Albert P. Barker, ISB #2867
Paul L. Arrington, ISB #7198
BARKER ROSHOLT & SIMPSON LLP
1010 W. Jefferson, Suite 102
P.O. Box 2139
Boise, Idaho 83701-2139
Telephone: (208) 336-0700
Facsimile: (208) 344-6034

Attorneys for Suncor Idaho LLC (n.k.a. Avimor, LLC)

**BEFORE THE DEPARTMENT OF WATER RESOURCES
OF THE STATE OF IDAHO**

IN THE MATTER OF APPLICATION)
FOR PERMIT NO. 63-32061 IN THE)
NAME OF SUNCOR IDAHO, LLC)

APPLICANT'S EXHIBITS

APPLICANT'S EXHIBITS

1. Certificate of Secretary, company structure chart, Articles of Amendment (name change)

2. 2005 SunCor Development Company Annual Report and Financials

3. 2005 Pinnacle West Capital Corporation Annual Report and Financials

4. Special Warranty Deed, recorded in Ada, Boise and Gem Counties, showing beneficial interest of SunCor Development Company and assignment of that right, title and interest to Spring Valley Development LLC (renamed Avimor LLC)

5. Memorandum of Agreements, recorded in Ada, Boise and Gem Counties, evidencing the contribution agreement and Subdivision Trust Agreement

6. Memorandum of Declaration of Covenants, Restrictions and Easements made between SunCor Idaho, LLC (renamed Avimor, LLC), First American title Company, Spring Valley Livestock Company, Inc., Colin McLeod III and Teresa McLeod AR Boise, LLC, and Pioneer Title Company, affecting portions of the property.

7. Development Agreement between SunCor Idaho, LLC (renamed Avimor, LLC), County of Ada, and SunCor Development Company, following Ada County approval of the Avimor Specific Plan, PC rezoning, and Comprehensive Plan Amendment

8. Approval by IDWR of an Application for Stream Channel Alteration Permit #63-20059, June 27, 2006

9. Approval by Department of Army Corp of Engineers to discharge fill material into Spring Valley Creek and other tributaries, June 27th 2006

10. Approval by Department of Army Corp of Engineers of crossings and discharge of material under Army Nationwide Permit (NWP) 12, August 14, 2006

11. Approval by DEQ of offsite water facilities, Aug 22, 2006

12. Approval by DEQ of plans and specifications for wastewater collection and pressure irrigation distribution systems, Sept 6, 2006

13. Application to DEQ for the Water Reuse Permit, Sept 18, 2006

14. Application to ITD for a Right-of-way Encroachment Application and permit approaches, Sept. 26th 2006

15. Requested approval from ACHD of Avimor Drive bridge and Street plans for phase one, Oct 3, 2006.

16. Application to EPA for an NPDES permit for the Avimor Water Reclamation Facility, Aug 25, 2006

17. Issuance of Grading Permit #06-16 by Ada County, June 21, 2006, and aerial photo showing grading activity in Sept 2006.

18. Ada County Preliminary Plat acceptance for phase 1 and revisions to Specific Plan, Aug. 21 2006. Hearing was rescheduled to Oct 26, 2006

19. Application to City of Eagle for a Comprehensive Plan Amendment, Sept 22, 2006

20. Articles of Incorporation for Highland Water Company and Foothills Sewer Company

21. Exhibits and Land Use Summary indicating proposed uses

22. SunCor Application for Permit No. 63-32061

23. SPF Water Engineering March 3, 2005 response letter to Department of Water Resources regarding Application for Permit issues

24. Department of Water Resources Water Application Report 63-32061

25. SPF Water Engineering Water-Level Monitoring Plan and Agreement – Avimor Project – December 7, 2005

26. Groundwater Exploration Drilling in the Spring Valley Ranch Vicinity of Gem, Ada, and Boise Counties, Idaho, Scanlan Engineering. Report prepared for SunCor Development Company, April 2003.

27. Aquifer Evaluation in the Big and Little Gulch Areas of Spring Valley Ranch. SPF Water Engineering, LLC. Report prepared for SunCor Development Company and SunCor Idaho, LLC, October 2004.

28. Well Construction and Aquifer Testing of Spring Valley Ranch Exploration Well No. 5. SPF Water Engineering, LLC. Report prepared for SunCor Development Company and SunCor Idaho, LLC, June 17, 2004.

29. Well Construction and Aquifer Testing in the Sandy Hill Area of Spring Valley Ranch. Report prepared for SunCor Development Company and SunCor Idaho, LLC, June 18, 2004.

30. Water Rights Map for the Avimor and Spring Valley Ranch Resource Area. SPF Water Engineering, LLC, January 20, 2006.

31. Well Density Map for the Avimor and Spring Valley Ranch Resource Area. SPF Water Engineering, LLC, January 20, 2006.

32. Geologic Map for the Avimor and Spring Valley Ranch Resource Area. SPF Water Engineering, LLC, January 20, 2006.

33. Aquifer Boundaries Map for the Avimor and Spring Valley Ranch resource area. SPF Water Engineering, LLC, January 20, 2006.

34. Hydrologic sub-basin map for the Avimor and Spring Valley Ranch resource area. SPF Water Engineering, LLC, January 20, 2006.

35. Public Water Systems Map for the Avimor and Spring Valley Ranch resource area. SPF Water Engineering, LLC, January 20, 2006.

36. Ground Water Contour Map for the Avimor and Spring Valley Ranch resource area. SPF Water Engineering, LLC, January 20, 2006.

37. Design Flows – Public Water Systems. Design File Note prepared by Monty G. Marchus, P.E., Idaho Division of Environmental Quality, July 2, 1999.

38. Water level data from the Lynn Wells.

39. Combined POU and POD map (show PODs that have been dropped)

40. Willow Creek area water rights

41. Combined POU and POD map with protestants' PODs

42. Monitoring agreement with Ada County Foothills Association, water level data, and drillers' reports

43. Letter from John Sharkey to Bob Taunton dated March 1, 2006 regarding approved injection well permits #63W208001, 63W208002, and 63W208003; Spring Valley Ranch/Avimor Subdivision ASR Project.

44. Terry Scanlan Resume

45. Christian Petrich Resume

46. Testimony of Rod Davidson, Ada Planning & Zoning Commission Re: Avimor Planned Community, October 6, 2005

47. Testimony of Lyle Mullins, Ada Planning & Zoning Commission Re: Avimor Planned Community, November 10, 2005

48. Testimony of Rod Davidson and Lyle Mullins, Ada County Board of Commissioners Meeting Re: Avimor Planned Community, December 14, 2005

49. Department of Water Resources Water Right Search – Rod Davidson

50. Department of Water Resources Water Right Search – Lyle Mullins

51. Department of Water Resources Water Application Report – Lida and Philip Fry, Water Right No. 63-31147

52. Department of Water Resources Water Permit Report – Garth Baldwin, Water Right No. 65-13447

53. Department of Water Resources Water Right Report – Garth Baldwin, Water Right No. 63-7565

54. Spring Valley Ranch Preliminary Feasibility Assessment – July 2001

55. Protestant Lyle Mullins issues and questions – SunCor/IDWR Prehearing Conference 09/08/05

56. Protestant Lyle Mullins issues and questions – SunCor/IDWR Prehearing Conference 07/26/06

57. Philip Fry Protest to Water Application 63-32061, May 23, 2005

58. Letter from Terry Scanlan to Steve Lester dated March 3, 2005 regarding Application for Permit No. 63-32061

59. Design Guidelines Avimor Specific Planned Community Revision 2.

60. Comprensive Plan map Sept. 9, 2006.

61. Net Density Summary map 10-20-2005

62. Avimor Planned Community map.

63. Declarations of Restrictions and Easements ~~Rec~~ Signed 10-8-2007.

64. First American Title ~~Company~~ Insurance Company Letter to Bob Taunton from John K. Graham Dated Nov. 1, 2006

CERTIFICATE OF SECRETARY

I, Bradley E. Wright, hereby certify as follows:

1. I am the duly elected, qualified and acting Secretary of SunCor Idaho, Inc., an Idaho corporation (the "Corporation"), the sole Member of Avimor, LLC, an Idaho limited liability company (the "Company"); and

2. Each of the following persons is a duly elected, qualified and acting officer of the Corporation and holds the office set opposite his/her name:

Name		Office
William J. Post	--	Chairman
Steven A. Betts	--	Chief Executive Officer
Robert G. Taunton	--	President
Duane S. Black	--	Executive Vice President
Bradley E. Wright	--	Secretary
Michael D. Martin	--	Treasurer

TO CERTIFY WHICH, I have executed this Certificate this 31st day of August, 2006.

Bradley E. Wright
Secretary

F:\users\CORP\slmack\Avimor\Douglas Property\Certificate of Secretary (clean).doc

Department of Water Resources
APPLICANT'S
Exhibit 1
Date Admitted 10/31/06
DAW

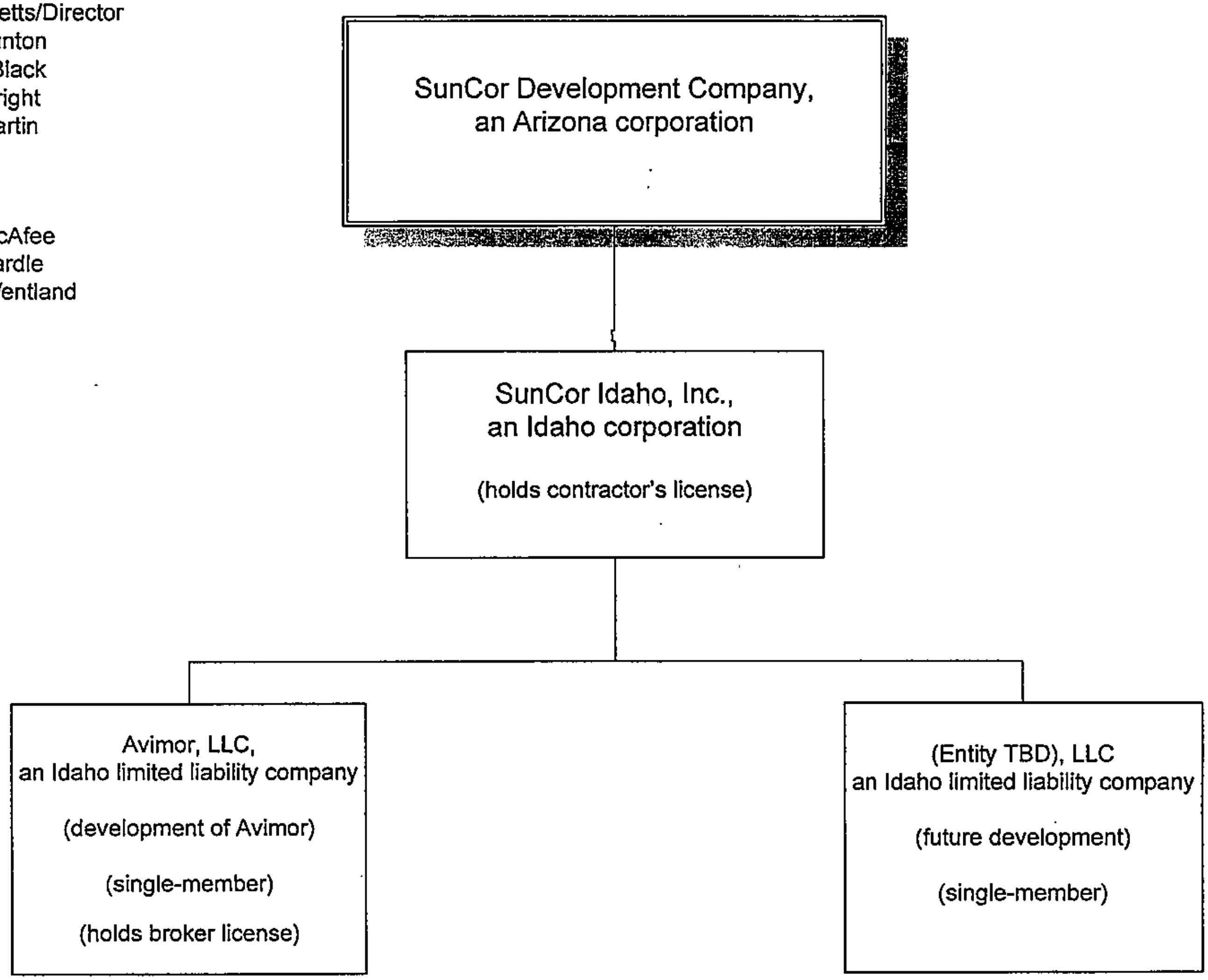
SUNCOR DEVELOPMENT COMPANY - IDAHO ENTITIES

Officers & Directors:

Chairman	– Bill Post/Director
CEO	-- Steve Betts/Director
President	– Bob Taunton
Executive VP	– Duane Black
Secretary	– Brad Wright
Treasurer	– Mike Martin

Non-Officers:

Vice President	– Doug McAfee
Vice President	– Mike Wardle
Vice President	– Kevin Wentland



Last Updated4/10/2006

FILED EFFECTIVE

ARTICLES OF AMENDMENT TO ARTICLES OF ORGANIZATION LIMITED LIABILITY COMPANY

2006 MAR -7 AM 10: 57

SECRETARY OF STATE
STATE OF IDAHO

(Instructions on back of application)

1. The name of the limited liability company is:

SunCor Idaho, LLC

If the LLC has been administratively dissolved and the name is no longer available for use, #3 below must include an amendment of name.

2. The date the articles of organization were filed was: July 22, 2003

COMPLETE ONLY THE APPLICABLE ITEMS

3. The name of the limited liability company is amended to read:

Avimor, LLC

4. The management of the limited liability company shall henceforth be vested in:
☐ Manager(s) ☐ Members

5. The information on the managers/members shall be amended as follows:

Name	Address	Add	Delete	Other
		☐	☐	
		☐	☐	
		☐	☐	
		☐	☐	
		☐	☐	

6. Signature of at least one manager, if any, or at least one member.

Signature: DSBl

Typed Name: Duane S. Black

Capacity: Executive Vice President & COO

By: SunCor Development Company,
Its: Sole Member

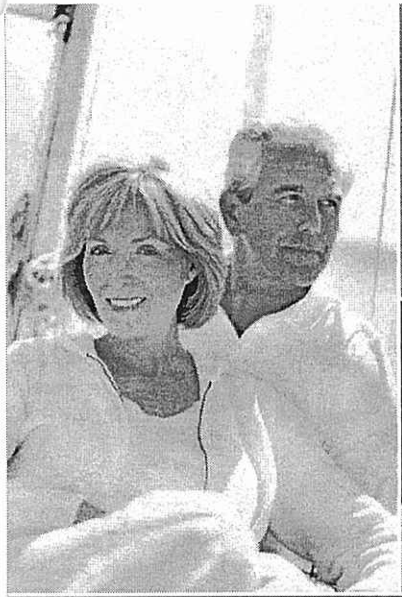
g:\corp\forms\llcforms\amenddomesticllc.pmd Revised 08/2004

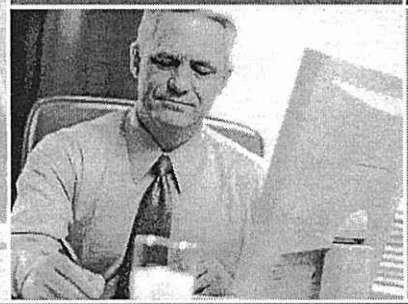
Web Form

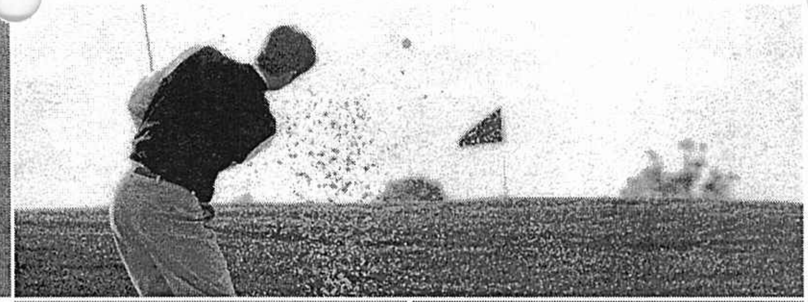
Secretary of State use only

IDAHO SECRETARY OF STATE
03/07/2006 05:00
CK: 14659 CT: 176091 BH: 941697
1 @ 30.00 = 30.00 ORGAN AMEN # 2
1 @ 20.00 = 20.00 EXPEDITE C # 3

W 25199



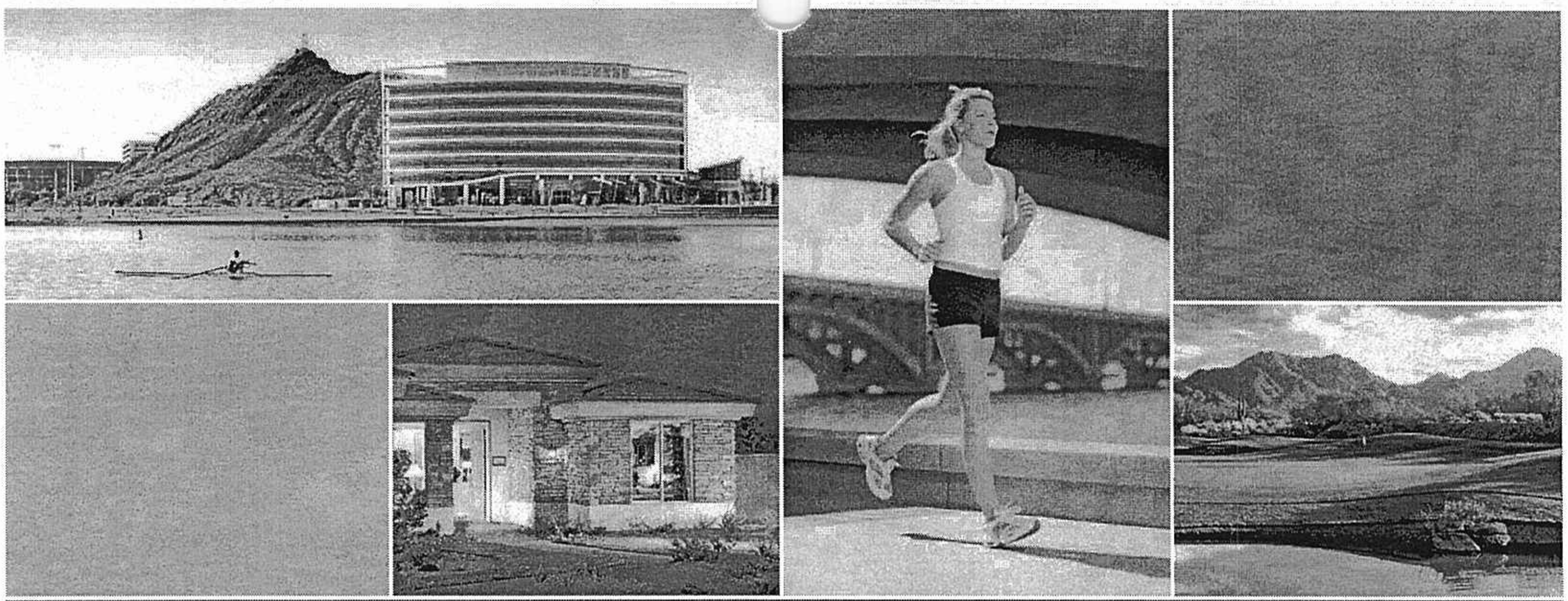




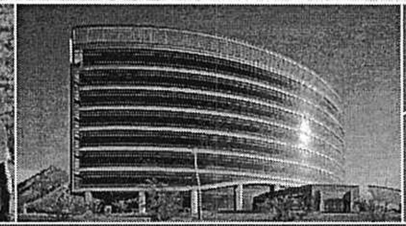
Wherever life takes you.

SUNCOR DEVELOPMENT COMPANY

ANNUAL REPORT 2005



SunCor is there.



Where life is taking us. Together.

"The past 20 years have taken SunCor on a path of growth and success, leading us to our position as a premier real estate development company serving the mountain west region. Throughout our journey, we have been guided by the principles of unsurpassed quality in every aspect of our work and uncompromising integrity in every facet of our company. Along the way, we have explored many rewarding opportunities and marked many noteworthy achievements. Now we look ahead to where we are going with long-term commitment to our industry, our projects and, above all, our people. The neighbors who live, work and play at our properties. The individuals who power our company. The investors, partners and associates who share our vision. Together, life is taking us to new and exciting places."

STEVE BETTS
PRESIDENT AND
CHIEF EXECUTIVE OFFICER

TOP RIGHT:
RANCHO VIEJO
SANTA FE, NM

Sincerely,

Steve Betts

PRESIDENT AND CHIEF EXECUTIVE OFFICER

We're right there with you.

Life can lead you in many different directions. And can take you a lot of different places. Offering new possibilities and opportunities every day. Since 1986, SunCor has been a part of life for people throughout the mountain west region. As a truly multifaceted real estate company, our diversity as a developer is virtually unsurpassed in the market. Through five unique business sectors — community homebuilding, master-planned communities, commercial development, mixed-use urban infill properties and golf courses — we create places to live, work and play. The diversity of our projects is matched by the quality of our developments, setting the highest standards of excellence. And the breadth of our work is as great as the depth of our commitment, with long-term dedication to the projects we develop and the people we're here for. When life leads to SunCor.

COMMUNITY HOMEBUILDING

Coming home to quality.

It's the most important place life takes you: home. At SunCor, our companies have developed a strong foundation of quality in homebuilding, reflected in our record sales and closings in 2005. And with our long-term commitments in new and expanding communities, we are strongly positioned for ongoing growth and sustainability.

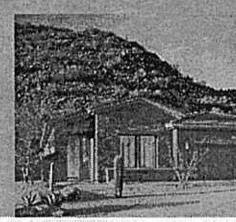
Our homebuilding division, Golden Heritage Homes, builds approximately 800 residences a year in SunCor communities throughout the west.

RANCHO VIEJO
SANTA FE, NM

Among other achievements during 2005, we closed out our Hidden Hills community in north Scottsdale, continued to build on the success of our Palm Valley community and initiated sales at Golden Heritage Homes at Prescott Lakes. The condominium market remains strong, as Edgewater at Hayden Ferry Lakeside on Tempe Town Lake sold out and sales began just down the shore at Bridgeview. With the addition of new master-planned communities to our portfolio, Campbell Ranch in Albuquerque and Avimor in Boise, we further expanded our homebuilding division to an anticipated level of 1,200 homes per year. For more and more people every year, SunCor means "home."

PALM VALLEY
GOODYEAR, AZ

HIDDEN HILLS



From the Sonoran desert of the Southwest to the high country of Idaho, from cosmopolitan lakeside condominiums to luxurious, single-family homes, our community homebuilding developments are diverse in location and style. But all share one common feature: excellence in design and construction.

LEFT: JIM ADAIR, VICE PRESIDENT, HOMEBUILDING

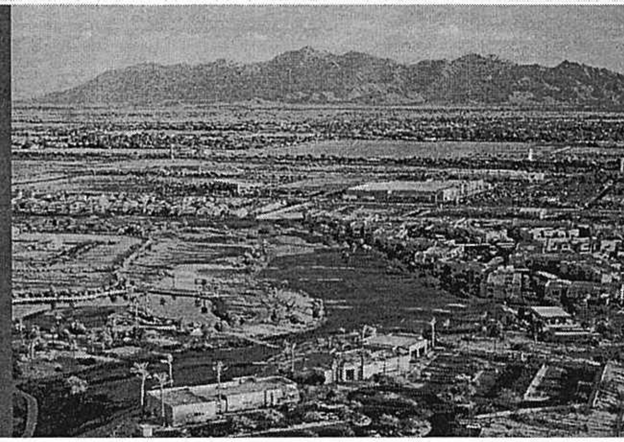
RIGHT: DUANE BLACK, EXECUTIVE VICE PRESIDENT AND CHIEF OPERATING OFFICER

"BECOMING A RECOGNIZED LEADER IN BUILDING COMMUNITIES THROUGHOUT THE MOUNTAIN WEST HAS ATTRACTED LARGE-SCALE OPPORTUNITIES THAT WILL ALLOW US TO PROSPER FOR DECADES INTO THE FUTURE."

MASTER-PLANNED COMMUNITY DEVELOPMENT

Living life in style.

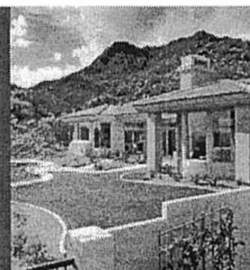
SunCor's master-planned communities offer more than just a place to live — but also an inviting way to live, with neighborhoods, amenities and other modern community features all contributing to a special lifestyle. As a leader in master-planned development, SunCor and its companies are committed to creating communities of distinction.



Along with ongoing homebuilding, commercial and mixed-use development, in 2005 Palm Valley received entitlements for the first phase of industrial development.

PALM VALLEY
GOODYEAR, AZ

The role of master developer requires visionary planning and long-term commitment to build exceptional communities. At SunCor, our foresight and dedication is reflected in our communities, including our 9,500-acre Palm Valley development. In a desirable and thriving location, Palm Valley attracts the best builders, advancing the growth and development of the community. In all of our master-planned projects, our goal is to create "legacy communities," designed and developed to provide lasting benefits to the cities and towns where we build them and the people who share them.



SCOTTSDALE MOUNTAIN
SCOTTSDALE, AZ

TATUM RANCH

Building on our success as master developer of acclaimed communities including Tatum Ranch, Scottsdale Mountain, SunRidge Canyon and Palm Valley, our companies continue to pursue new opportunities in the Phoenix area and beyond. Our goal: to create communities of enduring quality and appeal.

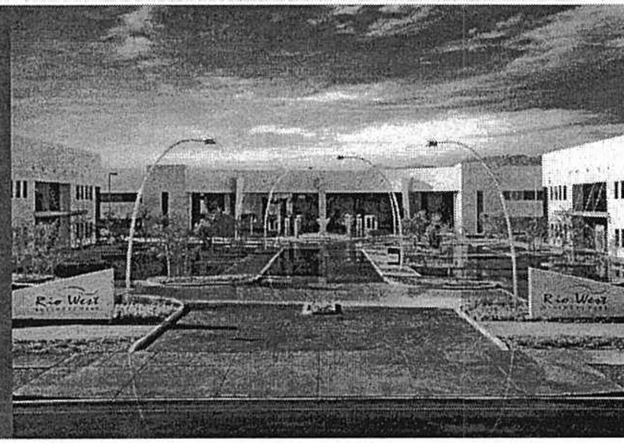
JAY ELLINGSON
EXECUTIVE VICE PRESIDENT, LAND DEVELOPMENT

"THE SUCCESS OF PALM VALLEY HAS BECOME THE VISION FOR THE GROWTH OF THE WEST VALLEY. A NEW PLACE WHERE HOME, SPIRIT AND COMMUNITY THRIVE."

COMMERCIAL DEVELOPMENT

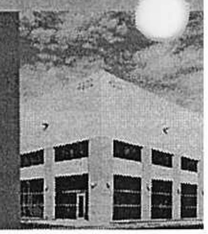
Taking care of business.

Corporate and professional office space. Flex-office and light-industrial facilities. Shopping centers. Commercial distribution centers. Mixed-use projects. Every day in locations around the west, life takes people to SunCor's diverse commercial developments. Whether it's a place to work or a place to shop, our properties are known for detailed planning and superior design and construction.



We completed Phase I of Rio West Business Park, a 300,000-square-foot flex office/industrial development in Tempe, and leased to Monster Worldwide and US Airways.

LEFT:
RIO WEST BUSINESS PARK
TEMPE, AZ



RIGHT:
RIVERSIDE
DISTRIBUTION CENTER
PHOENIX, AZ

The past year included many notable highlights for our commercial division: Significant commercial project sales in 2005 included Palm Valley Office Park I and II ($18.6 million) and SunCor's Fun Parks ($11 million). In addition, our Rio West Business Park won an industry award for Office Development of the Year from Best of NAIOP 2005. We also leased 93% of our Riverside Distribution Center, a 500,000-square-foot facility developed as a joint venture with The Ryan Companies. In 2005, we executed approximately 29 leases, comprising 627,000 square feet for a total lease value of over $45 million.

ABOVE:
PALM VALLEY OFFICE PARK
GOODYEAR, AZ

TOP LEFT:
PALM VALLEY PAVILIONS WEST
GOODYEAR, AZ

PALM VALLEY CORNERSTONE
GOODYEAR, AZ

It was an eventful year for Palm Valley's commercial projects: Palm Valley Cornerstone, JC Penney and Sportsman's Warehouse opened and construction started on adjacent shops; building began on a Wal-Mart Neighborhood Market at Palm Valley Village, and land sales of commercial properties totaled over $16.5 million.

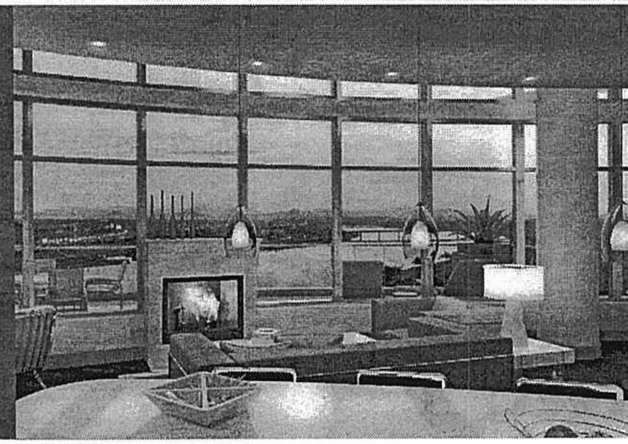
PEGGY FIRCH
EXECUTIVE VICE PRESIDENT, COMMERCIAL DEVELOPMENT

"THE COMMERCIAL DIVISION HAS AN UNPARALLELED OPPORTUNITY IN THE DEVELOPMENT OF OUR VAST, LONG-TERM HOLDINGS WHILE CREATING SIGNIFICANT NEW INFILL PROJECTS."

MIXED-USE URBAN INFILL DEVELOPMENT

Going new places.

Although it's becoming a commonly used term, mixed-use urban infill is one of the most unique and exciting dimensions of SunCor's business, offering a wide variety of opportunities for growth and development. Our Urban Infill Group works with community commercial town centers, merging the realities of dynamic commercial environments with innovative concepts of town planning.



SunCor's commercial components at Hayden Ferry Lakeside in Tempe complement our acclaimed Edgewater and Bridgeview condominium projects.

LEFT:
BRIDGEVIEW PENTHOUSE
TEMPE, AZ

RIGHT:
AN EXAMPLE OF A TRANSIT-ORIENTED DEVELOPMENT PROJECT BEING PLANNED BY SUNCOR

A prime example of our success in urban infill development is Hayden Ferry Lakeside. After achieving a 92% lease-up on the project's first office/retail tower, this 8-story, 209,000-square-foot structure sold for $53 million in July 2005. Construction commenced on the adjacent 12-story office/retail tower due for completion in early 2007. Edgewater, the first of four residential high-rise towers, will be completed in the Spring of 2006. Construction of the next high-rise residential tower, Bridgeview, will commence in early 2006. Complementing this 1.8 million-square-foot mixed-use project is a planned full-service, world-class hotel.

BRIDGEVIEW AT HAYDEN FERRY LAKESIDE
TEMPE, AZ

HAYDEN FERRY LAKESIDE
TEMPE, AZ

Our Urban Infill Group is constantly exploring new development opportunities with the goal of promoting a broad range of urban experiences and enjoyment. One example, transit-oriented development along the route of Phoenix's upcoming light rail system, creating new urban venues.

RANDY LEVIN
VICE PRESIDENT, DESIGN AND URBAN INFILL DEVELOPMENT

"DEVELOPERS OF URBAN COMMUNITIES WHO ANSW[ER] THE CHALLENGES CAUSED BY SHIFTING POPULATIONS TO URBAN CORES, SHRINKING MUNICIPAL INFRASTRUCTURE BUDGETS, AND TRAFFIC CONGESTION, HAVE THE OPPORTUNITY TO CREATE MEMORABLE PLACES TO LIVE, WORK AND PLAY."

GOLF COURSE DEVELOPMENT

Mastering the game.

Legendary golfer Arnold Palmer once said, "What other people may find in poetry or art museums, I find in the flight of a good drive." Every year at the eight **award-winning golf properties** owned and operated by SunCor Golf, more and more players experience the pleasure and the challenge of the great game of golf.

The acclaimed course at SunCor's Sedona Golf Resort has expanded its fame, featured as the centerpiece of Monopoly's special golf edition board game.

LEFT:
SEDONA GOLF RESORT
VILLAGE OF OAK CREEK, AZ

RIGHT:
STONERIDGE GOLF COURSE
PRESCOTT VALLEY, AZ

With over 50 million golfers around the globe and counting, the popularity of golf continues to grow. At SunCor, our long-standing commitment to the sport is reflected in the world-class quality of our golf properties and the increasing number of players at our courses. **Revenues for our golf division remain exceptionally strong,** and total rounds of play have shown a steady, ongoing increase since 2001. In the management of our golf properties, we maintain the highest standards of excellence. For SunCor and those who play our courses, golf is more than a game. It's part of life.

ABOVE:
SUNRIDGE CANYON GOLF CLUB
FOUNTAIN HILLS, AZ

TOP LEFT:
CLUB WEST GOLF CLUB
PHOENIX, AZ

Located in spectacular settings, SunCor's golf properties blend scenic beauty and sporting play on courses created by some of golf's most renowned architects. Every detail is designed for a memorable and enjoyable golf experience, from first tee to final hole, from clubhouse to pro shop.

TOM PATRICK
EXECUTIVE VICE PRESIDENT,
GOLF OPERATIONS AND HUMAN RESOURCES

"OUR GOLF COURSES PROVIDE ADDED VALUE TO OUR ORGANIZATION, PROJECTS AND CUSTOMERS, WHILE STILL PRESERVING THE BEAUTY AND SERENITY OF OPEN SPACE, MOUNTAINS AND WILDLIFE FOR THIS AND FUTURE GENERATIONS."

SunCor Development Company

ANNUAL REPORT 2005

Projects for the Periods Presented

Golden Heritage Homes Residential and Master-Planned Communities

Avimor
Boise, Idaho

Coral Canyon
Washington County, Utah

Edgewater at Hayden Ferry Lakeside
Tempe, Arizona

Golden Heritage Homes
at Prescott Lakes
Prescott, Arizona

Hidden Hills
Scottsdale, Arizona

Palm Valley
Goodyear, Arizona

Rancho Viejo
Santa Fe County, New Mexico

Scottsdale Mountain
Scottsdale, Arizona

Sedona Golf Resort
Village of Oak Creek, Arizona

StoneRidge
Prescott Valley, Arizona

SunRidge Canyon
Fountain Hills, Arizona

The Village at Litchfield Park
Litchfield Park, Arizona

Commercial Development

Alameda Crossing
Avondale, Arizona

Coral Canyon Harley Davidson
Washington County, Utah

Coral Canyon Town Center
Washington County, Utah

Costco Plaza
Tempe, Arizona

Hayden Ferry Lakeside
Tempe, Arizona

Palm Valley Cornerstone
Goodyear, Arizona

Palm Valley Crossing
Goodyear, Arizona

Palm Valley La Piazza Center
Goodyear, Arizona

Palm Valley Office Park
Goodyear, Arizona

Palm Valley Pavilions
Goodyear, Arizona

Rancho Viejo Village Center
Santa Fe County, New Mexico

Rio West Business Park
Tempe, Arizona

Riverside Distribution Center
Phoenix, Arizona

StoneRidge Commercial
Prescott Valley, Arizona

Talavi Towne Centre
Glendale, Arizona

Tempe MarketPlace
Tempe, Arizona

The Technology Center at Talavi
Glendale, Arizona

Wigwam Creek Shopping Center
Litchfield Park, Arizona

Golf Management

Club West Golf Club
Phoenix, Arizona

Coral Canyon Golf Course
Washington County, Utah

Palm Valley Golf Club
Goodyear, Arizona

Sanctuary Golf Course
at WestWorld
Scottsdale, Arizona

Sedona Golf Resort
Village of Oak Creek, Arizona

StoneRidge Golf Course
Prescott Valley, Arizona

SunRidge Canyon Golf Club
Fountain Hills, Arizona

Family Entertainment Centers

Fiddlesticks
Scottsdale, Arizona

Fiddlesticks
Tempe, Arizona

Funtasticks
Tucson, Arizona

Public Utilities

Ranchland Utility
Santa Fe County, New Mexico

Mortgage Origination

HFS Mortgage
Tempe, Arizona

Web Site

www.suncoraz.com

Independent Auditors' Report

TO THE BOARD OF DIRECTORS AND SHAREHOLDER OF SUNCOR DEVELOPMENT COMPANY:

We have audited the accompanying consolidated balance sheets of SunCor Development Company and subsidiaries (the "Company") as of December 31, 2005 and 2004, and the related consolidated statements of income, stockholder's equity, and cash flows for each of the three years in the period ended December 31, 2005. These 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 financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2005 and 2004, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

Deloitte & Touche LLP

Phoenix, Arizona
April 5, 2006

Consolidated Balance Sheets

DECEMBER 31,	2005	2004
	(DOLLARS IN MILLIONS)	
Assets:		
Cash and cash equivalents	$ 13.8	$ 23.0
Accounts receivable and other	4.7	5.1
Home inventory	53.4	32.0
Notes receivable	1.9	2.1
Land, net	278.0	230.4
Consolidated land not owned	34.0	34.0
Property and equipment, net	74.0	110.7
Investment in joint ventures	5.6	6.2
Restricted funds	0.1	0.2
Other assets	17.3	10.0
Deferred income tax	4.6	10.0
TOTAL ASSETS	**$ 487.4**	**$ 463.7**
Liabilities and Stockholder's Equity:		
Liabilities:		
Accounts payable and other liabilities	$ 58.8	$ 82.1
Notes payable	145.0	87.0
Deferred profit	14.9	31.7
TOTAL LIABILITIES	218.7	200.8
Minority interest	10.1	10.0
Minority interest in consolidated land not owned	33.8	33.7
Total Minority Interest	43.9	43.7
Commitments and contingencies (Notes 3, 10, 11, 15, and 16)		
Stockholder's equity:		
Common stock, $100 par value, 10,220 shares issued and outstanding	1.0	1.0
Additional paid-in capital	99.0	149.0
Accumulated earnings	124.8	69.2
TOTAL STOCKHOLDER'S EQUITY	224.8	219.2
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	**$ 487.4**	**$ 463.7**

See Notes to Consolidated Financial Statements

Consolidated Statements of Income

YEAR ENDING DECEMBER 31,	2005	2004	2003
	(DOLLARS IN MILLIONS)		
Revenues:			
Home sales	$ 222.8	$ 215.9	$ 172.1
Land sales	92.2	113.8	78.1
Sale of assets	2.1	0.6	89.2
Commercial property and management	20.9	20.0	14.3
Total Revenues	**338.0**	**350.3**	**353.7**
Operating Expenses:			
Cost of homes sold	172.4	169.6	137.8
Cost of land sold	38.2	48.0	42.8
Cost of assets sold	2.0	0.5	64.3
Commercial property and management	17.7	16.4	12.9
General and administrative	48.0	46.7	43.5
Total Operating Expenses	**278.3**	**281.2**	**301.3**
Operating Income	**59.7**	**69.1**	**52.4**
Other Income (Expense):			
Equity in joint venture earnings	1.9	3.0	3.3
Interest income	1.0	0.6	0.7
Interest expense (net of amounts capitalized of $4.2, $3.8, and $3.9)	(1.4)	(0.8)	(1.1)
Miscellaneous income	0.7	1.5	21.4
Total Other Income	**2.2**	**4.3**	**24.3**
Minority interest	(2.7)	(5.1)	(1.0)
Income from continuing operations before taxes	**59.2**	**68.3**	**75.7**
Income taxes	20.4	27.2	28.9
Income from continuing operations	**38.8**	**41.1**	**46.8**
Discontinued operations (net of tax of $11.0, $2.4, and $6.1)	16.8	3.6	9.3
Net Income	**$ 55.6**	**$ 44.7**	**$ 56.1**

See Notes to Consolidated Financial Statements

Consolidated Statements of Stockholder's Equity

	Common Stock	Additional Paid-In Capital	Accumulated (Deficit) Earnings	Total Stockholder's Equity
		(DOLLARS IN MILLIONS)		
Balance, January 1, 2003	$ 1.0	$ 342.0	$ (31.6)	$ 311.4
Net income			56.1	56.1
Return of capital		(108.0)		(108.0)
Balance, December 31, 2003	1.0	234.0	24.5	259.5
Net income			44.7	44.7
Return of capital		(85.0)		(85.0)
Balance, December 31, 2004	1.0	149.0	69.2	219.2
Net income			55.6	55.6
Return of capital		(50.0)		(50.0)
Balance, December 31, 2005	**$ 1.0**	**$ 99.0**	**$ 124.8**	**$ 224.8**

See Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows

YEAR ENDING DECEMBER 31,	2005	2004	2003
	(DOLLARS IN MILLIONS)		
Cash flows from operating activities:			
Net income	$ 55.6	$ 44.7	$ 56.1
Adjustments to reconcile net income from continuing operations to net cash (used in)/provided by operating activities:			
Depreciation	3.4	6.2	5.3
Gain on sale of assets	(33.9)	(5.2)	(16.5)
Minority interest	2.7	5.1	1.0
Equity in joint venture earnings	(1.9)	(3.0)	(3.3)
Deferred income taxes	5.4	(16.3)	22.6
(Increase)/decrease in accounts receivable and other assets	0.4	(3.2)	5.3
(Increase)/decrease in home inventory	(17.5)	2.2	4.1
(Increase)/decrease in notes receivable	0.0	8.9	(8.2)
(Increase)/decrease in land	(44.9)	2.8	53.6
(Increase)/decrease in deferred assets	(5.6)	1.7	(0.1)
Increase/(decrease) in accounts payable and other liabilities	(38.6)	27.7	14.2
Increase/(decrease) in deferred profit	(16.8)	31.7	0.0
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	(91.7)	103.3	134.1
Cash flows from investing activities:			
Costs to construct commercial properties and equipment, net	(2.1)	(12.0)	13.5
Proceeds from sale of assets	78.2	8.7	43.7
Joint venture minority interest (distributions), net	(2.6)	(10.2)	(0.2)
Unconsolidated joint venture distributions, net	2.5	9.3	7.8
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	76.0	(4.2)	64.8
Cash flows from financing activities:			
Return of capital to stockholder	(50.0)	(85.0)	(108.0)
Proceeds from issuance of notes and bonds payable, net of issue costs	180.3	110.1	135.5
Repayment of notes payable	(123.8)	(127.1)	(225.6)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	6.5	(102.0)	(198.1)
Net (decrease)/increase in cash and cash equivalents	(9.2)	(2.9)	0.8
Cash and cash equivalents, beginning of year	23.0	25.9	25.1
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 13.8	$ 23.0	$ 25.9
Supplemental disclosures of non-cash investing and financing activities:			
Acquisition/disposal of property and equipment utilizing capitalized leases	$ (0.3)	$ (0.2)	$ (0.6)
Transfer of land to commercial property	8.7	1.2	0.0
Record consolidated land not owned:			
Land	0.0	34.0	0.0
Minority Interest	(0.1)	(33.7)	0.0
Notes Payable	(0.1)	(0.3)	0.0
Land Distribution to Minority Partner	0.0	0.0	0.6
Consolidation of various LLCs (see Notes 5g, h, i, and j):			
Land	0.0	0.0	8.0
Property	0.0	0.0	38.7
Investment in JV	0.0	0.0	(5.1)
Notes Payable	0.0	0.0	(41.6)

See Notes to Consolidated Financial Statements

1. Organization and Business

SunCor Development Company ("SunCor" or the "Company") is a wholly-owned subsidiary of Pinnacle West Capital Corporation ("PWCC"). The Company's main activities involve acquisition, development, home construction, operation, and sale of residential and commercial properties in the western United States.

2. Summary of Significant Accounting Policies

Reclassifications – Certain reclassifications have been made to prior years' consolidated financial statements to conform to current year presentation.

Principles of Consolidation – The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America and include the accounts of SunCor and those of its wholly-owned subsidiaries and consolidated joint ventures, partnerships, and other entities which have a controlling financial interest, and of variable interest entities (see Note 18) in which we are deemed the primary beneficiary (collectively, the "Company"). These include Rancho Viejo de Santa Fe, Inc. ("Rancho Viejo"), Golden Heritage Homes, Inc. ("GHH"), HFS Mortgage, L.L.C. ("HFS"), Westworld Golf Course, L.L.C. ("Westworld"), Hidden Hills of Scottsdale, L.C. ("Hidden Hills"), Hayden Ferry Lakeside, L.L.C. ("HFL"), Club West Golf Course, L.L.C. ("Club West"), and SunRidge Canyon, L.L.C. ("SunRidge").

All significant inter-company transactions and balances have been eliminated. "Minority Interest" represents the minority partners' proportionate share of the earnings and equity of Scottsdale Mountain Limited Partnership ("SMLP"), Kabuto/SunCor Joint Venture ("Kabuto JV"), StoneRidge-Prescott Valley, L.L.C. ("StoneRidge"), Coral Canyon Town Center, L.L.C. ("CCTC"), Coral Canyon Harley Davidson, L.L.C. ("CCHD"), and StoneRidge Commercial, L.L.C. ("StoneRidge Commercial"). At December 31, 2005, the Company owned 65% of SMLP, 70% of Kabuto JV, 60% of StoneRidge, 75% of CCTC, 50% of CCHD, and 60% of StoneRidge Commercial. See Note 5 for information on each of the consolidated ventures and Note 5(m) for the detail of the change in Minority Interest from 2004 to 2005.

Home Inventory – Home inventory consists of construction costs, improved lot costs, and other costs including capitalized interest and property taxes on homes under construction. Home inventory is stated at the lower of accumulated cost or estimated fair value less costs to sell.

Real Estate Sales – The Company recognizes income from land, home, and qualifying commercial operating asset sales in full, provided (a) the income is determinable, that is, the collectibility of the sales price is reasonably assured or the amount that will not be collectible can be estimated, and (b) the earnings process is virtually complete, that is, the Company is not obliged to perform significant activities after the sale to earn the income. Unless both conditions exist, recognition of all or part of the income is postponed. Commercial property and management revenues are recorded over the term of the lease or period in which services are provided.

Long-lived Assets – The Company reviews for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In performing the review for recoverability, the Company estimates the future undiscounted cash flows based on the existing service potential of the asset at the date tested. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the asset, then impairment is assessed. Measurement of an impairment loss for long-lived assets held for development or use is based on the amount by which the carrying amount of the long-lived asset exceeds its fair value.

The results of operations of long-lived assets, which are considered a component of the Company that either has been disposed of, or is classified as held for sale, are reported in discontinued operations if both of the following criteria are met: (a) the operations and cash flows of the component have been (or will be) eliminated from the ongoing operations of the entity as a result of the disposal transaction, and (b) the entity will not have any significant continuing involvement in the operations of the component after the disposal transaction. See Note 12 for further discussion on discontinued operations.

Income Taxes – The Company's operations are included in the consolidated income tax returns of PWCC. The Company's income tax liability is determined in accordance with the SunCor/PWCC income tax allocation agreement ("Agreement"), which provides for a separate return calculation for each subsidiary. In accordance with the Agreement, the Company can carry forward its federal and state net operating losses ("NOL") indefinitely, if the NOL was used in the PWCC consolidated return. All NOL carryforwards were utilized in 2003.

Statements of Cash Flows – The Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. Interest paid in 2005, 2004, and 2003 was approximately $5.4 million, $5.2 million, and $5.0 million, respectively. Taxes paid in 2005, 2004, and 2003 were approximately $64.9 million, $25.2 million, and $3.2 million, respectively.

Fair Value of Financial Instruments – The carrying amounts of accounts receivable and accounts payable approximate fair value because of the short maturity of these financial instruments. Notes that bear variable rates indexed to prime or the London Interbank Offered Rate ("LIBOR") have carrying values which approximate fair value. Fair value estimates are made at a specific point in time, based on relevant market information about the financial instruments. Changes in assumptions or market conditions could significantly affect those estimates.

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Homebuilding Warranty – The Company estimates a warranty reserve as a percentage of the home sales price to cover reported claims for its homebuilding activities. This warranty coverage period varies by state. The warranty reserve is reviewed periodically to ensure that a proper reserve balance is recorded. The reserve balance at December 31, 2005 and 2004 was $1.4 million and $1.5 million, respectively.

HOMEBUILDING WARRANTY RESERVE

	2005	2004
	(DOLLARS IN MILLIONS)	
Beginning Balance	$ 1.5	$ 0.8
Warranty Reserves provided	1.4	1.5
Payments and other	(1.5)	(0.8)
Ending Balance	$ 1.4	$ 1.5

Guarantees – In accordance with the Financial Accounting Standards Board ("FASB") Interpretation No. 45 ("FIN 45"), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Guarantees of Indebtedness of Others – and interpretation of FASB Statements No. 5, 57, and 107 and rescission of FASB Interpretation No. 34", the Company recognizes, at inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee.

3. Land

The Company's acquisition costs, infrastructure costs, property taxes, and interest directly associated with the acquisition and development of each project are capitalized until the project is substantially complete and ready for its intended use. Interest capitalized on land development in 2005, 2004, and 2003 was $1.8 million, $1.2 million, and $2.0 million, respectively. Included in "Other" below is $2.8 million and $3.0 million related to certain guarantees entered into during 2005 and 2004, respectively, that are associated with land development (see Note 15). Land under development and land held for future development are stated at accumulated cost except, to the extent that such land is believed to be impaired, it is written down to estimated fair value. Land held for sale is stated at the lower of accumulated cost or estimated fair value, less costs to sell. Upon commencement of housing construction, allocated land costs are transferred to home inventory on a lot-by-lot basis.

The evaluation of impairment is based upon the sales proceeds anticipated in the normal course of business, less estimated costs to complete or improve the property to the condition used in determining the estimated selling price and current market price. Such values are based on management's estimates and, in certain instances, are supported by information obtained from independent appraisers. These estimates are periodically updated to reflect actual experience or changes in estimates. In evaluating impairment, the underlying assumptions reflect the Company's intent to dispose of its real estate assets in an orderly, ongoing manner in the normal course of operations.

Land consists primarily of the following at December 31:

LAND

	2005	2004
	(DOLLARS IN MILLIONS)	
Palm Valley	$ 129.6	$ 114.1
Rancho Viejo	24.7	23.4
Hidden Hills	0.0	4.2
Coral Canyon	22.0	23.0
StoneRidge	28.1	25.2
Hayden Ferry Lakeside – Office	17.2	9.5
Edgewater at Hayden Ferry	12.0	11.0
Avimor	4.4	3.2
Rio West	16.4	13.7
Prescott Lakes	8.9	0.0
Consolidated Land Not Owned	34.0	34.0
Other	14.7	3.1
Total Land	**$ 312.0**	**$ 264.4**

(a) The Palm Valley project located primarily in Goodyear, Arizona, started in 1987 with approximately 11,300 acres. The Company master planned approximately 9,500 of these acres to include single-family and multifamily residential, commercial, industrial, and golf course uses. Over the past years, this project has been the focal point of real estate activity for the Company. During 2005, the Company continued to take advantage of a favorable residential real estate market and sold approximately 150 acres of property which resulted in profit of $15.4 million. During 2004, the Company sold approximately 594 acres of property. See Note 17 for deferred profit recognized during 2005 and 2004. As of December 31, 2005, the Company has approximately 3,150 acres left in the Palm Valley project of which approximately 3,000 acres are within the original master plan area.

(b) Rancho Viejo is a mixed-use master-planned community of approximately 11,000 acres of land located near Santa Fe, New Mexico. The initial phase contains approximately 2,500 acres which began in 1998 and contains approximately 2,438 single-family units, along with commercial property. The

Company is anticipating to serve as the production homebuilder for an estimated 2,170 single-family units with the remaining 268 units to be sold as custom lots.

In accordance with the project's purchase documents, property is transferred to the Company in phases. The released phase has an associated property lien that records the original land owner's interest in the property. At the time property is sold to a third-party, the original land owners authorize a partial release from the lien. The original land owners receive a percentage of the sale price varying for each type of real estate sale as a participation payment. The Company may terminate the agreement at its option with no further obligations. In December 2003, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 46 (revised) ("FIN 46R"), "Consolidation of Variable Interest Entities – an Interpretation of Accounting Research Bulletin ("ARB") No. 51". In accordance with FIN 46R, approximately $18.5 million has been capitalized for Rancho Viejo land as of December 31, 2005 and 2004 (see Note 18).

(c) Hidden Hills is a residential project consisting of approximately 419 acres of land in Scottsdale, Arizona, with the Company as the primary homebuilder. This project initially started with 355 residential lots and now has 1 lot remaining.

(d) Coral Canyon is a mixed-use, master-planned community of approximately 2,500 acres of land located near St. George, Utah. Upon build-out, the project is anticipated to contain approximately 2,820 single-family units, along with property for commercial and golf course uses. The Company is anticipating to serve as the exclusive homebuilder for an estimated 2,680 single-family units with the remaining 140 units to be sold as custom lots. The golf course opened to the public and the first home and custom lot closings commenced in 2000. In accordance with the project's purchase documents, the State of Utah retains title to the property until a sale closes to a third-party buyer. The State of Utah receives a percentage of the sale price varying for each type of real estate sale which is first applied against the annual required payments. The Company may terminate the agreement at its option with no further obligations (see Note 18). The Company has partnered with the State of Utah on two commercial buildings on the project (see Notes 5j and 5k).

(e) StoneRidge is a mixed-use, master-planned community of approximately 1,840 acres located in Prescott Valley, Arizona. Upon build-out, the project is anticipated to contain approximately 2,059 single-family units, along with property for multifamily, time-share, commercial and golf course uses. The Company is anticipating to serve as the production homebuilder for an estimated 1,523 single-family units with the remaining 536 units to be sold as custom lots. The golf course opened to the public and the first home and custom lot closings commenced in 2002 (see Note 5e).

In accordance with the project's purchase documents, a trust retains title to the property until it is closed to a third-party buyer. The Company makes required annual payments to the original land owners to maintain its development rights. These payments are added into a land credit account. The original land owners receive a percentage of the sale price varying for each type of real estate sale which is netted against the land credit account. The Company may terminate the agreement at its option with no further obligations. In accordance with FIN 46R, approximately $2.1 million has been capitalized for StoneRidge land as of December 31, 2005 and 2004 (see Note 18).

(f) Hayden Ferry Lakeside is a mixed-use plan for approximately 17 acres on Tempe Town Lake in Tempe, Arizona. The Company has purchased approximately 14 acres and has an agreement to purchase the remainder from the City. In 2005, the first office tower was sold. Construction of the second office tower and expansion of the garage also started in 2005. The first residential condominiums were nearing completion in 2005, with closings anticipated for 2006.

(g) Avimor is located 3 miles north of the city of Eagle, Idaho, within the Boise metropolitan area. The project contains approximately 23,175 acres of land in the unincorporated area of three Counties: Ada (approximately 9,475 acres), Boise (approximately 7,900 acres), and Gem (approximately 5,800 acres). Significant topographical challenges will dictate the ultimate developable density of the project, but it is estimated that over half the total area acreage will be remain as open space. In early 2006, the Ada County Commissioners approved development of an 840 acre specific plan of approximately 700 units. Land development activity is anticipated to begin in the spring of 2006 with home construction planned to start in the fall of 2006. The Company will operate as the primary production homebuilder, with the balance of homes constructed by custom homebuilders.

In accordance with the project's purchase documents, a trust retains title to the property until it is closed to a third-party buyer. The Company will make minimum annual obligation payments to the original land owners after the first home closing occurs to maintain its development rights. The original land owners receive a percentage of the sale price varying for each type of real estate sale which is netted against the minimum annual obligation payments. The Company may terminate the agreement at its option with no further obligations. In accordance with FIN 46R, approximately $7.3 million has been capitalized for Avimor land as of December 31, 2005 and 2004 (see Note 18).

(h) Rio West is a commercial office project of approximately 25 acres located in Tempe, Arizona. The Company purchased the land from the City of Tempe and plans to build five office buildings for a total of approximately 294,000 square feet of space. The first three buildings were completed and leased in 2005 and the final two buildings are anticipated to start construction in 2006.

(i) Prescott Lakes is approximately 175 acres with approximately 450 lots that is within the 1,100 acre Prescott Lakes community located in Prescott, Arizona. The Company is planning to use GHH to build the majority of the homes within the project.

In accordance with the project's purchase documents, a trust retains title to the property until it is closed to a third-party buyer. The Company is required to make minimum quarterly takedowns on a cumulative and annual basis from the trust, starting six months after the models are completed. In accordance with FIN 46R, approximately $6.1 million has been capitalized for Prescott Lakes land as of December 31, 2005 and 2004 (see Note 18).

(j) Other Land in 2005 consists primarily of accrued development costs of approximately $11.9 million and approximately $2.8 million for Guarantees (see Note 15). In 2004, Other Land consists primarily of approximately $3.0 million for Guarantees (see Note 15).

4. Homebuilding

The Company currently builds and sells as GHH within the following developments: Palm Valley, Rancho Viejo, Hidden Hills, Coral Canyon, StoneRidge, and Prescott Lakes. During 2005, Prescott Lakes had their first home closings and Hidden Hills almost sold out. The following table shows annual activity for each of the locations:

HOME CLOSINGS BY PROJECT

	2005	2004
Palm Valley	120	186
Rancho Viejo	132	112
Hidden Hills	48	81
Coral Canyon	214	161
StoneRidge	169	191
Prescott Lakes	7	0
Sedona	0	12
Total Units	**690**	**743**

5. Consolidated Ventures

(a) SMLP is a limited partnership formed in April 1992 to acquire, develop, and sell certain real property. The Company is the general partner in SMLP, as well as being a limited partner. The Company contributed approximately 1,400 acres of land to SMLP for a 100% interest. Subsequent to the formation of the partnership, the Company sold limited partner interests totaling 35% of SMLP's total equity for $4.9 million. In March 2005, all partnership assets were distributed. The Company's consolidated financial statements include all of the assets, liabilities, and operations of SMLP. The limited partners' 35% interest in SMLP and the income therefrom have been reflected as "Minority Interest" in the consolidated financial statements. Included in the Company's minority interest is $0.0 million and $0.2 million at December 31, 2005 and 2004, respectively. As of December 31, 2004, this project has sold all land. Remaining assets were distributed in March 2005.

(b) Kabuto JV is a general partnership formed in October 1990 to acquire, develop, and sell approximately 330 acres of land, The Village at Litchfield Park. The Company contributed to Kabuto JV its undivided 50% interest in land for its original joint venture interest. The other Kabuto JV partner purchased the additional undivided 50% interest in land from the Company and contributed it to Kabuto JV for its original joint venture interest. Subsequently, the Company purchased an additional 20% interest in Kabuto JV from the other partner in exchange for retiring a $2.1 million note from the partner. At December 31, 2005, all of the land of the Kabuto JV has been sold. The Company's consolidated financial statements include all of the assets, liabilities, and operations of Kabuto JV. The other partner's 30% interest in Kabuto JV is reflected as "Minority Interest" in the consolidated financial statements.

(c) Hidden Hills was reorganized in 2001 as a single-member limited liability company with the Company as the sole member.

(d) Club West was reorganized in 2003 as a single-member limited liability company with the Company as the sole member.

(e) StoneRidge is a limited liability company formed in 2001 to acquire, develop, sell, and manage the StoneRidge development in Prescott Valley, Arizona. The approximately 1,840 acre development is planned to include single-family and multifamily residential, commercial, time-share, and golf course uses. The Company is the managing partner and has a 60% ownership in StoneRidge. The other partner's 40% interest in StoneRidge is reflected as "Minority Interest" in the consolidated financial statements.

(f) HFS is a limited liability company formed in 1998 to offer mortgages to customers for the purpose of buying new homes or refinancing homes. The Company is 100% owner of HFS. Homebuilders Financial Network, L.L.C. has been retained to originate, process, close, and sell to investors the mortgage loans made to homebuyers for a monthly management fee. The management fee is a percentage of the pre-tax net operating income. HFS had revenues of $2.2 million, $2.1 million, and $2.1 million in 2005, 2004, and 2003 with resulting net income of $0.7 million, $0.6 million, and $0.7 million, respectively. HFS revenues are included in commercial property and management revenue on the consolidated income statement.

(g) Westworld is a single-member limited liability company that operates the Sanctuary Golf Course, an 18-hole championship golf course in Scottsdale, Arizona. Westworld has developed the golf course under a sublicense agreement with the City of Scottsdale on approximately 200 acres of land controlled by a senior license agreement between the City of Scottsdale and the United States Bureau of Land Management.

(h) SunRidge is a limited liability company formed in 1994 to acquire, develop, manage, and sell approximately 950 acres of land in Fountain Hills, Arizona. The master-plan for the project included approximately 826 single-family homes and an 18-hole golf course and clubhouse. The golf course opened to the public and residential land sales commenced in 1995. The last lot was sold in 2002. The Company purchased the other member's interest in 2003 and is now the sole member of the LLC which continues to operate the golf course.

(i) HFL is a limited liability company formed in 2000 to plan, construct, lease, and sell office/retail buildings and residential units in Tempe, Arizona. The Company purchased the other member's interest in 2003 and is now the sole member of the LLC. The first office tower was sold July 2005. At December 31, 2005, the first phase of condominiums, (Edgewater at Hayden Ferry Lakeside), was nearing completion and construction of the second office tower and garage expansion started.

(j) CCTC is a limited liability company formed in 2002 to develop, operate, and sell office property in Utah. Currently the Company owns 75% and the minority partner has 25%. The office property is a two-story office building that was completed in 2003 and contains approximately 25,000 square feet of rentable space. At December 31, 2005 the building was 90% occupied with the Company leasing approximately 20% of the total rentable space. The other partner's 25% interest in CCTC is reflected as "Minority Interest" in the consolidated financial statements.

(k) CCHD is a limited liability company formed in 2003 to develop, manage, and sell a specific retail property in Utah. As of December 31, 2005, each partner owns 50%, with the Company being the managing member. The retail building contains approximately 8,200 square feet and is 100% leased at year end 2005. The other partner's 50% interest in CCHD is reflected as "Minority Interest" in the consolidated financial statements.

(l) StoneRidge Commercial is a limited liability company formed in 2004 to acquire, develop, manage, and sell an approximately 16,000 square foot combination community center and office building within the StoneRidge development. The Company is the managing partner and owns 60% of the venture. The other partner's 40% interest in StoneRidge Commercial is reflected as "Minority Interest" in the consolidated financial statements. At December 31, 2005, the building was substantially complete with tenants to move in early 2006.

(m) Total Minority Interest included in the consolidated balance sheets as of December 31, 2004 was $10.0 million. Minority Interest income of $2.7 million less cash distributions of $2.6 million increases the 2005 Minority Interest balance to $10.1 million. Minority Interest for consolidated land not owned is $33.8 million to reflect the adoption of FIN 46R (see Notes 3b, 3d, 3e, 3g, 3i, and 18).

6. Investment in Joint Ventures

INVESTMENT IN JOINT VENTURES

	2005	2004
	(DOLLARS IN MILLIONS)	
Centrepoint Associates	$ 3.5	$ 3.6
Sedona Golf Resort	1.2	1.4
Talavi Associates	1.0	1.0
Riverside Distribution Center	(0.1)	0.2
Total Investment in Joint Ventures	**$ 5.6**	**$ 6.2**

Notes to Consolidated Financial Statements

(a) Centrepoint Associates, L.L.P. ("Centrepoint LLP") is a general partnership formed in January 1989 to acquire, develop, manage, and sell real property. The Company initially contributed approximately 40 acres of land in the MarketPlace project for its 50% interest. The Company's partner contributed approximately $8.8 million for its 50% initial interest. From these initial contributions, the Centrepoint LLP developed approximately 393,000 square feet of retail space. In 1995, the Company contributed a 50% interest in approximately 85,000 square feet of retail space in Talavi and a 50% interest in approximately 40 acres of land in Palm Valley to Centrepoint LLP. The other partner purchased the additional 50% interest in retail space and land from the Company and contributed it to Centrepoint LLP, which has built or acquired an additional 50,000 square feet of retail space in Talavi.

In 2002, Centrepoint LLP sold approximately 12,000 square feet of retail space at Talavi and approximately 149,000 square feet of retail space at MarketPlace, leaving approximately 367,000 square feet of retail space at Talavi and MarketPlace for operations. In 2004, Centrepoint LLP sold the MarketPlace property to the other partner and retained control of approximately 112,000 square feet of retail space at Talavi. The Company recognized a gain of approximately $1.9 million on its share of the Centrepoint sale to the other partner.

The following represents summarized financial information of Centrepoint LLP at December 31, 2005 and 2004 and for the year ending:

CENTREPOINT LLP

	2005	2004	2003
	(DOLLARS IN MILLIONS)		
Assets:			
Cash and cash equivalents	$ 0.4	$ 0.5	
Buildings and other, net	5.4	5.9	
Land and improvements	5.2	9.7	
Total	**$ 11.0**	**$ 16.1**	
Liabilities and members' capital:			
Notes payable	$ 0.0	$ 5.7	
Members' capital	11.0	10.4	
Total	**$ 11.0**	**$ 16.1**	
Operations:			
Revenues	$ 10.6	$ 27.4	$ 3.6
Expenses	4.8	5.9	1.9
Depreciation	0.4	0.6	0.8
Net Income	**$ 5.4**	**$ 20.9**	**$ 0.9**

(b) Sedona Golf Resort, L.C. ("Sedona LC") is a limited liability company formed in February 1995 to acquire, develop, manage, and sell approximately 300 acres of land in Sedona, Arizona, including an existing 18-hole golf course. In addition to the golf course, the master plan for this project includes single-family residential, hotel, retail, and vacation ownership uses. The Company and the other member purchased their 50% initial interests in Sedona LC for approximately $3.5 million each. The Company is the managing member of the venture. The Operating Agreement rewards the Company with increased distribution percentages for achieving certain return on investment criteria which were achieved in 2003. Land sales are complete and the golf course is the remaining major asset of the LC. The following represents summarized financial information of Sedona LC at December 31, 2005 and 2004 and for the year ending:

SEDONA LC

	2005	2004	2003
	(DOLLARS IN MILLIONS)		
Assets:			
Cash and cash equivalents	$ 0.2	$ 0.4	
Golf course and other, net	10.1	10.2	
Total	$ 10.3	$ 10.6	
Liabilities and members' capital:			
Accounts payable and other liabilities	$ 0.4	$ 0.4	
Notes payable	7.0	7.2	
Members' capital	2.9	3.0	
Total	$ 10.3	$ 10.6	
Operations:			
Revenues	$ 3.9	$ 3.9	$ 6.9
Expenses	3.7	3.1	6.1
Net Income	$ 0.2	$ 0.8	$ 0.8

(c) SunCor-Palm Valley Apartments I Partnership and SunCor-Palm Valley Apartments II Partnership ("PV Apartments I & II") were partnerships formed in 1996 and 1997, respectively, to plan, construct, and lease a luxury apartment complex in Goodyear, Arizona. The Company contributed approximately 16 acres of land in Palm Valley to these partnerships for its 51% interest. The Company's partner supervised the planning, design, and construction of the project, and provided the day-to-day management of the project, for its 49% interest. The first phase, consisting of 132 units, opened in 1997 and the second phase, consisting of 132 units, opened in 1998. PV Apartments I and II were sold in 2003.

The following represents summarized combined financial information of PV Apartments I and II for the year ending December 31, 2003:

PV APARTMENTS I AND II

	2003
	(DOLLARS IN MILLIONS)
Operations:	
Revenues	$ 19.3
Expenses	13.4
Net Income	$ 5.9

(d) Talavi Associates, L.L.C. ("Talavi LLC") is a limited liability company formed in November 1997 to plan, construct, lease, and sell office/industrial buildings in Glendale, Arizona.

The Company contributed approximately 17 acres of land to Talavi LLC for its 50% interest. The other member purchased approximately 17 acres of land in Talavi from the Company and contributed it to Talavi LLC for its 50% interest. The Company is the managing member of this venture. Talavi LLC sold the approximately 37,000 square-foot garden office building in 2003 and the approximately 25,000 square-foot office building in 2004. At December 31, 2005, the assets of Talavi LLC consist of nine acres to be developed.

The following represents summarized financial information of Talavi LLC at December 31, 2005 and 2004 and for the year ending:

TALAVI LLC

	2005	2004	2003
	(DOLLARS IN MILLIONS)		
Assets:			
Cash and cash equivalents	$ 0.1	$ 0.3	
Land and improvements	1.3	1.2	
Total	$ 1.4	$ 1.5	
Liabilities and members' capital:			
Members' capital	$ 1.4	$ 1.5	
Total	$ 1.4	$ 1.5	
Operations:			
Revenues	$ 0.0	$ 3.1	$ 7.3
Expenses	0.1	2.0	4.8
Depreciation	0.0	0.0	0.2
Net Income (Loss)	$ (0.1)	$ 1.1	$ 2.3

(e) Riverside Distribution Center, L.L.C. ("Riverside LLC") is a limited liability company formed in 2004 to plan, construct, lease, and sell commercial/industrial buildings in Phoenix, Arizona. The Company contributed approximately 28 acres of land to Riverside LLC for its 50% interest and the other member contributed cash for its 50% interest. The other member is the managing member.

At December 31, 2005, the assets of Riverside LLC consisted of an industrial building of approximately 503,000 square feet.

The following represents summarized financial information of Riverside LLC at December 31, 2005 and 2004 and for the year ending:

RIVERSIDE LLC

	2005	2004
	(DOLLARS IN MILLIONS)	
Assets:		
Cash and cash equivalents	$ 0.1	$ 0.0
Buildings and other, net	9.9	10.9
Land and improvements	3.9	1.8
Total	**$ 13.9**	**$ 12.7**
Liabilities and members' capital:		
Accounts payable and other liabilities	$ (0.3)	$ 1.9
Notes payable	11.4	7.1
Members' capital	2.8	3.7
Total	**$ 13.9**	**$ 12.7**
Operations:		
Revenues	$ 0.2	$ 0.0
Expenses	0.5	0.0
Depreciation	0.5	0.0
Net Income (Loss)	**$ (0.8)**	**$ 0.0**

The Company accounts for its investments in Centrepoint LLP, Sedona LC, PV Apartments I and II, Talavi LLC, and Riverside LLC using the equity method of accounting.

7. Notes Receivable

Notes Receivable balance totaled $1.9 million and $2.1 million at December 31, 2005 and 2004, respectively. The 2005 balance of $1.9 million is a result of amounts due from the purchaser of LPSCo for continuing sale contract obligations that will end in 2007. This note was paid in January 2006. The 2004 balance of $2.1 million is a result of 2004 amounts due from the purchaser of LPSCo.

8. Other Assets

Other Asset balances were $17.3 million and $10.0 million at December 31, 2005 and 2004, respectively. The 2005 balance consisted primarily of prepaid assets, prepaid tax payments and funds on deposit with the Community Facilities Districts for StoneRidge and Kabuto JV. The 2004 balance is primarily for funds on deposit with the Community Facilities Districts for StoneRidge and Kabuto JV along with prepaid assets.

9. Property and Equipment

Property and Equipment are stated at cost. Major additions and renovations are capitalized and depreciated over their estimated useful lives. Depreciation is calculated using the straight-line method over the assets' estimated useful lives, which generally range from 3 to 20 years for furniture and equipment, 20 to 50 years for buildings and improvements, and 5 to 30 years for other property and equipment. Model home furnishings are amortized over each home closing based on the specified number of lots that were determined to benefit from the model homes. Depreciation expense was $3.4 million, $3.6 million, and $3.1 million at December 31, 2005, 2004, and 2003, respectively.

Property and Equipment consist of the following at December 31, 2005 and 2004:

PROPERTY AND EQUIPMENT

	2005	2004
	(DOLLARS IN MILLIONS)	
Land and improvements	$ 43.8	$ 48.3
Buildings	30.7	60.8
Furniture, equipment, and other	17.1	25.8
Water and sewer plant and equipment	2.6	2.3
Total	**94.2**	**137.2**
Less accumulated depreciation	(20.2)	(26.5)
Property and Equipment, net	**$ 74.0**	**$ 110.7**

10. Commitments and Contingencies

The Company is involved in litigation arising in the ordinary course of business, none of which is expected to have a material adverse effect on the Company's financial condition, results of operations, cash flows or liquidity.

Operating Leases – The Company's lease expense is predominantly for office rental, model home leaseback, and golf course equipment under operating leases. Lease expense for the years ended December 31, 2005, 2004, and 2003 was approximately $2.8 million, $2.2 million, and $3.3 million, respectively. Future minimum lease payments as of December 31, 2005 are as follows:

FUTURE MINIMUM LEASE PAYMENTS

YEAR ENDING DECEMBER 31:	(DOLLARS IN MILLIONS)
2006	$ 3.0
2007	2.7
2008	2.3
2009	2.2
2010	1.8
Thereafter	1.7
Total	$ 13.7

11. Notes Payable

Notes Payable consists of the following at December 31, 2005 and 2004:

NOTES PAYABLE

	2005	2004
	(DOLLARS IN MILLIONS)	
Revolving line of credit	$ 123.0	$ 35.0
HFL	5.0	33.9
Golf course notes	16.5	17.2
Consolidated liability for land not owned	0.2	0.3
Capital leases & Other	0.3	0.6
Total	$ 145.0	$ 87.0

In 2005, the Company replaced an existing $90 million revolving line of credit agreement with a $150 million revolving line of credit. The interest rate for the loan facility is variable, based on the lender's prime rate plus 0.5% or LIBOR plus 1.50 % to 2.00% (5.93% at December 31, 2005), and is payable monthly. The loan facility matures in December 2008.

The $150 million loan facility is secured primarily by an interest in land, commercial properties, land contracts, and homes under construction. The Company and certain subsidiaries provide a guarantee for the loan facility. The amount that is available to be funded under the line is calculated monthly based upon a value assigned to the assets and contracts that secure the loan. The unused available portion of the line totaled $27 million at December 31, 2005.

The loan facility requires compliance with certain financial loan covenants pertaining to debt to net worth, debt service, liquidity, cash flow coverage, and restrictions on debt. The Company is in compliance with these financial covenants at December 31, 2005.

As of December 31, 2004, HFL had two separate loan facilities, one for $5.0 million secured by land and the other for $28.9 million secured by the first office building. The office building sold in July 2005 and the $28.9 million loan was paid in full. The remaining land loan matures April 2006 and the Company is in the process of renewing it. The land loan bears interest at LIBOR plus 2.50%, which was 6.62% at December 31, 2005.

Golf Course notes at December 31, 2005 include notes secured by Palm Valley Golf Club, Club West Golf Club, StoneRidge Golf Club, SunRidge Golf Club, and Sanctuary Golf Club. The notes mature in 2006 through 2008 and bear fixed interest at 4.25% and variable rates ranging from LIBOR plus 2.5% to Prime plus 2.0%, which were 6.62% to 9.00% at December 31, 2005.

The following represents the future minimum principal payments under notes payable existing at December 31, 2005:

FUTURE MINIMUM PRINCIPAL PAYMENTS UNDER NOTES PAYABLE

YEAR ENDING DECEMBER 31:	(DOLLARS IN MILLIONS)
2006	$ 16.3
2007	0.4
2008	128.3
Thereafter	0.0
Total	**$ 145.0**

12. Assets and Liabilities Held for Sale and Discontinued Operations

The Company's discontinued operations for 2005 represent the results of the operations and sales of HFL Office 1, Palm Valley Office Park I & II, and the Family Entertainment Centers ("FEC") along with continued sale proceeds resulting from the LPSCo transactions. In accordance with Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", HFL Office 1, Palm Valley Office Park I & II, FEC, and LPSCo have been reflected as discontinued operations for all periods presented. The 2004 discontinued operations are primarily a result of the operations and sales of the Palm Valley Cornerstone Shops A&B and the Litchfield Park Professional Plaza along with continued sale requirements resulting from the LPSCo transactions. The 2003 discontinued operations are primarily a result of the operations and sale of the building leased to Kohl's at Alameda Crossing and the sale of LPSCo. The following represents summarized financial information:

DISCONTINUED OPERATIONS

	2005	2004	2003
	(DOLLARS IN MILLIONS)		
Income Statement:			
Net Discontinued Operations before Income Tax (including disposal gains of $33.9, $5.2, and $16.5)	$ 27.8	$ 6.0	$ 15.4
Income Tax on Discontinued Operations	(11.0)	(2.4)	(6.1)
Net Income from Discontinued Operations	**$ 16.8**	**$ 3.6**	**$ 9.3**

As of December 31, 2005, no assets are classified as held for sale.

In conjunction with the sale of HFL Office 1, the Company continues to lease office space in HFL Office 1 for use in its normal operations. The lease is at fair market value, however in accordance with SFAS 98, "Accounting for Sales with Leasebacks" the Company deferred approximately $8.8 million in profit from the sale. The deferred profit will be recognized over the remaining term of the lease as lease payments are made. As of December 31, 2005 deferred profit related to the sale-leaseback was approximately $8.3 million (see Notes 10 and 17).

In conjunction with the sale of FEC, the buyer provided an indemnification as the Company was not released from end of lease obligations by the lessor.

13. Related Party Transactions

The Company, through its wholly-owned homebuilding subsidiary GHH, at times purchased property or lots from SMLP, SunRidge LLC, Sedona LC, Hidden Hills LC, and Kabuto JV. GHH would then construct and market the homes to the general public. Prior to 2003, the Company purchased finished lots and residential parcels from various joint ventures. Profits on these inter-company transactions are not recorded until the home is constructed and sold to an unrelated third party. During 2005, 2004, and 2003, the Company recognized approximately $0.4 million, $2.7 million, and $1.7 million, respectively, in profits from the joint venture lot sale transactions, reflecting them as a reduction to cost of homes sold.

In 2005, 2004, and 2003, the Company was charged by PWCC approximately $0.8 million, $0.9 million, and $0.9 million, respectively, for certain administrative services and allocated corporate costs. As of December 31, 2005 and 2004, the Company had outstanding accounts payable to PWCC of approximately $1.4 million and $0.5 million, respectively.

In addition, during 2005, 2004, and 2003, the Company paid a return of capital to PWCC of $50.0 million, $85.0 million, and $108.0 million, respectively.

During the year, the Company may fund certain related parties for certain expenditures to be repaid within a short time period. At December 31, 2005 and 2004, Sedona LC owed the Company $0.1 million and $0.2 million, respectively.

In 2004, Arizona Public Service, a subsidiary of PWCC, paid the Company $1.3 million for an 11 acre land condemnation in Palm Valley to be used for a 230Kv substation and rights to a right of way easement for access. The Company reported a gain of approximately $1.1 million on this transaction.

During the year, the Company entered into a new bank line of credit with three lenders. The President of one of the minor lenders is the spouse of a Vice President of the Company.

14. Income Taxes

The Company is included in PWCC's consolidated tax return. However, when PWCC allocates income taxes to the Company, it does so based on the Company's taxable income or loss alone.

Certain assets and liabilities are reported differently for income tax purposes than they are for financial statements. The tax effect of these differences is recorded as deferred taxes. The Company calculates deferred taxes using current income tax rates.

The components of income tax expense are as follows:

YEAR ENDING DECEMBER 31:	2005	2004	2003
	(DOLLARS IN MILLIONS)		
Current:			
Federal	$ 11.7	$ 35.0	$ 3.2
State	3.3	8.5	3.1
Total Current	**$ 15.0**	**$ 43.5**	**$ 6.3**
Deferred:			
Deferred Federal	$ 4.5	$(12.7)	$ 22.8
Deferred State	0.9	(3.6)	(0.2)
Total Deferred	**$ 5.4**	**$(16.3)**	**$ 22.6**
Income tax expense from continuing operations	**$ 20.4**	**$ 27.2**	**$ 28.9**

The income tax expense computed using the statutory federal income tax rate does not equal the amount recorded as income tax expense from continuing operations because of the following:

YEAR ENDING DECEMBER 31:	2005	2004	2003
	(DOLLARS IN MILLIONS)		
Federal income tax expense at 35% statutory rate	$ 20.7	$ 23.9	$ 26.4
Increase in tax expense resulting from:			
State income tax net of federal income tax benefit	2.7	3.1	3.2
Other	(3.0)	0.2	(0.7)
Income tax expense from continuing operations	**$ 20.4**	**$ 27.2**	**$ 28.9**

The net deferred tax asset balance is approximately $4.6 million and $10.0 million at December 31, 2005 and 2004, respectively. The temporary differences which give rise to significant portions of the deferred income tax assets and deferred income tax liabilities are deferred profit, property and equipment, and uniform capitalization of land.

Other in 2005 primarily represents an adjustment to income tax reserves that were no longer deemed necessary.

15. Guarantees

Special Taxing Districts Estimation of Contributions –
In cooperation with local governments, the Company has formed Special Taxing Districts ("Districts") at its Palm Valley, Hidden Hills, Rancho Viejo, Coral Canyon, Scottsdale Mountain, The Village at Litchfield Park, and StoneRidge communities. The purpose of a District is to finance public infrastructure for the benefit of the property owners within the District. Typically, the Districts utilize general obligation bonds to finance the infrastructure. The District's general obligation bonds are repaid through property taxes over a 25-year period. Due to a lack of a substantial property tax base in the early years of a project, an alternative funding source other than property taxes is necessary for the District to meet the annual debt service requirement. The Company enters into agreements with each District to provide this alternative funding source, an annual payment by the developer. As development occurs and the property tax base grows, the required contributions from the developer decrease. Based on annual debt service payments of the Districts and estimated project development and absorption schedules, the estimated developer contribution requirements under these agreements are as follows:

ESTIMATION OF SPECIAL TAXING DISTRICTS CONTRIBUTIONS

YEAR ENDING DECEMBER 31:	(DOLLARS IN MILLIONS)
2006	$ 1.5
2007	1.1
2008	1.0
2009	0.8
2010	0.5
Thereafter	0.3
Total	$ 5.2

Since January 2003 the Company has entered into four Special Taxing District Contribution Agreements. In accordance with FASB Interpretation No. 45, the fair value of obligations related to guarantee agreements are required to be recorded as a liability. At December 31, 2005 and 2004, the fair value of the obligations for these agreements are included in "Land" and "Accounts Payable and Other Liabilities" and totaled $2.8 million and $3.0 million, respectively, for the bonds with a maximum potential undiscounted liability of $23.5 million and $15.6 million, respectively.

16. Benefits

Certain eligible employees of the Company are covered by a qualified pension plan, non-qualified supplemental excess benefit retirement plan, and a post-retirement plan. The plans are administered by the Company's parent and the Company is allocated its portion of the entire plan. Below is the associated expense and contribution:

BENEFIT PLANS

YEAR ENDING DECEMBER 31:	2005	2004	2003
	(DOLLARS IN MILLIONS)		
Expense			
Pension-related	$ 1.1	$ 1.2	$ 1.3
Post-retirement	0.7	0.6	0.8
Contributions			
Pension-related	$ 1.0	$ 0.9	$ 0.9
Post-retirement	0.7	0.4	0.9

17. Deferred Profit

The Company has sold several residential and commercial parcels of land which require additional development to be performed by the Company and therefore resulted in deferred profit. The Company recorded these sales under the percentage of completion method per FASB No. 66 "Accounting for Sales of Real Estate". Also, during 2005, the Company sold HFL Office 1 while continuing to lease office space thus resulting in a portion of profit associated with the sale to be deferred over the life of the operating lease (see Note 12). At December 31, 2005 and 2004, the Company had approximately $14.9 million and $31.7 million, respectively, recorded as deferred profit associated with these sales. The following represents summarized financial information for deferred profit:

	(DOLLARS IN MILLIONS)		
	Residential	Commercial	Total
Balance at Dec. 31, 2004	$ 31.7	$ 0.0	$ 31.7
Recognized	(26.5)	(1.1)	(27.6)
Deferred	1.0	9.8	10.8
Balance at Dec. 31, 2005	$ 6.2	$ 8.7	$ 14.9

18. Variable Interest Entities

In December 2003, FASB Interpretation No. 46 (revised) ("FIN 46R"), "Consolidation of Variable Interest Entities – an Interpretation of Accounting Research Bulletin ("ARB") No. 51" was issued. A Variable Interest Entity ("VIE") is created when (i) the equity investment at risk is not sufficient to permit the entity from financing its activities without additional subordinated financial support from other parties or (ii) equity holders either (a) lack direct or indirect ability to make decisions about the entity, (b) are not obligated to absorb expected losses of the entity or (c) do not have the right to receive expected residual returns of the entity, if they occur. FIN 46R requires the entity that absorbs the majority of the risk of loss or the majority of the residual revenues to consolidate the VIE. Based on the provisions of FIN 46R, the Company has concluded that when certain circumstances exist when optioning land or lots from an entity and paying a non-refundable deposit, a VIE may be created. The Company is also deemed to have provided subordinated financial support when its variable interests absorb some or all of an entity's expected theoretical losses, if they occur. The Company concluded that it was the primary beneficiary of certain VIE's and thus consolidated them on the balance sheet. The fair value of the VIE land is reported as "Consolidated Land not Owned". The Company has recorded approximately $34.0 million as of December 31, 2005 and 2004 as additional land holdings in accordance with FIN 46R (see Notes 3b, 3e, 3g, and 3i).

The Company is required to make certain annual payments to the original land owners to continue development and sales at Rancho Viejo, Coral Canyon, StoneRidge, Avimor, and Prescott Lakes as discussed in Notes 3(b), 3(d), 3(e), 3(g), and 3(i). These obligations are not recorded as liabilities as of December 31, 2005. The Company's maximum exposure to loss under these arrangements is limited to the development costs incurred to date which include any upfront (option) fees (see the Land table in Note 3). While Coral Canyon is not considered a VIE, the payments to the land owner are included in the table below.

FUTURE MINIMUM LAND PAYMENTS

YEARS ENDING DECEMBER 31:	(DOLLARS IN MILLIONS)
2006	$ 2.8
2007	2.6
2008	2.6
2009	2.6
2010	2.6
Thereafter	5.2
Total	**$ 18.4**

19. Subsequent Events

In January 2006, the Company completed the acquisition of Campbell Ranch Unit 1 located to the east of Albuquerque, New Mexico. The project is anticipated to contain 775 single-family units along with custom lots and commercial acreage. Construction is anticipated to commence during 2006.

Officers and Directors

OFFICERS

Steve Betts
President and Chief Executive Officer

Duane Black
Executive Vice President and Chief Operating Officer

Jay Ellingson
Executive Vice President, Land Development

Margaret Kirch
Executive Vice President, Commercial Development

Tom Patrick
Executive Vice President,
Golf Operations and Human Resources

Jim Adair
Vice President, Homebuilding

Steve Carlson
Vice President, Controller

Steve Gervais
Vice President Government Affairs

M. Randall Levin
Vice President, Design and Urban Infill Development

Michael Martin
Vice President, Finance

Bradley Wright
Vice President, Legal Counsel and
Associate Corporate Secretary

DIRECTORS

William J. Post
Chairman of the Board
SunCor Development Company

Chief Executive Officer
Pinnacle West Capital Corporation

Michael L. Gallagher, Esq.
Chairman Emeritus
Gallagher & Kennedy

Pamela Grant
Civic Leader

Humberto S. Lopez
President
HSL Properties, Inc.

Steve Betts
President and Chief Executive Officer
SunCor Development Company

SunCor Development Company

80 East Rio Salado Parkway, Suite 410

Tempe, Arizona 85281

480.317.6800

www.suncoraz.com

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PINNACLE WEST CAPITAL CORPORATION
2005 ANNUAL REPORT

IMPORTANT NOTICE TO SHAREHOLDERS:

Pinnacle West posts quarterly results and other important information on its Web site (www.pinnaclewest.com). If you would like to receive news by regular mail, fax or e-mail, let us know by mail or phone at the addresses and numbers listed on the previous page. Also, let us know if you would like to be kept abreast of legislative and regulatory activities at the state and federal levels that could impact investor-owned utilities.

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They are Connected...

...by growth, investment and innovation. The state of Arizona, with its rapid expansion in new residents, new homes and new businesses, is poised for incredible possibilities. At Pinnacle West, we're working hard today – planning, executing, becoming increasingly efficient – to ensure this future, yours and ours, will be powered with safe, reliable electricity.

TABLE OF CONTENTS

Pinnacle West is a Phoenix-based company with consolidated assets of $11.3 billion and consolidated revenues of $3 billion. Through our subsidiaries, we generate, sell and deliver electricity and sell energy-related products and services to retail and wholesale customers in the western United States. We also develop residential, commercial and industrial real estate projects.

STRATEGIC OBJECTIVES

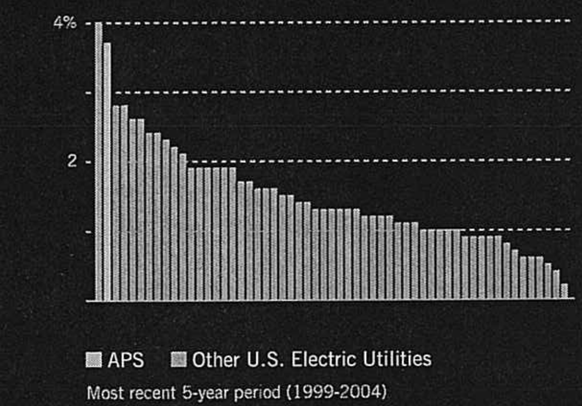
PROVIDE ARIZONA ELECTRICITY CUSTOMERS WITH OUTSTANDING SERVICE AND RELIABLE ENERGY AT FAIR PRICES	FOCUS ON SUPERIOR LONG-TERM TOTAL RETURNS FOR SHAREHOLDERS	ACTIVELY MANAGE OUR COSTS AND BUSINESS RISKS	WORK WITH REGULATORS TO ACHIEVE POSITIVE REGULATORY OUTCOMES THAT BENEFIT BOTH CUSTOMERS AND SHAREHOLDERS
MAXIMIZE THE LONG-TERM VALUE OF OUR ASSETS	CAPTURE GROWTH OPPORTUNITIES IN OUR ELECTRICITY MARKETS	INCREASE OUR RESOURCE PORTFOLIO CONSISTENT WITH OUR NATIVE LOAD, ENVIRONMENTAL FACTORS, CASH FLOW AND MARKET CONDITIONS	MAINTAIN A DISCIPLINED FOCUS ON OUR LONG-TERM GOALS WHILE REMAINING AGILE

Financial Highlights

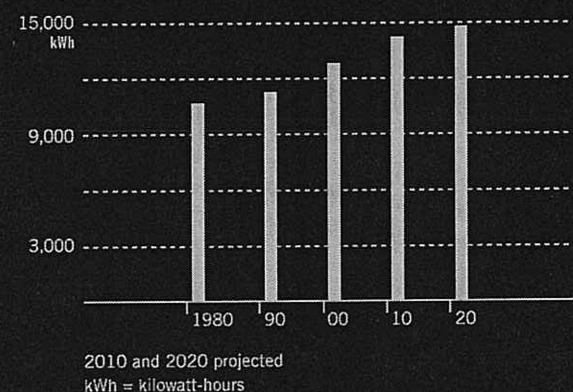
dollars in thousands, except per share amounts

Year Ended December 31,	2005	2004	2003	Growth Rate 05 vs 04	Growth Rate 04 vs 03
INCOME HIGHLIGHTS					
Operating revenues	**$ 2,987,955**	$ 2,829,006	$ 2,758,804	5.6%	2.5%
Income from continuing operations	**$ 223,163**	$ 246,590	$ 225,384	(9.5)%	9.4%
Net income	**$ 176,267**	$ 243,195	$ 240,579	(27.5)%	1.1%
BALANCE SHEET HIGHLIGHTS					
Total assets – year-end	**$ 11,322,645**	$ 9,896,747	$ 9,519,042	14.4%	4.0%
Common stock equity – year-end	**$ 3,424,964**	$ 2,950,196	$ 2,829,779	16.1%	4.3%
PER SHARE HIGHLIGHTS					
Earnings per share from continuing operations – diluted	**$ 2.31**	$ 2.69	$ 2.47	(14.1)%	8.9%
Net income – diluted	**$ 1.82**	$ 2.66	$ 2.63	(31.6)%	1.1%
Indicated annual dividend – year-end	**$ 2.00**	$ 1.90	$ 1.80	5.3%	5.6%
Book value per share – year-end	**$ 34.58**	$ 32.14	$ 30.97	7.6%	3.8%
STOCK PERFORMANCE					
Stock price per share – year-end	**$ 41.35**	$ 44.41	$ 40.02		
Stock price appreciation	**(6.9)%**	11.0%	17.4%		
Total return	**(2.7)%**	15.9%	23.1%		
Market capitalization – year-end	**$ 4,096,839**	$ 4,076,965	$ 3,657,025	0.5%	11.5%

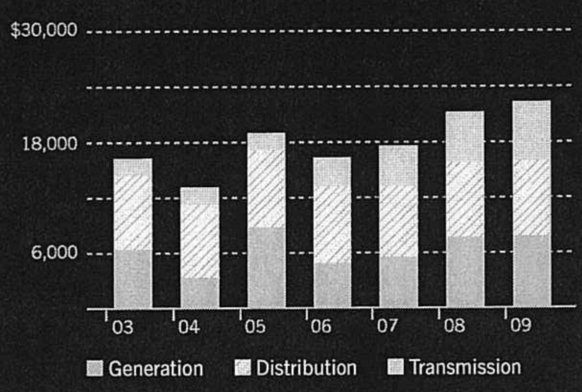
ANNUAL RETAIL CUSTOMER GROWTH



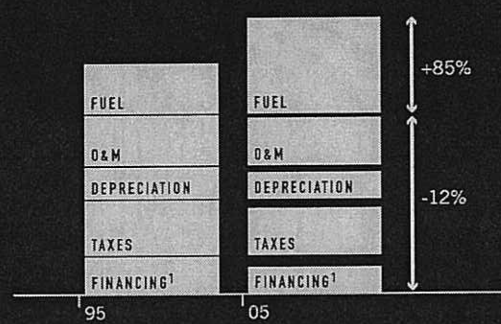
APS ANNUAL CUSTOMER ELECTRICITY USE



CAPITAL INVESTMENT PER NEW CUSTOMER



APS ACTUAL COSTS 1995 vs. 2005



[1] Includes both debt and shareholder financing costs

Since 1999, APS ranks second nationally among electric utilities in customer growth. In addition to rapid customer growth, we also continue to experience significant increases in the amount of electricity used by each customer. To meet this ongoing growth, we're investing in the infrastructure to power Arizona's energy future. This investment will average nearly $20,000 per new customer per year for the next four years. And we've become increasingly efficient, lowering our actual costs except fuel by 12 percent since 1995.

TO OUR SHAREHOLDERS

Customers, investors, employees – our futures are connected. Not just by the lines that deliver power, but also by Arizona's growth potential and limitless possibilities.

This letter, like our company, is focused on our ongoing task of preparing for and connecting to Arizona's energy future. In the short term, that means recovering our unexpectedly high natural gas costs. Full and timely recovery of our fuel costs is essential to our ability to finance future growth.

In the long term, ensuring Arizona's energy future requires a diverse portfolio of new generating resources. Extending our transmission system into new coal and renewable markets, as well as encouraging conservation efforts through customer-driven demand-side management programs, requires aggressive action today.

As we make the transition from a competitive model to re-regulation, we're working with our state regulators to forge a sustainable approach to Arizona's energy growth. In 2005, we consolidated all of our generation, established a new resource acquisition process and we're now implementing a new fuel cost recovery clause. These steps will improve our financial health, and only a healthy utility company can supply the energy demands of our dynamic state.

A healthy Arizona doesn't just require a healthy utility, it demands one. Only a financially strong company can simultaneously manage growth, improve reliability and provide outstanding customer service – as we have for the last decade.

WE MET THE GROWTH CHALLENGE

Over the last 10 years, Arizona has experienced unprecedented economic and population growth. During the last decade, our gross state product increased by 74 percent (double the national level during that time) while job growth exceeded 40 percent. And the future looks just as promising.

In 2005, our core business was strong – net income from retail electric customers increased by nearly 10 percent. However, our earnings per share were lower than the previous year due primarily to regulatory write-offs and a loss on the sale of our Nevada generating unit. We replaced this generation with local Arizona generation at comparable terms and our consolidated APS generation will provide a solid platform as we complete our progress toward a vertically integrated, regulated company.

For APS, last year's 4.3 percent customer growth – and 9.3 percent load growth – came after we added 300,000 customers from 1995 to 2004. Last year we also added our millionth customer.

While adding customers at a record pace, we also strengthened our infrastructure with a $5 billion investment over the last 10 years, including one of the few 500-kilovolt transmission lines built in the West in the last decade.

AT A GLANCE APS ranked first among investor-owned electric utilities in the West and third among investor-owned utilities in the nation in J.D. Power and Associates' 2005 Electric Utility Residential Customer Satisfaction Study

AT A GLANCE Pinnacle West received the top rating – AAA – from Innovest Strategic Value Advisors, an investment research and advisory firm that analyzes companies' performance on environmental, social and strategic governance issues

When the Arizona competitive rules kept APS from building new generation, we invested in new generation for APS customers under our competitive subsidiary, Pinnacle West Energy. Our 1,000-megawatt Redhawk combined-cycle plant and our 600-megawatt West Phoenix units were vital additions to support the Phoenix "load pocket."

Supplying our customers with reliable power required that we recognize the physical reality of electricity, not just evolving regulatory structures. That meant we built new generation with our transmission capability and our customers firmly in mind. Some who built plants in Arizona were focused primarily on short-term profitability from potential new markets. Our company, on the other hand, focused on our duty to meet customers' and shareholders' needs for the long term.

WE'RE RE-ENGAGING WITH VERTICALLY INTEGRATED REGULATION

Last year in my letter to shareholders, I wrote that our company was starting to become a new kind of integrated utility, tempered by competitive forces, relying on our own generation as well as market resources.

We're making the transition to a new regulatory platform – working closely with the Arizona Corporation Commission – and we're moving forward with steady success. In April 2005, we received our first rate increase since 1991 and, perhaps even more important, we gained approval for our first fuel and purchased power adjustor since 1989. With our greater reliance on natural gas, the market price of which we clearly cannot control, the fuel adjustor will greatly reduce our financial risk profile given volatile fuel markets. This reduces uncertainty for our investors and long-term costs for our customers.

That's been and will continue to be one of our strongest themes – reducing uncertainty by aggressively tackling issues. We knew a fuel adjustor would be fundamental due to our increased reliance on natural gas and purchased power, and we achieved that goal.

After a decade of price decreases, made possible by operational excellence, employee productivity and technological advances, we're now in an era of high natural gas fuel prices. Price pressures have compounded the implementation of the adjustor as well as the transition to vertically integrated regulation. However, we are making progress toward a strong regulatory platform for the future.

As we continue to move out of our transitional regulatory structure, we'll stay focused on Arizona's energy future, engaging regulators cooperatively on the best approach to new energy sources as we enter a new resource cycle. To achieve timely resolution of resource issues and preserve our momentum toward greater reliability, working together with our regulators early in the cycle will be vital.

CONNECTED BY GROWTH

EACH DAY BRINGS MORE – MORE RESIDENTS, MORE HOMES, MORE BUSINESSES, MORE POSSIBILITIES. ARIZONA CONTINUES TO GROW AT A PACE THREE TIMES THE NATIONAL AVERAGE. FOR OUR COMPANY, THIS MEANS MORE CUSTOMERS, USING MORE POWER AND THE NEED FOR MORE POWER RESOURCES. TO MEET THIS GROWTH, IN 2005 WE ADDED 900 MILES OF TRANSMISSION AND DISTRIBUTION WIRES TO OUR NETWORK.

AT A GLANCE Increased efficiency allowed our company to serve 220 customers per employee in 2005, compared to 167 per employee a decade ago

AT A GLANCE Pinnacle West earned a place on a list of the world's 100 most sustainable corporations, as named by *Corporate Knights*, a Canada-based social responsibility magazine

AR 05

OUR OPERATIONS ARE SOUND

Despite an extended outage for a steam generator replacement on Unit 1, the Palo Verde Nuclear Generating Station produced more electricity than any other single power plant in the United States for the 14th consecutive year. Over the last decade, Palo Verde has provided an outstanding hedge against rising fuel costs. Our average unit production cost over the last 10 years was 25 percent below the nuclear industry average. This means our costs over that period were about $450 million lower than what they would have been had Palo Verde's unit operating costs been at industry averages. This has translated into significant savings for our customers.

Yet Palo Verde's performance last year fell behind our own high standards and the results we've produced over the last decade. Frankly, we're not accustomed to anything less than stellar performance, and we have in place a comprehensive performance improvement plan to return Palo Verde to the top rank of nuclear plants.

> Our future is strong because our customer growth provides an inherent competitive advantage, and our focus on performance helps us shape the future, not just respond to it.

In 2005, our coal units achieved their highest capacity factor ever. Over the last decade, our coal units have improved from a capacity factor of 69 percent in 1996 to better than 87 percent in 2005. That's an increase of more than 2.5 billion kilowatt-hours of low-cost, reliable coal generation to meet the growing needs of our customers.

Construction is a big part of our job to meet customer growth and improve reliability. In 2005, we added 900 miles of distribution and transmission lines as well as eight new substations. While our construction workload continues to grow, so does our productivity. For example, using new work methods and techniques, APS employees can now build an average substation in half the time it took a little over a decade ago.

Customer service increasingly means much more than just keeping the lights on; it also means providing swift, accurate and useful information. In the last decade, we successfully reduced our staffing through applied technology tailored to our business, and there's more to come. Intelligent metering, new clean coal technologies, advancements in renewable generation, conservation improvements through applied technologies, information system enhancements and other high-tech applications will transform our industry. In the next decade our focus is to modify our core business through technology – to expand customer value in addition to improving productivity.

While we've improved customer service, we've also increased the number of customers served per employee from 167 to 220 over the last decade. While increasing their productivity, our employees have achieved the highest J.D. Power customer satisfaction rating of any investor-owned utility in the West (we're third in the U.S. as a whole). While we're using every technological means at our disposal to control costs and improve service, our dedicated and creative employees remain our most important assets in this effort.

AT A GLANCE | SunCor, our real estate development subsidiary, had another strong year, adding nearly $56 million to the bottom line

AT A GLANCE | For the 14th consecutive year, the Palo Verde Nuclear Generating Station earned the title of the nation's largest power producer

OUR FUTURE IS STRONG

Our future is strong because our customer growth provides an inherent competitive advantage, and our focus on performance helps us shape the future, not just respond to it.

We have embarked on a new generation resource cycle. To provide new resources, we've engaged regulators early in the cycle by accessing the market through competitive bids. We constantly evaluate the potential of renewable resources, and we're enhancing our transmission infrastructure to broaden our geographic base. We will continue to need new natural gas capacity, but we're rapidly lining up a diverse portfolio of new generating resources.

We're very excited about the potential of our TransWest Express project for Arizona and for the entire southwestern region. Compelling even in the planning stage, this new large-capacity transmission line would bring to Arizona the vast coal and wind resources of Wyoming. Also, we'll likely be adding a new coal unit closer to home in the next decade.

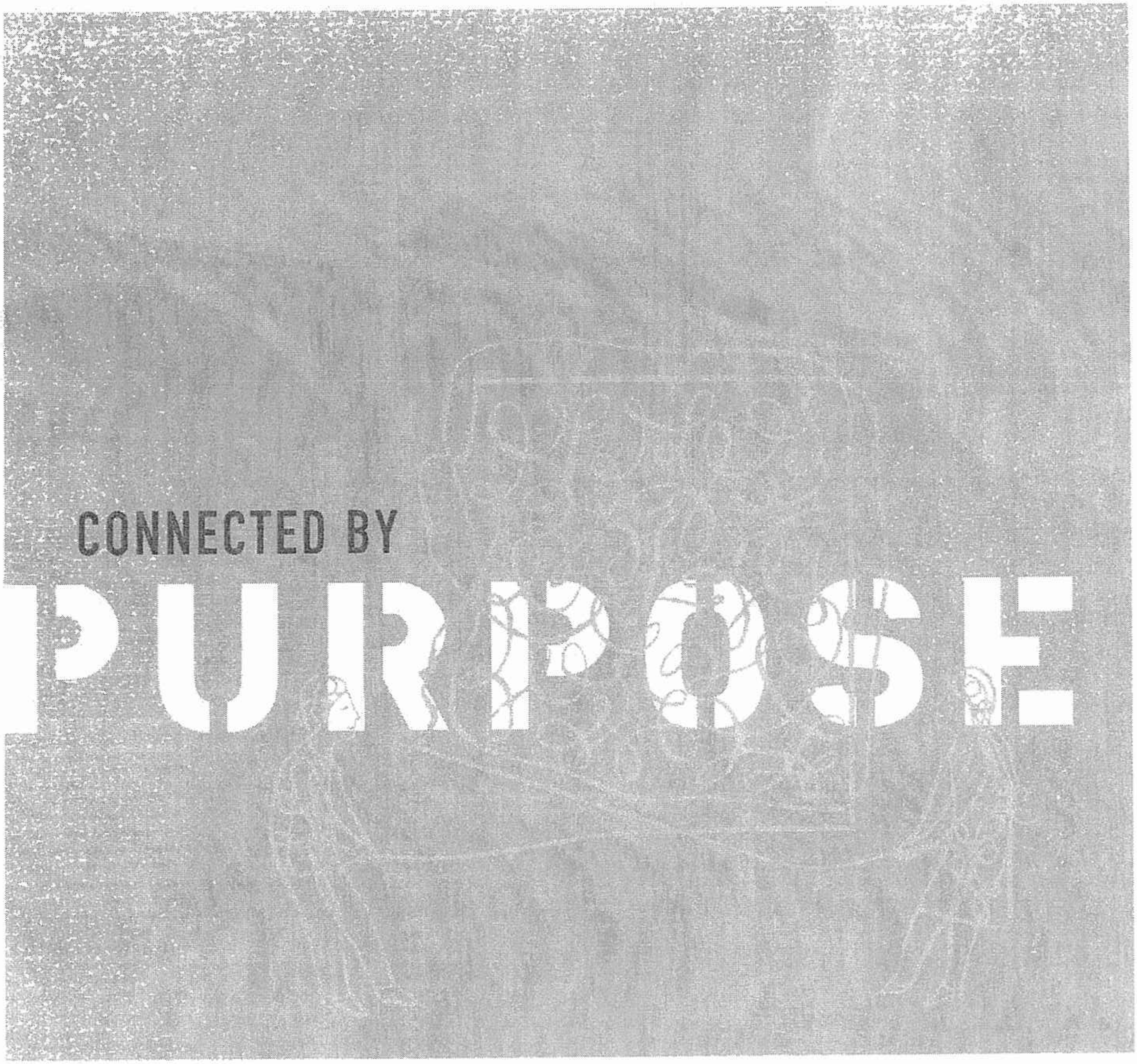
We're increasing our use of renewable technologies to 5 percent of our energy mix by 2015 and 15 percent by 2025. This year, we continued to demonstrate renewable leadership with Arizona's first solar trough plant, a one-megawatt facility near our existing Saguaro Power Plant.

Our customers will begin to benefit from our greatly expanded demand-side management program. With incentives for energy-saving measures such as lighting and high-efficiency air conditioning, this multi-year program will deploy $48 million to reduce our peak demand by more than 50 megawatts and energy consumption by more than 3 million megawatt-hours over the life of the energy-saving measures.

OUR FINANCIAL RESULTS: IMPROVING TOWARD EXCELLENCE

Our investors and customers can have confidence in our ability to manage our access to capital as well as our physical assets. Our financing goals are crafted with one fundamental objective: maintaining access to low-cost sources of capital so we can supply our growing service area reliably and economically.

In Arizona's high-growth environment, we will continue to need substantial amounts of capital. Last year, we accessed about $1 billion in debt and equity on favorable terms, including an equity placement of $250 million. Combining the proceeds of our equity offering with the sale of our share of a Nevada generating unit, we invested $460 million in APS. This equity infusion bolstered APS' cash position and brought the debt/equity ratio into the appropriate range. Strengthening APS' balance sheet is critical to meeting our future financial requirements, which are driven by the growing energy demands of our customers.



CONNECTED BY PURPOSE

A FUTURE OF INNOVATION AND ACHIEVEMENT LIES AHEAD FOR ARIZONA. LIKE YOU, WE'RE EAGER TO WATCH IT UNFOLD. BUT THIS FUTURE WON'T JUST HAPPEN BY ITSELF. ARIZONA WILL NEED SAFE, RELIABLE POWER – IN LARGE QUANTITIES. THAT'S WHY OVER THE LAST DECADE, WE'VE INVESTED MORE THAN \$5 BILLION ON ELECTRIC INFRASTRUCTURE – ABOUT \$18,000 PER NEW CUSTOMER. AND WE PLAN ON SPENDING ANOTHER \$7 BILLION OVER THE NEXT DECADE.

\$18,000

AT A GLANCE APS continued its investment in Arizona's electric future by adding more than 900 miles of transmission and distribution wire and eight new substations to its growing network

AT A GLANCE The company completed construction of a one-megawatt solar trough power plant, the first such plant of its kind in Arizona and the first to be built in the United States in 17 years

However, to remain viable, our customers' prices must reflect our costs. After a decade of price reductions made possible by our gains in efficiency, we've requested increases for fuel and other costs which offset our historical price decreases. However, once fully implemented, our total net price increase over the period will be about 1 percent per year.

IN SUMMARY

We've met the growth challenge of the last decade despite dueling state and federal regulation that exacerbated an uncertain market structure. Our operations are sound, our customer relations are among the best in the nation and our employee productivity gains are impressive.

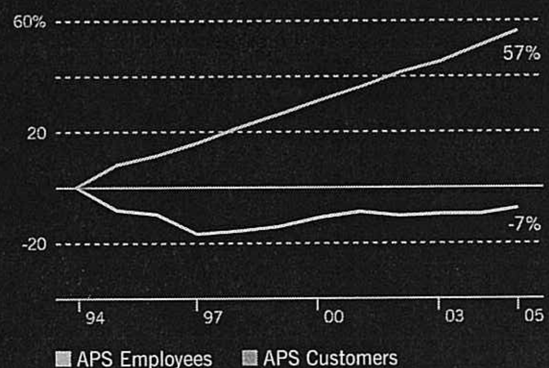
We manage our financial resources well even as we meet the challenges of growth. We're using new technology to improve service and serve more customers per employee. We're steadily embracing new and diversified generating resources and employing innovative approaches like our TransWest Express transmission project. We're managing the regulatory transition and forging a new regulatory platform with increasing clarity for the future.

The old uncertain regulatory history was resolved last year, and we're making progress toward a sustainable regulatory structure with improved predictability for investors and assured reliability for customers. With improved cash flow and timely recovery of our fuel costs, APS will be positioned as a strong, healthy company poised to continue benefiting from our customer growth.

The future success of Arizona – its residents, its communities, its economy – depends on the availability of a reliable electric supply and the infrastructure to deliver it. We will continue to work side-by-side with the people of our state to power innovation for an enviable quality of life and a successful future – yours and ours.

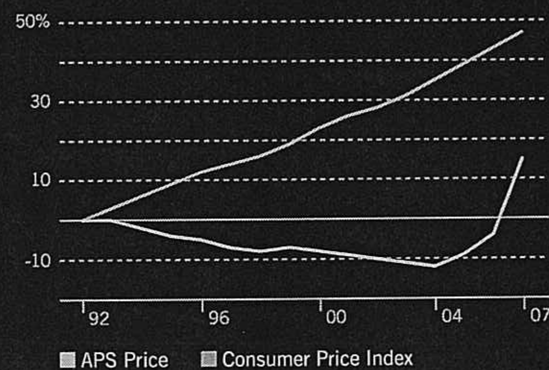
WILLIAM J. POST
Chairman & CEO

CUSTOMER & EMPLOYEE GROWTH



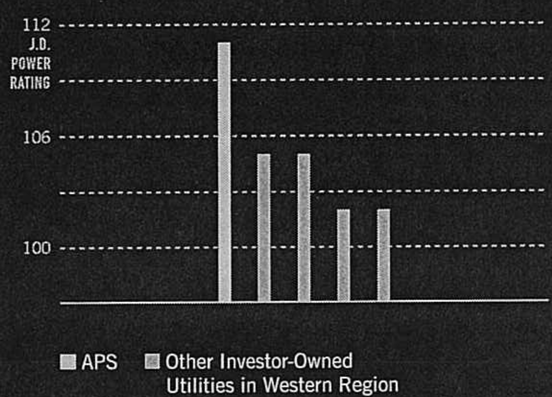
Cumulative Percent Increase

CUSTOMER PRICE PERFORMANCE

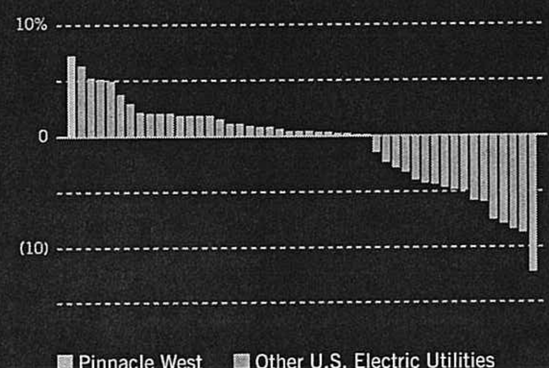


06-07 APS Prices Proposed

2005 CUSTOMER SATISFACTION RATINGS



1996-2005 ANNUAL DIVIDEND GROWTH



Since the beginning of 1994, APS' customer base has increased 57 percent, while our staff has decreased 7 percent. This added efficiency has helped us keep our customer electricity prices well below the Consumer Price Index. We've also enhanced customer satisfaction, ranking first among investor-owned utilities in the West in the most recent J.D. Power and Associates residential customer survey. And, for investors, we've earned the top spot among all U.S. electric utilities in compound dividend growth over the last decade.

2005 Consolidated Financial Information

SELECTED CONSOLIDATED FINANCIAL DATA (dollars in thousands, except per share amounts)

	2005	2004	2003	2002	2001
OPERATING RESULTS					
Operating revenues:					
Regulated electricity segment	**$ 2,237,145**	$ 2,035,247	$ 1,978,075	$ 1,890,391	$ 1,984,305
Marketing and trading segment (a)	**351,558**	400,628	391,196	286,879	469,784
Real estate segment (a)	**338,031**	350,315	361,604	201,081	168,908
Other revenues	**61,221**	42,816	27,929	26,899	11,771
Total operating revenues	**$ 2,987,955**	$ 2,829,006	$ 2,758,804	$ 2,405,250	$ 2,634,768
Income from continuing operations (b)	**223,163**	246,590	225,384	236,563	327,367
Discontinued operations – net of income taxes (c)	**(46,896)**	(3,395)	15,195	(21,410)	–
Cumulative effect of change in accounting – net of income taxes (d)(e)	**–**	–	–	(65,745)	(15,201)
Net income	**$ 176,267**	$ 243,195	$ 240,579	$ 149,408	$ 312,166
COMMON STOCK DATA					
Book value per share – year-end	**$ 34.58**	$ 32.14	$ 30.97	$ 29.40	$ 29.46
Earnings (loss) per weighted average common share outstanding:					
Continuing operations – basic	**$ 2.31**	$ 2.70	$ 2.47	$ 2.79	$ 3.86
Discontinued operations (c)	**(0.48)**	(0.04)	0.17	(0.26)	–
Cumulative effect of change in accounting (d)(e)	**–**	–	–	(0.77)	(0.18)
Net income – basic	**$ 1.83**	$ 2.66	$ 2.64	$ 1.76	$ 3.68
Continuing operations – diluted	**$ 2.31**	$ 2.69	$ 2.47	$ 2.78	$ 3.85
Net income – diluted	**$ 1.82**	$ 2.66	$ 2.63	$ 1.76	$ 3.68
Dividends declared per share	**$ 1.925**	$ 1.825	$ 1.725	$ 1.625	$ 1.525
Indicated annual dividend rate per share – year end	**$ 2.00**	$ 1.90	$ 1.80	$ 1.70	$ 1.60
Weighted-average common shares outstanding – basic	**96,483,781**	91,396,904	91,264,696	84,902,946	84,717,649
Weighted-average common shares outstanding – diluted	**96,589,949**	91,532,473	91,405,134	84,963,921	84,930,140
BALANCE SHEET DATA					
Total assets	**$11,322,645**	$ 9,896,747	$ 9,519,042	$ 9,139,157	$ 8,529,124
Liabilities and equity:					
Long-term debt less current maturities	**$ 2,608,455**	$ 2,584,985	$ 2,616,585	$ 2,743,741	$ 2,673,078
Other liabilities	**5,289,226**	4,361,566	4,072,678	3,709,263	3,356,723
Total liabilities	**7,897,681**	6,946,551	6,689,263	6,453,004	6,029,801
Common stock equity	**3,424,964**	2,950,196	2,829,779	2,686,153	2,499,323
Total liabilities and equity	**$11,322,645**	$ 9,896,747	$ 9,519,042	$ 9,139,157	$ 8,529,124

(a) Includes reclassifications of revenue in 2004 and 2003 related to items accounted for as discontinued operations of SunCor and Silverhawk. See Note 22 of Notes to Pinnacle West's Consolidated Financial Statements.
(b) Includes regulatory disallowance of $84 million after tax in 2005. See Note 3 of Notes to Pinnacle West's Consolidated Financial Statements.
(c) Amounts related to Silverhawk, SunCor and NAC discontinued operations. Prior year amounts have been reclassified to discontinued operations to conform to current year presentation. See Note 22 of Notes to Pinnacle West's Consolidated Financial Statements.
(d) Represents change in accounting standards related to energy trading activities in 2002.
(e) Represents change in accounting standards related to derivatives in 2001.

QUARTERLY STOCK PRICES AND DIVIDENDS PAID PER SHARE Stock Symbol: PNW

2005	High	Low	Close	Dividends Per Share
1st Quarter	$44.87	$40.99	$42.51	$0.475
2nd Quarter	45.34	41.29	44.45	0.475
3rd Quarter	46.68	43.13	44.08	0.475
4th Quarter	44.97	39.81	41.35	0.500

2004	High	Low	Close	Dividends Per Share
1st Quarter	$40.81	$36.90	$39.35	$0.450
2nd Quarter	41.50	36.30	40.39	0.450
3rd Quarter	42.99	39.63	41.50	0.450
4th Quarter	45.84	41.61	44.41	0.475

GLOSSARY

ACC – Arizona Corporation Commission

ADEQ – Arizona Department of Environmental Quality

AFUDC – Allowance for funds used during construction

ALJ – Administrative Law Judge

ANPP – Arizona Nuclear Power Project, also known as Palo Verde

APS – Arizona Public Service Company, a subsidiary of the Company

APS ENERGY SERVICES – APS Energy Services Company, Inc., a subsidiary of the Company

CHOLLA – Cholla Power Plant

CLEAN AIR ACT – Clean Air Act, as amended

COMPANY – Pinnacle West Capital Corporation

DOE – United States Department of Energy

EITF – FASB's Emerging Issues Task Force

EL DORADO – El Dorado Investment Company, a subsidiary of the Company

EPA – United States Environmental Protection Agency

ERMC – Energy Risk Management Committee

FASB – Financial Accounting Standards Board

FERC – United States Federal Energy Regulatory Commission

FIN – FASB Interpretation Number

FINANCING ORDER – ACC Order that authorized APS' $500 million loan to Pinnacle West Energy in May 2003

FOUR CORNERS – Four Corners Power Plant

FSP – FASB Staff Position

GAAP – accounting principles generally accepted in the United States of America

IRS – United States Internal Revenue Service

KW – kilowatt, one thousand watts

KWH – kilowatt-hour, one thousand watts per hour

MOODY'S – Moody's Investors Service

MW – megawatt, one million watts

MWH – megawatt-hours, one million watts per hour

NAC – collectively, NAC Holding Inc. and NAC International Inc., subsidiaries of El Dorado that were sold in November 2004

NATIVE LOAD – retail and wholesale sales supplied under traditional cost-based rate regulation

NPC – Nevada Power Company

NRC – United States Nuclear Regulatory Commission

OCI – other comprehensive income

OFF-SYSTEM SALES – sales of electricity from generation owned by the Company that is over and above the amount required to serve APS' retail customers and traditional wholesale contracts

PALO VERDE – Palo Verde Nuclear Generating Station, also known as ANPP

PINNACLE WEST – Pinnacle West Capital Corporation, the Company

PINNACLE WEST ENERGY – Pinnacle West Energy Corporation, a subsidiary of the Company

PRP – potentially responsible parties under the Superfund Act

PSA – power supply adjustor

PWEC DEDICATED ASSETS – the following power plants, each of which was transferred by Pinnacle West Energy to APS on July 29, 2005: Redhawk Units 1 and 2, West Phoenix Units 4 and 5 and Saguaro Unit 3

PX – California Power Exchange

SALT RIVER PROJECT – Salt River Project Agricultural Improvement and Power District

SEC – United States Securities and Exchange Commission

SFAS – Statement of Financial Accounting Standards

SILVERHAWK – Silverhawk Power Station

STANDARD & POOR'S – Standard & Poor's Corporation

SUNCOR – SunCor Development Company, a subsidiary of the Company

SUNDANCE PLANT – 420-megawatt generating facility located approximately 55 miles southeast of Phoenix, Arizona

SUPERFUND – Comprehensive Environmental Response, Compensation and Liability Act

TRADING – energy-related activities entered into with the objective of generating profits on changes in market prices

VIE – variable-interest entity

INTRODUCTION

The following discussion should be read in conjunction with Pinnacle West's Consolidated Financial Statements and the related Notes.

OVERVIEW

Pinnacle West owns all of the outstanding common stock of APS. APS is a vertically-integrated electric utility that provides retail and wholesale electric service to most of the state of Arizona, with the major exceptions of about one-half of the Phoenix metropolitan area, the Tucson metropolitan area and Mohave County in northwestern Arizona. APS has historically accounted for a substantial part of our revenues and earnings, and is expected to continue to do so. Customer growth in APS' service territory is about three times the national average and remains a fundamental driver of our revenues and earnings.

The ACC regulates APS' retail electric rates. The key issue affecting Pinnacle West's and APS' financial outlook is the satisfactory resolution of APS' retail rate proceedings pending before the ACC. As discussed in greater detail in Note 3, APS has pending before the ACC:

- a general retail rate case pursuant to which APS is requesting a 21.3%, or $453.9 million, increase in its annual retail electricity revenues effective no later than December 31, 2006;
- an application for an emergency interim rate increase of $299 million, or approximately 14%, to be effective April 1, 2006 (the increase would accelerate recovery of the fuel and purchased power component of APS' general rate case and is not an additional increase and would be subject to refund); and
- an application for a temporary rate increase of approximately 2.6%, through two separate PSA surcharges, to recover $59.9 million in retail fuel and purchased power costs deferred by APS in 2005 under the PSA.

APS has been operating Palo Verde Unit 1 at reduced power levels since December 25, 2005 due to a non-safety related acoustic impact in one of the unit's shutdown cooling lines. Unit 1 is currently operating at approximately 25% power. APS has concluded after comprehensive analysis that the preferred solution will require Unit 1 to undergo an outage of approximately five weeks in order for APS to effect the necessary modifications to the Unit. APS anticipates that Unit 1 will begin this outage in the June timeframe. In addition, an outage for preparatory work of approximately one week, beginning March 18, 2006, will take place prior to this outage. This preferred solution was initially planned for installation in the spring of 2007. APS estimates that, through February 28, 2006, Unit 1's reduced power level has resulted in incremental replacement power costs of approximately $20 million after income taxes, approximately $18 million of which has been incurred since January 1, 2006. Based on current forward market energy prices, APS estimates that (a) operating Unit 1 at reduced power levels until the assumed outage in the June timeframe will result in additional incremental replacement power costs of approximately $25 million after income taxes and (b) the June Unit 1 outage will result in additional incremental replacement power costs of approximately $15 million after income taxes. APS estimates that these reduced power levels and the June Unit 1 outage will result in additional PSA deferrals of $50 million after tax ($85 million pretax) in 2006. See "Deferred Fuel and Purchased Power Costs" below.

SunCor, our real estate development subsidiary, has been and is expected to be an important source of earnings and cash flow. Our subsidiary, APS Energy Services, provides competitive commodity-related energy services and energy-related products and services to commercial and industrial retail customers in the western United States. El Dorado, our investment subsidiary, owns minority interests in several energy-related investments and Arizona community-based ventures.

Pinnacle West Energy is our subsidiary that previously owned and operated unregulated generating plants. Pursuant to the ACC's April 7, 2005 order in APS' 2003 rate case, on July 29, 2005, Pinnacle West Energy transferred the PWEC Dedicated Assets to APS. See "APS 2003 Rate Case" in Note 3. Pinnacle West Energy sold its 75% interest in Silverhawk to NPC on January 10, 2006. As a result Pinnacle West Energy no longer owns any generating plants and has ceased operations.

We continue to focus on solid operational performance in our electricity generation and delivery activities. In the delivery area, we focus on superior reliability and customer satisfaction. We plan to expand long-term resources and our transmission and distribution systems to meet the electricity needs of our growing retail customers and sustain reliability.

See "Factors Affecting Our Financial Outlook" below for a discussion of several factors that could affect our future financial results.

EARNINGS CONTRIBUTION BY BUSINESS SEGMENT

We have three principal business segments (determined by products, services and the regulatory environment):

- our regulated electricity segment, which consists of traditional regulated retail and wholesale electricity businesses (primarily electric service to Native Load customers) and related activities and includes electricity generation, transmission and distribution;
- our real estate segment, which consists of SunCor's real estate development and investment activities; and
- our marketing and trading segment, which consists of our competitive energy business activities, including wholesale marketing and trading and APS Energy Services' commodity-related energy services.

The following table summarizes net income for 2005, 2004 and 2003 (dollars in millions):

	2005	2004	2003
Regulated electricity	**$167**	$152	$170
Real estate	**35**	40	45
Marketing and trading	**16**	29	8
Other (a)	**5**	26	2
Income from continuing operations	**223**	247	225
Discontinued operations – net of tax:			
Real estate (b)	**17**	4	10
Marketing and trading (c)	**(67)**	(12)	1
Other (d)	**3**	4	5
Net income	**$176**	$243	$241

(a) Includes a $21 million after-tax gain in 2004 related to the sale of a limited partnership interest in the Phoenix Suns.
(b) Primarily relates to sales of commercial properties.
(c) See "Sale of Silverhawk" below.
(d) Relates to the 2004 sale of NAC.

RESULTS OF OPERATIONS

General

Throughout the following explanations of our results of operations, we refer to "gross margin." With respect to our regulated electricity segment and our marketing and trading segment, gross margin refers to electric operating revenues less fuel and purchased power costs. "Gross margin" is a "non-GAAP financial measure," as defined in accordance with Securities and Exchange Commission rules. The charts on pages 82-83 reconcile this non-GAAP financial measure to operating income, which is the most directly comparable financial measure calculated and presented in accordance with GAAP. We view gross margin as an important performance measure of the core profitability of our operations. This measure is a key component of our internal financial reporting and is used by our management in analyzing our business segments. We believe that investors benefit from having access to the same financial measures that our management uses. In addition, we have reclassified certain prior year amounts to conform to our current-period presentation.

Sale of Silverhawk

In June 2005, we entered into an agreement to sell our 75% interest in Silverhawk to NPC. As a result of the sale, we recorded an after-tax loss from discontinued operations of approximately $56 million in the second quarter of 2005.

The marketing and trading segment discontinued operations in the chart above include this loss as well as revenues and expenses related to the operations of Silverhawk. The sale was completed on January 10, 2006.

Deferred Fuel and Purchased Power Costs

The settlement of APS' 2003 general retail rate case became effective April 1, 2005. As part of the settlement, the ACC approved a 4.2% annual retail rate increase and the PSA, which provides mechanisms for adjusting rates to reflect variations in fuel and purchased power costs. In accordance with the PSA, APS defers for future rate recovery 90% of the difference between actual fuel and purchased power costs, net of Off-System Sales margins, and the amount for such costs currently included in base rates. The current base rate for fuel and purchased power costs is based on 2003 price levels and spot prices for natural gas and wholesale power have increased over 40% since then. Although APS defers actual fuel and purchased power costs on a current basis, APS' recovery of the deferrals from its ratepayers is subject to annual PSA adjustments and ACC approval of periodic surcharge applications.

Actual fuel and purchased power costs are higher than in prior periods primarily due to higher fuel prices and increased plant outage days.

APS' pretax PSA deferrals were approximately $173 million at December 31, 2005. Based on recent forward market prices for natural gas and purchased power (which are subject to change), and assuming no interim rate relief, APS estimates that its pretax PSA deferrals in 2006 will be approximately $240 million to $250 million. In January 2006, the ACC approved the first annual adjustment under the PSA mechanism, which is expected to recover approximately $110 million of the 2005 balance of $173 million from retail customers over twelve months beginning February 1, 2006. In this same order, the ACC granted APS the authority to continue to defer fuel costs in excess of the $776.2 million annual fuel cost cap established in the 2005 rate order and to seek recovery of those amounts in a future proceeding. On February 2, 2006, APS filed a request with the ACC to recover the remainder of the retail portion of the 2005 deferred fuel balance of $173 million – approximately $60 million – through two surcharges. The first surcharge is to recover $15 million over a twelve-month period proposed to begin with the date of the ACC's decision in APS' pending emergency interim rate case. The second surcharge is to recover approximately $45 million over a twelve-month period proposed to begin no later than the ACC's completion of its inquiry regarding unplanned 2005 outages at Palo Verde. The $45 million of PSA deferrals represents additional replacement power costs associated with these outages. See Note 3. See "Overview" above for information about Palo Verde Unit 1 operating at reduced power levels and the related economic impact.

2005 Compared with 2004

Our consolidated net income for 2005 was $176 million compared with $243 million for the prior year. The current-year net income included an after-tax net loss from discontinued operations of $47 million compared with a $4 million after-tax loss in the prior year, which for both years is related primarily to the sale and operations of Silverhawk (see "Sale of Silverhawk" above), partially offset by sales of commercial properties at SunCor. Income from continuing operations decreased $24 million in the period-to-period comparison, reflecting the following changes in earnings by segment:

- Regulated Electricity Segment – Income from continuing operations increased approximately $15 million primarily due to deferred fuel and purchased power costs; a retail price increase effective April 1, 2005; higher retail sales volumes due to customer growth; lower depreciation due to lower depreciation rates; lower regulatory asset amortization; and effects of weather on retail sales. These positive factors were partially offset by the regulatory disallowance of plant costs in accordance with the APS retail rate case settlement; higher fuel and purchased power costs primarily due to higher prices and more plant outage days; higher operations and maintenance expense related to generation and customer service; and higher property taxes due to increased plant in service.
- Real Estate Segment – Income from continuing operations decreased approximately $5 million primarily due to decreased parcel sales, partially offset by increased margins on home sales. Income from discontinued real estate operations increased $13 million due to higher commercial property sales.

• Marketing and Trading Segment – Income from continuing operations decreased approximately $13 million primarily due to lower unit margins on competitive retail sales in California; the absence of Off-System Sales that we began reporting in the regulated electricity segment in April 2005; and lower mark-to-market gains on contracts for future delivery.
• Other Segment – Income from continuing operations decreased approximately $21 million primarily due to an after-tax gain related to the sale of a limited partnership interest in the Phoenix Suns recorded in the prior year.

Additional details on the major factors that increased (decreased) net income are contained in the following table (dollars in millions):

	Increase (Decrease)	
	Pretax	After Tax
Regulated electricity segment gross margin:		
Deferred fuel and purchased power costs (see discussion above)	$171	$104
Retail price increase effective April 1, 2005	65	40
Higher retail sales volumes due to customer growth, excluding weather effects	58	35
Effects of weather on retail sales	14	9
Higher fuel and purchased power costs primarily due to higher prices and more plant outage days	(126)	(77)
Miscellaneous items, net	(8)	(5)
Net increase in regulated electricity segment gross margin	174	106
Marketing and trading segment gross margin:		
Lower unit margins on competitive retail sales in California	(13)	(8)
Lower realized margins on wholesale sales primarily due to the absence of sales that we began reporting in the regulated segment in April 2005	(4)	(3)
Lower mark-to-market gains on contracts for future delivery due to changes in forward prices	(4)	(2)
Net decrease in marketing and trading segment gross margin	(21)	(13)
Net increase in gross margin for regulated electricity and marketing and trading segments	153	93
Regulatory disallowance, in accordance with the APS retail rate case settlement	(139)	(84)
Lower real estate segment contribution primarily related to decreased parcel sales, partially offset by increased margins on home sales	(8)	(5)
Lower other income primarily due to sale of limited partnership interest in Phoenix Suns recorded in the prior year, partially offset by higher interest income	(30)	(18)
Operations and maintenance increases primarily due to:		
Generation costs, including maintenance and overhauls	(20)	(12)
Customer service costs, including regulatory demand-side management programs and planned maintenance	(20)	(12)
Miscellaneous items, net	(4)	(2)
Depreciation and amortization decreases primarily due to:		
Lower regulatory asset amortization	22	13
Lower depreciation rates, partially offset by increased depreciable assets	22	13
Higher property taxes primarily due to increased plant in service	(11)	(7)
Miscellaneous items, net	2	(3)
Net decrease in income from continuing operations	$ (33)	(24)
Discontinued operations related to:		
Sale of Silverhawk (see discussion above)		(56)
Sales of real estate assets and other		13
Net decrease in net income		$ (67)

Regulated Electricity Segment Revenues

Regulated electricity segment revenues were $202 million higher for 2005 compared with the prior year primarily as a result of:

- an $81 million increase in retail revenues related to customer growth, excluding weather effects;
- a $65 million increase in retail revenues due to a price increase effective April 1, 2005;
- a $40 million increase in Off-System Sales primarily resulting from sales previously reported in the marketing and trading segment that were classified beginning in April 2005 as sales in the regulated electricity segment in accordance with the APS retail rate case settlement;
- an $11 million increase in retail revenues related to weather; and
- a $5 million increase due to miscellaneous factors.

Marketing and Trading Segment Revenues

Marketing and trading segment revenues were $49 million lower for 2005 compared with the prior year primarily as a result of:

- a $40 million decrease in Off-System Sales due to the absence of sales previously reported in the marketing and trading segment that were classified beginning in April 2005 as sales in the regulated electricity segment in accordance with the APS retail rate case settlement;
- a $4 million decrease in mark-to-market gains on contracts for future delivery due to changes in forward prices;
- a $3 million decrease in marketing and trading revenues due to lower sales volumes; and
- a $2 million decrease from lower volumes of competitive retail sales in California.

Real Estate Revenues

Real estate revenues were $12 million lower for 2005 compared with the prior year primarily due to decreased parcel sales, partially offset by increased home sales at SunCor.

Other Revenues

Other revenues were $18 million higher for 2005 compared with the prior year primarily due to increased sales of energy-related products and services by APS Energy Services.

2004 Compared with 2003

Our consolidated net income for 2004 was $243 million compared with $241 million for the prior year. 2004 net income included an after-tax net loss from discontinued operations of $4 million primarily related to Silverhawk. The 2003 net income included a $16 million after-tax gain from discontinued operations primarily related to sales of commercial properties at SunCor. Income from continuing operations increased $22 million in the period-to-period comparison, reflecting the following changes in earnings by segment:

- Regulated Electricity Segment – Income from continuing operations decreased approximately $18 million primarily due to higher costs (primarily interest expense, depreciation, operation and maintenance costs and property taxes, net of gross margin contributions) related to a new power plant placed in service in mid-2003; increased operations and maintenance costs primarily related to customer service and personnel costs; lower income tax credits; higher depreciation related to delivery and other assets; the effects of milder weather on retail sales; and a retail electricity rate decrease in mid-2003. These negative factors were partially offset by lower regulatory asset amortization, and higher retail sales volumes due to customer growth and usage.
- Real Estate Segment – Income from continuing operations decreased approximately $5 million due to decreased asset sales, partially offset by increased land sales. Income from discontinued operations decreased $6 million primarily due to the 2003 gain on the sale of SunCor's water utility company (see Note 22).
- Marketing and Trading Segment – Income from continuing operations increased approximately $21 million primarily due to higher forward and realized prices for wholesale electricity, partially offset by lower margins

in California by APS Energy Services. Income from discontinued operations decreased $13 million due to Silverhawk (see Note 22).

- Other Segment – Income from continuing operations increased approximately $24 million primarily due to a $21 million after-tax gain related to the sale of El Dorado's limited partnership interest in the Phoenix Suns.

Additional details on the major factors that increased (decreased) income from continuing operations and net income are contained in the following table (dollars in millions):

	Increase (Decrease)	
	Pretax	After Tax
Regulated electricity segment gross margin:		
Higher retail sales volumes due to customer growth, excluding weather effects	$43	$ 26
Lower replacement power costs due to fewer unplanned outages	6	4
Effects of weather on retail sales	(17)	(10)
Retail electricity price reduction effective July 1, 2003	(13)	(8)
Increased purchased power and fuel costs due to higher fuel and power prices	(4)	(2)
Miscellaneous factors, net	(8)	(6)
Net increase in regulated electricity segment gross margin	7	4
Marketing and trading segment gross margin:		
Higher mark-to-market gains on contracts for future delivery due to higher forward prices for wholesale electricity	28	17
Higher realized margins on energy trading primarily due to higher electricity prices	18	11
Increase in Off-System Sales due to higher sales volumes and higher unit margins	10	6
Lower unit margins and lower competitive retail sales volumes in California by APS Energy Services	(22)	(13)
Net increase in marketing and trading segment gross margin	34	21
Net increase in gross margin for regulated electricity and marketing and trading segments	41	25
Lower real estate segment contributions primarily due to decreased asset sales, a portion of which was recorded in other income in the prior period, partially offset by higher land sales (see Note 22)	(7)	(5)
Higher other income due to the sale of El Dorado's limited partnership interest in the Phoenix Suns	35	21
Higher operations and maintenance expense primarily related to customer service costs, new power plants in service and personnel costs	(44)	(26)
Interest expense net of capitalized financing costs, decreases (increases):		
New power plants in service	(16)	(10)
Lower other debt balances and rates partially offset by increased utility plant in service	9	5
Depreciation and amortization decreases (increases):		
Lower regulatory asset amortization	68	41
New power plants in service	(4)	(2)
Increased delivery and other assets	(20)	(12)
Higher property taxes due to increased plant in service	(10)	(6)
Lower income tax credits	–	(17)
Miscellaneous items, net	3	8
Net increase in income from continuing operations	$55	22
Discontinued operations (see Note 22)		(20)
Net increase in net income		$ 2

The increase in net costs (primarily interest expense, depreciation and operations and maintenance expense, net of gross margin contributions) related to new power plants placed in service in mid-2003 and mid-2004 by Pinnacle West Energy totaled approximately $26 million after income taxes in 2004 compared with the prior year.

Regulated Electricity Segment Revenues

Regulated electricity segment revenues were $57 million higher for 2004 compared with the prior year primarily as a result of:

- a $101 million increase in retail revenues related to customer growth and higher average usage, excluding weather effects;
- a $42 million decrease in retail revenues related to milder weather;
- a $13 million decrease in retail revenues related to a reduction in retail electricity prices; and
- an $11 million increase due to miscellaneous factors.

Marketing and Trading Segment Revenues

Marketing and trading segment revenues were $9 million higher for 2004 compared with the prior year primarily as a result of:

- $28 million in higher mark-to-market gains for future-period deliveries primarily as a result of higher forward prices for wholesale electricity;
- a $25 million decrease from lower competitive retail sales volumes in California by APS Energy Services;
- $20 million of higher energy trading revenues on realized sales of electricity primarily due to higher electricity prices; and
- a $14 million decrease in Off-System Sales primarily due to lower wholesale unit margins and lower sales volumes.

Other Revenues

Other revenues were $15 million higher for 2004 compared with the prior year primarily due to higher non-commodity revenues at APS Energy Services.

LIQUIDITY AND CAPITAL RESOURCES

Capital Needs and Resources

CAPITAL EXPENDITURE REQUIREMENTS

The following table summarizes the actual capital expenditures for the year ended 2005 and estimated capital expenditures for the next three years (dollars in millions):

	Actual		Estimated	
	2005	2006	2007	2008
APS				
Distribution	**$325**	$322	$323	$362
Transmission	**92**	120	169	203
Generation (a)	**356**	184	207	279
Other (b)	**36**	23	16	13
Subtotal	**809**	649	715	857
SunCor (c)	**106**	232	142	119
Other	**13**	6	2	6
Total	**$928**	$887	$859	$982

(a) Includes $185 million in 2005 for the acquisition of the Sundance Plant.
(b) Primarily information systems and facilities projects.
(c) Consists primarily of capital expenditures for land development and retail and office building construction reflected in "Real estate investments" on the Consolidated Statements of Cash Flows.

Distribution and transmission capital expenditures are comprised of infrastructure additions and upgrades, capital replacements, new customer construction and related information systems and facility costs. Examples of the types of projects included in the forecast include lines, substations, line extensions to new residential and commercial developments and upgrades to customer information systems. Major transmission projects are driven by strong regional customer growth.

Generation capital expenditures are comprised of various improvements to APS' existing fossil and nuclear plants, the acquisition of the Sundance Plant and the replacement of Palo Verde steam generators (see below). Examples of the types of projects included in this category are additions, upgrades and capital replacements of various power plant equipment such as turbines, boilers and environmental equipment. Generation also includes nuclear fuel expenditures of approximately $35 million annually for 2006 through 2008.

Replacement of the steam generators at Palo Verde Unit 1 was completed during the fall 2005 outage at a cost to APS of approximately $70 million. The Palo Verde owners have approved the manufacture of one additional set of steam generators. These generators will be installed in Unit 3 and are scheduled for completion in the fall of 2007 at an approximate cost of $75 million (APS' share). Approximately $20 million of the Unit 3 steam generator costs have been incurred through 2005 with the remaining $55 million included in future years in the capital expenditure table above. Capital expenditures will be funded with internally generated cash or external financings.

CONTRACTUAL OBLIGATIONS

The following table summarizes Pinnacle West's consolidated contractual requirements as of December 31, 2005 (dollars in millions):

	2006	2007-2008	2009-2010	Thereafter	Total
Long-term debt payments, including interest (a):					
APS	$ 219	$ 259	$ 480	$ 3,350	$4,308
Pinnacle West	312	–	–	–	312
SunCor	9	143	–	–	152
Total long-term debt payments, including interest	540	402	480	3,350	4,772
Short-term debt payments, including interest (b)	16	–	–	–	16
Capital lease payments	2	2	2	2	8
Operating lease payments	74	144	133	303	654
Minimum pension funding requirement (c)	37	–	–	–	37
Purchase power and fuel commitments (d)	316	419	256	908	1,899
Purchase obligations (e)	25	9	–	75	109
Nuclear decommissioning funding requirements	21	42	46	259	368
Total contractual commitments	$ 1,031	$ 1,018	$ 917	$ 4,897	$7,863

(a) The long-term debt matures at various dates through 2035 and bears interest principally at fixed rates. Interest on variable-rate long-term debt is determined by using the rates at December 31, 2005 (see Note 6).

(b) The short-term debt matures within 12 months and is primarily related to short-term loans at SunCor. These loans are made up of multiple notes primarily with variable interest rates based on prime plus 1.75% or LIBOR plus 2.25% and 2.50% at December 31, 2005 (see Note 5).

(c) Future pension contributions are not determinable for time periods after 2006.

(d) Our fuel and purchased power commitments include purchases of coal, electricity, natural gas and nuclear fuel (see Note 11).

(e) These contractual obligations include commitments for capital expenditures and other obligations.

OFF-BALANCE SHEET ARRANGEMENTS

In 1986, APS entered into agreements with three separate VIE lessors in order to sell and lease back interests in Palo Verde Unit 2. The leases are accounted for as operating leases in accordance with GAAP. We are not the primary beneficiary of the Palo Verde VIEs and, accordingly, do not consolidate them.

APS is exposed to losses under the Palo Verde sale leaseback agreements upon the occurrence of certain events that APS does not consider to be reasonably likely to occur. Under certain circumstances (for example, the NRC issuing specified violation orders with respect to Palo Verde or the occurrence of specified nuclear events), APS would be required to assume the debt associated with the transactions, make specified payments to the equity participants, and take title to the leased Unit 2 interests, which, if appropriate, may be required to be written down in value. If such an event had occurred as of December 31, 2005, APS would have been required to assume approximately $234 million of debt and pay the equity participants approximately $185 million.

GUARANTEES AND LETTERS OF CREDIT

We and certain of our subsidiaries have issued guarantees and letters of credit in support of our unregulated businesses. We have also obtained surety bonds on behalf of APS Energy Services. We have not recorded any liability on our Consolidated Balance Sheets with respect to these obligations. We generally agree to indemnification provisions related to liabilities arising from or related to certain of our agreements, with limited exceptions depending on the particular agreement. See Note 21 for additional information regarding guarantees and letters of credit.

CREDIT RATINGS

The ratings of securities of Pinnacle West and APS as of March 7, 2006 are shown below. The ratings reflect the respective views of the rating agencies, from which an explanation of the significance of their ratings may be obtained. There is no assurance that these ratings will continue for any given period of time. The ratings may be revised or withdrawn entirely by the rating agencies, if, in their respective judgments, circumstances so warrant. Any downward revision or withdrawal may adversely affect the market price of Pinnacle West's or APS' securities and serve to increase those companies' cost of and access to capital. It may also require additional collateral related to certain derivative instruments (see Note 18).

	Moody's	Standard & Poor's
PINNACLE WEST		
Senior unsecured	Baa2	BB+
Commercial paper	P-2	A-3
Outlook	Under Review for Possible Downgrade	Stable
APS		
Senior unsecured	Baa1	BBB-
Secured lease obligation bonds	Baa1	BBB-
Commercial paper	P-2	A-3
Outlook	Under Review for Possible Downgrade	Stable

DEBT PROVISIONS

Pinnacle West's and APS' debt covenants related to their respective bank financing arrangements include a debt to capitalization ratio. Certain of APS' bank financing arrangements also include an interest coverage test. Pinnacle West and APS comply with these covenants and each anticipates it will continue to meet these and other significant covenant requirements. For each of Pinnacle West and APS, these covenants require that the ratio of consolidated debt to total consolidated capitalization cannot exceed 65%. At December 31, 2005, the ratio was approximately 49% for Pinnacle West and 47% for APS. The provisions regarding interest coverage require a minimum cash coverage of two times the interest requirements for APS. The interest coverage is approximately 4 times under APS' bank financing agreements as of December 31, 2005. Failure to comply with such covenant levels would result in an event of default which, generally speaking, would require the immediate repayment of the debt subject to the covenants and could cross-default other debt.

Neither Pinnacle West's nor APS' financing agreements contain "rating triggers" that would result in an acceleration of the required interest and principal payments in the event of a rating downgrade. However, in the event of a further rating downgrade, Pinnacle West and/or APS may be subject to increased interest costs under certain financing agreements.

All of Pinnacle West's bank agreements contain "cross-default" provisions that would result in defaults and the potential acceleration of payment under these loan agreements if Pinnacle West or APS were to default under certain other material agreements. All of APS' bank agreements contain cross-default provisions that would result in defaults and the potential acceleration of payment under these bank agreements if APS were to default under certain other material agreements. Pinnacle West and APS do not have a material adverse change restriction for revolver borrowings.

See Note 6 for further discussions.

Capital Needs and Resources

PINNACLE WEST (PARENT COMPANY)

Our primary cash needs are for dividends to our shareholders and principal and interest payments on our long-term debt. On October 19, 2005, our Board of Directors increased the common stock dividend to an indicated annual rate of $2.00 per share from $1.90 per share, effective with the December 1, 2005 dividend payment. The level of our common dividends and future dividend growth will be dependent on a number of factors including, but not limited to, payout ratio trends, free cash flow and financial market conditions.

Our primary sources of cash are dividends from APS, external financings and cash distributions from our other subsidiaries, primarily SunCor. For the years 2003 through 2005, total dividends from APS were $510 million and total cash contributions from SunCor were $243 million. For the year ended December 31, 2005 cash contributions from APS were approximately $170 million and distributions from SunCor were approximately $50 million. An ACC financing order requires APS to maintain a common equity ratio of at least 40% and prohibits APS from paying common stock dividends if the payment would reduce its common equity below that threshold. At December 31, 2005, APS' common equity ratio, as defined, was approximately 54%.

At December 31, 2005, Pinnacle West's outstanding long-term debt, including current maturities, was $299 million. In December 2005, we replaced the existing revolving credit facility with a $300 million revolving credit facility that terminates in December 2010. This line of credit is available to support the issuance of up to $250 million in commercial paper or to be used as bank borrowings, including issuances of letters of credit. At December 31, 2005, we had no commercial paper or short-term borrowings outstanding. We ended 2005 in an invested position.

Pinnacle West sponsors a qualified pension plan for the employees of Pinnacle West and our subsidiaries. We contribute at least the minimum amount required under IRS regulations, but no more than the maximum tax-deductible amount. The minimum required funding takes into consideration the value of the fund assets and our pension obligation. The assets in the plan are comprised of common stocks, bonds, common and collective trusts and short-term investments. Future year contribution amounts are dependent on fund performance and fund valuation assumptions. We contributed $53 million in 2005. The contribution to our pension plan in 2006 is estimated to be approximately $50 million. The expected contribution to our other postretirement benefit plans in 2006 is estimated to be approximately $29 million. APS and other subsidiaries fund their share of the contributions. APS' share is approximately 96% of both plans.

On May 2, 2005, Pinnacle West redeemed at par all of its $165 million Floating Rate Senior Notes due November 1, 2005. The Company used cash on hand to redeem the notes.

On May 2, 2005, Pinnacle West issued 6,095,000 shares of its common stock at an offering price of $42 per share, resulting in net proceeds of approximately $248 million. Pinnacle West used the net proceeds for general corporate purposes, including making capital contributions to APS, which, in turn, used a portion of such funds to acquire the Sundance Plant and fund other capital expenditures to meet the growing needs of APS' service territory.

On February 28, 2006, Pinnacle West entered into an Uncommitted Master Shelf Agreement with Prudential Investment Management, Inc. ("Prudential") and certain of its affiliates. The agreement provides the terms under which Pinnacle West may offer up to $200 million of its senior notes for purchase by Prudential affiliates at any time prior to December 31, 2007. The maturity of notes issued under the agreement cannot exceed five years. Pursuant to the agreement, on February 28, 2006, Pinnacle West issued and sold to Prudential affiliates $175 million aggregate principal amount of its 5.91% Senior Notes, Series A, due February 28, 2011 (the "Series A Notes"). Pinnacle West will use the proceeds of the Series A Notes to repay at maturity a portion of the $300 million aggregate principal amount of its 6.40% Senior Notes due April 1, 2006 or for other general corporate purposes.

See "Equity Infusions" in Note 3 for information regarding the ACC approval of Pinnacle West's infusion of more than $450 million of equity into APS, consisting of about $250 million of the proceeds of Pinnacle West's common equity issuance and about $210 million of the proceeds from the sale of Silverhawk in January 2006.

APS

APS' capital requirements consist primarily of capital expenditures and optional and mandatory redemptions of long-term debt. APS pays for its capital requirements with cash from operations and, to the extent necessary, external financings. APS has historically paid its dividends to Pinnacle West with cash from operations. See "Pinnacle West (Parent Company)" above for a discussion of the common equity ratio that APS must maintain in order to pay dividends to Pinnacle West.

On January 15, 2005, APS repaid its $100 million 6.25% Notes due 2005. APS used cash on hand to redeem these notes.

On March 1, 2005, Maricopa County, Arizona Pollution Control Corporation issued $164 million of variable interest rate pollution control bonds, 2005 Series A-E, due 2029. The bonds were issued to refinance $164 million of outstanding pollution control bonds. The Series A-E bonds are payable solely from revenues obtained from APS pursuant to a loan agreement between APS and Maricopa County, Arizona Pollution Control Corporation. These bonds are classified as long-term debt on our Balance Sheets.

On May 12, 2003, APS issued $500 million of debt and made a $500 million loan to Pinnacle West Energy. Pinnacle West Energy distributed the net proceeds of that loan to Pinnacle West to fund the repayment of a portion of the debt incurred to finance the construction of the PWEC Dedicated Assets. On April 11, 2005, this loan was repaid with the proceeds of a new debt issuance by Pinnacle West Energy.

On August 1, 2005, APS repaid $300 million of its 7.625% Notes due 2005. APS used cash on hand to repay these notes.

On August 22, 2005, APS issued $250 million of 5.50% Senior Unsecured Notes due September 1, 2035. A portion of the net proceeds from the sale of the notes was used for general corporate purposes and, on October 3, 2005, APS used the balance of the proceeds, along with cash on hand, to fund the $500 million that it was obligated to transfer to Pinnacle West Energy in connection with APS' acquisition of the PWEC Dedicated Assets. APS satisfied this obligation to Pinnacle West Energy on October 3, 2005.

APS' outstanding debt was approximately $2.6 billion at December 31, 2005. In December 2005, APS replaced its $325 million revolving credit facility that would have terminated in May 2007 with a $400 million revolving credit facility that terminates in December 2010. This line of credit is available either to support the issuance of up to $250 million in commercial paper or to be used for bank borrowings, including issuances of letters of credit. At December 31, 2005, APS had no outstanding commercial paper or bank borrowings. APS ended 2005 in an invested position.

Although provisions in APS' articles of incorporation and ACC financing orders establish maximum amounts of preferred stock and debt that APS may issue, APS does not expect any of these provisions to limit its ability to meet its capital requirements.

See "Deferred Fuel and Purchased Power Costs" above and "Power Supply Adjustor" in Note 3 for information regarding the PSA approved by the ACC. Although APS defers actual retail fuel and purchased power costs on a current basis, APS' recovery of the deferrals from its ratepayers is subject to annual PSA adjustments and ACC approval of periodic surcharge applications.

See "Cash Flow Hedges" in Note 18 for information related to increased collateral provided to us by counterparties.

PINNACLE WEST ENERGY

On April 11, 2005, Pinnacle West Energy issued $500 million Floating Rate Senior Notes due April 1, 2007. Pinnacle West unconditionally guaranteed these notes. Pinnacle West Energy used the proceeds of this issuance to repay the $500 million loan from APS to Pinnacle West Energy described under "Capital Needs and Resources – APS" above. On October 3, 2005, Pinnacle West Energy repaid the Floating Rate Senior Notes due April 1, 2007 with $500 million received from APS in connection with the transfer of the PWEC Dedicated Assets.

See Note 22 of Notes to Consolidated Financial Statements above for a discussion of the sale of our 75% ownership interest in Silverhawk.

OTHER SUBSIDIARIES

During the past three years, SunCor funded its cash requirements with cash from operations and its own external financings. SunCor's capital needs consist primarily of capital expenditures for land development and retail and office building construction. See the capital expenditures table above for actual capital expenditures during 2005 and projected capital expenditures for the next three years. SunCor expects to fund its future capital requirements with cash from operations and external financings.

SunCor's total outstanding debt was approximately $145 million as of December 31, 2005, including $123 million of debt outstanding, which is classified as long-term debt, under a $150 million line of credit. SunCor's total short-term debt was $16 million at December 31, 2005. SunCor's long-term debt, including current maturities, totaled $129 million at December 31, 2005. See Note 6.

El Dorado expects minimal capital requirements over the next three years and intends to focus on prudently realizing the value of its existing investments.

APS Energy Services expects minimal capital expenditures over the next three years.

CRITICAL ACCOUNTING POLICIES

In preparing the financial statements in accordance with GAAP, management must often make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures at the date of the financial statements and during the reporting period. Some of those judgments can be subjective and complex, and actual results could differ from those estimates. We consider the following accounting policies to be our most critical because of the uncertainties, judgments and complexities of the underlying accounting standards and operations involved.

Regulatory Accounting

Regulatory accounting allows for the actions of regulators, such as the ACC and the FERC, to be reflected in our financial statements. Their actions may cause us to capitalize costs that would otherwise be included as an expense in the current period by unregulated companies. If future recovery of costs ceases to be probable, the assets would be written off as a charge in current period earnings. A major component of our regulatory assets is the retail fuel and power costs deferred under the PSA. APS defers for future rate recovery 90% of the difference between actual retail fuel and power costs and the amount of such costs currently included in base rates. We had $324 million, including $173 million related to the PSA, of regulatory assets on the Consolidated Balance Sheets at December 31, 2005. Included in the $173 million is approximately $45 million related to the 2005 unplanned Palo Verde outages, which currently are the subject of inquiry by the ACC. In addition, we had $592 million of regulatory liabilities on the Consolidated Balance Sheets at December 31, 2005, which primarily are related to removal costs. See Notes 1 and 3 for more information about regulatory assets, APS' general rate case and power supply adjustor.

Pensions and Other Postretirement Benefit Accounting

Changes in our actuarial assumptions used in calculating our pension and other postretirement benefit liability and expense can have a significant impact on our earnings and financial position. The most relevant actuarial assumptions are the discount rate used to measure our liability and net periodic cost, the expected long-term rate of return on plan assets used to estimate earnings on invested funds over the long-term, and the assumed healthcare cost trend rates. We review these assumptions on an annual basis and adjust them as necessary.

The following chart reflects the sensitivities that a change in certain actuarial assumptions would have had on the December 31, 2005 projected benefit obligation, our December 31, 2005 reported pension liability on the Consolidated Balance Sheets and our 2005 reported pension expense, after consideration of amounts capitalized or billed to electric plant participants, on Pinnacle West's Consolidated Statements of Income (dollars in millions):

	Increase (Decrease)		
Actuarial Assumption (a)	Impact on Projected Benefit Obligation	Impact on Pension Liability	Impact on Pension Expense
Discount rate:			
Increase 1%	$(207)	$(170)	$ (8)
Decrease 1%	237	195	8
Expected long-term rate of return on plan assets:			
Increase 1%	–	–	(4)
Decrease 1%	–	–	4

(a) Each fluctuation assumes that the other assumptions of the calculation are held constant.

The following chart reflects the sensitivities that a change in certain actuarial assumptions would have had on the December 31, 2005 accumulated other postretirement benefit obligation and our 2005 reported other postretirement benefit expense, after consideration of amounts capitalized or billed to electric plant participants, on Pinnacle West's Consolidated Statements of Income (dollars in millions):

	Increase (Decrease)	
Actuarial Assumption (a)	Impact on Accumulated Other Postretirement Benefit Obligation	Impact on Other Postretirement Benefit Expense
Discount rate:		
Increase 1%	$ (84)	$ (4)
Decrease 1%	106	5
Health care cost trend rate (b):		
Increase 1%	100	7
Decrease 1%	(79)	(6)
Expected long-term rate of return on plan assets – pretax:		
Increase 1%	–	(1)
Decrease 1%	–	1

(a) Each fluctuation assumes that the other assumptions of the calculation are held constant.
(b) This assumes a 1% change in the initial and ultimate health care cost trend rate.

See Note 8 for further details about our pension and other postretirement benefit plans.

Derivative Accounting

Derivative accounting requires evaluation of rules that are complex and subject to varying interpretations. Our evaluation of these rules, as they apply to our contracts, determines whether we use accrual accounting (for contracts designated as normal) or fair value (mark-to-market) accounting. Mark-to-market accounting requires that changes in the fair value are recognized periodically in income unless certain hedge criteria are met. For fair value hedges, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item associated with the hedged risk are recognized in earnings. For cash flow hedges, the effective portion of changes in the fair value of the derivative are recognized in common stock equity (as a component of other comprehensive income (loss)).

The fair value of our derivative contracts is not always readily determinable. In some cases, we use models and other valuation techniques to determine fair value. The use of these models and valuation techniques sometimes requires subjective and complex judgment. Actual results could differ from the results estimated through application of these methods. Our marketing and trading portfolio consists of structured activities hedged with a portfolio of forward purchases that protects the economic value of the sales transactions. See "Market Risks – Commodity Price Risk" below for quantitative analysis. See Note 1 for discussion on accounting policies and Note 18 for a further discussion on derivative and energy trading accounting.

FACTORS AFFECTING OUR FINANCIAL OUTLOOK

Factors Affecting Operating Revenues, Fuel and Purchased Power Costs

GENERAL Electric operating revenues are derived from sales of electricity in regulated retail markets in Arizona and from competitive retail and wholesale power markets in the western United States. These revenues are affected by electricity sales volumes related to customer mix, customer growth and average usage per customer as well as electricity rates and tariffs and variations in weather from period to period. Competitive sales of energy and energy-related products and services are made by APS Energy Services in certain western states that have opened to competition.

RETAIL RATE PROCEEDINGS The key issue affecting Pinnacle West's and APS' financial outlook is the satisfactory resolution of APS' retail rate proceedings pending before the ACC. As discussed in greater detail in Note 3, APS has pending before the ACC a general retail rate case, an application for an emergency interim rate increase, and an application for two separate surcharges under the PSA.

FUEL AND PURCHASED POWER COSTS Fuel and purchased power costs are impacted by our electricity sales volumes, existing contracts for purchased power and generation fuel, our power plant performance, transmission availability or constraints, prevailing market prices, new generating plants being placed in service, variances in deferrals and amortization of fuel and purchased power beginning on April 1, 2005 and our hedging program for managing such costs. See "Power Supply Adjustor" in Note 3 for information regarding the PSA approved by the ACC. See "Natural Gas Supply" in Note 11 for more information on fuel costs. See "Overview" above for information about Palo Verde Unit 1 operating at reduced power levels and the related economic impact.

CUSTOMER AND SALES GROWTH The customer and sales growth referred to in this paragraph applies to Native Load customers and sales to them. Customer growth in APS' service territory averaged about 3.8% a year for the three years 2003 through 2005; we currently expect customer growth to average about 3.8% per year from 2006 to 2008. We currently estimate that total retail electricity sales in kilowatt-hours will grow 3.7% on average, from 2006 through 2008, before the effects of weather variations. Customer growth for 2005 was 4.3%.

Actual sales growth, excluding weather-related variations, may differ from our projections as a result of numerous factors, such as economic conditions, customer growth, usage patterns and responses to retail price changes. Our experience indicates that a reasonable range of variation in our kilowatt-hour sales projection attributable to such economic factors can result in increases or decreases in annual net income of up to $10 million.

WEATHER In forecasting retail sales growth, we assume normal weather patterns based on historical data. Historical extreme weather variations have resulted in annual variations in net income in excess of $20 million. However, our experience indicates that the more typical variations from normal weather can result in increases or decreases in annual net income of up to $10 million.

WHOLESALE POWER MARKET CONDITIONS The marketing and trading division focuses primarily on managing APS' risks relating to fuel and purchased power costs in connection with its costs of serving Native Load customer demand. The marketing and trading division, subject to specified parameters, markets, hedges and trades in electricity, fuels and emission allowances and credits. Our future earnings will be affected by the strength or weakness of the wholesale power market.

Other Factors Affecting Financial Results

OPERATIONS AND MAINTENANCE EXPENSES Operations and maintenance expenses are impacted by growth, power plant additions and operations, inflation, outages, higher trending pension and other postretirement benefit costs and other factors.

DEPRECIATION AND AMORTIZATION EXPENSES Depreciation and amortization expenses are impacted by net additions to utility plant and other property, which include generation construction or acquisition, changes in depreciation and amortization rates (see Note 1), and changes in regulatory asset amortization. See Note 7 for information on APS' acquisition of the Sundance Plant in 2005.

PROPERTY TAXES Taxes other than income taxes consist primarily of property taxes, which are affected by tax rates and the value of property in-service and under construction. The average property tax rate for APS, which currently owns the majority of our property, was 9.2% of assessed value for 2005 and 2004. We expect property taxes to increase as new power plants, the acquisition of the Sundance Plant and our additions to transmission and distribution facilities are included in the property tax base.

INTEREST EXPENSE Interest expense is affected by the amount of debt outstanding and the interest rates on that debt. The primary factors affecting borrowing levels in the next several years are expected to be our capital requirements and our internally generated cash flow. Capitalized interest offsets a portion of interest expense while capital projects are under construction. We stop accruing capitalized interest on a project when it is placed in commercial operation. Interest expense is also affected by interest rates on variable-rate debt.

RETAIL COMPETITION Although some very limited retail competition existed in Arizona in 1999 and 2000, there are currently no active retail competitors providing unbundled energy or other utility services to APS' customers. As a result, we cannot predict when, and the extent to which, additional competitors will re-enter APS' service territory.

SUBSIDIARIES SunCor's net income was $56 million in 2003, $45 million in 2004 and $56 million in 2005. See Note 22 for further discussion. APS Energy Services' and El Dorado's historical results are not indicative of future performance.

GENERAL Our financial results may be affected by a number of broad factors. See "Forward-Looking Statements" for further information on such factors, which may cause our actual future results to differ from those we currently seek or anticipate.

Market Risks

Our operations include managing market risks related to changes in interest rates, commodity prices and investments held by our nuclear decommissioning trust fund.

INTEREST RATE AND EQUITY RISK

Our major financial market risk exposure is to changing interest rates. Changing interest rates will affect interest paid on variable-rate debt and interest earned by our nuclear decommissioning trust fund (see Note 12). Our policy is to manage interest rates through the use of a combination of fixed-rate and floating-rate debt. The nuclear decommissioning fund also has risk associated with the changing market value of equity investments. Nuclear decommissioning costs are recovered in regulated electricity prices.

The tables below present contractual balances of our consolidated long-term and short-term debt at the expected maturity dates as well as the fair value of those instruments on December 31, 2005 and 2004. The interest rates presented in the tables below represent the weighted-average interest rates as of December 31, 2005 and 2004 (dollars in thousands):

2005	Short-Term Debt		Variable-Rate Long-Term Debt		Fixed-Rate Long-Term Debt	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2006	**7.11%**	**$ 15,673**	**5.38%**	**$ 350**	**6.47%**	**$ 386,624**
2007	–	–	**5.38%**	**350**	**5.90%**	**1,271**
2008	–	–	**5.93%**	**128,178**	**5.85%**	**1,318**
2009	–	–	–	–	**5.73%**	**1,014**
2010	–	–	–	–	**5.69%**	**1,077**
Years thereafter	–	–	**3.25%**	**565,855**	**5.79%**	**1,918,026**
Total		**$ 15,673**		**$ 694,733**		**$2,309,330**
Fair value		**$ 15,673**		**$ 694,733**		**$2,326,235**

2004	Short-Term Debt		Variable-Rate Long-Term Debt		Fixed-Rate Long-Term Debt	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2005	4.21%	$ 71,030	1.99%	$ 165,447	7.27%	$ 402,198
2006	–	–	6.55%	2,918	6.45%	395,314
2007	–	–	4.81%	302	5.99%	1,154
2008	–	–	5.22%	5,294	5.51%	1,055
2009	–	–	–	–	5.51%	818
Years thereafter	–	–	1.89%	565,860	4.79%	1,669,901
Total		$ 71,030		$ 739,821		$2,470,440
Fair value		$ 71,030		$ 740,271		$2,574,608

The tables below present contractual balances of APS' long-term debt at the expected maturity dates as well as the fair value of those instruments on December 31, 2005 and 2004. The interest rates presented in the tables below represent the weighted-average interest rates as of December 31, 2005 and 2004 (dollars in thousands):

	2005			
	Variable-Rate Long-Term Debt		Fixed-Rate Long-Term Debt	
	Interest Rates	Amount	Interest Rates	Amount
2006	–	$ –	6.71%	$ 86,165
2007	–	–	5.76%	1,075
2008	–	–	5.74%	1,271
2009	–	–	5.70%	1,005
2010	–	–	5.69%	1,077
Years thereafter	3.25%	565,855	5.79%	1,918,026
Total		$ 565,855		$ 2,008,619
Fair value		$ 565,855		$ 2,025,001

	2004			
	Variable-Rate Long-Term Debt		Fixed-Rate Long-Term Debt	
	Interest Rates	Amount	Interest Rates	Amount
2005	–	$ –	7.27%	$ 401,727
2006	–	–	6.72%	86,082
2007	–	–	5.51%	867
2008	–	–	5.51%	1,054
2009	–	–	5.51%	818
Years thereafter	1.89%	565,860	4.79%	1,669,901
Total		$ 565,860		$2,160,449
Fair value		$ 565,799		$2,254,061

COMMODITY PRICE RISK

We are exposed to the impact of market fluctuations in the commodity price and transportation costs of electricity, natural gas, coal and emissions allowances. We manage risks associated with these market fluctuations by utilizing various commodity instruments that qualify as derivatives, including exchange-traded futures and options and over-the-counter forwards, options and swaps. Our ERMC, consisting of officers and key management personnel, oversees company-wide energy risk management activities and monitors the results of marketing and trading activities to ensure compliance with our stated energy risk management and trading policies. As part of our risk management program, we use such instruments to hedge purchases and sales of electricity, fuels and emissions allowances and credits. The changes in market value of such contracts have a high correlation to price changes in the hedged commodities. In addition, subject to specified risk parameters monitored by the ERMC, we engage in marketing and trading activities intended to profit from market price movements.

The mark-to-market value of derivative instruments related to our risk management and trading activities are presented in two categories consistent with our business segments:

- Regulated Electricity – non-trading derivative instruments that hedge our purchases and sales of electricity and fuel for APS' Native Load requirements of our regulated electricity business segment; and
- Marketing and Trading – non-trading and trading derivative instruments of our competitive business segment.

The following tables show the pretax changes in mark-to-market of our non-trading and trading derivative positions in 2005 and 2004 (dollars in millions):

	2005		2004	
	Regulated Electricity	Marketing and Trading	Regulated Electricity	Marketing and Trading
Mark-to-market of net positions at beginning of period	**$ 33**	**$107**	$ –	$ 69
Recognized in earnings:				
Change in mark-to-market gains (losses) for future period deliveries	**14**	**20**	9	20
Mark-to-market (gains) losses realized including ineffectiveness during the period	**(8)**	**(14)**	3	(15)
Deferred as a regulatory liability	**31**	**–**	–	–
Recognized in OCI:				
Changes in mark-to-market gains for future period deliveries (a)	**359**	**102**	42	37
Mark-to-market gains realized during the period	**(94)**	**(34)**	(21)	(6)
Change in valuation techniques	–	–	–	2
Mark-to-market of net positions at end of period	**$335**	**$181**	$ 33	$107

(a) The increase in regulated mark-to-market recorded in OCI is due primarily to increases in forward natural gas prices.

The tables below show the fair value of maturities of our non-trading and trading derivative contracts (dollars in millions) at December 31, 2005 by maturities and by the type of valuation that is performed to calculate the fair values. See Note 1, "Derivative Accounting," for more discussion of our valuation methods.

Regulated Electricity

Source of Fair Value	2006	2007	2008	2009	2010	Years Thereafter	Total Fair Value
Prices actively quoted	$162	$ 58	$ 39	$ 7	$ –	$ –	$266
Prices provided by other external sources	21	61	1	–	–	–	83
Prices based on models and other valuation methods	(3)	(2)	(1)	(2)	(1)	(5)	(14)
Total by maturity	$180	$117	$ 39	$ 5	$ (1)	$ (5)	$335

Marketing and Trading

Source of Fair Value	2006	2007	2008	2009	2010	Years Thereafter	Total Fair Value
Prices actively quoted	$ 22	$ –	$ –	$ (1)	$ (1)	$ –	$ 20
Prices provided by other external sources	76	87	20	–	–	–	183
Prices based on models and other valuation methods	(26)	(12)	16	(1)	(1)	2	(22)
Total by maturity	$ 72	$ 75	$ 36	$ (2)	$ (2)	$ 2	$181

The table below shows the impact that hypothetical price movements of 10% would have on the market value of our risk management and trading assets and liabilities included on Pinnacle West's Consolidated Balance Sheets at December 31, 2005 and 2004 (dollars in millions).

	December 31, 2005 Gain (Loss)		December 31, 2004 Gain (Loss)	
	Price Up 10%	Price Down 10%	Price Up 10%	Price Down 10%
Mark-to-market changes reported in earnings (a):				
Electricity	**$ –**	**$ –**	$ (4)	$ 4
Natural gas	**–**	**–**	2	(2)
Other	**–**	**–**	1	(1)
Mark-to-market changes reported in OCI (b):				
Electricity	**66**	**(66)**	35	(35)
Natural gas	**103**	**(103)**	43	(43)
Total	**$ 169**	**$(169)**	$ 77	$ (77)

(a) These contracts are primarily structured sales activities hedged with a portfolio of forward purchases that protects the economic value of the sales transactions.
(b) These contracts are hedges of our forecasted purchases of natural gas and electricity. The impact of these hypothetical price movements would substantially offset the impact that these same price movements would have on the physical exposures being hedged.

CREDIT RISK

We are exposed to losses in the event of non-performance or non-payment by counterparties. We have risk management and trading contracts with many counterparties. See Note 1, "Derivative Accounting" for a discussion of our credit valuation adjustment policy. See Note 18 for further discussion of credit risk.

FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements based on current expectations, and Pinnacle West assumes no obligation to update these statements or make any further statements on any of these issues, except as required by applicable law. These forward-looking statements are often identified by words such as "estimate," "predict," "hope," "may," "believe," "anticipate," "plan," "expect," "require," "intend," "assume" and similar words. Because actual results may differ materially from expectations, we caution readers not to place undue reliance on these statements. A number of factors could cause future results to differ materially from historical results, or from results or outcomes currently expected or sought by Pinnacle West. These factors include, but are not limited to:

- state and federal regulatory and legislative decisions and actions, including the outcome and timing of APS' retail rate proceedings pending before the ACC;
- the timely recovery of PSA deferrals;
- the ongoing restructuring of the electric industry, including the introduction of retail electric competition in Arizona and decisions impacting wholesale competition;
- the outcome of regulatory, legislative and judicial proceedings, both current and future, relating to the restructuring;
- market prices for electricity and natural gas;
- power plant performance and outages;
- transmission outages and constraints;
- weather variations affecting local and regional customer energy usage;
- customer growth and energy usage;
- regional economic and market conditions, including the results of litigation and other proceedings resulting from the California energy situation, volatile fuel and purchased power costs and the completion of generation and transmission construction in the region, which could affect customer growth and the cost of power supplies;
- the cost of debt and equity capital and access to capital markets;
- current credit ratings remaining in effect for any given period of time;
- our ability to compete successfully outside traditional regulated markets (including the wholesale market);
- the performance of our marketing and trading activities due to volatile market liquidity and any deteriorating counterparty credit and the use of derivative contracts in our business (including the interpretation of the subjective and complex accounting rules related to these contracts);
- changes in accounting principles generally accepted in the United States of America and the interpretation of those principles;
- the performance of the stock market and the changing interest rate environment, which affect the amount of required contributions to Pinnacle West's pension plan and APS' nuclear decommissioning trust funds, as well as the reported costs of providing pension and other postretirement benefits;
- technological developments in the electric industry;
- the strength of the real estate market in SunCor's market areas, which include Arizona, Idaho, New Mexico and Utah; and
- other uncertainties, all of which are difficult to predict and many of which are beyond the control of Pinnacle West and APS.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13(a)-15(f), for Pinnacle West Capital Corporation. Management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in Internal Control – Integrated Framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2005. Our management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2005 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report which is included herein and relates also to the Company's consolidated financial statements.

March 8, 2006

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF
PINNACLE WEST CAPITAL CORPORATION
PHOENIX, ARIZONA

We have audited the accompanying consolidated balance sheets of Pinnacle West Capital Corporation and subsidiaries (the "Company") as of December 31, 2005 and 2004, and the related consolidated statements of income, changes in common stock equity, and cash flows for each of the three years in the period ended December 31, 2005. We also have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that the Company maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on these financial statements, an opinion on management's assessment, and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audit of financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2005 and 2004, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Deloitte & Touche LLP

DELOITTE & TOUCHE LLP
Phoenix, Arizona
March 8, 2006

CONSOLIDATED STATEMENTS OF INCOME (dollars and shares in thousands, except per share amounts)

Year Ended December 31,	2005	2004	2003
OPERATING REVENUES			
Regulated electricity segment	**$ 2,237,145**	$ 2,035,247	$1,978,075
Marketing and trading segment	**351,558**	400,628	391,196
Real estate segment	**338,031**	350,315	361,604
Other revenues	**61,221**	42,816	27,929
Total	**2,987,955**	2,829,006	2,758,804
OPERATING EXPENSES			
Regulated electricity segment fuel and purchased power	**595,141**	567,433	517,320
Marketing and trading segment fuel and purchased power	**293,091**	320,667	344,862
Operations and maintenance	**635,827**	592,320	548,732
Real estate segment operations	**278,366**	284,194	305,974
Depreciation and amortization	**347,652**	391,597	435,140
Taxes other than income taxes	**132,040**	120,722	110,270
Other expenses	**51,987**	34,108	23,254
Regulatory disallowance (Note 3)	**138,562**	–	–
Total	**2,472,666**	2,311,041	2,285,552
OPERATING INCOME	**515,289**	517,965	473,252
OTHER			
Allowance for equity funds used during construction	**11,191**	4,885	14,240
Other income (Note 19)	**23,360**	53,289	35,563
Other expenses (Note 19)	**(26,716)**	(21,340)	(20,574)
Total	**7,835**	36,834	29,229
INTEREST EXPENSE			
Interest charges	**185,087**	183,527	193,973
Capitalized interest	**(12,018)**	(11,460)	(19,078)
Total	**173,069**	172,067	174,895
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	**350,055**	382,732	327,586
INCOME TAXES	**126,892**	136,142	102,202
INCOME FROM CONTINUING OPERATIONS	**223,163**	246,590	225,384
Income (loss) from discontinued operations – net of income tax expense (benefit) of ($29,797), ($1,805) and $9,887	**(46,896)**	(3,395)	15,195
NET INCOME	**$ 176,267**	$ 243,195	$ 240,579
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING – BASIC	**96,484**	91,397	91,265
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING – DILUTED	**96,590**	91,532	91,405
EARNINGS PER WEIGHTED-AVERAGE COMMON SHARE OUTSTANDING			
Income from continuing operations – basic	**$ 2.31**	$ 2.70	$ 2.47
Net income – basic	**1.83**	2.66	2.64
Income from continuing operations – diluted	**2.31**	2.69	2.47
Net income – diluted	**1.82**	2.66	2.63
DIVIDENDS DECLARED PER SHARE	**$ 1.925**	$ 1.825	$ 1.725

See Notes to Pinnacle West's Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS (dollars in thousands)

December 31,	2005	2004
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 154,003	$ 163,366
Investment in debt securities	–	181,175
Customer and other receivables	502,681	461,090
Allowance for doubtful accounts	(4,979)	(4,896)
Materials and supplies (at average cost)	109,736	101,333
Fossil fuel (at average cost)	23,658	20,512
Assets from risk management and trading activities (Note 18)	827,779	166,896
Assets held for sale (Note 22)	202,645	–
Other current assets	75,869	47,654
Total current assets	1,891,392	1,137,130
INVESTMENTS AND OTHER ASSETS		
Real estate investments – net (Notes 1 and 6)	390,702	382,398
Assets from long-term risk management and trading activities (Note 18)	597,831	224,341
Decommissioning trust accounts (Note 12)	293,943	267,700
Other assets	111,931	107,212
Total investments and other assets	1,394,407	981,651
PROPERTY, PLANT AND EQUIPMENT (NOTES 1, 6, 9 AND 10)		
Plant in service and held for future use	10,727,695	10,486,648
Less accumulated depreciation and amortization	3,622,884	3,365,954
Total	7,104,811	7,120,694
Construction work in progress	327,172	258,119
Intangible assets, net of accumulated amortization of $182,576 and $158,584	90,916	105,486
Nuclear fuel, net of accumulated amortization of $53,984 and $59,020	54,184	51,188
Net property, plant and equipment	7,577,083	7,535,487
DEFERRED DEBITS		
Deferred fuel and purchased power regulatory asset (Notes 1, 3 and 4)	172,756	–
Other regulatory assets (Notes 1, 3 and 4)	151,123	135,051
Other deferred debits	135,884	107,428
Total deferred debits	459,763	242,479
TOTAL ASSETS	$11,322,645	$ 9,896,747

See Notes to Pinnacle West's Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS (dollars in thousands)

December 31,	2005	2004
LIABILITIES AND COMMON STOCK EQUITY		
CURRENT LIABILITIES		
Accounts payable	**$ 377,107**	$ 373,526
Accrued taxes	**289,235**	245,611
Accrued interest	**31,774**	38,795
Short-term borrowings (Note 5)	**15,673**	71,030
Current maturities of long-term debt (Note 6)	**384,947**	617,165
Customer deposits	**60,509**	55,558
Deferred income taxes (Note 4)	**94,710**	9,057
Liabilities from risk management and trading activities (Note 18)	**720,693**	113,406
Other current liabilities	**297,425**	101,748
Total current liabilities	**2,272,073**	1,625,896
LONG-TERM DEBT LESS CURRENT MATURITIES (NOTE 6)	**2,608,455**	2,584,985
DEFERRED CREDITS AND OTHER		
Deferred income taxes (Note 4)	**1,225,253**	1,227,553
Regulatory liabilities (Notes 1, 3 and 4)	**592,494**	506,646
Liability for asset retirements (Note 12)	**269,011**	251,612
Pension liability (Note 8)	**264,476**	234,445
Liabilities from risk management and trading activities (Note 18)	**256,413**	156,262
Unamortized gain – sale of utility plant (Note 9)	**45,757**	50,333
Other	**363,749**	308,819
Total deferred credits and other	**3,017,153**	2,735,670
COMMITMENTS AND CONTINGENCIES (NOTES 3, 11, 12 AND 21)		
COMMON STOCK EQUITY (NOTE 7)		
Common stock, no par value; authorized 150,000,000 shares; issued 99,077,133 at end of 2005 and 91,802,861 at end of 2004	**2,067,377**	1,769,047
Treasury stock at cost; 20,058 shares at end of 2005 and 9,522 shares at end of 2004	**(1,245)**	(428)
Total common stock	**2,066,132**	1,768,619
Accumulated other comprehensive income (loss):		
Minimum pension liability adjustment	**(97,277)**	(81,788)
Derivative instruments	**262,397**	59,243
Total accumulated other comprehensive income (loss)	**165,120**	(22,545)
Retained earnings	**1,193,712**	1,204,122
Total common stock equity	**3,424,964**	2,950,196
TOTAL LIABILITIES AND COMMON STOCK EQUITY	**$11,322,645**	$ 9,896,747

See Notes to Pinnacle West's Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS (dollars in thousands)

Year Ended December 31,	2005	2004 (a)	2003 (a)
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Income	**$ 176,267**	$ 243,195	$ 240,579
Adjustments to reconcile net income to net cash provided by operating activities:			
Silverhawk impairment loss	**91,025**	–	–
Regulatory disallowance	**138,562**	–	–
Equity earnings in Phoenix Suns partnership	**–**	(34,594)	–
Depreciation and amortization including nuclear fuel	**381,604**	432,161	466,900
Deferred fuel and purchased power	**(172,756)**	–	–
Allowance for equity funds used during construction	**(11,191)**	(4,885)	(14,240)
Deferred income taxes	**(23,806)**	(113,850)	85,462
Change in mark-to-market valuations	**(11,670)**	(18,915)	17,410
Changes in current assets and liabilities:			
Customer and other receivables	**(38,763)**	(11,056)	2,346
Materials, supplies and fossil fuel	**(16,836)**	2,621	(4,629)
Other current assets	**(28,215)**	25,380	(6,646)
Accounts payable	**(6,392)**	85,344	(34,303)
Accrued taxes	**43,624**	175,842	(1,338)
Other current liabilities	**1,567**	10,561	3,725
Proceeds from the sale of real estate assets	**16,218**	80,035	130,597
Real estate investments	**(88,055)**	(62,812)	(51,837)
Change in risk management and trading – assets	**(62,100)**	(2,549)	46,911
Change in risk management and trading – liabilities	**110,393**	13,018	(11,613)
Collateral	**192,040**	12,619	(10,453)
Change in other long-term assets	**(35,793)**	(36,666)	(6,099)
Change in other long-term liabilities	**74,573**	55,443	49,251
Net cash flow provided by operating activities	**730,296**	850,892	902,023
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures	**(633,532)**	(538,842)	(713,256)
Purchase of Sundance Plant	**(185,046)**	–	–
Proceeds from sale of Silverhawk	**–**	90,967	–
Capitalized interest	**(12,018)**	(16,311)	(29,444)
Proceeds from the sale of the Phoenix Suns partnership	**–**	23,101	–
Purchases of investment securities	**(2,962,278)**	(1,040,955)	(877,660)
Proceeds from sale of investment securities	**3,143,481**	951,630	785,810
Proceeds from nuclear decommissioning trust sales	**186,215**	123,795	168,874
Investment in nuclear decommissioning trust	**(204,633)**	(135,239)	(180,319)
Proceeds from real estate investments	**82,719**	–	46,781
Other	**–**	(3,072)	(9,595)
Net cash flow used for investing activities	**(585,092)**	(544,926)	(808,809)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of long-term debt	**1,088,815**	478,328	656,850
Short-term borrowings and payments – net	**(46,413)**	(15,051)	(173,303)
Dividends paid on common stock	**(186,677)**	(166,772)	(157,417)
Repayment of long-term debt	**(1,288,034)**	(604,015)	(368,162)
Common stock equity issuance	**298,168**	18,291	–
Other	**(20,426)**	9,690	8,181
Net cash flow used for financing activities	**(154,567)**	(279,529)	(33,851)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(9,363)**	26,437	59,363
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**163,366**	136,929	77,566
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 154,003**	$ 163,366	$ 136,929
Supplemental disclosure of cash flow information			
Cash paid during the period for:			
Income taxes paid, net of refunds	**$ 86,711**	$ 66,447	$ 32,816
Interest paid, net of amounts capitalized	**$ 181,975**	$ 191,865	$ 161,581

See Notes to Pinnacle West's Consolidated Financial Statements.

(a) See "Cash and Cash Equivalents" in Note 1 for information regarding revisions and certain reclassifications of prior year amounts.

CONSOLIDATED STATEMENTS OF CHANGES IN COMMON STOCK EQUITY (dollars in thousands)

Year Ended December 31	2005	2004	2003
COMMON STOCK (NOTE 7)			
Balance at beginning of year	**$1,769,047**	$1,744,354	$1,737,258
Issuance of common stock	**298,330**	18,291	–
Other	**–**	6,402	7,096
Balance at end of year	**2,067,377**	1,769,047	1,744,354
TREASURY STOCK (NOTE 7)			
Balance at beginning of year	**(428)**	(3,273)	(4,358)
Purchase of treasury stock	**(1,601)**	(2,986)	–
Reissuance of treasury stock used for stock compensation, net	**784**	5,831	1,085
Balance at end of year	**(1,245)**	(428)	(3,273)
RETAINED EARNINGS			
Balance at beginning of year	**1,204,122**	1,127,699	1,044,537
Net income	**176,267**	243,195	240,579
Common stock dividends	**(186,677)**	(166,772)	(157,417)
Balance at end of year	**1,193,712**	1,204,122	1,127,699
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)			
Balance at beginning of year	**(22,545)**	(39,001)	(91,284)
Minimum pension liability adjustment, net of tax expense (benefit) of ($9,526), ($9,756) and $3,700	**(15,489)**	(15,224)	4,700
Unrealized gain on derivative instruments, net of tax expense of $179,927, $31,117 and $33,298	**281,019**	48,226	51,089
Reclassification of realized gain to income, net of tax benefit of ($50,056), ($10,695) and ($2,343)	**(77,865)**	(16,546)	(3,506)
Balance at end of year	**165,120**	(22,545)	(39,001)
TOTAL COMMON STOCK EQUITY	**$3,424,964**	$2,950,196	$2,829,779
COMPREHENSIVE INCOME			
Net income	**$ 176,267**	$ 243,195	$ 240,579
Other comprehensive income	**187,665**	16,456	52,283
Comprehensive income	**$ 363,932**	$ 259,651	$ 292,862

See Notes to Pinnacle West's Consolidated Financial Statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation and Nature of Operations

Pinnacle West's Consolidated Financial Statements include the accounts of Pinnacle West and our subsidiaries: APS, Pinnacle West Energy, APS Energy Services, SunCor and El Dorado (principally NAC). See Note 22 for a discussion of the sale of NAC in November 2004. Significant intercompany accounts and transactions between the consolidated companies have been eliminated.

APS is a vertically-integrated electric utility that provides either retail or wholesale electric service to substantially all of the state of Arizona, with the major exceptions of about one-half of the Phoenix metropolitan area, the Tucson metropolitan area and Mohave County in northwestern Arizona. Pinnacle West Energy, which was formed in 1999, was the subsidiary through which we conducted our unregulated generation operations. See Note 3 for a discussion of the transfer of the PWEC Dedicated Assets from Pinnacle West Energy to APS. As of January 10, 2006, Pinnacle West Energy no longer owns any generating plants and has ceased operations. APS Energy Services was formed in 1998 and provides competitive commodity energy and energy-related products to key customers in competitive markets in the western United States. SunCor is a developer of residential, commercial and industrial real estate projects in Arizona, New Mexico, Idaho and Utah. El Dorado is an investment firm.

Accounting Records and Use of Estimates

Our accounting records are maintained in accordance with accounting principles generally accepted in the United States of America (GAAP). The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. We have reclassified certain prior-year amounts to conform to the current-year presentation.

Derivative Accounting

We are exposed to the impact of market fluctuations in the commodity price and transportation costs of electricity, natural gas, coal and emissions allowances and in interest rates. We manage risks associated with these market fluctuations by utilizing various instruments that qualify as derivatives, including exchange-traded futures and options and over-the-counter forwards, options and swaps. As part of our overall risk management program, we use such instruments to hedge purchases and sales of electricity, fuels, and emissions allowances and credits. In addition, subject to specified risk parameters monitored by the ERMC, we engage in marketing and trading activities intended to profit from market price movements.

We account for our derivative contracts in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended. SFAS No. 133 requires that entities recognize all derivatives as either assets or liabilities on the balance sheet and measure those instruments at fair value. Changes in the fair value of derivative instruments are either recognized periodically in income or, if certain hedge criteria are met, in common stock equity (as a component of other comprehensive income (loss)). To the extent the amounts that would otherwise be recognized in income are eligible to be recovered through the PSA, the amounts will be recorded as either a regulatory asset or liability and have no effect on earnings. SFAS No. 133 provides a scope exception for contracts that meet the normal purchases and sales criteria specified in the standard. Contracts that do not meet the definition of a derivative are accounted for on an accrual basis with the associated revenues and costs recorded at the time the contracted commodities are delivered or received.

Under fair value (mark-to-market) accounting, derivative contracts for the purchase or sale of energy commodities are reflected at fair market value, net of valuation adjustments, as current or long-term assets and liabilities from risk management and trading activities on the Consolidated Balance Sheets.

We determine fair market value using actively-quoted prices when available. We consider quotes for exchange-traded contracts and over-the-counter quotes obtained from independent brokers to be actively-quoted.

When actively-quoted prices are not available, we use prices provided by other external sources. This includes quarterly and calendar year quotes from independent brokers, which we convert into monthly prices using historical relationships.

For options, long-term contracts and other contracts for which price quotes are not available, we use models and other valuation methods. The valuation models we employ utilize spot prices, forward prices, historical market data and other factors to forecast future prices. The primary valuation technique we use to calculate the fair value of contracts where price quotes are not available is based on the extrapolation of forward pricing curves using observable market data for more liquid delivery points in the same region and actual transactions at the more illiquid delivery points. We also value option contracts using a variation of the Black-Scholes option-pricing model.

For non-exchange traded contracts, we calculate fair market value based on the average of the bid and offer price, and we discount to reflect net present value. We maintain certain valuation adjustments for a number of risks associated with the valuation of future commitments. These include valuation adjustments for liquidity and credit risks based on the financial condition of counterparties. The liquidity valuation adjustment represents the cost that would be incurred if all unmatched positions were closed-out or hedged.

The credit valuation adjustment represents estimated credit losses on our overall exposure to counterparties, taking into account netting arrangements, expected default experience for the credit rating of the counterparties and the overall diversification of the portfolio. Counterparties in the portfolio consist principally of major energy companies, municipalities, local distribution companies and financial institutions. We maintain credit policies that management believes minimize overall credit risk. Determination of the credit quality of counterparties is based upon a number of factors, including credit ratings, financial condition, project economics and collateral requirements. When applicable, we employ standardized agreements that allow for the netting of positive and negative exposures associated with a single counterparty.

The use of models and other valuation methods to determine fair market value often requires subjective and complex judgment. Actual results could differ from the results estimated through application of these methods. Our marketing and trading portfolio includes structured activities hedged with a portfolio of forward purchases that protects the economic value of the sales transactions. Our practice is to hedge within timeframes established by the ERMC.

See Note 18 for additional information about our derivative and energy trading accounting policies.

Regulatory Accounting

APS is regulated by the ACC and the FERC. The accompanying financial statements reflect the rate-making policies of these commissions. For regulated operations, we prepare our financial statements in accordance with SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation." SFAS No. 71 requires a cost-based, rate-regulated enterprise to reflect the impact of regulatory decisions in its financial statements. As a result, we capitalize certain costs that would be included as expense in the current period by unregulated companies. Regulatory assets represent incurred costs that have been deferred because they are probable of future recovery in customer rates. Regulatory liabilities generally represent expected future costs that have already been collected from customers.

Management continually assesses whether our regulatory assets are probable of future recovery by considering factors such as applicable regulatory environment changes and recent rate orders to other regulated entities in the same jurisdiction. This determination reflects the current political and regulatory climate in the state and is subject to change in the future. If future recovery of costs ceases to be probable, the assets would be written off as a charge in current period earnings.

A major component of our regulatory assets is the retail fuel and power costs deferred under the PSA. APS defers for future rate recovery 90% of the difference between actual retail fuel and power costs and the amount of such costs currently included in base rates.

As part of a 1999 retail rate case settlement agreement, APS amortized certain regulatory assets over a period that ended June 30, 2004. Amortization was $18 million in 2004 and $86 million in 2003.

The detail of regulatory assets is as follows (dollars in millions):

December 31,	2005	2004
Deferred fuel purchased power (Note 3)	$173	$ –
Competition rules compliance charge	42	50
Deferred compensation	25	24
Regulatory asset for deferred income taxes	19	12
Loss on reacquired debt (a)	18	17
Capital contributions on the Mead-Phoenix transmission line	14	13
Coal reclamation	13	–
Bark beetle remediation	6	–
Spent nuclear fuel storage (Note 11)	6	11
Other	8	8
Total regulatory assets	$324	$135

(a) See "Reacquired Debt Costs" below.

The detail of regulatory liabilities is as follows (dollars in millions):

December 31,	2005	2004
Removal costs (a)	$385	$376
Regulatory liability related to asset retirement obligations	101	86
Deferred fuel and purchased power – mark-to-market	31	–
Regulatory liability for deferred income taxes	24	–
Deferred interest income	22	22
Deferred gains on utility property	20	20
Demand-side management	7	–
Other	2	3
Total regulatory liabilities	$592	$507

(a) In accordance with SFAS No. 71, APS accrues for removal costs for its regulated assets, even if there is no legal obligation for removal.

Utility Plant and Depreciation

Utility plant is the term we use to describe the business property and equipment that supports electric service, consisting primarily of generation, transmission and distribution facilities. We report utility plant at its original cost, which includes:

- material and labor;
- contractor costs;
- capitalized leases;
- construction overhead costs (where applicable); and
- capitalized interest or an allowance for funds used during construction.

We expense the costs of plant outages, major maintenance and routine maintenance as incurred. We charge retired utility plant to accumulated depreciation. Liabilities associated with the retirement of tangible long-lived assets are recognized at fair value as incurred and capitalized as part of the related tangible long-lived assets. Accretion of the liability due to the passage of time is an operating expense and the capitalized cost is depreciated over the useful life of the long-lived asset. See Note 12.

APS records a regulatory liability for the asset retirement obligations related to its regulated assets. This regulatory liability represents the difference between the amount that has been recovered in regulated rates and the amount calculated under SFAS No. 143 "Accounting for Asset Obligations," as interpreted by FIN 47. APS believes it can recover in regulated rates the costs calculated in accordance with SFAS No. 143.

We record depreciation on utility plant on a straight-line basis over the remaining useful life of the related assets. The approximate remaining average useful lives of our utility property at December 31, 2005 were as follows:

- Fossil plant – 19 years;
- Nuclear plant – 20 years;
- Other generation – 28 years;
- Transmission – 40 years;
- Distribution – 32 years; and
- Other – 6 years.

For the years 2003 through 2005, the depreciation rates ranged from a low of 1.2% to a high of 11.43%. The weighted-average rate was 3.0% for 2005, 3.36% for 2004 and 3.35% for 2003. We depreciate non-utility property and equipment over the estimated useful lives of the related assets, ranging from 3 to 34 years. See "APS 2003 Rate Case" in Note 3 for a discussion of changes in depreciation rates.

Investments

El Dorado accounts for its investments using the equity (if significant influence) and cost (less than 20% ownership) methods. See Note 22 for a discussion of the sale of NAC.

The Company's investments are reviewed in accordance with EITF 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments."

Capitalized Interest

Capitalized interest represents the cost of debt funds used to finance non-regulated construction projects. The rate used to calculate capitalized interest was a composite rate of 5.7% for 2005, 4.9% for 2004 and 4.7% for 2003. Capitalized interest ceases to accrue when construction is complete.

Allowance for Funds Used During Construction

AFUDC represents the approximate net composite interest cost of borrowed funds and a reasonable return on the equity funds used for construction of regulated utility plant. APS' allowance for borrowed funds is included in capitalized interest on the Consolidated Financial Statements. Plant construction costs, including AFUDC, are recovered in authorized rates through depreciation when completed projects are placed into commercial operation.

AFUDC was calculated by using a composite rate of 7.7% for 2005, 8.4% for 2004 and 8.6% for 2003. APS compounds AFUDC monthly and ceases to accrue AFUDC when construction work is completed and the property is placed in service.

Electric Revenues

We derive electric revenues from sales of electricity to our regulated Native Load customers and sales to other parties from our marketing and trading activities. Revenues related to the sale of electricity are generally recorded when service is rendered or electricity is delivered to customers. However, the determination and billing of electricity sales to individual Native Load customers is based on the reading of their meters, which occurs on a systematic basis throughout the month. At the end of each month, amounts of electricity delivered to customers since the date of the last meter reading and billing and the corresponding unbilled revenue are estimated. We exclude sales taxes on electric revenues from both revenue and taxes other than income taxes. Beginning April 2005 in accordance with the order in the APS 2003 Rate Case, we exclude city franchise fees from both electric revenues and operating expenses.

Revenues from our Native Load customers and non-derivative instruments are reported on a gross basis on Pinnacle West's Consolidated Statements of Income. In the electricity business, some contracts to purchase energy are netted against other contracts to sell energy. This is called "book-out" and usually occurs in contracts that have the same terms (quantities and delivery points) and for which power does not flow. We net these book-outs, which reduces both revenues and purchased power and fuel costs.

All gains and losses (realized and unrealized) on energy trading contracts that qualify as derivatives are included in marketing and trading segment revenues on the Consolidated Statements of Income on a net basis.

Real Estate Revenues

SunCor recognizes revenue from land, home and qualifying commercial operating assets sales in full, provided (a) the income is determinable, that is, the collectibility of the sales price is reasonably assured or the amount that will not be collectible can be estimated, and (b) the earnings process is virtually complete, that is, SunCor is not obligated to perform significant activities after the sale to earn the income. Unless both conditions exist, recognition of all or part of the income is postponed under the percentage of completion method per SFAS No. 66, "Accounting for Sales of Real Estate." SunCor recognizes income only after the assets' title has passed. Commercial property and management revenues are recorded over the term of the lease or period in which services are provided. In addition, see Note 22 – Discontinued Operations.

Real Estate Investments

Real estate investments primarily include SunCor's land, home inventory and investments in joint ventures. Land includes acquisition costs, infrastructure costs, property taxes and capitalized interest directly associated with the acquisition and development of each project. Land under development and land held for future development are stated at accumulated cost, except that, to the extent that such land is believed to be impaired, it is written down to fair value. Land held for sale is stated at the lower of accumulated cost or estimated fair value less costs to sell. Home inventory consists of construction costs, improved lot costs, capitalized interest and property taxes on homes under construction. Home inventory is stated at the lower of accumulated cost or estimated fair value less costs to sell. Investments in joint ventures for which SunCor does not have a controlling financial interest are not consolidated but are accounted for using the equity method of accounting. In addition, see Note 22 – Discontinued Operations.

Cash and Cash Equivalents

We consider all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

We have investments in auction rate securities in which interest rates are reset on a short-term basis; however, the underlying contract maturity dates extend beyond three months. We classify the investments in auction rate securities as investment in debt securities on our Consolidated Balance Sheets.

We have changed the presentation of our nuclear decommissioning trust investment in our Consolidated Statements of Cash Flows for the year ended December 31, 2005, to present investing cash outflows separately from investing cash inflows. Investing cash inflows and outflows in the nuclear decommissioning trust investment amounts were previously presented in Other within the investing section of the Consolidated Statements of Cash Flows. In addition, we changed the presentation of prior year amounts in order to be consistent with the 2005 presentation. There was no impact to net cash provided by (used in) operating, investing or financing activities as a result of this change in presentation.

During 2005, we revised the presentation of our Consolidated Statements of Cash Flows to include the cash flows from discontinued operations within the categories of operating, investing, and financing activities. A summary of the effects of the change in presentation on the Consolidated Statements of Cash Flows for the years ended December 31, 2004 and 2003, is as follows (dollars in millions):

Year Ended December 31,	2004	2003
Net cash flows from operating activities as previously reported	$ 842	$ 901
Change in net cash flows from discontinued operations	9	1
Net cash flows from operating activities as currently reported	$ 851	$ 902
Net cash flows used for investing activities as previously reported	$(532)	$(815)
Change in net cash flows used for discontinued operations	(13)	6
Net cash flows used for investing activities as currently reported	$(545)	$(809)
Net cash flows used for financing activities as previously reported	$(278)	$ (32)
Change in net cash flows used for discontinued operations	(2)	(2)
Net cash flows used for financing activities as currently reported	$(280)	$ (34)

Nuclear Fuel

APS charges nuclear fuel to fuel expense by using the unit-of-production method. The unit-of-production method is an amortization method based on actual physical usage. APS divides the cost of the fuel by the estimated number of thermal units it expects to produce with that fuel. APS then multiplies that rate by the number of thermal units produced within the current period. This calculation determines the current period nuclear fuel expense.

APS also charges nuclear fuel expense for the permanent disposal of spent nuclear fuel. The DOE is responsible for the permanent disposal of spent nuclear fuel, and it charges APS $0.001 per kWh of nuclear generation. See Note 11 for information about spent nuclear fuel disposal and Note 12 for information on nuclear decommissioning costs.

Income Taxes

Income taxes are provided using the asset and liability approach prescribed by SFAS No. 109, "Accounting for Income Taxes." We file our federal income tax return on a consolidated basis and we file our state income tax returns on a consolidated or unitary basis. In accordance with our intercompany tax sharing agreement, federal and state income taxes are allocated to each subsidiary as though each subsidiary filed a separate income tax return. Any difference between that method and the consolidated (and unitary) income tax liability is attributed to the parent company. See Note 4.

Reacquired Debt Costs

APS defers gains and losses incurred upon early retirement of debt. These costs are amortized equally on a monthly basis over the remaining life of the original debt consistent with its ratemaking treatment.

Stock-Based Compensation

We apply the fair value method of accounting for stock-based compensation, as provided for in SFAS No. 123, "Accounting for Stock-Based Compensation." The fair value method of accounting is the preferred method. In accordance with the transition requirements of SFAS No. 123, we applied the fair value method prospectively, beginning with 2002 stock grants. In prior years, we recognized stock compensation expense based on the intrinsic value method allowed in Accounting Principles Board Opinion (APB) No. 25, "Accounting for Stock Issued to Employees." In addition, SFAS No. 123R is effective for us as of January 1, 2006. We have evaluated the impacts of this new guidance and do not believe it will have a material impact on our financial statements.

The following chart compares our net income, stock compensation expense and earnings per share to what those items would have been if we had recorded stock compensation expense based on the fair value method for all stock grants through 2005 (dollars in thousands, except per share amounts):

	2005	2004	2003
Net Income as reported:	**$176,267**	$243,195	$240,579
Add: Stock compensation expense included in reported net income (net of tax)	**3,738**	4,690	3,514
Deduct: Total stock compensation expense determined under fair value method (net of tax)	**(3,738)**	(5,311)	(5,220)
Pro forma net income	**$176,267**	$242,574	$238,873
Earnings per share – basic:			
As reported	**$ 1.83**	$ 2.66	$ 2.64
Pro forma (fair value method)	**$ 1.83**	$ 2.65	$ 2.62
Earnings per share – diluted:			
As reported	**$ 1.82**	$ 2.66	$ 2.63
Pro forma (fair value method)	**$ 1.82**	$ 2.65	$ 2.61

In order to calculate the fair value of the 2004 and 2003 stock option grants (no stock options were granted in 2005) and the pro forma information above, we calculated the fair value of each stock option granted under the incentive plans using the Black-Scholes option-pricing model. The fair value was calculated as of the date the option was granted. The following weighted-average assumptions were used to calculate the fair value of the stock options:

	2004	2003
Risk-free interest rate	3.15%	3.35%
Dividend yield	4.76%	5.26%
Volatility	17.04%	38.03%
Expected life (months)	60	60

See Note 16 for further discussion about our stock compensation plans.

Intangible Assets

We have no goodwill recorded and have separately disclosed other intangible assets, primarily software, on Pinnacle West's Consolidated Balance Sheets in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets." The intangible assets are amortized over their finite useful lives. Amortization expense was $33 million in 2005, $34 million in 2004, and $25 million in 2003. Estimated amortization expense on existing intangible assets over the next five years is $31 million in 2006, $25 million in 2007, $14 million in 2008, $4 million in 2009, and $3 million in 2010. At December 31, 2005, the weighted average remaining amortization period for intangible assets is 3 years.

2. NEW ACCOUNTING STANDARDS

In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment." The standard establishes accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. In 2002, we began accounting for stock-based compensation using the fair value method. We adopted SFAS No. 123R on January 1, 2006. We believe the impacts of this new guidance on our financial statements will be immaterial.

Effective December 31, 2005, we adopted FIN 47, "Accounting for Conditional Asset Retirement Obligations – an interpretation of FASB Statement No. 143." FIN 47 clarifies that an entity must record a liability for the fair value of an asset retirement obligation for which the timing and/or method of settlement are conditional on a future event if the liability's fair value can be reasonably estimated. We have evaluated our asset retirement obligations under this new guidance and determined that no additional liabilities need to be recorded at this time.

3. REGULATORY MATTERS

APS General Rate Case

On January 31, 2006, APS filed with the ACC updated financial schedules, testimony and other data in the general rate case that APS originally filed on November 4, 2005. As requested by the ACC staff, the updated information uses the twelve months ended September 30, 2005 as the test period instead of the test year ended December 31, 2004 used in APS' original filing. As a result of the updated filing, APS is requesting a 21.3%, or $453.9 million, increase in its annual retail electricity revenues effective no later than December 31, 2006. The original filing requested a 19.9%, or $409.1 million, retail rate increase.

The updated requested rate increase is designed to recover the following (dollars in millions):

	Updated Filing (January 31, 2006)		Original Filing (November 4, 2005)	
	Annual Revenue Increase	Percentage Increase	Annual Revenue Increase	Percentage Increase
Increased fuel and purchased power	$299.0	14.0%	$246.8	12.0%
Capital structure update	98.3	4.6%	96.8	4.7%
Rate base update, including acquisition of Sundance Plant	46.2	2.2%	42.5	2.1%
Pension Funding	41.3	1.9%	41.2	2.0%
Other items	(30.9)	(1.4)%	(18.2)	(0.9)%
Total increase	$453.9	21.3%	$409.1	19.9%

The request is based on (a) a rate base of $4.4 billion, which approximates the ACC-jurisdictional portion of the book value of utility plant, net of accumulated depreciation, as of September 30, 2005; (b) a base rate for fuel and purchased power costs of $0.031904 per kilowatt-hour based on estimated 2006 prices; and (c) a proposed capital structure of 45% long-term debt and 55% common stock equity, with a weighted-average cost of capital of 8.73% (5.41% for long-term debt and 11.50% for common stock equity). The requested increase in annual retail electricity revenues from the original filing is based solely on increased fuel and purchased power costs, slightly offset by other items (see the above chart). If the ACC approves the requested base rate increase for fuel and purchased power costs (see clause (b) of this paragraph), subsequent PSA rate adjustments and/or PSA surcharges would be reduced because such costs would otherwise be eligible for recovery in the future under APS' PSA.

The updated request does not include the PSA annual adjustor rate increase of approximately 5% that took effect February 1, 2006 or the application for two separate PSA surcharges that APS filed on February 2, 2006. See "Power Supply Adjustor" below.

Application for Emergency Interim Rate Increase

On January 6, 2006, APS filed with the ACC an application requesting an emergency interim rate increase of $299 million, or approximately 14%, to be effective April 1, 2006. The purpose of the emergency interim rate increase is solely to address APS' under-collection of higher annual fuel and purchased power costs. The increase would accelerate recovery of the fuel and purchased power component of APS' general rate case and is not an additional increase and would be subject to refund. On February 28, 2006, several parties filed direct testimony in this matter. The ACC staff and the Residential Utility Consumer Office each recommended that the ACC deny APS' request for emergency rate relief, and each cited the ACC's January 25, 2006 modification of the PSA as a basis for its recommendation (see "Power Supply Adjustor" below). Because "concern continues to exist regarding the build-up of deferred fuel balances in 2006 and the uncertain time frame for recovery of prudently incurred fuel and purchased power costs," the ACC staff also recommended, among other things, that the ACC allow APS to file for PSA surcharge requests in 2006 on a quarterly basis, with the first request to be filed no earlier than June 30, 2006. A business coalition that advocates on behalf of retail electric customers in Arizona and a major APS customer filed joint testimony recommending that the ACC approve an interim rate increase of $126 million in calendar-year 2006. Hearings on the emergency interim rate increase request are scheduled to begin on March 20, 2006. We cannot predict the outcome of this matter.

Power Supply Adjustor

PSA PROVISIONS

The PSA approved by the ACC in April 2005 as part of APS' 2003 rate case provides for adjustment of retail rates to reflect variations in retail fuel and purchased power costs. On January 25, 2006, the ACC modified the PSA in certain respects. The PSA, as modified, is subject to specified parameters and procedures, including the following:

- APS will record deferrals for recovery or refund to the extent actual retail fuel and purchased power costs vary from the base fuel amount (currently $0.020743 per kWh);
- the deferrals are subject to a 90/10 sharing arrangement in which APS must absorb 10% of the retail fuel and purchased power costs above the base fuel amount and may retain 10% of the benefit from the retail fuel and purchased power costs that are below the base fuel amount;
- amounts to be recovered or refunded through the annual PSA adjustment are limited to a cumulative plus or minus $0.004 per kWh over the life of the PSA;
- the recoverable amount of annual retail fuel and purchased power costs through current base rates and the PSA was originally capped at $776.2 million; however, the ACC has removed the cap pending the ACC's final ruling on APS' pending request to have the cap eliminated or substantially raised;
- the PSA will remain in effect for a minimum five-year period, but the ACC may eliminate the PSA at any time, if appropriate, in the event APS files a rate case before the expiration of the five-year period (which APS did by filing the general rate case noted above) or if APS does not comply with the terms of the PSA; and
- APS is prohibited from requesting PSA surcharges until after the PSA annual adjustor rate has been set each year. The amount available for potential PSA surcharges will be limited to the amount of accumulated deferrals through the prior year-end which are not expected to be recovered through the annual adjustor or any PSA surcharges previously approved by the ACC.

2006 PSA ANNUAL ADJUSTOR The effective date of the PSA's annual adjustor is February 1, and the adjustor rate was set at the maximum $0.004 per kilowatt-hour effective February 1, 2006. The change in the adjustor rate represents a retail rate increase of approximately 5% designed to recover $110 million of deferred fuel and purchased power costs over the twelve-month period beginning February 1, 2006.

APPLICATION FOR PSA SURCHARGES On February 2, 2006, APS filed with the ACC an application for two separate surcharges under the PSA. The surcharges would recover approximately $60 million in retail fuel and purchased power costs deferred by APS in 2005 under the PSA. The combined surcharges would represent a temporary rate increase of approximately 2.6% during the overlapping portion of the twelve-month recovery periods for the two surcharges. The other component of the 2005 PSA deferrals is being recovered under the 2006 PSA annual adjustor discussed in the preceding paragraph. The first surcharge would recover approximately $15 million over a twelve-month period, representing a temporary rate increase of approximately 0.66%, proposed to begin with the date of the ACC's decision in APS' pending emergency interim rate case. The second requested surcharge would recover approximately $45 million over a twelve-month period, representing a temporary rate increase of approximately 1.9%, proposed to begin no later than the ACC's completion of its inquiry regarding the unplanned 2005 Palo Verde outages. The $45 million of PSA deferrals represents replacement power costs associated with these outages.

PROPOSED MODIFICATIONS TO PSA (REQUESTED IN GENERAL RATE CASE)

In its pending general rate case, APS has requested the following modifications to the PSA:

- The $0.004 per kWh maximum adjustor rate over the life of the PSA would be eliminated, while the $0.004 per kWh maximum annual change in the adjustor rate would remain in effect;
- The $776.2 million annual limit on the retail fuel and purchased power costs under APS' current base rates and the PSA would be removed or increased (although APS may defer fuel and purchased power costs above $776.2 million per year pending the ACC's final ruling on APS' pending request to have the cap eliminated or substantially raised);
- The current provision that APS is required to file a surcharge application with the ACC after accumulated pretax PSA deferrals equal $50 million and before they equal $100 million would be eliminated, thereby giving APS flexibility in determining when a surcharge filing should be made;
- The costs of renewable energy and capacity costs attributable to purchased power obtained through competitive procurement would be excluded from the existing 90/10 sharing arrangement under which APS absorbs 10% of the retail fuel and purchased power costs above the base fuel amount and retains 10% of the benefit from retail fuel and purchased power costs that are below the base fuel amount; and
- 10% of any realized gains or losses resulting from APS' hedges of Retail Fuel and Power Costs would be retained or absorbed by APS before being subject to the 90/10 sharing provision under the PSA.

APS 2003 Rate Case

On April 7, 2005, the ACC issued an order in the rate case that APS filed on June 27, 2003. In addition to the ACC's approval of the PSA discussed under "Power Supply Adjustor" above, certain key financial components of the order include:

- APS received an annual retail rate increase of approximately 4.2%, which was effective as of April 1, 2005. This increase does not include the impact of the PSA.
- APS was authorized to acquire the PWEC Dedicated Assets from Pinnacle West Energy, with a net carrying value of approximately $850 million, and to rate base the PWEC Dedicated Assets at a rate base value of $700 million, which resulted in a mandatory rate base disallowance of approximately $150 million. Due to depreciation and other miscellaneous factors, the actual disallowance was $139 million at December 31, 2005. This transfer was completed on July 29, 2005. As a result, for financial reporting purposes, APS recognized a one-time, after-tax net plant regulatory disallowance of approximately $84 million in 2005.
- Effective April 1, 2005, APS adopted longer service lives for certain depreciable assets. This change is expected to have the effect of reducing annual depreciation expense for financial reporting purposes by approximately $30 million. APS also adopted longer service lives for the PWEC Dedicated Assets, which is expected to have the effect of reducing annual depreciation expense for financial reporting purposes by approximately $10 million.

Equity Infusions

On November 8, 2005, the ACC approved Pinnacle West's request to infuse more than $450 million of equity into APS during 2005 or 2006. These infusions consist of about $250 million of the proceeds of Pinnacle West's common equity issuance on May 2, 2005 and about $210 million of the proceeds from the sale of Silverhawk in January 2006 (see Note 22). Pinnacle West has made these equity infusions into APS.

Federal

In July 2002, the FERC adopted a price mitigation plan that constrains the price of electricity in the wholesale spot electricity market in the western United States. The FERC adopted a price cap of $250 per MWh for the period subsequent to October 31, 2002. Sales at prices above the cap must be justified and are subject to potential refund.

4. INCOME TAXES

Certain assets and liabilities are reported differently for income tax purposes than they are for financial statements purposes. The tax effect of these differences is recorded as deferred taxes. We calculate deferred taxes using the current income tax rates.

APS has recorded a regulatory asset and a regulatory liability related to income taxes on its Balance Sheets in accordance with SFAS No. 71. The regulatory asset is for certain temporary differences, primarily the allowance for equity funds used during construction. The regulatory liability relates to excess deferred taxes resulting primarily from the reduction in federal income tax rates as part of the Tax Reform Act of 1986. APS amortizes this amount as the differences reverse.

As a result of a change in IRS guidance, we claimed a tax deduction related to an APS tax accounting method change on the 2001 federal consolidated income tax return. The accelerated deduction resulted in a $200 million reduction in the current income tax liability and a corresponding increase in the plant-related deferred tax liability. In 2002, we received an income tax refund of approximately $115 million related to our 2001 federal consolidated income tax return. The 2001 federal consolidated income tax return is currently under examination by the IRS. As part of this ongoing examination, the IRS is reviewing this accounting method change and the resultant deduction. During 2004 and again in 2005, the current income tax liability was increased, with a corresponding decrease to plant-related deferred tax liability, to reflect the expected outcome of this audit. We do not expect the ultimate outcome of this examination to have a material adverse impact on our financial position or results of operations. We expect that it will have a negative impact on cash flows.

The income tax liability accounts reflect the tax and interest associated with the most probable resolution of all known and measurable tax exposures.

In 2004 and 2003, we resolved certain prior-year issues with the taxing authorities and recorded tax benefits associated with tax credits and other reductions to income tax expense.

The components of income tax expense are as follows (dollars in thousands):

Year Ended December 31,	2005	2004	2003
Current:			
Federal	$ 107,837	$ 200,133	$ 22,875
State	13,064	48,054	3,752
Total current	120,901	248,187	26,627
Deferred:			
Income from continuing operations	11,930	(113,850)	81,756
Discontinued operations	(35,736)	–	3,706
Total deferred	(23,806)	(113,850)	85,462
Total income tax expense	97,095	134,337	112,089
Less: income tax expense (benefit) on discontinued operations	(29,797)	(1,805)	9,887
Income tax expense – continuing operations	$ 126,892	$ 136,142	$ 102,202

The following chart compares pretax income from continuing operations at the 35% federal income tax rate to income tax expense – continuing operations (dollars in thousands):

Year Ended December 31,	2005	2004	2003
Federal income tax expense at 35% statutory rate	$ 122,519	$ 133,956	$ 114,655
Increases (reductions) in tax expense resulting from:			
State income tax net of federal income tax benefit	11,981	14,460	11,493
Credits and favorable adjustments related to prior years resolved in current year	–	(6,138)	(17,944)
Medicare Subsidy Part-D (see Note 8)	(2,733)	(1,778)	–
Allowance for equity funds used during construction (see Note 1)	(3,694)	(1,547)	(4,984)
Other	(1,181)	(2,811)	(1,018)
Income tax expense – continuing operations	$ 126,892	$ 136,142	$ 102,202

The following table shows the net deferred income tax liability recognized on the Consolidated Balance Sheets (dollars in thousands):

December 31,	2005	2004
Current liability	$ (94,710)	$ (9,057)
Long term liability	(1,225,253)	(1,227,553)
Accumulated deferred income taxes – net	$ (1,319,963)	$ (1,236,610)

The components of the net deferred income tax liability were as follows (dollars in thousands):

December 31,	2005	2004
DEFERRED TAX ASSETS		
Risk management and trading activities	$ 323,696	$ 91,021
Regulatory liabilities:		
Asset retirement obligation	189,726	182,086
Federal excess deferred income taxes	14,446	16,341
Deferred fuel and purchased power – mark-to-market	11,923	–
Other	29,720	8,282
Pension liability	83,753	91,973
Deferred gain on Palo Verde Unit 2 sale leaseback	17,868	19,816
Other	91,015	70,849
Total deferred tax assets	762,147	480,368
DEFERRED TAX LIABILITIES		
Plant-related	(1,426,158)	(1,516,174)
Risk management and trading activities	(524,940)	(146,037)
Regulatory assets:		
Deferred fuel and purchased power	(67,461)	–
Other	(63,551)	(54,767)
Total deferred tax liabilities	(2,082,110)	(1,716,978)
Accumulated deferred income taxes – net	$ (1,319,963)	$ (1,236,610)

5. LINES OF CREDIT AND SHORT-TERM BORROWINGS

Pinnacle West had committed lines of credit of $300 million at December 31, 2005 and December 31, 2004, which were available either to support the issuance of up to $250 million in commercial paper or to be used for bank borrowings, including issuance of letters of credit. The current lines mature in December 2010. Pinnacle West had no outstanding borrowings at December 31, 2005 and December 31, 2004. Pinnacle West had approximately $11 million of letters of credit issued under the line at December 31, 2005 ($7 million of which terminated as a result of the sale of Silverhawk – see Note 22) and approximately $13 million of letters of credit issued under the line at December 31, 2004. The commitment fees were 0.15% in 2005 and 0.175% in 2004. Pinnacle West had no commercial paper borrowings outstanding at December 31, 2005 and 2004. All Pinnacle West and APS bank lines of credit and commercial paper agreements are unsecured.

APS had committed lines of credit with various banks of $400 million at December 31, 2005 and $325 million at December 31, 2004, which were available either to support the issuance of up to $250 million in commercial paper or to be used for bank borrowings, including the issuance of letters of credit. The current line matures in December 2010. The commitment fees at December 31, 2005 and 2004 for these lines of credit were 0.11% and 0.15% per annum. APS had no bank borrowings outstanding under these lines of credit at December 31, 2005 and 2004. APS had approximately $4.8 million of letters of credit issued under the line at December 31, 2005.

APS had no commercial paper borrowings outstanding at December 31, 2005 and 2004. By Arizona statute, APS' short-term borrowings cannot exceed 7% of its total capitalization unless approved by the ACC.

SunCor had revolving lines of credit totaling $150 million at December 31, 2005 and $90 million at December 31, 2004. The commitment fees were 0.125% in 2005 and 2004. SunCor had $123 million outstanding at December 31, 2005 and $35 million outstanding at December 31, 2004. The weighted-average interest rate was 5.93% at December 31, 2005 and 4.50% at December 31, 2004. Interest was based on LIBOR plus 1.5% for 2005 and LIBOR plus 2% or prime plus 0.5% for 2004. The balance is included in long-term debt on the Consolidated Balance Sheets at December 31, 2005 and it was in short-term debt on the Consolidated Balance Sheets at December 31, 2004. SunCor had other short-term loans in the amount of $16 million at December 31, 2005 and $36 million at December 31, 2004. These loans are made up of multiple notes primarily with variable interest rates based on LIBOR plus 2.25% and 2.50% or prime plus 1.75% at December 31, 2005 and LIBOR plus 2.5% at December 31, 2004.

8. LONG-TERM DEBT

Substantially all of APS' debt is unsecured. SunCor's short and long-term debt is collateralized by interests in certain real property and Pinnacle West's debt is unsecured. The following table presents the components of long-term debt on the Consolidated Balance Sheets outstanding at December 31, 2005 and 2004 (dollars in thousands):

	Maturity Dates (a)	Interest Rates	December 31, 2005	2004
APS				
Pollution control bonds (b)	2024-2034	(c)	$ 565,855	$ 565,860
Pollution control bonds with senior notes	2029	5.05%	90,000	90,000
Unsecured notes (d)	2005	6.25%	–	100,000
Unsecured notes (e)	2005	7.625%	–	300,000
Unsecured notes	2011	6.375%	400,000	400,000
Unsecured notes	2012	6.50%	375,000	375,000
Unsecured notes	2033	5.625%	200,000	200,000
Unsecured notes	2015	4.650%	300,000	300,000
Unsecured notes (e)	2014	5.80%	300,000	300,000
Secured note	2014	6.00%	1,745	1,900
Senior notes	2006	6.75%	83,695	83,695
Senior notes (f)	2035	5.50%	250,000	–
Unamortized discount and premium			(9,151)	(7,968)
Capitalized lease obligations	2006-2012	(g)	8,179	9,854
Subtotal			2,565,323	2,718,341
SUNCOR				
Notes payable	2006-2008	(h)	129,040	15,467
Capitalized lease obligations	2005-2007	8.91%	266	507
Subtotal			129,306	15,974
PINNACLE WEST				
Senior notes (i)	2006	6.40%	298,518	302,589
Unamortized discount and premium			(29)	(143)
Floating rate senior notes	2005	(j)	–	165,000
Capitalized lease obligations	2005-2007	5.45%	284	389
Subtotal			298,773	467,835
Total long-term debt			2,993,402	3,202,150
Less current maturities			384,947	617,165
TOTAL LONG-TERM DEBT LESS CURRENT MATURITIES			$2,608,455	$2,584,985

(a) This schedule does not reflect the timing of redemptions that may occur prior to maturity.

(b) On March 1, 2005, Maricopa County Arizona Pollution Control Corporation issued $164 million of variable interest rate pollution control bonds, 2005 Series A-E, due 2029. The bonds were issued to refinance $164 million of outstanding pollution control bonds. The Series A-E bonds are payable solely from revenues obtained from APS pursuant to a loan agreement between APS and Maricopa County Arizona Pollution Control Corporation. These bonds are classified as long-term debt on our Consolidated Balance Sheets.

(c) The weighted-average rate was 3.25% at December 31, 2005 and 1.89% at December 31, 2004. Changes in short-term interest rates would affect the costs associated with this debt.

(d) On January 15, 2005, APS repaid its $100 million 6.25% notes due 2005. APS used cash on hand to repay these notes.

(e) On August 1, 2005, APS repaid $300 million of its 7.625% notes due 2005. APS used cash from the issuance of $300 million 5.8% senior unsecured notes due June 30, 2014.

(f) On August 22, 2005, APS issued $250 million of 5.50% senior notes due 2035. A portion of the proceeds from the sale of the notes was used for general corporate purposes and, on October 3, 2005, the balance of the proceeds, along with cash on hand, was used to fund the $500 million that APS was obligated to transfer to Pinnacle West Energy in connection with APS' acquisition of the PWEC Dedicated Assets.

(g) The weighted-average rate was 5.81% at December 31, 2005 and 5.78% at December 31, 2004. Capital leases are included in property, plant and equipment on the Consolidated Balance Sheets for both December 31, 2005 and December 31, 2004.

(h) SunCor had $123 million outstanding at December 31, 2005 under its revolving line of credit. The weighted-average interest rate was 5.93% at December 31, 2005. The remaining amount of approximately $6 million at December 31, 2005 was made up of multiple notes with variable interest rates based on the lenders' prime rates plus 0.25% or LIBOR plus 2.00%. There is also a note at a fixed rate of 4.25%.

(i) On January 29, 2004, we entered into a fixed-for-floating interest rate swap transaction related to the $300 million 6.40% senior note. The transaction qualifies as a fair value hedge under SFAS No. 133.

(j) The weighted-average rate was 2.06% at December 31, 2004.

On February 28, 2006, Pinnacle West entered into an Uncommitted Master Shelf Agreement with Prudential Investment Management, Inc. ("Prudential") and certain of its affiliates. The agreement provides the terms under which Pinnacle West may offer up to $200 million of its senior notes for purchase by Prudential affiliates at any time prior to December 31, 2007. The maturity of notes issued under the agreement cannot exceed five years. Pursuant to the agreement, on February 28, 2006, Pinnacle West issued and sold to Prudential affiliates $175 million aggregate principal amount of its 5.91% Senior Notes, Series A, due February 28, 2011 (the "Series A Notes"). Pinnacle West will use the proceeds of the Series A Notes to repay at maturity a portion of the $300 million aggregate principal amount of its 6.40% Senior Notes due April 1, 2006 or for other general corporate purposes.

Pinnacle West's and APS' debt covenants related to their respective bank financing arrangements include a debt to capitalization ratio. Certain of APS' bank financing arrangements also include an interest coverage test. Pinnacle West and APS comply with these covenants and each anticipates it will continue to meet these and other significant covenant requirements. For each of Pinnacle West and APS, these covenants require that the ratio of consolidated debt to total consolidated capitalization cannot exceed 65%. At December 31, 2005, the ratio was approximately 49% for Pinnacle West and 47% for APS. The provisions regarding interest coverage require a minimum cash coverage of two times the interest requirements for APS. The interest coverage is approximately 4 times under APS' bank financing agreements as of December 31, 2005. Failure to comply with such covenant levels would result in an event of default which, generally speaking, would require the immediate repayment of the debt subject to the covenants and could cross-default other debt.

Neither Pinnacle West's nor APS' financing agreements contain "rating triggers" that would result in an acceleration of the required interest and principal payments in the event of a rating downgrade. However, in the event of a further rating downgrade, Pinnacle West and/or APS may be subject to increased interest costs under certain financing agreements.

All of Pinnacle West's bank agreements contain "cross-default" provisions that would result in defaults and the potential acceleration of payment under these loan agreements if Pinnacle West or APS were to default under certain other material agreements. All of APS' bank agreements contain cross-default provisions that would result in defaults and the potential acceleration of payment under these bank agreements if APS were to default under certain other material agreements. Pinnacle West and APS do not have a material adverse change restriction for revolver borrowings.

The following table shows principal payments due on Pinnacle West's and APS' total long-term debt and capitalized lease requirements (dollars in millions):

Year	Pinnacle West	APS
2006	$ 387	$ 86
2007	1	1
2008	129	1
2009	1	1
2010	224	224
Thereafter	2,261	2,261

7. COMMON STOCK AND TREASURY STOCK

Our common stock and treasury stock activity during each of the three years 2005, 2004 and 2003 is as follows (dollars in thousands):

	Common Stock Shares	Common Stock Amount	Treasury Stock Shares	Treasury Stock Amount
Balance at December 31, 2002	91,379,947	$ 1,737,258	(124,830)	$ (4,358)
Reissuance of treasury stock for stock compensation (net)	–	–	32,815	1,085
Other	–	7,096	–	–
Balance at December 31, 2003	91,379,947	1,744,354	(92,015)	(3,273)
Common stock issuance	422,914	18,291	–	–
Purchase of treasury stock	–	–	(80,000)	(2,986)
Reissuance of treasury stock for stock compensation (net)	–	–	162,493	5,831
Other	–	6,402	–	–
Balance at December 31, 2004	91,802,861	1,769,047	(9,522)	(428)
Common stock issuance (a)	**7,274,272**	**298,330**	–	–
Purchase of treasury stock (b)	–	–	**(28,124)**	**(1,601)**
Reissuance of treasury stock for stock compensation (net)	–	–	**17,588**	**784**
Other	–	–	–	–
Balance at December 31, 2005	**99,077,133**	**$ 2,067,377**	**(20,058)**	**$ (1,245)**

(a) On May 2, 2005, Pinnacle West issued 6,095,000 shares of its common stock at an offering price of $42 per share, resulting in net proceeds of approximately $248 million. Pinnacle West used the net proceeds for general corporate purposes, including making capital contributions to APS, which, in turn, used such funds to pay a portion of the approximately $190 million purchase price to acquire the Sundance Plant and for other capital expenditures incurred to meet the growing needs of APS' service territory.

(b) Represents shares of common stock withheld from certain stock awards for tax purposes.

8. RETIREMENT PLANS AND OTHER BENEFITS

Pinnacle West sponsors a qualified defined benefit and account balance pension plan and a non-qualified supplemental excess benefit retirement plan for the employees of Pinnacle West and its subsidiaries. Effective January 1, 2003, Pinnacle West sponsored a new account balance plan for all new employees in place of the defined benefit plan and, as of April 1, 2003, the plan was offered as an alternative to the defined benefit plan for all existing employees. A defined benefit plan specifies the amount of benefits a plan participant is to receive using information about the participant. The pension plan covers nearly all employees. The supplemental excess benefit retirement plan covers officers of the Company and highly compensated employees designated for participation by the Board of Directors. Our employees do not contribute to the plans. Generally, we calculate the benefits based on age, years of service and pay.

Pinnacle West also sponsors other postretirement benefits for the employees of Pinnacle West and our subsidiaries. We provide medical and life insurance benefits to retired employees. Employees must retire to become eligible for these retirement benefits, which are based on years of service and age. For the medical insurance plans, retirees make contributions to cover a portion of the plan costs. For the life insurance plan, retirees do not make contributions. We retain the right to change or eliminate these benefits.

Pinnacle West uses a December 31 measurement date for its pension and other postretirement benefit plans. The market-related value of our plan assets is their fair value at the measurement date.

On December 8, 2003, the President signed the "Medicare Prescription Drug, Improvement and Modernization Act of 2003" (the Act). One feature of the Act is a government subsidy of prescription drug cost. The FASB issued FSP 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003," to address the accounting for the effects of the Act. Pinnacle West adopted FSP 106-2 retroactive to the beginning of 2004. The effect of this was to reduce the accumulated postretirement benefit obligation (APBO) at January 1, 2004 by $66 million, and net periodic cost for 2004 by $11 million, as compared with the amount calculated without considering the effects of the subsidy.

The following table provides details of the plans' benefit costs. Also included is the portion of these costs charged to expense, including administrative costs and excluding amounts capitalized as overhead construction or billed to electric plant participants (dollars in thousands):

	Pension			Other Benefits		
	2005	2004	2003	**2005**	2004	2003
Service cost – benefits earned during the period	**$45,027**	$41,207	$37,662	**$20,913**	$17,557	$15,858
Interest cost on benefit obligation	**87,189**	81,873	76,951	**34,223**	29,488	30,163
Expected return on plan assets	**(88,403)**	(78,790)	(65,046)	**(30,471)**	(24,773)	(18,762)
Amortization of:						
Transition (asset) obligation	**(3,227)**	(3,227)	(3,227)	**3,005**	3,005	3,005
Prior service cost (credit)	**2,401**	2,401	2,401	**(125)**	(125)	(125)
Net actuarial loss	**19,810**	17,946	18,135	**9,243**	7,414	9,714
Net periodic benefit cost	**$62,797**	$61,410	$66,876	**$36,788**	$32,566	$39,853
Portion of cost charged to expense	**$26,375**	$25,792	$30,094	**$15,451**	$13,678	$17,934
APS share of costs charged to expense	**$24,169**	$22,483	$25,450	**$14,159**	$11,923	$15,166

The following table shows the plans' changes in the benefit obligations for the years 2005 and 2004 (dollars in thousands):

	Pension		Other Benefits	
	2005	2004	**2005**	2004
Benefit obligation at January 1	**$1,454,244**	$1,307,628	**$ 536,213**	$ 540,181
Service cost	**45,027**	41,207	**20,913**	17,557
Interest cost	**87,189**	81,873	**34,223**	29,488
Benefit payments	**(46,109)**	(45,195)	**(16,962)**	(14,332)
Actuarial losses (gains)	**55,717**	68,731	**11,291**	(36,681)
Benefit obligation at December 31	**$1,596,068**	$1,454,244	**$ 585,678**	$ 536,213

The following table shows the qualified pension plan and other benefit plan changes in the fair value of plan assets for the years 2005 and 2004 (dollars in thousands):

	Pension		Other Benefits	
	2005	2004	**2005**	2004
Fair value of plan assets at January 1	**$ 982,282**	$ 887,311	**$ 352,084**	$ 294,051
Actual return on plan assets	**73,298**	102,829	**27,302**	32,433
Employer contributions	**52,700**	35,000	**36,788**	32,600
Benefit payments	**(43,432)**	(42,858)	**–**	(7,000)
Fair value of plan assets at December 31	**$1,064,848**	$ 982,282	**$ 416,174**	$ 352,084

The following table shows a reconciliation of the funded status of the plans to the amounts recognized on the Consolidated Balance Sheets as of December 31, 2005 and 2004 (dollars in thousands):

	Pension		Other Benefits	
	2005	2004	**2005**	2004
Funded status at December 31	**$(531,220)**	$(471,962)	**$(169,504)**	$(184,129)
Unrecognized net transition (asset) obligation	**(645)**	(3,873)	**21,034**	24,039
Unrecognized prior service cost (credit)	**11,833**	14,234	**(1,296)**	(1,422)
Unrecognized net actuarial losses	**426,991**	375,980	**170,011**	158,271
Benefit (liability) asset recognized in the Consolidated Balance Sheets	**$ (93,041)**	$ (85,621)	**$ 20,245**	$ (3,241)

The following table shows the projected benefit obligation and the accumulated benefit obligation for pension plans in excess of plan assets as of December 31, 2005 and 2004 (dollars in thousands):

	2005	2004
Projected benefit obligation	$ 1,596,068	$1,454,244
Accumulated benefit obligation	$ 1,329,324	$1,216,727
Less fair value of plan assets	1,064,848	982,282
Pinnacle West pension liability	$ 264,476	$ 234,445
APS share of pension liability	$ 233,342	$ 203,668

The following table shows the details related to benefits included on the Consolidated Balance Sheets as of December 31, 2005 and 2004 (dollars in thousands):

	Pension		Other Benefits	
	2005	2004	2005	2004
(Accrued) prepaid benefit cost	$ (93,041)	$(85,621)	$ 20,245	$(3,241)
Additional minimum liability	(171,435)	(148,824)	–	–
Total (liability) asset	(264,476)	(234,445)	20,245	(3,241)
Intangible asset	11,833	14,234	–	–
Accumulated other comprehensive loss (pretax)	159,602	134,590	–	–
Net amount recognized	$ (93,041)	$(85,621)	$ 20,245	$(3,241)

The following table shows the other comprehensive income (loss) arising from the change in additional minimum liability for the years ended December 31, 2005 and 2004 (dollars in thousands):

	2005	2004
Increase in minimum liability included in other comprehensive income – net of tax:		
Pinnacle West consolidated	$ (15,489)	$(15,224)
APS share	$ (15,045)	$(13,929)

The following table shows the weighted-average assumptions used for both the pension and other benefits to determine benefit obligations and net periodic benefit costs:

	Benefit Obligations As of December 31,		Benefit Costs For the Years Ended December 31,	
	2005	2004	2005	2004
Discount rate – pension	5.66%	5.84%	5.84%	6.10%
Discount rate – other benefits	5.68%	5.92%	5.92%	6.10%
Rate of compensation increase	4.00%	4.00%	4.00%	4.00%
Expected long-term return on plan assets	N/A	N/A	9.00%	9.00%
Initial health care cost trend rate	8.00%	8.00%	8.00%	8.00%
Ultimate health care cost trend rate	5.00%	5.00%	5.00%	5.00%
Year ultimate health care trend rate is reached	2010	2009	2009	2008

In selecting the pretax expected long-term rate of return on plan assets we consider past performance and economic forecasts for the types of investments held by the plan. For the year 2006, we are assuming a 9% long-term rate of return on plan assets, which we believe is reasonable given our asset allocation in relation to historical and expected performance.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A 1% change in the assumed initial and ultimate health care cost trend rates would have the following effects (dollars in millions):

	1% Increase	1% Decrease
Effect on other postretirement benefits expense, after consideration of amounts capitalized or billed to electric plant participants	$ 7	$ (6)
Effect on service and interest cost components of net periodic other postretirement benefit costs	11	(9)
Effect on the accumulated other postretirement benefit obligation	100	(79)

Plan Assets

Pinnacle West's qualified pension plan asset allocation at December 31, 2005 and 2004 is as follows:

	Percentage of Plan Assets at December 31, 2005	2004	Target Asset Allocation
ASSET CATEGORY			
Equity securities	**59%**	60%	60%
Fixed Income	**26**	27	30%
Other	**15**	13	10%
Total	**100%**	100%	

The Board of Directors has established an investment policy for the pension plan assets and has delegated oversight of the plan assets to an Investment Management Committee. The investment policy sets forth the objective of providing for future pension benefits by maximizing return consistent with acceptable levels of risk. The primary investment strategies are diversification of assets, stated asset allocation targets and ranges, prohibition of investments in Pinnacle West securities, and external management of plan assets.

Pinnacle West's other postretirement benefit plans' asset allocation at December 31, 2005 and 2004, is as follows:

	Percentage of Plan Assets at December 31, 2005	2004	Target Asset Allocation
ASSET CATEGORY			
Equity securities	**69%**	71%	70%
Fixed Income	**26**	23	27%
Other	**5**	6	3%
Total	**100%**	100%	

The Investment Management Committee, described above, has also been delegated oversight of the plan assets for the other postretirement benefit plans. The investment policy for other postretirement benefit plans' assets is similar to that of the pension plan assets described above.

Contributions

The contribution to our pension plan in 2006 is estimated to be approximately $50 million. The contribution to our other postretirement benefit plans in 2006 is estimated to be approximately $29 million. APS' share is approximately 96% of both plans.

Estimated Future Benefit Payments

Benefit payments, which reflect estimated future employee service, for the next five years and the succeeding five years thereafter are estimated to be as follows (dollars in thousands):

Year	Pension	Other Benefits (a)
2006	$ 52,675	$ 16,340
2007	56,891	17,751
2008	62,263	19,166
2009	68,651	20,775
2010	75,273	22,847
Years 2011-2015	520,961	149,784

(a) The expected future other benefit payments take into account the Medicare Part D subsidy.

Employee Savings Plan Benefits

Pinnacle West sponsors a defined contribution savings plan for eligible employees of Pinnacle West and its subsidiaries. In 2005, costs related to APS' employees represented 96% of the total cost of this plan. In a defined contribution savings plan, the benefits a participant receives result from regular contributions participants make to their own individual account. Under this plan, the Company matches a percentage of the participants' contributions in the form of Pinnacle West stock. After a five year vesting period, participants have an option to transfer the Company matching contributions out of the Pinnacle West Stock Fund to other investment funds within the plan. At December 31, 2005, approximately 22% of total plan assets were in Pinnacle West stock. Pinnacle West recorded expenses for this plan of approximately $6 million for 2005 and $5 million for each of the years 2004 and 2003. APS recorded expenses for this plan of approximately $6 million in 2005, $5 million in 2004 and $5 million in 2003.

9. LEASES

In 1986, APS sold about 42% of its share of Palo Verde Unit 2 and certain common facilities in three separate sale leaseback transactions. APS accounts for these leases as operating leases. The gain resulting from the transaction of approximately $140 million was deferred and is being amortized to operations and maintenance expense over 29.5 years, the original term of the leases. There are options to renew the leases and to purchase the property for fair market value at the end of the lease terms. Rent expense is calculated on a straight-line basis. See Note 20 for a discussion of VIEs, including the VIE's involved in the Palo Verde sale leaseback transactions.

In addition, we lease certain land, buildings, equipment, vehicles and miscellaneous other items through operating rental agreements with varying terms, provisions and expiration dates.

Total lease expense recognized in the Consolidated Statements of Income was $71 million in 2005, $69 million in 2004 and $67 million in 2003. APS' lease expense was $58 million in 2005, $57 million in 2004 and $66 million in 2003.

The amounts to be paid for the Palo Verde Unit 2 leases are approximately $49 million per year for the years 2006 to 2015.

Estimated future minimum lease payments for Pinnacle West's and APS' operating leases are approximately as follows (dollars in millions):

Year	Pinnacle West Consolidated	APS
2006	$ 74	$ 66
2007	73	65
2008	71	64
2009	68	62
2010	65	60
Thereafter	303	288
Total future lease commitments	$654	$605

10. JOINTLY-OWNED FACILITIES

APS shares ownership of some of its generating and transmission facilities with other companies. Pinnacle West Energy shared ownership of Silverhawk, which was sold on January 10, 2006. See Note 22. Our share of operations and maintenance expense related to these facilities is included in the Consolidated Statements of Income. The following table shows APS' interests in those jointly-owned facilities recorded on the Consolidated Balance Sheets at December 31, 2005 (dollars in thousands):

	Percent Owned	Plant in Service	Accumulated Depreciation	Construction Work in Progress
GENERATING FACILITIES				
Palo Verde Units 1 and 3	29.1%	$1,931,736	$ 923,052	$ 41,391
Palo Verde Unit 2 (see Note 9)	17.0%	671,775	260,840	6,363
Four Corners Units 4 and 5	15.0%	158,129	78,588	317
Navajo Generating Station Units 1, 2 and 3	14.0%	252,348	108,182	3,963
Cholla common facilities (a)	62.6%(b)	87,165	38,832	2,109
TRANSMISSION FACILITIES				
ANPP 500KV System	35.8%(b)	81,117	22,829	815
Navajo Southern System	31.4%(b)	29,809	13,273	6,813
Palo Verde – Yuma 500KV System	23.9%(b)	9,580	3,945	386
Four Corners Switchyards	27.5%(b)	3,120	1,267	–
Phoenix – Mead System	17.1%(b)	36,020	3,770	–
Palo Verde – Estrella 500KV System	55.5%(b)	74,243	2,023	–
Harquahala	80.0%(b)	–	–	112

(a) PacifiCorp owns Cholla Unit 4 and APS operates the unit for PacifiCorp. The common facilities at Cholla are jointly-owned.
(b) Weighted average of interests.

11. COMMITMENTS AND CONTINGENCIES

Palo Verde Nuclear Generating Station

SPENT NUCLEAR FUEL AND WASTE DISPOSAL

Nuclear power plant operators are required to enter into spent fuel disposal contracts with the DOE, and the DOE is required to accept and dispose of all spent nuclear fuel and other high-level radioactive wastes generated by domestic power reactors. Although the Nuclear Waste Policy Act required the DOE to develop a permanent repository for the storage and disposal of spent nuclear fuel by 1998, the DOE has announced that the repository cannot be completed before 2010 and it does not intend to begin accepting spent nuclear fuel prior to that date. In November 1997, the United States Court of Appeals for the District of Columbia Circuit (D.C. Circuit) issued a decision preventing the DOE from excusing its own delay, but refused to order the DOE to begin accepting spent nuclear fuel.

Based on this decision and the DOE's delay, a number of utilities, including APS (on behalf of itself and the other Palo Verde owners), filed damages actions against the DOE in the Court of Federal Claims.

APS has existing fuel storage pools at Palo Verde and is operating a facility for on-site dry storage of spent nuclear fuel. With the existing storage pools and the addition of the new facility, APS believes spent nuclear fuel storage or disposal methods will be available for use by Palo Verde to allow its continued operation through the term of the operating license for each Palo Verde unit.

Although some low-level waste has been stored on-site in a low-level waste facility, APS is currently shipping low-level waste to off-site facilities. APS currently believes interim low-level waste storage methods are or will be available for use by Palo Verde to allow its continued operation and to safely store low-level waste until a permanent disposal facility is available.

APS currently estimates it will incur $147 million (in 2005 dollars) over the life of Palo Verde for its share of the costs related to the on-site interim storage of spent nuclear fuel. At December 31, 2005, APS had a regulatory asset of $6 million that represents amounts spent for on-site interim spent fuel storage net of amounts recovered in rates per the ACC rate order that was effective April 1, 2005.

APS believes that scientific and financial aspects of the issues of spent nuclear fuel and low-level waste storage and disposal can be resolved satisfactorily. However, APS acknowledges that their ultimate resolution in a timely fashion will require political resolve and action on national and regional scales which APS is less able to predict. APS expects to vigorously protect and pursue its rights related to this matter.

NUCLEAR INSURANCE

The Palo Verde participants have insurance for public liability resulting from nuclear energy hazards to the full limit of liability under federal law. This potential liability is covered by primary liability insurance provided by commercial insurance carriers in the amount of $300 million and the balance by an industry-wide retrospective assessment program. If losses at any nuclear power plant covered by the programs exceed the accumulated funds, APS could be assessed retrospective premium adjustments. The maximum assessment per reactor under the program for each nuclear incident is approximately $101 million, subject to an annual limit of $15 million per incident, to be periodically adjusted for inflation. Based on APS' interest in the three Palo Verde units, APS' maximum potential assessment per incident for all three units is approximately $88 million, with an annual payment limitation of approximately $13 million.

The Palo Verde participants maintain "all risk" (including nuclear hazards) insurance for property damage to, and decontamination of, property at Palo Verde in the aggregate amount of $2.75 billion, a substantial portion of which must first be applied to stabilization and decontamination. APS has also secured insurance against portions of any increased cost of generation or purchased power and business interruption resulting from a sudden and unforeseen accidental outage of any of the three units. The property damage, decontamination, and replacement power coverages are provided by Nuclear Electric Insurance Limited (NEIL). APS is subject to retrospective assessments under all NEIL policies if NEIL's losses in any policy year exceed accumulated funds. The maximum amount of retrospective assessments APS could incur under the current NEIL policies totals $17.8 million. The insurance coverage discussed in this and the previous paragraph is subject to certain policy conditions and exclusions.

Fuel and Purchased Power Commitments

Pinnacle West and APS are parties to various fuel and purchased power contracts with terms expiring between 2006 and 2025 that include required purchase provisions. Pinnacle West estimates the contract requirements to be approximately $316 million in 2006; $239 million in 2007; $180 million in 2008; $139 million in 2009; $117 million in 2010 and $908 million thereafter. APS estimates the contract requirements to be approximately $265 million in 2006; $179 million in 2007; $152 million in 2008; $139 million in 2009; $117 million in 2010 and $896 million thereafter. However, these amounts may vary significantly pursuant to certain provisions in such contracts that permit us to decrease required purchases under certain circumstances.

Of the various fuel and purchased power contracts mentioned above some of those contracts have take-or-pay provisions. The contracts APS has for the supply of its coal supply have take-or-pay provisions. The current take-or-pay coal contracts have terms that expire in 2024.

The following table summarizes our actual and estimated take-or-pay commitments (dollars in millions):

	Actual		Estimated (a)						
	2003	2004	2005	2006	2007	2008	2009	2010	Thereafter
Coal take-or-pay commitments	$ 43	$ 41	$ 48	$ 67	$ 69	$ 78	$ 93	$ 73	$611

(a) Total take-or-pay commitments are approximately $991 million. The total net present value of these commitments is approximately $598 million.

Coal Mine Reclamation Obligations

APS must reimburse certain coal providers for amounts incurred for coal mine reclamation. APS' coal mine reclamation obligation was $75 million at December 31, 2005 and $61 million at December 31, 2004 and is included in Deferred Credits and Other on the Consolidated Balance Sheets.

California Energy Market Issues and Refunds in the Pacific Northwest

FERC

In July 2001, the FERC ordered an expedited fact-finding hearing to calculate refunds for spot market transactions in California during a specified time frame. APS was a seller and a purchaser in the California markets at issue, and to the extent that refunds are ordered, APS should be a recipient as well as a payor of such amounts. The FERC is still considering the evidence and refund amounts have not yet been finalized. However, on September 6, 2005, the Ninth Circuit issued a decision, concluding that the FERC may not order refunds from entities that are not within the FERC's jurisdiction. Because a number of the entities owing refunds under the FERC's calculations are not within the FERC's jurisdiction, this order may affect the level of recovery of refunds due in this proceeding. In addition, on August 8, 2005, the FERC issued an order allowing sellers in the California markets to demonstrate that its refund methodology results in an overall revenue shortfall for their transactions in the relevant markets over a specified time frame. More than twenty sellers made such cost recovery filings on September 14, 2005. On January 26, 2006, the FERC conditionally accepted thirteen of these filings, reducing the refund liability for these sellers. Correspondingly, this will reduce the recovery of total refunds in the California markets. We currently believe the refund claims at FERC will have no material adverse impact on our financial position, results of operations, cash flow or liquidity.

On March 19, 2002, the State of California filed a complaint with the FERC alleging that wholesale sellers of power and energy, including the Company, failed to properly file rate information at the FERC in connection with sales to California from 2000 to the present under market-based rates. The complaint requests the FERC to require the wholesale sellers to refund any rates that are "found to exceed just and reasonable levels." This complaint was dismissed by the FERC and the State of California appealed the matter to the Ninth Circuit Court of Appeals. In an order issued September 9, 2004, the Ninth Circuit upheld the FERC's authority to permit market-based rates, but rejected the FERC's claim that it was without authority to consider retroactive refunds when a utility has not strictly adhered to the quarterly reporting requirements of the market-based rate system. On September 9, 2004, the Ninth Circuit remanded the case to the FERC for further proceedings. Several of the intervenors in this appeal filed a petition for rehearing of this decision on October 25, 2004. The petition for rehearing has not been acted upon, and the outcome of the further proceedings cannot be predicted at this time.

The FERC also ordered an evidentiary proceeding to discuss and evaluate possible refunds for the Pacific Northwest. The FERC affirmed the ALJ's conclusion that the prices in the Pacific Northwest were not unreasonable or unjust and refunds should not be ordered in this proceeding. This decision has now been appealed to the Ninth Circuit Court of Appeals. Although the FERC ruling in the Pacific Northwest matter is being appealed and the FERC has not yet calculated the specific refund amounts due in California, we do not expect that the resolution of these issues, as to the amounts alleged in the proceedings, will have a material adverse impact on our financial position, results of operations or cash flows.

On March 26, 2003, FERC made public a Final Report on Price Manipulation in Western Markets, prepared by its staff and covering spot markets in the West in 2000 and 2001. The report stated that a significant number of entities who participated in the California markets during the 2000-2001 time period, including APS, may potentially have been involved in arbitrage transactions that allegedly violated certain provisions of the Independent System Operator tariff. After reviewing the matter, along with the data supplied by APS, the FERC staff moved to dismiss the claims against APS and to dismiss the proceeding. The motion to dismiss was granted by the FERC on January 22, 2004. Certain parties have sought rehearing of this order, and that request is pending.

CALIFORNIA CIVIL ENERGY MARKET LITIGATION

APS has been named in a lawsuit regarding wholesale contracts in California, which, after moving to state court, has been removed to the federal court for a second time. The First Amended Complaint alleges basically that the contracts entered into were the result of an unfair and unreasonable market, in violation of California unfair competition laws. The PX has filed a lawsuit against the State of California regarding the seizure of forward contracts and the State has filed a cross complaint against APS and numerous other PX participants. Various motions continue to be filed, and we currently believe these claims will have no material adverse impact on our financial position, results of operations, cash flow or liquidity.

Construction Program

Consolidated capital expenditures in 2006 are estimated to be (dollars in millions):

APS	$649
SunCor	232
Other	6
Total	$887

Natural Gas Supply

Pursuant to the terms of a comprehensive settlement entered into in 1996 with El Paso Natural Gas Company, the rates charged for natural gas transportation were subject to a rate moratorium through December 31, 2005.

On July 9, 2003, the FERC issued an order that altered the capacity rights of parties to the 1996 settlement but maintained the cost responsibility provisions agreed to by parties to that settlement. On December 28, 2004, the D.C. Court of Appeals upheld the FERC's authority to alter the capacity rights of parties to the settlement. With respect to the FERC's authority to maintain the cost responsibility provisions of the settlement, a party has sought appellate review and is seeking to reallocate the costs responsibility associated with the changed contractual obligations in a way that would be less favorable to APS and Pinnacle West Energy than under the FERC's July 9, 2003 order. Should this party prevail on this point, APS and Pinnacle West Energy's annual capacity cost could be increased by approximately $3 million per year, for the period September 2003 through December 2005. This appeal has been stayed pending further consideration by the FERC.

Consistent with its obligations under the 1996 settlement, El Paso filed a new rate case on June 30, 2005, which proposed new rates and new services to become effective on January 1, 2006. The FERC suspended the effectiveness of these new rates and services until January 1, 2006 and made the rates subject to refund pending the outcome of a hearing. As part of an ongoing technical conference and settlement discussions, El Paso has agreed to postpone the implementation and the associated cost impact of the new services until April 1, 2006. APS will be able to evaluate the cost impact of these new services once the FERC issues a final order on the technical conference. APS cannot currently predict the outcome of this matter.

Navajo Nation Litigation

In June 1999, the Navajo Nation served Salt River Project with a lawsuit filed in the United States District Court for the District of Columbia (the "D.C. Lawsuit") naming Salt River Project, several Peabody Coal Company entities (collectively, "Peabody"), Southern California Edison Company and other defendants, and citing various claims in connection with the renegotiations of the coal royalty and lease agreements under which Peabody mines coal for the Navajo Generating Station and the Mohave Generating Station. APS is a 14% owner of the Navajo Generating Station, which Salt River Project operates. The D.C. Lawsuit alleges, among other things, that the defendants obtained a favorable coal royalty rate by improperly influencing the outcome of a federal administrative process under which the royalty rate was to be adjusted. The suit seeks $600 million in damages, treble damages, punitive damages of not less than $1 billion, and the ejection of defendants "from all possessory interests and Navajo Tribal lands arising out of the [primary coal lease]." In July 2001, the court dismissed all claims against Salt River Project.

In January, 2005, Peabody served APS with a lawsuit filed in the Circuit Court for the City of St. Louis naming APS and the other Navajo Generating Station participants and seeking, among other things, a declaration that the participants "are obligated to reimburse Peabody for any royalty, tax, or other obligation arising out of the D.C. Lawsuit." Based on APS' ownership interest in the Navajo Generating Station, APS could be liable for up to 14% of any such obligation. Because the litigation is in preliminary stages, APS cannot currently predict the outcome of this matter.

Superfund

Superfund establishes liability for the cleanup of hazardous substances found contaminating the soil, water or air. Those who generated, transported or disposed of hazardous substances at a contaminated site are among those who are PRPs. PRPs may be strictly, and often jointly and severally, liable for clean-up. On September 3, 2003, the EPA advised APS that the EPA considers APS to be a PRP in the Motorola 52nd Street Superfund Site, Operable Unit 3 (OU3) in Phoenix, Arizona. APS has facilities that are within this superfund site. APS and Pinnacle West have agreed with the EPA to perform certain investigative activities of the APS facilities within OU3. Because the investigation has not yet been completed and ultimate remediation requirements are not yet finalized, neither APS nor Pinnacle West can currently estimate the expenditures which may be required.

Litigation

We are party to various other claims, legal actions and complaints arising in the ordinary course of business, including but not limited to environmental matters related to the Clean Air Act, Navajo Nation issues and EPA and ADEQ issues. In our opinion, the ultimate resolution of these matters will not have a material adverse effect on our financial position, results of operations or liquidity.

12. ASSET RETIREMENT OBLIGATIONS

APS has asset retirement obligations for its Palo Verde nuclear facilities and certain other generation, transmission and distribution assets. The Palo Verde asset retirement obligation primarily relates to final plant decommissioning. This obligation is based on the NRC's requirements for disposal of radiated property or plant and agreements APS reached with the ACC for final decommissioning of the plant. The non-nuclear generation asset retirement obligations primarily relate to requirements for removing portions of those plants at the end of the plant life or lease term.

Some of APS' transmission and distribution assets have asset retirement obligations because they are subject to right of way and easement agreements that require final removal. These agreements have a history of uninterrupted renewal that APS expects to continue. As a result, APS cannot reasonably estimate the fair value of the asset retirement obligation related to such distribution and transmission assets.

Additionally, APS has aquifer protection permits for some of its generation sites that require the closure of certain facilities at those sites. The generation sites are strategically located to serve APS native load customers. Management expects to continuously use the sites and, thus, cannot estimate a potential closure date. The asset retirement obligations associated with our non-regulated assets are immaterial.

To fund the costs APS expects to incur to decommission Palo Verde, APS established external decommissioning trusts in accordance with NRC regulations. APS invests the trust funds in fixed- income debt securities and domestic equity securities. APS applies the provisions of SFAS No. 115, "Accounting for Certain Investments in Debt and Equity

Securities," in accounting for investments in decommissioning trust funds, and classifies these investments as available for sale. As a result, we record the decommissioning trust funds at their fair value on our Consolidated Balance Sheets. Because of the ability of APS to recover decommissioning costs in rates and in accordance with the regulatory treatment for decommissioning trust funds, APS has recorded the offsetting amount of unrealized gains (losses) on investment securities in other regulatory liabilities/assets.

The following table summarizes the fair value of APS' nuclear decommissioning trust fund assets at December 31, 2005 and December 31, 2004 (dollars in millions):

	Fair Value	Total Unrealized Gains	Total Unrealized Losses
2005			
Equity securities	**$150**	**$ 50**	**$ –**
Debt securities	**144**	**3**	**1**
Total	**$294**	**$ 53**	**$ 1**
2004			
Equity securities	$135	$ 45	$ –
Debt securities	133	6	–
Total	$268	$ 51	$ –

The costs of securities sold are determined on the basis of specific identification. The following table sets forth approximate gains and losses and proceeds from the sale of securities by the nuclear decommissioning trust funds (dollars in millions):

Year Ended December 31,	2005	2004	2003
Realized gains	**$ 6**	$ 1	$ 2
Realized losses	**(6)**	(2)	(1)
Proceeds from the sale of securities	**186**	124	169

The fair value of debt securities, summarized by contractual maturities, at December 31, 2005 is as follows:

	Fair Value (in millions)
Less than one year	**$ 18**
1 year – 5 years	**35**
5 years – 10 years	**36**
Greater than 10 years	**55**
Total	**$144**

The following schedule shows the change in our asset retirement obligations for 2005 and 2004 (dollars in millions):

	2005	2004
Asset retirement obligation at the beginning of year	**$252**	$234
Changes attributable to:		
Liabilities settled	**(2)**	(1)
Accretion expense	**17**	17
Estimated cash flow revisions	**2**	2
Asset retirement obligation at the end of year	**$269**	$252

In accordance with SFAS No. 71, APS accrues for removal costs for its regulated utility assets, even if there is no legal obligation for removal. See detail of regulatory liabilities in Note 1.

13. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

The following note presents quarterly financial information for 2005 and 2004. We are disclosing originally reported amounts and revised amounts in each period for the reclassification of certain commercial properties at SunCor and Silverhawk as discontinued operations (see Note 22).

Consolidated quarterly financial information for 2005 and 2004 is as follows (dollars in thousands, except per share amounts):

	2005 Quarter Ended				2005
	March 31,	June 30,	Sept. 30,	Dec. 31,	Total
As originally reported:					
Operating revenues	$615,087	$755,836	$955,583		
Operations and maintenance	156,496	153,097	158,940		
Operating income	85,256	178,627	162,113		
Income taxes	14,732	55,024	40,305		
Income from continuing operations	23,656	85,156	84,694		
SunCor reclassifications (see Note 22):					
Operating revenues	(2,120)	(494)	–		
Operating income	(529)	205	(268)		
Income taxes	(91)	(36)	–		
Income from continuing operations	(142)	(55)	–		
Silverhawk reclassifications (see Note 22):					
Operating revenues	(27,609)	–	–		
Operations and maintenance	(1,412)	–	–		
Operating income	7,098	–	–		
Income taxes	3,929	–	–		
Income from continuing operations	6,085	–	–		
After SunCor and Silverhawk reclassifications:					
Operating revenues	$585,358	$755,342	$955,583	$691,672	$2,987,955
Operations and maintenance	155,084	153,097	158,940	168,706	635,827
Operating income	91,825	178,832	161,845	82,787	515,289
Income taxes	18,570	54,988	40,305	13,029	126,892
Income from continuing operations	29,599	85,101	84,694	23,769	223,163
Net income	24,448	26,735	103,737	21,347	176,267

	2004 Quarter Ended				2004
	March 31,	June 30,	Sept. 30,	Dec. 31,	Total
As originally reported:					
Operating revenues	$ 566,345	$ 711,883	$ 886,779	$ 734,718	$2,899,725
Operations and maintenance	137,386	138,975	160,765	159,431	596,557
Operating income	84,198	120,480	210,836	90,745	506,259
Income taxes	15,468	43,206	58,900	11,283	128,857
Income from continuing operations	30,791	71,223	103,886	29,318	235,218
Net income	31,426	72,640	105,400	33,729	243,195
SunCor reclassifications (see Note 22):					
Operating revenues	(2,293)	(2,592)	(2,318)	(2,274)	(9,477)
Operating income	(552)	(625)	(415)	375	(1,217)
Income taxes	(26)	(48)	51	168	145
Income from continuing operations	(41)	(75)	80	261	225
Silverhawk reclassifications (See Note 22):					
Operating revenues	301	(5,084)	(37,296)	(19,163)	(61,242)
Operations and maintenance	–	(380)	(2,158)	(1,699)	(4,237)
Operating income	300	3,002	(1,065)	10,686	12,923
Income taxes	(108)	1,801	232	5,215	7,140
Income from continuing operations	(170)	2,813	363	8,141	11,147
After SunCor and Silverhawk reclassifications:					
Operating revenues	$ 564,353	$ 704,207	$ 847,165	$ 713,281	$2,829,006
Operations and maintenance	137,386	138,595	158,607	157,732	592,320
Operating income	83,946	122,857	209,356	101,806	517,965
Income taxes	15,334	44,959	59,183	16,666	136,142
Income from continuing operations	30,580	73,961	104,329	37,720	246,590
Net income	31,426	72,640	105,400	33,729	243,195

2005 Quarter Ended	March 31,	June 30,	Sept. 30,	Dec. 31,
As originally reported – Basic earnings per share (a):				
Income From Continuing Operations	$ 0.26	$ 0.89	$ 0.86	$ 0.24
Net Income	0.27	0.28	1.05	0.22
After SunCor and Silverhawk reclassifications – Basic earnings per share (a):				
Income from Continuing Operations	0.32	0.88	0.86	0.24
Net Income	0.27	0.28	1.05	0.22
As originally reported – Diluted earnings per share (a):				
Income From Continuing Operations	0.26	0.88	0.86	0.24
Net Income	0.27	0.28	1.05	0.22
After SunCor and Silverhawk reclassifications – Diluted earnings per share (a):				
Income From Continuing Operations	$ 0.32	$ 0.88	$ 0.86	$ 0.24
Net Income	0.27	0.28	1.05	0.22

2004 Quarter Ended	March 31,	June 30,	Sept. 30,	Dec. 31,
As originally reported – Basic earnings per share (a):				
Income From Continuing Operations	$0.34	$0.78	$1.14	$0.32
Net Income	0.34	0.80	1.15	0.37
After SunCor and Silverhawk reclassifications – Basic earnings per share (a):				
Income From Continuing Operations	0.33	0.81	1.14	0.41
Net Income	0.34	0.80	1.15	0.37
As originally reported – Diluted earnings per share (a):				
Income From Continuing Operations	0.34	0.78	1.14	0.32
Net Income	0.34	0.79	1.15	0.37
After SunCor and Silverhawk reclassifications – Diluted earnings per share (a):				
Income From Continuing Operations	$0.33	$0.81	$1.14	$0.41
Net Income	0.34	0.79	1.15	0.37

(a) The difference between originally reported and revised basic and diluted earnings per share related to the sale of certain commercial properties at SunCor and the sale of Silverhawk (see Note 22), which changed reported amounts for the quarters in 2005 and 2004.

14. FAIR VALUE OF FINANCIAL INSTRUMENTS

Pinnacle West and APS believe that the carrying amounts of their cash equivalents are reasonable estimates of their fair values at December 31, 2005 and 2004 due to their short maturities.

Pinnacle West and APS hold investments in debt securities for purposes other than trading. We believe that the carrying amounts of these investments represent reasonable estimates of their fair values at December 31, 2005 and 2004 due to the short-term reset of interest rates.

We also hold investments in fixed income and domestic equity securities for purposes other than trading. The December 31, 2005 and 2004 fair values of such investments, which we determine by using quoted market prices, approximate their carrying amount. For further information, see disclosure of cost and fair value of APS' nuclear decommissioning trust fund assets in Note 12.

On December 31, 2005, the carrying value of our long-term debt for Pinnacle West, excluding capitalized lease obligations and interest rate swap (see "Fair Value Hedges" – Note 18), was $2.99 billion, with an estimated fair value of $3.00 billion. See Note 18 for fair value of the interest rate swap. The carrying value of our long-term debt for Pinnacle West (excluding capitalized lease obligations) was $3.19 billion on December 31, 2004, with an estimated fair value of $3.30 billion. On December 31, 2005, the carrying value of APS' long-term debt (excluding capitalized lease obligations) was $2.56 billion, with an estimated fair value of $2.57 billion. The carrying value of APS' long-term debt (excluding capital lease obligations) was $2.71 billion on December 31, 2004, with an estimated fair value of $2.81 billion. The fair value estimates are based on quoted market prices of the same or similar issues.

15. EARNINGS PER SHARE

The following table presents earnings per weighted-average common share outstanding for the years ended December 31, 2005, 2004 and 2003:

	2005	2004	2003
Basic earnings per share:			
Income from continuing operations	$ 2.31	$2.70	$2.47
Income (loss) from discontinued operations	(0.48)	(0.04)	0.17
Earnings per share – basic	$ 1.83	$2.66	$2.64
Diluted earnings per share:			
Income from continuing operations	$ 2.31	$2.69	$2.47
Income (loss) from discontinued operations	(0.49)	(0.03)	0.16
Earnings per share – diluted	$ 1.82	$2.66	$2.63

Dilutive stock options increased average common shares outstanding by approximately 106,000 shares in 2005, 135,000 shares in 2004 and 140,000 shares in 2003. Total average common shares outstanding for the purposes of calculating diluted earnings per share were 96,589,949 shares in 2005, 91,532,473 shares in 2004 and 91,405,134 shares in 2003.

Options to purchase 495,367 shares of common stock were outstanding at December 31, 2005 but were not included in the computation of diluted earnings per share because the options' exercise price was greater than the average market price of the common shares. Options to purchase shares of common stock that were not included in the computation of diluted earnings per share were 1,058,616 at December 31, 2004 and 2,291,646 at December 31, 2003.

16. STOCK-BASED COMPENSATION

Pinnacle West offers stock-based compensation plans for officers and key employees of Pinnacle West and our subsidiaries.

The 2002 Long-Term Incentive Plan (2002 plan) allows Pinnacle West to grant performance shares, stock ownership incentive awards and non-qualified and performance-accelerated stock options to key employees. We have reserved 6 million shares of common stock for issuance under the 2002 plan. No more than 1.8 million shares may be issued in relation to performance share awards and stock ownership incentive awards. The plan also provides for the granting of new non-qualified stock options at a price per share not less than the fair market value of the common stock at the time of grant. The stock options vest over three years, unless certain performance criteria are met, which can accelerate the vesting period. The term of the option cannot be longer than 10 years and the option cannot be repriced during its term.

The 1994 Long-Term Incentive Plan ("1994 Plan") includes outstanding options but no new options will be granted under the plan. Options vested one-third of the grant per year beginning one year after the date the option is granted and expire ten years from the date of the grant. The 1994 Plan also provided for the granting of any combination of shares of restricted stock, stock appreciation rights or dividend equivalents.

In the third quarter of 2002, we began applying the fair value method of accounting for stock-based compensation, as provided for in SFAS No. 123. In accordance with the transition requirements of SFAS No. 123, we applied the fair value method prospectively, beginning with 2002 stock grants. In prior years, we recognized stock compensation expense based on the intrinsic value method allowed in APB No. 25.

In addition, see Note 2 for discussion of a new standard on share based payments (SFAS No. 123R).

Total stock-based compensation cost, including restricted stock, performance shares, stock options, and stock ownership incentives was $6 million in 2005, $8 million in 2004 and $6 million in 2003 for Pinnacle West. APS' share was $5 million in 2005, $6 million in 2004 and $3 million in 2003.

The following table is a summary of the status of outstanding stock options under our equity incentive plans as of December 31, 2005, 2004 and 2003 and changes during the years ending on those dates:

	2005 Shares	2005 Weighted Average Exercise Price	2004 Shares	2004 Weighted Average Exercise Price	2003 Shares	2003 Weighted Average Exercise Price
Outstanding at beginning of year	2,276,123	$ 39.14	2,698,246	$38.56	2,185,129	$39.96
Granted	–	–	37,580	37.85	621,875	32.29
Exercised	(478,851)	36.54	(372,205)	34.02	(62,366)	26.09
Forfeited	(101,500)	43.04	(87,498)	42.31	(46,392)	37.61
Outstanding at year-end	1,695,772	39.65	2,276,123	39.14	2,698,246	38.56
Options exercisable at year-end	1,499,302	40.55	1,859,340	40.59	1,787,622	40.35
Weighted average grant date fair value of options granted during the year		$ –		$ 3.53		$ 7.37

The following table summarizes information about our stock options at December 31, 2005:

Exercise Prices Per Share	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contract Life (Years)	Options Exercisable	Weighted Average Exercise Price
$ 28.07 – 32.75	341,902	$32.24	6.6	160,372	$32.18
32.75 – 37.42	67,081	34.66	3.7	67,081	34.66
37.42 – 42.10	540,855	38.89	5.2	525,915	38.92
42.10 – 46.78	745,934	44.04	4.6	745,934	44.04
	1,695,772			1,499,302	

The following table is a summary of the amount and weighted-average grant date fair value of stock compensation awards granted, other than options, during the years ended December 31, 2005, 2004 and 2003:

	2005 Shares	2005 Grant Date Fair Value	2004 Shares	2004 Grant Date Fair Value	2003 Shares	2003 Grant Date Fair Value
Restricted stock	–	$ –	4,000	$ 37.68(a)	4,000	$ 32.20(a)
Performance share awards	215,300	41.36(b)	215,285	37.85(b)	119,085	32.29(b)
Stock ownership incentive awards	11,322	44.13(b)	9,015	40.29(b)	–	–

(a) Restricted stock priced at the average of the high and low market price on the grant date.
(b) Performance shares and stock ownership incentive awards priced at the closing market price on the grant date.

17. BUSINESS SEGMENTS

We have three principal business segments (determined by products, services and the regulatory environment):

- our regulated electricity segment, which consists of traditional regulated retail and wholesale electricity businesses (primarily electricity service to Native Load customers) and related activities and includes electricity generation, transmission and distribution;
- our real estate segment, which consists of SunCor's real estate development and investment activities; and
- our marketing and trading segment, which consists of our competitive energy business activities, including wholesale marketing and trading and APS Energy Services' commodity-related energy services.

Financial data for 2005, 2004 and 2003 by business segments is provided as follows (dollars in millions):

	Business Segments for the Year Ended December 31, 2005				
	Regulated Electricity	Real Estate	Marketing and Trading	Other	Total
Operating revenues (a)	$ 2,237	$ 338	$ 352	$ 61	$ 2,988
Purchased power and fuel costs	595	–	293	–	888
Other operating expenses	740	278	28	52	1,098
Regulatory disallowance (see Note 3)	139	–	–	–	139
Operating margin	763	60	31	9	863
Depreciation and amortization	343	3	2	–	348
Interest expense	169	2	2	–	173
Other expense (income)	(6)	(3)	–	1	(8)
Income from continuing operations before income taxes	257	58	27	8	350
Income taxes	90	23	11	3	127
Income from continuing operations	167	35	16	5	223
Income (loss) from discontinued operations – net of income tax benefit of $(30) (see Note 22) (b)(c)	–	17	(67)	3	(47)
Net income (loss)	$ 167	$ 52	$ (51)	$ 8	$ 176
Total assets	$ 9,732	$ 483	$ 1,070	$ 38	$ 11,323
Capital expenditures	$ 811	$ 106	$ 11	$ –	$ 928

	Business Segments for the Year Ended December 31, 2004				
	Regulated Electricity	Real Estate	Marketing and Trading	Other	Total
Operating revenues	$ 2,035	$ 350	$ 401	$ 43	$ 2,829
Purchased power and fuel costs	567	–	321	–	888
Other operating expenses	683	284	30	34	1,031
Operating margin	785	66	50	9	910
Depreciation and amortization	384	4	4	–	392
Interest expense	170	1	1	–	172
Other expense (income) (d)	4	(6)	(2)	(33)	(37)
Income from continuing operations before income taxes	227	67	47	42	383
Income taxes	75	27	18	16	136
Income from continuing operations	152	40	29	26	247
Income (loss) from discontinued operations – net of income tax benefit of $(2) (see Note 22) (b)(c)	–	4	(12)	4	(4)
Net income	$ 152	$ 44	$ 17	$ 30	$ 243
Total assets	$ 8,674	$ 454	$ 746	$ 23	$ 9,897
Capital expenditures	$ 483	$ 81	$ 34	$ –	$ 598

Business Segments for the Year Ended December 31, 2003	Regulated Electricity	Real Estate	Marketing and Trading	Other	Total
Operating revenues	$1,978	$ 362	$ 391	$ 28	$2,759
Purchased power and fuel costs	517	–	345	–	862
Other operating expenses	625	306	34	24	989
Operating margin	836	56	12	4	908
Depreciation and amortization	428	6	1	–	435
Interest expense	172	2	–	–	174
Other expense (income)	(4)	(25)	–	–	(29)
Income from continuing operations before income taxes	240	73	11	4	328
Income taxes	70	28	3	2	103
Income from continuing operations	170	45	8	2	225
Income from discontinued operations – net of income taxes of $9 (see Note 22) (b)(c)	–	10	1	5	16
Net income	$ 170	$ 55	$ 9	$ 7	$ 241
Capital expenditures	$ 686	$ 72	$ 9	$ –	$ 767

(a) Effective April 1, 2005, revenues of approximately $40 million from Off-System Sales, which were previously reported in the marketing and trading segment, began being reported in the regulated electricity segment in accordance with the retail rate case settlement.

(b) The marketing and trading segment relates to the sale and operations of Silverhawk. See Note 22.

(c) The other segment relates to the sale and operations of NAC. See Note 22.

(d) The other segment includes a $35 million pre-tax ($21 million after-tax) gain related to the sale of a limited partnership interest in the Phoenix Suns in 2004.

18. DERIVATIVE AND ENERGY TRADING ACCOUNTING

We are exposed to the impact of market fluctuations in the commodity price and transportation costs of electricity, natural gas, coal, emissions allowances and in interest rates. We manage risks associated with these market fluctuations by utilizing various instruments that qualify as derivatives, including exchange-traded futures and options and over-the-counter forwards, options and swaps. As part of our overall risk management program, we use such instruments to hedge our exposure to changes in interest rates and to hedge purchases and sales of electricity, fuels, and emissions allowances and credits. As of December 31, 2005, we hedged certain exposures to the price variability of commodities for a maximum of 3.25 years. The changes in market value of such contracts have a high correlation to price changes in the hedged transactions. In addition, subject to specified risk parameters monitored by the ERMC, we engage in marketing and trading activities intended to profit from market price movements.

We recognize all derivatives, except those which qualify for a scope exception, as either assets or liabilities on the balance sheet and measure those instruments at fair value in accordance with SFAS No. 133, as amended by SFAS No. 149. Derivative commodity contracts for the physical delivery of purchase and sale quantities transacted in the normal course of business qualify for the normal purchase and sales exception and are accounted for under the accrual method of accounting. Changes in the fair value of derivative instruments are recognized periodically in income unless certain hedge criteria are met. For cash flow hedges, the effective portion of changes in the fair value of the derivative are recognized in common stock equity (as a component of other comprehensive income (loss)). For fair value hedges, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item associated with the hedged risk are recognized in earnings. We use cash flow hedges to limit our exposure to cash flow variability on forecasted transactions. We use fair value hedges to limit our exposure to changes in fair value of an asset or liability.

For its regulated operations, APS defers for future rate recovery 90% of gains and losses on derivatives that would otherwise be recognized in income. To the extent the amounts that would otherwise be recognized in income are eligible to be recovered through the PSA, the amounts will be recorded as either a regulatory asset or liability and have no effect on earnings.

We assess hedge effectiveness both at inception and on a continuing basis. Hedge effectiveness is related to the degree to which the derivative contract and the hedged item are correlated. It is measured based on the relative changes in fair value between the derivative contract and the hedged item over time. We exclude the time value of certain options from our assessment of hedge effectiveness. Any change in the fair value resulting from ineffectiveness, or the amount by which the derivative contract and the hedged commodity are not directly correlated, is recognized immediately in net income.

Both non-trading and trading derivatives that do not qualify for a scope exception are classified as assets and liabilities from risk management and trading activities on the Consolidated Balance Sheets. Certain of our non-trading derivatives qualify for cash flow hedge accounting treatment. Non-trading derivatives, or any portion thereof that are not effective hedges, are adjusted to fair value through income. Realized gains and losses related to non-trading derivatives that qualify as cash flow hedges of expected transactions are recognized in revenue or purchased power and fuel expense as an offset to the related item being hedged when the underlying hedged physical transaction impacts earnings. If it becomes probable that a forecasted transaction will not occur, we discontinue the use of hedge accounting and recognize in income the unrealized gains and losses that were previously recorded in other comprehensive income (loss). In the event a non-trading derivative is terminated or settled, the unrealized gains and losses remain in other comprehensive income (loss), and are recognized in income when the underlying transaction impacts earnings.

All gains and losses (realized and unrealized) on trading contracts that qualify as derivatives are included in marketing and trading segment revenues on the Consolidated Statements of Income on a net basis. Trading contracts that do not meet the definition of a derivative are accounted for on an accrual basis with the associated revenues and costs recorded at the time the contracted commodities are delivered or received.

In the electricity business, some contracts to purchase energy are netted against other contracts to sell energy. This is called "book-out" and usually occurs in contracts that have the same terms (quantities and delivery points) and for which power does not flow. We net these book-outs, which reduces both revenues and fuel and purchased power costs in our Consolidated Statement of Income, but this does not impact our financial condition, net income or cash flows.

Cash Flow Hedges

The changes in the fair value of our hedged positions included in the Consolidated Statements of Income, after consideration of amounts deferred under the PSA, for the years ended December 31, 2005, 2004 and 2003 are comprised of the following (dollars in thousands):

	2005	2004	2003
Gains (losses) on the ineffective portion of derivatives qualifying for hedge accounting	**$14,289**	$ (1,568)	$ 8,237
Gains from the change in options' time value excluded from measurement of effectiveness	**620**	185	181
Gains from the discontinuance of cash flow hedges	**556**	1,137	–

During 2006, we estimate that a net gain of $216 million before income taxes will be reclassified from accumulated other comprehensive income as an offset to the effect of market price changes for the related hedged transactions. To the extent the amounts are eligible for inclusion in the PSA, the amounts will be recorded as either a regulatory asset or liability and have no effect on earnings (see Note 3).

Our assets and liabilities from risk management and trading activities are presented in two categories, consistent with our business segments.

The following table summarizes our assets and liabilities from risk management and trading activities at December 31, 2005 and 2004 (dollars in thousands):

	December 31, 2005				
	Current Assets	Investments and Other Assets	Current Liabilities	Deferred Credits and Other	Net Asset (Liability)
Regulated electricity:					
Mark-to-market	$ 516,399	$ 228,873	$ (335,801)	$ (74,787)	$ 334,684
Margin account and options	1,814	–	(124,165)	–	(122,351)
Marketing and trading:					
Mark-to-market	307,883	291,122	(236,922)	(181,417)	180,666
Options and emission allowances – at cost	1,683	77,836	(23,805)	(209)	55,505
Total	$ 827,779	$ 597,831	$ (720,693)	$ (256,413)	$ 448,504

	December 31, 2004				
	Current Assets	Investments and Other Assets	Current Liabilities	Deferred Credits and Other	Net Asset (Liability)
Regulated electricity:					
Mark-to-market	$ 45,220	$ 19,417	$ (19,191)	$ (12,000)	$ 33,446
Margin account and options	18,821	118	(8,879)	–	10,060
Marketing and trading:					
Mark-to-market	102,855	204,512	(68,008)	(132,683)	106,676
Options and emission allowances – at cost	–	294	(17,328)	(11,579)	(28,613)
Total	$ 166,896	$ 224,341	$ (113,406)	$ (156,262)	$ 121,569

We maintain a margin account with a broker to support our risk management and trading activities. The margin account was a liability of $123 million at December 31, 2005 and $9 million at December 31, 2004 and is included in the margin account in the table above. Cash is deposited with the broker in this account at the time futures or options contracts are initiated. The change in market value of these contracts (reflected in mark-to-market) requires adjustment of the margin account balance.

Cash or other assets may be required to serve as collateral against our open positions on certain energy-related contracts. Collateral provided to counterparties was $6 million at December 31, 2005 and $1 million at December 31, 2004, and is included in other current assets on the Consolidated Balance Sheets. Collateral provided to us by counterparties was $216 million at December 31, 2005 and $24 million at December 31, 2004, and is included in other current liabilities on the Consolidated Balance Sheets.

Fair Value Hedges

On January 29, 2004, we entered into two fixed-for-floating interest rate swap transactions on our $300 million 6.4% Senior Notes. The purpose of these hedges is to protect against significant fluctuations in the fair value of our debt. Our interest rate swaps are considered to be fully effective with any resulting gains or losses on the derivative offset by a similar loss or gain amount on the underlying fair value of debt. The fair value of the interest rate swaps was a loss of $1.5 million at December 31, 2005 and is included in other current liabilities with the corresponding offset in current maturities of long-term debt on the Consolidated Balance Sheets. The fair value of the interest rate swaps was $2.6 million at December 31, 2004 and is included in investments and other assets with the corresponding offset in long-term debt less current maturities on the Consolidated Balance Sheets.

Credit Risk

We are exposed to losses in the event of non-performance or non-payment by counterparties. We have risk management and trading contracts with many counterparties. Our risk management process assesses and monitors the financial exposure of all counterparties. Despite the fact that the great majority of counterparties are rated as investment grade by the credit rating agencies, there is still a possibility that one or more of these companies could default, resulting in a material impact on consolidated earnings for a given period. Counterparties in the portfolio consist principally of financial institutions, major energy companies, municipalities and local distribution companies. We maintain credit policies that we believe minimize overall credit risk to within acceptable limits. Determination of the credit quality of our counterparties is based upon a number of factors, including credit ratings and our evaluation of their financial condition. In many contracts, we employ collateral requirements and standardized agreements that allow for the netting of positive and negative exposures associated with a single counterparty. Valuation adjustments are established representing our estimated credit losses on our overall exposure to counterparties. See Note 1 "Derivative Accounting" for a discussion of our credit valuation adjustment policy.

19. OTHER INCOME AND OTHER EXPENSE

The following table provides detail of other income and other expense for the years 2005, 2004 and 2003 (dollars in thousands):

Year Ended December 31,	2005	2004	2003
Other income:			
Investment gains – net (a)	$ 752	$ 38,256	$ 3,649
Interest income	14,793	6,770	4,412
SunCor (b)	2,623	4,458	24,740
Asset sales	3,187	3,026	618
Miscellaneous	2,005	779	2,144
Total other income	$ 23,360	$ 53,289	$ 35,563
Other expense:			
Non-operating costs (c)	$ (13,589)	$ (15,524)	$ (14,959)
Asset dispositions	(9,759)	(1,212)	(1,522)
Miscellaneous	(3,368)	(4,604)	(4,093)
Total other expense	$ (26,716)	$ (21,340)	$ (20,574)

(a) Includes a $35 million gain ($21 million after tax) related to the sale of a limited partnership interest in the Phoenix Suns in 2004.
(b) Primarily related to the sale at SunCor of a land interest and profit participation agreement in 2003 for $18 million. Includes joint venture and other non-operating income.
(c) As defined by the FERC, includes below-the-line non-operating utility costs (primarily community relations and other costs excluded from utility rate recovery).

20. VARIABLE INTEREST ENTITIES

In 1986, APS entered into agreements with three separate VIE lessors in order to sell and lease back interests in Palo Verde Unit 2. The leases are accounted for as operating leases in accordance with GAAP. See Note 9 for further information about the sale leaseback transactions. We are not the primary beneficiary of the Palo Verde VIEs and, accordingly, do not consolidate them.

APS is exposed to losses under the Palo Verde sale leaseback agreements upon the occurrence of certain events that APS does not consider to be reasonably likely to occur. Under certain circumstances (for example, the NRC issuing specified violation orders with respect to Palo Verde or the occurrence of specified nuclear events), APS would be required to assume the debt associated with the transactions, make specified payments to the equity participants, and take title to the leased Unit 2 interests, which, if appropriate, may be required to be written down in value. If such an event had occurred as of December 31, 2005, APS would have been required to assume approximately $234 million of debt and pay the equity participants approximately $185 million.

SunCor has certain land development arrangements that are required to be consolidated under FIN 46R, "Consolidation of Variable Interest Entities." The assets and non-controlling interests reflected in our Consolidated Balance Sheets related to these arrangements were approximately $34 million at December 31, 2005 and 2004.

21. GUARANTEES

We have issued parental guarantees and letters of credit and obtained surety bonds on behalf of our unregulated subsidiaries. Our parental guarantee for Pinnacle West Energy relates to a purchased power agreement. Our credit support instruments enable APS Energy Services to offer commodity energy and energy-related products. Non-performance or non-payment under the original contract by our unregulated subsidiaries would require us to perform under the guarantee or surety bond. No liability is currently recorded on the Consolidated Balance Sheets related to Pinnacle West's guarantees on behalf of its subsidiaries. Our guarantees have no recourse or collateral provisions to allow us to recover amounts paid under the guarantee. The amounts and approximate terms of our guarantees and surety bonds for each subsidiary at December 31, 2005 are as follows (dollars in millions):

	Guarantees		Surety Bonds	
	Amount	Term (in years)	Amount	Term (in years)
Parental:				
Pinnacle West Energy	$ 5	1	$ –	–
APS Energy Services	20	1	65	1
Total	$ 25		$ 65	

At December 31, 2005, we had entered into approximately $37 million of letters of credit which supported transmission agreements related to Silverhawk. These letters of credit terminated as a result of the sale of Silverhawk. See Note 22 for a discussion of the sale of Silverhawk. At December 31, 2005, Pinnacle West had approximately $4 million of letters of credit related to workers' compensation expiring in 2006. We intend to provide from either existing or new facilities for the extension, renewal or substitution of the letters of credit to the extent required.

APS has entered into various agreements that require letters of credit for financial assurance purposes. At December 31, 2005, approximately $200 million of letters of credit were outstanding to support existing pollution control bonds of approximately $200 million. The letters of credit are available to fund the payment of principal and interest of such debt obligations and expire in 2010. APS has also entered into approximately $98 million of letters of credit to support certain equity lessors in the Palo Verde sale leaseback transactions (see Note 9 for further details on the Palo Verde sale leaseback transactions). These letters of credit expire in 2010. Additionally, APS has approximately $5 million of letters of credit related to counterparty collateral requirements expiring in 2006. APS intends to provide from either existing or new facilities for the extension, renewal or substitution of the letters of credit to the extent required.

We enter into agreements that include indemnification provisions relating to liabilities arising from or related to certain of our agreements. APS has agreed to indemnify the equity participants and other parties in the Palo Verde sale leaseback transactions with respect to certain tax matters. Generally, a maximum obligation is not explicitly stated in the indemnification provisions and therefore, the overall maximum amount of the obligation under such indemnification provisions cannot be reasonably estimated. Based on historical experience and evaluation of the specific indemnities, we do not believe that any material loss related to such indemnification provisions is likely.

22. DISCONTINUED OPERATIONS

Silverhawk (marketing and trading segment) – In June 2005, we entered into an agreement to sell our 75% interest in Silverhawk to NPC. The sale was completed on January 10, 2006. As a result of this sale, we recorded a loss from discontinued operations of approximately $56 million ($91 million pretax) in the second quarter of 2005. The amounts in the chart below also include the revenues and expenses related to the operations of Silverhawk. The assets held for sale at December 31, 2005 were $203 million, of which property, plant and equipment accounted for approximately $197 million.

Concurrent with the execution of the agreement to sell our interest in Silverhawk, GenWest and NPC also entered into a Purchase Power Agreement ("PPA") providing for the sale of GenWest's share of the capacity and output of Silverhawk to NPC. The PPA commenced on October 1, 2005 and was terminated on January 10, 2006, the date of the sale under the Purchase Agreement.

SunCor (real estate segment) – In 2005, SunCor sold commercial properties, which are required to be reported as discontinued operations on Pinnacle West's Consolidated Statements of Income in accordance with SFAS No. 144. As a result of the sales, we recorded a gain from discontinued operations of approximately $15 million ($25 million pretax) in the third quarter of 2005.

NAC (other segment) – In 2004, we sold our investment in NAC, and in 2005 we recognized a gain of $4 million ($6 million pretax) in connection with the sale that had previously been subject to contingencies.

The following table provides revenue, income (loss) before income taxes and after-tax income classified as discontinued operations in Pinnacle West's Consolidated Statements of Income for the years ended December 31, 2005, 2004 and 2003 (dollars in millions):

	2005	2004	2003
Revenue:			
Silverhawk	$ 95	$ 61	$ 1
SunCor – commercial operations	9	21	71
NAC	–	34	58
Total revenue	$ 104	$ 116	$ 130
Income (loss) before taxes:			
Silverhawk (a)	$(111)	$ (18)	$ –
SunCor – commercial operations	28	6	17
NAC	6	7	8
Total income (loss) before taxes	$ (77)	$ (5)	$ 25
Income (loss) after taxes:			
Silverhawk	$ (67)	$ (12)	$ 1
SunCor – commercial operations	17	4	10
NAC	3	4	5
Total income (loss) after taxes	$ (47)	$ (4)	$ 16

(a) Income before income taxes includes an interest expense allocation, net of capitalized amounts, of $13 million in 2005 and $6 million in 2004. The allocation was based on Pinnacle West's weighted-average interest rate applied to the net property, plant and equipment.

CERTIFICATIONS

On June 16, 2005, in accordance with Section 303A.12 of the Listed Company Manual, our Chief Executive Officer certified to the New York Stock Exchange that he was not aware of any violation by the Company of NYSE corporate governance listing standards as of such date. In addition, on March 13, 2006, our Chief Executive Officer and Chief Financial Officer each filed a certification under Section 302 of the Sarbanes-Oxley Act (regarding the quality of the Company's public disclosure) as exhibits to the Company's Annual Report on Form 10-K for fiscal year 2005.

NON-GAAP FINANCIAL MEASURE RECONCILIATION – OPERATING INCOME (GAAP MEASURE) TO GROSS MARGIN (NON-GAAP FINANCIAL MEASURE) (dollars in thousands)

	Twelve Months Ended December 31, 2005	2004	Increase (Decrease) Pretax	After Tax
RECONCILIATION OF REGULATED ELECTRICITY SEGMENT GROSS MARGIN				
Operating Income (closest GAAP measure)	**$ 515,289**	$ 517,965	$ (2,676)	$ (1,632)
Plus:				
Operations and maintenance	**635,827**	592,320	43,507	26,526
Real estate segment operations	**278,366**	284,194	(5,828)	(3,553)
Depreciation and amortization	**347,652**	391,597	(43,945)	(26,793)
Taxes other than income taxes	**132,040**	120,722	11,318	6,901
Other expenses	**51,987**	34,108	17,879	10,901
Regulatory disallowance	**138,562**	–	138,562	84,481
Marketing and trading segment fuel and purchased power	**293,091**	320,667	(27,576)	(16,813)
Less:				
Real estate segment revenues	**338,031**	350,315	(12,284)	(7,490)
Other revenues	**61,221**	42,816	18,405	11,222
Marketing and trading segment revenues	**351,558**	400,628	(49,070)	(29,918)
Regulated electricity segment gross margin	**$1,642,004**	$1,467,814	$ 174,190	$ 106,204
RECONCILIATION OF MARKETING AND TRADING SEGMENT GROSS MARGIN				
Operating Income (closest GAAP measure)	**$ 515,289**	$ 517,965	$ (2,676)	$ (1,632)
Plus:				
Operations and maintenance	**635,827**	592,320	43,507	26,526
Real estate segment operations	**278,366**	284,194	(5,828)	(3,553)
Depreciation and amortization	**347,652**	391,597	(43,945)	(26,793)
Taxes other than income taxes	**132,040**	120,722	11,318	6,901
Other expenses	**51,987**	34,108	17,879	10,901
Regulatory disallowance	**138,562**	–	138,562	84,481
Regulated electricity segment fuel and purchased power	**595,141**	567,433	27,708	16,894
Less:				
Real estate segment revenues	**338,031**	350,315	(12,284)	(7,490)
Other revenues	**61,221**	42,816	18,405	11,222
Regulated electricity segment revenues	**2,237,145**	2,035,247	201,898	123,097
Marketing and trading segment gross margin	**$ 58,467**	$ 79,961	$ (21,494)	$ (13,104)

NON-GAAP FINANCIAL MEASURE RECONCILIATION – OPERATING INCOME (GAAP MEASURE) TO GROSS MARGIN (NON-GAAP FINANCIAL MEASURE) (dollars in thousands)

	Twelve Months Ended December 31, 2004	2003	Increase (Decrease) Pretax	After Tax
RECONCILIATION OF REGULATED ELECTRICITY SEGMENT GROSS MARGIN				
Operating Income (closest GAAP measure)	$ 517,965	$ 473,252	$ 44,713	$ 27,262
Plus:				
Operations and maintenance	592,320	548,732	43,588	26,576
Real estate segment operations	284,194	305,974	(21,780)	(13,279)
Depreciation and amortization	391,597	435,140	(43,543)	(26,548)
Taxes other than income taxes	120,722	110,270	10,452	6,373
Other expenses	34,108	23,254	10,854	6,618
Marketing and trading segment fuel and purchased power	320,667	344,862	(24,195)	(14,752)
Less:				
Real estate segment revenues	350,315	361,604	(11,289)	(6,883)
Other revenues	42,816	27,929	14,887	9,077
Marketing and trading segment revenues	400,628	391,196	9,432	5,751
Regulated electricity segment gross margin	$1,467,814	$1,460,755	$ 7,059	$ 4,305
RECONCILIATION OF MARKETING AND TRADING SEGMENT GROSS MARGIN				
Operating Income (closest GAAP measure)	$ 517,965	$ 473,252	$ 44,713	$ 27,262
Plus:				
Operations and maintenance	592,320	548,732	43,588	26,576
Real estate segment operations	284,194	305,974	(21,780)	(13,279)
Depreciation and amortization	391,597	435,140	(43,543)	(26,548)
Taxes other than income taxes	120,722	110,270	10,452	6,373
Other expenses	34,108	23,254	10,854	6,618
Regulated electricity segment fuel and purchased power	567,433	517,320	50,113	30,554
Less:				
Real estate segment revenues	350,315	361,604	(11,289)	(6,883)
Other revenues	42,816	27,929	14,887	9,077
Regulated electricity segment revenues	2,035,247	1,978,075	57,172	34,858
Marketing and trading segment gross margin	$ 79,961	$ 46,334	$ 33,627	$ 20,504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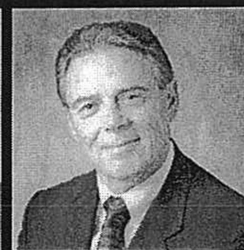
3.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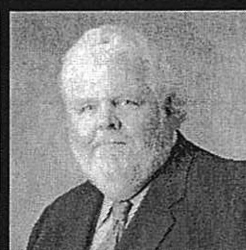
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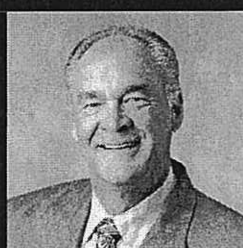
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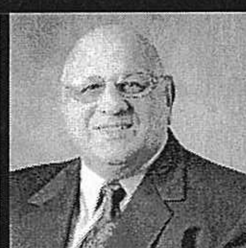
11.


12.

1. PAMELA GRANT (67) 1980* Civic Leader COMMITTEES: Audit; Corporate Governance; Human Resources **2. MARTHA O. HESSE (63) 1991 Corporate Director** COMMITTEES: Audit, Chairman; Corporate Governance; Finance and Operating **3. THE REV. BILL JAMIESON, JR. (62) 1991 President, Micah Institute, Asheville, North Carolina** COMMITTEES: Audit; Corporate Governance; Human Resources **4. ROY A. HERBERGER, JR. (63) 1992 President Emeritus, Thunderbird, The Garvin School of International Management** COMMITTEES: Corporate Governance; Finance and Operating; Human Resources, Chairman **5. WILLIAM J. POST (55) 1994 Chairman of the Board & Chief Executive Officer** COMMITTEE: Finance and Operating **6. HUMBERTO S. LOPEZ (60) 1995 President, HSL Properties, Inc.** COMMITTEES: Audit; Corporate Governance; Human Resources **7. MICHAEL L. GALLAGHER (61) 1997 Chairman Emeritus, Gallagher & Kennedy, P.A.** COMMITTEE: Finance and Operating, Chairman **8. BRUCE J. NORDSTROM (56) 1997 President & Certified Public Accountant, Nordstrom and Associates, P.C.** COMMITTEES: Audit; Corporate Governance; Finance and Operating **9. JACK E. DAVIS (59) 1998 President & Chief Operating Officer** COMMITTEE: Finance and Operating **10. WILLIAM L. STEWART (62) 1998** COMMITTEE: Finance and Operating **11. EDDIE BASHA (68) 1999 Chairman of the Board, Bashas'** COMMITTEES: Audit; Corporate Governance; Human Resources **12. KATHRYN L. MUNRO (57) 1999 Principal, BridgeWest L.L.C.** COMMITTEES: Audit; Corporate Governance, Chairman; Finance and Operating

* The year in which the individual first joined the Board of a Pinnacle West company.

Pinnacle West

WILLIAM J. POST (55) 1973*
Chairman of the Board
& Chief Executive Officer

JACK E. DAVIS (59) 1973
President & Chief Operating Officer

DONALD E. BRANDT (51) 2002
Executive Vice President
& Chief Financial Officer

ROBERT S. AIKEN (49) 1986
Vice President, Federal Affairs

BARBARA M. GOMEZ (51) 1978
Vice President & Treasurer

NANCY C. LOFTIN (52) 1985
Vice President, General
Counsel & Secretary

MARTIN L. SHULTZ (61) 1979
Vice President, Government Affairs

Pinnacle West Energy

JAMES M. LEVINE
President & Chief Executive Officer

DONALD E. BRANDT
Chief Financial Officer

Arizona Public Service

WILLIAM J. POST
Chairman of the Board

JACK E. DAVIS
President & Chief Executive Officer

DONALD E. BRANDT
Executive Vice President
& Chief Financial Officer

ARMANDO B. FLORES (62) 1991
Executive Vice President,
Corporate Business Services

JAMES M. LEVINE (56) 1989
Executive Vice President, Generation

STEVEN M. WHEELER (57) 2001
Executive Vice President,
Customer Service & Regulation

JAN H. BENNETT (58) 1967
Vice President, Customer Service

AJIT P. BHATTI (60) 1973
Vice President, Resource Planning

DENNIS L. BROWN (55) 1973
Vice President & Chief
Information Officer

JOHN R. DENMAN (63) 1964
Vice President, Fossil Generation

CLIFFORD EUBANKS (44) 2005
Vice President, Nuclear Operations

EDWARD Z. FOX (52) 1995
Vice President, Communications,
Environment & Safety

CHRIS N. FROGGATT (48) 1986
Vice President & Controller

BARBARA M. GOMEZ
Vice President & Treasurer

DAVID A. HANSEN (46) 1980
Vice President, Power
Marketing & Trading

WARREN C. KOTZMANN (56) 1989
Vice President, Resource
Acquisition & Risk Management

NANCY C. LOFTIN
Vice President, General
Counsel & Secretary

DAVID MAULDIN (56) 1990
Vice esident,
Engineering & Support

DONALD G. ROBINSON (52) 1978
Vice President, Planning

SunCor Development

WILLIAM J. POST
Chairman of the Board

STEVEN A. BETTS (47) 2005
President & Chief Executive Officer

DUANE S. BLACK (53) 1989
Executive Vice President
& Chief Operating Officer

JAY T. ELLINGSON (57) 1992
Executive Vice President,
Land Development

MARGARET E. KIRCH (56) 1988
Executive Vice President,
Commercial Development

THOMAS A. PATRICK (52) 1995
Executive Vice President, Golf
Operations & Human Resources

JAMES R. ADAIR (55) 1996
Vice President, Homebuilding

STEVE W. CARLSON (47) 1987
Vice President & Controller

M. RANDALL LEVIN (48) 1997
Vice President, Design & Urban
Infill Development

MICHAEL D. MARTIN (43) 1996
Vice President, Finance

BRADLEY E. WRIGHT (39) 1999
Vice President & Legal Counsel

APS Energy Services

VICKI G. SANDLER (49) 1982
President, APS Energy Services

El Dorado Investment

WILLIAM J. POST
Chairman of the Board, President
& Chief Executive Officer

* The year in which the individual was first employed within the Pinnacle West group of companies.

Corporate Headquarters

400 North 5th Street
P.O. Box 53999
Phoenix, Arizona 85004
Main telephone number:
(602) 250-1000

Transfer Agent and Registrar

The Bank of New York
Receive and Deliver Department
P.O. Box 11002
Church Street Station
New York, NY 10286
(800) 457-2983
www.stockbny.com

Investor Relations Contacts

Rebecca L. Hickman, Director
(602) 250-5668
Lisa Malagon, Manager
(602) 250-5671
P.O. Box 53999 Station 9998
Phoenix, AZ 85072-3999

Annual Meeting of Shareholders

Wed, May 17, 2006 at 10:30 a.m.
Herberger Theater
222 E. Monroe St.
Phoenix, AZ

Stock Listing

Ticker symbol: PNW on New York Stock Exchange

Statewide Association for Utility Investors

The Arizona Utility Investors Association represents the interests of investors in Arizona utilities. If interested, send your name and address to:

Arizona Utility Investors Association
P.O. Box 34805
Phoenix, AZ 85067
(602) 257-9200
www.auia.org

Form 10-K

Pinnacle West's Annual Report to the Securities and Exchange Commission on Form 10-K will be available (after March 16, 2006) to shareholders upon written request, without charge.
Write: Office of the Secretary.

Corporate Responsibility Report

To view the Pinnacle West Corporate Responsibility Report please visit www.pinnaclewest.com.

Administrative Information

Company contact: (602) 250-5511
shareholderdept@pinnaclewest.com

Statistical Report

A detailed Statistical Report for Financial Analysis for 2000-2005 will be available in April on the Company's Web site or by writing to the Investor Relations Department.

www.pinnaclewest.com

Investors Advantage Plan and Shareholder Account Information

Pinnacle West offers a direct stock purchase plan. Any interested investor may purchase Pinnacle West common stock through the Investors Advantage Plan. Features of the Plan include a variety of options for reinvesting dividends, direct deposit of cash dividends, automatic monthly investment, certificate safekeeping and more. An Investors Advantage Plan prospectus and enrollment materials may be obtained by calling The Bank of New York at (800) 457-2983, at the Bank's Web site – www.stockbny.com or by writing to:

The Bank of New York
Shareholder Relations Department
P.O. Box 11258
Church Street Station
New York, NY 10286
(800) 457-2983

printed on recycled paper

229968

Recording Requested By and
When Recorded Return to:

First American Title Insurance Company
4801 East Washington Street
Phoenix, AZ 85034
Phone: (602) 685-7000

Department of Water Resources
APPLICANT'S
Exhibit 4
Date Admitted 10-31-06
DAN

ADA COUNTY RECORDER J. DAVID NAVARRO 18
BOISE IDAHO 07/25/03 03:53 PM
DEPUTY Bonnie Oberbillig
RECORDED-REQUEST OF
Pioneer
AMOUNT 54.00
103123652

(SPACE ABOVE THIS LINE FOR RECORDER'S USE ONLY)

SPECIAL WARRANTY DEED

(SPRING VALLEY-ADA)

THIS SPECIAL WARRANTY DEED made this 24th day of July, 2003, between SPRING VALLEY LIVESTOCK COMPANY, INC., an Idaho corporation (**"Grantor"**), and FIRST AMERICAN TITLE INSURANCE COMPANY, a California corporation, as TRUSTEE OF THE DUAL BENEFICIARY TRUST CREATED PURSUANT TO THE SUBDIVISION TRUST AGREEMENT DATED OCTOBER 8, 2003, as amended (**"Grantee"**), as said Subdivision Trust Agreement was entered into between Grantor, Grantee and SUNCOR DEVELOPMENT COMPANY, an Arizona corporation (**"SunCor"**), as Second Beneficiary thereunder, and together with the Contribution Agreement executed contemporaneously therewith by Grantor and SunCor, is evidenced by a Memorandum of Agreements recorded October 22, 2002, as Instrument No. 102121552, Official Records of Ada County (all rights, title and interest of SunCor under said Subdivision Trust Agreement and said Contribution Agreement having been assigned by SunCor to SPRING VALLEY DEVELOPMENT LLC, an Idaho limited liability company [**"SV Development"**]), witnesseth:

That Grantor, for and in consideration of the sum of Ten Dollars and No Cents ($10.00), and other good and valuable consideration, the receipt and sufficiency whereof is hereby acknowledged, does, by these presents, convey unto Grantee and its successors and assigns forever upon and pursuant to the terms of the aforementioned Subdivision Trust Agreement and the Contribution Agreement, all the following described real estate situated in the County of Ada, State of Idaho.

SEE **SCHEDULE I** ATTACHED HERETO AND INCORPORATED HEREIN.

Together with all and singular the tenements, hereditaments, and appurtenances thereunto belonging or in anywise appertaining, the rents, issues and profits thereof, including all water rights, permits and licenses appurtenant thereto; and all estate, right, title and interest in and to the property, as well in law as in equity, except as expressly provided otherwise herein. To have

and to hold, all and singular the above-described premises together with the appurtenances unto Grantee and its successors and assigns forever.

SUBJECT TO the provisions of the aforementioned Subdivision Trust Agreement and the Contribution Agreement which govern the duties and responsibilities of Grantor, Grantee and SV Development and survive the recording of this deed, and those exceptions to title set forth in SCHEDULE II attached hereto and made part hereof, Grantor makes no covenants or warranties with respect to title, express or implied, other than (i) that previous to the date of this instrument, neither Grantor nor Grantor's immediate predecessor in interest (Colin McLeod III and Teresa McLeod, husband and wife) have conveyed the same estate, or any right, title or interest therein, to any person other than Grantee and (ii) that such estate is at the time of the execution of this instrument free from encumbrances done, made or suffered by Grantor or Grantor's immediate predecessor in interest, or any person claiming under Grantor or Grantor's immediate predecessor in interest.

GRANTOR:

SPRING VALLEY LIVESTOCK COMPANY,
INC, an Idaho corporation

By [signature]
Its [signature]

STATE OF IDAHO)
) ss.
County of Ada)

On this 24 day of July, 2003, before me, Brenda Fitzsimons Notary Public in and for said State, personally appeared Colin McLeod III, known to me to be President of SPRING VALLEY LIVESTOCK COMPANY, INC., the corporation that executed the within instrument or the person who executed the instrument on behalf of said corporation, and acknowledged to me that such corporation executed the same.

WITNESS MY HAND and official seal hereto affixed the day, month and year in this certificate first above written.

BRENDA FITZSIMONS NOTARY PUBLIC STATE OF IDAHO

Brenda Fitzsimons
Notary Public for the State of Idaho
Residing at Caldwell
My commission expires 11-16-2008

SCHEDULE I

Legal Description

ADA COUNTY RECORDER J. DAVID NAVARRO
BOISE IDAHO 06/04/04 02:41 PM
DEPUTY Bonnie Oberbillig
RECORDED – REQUEST OF
Pioneer
AMOUNT 42.00

104070000

Recording Requested By and
When Recorded Return to:

First American Title Insurance Company
4801 East Washington Street
Phoenix, AZ 85034
Phone: (602) 685-7000

(SPACE ABOVE THIS LINE FOR RECORDER'S USE ONLY)

SPECIAL WARRANTY DEED

(SPRING VALLEY-ADA)

(OMITTED PARCEL IN SECTION 1, T5N R1E)

THIS SPECIAL WARRANTY DEED made this 26th day of February, 2004, between SPRING VALLEY LIVESTOCK COMPANY, INC., an Idaho corporation (**"Grantor"**), and FIRST AMERICAN TITLE INSURANCE COMPANY, a California corporation, as TRUSTEE OF THE DUAL BENEFICIARY TRUST CREATED PURSUANT TO THE SUBDIVISION TRUST AGREEMENT DATED OCTOBER 8, 2003, as amended (**"Grantee"**), as said Subdivision Trust Agreement was entered into between Grantor, Grantee and SUNCOR DEVELOPMENT COMPANY, an Arizona corporation (**"SunCor"**), as Second Beneficiary thereunder, and together with the Contribution Agreement executed contemporaneously therewith by Grantor and SunCor, is evidenced by a Memorandum of Agreements recorded October 22, 2002, as Instrument No. 102121552, Official Records of Ada County (all rights, title and interest of SunCor under said Subdivision Trust Agreement and said Contribution Agreement having been assigned by SunCor to SUNCOR IDAHO, LLC, an Idaho limited liability company [**"SunCor Idaho"**]), witnesseth:

That Grantor, for and in consideration of the sum of Ten Dollars and No Cents ($10.00), and other good and valuable consideration, the receipt and sufficiency whereof is hereby acknowledged, does, by these presents, convey unto Grantee and its successors and assigns forever upon and pursuant to the terms of the aforementioned Subdivision Trust Agreement and the Contribution Agreement, all the following described real estate situated in the County of Ada, State of Idaho.

SEE **SCHEDULE I** ATTACHED HERETO AND INCORPORATED HEREIN.

Together with all and singular the tenements, hereditaments, and appurtenances thereunto belonging or in anywise appertaining, the rents, issues and profits thereof, including all water rights, permits and licenses appurtenant thereto; and all estate, right, title and interest in and to the property, as well in law as in equity, except as expressly provided otherwise herein. To have and to hold, all and singular the above-described premises together with the appurtenances unto Grantee and its successors and assigns forever.

SUBJECT TO the provisions of the aforementioned Subdivision Trust Agreement and the Contribution Agreement which govern the duties and responsibilities of Grantor, Grantee and SunCor Idaho and survive the recording of this deed, and those exceptions to title set forth in SCHEDULE II attached hereto and made part hereof, Grantor makes no covenants or warranties with respect to title, express or implied, other than that previous to the date of this instrument, Grantor has not conveyed the same estate, or any right, title or interest therein, to any person other than Grantee and that such estate is at the time of the execution of this instrument free from encumbrances done, made or suffered by the Grantor, or any person claiming under Grantor.

GRANTOR:

SPRING VALLEY LIVESTOCK COMPANY,
INC, an Idaho corporation

By [signature] III
Its President

STATE OF IDAHO)
) ss.
County of Canyon)

On this 26th day of February, 2004, before me, Jon T. Frye, a Notary Public in and for said State, personally appeared Colin McLeod III, known to me to be the president of SPRING VALLEY LIVESTOCK COMPANY, INC., the corporation that executed the within instrument or the person who executed the instrument on behalf of said corporation, and acknowledged to me that such corporation executed the same.

WITNESS MY HAND and official seal hereto affixed the day, month and year in this certificate first above written.

JON T. FRYE
NOTARY
PUBLIC
STATE OF IDAHO

Notary Public for the State of Idaho
Residing at Caldwell, Idaho
My commission expires 10-30-2007

SCHEDULE I

Legal Description

Roylance & Associates P.A.
391 W. State Street, Suite E, Eagle, Idaho 83616
Engineers • Surveyors • Landplanners
Telephone (208) 939-2824 Fax (208) 939-2855

August 21, 2003
Project No: 2408

Legal Description
Suncor Development Company
Spring Valley Livestock Company property in Ada County

A tract of land located in Township 5 North, Range 1 East, Boise Meridian, Ada County, Idaho described as follows:

In Section 1, the East One Half of the Southeast One Quarter.

Subject to all existing easements and rights-of-way, recorded or prescriptive.

Prepared By: ROYLANCE & ASSOCIATES P.A.
391 W. STATE STREET, SUITE E
EAGLE, IDAHO 83616
208-939-2824
208-939-2855 (FAX)

PROFESSIONAL LAND SURVEYOR
REGISTERED
3624
STATE OF IDAHO
DAVID H. ROYLANCE

8-21-03

X:\Projects\Suncor\2408\ADMIN\LEGALS\Legal-E12SE14T5NR1E-Spring.doc

Roylance & Associates P.A.
Engineers • Surveyors • Landplanners
391 W. State Street, Suite E, Eagle, Idaho 83616
Telephone (208) 939-2824 Fax (208) 939-2855

July 22, 2003
Project No: 2408

Legal Description
Suncor Development Company
McLeod Properties located in Ada County

~~A tract of land located in Township 5 North, Range 1 West, Boise Meridian, Ada County, Idaho described as follows:~~

~~In Section 13, the Northeast One Quarter, the Southeast One Quarter of the Northwest One Quarter and the South One Half of the Southwest One Quarter, and;~~

~~In Section 14, the North One Half of the Northeast One Quarter, the Southeast One Quarter of the Northeast One Quarter, the South One Half of the Northwest One Quarter, the North One Half of the Southeast One Quarter, the Southwest One Quarter of the Southeast One Quarter and the Northeast One Quarter of the Southwest One Quarter, and;~~

~~In Section 22, the Southeast One Quarter of the Northeast One Quarter and the Northeast One Quarter of the Southeast One Quarter, and;~~

~~In Section 26, the Northwest One Quarter of the Northwest One Quarter, and;~~

~~In Section 27, the Northeast One Quarter of the Northeast One Quarter.~~

~~AND ALSO~~

A tract of land located in Township 5 North, Range 1 East, Boise Meridian, Ada County, Idaho described as follows:

In Section 1, those portions of Government Lot 1, the South One Half of the Northeast One Quarter lying in Ada County, the West One Half of the Southeast One Quarter and the Southeast One Quarter of the Southwest One Quarter.

In Section 3, the East One Half of the Southwest One Quarter and the Southeast One Quarter and;

In Section 4, the South One Half and the South One Half of the Northwest One Quarter and;

In Section 5, the Northeast One Quarter of the Southeast One Quarter and;

~~In Section 7, Government Lot 4 and;~~

In Section 8, the South One Half of the Northeast One Quarter, the East One Half of the Northwest One Quarter, the North One Half of the Southwest One Quarter and the Southwest One Quarter of the Southwest One Quarter and;

In Section 10, the Southeast One Quarter of the Northeast One Quarter, and;

In Section 11, the South One Half of the Northwest One Quarter, and;

In Section 12, the Northeast One Quarter of the Northwest One Quarter and the Northwest One Quarter of the Northeast One Quarter, and;

In Section 17, the Northwest One Quarter, the North One Half of the Southwest One Quarter, and;

~~In Section 18, Government Lots 1 and 2, and;~~

~~In Section 19, Government Lots 1 and 2;~~

~~AND ALSO~~

~~A tract of land located in Township 5 North, Range 2 East, Boise Meridian, Ada County, Idaho described as follows:~~

~~In Section 21, all the portions which lie within the Northwest One Quarter of the Northeast One Quarter of Ada County;~~

~~Except that portion conveyed to Ada County for Healy Toll Road by deed recorded under Instrument Number 19780 in Book 74 of Deeds, Page 254, records of Ada County, Idaho.~~

Subject to all existing easements and rights-of-way, recorded or prescriptive.

Prepared By: ROYLANCE & ASSOCIATES P.A.
391 W. STATE STREET, SUITE E
EAGLE, IDAHO 83616
208-939-2824
208-939-2855 (FAX)

PROFESSIONAL LAND SURVEYOR
REGISTERED
3634
STATE OF IDAHO
DAVID H. ROYLANCE

7-24-03

Roylance & Associates P.A.
Engineers • Surveyors • Landplanners
391 W. State Street, Suite E, Eagle, Idaho 83616
Telephone (208) 939-2824 . Fax (208) 939-2855

July 24, 2003
Project No: 2408

Legal Description
Suncor Development Company
Spring Valley Livestock Company properties in Ada County

~~A tract of land located in Township 5 North, Range 1 West, Boise Meridian, Ada County, Idaho described as follows:~~

~~In Section 10, the East One Half of the Southeast One Quarter, and;~~

~~In Section 14, the Southwest One Quarter of the Northeast One Quarter, the North One Half of the Northwest One Quarter and the Southeast One Quarter of the Southwest One Quarter, and;~~

~~In Section 15, the Northeast One Quarter of the Northeast One Quarter.~~

AND ALSO

A tract of land located in Township 5 North, Range 1 East, Boise Meridian, Ada County, Idaho described as follows:

In Section 1, the South One Half of the Northwest One Quarter, the North One Half of the Southwest One Quarter, the Southwest One Quarter of the Southwest One Quarter, and the West One Half of the Southeast One Quarter, Government Lots 3 and 4 and the portion of Government Lot 2 lying in Ada County,

Except that portion conveyed to the State of Idaho for public road by deed recorded under Instrument No. 127565 in Book 182 of Deeds, Page 23.

In Section 2, the South One Half of the Northwest One Quarter, the South One Half and Government Lots 3 and 4, and;

In Section 3, the South One Half of the Northeast One Quarter, the Southeast One Quarter of the Northwest One Quarter and Government Lots 1, 2, 3 and 4, and;

In Section 4, the Southeast One Quarter of the Northeast One Quarter and Government Lots 1 and 4, and;

In Section 5, the South One Half of the Northeast One Quarter and Government Lots 1 and 2, and;

In Section 7, the Southwest One Quarter of the Southeast One Quarter and the Southeast One Quarter of the Southwest One Quarter, and;

In Section 8, the Southeast One Quarter of the Southeast One Quarter, and;

In Section 9, the Northwest One Quarter, the South One Half, the North One Half of the

Northeast One Half and the Southwest One Quarter of the Northeast One Quarter, and;

In Section 10, the Southwest One Quarter, and;

In Section 11, the North One Half of the Northeast One Quarter, and;

In Section 12, the South One Half, the West One Half of the Northwest One Quarter, the Southeast One Quarter of the Northwest One Quarter, the East One Half of the Northeast One Quarter and the Southwest One Quarter of the Northeast One Quarter,

Except from the Southwest One Quarter of the Southwest One Quarter of said Section12, a one acre parcel for a school house lot reserved in Sheriff's Deed recorded under Instrument No. 143440 in Book 183 of Deeds, page 171.

In Section 13, the North One Half, the Southeast One Quarter and the North One Half of the Southwest One Quarter, and;

In Section 18, ~~the East One Half of the Northwest One Quarter, the East One Half of the Southwest One Quarter, the West One Half of the Northeast One Quarter,~~ The Southeast One Quarter of the Northeast One Quarter ~~and the Southeast One Quarter,~~ and;

~~In Section 19, the Northeast One Quarter, the Southeast One Quarter and the East One Half of the Northwest One Quarter, and;~~

~~In Section 20, the West One Half of the Southwest One Quarter and the Southwest One Quarter of the Northwest One Quarter, and;~~

In Section 24, the North One Half of the Northeast One Quarter.

AND ALSO

A tract of land located in Township 5 North, Range 2 East, Boise Meridian, Ada County, Idaho described as follows:

In Section 6, all portions which lie within Ada County,

Except that portion conveyed to the State of Idaho for public road by deed recorded under Instrument No. 127565 in Book 182 of Deeds, Page 23.

And except that portion conveyed to the State of Idaho by deed recorded under Instrument No. 191535 in Book 235 of Deeds, Page 542. **And except** that portion conveyed to the State of Idaho by deed recorded under Instrument No. 8514764.

In Section 7, all portions which lie within Ada County,

Except that portion conveyed to the State of Idaho by deed recorded under Instrument No. 160917 in Book 208 of Deeds, Page 611.

And except that portion conveyed to the State of Idaho by deed recorded under Instrument No. 191535 Book, Page 542.

And except that portion conveyed to the State of Idaho by deed recorded under Instrument No. 8514764.

In Section 8, those portions of the Southwest One Quarter and the Southwest One Quarter of the Southeast One Quarter lying in Ada County, and;

In Section 17, the West One Half of the West One Half, the Southeast One Quarter of the South West One Quarter, ~~the South One Half of the Southeast One Quarter, the Northwest One Quarter of the Southeast One Quarter,~~ the Northeast One Quarter of the Northwest One Quarter and those portions of the North One Half of the Northeast One Quarter lying in Ada County, and;

All of Section 18, **Except** that portion conveyed to the State of Idaho for public road by deed recorded under Instrument No. 127564 in Book 182 of Deeds, Pages 21 and 22.

And except that portion conveyed to the State of Idaho by deed recorded under Instrument No. 160917 in Book 208 of Deeds, Page 611.

And except that portion conveyed to the State of Idaho by deed recorded under Instrument No. 610585.

And except that portion conveyed to the State of Idaho by deed recorded under Instrument No. 8514764.

In Section 19, the North One Half of the Northeast One Quarter, ~~the East One Half of the Southeast One Quarter,~~ the East One Half of the Northwest One Quarter and Government Lot 1,

Except that portion conveyed to the State of Idaho for a right-of-way for a Public Highway by deed recorded under Instrument No. 160903 in Book 208 of Deeds, Page 595.

And except that portion conveyed to the State of Idaho by deed recorded under Instrument No. 160917 in Book 208 of Deeds, Page 611.

And except that portion conveyed to Ada County for Healy Toll Road by deed recorded under Instrument No. 19780 in Book 74 of Deeds, Page 254.

And except that portion conveyed to the State of Idaho by deed recorded under Instrument No. 610585. **And except** that portion conveyed to the State of Idaho by deed recorded under Instrument No. 645947.

~~All of Section 20, **Except** that portion conveyed to Ada County for Healy Toll Road by deed recorded under Instrument No. 19780 in Book 74 of Deeds, Page 254.~~

~~In Section 21, the South One Half, the Northwest One Quarter, and the Southwest One Quarter of the Northeast One Quarter, and all the portions in the East One Half of the Northeast One Quarter lying in Ada County,~~

~~**Except** that portion conveyed to School District No. 50 by deed recorded under Instrument No. 58453 in Book Of Deeds, Pages 161 and 162.~~

~~**And except** that portion conveyed to Ada County for Healy Toll Road by deed recorded under Instrument No. 19780 in Book 74 of Deeds, Page 254.~~

~~In Section 22, all portions which lie within Ada County, and;~~

~~In Section 27, the Northwest One-Quarter of the Northwest One Quarter, and;~~

~~In Section 28, the North One Half of the North One Half, and;~~

~~In Section 29, the North One Half of the Northwest One Quarter, and;~~

~~In Section 30, the North One Half of the Northeast One Quarter, the Southeast One Quarter of the Northeast One Quarter and the East One Half of the Northwest One Quarter and Government Lot 2,~~

~~**Except** that portion conveyed to Ada County for Healy Toll Road by deed recorded under Instrument No. 19780 in Book 74 of Deeds, Page 254.~~

Subject to all existing easements and rights-of-way, recorded or prescriptive.

Prepared By: ROYLANCE & ASSOCIATES P.A.
391 W. STATE STREET, SUITE E
EAGLE, IDAHO 83616
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PROFESSIONAL LAND SURVEYOR
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STATE OF IDAHO
DAVID H. ROYLANCE

7-24-03

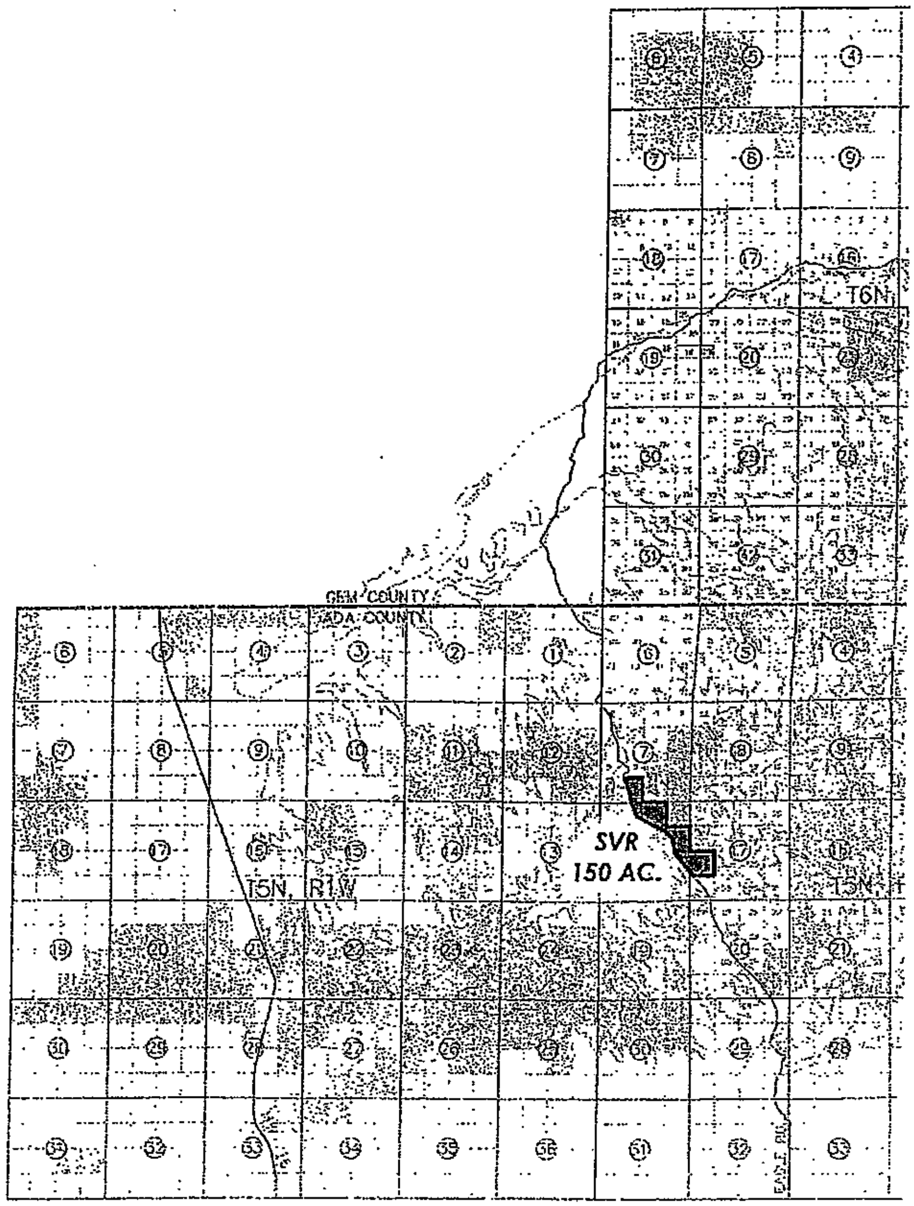


EXHIBIT "D"

GREEY|PICKETT

Scale: 1"=4000'

EXHIBIT D-1

WILLOW CREEK PROPERTY

All portions of the following parcels located northeast of Willow Creek Road in Ada County, Idaho:

SE1/4SW1/4 of Section 7, T5N, R1W, Boise Meridian, Ada County, Idaho

NW1/4SW1/4 of Section 17, T5N, R1W, Boise Meridian, Ada County, Idaho

NE1/4SE1/4, SE1/4NE1/4, NW1/4NE1/4, NE1/4NW1/4 of Section 18, T5N, R1W, Boise Meridian, Ada County, Idaho

Instrument # 191847
IDAHO CITY, BOISE COUNTY, IDAHO
2003-07-25 03:24:18 No. of Pages: 12
Recorded for : PIONEER TITLE
RORA A. CANODY Fee: 36.00
Ex-Officio Recorder Deputy
Index to: DEEDS

Recording Requested By and
When Recorded Return to:

First American Title Insurance Company
4801 East Washington Street
Phoenix, AZ 85034
Phone: (602) 685-7000

(SPACE ABOVE THIS LINE FOR RECORDER'S USE ONLY)

SPECIAL WARRANTY DEED

(SPRING VALLEY-BOISE)

THIS SPECIAL WARRANTY DEED made this 24th day of July, 2003, between SPRING VALLEY LIVESTOCK COMPANY, INC., an Idaho corporation (**"Grantor"**), and FIRST AMERICAN TITLE INSURANCE COMPANY, a California corporation, as TRUSTEE OF THE DUAL BENEFICIARY TRUST CREATED PURSUANT TO THE SUBDIVISION TRUST AGREEMENT DATED OCTOBER 8, 2003, as amended (**"Grantee"**), as said Subdivision Trust Agreement was entered into between Grantor, Grantee and SUNCOR DEVELOPMENT COMPANY, an Arizona corporation (**"SunCor"**), as Second Beneficiary thereunder, and together with the Contribution Agreement executed contemporaneously therewith by Grantor and SunCor, is evidenced by a Memorandum of Agreements recorded October 22, 2002, as Instrument No. 187819, Official Records of Boise County (all rights, title and interest of SunCor under said Subdivision Trust Agreement and said Contribution Agreement having been assigned by SunCor to SPRING VALLEY DEVELOPMENT LLC, an Idaho limited liability company [**"SV Development"**]), witnesseth:

That Grantor, for and in consideration of the sum of Ten Dollars and No Cents ($10.00), and other good and valuable consideration, the receipt and sufficiency whereof is hereby acknowledged, does, by these presents, convey unto Grantee and its successors and assigns forever upon and pursuant to the terms of the aforementioned Subdivision Trust Agreement and the Contribution Agreement, all the following described real estate situated in the County of Boise, State of Idaho.

SEE **SCHEDULE I** ATTACHED HERETO AND INCORPORATED HEREIN.

Together with all and singular the tenements, hereditaments, and appurtenances thereunto belonging or in anywise appertaining, the rents, issues and profits thereof, including all water rights, permits and licenses appurtenant thereto; and all estate, right, title and interest in and to the property, as well in law as in equity, except as expressly provided otherwise herein. To have

and to hold, all and singular the above-described premises together with the appurtenances unto Grantee and its successors and assigns forever.

SUBJECT TO the provisions of the aforementioned Subdivision Trust Agreement and the Contribution Agreement which govern the duties and responsibilities of Grantor, Grantee and SV Development and survive the recording of this deed, and those exceptions to title set forth in SCHEDULE II attached hereto and made part hereof, Grantor makes no covenants or warranties with respect to title, express or implied, other than that previous to the date of this instrument, Grantor has not conveyed the same estate, or any right, title or interest therein, to any person other than Grantee and that such estate is at the time of the execution of this instrument free from encumbrances done, made or suffered by the Grantor, or any person claiming under Grantor.

GRANTOR:

SPRING VALLEY LIVESTOCK COMPANY,
INC, an Idaho corporation

By Colin McLeod III
Its Pres

STATE OF IDAHO)
) ss.
County of Ada)

On this 24 day of July, 2003, before me, Brenda Fitzsimons, a Notary Public in and for said State, personally appeared Colin McLeod III, known to me to be President of SPRING VALLEY LIVESTOCK COMPANY, INC., the corporation that executed the within instrument or the person who executed the instrument on behalf of said corporation, and acknowledged to me that such corporation executed the same.

WITNESS MY HAND and official seal hereto affixed the day, month and year in this certificate first above written.

BRENDA FITZSIMONS NOTARY PUBLIC STATE OF IDAHO

Brenda Fitzsimons
Notary Public for the State of Idaho
Residing at Caldwell
My commission expires 11-16-2008

41397.0001.711144.3

SCHEDULE I

Legal Description

Roylance & Associates P.A. Engineers • Surveyors • Landplanners
391 W. State Street, Suite E, Eagle, Idaho 83616 Telephone (208) 939-2824 Fax (208) 939-2855

July 24, 2003
Project No: 2408

Legal Description
Suncor Development Company
Spring Valley Livestock Company properties in Boise County

A tract of land located in Township 5 North, Range 1 East, Boise Meridian, Boise County, Idaho described as follows:

In Section 1, the portions of the Northeast One Quarter which lie within Boise County including Government Lots 1 and 2, and;

AND ALSO

A tract of land located in Township 6 North, Range 2 East, Boise Meridian, Boise County, Idaho described as follows:

In Section 7, the East One Half of the Southwest One Quarter, and Government Lots 3, 4, 10, and 11, and;

~~In Section 14, the South One Half of the Southwest One Quarter, and;~~

~~In Section 15, the South One Half, and;~~

A parcel of land situated in the Southeast One Quarter of the Southeast quarter of Section 17, Township 6 North, Range 2 East, Boise Meridian, Boise County, Idaho, as shown on the Record of Survey filed under Instrument No. 167338 in the Office of the Boise County Recorder, Idaho City, Idaho, said parcel being described as follows:

Beginning at an iron pin with an aluminum cap marking the Southeast corner of said Section 17,
Thence along the East boundary of said Section 17 North 00°33'29" East a distance of 595.84 feet to a point on a curve on the Easterly right of way boundary of old Highway 55, FAP F. 129-(13),
Thence along the said Easterly right of way boundary along the arc of a curve to the right having a radius of 722.96 feet, a central angle of 06°37'36", a length of 83.62 feet and a long chord which bears South 29°27'18" West a distance of 83.57 feet to a point of spiral curve,
Thence continuing along the arc of a spiral curve to the right having a long chord which bears South 37°37'26" West a distance of 169.50 feet to a point of tangent;
Thence South 40°16'06" West a distance of 220.75 feet to a point of spiral curve,
Thence continuing along the arc of a spiral curve to the left having a long chord which bears South 37°56'40" West a distance of 130.15 feet to a point of curve,

Thence continuing along the arc of a curve to the left having a radius of 419.52 feet, a central angle of 17°08'36", a length of 125.52 feet and a long chord which bears South 24°09'05" West a distance of 125.06 feet to a point on the South boundary of said Section 17,
Thence along the said South boundary, South 89°30'00" East a distance of 412.67 feet, to the point of beginning.

In Section 18, the West One Half of the Northeast One Quarter, the East One Half of the Northwest One Quarter, the Northeast One Quarter of the Southwest One Quarter and Government Lots 1, 2, 3 and 4, and;

In Section 19, the Southeast One Quarter, the South One Half of the Northeast One Quarter and the Southwest One Quarter, and;

All of Section 20, **Except** that portion thereof lying within the following:

A tract of land situated in the Northeast quarter of Section 20 and the Southeast quarter of the Southeast quarter of Section 17, all in Township 6 North, Range 2 East, Boise Meridian, Boise County, Idaho, said tract being described as follows:

Commencing at a steel pin set to mark the Southwest corner of said Section 17,
Thence along the Southerly line of said Section 17 South 89°10'42" East a distance of 2624.35 feet to a found stone monumenting the South quarter corner of said Section 17;
Thence continuing along the Southerly line of said Section 17 South 89°30'00" East a distance of 1279.86 feet to a steel pin, said steel pin being the point of beginning;
Thence leaving the Southerly line of said Section 17 and following an existing fence South 00°01'36" West a distance of 1397.07 feet to a steel pin on the Westerly right of way of old Highway 55,
Thence following the Westerly right of way of old Highway 55 the following courses and distances:
Thence North 00°00'00" East a distance of 152.83 feet along the arc of a non-tangent circular curve to the right, said curve having a radius of 722.96 feet, a central angle of 12°06'43", a chord bearing of North 53°01'44" East and a chord distance of 152.54 feet to a steel pin,
Thence along the arc of a spiral curve to the right, said spiral having a long chord bearing of North 63°56'27" East and a chord distance of 169.52 feet to a right-of-way monument;
Thence North 66°35'06" East a distance of 83.38 feet to a right-of-way monument;
Thence along the arc of a spiral curve to the left, said spiral having a long chord bearing of North 64°29'08" East and a chord distance of 132.25 feet to a steel pin,
Thence North 00°00'00" East a distance of 641.23 feet along the arc of a circular curve to the left, said curve having a radius of 486.62 feet, a central angle of 75°30'00", a chord bearing of North 22°05'06" East and a chord distance of 395.83 feet to a steel pin,
Thence along the arc of a spiral curve to the left, said spiral having a long chord bearing of North 20°18'55" West and a chord distance of 132.23 feet to a right-of-way monument,
Thence along the arc of a spiral curve to the right, said spiral having a long chord bearing of North 19°45'14" West and a chord distance of 169.62 feet to a steel pin,

Thence North 00°00'00" West a distance of 302.58 feet along the arc of a circular curve to the right, said curve having a radius of 719.52 feet, a central angle of 24°05'40", a chord bearing of North 02°49'21" West and a chord distance of 300.35 feet to a point,
Thence North 00°00'00" East a distance of 295.09 feet along the arc of a circular curve to the right, said curve having a radius of 719.52 feet, a central angle of 23°29'54", a chord bearing of North 20°58'26" East and a chord distance of 293.03 feet to a steel pin,
Thence along the arc of a spiral curve to the right, said spiral having a long chord bearing of North 37°36'26" East and a chord distance of 169.62 feet to a right of way monument;
Thence North 40°16'06" East a distance of 220.75 feet to a steel pin,
Thence along the arc of a spiral curve to the left, said spiral having a long chord bearing of North 37°57'25" East and a chord distance of 130.27 feet to a steel pin,
Thence North 00°00'00" East a distance of 303.89 feet along the arc of a circular curve to the left, said curve having a radius of 422.96 feet, a central angle of 41°10'00", a chord bearing of North 12°11'06" East and a chord distance 297.40 feet to a steel pin,
Thence along the arc of a spiral curve to the left, said spiral having a long chord bearing of North 13°35'13" West and a chord distance of 130.27 feet to a right-of-way monument,
Thence North 15°53'54" West a distance of 2.38 feet to a right-of-way monument,
Thence along the arc of a spiral curve to the right, said spiral having a long chord bearing of North 13°15'14" West and a chord distance of 169.50 feet to a steel pin,
Thence North 00°00'00" West a distance of 43.29 feet along the arc of a circular curve to the right, said curve having a radius of 722.96 feet, a central angle of 03°25'52", a chord bearing of North 06°40'58" West and a chord distance of 43.29 feet to a point on the Northerly line of the Southeast quarter of the Southeast quarter of said Section 17,
Thence leaving said Westerly right-of-way and following the Northerly line of the Southeast quarter of the Southeast quarter of said Section 17 North 89°20'25" West a distance of 981.45 feet to a steel pin monumenting the Northwest corner of the said Southeast One Quarter of the Southeast One Quarter,
Thence along the Easterly line of the said Southeast One Quarter of the Southeast One Quarter South 00°14'18" West a distance of 1313.12 feet to a steel pin monumenting the Southeast corner of the Southeast One Quarter of the Southeast One Quarter,
Thence North 89°30'00" West a distance of 7.16 feet to a steel pin, said pin being the point of beginning.

And Except that portion conveyed to the State of Idaho by the Deed recorded under Instrument No. 126533.

~~In Section 21, the South One Half, the Northeast One Quarter, the South One Half of the Northwest One Quarter and the Northwest One Quarter of the Northwest One Quarter, and;~~

~~All of Section 22, and;~~

~~In Section 23, the North One Half and the Southwest One Quarter, and;~~

~~All of Section 27, and;~~

In Section 28, the North One Half, the North One Half of the South One Half and the Southeast One Quarter of the Southeast One Quarter, and;

All portions of Section 29, **Except** those portions conveyed to the State of Idaho by the Deeds recorded under Instrument No's 116461 and 126533.

All portions of Section 30, **Except** that portion thereof conveyed to the State of Idaho by the Deed recorded under Instrument No. 116461.

In Section 31, the East One Half, the East One Half of the Southwest One Quarter, the East One Half of the Northwest One Quarter, and Government Lots 2, 3, and 4, **Except** that portion conveyed to the State of Idaho by the Deed recorded under Instrument No. 116461.

In Section 32, the North One Half, the Southwest One Quarter, the North One Half of the Southeast One Quarter and the Southwest One Quarter of the Southeast One Quarter, and;

In Section 33, the West One Half of the West One Half, and the Southeast One Quarter of the Southwest One Quarter, and;

~~In Section 34, the East One Half and the East One Half of the Northwest One Quarter, and;~~

~~In Section 35, the South One Half of the Southwest One Quarter and the Northeast One Quarter of the Southwest One Quarter.~~

AND ALSO

A tract of land located in Township 5 North, Range 2 East, Boise Meridian, Boise County, Idaho described as follows:

In Section 4, Government Lots 1, 2 and 3, the South One Half of the Northeast One Quarter, the Southwest One Quarter and the South One Half of the Northwest One Quarter, and;

In Section 5, Government Lots 2, 3 and 4, the South One Half of the North One Half and the South One Half, and;

In Section 6, all portions which lie within Boise County including but not limited to that portion of abandoned highway right of way as evidenced by Instrument No. 134123, **Except** those portions conveyed for road right-of-way by deeds recorded under Instrument Numbers 46769 and 116461.

In Section 7, all portions which lie within Boise County, and;

In Section 8, the North One Half of the Northwest One Quarter, the Southeast One Quarter of the Northwest One Quarter, the South One Half of the Northeast One Quarter, the Northeast One Quarter of the Northeast One Quarter, the East One Half of the Southeast One Quarter, those portions of the Southwest One Quarter of the Southeast One Quarter and the Southwest One Quarter lying in Boise County, and;

In Section 9, the North One Half of the Northwest One Quarter and the West One Half of the Northeast One Quarter, and;

~~In Section 10, the East One Half of the Northeast One Quarter, the Southwest One Quarter of the Northeast One Quarter, the South One Half of the Southeast One Quarter, the Northwest One Quarter of the Southeast One Quarter, and the Southeast One Quarter of the Southwest One Quarter, and;~~

~~In Section 14, the South One Half of the South One Half, and;~~

~~In Section 15, the North One Half of the Northeast One Quarter, the South One Half of the Northwest One Quarter, the Northeast One Quarter of the Northwest One Quarter and the Southwest One Quarter, and;~~

~~In Section 16, the Southeast One Quarter of the Southeast One Quarter, and;~~

In Sections 17, those portions of the North One Half of the Northeast One Quarter which lie within Boise County, and;

~~In Sections 21 and 22, all those portions which lie within Boise County, and;~~

~~In Section 23, the North One Half, the North One Half of the Southeast One Quarter and the North One Half of the Southwest One Quarter and the Southeast One Quarter of the Southeast One Quarter, and;~~

~~In Section 24, the Northwest One Quarter.~~

Subject to all existing easements and rights-of-way, recorded or prescriptive.

Prepared By: ROYLANCE & ASSOCIATES P.A.
391 W. STATE STREET, SUITE E
EAGLE, IDAHO 83616
208-939-2824
208-939-2855 (FAX)

PROFESSIONAL LAND SURVEYOR
REGISTERED
STATE OF IDAHO
DAVID H. ROYLANCE

7-24-03

311217

STATE OF IDAHO }SS
County of Payette

I hereby certify that this instrument was filed for record at the request of
Pioneer Title Co
of Ada County
Time 03:59 PM
Date JUL 25 2003
Instrument # 311217 Deed
BETTY J. DRESSEN
Exofficio Recorder
By Kathryn Kurser
Deputy
Fee 82.00

Recording Requested By and
When Recorded Return to:

First American Title Insurance Company
4801 East Washington Street
Phoenix, AZ 85034
Phone: (602) 685-7000

(SPACE ABOVE THIS LINE FOR RECORDER'S USE ONLY)

SPECIAL WARRANTY DEED

(SPRING VALLEY-GEM)

THIS SPECIAL WARRANTY DEED made this 24th day of July, 2003, between SPRING VALLEY LIVESTOCK COMPANY, INC., an Idaho corporation ("**Grantor**"), and FIRST AMERICAN TITLE INSURANCE COMPANY, a California corporation, as TRUSTEE OF THE DUAL BENEFICIARY TRUST CREATED PURSUANT TO THE SUBDIVISION TRUST AGREEMENT DATED OCTOBER 8, 2003, as amended ("**Grantee**"), as said Subdivision Trust Agreement was entered into between Grantor, Grantee and SUNCOR DEVELOPMENT COMPANY, an Arizona corporation ("**SunCor**"), as Second Beneficiary thereunder, and together with the Contribution Agreement executed contemporaneously therewith by Grantor and SunCor, is evidenced by a Memorandum of Agreements recorded October 22, 2002 as Instrument No. 225011, Official Records of Gem County, Idaho (all rights, title and interest of SunCor under said Subdivision Trust Agreement and said Contribution Agreement having been assigned by SunCor to SPRING VALLEY DEVELOPMENT LLC, an Idaho limited liability company ["**SV Development**"]), witnesseth:

That Grantor, for and in consideration of the sum of Ten Dollars and No Cents ($10.00), and other good and valuable consideration, the receipt and sufficiency whereof is hereby acknowledged, does, by these presents, convey unto Grantee and its successors and assigns forever upon and pursuant to the terms of the aforementioned Subdivision Trust Agreement and the Contribution Agreement, all the following described real estate situated in the County of Gem, State of Idaho.

SEE **SCHEDULE I** ATTACHED HERETO AND INCORPORATED HEREIN.

Together with all and singular the tenements, hereditaments, and appurtenances thereunto belonging or in anywise appertaining, the rents, issues and profits thereof, including all water rights, permits and licenses appurtenant thereto; and all estate, right, title and interest in and to the property, as well in law as in equity, except as expressly provided otherwise herein. To have

INSTRU. NO. 231186
PAGES 1 OF 8

and to hold, all and singular the above-described premises together with the appurtenances unto Grantee and its successors and assigns forever.

SUBJECT TO the provisions of the aforementioned Subdivision Trust Agreement and the Contribution Agreement which govern the duties and responsibilities of Grantor, Grantee and SV Development and survive the recording of this deed, and those exceptions to title set forth in SCHEDULE II attached hereto and made part hereof, Grantor makes no covenants or warranties with respect to title, express or implied, other than that previous to the date of this instrument, Grantor has not conveyed the same estate, or any right, title or interest therein, to any person other than Grantee and that such estate is at the time of the execution of this instrument free from encumbrances done, made or suffered by the Grantor, or any person claiming under Grantor.

GRANTOR:

SPRING VALLEY LIVESTOCK COMPANY,
INC, an Idaho corporation

By [signature] III
Its pres.

STATE OF IDAHO)
) ss.
County of Ada)

On this 24 day of July, 2003, before me, Brenda Fitzsimons a Notary Public in and for said State, personally appeared Colin McLeod III, known to me to be President of SPRING VALLEY LIVESTOCK COMPANY, INC., the corporation that executed the within instrument or the person who executed the instrument on behalf of said corporation, and acknowledged to me that such corporation executed the same.

WITNESS MY HAND and official seal hereto affixed the day, month and year in this certificate first above written.

BRENDA FITZSIMONS NOTARY PUBLIC STATE OF IDAHO

Brenda Fitzsimons
Notary Public for the State of Idaho
Residing at Caldwell
My commission expires 11-16-2008

INSTRU. NO. 231186
PAGES 2 OF 8

311217

SCHEDULE I

Legal Description

INSTRU. NO. 231186
PAGES 3 OF 8

41397.0001.711142.3

Roylance & Associates P.A.
Engineers • Surveyors • Landplanners
391 W. State Street, Suite E, Eagle, Idaho 83616
Telephone (208) 939-2824 Fax (208) 939-2855

July 22, 2003
Project No: 2408

Legal Description
Suncor Development Company
Spring Valley Livestock Company properties in Gem County

A tract of land located in Township 6 North, Range 1 East, Boise Meridian, Gem County, Idaho described as follows:

In Section 12, Lots 1, 2, 3, 4, 5 and 6, and;

In Section 13, Lots 1, 2, 3, 4, 5, 6, 7 and 8, the Southeast One Quarter, the East One Half of the Southwest One Quarter and the Southwest One Quarter of the Southwest One Quarter, and;

In Section 14, Lots 5 and 6, except any portion of the Independence and Santiago Mines, and;

In Section 22, the Southeast One Quarter, the North One Half of the Southwest One Quarter and the Southeast One Quarter of the Southwest One Quarter, and;

In Section 23; Lots 2, 3, 5 and 6, except any portion of the Independence and Santiago Mines, the Southeast One Quarter, the Southwest One Quarter, and the Southeast One Quarter of the Northwest One Quarter, and;

All portions of Sections 24, 25, and 26;

In Section 27, the East One Half, the East One Half of the West One Half and the Southwest One Quarter of the Southwest One Quarter, and;

In Section 28, the Southeast One Quarter and the Southeast One Quarter of the Northeast One Quarter, and;

In Section 33, the East One Half, and;

In Section 34, the Northeast One Quarter, the South One Half, the South One Half of the Northwest One Quarter and the Northeast One Quarter of the Northwest One Quarter, and;

In Section 35, the North One Half, and the Southwest One Quarter;

In Section 36, the South One Half of the Southeast One Quarter and the Northeast One Quarter of the Southeast One Quarter, and;

Except the portions lying within the following 2 Legal Descriptions:

A tract of land situated in portions of Sections 13, 14, 23 and 24, Township 6 North, Range 1 East, Boise Meridian, Gem County, Idaho, described as follows:

Re: Amended Record of Survey filed as Instrument No. 170762, records of Gem County, Idaho.

Commencing at the section corner common to Sections 13, 14, 23 and 24, Township 6 North, Range 1 East, marked by a found 5/8" iron pin and aluminum cap monument stamped P.L.S. 4108;

Thence South 57°06'16" West, a distance of 656.51 feet to the Northeast corner of the Santiago Claim of the Black Pearl Group marked by a found 5/8" iron pin P.L.S. 4108 and the real point of beginning;
Thence along the Northeast boundary of the Santiago and the Easterly boundary of the Independence and the Deserter Claims of the Black Pearl Group the following courses and distances:
Thence North 79°40'40" West, a distance of 629.68 feet to a found 5/8" iron pin P.L.S. 4108,
Thence North 07°38'56" West, a distance of 598.85 feet to a found 5/8" iron pin P.L.S. 4108,
Thence North 21°58'55" West, a distance of 696.95 feet to the Northeast corner of the Deserter Claim of the Black Pearl Group marked by a found 5/8" iron pin P.L.S. 4108;
Thence leaving the Black Pearl Group, South 79° 44'14" East, a distance of 2273.98 feet to a set 5/8" iron pin P.L.S. 4108,
Thence South 19°13'10" West, a distance of 1806.00 feet to a set 5/8" iron pin P.L.S. 4108,
Thence North 78°09'12" West, a distance of 829.25 feet to the Southeast corner of the Santiago Claim of the Black Pearl Group,
Thence North 12°20'33" East, a distance of 601.51 feet, along the Easterly boundary line of the Santiago Claim to the real point of beginning.

AND

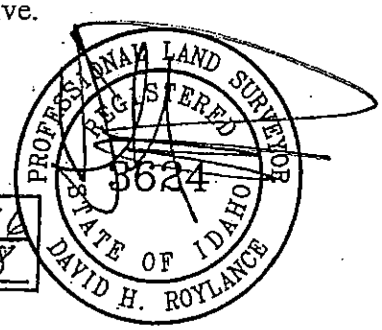
The following described portion of Deserter, Independence and Santiago Mining Claims:

Beginning at the Southwest corner of the Southeast One Quarter of the Southeast One Quarter of Section 14, Township 6 North, Range 1 East, Boise Meridian, Gem County, Idaho;
Thence South 0°0'00", a distance of 800.1 feet,
Thence South 78°12'00" East, a distance of 227.3 feet,
Thence South 85°57'00" East, a distance of 213.67 feet,
Thence South 8°50'00" West, a distance of 28.85 feet,
Thence South 78°12'00" East, a distance of 216.88 feet,
Thence North 12°22'00" East, a distance of 600 feet,
Thence North 79°49'00" West, a distance of 631.1 feet,
Thence North 7°30'00" West, a distance of 600 feet,
Thence North 21°52'00" West, a distance of 194.4 feet,
Thence South 0°0'00", a distance of 538.4 feet to the real point of beginning.

Subject to all existing easements and rights-of-way, recorded or prescriptive.

Prepared By: ROYLANCE & ASSOCIATES P.A.
391 W. STATE STREET, SUITE E
EAGLE, IDAHO 83616
208-939-2824
208-939-2855 (FAX)

INSTRU. NO. 231186
PAGES 5 OF 8



7-22-03

ADA COUNTY RECORDER
J. DAVID NAVARRO PIONEER
BOISE, IDAHO

2002 OC 22 AM 11:37

RECORDED - REQUEST OF

FEE 18- DEPUTY

102121552

Recording Requested By and
When Recorded Return to:

HAWLEY TROXELL ENNIS & HAWLEY LLP
Attn: Brian L. Ballard
P.O. Box 1617
Boise, Idaho 83701

221938A SR

SPACE ABOVE THIS LINE FOR RECORDER'S USE ONLY

MEMORANDUM OF AGREEMENTS
(Ada County)

THIS MEMORANDUM OF AGREEMENTS ("**Memorandum**") is made and entered into by and between SUNCOR DEVELOPMENT COMPANY, an Arizona corporation ("**SunCor**"), SPRING VALLEY LIVESTOCK COMPANY, INC., an Idaho corporation ("**Spring Valley**"), and COLIN McLEOD III and TERESA McLEOD, husband and wife, jointly and severally ("**McLeod**") (Spring Valley and McLeod collectively referred to hereinafter as "**Spring Valley/ McLeod**").

1. SunCor and Spring Valley/McLeod have entered into that certain Contribution Agreement, of even date herewith, and that certain Subdivision Trust Agreement, of even date herewith (collectively, the "**Agreements**"), pertaining to the development and sale of approximately 31,600 acres of real property, located in Ada County, Boise County and Gem County, Idaho, commonly referred to as "Spring Valley Ranch," and more particularly described on Exhibit A attached hereto and made a part hereof (the "**Property**"). Said Agreements are incorporated herein by this reference thereto, and set forth, among other things, the interests, rights and obligations of the parties with respect to the Property.

2. The terms, conditions and provisions of said Agreements herein shall extend to and be binding upon the heirs, executors, administrators, grantees, successors and assigns of the parties hereto.

3. In the event of any conflict between said Agreements and this Memorandum, said Agreements shall control.

[Signatures Appear on Following Page]

Department of Water Resources
APPLICANT'S
Exhibit 5
Date Admitted 10-31-06

41397.0001.667492.1

EXECUTED this 8 day of October, 2002.

SUNCOR: SUNCOR DEVELOPMENT COMPANY, an Arizona corporation

By [signature]

Its V.P.

SPRING VALLEY: SPRING VALLEY LIVESTOCK COMPANY, INC, an Idaho corporation

By [signature]

Its Pres.

McLEOD:

[signature]

COLIN McLEOD III

[signature]

TERESA McLEOD

STATE OF IDAHO)
) ss.
County of)

On this 8 day of October, 2002, before me, MICHAEL B. SWEET, a Notary Public in and for said State, personally appeared DUANE S. BLACK, known to me to be VICE PRESIDENT of SUNCOR DEVELOPMENT COMPANY, the corporation that executed the within instrument or the person who executed the instrument on behalf of said corporation, and acknowledged to me that such corporation executed the same.

WITNESS MY HAND and official seal hereto affixed the day, month and year in this certificate first above written.

MICHAEL B. SWEET NOTARY PUBLIC STATE OF IDAHO

[signature]

Notary Public for the State of Idaho

Residing at Caldwell

My commission expires 5-27-04

STATE OF IDAHO)
) ss.
County of)

On this 8th day of October, 2002, before me, Michael B. Sweet, a Notary Public in and for said State, personally appeared Colin McLeod III, known to me to be Pres. of SPRING VALLEY LIVESTOCK COMPANY, INC., the corporation that executed the within instrument or the person who executed the instrument on behalf of said corporation, and acknowledged to me that such corporation executed the same.

WITNESS MY HAND and official seal hereto affixed the day, month and year in this certificate first above written.

MICHAEL B. SWEET NOTARY PUBLIC STATE OF IDAHO

Notary Public for the State of Idaho
Residing at Caldwell
My commission expires 5-27-04

STATE OF IDAHO)
) ss.
County of)

On this 8th day of October, 2002, before me, Michael B. Sweet, a Notary Public in and for said state, personally appeared COLIN McLEOD III and TERESA McLEOD, husband and wife, known or identified to me to be the persons whose names are subscribed to the foregoing instrument, and acknowledged to me that they executed the same.

WITNESS MY HAND and official seal hereto affixed the day, month and year in this certificate first above written.

Notary Public for the State of Idaho
Residing at Caldwell
My commission expires 5-27-04

MICHAEL B. SWEET NOTARY PUBLIC STATE OF IDAHO

Spring Valley Ranch Acreage
per Prelim Title Report

10/9/02

EXHIBIT A (those portions of Core & Non-Core property in Ada County)

		Colin McLeod							SVL						
			# of Qtr Qtr Sections			Gov't Lot Acres				# of Qtr Qtr Sections			Gov't Lot Acres		
wnship	Section		Core	Non-Core	Excl	Core	Non-Core	Excl		Core	Non-Core	Excl	Core	Non-Core	Excl
T05N01E	1	Gov't Lot 1; S 1/2 of NE 1/4;	5			18.77			NW 1/4; N 1/2 of SW 1/4; SW 1/4 of	10					
Gov't Lot 1, Sect. 1		W 1/2 of SE 1/4; SE 1/4 of SW 1/4 *							SW 1/4; E 1/2 of SE 1/4; NW 1/4 of						
partially in Ada									NE 1/4 *						
& Boise County	2								Gov't Lots 3 & 4; S 1/2 of NW 1/4;		10		85.2		
									SW 1/4; SE 1/4						
The remainder	3	E 1/2 of SW 1/4; SE 1/4		6					Gov't Lots 1,2,3,4; S 1/2 of NE 1/4;		3		42.84	121.32	
of this Section									SE 1/4 of NW 1/4						
is in	4	S 1/2 of NW 1/4; S 1/2		10					Gov't Lots 1 & 4; SE 1/4 of NE 1/4;		1			77.53	
Ada County	5	NE 1/4 of SE 1/4		1					Gov't Lots 1 & 2; S 1/2 of NE 1/4		2			76.97	
	7	Gov't Lot 4					30		SE 1/4 of SW 1/4; SW 1/4 of SE 1/4		2				
	8	S 1/2 of NE 1/4; E 1/2 of NW 1/4;		7					SE 1/4 of SE 1/4		1				
		N 1/2 of SW 1/4; SW 1/4 of SW 1/4													
	9								N 1/2 of NE 1/4; SW 1/4 of NE 1/4;		15				
									NW 1/4; S 1/2						
	10	SE 1/4 of NE 1/4		1					SW 1/4		4				
	11	S 1/2 of NW 1/4		2					N 1/2 of NE 1/4		2				
	12	NW 1/4 of NE 1/4; NE 1/4 of NW 1/4;	2						S 1/2 of N 1/2; NW 1/4 of NW 1/4;	14					
									NE 1/4 of NE 1/4; S 1/2 *						
	13								N 1/2; N 1/2 of SW 1/4; SE 1/4	14					
	17	NW 1/4; N 1/2 of SW 1/4		6											
	18	Gov't Lots 1 and 2					59.24		NW 1/4 of NE 1/4; S 1/2 of NE 1/4;		11				
									E 1/2 of NW 1/4; E 1/2 of SW 1/4;						
									SE 1/4						
	19	Gov't Lots 1 and 2					60.16		NE 1/4; E 1/2 of NW 1/4; SE 1/4		10				
	20								SW 1/4 of NW 1/4; W 1/2 of SW 1/4		3				
	24								N 1/2 of NE 1/4	2					
T05N02E	4								Gov't Lots 1,2,3; S 1/2 of NE 1/4;		8			128.55	
Boise County:									S 1/2 of NW 1/4; SW 1/4						
"ll property	5								Gov't Lots 2,3,4; S 1/2 of N 1/2;	3	9		40.12	81.56	
' in Sect.									S 1/2						
,10,14,15,	6								All *	16					
16,23 & 24	7								All *	16					
& those portions	8								S 1/2 within Ada Cty; NE 1/2 of NE 1/4;		15				
of Sect. 6,7,8,									S 1/2 of NE 1/4; N 1/2 of NW 1/4; SE 1/4						
17,21,22 in									of NW 1/4; NE 1/4 of SW 1/4 in Boise						
Boise County									Cty; SE 1/4; S 1/2 of S 1/2						
									within Boise Cty						
Ada County:	9								W 1/2 of NE 1/4; N 1/2 of NW 1/4		4				
All property	10								NE 1/4 of NE 1/4; S 1/2 of NE 1/4; SE 1/4		7				
listed in Sect.									of SW 1/4; NW 1/4 & S 1/2 of SE 1/4						
18,19,20,27,28,	14								S 1/2 of S 1/2		4				
29,30 and those	15								N 1/2 of NE 1/4; NE 1/4 of NW 1/4;	2	7				
portions of									S 1/2 of NW 1/4; SW 1/4						
Sections 6,7,8,	16								SE 1/4 of SE 1/4	1					
17,21 & 22	17								N 1/2 of NE 1/4; N 1/2 of NW 1/4;	8	3				
within Ada									SW 1/4 of NW 1/4; W 1/2 of SW 1/4;						
County									SE 1/4 of SW 1/4; NW 1/4 of SE 1/4						
									S 1/2 of SE 1/4						
	18								All *	16					
	19								N 1/2 of N 1/2; SE 1/4 of NW 1/4;		7				
									E 1/2 of SE 1/4 *						
	20								All *	16					
	21	NW 1/4 of NE 1/4 *	1						All except NW 1/4 of NE 1/4 *	15					
	22								All	16					
	23								N 1/2; N 1/2 of SW 1/4; N 1/2 of SE 1/4;		13				
									SE 1/4 of SE 1/4						
	24								NW 1/4		4				
	27								NW 1/4 of NW 1/4		1				
	28								N 1/2 of N 1/2		4				
	29								N 1/2 of NW 1/4		2				
	30								N 1/2 of NE 1/4; SE 1/4 of NE 1/4;		5			42.78	
									E 1/2 of NW 1/4; Gov't Lot 2 *						
.N01W	10								E 1/2 of SE 1/4		2				
Ada County	11	SW 1/4 of NE 1/4; S 1/2 of NW 1/4;		11											
		S 1/2													
	12	SE 1/4 of NW 1/4; N 1/2 of SW 1/4;		9											

Spring Valley Ranch Acreage
per Prelim Title Report

10/9/02

EXHIBIT A (those portions of Core & Non-Core property in Ada County)

wnship	Section	Colin McLeod	# of Qtr Qtr Sections Core	# of Qtr Qtr Sections Non-Core	# of Qtr Qtr Sections Excl	Gov't Lot Acres Core	Gov't Lot Acres Non-Core	Gov't Lot Acres Excl	SVL	# of Qtr Qtr Sections Core	# of Qtr Qtr Sections Non-Core	# of Qtr Qtr Sections Excl	Gov't Lot Acres Core	Gov't Lot Acres Non-Core	Gov't Lot Acres Excl
T05N01W Ada County	13	S 1/2 of NE 1/4; SE 1/4 NE 1/4 of NE 1/4; NW 1/4 of NE 1/4; S 1/2 of NE 1/4; SE 1/4 of NW 1/4; S 1/2 of SW 1/4		7											
	14	N 1/2 of NE 1/4; SE 1/4 of NE 1/4; S 1/2 of NW 1/4; N 1/2 of SE 1/4; SW 1/4 of SE 1/4; NE 1/4 of SW 1/4		9					N 1/2 of NW 1/4; SE 1/4 of SW 1/4; SW 1/4 of NE 1/4		4				
	15								NE 1/4 of NE 1/4		1				
	22	SE 1/4 of NE 1/4; NE 1/4 of SE 1/4		2											
	23	S 1/2 of SW 1/4; NE 1/4 of NE 1/4; S 1/2 of NE 1/4; S 1/2 of NW 1/4; N 1/2 of SW 1/4; N 1/2 of SE 1/4; SW 1/4 of SE 1/4; NW 1/4 of NE 1/4		13											
	24	S 1/2 of NE 1/4; W 1/2 of NW 1/4; SE 1/4 of NW 1/4; NE 1/4 of SW 1/4; N 1/2 of SE 1/4		8											
	26	NW 1/4 of NW 1/4		1											
	27	NE 1/4 of NE 1/4		1											
T06N01E Gem County	12								Gov't Lots 1,2,3,4,5,6					218.16	
	13								Gov't Lots 1,2,3,4,5,6,7,8; SE 1/4; E 1/2 of SW 1/4; SW 1/4 of SW 1/4		7			290.88	
	14								Gov't Lots 5 & 6					72.72	
	21								Gov't Lots 4,6,7,8					145.44	
	22								Gov't Lots 2,3,6; NW 1/4 of SW 1/4; SE 1/4; NE 1/4 of NW 1/4; E 1/2 of SW 1/4	2	6			109.08	
	23								Gov't Lots 2,3,5,6; SE 1/4; SW 1/4; SE 1/4 of NW 1/4	9			145.4		
	24								All	16					
	25								All	16					
	26								All	16					
	27								NE 1/4; SE 1/4; E 1/2 of NW 1/4; E 1/2 of SW 1/4; SW 1/4 of SW 1/4		13				
	28								SE 1/4; SE 1/4 of NE 1/4		5				
	33								E 1/2		8				
	34								E 1/2; SW 1/4; E 1/2 of NW 1/4; SW 1/4 of NW 1/4	1	14				
	35								N 1/2; SW 1/4	12					
	36								S 1/2 of SE 1/4; NE 1/4 of SW 1/4	3					
T06N02E Boise County	7								Gov't Lots 3,4,10,11; E 1/2 of SW 1/4		2			131.95	
	13								NE 1/4; E 1/2 of NW 1/4; NE 1/4 of SW 1/4; S 1/2 of SW 1/4; SE 1/4			13			
	14								S 1/2		2	6			
	15								S 1/2		8				
	17								a parcel within SE 1/4 of SE 1/4						
	18								W 1/2 of NE 1/4; E 1/2 of NW 1/4; NE 1/4 of SW 1/4; Gov't Lots 1,2,3,4		5			141.12	
	19								S 1/2 of NE 1/4; SW 1/4; SE 1/4	10					
	20								All *	15	1				
	21								S 1/2; NE 1/4; NW 1/4 & S 1/2 of NW 1/4		15				
	22								All		16				
	23								NE 1/4; W 1/2		12				
	24								E 1/2; NW 1/4 of NW 1/4			9			
	27								All		16				
	28								N 1/2; N 1/2 of S 1/2; SE 1/4 of SE 1/4	8	5				
	29								All	8	8				
	30								All *	16					
	31								E 1/2; E 1/2 of W 1/2; Gov't Lots 2,3,4 *	12			114.4		
	32								N 1/2; N 1/2 of S 1/2; S 1/2 of SW 1/4; SW 1/4 of SE 1/4	1	14				
	33								N 1/2 of NW 1/4; NW 1/4 of SW 1/4; S 1/2 of SW 1/4		5				
	34								E 1/2; E 1/2 of NW 1/4		10				
	35								NE 1/4 of SW 1/4; S 1/2 of SW 1/4		3				

Spring Valley Ranch Acreage
per Prelim Title Report

10/9/02

EXHIBIT A (those portions of Core & Non-Core property in Ada County)

wnship	Section	Colin McLeod	# of Qtr Qtr Sections			Gov't Lot Acres			SVL	# of Qtr Qtr Sections			Gov't Lot Acres		
			Core	Non-Core	Excl	Core	Non-Core	Excl		Core	Non-Core	Excl	Core	Non-Core	Excl
T06N03E	1	Gov't Lot 4; SW 1/4 of NW 1/4;			3			37.4							
Boise County		W 1/2 of SW 1/4													
	2	Gov't Lot 1; S 1/2 of NE 1/4;			6			37.1							
		N 1/2 of SW 1/4; SE 1/4 of SW 1/4;													
		NE 1/4 of SE 1/4													
	3	S 1/2 of N 1/2; S 1/2			12										
	4	NE 1/4 of SW 1/4; S 1/2 of SW 1/4;			7										
		SE 1/4													
	5	S 1/2 of SE 1/4			2										
	7	SE 1/4 of SW 1/4			1				E 1/2			8			
	8	E 1/2; S 1/2 of SE 1/4			8				W 1/2			8			
	9	All *			16										
	10	N 1/2 of N 1/2			4										
	11	NW 1/4 of NW 1/4			1										
	17								All			16			
	18								All			16			
	19								All			16			
	20								SE 1/4 of NE 1/4; W 1/2 of NW 1/4;			10			
									SW 1/4; NE 1/4 of SE 1/4; S 1/2 of SE 1/4						
	30								N 1/2 of N 1/2			4			
		Total # of 1/4 Sections	8	94	60					294	339	106			
		Acres per 1/4 Section	40	40	40					40	40	40			
		Subtotal Acres	320	3760	2400	19	149	74.5		11760	13560	4240.0	428	1638	0.0
									Less 1 acre, Sect 12, T05N01E	-1					
		Subtotal Core Acres	339						Subtotal Core Acres	12187					
		Subtotal Non-Core Acres	3909						Subtotal Non-Core Acres	15198					
		Subtotal Excluded Acres	2475						Subtotal Excluded Acres	4240					
		Total	6723						Total	31625					
		Ranch Property Total	38348												
		Total Core Acres	12526												
		Total Non-Core Acres	19107												
		Total Contract Acres	31633												
		Total Excluded Acres	6715												

* contain exceptions per the title report

NOTE: The above information was obtained from the preliminary title report prepared by Pioneer Title on March 4, 2002 and additional information gathered by Pioneer in September 2002

Recording Requested By and
When Recorded Return to:

HAWLEY TROXELL ENNIS & HAWLEY LLP
Attn: Brian L. Ballard
P.O. Box 1617
Boise, Idaho 83701

221938 b SR

Instrument # 187819
IDAHO CITY, BOISE COUNTY, IDAHO
2002-10-22 04:28:43 No. of Pages: 6
Recorded for : PIONEER TITLE CORPORATION
RORA A. CANODY Fee: 18.00
Ex-Officio Recorder Deputy
Index to: DEEDS

SPACE ABOVE THIS LINE FOR RECORDER'S USE ONLY

MEMORANDUM OF AGREEMENTS
(Boise County)

THIS MEMORANDUM OF AGREEMENTS ("**Memorandum**") is made and entered into by and between SUNCOR DEVELOPMENT COMPANY, an Arizona corporation ("**SunCor**"), SPRING VALLEY LIVESTOCK COMPANY, INC., an Idaho corporation ("**Spring Valley**"), and COLIN McLEOD III and TERESA McLEOD, husband and wife, jointly and severally ("**McLeod**") (Spring Valley and McLeod collectively referred to hereinafter as "**Spring Valley/ McLeod**").

1. SunCor and Spring Valley/McLeod have entered into that certain Contribution Agreement, of even date herewith, and that certain Subdivision Trust Agreement, of even date herewith (collectively, the "**Agreements**"), pertaining to the development and sale of approximately 31,600 acres of real property, located in Ada County, Boise County and Gem County, Idaho, commonly referred to as "Spring Valley Ranch," and more particularly described on Exhibit A attached hereto and made a part hereof (the "**Property**"). Said Agreements are incorporated herein by this reference thereto, and set forth, among other things, the interests, rights and obligations of the parties with respect to the Property.

2. The terms, conditions and provisions of said Agreements herein shall extend to and be binding upon the heirs, executors, administrators, grantees, successors and assigns of the parties hereto.

3. In the event of any conflict between said Agreements and this Memorandum, said Agreements shall control.

[Signatures Appear on Following Page]

41397.0001.667522.1

EXECUTED this 8th day of October, 2002.

SUNCOR: SUNCOR DEVELOPMENT COMPANY, an Arizona corporation

By [signature]

Its V.P.

SPRING VALLEY: SPRING VALLEY LIVESTOCK COMPANY, INC, an Idaho corporation

By [signature]

Its pres.

McLEOD:

[signature]

COLIN McLEOD III

[signature]

TERESA McLEOD

STATE OF IDAHO)
) ss.
County of)

On this 8th day of October, 2002, before me, Michael B. Sweet, a Notary Public in and for said State, personally appeared Duane S. Black, known to me to be Vice President of SUNCOR DEVELOPMENT COMPANY, the corporation that executed the within instrument or the person who executed the instrument on behalf of said corporation, and acknowledged to me that such corporation executed the same.

WITNESS MY HAND and official seal hereto affixed the day, month and year in this certificate first above written.

MICHAEL B. SWEET NOTARY PUBLIC STATE OF IDAHO

[signature]

Notary Public for the State of Idaho

Residing at Caldwell

My commission expires 5-27-04

STATE OF IDAHO)
) ss.
County of)

On this 8th day of October, 2002, before me, Michael B. Sweet, a Notary Public in and for said State, personally appeared Colin S. McLeod, known to me to be President of SPRING VALLEY LIVESTOCK COMPANY, INC., the corporation that executed the within instrument or the person who executed the instrument on behalf of said corporation, and acknowledged to me that such corporation executed the same.

WITNESS MY HAND and official seal hereto affixed the day, month and year in this certificate first above written.

MICHAEL B. SWEET
NOTARY PUBLIC
STATE OF IDAHO

Michael B. Sweet
Notary Public for the State of Idaho
Residing at Caldwell
My commission expires 5-27-04

STATE OF IDAHO)
) ss.
County of)

On this 8th day of October, 2002, before me, Michael B. Sweet, a Notary Public in and for said state, personally appeared COLIN McLEOD III and TERESA McLEOD, husband and wife, known or identified to me to be the persons whose names are subscribed to the foregoing instrument, and acknowledged to me that they executed the same.

WITNESS MY HAND and official seal hereto affixed the day, month and year in this certificate first above written.

MICHAEL B. SWEET
NOTARY PUBLIC
STATE OF IDAHO

Michael B. Sweet
Notary Public for the State of Idaho
Residing at Caldwell
My commission expires 5-27-04

Spring Valley Ranch Acreage
per Prelim Title Report

10/9/02

EXHIBIT A (those portions of Core & Non-Core property in Boise County)

wnship	Section	Colin McLeod							SVL						
			# of Qtr Qtr Sections			Gov't Lot Acres				# of Qtr Qtr Sections			Gov't Lot Acres		
			Core	Non-Core	Excl	Core	Non-Core	Excl		Core	Non-Core	Excl	Core	Non-Core	Excl
T05N01E	1	Gov't Lot 1; S 1/2 of NE 1/4;	5			18.77			NW 1/4; N 1/2 of SW 1/4; SW 1/4 of	10					
Gov't Lot 1, Sect. 1		W 1/2 of SE 1/4; SE 1/4 of SW 1/4 *							SW 1/4; E 1/2 of SE 1/4; NW 1/4 of						
partially in Ada									NE 1/4 *						
& Boise County	2								Gov't Lots 3 & 4; S 1/2 of NW 1/4;		10		85.2		
									SW 1/4; SE 1/4						
The remainder	3	E 1/2 of SW 1/4; SE 1/4		6					Gov't Lots 1,2,3,4; S 1/2 of NE 1/4;		3		42.84	121.32	
of this Section									SE 1/4 of NW 1/4						
is in	4	S 1/2 of NW 1/4; S 1/2		10					Gov't Lots 1 & 4; SE 1/4 of NE 1/4;		1			77.53	
Ada County	5	NE 1/4 of SE 1/4		1					Gov't Lots 1 & 2; S 1/2 of NE 1/4		2			76.97	
	7	Gov't Lot 4					30		SE 1/4 of SW 1/4; SW 1/4 of SE 1/4		2				
	8	S 1/2 of NE 1/4; E 1/2 of NW 1/4;		7					SE 1/4 of SE 1/4		1				
		N 1/2 of SW 1/4; SW 1/4 of SW 1/4													
	9								N 1/2 of NE 1/4; SW 1/4 of NE 1/4;		15				
									NW 1/4; S 1/2						
	10	SE 1/4 of NE 1/4		1					SW 1/4		4				
	11	S 1/2 of NW 1/4		2					N 1/2 of NE 1/4		2				
	12	NW 1/4 of NE 1/4; NE 1/4 of NW 1/4;	2						S 1/2 of N 1/2; NW 1/4 of NW 1/4;	14					
									NE 1/4 of NE 1/4; S 1/2 *						
	13								N 1/2; N 1/2 of SW 1/4; SE 1/4	14					
	17	NW 1/4; N 1/2 of SW 1/4		6											
	18	Gov't Lots 1 and 2					59.24		NW 1/4 of NE 1/4; S 1/2 of NE 1/4;		11				
									E 1/2 of NW 1/4; E 1/2 of SW 1/4;						
									SE 1/4						
	19	Gov't Lots 1 and 2					60.16		NE 1/4; E 1/2 of NW 1/4; SE 1/4		10				
	20								SW 1/4 of NW 1/4; W 1/2 of SW 1/4		3				
	24								N 1/2 of NE 1/4	2					
T05N02E	4								Gov't Lots 1,2,3; S 1/2 of NE 1/4;		8			128.55	
Boise County:									S 1/2 of NW 1/4; SW 1/4						
All property	5								Gov't Lots 2,3,4; S 1/2 of N 1/2;	3	9		40.12	81.56	
d in Sect.									S 1/2						
10,14,15,	6								All *	16					
,23 & 24	7								All *	16					
& those portions	8								S 1/2 within Ada Cty; NE 1/2 of NE 1/4;		15				
of Sect. 6,7,8,									S 1/2 of NE 1/4; N 1/2 of NW 1/4; SE 1/4						
17,21,22 in									of NW 1/4; NE 1/4 of SW 1/4 in Boise						
Boise County									Cty; SE 1/4; S 1/2 of S 1/2						
									within Boise Cty						
Ada County:	9								W 1/2 of NE 1/4; N 1/2 of NW 1/4		4				
All property	10								NE 1/4 of NE 1/4; S 1/2 of NE 1/4; SE 1/4		7				
listed in Sect.									of SW 1/4; NW 1/4 & S 1/2 of SE 1/4						
18,19,20,27,28,	14								S 1/2 of S 1/2		4				
29,30 and those	15								N 1/2 of NE 1/4; NE 1/4 of NW 1/4;	2	7				
portions of									S 1/2 of NW 1/4; SW 1/4						
Sections 6,7,8,	16								SE 1/4 of SE 1/4	1					
17,21 & 22	17								N 1/2 of NE 1/4; N 1/2 of NW 1/4;	8	3				
within Ada									SW 1/4 of NW 1/4; W 1/2 of SW 1/4;						
County									SE 1/4 of SW 1/4; NW 1/4 of SE 1/4						
									S 1/2 of SE 1/4						
	18								All *	16					
	19								N 1/2 of N 1/2; SE 1/4 of NW 1/4;		7				
									E 1/2 of SE 1/4 *						
	20								All *	16					
	21	NW 1/4 of NE 1/4 *	1						All except NW 1/4 of NE 1/4 *	15					
	22								All	16					
	23								N 1/2; N 1/2 of SW 1/4; N 1/2 of SE 1/4;		13				
									SE 1/4 of SE 1/4						
	24								NW 1/4		4				
	27								NW 1/4 of NW 1/4		1				
	28								N 1/2 of N 1/2		4				
	29								N 1/2 of NW 1/4		2				
	30								N 1/2 of NE 1/4; SE 1/4 of NE 1/4;		5			42.78	
									E 1/2 of NW 1/4; Gov't Lot 2 *						
01W	10								E 1/2 of SE 1/4		2				
Ada County	11	SW 1/4 of NE 1/4; S 1/2 of NW 1/4;		11											
		S 1/2													
	12	SE 1/4 of NW 1/4; N 1/2 of SW 1/4;		9											

Spring Valley Ranch Acreage
per Prelim Title Report

10/9/02

EXHIBIT A (those portions of Core & Non-Core property in Boise County)

Township	Section	Colin McLeod	# of Qtr Qtr Sections Core	# of Qtr Qtr Sections Non-Core	# of Qtr Qtr Sections Excl	Gov't Lot Acres Core	Gov't Lot Acres Non-Core	Gov't Lot Acres Excl	SVL	# of Qtr Qtr Sections Core	# of Qtr Qtr Sections Non-Core	# of Qtr Qtr Sections Excl	Gov't Lot Acres Core	Gov't Lot Acres Non-Core	Gov't Lot Acres Excl
T05N01W		S 1/2 of NE 1/4; SE 1/4													
Ada County	13	NE 1/4 of NE 1/4; NW 1/4 of NE 1/4;		7											
		S 1/2 of NE 1/4; SE 1/4 of NW 1/4;													
		S 1/2 of SW 1/4													
	14	N 1/2 of NE 1/4; SE 1/4 of NE 1/4;		9					N 1/2 of NW 1/4; SE 1/4 of SW 1/4;		4				
		S 1/2 of NW 1/4; N 1/2 of SE 1/4;							SW 1/4 of NE 1/4						
		SW 1/4 of SE 1/4; NE 1/4 of SW 1/4													
	15								NE 1/4 of NE 1/4		1				
	22	SE 1/4 of NE 1/4; NE 1/4 of SE 1/4		2											
	23	S 1/2 of SW 1/4; NE 1/4 of NE 1/4;		13											
		S 1/2 of NE 1/4; S 1/2 of NW 1/4;													
		N 1/2 of SW 1/4; N 1/2 of SE 1/4;													
		SW 1/4 of SE 1/4; NW 1/4 of NE 1/4													
	24	S 1/2 of NE 1/4; W 1/2 of NW 1/4;		8											
		SE 1/4 of NW 1/4; NE 1/4 of SW 1/4;													
		N 1/2 of SE 1/4													
	26	NW 1/4 of NW 1/4		1											
	27	NE 1/4 of NE 1/4		1											
T06N01E	12								Gov't Lots 1,2,3,4,5,6					218.16	
Gem County	13								Gov't Lots 1,2,3,4,5,6,7,8; SE 1/4; E 1/2 of		7			290.88	
									SW 1/4; SW 1/4 of SW 1/4						
	14								Gov't Lots 5 & 6					72.72	
	21								Gov't Lots 4,6,7,8					145.44	
	22								Gov't Lots 2,3,6; NW 1/4 of SW 1/4;	2	6			109.08	
									SE 1/4; NE 1/4 of NW 1/4; E 1/2 of SW 1/4						
	23								Gov't Lots 2,3,5,6; SE 1/4; SW 1/4; SE 1/4	9			145.4		
									of NW 1/4						
	24								All	16					
	25								All	16					
	26								All	16					
	27								NE 1/4; SE 1/4; E 1/2 of NW 1/4; E 1/2 of		13				
									SW 1/4; SW 1/4 of SW 1/4						
	28								SE 1/4; SE 1/4 of NE 1/4		5				
	33								E 1/2		8				
	34								E 1/2; SW 1/4; E 1/2 of NW 1/4; SW 1/4 of	1	14				
									NW 1/4						
	35								N 1/2; SW 1/4	12					
	36								S 1/2 of SE 1/4; NE 1/4 of SW 1/4	3					
T06N02E	7								Gov't Lots 3,4,10,11; E 1/2 of SW 1/4		2			131.95	
Boise County	13								NE 1/4; E 1/2 of NW 1/4; NE 1/4 of SW 1/4;			13			
									S 1/2 of SW 1/4; SE 1/4						
	14								S 1/2		2	6			
	15								S 1/2		8				
	17								a parcel within SE 1/4 of SE 1/4						
	18								W 1/2 of NE 1/4; E 1/2 of NW 1/4; NE 1/4		5			141.12	
									of SW 1/4; Gov't Lots 1,2,3,4						
	19								S 1/2 of NE 1/4; SW 1/4; SE 1/4	10					
	20								All *	15	1				
	21								S 1/2; NE 1/4; NW 1/4 & S 1/2 of NW 1/4		15				
	22								All		16				
	23								NE 1/4; W 1/2		12				
	24								E 1/2; NW 1/4 of NW 1/4			9			
	27								All		16				
	28								N 1/2; N 1/2 of S 1/2; SE 1/4 of SE 1/4	8	5				
	29								All	8	8				
	30								All *	16					
	31								E 1/2; E 1/2 of W 1/2; Gov't Lots 2,3,4 *	12			114.4		
	32								N 1/2; N 1/2 of S 1/2; S 1/2 of SW 1/4;	1	14				
									SW 1/4 of SE 1/4						
	33								N 1/2 of NW 1/4; NW 1/4 of SW 1/4;		5				
									S 1/2 of SW 1/4						
	34								E 1/2; E 1/2 of NW 1/4		10				
	35								NE 1/4 of SW 1/4; S 1/2 of SW 1/4		3				

Spring Valley Ranch Acreage
per Prelim Title Report

10/9/02

EXHIBIT A (those portions of Core & Non-Core property in Boise County)

Township	Section	Colin McLeod	# of Qtr Qtr Sections Core	# of Qtr Qtr Sections Non-Core	# of Qtr Qtr Sections Excl	Gov't Lot Acres Core	Gov't Lot Acres Non-Core	Gov't Lot Acres Excl	SVL	# of Qtr Qtr Sections Core	# of Qtr Qtr Sections Non-Core	# of Qtr Qtr Sections Excl	Gov't Lot Acres Core	Gov't Lot Acres Non-Core	Gov't Lot Acres Excl
T06N03E	1	Gov't Lot 4; SW 1/4 of NW 1/4;			3			37.4							
Boise County		W 1/2 of SW 1/4													
	2	Gov't Lot 1; S 1/2 of NE 1/4;			6			37.1							
		N 1/2 of SW 1/4; SE 1/4 of SW 1/4;													
		NE 1/4 of SE 1/4													
	3	S 1/2 of N 1/2; S 1/2			12										
	4	NE 1/4 of SW 1/4; S 1/2 of SW 1/4;			7										
		SE 1/4													
	5	S 1/2 of SE 1/4			2										
	7	SE 1/4 of SW 1/4			1				E 1/2			8			
	8	E 1/2; S 1/2 of SE 1/4			8				W 1/2			8			
	9	All *			16										
	10	N 1/2 of N 1/2			4										
	11	NW 1/4 of NW 1/4			1										
	17								All			16			
	18								All			16			
	19								All			16			
	20								SE 1/4 of NE 1/4; W 1/2 of NW 1/4;			10			
									SW 1/4; NE 1/4 of SE 1/4; S 1/2 of SE 1/4						
	30								N 1/2 of N 1/2			4			
		Total # of 1/4 Sections	8	94	60					294	339	106			
		Acres per 1/4 Section	40	40	40					40	40	40			
		Subtotal Acres	320	3760	2400	19	149	74.5		11760	13560	4240.0	428	1638	0.0
									Less 1 acre, Sect 12, T05N01E	-1					
		Subtotal Core Acres	339						Subtotal Core Acres	12187					
		Subtotal Non-Core Acres	3909						Subtotal Non-Core Acres	15198					
		Subtotal Excluded Acres	2475						Subtotal Excluded Acres	4240					
		Total	6723						Total	31625					
		Ranch Property Total	38348												
		Total Core Acres	12526												
		Total Non-Core Acres	19107												
		Total Contract Acres	31633												
		Total Excluded Acres	6715												

* contain exceptions per the title report

NOTE: The above information was obtained from the preliminary title report prepared by Pioneer Title on March 4, 2002 and additional information gathered by Pioneer in September 2002

INSTRU. NO. 225011
PAGES 1 OF 6

Recording Requested By and
When Recorded Return to:

HAWLEY TROXELL ENNIS & HAWLEY LLP
Attn: Brian L. Ballard
P.O. Box 1617
Boise, Idaho 83701

Instrument # 225011
EMMETT, GEM, IDAHO
2002-10-22 01:56:00 No. of Pages: 6
Recorded for : MICHAEL B SWEET
SUSAN K. HOWARD Fee: 18.00
Ex-Officio Recorder Deputy Judy Evans
Index to: MISCELLANEOUS

SPACE ABOVE THIS LINE FOR RECORDER'S USE ONLY

MEMORANDUM OF AGREEMENTS
(Gem County)

THIS MEMORANDUM OF AGREEMENTS ("**Memorandum**") is made and entered into by and between SUNCOR DEVELOPMENT COMPANY, an Arizona corporation ("**SunCor**"), SPRING VALLEY LIVESTOCK COMPANY, INC., an Idaho corporation ("**Spring Valley**"), and COLIN McLEOD III and TERESA McLEOD, husband and wife, jointly and severally ("**McLeod**") (Spring Valley and McLeod collectively referred to hereinafter as "**Spring Valley/ McLeod**").

1. SunCor and Spring Valley/McLeod have entered into that certain Contribution Agreement, of even date herewith, and that certain Subdivision Trust Agreement, of even date herewith (collectively, the "**Agreements**"), pertaining to the development and sale of approximately 31,600 acres of real property, located in Ada County, Boise County and Gem County, Idaho, commonly referred to as "Spring Valley Ranch," and more particularly described on Exhibit A attached hereto and made a part hereof (the "**Property**"). Said Agreements are incorporated herein by this reference thereto, and set forth, among other things, the interests, rights and obligations of the parties with respect to the Property.

2. The terms, conditions and provisions of said Agreements herein shall extend to and be binding upon the heirs, executors, administrators, grantees, successors and assigns of the parties hereto.

3. In the event of any conflict between said Agreements and this Memorandum, said Agreements shall control.

[Signatures Appear on Following Page]

41397.0001.667523.1

EXECUTED this 8th day of October, 2002.

SUNCOR: SUNCOR DEVELOPMENT COMPANY, an Arizona corporation

By ______________________

Its V.P.

SPRING VALLEY: SPRING VALLEY LIVESTOCK COMPANY, INC, an Idaho corporation

By ______________________

Its ______________________

McLEOD:

____
COLIN McLEOD III

____
TERESA McLEOD

STATE OF IDAHO)
) ss.
County of)

On this 8 day of October, 2002, before me, Michael Sweet, a Notary Public in and for said State, personally appeared Duane Black, known to me to be Vice-President of SUNCOR DEVELOPMENT COMPANY, the corporation that executed the within instrument or the person who executed the instrument on behalf of said corporation, and acknowledged to me that such corporation executed the same.

WITNESS MY HAND and official seal hereto affixed the day, month and year in this certificate first above written.

MICHAEL B. SWEET NOTARY PUBLIC STATE OF IDAHO

____
Notary Public for the State of Idaho
Residing at Caldwell
My commission expires 5-27-04

41397.0001.667523.1

INSTRU. NO. 225011
PAGES 3 OF 6

STATE OF IDAHO)
) ss.
County of)

On this 8th day of October, 2002, before me, Michael Sweet, a Notary Public in and for said State, personally appeared Colin McLeod III, known to me to be President of SPRING VALLEY LIVESTOCK COMPANY, INC., the corporation that executed the within instrument or the person who executed the instrument on behalf of said corporation, and acknowledged to me that such corporation executed the same.

WITNESS MY HAND and official seal hereto affixed the day, month and year in this certificate first above written.

Michael B. Sweet
Notary Public for the State of Idaho
Residing at Caldwell
My commission expires 5-27-04

STATE OF IDAHO)
) ss.
County of)

On this 8th day of October, 2002, before me, Michael B. Sweet, a Notary Public in and for said state, personally appeared COLIN McLEOD III and TERESA McLEOD, husband and wife, known or identified to me to be the persons whose names are subscribed to the foregoing instrument, and acknowledged to me that they executed the same.

WITNESS MY HAND and official seal hereto affixed the day, month and year in this certificate first above written.

Michael B. Sweet
Notary Public for the State of Idaho
Residing at Caldwell
My commission expires 5-27-04

Spring Valley Ranch Acreage
per Prelim Title Report

10/9/02

EXHIBIT A (those portions of Core & Non-Core property in Gem County)

Township	Section	Colin McLeod	# of Qtr Qtr Sections Core	# of Qtr Qtr Sections Non-Core	# of Qtr Qtr Sections Excl	Gov't Lot Acres Core	Gov't Lot Acres Non-Core	Gov't Lot Acres Excl	SVL	# of Qtr Qtr Sections Core	# of Qtr Qtr Sections Non-Core	# of Qtr Qtr Sections Excl	Gov't Lot Acres Core	Gov't Lot Acres Non-Core	Gov't Lot Acres Excl
T05N01E	1	Gov't Lot 1; S 1/2 of NE 1/4;	5			18.77			NW 1/4; N 1/2 of SW 1/4; SW 1/4 of	10					
Gov't Lot 1, Sect. 1		W 1/2 of SE 1/4; SE 1/4 of SW 1/4 *							SW 1/4; E 1/2 of SE 1/4; NW 1/4 of						
partially in Ada									NE 1/4 *						
& Boise County	2								Gov't Lots 3 & 4; S 1/2 of NW 1/4;		10		85.2		
									SW 1/4; SE 1/4						
The remainder	3	E 1/2 of SW 1/4; SE 1/4		6					Gov't Lots 1,2,3,4; S 1/2 of NE 1/4;		3		42.84	121.32	
of this Section									SE 1/4 of NW 1/4						
is in	4	S 1/2 of NW 1/4; S 1/2		10					Gov't Lots 1 & 4; SE 1/4 of NE 1/4;		1			77.53	
Ada County	5	NE 1/4 of SE 1/4		1					Gov't Lots 1 & 2; S 1/2 of NE 1/4		2			76.97	
	7	Gov't Lot 4					30		SE 1/4 of SW 1/4; SW 1/4 of SE 1/4		2				
	8	S 1/2 of NE 1/4; E 1/2 of NW 1/4;		7					SE 1/4 of SE 1/4		1				
		N 1/2 of SW 1/4; SW 1/4 of SW 1/4													
	9								N 1/2 of NE 1/4; SW 1/4 of NE 1/4;		15				
									NW 1/4; S 1/2						
	10	SE 1/4 of NE 1/4		1					SW 1/4		4				
	11	S 1/2 of NW 1/4		2					N 1/2 of NE 1/4		2				
	12	NW 1/4 of NE 1/4; NE 1/4 of NW 1/4;	2						S 1/2 of N 1/2; NW 1/4 of NW 1/4;	14					
									NE 1/4 of NE 1/4; S 1/2 *						
	13								N 1/2; N 1/2 of SW 1/4; SE 1/4	14					
	17	NW 1/4; N 1/2 of SW 1/4		6											
	18	Gov't Lots 1 and 2					59.24		NW 1/4 of NE 1/4; S 1/2 of NE 1/4;		11				
									E 1/2 of NW 1/4; E 1/2 of SW 1/4;						
									SE 1/4						
	19	Gov't Lots 1 and 2					60.16		NE 1/4; E 1/2 of NW 1/4; SE 1/4		10				
	20								SW 1/4 of NW 1/4; W 1/2 of SW 1/4		3				
	24								N 1/2 of NE 1/4	2					
T05N02E	4								Gov't Lots 1,2,3; S 1/2 of NE 1/4;		8			128.55	
Boise County:									S 1/2 of NW 1/4; SW 1/4						
All property	5								Gov't Lots 2,3,4; S 1/2 of N 1/2;	3	9		40.12	81.56	
ted in Sect.									S 1/2						
,9,10,14,15,	6								All *	16					
16,23 & 24	7								All *	16					
& those portions	8								S 1/2 within Ada Cty; NE 1/2 of NE 1/4;		15				
of Sect. 6,7,8,									S 1/2 of NE 1/4; N 1/2 of NW 1/4; SE 1/4						
17,21,22 in									of NW 1/4; NE 1/4 of SW 1/4 in Boise						
Boise County									Cty; SE 1/4; S 1/2 of S 1/2						
									within Boise Cty						
Ada County:	9								W 1/2 of NE 1/4; N 1/2 of NW 1/4		4				
All property	10								NE 1/4 of NE 1/4; S 1/2 of NE 1/4; SE 1/4		7				
listed in Sect.									of SW 1/4; NW 1/4 & S 1/2 of SE 1/4						
18,19,20,27,28,	14								S 1/2 of S 1/2		4				
29,30 and those	15								N 1/2 of NE 1/4; NE 1/4 of NW 1/4;	2	7				
portions of									S 1/2 of NW 1/4; SW 1/4						
Sections 6,7,8,	16								SE 1/4 of SE 1/4	1					
17,21 & 22	17								N 1/2 of NE 1/4; N 1/2 of NW 1/4;	8	3				
within Ada									SW 1/4 of NW 1/4; W 1/2 of SW 1/4;						
County									SE 1/4 of SW 1/4; NW 1/4 of SE 1/4						
									S 1/2 of SE 1/4						
	18								All *	16					
	19								N 1/2 of N 1/2; SE 1/4 of NW 1/4;		7				
									E 1/2 of SE 1/4 *						
	20								All *	16					
	21	NW 1/4 of NE 1/4 *	1						All except NW 1/4 of NE 1/4 *	15					
	22								All	16					
	23								N 1/2; N 1/2 of SW 1/4; N 1/2 of SE 1/4;		13				
									SE 1/4 of SE 1/4						
	24								NW 1/4		4				
	27								NW 1/4 of NW 1/4		1				
	28								N 1/2 of N 1/2		4				
	29								N 1/2 of NW 1/4		2				
	30								N 1/2 of NE 1/4; SE 1/4 of NE 1/4;		5			42.78	
									E 1/2 of NW 1/4; Gov't Lot 2 *						
N01W	10								E 1/2 of SE 1/4		2				
Ada County	11	SW 1/4 of NE 1/4; S 1/2 of NW 1/4;		11											
		S 1/2													
	12	SE 1/4 of NW 1/4; N 1/2 of SW 1/4;		9											

Spring Valley Ranch Acreage
per Prelim Title Report

10/9/02

EXHIBIT A (those portions of Core & Non-Core property in Gem County)

Township	Section	Colin McLeod	# of Qtr Qtr Sections Core	# of Qtr Qtr Sections Non-Core	Excl	Gov't Lot Acres Core	Gov't Lot Acres Non-Core	Excl	SVL	# of Qtr Qtr Sections Core	# of Qtr Qtr Sections Non-Core	Excl	Gov't Lot Acres Core	Gov't Lot Acres Non-Core	Excl
T05N01W		S 1/2 of NE 1/4; SE 1/4													
Ada County	13	NE 1/4 of NE 1/4; NW 1/4 of NE 1/4;		7											
		S 1/2 of NE 1/4; SE 1/4 of NW 1/4;													
		S 1/2 of SW 1/4													
	14	N 1/2 of NE 1/4; SE 1/4 of NE 1/4;		9					N 1/2 of NW 1/4; SE 1/4 of SW 1/4;		4				
		S 1/2 of NW 1/4; N 1/2 of SE 1/4;							SW 1/4 of NE 1/4						
		SW 1/4 of SE 1/4; NE 1/4 of SW 1/4													
	15								NE 1/4 of NE 1/4		1				
	22	SE 1/4 of NE 1/4; NE 1/4 of SE 1/4		2											
	23	S 1/2 of SW 1/4; NE 1/4 of NE 1/4;		13											
		S 1/2 of NE 1/4; S 1/2 of NW 1/4;													
		N 1/2 of SW 1/4; N 1/2 of SE 1/4;													
		SW 1/4 of SE 1/4; NW 1/4 of NE 1/4													
	24	S 1/2 of NE 1/4; W 1/2 of NW 1/4;		8											
		SE 1/4 of NW 1/4; NE 1/4 of SW 1/4;													
		N 1/2 of SE 1/4													
	26	NW 1/4 of NW 1/4		1											
	27	NE 1/4 of NE 1/4		1											
T06N01E	12								Gov't Lots 1,2,3,4,5,6					218.16	
Gem County	13								Gov't Lots 1,2,3,4,5,6,7,8; SE 1/4; E 1/2 of		7			290.88	
									SW 1/4; SW 1/4 of SW 1/4						
	14								Gov't Lots 5 & 6					72.72	
	21								Gov't Lots 4,6,7,8					145.44	
	22								Gov't Lots 2,3,6; NW 1/4 of SW 1/4;	2	6			109.08	
									SE 1/4; NE 1/4 of NW 1/4; E 1/2 of SW 1/4						
	23								Gov't Lots 2,3,5,6; SE 1/4; SW 1/4; SE 1/4	9			145.4		
									of NW 1/4						
	24								All	16					
	25								All	16					
	26								All	16					
	27								NE 1/4; SE 1/4; E 1/2 of NW 1/4; E 1/2 of		13				
									SW 1/4; SW 1/4 of SW 1/4						
	28								SE 1/4; SE 1/4 of NE 1/4		5				
	33								E 1/2		8				
	34								E 1/2; SW 1/4; E 1/2 of NW 1/4; SW 1/4 of	1	14				
									NW 1/4						
	35								N 1/2; SW 1/4	12					
	36								S 1/2 of SE 1/4; NE 1/4 of SW 1/4	3					
T06N02E	7								Gov't Lots 3,4,10,11; E 1/2 of SW 1/4		2			131.95	
Boise County	13								NE 1/4; E 1/2 of NW 1/4; NE 1/4 of SW 1/4;			13			
									S 1/2 of SW 1/4; SE 1/4						
	14								S 1/2		2	6			
	15								S 1/2		8				
	17								a parcel within SE 1/4 of SE 1/4						
	18								W 1/2 of NE 1/4; E 1/2 of NW 1/4; NE 1/4		5			141.12	
									of SW 1/4; Gov't Lots 1,2,3,4						
	19								S 1/2 of NE 1/4; SW 1/4; SE 1/4	10					
	20								All *	15	1				
	21								S 1/2; NE 1/4; NW 1/4 & S 1/2 of NW 1/4		15				
	22								All		16				
	23								NE 1/4; W 1/2		12				
	24								E 1/2; NW 1/4 of NW 1/4			9			
	27								All		16				
	28								N 1/2; N 1/2 of S 1/2; SE 1/4 of SE 1/4	8	5				
	29								All	8	8				
	30								All *	16					
	31								E 1/2; E 1/2 of W 1/2; Gov't Lots 2,3,4 *	12			114.4		
	32								N 1/2; N 1/2 of S 1/2; S 1/2 of SW 1/4;	1	14				
									SW 1/4 of SE 1/4						
	33								N 1/2 of NW 1/4; NW 1/4 of SW 1/4;		5				
									S 1/2 of SW 1/4						
	34								E 1/2; E 1/2 of NW 1/4		10				
	35								NE 1/4 of SW 1/4; S 1/2 of SW 1/4		3				

Spring Valley Ranch Acreage
per Prelim Title Report

10/9/02

EXHIBIT A (those portions of Core & Non-Core property in Gem County)

		Colin McLeod							SVL						
			# of Qtr Qtr Sections			Gov't Lot Acres				# of Qtr Qtr Sections			Gov't Lot Acres		
Township	Section		Core	Non-Core	Excl	Core	Non-Core	Excl		Core	Non-Core	Excl	Core	Non-Core	Excl
T06N03E	1	Gov't Lot 4; SW 1/4 of NW 1/4;			3			37.4							
Boise County		W 1/2 of SW 1/4													
	2	Gov't Lot 1; S 1/2 of NE 1/4;			6			37.1							
		N 1/2 of SW 1/4; SE 1/4 of SW 1/4;													
		NE 1/4 of SE 1/4													
	3	S 1/2 of N 1/2; S 1/2			12										
	4	NE 1/4 of SW 1/4; S 1/2 of SW 1/4;			7										
		SE 1/4													
	5	S 1/2 of SE 1/4			2										
	7	SE 1/4 of SW 1/4			1				E 1/2			8			
	8	E 1/2; S 1/2 of SE 1/4			8				W 1/2			8			
	9	All *			16										
	10	N 1/2 of N 1/2			4										
	11	NW 1/4 of NW 1/4			1										
	17								All			16			
	18								All			16			
	19								All			16			
	20								SE 1/4 of NE 1/4; W 1/2 of NW 1/4;			10			
									SW 1/4; NE 1/4 of SE 1/4; S 1/2 of SE 1/4						
	30								N 1/2 of N 1/2			4			
		Total # of 1/4 Sections	8	94	60					294	339	106			
		Acres per 1/4 Section	40	40	40					40	40	40			
		Subtotal Acres	320	3760	2400	19	149	74.5		11760	13560	4240.0	428	1638	0.0
									Less 1 acre, Sect 12, T05N01E	-1					
		Subtotal Core Acres	339						Subtotal Core Acres	12187					
		Subtotal Non-Core Acres	3909						Subtotal Non-Core Acres	15198					
		Subtotal Excluded Acres	2475						Subtotal Excluded Acres	4240					
		Total	6723						Total	31625					
		Ranch Property Total	38348												
		Total Core Acres	12526												
		Total Non-Core Acres	19107												
		Total Contract Acres	31633												
		Total Excluded Acres	6715												

* contain exceptions per the title report

NOTE: The above information was obtained from the preliminary title report prepared by Pioneer Title on March 4, 2002 and additional information gathered by Pioneer in September 2002

255123a JB/HEH
265485a JB/HEH

ADA COUNTY RECORDER J. DAVID NAVARRO AMOUNT 132.00 44
BOISE IDAHO 03/15/06 04:54 PM
DEPUTY Bonnie Oberbillig
RECORDED-REQUEST OF
Pioneer

106040139

44

Recording Requested By and
When Recorded Return to:

Brian L. Ballard, Esq.
HAWLEY TROXELL ENNIS & HAWLEY LLP
P.O. Box 1617
Boise, Idaho 83701

SPACE ABOVE THIS LINE FOR RECORDER'S USE ONLY

MEMORANDUM OF DECLARATION

THIS MEMORANDUM OF DECLARATION OF COVENANTS, RESTRICTIONS AND EASEMENTS ("**Memorandum**") is made and entered into the 15th day of January, 2006, by and between SUNCOR IDAHO, LLC, an Idaho limited liability company, as assignee of the interest of SunCor Development Company, an Arizona corporation ("SunCor"), FIRST AMERICAN TITLE INSURANCE COMPANY, ~~an Arizona~~ a California corporation, Phoenix, Arizona ("Sun Cor/Spring Valley Trustee"), as the Trustee under that certain Sun Cor/Spring Valley Trust Agreement dated October 8, 2002, as has been and may be amended from time to time (the "Sun Cor/Spring Valley Trust"); SPRING VALLEY LIVESTOCK COMPANY, INC., an Idaho corporation ("Spring Valley"), COLIN McLEOD III and TERESA McLEOD, husband and wife, jointly and severally ("McLeod") (Spring Valley and McLeod collectively referred to hereinafter as "Spring Valley/McLeod"), AR BOISE, L.L.C., a Texas limited liability company ("ARB"), and Pioneer Title Company of Ada County, an Idaho corporation ("SVR Trustee") as the Trustee under Pioneer Title Company of Ada County Trust No. 255123 (the "SVR Trust")

1. The parties hereto have heretofore entered into that certain unrecorded Declaration of Covenants, Restrictions and Easements, dated the 23 day of January, 2006 (hereinafter called the "Declaration"), concerning, among other things, that certain real property situated in the County of Ada, State of Idaho, and more particularly described in Exhibit "A" attached hereto and made a part hereof. All of the terms, conditions and provisions of the Declaration are incorporated herein and made a part hereof by this reference as if set forth in full.

2. The terms, conditions and provisions of the Declaration incorporated herein shall extend to and be binding upon the heirs, executors, administrators, grantees, successors and assigns of the parties hereto.

3. In the event of any conflict between the Declaration and this Memorandum, the Declaration shall control.

SIGNATURES APPEAR ON FOLLOWING PAGES

Department of Water Resources
APPLICANT'S
Exhibit 6
Date Admitted 10-31-06

D Aw

IN WITNESS AND EXECUTION HEREOF, the parties hereto have set their hands on the day and year first above written.

SUNCOR:

SUNCOR IDAHO, LLC, an Idaho limited liability company

By: DSBlk
Name: DUANE J. BLACK
Title: C.O.O.

SUNCOR/SPRING VALLEY TRUSTEE:

FIRST AMERICAN TITLE INSURANCE COMPANY, a California corporation

By: May Lin Carlsen
Authorized Officer

SPRING VALLEY:

SPRING VALLEY LIVESTOCK COMPANY, INC., an Idaho corporation

By: Colin McLeod III
Its: pres.

McLEOD:

Colin McLeod III
COLIN McLEOD III

Teresa McLeod
TERESA McLEOD

AR BOISE:

AR BOISE, LLC,
a Texas limited liability company

By: M3 Builders, L.L.C.,
an Arizona limited liability company,
Its Manager

By: The M3 Companies, L.L.C.,
an Arizona limited liability company,
Its Sole Member

By: ______________________
William I. Brownlee, Member

By: ______________________
Jeffrey A. Davis, Member

SVR TRUSTEE:

PIONEER TITLE COMPANY OF ADA COUNTY
an Idaho corporation

By: ________________________________
Authorized Officer

STATE OF ARIZONA)
) ss.
County of YAVAPAI)

On this 11th day of January, 2006, before me, JUDITH E. BRUMMETT-BOWIE a Notary Public in and for said State, personally appeared DUANE S. BLACK known to me to be the ~~manager~~ C.O.O. of SUNCOR IDAHO, LLC, an Idaho limited liability company, and the manager who subscribed said limited liability company name to the foregoing instrument, and acknowledged to me that SUNCOR IDAHO, LLC, executed the same in said limited liability company name.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year in this certificate first above written.

OFFICIAL SEAL
JUDITH E. BRUMMETT-BOWIE
Notary Public - State of Arizona
YAVAPAI COUNTY
My Comm. Expires Feb. 22, 2007

Judith E. Brummett-Bowie
Notary Public for ~~Idaho~~ ARIZONA
Residing at YAVAPAI COUNTY
My commission expires 2/22/07

STATE OF IDAHO)
) ss.
County of Ada)

On this 20th day of January, 2006, before me, Chris Green, a Notary Public in and for said State, personally appeared May Lin Carlsen, known or identified to me to be Ass't Secretary ~~Vice President~~, First American Title Insurance Company, as Trustee under Sun Cor/Spring Valley Trust Agreement dated October 8, 2002, the trust that executed the within instrument or the person who executed the instrument on behalf of said trust and acknowledged to me that such trust executed the same.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year in this certificate first above written.

CHRIS GREEN
NOTARY PUBLIC
STATE OF IDAHO

Chris Green
Notary Public for Idaho
Residing at Boise ID
My commission expires 3/20/06

STATE OF IDAHO)
) ss.
County of Ada)

On this 19th day of January, 2006, before me, Chris Green a Notary Public in and for said State, personally appeared Colin McLeod III known to me to be the President of SPRING VALLEY LIVESTOCK COMPANY, INC., the corporation that executed the within instrument or the person who executed the instrument on behalf of said corporation, and acknowledged to me that such corporation executed the same.

WITNESS MY HAND and official seal hereto affixed the day, month and year in this certificate first above written

CHRIS GREEN
NOTARY
PUBLIC
STATE OF IDAHO

Chris Green
Notary Public for the State of Idaho
Residing at Boise ID
My commission expires 3/20/06

STATE OF ARIZONA)
) ss.
County of YAVAPAI)

On this 11th day of January, 2006, before me, JUDITH E. BRUMMETT-BOWIE a Notary Public in and for said State, personally appeared ~~COLIN McLEOD III and~~ TERESA McLEOD, ~~husband and~~ wife, known to me to be the persons whose names are subscribed to the foregoing instrument, and acknowledged to me that they executed the same.

WITNESS MY HAND and official seal hereto affixed the day, month and year in this certificate first above written

OFFICIAL SEAL
JUDITH E. BRUMMETT-BOWIE
Notary Public - State of Arizona
YAVAPAI COUNTY
My Comm. Expires Feb. 22, 2007

Judith E Brummett-Bowie
Notary Public for the State of ARIZONA
Residing at YAVAPAI COUNTY
My commission expires 2/22/07

STATE OF Arizona)
) ss.
County of Yavapai)

On this 11th day of January, 2006, before me, Judith E. Brummett-Bowie a Notary Public in and for said State, personally appeared William I. Brownlee and Jeffrey A. Davis known to me to be Members of The M3 Companies, L.L.C., an Arizona limited liability company, Members of M3 Builders, L.L.C., an Arizona limited liability company, Manager of AR Boise, L.L.C., a Texas limited liability company, on behalf thereof.

WITNESS MY HAND and official seal hereto affixed the day, month and year in this certificate first above written

OFFICIAL SEAL
JUDITH E. BRUMMETT-BOWIE
Notary Public - State of Arizona
YAVAPAI COUNTY
My Comm. Expires Feb. 22, 2007

Judith E Brummett-Bowie
Notary Public for the State of Arizona
Residing at Yavapai County
My commission expires 2/22/07

STATE OF IDAHO)
) ss.
County of Ada)

On this 9th day of March, 2006, before me, Janet L Blosch, a Notary Public in and for said State, personally appeared Jesse Hamilton, known or identified to me to be the General Counsel of Pioneer Title Company of Ada County Idaho, as Trustee under Pioneer Title Company of Ada County Idaho Trust No. 255123, the trust that executed the within instrument or the person who executed the instrument on behalf of said trust and acknowledged to me that such trust executed the same.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year in this certificate first above written.

JANET L. BLOSCH
NOTARY
PUBLIC
STATE OF IDAHO

Janet L Blosch
Notary Public for Idaho
Residing at Boise, Idaho
My commission expires 3-17-2011

STATE OF IDAHO)
) ss.
County of Ada)

On this 19th day of January, 2006, before me, Chris Green, a Notary Public in and for said state, personally appeared COLIN McLEOD III, known or identified to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that he executed the same.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year in this certificate first above written.

CHRIS GREEN NOTARY PUBLIC STATE OF IDAHO

Chris Green
Notary Public for Idaho
Residing at Boise, ID
My commission expires 3/20/06

EXHIBIT A
Legal Description
Real Property

Exhibit "A-1"

Legal Description of the Released Property

UNLIMITED BOUNDARIES, INC. DBA
Associated Land Surveyors
1103 W. Main St.
Middleton, Idaho 83644

LEGAL DESCRIPTION
FIRST AMERICAN TITLE INSURANCE CO
To COLIN MCLEOD

All those parcels of real property located in Ada County, Idaho, being more particularly described as follows:

Township 5 North, Range 1 East, Boise Meridian;

Section 7, Lot 4

Township 5 North, Range 1 West, Boise Meridian;

Section 13, SE1/4NW1/4;
NE1/4;
S1/2SW1/4;

Section 14, S1/2NW1/4;
N1/2NE1/4;
SE1/4NE1/4;
N1/2SE1/4;
SW1/4SE1/4;
NE1/4SW1/4;

Section 22, SE1/4NE1/4;
NE1/4SE1/4;

Section 26, NW1/4NW1/4;

Section 27, NE1/4NE1/4;

TOTAL AREA = 830 ACRES

PROFESSIONAL LAND SURVEYOR REGISTERED 797 STATE OF IDAHO WALTER L. NEITZ

Doug Bergey, PLS Phone: 208.585.5858 Fax: 208.585.9001 Walt Neitz, PLS

UNLIMITED BOUNDARIES, INC. DBA
Associated Land Surveyors
1103 W. Main St.
Middleton, Idaho 83644

LEGAL DESCRIPTION
FIRST AMERICAN TITLE INSURANCE CO
To SPRING VALLEY LIVESTOCK

All those parcels of real property located in Ada County, Idaho, being more particularly described as follows:

Township 5 North, Range 1 East, Boise Meridian;

Section 7, SE1/4SW1/4;

Section 17, NW1/4SW1/4;

Section 18, Government Lot 1,
Government Lot 2,
NE1/4NW1/4,
SE1/4NW1/4,
NW1/4NE1/4,
SW1/4NE1/4,
SE1/4NE1/4,
NE1/4SW1/4,
SE1/4SW1/4,
SE1/4;

Section 19, Government Lot 1;
Government Lot 2;
E1/2NW1/4;
E1/2;

Section 20, SW1/4NW1/4;
W1/2SW1/4;

Township 5 North, Range 1 West, Boise Meridian;

Section 10, E1/2SE1/4

Section 14, N1/2NW1/4
SW1/4NE1/4
SE1/4SW1/4

Section 15, NE1/4NE1/4

TOTAL AREA = 1430 ACRES

PROFESSIONAL LAND SURVEYOR REGISTERED 797 STATE OF IDAHO WALTER L. NEITZ

UNLIMITED BOUNDARIES, INC. DBA
Associated Land Surveyors
1103 W. Main St.
Middleton, Idaho 83644

LEGAL DESCRIPTION
DL EVANS
To AR BOISE

All those parcels of real property located in Ada County, Idaho, being more particularly described as follows:

Township 5 North, Range 1 West, Boise Meridian:

Section 11, S1/2NW1/4;
SW1/4NE1/4;
SE1/4;
SW1/4;

Section 12, SE1/4NW1/4;
S1/2NE1/4;
SE1/4;
N1/2SW1/4;

Section 23, S1/2NW1/4;
NE1/4;
N1/2SE1/4;
SW1/4SE1/4;
SW1/4;

Section 24, NW1/4NW1/4;
S1/2NW1/4;
S1/2NE1/4;
N1/2SE1/4;
NE1/4SW1/4;

TOTAL AREA = 1640 ACRES

PROFESSIONAL LAND SURVEYOR
REGISTERED
797
STATE OF IDAHO
WALTER L. NEITZ

Doug Bergey, PLS Phone: 208.585.5858 • Fax: 208.585.9001 Walt Neitz, PLS

EXHIBIT A-2
DESCRIPTION OF ARB PROPERTIES

Comprised of the legally described properties on attached Exhibits A-2-A, A-2-B, A-2-C, A-2-D, A-2-E, A-2-F, A-2-G, A-2-H, A-2-I, and A-2-J, excepting therefrom the following:

PARCEL 1
The SE 1/4 of the SW 1/4, the W 1/2 of the SE 1/4, and the NE 1/4 of the SE 1/4 of Section 8, Township 5 North, Range 1 East, Boise Meridian, in Ada County, Idaho.
PARCEL 2
The SE 1/4 of the NE 1/4 of Section 9, Township 5 North, Range 1 East, Boise Meridian, in Ada County, Idaho.
PARCEL 3
The NE 1/4 and the N 1/2 of the SE 1/4 of Section 17, Township 5 North, Range 1 East, Boise Meridian, in Ada County, Idaho.
ADDITIONAL PROPERTY (135 Ac)
That portion of the S 1/2 of the SE 1/4 and of the S 1/2 of the SW 1/4 in Section 17, Township 5 North, Range 1 East, Boise Meridian, in Ada County, Idaho, lying Easterly of the Easterly line of Willow Creek Road.

EXHIBIT A-2-A

EXHIBIT "A"

LEGAL DESCRIPTION

Lot 3 in Block 1 of Gulch Ranch Estates according to the plat thereof filed in Book 61 of Plats at pages 6097 and 6098, records of Ada County, Idaho.

EXHIBIT A-2-B

256103

EXHIBIT A

The South half of the Southwest quarter of Section 12, Township 5 North, Range 1 West, Boise Meridian, Ada County, Idaho.

ALSO INCLUDING:

The Northeast quarter of the Northwest quarter; the West half of the Northwest quarter; the North half of the Southwest quarter; the North half of the Southeast quarter; the South half of the Southeast quarter of Section 13, Township 5 North, Range 1 West, Boise Meridian, Ada County, Idaho.

ALSO INCLUDING:

The North half of the Northeast quarter; the Northeast quarter of the Northwest quarter of Section 24, Township 5 North, Range 1 West, Boise Meridian, Ada County, Idaho.

ALSO INCLUDING:

Lots 3 and 4 of Section 18, Township 5 North, Range 1 East, Boise Meridian, Ada County, Idaho.

TOGETHER WITH easement rights as more particularly defined and described by instrument recorded under No. 99119886 and re-recorded under No. 103212741.

Order No. 254831

EXHIBIT A-2-C

EXHIBIT A

PARCEL II

The Southeast quarter of the Southeast quarter in Section 28, all in Township 5 North, Range 1 West, Boise Meridian, Ada County, Idaho.

EXCEPTING THEREFROM the following:
A tract of land in the Southeast quarter of Section 28, Township 5 North, Range 1 West, Boise Meridian, Ada County, Idaho, more particularly described as follows:
Commencing at a 1-inch pipe in the fence corner marking the quarter corner common to Sections 27 and 28, Township 5 North, Range 1 West, Boise Meridian, Ada County, Idaho, from which a granite stone marking the section corner common to Sections 21, 22, 27 and 28, Township 5 North, Range 1 West, Boise Meridian bears North 2578.65 feet;
Thence South 18°00'15" West, 2132.44 feet to a nail in a certain bridge, the REAL POINT OF BEGINNING;
Thence North 1°32'10" West 637.69 feet to a steel pin in an existing fence line;
Thence South 87°08'30" West along said fence line 336.38 feet to a steel pin;
ce South 1°31'50" East 658.83 feet to a steel pin;
nce North 83°33'10" East 337.59 feet to the REAL POINT OF BEGINNING.

AND EXCEPT:
A portion of the Southeast quarter of the Southeast quarter of Section 28, Township 5 North, Range 1 West, Boise Meridian, Ada County, Idaho, more particularly described as follows:
Commencing at the Southeast corner of Section 28, Township 5 North, Range 1 West;
Thence North 89°22'06" West 1317.53 feet to a 1/16th corner;
Thence North 00°11'33" West 368.47 feet to the Southeast corner of King Estates Subdivision;
Thence along the East boundary of said subdivision North 00°11'33" West 148.39 feet to the POINT OF BEGINNING;
Thence North 00°11'33" West 279.24 feet to the Northeast corner of Lot 2, Block 1, King Estates Subdivision;
Thence North 00°11'33" West 520.00 feet;
Thence North 89°30'40" East 312.37 feet;
Thence South 01°44'09" East 579.88 feet;
Thence South 55°48'48" West 395.59 feet to the POINT OF BEGINNING.

AND EXCEPT:
A portion of the Southeast quarter of the Southeast quarter of Section 28, Township 5 North, Range 1 West, Boise Meridian, Ada County, Idaho, more particularly described as follows:
Commencing at the Southeast corner of Section 28, Township 5 North, Range 1 West;
Thence North 42°07'39" West 975.80 feet to the POINT OF BEGINNING;
Thence North 75°01'28" East 10.27 feet;

Order No. 254831

Thence North 01°44'28" West 610.15 feet;
Thence South 89°30'40" West 346.37 feet;
Thence South 01°44'09" East 60.40 feet;
Thence North 86°56'11" East 336.38 feet;
Thence South 01°44'28" East 567.43 feet to the POINT OF BEGINNING.

TOGETHER WITH:
A portion of the Southeast quarter of the Southeast quarter of Section 28, Township 5 North, Range 1 West, Boise Meridian, Ada County, Idaho, more particularly described as follows:
Commencing at the Southeast corner of Section 28, Township 5 North, Range 1 West;
Thence North 42°07'39" West 975.80 feet to the POINT OF BEGINNING;
Thence South 01°44'28" East 70.26 feet;
Thence South 83°20'51" West 337.59 feet;
Thence North 01°44'09" West 20.07 feet;
Thence North 75°01'38" East 345.52 feet to the POINT OF BEGINNING.

T‾ether with an easement as more particularly defined and described by Instrument recorded under No. 94076106.

Order No. 259985

EXHIBIT A-2-D

EXHIBIT A

Parcel I
The Northwest quarter of the Southwest quarter, the Northeast quarter of the Southwest quarter and the Southwest quarter of the Southwest quarter of Section 27, Township 5 North, Range 1 West of the Boise Meridian in Ada County, Idaho.

Parcel III
A portion of Lot 2, Block 1, Kling Estates Subdivision in Sections 28 and 33, Township 5 North, Range 1 West, Boise Meridian, Ada County, Idaho, more particularly described as follows:

Commencing at the Southeast corner of Section 28, Township 5 North, Range 1 West;
Thence North 89°22'06" West 1317.53 feet to a 1/16th corner;
Thence North 00°11'33" West 368.47 feet to the Southeast corner of Kling Estates Subdivision, the POINT OF BEGINNING;
Thence South 49°46'43" West 563.24 feet;
Thence North 89°22'06" West 75.41 feet;
Thence South 57°48'06" West 467.45 feet;
Thence North 00°00'00" East 303.23 feet;
Thence South 67°58'34" East 25.66 feet on a curve to the left whose radius of 140.00 feet, whose central angle is 68°28'28", whose length is 167.31 feet and whose long chord bears North 77°47'12" East 157.53 feet;
Thence North 43°32'58" East 140.31 feet;
Thence on a curve to the left whose radius of 250.00 feet whose central angle is 05°57'01", whose length is 25.96 feet and whose long chord bears North 40°34'07" East 25.95 feet;
Thence North 80°45'15" East 27.32 feet;
Thence South 69°07'26" East 45.40 feet;
Thence North 64°24'11" East 50.04 feet;
Thence North 22°54'55" East 64.53 feet;
Thence North 19°29'07" East 67.97 feet;
Thence North 47°57'08" East 51.57 feet;
Thence North 77°46'41" East 51.93 feet;
Thence South 87°13'59" East 58.11 feet;
Thence South 79°59'56" East 63.34 feet;
Thence North 67°52'17" East 48.40 feet;
Thence North 54°59'54" East 50.14 feet;
Thence North 04°33'29" West 113.44 feet;
Thence North 54°26'54" East 50.18 feet;

Order No. 259985

Thence South 60°53'22" East 99.46 feet;
Thence North 79°31'22" East 33.39 feet;
Thence South 00°11'33" East 148.39 feet to the POINT OF BEGINNING.

TOGETHER WITH an easement as more particularly defined and described by instrument recorded under No. 94076106.

EXHIBIT A-2-E

EXHIBIT "A"

LEGAL DESCRIPTION

Lot 4 in Block 1 of Gulch Ranch Estates according to the plat thereof filed in Book 61 of Plats at pages 6097 and 6098, records of Ada County, Idaho.

STATE OF IDAHO, COUNTY OF ADA, ss.
I, J. David Navarro, Recorder for Ada County, do hereby certify that the Annexed is a full, true and correct copy of Inst. No. 105106115
as it appears on record in Book ______ of ______
______ at Page ______ Records of Ada County, State of Idaho.
IN WITNESS WHEREOF, I have set my hand and affixed my official seal this 11th day of August 2005.
J. DAVID NAVARRO, Recorder
By ______ Deputy

EXHIBIT "A"

LEGAL DESCRIPTION

Parcel 3:

The Southwest Quarter of Section 15, Township 5 North, Range 1 East, Boise Meridian, in Ada County, Idaho.

EXHIBIT "A"

LEGAL DESCRIPTION

Parcel 2:

The Southeast Quarter of the Northeast Quarter of Section 9, Township 5 North, Range 1 East, Boise Meridian, In Ada County, Idaho.

Parcel 6:

The North half of the Northeast Quarter and the Northeast Quarter of the Northwest Quarter of Section 21, Township 5 North, Range 1 East, Boise Meridian, in Ada County, Idaho.

Parcel 7:

The Northwest Quarter of the Northwest Quarter of Section 22, Township 5 North, Range 1 East, Boise Meridian, in Ada County, Idaho.

EXHIBIT A-2-H

EXHIBIT A

Parcel 8:
The West half of the Southwest Quarter of Section 14, Township 5 North, Range 1 West, Boise Meridian, in Ada County, Idaho.

Parcel 9:
The Southeast Quarter of the Northeast Quarter and the South half of Section 15, Township 5 North, Range 1 West, Boise Meridian, in Ada County, Idaho.

Parcel 10:

The following describes a parcel of real property lying in a portion of the South Half of Southeast Quarter of Section 21 and in a portion of the West Half of the Northeast Quarter of Section 28, all lying easterly of Highway 16, Township 5 North, Range 1 West, Boise Meridian, Ada County, Idaho, being more particularly described as follows:

BEGINNING at the Quarter Corner common to Section 21, 22, 27 and 28; thence,
North 88°39'16" West, 1325.31 feet; thence,
South 00°26'35" West, 2632.13 feet; thence,
North 88°41'42" West, 933.28 feet; thence,
North 12°48'04" East, 1004.84 feet; thence,
North 13°45'48" West, 22.36 feet; thence,
North 12°48'04" East, 1748.40 feet to a spiral to the left; thence, along said spiral a distance of 208.46 feet, having a radius of 3342.70, a theta of 1°47'12", which bears North 12°12'20" East, 208.45 feet; thence,
North 37°30'45" East, 108.57 feet to a curve to the left; thence, along said curve a distance of 946.18 feet, having a radius of 2401.85, a central angle of 22°34'16", having a tangent of 479.31, which bears North 02°14'04" West, 940.08 feet; thence,
South 88°48'04" East, 1619.66 feet; thence,
South 00°49'56" West, 1322.34 feet to the POINT OF BEGINNING;

EXCEPT that portion thereof described as follows:

A 100.00 x 100.00 foot square parcel of land located in the Southeast Quarter of the Southeast Quarter of said Section 21, described as follows:

Commencing at the Southeast corner of Section 21; thence,
North 89°17'40" West, 1325.30 feet to the Southwest corner of said Southeast Quarter of the Southeast Quarter; thence
North 00°18'58" East, 738.92 feet along the West line of said Southeast Quarter of the Southeast Quarter; thence,
North 89°41'02" East, 5.39 feet to the POINT OF BEGINNING; thence,
North 27°13'45" East, 100.00 feet; thence,
South 62°45'15" East, 100.00 feet; thence,
South 27°13'45" West, 100.00 feet; thence
North 62°45'15" West, 100.00 feet to the POINT OF BEGINNING.

Parcel 11:
The Northeast Quarter of the Northeast Quarter of Section 22, Township 5 North, Range 1 West, Boise Meridian, in Ada County, Idaho.

Parcel 12:
The North half of the Northwest Quarter of Section 23, Township 5 North, Range 1 West, Boise Meridian, in Ada County, Idaho.

Parcel 13:
The South half of the Northeast Quarter, the Southeast Quarter of the Northwest Quarter and the Northwest Quarter of the Southeast Quarter of Section 27, Township 5 North, Range 1 West, Boise Meridian, in Ada County, Idaho.

EXHIBIT A-2-I

EXHIBIT A

Parcel 1:
The Southeast Quarter of the Southwest Quarter, the West half of the Southeast Quarter, and the Northeast Quarter of the Southeast Quarter of Section 8, Township 5 North, Range 1 East, Boise Meridian, in Ada County, Idaho.

Parcel 4:
The Northeast Quarter, the Southeast Quarter, and the South half of the Southwest Quarter of Section 17, Township 5 North, Range 1 East, Boise Meridian, in Ada County, Idaho.

Parcel 5:
The Northeast Quarter, the North half of the Northwest Quarter, the Southeast Quarter of the Northwest Quarter, the Northeast Quarter of the Southwest Quarter, and the Northwest Quarter of the Southeast Quarter of Section 20, Township 5 North, Range 1 East, Boise Meridian, in Ada County, Idaho;

EXCEPT that portion thereof lying within that tract of land, more particularly described as follows, conveyed to Michael S. Homan by deed recorded under Instrument No. 103034609:

A parcel of land lying in Section 20, Township 5 North, Range 1 East, Boise Meridian, Ada County, Idaho, said parcel being more particularly described as follows:

Commencing at the Brass Cap marking the corner common to Sections 20, 21, 28, and 29, Township 5 North, Range 1 East, Boise Meridian, Ada County, Idaho; thence
South 89°49'55" West 1321.27 feet to an iron pin marking the East 1/16 corner common to said Sections 20 and 29; thence
South 89°49'50" West 1321.43 feet to the Brass Cap marking the ¼ corner common to said Sections 20 and 29, said point being the POINT OF BEGINNING; thence
South 89°50'08" West 1321.62 feet to the West 1/16 corner common to said Sections 20 and 29; thence
North 00°50'26" West 3941.79 feet along the West 1/16 line to the Northwest 1/16 corner; thence
North 89°42'56" East 9.92 feet along the North line of the Southeast Quarter Northwest Quarter to the West right of way line of Willow Creek Road; thence along said right of way line of Willow Creek Road the following courses and distances;
South 27°38'22" East 62.21 feet to a point of curve; thence along a curve to the right 113.94 feet, said curve having a delta of 16°18'14", a radius of 400.40 feet, tangents of 57.36 feet and a long chord of 113.55 feet which bears
South 19°29'15" East to a point of tangent; thence
South 11°20'08" East 144.76 feet to a point of curve; thence along a curve to the left 476.94 feet, said curve having a delta of 28°09'20", a radius of 970.55 feet, tangents of 243.39 feet and a long chord of 472.15 feet which bears
South 25°24'48" East to a point of tangent; thence
South 39°29'28" East 233.00 feet to a point of curve; thence along a curve to the right 200.60 feet, said curve having a delta of 20°02'27", a radius of 573.50 feet, tangents of 101.33 feet and a long chord of 199.58 feet which bears
South 29°28'14" East to a point of reverse curve; thence along a curve to the left 234.81 feet, said curve having a delta of 12°55'34", a radius of 1040.80 feet, tangents of 117.90 feet and a long chord of 234.31 feet which bears
South 25°54'48" East to a point of tangent; thence

South 32°22'35" East 223.05 feet to a point of curve; thence along a curve to the left 331.68 feet, said curve having a delta of 10°00'18", a radius of 1899.41 feet, tangents of 166.26 feet and a long chord of 331.25 feet which bears
South 37°22'44" East to a point of tangent; thence
South 42°22'53" East 231.38 feet; thence
South 45°03'57" East 411.88 feet to a point of curve; thence along a curve to the left 204.80 feet, said curve having a delta of 09°02'30", a radius of 1297.79 feet, tangents of 102.61 feet and a long chord of 204.59 feet which bears
South 49°35'12" East to a point of reverse curve; thence along a curve to the right 208.60 feet, said curve having a delta of 12°35'19", a radius of 949.44 feet, tangents of 104.72 feet and a long chord of 208.18 feet which bears
South 47°48'47" East to a point of tangent; thence
South 41°31'08" East 186.78 feet to the South 1/16 line; thence
South 89°44'35" West 495.92 feet to the South 1/16 corner; thence
South 00°44'17" East 1314.92 feet to the POINT OF BEGINNING.

EXHIBIT A-2-J

First American Title Insurance Company

COMMITMENT

SCHEDULE A

File No. 255123A

LEGAL DESCRIPTION

Original Option Property
Government Lot 4;
That portion of the SE ¼ of the SW ¼ lying Southwesterly of the centerline of Willow Creek Road;
All in Section 7, Township 5 North, Range 1 East of Boise Meridian, in Ada County, Idaho.

That portion of the NW ¼ of the SW ¼ lying Southwesterly of the centerline of Willow Creek Road;
All in Section 17, Township 5 North, Range 1 East of Boise Meridian, in Ada County, Idaho.

That portion of the NW ¼ of the NE ¼ lying Southwesterly of the centerline of Willow Creek Road;
That portion of the S ½ of the NE ¼ lying Southwesterly of the centerline of Willow Creek Road;
That portion of the E ½ of the NW ¼ lying Southwesterly of the centerline of Willow Creek Road;
Government Lots 1 and 2;
The E ½ of the SW ¼;
That portion of the SE ¼ lying Southwesterly of the centerline of Willow Creek Road;
All in Section 18, Township 5 North, Range 1 East of Boise Meridian, in Ada County, Idaho.

The NE ¼;
The E ½ of the NW ¼;
Government Lots 1 and 2;
The SE ¼;
All in Section 19, Township 5 North, Range 1 East of Boise Meridian, in Ada County, Idaho.

The SW ¼ of the NW ¼;
The W ½ of the SW ¼;
All in Section 20, Township 5 North, Range 1 East of Boise Meridian, in Ada County, Idaho.

The E ½ of the SE ¼ of Section 10, Township 5 North, Range 1 West of Boise Meridian, in Ada County, Idaho.

The SW ¼ of the NE ¼;
The S ½ of the NW ¼;
The S ½;
All in Section 11, Township 5 North, Range 1 West of Boise Meridian, in Ada County, Idaho.

The S ½ of the NE ¼;

First American Title Insurance Company

COMMITMENT

SCHEDULE A

File No. 255123A

The SE ¼ of the NW ¼;
The N ½ of the SW ¼;
The SE ¼;
All in Section 12, Township 5 North, Range 1 West of the Boise Meridian, in Ada County, Idaho.

The NE ¼;
The SE ¼ of the NW ¼;
The S ½ of the SW ¼;
All in Section 13, Township 5 North, Range 1 West of Boise Meridian, in Ada County, Idaho.

The N ½;
The E ½ of the SW ¼;
The N ½ of the SE ¼;
The SW ¼ of the SE ¼;
All in Section 14, Township 5 North, Range 1 West of Boise Meridian, in Ada County, Idaho.

The NE ¼ of the NE ¼ of Section 15, Township 5 North, Range 1 West of Boise Meridian, in Ada County, Idaho.

The SE ¼ of the NE ¼;
The NE ¼ of the SE ¼;
All in Section 22, Township 5 North, Range 1 West of Boise Meridian, in Ada County, Idaho

The NE ¼;
The S ½ of the NW ¼;
The SW ¼;
The N ½ of the SE ¼;
The SW ¼ of the SE ¼;
All in Section 23, Township 5 North, Range 1 West of Boise Meridian, in Ada County, Idaho.

The S ½ of the NE ¼;
The W ½ of the NW ¼;
The SE ¼ of the NW ¼;
The NE ¼ of the SW ¼;
The N ½ of the SE ¼;
All in Section 24, Township 5 North, Range 1 West of Boise Meridian, in Ada County, Idaho.

The NW ¼ of the NW ¼ of Section 26, Township 5 North, Range 1 West of Boise Meridian, in Ada County, Idaho.

This commitment is invalid unless the Insuring Provisions and Schedules A and B are attached.

First American Title Insurance Company

COMMITMENT

SCHEDULE A

File No. 255123A

The NE ¼ of the NE ¼ of Section 27, Township 5 North, Range 1 West of Boise Meridian, in Ada County, Idaho.

Exhibit "B-1"

Core Property and the remaining Non-Core Property remaining in the

SunCor/Spring Valley Trust

Roylance & Associates P.A.
391 W. State Street, Suite E, Eagle, Idaho 83616
Engineers • Surveyors • Landplanners
Telephone (208) 939-2824 Fax (208) 939-2855

April 29, 2004
Project No. 2408

Legal Description
Suncor Development Company
Core Properties

A tract of land located in Township 6 North, Range 1 East, Boise Meridian, Gem County, Idaho described as follows:

In Section 22, the East One Half of the Southeast One Quarter, and;

In Section 23; Lots 2, 3, 5 and 6, except any portion of the Independence and Santiago Mines, the Southeast One Quarter, the Southwest One Quarter, and the Southeast One Quarter of the Northwest One Quarter, and;

All portions of Sections 24, 25, and 26, and;

In Section 34, the Southeast One Quarter of the Southeast One Quarter, and;

In Section 35, the North One Half and the Southwest One Quarter, and;

In Section 36, the South One Half of the Southeast One Quarter, and the Northeast One Quarter of the Southeast One Quarter except the portions lying within the following 2 Legal Descriptions:

A tract of land situated in portions of Sections 13, 14, 23 and 24, Township 6 North, Range 1 East, Boise Meridian, Gem County, Idaho, described as follows:

Re: Amended Record of Survey filed as Instrument No. 170762, records of Gem County, Idaho.

Commencing at the section corner common to Sections 13, 14, 23 and 24, Township 6 North, Range 1 East, marked by a found 5/8" iron pin and aluminum cap monument stamped P.L.S. 4108;
Thence South 57°06'16" West, a distance of 656.51 feet to the Northeast corner of the Santiago Claim of the Black Pearl Group marked by a found 5/8" iron pin P.L.S. 4108 and the real point of beginning;
Thence along the Northeast boundary of the Santiago and the Easterly boundary of the Independence and the Deserter Claims of the Black Pearl Group the following courses and distances:
Thence North 79°40'40" West, a distance of 629.68 feet to a found 5/8" iron pin P.L.S. 4108,
Thence North 07°38'56" West, a distance of 598.85 feet to a found 5/8" iron pin P.L.S. 4108,

Thence North 21°58'55" West, a distance of 696.95 feet to the Northeast corner of the Deserter Claim of the Black Pearl Group marked by a found 5/8" iron pin P L.S. 4108;
Thence leaving the Black Pearl Group, South 79° 44'14" East, a distance of 2273.98 feet to a set 5/8" iron pin P.L.S. 4108,
Thence South 19°13'10" West, a distance of 1806 00 feet to a set 5/8" iron pin P.L.S. 4108,
Thence North 78°09'12" West, a distance of 829.25 feet to the Southeast corner of the Santiago Claim of the Black Pearl Group,
Thence North 12°20'33" East, a distance of 601.51 feet, along the Easterly boundary line of the Santiago Claim to the real point of beginning.

AND

The following described portion of Deserter, Independence and Santiago Mining Claims:

Beginning at the Southwest corner of the Southeast One Quarter of the Southeast One Quarter of Section 14, Township 6 North, Range 1 East, Boise Meridian, Gem County, Idaho;
Thence South 0°0'00", a distance of 800.1 feet,
Thence South 78°12'00" East, a distance of 227.3 feet,
Thence South 85°57'00" East, a distance of 213.67 feet,
Thence South 8°50'00" West, a distance of 28.85 feet,
Thence South 78°12'00" East, a distance of 216.88 feet,
Thence North 12°22'00" East, a distance of 600 feet,
Thence North 79°49'00" West, a distance of 631 1 feet,
Thence North 7°30'00" West, a distance of 600 feet,
Thence North 21°52'00" West, a distance of 194.4 feet,
Thence South 0°0'00", a distance of 538.4 feet to the real point of beginning.

AND ALSO

A tract of land located in Township 6 North, Range 2 East, Boise Meridian, Boise County, Idaho described as follows:

A parcel of land situated in the Southeast One Quarter of the Southeast quarter of Section 17, Township 6 North, Range 2 East, Boise Meridian, Boise County, Idaho, as shown on the Record of Survey filed under Instrument No. 167338 in the Office of the Boise County Recorder, Idaho City, Idaho, said parcel being described as follows:

Beginning at an iron pin with an aluminum cap marking the Southeast corner of said Section 17,
Thence along the East boundary of said Section 17 North 00°33'29" East a distance of 595.84 feet to a point on a curve on the Easterly right of way boundary of old Highway 55, FAP F. 129-(13),

Thence along the said Easterly right of way boundary along the arc of a curve to the right having a radius of 722.96 feet, a central angle of 06°37'36", a length of 83.62 feet and a long chord which bears South 29°27'18" West a distance of 83.57 feet to a point of spiral curve,
Thence continuing along the arc of a spiral curve to the right having a long chord which bears South 37°37'26" West a distance of 169.50 feet to a point of tangent;
Thence South 40°16'06" West a distance of 220.75 feet to a point of spiral curve,
Thence continuing along the arc of a spiral curve to the left having a long chord which bears South 37°56'40" West a distance of 130.15 feet to a point of curve,
Thence continuing along the arc of a curve to the left having a radius of 419.52 feet, a central angle of 17°08'36", a length of 125.52 feet and a long chord which bears South 24°09'05" West a distance of 125.06 feet to a point on the South boundary of said Section 17,
Thence along the said South boundary, South 89°30'00" East a distance of 412.67 feet, to the point of beginning

In Section 19, the Southwest One Quarter, the Southeast One Quarter and the South One Half of the Northeast One Quarter, and;

All of Section 20, Except that portion thereof lying within the following:

A tract of land situated in the Northeast quarter of Section 20 and the Southeast quarter of the Southeast quarter of Section 17, all in Township 6 North, Range 2 East, Boise Meridian, Boise County, Idaho, said tract being described as follows:

Commencing at a steel pin set to mark the Southwest corner of said Section 17,
Thence along the Southerly line of said Section 17 South 89°10'42" East a distance of 2624.35 feet to a found stone monumenting the South quarter corner of said Section 17; Thence continuing along the Southerly line of said Section 17 South 89°30'00" East a distance of 1279.86 feet to a steel pin, said steel pin being the point of beginning;
Thence leaving the Southerly line of said Section 17 and following an existing fence
South 00°01'36" West a distance of 1397.07 feet to a steel pin on the Westerly right of way of old Highway 55,
Thence following the Westerly right of way of old Highway 55 the following courses and distances:
Thence North 00°00'00" East a distance of 152.83 feet along the arc of a non-tangent circular curve to the right, said curve having a radius of 722.96 feet, a central angle of 12°06'43", a chord bearing of North 53°01'44" East and a chord distance of 152.54 feet to a steel pin,
Thence along the arc of a spiral curve to the right, said spiral having a long chord bearing of North 63°56'27" East and a chord distance of 169.52 feet to a right-of-way monument; Thence North 66°35'06" East a distance of 83.38 feet to a right-of-way monument; Thence along the arc of a spiral curve to the left, said spiral having a long chord bearing of North 64°29'08" East and a chord distance of 132.25 feet to a steel pin,

Thence North 00°00'00" East a distance of 641.23 feet along the arc of a circular curve to the left, said curve having a radius of 486.62 feet, a central angle of 75°30'00", a chord bearing of North 22°05'06" East and a chord distance of 395.83 feet to a steel pin,
Thence along the arc of a spiral curve to the left, said spiral having a long chord bearing of North 20°18'55" West and a chord distance of 132.23 feet to a right-of-way monument,
Thence along the arc of a spiral curve to the right, said spiral having a long chord bearing of North 19°45'14" West and a chord distance of 169.62 feet to a steel pin,
Thence North 00°00'00" West a distance of 302.58 feet along the arc of a circular curve to the right, said curve having a radius of 719.52 feet, a central angle of 24°05'40", a chord bearing of North 02°49'21" West and a chord distance of 300.35 feet to a point,
Thence North 00°00'00" East a distance of 295.09 feet along the arc of a circular curve to the right, said curve having a radius of 719.52 feet, a central angle of 23°29'54", a chord bearing of North 20°58'26" East and a chord distance of 293.03 feet to a steel pin,
Thence along the arc of a spiral curve to the right, said spiral having a long chord bearing of North 37°36'26" East and a chord distance of 169.62 feet to a right of way monument; Thence North 40°16'06" East a distance of 220.75 feet to a steel pin,
Thence along the arc of a spiral curve to the left, said spiral having a long chord bearing of North 37°57'25" East and a chord distance of 130.27 feet to a steel pin,
Thence North 00°00'00" East a distance of 303.89 feet along the arc of a circular curve to the left, said curve having a radius of 422.96 feet, a central angle of 41°10'00", a chord bearing of North 12°11'06" East and a chord distance 297.40 feet to a steel pin,
Thence along the arc of a spiral curve to the left, said spiral having a long chord bearing of North 13°35'13" West and a chord distance of 130.27 feet to a right-of-way monument,
Thence North 15°53'54" West a distance of 2.38 feet to a right-of-way monument,
Thence along the arc of a spiral curve to the right, said spiral having a long chord bearing of North 13°15'14" West and a chord distance of 169.50 feet to a steel pin,
Thence North 00°00'00" West a distance of 43.29 feet along the arc of a circular curve to the right, said curve having a radius of 722.96 feet, a central angle of 03°25'52", a chord bearing of North 06°40'58" West and a chord distance of 43.29 feet to a point on the Northerly line of the Southeast quarter of the Southeast quarter of said Section 17,
Thence leaving said Westerly right-of-way and following the Northerly line of the Southeast quarter of the Southeast quarter of said Section 17 North 89°20'25" West a distance of 981.45 feet to a steel pin monumenting the Northwest corner of the said Southeast One Quarter of the Southeast One Quarter,

Thence along the Easterly line of the said Southeast One Quarter of the Southeast One Quarter South 00°14'18" West a distance of 1313.12 feet to a steel pin monumenting the Southeast corner of the Southeast One Quarter of the Southeast One Quarter,
Thence North 89°30'00" West a distance of 7 16 feet to a steel pin, said pin being the point of beginning.

And Except that portion conveyed to the State of Idaho by the Deed recorded under Instrument No. 126533

In Section 28, the Northwest One Quarter, the Southwest One Quarter of the Northeast One Quarter, the North One Half of the Southwest One Quarter and the Northwest One Quarter of the Southeast One Quarter, and;

In Section 29, the North One Half of the Northeast One Quarter, the Northwest One Quarter of the Southwest One Quarter, and the Northwest One Quarter, **Except** those portions conveyed to the State of Idaho by the Deeds recorded under Instrument No's 116461 and 126533

All portions of Section 30, **Except** that portion thereof conveyed to the State of Idaho by the Deed recorded under Instrument No. 116461.

In Section 31, Government Lots 2, 3, and 4, the East One Half of the Northwest One Quarter, the East One Half of the Southwest One Quarter and the East One Half, **Except** that portion conveyed to the State of Idaho by the Deed recorded under Instrument No. 116461.

In Section 32, the Southwest One Quarter of the Southwest One Quarter.

AND ALSO

A tract of land located in Township 5 North, Range 2 East, Boise Meridian, Boise County, Idaho described as follows:

In Section 5, the West One Half of the Southwest One Quarter, the Southwest One Quarter of the Northwest One Quarter and Government Lot 4, and;

In Section 6, all portions which lie within Boise County including Government Lots 1, 2, 3, 4, 5, and 6, also including but not limited to that portion of abandoned highway right of way as evidenced by Instrument No. 134123, **Except** those portions conveyed for road right-of-way by deeds recorded under Instrument No's 46769 and 116461

In Section 7, all portions which lie within Boise County, and;

In Section 15, the South One Half of the Southwest One Quarter, and;

In Section 16, the Southeast One Quarter of the Southeast One Quarter, and;

In Section 21, all portions which lie within Boise County, and;

In Section 22, all portions which lie within Boise County

AND ALSO

A tract of land located in Township 5 North, Range 2 East, Boise Meridian, Ada County, Idaho described as follows:

In Section 6, all portions which lie within Ada County, Except that portion conveyed to the State of Idaho for public road by deed recorded under Instrument No. 127565 in Book 182 of Deeds, Page 23.

And except that portion conveyed to the State of Idaho by deed recorded under Instrument No. 191535 in Book 235 of Deeds, Page 542.

And except that portion conveyed to the State of Idaho by deed recorded under Instrument No. 8514764.

In Section 7, all portions which lie within Ada County, Except that portion conveyed to the State of Idaho by deed recorded under Instrument No. 160917 in Book 208 of Deeds, Page 611.

And except that portion conveyed to the State of Idaho by deed recorded under Instrument No. 191535 Book, Page 542.

And except that portion conveyed to the State of Idaho by deed recorded under Instrument No. 8514764.

In Section 17, the West One Half of the West One Half, the Southeast One Quarter of the Southwest One Quarter, the South One Half of the Southeast One Quarter and the Northwest One Quarter of the Southeast One Quarter, and;

All of Section 18, Except that portion conveyed to the State of Idaho for public road by deed recorded under Instrument No. 127564 in Book 182 of Deeds, Pages 21 and 22.

And except that portion conveyed to the State of Idaho by deed recorded under Instrument No 160917 in Book 208 of Deeds, Page 611.

And except that portion conveyed to the State of Idaho by deed recorded under Instrument No. 610585.

And except that portion conveyed to the State of Idaho by deed recorded under Instrument No. 8514764.

All of Section 20, Except that portion conveyed to Ada County for Healy Toll Road by deed recorded under Instrument No 19780 in Book 74 of Deeds, Page 254.

In Section 21, all portions which lie within Ada County, Except that portion conveyed to School District No. 50 by deed recorded under Instrument No. 58453 in Book Of Deeds, Pages 161 and 162.

And except that portion conveyed to Ada County for Healy Toll Road by deed recorded under Instrument No. 19780 in Book 74 of Deeds, Page 254

In Section 22, all portions which lie within Ada County.

AND ALSO

A tract of land located in Township 5 North, Range 1 East, Boise Meridian, Boise County, Idaho described as follows:

In Section 1, all portions which lie within Boise County including Government Lots 1 and 2.

AND ALSO

A tract of land located in Township 5 North, Range 1 East, Boise Meridian, Ada County Idaho, Idaho described as follows:

In Section 1, all portions which lie within Ada County Idaho including Government Lots 1, 2, 3, and 4, **Except** that portion conveyed to the State of Idaho for public road by deed recorded under Instrument No. 127565 in Book 182 of Deeds, Page 23.

In Section 2, Government Lots 3 and 4, and;

In Section 3, Government Lot 1, and;

All of Section 12, **Except** from the Southwest One Quarter of the Southwest One Quarter of said Section12, a one acre parcel for a school house lot reserved in Sheriff's Deed recorded under Instrument No. 143440 in Book 183 of Deeds, page 171

In Section 13, the North One Half, the Southeast One Quarter, and the North One Half of the Southwest One Quarter, and;

In Section 24, the North One Half of the Northeast One Quarter.

Subject to all existing easements and rights-of-way, recorded or prescriptive.

Prepared By: ROYLANCE & ASSOCIATES P.A.
391 W. STATE STREET, SUITE E
EAGLE, IDAHO 83616
208-939-2824
208-939-2855 (FAX)

PROFESSIONAL LAND SURVEYOR
REGISTERED
3624
STATE OF IDAHO
DAVID H. ROYLANCE

4-30-04

Roylance & Associates P.A.
391 W State Street, Suite E, Eagle, Idaho 83616
Engineers • Surveyors • Landplanners
Telephone (208) 939-2824 Fax (208) 939-2855

April 29, 2004
Project No: 2408

Legal Description
Suncor Development Company
Non-Core Properties

~~A tract of land located in Township 5 North, Range 1 West, Boise Meridian, Ada County, Idaho described as follows:~~

~~In Section 10, the East One Half of the Southeast One Quarter, and;~~

~~In Section 13, the Northeast One Quarter, the Southeast One Quarter of the Northwest One Quarter and the South One Half of the Southwest One Quarter, and;~~

~~In Section 14, the North One Half, the East One Half of the Southwest One Quarter, the North One Half of the Southeast One Quarter and the Southwest One Quarter of the Southeast One Quarter, and;~~

~~In Section 15, the Northeast One Quarter of the Northeast One Quarter, and;~~

~~In Section 22, the Southeast One Quarter of the Northeast One Quarter and the Northeast One Quarter of the Southeast One Quarter, and;~~

~~In Section 26, the Northwest One Quarter of the Northwest One Quarter, and;~~

~~In Section 27, the Northeast One Quarter of the Northeast One Quarter.~~

~~AND ALSO~~

A tract of land located in Township 5 North, Range 1 East, Boise Meridian, Ada County, Idaho described as follows:

In Section 2, the South One Half and the South One Half of the Northwest One Quarter, and;

In Section 3, the Southeast One Quarter, the East One Half of the Southwest One Quarter, the South One Half of the Northeast One Quarter, the Southeast One Quarter of the Northwest One Quarter and Government Lots 2, 3 and 4, and;

In Section 4, the South One Half, the South One Half of the Northwest One Quarter, the Southeast One Quarter of the Northeast One Quarter and Government Lots 1 and 4, and;

In Section 5, the South One Half of the Northeast One Quarter, the Northeast One Quarter of the

Southeast One Quarter and Government Lots 1 and 2;

In Section 7, the Southwest One Quarter of the Southeast One Quarter, ~~the Southeast One Quarter of the Southwest One Quarter and Government Lot 4, and;~~

In Section 8, the South One Half of the Northeast One Quarter, the East One Half of the Northwest One Quarter, the North One Half of the Southwest One Quarter, the Southwest One Quarter of the Southwest One Quarter and the Southeast One Quarter of the Southeast One Quarter, and;

In Section 9, the West One Half, the Southeast One Quarter, the West One Half of the Northeast One Quarter and the Northeast One Quarter of the Northeast One Quarter, and;

In Section 10, the Southwest One Quarter and the Southeast One Quarter of the Northeast One Quarter, and;

In Section 11, the South One Half of the Northwest One Quarter and the North One Half of the Northeast One Quarter, and;

In Section 17, the Northwest One Quarter and the Northeast One Quarter of the Southwest One Quarter; and

~~In Section 18, the Southeast One Quarter~~, the ~~East One Half of the Southwest One Quarter, the East One Half of the Northwest One Quarter~~, the ~~South One Half of the Northeast One Quarter, the Northwest One Quarter of the Northeast One Quarter and Government Lots 1 and 2, and;~~

~~In Section 19, the Northeast One Quarter~~, the ~~Southeast One Quarter, the East One Half of the Northwest One Quarter and Government Lots 1 and 2, and;~~

~~In Section 20, the West One Half of the Southwest One Quarter~~ and the ~~Southwest One Quarter~~ of ~~the Northwest One Quarter~~.

AND ALSO

A tract of land located in Township 5 North, Range 2 East, Boise Meridian, Ada County, Idaho described as follows:

In Section 8, those portions of the Southwest One Quarter and the Southwest One Quarter of the Southeast One Quarter lying in Ada County, and;

In Section 17, the Northeast One Quarter of the Northwest One Quarter and those portions of the North One Half of the Northeast One Quarter lying in Ada County, and;

In Section 19, the North One Half of the Northeast One Quarter, the East One Half of the Southeast One Quarter, the East One Half of the Northwest One Quarter and Government Lot 1, and;

In Section 27, the Northwest One Quarter of the Northwest One Quarter, and;

In Section 28, the North One Half of the North One Half, and;

In Section 29, the North One Half of the Northwest One Quarter, and;

In Section 30, the North One Half of the Northeast One Quarter, the Southeast One Quarter of the Northeast One Quarter, the East One Half of the Northwest One Quarter and Government Lot 2, Except that portion conveyed to Ada County for Healy Toll Road by deed recorded under Instrument No 19780 in Book 74 of Deeds, Page 254.

AND ALSO

A tract of land located in Township 6 North, Range 1 East, Boise Meridian, Gem County, Idaho described as follows:

In Section 12, Government Lots 1, 2, 3, 4, 5 and 6, and;

In Section 13, the Southeast One Quarter, the East One Half of the Southwest One Quarter, the Southwest One Quarter of the Southwest One Quarter and Government Lots 1, 2, 3, 4, 5, 6, 7 and 8, and;

In Section 14, Government Lots 5 and 6, and;

In Section 22, the North One Half of the Southwest One Quarter, the Southeast One Quarter of the Southwest One Quarter and the West One Half of the Southeast One Quarter, and;

In Section 27, the East One Half, the East One Half of the Northwest One Quarter, the East One Half of the Southwest One Quarter and the Southwest One Quarter of the Southwest One Quarter, and;

In Section 28, the Southeast One Quarter and the Southeast One Quarter of the Northeast One Quarter, and;

In Section 33, the East One Half, and;

In Section 34, the Northeast One Quarter, the North One Half of the Southeast One Quarter, the Southwest One Quarter of the Southeast One Quarter, the Southwest One Quarter, the South One Half of the Northwest One Quarter and the Northeast One Quarter of the Northwest One Quarter.

AND ALSO

A tract of land located in Township 6 North, Range 2 East, Boise Meridian, Boise County, Idaho described as follows:

In Section 7, Government Lots 3, 4, 10 and 11 and the East One Half of the Southwest One Quarter, and;

~~In Section 14, the South One Half of the Southwest One Quarter, and;~~

~~In Section 15, the South One Half, and;~~

In Section 18, the West One Half of the Northeast One Quarter, the East One Half of the Northwest One Quarter, the Northeast One Quarter of the Southwest One Quarter and

Government Lots 1, 2, 3 and 4, and;

In Section 21, that portion of the East One Half lying Northwesterly of the Northwesterly line of New Highway 55 and the Northwest one quarter of the Northwest One Quarter; and

~~All of Section 22, and;~~

~~In Section 23, the Northeast One Quarter, the Southwest One Quarter and the Northwest One Quarter, and;~~

~~All of Section 27, and;~~

In Section 28, the North One Half of the Northeast One Quarter, the Southeast One Quarter of the Northeast One Quarter and the East One Half of the Southeast One Quarter, and;

In Section 29, the Southeast One Quarter, the South One Half of the Northeast One Quarter, the East One Half of the Southwest One Quarter and the Southwest One Quarter of the Southwest One Quarter, Except those portions conveyed to the State of Idaho by the Deeds recorded under Instrument No's 116461 and 126533.

In Section 32, the North One Half, the North One Half of the Southwest One Quarter, the North One Half of the Southeast One Quarter, the Southeast One Quarter of the Southwest One Quarter and the Southwest One Quarter of the Southeast One Quarter, and;

In Section 33, the West One Half of the West One Half and the Southeast One Quarter of the Southwest One Quarter, and;

~~In Section 34, the East One Half and the East One Half of the Northwest One Quarter, and;~~

~~In Section 35, the South One Half of the Southwest One Quarter and the Northeast One Quarter of the Southwest One Quarter.~~

AND ALSO

A tract of land located in Township 5 North, Range 2 East, Boise Meridian, Boise County, Idaho described as follows:

In Section 4, the Southwest One Quarter, the South One Half of the Northeast One Quarter, the South One Half of the Northwest One Quarter and Government Lots 1, 2 and 3, and;

In Section 5, the Southeast One Quarter, the East One Half of the Southwest One Quarter, the South One Half of the Northeast One Quarter, the Southeast One Quarter of the Northwest One Quarter and Government Lots 2 and 3, and;

In Section 8, the North One Half of the Northwest One Quarter, the Southeast One Quarter of the Northwest One Quarter, the South One Half of the Northeast One Quarter, the Northeast One Quarter of the Northeast One Quarter, the East One Half of the Southeast One Quarter and those portions of the Southwest One Quarter of the Southeast One Quarter and the Southwest One Quarter lying in Boise County, and;

In Section 9, the North One Half of the Northwest One Quarter and the West One Half of the Northeast One Quarter, and;

In Section 10, ~~the East One Half of the Northeast One Quarter, the Southwest One Quarter of the Northeast One Quarter, the West One Half of the Southeast One Quarter, the Southeast One Quarter, of the Southeast One Quarter and the Southeast One Quarter of the Southwest One~~ Quarter, and;

~~In Section 14, the South One Half of the South One Half, and;~~

~~In Section 15, the North One Half~~ of the Northeast One Quarter, the ~~South One Half of the Northwest One Quarter, the Northeast One Quarter of the Northwest One Quarter and the North One Half of the Southwest One Quarter, and;~~

In Section 17, those portions of the North One Half of the Northeast One Quarter lying in Boise County, and;

~~In Section 23, the North One Half~~, ~~the North One Half of the Southwest One Quarter, the North One Half of the Southeast One Quarter and the Southeast One Quarter of the Southeast One Quarter, and~~;

~~In Section 24, the Northwest One Quarter.~~

Subject to all existing easements and rights-of-way, recorded or prescriptive.

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PROFESSIONAL LAND SURVEYOR
REGISTERED
3654
STATE OF IDAHO
DAVID H. ROYLANCE

4-30-04

EXHIBIT D-1

WILLOW CREEK PROPERTY

All portions of the following parcels located northeast of Willow Creek Road in Ada County, Idaho:

SE1/4SW1/4 of Section 7, T5N, R1W, Boise Meridian, Ada County, Idaho

NW1/4SW1/4 of Section 17, T5N, R1W, Boise Meridian, Ada County, Idaho

NE1/4SE1/4, SE1/4NE1/4, NW1/4NE1/4, NE1/4NW1/4 of Section 18, T5N, R1W, Boise Meridian, Ada County, Idaho

AGREEMENT NO. 7404

DEVELOPMENT AGREEMENT BETWEEN
THE COUNTY OF ADA, IDAHO, AND
SUNCOR IDAHO, LLC, AN IDAHO LIMITED LIABILITY COMPANY

RELATIVE TO THE PROPERTY KNOWN AS THE
AVIMOR PLANNED COMMUNITY

THIS DEVELOPMENT AGREEMENT (hereinafter this "Agreement") is entered into as of this 8th day of February 2006, by and between the COUNTY OF ADA, a Political Subdivision of the State of Idaho, (the "County"), and SUNCOR IDAHO, LLC, an Idaho Limited Liability Company, and SUNCOR DEVELOPMENT COMPANY, an Arizona corporation, (collectively the "Developer"), pursuant to the authority granted in Idaho Code §§ 67-6511A, *et seq.*

WITNESSETH:

WHEREAS, Developer is responsible for development of a certain tract of land in the County of Ada, State of Idaho, which land is more particularly described in Exhibit A, attached hereto and incorporated herein by reference, (the "Land"); and,

WHEREAS, title to the Land being held in trust by FIRST AMERICAN TITLE INSURANCE COMPANY, a California corporation, Phoenix, Arizona, as Trustee under Subdivision Trust Agreement dated October 8, 2002 (the "Subdivision Trustee"), as evidenced upon the record by that certain Memorandum of Agreements (Ada County) recorded October 22, 2002, as Instrument No. 102121552, Official Records of Ada County, Idaho, and the Subdivision Trustee having consented to Developer's application for a planned community on the Land and is consenting to this Agreement as evidenced below; and

WHEREAS, upon the Land, Developer proposed to develop, construct, and install a planned community to be known as Avimor (the "Project"); and,

WHEREAS, part of the application for the Project includes a vision statement and specific plan (the "Plan") which have been approved by the Board of Ada County Commissioners (the "Board"); and,

WHEREAS, pursuant to Title 8 of the Ada County Code and § 67-6504 of the Idaho Code County has authority to rezone property; and,

WHEREAS, the Plan, promises made during presentations, and other portions of the application, all as more fully appears in File No. 05-001-PC in the Ada County Office of Development Services (the "Application) are an essential inducement to the Board to approve the Project; and,

WHEREAS, the Board has determined to grant a rezone for the Project based on the findings and upon the conditions as reference to Exhibit B will more fully appear; and, WHEREAS, pursuant to Chapter 7, Article C, Title 8 of the Ada County Code and § 67-6511A, Idaho Code, County has authority to enter into development agreements to condition rezones; and,

WHEREAS, Developer is entitled to a fixed set of rules governing development of the Project; and

WHEREAS, Developer desires to be assured that it may proceed with development of the Project in accordance with those rules; and

WHEREAS, County and Developer, in order to obtain these benefits, have determined that it is advantageous to Developer and County to enter into this Agreement to insure the Developer that a consistent set of rules will apply and to insure the County that the Project will be built both in compliance with the assurances made in the application process and in compliance with the Plan and Application, including Exhibit B, attached hereto;

NOW, THEREFORE, in consideration of the promises, covenants, and provisions set forth herein, the parties agree as follows:

Section 1. Development of the Project.

1.1 Effective Date. In accordance with Idaho Code § 67-6511A, this Agreement will be effective upon the publication of Ordinance 604, approving the rezone for the Project.

1.2 Vesting of Permitted Uses, Density, and Intensity of Use. This Agreement shall vest the right to develop the Project, as described in the Plan, as it is more fully described in a bound volume entitled Avimor Specific Plan dated December 12, 2005, which volume is incorporated herein by reference, as it may be amended from time to time, and as approved and conditioned in Exhibit B; provided however, that Developer shall comply with applicable rules, regulations and review processes required by statutes, as they may be amended from time to time, and the Ada County Code, Title 8, as it exists as of the effective date of this Agreement; and provided further, and not withstanding the previous clause, that Developer shall pay applicable fees required by statute or ordinance, as they may be amended from time to time.

Subject to the foregoing, and pursuant to § 8-7C-4B, Ada County Code, the County may adopt new ordinances, resolutions, rules or regulations that conflict with, alter, or amend the ordinances, resolutions, rules or regulations in effect at the time this Agreement is signed, but such actions by the Board shall not prevent the Developer from completing the Project as set forth in this Agreement; provided however, that County and Developer may by a mutually executed writing amend this Agreement to include such changes to the ordinances, resolutions, rules and regulations applying to the Project as they may deem beneficial.

1.3 Compliance with Conditions. Failure to complete or bond for completion of the Project in compliance with the terms of this Agreement shall be a violation of this Agreement by the Developer.

1.4 Compliance with Schedule. Developer shall diligently proceed with the development of the Project in conformance with the provisions of the Plan, including the schedule of phasing as set forth therein, and Exhibit B. Subject to the terms and conditions of this Agreement, including, without limitation, the notice, cure and hearing provisions hereof and the provisions of Section 3.6 below, Developer's failure to so proceed shall be grounds for declaration by the Director of a violation of this Agreement.

1.5 Changes in State and Federal Law. This Agreement shall not preclude the application to the Project of any law that is specifically mandated and required by changes in state or federal laws or regulations. In the event such law prevents or precludes compliance with one or more provisions of this Agreement, County and Developer shall meet and confer to determine how provisions of this Agreement would need to be modified or suspended in order to comply with the law and shall prepare and process the necessary amendment or amendments to this Agreement. If no agreement is reached the Board may elect to terminate this Agreement pursuant to Section 3.7.

1.6 Police Power. Nothing in this Agreement shall be construed to be in derogation of the County's police power to protect the public health and safety in the case of an emergency. For purposes of determining whether the County can exercise its police power inconsistent with the provisions and conditions of this Agreement, "emergency" shall mean a sudden, unexpected occurrence, involving a clear and imminent danger, demanding immediate action to prevent or mitigate loss of, or damage to, life, health, property or essential public services involving the Property or the community.

1.7 Level of Existing County Services. Subject to the requirements placed on the Developer in Exhibit 79 to Exhibit B, the County will provide to the Project Sheriff and EMS services at the same level it provides said services to other properties similarly situated.

1.8 Effect of Subdivision Trustee's Consent. This Agreement shall not be an obligation of Subdivision Trustee. The Subdivision Trustee's consent, as evidenced below, shall not obligate the Subdivision Trustee to assume or undertake any obligation of Developer hereunder.

Section 2. Cooperation in the Event of Legal Action. In the event of any legal or equitable action or other proceeding instituted by any third party (including a governmental entity or official) challenging the validity of any provision of this Agreement, or the underlying approvals, ordinances or permits, the parties hereby agree to cooperate in defending such action or proceeding. The County and Developer may agree to select mutually agreeable legal counsel to defend such action or proceeding, in which case costs and fees shall be shared equally. In the alternative, each party may select its own legal counsel at each party's cost and expense.

Section 3. Enforcement and Biennial Review.

3.1 General Provisions. Failure or unexcused delay by the Developer to perform any term or provision of this Agreement, after the Director has provided written notice thereof from the County, shall constitute a violation under this Agreement. Said notice shall specify the nature of the alleged violation and the manner in which said violation may be satisfactorily cured. If the nature of the alleged violation is such that it cannot reasonably be cured within 90 days after mailing of the written notice as provided herein, the commencement of the cure within such time period and the diligent prosecution to completion of the cure shall be deemed a cure within such period.

3.2 Hearings on Violations. Upon a determination by the Director that the Developer has violated this Agreement and has failed to cure the violation as described in paragraph 3.1 above, the Director shall schedule a hearing before the Board pursuant to § 8-7C-6(C), Ada County Code. Notice of said hearing shall be provided to the Developer in compliance with § 67-6509, Idaho Code. The hearing shall be conducted in compliance with Title 1, Chapter 14, Ada County Code. At the conclusion of the hearing, the Board may determine the Developer to be in default, in partial default, or may modify or reverse the Director's decision.

3.3 County Remedies. Should the Board determine the Developer to be in default or partial default, the County, at its option, may institute legal proceedings pursuant to this Agreement; modify, in whole or in part, the permit, specific plan, or amend the conditions of approval; and/or terminate the Agreement pursuant to paragraph 3.7 below, all as the Board may determine in the exercise of its discretion.

3.4 Biennial Review. Every two years during the term of this Agreement, commencing upon the effective date, the Developer shall submit a status report detailing the status of each condition of approval to the Director. The reasonable costs incurred by County in connection with the review process shall be borne by Developer. (§ 8-7A-2D, Ada County Code). If the Director finds and determines that Developer has not complied with this Agreement, the Director shall send Notice and follow the procedures of paragraph 3.1 above. In the event that Developer shall not cure a violation the Director shall schedule the alleged violation for hearing in front of the Board of Ada County Commissioners, following the notice and hearing procedures as outlined in paragraph 3.2 above.

3.5 Developer's Remedies. In the event the Developer determines that the County has violated the terms of this Agreement, Developer shall promptly give Notice as provided herein. County shall have 30 days in which to cure such violation. Should County fail to cure such violation, Developer shall have all rights and remedies provided herein or under applicable law, including without limitation the right to seek specific performance by, and injunctive relief against, the County. But in no event shall Developer have any right, and the Developer hereby waives the right, to monetary damages.

3.6 Excused Delay; Extension of Time of Performance.

a) It shall be an Excused Delay, and neither party hereunder shall be in violation of this Agreement, if such violation is directly attributable to war, insurrection, strike, walk-out, riot, flood, earthquake, fire, casualty, or act of God.

b) It shall be an Excused Delay, and neither party shall be deemed in violation of this Agreement where delays or defaults are directly attributable to the actions of or failures to act by governmental agencies, other than County.

c) Upon Notice of Excused Delay by either party hereto, an extension of time for cause will be granted in writing by the other party for the period of excused delay, or longer as may be mutually agreed upon.

3.7 Termination.

a) As to unplatted portions of the Project, this Agreement may be terminated, and the zoning designation upon which the use is based reversed to the previously designated District, upon a finding of default by the Board that the Developer, a subsequent owner or any other person acquiring an interest in the Project site is in default as herein provided.

b) This Agreement terminates upon completion of the Project in compliance with the terms and conditions contained in Exhibit B, and upon that event, the parties shall record a full release to that effect.

c) This Agreement terminates as to each portion of the Project covered by and included in a plat duly approved by the Board and recorded in the Office of the Ada County Recorder, and upon that event, the parties shall record a partial release to that effect.

Section 4. Hold Harmless – Indemnification. Except as otherwise provided herein, each party hereto agrees to indemnify, defend, protect and hold harmless the other party hereto for, from and against any and all liability, claims, damages, costs, expenses (including reasonable attorneys' fees and reasonable attorneys' fees on any appeal), judgments, proceedings and causes of action, for injury to or death of any person or damage to or destruction of any property arising out of the indemnifying party's breach of this Agreement, except to the extent caused by the willful or negligent act or omission of the indemnified party, its officers, agents, contractors or employees. Subject to the foregoing, defense provided by the indemnifying party shall include, without limitation, defense through counsel chosen by the indemnified party and the indemnifying party shall bear all costs, fees, and expenses of such defense, including, but not limited to, all attorneys' fees and expenses, court costs, and expert witness fees and expenses

Section 5. Notices.

5.1 Notices – When Received. Any notice, demand, or other communication (a "Notice") given under this Agreement shall be in writing and given personally or by registered or certified mail (return receipt requested). If given by registered or certified mail, a notice shall be deemed to have been given and received on actual deposit in the U.S. Mail. If personally delivered, a notice shall be deemed to have been given when delivered to the party to whom it is addressed. Any party may designate any other address in substitution of the address contained herein by like written notice.

5.2 Addresses. Notices shall be given to the parties at their addresses set forth below:

If to County:

Ada County Development Services Department
200 W. Front Street, Room 2125
Boise, Idaho 83702
Attention: Director
Telephone: 208-364-2277
Facsimile: 208-364-2406

With copy to:

Ada County Prosecuting Attorney
Attention: Chief Civil Deputy Prosecuting Attorney
200 W. Front Street, Room 3191
Boise, Idaho 83702
Telephone: 208-287-7700
Facsimile: 208-287-7719

If to Subdivision Trustee:

First American Title Insurance Company
4801 East Washington Street
Phoenix, Arizona 85034
Phone: (602) 685-7000

If to Developer:

SunCor Idaho, LLC
485 East Riverside Drive, Suite 300
Eagle, ID 83616
Attention: Bob Taunton or General Manager
Telephone: 208-939-0343
Facsimile: 208-939-9972

SunCor Development Corp.
80 East Rio Salado Parkway, Ste. 410
Tempe, AZ 85281
Attention: Duane Black
Telephone: 480-317-6800
Facsimile: 480-317-6942

With copies to:

Hawley Troxell Ennis & Hawley LLP
P.O. Box 1617
Boise, ID 83701-1617
Attention: Brian L. Ballard, Esq
Telephone: 208-344-6000
Facsimile: 208-342-3829

Section 6. Assignment.

6.1 Assignment. Developer may assign or transfer all or any portion of the Project to any person or entity ("Transferee"), subject to the provision of this Section 6.

6.2 Effect of Assignment. It is the intent of the parties that, as the Project is developed, all requirements of the Conditions of Approval(s) and Permits shall be met. To that end, if Developer transfers all or any portion of the Property to a Transferee, Developer shall continue to be responsible for performing the obligations under this Agreement as to the transferred property until such time as is there is delivered to County a legally binding instrument in a form approved by the Director in his reasonable discretion (an "Assignment and Assumption") whereby Developer assigns to Transferee and Transferee agrees to perform, all conditions of approval, and/or other obligations of this Agreement, as to the portion of the property identified in the Assignment and Assumption, and the Board has approved the transfer in accordance with the provisions of this section.

6.3 Procedures. No fewer than thirty (30) days prior to entering into the Assignment and Assumption, Developer shall submit to the Director a draft of the Assignment and Assumption incorporating this Agreement as an attachment along with any other applicable conditions of approval(s) and any other obligations to be assumed by Transferee pursuant to the Assignment and Assumption.

Acceptance of such Assignment and Assumption by the County shall be subject to the review of the Director for a determination of financial capacity of the Transferee to perform the obligations being assigned and assumed, and the Developer shall cooperate with the Director by providing documents and information the Director may deem necessary in the exercise of his reasonable discretion.

6.4 When determining whether or not a Transfer meets the financial capacity test, the Director shall determine the Transferee has the required financial capacity when either (i) the proposed Transferee is a real estate developer with total assets and net income equal or greater than those of SunCor Development Company as of December 31, 2004 or (ii) the proposed Transferee that provides financial assurances, in a form acceptable to County, that adequately ensure its performance of the duties and obligations being assumed.

6.5 The Director shall report his findings to the Board who shall then schedule the matter for decision. Approval shall not be unreasonably with held. If the Board does not indicate its approval or denial of a proposed Transfer within 30 days of the Director's receipt of the Assignment and Assumption with required attachments, the Transfer shall be deemed approved.

Section 7. Entire Agreement; Counterparts; Exhibits; Recording.

7.1 Defined Terms. Unless otherwise specifically defined herein, capitalized terms used herein shall have the same meaning as ascribed to such terms either in the Local Land Use Planning Act, Idaho Code §§ 67-6501, *et seq*., or Title 8 of the Ada County Code, as the case may be. In the event of any conflict between terms in the Act and the terms in the Code, the terms in the Act shall prevail. Any term contained in this Agreement not so defined shall be given general common understanding.

7.2 Amendment. Subject to the requirements of Idaho Code § 67-6511A, including, without limitation, the notice and hearing provisions thereof, County and Developer agree to cooperate and pursue any amendments to this Agreement that are reasonably required to accomplish the goals expressed herein and the development of the Project in light of any changes in market or development requirements. All amendments shall be in writing and shall be approved and signed by both County and Developer. Any amendment to this Agreement shall be recorded. Developer agrees to pay all recording fees necessary to record any such amendment.

7.3 No Agency, Joint Venture or Partnership. County and Developer hereby renounce the existence of any form of joint venture or partnership between County and Developer and agree that nothing contained herein or in any document executed in connection herewith shall be construed as making County and Developer joint venturers or partners.

7.4 Severability. If any provision of this Agreement or the application of any provision of this Agreement to a particular situation is held by a court of competent jurisdiction to be invalid, void, or unenforceable, such provision shall be disregarded and this Agreement shall continue in full force and effect. However, if such provision is not severable from the balance of this Agreement so that the mutually dependent rights and obligations of the parties remain materially unaffected, either party shall be entitled to terminate this Agreement.

7.5 Construction. This Agreement has been reviewed and revised by legal counsel for both County and Developer, and no presumption or rule that ambiguities shall be construed against the drafting party shall apply to the interpretation or enforcement of this Agreement.

7.6 Choice of Law. This Agreement and its performance shall be construed in accordance with and governed by the laws of the State of Idaho, with venue for any action brought pursuant to this Agreement to be in the Fourth Judicial District, State of Idaho.

7.7 Merger and Integration. This Agreement embodies the whole agreement of the parties. There are no promises, terms, conditions, or obligations other than those contained in this Agreement. All previous and contemporaneous communications, representations, or agreements, either verbal or written, between the parties are superseded by this Agreement.

7.8 Third Party Beneficiaries. Nothing contained herein shall create any relationship, contractual or otherwise, with, or any rights in favor of, any third party.

7.9 Waivers. No provision or condition of this Agreement shall be considered waived unless duly amended as provided in Section 7.2. The failure of County or Developer to require strict performance of any term or condition of this Agreement or to exercise any option herein conferred in any one or all instances shall not be construed to be a waiver or relinquishment of any such term or condition, but the same shall be and remain in full force and effect, unless such waiver is evidenced by the prior written consent of either County or Developer, as the case may be.

7.10 Duty to Act Reasonably. Unless otherwise expressly provided, each party shall act reasonably in giving any consent, approval, or taking any other action under this Agreement.

7.11 Recordation of Agreement. County shall record an executed original of this Agreement at the Ada County Recorder's Office. Developer agrees to pay all recording fees necessary to record this Agreement with the Ada County Recorder's Office.

7.12 Covenants Appurtenant to the Project. All covenants and conditions set forth herein shall be appurtenant to and run with the Project and shall be binding upon the parties hereto, their heirs, successors, and assigns.

7.13 Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same instrument. The signature pages from one or more counterparts may be removed from such counterparts and such signature pages all attached to a single instrument so that the signatures of all parties may be physically attached to a single document.

7.14 Further Acts. Each of the parties shall execute and deliver all such documents and perform all such acts as reasonable necessary, from time to time, to carry out the matters contemplated by this Agreement.

7.15 Headings. The descriptive headings of the headings of the sections of this Agreement are inserted for convenience only and shall not control or affect the meaning or construction of any of the provisions hereof.

7.16 Names and Plans. Developer shall be the sole owner of all names, titles, plans, drawings, specifications, ideas, programs, designs and work products of every nature at any time developed, formulated or prepared by or at the instance of Developer in connection with the Project.

7.17 Attorney Fees. If either party finds it necessary to bring any action at law or other proceeding against the other party to enforce any of the terms, covenants or conditions hereof, or by reason of any breach or default hereunder, the party prevailing in any such action or other proceeding shall be paid all reasonable costs and reasonable attorney fees by the other party, and if any judgment is secured by said prevailing party, all such costs and fees shall be included therein, such fees to be set by the court and not by jury.

IN WITNESS WHEREOF, this Agreement has been executed by the parties hereto on the day and year first above written.

Board of Ada County Commissioners

By: ______________________
Rick Yzaguirre, Chairman

By: ______________________
Judy M. Peavey-Derr, Commissioner

By: ______________________
Fred Tilman, Commissioner

ATTEST:

____
J. David Navarro, Ada County Clerk

STATE OF IDAHO)
) ss.
County of Ada)

On this 16th day of February 2006, before me a notary public, personally appeared Judy M. Peavey-Derr, Fred Tilman, and Rick Yzaguirre, known or identified to me, to be the County Commissioners of Ada County, that executed the said instrument, and acknowledged to me that Ada County executed the same.

DEE MAHAFFEY
NOTARY PUBLIC
STATE OF IDAHO

____
Notary Public for Idaho
Commission Expires August 1, 2008

SUNCOR:

SUNCOR DEVELOPMENT COMPANY,
an Arizona corporation

By: [signature]
Name: DUANE S. BLACK
Title: EVP & COO

SUNCOR IDAHO, LLC,
an Idaho Limited Liability Company

By: SunCor Development Company,
an Arizona corporation
Its: sole Member

By: [signature]
Name: DUANE S. BLACK
Title: EVP & COO

CONSENT BY SUBDIVISION TRUSTEE:

FIRST AMERICAN TITLE INSURANCE COMPANY, a California corporation

By: ______________________________
Authorized Officer

SUNCOR:

SUNCOR DEVELOPMENT COMPANY, an Arizona corporation

By: ______________________
Name: ______________________
Title: ______________________

SUNCOR IDAHO, LLC, an Idaho Limited Liability Company

By: ______________________
Name: ______________________
Title: ______________________

CONSENT BY SUBDIVISION TRUSTEE:

FIRST AMERICAN TITLE INSURANCE COMPANY, a California corporation

By: May Lim Carlsen
Authorized Officer

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41397 0004 863129 2

STATE OF ARIZONA)
) ss.
County of Maricopa)

On this 17th day of February, 2006, before me, a Notary Public in and for said State, personally appeared Duane S. Black, known to me to be the Executive Vice President and Chief Operating Officer of SUNCOR DEVELOPMENT COMPANY, an Arizona corporation, the corporation that executed the within instrument or the person who executed the instrument on behalf of said corporation, and acknowledged to me that such corporation executed the same.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year in this certificate first above written.

OFFICIAL SEAL
GEORGIA L. MORAGA
NOTARY PUBLIC - ARIZONA
MARICOPA COUNTY
My Comm. Expires Jan. 9, 2009

Georgia L. Moraga
Notary Public for State of Arizona
Residing at Tempe, AZ
My commission expires 01-09-09

STATE OF ARIZONA)
) ss.
County of Maricopa)

On this 17th day of February, 2006, before me, a Notary Public in and for said State, personally appeared Duane S. Black, known to me to be the Executive Vice President and Chief Operating Officer of SunCor Development Company, an Arizona corporation, the sole Member of SUNCOR IDAHO, LLC, an Idaho limited liability company, the limited liability company that executed the within instrument or the person who executed the instrument on behalf of said corporation, and acknowledged to me that such corporation executed the same.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year in this certificate first above written.

Georgia L. Moraga
Notary Public for State of Arizona
Residing at Tempe, AZ
My commission expires 01-09-09

OFFICIAL SEAL
GEORGIA L. MORAGA
NOTARY PUBLIC - ARIZONA
MARICOPA COUNTY
My Comm. Expires Jan. 9, 2009

STATE OF IDAHO)
) ss.
County of Ada)

On this 13th day of February, 2006, before me, the undersigned, a Notary Public in and for said State, personally appeared Mary Lin Carlsen, known or identified to me to be the Assist Secretary, First American Title Insurance Company, as Trustee under Subdivision Trust Agreement dated October 8, 2002, the trust that executed the within instrument or the person who executed the instrument on behalf of said trust and acknowledged to me that such trust executed the same

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year in this certificate first above written.

KATHRYN A. CLOEPFIL
NOTARY
PUBLIC
STATE OF IDAHO

Kathryn A. Cloepfil
Notary Public for Idaho
Residing at Boise, Idaho
My commission expires 5-27-2010

EXHIBIT A – LEGAL DESCRIPTION

ORDINANCE NO. 604
(Development Agreement No. 7404)

AN ORDINANCE AMENDING THE OFFICIAL ZONING MAP OF TITLE 8 OF ADA COUNTY CODE, AS ADOPTED BY ORDINANCE NO. 391, TO CHANGE THE ZONING DESIGNATION OF THE AVIMOR PLANNED COMMUNITY FROM RURAL PRESERVATION (RP) TO PLANNED COMMUNITY (PC) BASE DISTRICT.

BE IT ORDAINED BY THE BOARD OF COUNTY COMMISSIONERS OF ADA COUNTY, IDAHO, THAT THE OFFICIAL ZONING MAP TITLE 8, ADA COUNTY CODE, AS ADOPTED BY ORDINANCE NO. 391 IS HEREBY AMENDED AS FOLLOWS:

THE BASE ZONING DESIGNATION IS CHANGED FROM RURAL PERSERVATION (RP) TO PLANNED COMMUNITY (PC) ON THE FOLLOWING DESCRIBED PROPERTY SITUATED IN ADA COUNTY:

A parcel of land located in Section 7, 8, 17, 18, and 19 of Township 5 North, Range 2 East, Boise Meridian, Ada County, Idaho, being more particularly described as follows:

Beginning at the section corner common to Sections 17,18,19, and 20, Township 5 North, Range 2 East, said corner marked with an iron pipe and aluminum cap as described in CP&F No. 8507489, Ada County Official Records;

Thence along the south line of the Southwest one-quarter of said Section 17, East, 2640 feet, more or less, to the southeast corner thereof;

Thence leaving said south line, along the east line of the Southeast one-quarter of the Southwest one-quarter of said Section 17, North, 1320 feet, more or less, to the northeast corner thereof;

Thence along the north line of said Southeast one-quarter of the Southwest one-quarter, West, 1320 feet, more or less, to the southeast corner of the Northwest one-quarter of the Southwest one-quarter of said Section 17;

Thence along the east line thereof, North, 1320 feet, more or less, to the southeast corner of the West one-half of the Northwest one-quarter of said Section 17;

Thence along the east line thereof, North, 2640 feet, more or less, to the southeast corner of the West one-half of the Southwest one-quarter of Section 8;

Thence along the east line thereof, North, 1545.19 feet, more or less, to the Ada County-Boise County line;

Thence along said Ada County-Boise County line, North 43°50'08" West, 1517.76 feet, more or less, to the north line of said Southwest one-quarter of Section 8;

Thence along the north line thereof, West, 268.82 feet, more or less, to the southeast corner of the Northeast one-quarter of Section 7;

Thence along the east line thereof, North, 279.97 feet, more or less, to said Ada County-Boise County line;

Thence along said Ada County-Boise County line, North 43°50'08" West, 2620.47 feet, more or less;

Thence West, 746.36 feet, more or less, to the centerline of State Highway 55 (right-of-way width varies), said point being at Highway 55 station 474+39.89;

Thence along the centerline of said State Highway 55, the following seven courses;

1) South 00°12'03" West, 2594.79 feet, to station 448+45.11 and the beginning of a 1909.86 foot radius curve to the right;

2) along said 1909.86 foot radius curve to the right, through a central angle of 08°29'59" (the long chord of which bears South 04°27'02" West, 283.06 feet) for an arc length of 283.32 feet, to station 445+61.78;

3) South 08°42'02" West, 5244.69 feet, to station 393+17.09 and the beginning of a 1909.86 foot radius curve to the left;

4) along said 1909.86 foot radius curve to the left, through a central angle of 17°52'33" (the long chord of which bears South 00°14'15" East, 593.45 feet) for an arc length of 595.86 feet, to station 387+21.23;

5) South 09°10'31" East, 1151.52 feet, to station 375+69.71 and the beginning of a spiral curve to the right having a central angle of 06 °15';

6) along said spiral curve to the right with a central angle of 6 °15', for a length of 243.46 feet, to station 373+19.71 feet and the beginning of an 1145.92 foot radius compound curve to the right;

7) along said 1145.92 foot radius compound curve to the right, through a central angle of 11°33'18" (the long chord of which bears South 02°51'08" West, 230.71 feet) for an arc length of 231.10 feet, to station 370+88.61;

Thence leaving said centerline of State Highway 55, along a line parallel with and 330 feet southerly of the south line of Section 18, South 87°17'17" East, 1000.00 feet;

Thence North 02°42'43" East, 330.00 feet, to the south line of said Section 18;

Thence along said south line, South 87°17'17" East, 2168 18 feet to the Point of Beginning.

Contains 908.81 acres, more or less.

ADOPTED this 8th day of February, 2006.

Board of Ada County Commissioners

By: Rick Yzaguirre
Rick Yzaguirre, Chairman

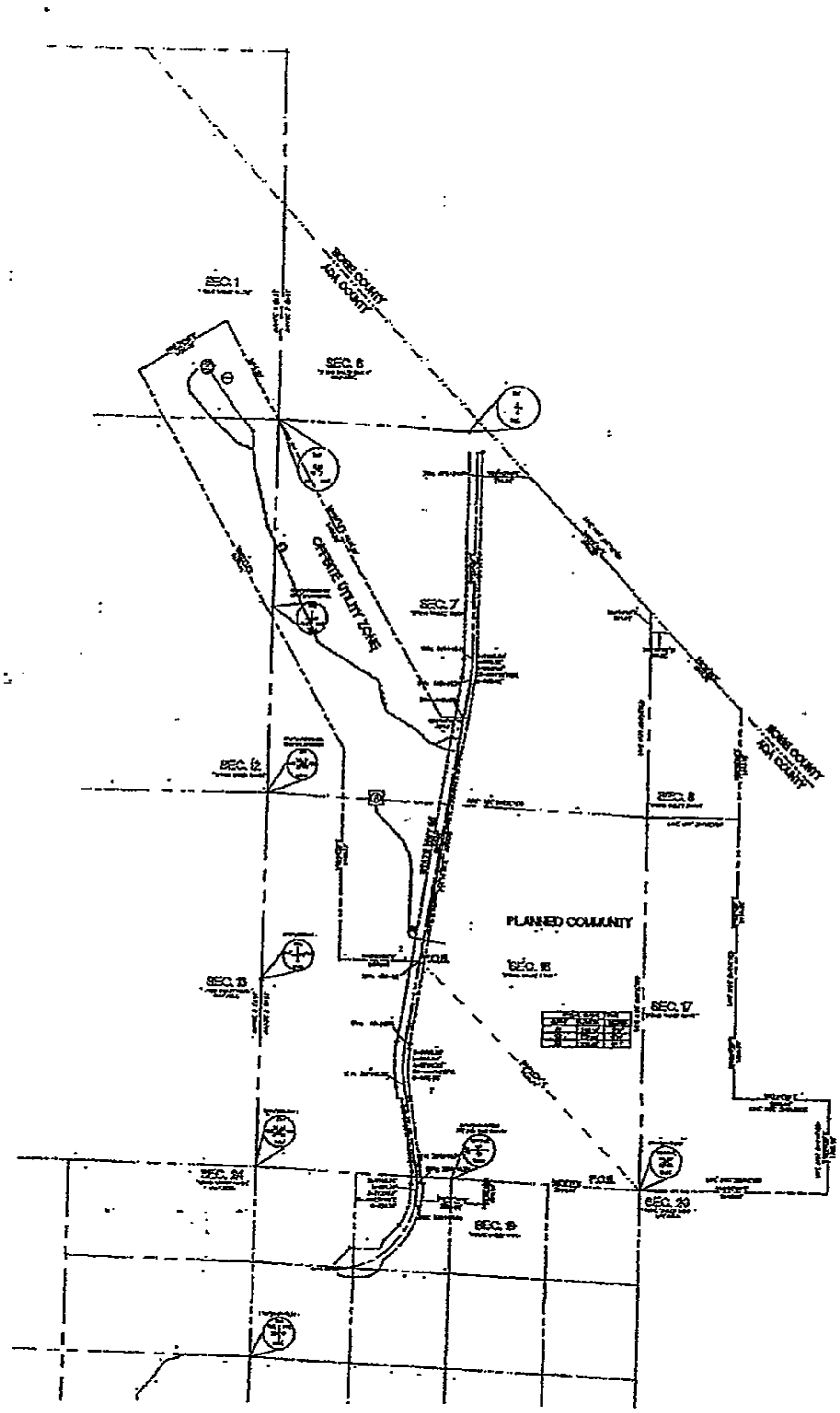
By: Judy M. Peavey-Derr
Judy M. Peavey-Derr, Commissioner

By: Fred Tilman
Fred Tilman, Commissioner

ATTEST:

J. David Navarro
J. David Navarro, Ada County Clerk

PUBLISHED: ______________


SEC. 1
SEC. 6
BOISE COUNTY
ADA COUNTY
OFFSITE UTILITY ZONE
SEC. 7
SEC. 12
SEC. 8
BOISE COUNTY
ADA COUNTY
PLANNED COMMUNITY
P.O.B.
SEC. 18
SEC. 13
SEC. 17
SEC. 24
P.O.B.
SEC. 20
SEC. 19

EXHIBIT
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EWRG
DESIGN INC.

EXHIBIT
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Legal Description – Avimor Planned Community
November 2005

A parcel of land located in Section 7, 8, 17, 18, and 19 of Township 5 North, Range 2 East, Boise Meridian, Ada County, Idaho, being more particularly described as follows:

Beginning at the section corner common to Sections 17,18,19, and 20, Township 5 North, Range 2 East, said corner marked with an iron pipe and aluminum cap as described in CP&F No. 8507489, Ada County Official Records;

Thence along the south line of the Southwest one-quarter of said Section 17, East, 2640 feet, more or less, to the southeast corner thereof;

Thence leaving said south line, along the east line of the Southeast one-quarter of the Southwest one-quarter of said Section 17, North, 1320 feet, more or less, to the northeast corner thereof;

Thence along the north line of said Southeast one-quarter of the Southwest one-quarter, West, 1320 feet, more or less, to the southeast corner of the Northwest one-quarter of the Southwest one-quarter of said Section 17;

Thence along the east line thereof, North, 1320 feet, more or less, to the southeast corner of the West one-half of the Northwest one-quarter of said Section 17;

Thence along the east line thereof, North, 2640 feet, more or less, to the southeast corner of the West one-half of the Southwest one-quarter of Section 8;

Thence along the east line thereof, North, 1545.19 feet, more or less, to the Ada County-Boise County line;

Thence along said Ada County-Boise County line, North 43°50'08" West, 1517.76 feet, more or less, to the north line of said Southwest one-quarter of Section 8;

Thence along the north line thereof, West, 268.82 feet, more or less, to the southeast corner of the Northeast one-quarter of Section 7;

Thence along the east line thereof, North, 279 97 feet, more or less, to said Ada County-Boise County line;

Thence along said Ada County-Boise County line, North 43°50'08" West, 2620.47 feet, more or less;

Thence West, 746 36 feet, more or less, to the centerline of State Highway 55 (right-of-way width varies), said point being at Highway 55 station 474+39 89;

Thence along the centerline of said State Highway 55; the following seven courses;

DEVELOPMENT SERVICES
LAND PLANNING
CIVIL ENGINEERING
LANDSCAPE ARCHITECTURE
LAND SURVEY

453 S Fitness Place
Eagle ID 83616

PH 208/246-8300
FX 246-8320

www.wrgd.com

W R G
DESIGN INC.

1) South 00°12'03" West, 2594.79 feet, to station 448+45.11 and the beginning of a 1909.86 foot radius curve to the right;

2) along said 1909.86 foot radius curve to the right, through a central angle of 08°29'59" (the long chord of which bears South 04°27'02" West, 283.06 feet) for an arc length of 283.32 feet, to station 445+61.78;

3) South 08°42'02" West, 5244.69 feet, to station 393+17.09 and the beginning of a 1909.86 foot radius curve to the left;

4) along said 1909.86 foot radius curve to the left, through a central angle of 17°52'33" (the long chord of which bears South 00°14'15" East, 593.45 feet) for an arc length of 595.86 feet, to station 387+21.23;

5) South 09°10'31" East, 1151.52 feet, to station 375+69.71 and the beginning of a spiral curve to the right having a central angle of 06°15';

6) along said spiral curve to the right with a central angle of 6°15', for a length of 243.46 feet, to station 373+19.71 feet and the beginning of an 1145.92 foot radius compound curve to the right;

7) along said 1145.92 foot radius compound curve to the right, through a central angle of 11°33'18" (the long chord of which bears South 02°51'08" West, 230.71 feet) for an arc length of 231.10 feet, to station 370+88.61;

Thence leaving said centerline of State Highway 55, along a line parallel with and 330 feet southerly of the south line of Section 18, South 87°17'17" East, 1000.00 feet;

Thence North 02°42'43" East, 330.00 feet, to the south line of said Section 18;

Thence along said south line, South 87°17'17" East, 2168.18 feet to the Point of Beginning.

Contains 908.81 acres, more or less.

Matthew A. Burrell
Director of Survey, Boise
WRG Design, Inc.
Idaho P.L.S. #11337

Development Services

Land Planning

Civil Engineering

Landscape Architecture

Land Survey

453 S. Fitness Place
Eagle ID 83616

PH 208/246-8300
FX 46-8320
www.wrgd.com

W R G
DESIGN INC.

DEVELOPMENT SERVICES

LAND PLANNING

CIVIL ENGINEERING

LANDSCAPE ARCHITECTURE

LAND SURVEY

453 S Fitness Place
Eagle ID 83616

Ph 246-8300
Fx 246-8320

www.wrgd.com

Legal Description – Avimor Utility Zone
West of Highway 55
November 2005

A portion of Sections 1 and 12, of Township 5 North, Range 1 East, and Sections 17 and 18, Township 5 North, Range 2 East, Boise Meridian, Ada County, Idaho, being more particularly described as follows:

Commencing at the section corner common to Sections 17,18,19, and 20 in Township 5 North, Range 2 East, said corner marked with an iron pipe and aluminum cap as described in CP&F No. 8507489, Ada County Official Records;

Thence North 45°04'36" West, 4528.97 feet to the centerline of State Highway 55 (right-of-way width varies) at station 405+00 and the Point of Beginning;

Thence leaving said centerline, North 90°00'00" West, 1150.00 feet;

Thence North 00°00'00" West, 2988.12 feet;

Thence North 30°03'15" West, 6125.34 feet;

Thence North 59°56'45" East, 1425.00 feet;

Thence South 30°03'15" East, 1566.20 feet to the section corner common to said Sections 1 and 12 of Township 5 North, Range 1 East, and Sections 6 and 7 of Township 5 North, Range 2 east;

Thence continuing South 30°03'15" East, 4838.80 feet;

Thence South 90°00'00" East, 305.97 feet to the centerline of said State Highway 55 at station 440+00;

Thence along said centerline, South 08°42'02" West, 3500.00 feet to the Point of Beginning.

Contains 309.88 acres, more or less.

Matthew A. Burrell
Director of Survey, Boise
WRG Design, Inc.
Idaho P.L.S. #11337

EXHIBIT
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EXHIBIT B – FINDINGS AND CONCLUSIONS

EXHIBIT B

BEFORE THE BOARD OF ADA COUNTY COMMISSIONERS

In re:
Application of SunCor Idaho, LLC.

File No. 05-001-PC

FINDINGS OF FACT, CONCLUSIONS OF LAW AND ORDERFINDINGS OF FACT

If any of these Findings of Fact are deemed Conclusions of Law, they are incorporated into the Conclusions of Law section.

A. The Board of Ada County Commissioners finds that this application is comprised of:

1. Application forms prepared and submitted by the applicant.
2. All other information contained in File # 05-001-PC.

B. As to procedural items, the Board of Ada County Commissioners finds the following:

1. In accordance with Section 8-7A-3 of the Ada County Code, the applicant held a neighborhood meeting on March 24, 2005.
2. On July 5, 2005, Development Services received File # 05-001-PC and scheduled it for public hearing before the Ada County Planning and Zoning Commission Commissioners on September 1, 2005.
3. On July 25, 2005, staff notified other agencies of this application and solicited their comments.
4. On August 22, 2005, property owners within a minimum of 1,000 feet of the site were notified of the hearing by mail. Legal notice of the Commission's hearing was published in The Idaho Statesman on August 17 and 23, 2005. Notices of the public hearing were posted on the site on August 16, 2005.
5. On August 24, 2005, a Public Service Announcement was issued.
6. On September 1, 2005, the Commission tabled this application to October 6, 2005.
7. On September 8, 2005, staff transmitted additional information to agencies and solicited their comments.
8. On September 21, 2005, property owners within a minimum of 1,000 feet of the site were notified of the hearing by mail. Legal notice of the Commission's hearing was published in The Idaho Statesman on September 20, 2005 and September 27, 2005. Notices of the public hearing were posted on site by the applicant.
9. On September 27, 2005, a Public Service Announcement was issued.
10. On October 6, 2005, a public hearing was held by the Planning and Zoning Commission. Public testimony was taken and left open. The hearing was continued by the commission to October 13, 2005.

11. On October 13, 2005, the Planning and Zoning Commission continued the hearing to November 10, 2005.
12. On November 10, 2005, the Planning and Zoning Commission continued the public hearing. At this hearing, the Commission recommended approval to the Board.
13. On November 14, 2005, property owners within 1,000 feet of the site were notified of the hearing by mail. Legal notice of the Commission's hearing was published in The Idaho Statesman on November 29, 2005 and December 6, 2005. Notices of the public hearing were posted on site by the applicant

C. As to the project description, the Board of Ada County Commissioners finds the following:

1. PROPOSED USES – Planned Community with a mix of uses including approximately 684 dwelling units, approximately 75,000 square feet of commercial and office, public uses, and approximately 498 acres (using the Ada County Code definition) of open space.
2. PROPOSED STRUCTURES – Single-family and multi-family dwellings, commercial structures, mixed use residential/commercial, offices, a recreational center, an elementary or charter school, an interim 2-bay fire facility, an emergency helipad, water storage reservoirs, modular permanent Water Reclamation Facility (WRF), Ada County Sheriff's office space in the village center, and an Idaho Power Company electrical substation.
3. PROPOSED SITE IMPROVEMENTS – Modular permanent Water Reclamation Facility (WRF), public water system, water storage reservoirs, non-potable irrigation water system, electrical power service provided by Idaho Power, natural gas provided by Intermountain Gas Company, cable television service provided by Cable One, telephone and ISDN communication lines provided by Qwest, on-site vehicular, bicycle and pedestrian circulation system, off-site transportation system improvements, open space, trail/trailheads, park sites and playfields.

D. As to the site description, the Board of Ada County Commissioners finds the following:

1. PARCEL NUMBERS AND LOCATION – Parcel numbers include #S0107000000, #S0108320000, #S0117223400, #S0117320000, #S0117330000 and #S0118000000. The Avimor Planned Community is located on approximately 830 acres of land located on the east side of State Highway 55 and approximately 200 acres located on the west side of State Highway 55, generally located on the south side of the Boise County boundary line, and approximately three miles north of Dry Creek Road.
2. OWNERSHIP
   First American Title Insurance Company, Trustee
   SunCor Development Company
   4801 E. Washington Street
   Phoenix, AZ 85034
3. SITE CHARACTERISTICS

Property size: Approximately 830 acres for the proposed village on the east side of SH-55 and approximately 200 acres for the proposed utilities site on the west side of SH-55.

Existing structures: None.

Existing vegetation: As evidenced by the accepted application, the Spring Valley Ranch property is composed of three general vegetation zones: (1) The moderate to steep slopes, ridges and gulches that are dominated primarily by sagebrush, grass and assorted forbs; (2) The valley bottomland has been converted primarily to agricultural (alfalfa) use; and (3) The narrow riparian zones along Spring Valley Creek.

Slope: As evidenced by the accepted application, elevation changes within the mapped area of the project site range from 3,158 feet along State Highway 55 at the southern end of the project to approximately 3,600 feet in upland areas. The Avimor site features a variety of topographical features from relatively flat, cultivated fields and pasture along Highway 55, to mild creek drainage valleys and steep side hills. Rock outcroppings occur along an ephemeral tributary to Spring Valley Creek, commonly referred to as Burnt Car Draw. The principal slope of the site is to the west, toward Highway 55 and to the main channel of Spring Valley Creek, which flows south through the property. The ridges and draws descend from the east from the foothills in a generally northwesterly direction, and then gradually shift back to the southwest prior to opening into the valley's fields and pastures.

Irrigation: As evidenced by the accepted application, a portion of the low-lying alfalfa fields and pastures of Spring Valley Ranch along Highway 55 are irrigated. The mid-valley area is irrigated from the main fork of Spring Valley Creek.

Drainage: As evidenced by the accepted application, the major drainage channels are comprised of the main channel of Spring Valley Creek and the North Fork of Springs Valley Creek which runs along the west of the property. An ephemeral tributary, commonly referred to by the McLeod family as "Burnt Car Draw," drains approximately the southern half of the proposed planned community. Surface water will drain to the existing creek beds and eventually join Spring Valley Creek.

Views: As evidenced by the accepted application, primary views of the proposed planned community are along State Highway 55. The proposed planned community is located within the Payette River Scenic Byway Corridor.

Other Opportunities and/or Constraints: *Wetlands* – As evidenced by the Army Corps of Engineers letter dated August 17, 2005, submitted by SunCor on August 22, 2005, the Army Corps of Engineers have determined the site contains 19.733 acres of wetlands. The Army Corps of Engineers also stated Spring Valley Creek, North Fork Spring Valley Creek, and Burnt Car Draw are waters of the United States. *Groundwater Flow, Recharge, and Discharge* – Within the Spring Valley area, groundwater flow is believed to follow topography, with Spring Valley Creek functioning as a drain for the local groundwater system. Recharge of the local groundwater system occurs from infiltration of precipitation, applied irrigation, and leakage from streams. *Aquifer Impacts* - SunCor proposes to supply municipal water from the offsite wells one and one quarter miles west of the development site. *Soils* - There are 16 major soil types within the proposed project area. The majority of the areas scheduled for initial development in Spring

Valley Ranch are underlain by three soil units: (1) Brent-Ladd Loams; (2) Goose Creek Loam or (3) the Quincy-Brent Complex. The initial areas considered for development have a moderate to high soil erosion potential. *Adjacent Public Lands* - The site is contiguous to Idaho endowment lands along a portion of its northern boundary and contiguous to Bureau of Land Management (BLM) lands along a portion of its eastern boundary. The site is located within the defined Payette River National Scenic Byway.

E. **As to current land use and zoning, the Board of Ada County Commissioners finds the following:**
The site is agriculture/rangeland located in the Rural Preservation (RP) District. The Rural Preservation District allows a residential density of one dwelling unit per forty acres. The site is located in the Wildland-Urban Fire Interface (WUFI) Overlay District, Flood Hazard Overlay District, and Hillside Overlay District.

F. **As to surrounding land use and zoning, the Board of Ada County Commissioners finds the following:**
North – Boise County multiple-use designation (which allows one to two-acre lots or potentially a higher density through a conditional use permit).

South – Rangeland located in the Rural Preservation (RP) District.

East – Rangeland located in the Rural Preservation (RP) District.

West - Agriculture/rangeland located in the Rural Preservation (RP) District.

G. **As to existing services, the Board of Ada County Commissioners finds the following:**
Access Street and Designation – State Highway 55. Based on the COMPASS, Ada County Long Range Highway and Street, 2030 Functional Classification System Map, State Highway 55 is designated as a principal arterial.

Fire Protection – Eagle Fire District.

Sewage Disposal – None

Water Service – None

Irrigation District – None

Drainage District – None

H. **Comprehensive Plan Findings:**
The Ada County Comprehensive Plan is the appropriate plan because the proposed development is outside of any City Area of Impact.

Finding: The Board of Ada County Commissioners finds that the proposed development is outside of any Areas of City Impact, Urban Service Planning Areas, and Referral Areas Map.

I. Planned Communities Goal Statement and Policies:

1. *Goal 5.8: Allow master planned communities, with a mixture of compatible land uses, that are intended to be developed under the guidance of specific plans and contain integrated design themes for all aspects of such projects, including an assessment of their social, economic and environmental effects on the County. Planned Communities are intended to have a high degree of self-sufficiency in that they include or are in reasonable proximity to essential public services, commercial, and community facilities. They may be located in varying locations within the County and are expected to be innovative in their approach to site planning and development.*

Finding: The Board of Ada County Commissioners finds that Avimor's proposed uses, a mixture of compatible land uses are consistent with Goal 5.8. Furthermore, that these uses and evidenced in the application at Section B – Specific Plan, Page 41, where a mix of residential, retail, office, recreational services, convenience services, and open space are proposed. Furthermore, the application at page 47 illustrates where those uses will be located on-site.

Finding: The Board of Ada County Commissioners finds the proposed Avimor development meets Goal 5.8 as the Idaho Transportation Department has submitted recommendations regarding effective noise impact attenuation to increase compatibility between the proposed community and SH-55, and that the applicant as agreed to meet ITD noise attenuation requirements.

Finding: The Board of Ada County Commissioners finds that regarding Goal 5.8 "under the guidance of Specific Plans," that the application includes a request for Specific Plan approval, and that this Specific Plan would be used to guide the development of the site.

Finding: The Board of Ada County Commissioners finds that the applicant has submitted central design concepts and guidelines for the development are consistent with Goal 5.8 "contain integrated design themes for all aspects of the project".

Finding: The Board of Ada County Commissioners finds that the applicant will submit additional specific design guidelines prior to any site development, which will further enhance Avimor's design theme and guidelines.

Finding: Regarding "an assessment of their social, economic and environmental effects on the county," as detailed in Goal 5.8 the Board of Ada County Commissioners finds that the applicant has addressed the social, economic, and environmental effects as detailed in this Staff Analysis Section of this report and that Recommended Requirements have been added to ensure compliance.

Finding: Regarding "self sufficiency" the Board of Ada County Commissioners finds that the proposed planned community will be self sufficient because is located approximately four miles from the nearest city and they will provide essential public services, commercial and community facilities on site.

Finding: Regarding "innovative in their approach to site planning" the Board of Ada County Commissioners finds the applicant's vision statement meets this requirement because their vision statement describes an innovative approach to working with the land, as well as providing a variety of uses.

2. *Policy 5.8-1: Allow for the development of new towns or communities outside the Areas of City Impact under the Planned Community requirements.*

Finding: The Board of Ada County Commissioners finds that the applicant has submitted a planned community application as provided for in Article 8-2E of Ada County Code and that the proposed site is located outside any area of city impact.

3. *Policy 5.8-2: Provide for the consideration of large, mixed-use development plans of sufficient size to allow efficient provision of essential public services and to accommodate future incorporation or annexation. Essential public services include, but are not limited to, water systems, wastewater collection and treatment systems, public safety services, public schools, streets and roads, and open space.*

Finding: The Board of Ada County Commissioners finds that the subject property contains more than the minimum 640 acres required for a planned community and that the proposed development will contain a mix of uses such as residential, commercial, and public.

Finding: The Board of Ada County Commissioners finds that the developer will provide the essential public services, such as a water system, wastewater collection and treatment system, initial construction of the on-site street system, and open space in addition to other essential public services, including but not limited to public safety services and public schools.

Finding: The Board of Ada County Commissioners finds that the comments received from service providers including but not limited to the Meridian School District, Ada County EMS, Ada County Highway District, Idaho Transportation Department, the Ada County Library District, Eagle Library District and Ada County Sheriff, have been reviewed and that the applicant is required to providing necessary staff, equipment and facilities to ensure essential public services will be provided to the site.

Finding: The Board of Ada County Commissioners finds, as evidenced by the application (Section B – Specific Plan, Pages 48-57) and by Idaho Code Section 50-101, that the proposed development is of sufficient size to accommodate future incorporation.

4. *Policy 5.8-3: Provide for an evaluation and consideration of existing conditions that identifies environmental constraints and provides effective treatment and resolution.*

Finding: The Board of Ada County Commissioners finds that in the natural features section found in Section B – Specific Plan, Natural Features Analysis, pages 15 – 39, and the referenced technical reports submitted by the applicant, that the applicant has evaluated and considered existing conditions and has identified environmental constraints and that the applicant has provided an adequate evaluation and consideration for each constraint identified.

Finding: The Board of Ada County Commissioners finds the applicant has provided effective treatment and resolution of those constraints identified as well as providing an effective treatment and/or that a treatment has been included in the Recommended Requirements.

5. *Policy 5.8-4: Encourage flexibility in site design and innovative land planning procedures in the development of a Planned Community.*

Finding: The Board of Ada County Commissioners finds that the applicant is proposing a planned community that provides flexibility in site design and innovative land planning procedures. That the proposed zoning ordinance text amendment meets allows flexibility in site design and innovative land planning.

6. *Policy 5.8-5: Ensure phased and orderly development that provides appropriate combinations of land uses and promotes a high degree of self-sufficiency within Planned Communities. Self-sufficiency is defined as the ability to provide essential public services, commercial and community facilities within or in reasonable proximity to a Planned Community.*

Finding: The Board of Ada County Commissioners finds the application contains a land use map and a phasing map, demonstrating that the applicant is proposing a phased and orderly development that provides appropriate combinations of land uses.

Finding: The Board of Ada County Commissioners finds that the applicant is required to providing essential public services, commercial, and community facilities within the Planned Community. That the developer will provide the essential public services of the water system, wastewater collection and treatment system, initial construction of the on-site street system, and open space in addition to all other essential public services. That the applicant is required to provide necessary resources to enable those service providers to serve the proposed planned community, as identified by those providers.

7. *Policy 5.8-6: Require the adoption of distinctive and effective planning and zoning regulations to guide the development of each Planned Community.*

Finding: The Board of Ada County Commissioners finds the applicant's proposed zoning ordinance text amendment includes distinctive and effective regulations that will effectively guide the development of the proposed Planned Community.

8. *Policy 5.8-7: Permit the adoption of a Specific Plan for each Planned Community as part of the Ada County Zoning Ordinance and Zoning Map.*

Finding: The Board of Ada County Commissioners finds consistency with this policy because the specific plan will be adopted by resolution as a text amendment and adopted into the Ada County Zoning Ordinance and Zoning Map.

9. *Policy 5.8-8: Require appropriate design criteria to be an integral part of the development regulations created for all phases of each Planned Community.*

Finding: The Board of Ada County Commissioners finds that the proposed site design standards are a required element of the zoning ordinance text amendment [see Ada County Code section 8-2E-4(D)(15)] and that the proposed zoning ordinance text amendment, and the applicant's commitment to provide more specific design guidelines prior to site development, satisfy this requirement.

10. *Policy 5.8-9: Proposed Planned Communities shall have a minimum size of 640 acres.*

Finding: The Board of Ada County Commissioners finds that the proposed Planned Community site is approximately 830 acres.

11. *Policy 5.8-10: Planned Communities shall be considered for approval only when assurances are provided by the developer or appropriate public agency that essential public services will be provided, created and financed.*

Finding: The Board of Ada County Commissioners finds that the developer will provide the essential public services of the water system, wastewater collection and treatment system, initial construction of the on-site street system, and open space (see Section B - Specific Plan, Public Services Financing Plan, Pages 90-92).

Finding: The Board of Ada County Commissioners finds the provision of other essential public services will be provided by other service providers, and that the applicant is required to provide necessary resources to enable those service providers to serve the proposed planned community, as identified by those providers.

12. *Policy 5.8-11: Planned Communities shall mitigate negative effects on natural wildlife habitat based on recommendations made by the Idaho Department of Fish and Game.*

Finding: The Board of Ada County Commissioners finds that the applicant is required to prepare a wildlife mitigation plan and that a Recommended Requirement requires the applicant to provide a wildlife mitigation that has received approval from the Idaho Department of Fish and Game, to include a wetland mitigation plan, noxious weed abatement plan, and Federal Migratory Bird Treaty Act of 1972 plan to be incorporated into the Specific Plan prior to any site grading and prior to any decision on the first preliminary plat and that continuous compliance with the provisions of the wildlife mitigation plan is required.

13. *Policy 5.8-12: Planned Communities shall have a mixture of land uses that provide a tax base sufficient to cover the costs of essential public services and government functions that will be needed to support the project.*

Finding: The Board of Ada County Commissioners finds a mixture of land uses are proposed.

Finding: The Board of Ada County Commissioners finds that the tax base anticipated at build-out is expected to cover the costs of essential public services and government functions needed to support the project.

Finding: The Board of Ada County Commissioners finds that predicted tax revenue shortfalls in the early months of project development have been adequately mitigated by the applicant and that the applicant is required to provide necessary resources to service providers as identified by those service providers.

14. *Policy 5.8-13: Planned Communities shall provide a variety of housing types and designs.*

Finding The Board of Ada County Commissioners finds that Avimor's diversity objective and policy 3 (Section B- Specific Plan, following page 12) conform to this comprehensive plan policy.

Finding: The Board of Ada County Commissioners finds that the proposed implementation of housing type variety and housing design variety are included in the zoning ordinance text amendment and shall be included in the specific design guidelines.

15. *Policy 5.8-14: Employment opportunities for residents of Planned Communities shall be provided within each Planned Community as may be appropriate.*

Finding: The Board of Ada County Commissioners finds the application in Figure 1, Section B- Specific Plan, following page 14, shows the location of the planned community is approximately four miles from the closest city (Eagle). Due to the distance from existing employment, it would be appropriate for on-site residential employment opportunities.

Finding: The Board of Ada County Commissioners finds the application proposes 75,000 square feet of retail and office uses; a 12,000 square feet recreation center; a school; a two-bay fire station; and, an opportunity for work-live units. Actual market demand will determine the actual square footages and uses within the Village Center.

Finding: The Board of Ada County Commissioners finds that the proposed retail and office uses and the "Projected Future Employment" document provided by Idaho Economics (in Exhibit 78), estimates 206 on-site jobs at build-out. The projected 206 on-site jobs at build-out meet the requirements of Policy 5.8-14 in that employment opportunities for residents of Avimor will be available on-site at various phasing times in conjunction with housing.

Finding: The Board of Ada County Commissioners finds that the applicant has provided implementation measures to ensure adequate and appropriate commercial and office space will be available in the community to accommodate on-site jobs and also to ensure rental housing as well as owner-occupied housing is provided in the community to accommodate on-site employees.

16. *Policy 5.8-15: Developers of Planned Communities shall provide financial assurances that essential public services will be provided to the project.*

Finding: The Board of Ada County Commissioners finds the developer has provided financial assurance that some essential public services (water system, wastewater collection and treatment system, initial construction of the on-site street system, and open space) will be provided to the project by the developer (see Section B -- Specific Plan, Public Services Financing Plan, Pages 90-92).

Finding: The Board of Ada County Commissioners finds the provision of other essential public services, including but not limited to public safety services and public schools, will be provided by other service providers (See Idaho Economics Financial Impact Analysis, Specific Plan, Section E.), and that the applicant is required to provide the necessary resources to enable those service providers to serve the proposed planned community, as identified by those providers.

17. *Policy 5.8-16: Development within a Planned Community shall be consistent with the adopted Specific Plan.*

Finding: The Board of Ada County Commissioners finds one goal, objectives and policies have been submitted by the applicant, addressing residential and commercial development, schools, air and water quality, recreation facilities, special or sensitive areas, public services and utilities and irrigation.

Finding: The Board of Ada County Commissioners finds the applicant has submitted information regarding the proposed distribution and intensity of land uses.

Finding: The Board of Ada County Commissioners finds the applicant has submitted an anticipated phasing plan that shows a balanced mixture of land uses.

Finding: The Board of Ada County Commissioners finds the applicant has submitted anticipated population projections. As well as a general land use map, this designates land use categories for the entire Planned Community area.

Finding: The Board of Ada County Commissioners finds the applicant has submitted a plan of the proposed irrigation delivery systems and essential public services associated with these land uses such as: water, public safety services, wastewater collection and treatment, public schools and streets, as determined by the respective responsible agencies.

Finding: The Board of Ada County Commissioners finds that the applicant has submitted an analysis of pre-development site conditions including but not limited to: detailed topographic map with slopes, views and exposures. Geologic conditions, structure, and properties. Soil types, properties, and depth. Hydrology, drainage, watersheds, existing bodies of water, shorelines, wetlands, groundwater conditions and irrigation delivery systems. Physical site dynamics and geomorphology (flooding, erosion, landslides). Climate and wind factors. Vegetation, wildlife and habitat considerations. Cultural resources including, but not limited to, historic, and archaeological sites and finds. General land use patterns on-site and within one mile of the Planned Community perimeter.

Finding: The Board of Ada County Commissioners finds the applicant has submitted an assessment of development and population trends documenting the justification for development of a Planned Community to accommodate growth.

Finding: The Board of Ada County Commissioners finds the applicant has submitted description of central design concepts and that the applicant is required to provide specific design guidelines prior to site development as indicated in the recommended requirements.

Finding: The Board of Ada County Commissioners finds the applicant has submitted a description of impacts on groundwater, which suggests no significant impacts to immediate area.

18. *Policy 5.8-17: Planned Communities shall be accompanied by a Specific Plan, which shall include a Goals and Policies Section and a Development Standards/Administration Section. These two sections shall be submitted concurrently.*

Finding: The Board of Ada County Commissioners finds that the applicant submitted a Specific Plan that contained sections that included Goals and Policies, Development Standards/Administration Section.

19. *Policy 5.8-18: Developers of Planned Communities shall provide, at their cost, at the time of Specific Plan submittal, a detailed economic impact analysis evaluating the costs of their project upon the existing infrastructure and any costs of new infrastructure that may be required to serve the project, including but not limited to public streets, school districts, fire districts, water systems, wastewater collection and treatment systems, air quality programs, water quality programs, solid waste disposal, law enforcement, public recreation space, irrigation districts, library districts, and emergency medical services.*

Finding: The Board of Ada County Commissioners finds the applicant has submitted an economic impact analysis prepared by Idaho Economics that evaluated each of the required topics.

20. *Policy 5.8-19: Required studies associated with Planned Community applications and agency comments will be considered current and acceptable for a period of thirty (30) months from the date of original application submittal. The Director, Commission or Board may make a determination that significant changes in conditions have occurred that may require updating, new analysis, or studies of specific issues.*

Finding: The Board of Ada County Commissioners finds that the record shows all studies submitted by the applicant and all comments submitted by agencies are less than 30 months old; and, no significant changes in conditions have occurred.

21. *Policy 5.8-20: Allow lands adjacent to a Planned Community development, subject to the approval of a Zoning Ordinance Amendment, to become a part of the Planned Community and developed in accordance with the zoning regulations governing the Planned Community.*

Finding: The Board of Ada County Commissioners finds that the applicant may expand the Planned Community due to its location and the fact that it is outside of any City area of Impact.

22. *Policy 5.1-7: Ensure that new development is compatible with the County's present development pattern of urban density within the Areas of City Impact and agriculture and rural density in the outlying areas; however, allow for the development of Planned Communities outside of existing Areas of City Impact.*

Finding: The Board of Ada County Commissioners finds the Avimor development would "fast-track" the 2030 projected totals for this TAZ 228 by a number of years. It is important to note that the LRTP's demographic projections are neither implied nor statutory caps on growth, but are simply planning tools used to assess what types of publicly funded infrastructure improvements that may be necessary during a given period of time. It is also important to note since all required infrastructure for the Avimor Planned Community would be privately funded via the dedicated school site, local roads & dedicated ROW's, parks & trails, etc., many of the underlying assumptions about the distribution of publicly funded infrastructure debt are minimized. Therefore in the overall scheme of things, any potential impacts the Avimor development may have would be minuscule when compared to the publicly funded impacts and sprawl development currently taking place in the City of Eagle and Boise City areas of City Impact.

23. *Policy 5.1-8: Allow lands adjacent to a Planned Community development, subject to the approval of a Zoning Ordinance Amendment, to become a part of the Planned Community and developed in accordance with the zoning regulations governing the Planned Community.*

Finding: The Board of Ada County Commissioners finds that the applicant may expand the Planned Community due to its location and the fact that it is outside of any City area of Impact.

24. *Policy 5.3-15: Any rural residential development that meets the definition of a Planned Community shall be required to comply with the Planned Community requirements of the Comprehensive Plan.*

Finding: The Board of Ada County Commissioners finds the applicant is proposing a planned community and that it is in compliance with the Ada County Comprehensive plan for a planned community and that findings have been made for each element as listed in this report, Section I, findings 1 through 25.

25. *Policy 5.4-12: Commercial and industrial development shall be limited to agricultural-related businesses unless it qualifies as a planned community development.*

Finding: The Board of Ada County Commissioners finds that Avimor is a Planned Community.

J. **As to the applicable law,** the Board of Ada County Commissioners finds the application is subject to Title 8 of the Ada County Code, commonly known as the Zoning Ordinance. This section cites the applicable Zoning Ordinance regulations in bold text, followed by the Board of Ada County Commissioner's findings. Specific Findings are provided in Section 8-2E-7 and portions of 8-7-3C. Those sections provided in relevant part, 8-2E-7 and 8-7-3C 2 through 4.

Finding: The Board of Ada County Commissioners finds sections 8-2E and 8-7-3C of the Ada County Code and section 67-6511 of the Idaho Code are applicable (excepting Section 8-7-3C1) because the applicant is proposing a zoning ordinance text amendment to establish a new article to the Ada County Zoning Ordinance, containing regulations for the development and administration of the Planned Community.

ADA COUNTY CODE SECTION 8-2E-7: REQUIRED FINDINGS:

In order to approve a planned community application, the board shall make the findings for a zoning ordinance amendment specified in subsection 8-7-3C of this title with the exception of subsection 8-7-3C1 of this title, and shall make the following additional findings:

A. The proposal complies with all applicable local, state, and federal plans and regulations;

B. The proposed planned community provides a land development tool to accommodate population growth outside of existing areas of city impact; and

C. The proposal sets forth sufficient and adequate mitigation for the identified economic impacts beyond the normally expected incremental impacts on municipalities and other agencies and/or districts.

ADA COUNTY CODE SECTION 8-7-3C ZONING ORDINANCE AMENDMENTS:

C. Required Findings: Upon recommendation from the commission, the board shall make a full investigation and shall, at the public hearing, review the application. In order to grant a map or text amendment to the zoning ordinance, the board shall make the following findings:

1. **The zoning ordinance amendment complies with the applicable comprehensive plan (Not a required finding per Ada County Code 8-2E-7);**

2. **The zoning ordinance amendment complies with the regulations outlined for the proposed base district, specifically the purpose statement;**

3. **The zoning ordinance amendment shall not be materially detrimental to the public health, safety, and welfare; and**

4. **The zoning ordinance amendment shall not result in an adverse impact upon the delivery of services by any political subdivision providing public services within the planning jurisdiction including, but not limited to, school districts.**

K. As to the applicable law, the Board of Ada County Commissioners finds the application is subject to Title 8 of the Ada County Code, commonly known as the Zoning Ordinance. This section cites the applicable Zoning Ordinance regulations in bold text.

ZONING ORDINANCE TEXT AMENDMENT FINDINGS:

ADA COUNTY CODE SECTION 8-7-3C (2) ZONING ORDINANCE AMENDMENTS:

C. **Required Findings: Upon recommendation from the commission, the board shall make a full investigation and shall, at the public hearing, review the application. In order to grant a map or text amendment to the zoning ordinance, the board shall make the following findings:**

The zoning ordinance amendment complies with the regulations outlined for the proposed base district, specifically the purpose statement;

1. **Section 8-2E-1: PURPOSE: The purpose of this article is to provide standards for the review of Planned Communities and to implement the planned community goal and policies of the Ada County Comprehensive Plan.**

   Finding: The Board of Ada County Commissioners finds the applicant is proposing a planned community, which includes a zoning ordinance text amendment to provide standards to implement the planned community goals and policies of the Ada County Comprehensive Plan which, if approved would be adopted and used to provide standards for review.

2. **Section 8-2E-2: APPLICABILITY: These regulations shall apply to applications for planned communities that meet the following minimum size and location standards:**

A. The planned community is a minimum of 640 acres.

Finding: The Board of Ada County Commissioners finds that the, the proposed planned community is approximately 830 acres.

B. The planned community site is located outside existing areas of impact and the Idaho National Guard artillery range.

Finding: The Board of Ada County Commissioners finds as the official Areas of City Impact, Urban Service Planning Areas, and Referral Areas Map, the proposed planned community is located outside any area of city impact. The proposed planned community is located east of State Highway 55, approximately 3 miles north of Dry Creek Road, Sections 1 and 12, Township 5 North, Range 1 East and Sections 7, 8, 17, 18, and 19, T. 5N., R. 2E., B.M., Ada County, Idaho.

Finding: The Board of Ada County Commissioners finds As evidenced by the official Ada County Comprehensive Plan Generalized Future Land Use Map adopted June 17, 1996, Resolution 882, Amended April 9, 1997, Resolutions 924, 925, 926, and 927, the proposed planned community is located outside the Idaho National Guard Artillery Range (Department of Defense – Gunnery Range Hazardous Area).

C. The planned community has a boundary that enhances the area's ability to incorporate or be annexed.

Finding: The Board of Ada County Commissioners finds that the proposed planned community could in the future meet the criteria for incorporation (in Idaho Statute Section, 50-101 et. seq.

3. Section 8-2E-3: PRE-APPLICATION REQUIREMENTS: The applicant shall complete a series of preapplication conferences prior to submittal of an application for a planned community. The purpose of these conferences is to develop a common understanding between staff and the applicant regarding existing site conditions, project design, proposed zoning regulations, potential environmental impacts and mitigation measures, general consistency with local, state, and federal regulations and the Ada County comprehensive plan, and any other relevant issues of the proposed project.

Finding: The Board of Ada County Commissioners finds that the applicant held three official preapplication conferences (Preapplication #200400036) with Ada County Development Services. The preapplication conferences took place on April 19, 2004, April 29, 2004, and May 19, 2004. Additional meetings were held with Development Services on October 8, 2003, December 31, 2003, February 26, 2004, April 13, 2004, January 4, 2005, January 27, 2005, April 14, 2005, and May 11, 2005.

4. Section 8-2E-4: APPLICATION REQUIREMENTS:

A. The applicant or owner shall submit the fee for the planned community application subsequent to a recommendation of the director and adoption by the board. The negotiated fee for a planned community application shall recognize the amount of Ada County administrative time required to process the application.

Finding: The Board of Ada County Commissioners finds that the applicant has submitted a fee as directed by the Director of Ada County Development Services for the proposed planned community application. The fee amount was recommended by the Director and adopted by the Board. The applicant submitted a check in the amount of $27,389. This amount combined with the $5,000 deposit submitted to Development Services on August 26, 2004, represents the first installment of the application fee.

B. **The applicant shall submit a detailed plan that includes the elements required by this subsection, hereafter referred to as the "specific plan". These documents and drawings shall provide sufficient information to evaluate future development applications to ensure that the planned services and amenities shall be provided for the anticipated population.**

1. **A vision statement for the use and design of the subject site.**

   Finding: The Board of Ada County Commissioners finds the applicant has submitted a vision statement for the use and design of the subject site.

2. **A list of coordinated goals, objectives and policies implementing the vision statement and addressing applicable residential, commercial and industrial development, schools, air and water quality, recreation facilities, special or sensitive areas, the provision of essential public services and utilities, and irrigation delivery systems.**

   Finding: The Board of Ada County Commissioners find the applicant has submitted a list of coordinated goals, objectives, and policies implementing the vision statement and addressing applicable development.

3. **General land use patterns on site and within a minimum of one mile of the planned community perimeter.**

   Finding: The Board of Ada County Commissioners finds the applicant has submitted general land use patterns on site and within a minimum of one mile of the planned community perimeter.

4. **A natural features analysis as set forth in this title, including a description of the impact of the project on area ground water quality.**

   Finding: The Board of Ada County Commissioners finds the applicant has submitted a natural features analysis including a description of the impact of the project on area ground water quality.

5. **A description of the density and/or intensity of land uses proposed within the planned community.**

Finding: The Board of Ada County Commissioners finds the applicant has described the density and intensity of planned land uses proposed within the planned community.

6. **A general land use map designating land use categories for the entire planned community area.**

Finding: The Board of Ada County Commissioners finds the applicant has submitted (Appendix F) a general land use map designating land use categories for the entire planned community area.

7. **Anticipated population of the planned community at completion.**

Finding: The Board of Ada County Commissioners finds the applicant has submitted population projections for the proposed community at completion.

8. **An assessment of development and population trends documenting the justification for development of a planned community outside of existing areas of city impact.**

Finding: The Board of Ada County Commissioners finds the applicant has submitted an assessment of development and population trends documenting the justification for development of a planned community outside of existing areas of city impact.

9. **Public services and utilities plan describing and depicting the location and type of electric service, natural gas service, storm drainage and flood control systems, wastewater treatment and collection, water service, irrigation, telephone and television cable service, public safety services, and schools.**

Finding: The Board of Ada County Commissioners finds the applicant has submitted a public services and utilities plan as required.

10. **Circulation plan depicting location, design and dimensions for the various types of streets, trails and paths.**

Finding: The Board of Ada County Commissioners finds the applicant has submitted a circulation plan (Appendix F) depicting the location, design, and dimensions for the various types of streets, trails, and paths.

11. **Dedicated open space plan depicting both active and passive recreation areas and pedestrian, equestrian and bicycle paths.**

Finding: The Board of Ada County Commissioners finds the applicant has submitted a dedicated open space plan (Appendix F) depicting both active and passive recreation areas and pedestrian paths.

12. **Essential public services and anticipated financing plan describing: a phased implementation program; the steps necessary to initiate and maintain each phase of development; the financial assurances provided, including costs of proving utilities, circulation, open space, landscaping, and any other public improvements; and mitigation of negative economic impacts beyond the normally expected incremental impacts of development on affected municipalities and other agencies and districts. Each phase shall include sufficient essential public services to serve the anticipated population of that phase, as well as provide for integration into the planned community.**

Finding: The Board of Ada County Commissioners finds the applicant has submitted an essential public services plan that contains all the required elements.

13. **Description of central design concepts that create themes to guide land use development and to integrate a mixture of land uses. These concepts shall consider predevelopment site conditions, careful placement of public and quasi-public land uses, ample open space areas interconnecting all phases of development with appropriate landscaping, and provision of specific guidelines for construction and placement of improvements.**

Finding: The Board of Ada County Commissioners finds the applicant has submitted a description of central design concepts, and is required to submit more specific design guidelines prior to site development.

Finding: The Board of Ada County Commissioners finds See additional findings that Avimor carefully considered predevelopment site conditions, careful placement of public and quasi-public land uses, ample open space areas interconnecting all phases of development with appropriate landscaping, and provision of specific guidelines for construction and placement of improvements.

14. **A phasing plan indicating the sequence of development, general land uses, and anticipated commencement and completion times of each phase shall be provided, indicating land use types, total area contained, anticipated population levels, and essential public services. Essential public services adequate for the anticipated level of use of that phase shall be provided. The applicant shall also provide a written explanation of why phases should be developed in the proposed sequence and how the progress of each phase shall be measured and monitored by the director and the applicant and/or owner. Phasing shall be accomplished so that the integrity of the planned community is maintained at the end of any single phase.**

Finding: The Board of Ada County Commissioners finds the applicant has submitted a phasing plan with the required elements and phasing is such that integrity of the PC is maintained at the end of each phase.

C. **The applicant shall submit a zoning ordinance amendment, as specified in section 8-7-3 of this title, to amend the official zoning map to identify the planned community boundaries and designation of the area as a planned community. The map amendment application shall include a legal description of the planned community boundaries.**

Finding: The Board of Ada County Commissioners finds the applicant has submitted a zoning ordinance map amendment and is required to submit a legal description of the planned community zone boundaries as required.

D. **The applicant shall submit a zoning ordinance amendment, as specified in section 8-7-3 of this title, to add a new article to this chapter containing the following regulations for the development and administration of the planned community:**

Finding: The Board of Ada County Commissioners finds the applicant has submitted a zoning ordinance text amendment to establish regulations for the development and administration of the planned community as required.

Finding: The Board of Ada County Commissioners finds that the zoning ordinance submitted contains all the required elements as specified in 8-2E-4(D), 1 through 17.

E. **The applicant shall submit a detailed economic impact analysis evaluating the impacts of the planned community upon existing infrastructure and any cost of new infrastructure that may be required to serve the planned community including, but not limited to, streets, schools, fire protection, water systems, wastewater collection and treatment systems, air quality programs, water quality programs, solid waste disposal, law enforcement, parks and open space, irrigation delivery systems, libraries and emergency medical services. Written statements shall be solicited by the applicant from affected municipalities, agencies and/or districts, and other service providers commenting on the impact of the planned community upon existing infrastructure and the costs of providing new infrastructure needed to serve the project. All responses received by the applicant shall be submitted to the director along with the required economic impact analysis.**

Finding: The Board of Ada County Commissioners finds the applicant has submitted an economic analysis as required and that the economic impact analysis evaluates the impact of the new infrastructure as detailed in comprehensive plan findings Plan policy 5.8-18.

Finding: The Board of Ada County Commissioners finds that the proposal sets forth sufficient and adequate mitigation for the identified economic impacts beyond the normally expected incremental impacts on municipalities and other agencies and districts.

F. **The applicant shall submit any other information necessary to support the purposes of this chapter, as determined by the director, the commission, or board, as applicable.**

Finding: The Board of Ada County Commissioners finds the applicant has submitted additional information regarding environmental issues as required by the director.

G. **The director, commission or board may make a determination that material changes in conditions have occurred that may require updating, new analysis, or studies of specific issues.**

Finding: The Board of Ada County Commissioners finds that no material changes have occurred to require updating, new analysis, or studies at this time.

H. **The applicant shall submit a determination by the community planning association of southwest Idaho on whether the proposed planned community, or annexation to an existing planned community, shall necessitate an update to the adopted regional transportation plan. The board may require the applicant to fund the cost of any necessary update to the regional transportation plan as a regulation of a development agreement as required in subsection 8-7C(2) of this title.**

Finding: The Board of Ada County Commissioners finds COMPASS has made a determination that the proposed planned community shall not necessitate an update to the regional transportation plan, so no update is required (see Exhibit 51).

5. **The zoning ordinance amendment shall not be materially detrimental to the public health, safety, and welfare (From Ada County Code section 8-7-3C(3).**

Finding: The Board of Ada County Commissioners finds that the proposed zoning ordinance text amendment in Appendix F is not materially detrimental to the public health, safety and welfare because all potential impacts have been identified and mitigated or require mitigation as a recommended requirement.

Finding: The Board of Ada County Commissioners finds the applicant has submitted an economic analysis as required and that the economic impact analysis evaluates the impact of the new infrastructure as detailed in comprehensive plan findings Plan policy 5.8-18.

Finding: The Board of Ada County Commissioners finds that the proposal sets forth sufficient and adequate mitigation for the identified economic impacts beyond the normally expected incremental impacts on municipalities and other agencies and districts.

6. The zoning ordinance amendment shall not result in an adverse impact upon the delivery of services by any political subdivision providing public services within the planning jurisdiction including, but not limited to, school districts. (From Ada County Code section 8-7-3C(4).

Finding: The Board of Ada County Commissioners finds that the proposed zoning ordinance text amendment will not result in an adverse impact on the delivery of services because all potential economic impacts have been identified and mitigated or are recommended requirements.

ZONING ORDINANCE MAP AMENDMENT FINDINGS:

7. **Section 8-7-3C 2 through 4. REQUIRED FINDINGS, MAP AMENDMENT: Upon recommendation from the Commission, the Board shall make a full investigation and shall, at the public hearing, review the application. In order to grant a map amendment to the zoning ordinance, the Board shall make the following findings:**

a) The zoning ordinance (map) amendment complies with the regulations outlined for the proposed base district, specifically the purpose statement; 8-7-3C(2)

Finding: The Board of Ada County Commissioners finds as discussed in the individual findings above that the applicant has submitted a planned community application that meets all of the regulations outlined for the proposed base district, including the purpose statement and that the map amendment is compliant with the base district.

Finding: The Board of Ada County Commissioners finds that the proposed zoning ordinance text amendment in (Appendix F) complies with the regulations outlined for the proposed base district, including the purpose statement.

b) The zoning ordinance (map) amendment shall not be materially detrimental to the public health, safety, and welfare; 8-7-3C (3)

Finding: The Board of Ada County Commissioners finds that the proposed map amendment to Planned Community shall not be materially detrimental to public health, safety and welfare as no evidence as been submitted to indicate that the proposed development would be materially detrimental.

c) **The zoning ordinance (map) amendment shall not result in an adverse impact upon the delivery of services by any political subdivision providing public services within the planning jurisdiction including, but not limited to, school districts, 8-7-3C (4)**

Finding: The Board of Ada County Commissioners finds as discussed in the individual findings above that the applicant has submitted evidence that the development and therefore the map amendment will not result in an adverse impact on the delivery of services.

Finding: The Board of Ada County Commissioners finds the proposal sets forth sufficient and adequate mitigation for the identified economic impacts beyond the normally expected incremental impacts on municipalities and other agencies and/or districts.

ADA COUNTY CODE SECTION 8-2E-7: REQUIRED FINDINGS:

In order to approve a planned community application, the board shall make the findings for a zoning ordinance amendment specified in subsection 8-7-3C this title with the exception of subsection 8-7-3C1 this title, and shall make the following additional findings:

A. The proposal complies with all applicable local, state, and federal plans and regulations;

B. The proposed planned community provides a land development tool to accommodate population growth outside of existing areas of city impact; and

C. The proposal sets forth sufficient and adequate mitigation for the identified economic impacts beyond the normally expected incremental impacts on municipalities and other agencies and/or districts.

8-2E-7 FINDINGS DETAILED

A. **The proposal complies with all applicable local, state, and federal plans and regulations;**

Finding: The Board of Ada County Commissioners finds as evidenced that based on the findings above the proposed Avimor application complies with Ada County regulations.

OTHER LOCAL REGULATIONS AND PLANS:

Central District Health Department – Environmental Health Division:

Finding: The Board of Ada County Commissioners finds as evidenced by the agency comments dated August 8, 2005, the Idaho Department of Water Resources shall review well construction and water availability. The applicant shall submit plans and receive approval from the Idaho Department of Health and Welfare, Division of Environmental Quality for central sewage and central water. Run-off from the proposed planned community shall not create a mosquito-breeding problem. Central District Health shall review any food and beverage establishment and/or grocery store. The applicant should incorporate storm water best management practices as recommended by Central District Health. The Board of Ada County Commissioners finds the applicant is required to meet these requirements.

Eagle Fire Department:

Finding: The Board of Ada County Commissioners finds as evidenced by the agency comments dated August 30, 2005, Eagle Fire Department states minimum fire flow requirements for the proposed development have been addressed and all fire flows will be based on specifications in the 2003 International Fire Code. Fire hydrant locations and required fire flows shall be witnessed and approved by the Eagle Fire Department prior to any building construction. Fire department access roads shall be constructed in accordance with Section 503 and Appendix D of the International Fire Code. Roads 20 to 26 feet wide need to be posted on both sides as a fire lane. Roads 26 feet to 32 feet wide shall be posted on one side as a fire lane. Signs shall be 12" by 18" high and have red letters on white reflective background. The Board of Ada County Commissioners finds the applicant is required to meet these requirements.

STATE REGULATIONS AND PLANS:

Idaho Department of Fish And Game:

Finding: The Board of Ada County Commissioners finds the applicant is required to meet the recommendations from Idaho Fish and Game and to submit a wildlife mitigation plan that addresses those recommendations prior to any on-site development.

FEDERAL REGULATIONS AND PLANS:

United States Postal Service:

Finding: The Board of Ada County Commissioners finds as evidenced by the agency comments dated August 17, 2005, the US Postal Service has identified 83714 as the Zip Code. Centralized delivery will be required to avoid alphanumeric addressing. The Board of Ada County Commissioners finds the applicant is required to meet these requirements.

B. The proposed planned community provides a land development tool to accommodate population growth outside of existing areas of city impact.

Finding: The Board of Ada County Commissioners finds the applicant has submitted an essential public services plan that addresses the development of the proposed Planned Community without impact to other municipality's services.

Finding: The Board of Ada County Commissioners finds the Avimor development would "fast-track" the 2030 projected totals for this TAZ 228 by a number of years. It is important to note that the LRTP's demographic projections are neither implied nor statutory caps on growth, but are simply planning tools used to assess what types of publicly funded infrastructure improvements that may be necessary during a given period of time. It is also important to note that all required infrastructure for the Avimor Planned Community would be privately funded via the dedicated school site, local roads & dedicated ROW's, parks & trails, etc., many of the underlying assumptions about the distribution of publicly funded infrastructure debt are minimized. Therefore in the overall scheme of things, any potential impacts the Avimor development may have would be minuscule when compared to the publicly funded impacts and sprawl development currently taking place in the City of Eagle and Boise City areas of City Impact.

Finding: The Board of Ada County Commissioners finds that the applicant may expand the Planned Community due to its location and the fact that it is outside of any City area of Impact.

C. **The proposal sets forth sufficient and adequate mitigation for the identified economic impacts beyond the normally expected incremental impacts on municipalities and other agencies and/or districts.**

Finding: The Board of Ada County Commissioners finds that the applicant is required to prepare a wildlife mitigation plan and that a Recommended Requirement requires the applicant to provide a wildlife mitigation that has received approval from the Idaho Department of Fish and Game, to include a wetland mitigation plan, noxious weed abatement plan, and Federal Migratory Bird Treaty Act of 1972 plan to be incorporated into the Specific Plan prior to any site grading and prior to any decision on the first preliminary plat and that continuous compliance with the provisions of the wildlife mitigation plan is required.

Finding: The Board of Ada County Commissioners finds the applicant is required to meet the recommendations from Idaho Fish and Game and to submit a wildlife mitigation plan that addresses those recommendations prior to any on-site development.

Finding: The Board of Ada County Commissioners finds that the tax base anticipated at build-out is expected to cover the costs of essential public services and government functions needed to support the project.

Finding: The Board of Ada County Commissioners finds the developer has provided financial assurance that some essential public services (water system, wastewater collection and treatment system, initial construction of the on-site street system, and open space) will be provided to the project by the developer (see Section B – Specific Plan, Public Services Financing Plan, Pages 90-92).

Finding: The Board of Ada County Commissioners finds the provision of other essential public services, including but not limited to public safety services and public schools, will be provided by other service providers (See Idaho Economics Financial Impact Analysis, Specific Plan, Section E.), and that the applicant is required to provide the necessary resources to enable those service providers to serve the proposed planned community, as identified by those providers.

Finding: The Board of Ada County Commissioners finds the applicant has submitted an economic impact analysis prepared by Idaho Economics that evaluated each of the required topics, and that Ada County's own economic analysis indicates that the Idaho Economics analysis is valid.

CONCLUSIONS OF LAW

If any of these Conclusions of Law are deemed to be Findings of Fact they are incorporated into the Findings of Fact section.

1. The Board of Ada County Commissioners concludes that File # 05-001-PC complies with the Ada County Comprehensive Plan, subject to compliance with the Recommended Requirements attached hereto.

2. The Board of Ada County Commissioners concludes that File # 05-001-PC complies with Section 8-2E-7 of the Ada County Code, subject to compliance with the Recommended Requirements attached hereto.

3. The Board of Ada County Commissioners concludes that File # 05-001-PC complies with Section 8-7-3C (map amendment) of the Ada County Code, subject to compliance with the Recommended Requirements attached hereto.

4. The Board of Ada County Commissioners concludes that File # 05-001-PC complies with Section 8-7-3C (text amendment) of the Ada County Code.

5. The Board of Ada County Commissioners concludes that File # 05-001-PC complies with Section 8-7C-5 of the Ada County Code, subject to compliance with the Recommended Requirements attached hereto.

ORDER

Based upon the Findings of Fact and Conclusions of Law contained in this Staff Report, the Board of Ada County Commissioners approves File 05-001 PC to include the proposed zoning ordinance map amendment and development agreement; and, recommends approval of the proposed comprehensive plan text amendments; and, recommends approval of the proposed conceptual development plan.

DATED this 8th day of February 2006.

Board of Ada County Commissioners

____

By: Rick Yzaguirre, Chairman

____

By: Judy M. Peavey-Derr, Commissioner

____

By: Fred Tilman, Commissioner

ATTEST:

____

J. David Navarro, Ada County Clerk

EXHIBIT 79

DEVELOPMENT REQUIREMENTS

1. A legal description must be submitted for the zoning map amendment that is consistent with the site drawing boundaries contained in the application and that includes the 20-acre utility site on the west side of SH-55.

2. The archeological and historical sites shall be protected from disturbance until they are evaluated as required by the Idaho State Historical Preservation Office prior to any site grading.

3. A wildlife mitigation plan shall be developed by a qualified biologist in coordination with the Idaho Department of Fish & Game that mitigates negative effects on natural wildlife habitat. This plan shall include a wetland mitigation plan and a noxious weed abatement plan and shall be incorporated into the Specific Plan prior to receiving final approval of the first preliminary plat. Grading may be allowed in the first phase development area only with the following provisions:

    a. Submittal of a plan developed by a qualified biologist in coordination with the Idaho Department of Fish & Game that address wildlife mitigation, wetlands, and noxious weeds in the first phase development area.
    b. The applicant receives written approval of the plan submitted from the Development Services Director.
    c. The applicant obtains all required permits.

4. The applicant shall comply with all requirements of the Federal Migratory Bird Treaty Act of 1972. Continuous compliance with the provisions of the Federal Migratory Bird Treaty Act of 1972 is required.

5. The use of gabions shall be limited to the areas of the required street crossings and where streets may be in danger of eroding.

6. The recommendations of the Scenic Byway Advisory Council shall be met.

7. Development and implementation of landscaping and beautification standards to address the "entryway corridor" of SH-55 shall be done as adjacent sites are graded or developed.

8. Noise attenuation features shall be constructed as recommended by the Idaho Transportation Department.

9. Fencing or other safety measures will be provided along the two creeks adjacent to the school site, and a letter shall be obtained from the Meridian Joint School District that the school site is acceptable to them for an elementary school.

10. Street standards must meet the approval of ACHD at the time of subdividing.

11. Improvements and/or payments related to SH-55 shall be made when required by the Idaho Transportation Department pursuant to written agreement entered into between Avimor and the Idaho Transportation Department.

12. Final approval of file 05-001-PC shall be contingent upon execution of a development agreement by the Board of Ada County Commissioners.

13. Development Standards and Design Guidelines shall be submitted for adoption into the Specific Plan prior to receiving final approval of the first preliminary plat. The Development Standards and Design Guidelines, and the duties of the Avimor Design Review Committee, shall include but not be limited to parking, landscaping, setbacks and lighting standards and the committee's responsibility to review compliance with those standards for multi-family dwellings and bed-and-breakfasts; and, shall include but not be limited to establishing standards and the Avimor Design Review Committee's responsibility to review all land uses listed in Ada County Code Title 8, Chapter 5.

14. The applicant shall provide 50% of the funding necessary for one Sheriff's Deputy position for a period of (18) eighteen months. Funding shall start upon approval of the Final Plat for the first phase of Avimor or prior to obtaining the first building permit which ever occurs first.

15. The applicant shall provide space in the fire station to house an ambulance and shall provide space to house a paramedic crew in the future when required by Ada County Emergency Medical Services.

16. The applicant shall work with the Meridian School District to participate financially in acquiring a school site south of Avimor, based on a proportionate share of attendance.

17. The applicant shall work with the Ada County Library District to house a branch library at Avimor, to be established following substantial completion of the first phase of development, anticipated to occur in 2007/2008.

18. The applicant shall provide a minimum of (10) ten rental-housing units on site.

19. The applicant shall provide a minimum 33,000 square feet of private non-residential development prior to approval of the final phase of development.

20. The applicant shall designate an on site alternative transportation coordinator and provide an alternative transportation kiosk. The alternative transportation coordinator shall provide the residents with assistance, development, and managed coordination of alternate forms of transportation.

21. The applicant shall provide the necessary staff, equipment, and facilities to ensure essential public services will be provided to the Avimor Planned Community.

22. To minimize any impacts for the proposed fill and cuts, the applicant shall utilize on-site materials to balance the fills and cuts thereby limiting the need to truck material to the site from off-site locations.

23. The applicant shall provide all essential public services required as well as the resources required to enable those service providers to serve the proposed planned community, as identified by those providers.

24. The applicant shall enhance natural features and any visual impact of the development by rounding finished grade contours to blend with the existing slopes, requiring that building pads be designed to follow the natural contours with contour or landform, ensuring grading practices are designed to minimize visual impacts, to require hillside building foundations and designs to be stepped with the natural grade contours that minimize cuts and greatly improve visual aesthetics as detailed in Avimor's Conceptual Lot Building Envelopes, Conceptual Grade Adaptive Housing, and Contour Grading and Landform Grading methods and plans submitted.

25. The applicant shall submit plans and receive approval from the Idaho Department of Health and Welfare, Division of Environmental Quality for central sewage and central water. Run-off from the proposed planned community shall not create a mosquito-breeding problem. Central District Health shall review any food and beverage establishment and/or grocery store. The applicant shall incorporate storm water best management practices as recommended by Central District Health.

26. Fire hydrant locations and required fire flows shall be witnessed and approved by the Eagle Fire Department prior to any building construction.

27. Fire department access roads and on-street parking shall require Fire District approval.

28. The applicant shall provide a centralized mail delivery system as required by the US Postal Service.

29. Avimor shall develop pathways, trails and trailheads, and parks and recreation areas in accordance with the Open Space and Trails Plan, and the Phasing and Infrastructure Schedule of the Avimor Specific Plan.

30. Avimor shall work with Ada County and other public agencies, and landowners and citizens, to develop and adopt a regional trails recreation and open space plan through the current Ada County Comprehensive Plan up-date process.

31. Avimor shall work with Ada County and other public agencies to integrate the Avimor Open Space and Trails Plan for access and connections within, through, and beyond the bounds of Avimor in accordance with adopted policies and standards of the up-dated Ada County Comprehensive Plan.

32. Avimor shall develop an agreement for ownership, funding, maintenance and operational responsibilities for Avimor's trails, parks and recreation areas, and open spaces following adoption of policies and standards of the Ada County Comprehensive Plan's trails, recreation and open space component.

33. Prior to receiving final approval of the first preliminary plat, the applicant shall make the final payment of the negotiated Planned Community Application Fee.

34. Public trails developed on Avimor property shall be created and evidenced by recorded easements, plat notes or other recorded instruments as approved by Ada County Development Services.

State of Idaho
DEPARTMENT OF WATER RESOURCES
322 East Front Street, P.O. Box 83720, Boise, ID 83720-0098
Phone: (208) 287-4800 Fax: (208) 287-6700 Web Site: www.idwr.idaho.gov.

June 27, 2006

JAMES E. RISCH
Governor

KARL J. DREHER
Director

MICHAEL D WARDLE
SUNCOR IDAHO LLC
485 EAST RIVERSIDE DRIVE SUITE 300
EAGLE IDAHO 83616

RE: Application for Stream Channel Alteration Permit # 63-20059
Construction of roadway crossings and stream channel stabilization structures.

Dear Mr. Wardle:

This office has reviewed the above referenced application for a permit to alter a stream channel and has prepared a decision as provided for in Section 42-3805, Idaho Code.

You may consider this letter as a permit for the construction of; site one (Con-Span bridge 20'x 6'x 100'), site two (Con-Span bridge 20'x 6'x 96' with MSE end walls), site 3 (installing a 42 inch culvert extension 40' foot long and a culvert 60"x 60' with concrete head walls) and a outfall structure where the relocated Burnt Car Draw channel will reenter the North Fork of Spring Creek as described on your application and amendment. Other conditions and construction procedures also approved under this permit may not coincide with the proposal as submitted.

MINIMUM STANDARDS (These standards are established in the Stream Channel Alterations, Rules and Regulations dated November 1992, and are enclosed with this permit.)

056 - Construction Procedures

057 - Placement of Rock Riprap

062 - Culverts and Bridges

THIS AUTHORIZATION IS APPLICABLE ONLY TO DEPARTMENT OF WATER RESOURCE PERMITS ADMINISTERED BY THE STREAM CHANNEL PROTECTION PROGRAM. IT DOES NOT RELIEVE YOU OF THE RESPONSIBILITY TO OBTAIN OTHER LOCAL, STATE, AND/OR FEDERAL PERMITS WHICH MAY BE REQUIRED.

DEQ REQUIRES A SHORT TERM ACTIVITY EXEMPTION BE OBTAINED FROM CRAIG SHEPARD (373-0557) PRIOR TO THE START OF CONSTRUCTION.

All construction shall be completed in accordance with descriptions and methods on the application and attachments submitted with the application or as addendum's unless otherwise specified.

Department of Water Resources
APPLICANT'S
Exhibit 8
Date Admitted 10-31-06

All material enclosures (Gabions, MSE Walls) using a wire structure below the ordinary high water mark must be approved in advance by IDWR.

This Department prior to commencement of construction must approve any changes.

All construction activities shall be conducted in such a manner as to minimize turbidity and other water quality impacts.

Uncured concrete shall not come into contact with surface waters. The discharge of all-concrete shall be completed when the work area has been dewatered through the use of an approved cofferdam and excess water evacuated. Cleaning of concrete transport equipment, distribution equipment or equipment contaminated with concrete is not permitted where the effluent from such cleaning will enter the waterway.

Stream bank vegetation shall be protected to the extent practicable during construction. Care shall be taken to select locations for ingress and egress from the stream that will minimize bank and riparian vegetation damage. All disturbed and eroded areas from the construction shall be revegetated with perennial shrubs, grasses, and forbs as recommended by Idaho Department of Fish and Game and/or the local office of the Natural Resources Conservation Service, to reduce erosion, restore bank cover and habitat and inhibit the invasion of noxious weeds.

All unauthorized vegetative debris and excavated material shall be disposed of out of the stream channel where it cannot reenter the channel at high flows. All temporary structures, construction debris and litter from the construction and construction workers shall be removed from the site and disposed of properly.

Fuel, oil, and other hazardous materials shall be stored, and equipment refueled away from the stream in a centralized location that is constructed and maintained with under liners, to ensure that a spill cannot enter surface and/or ground waters.

THIS PERMIT SHALL EXPIRE ON DECEMBER 31, 2007.

GENERAL CONDITIONS

This permit does not constitute any of the following:

a. An easement or right-of-way to trespass across or work upon property belonging to others.
b. Compliance with the Federal Flood Insurance Program, FEMA regulations or approval of the local Planning and Zoning authority.

Idaho Code, Sections 55-2201 - 55-2210 requires the applicant and/or his contractors to contact Digline not less than three (3) working days prior to the start of any excavation for this project. The phone numbers for Digline are Boise area 342-1585 and statewide 1-800-342-1585.

The permit holder or operator must have a copy of this permit at the alteration site, available for inspection at all times.

FAILURE TO ADHERE TO CONDITIONS AS SET FORTH HEREIN CAN RESULT IN LEGAL ACTION AS PROVIDED FOR IN SECTION 42-3809, IDAHO CODE.

No liability whatsoever shall accrue to the Department of Water Resources for damages to other properties resulting from approval of this permit. By accepting this approval, the permit holder not the Department of Water Resources shall be responsible for damages incurred to other properties caused from work performed under this permit.

If you object to the decision issuing this permit with the above conditions, you have fifteen days in which to notify this office in writing that you request a formal hearing on the matter. If an objection has not been received within fifteen days, the decision will be final.

If you have any questions, please contact me at 287-4941 or this office.

Sincerely,

Ervin E. Ballou

Ervin Ballou
State Coordinator
Stream Channel Protection Program

cc: COE #052100162, IDL, IDF&G, DEQ

DEPARTMENT OF THE ARMY
WALLA WALLA DISTRICT, CORPS OF ENGINEERS
201 NORTH THIRD AVENUE
WALLA WALLA, WASHINGTON 99362-9265

REPLY TO
ATTENTION OF

June 27, 2006

Regulatory Division

SUBJECT: NWW No. 052100162

Mr. Robert G. Taunton
SunCor Idaho, LLC
485 East Riverside Drive
Eagle, Idaho 83616-6058

Dear Mr. Taunton:

Enclosed is your Department of the Army permit to discharge fill material into Spring Valley Creek, North Fork Spring Valley Creek, Burnt Car Draw and 0.947 acre adjacent wetlands to develop the Avimor Planned Community. Your project is located in Secs. 7, 8, 17, and 18, T.3N., R.1E., B.M., Ada County, Idaho. The permit includes conditions you must comply with in completing the permitted work. We received your permit processing fee for $100. If the work will be done by another party, such as a contractor, you must give them a copy of this permit. If you decide to change your project from what we have permitted, you must send us revised drawings showing your proposed changes. We need to approve any proposed changes before you start work.

We have enclosed a Compliance Certification for you to sign and return when you complete your project. Please notify Mr. Gregory J. Martinez of our Boise Regulatory Office at 208-345-2154 when you start work authorized by this permit and immediately after it is completed so we can inspect it during and after construction.

This determination applies only to Department of the Army permits administered by the Corps of Engineers. Your project may also require permits from other Federal, state, and local agencies. A permit may be required from the Idaho Department of Water Resources for your project. You should contact them to obtain any necessary permits prior to the start of construction.

A local floodplain management ordinance may have been adopted by your local city or county zoning office under the National Flood Insurance Program. You should contact them regarding any approvals or permits they may require for your project.

We are interested in your thoughts and opinions concerning the quality of service you received from the Walla Walla District, Corps of Engineers Regulatory Division. If you have Internet access and are interested in letting us know how we are doing, ~~you can complete~~

Department of Water Resources
APPLICANT'S
Exhibit 9
Date Admitted 10-31-06

DAN

DEPARTMENT OF THE ARMY PERMIT

Permittee: Mr. Robert Taunton

Permit Number: NWW No. 052100162

Issuing Office: Walla Walla District

NOTE: The term "you" and its derivatives, as used in this permit, means the permittee or any future transferee. The term "this office" refers to the appropriate district or division office of the Corps of Engineers having jurisdiction over the permitted activity or the appropriate official acting under the authority of the commanding officer.

You are authorized to perform work in accordance with the terms and conditions specified below.

Project Description:

Discharge 8,700 cubic yards of rock, gravel, concrete and earthen fill material into 296 linear feet of Spring Valley Creek, North Fork Spring Valley Creek and 0.947 acre of adjacent, emergent, scrub/shrub and forested wetlands to build roads and armor washout or eroded areas along the stream channel. Discharge 3,600 cubic yards of earthen fill material into 3,624 linear feet of Burnt Car Draw. Discharge 795 cubic yards of gravel and earthen fill material into Spring Valley Creek to construct eight temporary equipment access roads. Location and description as shown on the enclosed drawing sheets 1 through 17.

THE PROJECT SHALL BE CONSTRUCTED ACCORDING TO THE ENCLOSED PLANS AND DRAWINGS (SHEETS 1 THROUGH17), dated February 17, 2006.

Project Location:

Spring Valley Creek, North Fork Spring Valley Creek and adjacent wetlands, and Burnt Car Draw, in Secs. 7, 8, 17 and 18, T.3N., R.1E., Boise Meridian, Pearl USGS Quadrangle, in Ada County, Idaho

Permit Conditions:

General Conditions:

1. The time limit for completing the work authorized ends on <u>June 20, 2009.</u> If you find that you need more time to complete the authorized activity, submit your request for a time extension to this office for consideration at least one month before the above date is reached.

2. You must maintain the activity authorized by this permit in good condition and in conformance with the terms and conditions of this permit. You are not relieved of this requirement if you abandon the permitted activity, although you may make a good faith transfer to a third party in compliance with General Condition 4 below. Should you wish to cease to maintain the authorized activity or should you desire to abandon it without a good faith transfer,

2. Limits of this authorization.

a. This permit does not obviate the need to obtain other Federal, state, or local authorizations required by law.

b. This permit does not grant any property rights or exclusive privileges.

c. This permit does not authorize any injury to the property or rights of others.

d. This permit does not authorize interference with any existing or proposed Federal project.

3. Limits of Federal Liability. In issuing this permit, the Federal Government does not assume any liability for the following:

a. Damages to the permitted project or uses thereof as a result of other permitted or unpermitted activities or from natural causes.

b. Damages to the permitted project or uses thereof as a result of current or future activities undertaken by or on behalf of the United States in the public interest.

c. Damages to persons, property, or to other permitted or unpermitted activities or structures caused by the activity authorized by this permit.

d. Design or construction deficiencies associated with the permitted work.

e. Damage claims associated with any future modification, suspension, or revocation of this permit.

4. Reliance on Applicant's Data. The determination of this office that issuance of this permit is not contrary to the public interest was made in reliance on the information you provided.

5. Reevaluation of Permit Decision. This office may reevaluate its decision on this permit at any time the circumstances warrant. Circumstances that could require a reevaluation include, but are not limited to, the following:

a. You fail to comply with the terms and conditions of this permit.

b. The information provided by you in support of your permit application proves to have been false, incomplete, or inaccurate (See 4 above).

c. Significant new information surfaces which this office did not consider in reaching the original public interest decision.

Such a reevaluation may result in a determination that it is appropriate to use the suspension, modification, and revocation procedures contained in 33 CFR 325.7 or enforcement procedures such as those contained in 33 CFR 326.4 and 326.5. The referenced enforcement procedures provide for the issuance of an administrative order requiring you to comply with the terms and conditions of your permit and for the initiation of legal action where appropriate. You will be

DEPARTMENT OF THE ARMY
WALLA WALLA DISTRICT, CORPS OF ENGINEERS
BOISE REGULATORY OFFICE
304 NORTH EIGHTH STREET, ROOM 140
BOISE IDAHO 83702-5833

REPLY TO
ATTENTION OF

August 14, 2006

Regulatory Division

SUBJECT: NWW No. 062100114

Department of Water Resources
APPLICANT'S
Exhibit 10
Date Admitted

Mr. Kevin Wentland
Avimor, LLC
485 East Riverside Drive, Suite 300
Eagle, Idaho 83616

Dear Mr.Wentland:

Your proposed discharge of 17.9 cubic yards of rock riprap and native soil associated with the installation of a 16-inch water line in an unnamed tribuatry, an aerial crossing of Dry Creek with concrete supports and a drain line from the Broken horn pump station is authorized under the terms and conditions of Department of the Army Nationwide Permit (NWP) 12. Your discharge of 2.7 cubic yards of gravel fill and rock riprap into an unnamed tributary associated with the installation of a roadway culvert is authorized under NWP 14 (33 CFR 330, Appendix A). This authorization requires your project is constructed as shown on the enclosed drawings and complies with the terms and conditions of the enclosed nationwide permit and the special conditions listed below. Your project is located in Sec. 31, T.5N., R.2E., B.M., Ada County, Idaho.

a. Permittee is responsible for all work done by any contractor. Permittee shall ensure any contractor who performs the work is informed of and follows all the terms and conditions of this authorization (including any special conditions listed above).

b. Permittee shall also ensure these terms and conditions are incorporated into engineering plans and contract specifications.

c. Permittee shall sign and return the enclosed Compliance Certification when the project is completed.

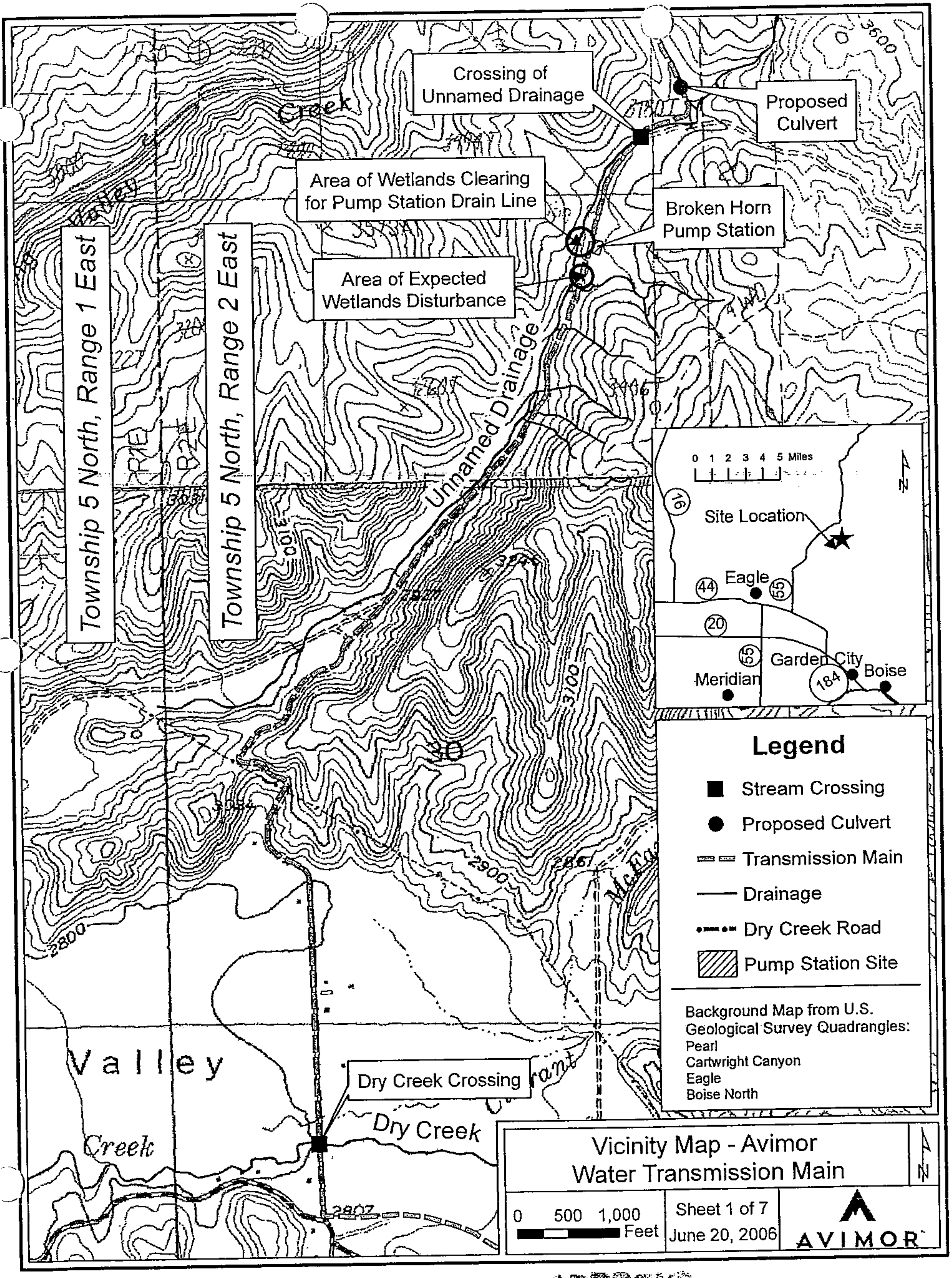
Please carefully review these conditions, including the Water Quality Certification conditions. If you cannot meet these conditions, this NWP verification is not valid. Your project must comply with the Idaho Water Quality Standards as stated in IDAPA 58.01.02. If you have any questions about the Water Quality Certification conditions, please contact Jack Gantz at 208-373-0599. If you change the project description in your permit application, this NWP may not be

Mr. Michael McGown, Regional Administrator, Idaho Department of Environmental Quality, 1445 North Orchard, Boise, Idaho 83706.

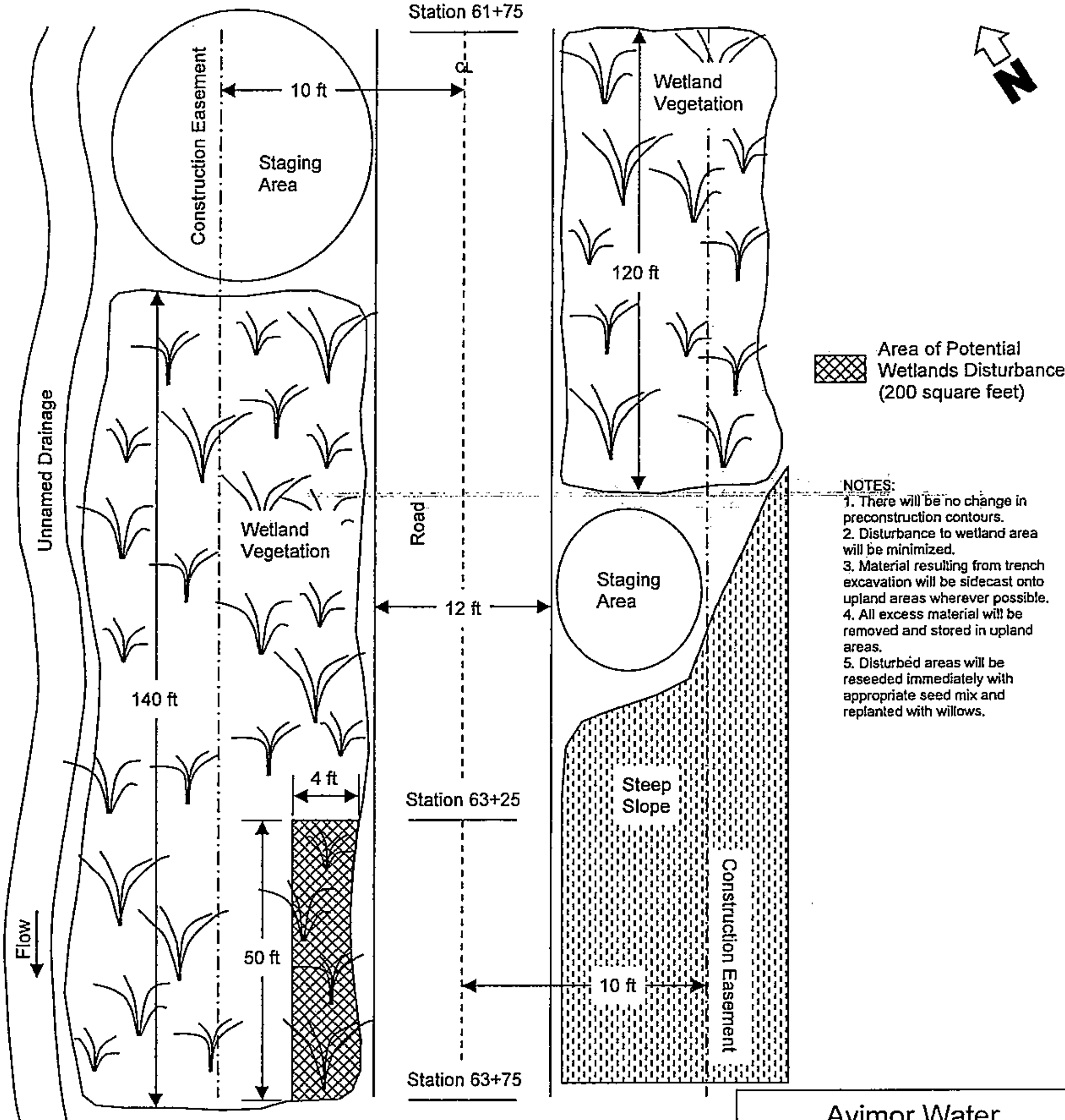
Sincerely,

Gregory J. Martinez
Regulatory Project Manager

Enclosures


Crossing of Unnamed Drainage
Proposed Culvert
Area of Wetlands Clearing for Pump Station Drain Line
Broken Horn Pump Station
Area of Expected Wetlands Disturbance
Township 5 North, Range 1 East
Township 5 North, Range 2 East
Unnamed Drainage
Creek
Valley
Dry Creek Crossing
Dry Creek
Creek
0 1 2 3 4 5 Miles
Site Location
Eagle
Garden City
Boise
Meridian
Legend
Stream Crossing
Proposed Culvert
Transmission Main
Drainage
Dry Creek Road
Pump Station Site
Background Map from U.S. Geological Survey Quadrangles:
Pearl
Cartwright Canyon
Eagle
Boise North
Vicinity Map - Avimor Water Transmission Main
0 500 1,000 Feet
Sheet 1 of 7
June 20, 2006
AVIMOR

APPROVED

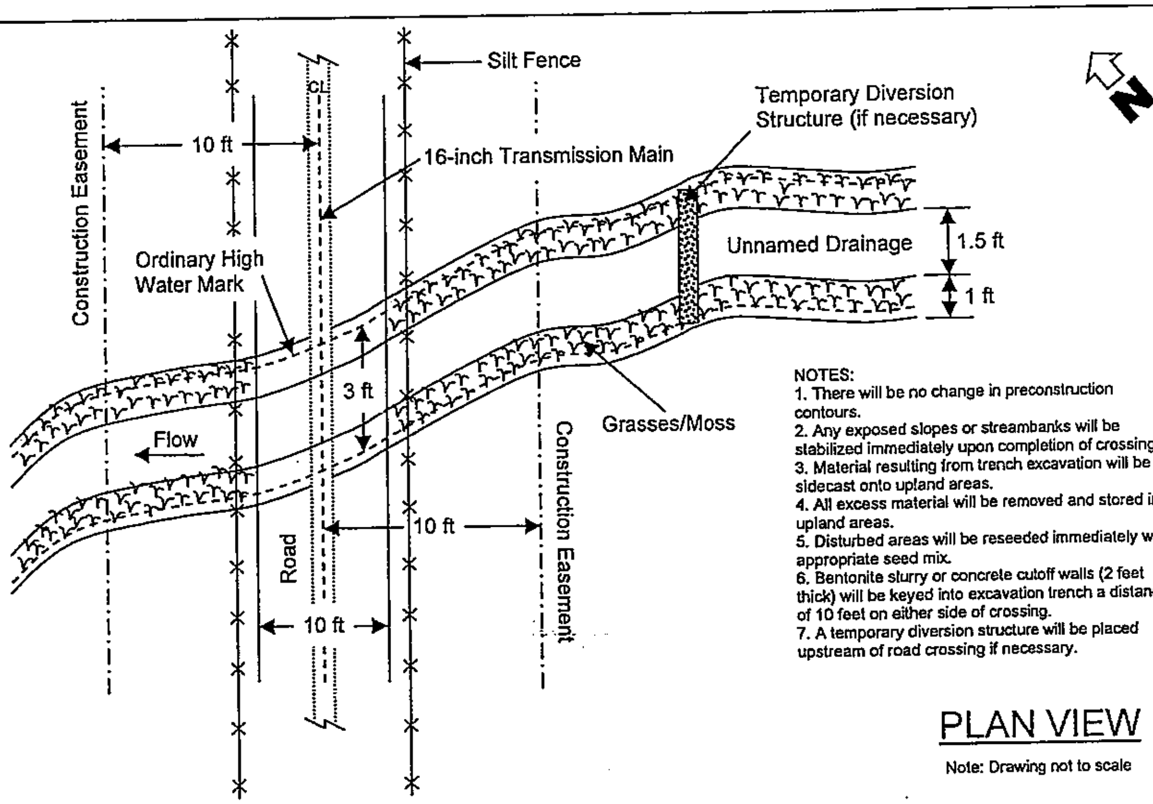


NOTES:
1. There will be no change in preconstruction contours.
2. Disturbance to wetland area will be minimized.
3. Material resulting from trench excavation will be sidecast onto upland areas wherever possible.
4. All excess material will be removed and stored in upland areas.
5. Disturbed areas will be reseeded immediately with appropriate seed mix and replanted with willows.

PLAN VIEW

Note: Drawing not to scale

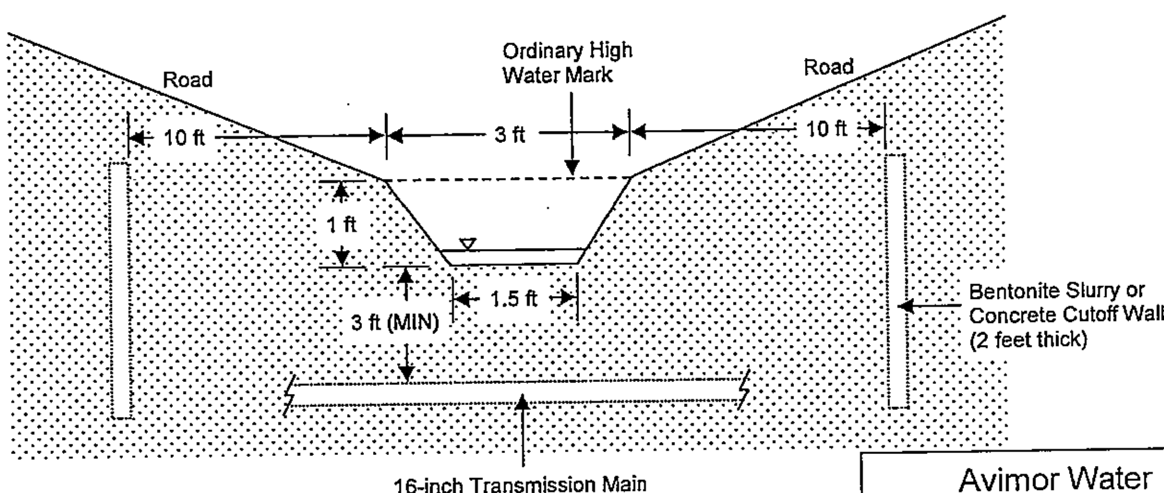
Avimor Water Transmission Main
Area of Potential Wetlands Disturbance
Ada County, Idaho
Avimor, LLC
June 20, 2006 Sheet 3 of 7



NOTES:
1. There will be no change in preconstruction contours.
2. Any exposed slopes or streambanks will be stabilized immediately upon completion of crossing.
3. Material resulting from trench excavation will be sidecast onto upland areas.
4. All excess material will be removed and stored in upland areas.
5. Disturbed areas will be reseeded immediately with appropriate seed mix.
6. Bentonite slurry or concrete cutoff walls (2 feet thick) will be keyed into excavation trench a distance of 10 feet on either side of crossing.
7. A temporary diversion structure will be placed upstream of road crossing if necessary.

PLAN VIEW

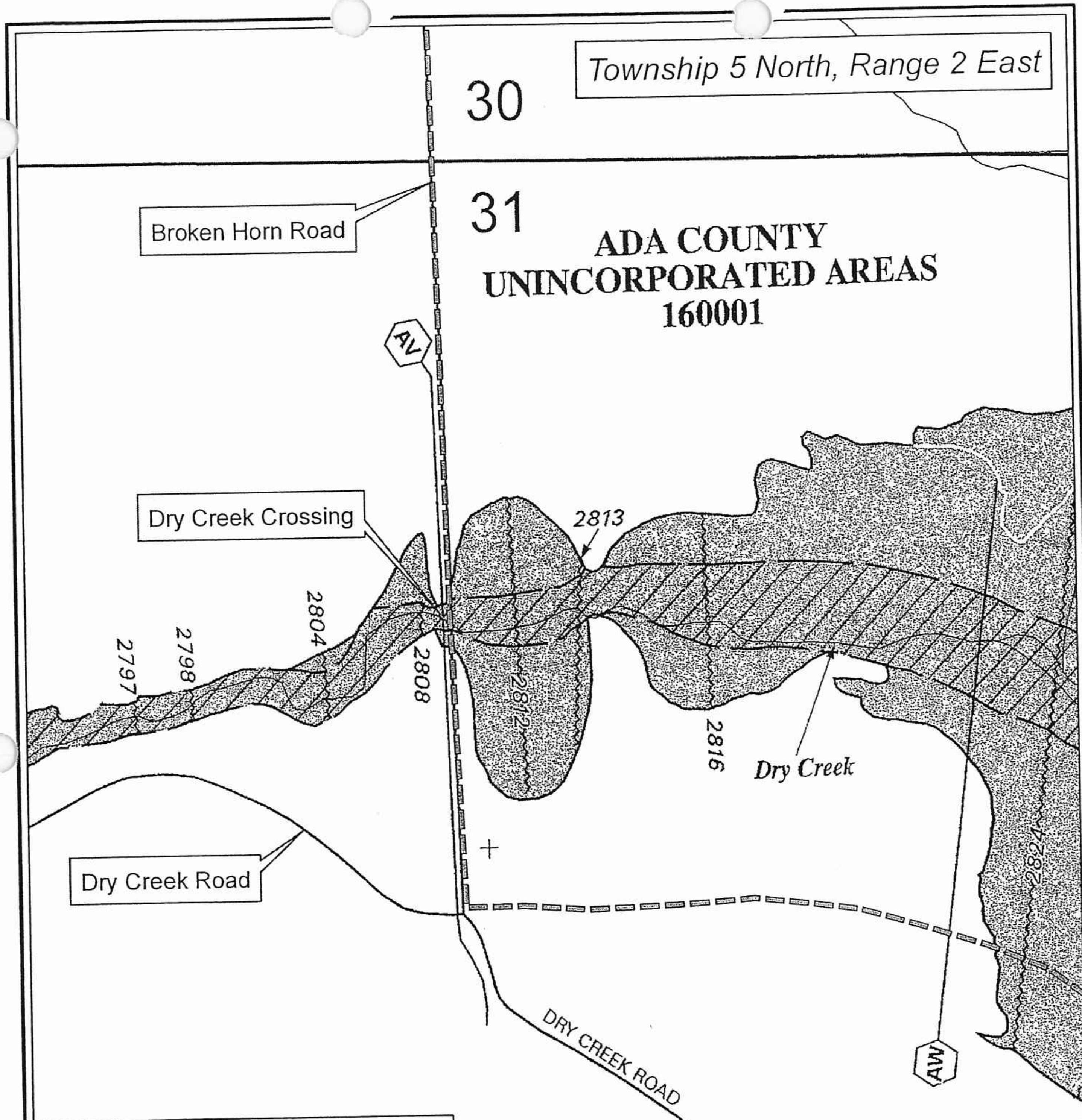
Note: Drawing not to scale



SECTION VIEW

Note: Drawing not to scale

Avimor Water
Transmission Main
Drainage Crossing
Ada County, Idaho
Avimor, LLC
June 20, 2006 Sheet 5 of 7



Legend

- Transmission Main
- Floodway Areas in Zone AE
- Special Flood Hazard Areas Subject to Inundation by the 1% Annual Chance Flood Event

Federal Emergency Management Agency
Flood Insurance Rate Map
Map Number 16001C0157 H
Map Revised: February 19, 2003

Flood Insurance Rate Map - Avimor Water Transmission Main Dry Creek Crossing

N

0 100 200 300 Feet

Sheet 7 of 7
June 20, 2006

AVIMOR

STATE OF IDAHO
DEPARTMENT OF
ENVIRONMENTAL QUALITY

1410 NORTH HILTON • BOISE, IDAHO 83706 • (208) 373-0502

JAMES E. RISCH, GOVERNOR
TONI HARDESTY, DIRECTOR

TSCPE-176/2006

August 22, 2006

Department of Water Resources
APPLICANT'S
Exhibit 11
Date Admitted 10-31-06
DAN

Mr. Kevin Wentlant, P.E.
Land Development Manager
Avimor, LLC
485 East Riverside Drive, Suite 300
Eagle, Idaho 83616

Subject: United Water Idaho System Extension Avimor Off-Site Water Facilities *(Ada County)* Public Drinking Water System Engineering Report, Water Mains, Storage Reservoir, and Drinking Water Booster Station

Dear Mr. Wentlant:

The engineering report and plans and specifications for the subject project appear to meet state of Idaho standards, and are approved based on the conditions listed below.

I. **STANDARD CONDITIONS:**

A. All conditions of this letter must be met. The standard conditions on the Department of Environmental Quality (DEQ) review stamp are part of this approval. Supporting reports or documents are considered to be part of the approved documents.

B. No work may begin until a copy of this approval letter and the plans and specifications bearing the DEQ approval stamp are delivered to and kept on the job site. As the project owner, you must ensure that the contractor, the construction inspector, and the certifying engineer are aware of the approval conditions.

C. This approval will be voided if: 1) construction is not completed by August 22, 2007; 2) the project is improperly constructed, operated, or maintained; or 3) the project fails to function as intended.

D. No significant deviations can be made from the approved plans without DEQ's prior written approval.

E. Per the project documents, the Land Developer or Owner or his representative shall ensure that a professional engineer with SPF Water Engineering, LLC provides supervision of construction and written documentation as follows.

F. Within thirty (30) days after completion of construction, the Land Developer or Owner or his representative shall provide DEQ with one of the following documents.

1. Plans and specifications prepared and sealed by the professional engineer responsible for observation on behalf of the owner. These plans and specifications shall depict significant deviations in the actual construction and illustrate alterations or modifications performed, based on as-built drawings provided by the contractor and field observations made by observer(s) under the direction of the professional engineer.

2. If actual construction does not have significant deviations from the originally approved plans and specifications, the system owners may submit a written statement to DEQ to this effect, prepared and sealed by the professional engineer. This statement shall be based on as-built drawings provided by the contractor and field observations made by observer(s) under the direction of the professional engineer.

II. PROJECT SPECIFIC CONDITIONS:

A. If the construction phase of this project is anticipated to disturb one acre or more of land, or is part of a larger project that disturbs one acre or more of land, then the project may be subject to regulation under the Federal Clean Water Act National Pollution Discharge Elimination System program administered by the U.S. Environmental Protection Agency. Stormwater events that occur during construction should be managed according to the site-specific Storm water Pollution Prevention Plan and the other requirements of the general permit. The on-line Construction General Permit and Notice of Intent can be found at http://www.epa.gov/npdes

B. The design of the water storage reservoir and pump size were based on water demand numbers calculated from United Water Idaho typical system-wide demands and assuming water conservation measures will be implemented in the Avimor development. There appears to be ample water for the initial planned phase of development noted as "Village A". The design demand for future developments should consider actual water demand data in Village A. This data will help evaluate if conservation measures are effective and if the typical system-wide demands are indicative of the water demand of the Avimor developments.

Please call me with any questions at 373-0123, or contact me via e-mail at michael.stambulis@deq.idaho.gov.

Sincerely,

Michael Stambulis

Michael Stambulis, P.E.
Technical I Engineer

MS:sjt
Enclosures: One Set of Approved and Stamped Plans and Specifications

C: Charles W. Ariss, P.E., Regional Engineering Manager, DEQ Boise Regional Office
Todd Crutcher, DEQ Boise Regional Office *(w/ approved plans and related documents)*
Cathy Cooper, P.E., SPF Water Engineering, Inc. *(w/approved and stamped set of plans)*
John Lee, United Water Idaho
Scott Rhead, P.E., United Water Idaho
Source File 2, Avimor Development, Manager's File, Reading File
TSCPE Reading File

AVIMOR OFF-SITE WATER FACILITIES ENGINEERING REPORT

RECEIVE

JUL 13 2006

DEPARTMENT OF ENVIRONMENTAL QUALIT
BOISE REGIONAL OFFIC

AVIMOR DEVELOPMENT
ADA COUNTY, IDAHO

Prepared for

Avimor, LLC
c/o Kevin Wentland, P.E.,

Land Development Manager
485 E. Riverside Dr., Ste. 300
Eagle, ID 83616

Prepared by

SPF Water Engineering, LLC
600 East River Park Lane, Ste. 105
Boise, ID 83706

State of Idaho • Department of Environmental Quality
Boise Regional Office
PLANS & SPECIFICATIONS REVIEW

These plans and/or specifications have been reviewed for compliance with Department of Environmental Quality rules. This review does not relieve the owner, engineer, or the contractor of the responsibility to design or construct these facilities in compliance with all current applicable federal, state and local laws, rules, regulations, or ordinances. Plans and/or specifications must be resubmitted for review if construction is not completed within one year from approval date.

July 2006

Michael Stambulis P.E. — 8/22/06
Reviewing DEQ Engineer — Approval Date

Refer to approval conditions in ... Kevin Wentland, P.E. Avimor, LLC

SPF Water Engineering, LLC
water resource consultants

STATE OF IDAHO
DEPARTMENT OF
ENVIRONMENTAL QUALITY

1410 NORTH HILTON • BOISE, IDAHO 83706 • (208) 373-0502

JAMES E. RISCH, GOVERNOR
TONI HARDESTY, DIRECTOR

TSCPE-199/2006

Department of Water Resources
APPLICANT'S
Exhibit 12
Date Admitted 10-31-06
DAW

September 6, 2006

Mr. Kevin A. Wentland, V.P., Land Development
SunCor Idaho, LLC
485 East Riverside Drive, Suite 300
Eagle, Idaho 83616

RE: Avimor Village 1 Phase 1 Sewer Mains *(Ada County)*

Dear Mr. Wentland:

The plans and specifications for the wastewater collection and pressure irrigation distribution systems for the above project appear to meet state of Idaho standards, and are approved based on the conditions listed below.

I. HEALTH CERTIFICATE:

The Department of Environmental Quality (DEQ) directs the Land Developer/Owner or his representative to place the following Sanitary Restriction Health Certificate on the plat after receiving DEQ approval of these plans and specifications, and DEQ approval of related documents concern the design, construction, operation and maintenance of the following associated project facilities: off-site water supply system, on-site water distribution system, wastewater treatment plant and wastewater land application plan. You should contact United Water Idaho to determine the status of DEQ approval regarding the off-site water supply system and on-site water distribution system.

> **Sanitary restrictions as required by Idaho Code, Title 50, Chapter 13 have been satisfied based on the State of Idaho, Department of Environmental Quality (DEQ) approval of the design plans and specifications and the conditions imposed on the developer for continued satisfaction of the sanitary restrictions. Buyer is cautioned that at the time of this approval, no drinking water or wastewater facilities were constructed. Building construction can be allowed with appropriate building permits if drinking water or wastewater facilities have since been constructed or if the developer is simultaneously constructing those facilities. If the developer fails to construct facilities or meet the other conditions of DEQ, then sanitary restrictions may be reimposed, in accordance with Section 50-1326, Idaho Code, by the issuance of a certificate of disapproval, and no construction of any building or shelter requiring drinking water or wastewater facilities shall be allowed.**

II. STANDARD CONDITIONS:

A. All conditions of this letter must be met. The standard conditions on the Department of Environmental Quality (DEQ) review stamp are part of this approval. Supporting reports or documents are considered to be part of the approved documents.

B. No work may begin until a copy of this approval letter and the plans and specifications bearing the DEQ approval stamp are delivered to and kept on the job site. As the Land Developer/Owner, you must ensure that the contractor, the construction inspector, and the certifying engineer are aware of the approval conditions.

C. This approval will be voided if: 1) construction is not completed by September 30, 2007; 2) the project is improperly constructed, operated, or maintained; or 3) the project fails to function as intended.

D. No significant deviations can be made from the approved plans without DEQ's prior written approval.

E. Per the project documents, the Land Developer/Owner or his representative shall ensure that a professional engineer with WRG Design, Inc. provides supervision of construction and written documentation as follows. This approval covers certain aspects of the pressurized irrigation and construction supervision must cover those aspects.

F. Within thirty (30) days after completion of construction, the Land Developer/Owner or his representative shall provide DEQ with one of the following documents. The transmittal letter for the record drawings or the letter of certification must state that the pressurized irrigation system was inspected and is covered in the documents being submitted.

1. Plans and specifications prepared and sealed by the professional engineer responsible for observation on behalf of the owner. These plans and specifications shall depict significant deviations in the actual construction and illustrate alterations or modifications performed, based on as-built drawings provided by the contractor and field observations made by observer(s) under the direction of the professional engineer.

2. If actual construction does not have significant deviations from the originally approved plans and specifications, the Land Developer/Owner may submit a written statement to DEQ to this effect, prepared and sealed by the professional engineer. This statement shall be based on as-built drawings provided by the contractor and field observations made by observer(s) under the direction of the professional engineer.

III. PROJECT SPECIFIC CONDITIONS:

A. DEQ has not conducted design review for stormwater plans and specifications and has made no determination regarding whether the plans and specifications include appropriate BMPs to protect ground water and surface water quality. DEQ reviews the location of stormwater conveyances to determine public health and safety issues associated with construction of public drinking water systems. DEQ finds that the location of stormwater conveyances for this project appear to meet the required separation distances to public drinking water system features of concern as per IDAPA 58.01.08. If any of the subsurface stormwater disposal facilities proposed for this project will be located on lots owned by individuals or by the homeowners' association, the future owners should be apprised of this situation in the Covenants, Conditions and Restrictions (CC&R's) for the project.

B. If the construction phase of this project is anticipated to disturb one acre or more of land, or is part of a larger project that disturbs one acre or more of land, then the project may be subject to regulation under the Federal Clean Water Act National Pollution Discharge Elimination System program administered by the U.S. Environmental Protection Agency. Stormwater events that occur during construction should be managed according to the site-specific Storm water Pollution Prevention Plan and the other requirements of the general permit. The on-line Construction General Permit and Notice of Intent can be found at http://www.epa.gov/npdes.

C. If this project uses underground injection control (UIC) devices to treat and dispose of stormwater, then the project may be subject to regulation under the "Rules And Minimum Standards For The Construction And

Use Of Injection Wells In The State Of Idaho" (IDAPA 37.03.03) administered by the Idaho Department of Water Resources (IDWR) or under authority of local government. Additional information on IDWR's UIC program can be found at: http://www.idwr.idaho.gov/water/well/injection/injectionedit.htm.

D. It is the project owner's responsibility to use appropriate stormwater best management practices to prevent ground and surface water contamination.

E. The Land Developer/Owner shall submit a copy of the CC&Rs with the record drawings/letter of certification (Condition I.F) indicating restrictions regarding the use of potable water for landscape irrigation.

F. Land Developer/Owner or home owners association shall initially and periodically notify residents of the existence of and inherent hazards associated with a non-potable pressurized irrigation system. A copy of a sample notification has been enclosed for you to use. DEQ recommends that each new resident be provided with a copy of this notification at the time he receives his copy of the CC&Rs and that residents be re-notified at least annually by either including the notice with their homeowners' association billings or by hand-delivering the notice to each occupied building.

Please call me with any questions at 373-0514, or contact me via e-mail at peter.bair@deq.idaho.gov.

Sincerely,

Peter S. Bair, P. E.
Technical I Engineer

PSB:sjt
Enclosures: One Set of Approved and Stamped Plans
Sample Public Notice for Pressurized Irrigation

C: Charles W. Ariss, P.E., Regional Engineering Manager, DEQ Boise Regional Office
Brian Wilkinson, P.E., WRG Design, 453 S. Fitness Place, Eagle, Idaho 83616
Todd Crutcher, DEQ Boise Regional Office *(w/approved and stamped set of plans)*
Central District Health Department, Ada County Office, 707 N. Armstrong Place, Boise, Idaho 83704
Scott Rhead, P.E., United Water Idaho, P.O. Box 190420, Boise, Idaho 83719
Idaho Division of Building Safety, Plumbing Bureau, 1090 E. Watertower Street, Meridian, Idaho 83642 *(w/checklist and vicinty map)*
Project Homeowners' Association, c/o Kevin Wentland, SunCor, 485 E. Riverside, Suite 300, Eagle, Idaho 83616
Michael Stambulis, P.E., DEQ Technical Services
BRO SourceFile 2
TSCPE Reading File

DATE ISSUED: ______________________

NOTICE: PRESSURE IRRIGATION SYSTEMS

Water from the pressure irrigation system is unfit for human consumption. It contains untreated surface water, which may contain disease-causing organisms. If you drink this water, it is likely that it will make you sick; and while less likely, it is possible that the illness will result in your death or permanent disability. Surface water can also contain agricultural chemicals that can be hazardous to your health.

Do not, under any circumstances, drink water from the pressure irrigation system.

Homeowners should ensure that all irrigation faucets and risers are adequately marked. Do not remove existing tags or other warning markings from the pressure irrigation risers. If you should find a riser that is unmarked, please refer to your subdivision covenants for information on the type of warning that must be used.

Homeowners should also satisfy themselves that no cross-connections between the potable water system and the pressure irrigation system were made by previous owners. Never interconnect your drinking water and pressure irrigation systems.

If you have any questions or concerns about the pressure irrigation system in your development, please contact your local District Health Department or the Department of Environmental Quality at the numbers listed below:

Central District Health Department:	327-7499
Idaho Department of Environmental Quality:	373-0550

SUNCOR

September 18, 2006

Mr. Chas Ariss, P.E.
Regional Engineering Manager
Idaho Department of Environmental Quality
Boise Regional Office
1445 N. Orchard St.
Boise, Idaho 83706

Department of Water Resources
APPLICANT'S
Exhibit 13
Date Admitted 10-31-06
DAN

Reference: Avimor Planned Community
Application for Water Reuse Permit

Dear Mr. Ariss:

The enclosed "Application for Wastewater Reuse Permit" was prepared using the IDAPA Reuse Rules 58.01.07 and IDAPA 58.01.11 Ground Water Quality Rule. We have coordinated our efforts in the preparation of the documentation, namely attachments 1-7, with EPA staff and IDEQ staff to comply with the federal and state regulations.

For reference only in regard to potential future direction based on receipt of a NPDES permit, we have included a copy of the NPDES application as Attachment 7 in which we have requested a direct discharge via end of pipe for the non-growing season only with a growing season request to irrigate the riparian/wetland areas with this reuse water. As discussed with EPA representatives Mr. Lidgard, Mr. Werntz and Mr. Stewart in a meeting on August 18th between EPA and the Avimor team, EPA will require limits on both chlorine and ammonia which are not required under the state DEQ requirements. This lead to subsequent internal Avimor team discussions in regard to the conflicts between the new chlorination requirements under the DEQ Class A requirements with both the ability to grow bacteria in the soil to promote denitrification at the proposed rapid infiltration (RI) site, and the future discharge requirements under a NPDES permit. To better understand DEQ's position in regard to this conflict, in the first week in September while in attendance at the same meeting as Mr. Wakagawa, Dr. Harrison of HyQual used this opportunity to briefly discuss the implications to our Reuse Application if the treated effluent met DEQ Class B requirements in lieu DEQ Class A effluent. Summary of this discussion was that DEQ would not be against the Class B effluent approach, but DEQ would appreciate understanding the discussion, obstacles and costs associated with treating to Class A levels versus Class B.

Our goal is to work with the agencies to provide environmentally effective treatment that exceed both the federal and state requirements, but due to the timely sensitive nature to the Avimor Planned Community development, we have to proceed. Therefore our plan is to treat the effluent to a Class B level as explained in the enclosed Reuse Permit Application. The primary category uses continues to be the same as we have discussed from the beginning, namely the primary category is landscape reuse and final treatment through RI; while the secondary category use continues to be agricultural reuse on the over 100 acres of agricultural land.

The information contained in the Preliminary Technical Report supports the use of this site for RI. In particular Section 3.8 "Groundwater" the section titled "Existing Groundwater Uses" identifies how the Spring Valley Aquifer is hydraulically isolated from the aquifers in the Shadow Valley, Dry Creek, and Eagle areas by a northwest-trending granodiorite rock mass that is exposed in the canyon between Shadow Valley Golf Course and Spring Valley Ranch. This low-permeability rock is a hydraulic barrier for groundwater flow from Spring Valley into Idaho Group aquifers further south.

We welcome the opportunity to present the results of our discussions, obstacles, costs and environmental effectiveness of our approach in a meeting with DEQ. Reuse is without question beneficial to the environment and on behalf of the Avimor team, I again would like to commend the efforts of both EPA and DEQ staff in working through the alternatives and specifics associated with the reuse process.

Please contact me via phone (208) 939-0343 ext. 207 or via e-mail at kevin.wentland@suncoraz.com with any questions or comments about the proposed facilities, submittal schedule or construction schedule in general. Technical questions in regard to the reuse can be directed to Jack Harrison via phone (208) 861-1654 or via e-mail at hyqual@cableone.net and technical questions in regard to effluent treatment quality can be directed to Carl Hipwell via phone (208) 433-1900 or via e-mail at chipwell@pharmereng.com.

Sincerely,

KAWentland

Kevin A. Wentland, P.E.

cc: Paul Wakagawa (IDEQ) w/ enclosure
Jack Harrison (HyQual) w/letter only
Carl Hipwell (Pharmer) w/letter only

Application for Wastewater Reuse Permit

Instructions: Complete the following form and attachments as completely as possible. Failure to provide sufficient information will delay processing of the application and final action on the permit. A pre-application meeting between the applicant and DEQ is strongly encouraged to discuss site specific issues and level of detail needed. If clarification is needed, contact the DEQ office in your Region.

Type of application (attach appropriate checklists) New X Renewal ☐ Waiver ☐ Major Modification ☐ Minor Modification ☐	~~For DEQ use only~~

Legal Name of Applicant SunCor Idaho, Inc.

Address 485 E. Riverside Drive, Suite 300, Eagle, ID 83616

Facility Address, if different

	Responsible Official	Alternate Official
Name	Kevin Wentland	Bob Taunton
Title	V.P. Land Development	President
Address	485 E. Riverside Dr., Ste. 300, Eagle, ID 83616	485 E. Riverside Dr., Ste. 300, Eagle, ID 83616
Phone/Fax	(208) 939-0343	(208) 939-0343

Attachments (complete all that apply)

X Facility Information

X List of local, state, federal permits, licenses, and approvals related to activity which have been applied for and which have been received and the dates of application or approval. Include planning & zoning or conditional use permit.

X Copy of lease, rental agreement, or ownership documentation.

X Preliminary Technical Report and Checklist: including climatic, hydrogeologic, soils, wastewater quantity and quality, site characteristics, buffer distances, and general description of application methods.

X Plan of Operation and Checklist: including operation, maintenance, and management of land application systems. If new, submit draft outline of plan of operation; if existing, submit detailed plan of operation.

The information contained in this application and attached documents is true and correct to the best of my knowledge and belief.

Signature of Owner or legally authorized Representative K A Wentland

Title V.P. Land Development

Date 9-15-06

SUNCOR

September 26, 2006

Department of Water Resources
APPLICANT'S
Exhibit 14
Date Admitted 10-31-06

Kevin Sablan
State of Idaho
Transportation Department
8150 Chinden Blvd
PO Box 8028
Boise, Idaho 83707-8028

RE: SunCor – Avimor Planned Community
State Highway 55
Right-Of-Way Encroachment Application and Permit Approaches

Dear Mr. Sablan:

Enclosed are three (3) access permits with the Main Street (Avimor Drive) and helipad in one access permit package and the temporary access to substation in the other access permit package. A copy of WRG transmittal letter dated 9-22-06 is enclosed and the drawings submitted under this WRG transmittal letter detail the proposed construction plans for the short-term intersection of Avimor Drive with Highway 55.

The grade separated concept as a long-term solution is enclosed within these access permit documents. Also enclosed is a copy of our conceptual proposal for Highway 55 Improvements as we would like to continue to partner with ITD and others to formulate a program for the design, funding, cost-sharing, and construction scheduling of Highway 55 capacity to address long-range growth projections.

If you have any questions in regard to these access permits, do not hesitate to contact me directly at (208) 939-0343 extension #207 or via email: kevin.wentland@suncoraz.com .

Sincerely,

RA Wentland

Kevin A. Wentland, P.E.
V.P. Land Development

cc: Scott Gurnsey / ITD

Enclosures: Three (3) access permits (2 packages)
Copy of WRG transmittal dated 9-22-06
Copy of Conceptual Proposal for Highway 55 Improvements

May 8, 2006

Conceptual Proposal for Highway 55 Improvements

SunCor proposes to (1) initiate a program for a grade separated intersection (GSI) to serve the Avimor Planned community and North Ada Planning Areas; and (2) partner with ITD to formulate a program for long-term capacity improvements to Highway 55.

SunCor will...

- Review and refine GSI alternatives with ITD, leading to selection of a preferred concept for detailed analysis. *[Target: June 30, 2006]*

- Prepare a schematic of the preferred GSI concept with projected ROW requirements, proposed design and construction schedules, and estimated costs; review with ITD. *[Target: August 31, 2006]*

- Select a consultant and complete the design of the GSI by the end of 2007, working with ITD through the design process to assure that all regulatory requirements are met.

- Construct the GSI in the 2009-2010 time frame based on projected build out of Avimor, and safety concerns and functionality of Highway 55.

In addition, SunCor will...

- Working in parallel with Ada County's North Foothills Plan, present long-range planning concepts for the expansion of Avimor to the west of Highway 55 to ITD in order to commence planning of "downstream" capacity requirements for Highway 55. *[Target: Late 2006 / Early 2007]*

- Work with ITD and other parties to formulate a program for the design, funding, cost-sharing, and construction scheduling of Highway 55 lane capacity to address long-range growth projections. *[Target: TBD]*

In summary, SunCor will design, set aside ROW, propose and negotiate an equitable cost-sharing formula, and construct a grade separated intersection on Highway 55 to serve the Avimor project and other North Ada Foothills development; and will "partner" with ITD and others to formulate a program for the widening of Highway 55 in accordance with long-range transportation plans.

With this commitment, SunCor requests ITD to approve permits for construction access and for the first development access.

SCR 5706.002

W R G
DESIGN INC.

TRANSMITTAL

To: Kevin Sablan
8150 Chinden Blvd
Boise, ID 83707
ITD

From: Brian Wilkinson

Date: 9/22/06
Project: Avimor HWY 55
WRG#: SCR5706 B

Transmitting:
☒ Attached
☐ Separate Cover
☐ Number of Pages Including Cover

Via:
☐ Mail
☒ Messenger
☐ Fed-Ex

For Your:
☒ Approval
☐ As Requested
☐ Information/File

Copies	Description
3	11x17 HWY 55 Widening Plan Set for Avimor dated 9/22/06

COMMENTS:
Kevin~ We are submitting these plans to you for your approval. Please call me if you have any questions.

Signed: B Wilk

DEVELOPMENT SERVICES
LAND PLANNING
CIVIL ENGINEERING
LANDSCAPE ARCHITECTURE
LAND SURVEY

453 S. Fitness Place
Eagle, ID 83616

PH 208/246-8300
FX 208/246-8320

www.wrgd.com

W R G
DESIGN INC.

DEVELOPMENT SERVICES
LAND PLANNING
CIVIL ENGINEERING
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LAND SURVEY

453 S. Fitness Place
Eagle, ID
83616

208/246.8300
FX 208/246.8320

www.wrgd.com

Department of Water Resources
APPLICANT'S
Exhibit 15
Date Admitted 10-31-06

October 3, 2006

Mr. Darrin Carroll
Ada County Highway District
3775 Adams Street
Garden City, Idaho 83714

RE: Avimor Drive Bridge and Street Plans for Avimor Village One, Phase One

Dear Mr. Carroll:

This letter transmits the following attached items for your review and approval of the above mentioned project. We are submitting these plans separate from on-site street and storm drainage improvements per our previous conversations as it is our understanding that this crossing will be treated as a bridge crossing. We anticipate submitting the on-site street and drainage plans in mid- October. On behalf of our Client, Avimor, LLC., we are submitting the following items for your review and approval.

1. One Copy- Avimor Drive Bridge and Street Plans for Avimor Village One, Phase 1 prepared by WRG Design and dated October 2, 2006 (Sheets C000-C002).
2. One Copy- Avimor Main Entrance Bridge Plans prepared by ConSpan Bridge Systems and dated September 21, 2006 (C/S1-C/S3). Plans are under cover of #1 above.
3. One Copy- Welded Wire Retaining Wall plans prepared by Geotechnical Design Services Inc. and dated September 21, 2006 (Sheets 1 and 2 of 2). Plans are under cover of #1above.
4. One Copy- Avimor Entry Plans prepared by CSHQA and dated September 25, 2006 (Sheets A4.1 and S1.1). Plans are under cover of #1 above.

Located in original

5. One Copy- Con/Span Bridge Foundation Calculations for the Avimor Main Entrance Bridge prepared by CONTECH Bridge Solutions and dated September 21, 2006.
6. One Copy- ConSpan Bridge Unit Calculations prepared by Contech Bridge Solutions and dated September 21, 2006
7. One Copy- Avimor Main Entrance Bridge Shop Drawings (S1-S3) in 11x17 format prepared by ConSpan Bridge Systems and dated September 21, 2006.
8. One Copy- Project Plans and Specifications for Welded Wire Walls prepared by Geotechnical Design Services and dated September 21, 2006.
9. One Copy- Structural Design Calculations for Avimor Main Entrance Structures prepared by CSHQA and dated September 27, 2006.
10. ~~One Copy- Floodplain and Floodway Study for Avimor Village One, Phase One~~ prepared by WRG Design and dated April 11, 2006;
11. One Copy- Geotechnical Evaluation Report, Spring Valley Ranch Planned Community Development Phases 1, 2, 3, 5, and 8 prepared by Kleinfelder and dated March 7, 2005;
12. One Copy- Additional Geotechnical Specifications MSE Retaining Wall and ConSpan Bridge prepared by Kleinfelder and dated September 29, 2006.
13. One Copy- Approved 404 wetland fill permit issued by the U.S. Army Corps of Engineers and dated June 27, 2006.

14. One Copy- Approved Stream Alteration Permit issued by the Idaho Department of Water Resources and dated June 27, 2006.

Mr. Carroll, we appreciate your efforts in reviewing and approving the submitted plans. Please inform us once you have completed your review and we will make arrangements to have the plans picked up. As always, if you have any questions please contact me at 246.8300 or brian.wilkinson@wrgdesign.com.

Sincerely,
WRG Design, Inc.

Brian Wilkinson, P.E.
Project Manager
Representing Avimor, LLC.

CC: Avimor, LLC.

SunCor

August 25, 2006

Department of Water Resources
APPLICANT'S
Exhibit 16
Date Admitted 10-31-06
DAN

Mr. Michael Lidgard, Manager
NPDES Permits Unit
U.S. EPA, Region 10
1200 Sixth Avenue
Seattle, Washington 98101

Re: NPDES Application – Proposed Avimor Water Reclamation Facility

Dear Mr. Lidgard:

As we discussed in our meeting on August 18, 2006, SunCor is currently planning a new residential development north of Eagle, Idaho. This development is known as the Avimor Planned Community. The Avimor Water Reclamation Facility (AWRF) will be constructed to provide wastewater treatment for this new development. The AWRF will provide tertiary treatment of wastewater using membrane bioreactor or technology with biological nutrient removal.

- Effluent from the AWRF during the growing season is proposed to be reused as follows: Irrigation and/or Rapid Infiltration (Reuse permits pending approval by the Idaho Department of Environmental Quality) and Riparian Restoration and/or Constructed Wetlands (subject of this NPDES Application).
- Furthermore, it is proposed that effluent from the AWRF during the non-growing season be used as follows: Rapid Infiltration and Irrigation (Reuse permits pending approval by the Idaho Department of Environmental Quality) and direct discharge to Spring Valley Creek (subject of this NPDES Application).

Pharmer Engineering is designing this AWRF and Pharmer Engineering, in conjunction with HyQual, are working on the Reuse Permit and Master Facility Plan. In accordance with the Clean Water Act, the NPDES permit application Forms 1 and 2A have been completed for your approval.

We greatly appreciate your efforts to coordinate the EPA processes and controls in conjunction with the Idaho Department of Environmental Quality Reuse Process to facilitate reuse. The addition of a NPDES discharge permit allowing for reuse in the riparian and wetland areas during the growing season would enhance and allow for lateral expansion of the Spring Valley Creek riparian corridor. With the elimination of a direct discharge during the growing season, you indicated that may very well expedite the EPA's timetable for the review and approval of this application. Please feel free to contact me directly at (208) 939-0343, ext. 207 or via e-mail at Kevin.wentland@suncoraz.com with any further questions or concerns with this application.

Sincerely,

Kevin A. Wentland, P.E.
V.P. Land Development

cc: Jim Werntz, Director, Idaho Operations, EPA
Chas Ariss, Regional Engineering Manager, IDEQ
Bob Pharmer, President, Pharmer Engineering
Jack Harrison, President, HyQual

PHONE (208) 287-7900
X (208) 287-7909

ADA COUNTY
DEVELOPMENT SERVICES

200 W. FRONT, BOISE, IDAHO 83702-7300

BUILDING • ENGINEERING • PLANNING • ZONING

21 June 2006
APPROVED PLANS ARE REQUIRED TO BE ON SITE AT THE TIME OF INSPECTION.

PLEASE PHONE ALL INSPECTION REQUESTS IN BY 4:30 P.M. THE DAY BEFORE THE INSPECTION IS DESIRED.

Engineered Grading Permit #06-16

NOTICE:

This Permit is for an Engineered Grading Permit and follows the requirements found in Ordinance 592, 7-2-10: Excavation And Grading.

Please contact the building division for a grading inspection at the completion of rough grading, finish grading and final inspection.

This permit is for the mass grading of the first phase of Avimor Subdivision. It is imperative that the Engineer of Record, Brian Wilkinson, P.E. oversee this construction for conformance to his design criteria. This includes submitting that professional engineer's inspection reports as described in Ordinance 592, 7-2-10: Excavation And Grading for completion of work and prior to acceptance of the work and final inspection approval by Ada County. In addition, compaction data and a foundation analysis and design will be required for specific building sites as detailed in Ordinance 592, 7-2-10.

TOTAL EXCAVATION:	725,000 cy	
ZONING CERTIFICATE:		$40.00
GRADING PERMIT:		$3722.00
PLAN REVIEW: RESIDENTIAL SUBDIVISION @		$786.5000.00
TOTAL FEE:		$4,548.50
DEPOSIT:		
TOTAL DUE:	$	$4,548.50

The issuance of this Grading Permit by Ada County Development Services does not in any way establish a vested interest in further development of the specific property, nor does this permit establish the merchantability of the work performed. The holder of this permit shall proceed without assurance that the permit for construction of any other building or structure will be granted. This permit does not allow the violation of any Ada County, State of Idaho, or Federal Law or Ordinance. This permit expires three years from the date of issuance.

[signature] 7.5.06
OWNER OR OWNER'S AGENT — DATE

PERMIT: This permit is for mass grading including vegetation stripping, cuts and fills, and structural fills for building pads, and general site preparation for the development of the first phase of Avimor, a "planned community development". A subsequent subdivision grading permit more specific to individual lots will be issued at a later time, that details foundation elevations, swales, lot drainage, referenced elevations, foundation design requirements based on recommendations contained in the Geotechnical report, etc.

COMPLETION OF WORK:

1. Final Reports. Upon completion of the rough grading work and at the final completion of the work, the design professional in responsible charge for engineered grading or when professional observation and testing to determine conformance with project plans and specifications is performed for regular grading, as applicable, shall submit a report. Those reports shall indicate:

   a. All grading work was done in conformance with the approved plans.

   b. All discrepancies encountered with the approved plans and resolutions of those discrepancies.

   c. All reports shall bear the stamp or seal of the licensed professional preparing the report.

2. Notification Of Completion. The permittee shall notify the Building Official when the grading operation is ready for final inspection. Final approval shall not be given until all work, including installation of all drainage facilities and their protective devices, and all erosion-control measures have been completed in accordance with the final approved grading plan, and the required final reports have been submitted to Ada County Development Services.

Bob McKinney, Plans Examiner II
Ada County Development Services, Building Division
200 W Front St, Room 2125
Boise, Idaho 83702
(208) 287-7916
bobm@adaweb.net

Valid
7/05/2006
THRU
7/05/2007

ADA COUNTY DEVELOPMENT SERVICES
ZONING DIVISION
200 W. FRONT
BOISE, IDAHO 83702
(208) 287-7900

ZONING CERTIFICATE
No. 0600972

OWNER
FIRST AMERICAN TITLE INSURANCE
4801 E WASHINGTON ST
PHOENIX AZ
85034

APPLICANT
AVIMOR, LLC
(208)-939-0343

PARCEL: S0118000000 ADDRESS: 18400 N HORSESHOE BEND
LOT: 000 BLOCK: 000 SUBDIVISION: 5N 2E 18
___ QUARTER; SECTION 18 TOWNSHIP 5N RANGE 2E ZONE PC
SETBACKS (in ft): Front-50 Rear-25 Side-25 Flank-30

PROPOSED USES:
PLANNED DEVELOPMENT

USE DESCRIPTION: PERMIT FOR GRADING ONLY. NO STRUCTURES ALLOWED.

Zoning X-references: 1- 05-001-PC 2- 00-000-___

Flood Zone ___ FP-00000 STREET CLASS: Arterial

LOT SIZE 121.0000 Acre MAX LOT COV 5% MAX BLDG HGT 35 ft

WATER SERVICE Central SEWER SERVICE Sewer

This certificate is issued subject to the regulations contained in the zoning ordinance and all other applicable laws, regulations, codes and ordinances; and that the work will be done in accordance with the plans specifications and in compliance with all such applicable laws, regulations, codes and ordinances.

The Director may, in writing, suspend or revoke a certificate issued under provisions of said regulations, codes or ordinances, whenever the certificate is issued in error; or on the basis of incorrect information supplied; or in violation of the provisions of any law, regulation, code or ordinance.

When application is made for service from public agencies or utilities they may require proof of issuance of this certificate.

IN ACCORDANCE WITH SECTION 8-7-1 ADA COUNTY CODE, THIS CERTIFICATE EXPIRES ONE YEAR FROM THE DATE OF ISSUE.
I HEREBY CERTIFY THAT THE ABOVE INFORMATION IS COMPLETE AND CORRECT TO THE BEST OF MY KNOWLEDGE, AND FURTHER, I WILL ABIDE BY THE TERMS AND CONDITIONS CONTAINED IN THIS CERTIFICATE.

Date 5 July '06

Applicant or agent

Posted on map:
Zoning certificate fee: $40.00

Planner

ADA COUNTY
DEVELOPMENT SERVICES DEPARTMENT
STATE OF IDAHO

PHONE (208) 287-7900
FAX (208) 287-7909

ADA COUNTY DEVELOPMENT SERVICES

200 W. FRONT, BOISE, IDAHO 83702-7300

BUILDING • ENGINEERING • PLANNING • ZONING

August 21, 2006

Michael Wardle
SunCor Idaho, LLC.
485 E. Riverside Dr., Ste. 300
Eagle ID 83616

RE: Project No. 200600069-ZC/ZOA/CPA/FP/DA

Dear Applicant:

This is to notify you that your application has been accepted and is scheduled to be heard by the Ada County Planning and Zoning Commission on October 05, 2006. This meeting will be held in the Commissioners Main Hearing Room #1235, on the first floor, 200 W. Front Street, Boise, ID, and is scheduled to begin at 6:00 p.m. You or your designated representative must be present, or no action may be taken.

A copy of the staff report will be sent to you prior to the meeting. Please contact me if you have any questions or comments regarding this application, the staff report, or any conditions which may be attached to the staff report.

In accordance with State law, a "**Notice of Public Hearing**" must be posted on the site. A staff member from Development Services will come to the site with the notice prior to the public hearing. **DO NOT** remove the notice once the notice is posted. After the public hearing, Development Services Staff will retrieve the notice.

Sincerely,

Mark Pecchenino, Planner III
Ada County Development Services

Cc: First American Title Company, 4801 E. Washington Street, Phoenix AZ 85034

MP/kmw

Department of Water Resources
APPLICANT'S
Exhibit 18
Date Admitted 10-31-06
OAr

PHONE (208) 287-7900
FAX (208) 287-7909

ADA COUNTY
DEVELOPMENT SERVICES

200 W. FRONT, BOISE, IDAHO 83702-7300

BUILDING • ENGINEERING • PLANNING • ZONING

February 9, 2006

SunCor Idaho LLC
485 E Riverside Dr Suite 300
Eagle ID 83616

RE: 05-01-PC/05-07-ZOA/05-13-ZC AVIMOR PLANNED COMMUNITY

Dear Applicant:

This is to notify you of the action taken by the Board of Ada County Commissioners (hereinafter Board) on the above captioned application.

The Board voted (3-0) at their February 8, 2006 public hearing to **approve** 05-01-PC/05-07-ZOA/05-13-ZC. The Board reached this determination based on the enclosed Findings of Fact and Conclusions of Law which also include the Conditions of Approval.

Pursuant to Idaho Code § 67-6535, this letter is to further inform you that to the extent a final decision has been made on a site-specific land use request, an applicant has a right to request a regulatory takings analysis under Idaho Code § 67-8003.

If you should have any questions, please contact the Development Services Department at 287-7945.

Sincerely,

Mark A. Pecchenino
PLANNER III
Ada County Development Services

MAP/dd

Department of Water Resources
APPLICANT'S
Exhibit 19
Date Admitted 10-31-06
DAN

CITY OF EAGLE

310 E. State Street, Eagle, ID 83616
Phone #: (208) 939-6813 Fax #: (208) 939-6827

COMPREHENSIVE PLAN AMENDMENT APPLICATION

FILE NO.: ______ FEE: $1000.00
CROSS REF. FILES: ______

APPLICANT: Avimor, LLC an Idaho limited liability company by SunCor Idaho, Inc., Its Sole Member PHONE: 939.0343
☐ Owner ☐ Purchaser ☐Lessee FAX: 939.9972

APPLICANT ADDRESS: 485 E. RIVERSIDE DR., SUITE 300
EAGLE, IDAHO ZIP: 83616

OWNER: FIRST AMERICAN TITLE CO., TRUSTEE PHONE: 375.0700
FAX: 375.5296

OWNER ADDRESS: 7311 POTOMAC DR.
BOISE, IDAHO ZIP: 83704

REPRESENTED BY: ROBERT G. TAUNTON PHONE: 939.0343
(IF DIFFERENT FROM ABOVE)
FAX: 939.9972

REPRESENTATIVE ADDRESS: SAME AS APPLICANT
ZIP:

ADDRESS OF PROPERTY: 18400 N. HORSESHOE BEND RD., BOISE 83714

DISTANCE FROM MAJOR CROSS STREET: 7 MILES NORTH OF SH44/SH55 INTERSECTION

PARCEL NO.: MULTIPLE COUNTIES, SEE SUBMITTAL
(APPLICANT TO VERIFY WITH ADA COUNTY ASSESSOR'S OFFICE)

Application Submittal Requirements

Applicant Use			Staff Use
1.	☑	Date of pre-application meeting: 9·21·06 Note: Pre-applications are valid for a period of three (3) months. A submittal meeting is required prior to the cut-off date and receipt of this application. (Application timelines are available in the Planning and Zoning Department or on-line at cityofeagle.org).	☐
2.	☑	A complete Comprehensive Plan Amendment Application form (it is the applicant's responsibility to use a current application).	☐
3.	☑	Verification of a neighborhood meeting being held prior to the submittal of this application. The verification shall include the time, date, and location of the meeting, a copy of the letter mailed by the applicant, a copy of the mailing list, and a sign-up sheet from the meeting. Refer to Eagle City Code 8-7-8 for requirements.	☐
4.	☑	Names and addresses of all adjoining owners of property and residents within three hundred feet (300') of the external boundaries of the land being considered as shown on record in the County Assessor's Office. The addresses shall be submitted to the City on two sets of address labels including a map showing the addresses in relation to the land being considered.	☐
5.	☑	Legal description of property ~~that meets and bounds to the center line of all right-of-ways with appropriate closure to meet the standards of the Ada County Engineer.~~ SECTION-BASED	☐
6.	☑	Copy of Deed. W/ LEGALS IN EACH COUNTY	☐
7.	☑	If the signator on this application is not the owner of the property, an **original** notarized statement (affidavit of legal interest) from the owner stating the applicant is authorized to submit this application is required.	☐
~~8.~~	☐	~~Three 24" x 36" blue line site plans (folded).~~ N/A	☐
9.	☑	Fourteen 11" x 17" reductions of the site plan **(folded)**.	☐
10.	☑	One (1) 8½" x 11" reduction of the site plan.	
11.	☑	One (1) 8 ½" x 11" vicinity map.	
12.	☑	Fourteen (14) 8 ½" x 11" colored aerial photos depicting the proposed site and surrounding area within five-hundred feet (500').	☐
13.	☑	Provide a written statement addressing the following 1-8:	☐

1. A specific description of the change being requested.
2. Specific information on any property involved.
3. A description of the condition or situation which warrants a change being made in the Plan.
4. A description of the public benefit(s) that would occur from such a change in the Plan and an explanation of why the public would need any such benefit(s).
5. An explanation of why no other solutions to the condition or situation which warrants a change in the Plan are possible or reasonable under the current policies of the Plan.
6. A proposed development plan for any land involved if a specific development is planned at the time the request for the amendment is being made.
7. An analysis showing the estimated impact on infrastructure expected to occur by any proposed change.

Any other data and information required by the City for their evaluation of the request.

EAGLE CITY ORDINANCE #312 2/10/98 (ECC 8-7-8)

Posted Notice: Except as noted within this paragraph, any time notice is required, the land being considered shall be posted not less than ten (10) days prior to the Planning and Zoning Commission hearing and again not less than ten (10) days prior to the City Council hearing. Except as noted herein, posting of the property must be in substantial compliance with the following requirements:

1. Signage Requirements:

   a. The sign(s) shall consist of 4' x 4' plywood or other hard surface mounted on two (2) 4" x 4" posts in such a manner that it is perpendicular to the roadway along which the sign is posted and the bottom of the sign is at least three-feet (3') above the ground.

   b. Centered at the top of the 4' x 4' sign board(s) in six-inch letters shall be the words "Public Notice". In addition, each sign will inform the public of the name of the applicant, and if applicable, the proposed development, the date, time, place, and nature of the public hearing and a summary of the proposal to be considered. Each sign shall be painted white and the letters shall be painted black and shall appear on both sides. An example of this sign is set forth in the attached illustration.

Size = 6 inches--------------------	PUBLIC HEARING NOTICE
Size = 2 inches--------------------	Eagle Planning and Zoning Commission
Size = 1.5 inches------------------	THE CITY OF EAGLE will hold a public hearing on May 9, 1995, at the Eagle City Hall at 6:30 P.M.
Size = 1.5 inches-----------------	PURPOSE: Annexation and Zoning- You-Name-It Subdivision- Zoning R-4, Subdivision Preliminary Plat, 7.66 acres, 29 lots, single family dwelling, 1 lot open space/drainage w/ landscaped entryway.
Size = 1.5 inches------------------	LOCATION: SW corner of Second St. and State St.
Size = 1.5 inches-------------------	APPLICATION BY: Average citizen, USA, Inc.

2. The sign(s) shall be posted on the land being considered along each roadway that is adjacent to it. The signs shall be located on the property outside of the public right-of-way, if they can be so located and remain clearly visible from the roadway; otherwise, the consent of the owner of the right-of-way must be obtained and the sign(s) located therein. Except as noted herein, if the land being considered consists of more than one parcel of record, a sign must be located upon each parcel. The Zoning Administrator, upon finding that adequate notice will be provided, may not require all signs to comply with the size requirements of Subsection 1 above. In the event that the land being considered includes properties with 500-feet or more of road frontage, a sign shall be placed on each end of the property roadway frontage. If this property includes a corner lot, three signs shall be posted, one on the corner and one on each end of the property roadway frontages.

3. The applicant shall submit a certification to the City Clerk no later than seven (7) days prior to the hearing as to what, where, and when sign(s) were posted. Unless the certification is received by such date, the hearing will be canceled.

4. No later than three (3) days after the noticed hearing and any continuation thereof, sign(s) must be removed. A penalty of $25.00 per day shall be imposed against each applicant for late removal of the signs.

NOTE:

IF THE CITY COUNCIL OR THE ZONING ADMINISTRATOR DETERMINE THAT ADDITIONAL AND/OR REVISED INFORMATION IS NEEDED, AND /OR IF OTHER UNFORSEEN CIRCUMSTANCES ARISE, ANY DATES OUTLINED FOR PROCESSING MAY BE RESCHEDULED BY THE CITY.

ALL ITEMS SHALL BE COMPLETED AS DETERMINED BY THE ZONING ADMINISTRATOR PRIOR TO APPLICATION BEING DEEMED COMPLETE.

ALL COSTS INCURRED BY THE CITY IN REVIEWING THE PRELIMINAY PLAT (i.e. City Engineer's Review) SHALL BE PAID BEFORE APPLYING FOR FINAL PLAT.

APPLICANT/REPRESENTATIVE MUST ATTEND THE CITY COUNCIL MEETING.

City of Eagle Applications:

Eagle City Code Section 1-7-4 (A) states, "Fee Schedule Established - The City Clerk, at the time of the filing of an application for a land use planning action within the City limits, shall collect the fee for such action established through a resolution of the City Council, together with any direct costs incurred by the City in obtaining a review of the application, by architects, engineers or other professionals necessary to enable the City to approve or disapprove the application in an informed manner". Direct costs, as underlined in 1-7-4 (A) above, shall be required to be paid by the applicant in a time frame to be determined by the Zoning Administrator. Processing of an application may be delayed if the direct costs are not reimbursed as required.

Area of City Impact Applications:

Eagle City Code Section 1-7-4 (B) states, "The City Clerk, upon receipt of each referral to the City pursuant to Title 8, Chapter 8, Eagle City Code, and the Area of Impact Agreement between the City and Ada County shall collect from the applicant a fee established through a resolution of the City Council, together with any direct costs incurred by the City in obtaining a review of the referral by architects, engineers or other professionals necessary to enable the City to approve or disapprove the application in an informed manner."

The City does not guarantee acquisition of public services provided by any agency. The developer, property owner and/or applicant of this comprehensive plan amendment does hereby release and indemnify and hold harmless the City of Eagle from any and all claims, costs, etc., from any individual or organization regarding the acquisition of services that are not affiliated with the City, including but not limited to, water/sewer service and fire protection.

I hereby attest that I have read and understand the above printed information RGT (initials)

Avimor, LLC an Idaho limited liability company, by SunCor Idaho, Inc., Its Sole Member

Signature of Applicant Robert G. Taunton Date 9/22/06

Robert G. Taunton, President

City staff comments: ______________________

Signature of receipt by City staff [signature] Date 9/22/06

AFFIDAVIT OF LEGAL INTEREST

STATE OF IDAHO)
) ss
COUNTY OF ADA)

First American Title Insurance Co as Trustee
I, by MayLin Carlsen, Asst. Secretary (name), 7311 Potomac Drive (address)

Boise (city), ID (state) being first duly sworn upon oath, depose and say:

1. That I am the record owner of the property described on the attached, and I grant my permission to

SUNCOR IDAHO, INC. (name), 485 E. RIVERSIDE DR., #300 EAGLE, ID 83616 (address)

to submit the accompanying application pertaining to that property.

Address or location of property: 18400 N. HORSESHOE BEND RD., BOISE 83714

2. I agree to indemnify, defend and hold the City of Eagle and it's employees harmless from any claim or liability resulting from any dispute as to the statements contained herein or as to the ownership of the property which is the subject of the application.

Type of application: COMPREHENSIVE PLAN AMENDMENT

Dated this 18th day of September, 20 06

First American Title Co. - as Trustee
by MayLin Carlsen - Asst. Secretary
(Signature)

SUBSCRIBED AND SWORN to before me the day and year first above written.

BARBARA FORD NOTARY PUBLIC STATE OF IDAHO

Barbara Ford
Notary Public for Idaho
Residing at Boise, Id

My Commission Expires: 1-7-09

K:\Planning Dept\Base Documents\AFFIDAVIT OF LEGAL INTEREST.doc

AFFIDAVIT OF LEGAL INTEREST

STATE OF IDAHO)
) ss
COUNTY OF ADA)

I, [signature] III, 10393 Floating Feather
(name) (address)

Star Idaho being first duly sworn upon oath, depose and say:
(city) (state)

1. That I am the record owner of the property described on the attached, and I grant my permission to

   SUN COR IDAHO, INC., 485 E. RIVERSIDE DR., #300 EAGLE, ID 83616
   (name) (address)

   to submit the accompanying application pertaining to that property.

Address or location of property: 18400 N. HORSESHOE BEND RD., BOISE 83714

2. I agree to indemnify, defend and hold the City of Eagle and it's employees harmless from any claim or liability resulting from any dispute as to the statements contained herein or as to the ownership of the property which is the subject of the application.

   Type of application: COMPREHENSIVE PLAN AMENDMENT

Dated this 22 day of September, 20 06.

[signature] III
(Signature)

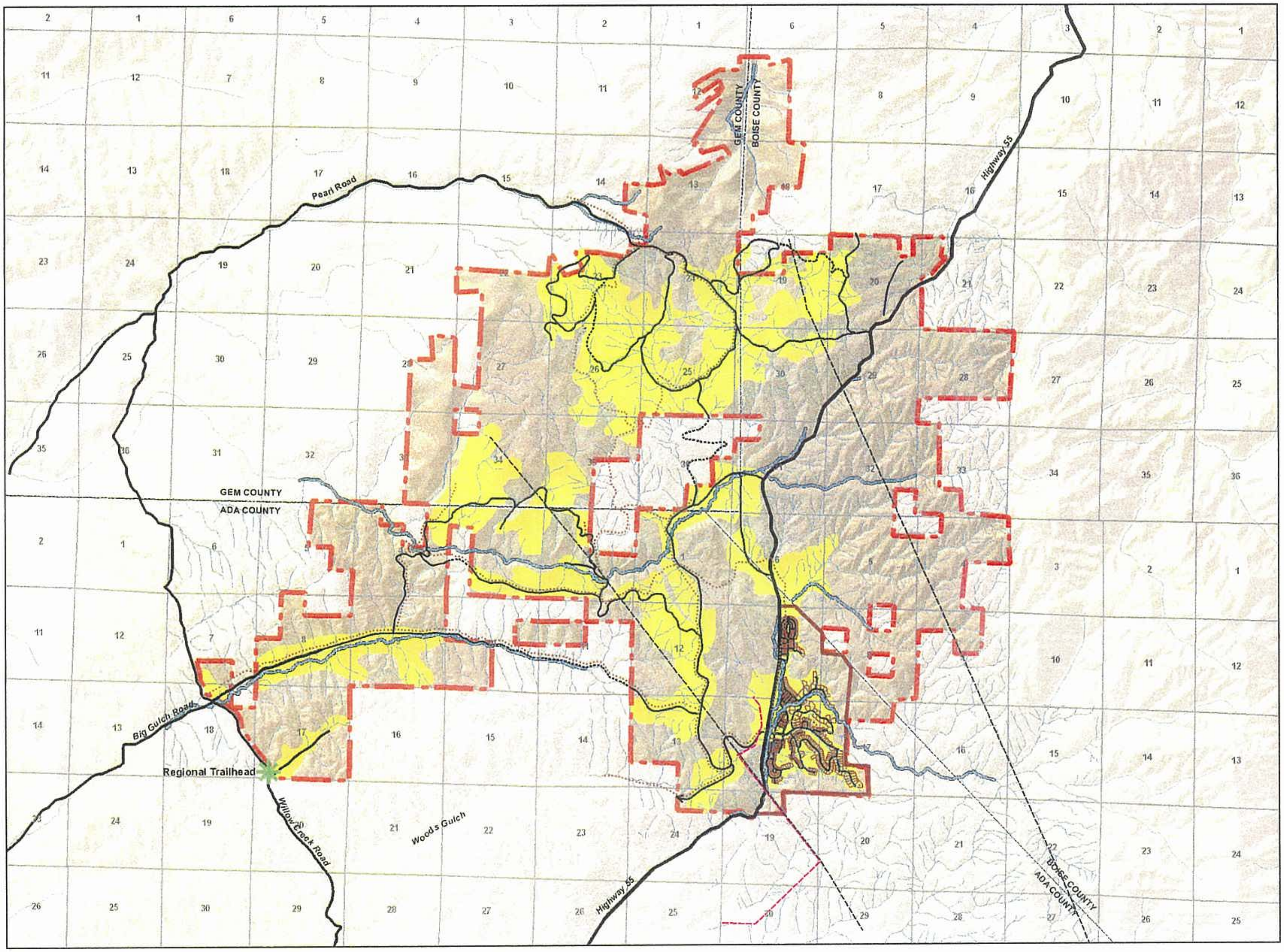
SUBSCRIBED AND SWORN to before me the day and year first above written.

COLLEEN A. PROCTOR
NOTARY
PUBLIC
STATE OF IDAHO

Colleen A. Proctor
Notary Public for Idaho
Residing at Boise, Idaho

My Commission Expires: 8-15-09

Comprehensive Plan Amendment Map



Application Boundary
Avimor Specific Plan Area
Existing Transmission Line
Proposed Transmission Line
Major Existing Road or Potential Road Corridor
Possible Potential Road Corridor
Trail Corridor
Perennial Stream
Ephemeral Stream

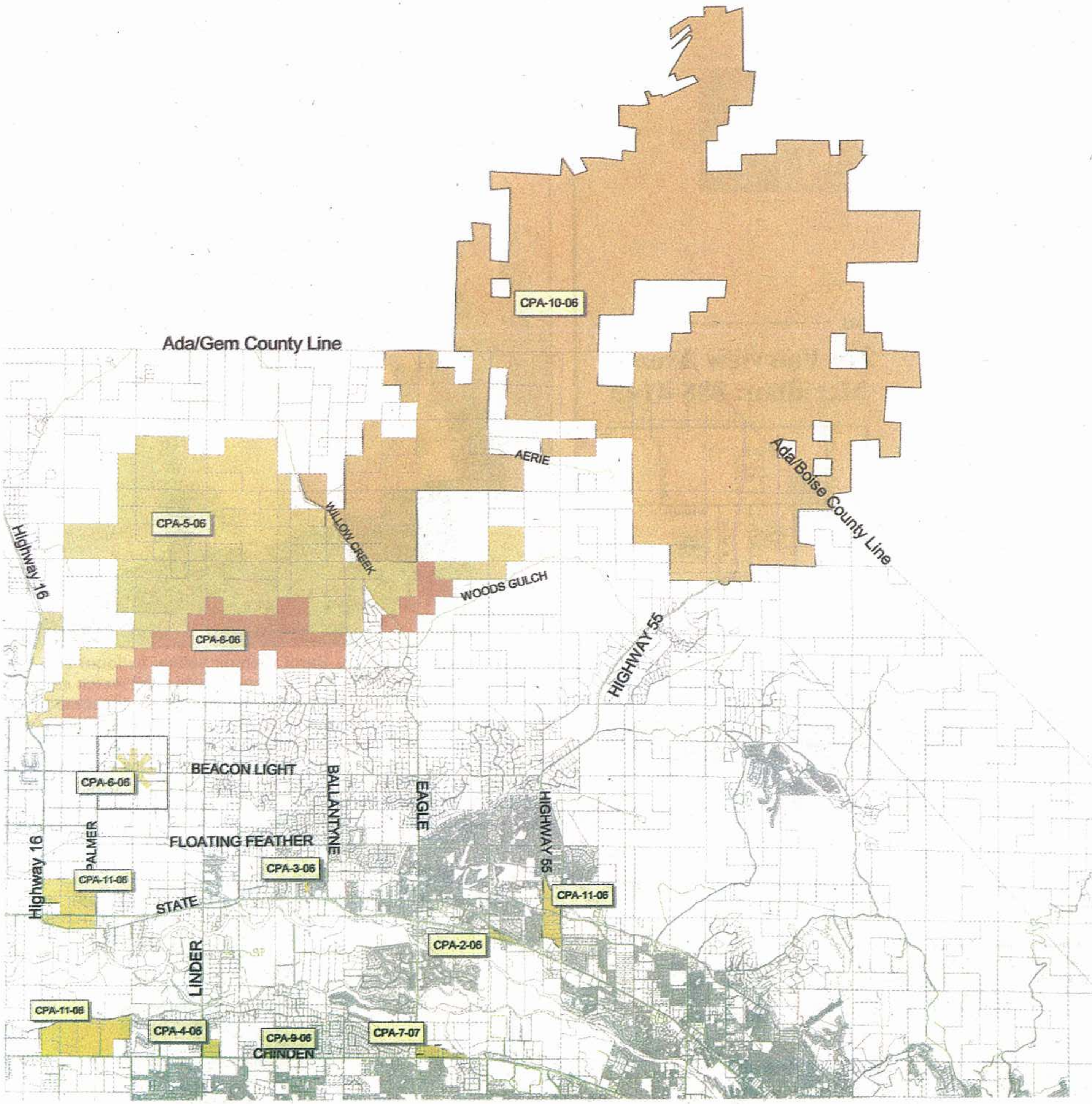
Land Use District:
Foothills Clustered Development
Foothills Conservation Development

0 0.25 0.5 1 Mile
1 inch = 1 mile

Date: September 19, 2006

AVIMOR™
A SunCor Community

DESIGNWORKSHOP
120 East Main Street
Aspen, CO 81611
970.309.6172 main | 970.920.1387 fax
www.designworkshop.com



Applications:

CPA-2-06 Eagle Gateway
CPA-3-06 Countryland
CPA-4-06 Powell Farms
CPA-5-06 M3 Eagle
CPA-6-06 Village Center
CPA-7-06 Chinden Terrace
CPA-8-06 Eagle/BLM
CPA-9-06 Castlebury Business Park
CPA-10-06 SunCor/Avimor
CPA-11-06 City of Eagle

Spring 2006
Eagle Comprehensive Plan Amendments

THE SEAL OF THE CITY OF EAGLE, IDAHO

N