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ARIZONA CORPORATION COMMISSION

Executive Secretary

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Direct Line: (602)542-3935
Fax: (602)542-0752
E-Mail wmundell@cc.state.az.us

March 18, 2004

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AZ CORP COMMISSION
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Mr. Stephen A. Owens, Director
Department of Environmental Quality
1110 West Washington
Phoenix, AZ 85007

Re: Arizona-American Water Company's Rate Case Application;
Docket Nos. WS-01303A-02-0867; WS-01303A-02-0868;
WS-0130 3A-02-0869; WS-01303A-02-0870; W-01303A-02-0908

Dear Mr. Owens:

I am sure that you are well aware of the public health concern with the water in Desert Hills. Because the heightened nitrates levels in the water pose a serious risk to infants less than six months old, I am sure that everyone would like to see this problem remedied swiftly and permanently.

I have received letters from Arizona American Water and commission staff ¹ informing me that although the Company is out of compliance with regard to the nitrates levels, it is in compliance with regard to the notification of its customers, as well as making bottled water available to anyone who has a concern. In fact, it is my understanding that the Company is providing water and notice in excess of the regulatory requirements. While this is to be commended, both are merely short-term solutions.

Commission staff and the Company have told me that the long-term solution involves a new well with low nitrate water being connected to the portion of the Desert Hills system where the current nitrates levels are too high. The Company has informed me that it expects the well and pipeline to be fully operational by the end of April at the latest. The reason why I am writing to you today is to ask what is the timetable that ADEQ has set for the Company to complete this project. I would like to hear your thoughts on this as they may be useful to the Commission.

While I have every reason to believe that ADEQ is on top of the situation, I am compelled to write to you because of the Commission's ongoing interest in the quality of service provided by the entities we regulate. As part of rate setting, it is this Commission's policy to weigh heavily a company's compliance, or lack thereof, with the standards of quality enforced by ADEQ. Please keep us abreast of the situation in Desert Hills and thank you for your cooperation.

Sincerely,

William A. Mundell, Commissioner
Arizona Corporation Commission

Arizona Corporation Commission
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¹ Arizona American Water letter dated March 10, 2004, and commission staff letter dated March 5, 2004, are enclosed.