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December 18, 2005

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

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

Arizona Corporation Commission
1200 W. Washington
Phoenix, AZ 85007

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

Honorable Commissioners:

As a property owner and major employer in both Pine and Strawberry, and as the author of one of the 21 alternatives being proposed by Pine Water Co ("PW") in its Water Supply Alternatives Report ("Report"), I wish to add some insight to the Report and the docketed comments and to discuss possible actions that should take place.

I am both a commercial and residential water customer of Pine Water Co. My spouse has lived in Pine for 50 years. I moved to Pine full time three years ago and recently my wife and I opened Pine Verde Mexican Restaurant and Cantina, now employing 10 people full-time and eight people part-time. We also acquired the Pine Creek Mobile Home Park, where 28 families live in moderate income housing that is generally not available otherwise in the Pine/Strawberry area. We also have acquired the Black Bear Steakhouse in Strawberry, employing a total of 15.

My interest in the water situation in Pine is based on wanting a reasonable opportunity to exercise my private property rights and to provide housing and employment opportunities that are desperately needed in our communities. Because our businesses and properties have been subjected to the meter moratoriums and line extension limitations in effect within Pine, I have diligently attempted to work with Mr. Hardcastle and the Pine/Strawberry Water Improvement District to (a) solve the immediate problem of developing required seasonal water production capacity and badly needed storage capacity to overcome the operational and supply challenges faced annually during the "100

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day war", and (b) uncover the best solution to the long-term problem faced over the next 20-30 years until Pine is completely built-out.

Because of experiences as a VP/Director Technology at Motorola responsible for engineering major programs such as the Iridium Satellite Project and over 10 years of developing water supplies for major hotel projects in Mexico, I believe the long-term water situation in Pine can be solved using a combination of alternatives, and at reasonable costs. I have closely reviewed the Report by Mr. Hardcastle and the suggestions made by all interveners and individuals making comments to the Docket.

Re-Furbish the Tanks at Pine Creek and Highway 87: My initial suggestion to Pine/Strawberry Water Improvement District and to Mr. Hardcastle (Hardcastle Alternative # 6 to re-habilitate the 822,000 gallons of abandoned storage tanks next to my Pine properties) is still a viable solution to the storage issues when coupled with several of the water supply solutions being proposed. The tanks are on land already owned by PW. The capacity of the tanks is approximately the size needed for a long-run solution. With the intermediate term (1-3 years) use of the currently reliable Strawberry well field to solve the Pine problem, the tank capacity overcomes the major problem faced with that source (Magnolia pipeline can supply adequate water to Pine, except there is no place to store the water once it gets to Pine). Since there is inadequate storage capacity at both ends of the Magnolia pipeline, the rehabilitated tanks would allow the tanks to be slowly filled from the Strawberry well field in the early spring months or continuously refilled during the three-day weekends from Memorial Day to Labor Day ("100 day war" period) from the deep, reliable well at Strawberry Hollow. (Or possibly by Pine Creek during the winter months depending on the water trading with Salt River.)

I need to emphasize to the Commission that a solution to the water supply problem, which you seem to focus on almost exclusively, has less than optimal value if additional storage is not added at the same time new water resources become available. Because of the large spikes that occur in demand, groundwater pumping is unlikely to keep up, thus added storage is a key part of the total solution. New water resources or new tanks is not a "chicken or the egg" situation. Both are needed simultaneously.

Additional Water Supplies: I was not surprised at Mr. Hardcastle's apparent conclusions that none of the Pine/Strawberry Water Improvement District's alternatives were economical or of any further discussion value. Frankly, the District is overly dominated by individuals that have little technical support for their conclusions that are brought to vote by the Board without apparent prior study by other than the two-man alternatives committee that prepared the alternatives. Board members have recently admitted they were new, had little experience and they just voted for whatever the Alternatives Committee proposed.



A few weeks ago, I was asked to participate in a citizens group to push forward with the District's two highest ranking alternatives. The problem is that the two highest ranked alternatives selected by the PSWID have not used a valid engineering approach to ranking them. Typically, engineers would ask the PSWID to approve the criteria for selection and weight functions based on importance. For example, cost might be used as criteria and weighted to be 80% of importance. Environmental factors could be 20% weighted. I was told that cost was the only decision weighted factor for determining current selected alternatives. On the other hand, neither JB4 nor JB5 alternatives have determined the cost of water or even have written letters of intent approval from landowners for selected drilling sites.

Recently, the PSWID decided at the December 15, 2005 board meeting to reject a motion to explore additional storage alternatives since "storage" was a short term alternative outside of the preview of the PSWID. The PSWID controlling members believe that their charter is to explore only long term alternatives, however the by-laws of the District clearly state otherwise.

Give that the short term water issues are related to peak demand, I believe it's up to the ACC, Mr. Hardcastle, and Gila County to resolve the current problem using storage alternatives and to develop a long term demand roadmap that then could be resolved by the PSWID long term alternatives.

I am disappointed that Mr. Hardcastle did not make any direct recommendations or courses of action to follow. However, I believe I could work with Mr. Hardcastle and the authors of the other specific and well thought out comments, especially those of Supervisor Martin, Mr. Jones, Mr. Ploughe, Mrs. Hall, and Mr. Cassaro. Harry Jones of Gila County seemed to have been the most specific in his recommendations, and those combined with mine, Hall's, and Cassaro's on storage alternatives, and Plough's on long-run sources of water immediately under Pine should solve the problem.

I hope the Commission will focus on the fact that any solution to this problem is going to require substantial up-front investment by Pine Water Co.; thus I would encourage you, even if they drill a dry hole, to determine a reliable and fair method to permit the water company to make a reasonable return on their investment, just as I would like to be allowed to make in my businesses if adequate water supplies were simply made available to my properties, businesses, and resident tenants.

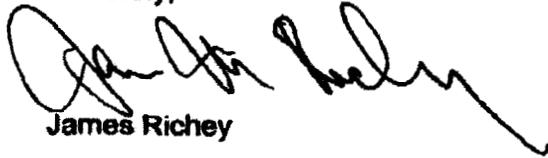
Somehow the ACC must enforce an investment requirement towards the short term alternatives (storage) with a performance timetable (15 months) for PW to have added storage ready for the summer of '07. Of course, reasonable rate increases will be required to sustain the capital and operating cost of the investment by PW for that specific alternative. Even though my businesses are one of the top two or three (if not #1) water users, I am willing to help support



such rate increases as long as they are specific to the chosen alternative. If PW cannot make such an investment, they need to divest themselves of the Pine and Strawberry systems. In addition, under the direction of the Mogollon Rim Water Resources Management Study Group, a long term water demand roadmap should be created as inputs to the PSWID to help in determining a long term time table.

I would be happy to assist the Commissioners, your Staff, Mr. Hardcastle, and the above logical citizens to solve this problem that the Commission and PW has let go on far too long. Please call me with any questions or ideas on how we may proceed!

Sincerely,



James Richey

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