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November 2, 2005

AZ CORP COMMISSION
DOCUMENT CONTROL

Jeff Hatch-Miller, Chairman
Kristin K. Mayes, Commissioner
Marc Spitzer, Commissioner
William Mundell, Commissioner
Mike Gleason, Commissioner

Cc: Dwight Nodes, Administrative Law Judge
Steve Olea, Assistant Director, Utilities
Marlin Scott, Jr., Utilities Staff Engineer

Arizona Corporation Commission
1200 W. Washington
Phoenix, AZ 85007

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

Honorable Commissioners:

It is my understanding that the Commission is in the process of evaluating the adequacy of the long-term water resources available in the Pine/Strawberry area. We appreciate your efforts in seeking this important information.

As the developer of two major wells in the area that are under contract to Pine Water Co. ("PWCo"), as a long-time resident of Pine, and as a customer of PWCo that has suffered water outages for many years, I would like you and your staff to be fully aware of the following facts:

- I personally owned and developed the portion of Pine know as Solitude Trails. As part of that project, I formed Solitude Trails Domestic Water Improvement District ("STDWID") in 1996. This District was only formed to serve water to our lot owners because of the very high risk of future homeowners not having water available through PWCo and its predecessor firms.
- STDWID drilled its two wells within Pine. Besides serving the 78 homes within STDWID, these wells have also supplied 8-12 million gallons per year to PWCo under a Water Sharing Agreement. This excess supply from our District has served water to 300-450 homes within the CC&N of PWCo each year for the last 10 years. From the Annual Reports of PWCo, it appears this amounts to 14%-22% of the total annual supply distributed by PWCo.
- As your are aware, many severe water shortages and outages have occurred over the years within the PWCo service area. This has not been the case within the STDWID. No shortages or use restrictions have occurred in our District during that same time period.
- The partners behind the Mogollon Rim Water Resources Management Study group (Bureau of Reclamation, Gila County and Town of Payson) have, in my mind, done an excellent job developing the knowledge base required to more

thoroughly understand the sources and underground movement of additional water in the Pine and Mogollon Rim area. Based on this thoughtfully developed information and hydro-geological guidance from Mike Ploughe (a registered geologist and Town of Payson hydrologist), our District is seriously considering drilling another deep well (\$300,000-\$350,000 cost) to protect our long run-position. Besides our District's interest and Strawberry Hollow's recently completed deep well, another entrepreneurial partnership is currently drilling a deep well to be able to support an RV project in the middle of the PWCo service area. PWCo has refused to supply that partnership with water resources required to utilize their property.

- The other domestic water improvement districts formed over the last 3-10 years (Strawberry Hollow-72 homes; and Pine Creek Canyon /Portal IV-170 homes) have, like our District, also been very successful at developing more than adequate water resources required for our current and long-term needs:
 - Strawberry Hollow DWID has recently applied to ADWR for a 100 year adequacy designation. Included in their base calculations of demand is their desired long-term sale of 25 gpm to the other water purveyors in Pine (i.e. Pine Water Company). About 75% of their water comes from the deep aquifer which is equally accessible to PWCo. This district has supplied significant "in-ground" geological and water chemistry data to the Mogollon Study Group to help that science based study properly confirm the existence of the deep aquifer first identified in 2001 when a 1,800 foot borehole was first drilled by the Northern Gila County Water Alliance (Gila County, U.S.G.A., State Land, Pine/Strawberry District, etc.).
 - Pine Creek Portal IV DWID has apparently had adequate resources for their development. The principals behind that 170 lot subdivision have also developed three other major wells over the last 20 years to support their Portal I, II, and III projects. These privately developed wells are also large net suppliers of water to the PWCo system. As you may remember, several residents of Portals I-II-III have spoken in your public comment sessions or hearings that these wells which were sold to PWCo were being used to serve the rest of Pine, while allowing unfair restrictions to be applied to the Portals I-II-III areas.
- On many occasions over the years, when PWCo was on high alert stages, our wells could have supplied additional resources above the amounts actually taken by the PWCo system. We do not completely understand why this was allowed to happen, however it was likely due to lack of storage capacity that has never been in place to properly meet the peak demand periods that occur every year in the PWCo area. Our District's system has 100,000 gallons of storage to serve 72 homes, while Pine water has only about 900,000 gallons of storage to serve almost 2,000 homes. We and the other improvement districts within Pine provide storage at approximately 2.5 to 4.0 times more per meter than what is stored for PWCo customers. Our water districts would not dare, like Pine Water Co. has always done, hide behind a minimum storage requirement such as the one the Commission allows for the "typical" system under your jurisdiction.

All of the water systems in the Pine area face abnormal excessive seasonal and week-end demand; however PWCo is the only system that seems unable to manage these types of demand spikes.

- Mr. Hardcastle's claims (no apparent support for his opinion) and those of your engineering staff (based on your staff's reliance on outdated ADWR statements) that "there is no more water" to be found under Pine, Arizona are not accurate. Over the years PWCo could have more efficiently utilized and stored available water from the upper aquifer that we water suppliers all share in Pine. Also, PWCo has always had the opportunity to "step forward" like other local entrepreneurs and drill into a deeper aquifer approximately 600 feet below the upper aquifer. Several others in the area are seriously considering constructing additional wells in this economical, highly productive, highly reliable, long-term renewable water source.
- I believe the local water improvement districts and the Gila County Board of Supervisors are tired of being blamed for the water shortages in Pine, when in fact the community would be in far worse shape if entrepreneurial districts had not developed the water resources and shared them with the rest of the community. The private enterprise sector has gotten the job done in terms of water development, while the public utility sector has been allowed to provide "inadequate" service for years, with this inadequate service effecting the reputation of us all. Admittedly, the private sector and County government have done a poor job of communicating to you what the real circumstances are, and the degree of success we have had in developing adequate water resources for our areas of responsibility. I am encouraging my fellow water district management and the County government to keep you more informed.

In conclusion, our beautiful community and fine residents should not be forced to continue with (1) the contentious relationship between PWCo and our residents, (2) the denial of property rights of community members faced with water meter moratoriums, and (3) the poor publicity related to water shortages that severely hurt our economy and property values.

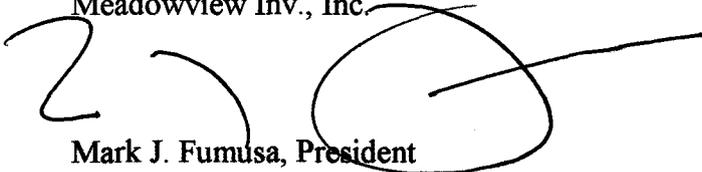
In summary, water resources are available in the Pine/Strawberry area! In terms of properly serving customers in Pine, all of the four domestic water improvement districts are getting along just fine and have had access to more than adequate water resources for years. In the case of STDWID, we have shared our privately developed resources with PWCo for years. Strawberry Hollow is also extending this sharing philosophy (63% of their water) with the rest of Pine. Why can't PWCo find the water, when everyone else has been able to do so? I believe it is because they have not looked hard or allocated reasonable resources to do so. Unfortunately for all stake holders in this situation, they have also not been required by the Commission to carry out the responsibility to provide "adequate" service. During recent hearing, your staff testified that hauling water by truck to meet needs (which PWCo has been allowed to do for years) is by Commission rules, "inadequate" service.

Therefore, to help our good neighbors and property owners, I would request that the Commission gradually increase the current moratorium from the level of two per month, and at the same time impose strict requirements on PWCo to begin "in the ground" exploration efforts to locate the available resources needed to properly serve their portion of our community. Targeted growth in storage capacity should also be required. If they are unwilling to quickly commit genuine efforts and financial resources to provide adequate water and storage to their part of our community, their CC&N should be revoked and the system should be placed in the hands of the property owners who would likely be willing to own and operate the system. The residents realize they would need to commit significant resources to provide an "adequate" level of service that unfortunately is not being provided by the supplier that is under your control and regulations.

Please call me with any questions or with ideas on how I and others can help solve this severe long-term problem faced by our community.

Sincerely,

Meadowview Inv., Inc.



Mark J. Fumusa, President