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Executive Director

Direct Line: (602) 542-4143
Fax: (602) 542-0765
E-mail: kmayes@azcc.gov

ARIZONA CORPORATION COMMISSION

March 13, 2006

Chairman Jeff Hatch-Miller
Commissioner Marc Spitzer
Commissioner William A. Mundell
Commissioner Mike Gleason

Re: Perkins Mountain Water Company, Docket No. W-20380A-05-0490

SW 20379A-05-0489

Dear Colleagues:

I recently became aware of a letter from legal counsel to Rhodes homes to the Arizona Department of Water resources (ADWR) concerning water adequacy on their proposed development in Mohave County. At my request, a copy of this letter was sent to my office from Mohave County Supervisor Buster Johnson. In it, the letter references a February 17, 2006 letter from ADWR to Rhodes homes. I received a copy of that letter from ACC staff.

I wanted to place these two letters in the docket for your consideration of this matter.

Sincerely,

Kris Mayes
Commissioner

cc: Docket

Arizona Corporation Commission
DOCKETED

MAR 13 2006

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ARIZONA DEPARTMENT OF WATER RESOURCES

3550 North Central Avenue, Phoenix, Arizona 85012-2105

Telephone 602 771-8426

Fax 602 771-8681

February 17, 2006



Janet Napolitano
Governor

Herbert R. Guenther
Director

Villages at White Hills
American Land Management, LLC
Attn: Jim Rhodes
4730 South Fort Apache Road, STE 300
Las Vegas, NV 89147

Re: The Villages at White Hills
Analysis of Adequate Water Supply (ADWR #23-401674)

W-20380A-05-0490

Mr.
Parkins Water Co.

Dear Mr. Rhodes:

The Arizona Department of Water Resources (Department) has received inquiries regarding the status of your application for Analysis of Adequate Water Supply, more specifically as it relates to the priority date of your application. As you are aware there are competing interests for a determination of adequate water supplies in the vicinity of your proposed project. At this time no such priority determination has been made concerning the pending applications within the Detrital Valley groundwater basin. In cases where there are competing applications, such as this, priority is given to the application that has the earliest date that the Department finds the application to be "complete and correct" A.A.C. R12-15-716.D. At this time neither of the pending applications have been found to be complete and correct, and thus no priority date has been assigned. On August 9, 2005 you were notified that the application was determined to be complete but incorrect. At this time your application remains complete but incorrect until you correct the deficiencies identified in the August 9, 2005 letter.

Additionally, I have recently sent a letter to the Mohave County Board of Supervisors to provide them with information regarding the Departments concern about the availability of groundwater supplies in this area.

The Department has seen a significant increase in the demand for adequacy determinations in Mohave County, and is currently reviewing applications for two master-planned communities, yours and The Ranch at White Hills. These two proposed communities total in excess of 62,000 lots and would require approximately 25,000 acre-feet of groundwater. They would involve portions of three groundwater basins, the Detrital Valley, Sacramento Valley and Hualapi Valley basins. Information on the hydrogeological conditions in all three of these basins is currently limited, making site specific evaluation of the adequacy of groundwater supplies challenging. We felt that it was important to bring to your attention that at this time, based on information that is available the Department feels that it is unlikely that adequate supplies of groundwater are physically available for the proposed uses in the pending applications.

Celebrating 25 Years

Mr. Jim Rhodes
February 17, 2006
Page 2 of 2

Of course, the Department will fully consider any and all new information that you may submit. When your application is correct, the information will be verified and the Department will then make its final determination.

The Department is very interested in ensuring that all parties have the most up to date information regarding water supply availability, especially in areas like this where we do not believe that we have sufficient data. We want to make sure that you as an applicant are aware of what the Department is providing to others as well as ensuring that you know what is happening with your application. If you have any questions, please feel free to call me at 602-771-8426.

Sincerely,

A handwritten signature in cursive script that reads "Herbert R. Guenther". The signature is written in black ink and is centered on the page.

Herbert R. Guenther

Snell & Wilmer
LLP
LAW OFFICES

One Arizona Center
Phoenix, AZ 85004-2202
602.382.6000 P
602.382.6070 F
swlaw.com

Robert J. Metli
602.382.6568
rmetli@swlaw.com

XC: BOS
Manager
P+Z
Epstein

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BY: _____

March 6, 2006

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CLERK OF THE BOARD

Mr. Herbert R. Guenther
Arizona Department of Water Resources
3550 North Central Avenue
Phoenix, AZ 85012

Re: The Villages of White Hills
Analysis of Adequate Water Supply (ADWR #23-401674)

W-20380A-05-0490
Perkins Mtn. Water Co.

Dear Mr. Guenther:

We have been retained by Rhodes Homes - Arizona LLC and American Land Management, LLC ("ALM") (collectively the "Companies") to protect their vested interest in the priority date established by law for the above referenced Application for an Analysis of Adequate Water Supply ("Application"). This letter is in response to the February 17, 2006, letter you sent to ALM claiming that no priority date has been assigned. This statement is contrary to prior correspondence from the Department and is not supported by the facts. ALM's hydrogeologist, Errol L. Montgomery & Associates, Inc. ("Montgomery & Associates") has been working in close cooperation with ADWR to investigate and resolve the hydrology issues related to the Company's land in Mohave County. This is an ongoing process that is complex and time consuming. ALM has invested a significant amount of time and money toward demonstrating the physical availability of adequate groundwater in the aquifer system in the vicinity of its land.

Montgomery & Associates prepared the Application, along with the accompanying hydrology studies, and submitted it to the Arizona Department of Water Resources ("ADWR" or "the Department") on March 18, 2005. Additional hydrology test results were filed on May 10, 2005. The Department acknowledged by letter dated August 9, 2005, that it had completed its administrative review of the Application and determined it to be complete pursuant to statute.

The Department then requested information on technical issues pertaining to the hydrology information that was provided as part of the Application. These are substantive issues. The hydrological information provided did not meet the substantive requirements and the Department was requesting supplemental information.

Snell & Wilmer
LLP

Mr. Herbert R. Guenther
Arizona Department of Water Resources
March 6, 2006
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Montgomery & Associates met with ADWR Hydrology Division on September 2, 2005, to determine what specific information ADWR required to complete the substantive review. The Department sent a follow up letter on September 20, 2005, summarizing ADWR's specific concerns as expressed in the September 2nd meeting. ADWR put forth a recommendation that a proposal addressing these concerns be submitted for the Department's review and comment. A proposal was submitted by Montgomery & Associates on behalf of the Companies on December 5, 2005 ("the Proposal").

The proposed supplemental work includes: submittal of additional data for existing wells; pumping tests for an additional new well; and further interpretation of existing data. Furthermore, Montgomery & Associates will be obtaining more data on the extent of the thick clay unit found at depth at the White Hills property and conducting additional analytical modeling for 100-year drawdown using an agreed upon smaller area and range of values for input parameters.

Meanwhile, in January 2006, the Field Services Division of ADWR contacted Montgomery & Associates requesting access to ALM's wells. The Department stated that access to these wells would assist ADWR in conducting water-level and gravity measurements in Mohave County. Data collected from the wells was deemed "invaluable" to the Department. The wells were considered "even more valuable" because there are no other wells in close proximity "and the correlation of holes found to logs available makes them even more valuable." In the spirit of cooperation with ADWR, the Company granted the Department access to the wells on February 1, 2006. The Department has committed to providing to Montgomery & Associates a copy of all data collected on the Detrital, Sacramento and Hualapai basins.

After several months delay, on February 17, 2006, ADWR Hydrology Division sent a letter to Montgomery & Associates confirming that the Proposal addresses the need to obtain and evaluate additional data, including the drilling of boreholes, aquifer testing, analysis of drawdown data and projection of the 100-year impact using an analytical model. The Department considered the proposal acceptable. Therefore, it was somewhat of a surprise to the Companies to receive a letter from ADWR, also dated February 17, 2006, stating that based on the information that is available, the Department feels that it is unlikely that adequate supplies of groundwater are physically available for the proposed uses in the pending application. The Companies believe that the Proposal submitted by Montgomery & Associates to ADWR will provide sufficient information for the Department to make a determination that an adequate supply of groundwater is physically available for the proposed use.

ALM disputes your assertion that the Application, as referenced above, has not been deemed administratively complete and therefore, lacks a priority date. The letter of August 9, 2005, is clear that the Department found the Application to be administratively complete. Regardless of the August 9th correspondence, the Application is deemed administratively

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Mr. Herbert R. Guenther
Arizona Department of Water Resources
March 6, 2006
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complete by operation of law. Pursuant to state statute, if an agency does not issue a written notice of administrative completeness or deficiencies within the administrative completeness review timeframe as set forth by the Department, the application is deemed administratively complete.¹ The completeness review timeframe for an analysis of water adequacy is 60 days.² As noted above, the Application was filed on March 18, 2005. There was no written response from the Department before August 9, 2005, 144 days after the Application was submitted. Even if the supplemental hydrology information submitted on May 10, 2005, were to be considered the Application date, no written response was received from ADWR until 91 days later.

Administrative completeness is defined as an application that contains all components required by statute or rule³. The Company provided all the information that is required for a complete application pursuant to ADWR rules⁴. The additional work that ADWR and the Company have agreed to goes far beyond completion of an application. The Company has been working diligently to provide ADWR the supplemental information the Department needs to complete its substantive review. Additional wells are being drilled. Data collecting and testing are ongoing. A supplemental report will be submitted to ADWR with all the information described in the Proposal. ALM has invested and continues to invest a significant amount of time and money into additional studies, wells and testing.

Be advised that we will take whatever steps are necessary to preserve our client's rights. If need be, the Company will request an administrative hearing to address the apparent attempt in your letter to rescind the Company's priority status. ALM is working, however, toward resolving the hydrology issues with ADWR and will continue to work cooperatively with the Department in its goal of assessing the hydrology in that area.

Very truly yours,

Snell & Wilmer

Robert J. Metli/cw

Robert J. Metli

cc: Mr. Carlos Ronstadt, Snell & Wilmer L.L.P.
Mr. Jim Rhodes, Rhodes Homes
Mohave County Board of Supervisors

¹ A.R.S. §41-1074(C).
² A.A.C. R12-15-401.
³ A.R.S. §41-1072(1).
⁴ A.A.C. R12-15-716.