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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION  
OF UNITED WATER IDAHO INC. FOR  
AUTHORITY TO INCREASE ITS RATES  
AND CHARGES FOR WATER SERVICE IN  
THE STATE OF IDAHO

**Case No. UWI-W-11-02**

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

DIRECT TESTIMONY OF SCOTT RHEAD

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IDAHO PUBLIC  
UTILITIES COMMISSION

1 Q. Please state your name.

2 A. Scott Rhead.

3 Q. By whom are you employed and in what capacity?

4 A. United Water Idaho (“United Water” or “Company”) as Director of Engineering.

5 Q. What are your duties and responsibilities in your capacity as Director of Engineering?

6 A. I manage all activities of the Engineering group. These responsibilities include

7 strategic planning, capital budgeting, engineering design, information technology,

8 water quality, and construction management for capital improvements.

9 Q. Please describe your professional training and experience.

10 A. I received a Bachelor of Science Degree in Civil Engineering from Idaho State

11 University in 1972. I was employed by Forsgren Consulting Engineering from 1975

12 to 1990 designing and managing a variety of water and waste water municipal

13 improvement projects. I joined United Water in 1990. Since then I have had

14 diversified responsibilities in both Engineering and Production departments. I am a

15 registered professional engineer in Idaho, Oregon, Washington, Utah and New

16 Mexico. I am also a certified Idaho Water Treatment Operator Level I and

17 Distribution Operator Level IV.

18 Q. What is the purpose of your testimony?

19 A. I will discuss these topics:

20 • Pro forma adjustments in the test year to recognize investments in plant in service

21 through November 30, 2011.

22 • Explanation of the purchased water expense adjustment as it relates to drought

23 protection, weather conditions, and salmon flow augmentation.



1 A. Yes. These retirements include the legacy customer information system, customer  
2 services, meters, pumping equipment, new and replacement mains, distribution  
3 storage, control equipment, information technology equipment, facility improvements,  
4 office furniture/equipment, engineering master plan, security upgrades and general  
5 plant.

6 Q. Will these plant additions be in service by the end of the pro forma period?

7 A. Yes. These items are underway and planned for completion by the end of the pro  
8 forma period at November 30, 2011.

9 Q. Will the plant additions shown on Exhibit No. 3 be used and useful in providing  
10 service to the Company's customers?

11 A. Yes they will.

12 Purchased Water Expense

13 Q. Please discuss the basis for United Water's purchased water expense in the pro forma  
14 amount of \$142,672 as shown on Exhibit 11 accompanying the testimony of Witness  
15 Healy.

16 A. The annual cost for surface water hinges on multiple factors. The primary factor in  
17 establishing the annual cost is balancing the use of short term rental pool water when  
18 available versus longer term storage contracts between the Bureau of Reclamation  
19 (BOR) and the Company. This in turn is directly related to the snow pack or moisture  
20 conditions for any given year. Annual purchased water has ranged from  
21 approximately \$186,000 to \$130,000 during the period from 2004-2010. The  
22 Company balances its surface water portfolio by renting or leasing water at a lower  
23 cost when available and preserving the more reliable storage space for drought

1 protection when rental water is unavailable or becomes extremely costly due to limited  
2 availability. In this way the Company minimizes current year costs while guarding  
3 against future shortages or high prices. It should be noted that the BOR contract  
4 payments for 2,100 acre feet must be made even if the water is not used in any given  
5 year. These contracts are shown in Exhibit No. 4 identified by a double asterisk (\*\*).

6 Q. Are the lease/contract costs generally known and measureable related to purchase  
7 water expense?

8 A. Yes, these agreements have been executed and are assigned under the column heading  
9 called "Contract Status" on Exhibit No. 4.

10 Q. Can you clarify why purchased water expense proposed in the proforma period  
11 exceeds the test year expense by approximately \$13,000?

12 A. The primary reason for this expense increase is drought protection to assure enough  
13 storage water and senior natural flow to operate the surface water treatment plants in  
14 the event of low snow pack and associated storage water carryover. The Company's  
15 natural flow water rights are very junior in priority and transition to storage water  
16 release occurs according the control of the Boise River Water Master. In drought years  
17 this transition happens early in the season and more storage release is necessary to  
18 operate until the next spring when the process starts again. We have been in a  
19 relatively wet snow pack cycle but this can all change if we experience two dry years  
20 in a row as has happened in the past. This additional \$13,000 expense is associated  
21 with leases that provide additional storage and senior natural flow from the existing  
22 owners of these water rights.

23 Q. Can you explain in detail the breakdown of this additional expense?

1 A. Yes. There are three known and measurable changes to the level of purchased water  
2 expense included in the test year. First, the Company has increased the volume of  
3 water leased under the agreement with Boise Valley Irrigation District (BVID) from  
4 1,000 acre feet to 1,500 acre feet. The increase in leased volume with BVID results in  
5 a corresponding increase of 500 acre feet in the Basin 63 Rental Pool volume. Third,  
6 we have been notified by Boise City Canal Company that its charge per unit will  
7 increase from \$95 per unit to \$98 per unit in 2012. These changes are reflected in  
8 Exhibit No. 4 which produce the total purchased water expense of \$142,672.

9 Q. Do you believe \$142,672, as depicted on Exhibit No. 4 is a reasonable allowance for  
10 purchased water expense for rate making purposes?

11 A. Yes. Based on my experience in acquiring surface water to meet potential demand, I  
12 believe it is.

13 Installation of Auxiliary Power at the Columbia Raw Water Pumping Facility

14 Q. Can you explain the Company's decision to install auxiliary electric power at the  
15 Columbia Raw Water Pumping facility and terminate the Schedule 46: Uniform  
16 Alternate Distribution Service Agreement with Idaho Power Company?

17 A. Yes. The Columbia pumping facility is located on the Boise River near Highway 21  
18 and is jointly owned and operated with Micron Technology and the J.R. Simplot  
19 Company and it is the sole source of raw water for the Columbia Water Treatment  
20 Plant (CWTP). The Company's investment in the facility has been previously  
21 approved by the Commission.

22 Q. Do you believe it is prudent to have back-up or redundant electric power at the  
23 pumping facility?

1 A. Yes. Because the Columbia Water Treatment Plant can provide approximately  
2 6,000,000 gpd to the Company's system, it is important that the source of water be  
3 available particularly during the summer peak production season, under all foreseeable  
4 conditions. Previously, back up electric power was provided under a Schedule 46,  
5 Alternate Distribution Service Agreement with Idaho Power Company with an  
6 associated annual expense of \$75,716, that amount is now reduced to \$21,160  
7 resulting in an annual savings of \$54,556.

8 Q. Can you explain the costs associated with termination of the Idaho Power Company  
9 Alternate Distribution Agreement with Idaho Power Company.?

10 A. Yes. The Agreement is in the process of being terminated. The termination letter was  
11 sent on July 27, 2011. This results in an annual expense savings of approximately  
12 \$54,556. In conjunction with termination, a payment of approximately \$74,272 to  
13 Idaho Power is required to compensate Idaho Power for non-salvage equipment. As  
14 explained in the testimony of Ms. Cary, the Company is requesting a two-year  
15 amortization of that payment.

16 Q. Has the Company taken steps to improve redundant electric power for the pumping  
17 facility?

18 A. Yes. The Company has installed a 800 kW diesel electric power generation unit on  
19 land adjacent to the pumping facility. In the event of a power outage, automated  
20 switching equipment will immediately start the diesel generation, insuring that water  
21 is provided to the CWTP on an un-interrupted basis. The diesel generating unit was  
22 placed in service in February of 2011.

1 Q. Do you believe it is more prudent for the Company to own the redundant source of  
2 electric power rather than rely on contractual redundancy?

3 A. Yes. Having direct control of standby power and associated pumping capacity is  
4 much more reliable than relying of transmission circuits and automatic transfer  
5 switches from Idaho Power.

6 Q. Was it necessary for the Company to acquire the real estate upon which the generating  
7 facility is located?

8 A. Yes. The original parcel of property on which the pumping facility is located was not  
9 large enough to accommodate the addition of the generating facilities. The only  
10 adjacent property upon which a generating facility could be placed was owned by Mr.  
11 Marion Smith (MS). Over a period of five years I engaged Mr. Smith in discussion  
12 about possible purchase of his property and agreement was finally reached in July of  
13 2009.

14 Q. Were there any unusual features of the negotiations with Mr. Smith?

15 A. Yes there were. The Smith property abuts a road way that runs along the New York  
16 Canal. The roadway provides the only access to the pumping facility and to Mr.  
17 Smith's home. Ownership and access rights of this road to the pumping station were  
18 previously in doubt.

19 Q. Can you explain more regarding this roadway and access ownership question?

20 A. Yes. The United States Bureau of Reclamation (BOR) obtained the New York Canal  
21 Right of Way (ROW) pursuant to a conveyance from the New York Canal Co. Ltd. in  
22 1906. That conveyance was vague in its description of the property conveyed. The  
23 BOR believed that this conveyance created an exclusive perpetual easement to build

1 and maintain the canal for a distance of twenty five feet (25') from the toe of the canal  
2 bank. Marion Smith believed conveyances from his predecessors' created ownership  
3 underneath the roadway and to the center line of the New York Canal. Additionally,  
4 the BOR had not stopped or impeded this access along the roadway for over one  
5 hundred years. Mr. Smith contended his ownership interest included the right to use  
6 the roadway so long as such use did not unreasonably interfere with the BOR access  
7 rights. In the Company's view, the best course of action was to secure all of Mr.  
8 Smith's rights, including his claim of access rights, thereby creating the strongest  
9 possible position in the event there was ever a challenge by BOR.

10 Q. Was Mr. Smith willing to sell anything less than the full parcel?

11 A. No. Mr. Smith was unwilling to sell anything less than the full parcel of property. This  
12 became very apparent to me during my long discussions with Mr. Smith. Thus, in  
13 order to reduce doubt about access to the pumping and generating facilities and to  
14 meet Mr. Smith's non-negotiable condition, it was necessary for the Company to  
15 purchase the entire acreage owned by Mr. Smith.

16 Q. Does this conclude your testimony?

17 A. Yes.

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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

EXHIBIT TO ACCOMPANY THE DIRECT TESTIMONY OF SCOTT RHEAD

**United Water Idaho**  
**Pro Forma Period Plant Additions and Retirements**  
**July 1, 2011 to November 30, 2011**

| Project ID | Project Title                  | In Service Date | Forecast Additions | Forecast Retirements | Forecast Cost of Removal | Forecast Salvage |
|------------|--------------------------------|-----------------|--------------------|----------------------|--------------------------|------------------|
|            | <b>Source of Supply</b>        |                 |                    |                      |                          |                  |
| C11A001    | Water Rights                   | Feb-11          | 65,100             |                      |                          |                  |
| C11A501    | Redrill Foxtail Well -338.5    | Nov-11          | 530,001            | 57,753               | 13,800                   |                  |
|            | <b>Subtotals</b>               |                 | <b>\$595,101</b>   | <b>\$57,753</b>      | <b>\$13,800</b>          | <b>\$0</b>       |
|            | <b>Treatment</b>               |                 |                    |                      |                          |                  |
| C11B001    | Cover Maple Hill Treatment     | Jun-11          | 69,813             | 4,900                | 875                      |                  |
| C11B003    | Columbia Pre-Treatment         | Oct-11          | 10,000             |                      |                          |                  |
| C11B501    | Chlorine Residual Analyzers    | Jul-11          | 6,349              | 5,071                | 50,000                   |                  |
| C11B504    | Facility Cooling (CWTP 2011)   | Oct-11          | 20,100             | 12,000               | 400                      |                  |
| C11B506    | Repl CWTP UPS                  | Jun-11          | 4,700              | 25,000               |                          |                  |
| C11B600    | Replace Treatment Equipment    | Various         | 36,806             | 14,200               | 1,000                    |                  |
| C11B700    | Replace Chlorination Equipment | Jul-11          | 89,500             | 70,062               | 3,150                    |                  |
|            | <b>Subtotals</b>               |                 | <b>\$237,268</b>   | <b>\$131,233</b>     | <b>\$55,425</b>          | <b>\$0</b>       |
|            | <b>Pumping Plant</b>           |                 |                    |                      |                          |                  |
| C10C504    | SCADA Replacement              | Nov-10          | 30,600             |                      |                          |                  |
| C11C001    | Gowen Control Valve            | Oct-11          | 111,600            |                      |                          |                  |
| C11C003    | Opto Processor Upgrades        | Jun-11          | 10,405             | 7,000                | 200                      |                  |
| C11C004    | VFD Filtering                  | Aug-11          | 107,200            |                      |                          |                  |
| C11C005    | Arc Flash Upgrades             | Aug-11          | 168,800            |                      |                          |                  |
| C11C100    | Pump Equip-Sources of Supply   | Various         | 72,600             | 24,000               | 16,762                   | 400              |
| C11C200    | Repl Booster Pump Equipment    | Various         | 35,300             | 10,410               | 1,391                    |                  |
| C11C225    | Xeriscape Improvements         | Oct-11          | 56,200             |                      |                          |                  |
| C11C301    | Auxiliary Power Additions      | Nov-11          | 178,900            |                      |                          |                  |
| C11C501    | Reconstruct Pumping Facilities | Oct-11          | 49,200             | 3,200                | 600                      |                  |
| C11C502    | Replace Control Equipment      | Aug-11          | 13,873             | 14,005               | 1,083                    |                  |
| C11C504    | SCADA/RTU Replacement          | Jun-11          | 3,446              |                      |                          |                  |
| C11C506    | Repl Good Street Bstr Station  | Nov-11          | 907,700            | 67,400               | 7,700                    |                  |
|            | <b>Subtotals</b>               |                 | <b>\$1,745,825</b> | <b>\$126,015</b>     | <b>\$27,736</b>          | <b>\$400</b>     |
|            | <b>T &amp; D Mains</b>         |                 |                    |                      |                          |                  |
| C11D002    | New Short Mains & Valves       | Feb-11          | 12,900             |                      |                          |                  |

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| Project ID | Project Title                         | In Service Date | Forecast Additions | Forecast Retirements | Forecast Cost of Removal | Forecast Salvage |
|------------|---------------------------------------|-----------------|--------------------|----------------------|--------------------------|------------------|
| C11D502    | Replace Short Mains & Valves          | Feb-11          | 34,076             | 20,000               |                          |                  |
| C10D101    | Hill Road 24-inch Main Phase II       | Oct-10          | 1,356,733          | 13,200               | 1,000                    | 0                |
| C10D625    | Upgrade PRV Stations                  | Jan-11          | 4,200              |                      |                          |                  |
| C11D100    | New Mains                             | Oct-11          | 107,000            |                      |                          |                  |
| C11D101    | City Interties                        | Jul-11          | 22,800             |                      |                          |                  |
| C11D102    | Realign Barber SL Boundary            | Sep-11          | 198,700            | 47,500               | 2,500                    |                  |
| C11D300    | Developer Extensions                  | Various         | 532,049            |                      |                          |                  |
| C11D600    | Replacement Mains                     | Jul-11          | 115,000            | 7,170                | 700                      |                  |
| C11D601    | University Drive 16-inch              | Aug-11          | 166,000            | 2,540                | 1,000                    |                  |
| C11D602    | Owyhee PRV & Main Replacements        | Nov-11          | 220,000            | 7,700                | 3,000                    |                  |
| C11D625    | Upgrade PRV Stations                  | Nov-11          | 107,000            | 5,644                | 2,500                    |                  |
| C11D650    | Small GIP Main Repl Project           | Various         | 906,737            | 27,000               | 4,880                    |                  |
| C11D700    | Agency Related Repl Mains             | Jun-11          | 108,300            | 14,900               |                          |                  |
|            | <b>Subtotals</b>                      |                 | <b>\$3,891,495</b> | <b>\$145,654</b>     | <b>\$15,580</b>          | <b>\$0</b>       |
|            | <b>Storage</b>                        |                 |                    |                      |                          |                  |
| C11E001    | Circulation System at Gowen Standpipe | Oct-11          | 44,000             |                      |                          |                  |
| C11E501    | Replace Boulder Reservoir             | Jun-11          | 422,599            |                      |                          | 5,000            |
|            | <b>Subtotals</b>                      |                 | <b>\$466,599</b>   | <b>\$0</b>           | <b>\$0</b>               | <b>\$5,000</b>   |
|            | <b>Services</b>                       |                 |                    |                      |                          |                  |
| C11F001    | New Domestic Services                 | Feb-11          | 102,303            |                      |                          |                  |
| C11F003    | New Fire Services                     | Feb-11          | 58,835             |                      |                          |                  |
| C11F005    | New Isolated Domestic Services        | Feb-11          | 144,424            |                      |                          |                  |
| C11F501    | Replacement Domestic Services         | Feb-11          | 325,061            | 68,500               | 25,634                   |                  |
| C11F505    | Repl Isolated Services                | Feb-11          | 328,593            |                      |                          |                  |
|            | <b>Subtotals</b>                      |                 | <b>\$959,216</b>   | <b>\$68,500</b>      | <b>\$25,634</b>          | <b>\$0</b>       |
|            | <b>Meters</b>                         |                 |                    |                      |                          |                  |
| C11G001    | New Customer Meters                   | Feb-11          | 38,273             |                      |                          |                  |
| C11G501    | Replacement Customer Meters           | Feb-11          | 81,255             | 10,000               | 163                      | 1,200            |
|            | <b>Subtotals</b>                      |                 | <b>\$119,528</b>   | <b>\$10,000</b>      | <b>\$163</b>             | <b>\$1,200</b>   |
|            | <b>Information Technology (IT)</b>    |                 |                    |                      |                          |                  |

**United Water Idaho**  
**Pro Forma Period Plant Additions and Retirements**  
**July 1, 2011 to November 30, 2011**

| Project ID | Project Title                                | In Service Date | Forecast Additions  | Forecast Retirements | Forecast Cost of Removal | Forecast Salvage |
|------------|--|-----------------|---------------------|----------------------|--------------------------|------------------|
| C11J001    | PURCH WELL ROUTE HANDHELDS                   | Jul-11          | 7,500               |                      |                          |                  |
| C11J501    | Voice Radio Replacement                      | Oct-11          | 74,300              | 92,000               |                          |                  |
| C11J502    | Telephone Sys Component Repl                 | Nov-11          | 23,000              | 15,000               |                          |                  |
| C11J503    | HMI Panel Replacement                        | Sep-11          | 16,100              | 2,800                |                          |                  |
| C11J505    | Replace LAN Equipment                        | Sep-11          | 6,800               | 8,000                |                          |                  |
|            | Corporate IT Project Allocations             | Aug/Oct-11      | 5,572,900           | 1,795,068            |                          |                  |
|            | <b>Subtotals</b>                             |                 | <b>\$5,700,592</b>  | <b>\$1,912,868</b>   | <b>\$0</b>               | <b>\$0</b>       |
|            | <b>General Plant</b>                         |                 |                     |                      |                          |                  |
| C11K101    | Security Upgrades                            | Sep-11          | 60,000              | 8,475                | 1,875                    |                  |
| C11K102    | Production General Plant-New                 | Mar-11          | 14,100              |                      |                          |                  |
| C11K105    | Dechlorination Equipment                     | Jul-11          | 5,200               |                      |                          |                  |
| C11K302    | Hydraulic Model                              | Feb-11          | 45,275              |                      |                          |                  |
| C11K501    | Security Equipment Replacement               | Sep-11          | 8,600               | 3,870                | 323                      |                  |
| C11K702    | Repl Carpeting at Ops Center                 | Oct-11          | 10,000              | 8,000                | 500                      |                  |
|            | <b>Subtotals</b>                             |                 | <b>\$143,175</b>    | <b>\$20,345</b>      | <b>\$2,698</b>           | <b>\$0</b>       |
|            | Gross Plant Adds, Retirements, COR & Salvage |                 | <b>\$13,858,800</b> | <b>\$2,472,368</b>   | <b>\$141,035</b>         | <b>\$6,600</b>   |
|            | Other Retirements                            |                 |                     | <b>1,958,615</b>     |                          |                  |
|            | Gross Plant Additions and Retirements        |                 | <b>\$13,858,800</b> | <b>\$4,430,983</b>   |                          |                  |
|            | CIAC   |                 | <b>(\$588,500)</b>  |                      |                          |                  |
|            | Gross Plant Less CIAC                        |                 | <b>\$13,270,300</b> |                      |                          |                  |
|            | Developer Refunds                            |                 | <b>\$30,100</b>     |                      |                          |                  |

United Water Idaho - Purchased Water Exhibit 4 (7/25/11)

| ID#   | UNITS      | PRICE PER UNIT | ANNUAL TOTAL UNIT COST | CONTRACT STATUS    | PAYMENTS DUE | COMMENT - NOTES   |
|---|------------|----------------|------------------------|--------------------|--------------|---|
| <b>SHARES - LEASES IN CANALS</b>                    |            |                |                        |                    |              |   |
|   |            |                |                        |                    |              | Shares are owned. The Canal Board sets the annual assessments each fall and sends assessments to shareholders the following spring.   |
| N/A   | 46.5       | \$18.00        | \$840.00               | OWN SHARES         | 4/15/2012    |   |
|   |            |                |                        |                    |              | Shares are owned. The Canal Board sets the annual assessments each fall and sends assessments to shareholders the following spring.   |
| N/A   | 45         | \$98.00        | \$4,410.00             | OWN SHARES         | 1/15/2012    |   |
|   |            |                |                        |                    |              | 18" pipe line to Marden WTP from BCCC - Lateral #3. \$98/share x 400. Lease renewed in 2010.  |
| N/A   | 400        | \$98.00        | \$39,200.00            | SIGNED             | 1/15/2012    |   |
|   |            |                |                        |                    |              | Shares are owned. The Canal Board sets the annual assessments each fall and sends assessments to shareholders the following spring.   |
| N/A   | 43         | \$10.00        | \$455.00               | OWN SHARES         | 2/15/2012    |   |
|   |            |                |                        |                    |              | Shares associated with land adjacent to CWPS. Irrigation District sets the annual assessments each fall and sends assessments to landowners the following spring.                           |
| N/A   | 50         | \$10.00        | \$500.00               | OWN SHARES         | 2/15/2012    |   |
| <b>CONTRACT STORAGE</b>                             |            |                |                        |                    |              |   |
|   |            |                |                        |                    |              | Contract with BOR in place and establishes terms.   |
| ** BUREAU of RECLAMATION CONTRACT in ANDERSON       | 13205638   | \$25.77        | \$25,770.00            | SIGNED             | 1/15/2012    |   |
| ** BUREAU of RECLAMATION CONTRACT in LUCKY PEAK     | 059D101468 | \$15.16        | \$16,674.00            | SIGNED             | 1/15/2012    |   |
| ** BUREAU of RECLAMATION CONTRACT in LUCKY PEAK     | 059D101468 | \$2.45         | \$2,695.00             | SIGNED             | 1/15/2012    |   |
| <b>STATE WATER BANK</b>                             |            |                |                        |                    |              |   |
|   |            |                |                        |                    |              | State water bank fee is set by IDWR Board and allows annual transfer between water right holders. Payment is required at time of application for the transfer. Fisk Well - Oregon Trail ASR |
| N/A   | 350        | \$1.40         | \$490.00               | ANNUAL APPLICATION | 5/15/2012    |   |
| <b>BASIN 63 RENTAL POOL</b>                         |            |                |                        |                    |              |   |
|   |            |                |                        |                    |              | Volume rented varies with snow pack and ability to get commitments from other space holders. Expect to rent 2500 af in Jan. Payment required at time of application.                        |
| Rex Barrie  | 2500       | \$14.00        | \$35,000.00            | ANNUAL APPLICATION | 1/15/2012    |   |
| <b>INCENTIVE PAYMENTS TO BASIN 63 SPACE HOLDERS</b> |            |                |                        |                    |              |   |
| FARMERS CO-OP - 3 Year Lease                        | N/A        | \$4.38         | \$4,380.00             | SIGNED             | 5/15/2012    | Contract with Canal Co in place and establishes terms.  |
| BOISE VALLEY IRRIGATION DISTRICT - 10 Year Lease    | N/A        | \$7.00         | \$10,500.00            | SIGNED             | 5/15/2012    | Contract with Canal Co in place and establishes terms.  |
| <b>GARDEN CITY PUBLIC WORKS</b>                     |            |                |                        |                    |              |   |
| N/A   | N/A        | N/A            | \$1,756.00             | N/A                | Annual       | 3 UWID Customers on Joplin St. get their water off GC system  |
|   |            |                | <b>\$142,672.00</b>    |                    |              |   |