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2005 DEC 21 P 2: 06

AZ CORP COMMISSION  
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Attorneys for Pine Water Company, Inc.

**BEFORE THE ARIZONA CORPORATION COMMISSION**

7 IN THE MATTER OF THE  
8 APPLICATION OF PINE WATER  
COMPANY FOR A  
9 DETERMINATION OF THE  
CURRENT FAIR VALUE OF ITS  
10 UTILITY PLANT AND PROPERTY  
AND FOR INCREASES IN ITS  
11 RATES AND CHARGES BASED  
THEREON FOR UTILITY SERVICE  
12 AND FOR APPROVAL TO INCUR  
LONG-TERM DEBT  
13

DOCKET NO: W-03512A-03-0279

**PINE WATER COMPANY'S REPLY  
CONCERNING 2005 REPORT ON WATER  
SUPPLY ALTERNATIVES**

14 On November 10, 2005, Pine Water Co. ("PWCo" or "Company") timely docketed  
15 its "2005 Report by Pine Water Co., Inc. on Water Supply Alternatives" (the "Report").  
16 Subsequently, on December 6, 2005, Intervener Brenniger docketed his response to the  
17 Report. On December 7, 2005, Intervener Cassaro docketed his response to the Report.  
18 On December 12, 2005, the Commission's Utilities Division Staff ("Staff") filed its  
19 response to the Report. Additionally, on November 29, 2005, Highland Water Resources  
20 Consulting, Inc. ("Highland"), although not a party to this docket, submitted comments  
21 concerning the Report.<sup>1</sup> PWCo hereby files this reply in support of the Report in order to  
22 respond to the aforementioned filings.

**PWCo's Response to Intervener Robert Cassaro's Comments**

24 Although highly critical of the Company, Mr. Cassaro offers no substantive

25  
26 <sup>1</sup> Because Highland is not a party, Pine Water assumes that Highland's comments will be treated as public comment.

1 response to the information contained in the Report. As such, Mr. Cassaro has done  
2 nothing to advance a solution to the water supply problems long experienced in the PWCo  
3 service area. While PWCo does not believe it necessary to respond to Mr. Cassaro's  
4 unsupported criticisms, in response to Mr. Cassaro's filing, the Company states that (1)  
5 the Report is the most comprehensive analysis of the Pine, Arizona water supply situation  
6 prepared to date; and (2) PWCo has and continues to meet the obligations imposed by its  
7 CC&N.

#### 8 **PWCo's Response to Intervener Breninger's Comments**

9 Like Mr. Cassaro's response to the Report, Mr. Breninger's comments lack any  
10 substantive discussion of the water supply alternatives analyzed in the Report. Instead,  
11 like Mr. Cassaro, Mr. Breninger seems to have chosen to focus primarily on criticizing  
12 both the Company and the report process. In response, PWCo therefore simply states its  
13 believe that, with the Report and this reply, it has clearly met the requirements of Decision  
14 No. 67823.

#### 15 **PWCo.'s Response to Highland's Unsolicited Comments**

16 PWCo appreciates the submission made by Highland as it is based on a substantive  
17 consideration of the hydrologic, engineering and other data in the Report. However, most  
18 of Highland's comments are either clarifying in nature or simply the author's own  
19 opinions. As to the latter, PWCo does not agree with Highland concerning the availability  
20 of deep groundwater resources in or near Pine, Arizona, nor does it believe that Highland  
21 has accurately estimated the costs or assessed the risks associated with pursuing this or  
22 any of the water supply alternatives discussed in the Report. In short, Highland's filing  
23 represents little more than a difference of opinion. PWCo stands by its analysis of  
24 alternatives, its estimation of costs and assessments of risk as set forth in the Report.

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1           **PWCo.'s Response to Staff's Comments**

2           Like the Company, Staff analyzed and ranked each of the Report's alternatives.  
3    Reviewing Staff's "preferred" alternatives, it should be clear that Staff believes that  
4    additional water supplies will have to come from third-parties willing to risk significant  
5    sums to locate water that can then be purchased by PWCo for delivery to its customers on  
6    reasonable terms. *See e.g.*, Staff Response at ¶¶ 2-4 (page 2) and 12 (page 5). The  
7    Company and Staff agree on this point and PWCo will entertain all wholesale water  
8    supply sales proposals from third parties.

9           The Company strongly disagrees with Staff's ranking and analysis of Alternative  
10   No. 17: Deep Well Exploration in Fault Area of Pine, Arizona. Staff Response at ¶ 17  
11   (page 5). Staff claims that the \$3.8 million estimated price tag is "overstated," yet  
12   provides no substantive basis to challenge the Company's estimate. Surely, however,  
13   Staff and the Company can agree that the costs of such a deep well would be substantial.  
14   In that light, Staff's suggestion that the Company seek an accounting order to allow it to  
15   "record its costs for possible recovery later" is unacceptable to PWCo. As PWCo has  
16   repeatedly stated, the Company does not believe these so-called deep well alternatives are  
17   prudent. For one thing, PWCo cannot legitimately be expected to risk millions of dollars  
18   looking for water thousands of feet below ground based on "**possible**" recovery later.  
19   Moreover, the Company believes its ratepayers cannot afford the rates recovery such  
20   expenditures will require, a belief borne out by the results of the Customer Survey  
21   conducted by PWCo in connection with the Report. Unfortunately, Staff provided no  
22   discussion of this survey. Nevertheless, the Customer Survey clearly shows that a  
23   monthly increase in water costs of more than \$20 is not viewed as "affordable" by the  
24   community. *See Report at page 11(E)*.

25           The Company also strongly disagrees with Staff's ranking and analysis of  
26   Alternative No. 15: Water Hauling on an "As Needed" Basis. Staff Response at ¶ 15

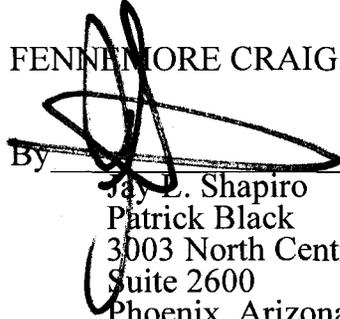
1 (page 5). Instead, the Company agrees with the majority of the Customer Survey  
2 respondents that water hauling, paid for on a “pay as you go” basis, should be considered  
3 a viable long-term water supply alternative. See Report at page 11 (F). Compared to the  
4 risky and costly alternatives available, water hauling has and should continue to allow  
5 PWCo to maximize its ability to meet customer demand on reasonable terms.

6 **Conclusions**

7 The responses to the Report, like the Commission’s rejection of the Company’s  
8 request for “guidance” in the last rate case, reflect the reality of the situation the Company  
9 faces every day it operates a Commission-regulated water utility in Pine, Arizona—the  
10 day-to-day operational decisions are being left to the Company’s discretion. To date,  
11 those decisions have resulted in a quality of service unheard of prior to the acquisition by  
12 Brooke Utilities roughly ten years ago. Absent evidence of alternatives that are  
13 hydrologically and financially viable, PWCo. believes that the course of action it has  
14 followed for many years (i.e., expansion of water sharing agreements, exploration of  
15 water in Pine and Strawberry, infrastructure development like Project Magnolia, and  
16 supplemental water hauling) remains prudent.

17 DATED this 21<sup>st</sup> day of December, 2005.

18 FENNEMORE CRAIG, P.C.

19  
20 By 

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1 Original and 13 copies were filed  
this 21<sup>st</sup> day of December, 2005, to:

2 Docket Control  
3 Arizona Corporation Commission  
4 1200 West Washington  
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5 COPY of the foregoing via hand-delivery  
this 21<sup>st</sup> day of December, 2005, to:

6 Dwight D. Nodes, Assistant Chief ALJ  
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12 COPY of the foregoing via U.S. mail  
13 this 21<sup>st</sup> day of December, 2005, to:

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