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GILA COUNTY
BOARD OF SUPERVISORS

Arizona Corporation Commission
1400 E. Ash
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DOCKETED

May 2, 2005

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W-03512A-03-0279

Honorable Marc Spitzer, Commissioner
Arizona Corporation Commission
1200 W. Washington
Phoenix, AZ 85007

Honorable Marc Spitzer:

Your past willingness to consider my suggestions related to the moratorium on new water meters connections within the Pine Water Company ("PWCo") certificated area is sincerely appreciated.

I apologize that I am unable to personally attend your hearing on May 3-4, due to our regularly scheduled Board of Supervisors meeting in Globe. However, I have had Harry Jones and members of my staff working on answers to the many questions posed in my letter to you dated February 14, 2005. Within this current communication, I will update you with (a) the progress the Gila County staff has made to bring me up to speed, (b) the additional developments that have occurred related to water resource/distribution problems in Pine, and (c) to a few additional suggestions I would like to make related to the recommended order presented to you by Judge Nodes.

Gila County Developments and Study Group Progress:

Our County staff and I have had numerous conversations and meetings with Mr. Hardcastle of PWCo, and sessions with Salt River Project, ADEQ, ADWR, the Town of Payson, local developers, the Chairman of the Pine/Strawberry Water Improvement District, various attendees of the Mogollon Rim Water Resources Management Study group ("MRWRMS"), the Bureau of Reclamation, local citizens, and Marlin Scott of your engineering staff.

The purpose of these conversations has been to assist and hopefully accelerate the dialog, technical research, and the study of alternative solutions we have been supporting for almost two years within the MRWRMS. Significant progress has been made in the geologic mapping, the isotope aging, and the chemistry, temperature, and elevation analysis of over 40 well and spring sources in the region, several of which are in the Pine/Strawberry area. Preliminary conclusions indicate substantial sources of new water **MAY BE** contained in the Martin formations under parts of Pine at depths 400-800 feet below the upper level aquifers currently being pumped. Recently, Leslie Meyers of the Bureau of Reclamation has indicated the Bureau may be able to make available additional resources, well rigs, and staffing to drill several exploratory holes to help confirm the study groups assessment of sources of groundwater and how and where

groundwater flows, in what volume, and with what inter-connectivity within the Rim area. In my mind, the understanding of this scientific information is the key to the long-run solution to water availability in the Pine area. Thus, full support of these efforts needs to come from all stakeholders in the area since I believe nearly all parties predict the cost of directly bringing Blue Ridge water to Pine will not be economically feasible. The Town of Payson is graciously having its outside engineers updating its estimates related to pipelines and filtration costs to include an option to extend lines to Pine, which may verify that a "Pine leg" alternative is one that is not viable to seriously pursue.

In addition to the progress in this long-term program, we are excited about the near-term development results (still mainly confidential) for the two deep wells within Pine, where private enterprise is risking substantial resources to develop what they believe to be meaningful new local water resources that can be consumed right at the point of production. In addition, these private efforts are making significant contributions to the scientific database necessary to understand the deep geology and groundwater movement in the region.

Another example of expanded short-term efforts to solve the problem is a quickly expanding analysis of the alternative of drawing excess seasonal surface water from Pine Creek immediately below the bridge crossing on Highway 87 in the middle of Pine. Jim Richey, a private citizen, business and landowner at that location, and a person with a background in desalination plants, has made contact with SRP, Gila County, ADWR, etc. to the point he has prepared a water source, water use, and economic model related to returning to service what he believes to be a viable stream pickup, filtration, and 1.1 million gallon storage facility on property owned by Pine Water Co. In a meeting in Payson on Wednesday of last week hosted by Gila County and attended by PWCo, SRP, Town of Payson, and PSWID, Greg Kornrumpf of SRP presented two seemingly feasible alternative plans for the legal transfer of SRP water rights in Pine Creek (a) directly to PWCo by an exchange agreement for part of PWCo's CAP water allocation, or (b) to PWCo from Tonto National Forest which has a right to sub-contract up to 1,000 acre feet of SRP owned water to others that can justify beneficial use of the resource. Hopefully, Mr. Richey will be able to present his final draft proposal for prompt formal consideration to PWCo, Gila County, SRP, Town of Payson, ADWR, PSWID, etc., and to you Commissioners and your Staff.

Suggestions Related to Judge Nodes' Recommended Order:

In general, the Recommended Order appears to be fair and workable, however I would like to suggest three adjustments:

1. Change the reference on page 11 at line 13 related to a SRP water exchange to refer to "Pine Creek" water instead of "Fossil Creek" water since most participants in this conversation agree there are significant legal and operational problems with the Fossil Creek source and with SRP, APS, and numerous conservation groups involved with returning the creek to its natural state.
2. Remove references on page 11 at line 10-11 to "growth limits on Gila County development outside the Pine Water service area" since the Commission has no authority or jurisdiction in those areas. We all need to remember, the three privately financed domestic water improvement districts authorized by previous County Boards of Supervisors (none since 8-17-01) have all developed water resources to the point they are net providers of water to the area, with approximately 16%-22% of the annual supply of water sold by PWCo coming from one of the Districts and the other three Districts not being short of water to adequately serve their residences.

3. Change the requirements on page 11 at line 5 to a moratorium of one commercial meter every six months, rather than a total moratorium. Undoubtedly, situations may occur where a business located in Pine for many years in a 50-100 year old building may want to abandon its currently occupied property and move a lot or block away into a new facility, but if they cannot obtain a new meter, a business that currently serves the public would die. Antique stores, small craft shops, real estate offices, etc. (typical businesses in Pine) that use small quantities of water could easily be caught in this zero moratorium situation. Another example would be a business that is required to expand or re-align its parking lot to accommodate ADOT improvements on the highway, which therefore may be unable to maintain its same buildings, and be forced to move. Also, if additional homes (up to two per month under the recommended Order) are built or more people desire to reside in existing homes full-time rather than part-time, additional commercial services would be expected by residents that would like to avoid driving 16 miles to Payson for those same shopping or services opportunities. Recently, the Pine Water Association WID, the old-line water supplier on parts of Highway 87, added a bar and restaurant. That same economic and service opportunity should exist as well within the PWCo service area.

Please be assured that Gila County will continue to aggressively provide technical, political, and financial support to solving this long-term problem. We support your efforts to effectively regulate and monitor our utility partners that serve the Rim country and the rest of our County. Thanks for your assistance and willingness to allow me the opportunity to participate in these important decisions.

Sincerely,



Tommie Cline Martin
Supervisor, District 1

cc: Judge Nodes
Robert Hardcastle