DEBT OR A LOAN OF CREDIT OR A PLEDGE OF THE FULL FAITH AND CREDIT OR TAXING POWER OF THE ISSUER, MARICOPA COUNTY, OR OF THE STATE OF ARIZONA, OR OF ANY POLITICAL SUBDIVISION THEREOF, WITHIN THE MEANING OF ANY STATE CONSTITUTIONAL PROVISION OR STATUTORY LIMITATION AND SHALL NEVER CONSTITUTE NOR GIVE RISE TO A PECUNIARY LIABILITY OF THE STATE OF ARIZONA OR MARICOPA COUNTY, ARIZONA. THE BONDS SHALL NOT CONSTITUTE, DIRECTLY OR INDIRECTLY, OR CONTINGENTLY OBLIGATE OR OTHERWISE CONSTITUTE A GENERAL OBLIGATION OF OR A CHARGE AGAINST THE GENERAL CREDIT OF THE STATE OF ARIZONA, MARICOPA COUNTY, ARIZONA, OR THE ISSUER, BUT SHALL BE A SPECIAL LIMITED OBLIGATION OF

THE ISSUER PAYABLE SOLELY FROM THE SOURCES DESCRIBED HEREIN AND IN THE AGREEMENT, BUT NOT OTHERWISE. THE ISSUER HAS NO TAXING POWER.

Interest on this Bond shall be computed on the basis of a 360-day year consisting of twelve 30-day months. From and after the date on which this Bond becomes due, any unpaid principal will bear interest at the same rate until paid or duly provided for.

The principal of and premium, if any, on this Bond are payable to the Registered Owner hereof upon presentation of this Bond at the designated corporate trust office of Bank One, Arizona, NA, or its successor as the Trustee and Paying Agent (the "Trustee"), and as provided below may be paid by wire transfer to any account in the United States of America if written instructions satisfactory to the Trustee in its sole discretion are delivered to the Trustee upon or prior to the presentation of this Bond. Interest on this Bond is payable by check or draft mailed by the Trustee to the Registered Owner, determined as of the close of business on the applicable record date, at its address as shown on the registration books, or, at the option of any such Registered Owner who owns at least $1,000,000 in principal amount of Bonds, as hereinafter defined, by wire transfer to any account in the United States if written. instructions satisfactory to the Trustee in its sole discretion are delivered to the Trustee at its designated corporate trust office not, later than five Business Days prior to the applicable record date.

The record date for payment of interest is the fifteenth day of the month preceding the Interest Payment Date. With respect to overdue interest or interest payable on redemption of this Bond other than on an Interest Payment Date or interest on any overdue amount, the Trustee may establish a special record date. The Trustee will mail notice of a special record date to the Bondholders at least 10 days before the special record date.

This Bond is one of a series of bonds consisting of the Issuer's $1,320,000 Water System Refunding Revenue Bonds (Chaparral City Water Company Project), Series 1997B (the "Bonds") issued pursuant to Title 35, Chapter 5, Arizona Revised Statutes (as amended from time to time, the "Act") and secured by a Loan and Trust Agreement (as amended from time to time in accordance with its terms, the "Agreement"), dated as of December 1, 1997, among Chaparral City Water Company (the "Company"), the Issuer and the Trustee. Pursuant to the Agreement, the Company has agreed to repay the borrowing in the amounts and at the times necessary to enable the Issuer to cause to be paid the principal of, premium, if any, and interest on the Bonds. The Company has secured its obligations under the Agreement by a Deed of Trust from the Company for the benefit of the Trustee, dated of even date herewith (the "Mortgage"). Reference is hereby made to the Agreement for a description of the funds pledged and for the provisions thereof with respect to the rights, limitations of rights, duties, obligations and immunities of the Company, the Issuer, the Trustee and the Bondholders, including conditions upon which Additional Parity Indebtedness may be secured on a parity with the Bonds under the Agreement and the Mortgage, the order of payments in the event of insufficient funds and restrictions on the rights of the Bondholders to bring suit, provisions for providing for the payments of the Bonds and conditions which must be satisfied before the Bonds are considered no longer Outstanding under the Agreement. The Agreement and the Mortgage may be amended to the extent and in the manner provided therein.

In case any Event of Default (as defined in the Agreement) occurs, the principal amount of this Bond together with accrued interest may, and, under certain circumstances, must, be declared due and payable in the manner and with the effect provided in the Agreement.

The Registered Owner of each Bond has only those remedies provided in the Agreement.

If the specified date for any payment hereon shall be a date other than a Business Day, then such payment may be made on the next Business Day without additional interest and with the same force and effect as if made on the specified date for such payment.

"Business Day" shall mean a day on which banks located in the city in which the principal corporate offices of the Trustee and the Paying Agent are located are not required or authorized to remain closed and on which the New York Stock Exchange is not closed.

The Bonds maturing after December 1, 2007 are redeemable pursuant to the Agreement prior to maturity beginning on December 1, 2007 at the written direction of the Company, as a whole at any time, or in part on any Interest Payment Date, at the following prices expressed in percentages of their principal amount, plus accrued interest to the redemption date:

Period During Which Redeemed	Redemption Price
December 1, 2007 to November 30, 2008	102%
December 1, 2008 to November 30, 2009	101%
December 1, 2009 and thereafter	100%

The Bonds maturing on December 1, 2006 are subject to mandatory redemption at a redemption price equal to 100% of the Bonds redeemed, plus accrued interest to the redemption date, on each December 1, commencing December 1, 1998, from sinking fund installments in each of the years and in the amounts as follows:

YEAR	Principal Amount
1998	$30,000
1999	30,000
2000	30,000
2001	30,000
2002	35,000
2003	35,000
2004	35,000
2005	40,000
2006*	40,000

* final maturity

The Bonds maturing on December 1, 2022 are subject to mandatory redemption at a redemption price equal to 100% of the Bonds redeemed, plus accrued interest to the redemption date, on each December 1, commencing December 1, 2007, from sinking fund installments in each of the years and in the amounts as follows:

YEAR	Principal Amount
2007	$40,000
2008	45,000
2009	45,000
2010	50,000
2011	50,000
2012	55,000
2013	60,000
2014	60,000
2015	65,000
2016	65,000
2017	70,000
2018	75,000
2019	80,000
2020	80,000
2021	85,000
2022*	90,000

* final maturity

In the event of a partial redemption of Bonds within a maturity, whether through optional redemption or extraordinary optional redemption, the amount of future mandatory sinking fund redemptions will be reduced as specified by the Company to take into account such partial redemption.

The Bonds are subject to extraordinary optional redemption, in whole at any time or pro rata in part on any Interest Payment Date, at a redemption price equal to 100% of the principal amount of the Bonds redeemed, plus accrued interest to the redemption date, upon the occurrence of damage to or destruction or taking of the Property as provided in the Agreement.

If less than all of the outstanding Bonds are to be called for redemption, the Bonds (or portions thereof) to be redeemed will be redeemed in the maturities designated by the Company and, if less than an entire maturity is redeemed, the Bonds to be redeemed within such maturity will be selected by the Trustee by lot or in any customary manner as determined by the Trustee. Redemption shall be in denominations of $5,000 or any integral multiple thereof, provided that Bonds must remain in authorized denominations after redemption.

In the event this Bond (or any portion thereof) is selected for redemption, notice will be mailed no more than 45 nor fewer than 30 calendar days prior to the redemption date

to the Registered Owner. Failure to mail notice to the owner of any other Bond or any defect in the notice to such owner shall not affect the redemption of this Bond.

The Trustee shall give notice of any redemption of this Bond as provided above to the Registered Owner at its address shown on the registration books maintained by the Trustee. A certificate of the Trustee shall conclusively establish the mailing of any such notice for all purposes. Notice of redemption having been duly mailed, this Bond, or the portion called for redemption, will become due and payable on the redemption date at the applicable redemption price and, moneys for the redemption having been deposited with the Trustee, from and after the date fixed for redemption, interest on this Bond (or such portion) will no longer accrue.

This Bond is transferable by the Registered Owner, in person or by its attorney duly authorized in writing, at the designated corporate trust office of the Trustee, upon surrender of this Bond to the Trustee for cancellation. Upon the transfer, a new Bond or Bonds in authorized denominations of the same aggregate principal amount will be issued to the transferee at the same office. This Bond may also be exchanged at the designated corporate trust office of the Trustee for a new Bond or Bonds in authorized denominations of the same aggregate principal amount without transfer to a new registered owner. Exchanges and transfers will be without expense to the owner except for applicable taxes or other governmental charges, if any. The Trustee will not be required to make an exchange or transfer of this Bond (i) if this Bond (or any portion thereof) has been selected for redemption, (ii) during the 10 days preceding any date fixed for selection for redemption if this Bond (or any portion thereof) is eligible to be selected for redemption, or (iii) during the period of 15 days preceding any Interest Payment Date.

The Bonds are initially to be issued in book entry form in the denominations of $5,000 and integral multiples of $5,000.

The Issuer, the Trustee, and the Company may treat the Registered Owner as the absolute owner of this Bond for all purposes, notwithstanding any notice to the contrary.

No recourse under or upon any obligation, covenant, or agreement or in any Bond, or under any judgment obtained against the Issuer, or by the enforcement of any assessment or by any legal or equitable proceeding by virtue of any constitution or statute or otherwise or under any circumstances, shall be had for the payment of the principal of or premium, if any, or interest on this Bond against any director, officer, counsel, financial advisor or agent, as such, past, present, or future, of the Issuer, either directly or through the Issuer, or any successor to the Issuer, and all liability of every nature, whether at common law or in equity, or by statute or by constitution or otherwise, of any such director, officer, counsel, financial advisor or agent, as such, is hereby expressly waived and released as a condition of and consideration for the execution of the Agreement and the issue of such Bonds.

The County of Maricopa, Arizona shall not in any event be liable for the payment of the principal of, premium, if any, or interest on any of the Bonds issued, or for the performance of any pledge, mortgage, obligation or agreement of any kind whatsoever herein

or indebtedness by the Issuer, and none of the Bonds of the Issuer issued or any of its agreements or obligations herein or otherwise shall be construed to constitute an indebtedness of Maricopa County, Arizona within the meaning of any constitutional or statutory provision whatsoever.

This Bond shall not be entitled to any security or benefit under the Agreement or be valid until the Certificate of Authentication has been signed by the Trustee.

It is certified and recited that there have been performed and have happened in regular and due form, as required by law, all acts and conditions necessary to be done or performed by the Issuer or to have happened (i) precedent to and in the issuing of the Bonds in order to make them legal, valid and binding special limited obligations of the Issuer, and (ii) precedent to and in the execution and delivery of the Agreement; that payment in full for the Bonds has been received; and that the Bonds do not exceed or violate any constitutional or statutory limitation.

IN WITNESS WHEREOF, The Industrial Development Authority of the County of Maricopa has caused this Bond to be executed in its name by the manual or facsimile signature of its authorized officers.

THE INDUSTRIAL DEVELOPMENT AUTHORITY
OF THE COUNTY OF MARICOPA

By: Robert K. Wexler
President

Attest: Myra L.T. Jefferson
Secretary/Treasurer

Certificate of Authentication

This bond is one of the Bonds described in the Loan and Trust Agreement referred to herein.

BANK ONE, ARIZONA, NA, as Trustee

Date of Authentication: ----------

By ----------
Authorized Signature

Legal Opinion

The following is a true copy of the text of the opinion rendered to the Issuer by Squire, Sanders & Dempsey L.L.P. in connection with the issuance of the Bonds. That opinion is dated as of and premised on the transcript of proceedings examined and the law in effect on the date of the original delivery of the Bonds. A signed copy is on file in the office of the Trustee.

The Industrial Development Authority of
the County of Maricopa

Myra L.T. Jefferson
Secretary/Treasurer

The Industrial Development Authority of
the County of Maricopa
Phoenix, Arizona

We have examined the transcript of proceedings (the "Transcript") relating to the issuance by The Industrial Development Authority of the County of Maricopa (the "Issuer") of its $7,600,000 Water System Improvement Revenue Bonds (Chaparral City Water Company Project), Series 1997A (the "Series 1997A Bonds") and its $1,320,000 Water System Refunding Revenue Bonds (Chaparral City Water Company Project), Series 1997B (the "Series 19978 Bonds" and together with the Series 1997A Bonds, the "Bonds"), both dated as of December 1, 1997, pursuant to the provisions of Title 35, Chapter 5 of the Arizona Revised Statutes, as amended. The Series 1997A Bonds are being issued to pay a portion of the costs of acquiring,

constructing, improving and equipping certain water furnishing facilities (the "1997 Project") to be owned and operated by Chaparral City Water Company (the "Company"). The Series 1997B Bonds are being issued to refund certain outstanding bonds issued by the Issuer in 1985 to finance a portion of the costs of certain water furnishing facilities (the "1985 Project") owned and operated by the Company. The 1997 Project and the 1985 Project are more particularly described in the Loan and Trust Agreement, dated as of December 1, 1997 (the "Agreement"), by and among the Issuer, the Company and Bank One, Arizona, NA, as trustee (the "Trustee"). The documents in the Transcript examined include an executed counterpart of the Agreement. We have also examined a conformed copy of a Bond of each series.

Based on such examination, we are of the opinion that, under existing law:

1. The Bonds and the Agreement are legal, valid, binding and enforceable in accordance with their respective terms subject to bankruptcy laws and other laws affecting creditors' rights and to the exercise of judicial discretion.

2. The Bonds constitute special, limited obligations of the Issuer, and the principal of and premium, if any, and interest (collectively, "debt service") on the Bonds are payable by the Issuer solely from the revenues to be derived by the Issuer under the Agreement and the other security pledged and assigned by the Agreement to secure that payment, including the payments required to be made by the Company under the Agreement. The Bonds and the payment of debt service are not secured by any obligation or pledge of any moneys raised by taxation and the Bonds do not represent or constitute a debt or pledge of the faith and credit of the Issuer, the County of Maricopa, the State of Arizona, or any political subdivision thereof.

3. The interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103(a) of the Internal Revenue Code of 1986, as amended (the "Code"), or its statutory predecessor under the Internal Revenue Code of 1954, as amended (the "1954 Code"), except for interest on any Bond for any period during which it is held by a "substantial user" or a "related person" as those terms are used in Section 147(a) of the Code or its statutory predecessor under the 1954 Code. The interest on the Series 1997A Bonds, but not on the Series 1997B Bonds, is an item of tax preference under Section 57 of the Code and, therefore, may be subject to the alternative minimum tax imposed by the Code on individuals and corporations. Interest on the Bonds is exempt from Arizona state income tax. We express no opinion as to any other tax consequences regarding the Bonds.

Under Code provisions applicable only to corporations (as defined for federal income tax purposes), a portion of the excess of adjusted current earnings (which includes interest on all tax-exempt bonds including the Series 19978 Bonds) over other alternative minimum taxable income may be subject to a corporate alternative minimum tax. Further, interest on the Bonds may be subject to a branch profits tax imposed on certain foreign corporations doing business in the United States and to a tax imposed on excess net passive income of certain S corporations.

In giving the foregoing opinions, we have assumed and relied upon compliance with the covenants of the Issuer and the Company and the accuracy, which we have not

independently verified, of the representations and certifications of the Issuer and of the Company contained in the Transcript. The accuracy of certain of those representations and certifications, and compliance by the Issuer and the Company with certain of those covenants, may be necessary for the interest on the Bonds to be and to remain excluded from gross income for federal income tax purposes and for certain of the other tax effects stated above. Failure to comply with certain requirements subsequent to the date hereof could cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date hereof.

We have also relied, without independent investigation, upon the opinion of in-house counsel for the Company, contained in the Transcript with respect to all matters relating to the Company contained in the Transcript. We have also assumed for the purposes of this opinion the due authorization, execution and delivery by and the binding effect upon and enforceability against the Trustee of the Agreement.

We have not been retained to pass upon, and express no opinion concerning, the 1997 Project, the 1985 Project, the Company, including its financial condition or its ability to pay debt service on the Bonds (collectively, "Company Matters"), or any matters describing or concerning the 1997 Project, the 1985 Project, the Company or Company Matters.

We express no opinion as to the statement printed on the Bonds referring to the municipal bond insurance policy issued by Ambac Assurance Corporation or as to the insurance referred to in that statement.

Respectfully submitted,

SQUIRE, SANDERS & DEMPSEY L.L.P.

Statement of Insurance

Municipal Bond Insurance Policy No. 14546 BE (the "Policy") with respect to payments due for principal of and interest on this bond has been issued by Ambac Assurance Corporation ("Ambac Assurance"). The Policy has been delivered to the United States Trust Company of New York, New York, New York, as the Insurance Trustee under said Policy and will be held by such Insurance Trustee or any successor insurance trustee. The Policy is on file and available for inspection at the principal office of the Insurance Trustee and a copy thereof may be secured from Ambac Assurance or the Insurance Trustee. All payments required to be made under the Policy shall be made in accordance with the provisions thereof. The owner of this bond acknowledges and consents to the subrogation rights of Ambac Assurance as more fully set forth in the Policy.

Assignment

The following abbreviations when used in the inscription on the face of this Bond, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM - as tenants in common
TEN ENT - as tenants by the entireties
IT TEN - as joint tenants with right of survivorship and not as tenants in common

UNIF GIFT/TRANS MIN ACT -_____Custodian for_____ under
(Cust.) (Minor)

Uniform Gifts/Transfers to Minors Act of_____.
(State)

Additional abbreviations may also be used though not in list above.

UNLESS THIS BOND IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION ("DTC"), TO THE TRUSTEE FOR REGISTRATION OF TRANSFER, EXCHANGE, OR PAYMENT, AND ANY BOND ISSUED IS REGISTERED IN THE NAME OF CEDE 8t CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

ASSIGNMENT

FOR VALUE RECEIVED, the undersigned sells, assigns and transfers unto _____ whose address is _____ and whose social security number (or other federal tax identification number) is

PLEASE INSERT SOCIAL SECURITY OR OTHER
IDENTIFYING NUMBER OF TRANSFEREE

---

the within Bond and does hereby irrevocably constitute and appoint _____ as attorney to transfer the said Bond on the books kept for registration thereof, with full power of substitution in the premises.

Date:

SIGNATURE(S) GUARANTEED BY:

Signature guarantee should be made by an eligible guarantor institution pursuant to S.E.C. Rule 17Ad-15

NOTICE: The signature to this assignment must correspond with the name of the Registered Owner as it appears upon the face of the within Bond in every particular, without alteration or enlargement or any change whatever.

EXHIBIT 10.20

CAWCD Revised 5/84

Contract No. 5-07-30-W0067

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF RECLAMATION

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

CENTRAL ARIZONA PROJECT

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UNITED STATES
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SUBCONTRACT AMONG THE UNITED STATES,
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AND THE CHAPARRAL CITY WATER COMPANY
PROVIDING FOR WATER SERVICE

CENTRAL ARIZONA PROJECT

1. PREAMBLE:

THIS SUBCONTRACT, made this 6th day of December, 1984, 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, 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 CHAPARRAL CITY WATER COMPANY, hereinafter

referred to as the "Subcontractor," with its principal place of business in Fountain Hills, Arizona;

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 Sections 45-2601 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, Sections 45-2601 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 dated December 15, 1972, 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

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."

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 its confirmation as provided for in Article 6.12 and shall remain in effect for a period of 50 years beginning with the January 1 of the Year following that in which the Secretary issues the Notice of Completion of the Water Supply System; 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.

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, and Miscellaneous (including ground water recharge) 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 it 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.

(d) The Subcontractor shall not sell or otherwise dispose of or permit the sale or other disposition of any Project Water for use outside of Maricopa, Pinal, and Pima Counties; Provided, however, That this does not prohibit exchanges of Project Water covered by separate agreements; and Provided,

further, That this does not prohibit effluent exchanges with Indian tribes pursuant to Article 6.2.

(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 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.

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 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 deliver 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 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 the Project Water desired for the succeeding 2 years.

(iii) Upon receipt of the schedule, the Contractor and 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 deliver to the Subcontractor are consistent with the deliver 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 a total amount of Project Water greater than 11 percent 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 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, methods 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 investigated by the Contracting Officer or the Operating Agency, Contractor, and Subcontractor, and any errors which may be mutually determined to have occurred herein 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 Subarticle 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, shall be liable for damages when, for any reason whatsoever, any such temporary discontinuance or reduction in delivery of water occurs. If any such 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. Subject to the provisions of Section 304(e) of the Basin project Act, any Project Water furnished for non-Indians through Project facilities shall, in the event of shortage thereof, as determined by the Contracting Officer after consultation with the Contractor, be reduced pro rata until exhausted, first for Miscellaneous Water uses and next for Agricultural Water uses

before water furnished for non-Indian M&I use is reduced. Thereafter, water for M&I uses shall be reduced pro rata among all non-Indian M&I users. All Project Water converted from agricultural to M&I use shall be delivered with the same priority as other Project M&I Water. Pursuant to the authority vested in the Secretary by the Reclamation Act of 1902 (32 Stat. 388), as amended and supplemented, the Basin project Act, the Regulations for Implementing the Procedural Provisions of the National Environmental Policy Act (40 CFR Part 1505), and the Implementing Procedures of the U.S. Department of the Interior (516 DM 5.4), the relative priorities between Indian and non-Indian uses will be determined by the Secretary consistent with the allocations published in the Federal Register on March 24, 1983.

4.8 Secretarial Control of Return Flow.

(a) The Secretary reserved 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:

(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 which 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.

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

subcontractor 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.

(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) For the Year in which the Secretary issued the Notice of Completion of the Water Supply System, the Subcontractor's entitlement to Project Water for M&I uses shall be determined by the Contractor after consultation with the Subcontractor and the Contracting Officer. Commencing with the Year following that in which the Secretary issues the Notice of Completion of the Water Supply System, the Subcontractor is entitled to take a maximum of 6978 acre-feet of Project Water for M&I uses including but not limited to ground water recharge.

(b) If at anytime 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 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 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 provisions of Article 5.4 hereof and in addition to the OM&R payments required in Article 5.1 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 6978 acre-feet per year multiplied by the rate set forth in the following schedule.

Payment for the calendar year of	Payment due for each acre-foot of purchased capacity
1988-1993	$ 5
1994	6
1995	8
1996	10
1997	12
1998	14
1999	15
2000	16
2001	17
2002	18
2003	19
2004	20
2005	21
2006	22
2007	23
2008	24
2009	25
2010	26
2011	27
2012	28
2013	29
2014	30
2015	31
2016	32
2017	33
2018	34
2019	35
2020	36
2021	37
2022	38
2023	39
2024	40
2025 - through the end of the term of this subcontract	40

(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 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) On or before the first anniversary of execution of this subcontract and on or before each succeeding

anniversary, the Subcontractor shall pay, in addition to all other payments required herein, an M&I subcontract charge. The subcontract charge shall be $2.00 per acre-foot for 6978 acre-feet of M&I Water. Prior to the date of issuance of the Notice of Completion of the Water Supply System, the subcontract charge shall be paid each Year by the Subcontractor to the United States. The Contracting Officer shall advise the Contractor of the amounts and dates of the Subcontractor's payments. After the date of issuance of the Notice of Completion of the Water Supply System, the subcontract charge shall be paid each Year to the Contractor by the Subcontractor and the Contractor shall credit the revenues obtained from the subcontract charge against the Subcontractor's water service charges payable to the Contractor that Year.

(d) Funds advanced to the United States by the Subcontractor pursuant to Article 5.2 (c) as a subcontracting charge shall be credited by the Contractor against the Subcontractor's initial capital charges for water deliveries under this subcontract. Credit provided to the Subcontractor shall include interest from the date the Subcontractor's funds are transferred to the United States through the effective date of credit for payment of capital costs as recorded in the Contractor's records. Interest credited to the Subcontractor shall be at an annual rate of 1 (one) percent less than the weighted rate received by the Contractor on all investments during the period for which the Subcontractor's payments earn an interest credit.

(e) 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.

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 4.4 thereof, 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 which 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

25
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 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 exchange agreements with Indian entities which have received an allocation of Project Water and receive all benefits from the exchange. If the Subcontractor chooses to exchange directly with the Indians, then the Subcontractor's entitlement to Project Water shall be reduced by the amount of Project Water received in exchange by the Subcontractor. The

Subcontractor may also offer raw sewage or effluent to the Contractor for the purpose of exchanging such sewage or effluent for the benefit of all subcontractors. If such an exchange is consummated, the Subcontractor's entitlement to Project Water shall remain at the level specified in Article 4.12. A copy of the above referenced agreements shall be filed with the Contractor and the Contracting Officer.

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 427, Boulder City, Nevada 89005, on behalf of the Contractor or Subcontractor; to the Central Arizona Water Conservation District, 23636 North 7th Street, Phoenix, Arizona 85024, on behalf of the United States or Subcontractor; and to the Chaparral City Water Company, P. O. Box 17030, Fountain Hills, AZ 85268 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 which 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.

(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 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 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 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.

(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 the 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 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 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 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.

6.14 Addendum A. This subcontract shall also include the terms, conditions, and provisions of Addendum A, which is attached hereto and by this reference made a part hereof.

IN WITNESS WHEREOF, the parties hereto have executed this subcontract No. 5-07-30-W0067 the day and year first above-written.

Legal Review and Approval

By: /s/ [Signature Illegible]
Field Solicitor
Phoenix, Arizona

THE UNITED STATES OF AMERICA

By: /s/ [Signature Illegible]
Regional Director
Lower Colorado Region
Bureau of Reclamation

CENTRAL ARIZONA WATER
CONSERVATION DISTRICT

Attest: /s/ [Signature Illegible]
Title: Secretary

By: /s/ [Signature Illegible]
Title: President

CHAPARRAL CITY WATER COMPANY

Attest: /s/ HOWARD J. BRESSLER
Title: Vice President - Sec.

By: /s/ [Signature Illegible]
Title: President

ADDENDUM A

The following is substituted for Article 5.4: "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 4.4 hereof, said failure or refusal shall not relieve the Subcontractor of its obligation to make the payments required in this subcontract. The Subcontractor agrees to make payment for available water which is refused in the same manner as if said water were scheduled for delivery to and accepted by it in accordance with this subcontract except as provided in Subarticle 4.3(e) and Article 5.3; Provided, however, That if the Subcontractor shall require Distribution Works constructed pursuant to Section 309(b) of the Basin Project Act, as amended, to transport water from the Central Arizona Project aqueduct to the point of treatment or use, then the Subcontractor shall not be required to pay capital or OM&R charges until January 1, 1990, or until such time as the Subcontractor begins taking Project Water through the Distribution Works constructed pursuant to a repayment contract under the aforementioned Act, whichever comes first."

EXHIBIT A

CERTIFICATE OF CORPORATE SECRETARY

I, Howard J. Bressler, do hereby certify that I am the duly elected and qualified Secretary of Chaparral City Water Company, an Arizona corporation, (the "Corporation"); that the following is a true and correct copy of resolutions duly adopted by unanimous written consent of the Board of Directors of the Corporation on July 27, 1984; and that such resolutions have not been amended, rescinded or repealed since their adoption and are on the date hereof in full force and effect:

WHEREAS, the Corporation has previously resolved to obtain a Central Arizona Project water allocation; and

WHEREAS, Paragraph 27 of the "Contract Between the United States and the Chaparral City Water Company Providing for Construction of a Water Distribution System, Central Arizona Project" (the "Repayment Contract") specifically requires the Board of Directors of the Corporation to approve certain matters; and

WHEREAS, the "Subcontract Among the Untied States, the Central Arizona Water Conservation District and the Corporation" (the "Subcontract") and the Repayment Contract are required to be validated by a proper court of the State of Arizona.

NOW, THEREFORE, BE IT RESOLVED, that the President, or any other officer of the Corporation, be and each of them hereby is authorized to execute the Repayment Contract under which the Central Arizona Project related facilities will be constructed; and

RESOLVED FURTHER, that the President, or any other officer of the Corporation, be and each of them hereby is directed to prepare and file with the Arizona Corporation Commission any rate application which may be required for the payment of the Corporation's obligations under the Repayment Contract; and

RESOLVED FURTHER, that the President, or any other officer of the Corporation, be and each of them hereby is authorized, subject to the Arizona Corporation Commission's approval, to establish a $200,000 line of credit for the purposes of financing any cost overruns which may occur under the Repayment Contract; and

RESOLVED FURTHER, that the President, or any other officer of the Corporation, be and each of them hereby is directed to execute the Subcontract for the purchase of Central Arizona Project water; and

RESOLVED FURTHER, that the proper officers of the Corporation be and each of them hereby is authorized in the name and on behalf of the Corporation, to conduct any and all negotiations, to make any and all arrangements, do and perform any and all acts and things and to execute and deliver any and all officer's certificates and other documents and instruments as they may deem necessary or appropriate in order to effectuate the purposes of each and all of the foregoing resolutions.

IN WITNESS WHEREOF, I have hereto affixed my name as Secretary of the Corporation and have caused the Corporate Seal of the Corporation to be affixed this 27th day of July, 1984.

[SEAL]

/s/ HOWARD J. BRESSLER

Howard J. Bressler
Secretary

[SERVICE AREA MAP]

EXHIBIT 10.21

APO Draft 5-82
APO Revised 9-82
RO Revised 10-82
RO Revised 11-82
RO Revised 02-83
RO Revised 03-83

Contract No. 5-07-30-W0068

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF RECLAMATION

CONTRACT BETWEEN THE UNITED STATES AND THE CHAPARRAL CITY WATER COMPANY

PROVIDING FOR CONSTRUCTION OF A WATER DISTRIBUTION SYSTEM

CENTRAL ARIZONA PROJECT

EXHIBIT 10.21

APO Draft 5-82
APO Revised 9-82
RO Revised 10-82
RO Revised 11-82
RO Revised 02-83
RO Revised 03-83

Contract No. 5-07-30-W0068

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF RECLAMATION

CONTRACT BETWEEN THE UNITED STATES AND THE
CHAPARRAL CITY WATER COMPANY

PROVIDING FOR CONSTRUCTION OF A WATER
DISTRIBUTION SYSTEM

CENTRAL ARIZONA PROJECT

Preamble

1. THIS CONTRACT, made this 6th day of December, 1984, in pursuance generally of the Reclamation Act of June 17, 1902 (32 Stat. 388), and acts amendatory thereof or supplementary thereto, including but not limited to the Reclamation Project Act of August 4, 1939 (53 Stat. 1187), as amended, and the Colorado River Basin Project Act of August 4, 1939 (53 Stat. 1187), as amended, and the Colorado River Basin Project Act of September 30, 1968 (82 Stat. 885), as amended on December 20, 1982, hereinafter referred to as the "Basin Project Act," all collectively hereinafter referred to as the "Federal Reclamation Laws," between the UNITED STATES OF AMERICA, hereinafter referred to as the "United States," acting through the Secretary of the Interior, and the CHAPARRAL CITY WATER COMPANY, hereinafter referred to as the "Contractor," organized under the laws of Arizona, with its principal place of business in Fountain Hills, Arizona;

WITNESSETH, THAT:

Explanatory Recitals

2. WHEREAS, the 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, for 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, on December 6, 1984, the United States, the Contractor, and the Central Arizona Water Conservation District entered into a water service subcontract, which provides for the delivery of Central Arizona Project water to the Contractor; and

WHEREAS, in order to utilize the water supply made available under the aforesaid subcontract to irrigate eligible lands and/or for municipal, industrial, and domestic purposes, the Contractor desires that the United States construct a distribution system; and

WHEREAS, Section 309(b) of the Basin Project Act authorizes the appropriation of Federal funds for construction of distribution and drainage facilities for non-Indian lands and directs the Secretary to enter into agreements with the non-Federal interests which require the non-Federal interests to provide not less than 20 percent of the total cost of such facilities during the construction of such facilities; and

WHEREAS, the Contractor has submitted to the Secretary of the Interior a report in acceptable form, entitled "Engineering Report for Construction of a Water Distribution System," dated April 1984, herein styled "proposal," setting forth a distribution system plan and estimated cost in detail comparable to those included in preauthorization reports required for a Federal Reclamation Project; and

WHEREAS, on February 22, 1984, the Contractor entered into a Memorandum of Understanding with the United States, hereinafter styled "MOU," providing for repayment of certain costs incurred by the United States in connection with the development of plans and designs and specifications for the distribution system prior to execution and validation of a repayment contract; and

WHEREAS, the United States is willing to undertake the construction of the distribution system as described in the proposal under the conditions hereinafter set forth;

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

DEFINITIONS

3. When used herein, unless otherwise distinctly expressed or manifestly incompatible with the intent thereof, the term:

(a) "Secretary" or "Contracting Officer" shall mean the Secretary of the Interior of the United States or his duly authorized representative;

(b) "Central Arizona Water Conservation District" shall mean the water conservation district, organized under the laws of Arizona, which is responsible for repayment of reimbursable Central Arizona Project costs allocable thereto, pursuant to Contract No. 14-06-W-245, dated December 15, 1972, between the United States and the district;

(c) "Central Arizona Project" shall mean the project works authorized by Section 301(a) of the Basin Project Act and constructed by the United States pursuant to the provisions of said Act;

(d) "Distribution system" or "project" shall mean and include the undertaking for construction set forth in the proposal, and shown on a map designated Exhibit "A" which is attached hereto and expressly made a part of this contract, including any modifications therein pursuant to the provisions of Subarticle 4(f);

(e) "Project works" shall mean and include all works and facilities constructed in accordance with the plan set forth in the proposal and including any modifications therein pursuant to the provisions of Subarticle 4(f), together with land, interests in land, and rights-of-way for such works and facilities;

(f) "Year" shall mean the calendar year;

(g) "Agricultural water" shall mean water used on irrigable lands primarily in the commercial production of agricultural crops or livestock, including domestic use incidental thereto, on tracts of land operated in units of more than 5 acres;

(h) "Municipal, industrial, and domestic water," herein referred to as "M&I water," shall mean water delivered by means of the project works and not used as agricultural water;

(i) "Repayment obligation" shall mean the total amount of money repayable to the United States by the Contractor under the terms of this contract;

(j) "Contractor's service area" shall mean the area of land within the exterior boundaries of the Contractor as shown on Exhibit "A".

Construction of Distribution System and Limit of Expenditures Therefor

4. (a) Subject to the terms and conditions of this contract, the United States will undertake the construction of the project as described in the proposal, or as modified pursuant to Subarticle 4(f), including but not limited to preparation of final planning and environmental documentation, issuance of specifications, awarding of construction contracts, and acquiring and withdrawing lands as necessary for project purposes. The total cost of the project, including allowances for price escalation, is $4,115,000, plus interest during construction, based on estimated construction expenditures of $3,292,000 by the United States and estimated contributions by the Contractor of $823,000. Subject to the provisions of Article 22, the United States will expend toward construction of the project, exclusive of interest during construction, funds not to exceed $3,292,000.

(b) The Contractor shall contribute no less than 20 percent of the total cost of the project during the construction period. Contributions by the Contractor, in the form of cash and/or goods and services, will be provided as scheduled in the proposal and as deemed necessary by the Contracting Officer to supplement Federal funding. If the project cannot be completed with the aforesaid Federal funds and contributions, the Contractor will provide to the United States the additional contributions necessary to complete the project as provided herein. The additional contributions may be in the form of cash and/or goods and services. All contributions of goods and services shall be subject to prior approval of the Contracting Officer.

(c) The obligations of the United States under this contract shall be contingent upon the Contractor establishing a line of credit of not less than $200,000 for the purpose of financing any cost overruns. If the Contracting Officer determines that the project cannot be completed within the total project cost specified in Subarticle 4(a), the Contracting Officer shall so advise the Contractor by written notice. The notice shall specify the estimated amount of the cost overrun, show when the additional funds will be required, and direct the Contractor to proceed with the procurement of funds to meet the schedule, and the Contractor shall forthwith secure the required amount of funds. In the event the $200,000 line of credit authorization will not, as determined by the Contracting Officer, be required to fund cost overruns, with the prior approval of the Contracting Officer, the Contractor may use said line of credit for other authorized purposes.

(d) The Federal cost of the project shall include all expenditures by the United States of whatsoever kind in connection with, arising out of, or resulting from the construction and operation and maintenance during construction of the project and the performance of said work, including but not limited to: interest during construction on costs allocated to the M&I water supply function as provided in Subarticle 4(e); the costs incurred by the United States pursuant to the aforesaid MOU; the costs of labor, material, equipment, engineering and legal work; the cost of superintendence, administration and overhead, rights-of-way, property, and damage of any kind; all sums expended in surveys and investigations in connection with the project, both prior to and after the execution of this

contract; and the cost of all soil investigations and other preliminary work. The determination of what costs are properly chargeable and the amount thereof shall be made by the Contracting Officer after such consultation with the Contractor as the Contracting Officer determines to be appropriate.

(e) Interest during construction shall be computed as follows: Compound interest at the rate of 3.342 percent per annum will be computed and accrued from the date of expenditure of Federal funds for construction to the date of notice of completion on that portion of the Federal expenditures which is allocable to M&I water supply purposes based upon the ratio of the estimated quantity of water to be delivered for M&I water purposes through the project works during the entire repayment period to the total estimated quantity of water to be delivered for all purposes through the project works during said period, said ratio expressed as a decimal being 1.00. The interest so computed shall be included as part of the repayment obligation to be repaid pursuant to the schedule included in Subarticle 9(c). The amount of M&I water furnished during the repayment period from project works shall be metered, or measured by such other means as may be established by the Contracting Officer. During project construction, the United States shall install metering devices in consultation with the Contractor to determine the quantity of M&I water deliveries by and the through the project works. The cost of such metering devices shall be a part of the repayment obligation to be repaid to the United States in accordance with Article 9. During periods when the Contractor is operating and maintaining the project works, the installation

and cost of metering devices shall be the responsibility of the Contractor. The Contractor shall care for, operate, and maintain all such metering devices in accordance with the provisions of Article 10. The Contracting Officer and his representatives shall be allowed access at all times to all metering devices.

(f) If the Contracting Officer determines changes in location, size, or capacity of any of the project works to be expedient, economical, necessary, or advisable, during the progress of the work, the Contracting Officer may, after consultation with the Contractor, make such changes to the extent that such changes do not substantially change the basic character or service capability of the project.

Mitigation

5. (a) If the Contractor is contributing proposed designs, plans, and specifications as part of its contributions toward the project pursuant to Subarticles 4(a) and 4(b), the Contractor shall incorporate in such designs, plans, and specifications, the environmental measures specified in the environmental clearance documents associated with this contract (the Environmental Impact Statement on Water Allocations and Water Service Contracting, Central Arizona Project, dated March 19, 1982, and the supporting National Environmental Policy Act Compliance Checklist dated September 19, 1984). Except as provided in Subarticle 5(b), all construction costs properly allocable to mitigation shall be included in the Contractor's repayment obligation and be repaid in accordance with the provisions of Article 9.

(b) The Contracting Officer, with the cooperation of the Contractor, shall conduct cultural resource surveys and perform mitigation

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measures on sites that would be disturbed by construction of the project works. The cost of such cultural surveys and cultural resource site mitigation measures shall be nonreimbursable in accordance with the Historical and Archeological Data Act of June 27, 1960 (74 Stat. 220), as amended; Provided, however, That the nonreimbursable costs for such surveys and mitigation measures shall not exceed 1 percent of the total amount authorized to be appropriated for construction of the project works.

Termination

6. (a) The United States reserves the right to terminate this contract no later than 60 days after the first major construction contract bid opening, as determined by the Contracting Officer, by written notice thereof to Contractor if:

(1) The least cost construction contract bid that is acceptable to the Contracting Officer exceeds the estimate of construction cost contained in the approved proposal to such an extent that, as determined solely by the Contracting Officer after consultation with the Contractor, it appears unlikely that the project can be completed within the total project cost specified in Subarticle 4(a) and the amount of the line of credit authorized for cost overruns pursuant to Subarticle 4(c); or

(2) The Contractor has not made arrangements to secure non-Federal funding to finance its contributions as specified in Subarticles 4(a) and 4(b) on a schedule compatible with Federal funding or anticipated Federal funding.

(b) If the contract is terminated for either of the above reasons, the costs incurred by the United States pursuant to this contract shall be repaid to the United States by the Contractor pursuant to a bill

for collection or a repayment schedule furnished by the Contracting Officer to the Contractor after consultation with the Contractor. The termination of this contract shall not relieve the Contractor of the responsibility to repay any such costs to the United States. The provisions of Article 21 shall apply in the case of any late payments.

Construction Management Support Services Provided By Contractor

7. In the event that the Contractor's contributions toward the project pursuant to Subarticles 4(a) and 4(b) include construction management support services, the following shall apply:

(a) Construction management support services provided by the Contractor shall be performed in accordance with Federal procurement regulations.

(b) The Contractor shall prepare and furnish to the Contracting Officer, at such intervals as the Contracting Officer may designate, but at least once each month, written reports fully describing the progress and cost of work scheduled and performed. Said reports shall be prepared in such form and in such manner as the Contracting Officer may from time to time prescribe.

(c) The Contractor may utilize in connection with construction management support services such independent, expert, consulting, or supervisory services as the Contractor may deem necessary, and the reasonable cost of such services shall be considered a contribution of the Contractor towards the project.

Declaration of Completion

8. Upon substantial completion of the project or such part thereof as the Federal funds and Contractor's contributions will allow, or at such

time as the benefits from the project are substantially available to Contractor, whichever first occurs, all as determined by the Contracting Officer, the United States shall give the Contractor written notice of completion of the project, including a statement of the total estimated or actual repayment obligation.

Repayment by Contractor

9. (a) The Contractor is obligated for and shall repay to the United States, on account of construction and operation and maintenance during construction by the United States, all costs of the project works funded by the United States (which are determined by the Contracting Officer to be allocable to the Contractor) in accordance with the provisions of this contract. The Contractor shall be obligated to repay the United States the actual cost of construction and operation and maintenance during construction incurred by the United States, but not exceeding $3,292,000 as specified in Subarticle 4(a), plus interest during construction.

(b) The Contractor shall repay to the United States the amount of the repayment obligation in not to exceed 40 successive semiannual principal installments, plus interest at the rate of 3.342 percent per annum on 100 percent of the repayment obligation outstanding on the payment date. The first payment shall become due and payable on February 1 of the year following that in which the United States gives the Contractor notice of completion, and shall include all interest accruing during the period from date of issuance of the notice of completion through the January 31 immediately preceding the initial payment date. Subsequent semiannual

payments shall become due and payable on August 1 of that year and on February 1 and August 1 of each succeeding year until such time as the repayment obligation has been fully repaid and shall include all interest for the 6-month period ending January 31 or July 31 immediately preceding the payment dates. The interest payments shall be in addition to the principal payments to be made pursuant to the repayment schedule contained in subarticle (c) hereof. With each semiannual payment due and payable on February 1, the Contractor shall submit a written report to the Contracting Officer showing the actual deliveries of M&I water through the project works during the preceding year.

(c) Unless and until modified as hereinafter provided, the Contractor's repayment schedule shall be based upon an estimated obligation of $3,347,000 (including estimated interest during construction). The repayment schedule is as follows:

Semiannual Payment	Payment	Semiannual Payment	Payment
1	$ 0	21	$ 83,500
2	0	22	83,500
3	8,500	23	93,000
4	8,500	24	93,000
5	17,000	25	103,000
6	17,000	26	103,000
7	25,000	27	113,000
8	25,000	28	113,000
9	32,500	29	123,500
10	32,500	30	123,500
11	40,500	31	134,500
12	40,500	32	134,500
13	48,500	33	145,500
14	48,500	34	145,500
15	57,000	35	157,500
16	57,000	36	169,000
17	65,000	37	169,000
18	65,000	38	182,000
19	74,500	39	182,500
20	74,500	40	182,500

(d) The estimated repayment obligation shall be considered as the amount of the repayment obligation until such time as revision is determined necessary by the Contracting Officer after consultation with the Contractor or such time as the actual repayment obligation is established, and payments shall be made to the United States on the basis of such estimate. If the revised or actual repayment obligation is less than the estimated repayment obligation, the amount of each payment shall be in the amount and order as provided therein until the obligation is repaid in full. The effect of this procedure shall be to reduce the length of the repayment period.

(e) The Contractor shall take all actions necessary to ensure that required rate increases will be implemented which, together with revenues from the sale of water and such other revenues as may be available to the Contractor, shall provide sufficient revenues to meet its obligations under this contract and to make in full all payments to the United States on or before the dates such payments become due. The Contracting Officer shall have the right to seek to compel by mandamus, and/or any other appropriate action in a court of law, the performance by the Contractor and by any and all other State, county, and Contractor officials of the foregoing obligation.

Operation and Maintenance of Transferred Works -- Payment of Miscellaneous Costs

10. (a) Upon substantial completion of the project works, or as otherwise determined by the Contracting Officer, and following written notification, the care, operation, and maintenance of any or all of the project works shall be transferred to the Contractor. Title of such transferred works will remain in the name of the United States.

(b) The Contractor, without expense to the United States, shall care for, operate, and maintain such transferred works in full compliance with the terms of this contract, and in such manner that said transferred works will remain in good and efficient condition.

(c) Necessary repairs of the transferred works shall be made promptly by the Contractor. In case of unusual conditions or serious deficiencies in the care, operation, and maintenance of the transferred works threatening or causing interruption of service, as determined by the Contracting Officer, the Contracting Officer may issue to the Contractor a special written notice of the necessary repairs. Within 60 days of receipt of such notice, the Contractor shall either make the repairs or submit an acceptable plan for accomplishing the work. If the Contractor fails to meet the conditions stated above, the Contracting Officer may cause the repairs to be made and the cost thereof shall be paid by the Contractor as directed by the Contracting Officer.

(d) No substantial change shall be made or encroachment allowed by the Contractor to any of the transferred works or on rights-of-way for such works, without first obtaining the consent of the Contracting Officer.

(e) The Contractor shall hold the United States, its officers, agents, and employees harmless as to any and all damages which may, in any manner, result from the care, operation; and maintenance of any of the project works transferred to the Contractor.

(f) In the event the Contracting Officer determines that the Contractor is operating the transferred works or any part thereof in violation of this contract, the United States may take over from the Contractor the care, operation and maintenance of the transferred works by giving written notice to the Contractor of such election and the effective date thereof. Thereafter, during the period of operation by the United States, upon written notification from the Contracting Officer, the

Contractor shall pay to the United States, annually in advance, the cost of operation and maintenance of such works as determined by the Contracting Officer. If the Contractor holds title to ground-water wells which are being used by the Contractor to supply water to lands in the Contractor's service area at the time of such takeover of care, operation, and maintenance by the United States, the Contractor shall continue to operate and maintain such wells to as to help satisfy, to the greatest extent possible, the reasonable water requirements of its water users. Following written notification from the Contracting Officer, the care, operation, and maintenance of the works may be retransferred to the Contractor.

(g) In addition to all other payments to be made by the Contractor under this contract, the Contractor shall, during the period of time any or all of the project works are being operated, pay the United States, following the receipt of a detailed statement, miscellaneous costs incurred by the United States for unusual work involved in the administration and supervision of this contract.

Examination and Inspection of Project Works for Determining Adequacy of Operation and Maintenance Program

11. (a) The Contracting Officer may, from time to time, make examinations and evaluations of project works being operated by the Contractor with a view to assisting the Contractor in determining the condition of the works and the adequacy of the operation and maintenance program. The examinations and evaluations may include any or all of the project works which were constructed by the United States and transferred to the Contractor or project works which were constructed by the Contractor with funds advanced or reimbursed by the United States. Reports of the examinations and evaluations, including recommendations, will be prepared and copies will be furnished to the Contractor. The examinations and evaluations will be without cost to the Contractor, except for such costs incurred by the Contractor and/or its agents to provide access, to operate any mechanical or electrical equipment, or to answer questions.

(b) If deemed necessary by the Contracting Officer or requested by the Contractor, special inspections of any project works being operated by the Contractor, and of the Contractor's books and records may be made to ascertain the extent of any operation and maintenance deficiencies, to

determine the remedial measures required for their correction, and to assist the Contractor in solving specific problems. Any special inspection or audit, except in a cost of emergency, shall be made after written notice to the Contractor and the actual cost incurred by the United States shall be reimbursed by the Contractor to the United States.

(c) The State of Arizona shall be provided an opportunity to observe and participate, at its own expense, in the examinations and inspections. The Contractor and the State of Arizona will be provided copies of reports and recommendations relating to such examinations and inspections.

Reserve Fund

12. (a) Commencing with execution of this contract, the Contractor shall accumulate and maintain a reserve fund that will be available to cover unforeseen extraordinary costs as provided in Subarticle 12(d). Such reserve fund shall be accumulated by the Contractor with annual deposits or investments of not less than $3,660 to a Federally insured interest- or dividend-bearing account, or in securities guaranteed by the Federal Government; Provided, That a reasonable amount of time shall be allowed to make the money in the reserve fund available to meet the expenses for the purpose for which it was accumulated. Such annual deposits and accumulation of interest to the reserve fund shall continue until the basic amount of $53,000 is accumulated. Thereafter, the annual deposits may be discontinued and the interest earnings shall continue to accumulate and be retained as part of an expanding reserve fund.

(b) Upon mutual agreement between the Contractor and the Contracting Officer, the reserve fund and the annual installments may be adjusted to reflect adequacy or inadequacy of the accumulated fund with respect to risk and uncertainty stemming from the size and complexity of the project, size of the annual operation and maintenance budget, addition, deletion or changes in project works and operation and maintenance costs not contemplated when this contract was executed. If the total fund requirement and annual installments are adjusted downward, the excess increment of the fund, and the difference between the annual deposit required by this article and the newly adjusted deposit requirement shall

be applied toward accelerated repayment of the Contractor's repayment obligation to the United States.

(c) Whenever the reserve fund exceeds the basic amount specified above, the excess annual reserve fund deposit not required shall be applied each year toward accelerated repayment of the Contractor's obligation under this contract.

(d) Expenditures shall be made from such reserve fund only for meeting unforeseen extraordinary costs of operation and maintenance, repair or replacement, betterment in situations where recurrence of severe problems can be eliminated, and unusual operation and maintenance costs during periods of special stress such as may be caused by drought, hurricane, storms, or other like emergencies. Proposed expenditures from the said fund shall have the prior review and approval of the Contracting Officer. Whenever said reserve fund is reduced below the current balance by expenditures therefrom, the current balance shall be restored by the accumulation of annual deposits, as specified above, commencing with the next year following that in which the fund is reduced.

(e) During any period in which any of the project works are operated and maintained by the United States, the reserve fund shall be available for like use by the United States.

(f) On or before February 1 of each year, the Contractor shall provide an annual statement of the balance and composition (principal and accumulated interest) of the reserve fund account to the Contracting Officer.

General Obligation -- Benefits Conditioned Upon Payment

13. (a) The obligation of the Contractor to pay the United States as provided in this contract is a general obligation of the Contractor notwithstanding the manner in which the obligation may be distributed among the Contractor's water users and notwithstanding the default of individual water users in their obligations to the Contractor.

(b) The payment of charges becoming due hereunder is a condition precedent to receiving benefits under this contract. No water will be made available to the Contractor through project facilities during any period in which the Contractor may be in arrears in the advance payment of any operation and maintenance charges due the United States or in arrears for more than 12 months in the payment of any construction charges due the United States. The Contractor shall not furnish water made available pursuant to this contract for lands or parties which are in arrears in the advance payment of operation and maintenance or toll charges or in arrears more than 12 months in the payment of construction charges as levied or established by the Contractor.

Quality of Water

14. The operation and maintenance of project facilities shall be performed in such manner as is practicable to maintain the quality of raw water made available through such facilities at the highest level reasonably attainable as determined by the Contracting Officer. The United States does not warrant the quality of water and is under no obligation to construct or furnish water treatment facilities to maintain or better the quality of water.

Water and Air Pollution Control

15. The Contractor, in carrying out this contract, 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.

Books, Records, and Reports

16. The Contractor 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 contract.

Rules, Regulations, and Determinations

17. (a) The Contracting Officer shall have the right to make, after an opportunity has been offered to the Contractor for consultation, rules and regulations consistent with the provisions of this contract, 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 contract, and to supply necessary details of its administration which are not covered by express provisions of this contract. The Contractor shall observe such rules and regulations.

(b) Where the terms of this contract provide for action to be based upon the opinion or determination of either party to this contract, whether or not 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 questions any factual determinations made by the Contracting Officer, the findings as to the facts shall be made by the Secretary only after consultation with the Contractor and shall be conclusive upon the parties.

Notices

18. Any notice, demand, or request authorized or required by this contract shall be deemed to have been given, on behalf of the Contractor, when mailed, postage prepaid, or delivered to the Regional Director, Lower Colorado Region, Bureau of Reclamation, P.O. Box 427, Boulder City, Nevada 89005, and on behalf of the United States, when mailed, postage prepaid, or delivered to the President, Chaparral City Water Company, P.O. Box 17030, Fountain Hills, Arizona 85268. 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.

Equal Opportunity

19. During the performance of this contract, the Contractor agrees as follows:

(a) The Contractor will not discriminate against any employee or applicant for employment because of race, color, religion, sex, or national origin. The Contractor will 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 Contractor agrees to post in conspicuous places, available to employees and applicants for employment, notices to be provided by the Contracting Officer setting forth the provisions of this nondiscrimination clause.

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

(c) The Contractor will 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 Contractor'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 Contractor will 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 Contractor will 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 will 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 Contractor's noncompliance with the nondiscrimination clauses of this contract or with any of such rules, regulations, or orders, this contract may be canceled, terminated, or suspended, in whole or in part, and the Contractor may be declared ineligible for further Government contracts in accordance with procedures authorized in said amended Executive Order, and such other sanctions may be imposed and remedies invoked as provided in said Executive Order, or by rule, regulation, or order of the Secretary of Labor, or as otherwise provided by law.

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

Title VI, Civil Rights Act of 1964

20. (a) The Contractor agrees that it will 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 Contractor receives financial assistance from the United States and hereby gives assurance that it will 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 Contractor by the United States, this assurance obligates the Contractor, 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 contractor for the period during which it retains ownership or possession of the property. In all other cases, this assurance obligates the Contractor 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 Contractor 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 Contractor recognizes and agrees that such Federal financial assistance will 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 Contractor, its successors, transferees, and assignees.

Charge for Late Payments

21. The Contractor shall pay a late payment charge on installments or charges which 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 will not be less than 0.5 percent per month. The late payment charge percentage rate applied on an overdue payment will remain in effect until payment is received. The late payment rate for a 30-day period will be determined on the day immediately following the due date and will 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 will first be applied to the late charge on the overdue payment and then to the overdue payment.

Contingent on Appropriation or Allotment of Funds

22. 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 Contractor from any obligations under this contract. No liability shall accrue to the United States in case such funds are not appropriated or allotted.

Assignment Limited--Successors and Assigns Obligated

23. The provisions of this contract shall apply to and bind the successors and assigns of the parties hereto, but no assignment or transfer of this contract or any part or interest therein shall be valid until approved by the Contracting Officer.

Officials Not to Benefit

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

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

Changes in Contractor's Organization

25. While this contract is in effect, no change shall be made in the Contractor's organization, by inclusion or exclusion of lands, by dissolution, consolidation, merger or otherwise, except upon the Contracting Officer's written consent.

Administration of Project Lands

26. The land and rights-of-way acquired and needed by the United States for the purposes of care, operation, and maintenance of project works may be used by the Contractor for such purposes. The Contractor shall not issue rights-of-way across project land, issue land rights to project lands, or issue leases, licenses, permits, or special use agreements involving project land, rights-of-way, or transferred works. All such land use instruments may be issued only by the Contracting Officer. Lands and rights-of-way withdrawn or acquired primarily for, or later determined to be used or, recreation, fish and wildlife enhancement or mitigation, or other special purposes, shall be reserved primarily for those purposes; any other land or rights-of-way use shall be secondary in nature and compatible with said recreation, fish and wildlife, or special purpose uses.

Confirmation of Contract

27. Upon the execution of this contract, the Contractor shall promptly seek a final decree of a court of competent jurisdiction of the State of Arizona approving and confirming the contract and decreeing and adjudging it to be lawful, valid, and binding on the Contractor. The Contractor shall furnish to the United States a certified copy of such

decree and of all pertinent supporting records. This contract shall not be binding on the United States or the Contractor until such final decree has been entered.

IN WITNESS WHEREOF, the parties hereto have executed this Contract No. 5-07-30-W0068 the day and year first above written.

Legal Review and Approval

By: /s/ [SIGNATURE ILLEGIBLE]

Field Solicitor, Phoenix, Arizona

THE UNITED STATES OF AMERICA

By: /s/ [SIGNATURE ILLEGIBLE]

Regional Director
Lower Colorado Region
Bureau of Reclamation

CHAPARRAL CITY WATER COMPANY

ATTEST:

/s/ HOWARD J. BRESSLER

Secretary

By: /s/ [SIGNATURE ILLEGIBLE]

Title President

EXHIBIT 23

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation by reference of our report, dated February 16, 2001 included in this Annual Report on Form 10-K into the following previously filed American States Water Company and Southern California Water Company registration statements:

Registration Form	Registration No.	Effective Date
S - 8	33-71226	November 4, 1993
S - 3	333-68201	December 16, 1998
S - 3	333-68299	December 22, 1998
S - 3	333-88979	October 26, 1999

It should be noted that we have not audited any financial statements of the Company subsequent to December 31, 2000 or performed any audit procedures subsequent to the date of our report.

ARTHUR ANDERSEN LLP

Los Angeles, California
February 26, 2001