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September 26, 2005
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Lyn Farmer
AZ CORP COMMISSION
Administrative Law Judge
Arizona Corporation Commission
1200 W. Washington Street
Phoenix, Arizona 85007

RE: Las Quintas Serenas Water Co. ("LQS")
Docket Nos. W-01583A-04-0178, W-01583A-05-0326 and
W-01583A-05-0340

Dear Lyn Farmer:

Thank you for your letter of Sept. 21st to Steve Gray (should be Gay) and Lawrence V. Robertson, Jr. I am overwhelmed at your quick response.

LQS had a Directors meeting Friday afternoon, August 23rd, and we had your letter in our information packet. We do not have Directors meetings very often and not on a schedule. The previous one was on June 7, 2005. At the Friday Directors meeting Kaycee Conger, LQS Office Manager, told us that she had talked on the phone to Lawrence Robertson, LQS Attorney, and he had talked to an attorney at the Az. Corporation Commission and was told that the Corp. Comm. was not satisfied with our proposed arsenic removal system and wanted to have a "Pilot Test" of our system.

My guess is that it was Staff that was not satisfied, because I was told that at the August 10, 2005 meeting between representatives of the Commission's Staff and LQS that a Staff member presented a letter stating that LQS water was special, and our system would not work.

At our Friday Directors meeting no one had any idea how big, expensive, etc. the Pilot Test was to be. Rohn Householder, one of LQS three Directors, wondered if the Corp. Comm. expected LQS to pay for the Pilot Test, and if we would be given a new water rate where we would recover this cost. Someone thought that they wanted the test to be run by a university.

I had a suggestion at the Friday Directors meeting and I will present it here in more detail. LQS has three wells and the one we call #5 is much smaller than the others and pumps at about 230 gallons per minute. In Westland's February 2005 report to LQS they estimated it would cost \$85,000 for a 200 gpm Adsorption Arsenic Removal Unit "To treat Well No. 5 (Adedge) Doesn't include any contractor markup, taxes, profit or labor. Assumes Las Quintas will install the unit."

In Westland's March 2005 report to LQS they estimate it would cost \$100,000 for a 200 gpm Adsorption Arsenic Treatment System to treat Well No. 5. In Westland's September 2005 DESIGN REPORT --- LAS QUINTAS SERENAS WATER COMPANY ARSENIC TREATMENT (I believe the Corp. Comm. has copies of this report) on pages 13 and 14 and in Table 6, Well 5 Design Criteria, Westland has more information but no costs.

My wife and I hired Miller Brooks Environmental to design an arsenic treatment system for LQS. In their July 2005 report they give in Table 3 the following: **Well No. 5:** Equipment \$121,543.73, Concrete/Site Work/Building 5,963.80, Piping 12,887.44, Electrical 8,680.00, for a total for Arsenic Treatment System of **\$149,074.97**. They have added to this "Design" for \$11,926.00, "0" for \$5,963.00 (I don't know what this means), Construction Inspections and Redlines for \$4,472.25, Contingencies for \$14,907.00 giving their total for everything to be **\$186,343.21**.

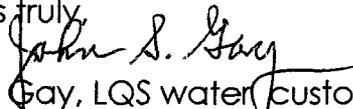
Both Westland and Miller Brooks are talking of exactly the same system for #5 well. I am all for it. I hope, and think, I can get at least one other Director to go for it because it is exactly what they have voted for from Westland before. I am quite sure the reason we have different cost estimates is because Westland didn't spend much engineering time on #5 well because it was a small part of their \$1,700,000 system. This is such a simple system that Westland could have it drawn up for construction in a matter of days. All that is needed is for the Corp. Comm. to say go ahead and say they will give us a rate to cover the cost.

If we put this arsenic removal system in at #5 well it would be a 200 gpm Pilot plant and if it is necessary for university people to check its operation we are one half hour from the University of Arizona and a phone call from any other university. It would be using water that maybe Staff thinks is special. So I would hope that Staff would think this was a good pilot plant.

Under Docket No. W-01583A-04-0178 it says, "IT IS FURTHER ORDERED that Las Quintas Serenas Water Company submit its detailed arsenic removal plan to ADEQ or the PCDEQ by February 28, 2005, for review and approval. A copy of this plan shall also be submitted to the Director of the Utilities Division by February 28, 2005." We are long overdue, but I hope you can see we are trying.

Also at our Friday Directors Meeting our Profit & Loss YTD Comparison page showed our Net Income for October, November, and December of last year were losses in each month, under our old water rate. For January through August of 2005 under our new rates we lost anywhere from \$2 thousand to \$15 thousand for every month except July when we had a profit of \$3,825 but for some reason did not pay our main pumping electric bill until August when we lost \$10,178. From October 2004 through August 2005 we lost \$63,502. So you can plainly see that anything you can do to speed up the process will be greatly appreciated.

Yours truly,


John S. Gay, LQS water customer, and manager
of a L.L.C. owning 34% of LQS stock.

cc: Lawrence V. Robertson, LQS Lawyer
Steve Gay/Kaycee Conger, LQS Manager and Office Manager
Rohn Householder, LQS Director and employee of Phelps Dodge
owners of 59% of LQS stock.
Mike Wood, LQS Director and employee of Phelps Dodge owners of
59% of LQS Stock.
Judge Jane L. Rodda, Az. Corporation Commission