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December 6, 2005

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Cc: Dwight Nodes, Admin. Law Judge
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Docket Control

Arizona Corporation Commission
1200 W. Washington
Phoenix, AZ 85007

RE: Docket No. W-03512A-03-0279
Pine Water Company

Honorable Commissioners:

As Gila County's representative to the Mogollon Rim Water Resources Management Study ("MRWRMS") and as a consultant to the Gila County Board of Supervisors, I wish to make the following comments related to the 2005 Report by Pine Water Co., Inc. on Water Supply Alternatives ("Report") presented by Pine Water Co. ("PWCo" or "Company") on 11-10-05 to the Arizona Corporation Commission ("ACC" or "Commission").

This reply to the Report is divided into (a) several general observations, (b) numerous clarifications, corrections or questions related to statements made in the Report, (c) comments on specific alternatives, (d) additional alternatives, and (e) conclusion and recommended courses of action.

General Observations:

1. Based on the alternatives presented, the Report appears to draw no specific conclusions as to what to do. It appears that the Company again wants the Commission itself to "provide guidance" on how to solve the long-term problem of PWCo being able to supply adequate water resources to their certificated area within the Pine community.
2. Additional comments that I understand will be filed by numerous other parties related to this docket (or brought into this situation by references to them in the Report) will add significant clarity, additional options, and a much higher degree of accuracy related to factual information and the estimated costs of the

alternatives presented by the Company. The estimated costs of many alternatives appear to be vastly overstated.

3. Apparently all financial calculations for the various alternatives, in terms of the "Monthly Ratepayer Impact", are based on the current customer count of 1995 customers, rather than on a more appropriate number of likely meters that would be served by the 10-40 year life of the assets that are associated with the various alternatives outlined. With the pent-up demand for meters (caused by water outages, moratoriums, etc.) and the general growth of the community, once adequate water is made available, it would be responsible to assume an average of at least 3,000 customer meters would be available to pay for the costs of the alternative being evaluated.

Therefore, all Monthly Ratepayer Impact estimates suggested by the Company should be reduced by 33% or more depending on how far (percentage-wise) total costs were overstated for each alternative.

4. Are the statements in Alternative #21 related to the possible condemnation of water supplies in neighboring water improvement districts (outside of the CC&N) just facts related to the very limited ability of public service corporations to condemn, or are they possibly made for the purpose of (a) trying to potentially limit further investment in water resource development by water districts that pump water PWCo would like to see left in the ground, or are the comments aimed at those same successful districts which make PWCo look bad by actually finding water, or (b) is PWCo hoping to scare other water owners and future developers of water resources into selling new water supplies to PWCo at low prices because the less sophisticated owners of water resources may be concerned they could lose their investments through the long and expensive processes associated with eminent domain procedures?

Since this condemnation procedure is so expensive, contentious, and highly limited by law, why would such an alternative even be suggested?

5. Several people in the community have commented that PWCo's "true business strategy" (whatever it is) needs to be fully disclosed to the ACC, the current ratepayers, and the property owners of the community. They speculate that PWCo has consistently hidden behind the supposed water shortage for years and they like the moratoriums since it allows the Company to avoid additional cash outflows that would be required for increasing storage, developing new wells, making needed infrastructure repairs, etc.

PWCo's seemingly dramatic overstatement of costs of alternatives that require cash (deep well costs, storage tanks, etc.) and seemingly minimization of projected costs of alternatives that generally take little or no cash (more water sharing agreements, CAP water exchange agreement, water hauling, etc.) may add to this belief that the Company seeks to avoid investment of more financial

resources into the Pine system. Also, some suggest that the apparent lack of urgency of PWCo to develop new water resources or storage facilities may be an indication that they are willing to live with the cash saving effects of the moratoriums, and just be satisfied with making a near guaranteed 10% return on the existing revenues and rate base. They sometimes use the word "milking" to refer to the existing situation.

Does the Company try to stay just below the Commission's radar in terms of providing "adequate service"? Also, some say the 24-year moratorium in Geronimo Estates (another Brooke water system) reflects the possible corporate strategy of "don't find new water resources, or we will need to make cash investments in storage tanks, new wells, and new mains". Is it true that finding no new water (which would allow for greatly improved customer service and property owner use of their land and houses) helps Brooke minimize further cash investments, all to the detriment of the current and future ratepayers?

6. The survey of customers done by the company is somewhat irrelevant based on (a) its timing being immediately after the first summer in 10-20 years with no water restrictions, and (b) the survey did not include non-customer, undeveloped property owners, many of which have not built for fear of being denied water meters or the fear of not having water to the meter if it was installed. Recently, one potential property buyer (obviously not included in the survey) reported that the timing for receiving a hookup was 10 months out, thus if he bought, he planned to drill his own well.

Numerous vacant lot owners have testified at the public comment sessions that they want to possibly build but are afraid to do so for fear of having no water, therefore they should be included in any survey dealing with customer (and future ratepayer) satisfaction. This generally forgotten group (not even invited to participate in the survey) is not completely apathetic or disinterested!

Also, in terms of any survey, it would be interesting to closely test the feelings of full-timers separately from part-timers, since the full-timers past vehement complaints seem to be they feel they are the ones that suffer the most, since stage 4 or stage 5 restrictions are usually instituted Sunday afternoons or at the first of a week (after the week-enders are gone), and the full-timers are then subjected to the most stringent restrictions until Thursday and Friday when the tanks are again re-filled and the conservation stage is returned to Stage 1 or 2, just in time for the week-enders to arrive and "waste" the water.

In addition, one local Improvement District operator reports that his week-enders, when they do come, tend to come and use about as much water each month as the full-timers because (a) they are much less conservation minded than full-timers, (b) they are too busy to sweep their decks and drives, so they quickly hose them off (not allowed in Payson), (c) they feel they need to water their trees and plants since they won't be back for several weeks, and (d) they feel they have the right

to use all the water they need in two days since they are not here to use it over seven days.

7. The statement on p.7 of the Report that during the 100 Day War of 2005 the Company had “a unique opportunity to accurately measure peak customer demand because water conservation stages were not in effect” is improper and is no reason to conclude ... “as a result, accurate measurement of production facilities and customer demand has never been more precise and PWCo now has a baseline against which to measure future customer demand and production and distribution”.

If the community of Pine and the Town of Payson are as similar as is suggested, the large difference in consumption between the 79.9 gallons per day per customer meter in Pine compared to the 243 gallons per day per hookup in Payson would not exist. To suggest that this difference is based on a pervasive “water conservative mentality” in Pine is unlikely, since Payson has one of the most restrictive, but award winning conservation programs in the state and possibly the nation. More likely, the huge difference in the Pine-Payson consumption rates per meter is the result of 20-30 years of PWCo’s moratoriums and denials of meters to property owners that has resulted in simple reductions in use of property caused by the private property owners’ mentality of “why build?”, “why go for the weekend?”, or “why move there permanently?” if we are apt to be out of water or have severe restrictions on its use.

8. The general conclusions of the USGS Report entitled Hydrology of the Mogollon Highlands, Central Arizona were ignored even though the study was mentioned on p.11 of the Report where PWCo stated that “It provides invaluable information necessary to understand the hydrology of the area and the opportunities that exist to discover additional water supplies in the Pine and Strawberry areas”. The author of the PWCo Report ignores the USGS conclusions that (a) a large regional deep limestone aquifer (at about 4600 feet) exists under Pine (see figures 26-27 on pp. 70-71 of USGS study) , (b) “inflows to regional aquifers are approximately balanced by outflows”, indicating it is a renewable aquifer with “leakage from the C aquifer (*large aquifer above the Rim*) estimated to account for 37% of the inflows into the limestone aquifer” (p.84), and (c) the “stability of Fossil Springs and other high discharge springs that drain the limestone aquifer also point to resistance to short-term climatic fluctuations” (p.84) meaning the supply of water is much more stable than the shallow aquifers currently utilized by PWCo that are much more dependent on seasonal rain and snowfall.

Why would the study be included in the Report binder and the above encouraging statements made by the PWCo author, and then the conclusions ignored, especially since the conclusions add great credibility to the deep well drilling of Alternative # 17?

9. All alternatives contain a "PWCo Ranking"; however they should all contain a ranking as to technical risks, legal risks, financial risks, environmental risks, etc. similar to the evaluation factors used by the MRWRMS group which evaluated a variety of alternatives. A scoring system could then be adopted to be able to compare the alternatives.

Clarifications, Corrections or Questions Related to the Report:

1. The statement on page 8 of the Report that the 2005 water loss through September in Pine "has been approximately 8% and is expected to be less by year end" is highly doubtful. It must be remembered during the 2003-04 rate hearings on this Docket, the company claimed to have only 6.7% water losses, but acknowledged in the Settlement Agreement that water losses were at least 12.3% (an 83% difference). In fact the discussion of water losses at that time seemed to have required quarterly reporting of losses (using standard calculation techniques) beginning about October 2004. Where is that data?

Have meter replacements on production sources (because of meters not reading) substantially influenced the results calculated by the Company? In the Active Management Areas ("AMA") of Arizona (newer systems and faster growing areas), anything reported outside the 8%-15% normal range of losses are suspected data, thus, how can the owners of the 50-100 year old Pine system report such minimal losses? Reported water losses such as 4.79 % in Strawberry also raise serious doubts as to the credibility of the Brooke data.

2. The Mogollon Rim Water Resources Management Study ("MRWRMS") is a water resource appraisal study expected to be completed in 2006. The last sentence on the second full paragraph of page 12 should be amended to clarify what the MRWRMS is really planning to do. It should indicate that "This draft (not yet completed) water resources appraisal document, when finalized, will be presented to Congressional representatives along with requests for Federal funding of a feasibility study of the highest ranking water resource alternatives identified. For a better understanding of this Study, the intentions of the Bureau of Reclamation ("BOR"), and the process they must follow, details of their activities, as provided by the Bureau of Reclamation staff are:
 - The MRWRMS is an appraisal level study that defines the problem, collects data, and analyzes all potential water supply alternatives to solve the problem. We are not ranking the alternatives based on feasibility. We are ranking them one against another to come up with a preferred alternative. Should the partners believe there is a Federal interest in the further development of one or more of the alternatives, we will then forward our study results to Congress and request authority and funding to proceed with a feasibility study. If an alternative proves feasible, we could then request a construction authority.
 - At the completion of the first phase of the Study, the partners will discuss a second phase to the scope of work. The scope of the second phase will rely

on recommendations from Phase I and attempt to fill in the data gaps to better analyze the alternatives. The partners have not made any Phase II decisions to date. We anticipate some data gaps in the hydrogeologic framework and may be interested in drilling some test holes in areas recommended by the geologic consultant that may clarify his assumptions made in the Phase I study.

3. The conclusion on p. 13 that indicates "a chronic water shortage in Pine, Arizona" should be modified to indicate "a chronic water shortage in the shallow aquifer of Pine, Arizona" which would indicate to the reader that the upper aquifer of Pine is subject to over pumping without implying that adequate water is simply unavailable to the community of Pine.
4. Most of the statements on p.14 of the Report are not understood fully. The idea that the hydrology (especially here in the Rim Country) is uncertain is understandable.

Whether the cost of the best case scenario is "substantial" is debatable, depending on whose perspective is taken. From the point of view of PWCo, several hundred thousand dollars is probably substantial in light of current revenues of less than \$800,000 per year. If PWCo could increase revenues hundreds of thousand of dollars per year once the moratorium mentality is removed, the cost should not be considered "substantial".

From the perspective of a thousand or more property owners having property rights related to use of their homes (or future home sites) severely restricted for lack of "basic" utility services, a solution costing a few hundred thousand dollars is not at all "substantial".

From the point of view of the ACC, having spent 100's of thousand dollars over almost three years dealing with this particular Docket (and Brooke Utility in general, including the Geronimo case), a few hundred thousand dollars to solve the problem would not be a significant outlay. From the point of view of Gila County, the expected outlays by PWCo to solve the problem would not be substantial.

From the point of view of PSWID, spending a few hundred thousand dollars to solve the long-term problem would not be considered substantial being the District recently increased taxes 113 % to a budget of \$336,025 for the current year, all to solve the problem that is truly the responsibility of the regulated utility granted the CC & N by the ACC.

From the standpoint of the Pine/Strawberry Fire District (annual tax revenues of about \$1,419,000), a few hundred thousand dollars would likely not be considered "substantial" if it allowed another 50% homes in the District in the next 5-10 years. The increase in tax revenues to the District would reduce the fire district tax burden to the current homeowners substantially since vacant land is not taxed

at anywhere near the higher rate assigned to improved properties. Generally, with more homes in small communities, little additional fire equipment and no new buildings or staff would need to be added, however the existing staff and apparatus would just make more calls.

5. It is unknown for sure what is meant by the second sentence on p. 14 which states "Clearly, the implementation of solutions cannot take place in the traditional regulatory environment". If this means that a utility, regardless of its type, must operate under a "one size fits all" policy where risk levels for various types of utilities is assumed to be equal, this may be a good point.

With a growing economy in the United States (especially Arizona) and the interconnection of gas lines, telephone systems, and power transmission lines and generating plants, it is rare that investments in those type facilities do not ultimately meet the design specifications of the utility, or the Commission requirements of being "used and useful" assets. However, drilling for new ground water resources (one of the most expensive parts of a water system) in fractured granite systems typical of the Rim area is a far higher risk than (a) drilling for water in the large alluvial valleys of Arizona (like Phoenix), or (b) the building of gas pipelines, phone lines, electric lines, or new power generating plants.

On a relative basis, when compared to increasing resources for other types of utilities, drilling for water seems to have a much higher relative risk of not ever ending up with the resources sought, or of knowing the final cost of the resources ultimately obtained, if even discovered. Thus, water utilities should be allowed substantially higher rates of return (or earlier inclusion of assets in the rate base) due to the dramatically higher risks, especially for water companies in geological areas similar to the Rim Country of Arizona where a limited, but sure amount of future growth will occur.

6. Again, the comment on p.14 that states "no stakeholder can be expected to shoulder a disproportionate share of the burden of augmenting PWCo's water supplies". If this implies an ultimate sharing of costs by other than just the property owners of the CC & N area, this would not be fair to the others, including the Company. PWCo, as the current assigned provider of water services to their part of Pine, is required to develop the resources if they are available.

However, over the long-run, only the land owners should be responsible for paying the ultimate costs for the required services. Thus, under the philosophy of government monitored and regulated utilities, the utility company should be required to "front" the investment costs while being allowed to make a "fair" return. If PWCo as the CC & N holder in this case does not have the required capital or is adverse to the level of risk inherent in the business, it should be replaced as the monopoly provider, assuming the ACC allows for a reasonable recognition of the risks incurred.

7. The comment on Alternative # 12 that water sharing agreements have a 20 year life with automatic renewable five year terms does not seem to reflect what was disclosed in the earlier rate hearings. As I remember, terms of the Bloom, Weeks, and McKnight agreements were for five years only, with renewals for five more years based on joint agreement of the parties. Also, the fact the agreements are all at the same price (\$.50 per 1,000 gallons) is not a reason to keep future water sharing agreements at the same or even a similar prices. If I remember properly, the agreements with Bloom and Weeks both expire in 2007 or 2008, jeopardizing the supply of 10%-13% of all the water available to PWCo if the agreements are not extended. At about that same time, Mr. McKnight, who supplies over 10% of the water, also indicated some doubt as to whether he would renew his agreement when it expires.

Comments on Specific Alternatives:

Alternative #1-Horizontal Well: Barbara Hall, Chairman of the PSWID reports this alternative is not one the property owners (LDS Church) will permit to be installed on or through their property. This alternative appears to have the most technical risk of all and would likely involve special use permits from two national forests, Tonto at the bottom of the Rim, and Coconino at the top. Additionally, it is likely that this horizontal drilling may violate the State prohibition on moving groundwater from one basin (Little Colorado) to another (East Verde).

Alternatives #2-4-Deep Wells in Strawberry: These alternatives, all originating from the PSWID Alternatives Committee, are likely to be excessively expensive. They are all solutions based on new deep wells in Strawberry that are far away from Pine and they would all require construction of expensive new pipelines to move water to the head of the Magnolia pipeline that would then take the water to the Pine locations where the water is needed. In addition to the extra piping required, the proposed wells in these locations are extra deep (versus drilling into the same aquifer in Pine), dramatically increasing the costs to a level that does not seem feasible for the ratepayers of Pine to absorb. SRP has expressed concerns regarding the impacts these alternatives may have on springs or surface flows. Although a consideration, SRP has indicated they are not a major issue because PWCo could easily exchange its CAP allocation to resolve any negative surface water impacts.

Alternative # 5-Pine Creek Excess Winter Flows and Storm Runoff: This alternative should also include winter seasonal water and should be kept in place since some aspects of this alternative could be conjunctively combined with other alternatives such as (a) simple additions to the storage systems of Pine to nearly double the storage capacity-- property is currently owned by PWCo and could be a location for replacement storage tanks if land acquisition ever becomes a

community. Probably, an additional 800,000 to 1,000,000 gallons of storage capacity, not 2,000,000 gallons, would be appropriate to meet the spikes that typically occur in demand. The size of the tank would also be related to the recovery rate PWCo would have from new wells, local filtration capacity, etc. added as part of the overall solution.

- The cost of this alternative has been greatly exaggerated by (a) over-sizing the required tank, and (b) overestimating the cost to construct the facility on a per gallon basis. In the Town of Payson, the total costs to construct large tanks (not the typical small tanks Brookes normally buys) has been reportedly less than \$.50 per gallon including steel, engineering, and land. Thus, any estimate over \$650,000-\$800,000 for an 800,000-1,000,000 gallon tank in Pine is out of line. If PWCo has enough quick recovery pumping capacity, they may get by with a \$400,000-\$500,000 tank.
- Thus, rather than a \$20.83 Monthly Ratepayer Impact projected by PWCo, a more reasonable range would be \$2.50-\$5.00, assuming 3,000 meter and a range of depreciation rates.

Alternative # 12-Expansion of Water Sharing Agreements: The Report indicates “this water supply alternative is highly attractive because of its low development and operational costs” and that arrangements have been made that will allow PWCo to utilize one existing well and possibly three other small wells (presumably shallow at 10-15 gpm). The major problem with this alternative is that its future application is based on shallow wells that may ultimately de-water the shallow upper aquifer in Strawberry (Pine shallow aquifer is already over pumped); therefore it should only be considered as a possible temporary measure.

The Commission’s request for this study was for “long-term permanent solutions”, not more stop-gap measures. With many of PSWID property owners in Strawberry, and realizing that PWCo is already heavily dependent on Strawberry water resources, it does not seem reasonable to take further advantage of those neighbors that have so far been highly cooperative with the property owners of Pine. This is especially reasonable when other good non-Strawberry alternatives seem to be available. The # 1 ranking of this alternative is not justified considering that a long-term permanent solution is what was being asked for by the Commission.

Alternative # 13-Well Exploration of Public Lands: No comments.

Alternative # 14-Pine Creek CAP Water Exchange Agreement with SRP: The Scope of Benefit listed by PWCo refers to Pine only, however with the existence of the Magnolia pipeline, Strawberry could also have significant benefit. This alternative should be considered conjunctively with Alternative #5.

Alternative #15-Water Hauling on an as Needed Basis: Mr. Hardcastle said it best in the discussion where he said “This water supply alternative has long been considered unpopular by customers of PWCo because it is seen as an interim solution to a problem needing a long-term approach”. In addition he stated “In the

past, this water supply alternative has required substantial management resources of BUI to schedule, supervise, and coordinate deliveries to needed facilities” and also “There is no assurance that the Coconino County water source will be available in the long term”.

By definition the ACC has said that “water hauling is not a long-term solution and it is only allowed in emergencies. Events that occur each year (long weekends over Memorial Day, Fourth of July, and Labor Day) are not “emergencies”; therefore this alternative is not an answer to “long-term” permanent solutions the Commission asked to be considered in the Report. Because of the statements above by Mr. Hardcastle, the general policy of the ACC, and the fact this alternative does not come into play until the last minute when trucks could be unavailable, trucks could break down, the suppliers tanks could also be low, etc., this alternative should not be considered as a long-term permanent solution.

This alternative has the next to the highest ranking of “2” of the 21 options presented (only one “1”), with no cost to PWCo other than the management headache. Since no capital is involved, and the customers suffer high costs (\$38-\$45) per 1,000 gallons, this supports the community members contention explained in the General Observation # 5 above that the PWCo’s business strategy may be to avoid spending any cash resources to fund permanent solutions to the Pine water problems.

Alternative # 16- Blue Ridge Water Diversion to Pine Creek: No comments except the mileage across both the Coconino and Tonto forests (probably across Forest Road 300 and some distance down the side of the Rim) is about the same 12 mile distance as going across Control Road under Alternative # 6. In addition, the loss of water to evaporation and unknown sub-flows is difficult to determine. On the Control Road route, it is fully contained in a pipeline all the way.

Alternative # 17- Deep Well Exploration (Ploughe Recommendations): Because this alternative, as described by PWCo, was so mixed up, I requested Mike Ploughe to directly respond. I fully agree with his comments that have been shared with me. The mis-statement of the total costs by a factor of more than 10 times compared to recently experienced local costs is outrageous. Extrapolating the costs of Alternative # 3 to conclude drilling costs of \$2,156 per foot is 10-15 times expected actual costs per foot.

Alternative # 18-Cessation of Further Development in Pine and Strawberry: This option should be absolutely a last resort, and should not be closely evaluated until the other alternatives are fully evaluated. This would be extremely unfair to property and business owners, and completely unjustified if other positive alternatives are available.

Alternative # 19-Lesislative Alternatives: Changes in the general structure of Arizona water laws and administrative responsibility of State and County agencies will likely be slow to come, if ever.

- With Blue Ridge and a deep aquifer available, an AMA with its out of the area controls is not the answer, however having required reports of total water pumped from all private wells would be very helpful.
- Currently, nearly all the County Attorneys of Arizona believe they cannot stop development for a lack of a current water source (this is left to the local water provider or to the consumer that may wish to take the chances of finding their own water).
- It does not seem probable, or fair, under current state law to further regulate property development or water improvement districts outside of a CCN for the benefit of the CC & N holder.
- If during an acquisition, a public utility accepted a poorly developed water system (or resources) as part of a CC &N where the water resources are seemingly available, it seems it is their obligation to incur the costs of developing those resources and then applying for any required rate increases necessary to earn a fair return on the assets employed and the operating and maintenance costs incurred. Adequate pre-acquisition due diligence on the part of a utility company buying water systems and accepting the rights and obligations of a CC &N holder is not the problem of the ACC or the consumers, although the consumers should ultimately pay for the services received and for the cost of “used and useful” assets required to provide the service.
- The incentives that can be provided for regulated public service utilities should be in the form of higher “rates of return” for utilities that are faced with higher than normal “risks” of locating the natural resources required (see comments on # 5 under the section above entitled Clarification or Correction of Facts).

Alternative # 20-Strawberry Hollow Water: Because this alternative was dramatically mis-stated, Mike Ploughe was asked to reply. Since I have reviewed his analysis and comments, I fully support his corrections, comments, and conclusions. It is pleasing to know that Loren Peterson of Strawberry Hollow is willing to share such a high proportion of his resources with an un-liked prior litigation foe. However, his willingness to help his neighbors in Pine seems to be the stronger motive.

Alternative # 21-Condemnation of Existing Local Water Supplies: It seems that condemning property within areas outside of a CC &N is highly confrontational and expensive in terms of probable litigation related to property rights and values. It is of concern as to why this option was even suggested (see above General Observations #4) especially related to neighboring water improvement districts that have each located adequate water supplies.

Additional Long-term Alternatives:

Two additional optional courses of action should be added to those suggested by the Company:

Alternative # 22-Direct Recovery of Wastewater: Many communities on modern wastewater systems recover 40%-50% of all potable water consumed. The three major water improvement districts (Solitude Trails, Strawberry Hollow, and Pine Creek Canyon/Portal IV) within the Pine community have all installed modern wastewater systems to (a) treat the effluent created in their neighborhoods, and (b) to protect the quality of the water they and others extract from the shallow aquifers, and (c) to passively recharge the shallow aquifer.

For years, the real estate developers that formed the water improvement districts have expressed concern over protection of the shallow aquifer water supply. The developers have taken appropriate action by installing moderate size alternative treatment systems to serve the 72 to 170 lots in their developments. However, the rest of Pine outside of the water improvement districts has not ever seriously approached the septic tank issue that threatens their potable water supply.

As a side benefit of this water protection philosophy, significant amounts of treated effluent can be re-captured to supplement other water sources. PWCo should be considering this as a dual beneficial alternative in terms of protection of water quality and as a source of additional water. PWCo should not pay for the treatment plants, but they should be pushing hard to encourage the community to solve this problem and contract with them for the recharge of the reclaimed water into the local aquifer (like at Green Valley Park in Payson and at numerous other locations in Arizona). The community property owners need to quickly focus on how to finance and install this important phase of the development of their community.

Rather than completely eliminating septic tanks, some communities with sewer districts or municipal plants are now connecting the septic systems to the sewage district collection lines, eliminating the leach lines that normally distribute the dissolved solids for percolation into the soil. Even better is the complete elimination of the septic tanks, especially on the many small lots that exist in Pine.

Because of the many small lots and the hilly landscape in Pine, 15-20 prepackaged moderate size neighborhood systems may need to be installed at a total cost of about \$500,000-\$800,000 for every 100 homes, thereby re-capturing 20-25 million gallons of treated useable water that could be safely passively recharged into the upper aquifer.

Alternative # 23-Harvesting of Water on Private Lands: Several property owners in Pine currently harvest roof water, with one party capturing the runoff in two 2500 gallon fiberglass tanks hidden behind the garage. The water is pumped and gravity fed to irrigate trees and landscape on the property. Capturing other water (not contained in waterways that cross private property) in tree wells, barrels, retentions basins, etc. is an

effective way to stretch the potable water supply. Educational help to start a public relations campaign of this type is readily available.

Conclusions and Recommended Courses of Action:

1. The current and future property owners within the CC &N area of Pine Water Co. ultimately should pay for the costs of new water, new storage, and required system improvements. However, PWCo, as the obligated CC & N holder, needs to take the prudent and necessary steps to provide the capital investment and efforts necessary to solve the problems. The Company then needs to open a rate case where it seeks to fairly adjust its rates to recover its prudent investment costs and the expected operating, maintenance, and replacement costs. There is risk in incurring these costs, thus a fair profit should be allowed to the Company, hopefully on the basis of the risks levels incurred. Significant impact fees for new developments where lot splits are occurring should be part of the rate structure, along with significantly higher base and usage fees to reflect the added service values (more water supplies, more storage, more reliability of infrastructure, and no moratoriums).
2. The statement by the Company on p.14 that "BUI and PWCo look forward to those discussions" (i.e. "more talk") is not a sufficient response to the requests of the Commissioners. As the CC & N holders, PWCo needs to take immediate action to make prudent investments of adequate financial resources to be able to provide "adequate service" to current and future property owners. If they cannot do that, they should seek to liquidate their positions in Pine and any other community they "under serve".
3. What would be prudent to do?
 - Decide to invest in the deep aquifer underneath Pine so that a reliable, more permanent water source is utilized and the upper aquifer is rested and recharged more for future use. For a good start, the option offered by Strawberry Hollow DWID should be quickly negotiated. Then this process can likely be expanded by PWCo supporting and investing with the Bureau of Reclamation group to start the drilling of two-three exploratory holes in Pine, such that these boreholes could be immediately developed into production wells by PWCo once the geology and water resources are confirmed to be as projected by the MRWRMS group. These wells could be the major production wells for the Company.
 - Immediately construct one or more storage tanks totaling 500,000 gallons over the next 12 months, and reach a total increase of 800,000 gallons of new storage capacity once water production is up by a total of 200 gpm.
 - Raise the capital within the PWCo company entities to finance the above efforts and other related programs. If unable to raise the funds within 120 days, plan to liquidate the investment in PWCo by assisting the ACC and others for a smooth transition to a new water supplier in Pine.
 - Once the new water and additional assets are placed in service, immediately open a new rate case to begin the cost recovery process.

- To carry out the above recommendations, but also having an option to not carrying 100% of the investment (with some possible technical risk reduction from the Bureau of Reclamation drilling exploratory boreholes as part of the Study effort), PWCo should seek the cooperation, financial support, and joint development efforts of (a) the other local domestic water improvement districts, (b) the entrepreneur drilling the deep well in central Pine, and (c) the Pine/Strawberry Water District that will have bankrolled \$300,000-\$400,000 within the 2005-2006 fiscal year. With those type partners, the concept of water sharing agreements and/or interconnected facilities throughout the community may be possible.
- Be much more careful and accurate on data, reports, and arguments presented to the ACC in future rate cases, financing requests, etc. so more credibility and trust can be established with both the Commission and the property owners Pine Water Co/Brooke Utilities. is obligated to serve. Also, by instituting this recommendation, substantial rate case expense and other costs and time can be saved.

If these basic recommendations were adopted (obviously with some give and take), it seems the following might result:

1. The current and future ratepayers of Pine would be happier and less concerned about water supplies and the exercise of their person property rights.
2. Property values would be based on a long-run permanent sustainable water supply as sought by the commission.
3. A steady growth of new homes and businesses would occur as the water resources come on line and as the mentality of “don’t build”, don’t come this weekend”, etc. fades away.
4. Ratepayers would be subject to substantial increases, paying amounts more on par with smaller water districts that have less severe water problems. The new rates would be fair and equitable based on improved reliability and adequacy of basic utility services.
5. PWCo would collect significantly higher revenue per meter on a larger customer base, yielding significantly higher total net revenues and a much higher total profit required to create a fair return on a much higher level of investment. PWCo would look like a reasonably financed entrepreneurial company willing to provide adequate service to its customer base.
6. PWCo, the ACC, and Gila County could save substantial financial resources and massive amounts of time currently spent on rate cases, moratorium issues, research and development efforts, etc.

7. PSWID could disband and let the property taxes of \$2-\$12 per month on the lots and homes be applied to offset new justified rate increases required by PWCo. The District could reorganize to be a sewer improvement district ready to tackle the long ignored wastewater problem.

Call me direct or Tommie Martin of Gila County if I can further interpret this information or facilitate bringing a solution forward to the benefit of all involved.

Cordially,
HDJ Management

Harry D. Jones,
Consultant

Cc: Tommie Martin, Gila County Supervisor
Robert Hardcastle, Brooke Utilities