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March 27, 2006

Dwight Nodes, Admin. Law Judge
Jeff Hatch-Miller, Chairman
Kristin K. Mayes, Commissioner
Marc Spitzer, Commissioner
William Mundell, Commissioner
Mike Gleason, Commissioner

Cc:
Steve Olea, Assistant Director, Utilities
Marlin Scott, Jr., Utilities Staff Engineer
Docket Control
Del Smith, Utilities Engineer Supervisor

Arizona Corporation Commission
1200 W. Washington
Phoenix, AZ 85007

RE: Docket No. W-03512A-03-0279
Pine Water Company
Cc: Robert Hardcastle, Brooke Utilities

Honorable Commissioners and Judge Nodes:

Over the last few years, there has been a seemingly consistent position from ADWR and Staff (plus direct testimony from Mr. Hardcastle) that "there is no more water to be found under Pine, Arizona". I believe you and your Staff members have appropriately relied on the expertise of ADWR to inform you of their technical opinions related to currently or potentially available water resources.

Because of these prior positions and your requests that I keep you informed as to the status of various studies and new information being developed about the availability of water in Northern Gila County (especially in the service area of Pine Water Co.), I believe it is important that all parties be aware of a new position being taken by ADWR that is based on updated information only available to ADWR over the last few months.

The new information you need to be aware of is that the 100 Year Adequacy Application of the Strawberry Hollow Domestic Water Improvement District (see attached) was approved by ADWR as of March 17, 2006. This is only the second 100 year adequacy granted in Gila County, the last being issued 16 years ago. The application was based on the result of five years of development and testing of the two wells in Strawberry Hollow, with the major water supply coming from the new 1320 foot well drilled into the deep aquifer far below the shallow aquifer all others pump from within the Pine community. The existence of this aquifer has been known for some time; however confirmation of Strawberry Hollow District's claims of proper testing and available water volumes has now been verified.

Since the District has demonstrated far more water resources than it needs for its own use, even at full-build-out, it wishes to become a supplemental water source and to stand in as a replacement for trucked in water. The district is a certified ADEQ water source that would help insure against water shortages in the PWCo service area. The distribution offer (an invitation to commence negotiations) to share its resources with PWCo has been made on two occasions (see letters of February 3, 2006 and March 14, 2006). The amount of water being offered is significant, amounting to a potential 23% increase in the total annual supply now available to Pine Water Co., which supply could result in greatly reducing the need for moratoriums in the Pine Water service area. ADEQ's notice of an Approval to Construct has been issued for connection of this supply to the Strawberry Hollow system. The District's system is adjacent to the PWCo system and can be connected directly with relative simplicity at a low cost.

It is important to note that this new well was sighted and tested by Michael Ploughe, P.G. of Highland Water Resources Consulting, Inc. (HWRC) who has appeared before you on several occasions. Unfortunately, until the final results and certifications were completed, Mike was not able to supply full information to you. It is now publicly known that that a second deep well aimed at this same large aquifer is in development, also under the direction of Mike Ploughe. Both of these well locations are close to prominent fault areas within the Pine Community that were previously identified as prime drilling sites by Ploughe prior to the Mogollon Rim Water Resources Management Study which started in June, 2003. Subsequently, maps by the Mogollon Study confirmed this condition. In addition, the United States Geological Survey report released late last year by John Parker (which has been provided to Staff) also confirmed the existence of this deep and productive aquifer that can provide a renewable long-term supply of water to all of the Pine area.

The significance of this situation is that (a) substantial water resources are being uncovered by the private sector, (b) the private sector is willing to share these resources with the regulated utility or other water suppliers to help provide both immediate and long-term solutions to the long-standing water delivery problem in Pine, (c) the resources could probably be tapped directly by Pine Water Co if they were willing to try, and (d) the excuse that there is "no more water to be found under Pine" should no longer be acceptable to the Company or the Commission.

Please call or write me if I can provide any further information to the ACC that may help solve this water development and delivery problem the Gila County Board of Supervisors has wanted to see solved for many years.

Cordially,



Harry D. Jones

Consultant to Gila County Board of Supervisors

ARIZONA DEPARTMENT OF WATER RESOURCES
Office of Assured and Adequate Water Supply
3550 North Central Avenue, Phoenix, Arizona 85012
Telephone 602 771-8500
Fax 602 771-8689



Janet Napolitano
Governor

Herbert R. Guenther
Director

March 17, 2006

Mr. Roy Tanney
Arizona Department of Real Estate
2910 N. 44th Street
Phoenix, Arizona 85018

Water Adequacy Report #22-401908000
Subdivision Name: Strawberry Hollow
Owner: Loren Peterson Owner of 5 lots
and tracts H, I, & J
Number of lots: 72 total
County: Gila
Township: 12 N Range 8 E Section 26

Water provided by: Strawberry Hollow Domestic
Water Improvement District
Water Type: Groundwater
Current water depth: 25 bls in shallow aquifer, 900 bls
deep aquifer
Estimated 100-year depth: N/A
Current decline rate: N/A
Basin: Verde Canyon

Dear Mr. Tanney:

Pursuant to A.R.S. § 45-108, the Department of Water Resources has reviewed the available information pertaining to the water supply for the above-referenced subdivision. This letter constitutes the Department's report on the subdivisions water supply as required by A.R.S. § 45-108(A).

Adequacy of the 100-year water supply was reviewed by the Department with regard to physical, legal and continuous availability, and to determine if the water supply is of adequate quality. Information available to the Department indicates that the applicant has satisfied the adequate water supply requirements as set forth in A.A.C. R12-15-715 *et seq.* Therefore, the Department of Water Resources finds the water supply to be adequate to meet the subdivision's projected needs. Any change to the subdivision or its water supply plans may invalidate this decision.

This letter is being forwarded to your office as required by A.R.S. § 45-108. This law requires the developer to hold the recordation of the subdivision's plat until receipt of the Department's report on the subdivision's water supply. By copy of this report, the Gila County Recorder is being officially notified of the developer's compliance with the law. Because of the possibility that a future court proceeding could result in a legal determination that water withdrawn from wells in this area is surface water, the Department recommends that your office include the following statement in all promotional material and contracts for sale of lots in the subdivision:

"Pursuant to A.R.S. § 45-108 and A.A.C. R12-15-715 *et seq.*, the Department has determined that the water supply for the Strawberry Hollow subdivision is adequate, i.e. that the water supply is physically, continuously and legally available to satisfy the applicant's 100-year projected water demand, and that the water supply is of suitable water quality. This determination supercedes and replaces the Departments Water Adequacy Reports issued for Strawberry Hollow for Phase I in September 12, 2000 and Phase II in January 12, 2005. However, the legal availability of the water withdrawn from wells in this area may be the subject of court action in the future as part of a determination of surface water rights.

Celebrating 25 Years

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Strawberry Hollow
#22-4019080000

Whether future court action will have an effect on the legal availability of the water supply for the proposed subdivision cannot be determined at this time."

If you have any questions, please contact A. Malek at (602) 771-8540.

Sincerely,



Frank Putman
Assistant Director

FPNC/ef
700320

cc: Gila County Planning and Zoning
Gila County Recorder
Michael Ploughe, P.G.
Alan R. Dulaney, ADWR

Celebrating 25 Years

Gliese Law Offices, PLLC

John G. Gliese

Stephanie J. Gliese

February 3, 2006

Jay L. Shapiro
Fennemore Craig
3003 North Central Ave. Ste 2600
Phoenix, AZ 85012-2913

Re: Brook Utilities, Inquire of Loren Peterson and Strawberry
Hollow Domestic Water Improvement District

Dear Mr. Shapiro:

This office represents the Strawberry Hollow Domestic Water Improvement District and Loren Peterson. Your client Brooke Utilities, Inc. addressed a letter to my clients inquiring about entering into negotiations concerning the purchase of water from my clients' well in the Pine-Strawberry area. Inasmuch as I am aware of your representation of Brooke Utilities, I am addressing this letter to you and ask that you share the information contained herein with your client.

In response to their letter of October 27, 2005, my client Mr. Peterson requests that Brooke Utilities submit an offer to him through this office for the purchase of waters from the well which was identified in your client's communication. Upon receipt of the same my client will review it and determine if opening such communications is in my clients' best interest.

If you have any questions, then please contact this office.

Sincerely,
GLIEGE LAW OFFICES, PLLC

John G. Gliese

123 S. San Francisco Suite 9 Flagstaff, AZ 86001
Mailing: P.O. Box 1388 Flagstaff, AZ 86002
Phone: 928-226-8333; Cell: 928-380-0159; Fax: 928-226-0339
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Gliese Law Offices, PLLC

John G. Gliese

Stephanie J. Gliese

March 14, 2006

Jay L. Shapiro
Fennemore Craig
3003 North Central Ave. Ste 2600
Phoenix, AZ 85012-2913

COPY

Re: Brook Utilities, Inquire of Loren Peterson and Strawberry
Hollow Domestic Water Improvement District

Dear Mr. Shapiro:

On February 3, 2006, this office sent you a letter regarding our representation of Loren Peterson concerning the sale of water to Brooke Utilities. Since our sending of this letter, which invited your client to submit an offer for the purchase of waters from the well identified in your client's communication, no such offer has been received. Correspondence and emails have been received indicating an interest of Mr. Hardcastle in meeting with Mr. Peterson, preferably outside the presence of the undersigned. However, your client has been reticent in submitting an offer which could be analyzed by my client.

My client Loren Peterson is ready, willing and able to sell water to Brooke Utilities and clearly has invited the commencement of negotiations to accomplish the same. Since others are presently also interested in acquiring water from Mr. Peterson, please be advised that unless your client seriously pursues this matter, that Mr. Peterson will be entertaining offers from other entities and once the capacity of the well has been subscribed, there will be no further water for sale.

If an appropriate response is not received to this letter within ten days of the date hereof, it will be assumed that your client is no longer interested in entering negotiations with my client regarding the purchase of water from my client.

Sincerely,
GLIEGE LAW OFFICES, PLLC

John G. Gliese

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