

**PINE CREEK CANYON
DOMESTIC WATER IMPROVEMENT DISTRICT
INTERCONNECTION PROCESS**

Adopted 4-15-06 and Revised 12-20-14

The Pine Creek Canyon Domestic Water Improvement District Interconnection Process (the “Interconnection Process”) establishes the requirements for expansion of the infrastructure to provide service to additional customers of the Pine Creek Canyon Domestic Water Improvement District (the “District”) that occupy undeveloped tracts of land other than existing subdivided lots designated on the original subdivision plats.

District Objectives

- Compliance with all statutory requirements.
- Providing service to residential and commercial customers within the District.
- Ensuring that costs associated with adding new customers, including capital improvement and ongoing operating and maintenance costs, will not be borne by existing customers. All costs associated with connection to and expansion of the infrastructure shall be borne by new customers.
- Ensuring that service reliability will not be adversely impacted by adding new customers.

Interconnection Process

The interconnection process is comprised of four phases; (i) interconnection study, (ii) interconnection agreement, (iii) infrastructure design and construction, and (iv) infrastructure inspection and turnover to the District.

Interconnection Study

The interconnection study phase determines the impact of the interconnection on the District in terms of technical expansion requirements, costs associated with the expansion, changes to operating and maintenance requirements, and associated impact on the rate structure. Steps include:

- The prospective interconnector (the “Interconnector”) submits an interconnect request to the District. The interconnect request shall include a water/wastewater master plan (the “Master Plan”) that shows the size and approximate locations of the water distribution facilities, wastewater collection facilities, and off-site facilities such as, wells, storage, pumping, treatment, water distribution, wastewater collection, and/or related facilities and appurtenances (the “Infrastructure”) required to provide adequate District services for the benefit of Interconnector. The interconnect request shall also include detailed usage requirements along with the basis for establishing these requirements.

- The District determines the cost associated with conducting a study to determine the technical requirements of the Infrastructure, costs associated with the expansion, changes to the District’s operating and maintenance requirements, and associated impact on the District’s rate structure (together the “Interconnection Study”).
- The costs of the Interconnection Study are presented to Interconnector by the District.
- Should Interconnector elect to proceed, the non-refundable costs for the Interconnection Study shall be paid in full to the District by Interconnector prior to the District beginning the Interconnection Study. Should Interconnector decide not to proceed, no further action will be undertaken by the District to provide service to Interconnector.
- Upon payment in full for the cost of the Interconnection Study, the District will, at its sole discretion, select a service provider to perform the Interconnection Study.
- The Interconnection Study shall define technical Infrastructure expansion requirements and associated costs, including, but not limited to, additional wells; additional storage capacity; expansion of the wastewater treatment plant, piping, control and monitoring systems, primary and backup power requirements, spare parts and equipment; performance testing; warranties; and additional property needed by the District as well as additional District overhead costs, including District engineering support, legal, training, administrative, and quality control costs. In order to ensure adequate future reliability of service, the Infrastructure shall be designed with excess capacity equal to (a) one-half gallon for every gallon of water demanded and (b) one-half gallon for every gallon of wastewater produced.
- The Interconnection study shall also determine changes to the District’s operating and maintenance requirements and associated impact on the District’s rate structure. User fees charged by the District are based on proportionate shares of the District’s cost of operating, maintaining, and replacing the District’s systems, and may include the cost of administrators, surveyors, sanitation experts, engineers, legal counsel, and other persons as are reasonably necessary for the operation maintenance and replacement of the District’s systems. The fees may also include any contractual amounts required to meet covenants relating to bonds or other obligations of the District secured by a pledge of, or promise to pay from the District’s fees.
- The Interconnection Study will be presented to Interconnector.
- Should Interconnector not accept the Interconnection Study and the findings therein and agree to implement the recommendations included in the Interconnection Study within 30 calendar days of receipt thereof, no further action will be undertaken by the District to provide service to Interconnector.

Interconnection Agreement

In the event Interconnector accepts and agrees to implement the findings and recommendations of the Interconnection Study within 30 calendar days of receipt thereof, the District will develop an interconnection agreement that establishes the terms under which the District will provide services to Interconnector (the “Interconnection Agreement”). All expenses incurred by the District to develop the Interconnection Agreement shall be borne by Interconnector as they are expended by the District. The Interconnection Agreement will include, but not be limited to, the following terms:

- Interconnector shall design, construct, and install, or cause to be designed, constructed, and/or installed, the Infrastructure as detailed in the Master Plan and included in the required Infrastructure construction documents prepared by Interconnector’s engineer and approved by the District. Interconnector shall pay all of the costs of the designing, constructing, installing, and connecting the Infrastructure, including, but not limited to, the costs of engineering, materials, labor, transportation, equipment, necessary permits and approvals, easements, inspections, project coordination, testing, corrections, insurance, and bonds.
- Interconnector shall schedule completion of the Infrastructure construction so as to allow the District to provide District services included in the Interconnection Agreement as such services are requested.
- Upon requesting water or wastewater service, Interconnector shall submit a cash payment as specified by the District’s then current service and meter installation tariff for each water meter or sewer connection to be installed by the District. Water meters and sewer connections will be installed and service will be initiated by the District upon Interconnector’s request.
- Interconnector shall obtain, at its sole cost, all necessary designs, permits, zoning, easements, and other governmental approvals in advance of construction of the Infrastructure.
- Interconnector shall, at no cost to the District and before commencement of construction, grant or cause to be granted to the District perpetual non-exclusive rights-of-way and/or easements for any Infrastructure constructed pursuant to the Interconnection Agreement

Infrastructure Design and Construction

- The Interconnector shall design the Infrastructure and develop the necessary construction plans and specifications (collectively, the “Plans and Specifications”) as well as the required quality control process to be used to ensure quality of construction.

- All Plans and Specifications, construction, and installation of the Infrastructure shall be in accordance with good utility practices; the rules, regulations, and requirements of the Arizona Department of Environmental Quality (“ADEQ”); the District’s specifications and details; and the requirements of all other governmental agencies having jurisdiction over the Infrastructure.
- Interconnector shall submit the Plans and Specifications to the District for review and approval, along with any associated preliminary plats, final plats, address maps, projected home closings by quarter, and other items reasonably requested by the District. The District shall provide a written response related to its review of the Plans and Specifications, including any review comments, within 30 days of receipt thereof by the District. The cost of the District’s initial, and any additional, review(s) will be the sole expense of the Interconnector.
- Construction of the Infrastructure shall not commence until the Plans and Specifications have been approved in writing by the District.
- Any applications to governmental agencies (*i.e.*, the Approval to Construct required by ADEQ) must be pre-approved by the District prior to submission.
- Prior to the commencement of construction of the Infrastructure, Interconnector shall comply with the insurance requirements set forth on Exhibit "A" and shall cause all third-party contractors, subcontractors, consultants and sub-consultants engaged by Interconnector to comply with such requirements.
- Prior to the commencement of construction of the Infrastructure, Interconnector shall guarantee Interconnector’s performance under the Interconnection Agreement by providing the District with the following security instruments (the “Security Instruments”) on forms approved by the District for the purposes and in the amounts as follows:
 - a Faithful Performance Bond to ensure faithful performance of the Interconnection Agreement in regard to the Infrastructure in the amount of 110% of the estimated cost of construction of the Infrastructure; and
 - a Labor and Materials Bond to secure payment to any contractor, subcontractor, consultant, sub-consultant, persons renting equipment or furnishing labor or materials for the Infrastructure required to be constructed or installed pursuant to the Interconnection Agreement in the additional amount of 110% of the estimated cost of construction of the Infrastructure.

The District shall release the Faithful Performance Bond upon (i) Interconnector’s written request and following acceptance by the District of the Infrastructure and (ii) Interconnector’s delivery to the District of the Warranty Bond for the Infrastructure as defined below.

The District shall release the Labor and Materials Bond upon (i) Interconnector's written request and following acceptance by the District of the Infrastructure and (ii) after the expiration of the time within which lien claims are required to be made. If lien claims have been timely filed, the District shall hold the Labor and Materials Bond until (i) such claims have been resolved, (ii) Interconnector has provided a statutory bond or (iii) otherwise required by applicable law.

- The District will select a quality control supervisor at its sole discretion to inspect the progress of construction. The cost of the quality control supervisor will be the sole expense of the Interconnector.

Infrastructure Inspection and Turnover to the District

- Upon completion of construction of the Infrastructure, Interconnector shall submit a certificate of compliance with the design and construction requirements ("Certificate of Compliance") to the District. The District or its agent will meet with Interconnector to inspect and test the Infrastructure and to develop a punch list of items to be completed by Interconnector. If the Infrastructure meets the performance testing requirements, the District will assume the operation and maintenance of the Infrastructure. No Infrastructure may be placed into service until the Infrastructure has been inspected by the District, ADEQ has issued its Approval of Construction, and the District has issued its provisional acceptance of the Infrastructure, which provisional acceptance shall be issued within 30 days of completion of construction, provided (i) Interconnector has made all required submittals, (ii) Interconnector has completed construction and testing of the Infrastructure, and (iii) said submittals and construction are in accordance with reasonable utility standards.
- Upon provisional acceptance by the District, the Security Instruments will be reduced to 125% of the estimated costs to resolve all punch list items. Until all punch list items are completed, Interconnector shall reimburse the District for all operation and maintenance costs.
- Upon the District's written provisional acceptance, the Infrastructure shall become and remain the sole property of the District without the requirement of any written document of transfer to the District. However, Interconnector shall furnish any document pertaining to ownership and title as may be requested by the District, including documents evidencing or confirming transfer of ownership to the District, and good and merchantable title free and clear of liens, or which contain provisions for satisfaction of liens against the Interconnector.
- Within 15 days of Interconnector's correction of all outstanding punch list items and providing clear title documents, the District shall issue Interconnector final written acceptance of the Infrastructure.

- In order to guarantee and warranty the Infrastructure and in addition to the Security Instruments referenced above, Interconnector shall provide to the District the following additional Security Instruments:
 - Prior to the District's final acceptance of the Infrastructure, Interconnector shall provide to the District a "Warranty Bond" for the Infrastructure for a period of two (2) years following said acceptance against any defective work of labor done or defective material furnished. The amount of such Warranty Bond for the Infrastructure shall be equal to twenty-five percent (25%) of the estimated construction cost of the Infrastructure.
 - The District shall release the Warranty Bond for the Infrastructure upon Interconnector's written request following expiration of the warranty period, provided no claims are outstanding at that time regarding defective work.
- Interconnector shall promptly correct all defects and deficiencies in construction, materials, and workmanship upon request by the District made subsequent to inspection by the District and for two (2) years following the District's written final acceptance of the Infrastructure in accordance with the terms of the Interconnection Agreement.

APPROVED AS AMENDED AND ADOPTED by
The Board of Directors of the Pine Creek Canyon
Domestic Water Improvement District at the
Meeting on April 15, 2006 and the meeting of
December 20, 2014.