



# MOUNTAIN WATER COMPANY

P.O. Box 4826 - 1345 W. Broadway - Missoula, MT 59806 - Phone (406) 721-5570 - Fax (406) 523-5090 - www.mtnwater.com

**ARVID M. HILLER**  
V.P. & General Manager

May 31, 2011

Ms. Kate Whitney  
Montana Public Service Commission  
1701 Prospect Avenue  
Helena, Montana 59620

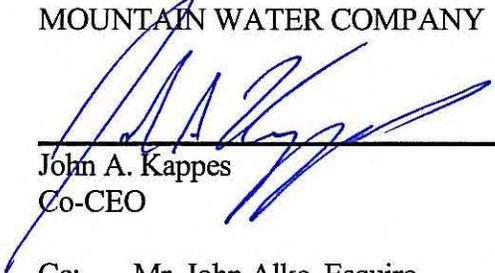
RE: Responses to Clark Fork Coalition Data Requests 028-046 From D2011.1.8

Dear Kate:

Enclosed please find Mountain Water's responses to data requests 028-046 from the Clark Fork Coalition.

An additional copy of all materials has been provided to the City of Missoula, the Montana Consumer Counsel, the Clark Fork Coalition, and representatives of the Carlyle Group.

MOUNTAIN WATER COMPANY



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Co-CEO

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**CFC-028** RE: Contract service agreement with Park Water Company ("Park")

**Please provide the contract service agreement pursuant to which Park provides administrative and general services to Mountain Water Company ("Mountain Water") as referenced in Mountain Water's May 12,201 1 response to the City of Missoula's data and information request no. 4.**

Please see attached.

## ADMINISTRATIVE SERVICES AGREEMENT

This Administrative Services Agreement ("Agreement") is entered into between Park Water Company, a California corporation ("Park"), and its wholly-owned subsidiary, Mountain Water Company, a Montana corporation ("Mountain"), on this 29<sup>th</sup> day of May, 2011.

### RECITALS

WHEREAS, Park and Mountain are regulated utilities companies engaged in the provision of public water services;

WHEREAS, in order to maximize efficiency and minimize costs for both parties, Park regularly performs various administrative support services for Mountain, as generally described in Exhibit A attached hereto ("Services") and regularly pays, on behalf of Mountain, certain expenses attributable to Mountain that may or may not be related to such Services ("Expenses");

WHEREAS, Mountain compensates Park for the performance of such Services and reimburses Park for the payment of such Expenses (collectively, "Park Payments");

WHEREAS, certain of the Services and Expenses are charged directly to Mountain by Park, while other Services and Expenses are allocated and charged to Mountain through the application of the four-factor allocation methodology implemented by the California Public Utilities Commission and approved by the Montana Public Service Commission;

WHEREAS, Mountain pays Park interest from time to time on unpaid intercompany balances relating to the Park Payments ("Interest"), by way of intercompany accountings ("I/As") which are effected by Park through entries on its and Mountain's books, and which allocate such amounts as charges to Mountain and credits to Park on a daily or monthly basis, as the case may be; and

WHEREAS, the parties wish to memorialize the terms of their agreement with respect to Park's Services to, and payment of the Expenses on behalf of, Mountain, and the allocation of the Services, Expenses, and Interest in the form of charges to Mountain consideration of same.

NOW, THEREFORE, in consideration of the premises and of the mutual covenants and agreements herein set forth, and for other good and valuable consideration, the receipt and sufficiency of which are hereby mutually acknowledged, the parties hereby covenant and agree as follows:

### AGREEMENT

1. Services Provided and Expenses Paid by Park. Park hereby agrees to continue to provide to Mountain, in a professional and competent manner, the Services generally described in Exhibit A attached hereto, as amended from time to time by the

mutual agreement of the parties, and any other services reasonably arising out of or related to such Services. Park further agrees to continue to pay for the Expenses on behalf of Mountain, consistent with Park's past business practices and the parties' course of dealing.

2. Charges to Mountain. In consideration of Park's ongoing performance of the Services and payment of the Expenses, Mountain hereby authorizes Park to allocate, on a daily or monthly basis depending on the particular charge (in Park's discretion), charges to Mountain in amounts equal to the value of such Services and the cost of such Expenses and Interest. Park shall be compensated and reimbursed such amounts by way of I/As which Park shall effect through entries on its and Mountain's books, and which shall allocate such amounts as charges to Mountain and credits to Park on a daily or monthly basis, as the case may be. Mountain shall be entitled to dispute any I/A by furnishing written notice to Park setting forth the grounds for such dispute within sixty (60) days after the last day of the month in which such I/A was effected by Park. Failure by Mountain to provide such written notice in the manner set forth herein shall constitute a waiver of Mountain's right to dispute the I/A in question.

3. Authorization. In order to facilitate the purposes of this Agreement, Mountain hereby agrees to authorize certain of Park's employees (as designated by Park) to take all reasonable measures to effect the I/As during the term of this Agreement. In order to facilitate the Cash Management Services provided by Park under this agreement, Mountain agrees to authorize certain of Park's employees, designated by mutual agreement between Park and Mountain, to make transfers to and from Mountain's bank accounts and to issue instructions to Mountain's bank regarding Mountain's credit line. The authorization for transfers to and from Mountain's bank accounts will be limited to transfers between Mountain's bank accounts and Park's bank account; and the authorization to issue instructions for Mountain's credit line are limited to instructions to draw down on the credit line to fund Mountain's bank accounts and to repay amounts drawn from the Mountain credit line with funds from Mountain's bank accounts.

4. Directors' and Officers' Duties Unchanged. Nothing herein shall be construed to relieve the directors or officers of Mountain from performing their respective duties or limit the exercise of their powers in accordance with the Articles of Incorporation or Bylaws of Mountain, the applicable provisions of the General Corporation Law of the State of Montana, or otherwise. The activities of Mountain shall at all times be subject to the control and direction of its Board of Directors and officers.

5. Term. Subject to the prior termination rights of the parties set forth in Section 10 herein, this Agreement shall be in effect for a period of two (2) years from the date hereof, at which time the agreement may be reviewed and renewed with mutual consent of both Mountain and Park.

6. Indemnification. Mountain shall defend, indemnify, and hold harmless Park and its directors, officers, employees, agents, representatives, parents, shareholders, members, affiliates, and subsidiaries (collectively, the "Indemnified Parties") from and against all liabilities and losses incurred by them, arising out of any acts or omissions by

or on behalf of Mountain that result in a breach of this Agreement, except to the extent such liabilities or losses arise out of the gross negligence or willful misconduct of the Indemnified Parties, but only to the extent of actual damages caused by any such breach.

7. Entire Agreement. This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and may not be amended or modified except by the written agreement of the parties hereto.

8. Successors and Assigns. This Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective successors and permitted assigns. Nothing in this Agreement, expressed or implied, is intended to confer on any other person other than the parties hereto, or their respective successors and permitted assigns, any rights, remedies, obligations, or liabilities under or by reason of this Agreement.

9. Amendment. This Agreement may be altered or modified only by a written agreement duly executed by an authorized representative of both parties.

10. Termination. This Agreement may be terminated at any time immediately upon written notice from the terminating party in the event the other party breaches any material term or provision of this Agreement and such breach is not cured within 30 days of such party's receipt of written notice of such breach. This Agreement may be terminated at any time by either party with a minimum of 60 days prior written notice to the other party.

11. Non-Assignability. Neither party may assign this Agreement, or any right or obligation hereunder, to any third party without the prior written consent of the other party.

12. Notices. Any notice (including notice of change of address) permitted or required to be given pursuant to the provisions of this Agreement shall be in writing and sent by registered or certified mail, return receipt requested, by facsimile transmission, by a nationally recognized overnight delivery service, or by hand delivery to the parties at the following addresses:

Park Water Company  
9750 Washburn Road  
Downey, California 90241  
Attention: Chief Financial Officer

Mountain Water Company  
1345 W. Broadway  
Missoula, Montana 59802  
Attention: General Manager

Notice properly given by registered or certified mail shall be deemed effective three (3) business days after mailing. Notice by any other permitted means shall be deemed effective upon receipt.

13. No Joint Venture. Nothing in this Agreement shall be deemed to constitute the parties hereto joint venturers, partners, or participants in an unincorporated business or other separate entity.

14. Waiver. No waiver of any rights or breach of any provision of this Agreement shall constitute a waiver of any other right or breach of any other provisions, nor shall it be deemed to be a general waiver of such provision by the waiving party or to sanction any subsequent breach by the other party.

15. Arbitration. Any controversy, claim or dispute arising out of or relating to this Agreement, shall be settled solely and exclusively by binding arbitration to be held in Los Angeles, California. Such arbitration shall be conducted in accordance with the then-prevailing commercial arbitration rules of JAMS ("JAMS"). Each party shall bear its own attorneys fees and expenses, and shall share the costs of the arbitration evenly with the other party. The parties agree to abide by all decisions and awards rendered in such proceedings, with such decisions and awards to be final and conclusive. The arbitrator shall not have the right to award punitive damages or speculative damages to either party and shall not have the power to amend this Agreement. The arbitrator shall be required to follow applicable California law.

16. Governing Law. This Agreement and any transactions effected pursuant to this Agreement shall be governed and construed solely in accordance with the laws of the State of California, without reference to the conflict of laws principles thereof.

17. Counterparts. This Agreement may be executed in one or more counterparts, all of which shall be considered one and the same Agreement and shall become effective when one or more counterparts have been signed by each party hereto and delivered to each party hereto.

[Signature page follows]

IN WITNESS WHEREOF, Park and Mountain have caused this Agreement to be executed in their respective corporate names by an officer thereunto duly authorized, all as of the date first above written.

Mountain Water Company

Park Water Company

By: Arvid M. Hiller  
Name: Arvid M. Hiller  
Title: Vice President / General Manager

By: Mary A. Young  
Name: Mary A. Young  
Title: Senior Vice President Admin.

## EXHIBIT A

### SERVICES

**In coordination with Mountain Water Company's (Mountain) Management, Park Water Company ("Park") shall provide the following Services to Mountain:**

- 1. Financing and Cash Management**
  - Negotiate long-term financing.
  - Handle funds transfers, credit line usage, and excess cash investments.
  - Provide funds as needed to Mountain.
- 2. Financial Planning - Operating & Capital Budgeting, Cash Flow Projections**
  - Make budget recommendations. Park's Budget Committee will review Mountain's operating and capital budgets and provide its input and recommendations for consideration by Mountain.
  - Prepare cash flow projections. Park will prepare cash flow projections (on a consolidated basis) based on information provided by Mountain, for the purpose of planning long-term financing, cash management planning, and capital project approvals.
  - Administer and monitor various budgeting software programs.
- 3. Financial and Benefit Audits and Income Tax Return**
  - Coordinate the process and preparation of the consolidated financial audit, benefit, income tax returns and 5500 filings with the companies' accounting firm.
  - Respond to regulatory authorities; correspondence associated with any of the above items.
- 4. Financial Reporting - Policies & Procedures**
  - Develop, implement, and maintain financial reporting policies and procedures. To facilitate the preparation of consolidated financial statements on a monthly basis, Park will develop, implement, and maintain policies and procedures to ensure that accounting records are kept in a consistent manner by the companies. Mountain will provide input with respect to such policies and procedures and will decide whether to follow such policies and procedures.
  - Prepare all consolidated financial statements.

- Prepare annual reports of Mountain for the Montana Public Service Commission ("PSC").

## **5. Accounting Services**

- Coordinate month-end closing schedules.
- Provide financial system support (general ledger, fixed assets, accounts payable, etc.).
- Provide payroll support associated with outside vendor (ADP).
- Provide miscellaneous services (e.g., Secretary of State filings, )
- Prepares accounting schedules and entries associated with Group Pension, PBOP, 401(k) and 401 (a) benefit plans. Including processing of related funding payments, depositing retiree contributions and providing associated data and schedules to the accounting firm auditing the plans.
- Coordinate selected company-wide financial/accounting project initiatives
- Provide selected training activities related to accounting function
- Support revenue requirements functions.

## **6. Revenue Requirements Services**

- Assist in the preparation of general rate cases applications (and supporting materials) before the PSC.
- Assist in other regulatory matters before the PSC.
- Coordinate selected company-wide regulatory project initiatives

## **7. Information Systems Services**

- Service major company business applications, such as JD Edwards, CIS, Time Entry, HRIS, Budgeting, etc.
  - Recommend use of major software applications.
  - Conduct vendor and contract negotiations and purchasing.
  - Implement major software applications.
  - Provide ongoing support of major software applications.
- Develop custom software applications when needed/desired.
  - Develop specifications in conjunction with users.
  - Program, test, and debug.
  - Implement software.

- Provide technical support and liaison with local tech support.
- Assist with strategic planning.
- Develop policy with regard to e-systems.
- Provide disaster preparedness and security planning and implementation.
- Assist with annual budgeting.
- Implement and support network/communications infrastructure.

**8. Human Resources**

- Performance Management and Compensation
  - Develop/update a Performance Management and Compensation Program.
  - Train supervisors and employees re: such Program.
  - Research/update pay grades, job pricing, geographic differentials, etc.
  - Provide guidance re: annual PMP and Merit Increase process.
  - Coordinate Excellence Bonuses.
  - Recommend compensation changes to the Mountain Board of Directors, as needed.
  - Implement compensation changes approved by the Mountain Board of Directors.
- Benefits.
  - Implement employee benefit programs approved by the Mountain Board of Directors.
  - Administer all benefits programs in accordance with the respective Plan Documents.
  - Effectively communicate all benefits programs to employees.
  - Troubleshoot programs and assist employees with benefits programs.
  - Coordinate legal compliance issues including audits, annual filings, etc.
  - Ensure timely payment of premiums.
  - Coordinate the services of all benefit providers and professional services.
- Employee Relations.
  - Provide guidance to Mountain in recruiting/hiring/orientation of employees.
  - Coordinate compliance with leave of absence legal requirements.

- Coordinate disciplinary actions including legal review.
- Coordinate terminations including legal review.
- Coordinate legal response to charges, filings and lawsuits.
- Policies.
  - Assist in monitoring and recommending changes to the Mountain Board of Directors.
  - Assist in the development of new policy recommendations to present to the Mountain Board of Directors.
  - Assist in implementing approved changes and new policies.
  - Assist with the communication of policies to employees.
  - Assist with the interpretation of policies for employees.
  - Coordinate legal review services for development, implementation, etc.
- Employee Training.

#### **9. Benefits Committee**

- Research benchmarking information comparing Mountain benefits to industry.
- Research new benefit opportunities, requirements and legal compliance issues.
- Monitor the compliance of benefits administration with accounting, legal and fiduciary standards.
- Make recommendations to the Mountain Board of Directors regarding broker, professional services and benefits program selection/implementation.
- Monitor the implementation of Mountain Board approved changes.

#### **10. Water Quality**

- Design and implement response to requirements of the federal Safe Drinking Water Act and pertinent Montana requirements as relates to potable and recycled water.
- Track development and impact of new federal and state regulations.
- Provide comment to federal and state governments on proposed regulations.
- Track developing analytical, treatment/monitoring/sensing technologies.
- Act as liaison to federal, state and local regulatory agencies as pertains to potable water, cross-connection control and laboratory issues.

- Act as liaison with contract laboratories.
- Act as a consultant to water quality personnel.
- As necessary, provide water quality input on rate cases (lab costs, treatment costs, monitoring costs, operational costs associated with water quality).
- Plan, cost, schedule water quality monitoring for budgets.
- Advise on operational issues concerning sources of water, distribution systems, water quality sampling, disinfection and maintain the Disinfection manual.
- Develop RFP's and interact with consulting engineers for various water quality projects.
- Work with academic community on research projects directly related projects of interest.
- Provide oversight and guidance as to the content of the annual Consumer Confidence Report.
- Perform public speaking for company public relations activities as well as for professional and regulatory associations.
- Serve as liaison to The Water Research Foundation.
- Work with professional associations like AWWA, ACWA, NAWC to represent industry concerns and to obtain the latest industry information helpful to achieving goal of providing potable water to customers.

## 11. Corporate Engineering

- Provide engineering and technical services as required or requested.
- Prepare or review plans and specifications for facility construction.
- Coordinate and manage construction or various project implementations.
- Analyze and prepare reports in support of master planning, specific planning, management and reporting requirements.
- Promote, manage and consult in support of technology advancements in areas such as GIS, mobile automated computing, record keeping, SCADA and security.
- Review, compile and manage consolidated capital expenditure planning.
- Assist with expense management and planning.
- Provide mapping and GIS creation, maintenance and enhancement services.
- Provide technical services for such things as displays, presentations and

miscellaneous drafting.

- Perform support for hydraulic analysis..
- Provide engineering services for corrosion control and coating work.
- Collect, research, share and promote information in support of state of the art water company operation and maintenance.
- Provide engineering advice and services on a wide assortment of projects and issues as needed.
- Provide mentoring and support for the advancement and training of engineering personnel.

## **12. Risk Management**

- Identify and recommend guidelines for best practices for operations and maintenance (O&M) programs.
- Review and recommend guidelines for operation, maintenance, and construction contracts.
- Review and update the Illness and Injury Prevention Program.
- Provide consultation and assistance for training for Mountain safety, DOT, operations, and maintenance programs.
- Conduct regular meeting with safety coordinators to discuss present Mountain safety program issues.
- Conduct safety, operation, maintenance reviews and audits of Mountain's water system.
- Interface with outside consultants to remain current on strategies and programs for compliance with new and established safety and O&M programs.
- Prepare formal recommendations to advise on risk and O&M strategies.
- Review and oversee all policies to minimize liability exposures in work programs.
- Monitor legislative activity and draft formal comments on pending legislation when required and enacted legislation as well.
- Function as liaison between Mountain and regulatory agencies.
- Attend regulatory hearings and proceedings and related agency meetings.

- Review business and liability insurance policies to assure proper levels of coverage.
- Negotiate with consultants, review proposals and coordinate with legal staff to obtain clarification on regulations and laws regarding new programs.
- Review all Accident Reports and Potential Hazard Reports with consultants and the Health and Safety Coordinator.
- Identify impacts and recommends changes to the safety programs.
- Utilize risk management programs to communicate issues to the organization at all levels and utilize consultants for training in these programs.
- Provide technical assistance in maintaining the Rattlesnake lake and impound structures.

**13. Related Services**

- Any and all other services arising out of or related to any of the Services listed herein.

## SERVICE PROVIDER NON-DISCLOSURE AGREEMENT

This Service Provider Non-Disclosure Agreement ("SPNDA") is made by and between Park Water Company ("PWC") and Mountain Water Company, ("Service Provider") (collectively, "Parties"). It shall be effective as of the date of the Service Provider signature provided on page 5.

### 1 Purpose

PWC has separately contracted with Service Provider ("service contract") to provide various support services such as accounting, auditing, payroll, banking (whether direct deposit, direct payment, payment processing or other), actuarial, insurance (whether health, workers compensation or other), employee benefits or other services necessary for PWC to meet its obligations to its customers, employees or others ("support services"). In order to provide the contracted services, Service Provider requires PWC to furnish Service Provider with Confidential Information, including, without limit, Personally Identifiable Information. The purpose of the SPNDA is to comply with applicable law and ensure that Service Provider adequately protects preserves, maintains, and safeguards the Confidential Information furnished by PWC to prevent unauthorized disclosure or loss. PWC will continue to provide Confidential Information to Service Provider only if the Parties enter into the SPNDA.

### 2 Confidentiality

2.1 Confidential Information. For purposes of this SPNDA, "Confidential Information" shall mean any and all information or material furnished by or on behalf of PWC or its customers or employees to Service Provider (or otherwise received, obtained, acquired or developed therefrom) in connection with support services, regardless of type, medium of transmission, or form, including, without limit, all Personally Identifiable Information and financial, credit, and any other company or personal information relating to PWC, its customers or employees, a service contract or support services. As defined in this SPNDA, "Confidential Information" shall not include information that:

- (a) is or becomes known to the public through no fault of the Service Provider;
- (b) is lawfully known to Service Provider prior to its receipt from PWC; or
- (c) is disclosed without restriction to Service Provider by a third party who has a lawful right to do so;

except that "Personally Identifiable Information" (as defined in Section 2.2) shall remain Confidential Information under this SPNDA in all circumstances. All Confidential Information shall remain the property of PWC at all times. Service Provider shall use the Confidential Information only for the purpose, and to the extent necessary, to fulfill its obligations under a service contract or provide support services. Service Provider shall promptly return all Confidential Information to PWC no later than the end of the SPNDA or immediately upon PWC's request.

2.2 Personally Identifiable Information. Service Provider acknowledges that certain Confidential Information disclosed to Service Provider and/or Service Provider's parent, affiliated or subsidiary companies, subcontractors and/or their respective employees or contractors (collectively, "Service Provider Representatives") in connection with a service

contract or support services may include "Personally Identifiable Information," which, in this SPNDA shall mean any and all of the following data or information which is accessible by Service Provider as a result of its business relationship with PWC and: (a) can be used to identify or locate a natural person, including, without limit, name, address, telephone number, e-mail address, credit or debit card or account information or driver's license or social security number; (b) is "non-public personal information" as defined under Title V of the federal Gramm-Leach-Bliley Act or any regulations or statutes adopted to comply therewith or promulgated pursuant thereto, or any other laws protecting information linked to a particular individual from disclosure, use or reproduction; or (c) is a list, description or other grouping of individuals that is derived using any information linked to a particular individual.

2.2.1 Service Provider and any Service Provider Representative shall only use, reproduce, disclose or retain Personally Identifiable Information: (a) as specifically authorized in a service contract or other writing by PWC to provide support services; (b) in accordance with any notices provided by PWC to its customers (provided a copy is given to Service Provider); and (c) in accordance with all then applicable laws and PWC policies and practices.

2.2.2 Service Provider shall (and cause all Service Provider Representatives to) maintain confidentiality of Personally Identifiable Information to the same extent that would be required for PWC to satisfy legal and policy requirements. In particular, but without limit, Service Provider has implemented and will continue to maintain (and cause all Service Provider Representatives to implement and maintain) appropriate measures designed to meet the following objectives: (a) ensure security, integrity, and confidentiality of Personally Identifiable Information; (b) protect against any anticipated threats or hazards to the security, integrity or confidentiality of Personally Identifiable Information; and (c) protect against unauthorized access to or use of the Personally Identifiable Information. Service Provider shall (and cause all Service Provider Representatives to) maintain physical, electronic and procedural controls and safeguards, in compliance with applicable laws, to protect Personally Identifiable Information from unwarranted disclosure. These controls shall include, without limit, maintenance of appropriate safeguards to restrict access to Personally Identifiable Information to only those users who need it to carry out the purpose(s) for which it was disclosed to Service Provider. For information disclosed in electronic form, Service Provider agrees that safeguards shall include electronic barriers (eg. firewalls or similar barriers) and password protected access to Personally Identifiable Information. For information disclosed in written form, Service Provider agrees that safeguards shall include secured storage of Personally Identifiable Information.

2.2.3 Service Provider agrees to immediately notify PWC if Service Provider reasonably suspects that Personally Identifiable Information has or may have been lost, subject to unauthorized internal or external access or otherwise compromised ("incident"). To the extent PWC requests Service Provider's assistance, Service Provider agrees to (and shall cause its Service Provider Representatives to) reasonably cooperate with PWC: (a) to determine the scope and severity of the incident; (b) by providing to PWC full and complete information regarding the incident as soon as it comes to light from any source, including, without limit, anything uncovered during and throughout any internal or external investigation by Service Provider, government agency or other authority, law enforcement, or anyone; (c) to give notice to individuals whose Personally Identifiable Information has or may have been affected by the incident to the extent required by law

or a PWC policy, but only upon the prior written request and approval of PWC; and (d) by providing or underwriting any other remediation measures, including, without limit, credit monitoring or identity protection services for those persons whose information has or may have been affected by the incident as determined by PWC, but only as directed by PWC and, at its election, PWC shall have the right to implement these measures on Service Provider's behalf.

2.2.4 Upon completion of its use of the Personally Identifiable Information for the purpose for which it was disclosed by PWC, Service Provider shall (and cause each Service Provider Representative to) permanently destroy or render unreadable any media or data used to store or record Personally Identifiable Information unless otherwise notified in writing by PWC. The means to meet this requirement must ensure that Personally Identifiable Information is permanently destroyed and cannot be subsequently accessed or read based upon commercially reasonable standards. Upon PWC's request, Service Provider must confirm in writing to PWC that the destruction required by the SPNDA has been done by Service Provider (and each Service Provider Representative).

2.2.5 Service Provider shall assure that it maintains written confidentiality agreements with each of its Service Provider Representatives that satisfy the obligations and standards under the SPNDA and, if requested, provide copies of those fully-executed confidentiality agreements to PWC.

2.3 Nondisclosure. Service Provider agrees and acknowledges for itself and any Service Provider Service Provider Representatives that they shall have no proprietary interest in the Confidential Information, shall not disclose, communicate or publish its nature or content to any person or entity, and shall not use it, except as permitted by a service contract or as otherwise authorized in writing by PWC. Service Provider shall take (and cause the Service Provider Representatives to take) all necessary steps to ensure that the Confidential Information is securely maintained. The Service Provider's (and each Service Provider Representative's) obligations under this SPNDA shall survive the end of the SPNDA and any service contract. In the event Service Provider (or any of the Service Provider Representatives) becomes legally compelled to disclose any of the Confidential Information, Service Provider shall provide PWC with prompt notice thereof and not divulge any information until PWC has had the opportunity to seek a protective order or other appropriate legal remedy to prevent or limit such disclosure. If PWC's actions are unsuccessful or it waives its right to such remedies, Service Provider (or Service Provider Representative as the case may be) shall disclose only that portion of the Confidential Information which it is legally required to disclose.

### 3 Other Remedies

The Parties acknowledge and agree that any remedy at law for a breach or threatened breach of any of the SPNDA's provisions would be inadequate and, in recognition of this fact, PWC shall be entitled to obtain provisional or other equitable relief from any such breach or threatened breach in the form of a temporary restraining order, preliminary injunction or specific performance, without posting any bond or other security, and Service Provider agrees for and on behalf of itself and the Service Provider Representatives not to contest same. Nothing contained in this or any other section of the SPNDA with respect to any remedy shall be construed as prohibiting PWC from pursuing any other remedies available to it for such breach or threatened breach. Pursuit of any remedy at law or in equity shall not be deemed an election of remedies.

#### **4 Term**

The term of this SPNDA shall be for the period Service Provider has a service contract with or continues to provide support services to PWC, whichever is longer.

#### **5 Parties' Relationship**

For the purposes of this SPNDA, each Party shall: (i) be and act as an independent contractor and not as a partner, joint venturer, or agent of the other; and (ii) not bind or attempt to bind the other to any contract or obligation with a third party.

#### **6 Indemnification**

Service Provider agrees to indemnify and hold PWC (and its officers and employees) harmless from and against any and all loss, cost, damage, and expense of any kind arising out of any breach or threatened breach of this SPNDA by Service Provider.

#### **7 Governing Law and Venue**

This SPNDA shall be governed by and construed according to the laws of the State of California. The Parties agree jurisdiction and venue of any action or proceeding arising out of the SPNDA is in the state or federal courts located in the County of Los Angeles, State of California. In any action arising out of the SPNDA, the prevailing Party shall recover from the non-prevailing Party all costs and expenses, including reasonable attorneys' fees, incurred in enforcing the SPNDA.

#### **8 Additional Provisions**

8.1 The SPNDA contains the entire understanding of the Parties regarding the treatment of Confidential Information. All previous agreements or understandings concerning Confidential Information, if any, whether written or oral separate or contained in a service contract or other agreement, are superseded.

8.2 No amendment or modification of the SPNDA shall be valid and binding on the Parties unless made in writing and signed by the Parties' duly authorized representatives.

8.3 The SPNDA shall bind and inure to the benefit of the Parties and their respective successors and assigns, except that it may not be assigned by Service Provider without PWC's express written consent.

IN WITNESS WHEREOF, the parties have executed this five (5) page Service Provider Non-Disclosure Agreement effective as of the date provided therein.

**Park Water Company**

**Service Provider**

Mary A Young  
Signature

Arvid M Hiller  
Signature

MARY A. YOUNG  
Name (Printed or Typed)

Arvid M Hiller  
Name (Printed or Typed)

SENIOR V.P. ADMIN.  
Title (Printed or Typed)

vice President and General manager  
Title (Printed or Typed)

3/15/11  
Date

3-31-2011  
Date

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MWC has separately contracted with Service Provider ("service contract") to provide various support services such as accounting, auditing, payroll, banking (whether direct deposit, direct payment, payment processing or other), actuarial, insurance (whether health, workers compensation or other), employee benefits or other services necessary for MWC to meet its obligations to its customers, employees or others ("support services"). In order to provide the contracted services, Service Provider requires MWC to furnish Service Provider with Confidential Information, including, without limit, Personally Identifiable Information. The purpose of the SPNDA is to comply with applicable law and ensure that Service Provider adequately protects preserves, maintains, and safeguards the Confidential Information furnished by MWC to prevent unauthorized disclosure or loss. MWC will continue to provide Confidential Information to Service Provider only if the Parties enter into the SPNDA.

### 2 Confidentiality

2.1 Confidential Information. For purposes of this SPNDA, "Confidential Information" shall mean any and all information or material furnished by or on behalf of MWC or its customers or employees to Service Provider (or otherwise received, obtained, acquired or developed therefrom) in connection with support services, regardless of type, medium of transmission, or form, including, without limit, all Personally Identifiable Information and financial, credit, and any other company or personal information relating to MWC, its customers or employees, a service contract or support services. As defined in this SPNDA, "Confidential Information" shall not include information that:

- (a) is or becomes known to the public through no fault of the Service Provider;
- (b) is lawfully known to Service Provider prior to its receipt from MWC; or
- (c) is disclosed without restriction to Service Provider by a third party who has a lawful right to do so;

except that, "Personally Identifiable Information" (as defined in Section 2.2) shall remain Confidential Information under this SPNDA in all circumstances. All Confidential Information shall remain the property of MWC at all times. Service Provider shall use the Confidential Information only for the purpose, and to the extent necessary, to fulfill its obligations under a service contract or provide support services. Service Provider shall promptly return all Confidential Information to MWC no later than the end of the SPNDA or immediately upon MWC's request.

2.2 Personally Identifiable Information. Service Provider acknowledges that certain Confidential Information disclosed to Service Provider and/or Service Provider's parent, affiliated or subsidiary companies, subcontractors and/or their respective employees or contractors (collectively, "Service Provider Representatives") in connection with a service

contract or support services may include "Personally Identifiable Information," which, in this SPNDA shall mean any and all of the following data or information which is accessible by Service Provider as a result of its business relationship with MWC and: (a) can be used to identify or locate a natural person, including, without limit, name, address, telephone number, e-mail address, credit or debit card or account information or driver's license or social security number; (b) is "non-public personal information" as defined under Title V of the federal Gramm-Leach-Bliley Act or any regulations or statutes adopted to comply therewith or promulgated pursuant thereto, or any other laws protecting information linked to a particular individual from disclosure, use or reproduction; or (c) is a list, description or other grouping of individuals that is derived using any information linked to a particular individual.

2.2.1 Service Provider and any Service Provider Representative shall only use, reproduce, disclose or retain Personally Identifiable Information: (a) as specifically authorized in a service contract or other writing by MWC to provide support services; (b) in accordance with any notices provided by MWC to its customers (provided a copy is given to Service Provider); and (c) in accordance with all then applicable laws and MWC policies and practices.

2.2.2 Service Provider shall (and cause all Service Provider Representatives to) maintain confidentiality of Personally Identifiable Information to the same extent that would be required for MWC to satisfy legal and policy requirements. In particular, but without limit, Service Provider has implemented and will continue to maintain (and cause all Service Provider Representatives to implement and maintain) appropriate measures designed to meet the following objectives: (a) ensure security, integrity, and confidentiality of Personally Identifiable Information; (b) protect against any anticipated threats or hazards to the security, integrity or confidentiality of Personally Identifiable Information; and (c) protect against unauthorized access to or use of the Personally Identifiable Information. Service Provider shall (and cause all Service Provider Representatives to) maintain physical, electronic and procedural controls and safeguards, in compliance with applicable laws, to protect Personally Identifiable Information from unwarranted disclosure. These controls shall include, without limit, maintenance of appropriate safeguards to restrict access to Personally Identifiable Information to only those users who need it to carry out the purpose(s) for which it was disclosed to Service Provider. For information disclosed in electronic form, Service Provider agrees that safeguards shall include electronic barriers (eg. firewalls or similar barriers) and password protected access to Personally Identifiable Information. For information disclosed in written form, Service Provider agrees that safeguards shall include secured storage of Personally Identifiable Information.

2.2.3 Service Provider agrees to immediately notify MWC if Service Provider reasonably suspects that Personally Identifiable Information has or may have been lost, subject to unauthorized internal or external access or otherwise compromised ("incident"). To the extent MWC requests Service Provider's assistance, Service Provider agrees to (and shall cause its Service Provider Representatives to) reasonably cooperate with MWC: (a) to determine the scope and severity of the incident; (b) by providing to MWC full and complete information regarding the incident as soon as it comes to light from any source, including, without limit, anything uncovered during and throughout any internal or external investigation by Service Provider, government agency or other authority, law enforcement, or anyone; (c) to give notice to individuals whose Personally Identifiable Information has or may have been affected by the incident to the extent required by law

or a MWC policy, but only upon the prior written request and approval of MWC; and (d) by providing or underwriting any other remediation measures, including, without limit, credit monitoring or identity protection services for those persons whose information has or may have been affected by the incident as determined by MWC, but only as directed by MWC and, at its election, MWC shall have the right to implement these measures on Service Provider's behalf.

2.2.4 Upon completion of its use of the Personally Identifiable Information for the purpose for which it was disclosed by MWC, Service Provider shall (and cause each Service Provider Representative to) permanently destroy or render unreadable any media or data used to store or record Personally Identifiable Information unless otherwise notified in writing by MWC. The means to meet this requirement must ensure that Personally Identifiable Information is permanently destroyed and cannot be subsequently accessed or read based upon commercially reasonable standards. Upon MWC's request, Service Provider must confirm in writing to MWC that the destruction required by the SPNDA has been done by Service Provider (and each Service Provider Representative).

2.2.5 Service Provider shall assure that it maintains written confidentiality agreements with each of its Service Provider Representatives that satisfy the obligations and standards under the SPNDA and, if requested, provide copies of those fully-executed confidentiality agreements to MWC.

2.3 Nondisclosure. Service Provider agrees and acknowledges for itself and any Service Provider Service Provider Representatives that they shall have no proprietary interest in the Confidential Information, shall not disclose, communicate or publish its nature or content to any person or entity, and shall not use it, except as permitted by a service contract or as otherwise authorized in writing by MWC. Service Provider shall take (and cause the Service Provider Representatives to take) all necessary steps to ensure that the Confidential Information is securely maintained. The Service Provider's (and each Service Provider Representative's) obligations under this SPNDA shall survive the end of the SPNDA and any service contract. In the event Service Provider (or any of the Service Provider Representatives) becomes legally compelled to disclose any of the Confidential Information, Service Provider shall provide MWC with prompt notice thereof and not divulge any information until MWC has had the opportunity to seek a protective order or other appropriate legal remedy to prevent or limit such disclosure. If MWC's actions are unsuccessful or it waives its right to such remedies, Service Provider (or Service Provider Representative as the case may be) shall disclose only that portion of the Confidential Information which it is legally required to disclose.

### 3 Other Remedies

The Parties acknowledge and agree that any remedy at law for a breach or threatened breach of any of the SPNDA's provisions would be inadequate and, in recognition of this fact, MWC shall be entitled to obtain provisional or other equitable relief from any such breach or threatened breach in the form of a temporary restraining order, preliminary injunction or specific performance, without posting any bond or other security, and Service Provider agrees for and on behalf of itself and the Service Provider Representatives not to contest same. Nothing contained in this or any other section of the SPNDA with respect to any remedy shall be construed as prohibiting MWC from pursuing any other remedies available to it for such breach or threatened breach. Pursuit of any remedy at law or in equity shall not be deemed an election of remedies.

#### **4 Term**

The term of this SPNDA shall be for the period Service Provider has a service contract with or continues to provide support services to MWC, whichever is longer.

#### **5 Parties' Relationship**

For the purposes of this SPNDA, each Party shall: (i) be and act as an independent contractor and not as a partner, joint venturer, or agent of the other; and (ii) not bind or attempt to bind the other to any contract or obligation with a third party.

#### **6 Indemnification**

Service Provider agrees to indemnify and hold MWC (and its officers and employees) harmless from and against any and all loss, cost, damage, and expense of any kind arising out of any breach or threatened breach of this SPNDA by Service Provider.

#### **7 Governing Law and Venue**

This SPNDA shall be governed by and construed according to the laws of the State of Montana. The Parties agree jurisdiction and venue of any action or proceeding arising out of the SPNDA is in the state or federal courts located in the State of Montana. In any action arising out of the SPNDA, the prevailing Party shall recover from the non-prevailing Party all costs and expenses, including reasonable attorneys' fees, incurred in enforcing the SPNDA.

#### **8 Additional Provisions**

8.1 The SPNDA contains the entire understanding of the Parties regarding the treatment of Confidential Information. All previous agreements or understandings concerning Confidential Information, if any, whether written or oral separate or contained in a service contract or other agreement, are superseded.

8.2 No amendment or modification of the SPNDA shall be valid and binding on the Parties unless made in writing and signed by the Parties' duly authorized representatives.

8.3 The SPNDA shall bind and inure to the benefit of the Parties and their respective successors and assigns, except that it may not be assigned by Service Provider without MWC's express written consent.

IN WITNESS WHEREOF, the parties have executed this five (5) page Service Provider Non-Disclosure Agreement effective as of the date provided therein.

**Mountain Water Company**

**Service Provider**

Arvid M. Hiller  
Signature

Mary A. Young  
Signature

Arvid M. Hiller  
Name (Printed or Typed)

MARY A. YOUNG  
Name (Printed or Typed)

Vice president and General Manager  
Title (Printed or Typed)

SENIOR V. P. ADMIN.  
Title (Printed or Typed)

03-31-2011  
Date

3/15/11  
Date

**CFC-029** RE: Offers to purchase Mountain Water from the City of Missoula

- a. Please explain and provide details regarding offers to purchase made by the City of Missoula (the "City") to Park and/or Mountain Water for the City to acquire Mountain Water from Park.**

The City has never made an offer to acquire the Mountain System.

- b. Please explain why Park has not accepted offers made by the City for the purchase of Mountain Water.**

Mountain Water Company has never been for sale since acquired by Park Water Company from Montana Power Company in 1979.

- c. Please explain under what circumstances would Mr. Wheeler accept an offer from the City to purchase Mountain Water?**

The shareholders of Park Water have already accepted an offer to sell Park Water, in its entirety, to Carlyle.

**CFC-030** RE: Town of Superior water system

**Please disclose the terms and explain the details of and reasons for Mountain Water's decision to sell the water system of the Town of Superior, Montana.**

At the time of the sale of the system to the Town of Superior, Mountain Water Company wanted to confine its Montana operations to its Missoula Division. Mountain sold the water system assets on October 26, 2000 for \$1,219,876, with the total price paid at closing.

**CFC-031** RE: Mountain Water's water rights

- a. Please provide a detailed summary of the volume and flow rate of water Mountain Water claims pursuant to its existing water rights and how that claimed volume compares to current Mountain Water demands.**

A detailed summary of the volumes and flow rates of Mountain Water's claims pursuant to its existing water rights is attached in the spreadsheet provided in EXHIBIT CFC – 031(a). Please note that "existing water right" is defined as "a right to the use of water that would be protected under the law as it existed prior to July 1, 1973" (MCA 85-2-102(12)), and "Claim" is defined as "a statement of claim filed pursuant 85-2-221, MCA, for a water right established prior to July 1, 1973" (ARM 36.12.101(12)). Claimed Volumes of the various existing water rights cannot be totaled as a "TOTAL" Claimed Volume because some elements of some water rights may be considered redundant or supplemental, or claimed for different or multiple purposes, or may be subject to differing interpretations.

Mountain Water diverted a total of 25,467.5 Acre-ft in 2010 for use by its customers. This diversion amount was from its wells only; however water from Rattlesnake Creek surface rights 76M 40170, 40171, 40172, 40173, 40174, 40175, and 40176 is diverted from wells 3A, 3B, 21, 30, 31, 32, 33, and 34 as additional points of diversion under Change Authorization 76M-4017099. Also, 2010 was a wet summer, with above average precipitation for the year, and therefore the total amount diverted was likely below normal.

# EXHIBIT CFC - 031(a)

Water Right	WR Type	Purpose	Diversion ID	Priority Date	Src Name	Means of Diversion	Flow Rate	Volulme (Acre-FT/Yr)	COMMENTS
<b>EXISTING WATER RIGHTS</b>									
76H 107536 00	STATEMENT OF CLAIM	MUNICIPAL	Well #39	6/18/1971	GROUNDWATER	WELL	3998.00 GPM	6449.2	
76H 26360 00	STATEMENT OF CLAIM	MUNICIPAL	39th & Russell	6/1/1965	GROUNDWATER	WELL	1000.00 GPM	1613	
76H 35167 00	62-73 GROUND WATER RECORD	MUNICIPAL		8/5/1981	GROUNDWATER	WELL	1200.00 GPM		
76H 40149 00	STATEMENT OF CLAIM	MUNICIPAL	Well #9	5/31/1955	GROUNDWATER	WELL	1000.00 GPM	1613	
76H 40155 00	STATEMENT OF CLAIM	MUNICIPAL	Well #16	6/6/1966	GROUNDWATER	WELL	1000.00 GPM	1613	
76H 40156 00	STATEMENT OF CLAIM	MUNICIPAL	Well #18	8/6/1968	GROUNDWATER	WELL	1000.00 GPM	1613	
76H 40164 00	STATEMENT OF CLAIM	MUNICIPAL	Well #26	9/27/1972	GROUNDWATER	WELL	1000.00 GPM	1613	
76H 40166 00	STATEMENT OF CLAIM	MUNICIPAL	Well #29	6/6/1973	GROUNDWATER	WELL	1000.00 GPM	1613	
76M 108816 00	STATEMENT OF CLAIM	MUNICIPAL	Well #41 & 42	1/16/1963	GROUNDWATER	WELL	2440 GPM	296	
76M 26357 00	STATEMENT OF CLAIM	MUNICIPAL		9/24/1973	GROUNDWATER	WELL	120.00 GPM	194.06	Supply well at Rattlesnake Dam
76M 26358 00	STATEMENT OF CLAIM	MUNICIPAL	Little Lake Dam	8/30/1919	RATTLESNAKE CREEK	DAM	2.50 CFS	300	upper Rattlesnake Storage Reservoir (Little Lake)
76M 26359 00	STATEMENT OF CLAIM	MUNICIPAL	Well #28	12/28/1972	GROUNDWATER	WELL	33.00 GPM	53.37	
76M 26361 00	STATEMENT OF CLAIM	MUNICIPAL	Sanders Lake Dam	8/30/1919	RATTLESNAKE CREEK	DAM	7.54 CFS	905	upper Rattlesnake Storage Reservoir (Sanders Lake)
76M 26362 00	STATEMENT OF CLAIM	MUNICIPAL	Glacier Lake Dam	8/30/1919	RATTLESNAKE CREEK	DAM	1.76 CFS	212	upper Rattlesnake Storage Reservoir (Glacier Lake)
76M 26363 00	STATEMENT OF CLAIM	MUNICIPAL	Sheridan Lake Dam	8/30/1919	RATTLESNAKE CREEK	DAM	431.00 GPM	115	upper Rattlesnake Storage Reservoir (Sheridan Lake)
76M 26364 00	STATEMENT OF CLAIM	MUNICIPAL	Big Lake Dam	8/30/1919	RATTLESNAKE CREEK	DAM	5.22 CFS	623	upper Rattlesnake Storage Reservoir (Big Lake)
76M 26365 00	STATEMENT OF CLAIM	MUNICIPAL	Carter Lake Dam	11/6/1923	RATTLESNAKE CREEK	DAM	1.43 CFS	170	upper Rattlesnake Storage Reservoir (Carter Lake)
76M 26366 00	STATEMENT OF CLAIM	MUNICIPAL	Worden Lake Dam	9/8/1923	RATTLESNAKE CREEK	DAM	398.00 GPM	104	upper Rattlesnake Storage Reservoir (Worden Lake)
76M 26367 00	STATEMENT OF CLAIM	MUNICIPAL	McKinley Lake Dam	8/13/1923	RATTLESNAKE CREEK	DAM	1.64 CFS	195	upper Rattlesnake Storage Reservoir (McKinley Lake)
76M 26368 00	STATEMENT OF CLAIM	MUNICIPAL	Well #17	11/21/1968	GROUNDWATER	WELL	1000.00 GPM	1617.15	
76M 35166 00	62-73 GROUND WATER RECORD	MUNICIPAL	Well #27	8/5/1981	GROUNDWATER	WELL	1467.58 GPM		
76M 40143 00	STATEMENT OF CLAIM	MUNICIPAL	Well #1	5/31/1935	GROUNDWATER	WELL	2.67 CFS	1937.83	
76M 40144 00	STATEMENT OF CLAIM	MUNICIPAL	Well #2	5/31/1935	GROUNDWATER	WELL	2.67 CFS	1937.83	
76M 40145 00	STATEMENT OF CLAIM	MUNICIPAL	Well #3A	5/31/1935	GROUNDWATER	WELL	2.67 CFS	1937.83	
76M 40146 00	STATEMENT OF CLAIM	MUNICIPAL	Well #4	12/31/1937	GROUNDWATER	WELL	1.78 CFS	1291.88	
76M 40147 00	STATEMENT OF CLAIM	MUNICIPAL	Well #7	5/31/1958	GROUNDWATER	WELL	2.67 CFS	1937.83	
76M 40148 00	STATEMENT OF CLAIM	MUNICIPAL	Well #8	8/31/1954	GROUNDWATER	WELL	2.67 CFS	1937.83	
76M 40150 00	STATEMENT OF CLAIM	MUNICIPAL	Well #10	6/30/1957	GROUNDWATER	WELL	2.67 CFS	1937.83	

76M 40151 00	STATEMENT OF CLAIM	MUNICIPAL	Well #11	7/31/1957	GROUNDWATER	WELL	2.67 CFS	1937.83	
76M 40152 00	STATEMENT OF CLAIM	MUNICIPAL	Well #12	9/28/1964	GROUNDWATER	WELL	2.67 CFS	1937.83	
76M 40153 00	STATEMENT OF CLAIM	MUNICIPAL	Well #13	9/28/1964	GROUNDWATER	WELL	1.78 CFS	1291.88	
76M 40154 00	STATEMENT OF CLAIM	MUNICIPAL	W. Rattlesnake	3/10/1967	GROUNDWATER	WELL	148.00 GPM	239.51	
76M 40157 00	STATEMENT OF CLAIM	MUNICIPAL	Well #19	5/13/1969	GROUNDWATER	WELL	2.67 CFS	1937.83	
76M 40158 00	STATEMENT OF CLAIM	MUNICIPAL	Well #20	6/2/1969	GROUNDWATER	WELL	2.67 CFS	1937.83	
76M 40159 00	STATEMENT OF CLAIM	MUNICIPAL	Well #21	7/7/1969	GROUNDWATER	WELL	2.67 CFS	1937.83	
76M 40160 00	STATEMENT OF CLAIM	MUNICIPAL	Well #22	12/31/1949	GROUNDWATER	WELL	2.67 CFS	1937.83	
76M 40161 00	STATEMENT OF CLAIM	MUNICIPAL	Well #23	7/31/1948	GROUNDWATER	WELL	305.00 GPM	486.67	
76M 40162 00	STATEMENT OF CLAIM	MUNICIPAL	Well #24	3/30/1955	GROUNDWATER	WELL	1.00 CFS	725.78	
76M 40163 00	STATEMENT OF CLAIM	MUNICIPAL	Well #25	11/18/1970	GROUNDWATER	WELL	2.22 CFS	1611.23	
76M 40165 00	STATEMENT OF CLAIM	MUNICIPAL	Well #27	8/5/1981	GROUNDWATER	WELL	3.28 CFS	2380.55	
76M 40169 00	IRRIGATION DISTRICT	MUNICIPAL			RATTLESNAKE CREEK	MULTIPLE			Redundant to Water Rights 76M 40170, 40171, 40171, 40172, 40173, 40174, 40175, 40176
76M 40170 00	STATEMENT OF CLAIM	MUNICIPAL	Rattlesnake Dam, Well #s 3A, 3B, 21, 30, 31, 32, 33, 34	4/1/1866	RATTLESNAKE CREEK	MULTIPLE	23.65 CFS	17164.65	Rattlesnake Direct Flow Rt, also diverted out of Well #s 3A, 3B, 21, 30, 31, 32, 33, 34.
76M 40171 00	STATEMENT OF CLAIM	MUNICIPAL	Rattlesnake Dam, Well #s 3A, 3B, 21, 30, 31, 32, 33, 34	11/16/1868	RATTLESNAKE CREEK	MULTIPLE	4.00 CFS	2903.11	Rattlesnake Direct Flow Rt, also diverted out of Well #s 3A, 3B, 21, 30, 31, 32, 33, 34.
76M 40172 00	STATEMENT OF CLAIM	MUNICIPAL	Rattlesnake Dam, Well #s 3A, 3B, 21, 30, 31, 32, 33, 34	4/1/1871	RATTLESNAKE CREEK	MULTIPLE	152.60 GPM	246.38	Rattlesnake Direct Flow Rt, also diverted out of Well #s 3A, 3B, 21, 30, 31, 32, 33, 34.
76M 40173 00	STATEMENT OF CLAIM	MUNICIPAL	Rattlesnake Dam, Well #s 3A, 3B, 21, 30, 31, 32, 33, 34	5/1/1871	RATTLESNAKE CREEK	MULTIPLE	1.62 CFS	1175.76	Rattlesnake Direct Flow Rt, also diverted out of Well #s 3A, 3B, 21, 30, 31, 32, 33, 34.
76M 40174 00	STATEMENT OF CLAIM	MUNICIPAL	Rattlesnake Dam, Well #s 3A, 3B, 21, 30, 31, 32, 33, 34	4/1/1881	RATTLESNAKE CREEK	MULTIPLE	1.16 CFS	841.9	Rattlesnake Direct Flow Rt, also diverted out of Well #s 3A, 3B, 21, 30, 31, 32, 33, 34.
76M 40175 00	STATEMENT OF CLAIM	MUNICIPAL	Rattlesnake Dam, Well #s 3A, 3B, 21, 30, 31, 32, 33, 34	5/1/1881	RATTLESNAKE CREEK	MULTIPLE	8.70 CFS	6314.27	Rattlesnake Direct Flow Rt, also diverted out of Well #s 3A, 3B, 21, 30, 31, 32, 33, 34.

76M 40176 00	STATEMENT OF CLAIM	MUNICIPAL	Rattlesnake Dam, Well #s 3A, 3B, 21, 30, 31, 32, 33, 34	6/1/1877	RATTLESNAKE CREEK	MULTIPLE	16.13 CFS	11706.8	Rattlesnake Direct Flow Rt, also diverted out of Well #s 3A, 3B, 21, 30, 31, 32, 33, 34.
76H 10179 00	STATEMENT OF CLAIM	IRRIGATION		6/1/1877	MILLER CREEK	HEADGATE	364.65 GPM		
76H 10180 00	STATEMENT OF CLAIM	IRRIGATION		9/1/1878	MILLER CREEK	HEADGATE	1.25 CFS		
76H 10181 00	STATEMENT OF CLAIM	IRRIGATION		10/20/1883	MILLER CREEK	HEADGATE	1.23 CFS		
76H 10182 00	STATEMENT OF CLAIM	IRRIGATION		6/7/1878	MILLER CREEK	HEADGATE	1.06 CFS		
76H 105162 00	STATEMENT OF CLAIM	IRRIGATION		6/1/1877	MILLER CREEK	HEADGATE	4.19 CFS		Co-owned with Maloney Ranch Co. and Roy Prock
76H 105163 00	STATEMENT OF CLAIM	IRRIGATION		6/7/1878	MILLER CREEK	HEADGATE	5.19 CFS		Co-owned with Maloney Ranch Co. and Roy Prock
76H 105164 00	STATEMENT OF CLAIM	IRRIGATION		9/1/1878	MILLER CREEK	HEADGATE	6.25 CFS		Co-owned with Maloney Ranch Co. and Roy Prock
76H 105165 00	STATEMENT OF CLAIM	IRRIGATION		5/1/1889	MILLER CREEK	HEADGATE	1.25 CFS		Co-owned with Maloney Ranch Co. and Roy Prock
76H 214431 00	STATEMENT OF CLAIM	IRRIGATION		4/15/1933	MILLER CREEK	HEADGATE	13.2 CFS		Co-owned with Maloney Ranch Co. and Roy Prock
							(Note 1)	(Note 2)	

(Note 1):	Flow Rates cannot be totaled as a "TOTAL" Flow Rate because of factors such as redundant Flow Rates, Flow Rates for different purposes, Supplemental Flow Rates, and other factors.
(Note 2):	Volumes cannot be totaled as a "TOTAL" Volume because of factors such as redundant Volumes, Volumes for different purposes, Supplemental Volumes, and other factors.

**CFC-031 (cont.)** RE: Mountain Water's water rights

- b. Please provide a detailed explanation the status of each Mountain Water's water right claims, including whether the claimed volumes and/or flow rates have been called into question by the Montana Department of Natural Resources and Conservation ("MT DNRC") or any other entity or individual.**

Mountain Water Company's claims in Basin 76M (Clark Fork River Between the Blackfoot River and Flathead River) have been decreed under the Montana Water Court's ongoing statewide adjudication and are included in the Temporary Preliminary Decree for Basin 76M. Mountain Water Company's claims in Basin 76H (Bitterroot Basin, Main Stem) have not yet been decreed because the Main Stem of the Bitterroot River (Basin 76HA) has not yet been adjudicated by the Montana Water Court. To Mountain Water's knowledge, the MT DNRC has not called into question any of Mountain Water's water right claims, with the exception of any claims which have been the subject of Change Applications. All Change Applications after 1/1/2005 are subject to question by DNRC in regards to historic use and historic consumptive use under ARM 36.12.1901-1902. Please note that a water right "Claim" is defined as "a statement of claim filed pursuant 85-2-221, MCA, for a water right established prior to July 1, 1973" (ARM 36.12.101(12)).

- c. Please provide copies of any valuations or appraisals that have been conducted with respect to Mountain Water's water rights.**

To Mountain Water Company's knowledge, no such valuations or appraisals have been conducted.

CFC-031 (cont.) RE: Mountain Water's water rights

- d. **For the past 15 years, please provide detailed information regarding the number of water right applications prepared and filed by Mountain Water or its representatives with the MT DNRC that were subsequently either withdrawn by Mountain Water or terminated by MT DNRC and the purpose of each such application.**

**Water Right Change Application 76M-30042611:** Filed in June, 2008. The purpose of Change Application No. 76M-30042611 was to add three new points of diversion (wells) to each of Mountain Water Company's water supply water rights to serve the newly proposed Maloney Ranch Subdivision. This Application was subsequently withdrawn, and instead Water Right Permit Application 76H-30048901 and Change Application 76H 30048900 were filed to provide water to the Maloney Ranch Subdivision.

**Water Right Change Application 76M-30042647:** Filed in June, 2008. The purpose of Change Application No. 76M-30042647 was to change the point of diversion of one of Mountain Water's out-of-service wells (Well #7) to two new locations, including a location in East Missoula to serve the new Canyon River subdivision. Terminated by DNRC, see Response to Request e, below.

**Water Right Permit Application 76H-30048901 and Change Application 76H 30048900:** Filed in July, 2010. The purpose of this Permit Application was to obtain a water use permit for a new well field to serve the newly proposed Maloney Ranch Subdivision. The purpose of this Change Application was to change a number of irrigation water rights to "mitigation" to mitigate for the projected depletions to the Bitterroot and Clark Fork Rivers which could be caused by the associated Permit Application. On May 18, 2011, DNRC notified Mountain Water of its Draft Preliminary Determination that it "determined that the criteria are not met and these applications should be denied." Letter from DNRC, Missoula Regional Office, to Mountain Water Company, dated May 18, 2011; DRAFT PRELIMINARY DETERMINATION TO DENY COMBINED APPLICATION, Application Nos. 76H-30048900 and 76H-30048901, DNRC Missoula Regional Office (May 18, 2011). A final decision as to the response to DNRC's May 18 letter still is pending.

**CFC-031 (cont.)** RE: Mountain Water's water rights

- e. Please explain the nature and status of Mountain Water's current litigation with the MT DNRC, including an explanation of how the resolution of the litigation either in Mountain Water's favor or in the MT DNRC's favor may impact Mountain Water consumers.**

Mountain Water filed a COMPLAINT AND PETITION FOR JUDICIAL REVIEW AND DECLARATORY RULING against the MT DNRC on MY 7, 2009 in response to DNRC's termination of Mountain Water's Change Application No. 76M-30042647. The purpose of Change Application No. 76M-30042647 was to change the point of diversion of one of Mountain Water's out-of-service wells (Well #7) to two new locations, including a location in East Missoula to serve the new Canyon River subdivision. DNRC terminated the Change Application primarily because it alleged that Mountain Water failed to "provide an estimate of the consumed volume of water right 76M-40147-00 and include factual information to substantiate the estimate." Mountain Water did not provide the requested information because it had not previously been required to collect or record such historical consumptive use information and therefore did not possess such information, and because it believed that the DNRC did not have the authority to require such information from a municipal water supplier, and further alleged that Mountain Water had provided all the information required for DNRC to process the Change Application.

Presently, this litigation is stayed, and Mountain Water is currently in the process of filing a motion to dismiss the action without prejudice. As the litigation will be dismissed, the question regarding the impact to Mountain Water consumers will not be resolved in this litigation.

**CFC-032** RE: Mountain Water's litigation with the Montana Public Service Commission

**a. Please describe in detail the nature and status of Mountain Water's pending litigation against the MT PSC in Montana state court regarding the disclosure of executive salaries.**

Mountain has challenged the constitutionality of a Commission rule which purports to impair and or eliminate its employees constitutionally recognized right to privacy. Both the District Court pleadings and the underlying administrative proceeding at the Commission are public records available to all.

**b. Does Mountain Water anticipate continuing to pursue this litigation under new ownership?**

Yes

CFC-033 RE: Mountain Water rates

**a. Please disclose in detail the dollar amount Mountain Water has spent in each of the past 15 years on engineering, consultant and legal fees associated with water right applications filed with the MT DNRC on its behalf that were subsequently either withdrawn by Mountain Water or terminated by DNRC and what percentage of those costs were recovered through rates.**

Please see attached.

**b. For each of the past 15 years, please disclose how much money Mountain Water has spent on litigation expenses that have been recovered through rates.**

Please see attached.

**c. Please provide a chart or table or similar document summarizing the percentage of rate increases and associated return authorized by the MT PSC for each rate increase that went into effect over the past 15 years.**

Please see attached.

**d. For the past 15 years, please provide a chart or table or similar document summarizing the percentage and dollar amount of Mountain Water revenues that have been paid for operations, overhead and salaries for Park employees in California.**

Please see attached.

**PSC-033.a**

**Engineering**

<u>Year</u>	<u>Amount</u>
1996	-
1997	-
1998	-
1999	-
2000	-
2001	-
2002	-
2003	-
2004	-
2005	-
2006	-
2007	-
2008	-
2009	-
2010	-
2011	-

**Consulting**

<u>Year</u>	<u>Amount</u>
1996	-
1997	-
1998	-
1999	-
2000	-
2001	-
2002	-
2003	-
2004	-
2005	-
2006	-
2007	21,285.10
2008	50,815.00
2009	61,309.39
2010	86,829.50
2011	4,742.25

**Legal**

<u>Year</u>	<u>Amount</u>
1996	-
1997	-
1998	-
1999	-
2000	-
2001	-
2002	-
2003	-
2004	-
2005	-
2006	-
2007	8,113.67
2008	3,502.97
2009	3,654.60
2010	494.50
2011	-

**Recovered Through Rates**

<u>Year</u>	<u>Amount</u>	<u>Percentage</u>
1996	-	0.0%
1997	-	0.0%
1998	-	0.0%
1999	-	0.0%
2000	-	0.0%
2001	-	0.0%
2002	-	0.0%
2003	-	0.0%
2004	-	0.0%
2005	-	0.0%
2006	-	0.0%
2007	-	0.0%
2008	-	0.0%
2009	-	0.0%
2010	-	0.0%
2011	-	0.0%

**PSC-033.b****Litigation Costs and Rate Recovery 1996 - 2011**

<b>Dates</b>	<b>Description <sup>(A)</sup></b>	<b>Costs Recovered in Rates Through May 2011</b>
2000-2003	Dickens-Defoe well contamination	\$ 9,816.36
1996	Rate case expense	\$ 11,008.81
1997	Rate case expense	192.00
1998	Rate case expense	8,941.82
1999	Rate case expense	7,997.92
2000	Rate case expense	23,048.62
2001	Rate case expense	28,590.92
2002	Rate case expense	37,869.52
2003	Rate case expense	4,466.13
2004	Rate case expense	3,504.35
2005	Rate case expense	\$ 38,232.66
2006	Rate case expense	59,276.31
2007	Rate case expense	56,214.99
2008	Rate case expense	39,377.28
2009	Rate case expense	8,927.41
2010	Rate case expense	23,928.61
2011	Rate case expense	-

(A) All litigation costs resulting from orders 6644c and 6644d on system metering and order 7088a on the confidentiality of employee wages were included in rate case expense.

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Docket	Filing Type	Tariff Effective	Authorized Rate	
		Date	Rate Change	of Return
D.96.4.61	General Rate Case	11/4/1996	10.18%	10.41%
D.98.5.104	General Rate Case	5/4/1999	10.56%	9.65%
D2000.7.112	General Rate Case	4/24/2001	13.79%	Unattributed
D.2002.5.60	General Rate Case	12/23/2002	8.24%	9.78%
D2003.8.122	Purchased Power Cost Tracking Adjustment	10/1/2003	1.86%	N/A
D2004.9.145	Purchased Power Cost Tracking Adjustment	10/1/2004	-0.92%	N/A
D.2005.4.49	General Rate Case	2/7/2006	6.09%	9.34%
D2006.9.137	Purchased Power Cost Tracking Adjustment	10/1/2006	3.02%	N/A
D2007.9.104	Purchased Power Cost Tracking Adjustment	10/1/2007	1.02%	N/A
D2008.9.113	Purchased Power Cost Tracking Adjustment	10/1/2008	-0.91%	N/A
D.2008.9.119	General Rate Case	2/19/2009	13.12%	8.97%
D2009.9.127	Purchased Power Cost Tracking Adjustment	10/1/2009	-1.87%	N/A
D2010.9.94	Purchased Power Cost Tracking Adjustment	10/1/2010	1.98%	N/A
D2010.4.41	General Rate Case	3/23/2011	8.77%	9.25%

**CFC-033.d**

<b>Year</b>	<b>Total Revenues</b>	<b>Corporate Expense</b>	<b>Corporate Expense As % of Total Revenues</b>
1996	\$ 7,944,976.87	\$ 1,057,193.81	13.3%
1997	8,358,560.99	1,060,596.28	12.7%
1998	8,792,234.17	1,053,009.79	12.0%
1999	9,690,827.69	1,296,795.03	13.4%
2000	10,195,319.23	1,310,649.40	12.9%
2001	11,568,363.16	1,353,998.43	11.7%
2002	11,938,563.78	1,544,612.35	12.9%
2003	13,465,688.25	1,602,570.06	11.9%
2004	13,163,649.88	1,615,099.21	12.3%
2005	13,520,098.80	1,631,909.40	12.1%
2006	15,106,639.06	1,695,080.84	11.2%
2007	15,427,003.39	1,844,192.11	12.0%
2008	14,628,077.55	2,026,733.17	13.9%
2009	16,630,928.73	2,171,281.14	13.1%
2010	16,043,944.68	2,298,325.37	14.3%

CFC-034 RE: Mountain Water customers

**Please provide any documentation, communication, and/or solicitation in the possession of Mountain Water or Park regarding the provision of water service by Mountain Water to any commercial or industrial user, not currently served by the Mountain Water system, including bottling companies.**

At this time we are not aware of any new services planned or pending for commercial connections. Over the past several years we have not had any inquiries or requests for industrial type service and none are known of at this time. From time to time we have had new requests for service from micro breweries and from time to time we are contacted by them for possible service but at this time we have no knowledge of any bottling companies that have voiced an interest in getting water service.

**CFC-035** RE: Other prospective buyers of Park and/or Mountain Water

**Please disclose and explain whether and to what extent Park has received offers from potential buyers of either Park and/or Mountain Water other than Carlyle Infrastructure Partners, LP or its subsidiaries.**

See attached 2007 offer letter from Wexford Capital LLC.

**WEXFORD<sup>SM</sup>****Wexford Capital LLC**

Wexford Plaza  
411 West Putnam Avenue  
Greenwich, CT 06830  
[www.wexford.com](http://www.wexford.com)  
(203) 862-7000

Direct Dial: 862-7020  
Direct Fax: 862-7320  
[jjacob@wexford.com](mailto:jjacob@wexford.com)

**Joseph M. Jacobs**  
President

April 13, 2007

Mr. H. H. Wheeler, Jr.  
President  
Park Water Company  
P.O. Box 7002  
Downey, CA 90241-7002

Dear Mr. Wheeler:

Thank you for your time and hospitality during the diligence process. I know it is burdensome having crews of people probe and evaluate what is essentially a life's work. Wexford Capital and its affiliates have been thoroughly impressed with your facilities, management team, and long term prospects. You should be proud of what you have accomplished over the years. I also hope that this process has given you the opportunity to understand Wexford's long-term, patient growth-focused investment philosophy as well as given you a chance to get acquainted with some of the members of our team who we would expect to be involved in Park Water going forward.

After carefully evaluating your business, we would like to extend a \$70,000,000 all cash offer, subject to the provisions of the Term Sheet attached, to acquire 100% of the equity interests in Park Water Company and its subsidiary water utilities and such other of its subsidiaries as Wexford shall designate after finalizing its due diligence.

Once you execute the Term Sheet, the rest of the process should be mainly mechanical involving the drafting of the appropriate documentation and the completion of our legal and accounting due diligence, all of which we should be able to accomplish within the timeline outlined in the Confidentiality Agreement, dated February 14, 2007. But I would stress that in order to keep to this timeline, you need to execute the Term Sheet in short order. Until this has been done, it does not make sense for us to continue to spend the significant time and money which will be required to complete this transaction.

April 13, 2007  
Page 2

As I am certain it is not everyday that you sell a business that has been in your family for generations, please do not hesitate to contact me or Bill at your convenience should you have any comments, questions or concerns.

I look forward to hearing from you.

Best regards,

A handwritten signature in black ink, appearing to be 'DAM', written in a cursive style.

cc:

David A. Ebershoff, Esq.  
Sebastian Sobczak  
Arthur Amron  
Mike Liddell  
William Malarkey

**CFC-036** RE: Water quality reports

**a. Please provide Mountain Water water quality reports for the past 10 years.**

Please see attached.

**b. Please disclose and explain any water quality violations of Mountain Water over the past 10 years.**

No water quality violations.



Providing affordable quality water and dependable services to the Missoula community

**Mountain Water Company**  
P.O. Box 4826  
1345 W. Broadway  
Missoula, MT 59806-4826

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[www.mtnwater.com](http://www.mtnwater.com)

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## 2001/2002 Annual Water Quality Report

As we looked back on 2001 for this report, we found it difficult to remember anything past September 11th. On that devastating day, the whole world was impacted by the horrors of what we saw and heard. Our hearts go out to those who were directly impacted by the events of that day and to those who have lost loved ones while protecting our freedoms. We give our thanks, appreciation, and encouragement to those heroes who are giving their time, energy, money and lives to help the world become a safer place.

The events of September 11, 2001 have created a heightened awareness of the need for security as it relates to our nation's water supply. As a result, water utilities are reassessing their vulnerability to acts of terrorism. The intent of this review has been to identify deficiencies and, where necessary, to adjust and improve plans to ensure that the utility is adequately and appropriately dealing with any potential terrorist threats to the water system facilities and fixtures. In coordination with law enforcement, fire department and the local Health Department, we have identified our roles relating to

water system threats. We want to recognize those agencies for their assistance and contribution in forming these critical partnerships.

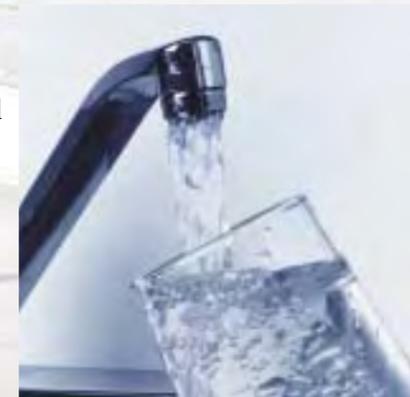
Mountain Water Company, always very safety conscious, has implemented several programs to further improve the safety of our system. Our staff is also being trained in the area of security to learn how they can better protect the water supply.

The United States Environmental Protection Agency (EPA), the Federal Bureau of Investigation (FBI), and the American Water Works Association (AWWA) are all working together with the water and wastewater facilities to help them assess vulnerability and to develop ways to make their facilities more secure.

For more information on these topics, log on to these helpful web sites:

- [www.epa.gov](http://www.epa.gov)
- [www.whitehouse.gov/homeland](http://www.whitehouse.gov/homeland)
- [www.odci.gov](http://www.odci.gov)
- [www.fbi.gov/congress/congress01/rondick101001.htm](http://www.fbi.gov/congress/congress01/rondick101001.htm)

Mountain Water Company ([www.mtnwater.com](http://www.mtnwater.com)) strives to act responsibly as stewards of the water we supply to our customers. Read on to learn more about your tap water.



### PRIMACY AND STATE REGULATORY OVERSIGHT

At Mountain Water Company (MWC), we value our relationship with the state and local agencies. Our relationship with these agencies has always been viewed as a partnership and we work together to protect Missoula's drinking water.

The Drinking Water Section of the State Department of Environmental Quality (DEQ) is the agency primarily responsible for the regulatory oversight of drinking water quality in Montana. Although this is a regulatory agency, we have often found them to be a valuable resource in helping us achieve our goals of serving the best quality water.

Retaining employees has become increasingly difficult, as the state has come under ever tightening budget constraints. These constraints have made it a challenge to retain continuity of the workforce in this department and others. This problem could create the situation of the state not being able to retain primacy over the water quality in the state.



**MOUNTAIN WATER COMPANY**

**ANNUAL WATER QUALITY REPORT 2001/2002**

(continued on page 2)



## PRIMACY AND STATE REGULATORY OVERSIGHT

(continued from pg. 1)

This retention of primacy is one of the issues Montana has faced over the past and current years. Those states that do not set and enforce standards equal to or greater than those set by the United States Environmental Protection Agency, face the possibility of losing the status of being the primary overseer of water quality and other environmental concerns. We believe that the state regulatory oversight provides a better opportunity to achieve water quality objectives at an affordable cost for our customers. Funding for state regulatory oversight is where you, as a water customer, come in.

It is for this reason MWC was supportive of a legislative action in 1991 that assessed a per water service connection fee to augment the funding of the department so they could hire more qualified employees and retain those good employees. This legislation created a special fee assessment for each water service connection being served by a public water supply. This \$2.00 per service connection fee is assessed to the local providers to partially fund the Drinking Water Section of the DEQ.

Statewide, these fees amount to \$341,000 that help fund programs like: review of proposed water and sewer improvements by local governments, water supply training at the Montana Environmental Training Center, assistance for rural water system development and groundwater investigations, database development, compliance assistance and inspections of public water supplies, and development of standard construction specifications for small public water systems. An additional \$239,000 is used as a 25% match for the state to receive EPA grant money.

The Drinking Water Section of the DEQ and Mountain Water Company would like to thank you for your support and funding. Your support for this state agency is critical for the continuance of improving and monitoring our water quality. Primacy and adequate funding for this agency is important to the future of Montana. If you would like more information or have questions or comments, please contact us at Mountain Water Company (406) 721-5570 or contact Jim Melstad of the Drinking Water Division of the DEQ at (406) 444-5315 or [jmelstad@state.mt.us](mailto:jmelstad@state.mt.us).

## Where Does Your Water Come From?



Mountain Water Company serves the greater Missoula area. The Missoula aquifer is currently the only active source of drinking water for Missoula Valley residents. MWC utilizes 37 deep wells to pump water from this aquifer. The only treatment performed by MWC is low level disinfection with chlorine.

Rattlesnake Creek lies just north of Missoula and, under the guidance of the Department of Environmental Quality, serves as an alternative source available for use in special situations. Rattlesnake Creek is a surface water supply originating in the Rattlesnake Wilderness area and emptying in the Clark Fork River. Strict environmental conditions are maintained in the watershed to preserve the quality of this source.

### MWC Now on The World Wide Web

This report along with other useful consumer and resource information can now be obtained from the Internet. Find us at [www.mtnwater.com](http://www.mtnwater.com). And, as usual, your comments are welcomed.

## Capital Improvements

One of the most important aspects of operating a public water system is reinvestment in infrastructure. Pipeline and facility replacement is an often-overlooked necessity to assuring continued superior service. Maintaining a strong infrastructure benefits everyone in the community. Mountain Water Company has a long history of reinvesting back into the company. Over the past 20 years, MWC has invested about \$35 million for water system improvements for Missoula (over \$41 million in 2001 dollars). In 2001, MWC spent over \$3 million on capital improvements. Here are some of the major projects constructed in 2001:

- Applehouse-Columbine Tie Main – this gives us increased reliability in the upper Rattlesnake and eliminated three dead-end mains, which will enhance water quality.
- Bank Street 20-inch main relocation – This main was relocated and replaced to accommodate the new parking structure west of the Millennium Building.
- Installation of 30-inch valve on 30-inch steel main on the west side of upper Rattlesnake to give us more system control in this area.
- Several ties between the MWC system and the Missoula Water Works system to enhance reliability of service for both.
- Relocation and replacement of several fire hydrants along 39th St. where existing placement would have interfered with planned improvements during street reconstruction in 2002.
- Installation of several new fire hydrants at the request of the Missoula City Fire Department to enhance fire protection capabilities in various parts of town.

The MWC capital budget for 2002 is \$1,986,498.



A new valve is installed on a 30 inch water main.

## Automated Information Service Now Available

Misplaced your bill? Need to know your balance or due date? Want to check if your payment has been received? Don't have time to wait on hold? Access your account 24 hours a day, 7 days a week using the automated information service. Simply have your 10-digit account number in hand and dial (406) 523-5065. Choose from the available options to find the answers to these and other questions. And don't worry if you get lost, you can press zero during regular business hours to talk to one of our friendly Customer Service Representatives.

# Emerging Contaminants

## Arsenic

On September 11, 2001 the National Academy of Sciences (NAS) released a report on the health effects of arsenic in drinking water that had been requested by President Bush. This report stated that arsenic in drinking water has a greater health impact than had previously been understood by the United States Environmental Protection Agency (EPA). Based on this information and other reports, the EPA announced on October 31, 2001 that the new drinking water standard for arsenic will be reduced from 50 parts per billion (ppb) down to 10 ppb. The new standard takes effect on January 22, 2006.

Mountain Water Company (MWC) does not have any wells that exceed the new standard of 10 ppb. The range of arsenic in MWC wells is "not detected" to 2 ppb with an average of 1.1 ppb. Six out of thirty-five wells have arsenic at 2 ppb. These six wells are the wells closest to the Clark Fork River. MWC therefore is concerned about the fate of the Milltown Dam and the arsenic-laden tailings behind it.

## Milltown Dam

Protecting and preserving the quality of water served to our customers is our number one priority. As a result, MWC has been closely following the process to determine the fate of the Milltown Reservoir site. MWC's primary concern related to Milltown is to avoid a decision that will cause increased risk to the Missoula aquifer. In fact Mountain Water has retained groundwater experts from the University of Montana to provide advice as to the threats to water quality posed by the various alternatives being considered for Milltown. We believe that groundwater quality should be a critically important factor to consider in evaluating alternatives, and we have asked the EPA to more properly evaluate water quality risks. Specifically we have requested the EPA to fully analyze the consequences of remedial alternatives on the concentrations of arsenic and other contaminants on the Missoula Aquifer. We also have asked EPA and other agencies to develop contingency plans to ensure that water delivered to our customers remains clean throughout whatever remedial measure is implemented at Milltown.

## Radon

Radon is a colorless, odorless gas that is present virtually everywhere on Earth. It is a naturally occurring element formed by the natural decay of uranium in the ground. As a gas, radon can seep into the home through cracks and holes in the foundation, becoming the largest source of indoor radon. Radon gas can also be released from drinking water while showering, washing clothes and during other household activities.

Mountain Water Company has one of the nation's most extensive databases for the occurrence of radon in source water in the United States. The Missoula aquifer, as part of a master's thesis at the University of Montana, has had hundreds of radon samples analyzed for radon. Radon levels in MWC wells range from 55 to 802 pCi/L (picoCuries per liter of water) with an average of 315 pCi/L. The NAS estimates that this level equates to approximately 0.03 pCi/L in indoor air, which is about 1/100th of the recommended indoor air standard and is less than 1/10th of the average outdoor level in the United States.

By the end of 2002, EPA is expected to finalize a drinking water regulation for radon. This long awaited regulation will be unique to any other drinking water regulation in that it will require a strong indoor air program to be run by the State of Montana. This makes sense since the NAS has determined that 98% of the health threat from radon occurs in air while no more than 2% comes from water.

The EPA recommends that all homeowners test their homes for radon and take mitigation measures if indoor air exceeds 4 pCi/L. To obtain information on radon and how it may affect your home or business, call the State of Montana Radon Hotline at 1-800-546-0483 or EPA's Radon Hotline at 1-800-SOS-RADON.

## The Water Wise Garden: A Demonstration in Practicality

As you walk or ride along the Riverfront Trail System between the Higgins Street Bridge and Madison Street Bridge you will notice the scenic garden project behind the Missoulia. Missoula's Water-Wise Garden was a joint project of Mountain Water Company, The Missoulia, the City of Missoula, and hundreds of volunteers. The garden clearly demonstrates that you don't have to sacrifice beauty for conservation. This community resource provides both an educational forum as well as recreational use. The Water-Wise Garden is an ongoing demonstration of the practicality of water conservation.

## What Kinds of Contaminants Might be Found in Drinking Water ?

In order to ensure that tap water is safe to drink, EPA and the Montana Department of Environmental Quality (DEQ) prescribe regulations that limit the amount of certain contaminants in water provided by public water systems. The federal Food and Drug Administration (FDA) and DEQ regulations also establish limits for contaminants in bottled water, which must provide the same protection for public health. As water travels over the surface of the land or through the ground, it dissolves naturally occurring minerals and, in some cases, radioactive material, and can pick up substances resulting from the presence of animals or from human activity.

Contaminants that may be present in source water include:

- Microbial contaminants, such as viruses and bacteria that may come from sewage treatment plants, septic systems, agricultural livestock operations, and wildlife.
- Inorganic contaminants, such as salts and metals, that can be naturally occurring or result from urban stormwater runoff, industrial or domestic wastewater discharges, oil and gas production, mining, or farming.
- Pesticides and herbicides, which may come from a variety of sources such as agriculture, urban stormwater runoff, and residential uses.
- Organic chemical contaminants, including synthetic and volatile organic chemicals, that are by-products of industrial processes and petroleum production, and can also come from gas stations, urban stormwater runoff, and septic systems.
- Radioactive contaminants, that can be naturally occurring or be the result of oil and gas productions and mining activities.

This report describes those contaminants that have been detected in the analysis of 145 different potential contaminants, 100 of which are regulated by EPA and the Montana Department of Environmental Quality. **MWC is proud to tell you that there have been no contaminants detected in our water that exceed any federal or state drinking water standards.** All primary (health related) and

secondary (aesthetic) drinking water standards are being met.

Drinking water, including bottled water, may reasonably be expected to contain at least small amounts of some contaminants. The presence of contaminants does not necessarily indicate that water poses a health risk. More information about contaminants and potential health effects can be obtained by calling the EPA's Safe Drinking Water Hotline (1-800-426-4791).

Some people may be more vulnerable to contaminants in drinking water than the general population. Immuno-compromised persons such as persons with cancer undergoing chemotherapy, persons who have undergone organ transplants, people with HIV/AIDS or other immune system disorders, some elderly, and infants can be particularly at risk from infections. These people should seek advice about drinking water from their health care providers. EPA/Centers for Disease Control (CDC) guidelines on appropriate means to lessen the risk of infection by *Cryptosporidium* and other microbial contaminants are available from the Safe Drinking Water Hotline 1-800-426-4791.

Because there have been no confirmed findings of synthetic organic chemicals in MWC wells, DEQ has allowed us to reduce the level of monitoring for these chemicals. This waiver has resulted in a significant reduction in monitoring costs. This monitoring waiver is reviewed every three years by DEQ.

This report is intended to provide information for all water users. If received by an absentee landlord, a business, or a school, please share the information with tenants, employees or students. We will be happy to make additional copies of this report available. Complete records of water quality analyses are open for inspection by the public upon request.

You may also access this report on the Mountain Water Company web page at [www.mtnwater.com](http://www.mtnwater.com).

If you would like more information about water quality, please call:

**Brad Hafar or Arvid Hiller at (406) 721-5570**

# Water Results

Mountain Water Company 2001 / 2002 Annual Water Quality Report

## Water Quality Parameters Detected in Mountain Water Company Sources (Wells)

<b>PRIMARY STANDARDS</b> --Mandatory health-related	Federal MCL	MCLG	Units of Measurement	MWC Range (including highest value)	Average for MWC Wells (a)	(b) MWC Date of Last Measurement	Potential Sources of Contamination
<b>INORGANIC CHEMICALS</b>							
Arsenic	50	none	ppb	< 1 - 2	1.1	1999/2000/2001	Erosion of natural deposits; historical mining and smelting.
Barium	2	2	ppm	0.1 - 0.4	0.23	1999/2000/2001	Erosion of natural deposits; discharge from metal refineries; discharge from oil drilling wastes.
Cadmium	5	5	ppb	< 1 - 2	ND	1999/2000/2001	Erosion of natural deposits; corrosion of galvanized pipes; runoff from waste batteries and paint
Copper	AL = 1.3 #	1.3	ppm	0.06 - 0.74	0.45	2001	Internal corrosion of household plumbing systems; erosion of natural deposits; leaching from wood preservatives.
Fluoride	4	4	ppm	< 0.1 - 0.23	0.15	1999/2000/2001	Erosion of natural deposits; discharge from fertilizer.
Total Nitrite/Nitrate (as N)	10	10	ppm	< 0.4 - 3.29	0.74	2001	Erosion of natural deposits; runoff and leaching from fertilizer use; leaching from septic tanks and sewers.

### RADIONUCLIDES

Gross Alpha	15	none	pCi/L	< 1 - 3.3	1.5	1998	Erosion of natural deposits
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### ORGANIC CHEMICALS

Tetrachloroethylene (PCE)	5	0	ppb	< 0.5 - 0.9	ND	2001	Discharge from factories and dry cleaners.
Total Trihalomethanes (TTHM's) (c)	100	none	ppb	2.8 - 4.3	3.1	2001	By-product of drinking water disinfection.

### SECONDARY STANDARDS

--Aesthetic standards non-health related

<b>CHEMICAL PARAMETERS</b>	Federal MCL	MCLG	Units of Measurement	MWC Range (including highest value)	Average for MWC Wells (a)	(b) MWC Date of Last Measurement	Potential Sources of Contamination
Chloride	500	none	ppm	3 - 19	5.6	1999/2000/2001	Runoff/leaching from natural deposits; seawater influence.
Sulfate	500	none	ppm	9 - 19	17	1999/2000/2001	Runoff/leaching from natural deposits; industrial wastes.
Total Dissolved Solids (TDS)	1,000	none	ppm	167 - 253	194	1999/2000/2001	Runoff/leaching from natural deposits.
Zinc	5,000	none	ppb	< 10 - 40	10	1999/2000/2001	Runoff/leaching from natural deposits; industrial wastes.

### PHYSICAL PARAMETERS

Odor threshold	3	none	units	< 1 - 1	0.7	1999/2000/2001	Naturally occurring organic materials
pH	6.5 - 8.5	none	units	7.3 - 7.9	7.5	1999/2000/2001	Hydrogen ion concentration. Value greater than 7 is basic (non acidic)
Turbidity	5	none	NTU	< 0.2 - 0.4	ND	1999/2000/2001	Soil runoff

## Detected Unregulated Chemicals That May Be of Interest to Consumers\*

<b>ADDITIONAL PARAMETERS - Unregulated</b>	Federal MCL	MCLG	Units of Measurement	MWC Range (including highest value)	Average for MWC Wells (a)	(b) MWC Date of Last Measurement
Aggressiveness Index (d)	NS	none	units	11.5 - 12.3	11.8	1999/2000/2001
Alkalinity (as Ca CO <sub>3</sub> )	NS	none	ppm	145 - 218	170	1999/2000/2001
Calcium	NS	none	ppm	39 - 59	47	1999/2000/2001
Corrosivity (Langlier Index) (e)	Noncorrosive (+)	none	positive/negative	(-0.3) - (+0.6)	+ 0.2	1999/2000/2001
Dichlorodifluoromethane	NS	none	ppb	< 0.5 - 2.2	ND	2001
Hardness (Ca CO <sub>3</sub> )	NS	none	ppm	143 - 211	172	1999/2000/2001
Hardness (Grains)	NS	none	grains	8.4 - 12.3	10	1999/2000/2001
Magnesium	NS	none	ppm	11 - 21	13.3	1999/2000/2001
Potassium	NS	none	ppm	1 - 2	1.9	1999/2000/2001
Sodium	NS	none	ppm	5 - 16	7	1999/2000/2001
Specific Conductance	NS	none	micromhos/cm	307 - 466	348	1999/2000/2001

### KEY TO ABBREVIATIONS AND FOOTNOTES

AL = Action Level  
MCL = Maximum Contaminant Level, a drinking water standard  
NA = Not applicable at this time or not required to analyze  
ND = Not detected  
NS = No standard  
NTU = Nephelometric Turbidity Units. This is a measure of the suspended material in water.

# = Action Level measured at the consumers tap, a primary standard. Compliance determined at 90th percentile value. The value shown as the "average" for copper is the 90th percentile value for 30 samples. No samples exceeded the AL.

< = less than (essentially equivalent to ND)

\* = Unregulated contaminant monitoring helps USEPA determine where certain contaminants occur and whether the contaminants need to be regulated.

ppm = parts per million, or milligrams per liter (mg/L)  
ppb = parts per billion, or micrograms per liter (ug/L)  
pCi/L = picoCuries per liter

(a) = The average is weighted according to the individual contribution in pumping by each well to the total (active wells only)

(b) = The state allows us to monitor for some contaminants less than once per year because the concentrations of these contaminants in groundwater sources do not change frequently. Some of our data, though representative, are more than one year old.

(c) = Total Trihalomethanes (TTHM's) monitoring is conducted on a quarterly basis in the distribution system.

(d) = An Aggressiveness Index of 11 or greater indicates that the water is not aggressive (noncorrosive).

(e) = A positive number Langlier Index indicates that the water is noncorrosive.

## Definitions

### Maximum Contaminant Level Goal (MCLG):

The level of a contaminant in drinking water below which there is no known or expected risk to health. MCLGs are set by the U.S. Environmental Protection Agency.

### Maximum Contaminant Level (MCL):

The highest level of a contaminant that is allowed in drinking water. Primary MCLs are set as close to the MCLGs as is economically and technologically feasible. Secondary MCLs are set to protect the odor, taste, and appearance of drinking water.

### Regulatory Action Level (AL):

The concentration of a contaminant that, if exceeded, triggers a treatment or other requirement that a water system must follow.

### Primary Drinking Water Standard:

MCLs for contaminants that affect health along with their monitoring and reporting requirements, and water treatment requirements.

# Mountain Water Company

## Consumer Confidence Report

### 2002/2003 Annual Water Quality Report

## WHAT KIND OF CONTAMINANTS MIGHT BE FOUND IN DRINKING WATER?

In 1996, the Safe Drinking Water Act was amended to require all community water systems to deliver a brief annual water quality report to their customers. This year's report includes information on your source water, the levels of any detected contaminants, compliance with drinking water rules, and some informational articles relating to chlorine and the hardness of your water.

In order to ensure that tap water is safe to drink, the United States Environmental Protection Agency (EPA) and the Montana Department of Environmental Quality (DEQ) prescribe regulations that limit the amount of certain contaminants in water provided by public water systems. The federal Food and Drug Administration and DEQ regulations also establish limits for contaminants in bottled water, which must provide the same protection for public health. As water travels over the surface of the land or through the ground, it dissolves naturally occurring minerals and, in some cases, radioactive material, and can pick up substances resulting from the presence of animals or from human activity.

Contaminants that may be present in source water include:

- Microbial contaminants, such as viruses and bacteria that may come from sewage treatment plants, septic systems, agricultural livestock operations, and wildlife.
- Inorganic contaminants, such as salts and metals, that can be naturally occurring or result from urban stormwater runoff, industrial or domestic wastewater discharges, oil and gas production, mining, or farming.
- Pesticides and herbicides, which may come from a variety of sources such as agriculture, urban stormwater runoff, and residential uses.
- Organic chemical contaminants, including synthetic and volatile organic chemicals that are by-products of industrial processes and petroleum production, and can also come from gas stations, urban stormwater runoff, and septic systems.
- Radioactive contaminants, that can be naturally occurring or be the result of oil and gas productions and mining activities.

This report describes those contaminants that have been detected in our analysis of 145 different potential contaminants, almost 100 of which are regulated by EPA and the DEQ.

**Mountain Water Company (MWC) is proud to tell you that there have been no contaminants detected in our water that exceed any federal or state drinking water standards.** All primary (health related) and secondary (aesthetic) drinking water standards are being met.

Drinking water, including bottled water, may reasonably be expected to contain at least small amounts of some contaminants. The presence of contaminants does not necessarily indicate that water poses a health risk. More information about contaminants and potential health effects can be obtained by calling the EPA's Safe Drinking Water Hotline (1-800-426-4791).

Some people may be more vulnerable to contaminants in drinking water than the general population. Immuno-compromised persons such as persons with cancer undergoing chemotherapy, persons who have undergone organ transplants, people with HIV/AIDS or other immune system disorders, some elderly, and infants can be particularly at risk from infections. These people should seek advice about drinking water from their health care providers. EPA/Centers for Disease Control guidelines on appropriate means to lessen the risk of infection by *Cryptosporidium* and other microbial contaminants are available from the Safe Drinking Water Hotline (1-800-426-4791).

Because there have been no confirmed findings of synthetic organic chemicals in MWC wells, DEQ has allowed us to reduce the level of monitoring for these chemicals. This waiver has resulted in a significant reduction in monitoring costs. This monitoring waiver is reviewed every three years by DEQ.

This report is intended to provide information for all water users. If received by an absentee landlord, a business, or a school, please share the information with tenants, employees or students. We will be happy to make additional copies of this report available. Complete records of water quality analyses are open for inspection by the public upon request.

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# Mountain Water Company

## 2002/2003 Annual Water Quality Results

### Water Quality Parameters Detected in Mountain Water Company Sources

<b>PRIMARY STANDARDS</b> -- Health-related	<b>Federal MCL</b>	<b>MCLG</b>	<b>Units of Measurement</b>	<b>MWC Range (including highest value)</b>	<b>Average for MWC Wells (a)</b>	<b>(b) MWC Date of Last Measurement</b>	<b>Potential Sources of Contamination</b>
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#### INORGANIC CHEMICALS

Arsenic	50	NS	ppb	ND - 2	1	2000/01/02	Erosion of natural deposits; historical mining and smelting.
Barium	2	2	ppm	0.2 - 0.5	0.24	2000/01/02	Erosion of natural deposits; discharge from metal refineries; discharge from oil drilling wastes.
Copper	AL = 1.3 #	1.3	ppm	0.06 - 0.74	0.45	2001	Internal corrosion of household plumbing systems; erosion of natural deposits; leach from wood preservatives.
Fluoride	4	4	ppm	ND - 0.23	0.15	2000/01/02	Erosion of natural deposits; discharge from fertilizer factories.
Nitrite/Nitrate total	10	10	ppm	0.37 - 3.15	0.83	2002	Erosion of natural deposits; runoff and leaching from fertilizer use; leaching from septic tanks and sewers.

#### RADIONUCLIDES

Gross Alpha	15	NS	pCi/L	ND - 2.0	0.38	2002	Erosion of natural deposits.
Radium 226	5	NS	pCi/L	ND - 0.6	ND	2002	Erosion of natural deposits.
Radium 228	5	NS	pCi/L	ND - 3.6	ND	2002	Erosion of natural deposits.

#### ORGANIC CHEMICALS

Chlorine Residual	MRDL=4	MRDLG=4	ppm	0.05-1.95	0.35	2002	Drinking water disinfectant added for treatment.
Chloroform	NS	NS	ppb	ND - 0.53	ND	2002	By-product of drinking water disinfection. Water-lube process at wells with distribution system water.
Tetrachloroethylene (PCE)	5	0	ppb	ND - 0.53	ND	2002	Discharge from factories and dry cleaners.
Total Trihalomethanes (TTHM's)	NS	NS	ppb	ND - 0.53	ND	2002	By-product of drinking water disinfection. Water-lube process at wells with distribution system water.

#### DISTRIBUTION SYSTEM

##### PRIMARY STANDARDS

Asbestos	7 MFL	7 MFL	fibers	ND - 0.96	NA	2002	Internal corrosion of asbestos-cement water mains; erosion of natural deposits.
Total Trihalomethanes (TTHM's)	100	NS	ppb	1.1 - 3.8	2.95	2002	By-product of drinking water disinfection.

<b>SECONDARY STANDARDS</b> -- Aesthetic, non-health standards	<b>Federal MCL</b>	<b>MCLG</b>	<b>Units of Measurement</b>	<b>MWC Range (including highest value)</b>	<b>Average for MWC Wells (a)</b>	<b>(b) MWC Date of Last Measurement</b>	<b>Potential Sources of Contamination</b>
<b>CHEMICAL PARAMETERS</b>							
Aluminum	0.05-0.2	NS	ppm	ND - 0.2	ND	2000/01/02	Erosion of natural deposits.
Chloride	250	NS	ppm	3 - 19	6	2000/01/02	Runoff/leaching from natural deposits.
Sulfate	250	NS	ppm	10 - 19	17	2000/01/02	Runoff/leaching from natural deposits; industrial wastes.
Total Dissolved Solids (TDS)	500	NS	ppm	167 - 251	197	2000/01/02	Runoff/leaching from natural deposits.
Zinc	5,000	NS	ppb	ND - 40	ND	2000/01/02	Runoff/leaching from natural deposits; industrial wastes.

#### PHYSICAL PARAMETERS

pH	6.5-8.5	NS	units	7.3 - 8.0	7.7	2000/01/02	Hydrogen ion concentration. Value greater than 7 is basic (non-acidic).
Turbidity / clarity	5.0	NS	NTU	0.05 - 0.46	0.08	2000/01/02	Soil runoff.

# Mountain Water Company

## 2002/2003 Annual Water Quality Results

Detected Unregulated Chemicals That May Be of Interest to Consumers\*

ADDITIONAL PARAMETERS Unregulated	Federal MCL	MCLG	Units of Measurement	MWC Range (including highest value)	Average for MWC Wells (a)	(b) MWC Date of Last Measurement
Aggressiveness Index ( c )	NS	NS	units	11.5 - 12.4	12	2000/01/02
Alkalinity (as Ca CO <sub>3</sub> )	NS	NS	ppm	137 - 218	171	2000/01/02
Calcium	NS	NS	ppm	38 - 55	47	2000/01/02
Corrosivity (Langlier Index) ( d )	NS	NS	positive/negative	( - 0.3) - (+ 0.60)	+ 0.2	2000/01/02
Hardness (Ca CO <sub>3</sub> )	NS	NS	ppm	136- 210	172	2000/01/02
Hardness	NS	NS	grains	8 - 12.3	10.1	2000/01/02
Magnesium	NS	NS	ppm	10 - 21	13	2000/01/02
Potassium	NS	NS	ppm	1 - 2	1.8	2000/01/02
Sodium	NS	NS	ppm	5 - 16	6.9	2000/01/02
Specific Conductance	900	NS	micromho/cm	295 - 466	360	2000/01/02

### KEY TO ABBREVIATIONS AND FOOTNOTES

AL = Action Level

MCL = Maximum Contaminant Level

MRDL = Maximum Residual Disinfectant Level

MRDLG = Maximum Residual Disinfectant Level Goal

MFL = Million Fibers per Liter

NA = Not applicable at this time or not required to analyze

ND = Not detected

NS = No standard

NTU = Nephelometric Turbidity Units. This is a measure of the suspended material in water.

# = Action Level measured at the consumers tap, a primary standard. Compliance determined at 90th percentile value. The value shown as the "average" for copper is the 90th percentile value for 30 samples taken in 2001. No samples exceeded the AL.

\* = Unregulated contaminant monitoring helps USEPA determine where certain contaminants occur and whether the contaminants need to be regulated.

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( a ) = The average is weighted according to the individual contribution in pumping by each well to the total (active wells only).

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### DEFINITIONS

#### Maximum Contaminant Level (MCL):

The highest level of a contaminant that is allowed in drinking water. MCL's are set as close to the MCLG's as feasible using the best available treatment technology.

#### Maximum Contaminant Level Goal (MCLG):

The level of a contaminant in drinking water below which there is no known or expected risk to health. MCLG's allow for a margin of safety.

#### Action Level (AL):

The concentration of a contaminant which, if exceeded, triggers treatment or other requirements which a water system must follow.

#### Primary Drinking Water Standard:

Primary MCL's, specific treatment techniques adopted in lieu of primary MCL's, and monitoring and reporting requirements for MCL's that are specified in regulations.



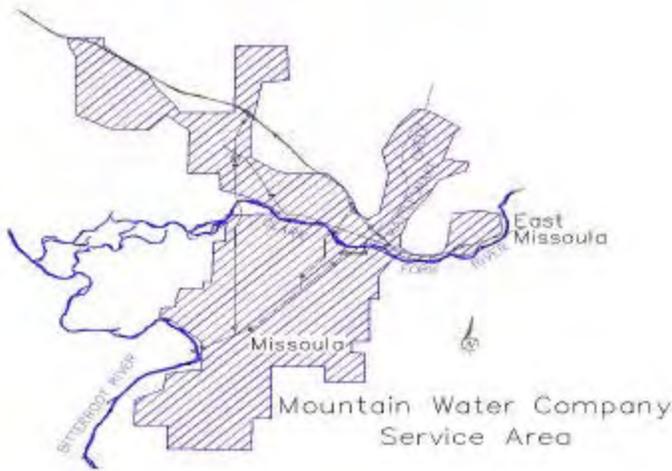
Providing affordable quality water and dependable service to the Missoula community

#### Mountain Water Company

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# WHERE DOES YOUR WATER COME FROM?



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Rattlesnake Creek lies just north of Missoula and, under the guidance of the DEQ, serves as an alternative source available for use in special situations. Rattlesnake Creek is a surface water supply originating in the Rattlesnake Wilderness area and emptying in the Clark Fork River. Strict environmental conditions are maintained in the watershed to preserve the quality of this source.

## ***Water Hardness***

Water hardness occurs naturally in the Missoula Aquifer. Calcium and magnesium, both of which are widely distributed in the environment, are the two main contributors to the total hardness of the water. Hardness is usually expressed as equivalent calcium carbonate (Ca CO<sub>3</sub>) in milligrams per liter (mg/L). Hardness may also be measured in grains per gallon. One grain per gallon is equal to 17.1 mg/L. The hardness of the water in the MWC system ranges from 136 mg/L Ca CO<sub>3</sub> (moderately hard) to 210 mg/L (hard). Hardness is an aesthetic issue and not related to the healthfulness of water.

Minerals, like calcium and magnesium, dissolved in water tend to precipitate out when heated or can be left behind when it evaporates. The white spots on glass shower doors, coffee pots, dishes, etc. are best prevented by wiping them dry before the water evaporates. A whitish layer on plants can be avoided by watering with distilled water, rainwater or water from a dehumidifier, but this may also reduce the mineral content of the soil. Ca CO<sub>3</sub> can be beneficial to some water lines by forming a protective coating inside the pipe which reduces corrosion and can help prevent the leaching of lead and copper into the water.

## ***Chlorine***

Disinfection is critical to drinking water safety. Chlorine has been the most common water disinfectant used in the United States (US) for nearly 100 years. A dramatic decline in waterborne diseases such as cholera and typhoid fever occurred in the US as the number of water systems that disinfected increased. The World Health Organization considers drinking water chlorination to be one of the most significant advances in public health protection. About 75% of the larger systems and 95% of the smaller systems in the US now use chlorine as their primary disinfectant.

In 2002, the average free chlorine residual in the MWC system was 0.35 milligrams per liter. For information on reducing the chlorine concentration and/or the hardness of your drinking water contact the National Sanitation Foundation at [www.nsf.org/certified/DWTU](http://www.nsf.org/certified/DWTU) or the Water Quality Association at [www.wqa.org/goldseal](http://www.wqa.org/goldseal).

# Mountain Water Company

## Consumer Confidence Report

### 2003/2004 Annual Water Quality Report

## WHAT KIND OF CONTAMINANTS MIGHT BE FOUND IN DRINKING WATER?

In 1996, the Safe Drinking Water Act was amended to require all community water systems to deliver a brief annual water quality report to their customers. This year's report includes information on your source water, the levels of any detected contaminants, compliance with drinking water rules, and some informational articles relating to source water delineation and assessment.

In order to ensure that tap water is safe to drink, the United States Environmental Protection Agency (EPA) and the Montana Department of Environmental Quality (DEQ) prescribe regulations that limit the amount of certain contaminants in water provided by public water systems. The federal Food and Drug Administration and DEQ regulations also establish limits for contaminants in bottled water, which must provide the same protection for public health. As water travels over the surface of the land or through the ground, it dissolves naturally occurring minerals and, in some cases, radioactive material, and can pick up substances resulting from the presence of animals or from human activity.

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- Pesticides and herbicides, which may come from a variety of sources such as agriculture, urban stormwater runoff, and residential uses.
- Organic chemical contaminants, including synthetic and volatile organic chemicals that are by-products of industrial processes and petroleum production, and can also come from gas stations, urban stormwater runoff, and septic systems.
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This report describes those contaminants that have been detected in our analysis of 145 different potential contaminants, almost 100 of which are regulated by EPA and the DEQ.

**Mountain Water Company (MWC) is proud to tell you that there have been no contaminants detected in our water that exceed any federal or state drinking water standards.** All primary (health related) and secondary (aesthetic) drinking water standards are being met.

Drinking water, including bottled water, may reasonably be expected to contain at least small amounts of some contaminants. The presence of contaminants does not necessarily indicate that water poses a health risk. More information about contaminants and potential health effects can be obtained by calling the EPA's Safe Drinking Water Hotline (1-800-426-4791).

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Because there have been no confirmed findings of synthetic organic chemicals in MWC wells, DEQ has allowed us to reduce the level of monitoring for these chemicals. This waiver has resulted in a significant reduction in monitoring costs. This monitoring waiver is reviewed every three years by DEQ.

This report is intended to provide information for all water users. If received by an absentee landlord, a business, or a school, please share the information with tenants, employees or students. We will be happy to make additional copies of this report available. Complete records of water quality analyses are open for inspection by the public upon request.

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# Mountain Water Company

## 2003/2004 Annual Water Quality Results

Water Quality Parameters Detected in Mountain Water Company Sources

<b>PRIMARY STANDARDS</b> -- Health-related	<b>Federal</b> <b>MCL</b>	<b>MCLG</b>	<b>Units</b> <b>of</b> <b>Measurement</b>	<b>MWC Range</b> <b>(including</b> <b>highest value)</b>	<b>Average for</b> <b>MWC</b> <b>Wells (a)</b>	<b>(b) MWC</b> <b>Date of Last</b> <b>Measurement</b>	<b>Potential Sources</b>  <b>of</b>  <b>Contamination</b>
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### INORGANIC CHEMICALS

Arsenic	50	NS	ppb	ND - 2	1	2001/02/03	Erosion of natural deposits; historical mining and smelting.
Barium	2	2	ppm	0.2 - 0.5	0.24	2001/02/03	Erosion of natural deposits; discharge from metal refineries; discharge from oil drilling wastes.
Copper	AL = 1.3 #	1.3	ppm	0.06 - 0.74	0.45	2001	Internal corrosion of household plumbing systems; erosion of natural deposits; leaching from wood preservatives.
Fluoride	4	4	ppm	ND - 0.23	0.16	2001/02/03	Erosion of natural deposits; discharge from fertilizer factories.
Nitrate	10	10	ppm	0.41 - 3.24	0.84	2003	Erosion of natural deposits; runoff and leaching from fertilizer use; leaching from septic tanks and sewers.

### RADIONUCLIDES

Gross Alpha	15	NS	pCi/L	ND - 2.0	0.44	2002	Erosion of natural deposits.
Radium 226	5	NS	pCi/L	ND - 0.6	ND	2002	Erosion of natural deposits.
Radium 228	5	NS	pCi/L	ND - 3.6	ND	2002	Erosion of natural deposits.

### DISTRIBUTION SYSTEM

#### AND PRIMARY STANDARDS

Asbestos	7 MFL	7 MFL	fibers	ND - 0.96	NA	2002	Internal corrosion of asbestos-cement water mains; erosion of natural deposits.
Chlorine Residual	MRDL = 4	MRDLG = 4	ppm	0.12 - 1.98	0.38	2003	Added for disinfection purposes.
Total Trihalomethanes (TTHM's)	80	NS	ppb	1.8 - 5.0	2.88	2003	By-product of drinking water disinfection.

<b>SECONDARY STANDARDS</b> -- Aesthetic, non-health standards	<b>Federal</b> <b>MCL</b>	<b>MCLG</b>	<b>Units</b> <b>of</b> <b>Measurement</b>	<b>MWC Range</b> <b>(including</b> <b>highest value)</b>	<b>Average for</b> <b>MWC</b> <b>Wells (a)</b>	<b>(b) MWC</b> <b>Date of Last</b> <b>Measurement</b>	<b>Potential Sources</b>  <b>of</b>  <b>Contamination</b>
<b>CHEMICAL PARAMETERS</b>							
Aluminum	1	NS	ppm	ND - 0.2	ND	2001/02/03	Erosion of natural deposits.
Chloride	250	NS	ppm	3 - 19	7	2001/02/03	Runoff/leaching from natural deposits.
Sulfate	250	NS	ppm	9 - 19	16	2001/02/03	Runoff/leaching from natural deposits; industrial wastes.
Total Dissolved Solids (TDS)	500	NS	ppm	150 - 251	194	2001/02/03	Runoff/leaching from natural deposits.
Zinc	5,000	NS	ppb	ND - 40	ND	2001/02/03	Runoff/leaching from natural deposits; industrial wastes.

### PHYSICAL PARAMETERS

pH	6.5 - 8.5	NS	units	7.3 - 8.0	7.6	2001/02/03	Hydrogen ion concentration. Value greater than 7 is basic (non-acidic).
Turbidity / clarity	5.0	NS	NTU	0.05 - 0.68	0.14	2001/02/03	Soil runoff.

# Mountain Water Company

## 2003/2004 Annual Water Quality Results

Detected Unregulated Chemicals That May Be of Interest to Consumers\*

ADDITIONAL PARAMETERS Unregulated	Federal MCL	MCLG	Units of Measurement	MWC Range (including highest value)	Average for MWC Wells (a)	(b) MWC Date of Last Measurement
Aggressiveness Index ( c )	NS	NS	units	11.5 - 12.4	12	2001/02/03
Alkalinity (as Ca CO <sub>3</sub> )	NS	NS	ppm	137 - 218	169	2001/02/03
Calcium	NS	NS	ppm	38 - 55	46	2001/02/03
Corrosivity (Langlier Index) ( d )	NS	NS	positive/negative	( - 0.3) - (+ 0.60)	+ 0.13	2001/02/03
Hardness (Ca CO <sub>3</sub> )	NS	NS	ppm	136 - 210	167	2001/02/03
Hardness	NS	NS	grains	8 - 12.3	9.8	2001/02/03
Magnesium	NS	NS	ppm	10 - 19	13	2001/02/03
Potassium	NS	NS	ppm	1 - 2	1.7	2001/02/03
Sodium	NS	NS	ppm	5 - 16	6.8	2001/02/03
Specific Conductance	NS	NS	micromho/cm	295 - 466	367	2001/02/03

### KEY TO ABBREVIATIONS AND FOOTNOTES

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#### Action Level (AL):

The concentration of a contaminant which, if exceeded, triggers treatment or other requirements which a water system must follow.

#### Maximum Residual Disinfectant Level (MRDL):

The level of a disinfectant added for water treatment that may not be exceeded at the consumer's tap.

#### Maximum Residual Disinfectant Level Goal (MRDLG):

The level of a disinfectant added for water treatment below which there is no known or expected risk to health.



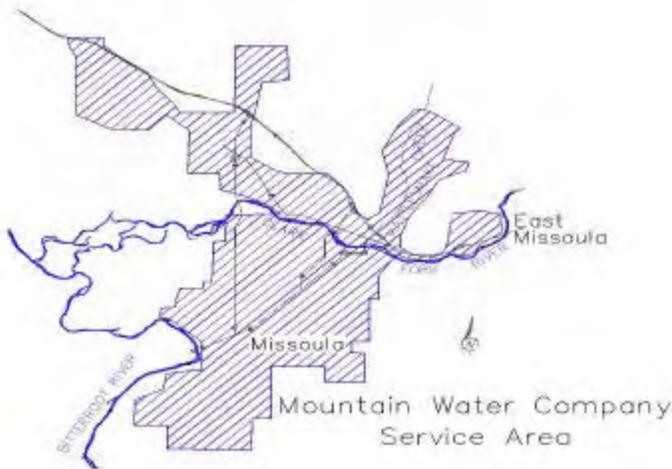
Providing affordable quality water and dependable service to the Missoula community

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## ***Source Water Delineation and Assessment***

In the late 1980's the Missoula aquifer was designated by the EPA as a sole source aquifer. This designation is given to aquifers that are recognized as a primary source of drinking water. In conjunction with this designation MWC initiated a Wellhead Protection Program in the early 1990's. With the help of engineering consultants and local government agencies, a computerized model of the aquifer under Missoula was created. Within this area all historical and existing potential sources of contamination were identified. From this information a management plan was put together to reduce and where possible, eliminate potential contaminants and aid in future placement of wells in the most protected areas. As required by the EPA in 2003, a Source Water Delineation and Assessment report was completed for MWC and submitted to the DEQ and the EPA. We utilized this report as an opportunity to update our Wellhead Protection Program with the latest information and technologies in modeling and mapping with linked databases. This assessment resulted in an updated list of possible contaminant sources to our aquifer, some of those being underground storage tanks, public and private sumps, leaking pipelines, spills along railroad tracks and highways, sewer lift stations and septic systems. This has resulted in a very useful tool for protection of our valuable drinking water supply.

This report is available to the public at the DEQ, the Missoula City/County Health Department and at our office.

***We would like to ask our customers who are responsible for paying the water bill only to please forward this water quality report to the consumer. Additional copies of this report are available at MWC. Thank you.***

# Mountain Water Company

## Consumer Confidence Report

### 2004/2005 Annual Water Quality Report

## WHAT KIND OF CONTAMINANTS MIGHT BE FOUND IN DRINKING WATER?

In 1996, the Safe Drinking Water Act was amended to require all community water systems to deliver a brief annual water quality report to their customers. This year's report includes information on your source water, the levels of any detected contaminants, compliance with drinking water rules, and informational articles relating to our source water assessment and water security.

In order to ensure that tap water is safe to drink, the United States Environmental Protection Agency (EPA) and the Montana Department of Environmental Quality (DEQ) prescribe regulations that limit the amount of certain contaminants in water provided by public water systems. The federal Food and Drug Administration and DEQ regulations also establish limits for contaminants in bottled water, which must provide the same protection for public health. As water travels over the surface of the land or through the ground, it dissolves naturally occurring minerals and, in some cases, radioactive material, and can pick up substances resulting from the presence of animals or from human activity.

Contaminants that may be present in source water include:

- Microbial contaminants, such as viruses and bacteria that may come from sewage treatment plants, septic systems, agricultural livestock operations, and wildlife.
- Inorganic contaminants, such as salts and metals, that can be naturally occurring or result from urban stormwater runoff, industrial or domestic wastewater discharges, oil and gas production, mining, or farming.
- Pesticides and herbicides, which may come from a variety of sources such as agriculture, urban stormwater runoff, and residential uses.
- Organic chemical contaminants, including synthetic and volatile organic chemicals that are by-products of industrial processes and petroleum production, and can also come from gas stations, urban stormwater runoff, and septic systems.
- Radioactive contaminants, that can be naturally occurring or be the result of oil and gas productions and mining activities.

This report describes those contaminants that have been detected in our analysis of 145 different potential contaminants, almost 100 of which are regulated by EPA and the DEQ.

**Mountain Water Company (MWC) is proud to tell you that there have been no contaminants detected in our water that exceed any federal or state drinking water standards.** All primary (health related) and secondary (aesthetic) drinking water standards are being met.

Drinking water, including bottled water, may reasonably be expected to contain at least small amounts of some contaminants. The presence of contaminants does not necessarily indicate that water poses a health risk. More information about contaminants and potential health effects can be obtained by calling the EPA's Safe Drinking Water Hotline (1-800-426-4791).

Some people may be more vulnerable to contaminants in drinking water than the general population. Immuno-compromised persons such as persons with cancer undergoing chemotherapy, persons who have undergone organ transplants, people with HIV/AIDS or other immune system disorders, some elderly, and infants can be particularly at risk from infections. These people should seek advice about drinking water from their health care providers. EPA/Centers for Disease Control guidelines on appropriate means to lessen the risk of infection by *Cryptosporidium* and other microbial contaminants are available from the Safe Drinking Water Hotline (1-800-426-4791).

Because there have been no confirmed findings of synthetic organic chemicals in MWC wells, DEQ has allowed us to reduce the level of monitoring for these chemicals. This waiver has resulted in a significant reduction in monitoring costs. This monitoring waiver is reviewed every three years by DEQ.

This report is intended to provide information for all water users. If received by an absentee landlord, a business, or a school, please share the information with tenants, employees or students. We will be happy to make additional copies of this report available. Complete records of water quality analyses are open for inspection by the public upon request.

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If you would like more information about water quality, please call: Brad Hafar or Arvid Hiller at (406) 721-5570.

# Mountain Water Company

## 2004/2005 Annual Water Quality Results

Water Quality Parameters Detected in Mountain Water Company Sources

<b>PRIMARY STANDARDS</b> -- Health-related	<b>Federal</b> <b>MCL</b>	<b>MCLG</b>	<b>Units</b> <b>of</b> <b>Measurement</b>	<b>MWC Range</b> <b>(including</b> <b>highest value)</b>	<b>Average for</b> <b>MWC</b> <b>Wells (a)</b>	<b>(b) MWC</b> <b>Date of Last</b> <b>Measurement</b>	<b>Potential Sources</b> <b>of</b> <b>Contamination</b>
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### INORGANIC CHEMICALS

Arsenic	50	NS	ppb	ND - 2	1	2002/03/04	Erosion of natural deposits; historical mining and smelting.
Barium	2	2	ppm	0.2 - 0.5	0.25	2002/03/04	Erosion of natural deposits; discharge from metal refineries; discharge from oil drilling wastes.
Cadmium	5	5	ppb	ND - 1	ND	2002/03/04	Internal corrosion of galvanized pipes; erosion of natural deposits; discharge from electroplating and industrial chemical factories, and from metal refineries; runoff from waste batteries and paints.
Fluoride	4	4	ppm	0.1 - 0.19	0.16	2002/03/04	Erosion of natural deposits; discharge from fertilizer factories.
Nitrate	10	10	ppm	0.32 - 3.21	0.81	2004	Erosion of natural deposits; runoff and leaching from fertilizer use; leaching from septic tanks and sewers.

### RADIONUCLIDES

Gross Alpha	15	NS	pCi/L	ND - 2.0	0.39	2002	Erosion of natural deposits.
Radium 226	5	NS	pCi/L	ND - 0.6	ND	2002	Erosion of natural deposits.
Radium 228	5	NS	pCi/L	ND - 3.6	ND	2002	Erosion of natural deposits.

### DISTRIBUTION SYSTEM

#### PRIMARY STANDARDS

Asbestos	7 MFL	7 MFL	fibers	ND - 0.96	NA	2002	Internal corrosion of asbestos-cement water mains; erosion of natural deposits.
Chlorine Residual	MRDL = 4	MRDLG = 4	ppm	0.2 - 0.85	0.37	2004	Added for disinfection purposes.
Total Trihalomethanes (TTHM's)	80	NS	ppb	3.1 - 8.3	5	2004	By-product of drinking water disinfection.
Haloacetic Acids (HAA-5)	60	NS	ppb	0.43 - 2.2	0.69	2004	By-product of drinking water disinfection.

<b>LEAD AND COPPER</b> <b>RULE MONITORING</b>	<b>Federal</b> <b>Action</b>	<b>Number</b> <b>of</b> <b>Samples</b>	<b>Units</b> <b>of</b> <b>Measurement</b>	<b>MWC Range</b> <b>(including</b> <b>highest value)</b>	<b>Amount</b> <b>Detected at</b> <b>90th</b> <b>Percentile*</b>	<b>(b) MWC</b> <b>Date of Last</b> <b>Measurement</b>	<b>Potential Sources</b> <b>of</b> <b>Contamination</b>
Copper	1.3	30	ppm	0.07 - 0.68	0.6	2004	Internal corrosion of household plumbing systems; erosion of natural deposits; leaching from wood preservatives.
Lead	15	30	ppb	ND - 12	8	2004	Internal corrosion of household plumbing systems; discharges from industrial manufacturers; erosion of natural deposits.

<b>SECONDARY STANDARDS</b> -- Aesthetic, non-health standards	<b>Federal</b> <b>MCL</b>	<b>MCLG</b>	<b>Units</b> <b>of</b> <b>Measurement</b>	<b>MWC Range</b> <b>(including</b> <b>highest value)</b>	<b>Average for</b> <b>MWC</b> <b>Wells (a)</b>	<b>(b) MWC</b> <b>Date of Last</b> <b>Measurement</b>	<b>Potential Sources</b> <b>of</b> <b>Contamination</b>
Aluminum	1	NS	ppm	ND - 0.2	ND	2002/03/04	Erosion of natural deposits.
Chloride	250	NS	ppm	3 - 28	7	2002/03/04	Runoff/leaching from natural deposits.
Sulfate	250	NS	ppm	9 - 21	17	2002/03/04	Runoff/leaching from natural deposits; industrial wastes.
Total Dissolved Solids (TDS)	500	NS	ppm	150 - 261	198	2002/03/04	Runoff/leaching from natural deposits.
Zinc	5,000	NS	ppb	ND - 30	ND	2002/03/04	Runoff/leaching from natural deposits; industrial wastes.

### PHYSICAL PARAMETERS

pH	6.5 - 8.5	NS	units	7.2 - 8.0	7.6	2002/03/04	Hydrogen ion concentration. Value greater than 7 is basic (non-acidic).
Turbidity / clarity	5.0	NS	NTU	0.06 - 0.68	0.19	2002/03/04	Soil runoff.

# Mountain Water Company

## 2004/2005 Annual Water Quality Results

Detected Unregulated Chemicals That May Be of Interest to Consumers\*\*

ADDITIONAL PARAMETERS Unregulated	Federal MCL	MCLG	Units of Measurement	MWC Range (including highest value)	Average for MWC Wells (a)	(b) MWC Date of Last Measurement
Aggressiveness Index ( c )	NS	NS	units	11.4 - 12.4	11.9	2002/03/04
Alkalinity (as Ca CO <sub>3</sub> )	NS	NS	ppm	137 - 214	165	2002/03/04
Calcium	NS	NS	ppm	38 - 55	45	2002/03/04
Corrosivity (Langlier Index) ( d )	NS	NS	positive/negative	( - 0.4 ) - ( + 0.50 )	+ 0.08	2002/03/04
Hardness (Ca CO <sub>3</sub> )	NS	NS	ppm	136 - 210	165	2002/03/04
Hardness	NS	NS	grains	8 - 12.3	9.6	2002/03/04
Magnesium	NS	NS	ppm	10 - 19	13	2002/03/04
Potassium	NS	NS	ppm	1 - 2	1.8	2002/03/04
Sodium	NS	NS	ppm	5 - 16	6.6	2002/03/04
Specific Conductance	NS	NS	micromho/cm	295 - 466	364	2002/03/04

### KEY TO ABBREVIATIONS AND FOOTNOTES

AL = Action Level  
MCL = Maximum Contaminant Level  
MFL = Million Fibers per Liter  
NA = Not applicable at this time or not required to analyze  
ND = Not detected  
NS = No standard  
NTU = Nephelometric Turbidity Units. This is a measure of the suspended material in water.

\* = Action levels are measured at the 90th percentile sample (third highest reading out of thirty samples for lead and copper).

\*\* = Unregulated contaminant monitoring helps USEPA determine where certain contaminants occur and whether the contaminants need to be regulated.

ppm = parts per million  
ppb = parts per billion  
pCi/L = picoCuries per liter

- ( a ) = The average is weighted according to the individual contribution in pumping by each well to the total (active wells only).  
( b ) = The state allows us to monitor for some contaminants less than once per year because the concentrations of these contaminants in groundwater sources do not change frequently. Some of our data, though representative, are more than one year old.  
( c ) = An Aggressiveness Index of 11 or greater indicates that the water is not aggressive (noncorrosive).  
( d ) = A positive number Langlier Index indicates that the water is noncorrosive.

### DEFINITIONS

#### Maximum Contaminant Level (MCL):

The highest level of a contaminant that is allowed in drinking water. MCL's are set as close to the MCLG's as feasible using the best available treatment technology.

#### Maximum Contaminant Level Goal (MCLG):

The level of a contaminant in drinking water below which there is no known or expected risk to health. MCLG's allow for a margin of safety.

#### Action Level (AL):

The concentration of a contaminant which, if exceeded, triggers treatment or other requirements which a water system must follow.

#### Maximum Residual Disinfectant Level (MRDL):

The level of a disinfectant added for water treatment that may not be exceeded at the consumer's tap.

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The level of a disinfectant added for water treatment below which there is no known or expected risk to health.



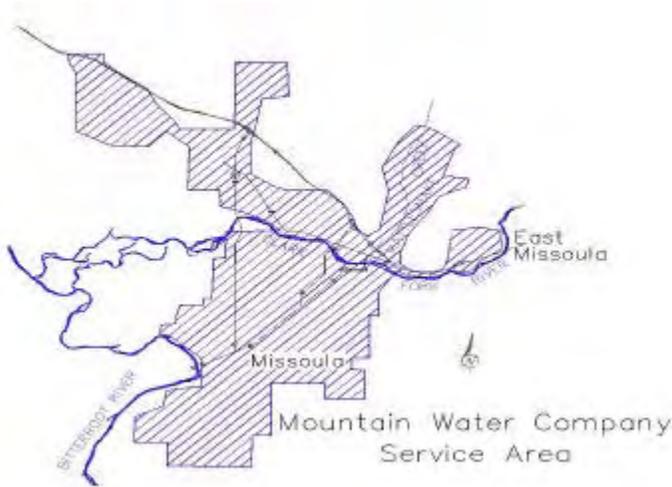
Providing quality water and dependable service to the Missoula community at a reasonable price.

#### Mountain Water Company

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Rattlesnake Creek lies just north of Missoula and, under the guidance of the DEQ, serves as an alternative source available for use in special situations. Rattlesnake Creek is a surface water supply originating in the Rattlesnake Wilderness area and emptying in the Clark Fork River. Strict environmental conditions are maintained in the watershed to preserve the quality of this source.

## ***Source Water Delineation and Assessment***

As required by the EPA in 2003, a Source Water Delineation and Assessment report was completed for MWC and submitted to the DEQ and the EPA. We utilized this report as an opportunity to update our Wellhead Protection Program with the latest information and technologies in modeling and mapping with linked databases. This assessment resulted in an updated list of possible contaminant sources to our aquifer, some of those being underground storage tanks, public and private sumps, leaking pipelines, spills along railroad tracks and highways, sewer lift stations and septic systems. This has resulted in a very useful tool for protection of our valuable drinking water supply. This report is available to the public at the DEQ, the Missoula City/County Health Department and at our office.

## ***Water Security and You***

Water utilities may be targets for terrorists and other would-be criminals wishing to disrupt and cause harm to community water supplies. Residents can help by reporting any suspicious activity in and around local water utilities. Examples of suspicious activity might include:

- People dumping or discharging material in a water reservoir;
- People climbing or cutting a utility fence;
- An unidentified vehicle parked near facilities for no apparent reason;
- A suspicious opening or tampering with manhole covers, buildings or equipment;
- People climbing up or on top of water tanks;
- People photographing or videotaping utility facilities, structures or equipment, or
- Strangers hanging around locks or gates.

Please do not confront strangers. Instead, report suspicious activities to local authorities. For more information on water security, visit: [www.epa.gov/safewater/security](http://www.epa.gov/safewater/security).

# Mountain Water Company

## Consumer Confidence Report

### 2005/2006 Annual Water Quality Report

## WHAT KIND OF CONTAMINANTS MIGHT BE FOUND IN DRINKING WATER?

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# Mountain Water Company

## 2005/2006 Annual Water Quality Results

Water Quality Parameters Detected in Mountain Water Company Sources

<b>PRIMARY STANDARDS</b> -- Health-related	Federal MCL	MCLG	Units of Measurement	MWC Range (including highest value)	Average for MWC Wells (a)	(b) MWC Date of Last Measurement	Potential Sources of Contamination
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### INORGANIC CHEMICALS

Arsenic	50 (10*)	NS	ppb	ND - 2	1	2003/04/05	Erosion of natural deposits; historical mining and smelting.
Barium	2	2	ppm	0.2 - 0.5	0.25	2003/04/05	Erosion of natural deposits; discharge from metal refineries; discharge from oil drilling wastes.
Cadmium	5	5	ppb	ND - 1	ND	2003/04/05	Internal corrosion of galvanized pipes; erosion of natural deposits; discharge from electroplating and industrial chemical factories, and from metal refineries; runoff from waste batteries and paints.
Fluoride	4	4	ppm	0.1 - 0.22	0.17	2003/04/05	Erosion of natural deposits; discharge from fertilizer factories.
Nitrate	10	10	ppm	0.36 - 2.83	0.76	2005	Erosion of natural deposits; runoff and leaching from fertilizer use; leaching from septic tanks and sewers.

### RADIONUCLIDES

Gross Alpha	15	0	pCi/L	ND - 2.0	ND	2002	Erosion of natural deposits.
Combined Radium (Radium 226 + Radium 228)	5	0	pCi/L	ND - 3.6	ND	2002	Erosion of natural deposits.

### DISTRIBUTION SYSTEM

#### PRIMARY STANDARDS

Asbestos	7 MFL	7 MFL	fibers	ND - 0.96	NA	2002	Internal corrosion of asbestos-cement water mains; erosion of natural deposits.
Chlorine Residual	MRDL = 4	MRDLG = 4	ppm	0.13 - 0.83	0.39	2005	Added for disinfection purposes.
Total Coliform Bacteria	5% positive	0	% present	0-1.5%	<1%	2005	Naturally present in the environment.
Total Trihalomethanes (TTHM's)	80	NS	ppb	ND - 5.8	2.5	2005	By-product of drinking water disinfection.
Haloacetic Acids (HAA-5)	60	NS	ppb	0.29 - 0.61	0.43	2005	By-product of drinking water disinfection.

<b>LEAD AND COPPER</b> RULE MONITORING	Federal Action	Number of Samples	Units of Measurement	MWC Range (including highest value)	Amount Detected at 90th Percentile**	(b) MWC Date of Last Measurement	Potential Sources of Contamination
Copper	1.3	30	ppm	0.07 - 0.68	0.6	2004	Internal corrosion of household plumbing systems; erosion of natural deposits; leaching from wood preservatives.
Lead	15	30	ppb	ND - 12	8	2004	Internal corrosion of household plumbing systems; discharges from industrial manufacturers; erosion of natural deposits.

<b>SECONDARY STANDARDS</b> -- Aesthetic, non-health standards <b>CHEMICAL PARAMETERS</b>	Federal MCL	MCLG	Units of Measurement	MWC Range (including highest value)	Average for MWC Wells (a)	(b) MWC Date of Last Measurement	Potential Sources of Contamination
Aluminum	1	NS	ppm	ND - 0.1	ND	2003/04/05	Erosion of natural deposits.
Chloride	250	NS	ppm	3 - 28	8	2003/04/05	Runoff/leaching from natural deposits.
Iron	300	NS	ppb	ND - 30	ND	2003/04/05	Leaching from natural deposits; industrial waste.
Sulfate	250	NS	ppm	9 - 21	16	2003/04/05	Runoff/leaching from natural deposits; industrial wastes.
Total Dissolved Solids (TDS)	500	NS	ppm	150 - 261	202	2003/04/05	Runoff/leaching from natural deposits.
Zinc	5,000	NS	ppb	ND - 30	ND	2003/04/05	Runoff/leaching from natural deposits; industrial wastes.

### PHYSICAL PARAMETERS

pH	6.5 - 8.5	NS	units	7.2 - 7.9	7.6	2003/04/05	Hydrogen ion concentration. Value greater than 7 is basic (non-acidic).
Turbidity / clarity	5.0	NS	NTU	0.06 - 1.5	0.43	2003/04/05	Soil runoff.

# Mountain Water Company

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Aggressiveness Index (c)	NS	NS	units	11.4 - 12.3	11.9	2003/04/05
Alkalinity (as Ca CO <sub>3</sub> )	NS	NS	ppm	147 - 214	167	2003/04/05
Calcium	NS	NS	ppm	40 - 56	46	2003/04/05
Corrosivity (Langlier Index) (d)	NS	NS	positive/negative	(- 0.4) - (+ 0.4)	+ 0.07	2003/04/05
Hardness (Ca CO <sub>3</sub> )	NS	NS	ppm	146 - 211	169	2003/04/05
Hardness	NS	NS	grains	8.5 - 12.3	9.9	2003/04/05
Magnesium	NS	NS	ppm	11 - 19	13	2003/04/05
Potassium	NS	NS	ppm	1 - 2	1.8	2003/04/05
Sodium	NS	NS	ppm	5 - 18	6.9	2003/04/05
Specific Conductance	NS	NS	micromho/cm	315 - 467	367	2003/04/05

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## Milltown Dam

The Consent Decree, an agreement detailing which parties pay for and perform the Milltown Reservoir cleanup and restoration, is now final after being signed by Federal Judge, Samuel Haddon. The cleanup project is expected to address arsenic contamination that has polluted Milltown's drinking water supply and has threatened the local fishery. This project will be engineered and designed in phases and implemented under both State and EPA approval, with an estimated dam removal date of early 2008.

MWC has been extensively involved in review of the Milltown project from the beginning and repeated comments have been submitted to all stakeholders regarding our concerns. Our primary concern is to ensure that the implementation of any remedy does not adversely affect the quality of the Missoula aquifer. On January 23, 2006 the EPA lowered the maximum contaminant level for arsenic in public water supplies from 50 ppb to 10 ppb. MWC has also urged EPA and responsible parties to include additional monitoring wells for early detection of possible contamination to the Missoula aquifer. We will continue to stay actively involved in the monitoring of Missoula's drinking water supply and may elect to expand our monitoring program if necessary as the cleanup and restoration progresses.

For additional information about the Milltown Reservoir/Clark Fork River Superfund Site, please visit EPA's website at <http://www.epa.gov/region8/sf/sites/mt/milltowncfr/home.html>.



# Mountain Water Company

## Consumer Confidence Report

### 2006/2007 Annual Water Quality Report

## WHAT KIND OF CONTAMINANTS MIGHT BE FOUND IN DRINKING WATER?

In 1996, the Safe Drinking Water Act was amended to require all community water systems to deliver an annual water quality report to their customers. This year's report includes information on your source water, the levels of any detected contaminants, compliance with drinking water rules, and informational articles relating to our source water assessment and the Missoula Aquifer Study.

In order to ensure that tap water is safe to drink, the United States Environmental Protection Agency (EPA) and the Montana Department of Environmental Quality (DEQ) prescribe regulations that limit the amount of certain contaminants in water provided by public water systems. The federal Food and Drug Administration and DEQ regulations also establish limits for contaminants in bottled water, which must provide the same protection for public health. As water travels over the surface of the land or through the ground, it dissolves naturally occurring minerals and, in some cases, radioactive material, and can pick up substances resulting from the presence of animals or from human activity.

Contaminants that may be present in source water include:

- Microbial contaminants, such as viruses and bacteria that may come from sewage treatment plants, septic systems, agricultural livestock operations, and wildlife.
- Inorganic contaminants, such as salts and metals, that can be naturally occurring or result from urban storm water runoff, industrial or domestic wastewater discharges, oil and gas production, mining, or farming.
- Pesticides and herbicides, which may come from a variety of sources such as agriculture, urban storm water runoff, and residential uses.
- Organic chemical contaminants, including synthetic and volatile organic chemicals that are by-products of industrial processes and petroleum production, and can also come from gas stations, urban storm water runoff, and septic systems.
- Radioactive contaminants, that can be naturally occurring or be the result of oil and gas productions and mining activities.

This report describes those contaminants that have been detected in our analysis of nearly 100 potential contaminants which are regulated by the EPA and the DEQ.

**Mountain Water Company (MWC) is proud to tell you that there have been no contaminants detected in our water that exceed any federal or state drinking water standards.** All primary (health related) and secondary (aesthetic) drinking water standards are being met.

Drinking water, including bottled water, may reasonably be expected to contain at least small amounts of some contaminants. The presence of contaminants does not necessarily indicate that water poses a health risk. More information about contaminants and potential health effects can be obtained by calling the EPA's Safe Drinking Water Hotline (1-800-426-4791).

Some people may be more vulnerable to contaminants in drinking water than the general population. Immunocompromised persons such as persons with cancer undergoing chemotherapy, persons who have undergone organ transplants, people with HIV/AIDS or other immune system disorders, some elderly, and infants can be particularly at risk from infections. These people should seek advice about drinking water from their health care providers. EPA/Centers for Disease Control guidelines on appropriate means to lessen the risk of infection by *Cryptosporidium* and other microbial contaminants are available from the Safe Drinking Water Hotline (1-800-426-4791).

Because there have been no confirmed findings of synthetic organic chemicals (pesticides and herbicides) in MWC wells, DEQ has allowed us to reduce the level of monitoring for these chemicals. This waiver has resulted in a significant reduction in monitoring costs. This monitoring waiver is reviewed every three years by DEQ.

This report is intended to provide information for all water users. If received by an absentee landlord, a business, or a school, please share the information with tenants, employees or students. We will be happy to make additional copies of this report available. Complete records of water quality analyses are open for inspection by the public upon request.

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# Mountain Water Company

## 2006/2007 Annual Water Quality Results

### Water Quality Parameters Detected in Mountain Water Company Sources

PRIMARY STANDARDS -- Health-related	Federal MCL	MCLG	Units of Measurement	MWC Range (including highest value)	Average for MWC Wells (a)	Date of Last Measurement MWC (b)	Potential Sources of Contamination
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#### INORGANIC CHEMICALS

Arsenic	10	0	ppb	ND-3	1	2004/05/06	Erosion of natural deposits; historical mining and smelting.
Barium	2	2	ppm	0.2 - 0.5	0.24	2004/05/06	Erosion of natural deposits; discharge from metal refineries; discharge from oil drilling wastes.
Cadmium	5	5	ppb	ND - 1	ND	2004/05/06	Internal corrosion of galvanized pipes; erosion of natural deposits; discharge from electroplating and industrial chemical factories, and from metal refineries; runoff from waste batteries and paints.
Fluoride	4	4	ppm	0.11-0.22	0.18	2004/05/06	Erosion of natural deposits; discharge from fertilizer factories.
Nitrate	10	10	ppm	0.39-2.76	0.97	2006	Erosion of natural deposits; runoff and leaching from fertilizer use; leaching from septic tanks and sewers.

#### RADIONUCLIDES

Gross Alpha	15	0	pCi/L	ND - 2.0	ND	2002	Erosion of natural deposits.
Combined Radium (Radium 226 + Radium 228)	5	0	pCi/L	ND - 3.6	ND	2002	Erosion of natural deposits.

LEAD AND COPPER RULE MONITORING	Federal Action	Number of Samples	Units of Measurement	MWC Range (including highest value)	Amount Detected at 90th Percentile*	Date of Last Measurement MWC (b)	Potential Sources of Contamination
Copper	1.3	30	ppm	0.07 - 0.68	0.6	2004	Internal corrosion of household plumbing systems; erosion of natural deposits; leaching from wood preservatives.
Lead	15	30	ppb	ND - 12	8	2004	Internal corrosion of household plumbing systems; discharges from industrial manufacturers; erosion of natural deposits.

DISTRIBUTION SYSTEM							Potential Sources of Contamination
Asbestos	7 MFL	7 MFL	fibers	ND - 0.96	NA	2002	Internal corrosion of asbestos-cement water mains; erosion of natural deposits.
Chlorine Residual	MRDL = 4	MRDLG = 4	ppm	0.17-0.7	0.37	2006	Added for disinfection purposes.
Total Trihalomethanes (TTHM's)	80	NS	ppb	ND - 6.1	2.4	2006	By-product of drinking water disinfection.
Haloacetic Acids (HAA-5)	60	NS	ppb	0-0.72	0.28	2006	By-product of drinking water disinfection.

SECONDARY STANDARDS --Aesthetic, non-health standards	Federal MCL	MCLG	Units of Measurement	MWC Range (including highest value)	Average for MWC Wells (a)	Date of Last Measurement MWC (b)	Potential Sources of Contamination
Aluminum	1	NS	ppm	ND - 0.1	ND	2004/05/06	Erosion of natural deposits.
Chloride	250	NS	ppm	4 - 28	8	2004/05/06	Runoff/leaching from natural deposits.
Iron	300	NS	ppb	ND - 30	ND	2004/05/06	Leaching from natural deposits; industrial waste.
Sulfate	250	NS	ppm	9 - 21	17	2004/05/06	Runoff/leaching from natural deposits; industrial wastes.
Total Dissolved Solids (TDS)	500	NS	ppm	161-261	208	2004/05/06	Runoff/leaching from natural deposits.
Zinc	5,000	NS	ppb	ND - 20	ND	2004/05/06	Runoff/leaching from natural deposits; industrial wastes.

#### PHYSICAL PARAMETERS

pH	6.5 - 8.5	NS	units	7.2 - 7.9	7.7	2004/05/06	Hydrogen ion concentration. Value greater than 7 is basic (non-acidic).
Turbidity / clarity	5.0	NS	NTU	0.06 - 1.5	0.41	2004/05/06	Soil runoff.

# Mountain Water Company

## 2006/2007 Annual Water Quality Results

Detected Unregulated Chemicals That May Be of Interest to Consumers\*\*

ADDITIONAL PARAMETERS Unregulated	Federal MCL	MCLG	Units of Measurement	MWC Range (including highest value)	Average for MWC Wells (a)	MWC Date of Last Measurement (b)
Aggressiveness Index ( c )	NS	NS	units	11.4 - 12.3	12.0	2004/05/06
Alkalinity (as Ca CO <sub>3</sub> )	NS	NS	ppm	143-214	164	2004/05/06
Calcium	NS	NS	ppm	41-56	48	2004/05/06
Corrosivity (Langlier Index) ( d )	NS	NS	positive/negative	( - 0.4 ) - ( + 0.4 )	+ .16	2004/05/06
Hardness (Ca CO <sub>3</sub> )	NS	NS	ppm	150-211	175	2004/05/06
Hardness	NS	NS	grains	8.8-12.3	10.2	2004/05/06
Magnesium	NS	NS	ppm	11-21	13	2004/05/06
Potassium	NS	NS	ppm	1 - 2	2.0	2004/05/06
Sodium	NS	NS	ppm	5 - 18	6.9	2004/05/06
Specific Conductance	NS	NS	micromho/cm	315 - 467	362	2004/05/06

### KEY TO ABBREVIATIONS AND FOOTNOTES

AL = Action Level

MCL = Maximum Contaminant Level

MFL = Million Fibers per Liter

NA = Not applicable at this time or not required to analyze

ND = Not detected

NS = No standard

NTU = Nephelometric Turbidity Units. This is a measure of the suspended material in water.

\* = Action Levels are measured at the 90th percentile sample (third highest reading out of thirty samples for lead and copper).

\*\* = Unregulated contaminant monitoring helps USEPA determine where certain contaminants occur and whether the contaminants need to be regulated.

ppm = parts per million

ppb = parts per billion

pCi/L = picoCuries per liter

( a ) = The average is weighted according to the individual contribution in pumping by each well to the total (active wells only).

( b ) = The state allows us to monitor for some contaminants less than once per year because the concentrations of these contaminants in groundwater sources do not change frequently. Some of our data, though representative, are more than one year old.

( c ) = An Aggressiveness Index of 11 or greater indicates that the water is not aggressive (noncorrosive).

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### DEFINITIONS

#### Maximum Contaminant Level (MCL):

The highest level of a contaminant that is allowed in drinking water. MCL's are set as close to the MCLG's as feasible using the best available treatment technology.

#### Maximum Contaminant Level Goal (MCLG):

The level of a contaminant in drinking water below which there is no known or expected risk to health. MCLG's allow for a margin of safety.

#### Action Level (AL):

The concentration of a contaminant which, if exceeded, triggers treatment or other requirements which a water system must follow.

#### Maximum Residual Disinfectant Level (MRDL):

The level of a disinfectant added for water treatment that may not be exceeded at the consumer's tap.

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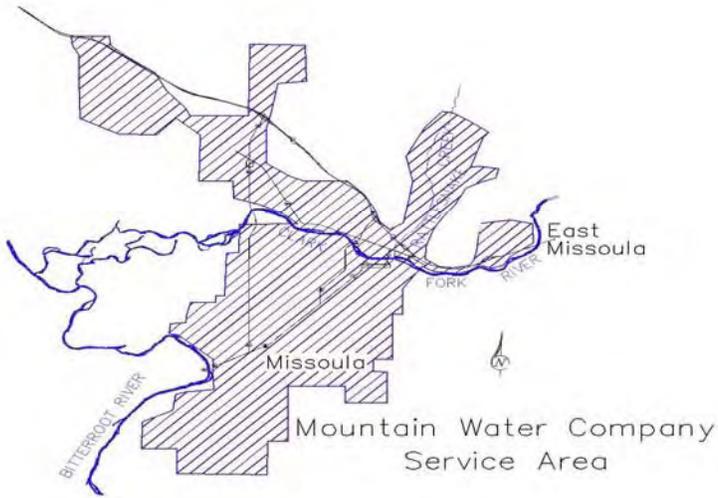
Providing quality water and dependable service to the Missoula community at a reasonable price.

#### Mountain Water Company

P.O. Box 4826  
1345 West Broadway  
Missoula, MT 59806-4826

(406) 721-5570  
www.mtnwater.com

# WHERE DOES YOUR WATER COME FROM?



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Rattlesnake Creek lies just north of Missoula and, under the guidance of the DEQ, serves as an alternative source available for use in special situations. Rattlesnake Creek is a surface water supply originating in the Rattlesnake Wilderness area and emptying in the Clark Fork River. Strict environmental conditions are maintained in the watershed to preserve the quality of this source.

## Source Water Delineation and Assessment

As required by the EPA in 2003, a Source Water Delineation and Assessment report was completed for MWC and submitted to the DEQ and the EPA. We utilized this report as an opportunity to update our Wellhead Protection Program with the latest information and technologies in modeling and mapping with linked databases. This assessment resulted in an updated list of possible contaminant sources to our aquifer, some of those being underground storage tanks, public and private sumps, leaking pipelines, spills along railroad tracks and highways, sewer lift stations and septic systems. This has resulted in a very useful tool for protection of our valuable drinking water supply. This report is available to the public at the DEQ, the Missoula City/County Health Department and at our office.

## The Missoula Aquifer Subject of UM Study

The Missoula Aquifer has been designated a Sole Source Aquifer by the Environmental Protection Agency (EPA). Urban storm water channeled through Class V injection wells for disposal has been identified as a significant threat to the water quality of the underlying unconfined aquifer.

Mountain Water Company has teamed with the American Water Works Research Foundation and the University of Montana to sponsor a project titled "Quantifying the Capacity of Coarse-Grained Vadose Zones to Treat Class V Well Injected Storm Water that Recharges Aquifers Managed for Water Supply". This study will be conducted by Dr. William Woessner and James E. Swierc Ph.D. Candidate at the University of Montana and will document and quantify the pathways and rates of migration of storm water through the vadose zone. The monitoring will focus on metals and selected EPA priority contaminants at six sites. Results of the study will be used to support Source Water Protection Planning programs and to estimate the long term attenuation/treatment capacity of coarse grained vadose zones.





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## Consumer Confidence Report

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In order to ensure that tap water is safe to drink, the United States Environmental Protection Agency (EPA) and the Montana Department of Environmental Quality (DEQ) prescribe regulations that limit the amount of certain contaminants in water provided by public water systems. The federal Food and Drug Administration and DEQ regulations also establish limits for contaminants in bottled water, which must provide the same protection for public health. As water travels over the surface of the land or through the ground, it dissolves naturally occurring minerals and, in some cases, radioactive material, and can pick up substances resulting from the presence of animals or from human activity.

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Fluoride	4	4	ppm	<0.1-0.22	0.16	2005/06/07	Erosion of natural deposits; discharge from fertilizer factories.
Nitrate	10	10	ppm	0.39-2.56	0.76	2007	Erosion of natural deposits; runoff and leaching from fertilizer use; leaching from septic tanks and sewers.

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Copper	1.3	30	ppm	0.05-0.58	0.31	2007	Internal corrosion of household plumbing systems; erosion of natural deposits; leaching from wood preservatives.
Lead	15	30	ppb	ND-5	4	2007	Internal corrosion of household plumbing systems; discharges from industrial manufacturers; erosion of natural deposits.

DISTRIBUTION SYSTEM							Potential Sources of Contamination
Chlorine Residual	MRDL = 4	MRDLG = 4	ppm	0.18-0.74	0.37	2007	Added for disinfection purposes.
Total Coliform Bacteria	5% Positive	0	%present	0-1.5 %	<1%	2007	Naturally present in the environment
Total Trihalomethanes (TTHM's)	80	NS	ppb	1.0-4.6	3	2007	By-product of drinking water disinfection.
Haloacetic Acids (HAA-5)	60	NS	ppb	ND-0.82	ND	2007	By-product of drinking water disinfection.

SECONDARY STANDARDS --Aesthetic, non-health standards CHEMICAL PARAMETERS	Federal MCL	MCLG	Units of Measurement	MWC Range (including highest value)	Average for MWC Wells (a)	Date of Last Measurement MWC (b)	Potential Sources of Contamination
Chloride	250	NS	ppm	4-18	8	2005/06/07	Runoff/leaching from natural deposits.
Iron	300	NS	ppb	ND - 30	ND	2005/06/07	Leaching from natural deposits; industrial waste.
Sulfate	250	NS	ppm	<1-19	16	2005/06/07	Runoff/leaching from natural deposits; industrial wastes.
Total Dissolved Solids (TDS)	500	NS	ppm	161-274	204	2005/06/07	Runoff/leaching from natural deposits.
Zinc	5,000	NS	ppb	ND-20	ND	2005/06/07	Runoff/leaching from natural deposits; industrial wastes.

### PHYSICAL PARAMETERS

pH	6.5 - 8.5	NS	units	7.2 - 7.9	7.6	2005/06/07	Hydrogen ion concentration. Value greater than 7 is basic (non-acidic).
Turbidity / clarity	5.0	NS	NTU	0.01-1.5	0.40	2005/06/07	Soil runoff.

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Alkalinity (as Ca CO <sub>3</sub> )	NS	NS	ppm	143-208	159	2005/06/07
Calcium	NS	NS	ppm	40-57	48	2005/06/07
Corrosivity (Langlier Index) ( d )	NS	NS	positive/negative	( - 0.4 ) - ( + 0.4 )	+0.17	2005/06/07
Hardness (Ca CO <sub>3</sub> )	NS	NS	ppm	150-221	176	2005/06/07
Hardness	NS	NS	grains	8.8-12.9	10.3	2005/06/07
Magnesium	NS	NS	ppm	11-21	13	2005/06/07
Potassium	NS	NS	ppm	1-3	2.0	2005/06/07
Sodium	NS	NS	ppm	5-17	7.2	2005/06/07
Specific Conductance	NS	NS	micromho/cm	315-491	366	2005/06/07

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MOUNTAIN WATER COMPANY

Providing quality water and dependable service to the Missoula community at a reasonable price.

#### Mountain Water Company

P.O. Box 4826

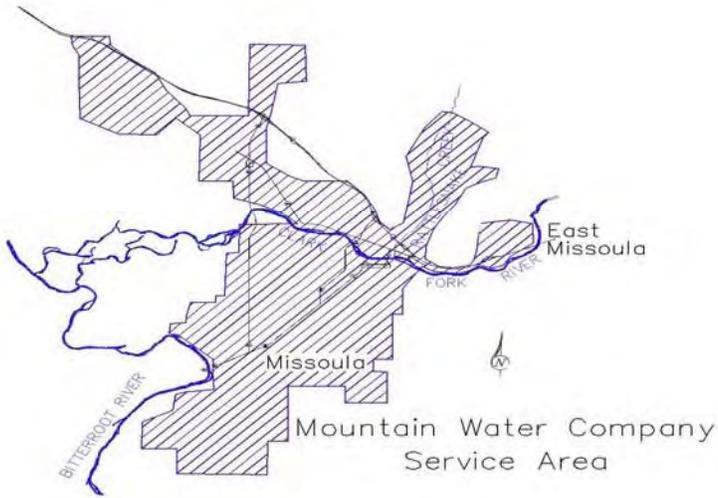
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## Pharmaceuticals in Missoula's Water?

Aware of the recent national attention regarding the issue of pharmaceuticals found in drinking water, MWC would like to address the subject for our consumers. In 2001 and 2004, a small number of water samples were taken of MWC water testing for several pharmaceutical compounds. The results of those tests showed that there were no detectable levels of pharmaceuticals in the MWC supply at that time.

To date, the national scientific community has not determined how pharmaceuticals found in water supplies may affect the average consumer. However, water safety for our customers and protection of the Missoula Aquifer are always top priorities for MWC, and in that spirit, we support ongoing local studies in this area. Please know that we are confident that this issue is being addressed not only nationally, but on a local level. As more information becomes available, we will be sure to communicate with the Missoula community.





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## 2008/2009 Annual Water Quality Results

Water Quality Parameters Detected in Mountain Water Company Sources

PRIMARY STANDARDS -- Health-related	Federal MCL	MCLG	Units of Measurement	MWC Range (including highest value)	Average for MWC Wells (a)	Date of Last Measurement MWC (b)	Potential Sources of Contamination
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### INORGANIC CHEMICALS

Arsenic	10	0	ppb	ND-2	ND	2006/07/08	Erosion of natural deposits; historical mining and smelting.
Barium	2	2	ppm	0.2 - 0.5	0.24	2006/07/08	Erosion of natural deposits; discharge from metal refineries; discharge from oil drilling wastes.
Fluoride	4	4	ppm	<0.1-0.2	0.17	2006/07/08	Erosion of natural deposits; discharge from fertilizer factories.
Nitrate	10	10	ppm	0.48 - 3.68	0.85	2008	Erosion of natural deposits; runoff and leaching from fertilizer use; leaching from septic tanks and sewers.

### RADIONUCLIDES

Gross Alpha	15	0	pCi/L	ND - 2.0	ND	2007	Erosion of natural deposits.
Combined Radium (Radium 226 + Radium 228)	5	0	pCi/L	ND - 3.6	ND	2007	Erosion of natural deposits.

LEAD AND COPPER RULE MONITORING	Federal Action Level	Number of Samples	Units of Measurement	MWC Range (including highest value)	Amount Detected at 90th Percentile*	Date of Last Measurement MWC	Potential Sources of Contamination
Copper	1.3	30	ppm	0.05-0.58	0.31	2007	Internal corrosion of household plumbing systems; erosion of natural deposits; leaching from wood preservatives.
Lead	15	30	ppb	ND-5	4	2007	Internal corrosion of household plumbing systems; discharges from industrial manufacturers; erosion of natural deposits.

DISTRIBUTION SYSTEM PRIMARY STANDARDS	Federal MCL	MCLG	Units of Measurement	MWC Range (including highest value)	Average for MWC Wells (a)	Date of Last Measurement MWC (b)	Potential Sources of Contamination
Chlorine Residual	MRDL = 4	MRDLG = 4	ppm	0.17 - 2.15	0.46	2008	Added for disinfection purposes.
Total Coliform Bacteria	5% Postive	0	%present	0%	<1%	2008	Naturally present in the environment
Total Trihalomethanes (TTHM's)	80	NS	ppb	0.06 - 4.7	2.8	2008	By-product of drinking water disinfection.
Haloacetic Acids (HAA-5)	60	NS	ppb	ND - 1.1	ND	2008	By-product of drinking water disinfection.

SECONDARY STANDARDS --Aesthetic, non-health standards CHEMICAL PARAMETERS	Federal MCL	MCLG	Units of Measurement	MWC Range (including highest value)	Average for MWC Wells (a)	Date of Last Measurement MWC (b)	Potential Sources of Contamination
Chloride	250	NS	ppm	4-18	8	2006/07/08	Runoff/leaching from natural deposits.
Iron	300	NS	ppb	ND - 40	ND	2006/07/08	Leaching from natural deposits; industrial waste.
Sulfate	250	NS	ppm	ND - 21	16	2006/07/08	Runoff/leaching from natural deposits; industrial wastes.
Total Dissolved Solids (TDS)	500	NS	ppm	129 - 274	203	2006/07/08	Runoff/leaching from natural deposits.
Zinc	5,000	NS	ppb	ND-20	ND	2006/07/08	Runoff/leaching from natural deposits; industrial wastes.

### PHYSICAL PARAMETERS

pH	6.5 - 8.5	NS	units	7.2 - 7.9	7.6	2006/07/08	Hydrogen ion concentration. Value greater than 7 is basic (non-acidic).
Turbidity / clarity	5.0	NS	NTU	ND - 1.6	0.34	2006/07/08	Soil runoff.

# Mountain Water Company

## 2008/2009 Annual Water Quality Results

Detected Unregulated Chemicals That May Be of Interest to Consumers\*\*

ADDITIONAL PARAMETERS Unregulated	Federal MCL	MCLG	Units of Measurement	MWC Range (including highest value)	Average for MWC Wells (a)	MWC Date of Last Measurement (b)
Aggressiveness Index ( c )	NS	NS	units	11.4 - 12.3	11.9	2006/07/08
Alkalinity (as Ca CO <sub>3</sub> )	NS	NS	ppm	101 - 203	156	2006/07/08
Calcium	NS	NS	ppm	32 - 61	49	2006/07/08
Corrosivity (Langlier Index) ( d )	NS	NS	positive/negative	( - 0.4 ) - ( + 0.5 )	+0.12	2006/07/08
Hardness (Ca CO <sub>3</sub> )	NS	NS	ppm	114 - 228	180	2006/07/08
Hardness	NS	NS	grains	6.7 - 13.3	10.5	2006/07/08
Magnesium	NS	NS	ppm	9 - 21	14	2006/07/08
Potassium	NS	NS	ppm	ND - 3	2.0	2006/07/08
Sodium	NS	NS	ppm	4 - 17	6.8	2006/07/08
Specific Conductance	NS	NS	micromho/cm	235 - 491	370	2006/07/08

### KEY TO ABBREVIATIONS AND FOOTNOTES

MCL = Maximum Contaminant Level

ND = Not detected

NS = No standard

NTU = Nephelometric Turbidity Units. This is a measure of the suspended material in water.

\* = Action Levels are measured at the 90th percentile sample (third highest reading out of thirty samples for lead and copper).

\*\* = Unregulated contaminant monitoring helps USEPA determine where certain contaminants occur and whether the contaminants need to be regulated.

ppm = parts per million

ppb = parts per billion

pCi/L=picoCuries per liter

( a ) = The average is weighted according to the individual contribution in pumping by each well to the total (active wells only).

( b ) = The state allows us to monitor for some contaminants less than once per year because the concentrations of these contaminants in groundwater sources do not change frequently. Some of our data, though representative, are more than one year old.

( c ) = An Aggressiveness Index of 11 or greater indicates that the water is not aggressive (noncorrosive).

( d ) = A positive number Langlier Index indicates that the water is noncorrosive.

### DEFINITIONS

#### Maximum Contaminant Level (MCL):

The highest level of a contaminant that is allowed in drinking water. MCL's are set as close to the MCLG's as feasible using the best available treatment technology.

#### Maximum Contaminant Level Goal (MCLG):

The level of a contaminant in drinking water below which there is no known or expected risk to health. MCLG's allow for a margin of safety.

#### Action Level (AL):

The concentration of a contaminant which, if exceeded, triggers treatment or other requirements which a water system must follow.

#### Maximum Residual Disinfectant Level (MRDL):

The level of a disinfectant added for water treatment that may not be exceeded at the consumer's tap.

#### Maximum Residual Disinfectant Level Goal (MRDLG):

The level of a disinfectant added for water treatment below which there is no known or expected risk to health.



MOUNTAIN WATER COMPANY

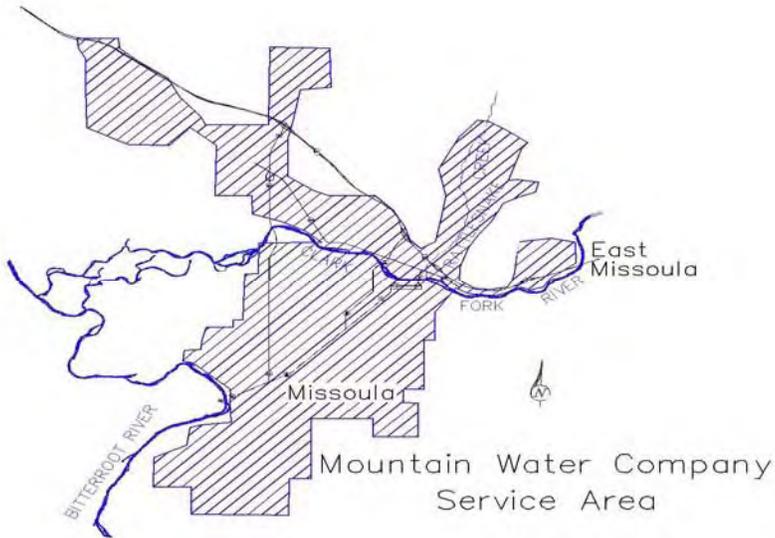
Providing quality water and dependable service to the Missoula community at a reasonable price.

#### Mountain Water Company

P.O. Box 4826  
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# WHERE DOES YOUR WATER COME FROM?



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Rattlesnake Creek lies just north of Missoula and, under the guidance of the DEQ, serves as an alternative source available for use in special situations. Rattlesnake Creek is a surface water supply originating in the Rattlesnake Wilderness area and emptying in the Clark Fork River. Strict environmental conditions are maintained in the watershed to preserve the quality of this source.

## Source Water Delineation and Assessment

As required by the EPA in 2003, a Source Water Delineation and Assessment report was completed for MWC and submitted to the DEQ and the EPA. We utilized this report as an opportunity to update our Wellhead Protection Program with the latest information and technologies in modeling and mapping with linked databases. This assessment resulted in an updated list of possible contaminant sources to our aquifer, some of those being underground storage tanks, public and private sumps, leaking pipelines, spills along railroad tracks and highways, sewer lift stations and septic systems. This has resulted in a very useful tool for protection of our valuable drinking water supply. This report is available to the public at the DEQ, the Missoula City/County Health Department and at our office.

## Lead in Drinking Water

If present, elevated levels of lead can cause serious health problems, especially for pregnant women and young children. Lead in drinking water is primarily from materials and components associated with service lines and home plumbing. Mountain Water Company is responsible for providing high quality drinking water, but cannot control the variety of materials used in plumbing components. When your water has been sitting for several hours, you can minimize the potential for lead exposure by flushing your tap for 30 seconds to 2 minutes before using water for drinking or cooking. If you are concerned about lead in your water, you may wish to have your water tested. Information on lead in drinking water, testing methods, and steps you can take to minimize exposure is available from the Safe Drinking Water Hotline or at <http://www.epa.gov/safewater/lead>.





# Mountain Water Company

## Consumer Confidence Report

### 2009/2010 Annual Water Quality Report

## WHAT KIND OF CONTAMINANTS MIGHT BE FOUND IN DRINKING WATER?

In 1996, the Safe Drinking Water Act was amended to require all community water systems to deliver an annual water quality report to their customers. This year's report includes information on your source water, the levels of any detected contaminants, compliance with drinking water rules, a statement on lead in drinking water, and an article relating to our source water assessment.

In order to ensure that tap water is safe to drink, the United States Environmental Protection Agency (EPA) and the Montana Department of Environmental Quality (DEQ) prescribe regulations that limit the amount of certain contaminants in water provided by public water systems. The federal Food and Drug Administration and DEQ regulations also establish limits for contaminants in bottled water, which must provide the same protection for public health. As water travels over the surface of the land or through the ground, it dissolves naturally occurring minerals and, in some cases, radioactive material, and can pick up substances resulting from the presence of animals or from human activity.

Contaminants that may be present in source water include:

- Microbial contaminants, such as viruses and bacteria that may come from sewage treatment plants, septic systems, agricultural livestock operations, and wildlife.
- Inorganic contaminants, such as salts and metals, that can be naturally occurring or result from urban storm water runoff, industrial or domestic wastewater discharges, oil and gas production, mining, or farming.
- Pesticides and herbicides, which may come from a variety of sources such as agriculture, urban storm water runoff, and residential uses.
- Organic chemical contaminants, including synthetic and volatile organic chemicals that are by-products of industrial processes and petroleum production, and can also come from gas stations, urban storm water runoff, and septic systems.
- Radioactive contaminants, that can be naturally occurring or be the result of oil and gas productions and mining activities.

This report describes those contaminants that have been detected in our analysis of nearly 100 contaminants regulated by the EPA and the DEQ.

**Mountain Water Company (MWC) is proud to tell you that there have been no contaminants detected in our water that exceed any federal or state drinking water standards.** All primary (health related) and secondary (aesthetic) drinking water standards are being met.

Drinking water, including bottled water, may reasonably be expected to contain at least small amounts of some contaminants. The presence of contaminants does not necessarily indicate that water poses a health risk. More information about contaminants and potential health effects can be obtained by calling the EPA's Safe Drinking Water Hotline (1-800-426-4791).

Some people may be more vulnerable to contaminants in drinking water than the general population. Immunocompromised persons such as persons with cancer undergoing chemotherapy, persons who have undergone organ transplants, people with HIV/AIDS or other immune system disorders, some elderly, and infants can be particularly at risk from infections. These people should seek advice about drinking water from their health care providers. EPA/Centers for Disease Control guidelines on appropriate means to lessen the risk of infection by *Cryptosporidium* and other microbial contaminants are available from the Safe Drinking Water Hotline (1-800-426-4791).

Because there have been no confirmed findings of synthetic organic chemicals (pesticides and herbicides) in MWC wells, DEQ has allowed us to reduce the level of monitoring for these chemicals. This waiver has resulted in a significant reduction in monitoring costs. This monitoring waiver is reviewed every three years by DEQ.

This report is intended to provide information for all water users. If received by an absentee landlord, a business, or a school, please share the information with tenants, employees or students. We will be happy to make additional copies of this report available. Complete records of water quality analyses are open for inspection by the public upon request.

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# Mountain Water Company

## 2009/2010 Annual Water Quality Results

Water Quality Parameters Detected in Mountain Water Company Sources

PRIMARY STANDARDS -- Health-related	Federal MCL	MCLG	Units of Measurement	MWC Range (including highest value)	Average for MWC Wells (a)	Date of Last Measurement MWC (b)	Potential Sources of Contamination
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### INORGANIC CHEMICALS

Arsenic	10	0	ppb	ND-2	ND	2007/08/09	Erosion of natural deposits; historical mining and smelting.
Barium	2	2	ppm	0.2 - 0.5	0.23	2007/08/09	Erosion of natural deposits; discharge from metal refineries; discharge from oil drilling wastes.
Fluoride	4	4	ppm	<0.1-0.2	0.16	2007/08/09	Erosion of natural deposits; discharge from fertilizer factories.
Nitrate	10	10	ppm	0.41-2.86	0.83	2009	Erosion of natural deposits; runoff and leaching from fertilizer use; leaching from septic tanks and sewers.

### RADIONUCLIDES

Gross Alpha	15	0	pCi/L	ND - 2.0	ND	* 2002/2007	Erosion of natural deposits.
Combined Radium (Radium 226 + Radium 228)	5	0	pCi/L	ND - 3.6	ND	* 2002/2007	Erosion of natural deposits.

LEAD AND COPPER RULE MONITORING	Federal Action Level	Number of Samples	Units of Measurement	MWC Range (including highest value)	** Amount Detected at 90th Percentile	Date of Last Measurement MWC	Potential Sources of Contamination
Copper	1.3	30	ppm	0.05-0.58	0.31	2007	Internal corrosion of household plumbing systems; erosion of natural deposits; leaching from wood preservatives.
Lead	15	30	ppb	ND-5	4	2007	Internal corrosion of household plumbing systems; discharges from industrial manufacturers; erosion of natural deposits.

DISTRIBUTION SYSTEM PRIMARY STANDARDS	Federal MCL	MCLG	Units of Measurement	MWC Range (including highest value)	Average for MWC Wells (a)	Date of Last Measurement MWC (b)	Potential Sources of Contamination
Chlorine Residual	MRDL = 4	MRDLG = 4	ppm	0.20 - 0.74	0.44	2009	Added for disinfection purposes.
Total Trihalomethanes (TTHM's)	80	NS	ppb	0.86 - 6.3	3.3	2009	By-product of drinking water disinfection.
Haloacetic Acids (HAA-5)	60	NS	ppb	ND - 1.0	ND	2009	By-product of drinking water disinfection.

SECONDARY STANDARDS --Aesthetic, non-health standards CHEMICAL PARAMETERS	Federal MCL	MCLG	Units of Measurement	MWC Range (including highest value)	Average for MWC Wells (a)	Date of Last Measurement MWC (b)	Potential Sources of Contamination
Chloride	250	NS	ppm	3 - 18	7	2007/08/09	Runoff/leaching from natural deposits.
Iron	300	NS	ppb	ND - 40	ND	2007/08/09	Leaching from natural deposits; industrial waste.
Sulfate	250	NS	ppm	ND - 21	14	2007/08/09	Runoff/leaching from natural deposits; industrial wastes.
Total Dissolved Solids (TDS)	500	NS	ppm	129 - 274	197	2007/08/09	Runoff/leaching from natural deposits.
Zinc	5,000	NS	ppb	ND-20	ND	2007/08/09	Runoff/leaching from natural deposits; industrial wastes.

### PHYSICAL PARAMETERS

pH	6.5 - 8.5	NS	units	7.2 - 7.9	7.7	2007/08/09	Hydrogen ion concentration. Value greater than 7 is basic (non-acidic).
Turbidity / clarity	5.0	NS	NTU	ND - 1.6	0.33	2007/08/09	Soil runoff.

# Mountain Water Company

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Specific Conductance	NS	NS	micromho/cm	235 - 491	351	2007/08/09

### KEY TO ABBREVIATIONS AND FOOTNOTES

MCL = Maximum Contaminant Level

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MOUNTAIN WATER COMPANY

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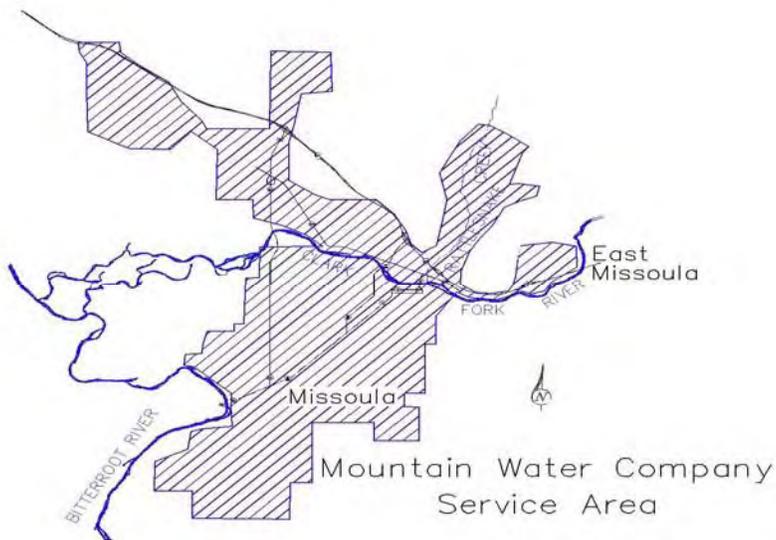
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# Mountain Water Company

## Consumer Confidence Report

### 2010/2011 Annual Water Quality Report

MOUNTAIN WATER COMPANY

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#### INORGANIC CHEMICALS

Arsenic	10	0	ppb	ND-3	ND	2008/09/10	Erosion of natural deposits; historical mining and smelting.
Barium	2	2	ppm	0.2 - 0.5	0.22	2008/09/10	Erosion of natural deposits; discharge from metal refineries; discharge from oil drilling wastes.
Fluoride	4	4	ppm	<0.1-0.2	0.17	2008/09/10	Erosion of natural deposits; discharge from fertilizer factories.
Nitrate	10	10	ppm	0.37 - 2.86	0.70	2010	Erosion of natural deposits; runoff and leaching from fertilizer use; leaching from septic tanks and sewers.

LEAD AND COPPER RULE MONITORING	Federal Action Level	Number of Samples	Units of Measurement	MWC Range (including highest value)	* Amount Detected at 90th Percentile	Date of Last Measurement MWC	Potential Sources of Contamination
Copper	1.3	30	ppm	0.03 - 0.61	0.36	2010	Internal corrosion of household plumbing systems; erosion of natural deposits; leaching from wood preservatives.
Lead	15	30	ppb	ND-4	3	2010	Internal corrosion of household plumbing systems; discharges from industrial manufacturers; erosion of natural deposits.

DISTRIBUTION SYSTEM PRIMARY STANDARDS	Federal MCL	MCLG	Units of Measurement	MWC Range (including highest value)	Average for MWC Wells (a)	Date of Last Measurement MWC (b)	Potential Sources of Contamination
Chlorine Residual	MRDL = 4	MRDLG = 4	ppm	0.21 - 0.69	0.41	2010	Added for disinfection purposes.
Total Trihalomethanes (TTHM's)	80	NS	ppb	1.6 - 8.5	4	2010	By-product of drinking water disinfection.
Haloacetic Acids (HAA-5)	60	NS	ppb	0.31 - 2.7	0.85	2010	By-product of drinking water disinfection.

SECONDARY STANDARDS --Aesthetic, non-health standards CHEMICAL PARAMETERS	Federal MCL	MCLG	Units of Measurement	MWC Range (including highest value)	Average for MWC Wells (a)	Date of Last Measurement MWC (b)	Potential Sources of Contamination
Chloride	250	NS	ppm	3 - 23	7	2008/09/10	Runoff/leaching from natural deposits.
Sulfate	250	NS	ppm	4 - 21	15	2008/09/10	Runoff/leaching from natural deposits; industrial wastes.
Total Dissolved Solids (TDS)	500	NS	ppm	139 - 268	195	2008/09/10	Runoff/leaching from natural deposits.
Zinc	5,000	NS	ppb	ND-20	ND	2008/09/10	Runoff/leaching from natural deposits; industrial wastes.

#### PHYSICAL PARAMETERS

pH	6.5 - 8.5	NS	units	7.2 - 7.9	7.7	2008/09/10	Hydrogen ion concentration. Value greater than 7 is basic (non-acidic).
Turbidity / clarity	5.0	NS	NTU	ND - 0.6	0.31	2008/09/10	Soil runoff.

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Detected Unregulated Chemicals That May Be of Interest to Consumers\*\*

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Aggressiveness Index ( c )	NS	NS	units	11.4 - 12.4	11.9	2008/09/10
Alkalinity (as Ca CO <sub>3</sub> )	NS	NS	ppm	108 - 203	150	2008/09/10
Calcium	NS	NS	ppm	33 - 61	47	2008/09/10
Corrosivity (Langlier Index) ( d )	NS	NS	positive/negative	( - 0.4 ) - ( + 0.6 )	+ 0.14	2008/09/10
Hardness (Ca CO <sub>3</sub> )	NS	NS	ppm	114 - 228	169	2008/09/10
Hardness	NS	NS	grains	6.6 - 13.3	9.9	2008/09/10
Magnesium	NS	NS	ppm	8 - 22	13	2008/09/10
Potassium	NS	NS	ppm	ND - 2	2.0	2008/09/10
Sodium	NS	NS	ppm	4 - 18	6.1	2008/09/10
Specific Conductance	NS	NS	micromho/cm	244 - 496	349	2008/09/10

### KEY TO ABBREVIATIONS AND FOOTNOTES

MCL = Maximum Contaminant Level

ND = Not detected

NS = No standard

NTU = Nephelometric Turbidity Units. This is a measure of the suspended material in water.

\* = Action Levels are measured at the 90th percentile sample (third highest reading out of thirty samples for lead and copper).

\*\* = Unregulated contaminant monitoring helps USEPA determine where certain contaminants occur and whether the contaminants need to be regulated.

ppm = parts per million

ppb = parts per billion

pCi/L=picoCuries per liter

( a ) = The average is weighted according to the individual contribution in pumping by each well to the total (active wells only).

( b ) = The state allows us to monitor for some contaminants less than once per year because the concentrations of these contaminants in groundwater sources do not change frequently. Some of our data, though representative, are more than one year old.

( c ) = An Aggressiveness Index of 11 or greater indicates that the water is not aggressive (noncorrosive).

( d ) = A positive number Langlier Index indicates that the water is noncorrosive.

### DEFINITIONS

#### Maximum Contaminant Level (MCL):

The highest level of a contaminant that is allowed in drinking water. MCL's are set as close to the MCLG's as feasible using the best available treatment technology.

#### Maximum Contaminant Level Goal (MCLG):

The level of a contaminant in drinking water below which there is no known or expected risk to health. MCLG's allow for a margin of safety.

#### Action Level (AL):

The concentration of a contaminant which, if exceeded, triggers treatment or other requirements which a water system must follow.

#### Maximum Residual Disinfectant Level (MRDL):

The level of a disinfectant added for water treatment that may not be exceeded at the consumer's tap.

#### Maximum Residual Disinfectant Level Goal (MRDLG):

The level of a disinfectant added for water treatment below which there is no known or expected risk to health.



MOUNTAIN WATER COMPANY

Providing quality water and dependable  
service to the Missoula community  
at a reasonable price.

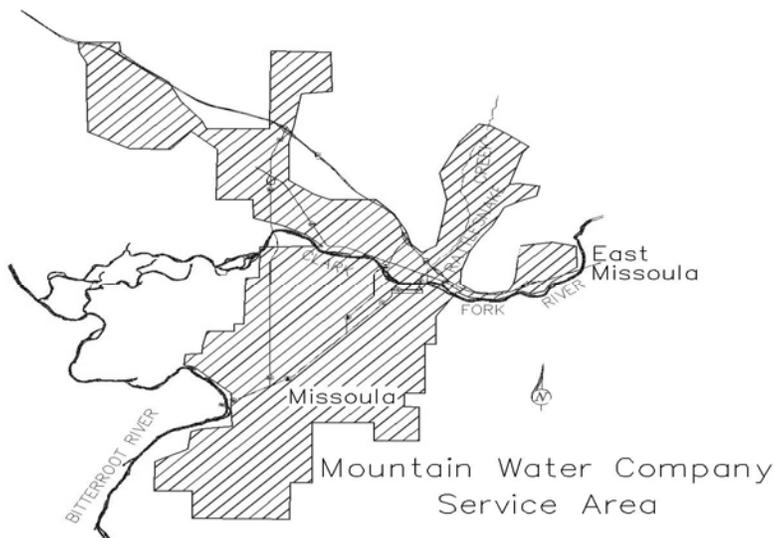
**Mountain Water Company**

P.O. Box 4826  
1345 West Broadway  
Missoula, MT 59806-4826

(406) 721-5570

www.mtnwater.com

# WHERE DOES YOUR WATER COME FROM?



Mountain Water Company serves the greater Missoula area. The Missoula aquifer is currently the only active source of public drinking water for Missoula Valley residents. MWC utilizes 35 active wells to pump water from this aquifer. The only treatment performed by MWC is low-level disinfection with chlorine.

Rattlesnake Creek lies just north of Missoula and, under the guidance of the DEQ, serves as an alternative source available for use in special situations. Rattlesnake Creek is a surface water supply originating in the Rattlesnake Wilderness area and emptying in the Clark Fork River. Strict environmental conditions are maintained in the watershed to preserve the quality of this source.

## Source Water Delineation and Assessment

As required by the EPA in 2003, a Source Water Delineation and Assessment report was completed for MWC and submitted to the DEQ and the EPA. We utilized this report as an opportunity to update our Wellhead Protection Program with the latest information and technologies in modeling and mapping with linked databases. This assessment resulted in an updated list of possible contaminant sources to our aquifer, some of those being underground storage tanks, public and private sumps, leaking pipelines, spills along railroad tracks and highways, sewer lift stations and septic systems. This has resulted in a very useful tool for protection of our valuable drinking water supply. This report is available to the public at the DEQ, the Missoula City/County Health Department and at our office.

## Lead in Drinking Water

If present, elevated levels of lead can cause serious health problems, especially for pregnant women and young children. Lead in drinking water is primarily from materials and components associated with service lines and home plumbing. Mountain Water Company is responsible for providing high quality drinking water, but cannot control the variety of materials used in plumbing components. When your water has been sitting for several hours, you can minimize the potential for lead exposure by flushing your tap for 30 seconds to 2 minutes before using water for drinking or cooking. If you are concerned about lead in your water, you may wish to have your water tested. Information on lead in drinking water, testing methods, and steps you can take to minimize exposure is available from the Safe Drinking Water Hotline or at <http://www.epa.gov/safewater/lead>.



CFC-037 RE: 2010 Annual report

**Please provide a copy Mountain Water's 2010 annual report that is annually filed with the MT PSC for the year ending December 31, 2010.**

Please see attached.

YEAR 2010

**ANNUAL REPORT**

OF THE

**NAME: MOUNTAIN WATER COMPANY**

**LOCATION: 1345 W. BROADWAY, MISSOULA, MONTANA 59802**

**PRIVATE WATER UTILITY**

TO THE

**PUBLIC SERVICE COMMISSION**

OF MONTANA

**FOR THE YEAR ENDING DECEMBER 31, 2010**

## **GENERAL INSTRUCTIONS**

1. Prepare this report in conformity with the 1984 National Association of Utility Regulatory Commissioners Uniform System of Accounts for Water Utilities.
2. Interpret all accounting words or phrases in accordance with the USOA.
3. Complete each question fully and accurately, even if it has been answered in a previous annual report. Enter the word "None" where it truly and completely states the fact.
4. For any question, section or page which is not applicable to the respondent, enter the words "Not Applicable" or "N/A." Do not omit any pages.
5. Where dates are called for, the month and day should be stated as well as the year.
6. Complete this report by means which result in a permanent record.
7. If there is not enough room on any schedule, an additional page or pages may be added, provided the format of the added schedule matches the format of the schedule with not enough room. Such a schedule should reference the appropriate schedule, state the name of the utility, and state the year of the report.
8. This report should be filled out in duplicate and one copy returned within 2½ months after the close of the reporting period. The report should be returned to:

Montana Public Service Commission  
Utility Division  
2701 Prospect Avenue  
Helena, Montana 59620

## REPORT OF

### MOUNTAIN WATER COMPANY

*(Exact Name of Utility)*

1345 W. BROADWAY  
*(Address)*

MISSOULA, MONTANA 59802  
*(City, State, Zip Code)*

For Year Ended: \_\_\_\_\_

DECEMBER 31, 2010

Date Utility First Organized: \_\_\_\_\_

APRIL 19, 1961

Telephone Number: \_\_\_\_\_

(406) 721-5570

Location where books and records are located: \_\_\_\_\_

SAME AS ABOVE

**Contacts:**

Name	Title	Principal Business Address	Salary
Person to send correspondence: ARVID HILLER	VICE PRESIDENT AND GENERAL MANAGER	1345 W. BROADWAY MISSOULA, MT 59802	XXXXXXXXXX
Person who prepared this report: LAWRENCE G. LEE	DIRECTOR OF ACCOUNTING PARK WATER COMPANY	9750 WASHBURN ROAD P.O. BOX 7002 DOWNEY, CA 90241-7002	XXXXXXXXXX
<b>Officers &amp; Managers:</b> HENRY H. WHEELER, JR.	PRESIDENT	9750 WASHBURN ROAD P.O. BOX 7002 DOWNEY, CA 90241-7002	
NYRI A. WHEELER-LEWIS	SECRETARY	SAME AS ABOVE	
LEIGH K. JORDAN	EXECUTIVE VICE PRESIDENT	SAME AS ABOVE	
ARVID HILLER	VICE PRESIDENT & GENERAL MANAGER	1345 W. BROADWAY MISSOULA, MT 59802	
JOHN KAPPES	CO - CEO	1345 W. BROADWAY MISSOULA, MT 59802	

Report every corporation or person owning interest or holding directly or indirectly 5 percent or more of the voting securities of the reporting utility:

Name	Percent Ownership in Utility	Principal Business Address	Salary Charged Utility
PARK WATER COMPANY	100%	9750 WASHBURN ROAD, P.O. BOX 7002 DOWNEY, CA 90241-7002	\$ N/A
			\$
			\$

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## INCOME STATEMENT

Account Name	Current Year	Previous Year
<b>GROSS REVENUE:</b>		
Metered		
Residential	6,054,010	6,577,997
Commercial	4,123,233	4,234,303
Industrial	0	0
Other	1,713,441	1,835,126
Unmetered		
Residential	2,690,296	2,807,870
Commercial	176,732	181,635
Industrial	0	0
Fire Protection	185,871	187,472
Bulk Sales	0	0
Sale of Materials	0	0
Other	1,100,362	806,527
<b>TOTAL GROSS REVENUE</b>	<b>16,043,945</b>	<b>16,630,930</b>
Operation and Maintenance Expense	9,780,724	9,773,522
Depreciation Expense	2,174,168	2,106,631
Taxes Other Than Income	1,311,755	1,238,682
Income Taxes (A)	1,476,185	1,633,098
Deferred Federal Income Taxes	0	0
Amortized - Intangible Plant	40,258	40,258
Deferred State Income Taxes	0	0
<b>TOTAL OPERATING EXPENSE</b>	<b>14,783,090</b>	<b>14,792,191</b>
<b>NET OPERATING INCOME (LOSS)</b>	<b>1,260,855</b>	<b>1,838,739</b>
Other Income:		
Investment Tax Credits	0	0
Non-Operating Income	0	0
Interest Income	488,601	426,677
Allow. Funds Used - Construct.	12,897	12,947
Other Deductions:		
Non-Utility Expenses	578	578
Interest Expense	6,825	6,963
Miscellaneous Deductions	27,893	34,092
<b>NET INCOME (LOSS)</b>	<b>1,727,057</b>	<b>2,236,730</b>

(A) Excludes \$(58,150) of non-utility income tax benefit.

## COMPARATIVE BALANCE SHEET

ACCOUNT NAME	CURRENT YEAR	PREVIOUS YEAR
<b>Assets:</b>		
Utility Plant in Service (A), (B)	87,919,863	84,920,825
Accumulated Depreciation and Amortization	(25,366,255)	(23,541,683)
<b>Net Utility Plant</b>	<b>62,553,608</b>	<b>61,379,142</b>
Cash	104,632	93,660
Customer Account Receivable	821,180	845,856
Other Assets (Specify)-		
Non-Utility Property		
Less Acc. Depreciation		
Utility Plant Acquisition Adjustment	241,295	279,035
Land Held For Future Use	468,477	456,157
Materials and Supplies	409,140	428,326
Misc. & Prepays (B)	705,608	619,522
Misc. Deferred Debits	20,401	19,717
Deferred Employee Benefits	282,579	255,927
Regulatory Accounts	6,195,484	4,454,111
Open Accounts	(797,900)	(1,659,051)
<b>Total Assets</b>	<b>71,004,504</b>	<b>67,172,402</b>
<b>Liabilities and Capital:</b>		
Common Stock Issued	6,940,578	6,940,578
Preferred Stock Issued		
Other Paid in Capital	2,008,000	2,008,000
Retained Earnings	27,627,024	25,899,967
Proprietary Capital		
<b>Total Capital</b>	<b>36,575,602</b>	<b>34,848,545</b>
Long Term Debt	270,000	0
Accounts Payable	572,817	368,400
Notes Payable	63,700	0
Customer Deposits	1,347	1,327
Accrued Taxes	538,646	463,545
Other Liabilities (Specify)		
Interest Accrued	10,727	
Misc. Liabilities	573,740	592,014
Deferred Credits	3,888,407	3,262,491
Deferred Income Tax & ITC	8,178,703	7,901,882
Advances for Construction	17,502,130	17,647,898
Contributions in Aid of Construction	2,828,685	2,086,300
<b>Total Liabilities and Capital</b>	<b>71,004,504</b>	<b>67,172,402</b>

(A) Includes \$373,131 and \$431,040 of Construction in Progress for 2010 and 2009 respectively.

(B) Balance excludes Intangible Plant which is included in Miscellaneous and Prepaid category in the amount of \$28,017 and \$30,535 for 2010 and 2009 respectively.

## ACCUMULATED DEPRECIATION AND AMORTIZATION OF UTILITY PLANT

ACCOUNT 108	CURRENT YEAR	PREVIOUS YEAR
Balance First of Year	23,541,683	21,622,041
Credits During Year:		
Accruals Charged to Depreciation Account	2,174,168	2,106,630
Salvage	18,750	4,083
Other Credits - Contributions	52,121	53,449
Other Credits-Corrections to accounts	43,025	102
Clearing Accounts	78,974	78,451
Total Credits	<b>2,367,038</b>	<b>2,242,715</b>
Debits During Year:		
Book Cost of Plant Retired	501,843	264,638
Cost of Removal	4,481	(173)
Other Debits (Specify)-Corrections to accounts	36,142	58,608
Total Debits	<b>542,466</b>	<b>323,073</b>
Balance End of Year	<b>25,366,255</b>	<b>23,541,683</b>

### CONTRIBUTIONS IN AID OF CONSTRUCTION

Report below all contractor and developer agreements and line extension agreements from which cash or property was received during the year.	Indicate "Cash" or "Property"	Amount
Repl Inez/1st/2nd/River mains	Cash	366,169
Repl Livingston Ave main	Cash	92,024
Repl Fairview Ave main	Cash	139,306
Repl Mary Ave main	Cash	140,207
Repl Cooper/Sherwood mains	Cash	12,295
Fire Hydrants previously private	Property	11,854
Garfield/2nd main & ARV	Cash	8,715
The Hub on Expressway	Property	1,342
E Msla Addn - Iowa Ave	Property	11,705
Total During Year		<b>783,617</b>

### ACCUMULATED DEFERRED INCOME TAXES

Description	
Accumulated Deferred Income Taxes:	\$ 8,178,703
Total Accumulated Deferred Income Taxes	<b>\$ 8,178,703</b>

### CAPITAL STOCK

	Common Stock	Preferred Stock
Par or stated value per share	No Par Value	N/A
Shares issued and outstanding	50,000	
Total par value of stock issued	6,940,578	
Dividends declared per share for year		

### RETAINED EARNINGS

	Appropriated	Unappropriated
Balance first of year		25,899,967
Changes during year (Specify):		
2010 Net Income		1,727,057
Balance end of year		27,627,024

### PROPRIETARY CAPITAL

	Proprietor or Partner	Partner
Balance first of year		
Changes during year (Specify):		
NOT APPLICABLE		
Balance end of year		

### LONG TERM DEBT

Description of Obligation	Interest		Principal Per Balance Sheet Date
	Rate	Pymts	
General Obligation Bonds (Revolving Fund Program SER 09)	1.75%	Varies	270,000
Total	N/A	0	270,000

## WATER UTILITY PLANT ACCOUNTS

Acct. No.	Account Name	Previous Year	Additions	Retirements	Current Year
301	Organization	0			0
302	Franchises	0			0
303	Land and Land Rights	1,152,917	53,444		1,206,362
304	Structures and Improvements	5,255,808	97,696	7,772	5,345,733
305	Collecting and Impounding Reservoirs	429,985	41,425	2,130	469,281
306	Lake, River and Other Intakes	0			0
307	Wells and Springs	336,119			336,119
308	Infiltration Galleries and Tunnels	0			0
309	Supply Mains	337,436			337,436
310	Power Generation Equipment	1,005,507	290,051		1,295,558
311	Pumping Equipment	3,838,863	94,986	24,566	3,909,282
320	Water Treatment Equipment	265,970	2,998	2,696	266,271
330	Distribution Reservoirs and Standpipes	5,363,627	42,631		5,406,258
331	Transmission and Distribution Mains	50,380,561	2,030,521	52,712	52,358,370
333	Services	188,575			188,575
334	Meters and Meter Installations	5,933,771	213,076	162,877	5,983,971
335	Hydrants	4,465,509	144,673	2,558	4,607,625
339	Other Plant and Miscellaneous Equipment	0			0
340	Office Furniture and Equipment	211,642	5,551	2,856	214,338
341	Transportation Equipment	916,583	120,005	106,592	929,996
342	Stores Equipment	0			0
343	Tools, Shop and Garage Equipment	381,664	165,816	1,438	546,041
344	Laboratory Equipment	13,398			13,398
345	Power Operated Equipment	18,542			18,542
346	Communication Equipment	418,253	32,160	10,889	439,523
347	Miscellaneous Equipment	3,575,055	229,175	130,174	3,674,055
348	Other Tangible Plant	0			0
	Construction Work in Progress	431,040	373,131	431,040	373,131
	<b>TOTAL WATER PLANT</b>	<b>84,920,825</b>	<b>3,937,337</b>	<b>938,299</b>	<b>87,919,863</b>

## ANALYSIS OF ACCUMULATED DEPRECIATION BY PRIMARY ACCOUNT

ACCT. NO.	ACCOUNT	AVERAGE SERVICE LIFE IN YEARS	AVERAGE SALVAGE IN PERCENT	DEPR. RATE APPLIED	ACCUMULATED DEPRECIATION BALANCE PREVIOUS YEARS	DEBITS	CREDITS	ACCUMULATED DEPRECIATED BALANCE - END OF YEAR
303	Land and Land Rights				36,203			36,203
304	Structures & Improvements	Varies	Varies	Varies	2,104,861	2,356	137,747	2,240,252
305	Collecting & Impounding Reservoirs	50	-5.0%	1.58%	248,774	2,130	6,793	253,437
306	Lake, River & Other Intakes				0			0
307	Wells & Springs	40	-5.0%	2.30%	194,054		7,731	201,784
308	Infiltrations Galleries & Tunnels				0			0
309	Supply Mains	50	-5.0%	2.56%	187,300		8,638	195,938
310	Power Generating Equipment	25	0.0%	4.21%	325,457		42,332	367,789
311	Pumping Equipment	25	Varies	Varies	1,674,393	29,801	133,294	1,777,886
320	Water Treatment Equipment	20	0.0%	3.60%	126,906	2,696	12,474	136,684
330	Distribution Reservoirs & Standpipes	40	0.0%	2.44%	1,781,861		131,495	1,913,356
331	Trans. & Dist. Mains	50	0.0%	1.95%	11,268,510	82,328	982,976	12,169,158
333	Services	40	0.0%	2.75%	55,861		5,186	61,047
334	Meter & Meter Installation	30	Varies	Varies	865,272	167,860	222,534	919,946
335	Hydrants	40	Varies	Varies	971,248	3,346	108,959	1,076,861
339	Other Plant & Misc. Equipment				0			0
340	Office Furniture and Equipment	15	10.0%	4.38%	142,849	2,856	9,269	149,263
341	Transportation Equipment	10	10.0%	6.61%	640,274	106,592	73,816	607,499
342	Stores Equipment				0			0
343	Tools, Shop & Garage Equipment	20	5.0%	4.82%	172,830	1,438	30,811	202,203
344	Laboratory Equipment	10	0.0%	2.55%	12,161		342	12,502
345	Power Operated Equipment	20	5.0%	0.93%	17,303		172	17,475
346	Communication Equipment	10	0.0%	Varies	229,097	10,889	46,807	265,014
347	Miscellaneous Equipment	6	5.0%	10.61%	2,485,102	130,174	405,661	2,760,589
348	Other Tangible Plant				1,368	0	0	1,368
	<b>Totals</b>				<b>23,541,683</b>	<b>542,466</b>	<b>2,367,038</b>	<b>25,366,255</b>



NAME OF RECIPIENT	AMOUNT	DESCRIPTION OF DATA
4G's Plumbing & Heating	99,602	Plumbing/mechanical services
Abatement Contractors of Montana, LLC	6,270	Abatement services
ADP	16,015	Payroll service
Advertiser Printing	10,247	Printing service
AWWA Research Foundation	10,732	Subscription to research
Bank of America	9,881	Service charge
Bitterroot Welding & Hydraulics	15,821	Welding & hydraulic services
Blackfoot Communications	18,083	Telemetry/phone line/internet services
Camp Well Drilling	59,079	Drilling & mechanical services
CBM Collections, Inc	9,880	Collection fees
DJ & A	19,970	Engineering Services
Dorsey & Whitney, LLP	12,000	Legal fees
Eli & Associates, Inc	7,684	Engineering Services
Embe Contracting, Inc.	134,029	Excavation work
Energy Labs, Inc.	20,322	Water testing
ESRI, Inc.	14,500	Maint agreement-software GIS
Garlington, Lohn & Robinson	39,165	Legal fees
GE Fanuc Automation	16,330	SCADA maintenance contract
Grizzly Fence	19,276	Fence repair services
Hughes, Kellner, Sullivan & Alke	50,376	Legal fees
Hydrometrics	24,185	Engineering services
Johnson Controls	5,170	Service work
Knife River	334,925	Excavation work
Kohlers Sprinkler and Backflow	8,521	Sprinkler repair/irrigation
LS Jensen & Sons, Inc.	457,090	Excavation work
Minuteman Aviation	14,175	Helicopter services
Miller Law Office, PLLC	15,022	Legal fees
Missoula City/County Health Dept.	15,345	Water testing
Missoula County Public Works	7,860	Aquifer testing
Missoula Textiles	19,593	Laundry service
Montana Conservation Corps	27,200	Dam repair & maintenance
Nature's Best	70,001	lawn/site maintenance
Navtrak	12,600	Vehicle tracking system
NiTel, Inc	14,424	T-1 Line
Paulson Electric	67,246	Electrical repairs
PBS&J	107,009	Engineering services
Peasley, Aldinger & O'Bymachow	93,027	Audit fees
Platinum Graphics	34,828	Mailing service
Poteet Construction, Inc.	26,193	Signage service
Power Engineers	9,058	Engineering services
Quality Maintenance Enterprises	13,728	Janitorial services
Continued - next page		



**SOURCES OF WATER SUPPLY**

Surface Water: River = 0 Lake = 8 Stream = 1 Impounding Res. = 1  
 Ground Water: Springs No. = 0 Shallow Wells No. = 36 Deep Wells No. = 1

**SUPPLY, TRANSMISSION & DISTRIBUTION MAINS (FEET)**

Size Inches	First of Year	Laid During Year	Total	Abandoned During Year	Taken Up During Year	Total	Close of Year
4" or less							
6							
8							
10	PLEASE SEE PAGE 11A						
20							
<b>TOTAL</b>			0	0	0		

**RESERVOIRS, STANDPIPES AND PURIFICATION SYSTEM**

Number of Reservoirs	<u>12</u>	Capacity in Gallons	<u>8,358,804</u>
Number of Standpipes	<u>12</u>	Capacity in Gallons	<u>1,675,000</u>

Method of Purification: Chlorination

**SERVICES AND METERS**

Services	1/2 in.	5/8 in.	3/4 in.	1 in.	1 1/2 in.	2 in.	3 in.	4 in.	6 in.	8 in.	10 in.
	<u>0</u>	<u>14,954</u>	<u>249</u>	<u>5,923</u>	<u>232</u>	<u>440</u>	<u>32</u>	<u>236</u>	<u>118</u>	<u>41</u>	<u>1</u>
Meters											
	<u>15,288</u>	<u>798</u>	<u>979</u>	<u>337</u>	<u>355</u>	<u>63</u>	<u>28</u>	<u>4</u>	<u>4</u>	<u>1</u>	

**NUMBER AND CLASSIFICATION OF CONSUMERS**

Classification	Beginning of the year			Close of the year			Increase or (Decrease)
	Metered	Unmetered	Total	Metered	Unmetered	Total	
Residential	13,607	5,030	18,637	13,867	4,821	18,688	51
Commercial	3,287	130	3,417	3,333	128	3,461	44
Industrial	1	0	1	1	0	1	0
Fire Hydrants	0	0	0	0	0	0	0
Governmental	65	40	105	63	38	101	(4)
All Other	591	588	1,179	593	595	1,188	9
<b>Total</b>	<b>17,551</b>	<b>5,788</b>	<b>23,339</b>	<b>17,857</b>	<b>5,582</b>	<b>23,439</b>	<b>100</b>

**TOTAL PUMPING STATION STATISTICS**

Total Amount of Water Obtained by all methods during the Year	<u>8,289,264,204</u>	gals. estimate
Maximum Water obtained all methods during any one day	<u>40,007,701</u>	gals. estimate
Minimum Amount of Water obtained all methods during one day	<u>15,880,068</u>	gals. estimate
Total Amount of Water passed through customers meters during year	<u>3,130,715,359</u>	gals.

Range of ordinary pressure on mains: 45 lbs. to 200 lbs.  
 Range of fire pressure in mains: 45 lbs. to 170 lbs.

**SUPPLY, TRANSMISSION & DISTRIBUTION MAINS (FEET)**

Size Inches	First of Year	Laid During Year	Total	Abandoned During Year	Taken Up During Year	Total	Close of Year
30"Wood							
30"Steel	16,489		16,489			0	16,489
1"	251		251			0	251
1-1/2"	70		70			0	70
2"	44,185		44,185	232		232	43,953
3"	3,059		3,059			0	3,059
4"	28,451		28,451			0	28,451
5"	498		498			0	498
6"	730,189	101	730,290	7,349	20	7,369	722,921
8"	385,553	9,994	395,547			0	395,547
10"	164,318	3,117	167,435	822	170	992	166,443
12"	142,543	2,013	144,556	80		80	144,476
14"	21,133		21,133			0	21,133
16"	48,509		48,509			0	48,509
18"	720		720			0	720
20"	31,061		31,061			0	31,061
24"	53,610		53,610			0	53,610
30"	831		831			0	831
36"	925		925			0	925
<b>TOTAL</b>	<b>1,672,395</b>	<b>15,225</b>	<b>1,687,620</b>	<b>8,483</b>	<b>190</b>	<b>8,673</b>	<b>1,678,947</b>

STATE OF MONTANA     )  
County of Missoula     )

We, the undersigned, on our oath do severally say that the foregoing return of the Mountain Water Company water utility has been prepared under our direction from the original books, paper and records of said utility and declare the same to be a full, true and correct statement embracing all the financial transactions of said utility during the period for which the return is made.

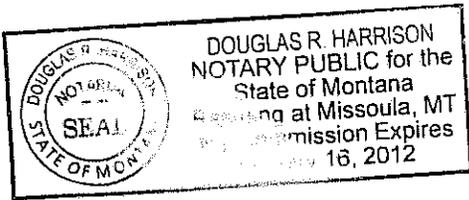
*Arvid M. Hiller*

Arvid Hiller, Vice Pres. & Gen. Manager

Subscribed and sworn to before me this 29<sup>th</sup> day of April, 2011.

*Douglas R. Harrison*

Douglas R. Harrison



**CFC-038** RE: Audited financial statements

**Please provide a copy of Mountain Water's and Park's most recent audited financial statements.**

Please see attached.

PARK WATER COMPANY AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009  
AND  
FOR THE YEARS ENDED  
DECEMBER 31, 2010, 2009, AND 2008

PARK WATER COMPANY AND SUBSIDIARIES  
DECEMBER 31, 2010 AND 2009  
AND FOR THE YEARS ENDED DECEMBER 31, 2010, 2009, AND 2008  
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PEASLEY, ALDINGER & O'BYMACHOW  
AN ACCOUNTANCY CORPORATION

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Independent Auditor's Report

April 13, 2011

Board of Directors  
Park Water Company  
Downey, California

We have audited the accompanying consolidated balance sheets of Park Water Company (a California corporation) and subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2010. These consolidated financial statements are the responsibility of the Company'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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated 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 consolidated 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 Park Water Company and subsidiaries at December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America.

The financial statements referred to in the foregoing opinion are set forth on pages 2 to 23, inclusive, of this report. Our audits were made primarily for the purpose of expressing an opinion on these basic financial statements, taken as a whole. The supplementary data included in this report on pages 24 to 30, inclusive, although not part of the basic financial statements, are presented primarily for supplemental analysis purposes. The consolidating schedule of balance sheets, consolidating schedule of operations including intercompany eliminations, and debt coverage calculation on pages 27 to 30 have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The supplementary information on pages 24 to 26 which is of a nonaccounting nature, has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

PEASLEY, ALDINGER & O'BYMACHOW  
AN ACCOUNTANCY CORPORATION



Matt A. Peasley  
Certified Public Accountant

PARK WATER COMPANY AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
DECEMBER 31, 2010 AND 2009

(In Thousands)

<u>ASSETS</u>	<u>2010</u>	<u>2009</u>	<u>CAPITALIZATION AND LIABILITIES</u>	<u>2010</u>	<u>2009</u>
Utility Plant:			Stockholders' Equity:		
Utility plant - at cost or donors' basis, (Note 4)	\$ 248,732	\$ 241,522	Common stock, par value \$25 per share, authorized 80,000 shares outstanding 24,415 shares	\$ 610	\$ 610
Less: Accumulated depreciation	(71,715)	(66,053)	Paid in capital	1,963	1,963
Goodwill	311	351	Retained earnings, (Note 8)	62,962	64,079
Net utility plant	177,328	175,820	Accumulated other comprehensive loss	(341)	(288)
Construction work in progress	1,873	1,414	Total Stockholders' Equity	65,194	66,364
Total Utility Plant	179,201	177,234	Long Term Debt, (Note 9):		
Non-Utility Property	1,717	3,876	First mortgage bonds	52,000	52,000
Current Assets:			Notes Payable	2,709	2,448
Cash and cash equivalents	1,751	2,754	Total Long Term Debt	54,709	54,448
Marketable securities, (Note 3)	7,997	7,397	Total Capitalization	119,903	120,812
Accounts receivable:			Current Liabilities:		
Customers (net of allowance of \$22 for 2010 and 2009)	2,927	2,869	Short-term borrowings, (Note 10)	1,114	14
Other	533	752	Current portion of long term debt	64	-
Current regulatory assets	4,318	3,287	Accounts payable	3,576	2,317
Materials and supplies inventory, at average cost	948	964	Accrued interest	1,148	1,122
Prepaid expenses and other	3,493	3,941	Accrued payroll and benefits	2,211	2,207
Deferred income taxes	1,500	1,474	Accrued income taxes	640	-
Total Current Assets	23,467	23,438	Currently refundable advances for construction	1,519	1,797
Other Assets:			Current regulatory liabilities	604	470
Notes receivable	1,302	1,262	Other current liabilities	2,453	3,329
Deferred charges, (Note 7)	4,884	5,068	Total Current Liabilities	13,329	11,256
Regulatory assets	19,007	14,799	Other Liabilities and Deferred Credits:		
Total Other Assets	25,193	21,129	Accrued pension and postretirement benefits	14,688	11,796
TOTAL ASSETS	<u>\$ 229,578</u>	<u>\$ 225,677</u>	Accumulated deferred investment tax credits	182	211
			Deferred income taxes	23,614	22,821
			Deferred credits, (Note 11)	980	1,177
			Advances for construction, (Note 12)	48,318	49,079
			Contributions in aid of construction, (Note 13)	7,791	6,874
			Regulatory liabilities	773	1,651
			Total Other Liabilities and Deferred Credits	96,346	93,609
			TOTAL CAPITALIZATION AND LIABILITIES	<u>\$ 229,578</u>	<u>\$ 225,677</u>

The Accompanying Notes Are an Integral  
Part of These Financial Statements

PARK WATER COMPANY AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
FOR THE YEARS ENDED DECEMBER 31, 2010, 2009, AND 2008

(In Thousands)

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Operating Revenues	\$ 61,194	\$ 60,526	\$ 54,737
Operating Expenses:			
Operation and maintenance	40,636	39,557	38,143
Depreciation	6,861	6,733	6,380
Taxes other than income	2,812	2,677	2,549
Income taxes, (Note 6)	<u>3,071</u>	<u>2,555</u>	<u>1,595</u>
Total Operating expenses	<u>53,380</u>	<u>51,522</u>	<u>48,667</u>
Operating Income	7,814	9,004	6,070
Other Income and Deductions:			
Interest and dividend income	109	133	327
Non-utility operations	(2,329)	(249)	(471)
Other non-operating income (expense)	(384)	(386)	(182)
(Income taxes) benefit on other income and deductions, (Note 6)	<u>(115)</u>	<u>(150)</u>	<u>54</u>
Total Other Income and Deductions	(2,719)	(652)	(272)
Interest Charges:			
Interest on long term debt	3,972	3,981	3,891
Interest on short term debt	64	52	80
Amortization of debt expense	<u>176</u>	<u>176</u>	<u>108</u>
Total Interest Charges	<u>4,212</u>	<u>4,209</u>	<u>4,079</u>
Net Income	<u>\$ 883</u>	<u>\$ 4,143</u>	<u>\$ 1,719</u>

The Accompanying Notes Are An Integral  
Part of These Financial Statements

PARK WATER COMPANY AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2010, 2009, AND 2008

(In Thousands)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balances, December 31, 2007	\$ 610	\$ 1,963	\$ 58,547	\$ (278)	\$ 60,842
Dividends paid to stockholders	-	-	-	-	-
Comprehensive income (expense):					
Net income	-	-	1,719	-	1,719
Other comprehensive income (expense):					
Retirement benefit adjustment	-	-	-	100	100
Unrealized loss on investments, net of tax	-	-	-	(13)	(13)
Total comprehensive income					1,806
Balances, December 31, 2008	<u>\$ 610</u>	<u>\$ 1,963</u>	<u>\$ 60,266</u>	<u>\$ (191)</u>	<u>\$ 62,648</u>
Dividends paid to stockholders	-	-	(330)	-	(330)
Comprehensive income (expense):					
Net income	-	-	4,143	-	4,143
Other comprehensive income (expense):					
Retirement benefit adjustment	-	-	-	(98)	(98)
Unrealized gain on investments, net of tax	-	-	-	1	1
Total comprehensive income					4,046
Balances, December 31, 2009	<u>\$ 610</u>	<u>\$ 1,963</u>	<u>\$ 64,079</u>	<u>\$ (288)</u>	<u>\$ 66,364</u>
Dividends paid to stockholders	-	-	(2,000)	-	(2,000)
Comprehensive income (expense):					
Net income	-	-	883	-	883
Other comprehensive income (expense):					
Retirement benefit adjustment	-	-	-	(44)	(44)
Unrealized loss on investments, net of tax	-	-	-	(9)	(9)
Total comprehensive income					830
Balances, December 31, 2010	<u>\$ 610</u>	<u>\$ 1,963</u>	<u>\$ 62,962</u>	<u>\$ (341)</u>	<u>\$ 65,194</u>

The Accompanying Notes Are An Integral  
Part of These Financial Statements

PARK WATER COMPANY AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2010, 2009, AND 2008

	2010	2009	2008
		(In Thousands)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net Income	\$ 883	\$ 4,143	\$ 1,719
Adjustments to Reconcile Net Income to Cash			
Provided by Operating Activities:			
Depreciation and amortization	6,906	6,770	6,439
Net proceeds of salvage value received less cost of removal	(2)	(216)	(53)
Impairment loss	2,096	64	394
Transfer of accrued interest to note receivable, and amortization of investment discounts	(94)	(72)	(186)
Decrease (increase) in receivables	161	(351)	(126)
Decrease (increase) in regulatory assets and liabilities	(5,983)	(3,369)	(1,895)
Decrease (increase) in inventory and prepaid expenses	(226)	(181)	(1,575)
Decrease (increase) in deferred charges	32	229	(425)
Increase (decrease) in accounts payable and accrued expenses	1,289	307	(480)
Increase (decrease) in income taxes payable	1,483	1,168	-
Increase (decrease) in other liabilities	1,972	2,701	991
Increase (decrease) in deferred taxes and investment tax credits	729	940	2,665
Increase (decrease) in deferred credits	(197)	462	(1,497)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>9,049</b>	<b>12,595</b>	<b>5,971</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Proceeds of sale or maturity of marketable securities	14,900	20,675	29,192
Payments received on notes receivable	42	245	72
Capital expenditures	(8,989)	(8,480)	(11,829)
Purchase of marketable securities	(15,489)	(22,261)	(24,030)
Amounts advanced on notes receivable	-	(23)	(17)
<b>NET CASH FLOWS USED FOR INVESTING ACTIVITIES</b>	<b>(9,536)</b>	<b>(9,844)</b>	<b>(6,612)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds of advances and contributions	1,611	868	2,739
Dividends paid	(2,000)	(330)	-
Proceeds of long term debt	334	-	20,000
Net proceeds on line of credit	-	(850)	500
Net proceeds of short term note payable	1,100	-	-
Retirement of long term debt	(9)	(5)	(20,538)
Advance refund contract payments	(1,552)	(1,555)	(1,456)
<b>NET CASH FLOWS PROVIDED BY (USED FOR) FINANCING ACTIVITIES</b>	<b>(516)</b>	<b>(1,872)</b>	<b>1,245</b>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>(1,003)</b>	<b>879</b>	<b>604</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>2,754</b>	<b>1,875</b>	<b>1,271</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ 1,751</b>	<b>\$ 2,754</b>	<b>\$ 1,875</b>

The Accompanying Notes Are An Integral  
Part of These Financial Statements

PARK WATER COMPANY AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Business: Park Water Company is primarily engaged in the business of serving water to customers in various Southern California areas and in Missoula, Montana.

Uniform System of Accounts: The Company follows the Uniform System of Accounts for water utilities as prescribed by the utility regulatory commissions of the States of California and Montana for its utility operations.

Consolidation: The consolidated financial statements include the accounts of Park Water Company and its subsidiaries after elimination of significant intercompany accounts and transactions. However, profits earned from utility plant improvements constructed by the consolidated Companies were not eliminated since they are expected to be included in rate base.

Use of Estimates: The financial statements are prepared in conformity with generally accepted accounting principles and, accordingly, include amounts that are based on management's best estimates and judgments. Actual results could differ from those estimates.

Subsequent Events: The Company evaluated events occurring between December 31, 2010 and April 13, 2011, the date the financial statements were available to be issued.

Utility Plant and Accumulated Depreciation: Property, plant, and equipment is stated at original cost or the fair value on the date received for properties acquired by contribution. Water rights to pump from the underground basins are carried at no cost, except for amounts incurred in the adjudication of water rights and long term water rights leases. All expenditures for maintenance and repairs of property, including renewals of minor items, are charged to the appropriate maintenance expense accounts. A betterment or replacement of a unit of property is accounted for as an addition and retirement of property, plant, and equipment. At the time of retirement the accumulated depreciation is charged with the original cost of the property retired and any cost of removal, and is credited with any salvage recovered. The Company must record a liability associated with the retirement of long-lived assets at the time those costs can be estimated. Currently, the Company has the legal obligation to incur costs of removing well sites from service when those sites are to be abandoned. However, the timing and costs of abandoning those sites cannot be determined at this time. Therefore, the Company has not, currently, recognized these obligations as liabilities.

Impairment of Property, Plant, and Equipment: Property, plant, and equipment are assessed for impairment whenever changes in facts and circumstances indicate a possible significant deterioration in the future cash flows expected to be generated from the property (or asset group). If the sum of undiscounted pretax cash flows from the property is less than the carrying value of the property, the carrying value is written down to estimated fair value.

Depreciation: The provision for depreciation is determined by use of the composite straight-line remaining life method as required by the Public Utilities Commissions of each state for utility property. Under this method the annual rates are based upon periodic studies of the estimated service lives of the properties. Depreciation rates are reviewed periodically and changes in estimates are made as appropriate. The aggregate depreciation provision for utility property is equivalent to 2.97% of average depreciable plant for the year ended December 31, 2010, and 3.01% and 2.97% for the years ended December 31, 2009 and 2008, respectively. Depreciation of nonutility property is determined by use of the straight-line method over the estimated useful lives of the property.

Cash Equivalents: The Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

PARK WATER COMPANY AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

Marketable Securities: Marketable securities are available for sale and are recorded at fair value, with unrealized holding gains and losses excluded from earnings and reported in a separate component of stockholders' equity. Fair value measurements are described in Note 14.

Rate Study Cost: The allowable costs incurred by the Company in the processing of applications to the Public Utilities Commissions of the States of California and Montana for rate increases are being amortized over the expected period that the rates will be in effect. Costs in excess of allowable amounts are expensed in the period that they are determined to be unrecoverable.

Revenues and Receivables: Revenues are included in income as billed to customers on a cycle basis. The Company does not accrue revenues for utility services rendered but not billed at the end of the fiscal period.

The Company extends credit to its utility customers for service provided during each billing period as provided by the Public Utilities Commissions in California and Montana. The Public Utilities Commissions do not allow the Company to accrue interest on delinquent payments, but the Company is allowed to charge late fees and to discontinue service when delinquent payments are not made. The Company charges off uncollectible receivables from its customers when it has determined that continued collection efforts are unlikely to result in their recovery. The Company has provided allowances for uncollectible receivables based on experience in collections from customers.

Comprehensive Income/Loss: Comprehensive income/loss includes all changes, except those resulting from investments by owners and distributions to owners, in the equity of a business enterprise from transactions and other events, including minimum pension liability adjustments on non-regulated entities, and unrealized gains and losses on marketable securities that are classified as available-for-sale. The components of other comprehensive income/loss are shown in Note 18.

Income Taxes: Accounting policies with respect to income taxes and related investment tax credits are set forth in Note 6.

Regulatory Assets and Liabilities: As required by the California Public Utilities Commission (CPUC), the Company maintains regulatory balancing accounts to record the net over or under collection of revenues authorized by the CPUC to offset certain expenses incurred or revenues lost. The Montana Public Service Commission allows the Company to maintain a "power cost tracking adjustment" account to record the net over or under collection of revenues due to increases or decreases in power costs. The Company also records a regulatory asset and liability for the expected amounts recoverable or refundable through future water rates of amounts associated with currently recognized postretirement benefit costs and the effect of tax rate changes and investment tax credits to future periods.

Financial Instrument Risk: The Company does not carry any financial instruments with off-balance sheet risk, nor do its operations result in concentrations of credit risk, other than that described in Note 20.

New Accounting Pronouncements: The Financial Accounting Standards Board issued ASC 740 (formerly FIN 48), *Accounting for Uncertainty in Income Taxes*, in June of 2006, effective for 2009. The Company evaluates its uncertain tax positions using the provisions of FASB ASC 450 (formerly SFAS No. 5), *Accounting for Contingencies*. Accordingly, a loss contingency is recognized when it is probable that a liability has been incurred as of the date of the financial statement and the amount of the loss can be reasonably estimated. The amount recognized is subject to estimate and management judgment with respect to the likely outcome of each uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position or for all uncertain tax positions in the aggregate could differ from the amount recognized. See Note 6 for more information regarding income taxes.

PARK WATER COMPANY AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 DECEMBER 31, 2010 AND 2009

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

Prior Year Financial Information: Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

Note 2: CASH AND CASH EQUIVALENTS:

	<u>2010</u>	<u>2009</u>
	(In Thousands)	
Cash on hand and in checking accounts	\$ 252	\$ 354
U.S. Treasury Bills	<u>1,499</u>	<u>2,400</u>
	<u>\$ 1,751</u>	<u>\$ 2,754</u>

Restricted Cash

Starting in 2010, included in Cash and Cash Equivalents is cash restricted for the use of payment on the Montana State Revolving Fund loan. Funds are collected from customers through a surcharge approved by the Public Service Commission and held in this account until used for the semi-annual payment of the loan. See Note 9: Long Term Debt for more information. Although the funds are restricted, they are anticipated to be paid out in less than a year, thus they have been included as cash and cash equivalents. The restricted cash balance is \$41,000 at December 31, 2010.

Note 3: MARKETABLE SECURITIES:

All marketable security investments in debt securities are reported at fair value with unrealized gains or losses, net of tax, recorded as a separate component of stockholders' equity. Debt securities consist of U.S. Treasury obligations. The contractual maturities of the debt securities range from January, 2011 to May, 2011, for the year ended December 31, 2010. The contractual maturities of the debt securities ranged from January, 2010 to July, 2010, for the year ended December 31, 2009. The Company held no equity securities at December 31, 2010 and 2009.

	<u>2010</u>	<u>2009</u>
	(In Thousands)	
	Debt <u>Securities</u>	Debt <u>Securities</u>
Fair value	<u>\$ 9,496</u>	<u>\$ 9,797</u>
Cost (amortized cost)	<u>\$ 9,497</u>	<u>\$ 9,797</u>
Unrealized gains	<u>\$ -</u>	<u>\$ -</u>
Unrealized losses	<u>\$ 1</u>	<u>\$ -</u>
Deferred tax liability – net	<u>\$ -</u>	<u>\$ 8</u>
Securities included as cash equivalents	<u>\$ 1,499</u>	<u>\$ 2,400</u>

	<u>2010</u>	<u>2009</u>	<u>2008</u>
	(In Thousands)		
Gross proceeds from sale of securities	<u>\$ 27,800</u>	<u>\$ 21,975</u>	<u>\$ 30,092</u>
Change in unrealized gain/(loss) on securities	<u>\$ 1</u>	<u>\$ 1</u>	<u>\$ (13)</u>
Change in deferred tax liability	<u>\$ 8</u>	<u>\$ -</u>	<u>\$ (8)</u>

Gross realized gains and losses are reported using the specific identification method.

PARK WATER COMPANY AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 DECEMBER 31, 2010 AND 2009

Note 4: UTILITY PLANT AND ACCUMULATED DEPRECIATION:

	<u>2010</u>	<u>2009</u>
	(In Thousands)	
Water Plant:		
Organization	\$ 277	\$ 277
Intangible plant	53	53
Land and land rights	8,148	7,751
Source of supply	8,333	8,258
Pumping	18,289	17,766
Water treatment	2,814	2,382
Transmission and distribution	178,246	173,830
General plant	<u>32,572</u>	<u>31,205</u>
Total water plant in service	248,732	241,522
Less: Accumulated depreciation	<u>(71,715)</u>	<u>(66,053)</u>
Net water plant in service	177,017	175,469
Construction work in progress	1,873	2,414
Goodwill	<u>311</u>	<u>351</u>
Total net utility plant	<u>\$ 179,201</u>	<u>\$ 177,234</u>

Total depreciation expense (including non-utility depreciation) at December 31, 2010, 2009, and 2008, was \$6,921,000, \$6,795,000, and \$6,439,000, respectively. Non-utility depreciation expense included in these years was \$44,000, \$44,000 and \$45,000, respectively.

Note 5: RELATED PARTY TRANSACTIONS:

Included in accounts receivable-other, are amounts due from H. H. Wheeler, Jr. (principal stockholder, chairman and president of Park Water Co.), his family, and Nevada Supply Corporation (a company controlled by H. H. Wheeler, Jr.). At December 31, 2010 and 2009, these amounts were \$401,000 and \$434,000 respectively.

Included in prepaid expenses and other are the short term notes receivable of \$23,000 at December 31, 2010 and 2009 from H. H. Wheeler, Jr. The notes bear interest at a variable rate. At December 31, 2010 and 2009, the interest rates were 0.49% and 0.69%, respectively.

Also included in prepaid expenses and other for 2010 and 2009 is the short term portion of notes due from Sara Wheeler Sablich and Nyri Wheeler-Lewis (daughters of H. H. Wheeler, Jr.). The short term portion is \$8,000 for December 31, 2010 and 2009. Notes receivable includes the long term portions of these notes. The long term portions of the notes at December 31, 2010 and 2009 respectively, were \$380,000 and \$368,000. The notes bear interest between 5.60% and 9.00%.

Accrued interest on the above accounts and notes receivable amounted to \$33,000 at both December 31, 2010 and 2009.

Included in miscellaneous accounts payable are loans that H. H. Wheeler made to Park Water Company. At December 31, 2010 and 2009, these amounts were \$199,000 and \$140,000, respectively. These loans accrue interest that varies at the Internal Revenue Service short term applicable federal rate (0.49% and 0.69% at December 31, 2010 and 2009, respectively) and are due on demand. Accrued interest on these loans was \$2,600 and \$1,800 at December 31, 2010 and 2009, respectively.

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Note 5: RELATED PARTY TRANSACTIONS: (continued)

Included in notes payable are notes to family members of H. H. Wheeler, Jr. for the repurchase of stock in Park Water Company amounting to \$1,904,000 at December 31, 2010 and \$1,913,000 at December 31, 2009. The notes are payable in 2012 and accrue interest at 7.38%. Also, a note payable of \$335,000 is due to Leigh K. Jordan, a member of the Board of Directors and an officer of Park Water Company at December 31, 2010 and 2009. This note accrues interest at 7.38% and is due March 14, 2012. Accrued interest on these notes was \$46,000 and \$44,000 at December 31, 2010 and 2009, respectively. Also included in notes payable are notes to H. H. Wheeler, Jr. and family members for \$1,100,000 at December 31, 2010. These notes earn interest at the variable interest rate equal the British Bankers Association LIBOR rate. Accrued interest on these notes was \$3,000 at December 31, 2010.

Included in non-utility operations, in the statement of operations, are sales to H. H. Wheeler, Jr. in the amount of \$32,000, for the year ended December 31, 2008. Included in interest and dividend income, is the interest earned on the notes and receivables due from H. H. Wheeler, Jr., his family, and related entities. For the years ended December 31, 2010, 2009 and 2008, these amounts were \$28,000, \$28,000 and \$44,000, respectively.

Included in interest expense for the years ended December 31, 2010, 2009 and 2008, is interest accrued related to notes payable to family members of H. H. Wheeler, Jr., of \$101,000, \$146,000 and \$142,000, respectively. Also included in interest expense for the years ended December 31, 2010, 2009 and 2008, are amounts related to notes payable to Mr. Jordan, of \$25,000 for each year.

Insignificant transactions with related parties are not included in the above amounts.

Note 6: INCOME TAXES:

The provision for income tax expense includes the following components:

	Years Ended December 31,		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
	(In Thousands)		
Current Expense	\$ 2,457	\$ 1,556	\$ (484)
Deferred Expense	(272)	1,164	1,861
Change in valuation allowance	1,029	16	199
Amortization of investment tax credits	<u>(28)</u>	<u>(31)</u>	<u>(35)</u>
Total Income Tax Expense	<u>\$ 3,186</u>	<u>\$ 2,705</u>	<u>\$ 1,541</u>
Income taxes included in operating expenses	\$ 3,071	\$ 2,555	\$ 1,595
Income taxes included in other income	<u>115</u>	<u>150</u>	<u>(54)</u>
Total Income Tax Expense	<u>\$ 3,186</u>	<u>\$ 2,705</u>	<u>\$ 1,541</u>

Deferred income taxes reflect the impact of temporary differences between the amount of assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes.

The valuation allowance has been established related to future loss deductions that reduce deferred tax assets to an amount that will, more likely than not, be realized. The valuation allowance changes are due primarily to the write down loss of a nonutility asset that is unlikely to produce a tax deduction in future years and charitable contribution deductions not expected to be realized.

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Note 6: INCOME TAXES: (continued)

The Company uses the liability method for recording deferred income taxes on temporary differences using the expected tax rate applied to the period the income tax liability or asset is to be realized. Any resulting changes in deferred tax balances from accounts that are not used in determining utility rates to customers are reflected in current operations. Changes in deferred tax balances from accounts that are used in determining utility rates to customers are recorded as regulatory assets and liabilities representing future increases or decreases due to or from customers. The Company's 2010 and 2009 balance sheets contain regulatory liabilities of \$302,000 and \$342,000 respectively representing future revenues to be refunded to customers, due to differences for liberalized depreciation at income tax rates in excess of 34%, and temporary differences caused by investment tax credits.

Regulatory liability for temporary differences related to liberalized depreciation is amortized (refunded) using the average rate assumption method. The regulatory liability for temporary differences caused by investment tax credits is amortized ratably in the same fashion as the accumulated deferred investment credits. All investment tax credits generated after 1973 have been deferred and amortized as reductions to income tax expense ratably over the lives of the property giving rise to the credits. The investment tax credit was eliminated effective January 1, 1986.

The components of accumulated deferred income taxes at December 31, 2010 and 2009 are as follows:

	<u>2010</u>		<u>2009</u>	
	<u>Current</u>	<u>Non-Current</u>	<u>Current</u>	<u>Non-Current</u>
	(In Thousands)			
Carrying bases of assets in excess of tax due to reinvestment of tax deferred condemnation and other proceeds	\$ -	\$ (4,196)	\$ -	\$ (4,355)
Excess tax over book depreciation	-	(19,609)	-	(18,639)
Other utility plant basis differences	-	411	-	431
Unbilled revenue	1,360	-	1,344	-
Other	140	(28)	130	200
Asset impairment	-	1,295	-	-
Valuation allowance	-	(1,487)	-	(457)
Deferred investment tax credits	-	(182)	-	(211)
Net deferred tax asset (liability)	<u>\$ 1,500</u>	<u>\$ (23,796)</u>	<u>\$ 1,474</u>	<u>\$ (23,031)</u>

PARK WATER COMPANY AND SUBSIDIARIES  
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Note 6: INCOME TAXES: (continued)

A reconciliation of the federal tax at statutory income tax rates to the Company's actual tax is as follows:

	Years Ended December 31,		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
	(In Thousands)		
Federal taxes on pre-tax income at statutory rates	<u>\$ 1,384</u>	<u>\$ 2,329</u>	<u>\$ 1,108</u>
Change in taxes resulting from:			
Investment tax credits	(28)	(31)	(35)
State tax net of federal tax benefit	491	294	176
Change in valuation account	1,029	(17)	199
Other – net	<u>310</u>	<u>130</u>	<u>93</u>
Total	<u>1,802</u>	<u>376</u>	<u>433</u>
Total taxes on income	<u>\$ 3,186</u>	<u>\$ 2,705</u>	<u>\$ 1,541</u>
Effective tax rates	<u>78.3%</u>	<u>39.5%</u>	<u>47.3%</u>

The Company recognizes a liability for uncertain tax positions when it is more likely than not that the positions will not be sustained upon examination, including the results of any appeals or litigation. The Company had \$1,406,000 of unrecognized benefits at December 31, 2010, of which \$426,000 would change the effective tax rate. The remaining unrecognized benefits of \$980,000 are items where there is uncertainty as to the timing of the deduction but the ultimate deductibility is highly certain. These remaining unrecognized benefits are recorded as deferred tax assets and are included as reductions in deferred tax liabilities on the balance sheet.

Interest and penalties of \$228,000 related to uncertain tax positions have been recognized in income tax expense for the year ended December 31, 2010, and are included with income tax liabilities at December 31, 2010.

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Note 6: INCOME TAXES: (continued)

A reconciliation of the beginning and ending unrecognized tax benefits for the years ended December 31, 2010, 2009, and 2008 is as follows:

	Years Ended December 31,		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
	(In Thousands)		
Beginning balance of unrecognized tax benefits:	\$ -	\$ -	\$ -
Increases related to prior period tax positions	1,206	-	-
Increases related to current period tax positions	200	-	-
Decreases related to settlements with taxing authorities	-	-	-
Reductions as a result of the lapse of the applicable statute of limitations	-	-	-
Ending balance of unrecognized tax benefits:	<u>\$ 1,406</u>	<u>\$ -</u>	<u>\$ -</u>

The Company files U.S. federal income tax, California franchise tax, and Montana Corporate License tax returns. The Company is subject to examination for federal purposes from the year ended December 31, 2007 to the current year. For California franchise tax purposes, the Company is subject to examination from the year ended December 31, 2006 through the current year. For Montana license tax purposes, the Company is subject to examination from the year ended December 31, 2005 through the current year.

It is reasonably possible that there could be changes in the amount of unrecognized tax benefits within the next twelve months. These changes may be the result of settlement of the timing and amount of depreciation deductions. The Company estimates that the range of the possible change in unrecognized tax benefits within the next twelve months is a decrease of approximately zero to \$1,406,000.

Note 7: OTHER DEFERRED CHARGES:

Other deferred charges are as follows:

	<u>2010</u>	<u>2009</u>
	(In Thousands)	
Debt expense	\$ 3,961	\$ 4,137
Rate studies	192	293
Split dollar life insurance contracts	157	148
Long term preliminary survey jobs	488	386
Other	86	104
	<u>\$ 4,884</u>	<u>\$ 5,068</u>

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Note 8: RETAINED EARNINGS:

Restriction of Dividends

The Company has agreed, under the trust indenture covering its first mortgage bonds, that dividends will be paid only from net earnings subsequent to December 31, 2001, plus the sum of \$10,787,000. Therefore, at December 31, 2010, after excluding dividends paid, there were \$27,842,000 of unrestricted earnings available for future dividends. During the years ended December 31, 2010 and 2009, the Company paid dividends of \$2,000,000 and \$330,000, respectively.

Note 9: LONG TERM DEBT:

First Mortgage Bonds

The Company has pledged substantially all of Park Water Company's property and the stock of its utility subsidiaries as collateral for the bonds under a Trust Indenture dated November 1, 1973, by and between the Company and The Bank of New York Mellon Trust Company, N.A. as trustee. Subsequently, additional bonds have been issued under supplemental indentures and amendments to the Trust Indenture.

Notes Payable

On March 13, 1997, the Company bought back 3,193.36 shares of outstanding common stock at \$811 per share. The Company financed the majority of the buy back by issuing notes with an interest rate of 7.38%. The notes accrue interest monthly and pay either monthly or semi-annually, with all principal paid at the maturity date of 2012.

Montana State Revolving Fund (SRF) loan

The Montana subsidiary received a loan from the State of Montana's Drinking Water program on August 23, 2010. The total amount of the loan was \$333,700 and is to be repaid through a surcharge on customer bills. Interest and principal payments are to be made semi-annually through July 1, 2015. Interest is calculated at a rate of 1.75%.

Maturities are as follows:

<u>Issue</u>	December 31,			
	<u>Amount Due</u>		<u>Amount Due</u>	
	<u>Within One Year</u>		<u>After One Year</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
	(In Thousands)			
\$10,000, 7.59%, due 08/31/25	\$ -	\$ -	\$ 10,000	\$ 10,000
\$7,000, 8.82%, due 06/1/20	-	-	7,000	7,000
\$15,000, 5.99%, due 01/27/36	-	-	15,000	15,000
\$10,000, 7.56%, due 10/6/33	-	-	10,000	10,000
\$10,000, 7.65%, due 10/6/38	-	-	10,000	10,000
Notes payable, due 2012	-	-	2,439	2,448
SRF Notes payable, due 2015	64	-	270	-
	<u>\$ 64</u>	<u>\$ -</u>	<u>\$ 54,709</u>	<u>\$ 54,448</u>

PARK WATER COMPANY AND SUBSIDIARIES  
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Note 9: LONG TERM DEBT: (continued)

Future long term debt maturities are as follows:

	<u>Principal</u>	<u>Interest</u> (In Thousands)	<u>Total</u>
2011	\$ 64	\$ 3,980	\$ 4,044
2012	2,505	3,838	6,343
2013	67	3,799	3,866
2014	1,068	3,798	4,866
2015	1,069	3,709	4,778
Later years	50,000	58,913	108,913
	<u>\$ 54,773</u>	<u>\$ 78,037</u>	<u>\$ 132,810</u>

Note 10: SHORT TERM BORROWINGS:

Notes Payable

The Company borrowed money from related parties to be repaid within the year. Of the amount borrowed, \$600,000 is due on November 14, 2011 and \$500,000 is due on December 9, 2011. All notes accrue interest at 2.50% over the British Bankers Association LIBOR rate. Also included in short term borrowings are notes payable due on demand of \$14,000 at December 31, 2010 and 2009.

Line of Credit

The Company maintains a \$4,000,000 line of credit with Bank of America through May 1, 2011 and a line of credit with US Bank for \$1,000,000 through November 1, 2011. There were no funds borrowed on these lines at December 31, 2010 and 2009.

Note 11: DEFERRED CREDITS:

Other deferred credits are as follows:

	<u>2010</u> (In Thousands)	<u>2009</u>
Work order deposits	\$ 978	\$ 1,175
Deferred revenues	2	2
	<u>\$ 980</u>	<u>\$ 1,177</u>

Note 12: ADVANCES FOR CONSTRUCTION:

Advances for construction are refundable to developers over various time periods as prescribed by the Public Utilities Commissions of California and Montana.

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Note 13: CONTRIBUTIONS IN AID OF CONSTRUCTION:

Contributions in aid of construction are donations or contributions in cash, services, or property from governmental agencies, municipalities, business firms, or individuals for the purpose of constructing utility plant.

For California and Montana operations, depreciation applicable to contributed plant is charged to the contributions account rather than to depreciation expense until the amount applicable to such properties has been completely amortized.

Note 14: FAIR VALUE OF FINANCIAL INSTRUMENTS:

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and Cash Equivalents: The carrying amount approximates fair value because of the short maturity of those instruments.

Marketable Securities: The fair value of marketable securities are based on quoted market prices.

Accounts Receivable – Other and Notes Receivable: The carrying amount approximates fair value for short term receivables. For long term notes receivable, the fair values are based on currently available borrowing rates.

Long Term Debt and Advances for Construction: The fair values of long term debt and non-contingent advances for construction are based on the borrowing rates currently available to the Company for long term debt with similar terms and average maturities. It is not practical to estimate the fair value of advances for construction that are contingent either on the amount of revenue generated from customers added as a result of these advances or amounts refunded as customers are connected for service. No interest is due on these contracts.

Assets measured at Fair Value on a Recurring Basis. FASB ASC Section 820 (formerly SFAS No. 157), "Fair Value Measurements", requires that assets and liabilities which are measured at fair value on a recurring basis disclose the type of valuation technique used in making that fair value measurement. These types of valuation techniques fall into three categories, or "levels". Level 1 indicates that quoted prices in active markets for identical assets were used to value the Company's assets. Level 2 denotes that significant other observable inputs were used for valuation and Level 3 is for significant unobservable inputs.

Park Water Company has only Marketable Securities that are regularly measured at fair value, based on quoted market prices (level 1 inputs). Some of these securities are included in the financial statements as Cash Equivalents.

PARK WATER COMPANY AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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Note 14: FAIR VALUE OF FINANCIAL INSTRUMENTS: (continued)

Therefore, the fair value measurements at December 31, 2010 of assets measured on a recurring basis are as follows:

(In Thousands) Description	12/31/10	Fair Value Measurements at Reporting Date Using		
		Level 1	Level 2	Level 3
Cash and Equivalents	\$ 1,751	\$ 1,751	\$ -	\$ -
Marketable Securities	7,997	7,997	-	-
Total	<u>\$ 9,748</u>	<u>\$ 9,748</u>	<u>\$ -</u>	<u>\$ -</u>

The fair values at December 31, 2009 are as follows:

(In Thousands) Description	12/31/09	Fair Value Measurements at Reporting Date Using		
		Level 1	Level 2	Level 3
Cash and Equivalents	\$ 2,754	\$ 2,754	\$ -	\$ -
Marketable Securities	7,397	7,397	-	-
Total	<u>\$ 10,151</u>	<u>\$ 10,151</u>	<u>\$ -</u>	<u>\$ -</u>

The estimated fair values of the Company's financial instruments are as follows:

(In Thousands)	2010		2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Assets</b>				
Cash and cash equivalents	\$ 1,751	\$ 1,751	\$ 2,754	\$ 2,754
Marketable securities	7,997	7,997	7,397	7,397
Accounts receivable, included on the balance sheet in the following categories:				
Accounts receivable – other	533	533	1,138	1,138
Prepaid and other (short term notes)	39	39	39	39
Notes receivable – long term	985	1,346	978	1,233
<b>Liabilities</b>				
Long term debt	54,709	58,230	54,448	56,335
Short term and long term advances for construction:				
Advances for construction – contingent	278	-	288	-
Advances for construction – non-contingent	49,559	19,777	50,588	19,287
Total advances for construction	<u>\$ 49,837</u>	<u>\$ 19,777</u>	<u>\$ 50,876</u>	<u>\$ 19,287</u>

Note 15: SUPPLEMENTAL CASH FLOW INFORMATION:

Additional information regarding cash and noncash investing and financing activities:

	Years Ended December 31,		
	2010	2009	2008
	(In Thousands)		
Interest paid	\$ 4,025	\$ 4,033	\$ 3,806
Income taxes paid	975	578	248
Noncash investing and financing activities:			
Utility plant contributed by others	115	235	2,030

Note 16: RETIREMENT BENEFITS:

The Company maintains retirement programs covering substantially all of its employees, consisting of a defined benefit pension plan and a 401(k) matching program (Employee Savings Plan). The Company also provides post-retirement benefits of health and life insurance to eligible employees depending on age and/or years of service. The Company's policy is to fund pension costs and other post-retirement benefits based on accepted actuarial methods as permitted by regulatory authorities.

Defined Benefit Pension Plan

The benefits of the Defined Benefit Pension Plan are based on years of service and the employees' compensation during employment. Plan assets consist of U.S. Government obligations and cash equivalents. Contributions are intended to provide not only for benefits attributed to service to date, but also for those expected to be earned in the future.

Postretirement Benefits

The Company provides two separate benefit plans based on the employee's hire date. Employees hired before May 3, 2005, subject to years of service at that time, are eligible for the defined benefit plan which pays for health care and life insurance benefits for its plan members. The amount of the benefit is dependent on the number of years of service with the Company. These funds are invested in U.S. Government obligations and cash equivalents. Employees hired on or after May 3, 2005 and employed at November 30, 2009 are eligible for Nonelective Employer Contributions through the Company's 401(k) plan. This amendment to the 401(k) plan became effective November 1, 2009 with a retroactive date of May 3, 2005. Eligible participants at November 1, 2009 are 100% vested in the plan. Employees hired after December 1, 2009 become 100% vested after three years of employment in which they work at least 1,000 hours per year. An amount determined by the board of directors will be contributed each year into employee-directed funds. A contribution of \$331,000 was made for the plan in 2010. This is the first contribution made for this plan and it covers benefits accrued for 2005-2009.

PARK WATER COMPANY AND SUBSIDIARIES  
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Note 16: RETIREMENT BENEFITS: (Continued)

The following details the unfunded status of the defined benefit plan and post-retirement benefits other than pensions, and the associated amount recognized in the consolidated balance sheets as of December 31. The Company uses a December 31 measurement date for its pension and other postretirement plans.

	Defined Benefit Pension Plan		Retiree Health And Life	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
	(In Thousands)			
Change in projected benefit obligation (Accumulated postretirement benefit obligation for Retiree Health and Life)				
Benefit obligation at beginning of year	\$ 26,355	\$ 24,964	\$ 10,824	\$ 9,265
Service cost	1,252	1,235	424	376
Interest cost	1,438	1,350	641	527
Actuarial loss (gain)	919	32	1,272	847
Benefits paid	(856)	(1,226)	(204)	(191)
Projected (Accumulated) benefit obligation at end of year	<u>\$ 29,108</u>	<u>\$ 26,355</u>	<u>\$ 12,957</u>	<u>\$ 10,824</u>
Change in plan assets				
Fair value of plan assets at beginning of year	\$ 19,459	\$ 19,710	\$ 5,933	\$ 5,590
Actual return on plan assets	466	27	99	(20)
Employer contribution	1,919	948	570	554
Benefits paid	(856)	(1,226)	(204)	(191)
Fair value of plan assets at end of year	<u>\$ 20,988</u>	<u>\$ 19,459</u>	<u>\$ 6,398</u>	<u>\$ 5,933</u>
Funded status of the plan	<u>\$ (8,120)</u>	<u>\$ (6,896)</u>	<u>\$ (6,559)</u>	<u>\$ (4,891)</u>
Amounts recognized in the consolidated balance sheets				
Other liabilities – long term	<u>\$ (8,120)</u>	<u>\$ (6,896)</u>	<u>\$ (6,559)</u>	<u>\$ (4,891)</u>

	Defined Benefit Pension Plan			Retiree Health And Life		
	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Amounts recognized in accumulated other comprehensive income (loss) consists of:						
Transition obligation	\$ -	\$ -	\$ -	\$ 11	\$ 16	\$ 22
Net actuarial loss (gain)	292	279	210	24	5	(31)
Net amount recognized	<u>\$ 292</u>	<u>\$ 279</u>	<u>\$ 210</u>	<u>\$ 35</u>	<u>\$ 21</u>	<u>\$ (9)</u>
Amounts recognized in regulatory assets consists of:						
Prior service cost (credit)	\$ 12	\$ 15	\$ 18	\$ -	\$ -	\$ -
Transition obligation	-	-	-	270	405	540
Net actuarial loss (gain)	7,344	6,290	5,685	3,558	2,173	1,018
Net amount recognized	<u>\$ 7,356</u>	<u>\$ 6,305</u>	<u>\$ 5,703</u>	<u>\$ 3,828</u>	<u>\$ 2,578</u>	<u>\$ 1,558</u>

PARK WATER COMPANY AND SUBSIDIARIES  
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Note 16: RETIREMENT BENEFITS: (Continued)

Assumptions Regarding Rates

Weighted average assumptions used to determine net periodic benefit cost for years ended:

	<u>Defined Benefit Pension Plan</u>		<u>Retiree Health and Life</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Discount rate	5.50%	5.75%	5.50%	5.75%
Expected return on plan assets	5.00%	5.00%	5.78%	5.71%
Rate of compensation increase	5.00%	5.00%	5.00%	5.00%

The Company's approach in determining the long-term rate of return for the plan's assets is based upon historical financial market relationships that have existed over time with the presumption that this trend will generally remain constant in the future. The Company reviews the expected long-term rate of return assumptions annually and revises them when appropriate.

For measurement purposes, the annual rate of increase in the per capita cost of covered health care benefits assumed for 2010 was 10.1%. The rate is assumed to decrease gradually to 4.50% for 2018 and remain at that level thereafter.

	<u>Defined Benefit Pension Plan</u>			<u>Retiree Health And Life</u>		
	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
	(In Thousands)					
Components of net periodic benefit cost						
Service cost	\$ 1,252	\$ 1,235	\$ 1,222	\$ 424	\$ 376	\$ 381
Interest cost	1,439	1,351	1,313	641	527	490
Expected return on plan assets	(934)	(941)	(898)	(352)	(329)	(291)
Amortization of transition obligation	-	-	-	141	141	141
Prior service cost amortization	3	3	3	-	-	-
Recognized net actuarial gain	<u>319</u>	<u>271</u>	<u>308</u>	<u>120</u>	<u>4</u>	<u>7</u>
Net periodic benefit cost	<u>\$ 2,079</u>	<u>\$ 1,919</u>	<u>\$ 1,948</u>	<u>\$ 974</u>	<u>\$ 719</u>	<u>\$ 728</u>

Sensitivity

	(In Thousands)		
Effect of changes in the assumed health care cost trend rates			
Effect of 1-percentage-Point Increase			
Total of service cost and interest cost		\$ 229	\$ 210
Postretirement benefit obligation		2,433	1,911
Effect of 1-percentage-Point Decrease			
Total of service cost and interest cost		(178)	(147)
Postretirement benefit obligation		(1,927)	(1,667)

Estimated amounts that will be amortized from Accumulated Other Comprehensive Income or a Regulatory Asset in the next fiscal year ending December 31, 2010:

(In Thousands)	<u>Defined Benefit Pension Plan</u>	<u>Retiree Health and Life</u>
Transition Obligation	\$ -	\$ 141
Prior Service Cost	\$ 3	\$ -
Net Actuarial Loss	\$ 436	\$ 203

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Note 16: RETIREMENT BENEFITS: (continued)

The following information is for the defined pension plan which has an accumulated benefit obligation in excess of plan assets:

	<u>2010</u>	<u>2009</u>
	(In Thousands)	
Projected benefit obligation	\$ 29,108	\$ 26,355
Accumulated benefit obligation	25,029	22,394
Fair value of plan assets	20,988	19,459

Estimated Future Benefit Payments

The following benefit payments reflect expected future service for the years ended:

	<u>Defined Benefit</u> <u>Pension Plan</u>	<u>Retiree Health</u> <u>and Life</u>
	(In Thousands)	
December 31, 2011	\$ 2,483	\$ 296
December 31, 2012	2,182	355
December 31, 2013	1,618	432
December 31, 2014	1,281	494
December 31, 2015	2,252	529
December 31, 2016 to 2020	13,074	3,298
Expected employer contributions for the year Ending December 31, 2010	\$ 2,079	\$ 649

Retirement Plan Investment Strategy

The asset allocation for the Company's defined benefit pension plan and benefit trust is to invest almost 100% in U.S. Treasury obligations for 2010 and 2009. A minimal portion of funds are invested in treasury based money market fund for purposes of liquidity. The plan's assets are invested with the objective of meeting current and future benefit payment needs. The investment approach is primarily based upon predictability of return. This predictability of return approach ensures that the investment programs meet the standard of prudence. Furthermore, this predictability of return approach reduces the impact that would otherwise occur when plan returns vary significantly from year-to-year. At a minimum, the investment policy and strategy is reviewed annually. The fair value of the plan assets is equal to the quoted market prices as measured by the actuarial company. The 2010 target allocation is for substantially all investments to be debt instruments backed by the U.S. Government.

Employee Savings Plan

The Company sponsors a contributory pension plan under section 401(k) of the Internal Revenue Code as of July 1, 1993, covering its employees. The plan is administered by a trustee in which an employee may invest a percentage or flat rate up to the IRS maximum for the year from his or her salary, and the Company contributes an additional fifty percent of the first six percent of the employee's contributions. These combined amounts may be invested in one or more investment funds (mutual funds) as selected by the participant. Employees terminating for any reason may have their total fund value distributed. Total Company contributions to the plan for the years ended December 31, 2010, 2009, and 2008 were \$319,000, \$320,000, and \$300,000 respectively.

PARK WATER COMPANY AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 DECEMBER 31, 2010 AND 2009

Note 17: GOODWILL AND INTANGIBLE ASSETS:

The carrying amount of goodwill totaled \$34,000 as of December 31, 2010 and 2009. There was no goodwill impairment or goodwill acquired during the year ended December 31, 2010, or 2009.

Goodwill that is required to be amortized by the Public Utility Commissions of California and Montana is considered a regulatory asset, and is included as a component of utility plant with goodwill that is not required to be amortized. The carrying amount and changes to goodwill subject to amortization is as follows:

	<u>2010</u>	December 31, <u>2009</u>	<u>2008</u>
	(In Thousands)		
Gross carrying amount	<u>\$ 851</u>	<u>\$ 851</u>	<u>\$ 851</u>
Accumulated amortization	<u>\$ 573</u>	<u>\$ 533</u>	<u>\$ 493</u>
Amortization expense	<u>\$ 40</u>	<u>\$ 40</u>	<u>\$ 40</u>

Estimated amortization expense for each of the 5 years ending December 31, 2011 through 2015 is \$40,000.

Note 18: ACCUMULATED OTHER COMPREHENSIVE LOSS:

The components of accumulated other comprehensive loss at December 31, were as follows:

	<u>2010</u>	<u>2009</u>
	(In Thousands)	
Unamortized pension and post-retirement plan actuarial losses and prior service cost	340	296
Accumulated unrealized (gain) loss on investments, net of taxes of \$0 and \$0 in 2010 and 2009, respectively	1	(8)
Accumulated other comprehensive loss	<u>\$ 341</u>	<u>\$ 288</u>

Note 19: IMPAIRMENT OF PROPERTY, PLANT, AND EQUIPMENT:

During 2010, 2009, and 2008, the Company recognized before-tax impairment charges of \$2,093,000, \$64,000, and \$394,000, respectively, related to non-utility property. The impairment was the result of the write-down to fair value of property that had a carrying value in excess of the sum of its estimated pretax cash flows. The charge is included in non-utility operations in the Consolidated Statement of Operations.

PARK WATER COMPANY AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009

Note 20: COMMITMENTS AND CONTINGENCIES:

Water Quality Standards

Pursuant to the 1996 Amendments of the Safe Drinking Water Act, the U.S. Environmental Protection Agency continues to propose and promulgate new drinking water standards. Current and expected proposals will have significant impacts on the levels of capital expenditures needed and operations of the Company if promulgated at or near the anticipated levels.

Concentrations of Credit Risk

Park Water Company and subsidiaries grant credit to their utility customers, all of whom are located in their service territories which cover portions of Los Angeles and San Bernardino counties in California, and Missoula, Montana. Park Water Company and its subsidiaries do not require collateral on credit extended to their utility customers.

Note 21: MERGER:

Park Water Company entered into a merger agreement in December 2010 that would effectively result in the sale of all of Park Water Company's outstanding shares of stock. The merger has been agreed upon by the parties involved pending approval by the California Public Utilities Commission and disposition by the Montana Public Service Commission. Future requirements or obligations associated with obtaining these approvals are not expected to have a material impact on future operations or liquidity of the utility operations of the Company.

SUPPLEMENTARY INFORMATION

## GENERAL

Park Water Company is primarily engaged in the business of serving water to customers in Los Angeles and San Bernardino Counties in California and in Missoula, Montana, through operating divisions and wholly owned subsidiaries. The Company is regulated by the Public Utilities Commissions of both states in all of its public utility operations and holds valid permits to serve water from the State Boards of Health. The water supply for customers is obtained from wells and surface supplies located in the service areas and supplemented by purchases, in Downey, from the Metropolitan Water District of Southern California through one of its member agencies, the Central Basin Municipal Water District. The Company is presently producing approximately 20% of its water requirements from its wells and purchasing the remaining 80% for its Los Angeles County operations.

Water produced from wells in the Central Basin area is subject to a replenishment charge established for the purpose of purchasing water to replenish the underground water basin. The replenishment rate in the Central Basin area was \$181.85 per acre foot pumped for 2009/2010 and \$205 for 2010/2011; whereas in the Apple Valley service area, the replenishment rate (which covers administrative costs) for domestic and irrigation water is \$4.32 per acre foot for both 2009/2010 and 2010/2011. Water produced from wells in Apple Valley's service area is also subject to a makeup assessment based upon minimum annual flows between adjoining sub-areas. The estimated makeup assessment rate for the 2009/2010 water year was \$50.00 per acre foot.

The Company, through its SICC, Inc. subsidiary, is engaged in the business of providing specialized coatings and the construction of utility facilities.

## PERSONNEL

The Company had 176 full-time and part-time employees at December 31, 2010, consisting of 13 corporate officers, 25 corporate employees, three division or subsidiary vice presidents/general managers, 72 office or clerical staff, and 63 field employees in the utility operations. Employees are non-union. Wages, hours, and other conditions are comparable to those generally found in this industry. All full-time utility employees are covered by group life, accidental death & dismemberment insurance, disability insurance, pension benefits, paid time off and optional health insurance.

## PROPERTIES

### Park Water Company

The principal administrative offices of the Company, along with maintenance, repair shops, and storage of materials and supplies inventory for its Central Basin operations, are located on four acres of Company owned land at 9750 Washburn Road, Downey, California.

The Company's water system for its Central Basin operations consists of 12 wells and two booster pump stations both powered by electricity, one booster pump station powered by natural gas, and six purchased water connections from the Metropolitan Water District. The Company owns four backup generators capable of operating the wells, booster pumps and general offices during periods of power outages. The generators operate using diesel fuel. The Company maintains sufficient fuel storage to operate all the generators during anticipated outage periods. Water system storage consists of one 2,000,000 gallon concrete reservoir, one 500,000 gallon and one 250,000 gallon welded steel tanks. The transmission and distribution system consists of approximately 252 miles of cast iron, ductile iron, cement asbestos, and steel pipe varying in size between 2" and 24" in size. At December 31, 2010, the Company's Central Basin operation had 28,133 active and inactive water customers.

PROPERTIES (continued)

Mountain Water Company

Properties comprising the Company's water system in Missoula, Montana consist of 35 active and three inactive wells, eight lakes, one 4,000,000 gallon impounding reservoir, one 3,100,000 gallon concrete reservoir, three 1,000,000 gallon concrete reservoirs, one 600,000 gallon and two 500,000 gallon concrete tanks, five other in-ground reservoirs with storage totaling 600,000 gallons, 12 various sized steel tanks and standpipes storing 1,675,000 gallons, and 21 booster pump stations powered by electricity. The Company owns 19 backup generators capable of operating the wells, booster pumps and general offices during periods of power outages. The generators operate using diesel fuel. The Company maintains sufficient fuel storage to operate all the generators during anticipated outage periods. The transmission and distribution system consists of approximately 317 miles of principally steel and cast iron pipe ranging in size from 1" to 30". At December 31, 2010, the Company's Missoula operation had 23,439 active and inactive water customers.

Administrative office, shop, and yard facilities serving Montana customers are located on approximately two and one-quarter acres of Company owned land at 1345 West Broadway in Missoula, Montana.

Apple Valley Ranchos Water

Properties comprising the Company's water system in Apple Valley, Victorville and San Bernardino County, California consist of 24 potable water wells and 1 irrigation well. Two of these wells are powered by natural gas and the others are powered by electricity. The Company owns 16 backup generators capable of operating the wells, booster pumps and general offices during periods of power outages. The generators operate using diesel fuel. The Company maintains sufficient fuel storage to operate all the generators during anticipated outage periods. Water system storage facilities consist of 11 steel tanks with a combined 11,697,000-gallon capacity. The transmission and distribution system consists of approximately 451 miles of transite cement, plastic and steel pipe varying between 2" and 20" in size. The transmission and distribution system for irrigation water consists of 1 mile of gravity irrigation pipe varying between 24" and 30" in size. As of December 31, 2010 the Company's Apple Valley operation had 20,334 active and inactive water customers.

An administrative office, shop, and yard facility serving Apple Valley customers is located on approximately five acres of Company land at 21760 Ottawa Road in Apple Valley.

PARK WATER COMPANY AND SUBSIDIARIES  
SUPPLEMENTARY INFORMATION  
DECEMBER 31, 2010

DIRECTORS AND OFFICERS

The Board of Directors and Officers of Park Water Company are as follows:

<u>Name</u>	<u>Board Member</u>	<u>Officer</u>
Henry H. Wheeler, Jr.	Director-Chairman	President and Chief Executive Officer
Christopher Schilling	Director	Co-Chief Executive Officer
Nyri A. Wheeler	Director	Secretary
Chayre M. Wheeler	Director	Assistant Secretary
Henry H. Wheeler, III	Director	
Leigh K. Jordan	Director	Executive Vice President
Jeanne-Marie Bruno	Director	Senior Vice President Engineering And General Manager
John A. Kappes		
Douglas K. Martinet	Director	Senior Vice President/Chief Financial Officer
Mary A. Young		Senior Vice President Administration
Gary R. Lynch		Vice President Water Quality
David G. Warner		Vice President Risk Management
Dennis J. Brooks		Assistant Vice President
Richard R. Dalton		Assistant Vice President

PARK WATER COMPANY AND SUBSIDIARIES  
SUPPLEMENTARY INFORMATION  
DECEMBER 31, 2010

DEBT COVERAGE CALCULATION

For the year ended December 31, 2010, the Company's debt coverage using "adjusted" net earnings was 2.05.

"Adjusted" net earnings is calculated as follows:

Net Income	\$ 883
Add: Income taxes	3,186
Interest	4,036
Amortization of debt costs	<u>176</u>
	<u>\$ 8,281</u>
Annual interest charges	<u>\$ 4,036</u>
Debt coverage	<u>2.05</u>

CONSOLIDATING SCHEDULES OF BALANCE SHEETS AND INCOME

Pages 28 through 30 present a consolidating schedule of balance sheets and a consolidating schedule of income for Park Water Company and each of its subsidiaries.

PARK WATER COMPANY AND SUBSIDIARIES  
CONSOLIDATING SCHEDULE OF BALANCE SHEETS INCLUDING INTERCOMPANY ELIMINATIONS  
DECEMBER 31, 2010

(In Thousands) ASSETS	Park Water Company	SICC, Inc.	Santa Paula Water Works Ltd.	Mountain Water Company	Apple Valley Ranchos Water Company	Inter- Company Eliminations	Consolidated
Utility Plant:							
Utility plant - at cost or donors' basis	\$ 59,370	\$ -	\$ -	\$ 87,575	\$ 101,787	\$ -	\$ 248,732
Less: Accumulated depreciation	(22,549)	-	-	(25,366)	(23,800)	-	(71,715)
Goodwill	22	-	-	240	15	34	311
Net utility plant	36,843	-	-	62,449	78,002	34	177,328
Construction work in progress	1,257	-	-	373	243	-	1,873
Total Utility Plant	38,100	-	-	62,822	78,245	34	179,201
Non-Utility Property and Investments:							
Non-utility property	72	615	1	816	213	-	1,717
Investments in subsidiaries	29,374	-	-	-	-	(29,374)	-
Total Non-Utility Property and Investments	29,446	615	1	816	213	(29,374)	1,717
Current Assets:							
Cash and cash equivalents	1,688	27	-	105	(69)	-	1,751
Marketable securities	7,997	-	-	-	-	-	7,997
Accounts receivable:							
Customers	1,115	-	-	822	990	-	2,927
Other	458	20	-	33	22	-	533
Current regulatory assets	1,755	-	-	185	2,378	-	4,318
Materials and supplies inventory	125	95	-	409	319	-	948
Prepaid expenses and other	2,254	15	29	604	591	-	3,493
Deferred income taxes	639	(6)	24	269	574	-	1,500
Total Current Assets	16,031	151	53	2,427	4,805	-	23,467
Other Assets:							
Notes receivable	329	66	907	-	-	-	1,302
Deferred charges	4,281	-	-	501	102	-	4,884
Intercompany receivables	-	-	23,221	12,305	-	(35,526)	-
Regulatory assets	5,993	-	-	5,853	7,161	-	19,007
Total Other Assets	10,603	66	24,128	18,659	7,263	(35,526)	25,193
TOTAL ASSETS	\$ 94,180	\$ 832	\$ 24,182	\$ 84,724	\$ 90,526	\$ (64,866)	\$ 229,578

PARK WATER COMPANY AND SUBSIDIARIES  
CONSOLIDATING SCHEDULE OF BALANCE SHEETS INCLUDING INTERCOMPANY ELIMINATIONS  
(CONTINUED)  
DECEMBER 31, 2010

(In Thousands)	Park Water Company	SICC, Inc.	Santa Paula Water Works Ltd.	Mountain Water Company	Apple Valley Ranchos Water Company	Inter-Company Eliminations	Consolidated
<b>CAPITALIZATION AND LIABILITIES</b>							
<b>Stockholders' Equity:</b>							
Common stock, par value \$25 per share, authorized 80,000 shares, outstanding 24,415 shares	\$ 610	\$ 381	\$ 446	\$ 6,941	\$ 4	\$ (7,772)	\$ 610
Paid in capital	1,963	10,751	-	7,205	5,863	(23,819)	1,963
Retained earnings	(20,989)	(13,313)	23,764	35,880	35,369	2,251	62,962
Accumulated other comprehensive income	(15)	-	(326)	-	-	-	(341)
<b>Total Stockholders' Equity</b>	<b>(18,431)</b>	<b>(2,181)</b>	<b>23,884</b>	<b>50,026</b>	<b>41,236</b>	<b>(29,340)</b>	<b>65,194</b>
<b>Long Term Debt:</b>							
First mortgage bonds	52,000	-	-	-	-	-	52,000
Notes payable	2,439	-	-	270	-	-	2,709
<b>Total Long Term Debt</b>	<b>54,439</b>	<b>-</b>	<b>-</b>	<b>270</b>	<b>-</b>	<b>-</b>	<b>54,709</b>
<b>Total Capitalization</b>	<b>36,008</b>	<b>(2,181)</b>	<b>23,884</b>	<b>50,296</b>	<b>41,236</b>	<b>(29,340)</b>	<b>119,903</b>
<b>Current Liabilities:</b>							
Short-term borrowings	1,114	-	-	-	-	-	1,114
Current portion of long term debt	-	-	-	64	-	-	64
Accounts payable	2,458	150	-	573	395	-	3,576
Accrued interest	1,126	3	-	15	4	-	1,148
Accrued payroll and benefits	1,391	9	-	434	377	-	2,211
Accrued income taxes	640	-	-	-	-	-	640
Currently refundable advances for construction	52	-	-	534	933	-	1,519
Current regulatory liabilities	604	-	-	-	-	-	604
Other current liabilities	963	-	-	541	949	-	2,453
<b>Total Current Liabilities</b>	<b>8,348</b>	<b>162</b>	<b>-</b>	<b>2,161</b>	<b>2,658</b>	<b>-</b>	<b>13,329</b>
<b>Other Liabilities and Deferred Credits:</b>							
Accrued pension and postretirement benefits	8,410	-	288	3,580	2,410	-	14,688
Accumulated deferred investment tax credits	43	-	-	56	83	-	182
Deferred income taxes	5,542	32	10	8,392	9,638	-	23,614
Deferred credits	175	-	-	323	482	-	980
Advances for construction	1,303	-	-	16,969	30,046	-	48,318
Contributions in aid of construction	2,798	-	-	2,828	2,165	-	7,791
Intercompany payables	31,044	2,819	-	-	1,663	(35,526)	-
Regulatory liabilities	509	-	-	119	145	-	773
<b>Total Other Liabilities and Deferred Credits</b>	<b>49,824</b>	<b>2,851</b>	<b>298</b>	<b>32,267</b>	<b>46,632</b>	<b>(35,526)</b>	<b>96,346</b>
<b>TOTAL CAPITALIZATION AND LIABILITIES</b>	<b>\$ 94,180</b>	<b>\$ 832</b>	<b>\$ 24,182</b>	<b>\$ 84,724</b>	<b>\$ 90,526</b>	<b>\$ (64,866)</b>	<b>\$ 229,578</b>

PARK WATER COMPANY AND SUBSIDIARIES  
CONSOLIDATING SCHEDULES OF OPERATIONS INCLUDING INTERCOMPANY ELIMINATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2010

(In Thousands)

	Park Water Company	SICC, Inc.	Santa Paula Water Works Ltd.	Mountain Water Company	Apple Valley Ranchos Water Company	Inter- Company Eliminations	Consolidated
Operating Revenues	\$ 24,937	\$ -	\$ -	\$ 16,044	\$ 20,213	\$ -	\$ 61,194
Operating Expenses:							
Operation and maintenance	19,272	-	-	9,710	11,654	-	40,636
Depreciation	1,962	-	-	2,305	2,594	-	6,861
Taxes other than income	885	-	-	1,312	615	-	2,812
Income taxes	(456)	-	-	1,422	2,105	-	3,071
Total Operating expenses	21,663	-	-	14,749	16,968	-	53,380
Operating Income	3,274	-	-	1,295	3,245	-	7,814
Other Income and Deductions:							
Interest and dividend income	39	6	64	-	-	-	109
Non-utility operations	(15)	(2,264)	(49)	(1)	-	-	(2,329)
Other non-operating income (loss)	(363)	-	-	(9)	(12)	-	(384)
(Income taxes) benefit on other income and deductions	134	71	(329)	4	5	-	(115)
Total Other Income and Deductions	(205)	(2,187)	(314)	(6)	(7)	-	(2,719)
Interest Charges:							
Interest on long term debt	3,972	-	-	-	-	-	3,972
Interest on short term debt	47	1	-	7	9	-	64
Interest on intercompany debt	1,176	104	(868)	(474)	62	-	-
Amortization of debt expense	176	-	-	-	-	-	176
Total Interest Charges	5,371	105	(868)	(467)	71	-	4,212
Net Income (Loss)	\$ (2,302)	\$ (2,292)	\$ 554	\$ 1,756	\$ 3,167	\$ -	\$ 883

CFC-039 RE: Wheeler consulting agreement

**Please explain the nature and purpose of Mr. Wheeler's proposed consulting agreement and how Mountain Water rate payers will benefit from Mr. Wheeler's continued involvement in Park under new ownership.**

Mr. Wheeler has been CEO of Park for over 30 years and has been actively involved in overseeing the operations of Park and Mountain during that time. He has and continues to be a very "hands-on" CEO. Accordingly, Mr. Wheeler's experience with and knowledge of Park and Mountain, the issues they confront and their management and other personnel will continue to be a unique and important resource for Park and Mountain following the closing of the Carlyle transaction.

**CFC-040** RE: Non-water system assets of Mountain Water

**Please identify and provide relevant documentation regarding the non-water system assets currently owned by Mountain Water, including but not limited to real property.**

Please see attached.

**CFC-040**

Company	Account	Asset Number and Description	Acquired Date	Cumulative Cost	Cumulative Depreciation	Net Book Value
03100	Land	30001103 - LAND-FUTURE USE-WELLS - 4,875 SQ FT	1/15/1991	11,645.42	-	11,645.42
03100	Casing Pipes Across in Momont	30001104 - LAND-FUTURE USE-WELLS - 11,700 SQ FT	1/15/1991	26,745.43	-	26,745.43
03100	Beckwith Site Improvements	30052823 - SPRINKLER SYSTEM	6/4/2002	1,869.00	-	1,869.00
03100	24" Casing Pipe-Reserve@ River	30080516 - MAIN-30" CASING PIPE	12/31/1998	31,384.29	-	31,384.29
03100	Casing Pipes Across in Momont	30080517 - MAIN-CASING PIPE 36"	9/30/1997	12,967.50	-	12,967.50
03100	Land	30080518 - MAIN-CASING PIPE 48"	6/30/1997	248,348.30	-	248,348.30
03100	Casing Pipes Across in Momont	30080519 - MAIN-CASING PIPE 36"	9/30/1997	17,955.00	-	17,955.00
03100	Casing Pipes Across in Momont	30080520 - MAIN-CASING PIPE 42"	9/30/1997	8,085.00	-	8,085.00
03100	24" Casing Pipe-Reserve@ River	30080522 - LAND-FUTURE USE-TANKS	12/5/1997	59,009.54	-	59,009.54
03100	Beckwith Site Improvements	30082706 - SIDEWALK-BECKWITH FUTURE WELL	6/16/2003	2,572.50	-	2,572.50
03100	48" Casing Pipe-Momont Area	30092758 - MAIN-48" CASING, HYW 10 W	3/12/1998	31,804.19	-	31,804.19
03100	24" Casing Pipe-Reserve@ River	31080516 - MAIN-30" CASING PIPE-ADDTL CHG	2/4/2000	3,221.59	-	3,221.59
<b>Sub-Total - Land and Property Held For Future Use</b>						<b><u>\$ 455,607.76</u></b>
03100	Wells and Springs	8939 - WELL-DICKENS AVENUE	12/4/1980	8,682.24	(740.90)	7,941.34
03100	Structures and Imp-Pump	8940 - STRUCTURE-11X20' CINDERBLOCK	12/4/1980	5,243.34	(426.47)	4,816.87
03100	Electric/Pumping Equip	8941 - SUMP-AT END OF DISCHARGE PIPE	12/4/1980	336.60	(42.63)	293.97
03100	Structures and Imp Water Trt.	30013700 - STRUCTURE-CL2 ROOM-6X11'	8/28/1991	7,010.67	(715.10)	6,295.57
<b>Sub-Total - Property Removed From Utility Use</b>						<b><u>\$ 19,347.75</u></b>
03300	Cabin and Improvments At Rattlesnake Reservoir					381,715.47
03300	Furnishings and Equipment In Cabin At Rattlesnake Reservoir					5,773.41
<b>Sub-Total - Non-Utility Property At Rattlesnake Reservoir</b>						<b><u>\$ 387,488.88</u></b>
<b>TOTAL NON-UTILITY PROPETY OWNED BY MOUNTAIN WATER</b>						<b><u>\$ 862,444.39</u></b>

CFC-041 RE: Employment agreements

**Please identify each Mountain Water employee that has been offered or who will be offered an employment agreement pursuant to the Agreement and Plan of Merger executed on December 21,2010 by Western Water Holdings, LLC ("Western Water Holdings"), PWC Merger Sub, Inc., Park Water Company ("Park"), Henry H. Wheeler, Jr. ("Wheeler") and Park shareholders (the "Merger Agreement").**

The purchase agreement identifies Mr. Hiller and Mr. Kappes as Mountain Water employees who will be offered a contract.

**CFC-042** RE: Mountain Water V.P. and General Manager

**Arvid Hiller has indicated publicly that he intends to retire soon. Please disclose Mr. Hiller's anticipated retirement date and who will succeed him in the role of V.P. and General Manager of Mountain Water.**

Mr. Hiller expects to continue in his current position at Mountain Water Company for the foreseeable future.

**CFC-043** RE: Valuation of Park and/or Mountain Water

**Please provide copies of a valuation, appraisal, and any other document that was used to arrive at or agree to the purchase price offered to Park by Carlyle Infrastructure or any of its subsidiaries.**

Neither Park nor its shareholders sought, obtained or used any valuation or appraisal of Park or its affiliated companies in connection with their decision to accept the acquisition purchase price offered by Carlyle.

**CFC-044** RE: Mountain Water executive salaries

**a. Please disclose the current salaries for Mountain Water management staff.**

Mountain cannot provide the current salaries of its employees in this proceeding because of the Commission rule, the legality of which is being challenged, which provides that the information will not be protected against public disclosure.

**b. Please indicate how these current salaries are anticipated to change under new ownership.**

Mountain does not expect current salaries to change as a result of a change in ownership.

**CFC-045** RE: Risk of proposed transaction on Mountain Water consumers

**Please provide specific information to support each of the following statements made in the**

**Consolidated Petition by Mountain Water Company for Declaratory Rulings and Application for Approval of Sale and Transfer of Stock in Park Water Company (the "Application"):**

- a. The sale of Park has no impact on the ownership of Mountain Water.**

Park owns the stock of Mountain regardless of who owns the stock of Park.

- b. The sale of Park has no impact on Mountain Water's assets devoted to serve the public.**

The ownership of Park, a California company, has no legal effect on the assets which Mountain has dedicated to utility service in Montana.

- c. The sale of Park has no impact on Mountain Water's operation in Montana.**

See response to 45(b).

- d. The sale of Park has no impact on the rates that Mountain Water is authorized to charge its Montana customers.**

Mountain is rate regulated by the PSC. The ownership of Park does not alter the Commission's jurisdiction over Mountain, or the ratemaking principles which the Commission uses to establish just and reasonable rates for its jurisdictional utilities.

- e. The sale of Park has no impact on the Commission's jurisdiction over Mountain Water.**

See response to 45(d).

**CFC-046** RE: Continuation of adequate service

**Please provide specific information to support the statement made in the Application that the sale of Park will not increase the risk that Mountain Water's customers will receive inadequate service.**

The quality of the service provided by a regulated utility to its customers is determined by the physical assets dedicated to providing that service, the people charged with the responsibility of using those assets to provide the service, and the utility's compliance with the Commission's service standards and directives. None of those factors, or the application of those factors, are modified by a change in the ownership of the stock of the Park Water Company.

**PARK WATER COMPANY  
& SUBSIDIARIES**

**Summary of Proposed Principal Terms**

*April 13, 2007*

The following outlines the terms of a proposed acquisition of Park Water Company, and its subsidiaries ("*Park*"), by Wexford Capital LLC or one or more of its affiliates ("*Wexford*"). This Term Sheet (i) should be viewed as an indication of interest only regarding a financial transaction on the general terms and conditions outlined herein, (ii) does not create a binding obligation, fiduciary relationship or joint venture between the parties, and (iii) assumes the accuracy and completeness of the information previously provided by you. This Term Sheet does not constitute an offer, agreement, conditional or otherwise, agreement in principle, agreement to agree, or commitment ("*Commitment*") to proceed with the contemplated transaction. A Commitment would be a subsequent writing signed by the Investors (as defined below), would be preceded by the satisfactory completion of all legal, accounting, business, regulatory and technology due diligence, and the receipt of the requisite approvals by Wexford which has not yet been sought or obtained. Its effectiveness would be conditioned upon the execution and delivery of legal documentation acceptable to all parties and their respective counsel. Each party reserves full and absolute discretion in deciding whether to enter into any definitive documentation and all of the terms of definitive documentation if any is entered into. Notwithstanding the foregoing, for good and valuable consideration the receipt and sufficiency of which is hereby acknowledged, the parties hereto hereby agree that the agreements set forth herein under the captions "Fees and Expenses", "Governing Law, etc.," "Confidentiality" and "Exclusivity" shall be binding obligations, shall survive any expiration of this term sheet and shall be governed by and construed in accordance with the laws of the State of Delaware.

**BASIC TERMS**

<b>The Company</b>	Park Water Company and each of its utility subsidiaries and any other subsidiaries designated by the Investors.
<b>Investors</b>	One or more entities affiliated with Wexford (the " <i>Investors</i> ").
<b>Overview</b>	Investors will purchase 100% of all outstanding Equity Securities of the Company, (the " <i>Transaction</i> ").
<b>Consideration</b>	The total consideration of the Transaction will be \$70,000,000 (the " <i>Purchase Price</i> ") payable in cash at the closing.
<b>Key Assumptions</b>	The contemplated terms and conditions of the Transaction are based on the accuracy and completeness of the information that was provided by the Company to Investors, including, without limitation, audited and unaudited financial information, and assumes that the cash on the balance sheet remains in the company, that the debt levels do not materially change, and that all water rights are included in the sale. In the event that the financial condition or prospects of the Company are materially different from the Company's financial condition or prospects as presented to the Investors, the terms and conditions of the

Transaction would be subject to revision.

**Employees / Management** The closing of the Transaction is subject to Company's key employees, including Sam Wheeler, agreeing to continue their employment with the Company on their current employment terms, and in the case of Sam Wheeler on a part time basis at the base salary approved by the applicable regulators.

## **DOCUMENTATION**

### **Representations, and Warranties**

The Definitive Documents relating to the Transaction shall contain customary representations and warranties by the seller, including, without limitation, the following:

- organization and qualification,
- the accuracy and completeness of the Company's audited and unaudited financial statements,
- authorization, consents, and no conflicts,
- execution, validity, enforceability, and delivery,
- actions pending,
- compliance with laws and environmental regulations,
- governmental / regulatory consent,
- taxes,
- ERISA,
- employment and labor regulations,
- no undisclosed liabilities (including unfunded pension liabilities),
- no undisclosed affiliate transactions,
- no undisclosed pending or outstanding litigation,
- no defaults,
- no materially adverse change, and
- other representations and warranties customary for this type of transaction.

The Definitive Documents will include customary provisions regarding breaches of the seller's representations and warranties.

- Covenants** Customary covenants, including compliance with law, maintenance of property, payment of taxes, rights to inspect properties, directors and officers, liability and key man insurance and other covenants typical for transactions of this type.
- Closing Conditions** The Investment shall be subject to certain closing conditions, including, without limitation: a bringdown of the Company's representations and warranties at closing, any necessary governmental and/or regulatory filings and approvals, satisfactory documentation, the receipt of opinions of the Company's counsel satisfactory to the Investors, consents required (if any) from the Company's existing creditors or any other consents required in connection with the transaction, and the absence of any materially adverse change in the Company's business, performance or prospects.
- Regulatory Approval** Upon the signing of Definitive Agreements, the Company will agree to promptly file and to seek approval of all required applications for regulatory approval. The parties anticipate that the regulatory approval process will take up to one year and that the Closing Date will occur not later than 30 days after the receipt of all required regulatory approvals.

#### **OTHER TERMS**

- Due Diligence** Investors continue with due diligence efforts following the execution of this Term Sheet and anticipate that they shall complete such efforts within the exclusivity period set forth in the Confidentiality Agreement dated February 14, 2007 between the Company and Gulf & Southern Resources LLC (the "*Confidentiality Agreement*") (which continues through May 16, 2007). The Company agrees to facilitate Investors' due diligence efforts and shall, inter alia, provide Investors with reasonable access to the Company's personnel, offices, facilities and documents in connection with their due diligence efforts.
- Exclusivity** During the exclusivity period set forth in the Confidentiality Agreement, the Company shall not discuss any proposals with or seek any financing from any party other than the Investor. In particular, during the exclusive period, the Company agrees from the date of acceptance of this Term Sheet that it, its affiliates, agents and representatives shall not solicit, initiate, encourage, facilitate, or enter into or conduct any discussions, or enter into any agreement or understanding, with any person or entity regarding any investment in, or the acquisition or consolidation of, the Company or other similar transaction (including

providing access to or furnishing information or data to any person or entity) without the prior written approval of the Investor.

**Expiration**

This Term Sheet shall expire at 5:00pm EST on April 20, 2007, if not executed and delivered by the Company to the Investor at or prior to such time.

**Governing Law, etc.**

All agreements other than the Confidentiality Agreement (which by its terms is governed by the internal laws of the State of California), including this term sheet shall (1) be governed by the internal laws of the State of Delaware (without regard to conflicts of laws rules or principles), (2) provide for the submission by the parties thereto the exclusive jurisdiction of Delaware courts and (3) contain a waiver of the right to jury trial.

**Confidentiality**

The Term Sheet is delivered with the understanding and on the condition that neither it nor its substance nor the fact that discussions are or have been taking place with the Investor shall be disclosed publicly or privately by either the Investor or the Company, except with written consent from both parties. Such restriction shall not apply to information which is required to be disclosed by the Company or the Investor by applicable law, regulation or court order and shall terminate upon the earlier of expiration of the exclusivity period or the execution of definitive documents.

**Fees & Expenses**

All fees and expenses incurred in connection with this Transaction and the transactions contemplated hereby shall be paid by the Party incurring such expenses, whether or not the Transaction is consummated.

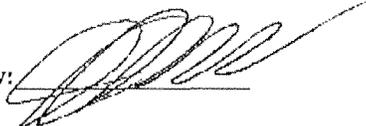
Agreed And Accepted

PARK WATER COMPANY

By: \_\_\_\_\_

Title: \_\_\_\_\_

Wexford Capital LLC

By:  \_\_\_\_\_

Title: President