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June 21, 2005

Docket No. W-03512A-03-0279

Barbara H. Hall, Chairperson
Pine-Strawberry Water Improvement District
P.O. Box 134
Pine, AZ 85544-0134

Glenn L. Brown, Chairman
Pine-Strawberry Water Improvement District, Alternatives Study Committee
P.O. Box 134
Pine, AZ 85544-0134

Donald L. Smith, Secretary
Pine-Strawberry Water Improvement District
P.O. Box 134
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John O. Brenniger, Member
Pine-Strawberry Water Improvement District, Alternatives Study Committee
P.O. Box 134
Pine, AZ 85544-0134

Re: *Alternatives Study Committee, Report JB3, Pine-Strawberry Water Improvement District ("PSWID")*

Dear Chairperson and Board Members,

On June 21, 2005 we electronically received various documents from Mr. Brenniger including the JB3 Report (the "Report") from PSWID's Alternatives Study Committee (the "Committee"). In addition, Mr. Brenniger's documents included the "Priority Recommendations Report" indicating that the Report was the highest water supply alternative presently considered by the Board of Directors (the "Board") of PSWID. More importantly, Mr. Brenniger's documents also included the Motion Agenda of the Board's meeting on June 16, 2005. Absent information to the contrary Brooke Utilities, Inc. ("Brooke") will regard Motion number 11 as formally approved by the Board as evidenced by Mr. Brenniger's attached electronic message that indicates each of the Motions were "passed" by the Board at the same meeting. Accordingly, Brooke will regard Mr. Brenniger's various documents as official documents of the Board seeking Brooke's reply to the Report so that this matter can be further considered.

Brooke Water L.L.C. Circle City Water Co. L.L.C. Strawberry Water Co., Inc. Pine Water Co., Inc.
Payson Water Co., Inc. Navajo Water Co., Inc. Tonto Basin Water Co., Inc.

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As you are aware the Report proposes that PSWID and Brooke jointly develop a well owned by Pine Water Co. ("PWCo." or "Pine") located in Strawberry. The Report refers to the prospective well as "un-productive" and represents PSWID's best prospect for high volume water development and monitoring of the previously developed Strawberry Bore Hole.

Approximately ninety days ago I advised Mr. Brenniger that the productive prospects of PWCo.'s well had changed, likely due to increased seasonal precipitation, and was being reconsidered for service. I advised Mr. Brenniger that, accordingly, PWCo.'s well might not be available for consideration as an alternative by the Committee. At the time I did not, however, discourage Mr. Brenniger from proceeding with the Committee's plans or consideration of the well or any other water supply alternative considered by the Board.

In the most recent several weeks we have completed our second stress pump test of Pine's well and determined that economic viability of the well is likely after learning the following:

- (1) more than 350 feet of water is stored in the well bore
- (2) static water levels declined less than 16 feet throughout the stress pump test
- (3) sustained yield was consistently measured at approximately 18-25 gallons per minute throughout the pump test of more than 65 hours

For these reasons we have nearly concluded our water sharing arrangements as well as the water testing, survey, easements and legal description recordation to place this well into productive service prior on July 1, 2005. We look forward to this well being a strong contribution to Pine's water supply during the course of this summer and in the future.

Obviously, this event makes the utilization of Pine's well, pursuant to the Report, dubious at best. PSWID's Board may want to reconsider other alternatives listed on the "Priority Recommendations Report". However, Brooke remains receptive to a more definitive proposal from PSWID as generally described by the Report. In this regard, the Board's definitive proposal should consider the issues referenced below, referenced in the Report, as needing careful consideration and significant further study.

- (a) access to Pine's prospective well would not be available until the earlier of September 15, 2005 or the failure of sustained yield;
- (b) PSWID's assumption of the "full risk" of Pine's well needs further clarification and must include indemnification against PWCo.'s loss of future water sales at regulatorily approved rates, in the event production is affected or lost, as well as indemnification of future water revenues accruing to the property owner under any water sharing arrangement;
- (c) Use of the well, easements, ingress, egress, distribution access, and other applicable operating conditions must be acceptable to the property owner;

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- (d) Brooke would require that PSWID, as well as other applicable parties, agree not to condemn, or otherwise seek ownership of Pine's well for some undetermined period of time in the future;
- (e) The Report should re-consider future well productivity. The well best serves the intended purpose of PSWID *only* if its production can be captured, stored, and moved to Pine for customer use. It appears the Report has not fully considered the limitations of Strawberry Water Co.'s ("SWCo.") water system infrastructure in moving water production from the well to Pine;
- (f) The Report should re-consider the current location of Pine's well in relationship to the service area. While current water production adequately serves the approximately 200 customers in the immediate area of Pine's well it does not represent dramatic demand that could be "traded" with meaningful water production available for Pine customers;
- (g) The Report erroneously concludes that SWCo.'s "main trunk" water line near Fossil Creek Rd. is available to move high volume water supplies to applicable water storage facilities in Strawberry for transport to Pine. In fact, SWCo. has a significant infrastructure limitation in Fossil Creek Rd. that does not readily lend itself to high water volume transfers to stored facilities prior to movement to Pine. The existing SWCo. water infrastructure is probably limited to safe water transfers not exceeding 100 gallons per minute;
- (h) The "Cost Parameters" section of the Report should re-consider total development costs inclusive of SWCo. water system modifications that would enable Pine's well to take full advantage of high volume water production. Otherwise, future high volume water production from Pine's well is wasted on water system limitations that preclude storage of significant volumes of water for Pine's customers. Brooke approximates these additional water system modifications to cost at least \$300,000;
- (i) The Report should carefully further analyze the regulatory revenue requirement. Brooke estimates the revenue requirement, inclusive of the water system infrastructure modification referenced in (h) above, to be approximately \$870,000 annually;
- (j) The "economic viability" of Pine's well must be fairly determined inclusive of the regulatory effect of capital investment. Brooke recognizes that more than one approach to this analysis can be considered. However, within the already approved regulatory methods the revenue requirement should be determined, in advance, so that customers understand the monthly rate effect of the Report. The Report should further describe the manner in which disclosure of this effect will be accomplished with local customers and regulatory authorities having jurisdiction as well.
- (k) The Board should consider Brooke's interim comments as based on our understanding of the PSWID documents as developed thus far. There is little doubt that Brooke's final understanding of PSWID's proposal will include additional comments as well.

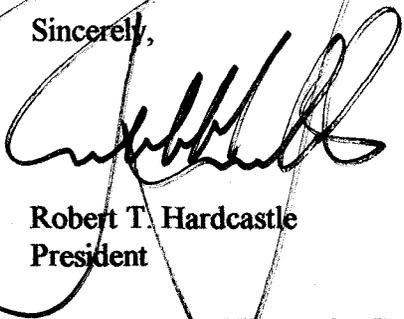
The Members of the PSWID Board are well aware that Brooke has long been a proponent of a hydrological solution to Pine's water supply challenges that represents, at the same time, an economic approach affordable by local customers. If PSWID develops a long term water supply

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alternative that few, if any, customers can afford the effort toward resolution is of little benefit. The Board should remain mindful that the seriousness of Pine's water challenges, while never minimized by Brooke, represent an approximate four month period each year. Developing an expensive year-round solution to a periodic problem should always be benchmarked against the reality of other short-term supplemental alternatives. In the opinion of Brooke, PSWID's identification of various approaches to a water solution as described by the "Alternatives Summary Report" is incomplete if the alternative, less expensive, less attractive, short term supplemental water supply alternatives are not given fair and balanced representation by the Board.

Brooke congratulates the PSWID Board and the Alternatives Study Committee on their work thus far. I think you'll agree it will be a work in progress inclusive of numerous revisions as we proceed. Brooke looks forward to the Board's more definitive proposal as it relates to the Report.

Sincerely,



Robert T. Hardcastle
President

cc:

RTT/correspondence file
M, DS, MB
JS, Esq.
MRWRMS Committee
HJ, Gila Co.
ACC Docket Control W-03512A-05-0320