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July 10, 2006

Arizona Corporation Commission
DOCKETED

JUL 10 2006

DOCKETED BY nr

Kristin K. Mayes, Commissioner
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007

Re: Perkins Mountain Water Co. Application for CC&N, Docket No. W-20380A-05-0490;
Perkins Mountain Utility Co. Application for CC&N, Docket No. SW-20379A-05-0489

Dear Commissioner Mayes:

You raised several questions in your letter of June 19, 2006, regarding the broader issue of a sustainable water supply in Mohave County. While Perkins Mountain Water Company ("Perkins" or "the Company") appreciates your concerns, the Company believes that making these issues the crux of only one company's approval to provide water service to a development fails to achieve the goal of addressing these issues on a more global level. The broader policy of a sustainable water supply is best addressed through coordination of various state, county and local agencies and organizations, and Arizona's legislature, not in the context of one application.

Each county must address the issues that are unique to its residents, taking into account the economic growth and future planning of the county. Mohave County and the Arizona Department of Water Resources both recognize that Rhodes Homes Arizona LLC ("Rhodes Homes") has proven an adequate water supply for the build-out of its Golden Valley South project. Perkins has been selected by Rhodes Homes to be its service provider. The development of broader policy issues are ones which Perkins, if it were to be approved as a regulated utility, might consider participating in as part of a generic or other type of proceeding to address these issues. The following responses address the issues as they relate specifically to the matter pending before this Commission.

First, you requested a response to the idea of waiting for the preliminary survey results of the water study currently being undertaken by ADWR, USGS and AZGS, citing Mohave County's recent contribution of $100,000 to help speed completion of the study. Such a moratorium would create a disincentive for developers to undertake the costly and extensive testing necessary to prove the water supplies in the basins where their proposed developments are to be located. Mohave County's contribution is less than 5% of the $2 million plus that Rhodes Homes has already incurred in hydrology related costs to study and prove up water

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supplies. The Rhodes Homes studies, and the wells drilled to perform these studies, have been utilized by ADWR as part of its own studies of water supply in the region. Rhodes Homes is cooperating with ADWR in its study of Mohave County aquifers and has given access to its 4 privately owned productive wells in Mohave County to ADWR for testing in conjunction with ADWR's study.

Furthermore, it has been over a year since Perkins filed its application to be a regulated water provider. Further delays would economically disadvantage those who have requested service from Perkins. Every other developer in Mohave County would have a distinct advantage if the projects planned to be served by Perkins were forced to wait up to 18 months for a water provider to serve the properties. Rhodes Homes would not even consider agreeing to any such moratorium unless all other developers agreed to the same.

Finally, there is no need to wait. Rhodes Homes already demonstrated to the satisfaction of ADWR and Mohave County 9,000 acre-feet of groundwater, sufficient for 36,000 homes without amenities. The Perkins proposed CC&N area is just a part of the subject area of the joint ADWR, USGS and AZGS study. The status of other areas or basins in Mohave County should not prohibit Rhodes from developing its properties in accordance with current statute, regulations and ADWR's determination that an adequate water supply exists for Golden Valley South.

Second, you requested additional information on the Sterling project that was included on a list of proposed subdivisions provided by Mohave County. Perkins has limited information on the project. Sterling was proposed many years ago on 14,000 acres of land. It is a future speculative project located 40 miles away from Rhodes' proposed Golden Valley project where the Sacramento wash enters the Colorado River near Topock, southwest of Golden Valley by 30 air miles over the rugged Black Mountain range. This area is located within the Colorado River Accounting surface. All wells within this boundary are required to submit to ADWR for review to determine if they need a Colorado River contract and if they are pumping surface water and not groundwater. There are no pending water adequacy applications at ADWR, therefore, there is no requirement to include this project in committed demand. Rhodes Homes' hydrologist confirmed that this project has absolutely no effect on groundwater levels in the Golden Valley area. If the Sterling project were to come to fruition, applications for an analysis of adequate water supply would have to be filed with ADWR, and the demands in the Rhodes' analysis applications already filed at ADWR would have to be included as committed demand in Sterling's applications.

Third, you ask if Perkins agrees with the ADWR Director that growth in Mohave County will require importation of water. Perkins does not agree with the Director's recent statement. Rhodes Homes has in fact proven an adequate water supply for the build out of the Golden Valley South project. The hydrology studies prepared for Rhodes Homes indicate that there is an

adequate water supply for 100 years, which is the standard in this state for both adequate water supplies outside an Active Management Area ("AMA") and assured water supplies inside an AMA. The hydrology studies prove there is no need to import water within the next 100 years for the Golden Valley South project; beyond that is conjecture and speculation.

Fourth, you inquire as to whether the Commission should require the establishment of a reserve fund to prevent water shortage in future years. Such a fund would require the Company to collect in rates of current ratepayers amounts to subsidize water supplies for future customers. This is contrary to the matching principle and this Commission's own policy of current ratepayers not subsidizing future supplies. In addition to being against Commission policy and practices, it would be extremely difficult to establish the appropriate rate to be collected to address a potential problem 100 years out. Water supply is a long term issue with many changing variables. Just a few of the variables that impact supplies include planned growth, recharge and reuse, and technology advances.

Very truly yours,

Snell & Wilmer L.L.P.

Jeffrey W. Crockett
Kimberly A. Grouse

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cc:

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