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MEMORANDUM

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AZ CORP COMMISSION
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TO: Dwight Nodes
Assistant Chief Administrative Law Judge
Hearing Division

FROM: Janet F. Wagner
Attorney
Legal Division

Janet F. Wagner
by [Signature]

Arizona Corporation Commission
DOCKETED

JUL 26 2002

DATE: July 26, 2002

DOCKETED BY *CAZ*

RE: SUN CITY WATER COMPANY AND SUN CITY WEST UTILITIES
COMPANY FOR APPROVAL OF CENTRAL ARIZONA PROJECT
WATER UTILIZATION PLAN AND FOR AN ACCOUNTING ORDER
AUTHORIZING A GROUNDWATER SAVINGS FEE AND
RECOVERY OF DEFERRED CENTRAL ARIZONA PROJECT
EXPENSES

DOCKET NO: W-01656A-98-0577 & SW-02334A-98-0577

This memorandum is intended to comply with your recent Procedural Order in this matter.

First, Staff believes that Chairman William A. Mundell's July 3, 2002 letter contains two very specific questions:

- 1) Is the Sun City Taxpayers Association ("SCTA) correct in its allegation that hydrologic responses are being detected as far as four miles from the Aqua Fria Recharge Facility blow-off structure?
- 2) Will the Aqua Fria Recharge Facility ultimately provide a benefit to the Sun Cities' aquifer?

With these questions in mind, Staff met with representatives from the Arizona Department of Water Resources ("ADWR") and the Central Arizona Water Conservation District ("CAWCD") in order to ascertain whether either or both of these agencies can provide a witness who can appropriately address the concerns set forth in Chairman Mundell's July 3rd letter. After speaking with these representatives, Staff believes that indeed either one or both of these agencies can very quickly and easily answer these two questions.

In his letter, Chairman Mundell directs Staff to obtain an evaluation of the hydrologic effects of the Agua Fria Recharge District upon the area underlying the Sun Cities from an independent hydrologist and provide expert testimony in order to address his two questions. Staff believes that no in-depth evaluation is needed to answer the Chairman's two specific questions and that the expert testimony to provide the answers could be readily supplied by either the ADWR or the CAWCD or Staff.

However, Staff also believes that the Chairman's letter implicitly leads to a third question - If the Agua Fria Recharge Facility does ultimately provide a benefit to the Sun Cities' aquifer, when can we expect that benefit to materialize and will it be substantial? Although these agencies, particularly the CAWCD, can provide information about the status of the Agua Fria Recharge Facility and speak generally about the facility's projected effects, neither has produced a model that specifically studies the possible long-term effects of the Agua Fria Recharge Facility upon the groundwater levels in the area underlying the Sun Cities.

Furthermore, representatives from both agencies expressed reluctance about appearing as a witness in an evidentiary hearing. Both representatives have promised to talk to their supervisors about such participation. Staff is currently exploring ways of placing this additional information on the record. For example, because the answers to the first two questions are relatively straightforward, it may be possible for Staff to prepare a Staff Report that addresses them. The third question, however, is not so straightforward.

Staff has made preliminary inquiries into the cost of obtaining an independent hydrologist to model the hydrologic effects of the Agua Fria Recharge Facility specifically upon the Sun Cities. Preliminary estimates are as high as \$100,000. In addition, the estimated time for a consultant to complete such work could be more than six months. If the ADWR were to do such a study, the extra cost to the State would be much less than \$100,000, but due to manpower and recent budget constraints, the time to complete the study could be much more than six months.

For these reasons, Staff seeks clarification as to how the Commission would prefer to proceed. Addressing the third question is likely to be both expensive and time-consuming, and Staff would prefer to have confirmation that the Commission wants us to undertake such a study before incurring that time and expense. Addressing the first two questions appears to be relatively easy, whether that information is presented through testimony from ADWR or CAWCD personnel or through a Staff witness.

On July 23, 2002, the Director of ADWR, Joseph C. Smith, submitted a letter to Chairman Mundell (copy attached). This letter has been docketed but is not part of the official record in this case. ADWR has indicated that it is willing to send a representative to the appropriate hearing in this matter as a witness for ADWR in order to present this letter and enter into the record.

In summary, Staff expects to have further contact with both ADWR and CAWCD to ascertain their participation. However, Staff seeks guidance as to the extent of hydrologic modeling that the Commission wishes to see in this matter.

JW:alb

cc: All Parties of Record
Docket Control
Joseph C. Smith, Director, ADWR
Jim Holway, ADWR
Tom Harbour, CAWCD

ARIZONA DEPARTMENT OF WATER RESOURCES

500 North Third Street, Phoenix, Arizona 85004

Telephone 602-417-2410

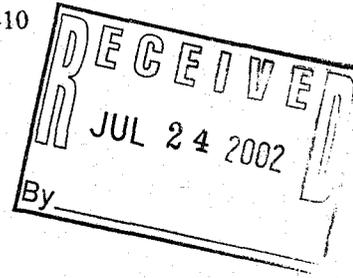
Fax 602-417-2415



JANE DEE HULL
Governor

JOSEPH C. SMITH
Director

July 23, 2002 By _____



Commissioner William A. Mundell
Arizona Corporation Commission
1200 W. Washington Street
Phoenix, AZ 85007

Re: Endorsement of Arizona American Water Company Sun Cities Groundwater Savings Project (ACC Docket Nos.: W-01656A-98-0577; SW-02334A-98-0577)

Dear Commissioner Mundell:

As you know, the Arizona Department of Water Resources (ADWR) is charged with implementation of Arizona's Groundwater Management Act. Over the last 20 years, great strides have been made by many municipalities to reduce groundwater overdraft through the construction of water treatment and distribution infrastructure to enable the use of the state's Central Arizona Project (CAP) water allocations. However, there are communities, including the Sun Cities/Youngtown area, that continue to rely almost exclusively on groundwater, resulting in excessive water level decline rates and associated problems such as land subsidence.

Accordingly, ADWR supports and endorses the Sun Cities Groundwater Savings Project (GSP) as proposed by the Sun Cities CAP Water Task Force and Arizona American Water Company. In 1998, ADWR staff participated in the community Task Force's efforts to evaluate alternatives and develop a cost-effective and viable plan for utilizing the CAP allocations of the Sun Cities. Use of the CAP allocations to replace a like amount of groundwater pumping by area golf courses is an innovative and cost-effective means of reducing groundwater overdraft in the area.

ADWR endorses the direct use of the CAP water within the community because implementation of the GSP will result in an immediate reduction in groundwater pumping and a direct and immediate reduction in groundwater level decline rates beneath the Sun Cities. Although recharge of CAP water underground is a valuable, long-term water management tool for the state, ADWR has long advocated direct use of renewable water supplies by municipal water providers where direct use is a cost-effective alternative. As the Arizona Corporation Commission (ACC) recognized in its Decision No. 62293, from a water management standpoint, direct use within the community is preferred over recharge in the Agua Fria Recharge Project, located seven miles north of the center of Sun City, or other recharge facilities located some distance from the Sun Cities.

Commissioner William A. Mundell
July 23, 2002
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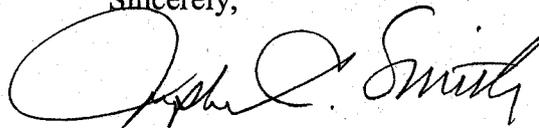
Recent data indicate groundwater levels continue to decline beneath the Sun Cities/Youngtown area at a significant rate. In addition, satellite imagery data indicate that land subsidence has been actively occurring in the area.

For all of the reasons stated above, ADWR urges the ACC to approve the Groundwater Savings Project so that the Sun Cities area can begin addressing its water management issues in an effective way.

As you consider this matter, the ADWR is willing to assist you in any way it can. Geologically and hydrologically, we are very familiar with this area. We have monitored groundwater and subsidence conditions for many years and have projected future conditions using advanced modeling techniques. Please call me if you would like to discuss this further.

Thank you for your consideration in this important matter.

Sincerely,

A handwritten signature in black ink, appearing to read "Joseph C. Smith". The signature is fluid and cursive, with a large initial "J" and "S".

Joseph C. Smith
Director

JCS:bjw

cc: Mr. Jim Irvin, Commissioner, Arizona Corporation Commission
Mr. Marc Spitzer, Commissioner, Arizona Corporation Commission
Mr. Steve Olea, Assistant Director, Utilities Division, Arizona Corporation Commission