

# Pine Water Company, Inc.

P. O. Box 82218 • Bakersfield, California 93380-2218  
Customer Call Center • (800) 270-6084

ROBERT T. HARDCASTLE  
(661) 633-7526  
Fax (781) 823-3070  
RTH@brookeutilities.com

May 14, 2008

**SENT VIA ELECTRONIC MAIL  
AND REGULAR U.S. MAIL**

William F. Haney, Chairman  
Pine-Strawberry Water Improvement District  
P.O. Box 134  
Pine, AZ 85544-0134

Re: **Request for Unequivocal Assurance of Performance of the Joint Well Development Agreement between Pine Water Company and Pine-Strawberry Water Improvement District dated May 1, 2007**

Dear Mr. Haney:

This letter is written on behalf of Pine Water Company (“PWCo”) to you as Chairman of the Board of Directors of the Pine Strawberry Water Improvement District (“PSWID”) relating to the Joint Well Development Agreement between Pine Water Company and Pine-Strawberry Water Improvement District dated May 1, 2007 (“K2 Agreement”). PWCo has recently become aware of certain circumstances which indicate that PSWID does *not* intend to perform its duties and obligations under the K2 Agreement. I am writing in an attempt to clarify those issues and avoid any unnecessary disputes.

Specifically, PSWID’s recent hiring of John Gliege as its water attorney provides reasonable grounds for PWCo to conclude that PSWID does not intend to comply with the K2 Agreement because Mr. Gliege currently represents Mr. Greer and Mr. Krafczyk in proceedings before the Arizona Corporation Commission in which Messrs. Greer and Krafczyk have intervened, opposed the K2 Agreement and requested that the Commission declare the Agreement to be invalid and unlawful. They also have asked that the Commission deny PWCo’s request for approval of the Agreement.

To say the least, Mr. Gliege’s representation of Mr. Greer and Mr. Krafczyk in those Commission proceedings conflicts with the PSWID’s interests and contract obligations under the K2 Agreement, which include, among others, PSWID’s covenant to

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“support any effort of PWCo to obtain approval of this Agreement by the ACC...” *See* K2 Agreement, p. 13, ¶ 10.2. You have explained that PSWID has hired Mr. Gliege as its legal counsel and advisor relating to water issues, including the K2 Agreement. Therefore, Mr. Gliege appears to us to be in a direct conflict of interest. PWCo does not understand how Mr. Gliege can represent PSWID, which is obligated to support and seek approval of the K2 Agreement, while representing other clients expressly attempting to invalidate the Agreement. That conflict appears irreconcilable, unless PSWID does not intend to abide by the K2 Agreement and instead intends to join Mr. Greer and Mr. Krafczyk in seeking to invalidate the Agreement.

As such, PSWID’s actions in retaining Mr. Gliege as its water attorney raise serious questions about PSWID’s anticipatory repudiation of the K2 Agreement. Anticipatory repudiation is a form of contract breach that arises when a party to a contract states that it will not perform its obligations pursuant to the contract when the performance becomes due. On May 11, 2008, counsel for PWCo (Mr. Shapiro) sent an e-mail to Mr. Gliege as counsel for PSWID requesting “unequivocal assurance that PSWID intends to perform all of its obligations under the K2 Agreement.” In response, Mr. Gliege sent a May 12, 2008 e-mail stating that “I will have this matter placed on the next agenda for the meeting of the Board of Directors of the PSWID. The Board shall discuss it at that time.” Mr. Gliege’s responsive e-mail heightens PWCo’s concern about PSWID’s repudiation of the K2 Agreement, given that we assume PSWID intends to discuss that matter in executive session with Mr. Gliege at its Board meeting on May 17, 2008. The very existence of the conflict involving Mr. Gliege calls into question PSWID’s intent to perform under the K2 Agreement and gives rise to PWCo’s right to request assurance that PSWID will perform.

By this letter, PWCo formally requests that, within five (5) business days of this letter, PSWID provide unequivocal written assurance that PSWID intends to perform all of its duties and obligations under the K2 Agreement. The failure of PSWID to provide such assurance may be viewed as an anticipatory repudiation of the K2 agreement and result in legal action by PWCo for breach of contract and repudiation of the K2 Agreement, including money damages. PWCo hopes to avoid any such legal action and this letter is intended to give PSWID the opportunity to explain its actions and provide adequate assurances of performance relating to the K2 Agreement.

We appreciate your cooperation and look forward to PSWID’s response.

William F. Haney  
Pine-Strawberry Water Improvement District  
May 14, 2008

Sincerely,



Robert T. Hardcastle  
President

cc: RTH correspondence file  
Jay Shapiro, Esq.  
Richard Dickinson, PSWID Secretary ([rbdickinson@msn.com](mailto:rbdickinson@msn.com))  
Myndi Brogdon, Designated Representative