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2006 SEP 19 P 4: 31

AZ CORP COMMISSION
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BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF
CHAPARRAL CITY WATER COMPANY,
INC., AN ARIZONA CORPORATION, FOR A
DETERMINATION OF THE CURRENT FAIR
VALUE OF ITS UTILITY PLANT AND
PROPERTY AND FOR INCREASES IN ITS
RATES AND CHARGES FOR UTILITY
SERVICE BASED THEREON.

DOCKET NO. W-02113A-04-0616

CHAPARRAL CITY WATER
COMPANY'S NOTICE OF
COMPLIANCE WITH DECISION NO.
68176

Pursuant to Decision No. 68176, Chaparral City Water Company, Inc. ("Chaparral City") submits its Notice of Compliance in the above-captioned matter. Decision No. 68176 required Chaparral City to file with Docket Control, by September 30, 2006, its plans on how customers can increase the use of effluent and reduce their reliance on groundwater specifically as it pertains to golf courses, ornamental lakes, and other aesthetic water features.

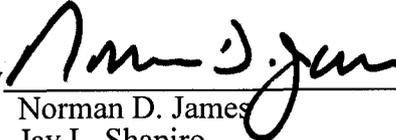
As a preliminary matter, Chaparral City notes that its primary water supply is renewable Colorado River water, which is delivered by means of the Central Arizona Project ("CAP"). Approximately 90% of the Company's water used during the test year in the rate case consisted of CAP water. Although Chaparral City currently utilizes virtually all of its 6,978 acre-foot allocation of CAP water, it also uses small amounts of groundwater withdrawn from two wells within the Company's service territory to augment CAP water deliveries and to ensure reliable water service.

Chaparral City does not provide wastewater collection and treatment services, and has no right to any effluent. Instead, the Fountain Hills Sanitary District, a quasi-public entity, provides

1 wastewater collection and treatment services in the area, and therefore owns and controls the use
2 of effluent. Accordingly, Chaparral City contacted the sanitary district and inquired about the
3 use of effluent by landowners and residents of Fountain Hills. Attached hereto as Exhibit 1 is a
4 letter to Commissioner Mayes from Mr. Ronald D. Huber, general manager of the Fountain Hills
5 Sanitary District, detailing how reclaimed water is generated and utilized within Fountain Hills.

6 DATED this 19th of September, 2006.

7 FENNEMORE CRAIG, P.C.

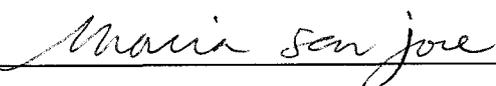
8 By 
9 Norman D. James
10 Jay L. Shapiro
11 3003 North Central Ave., Suite 2600
12 Phoenix, Arizona 85012
13 Attorneys for Chaparral City Water Company

14 ORIGINAL and 13 copies of the foregoing
15 delivered for filing this 19th day of September, 2006, to:

16 Docket Control
17 Arizona Corporation Commission
18 Utilities Division
19 1200 W. Washington St.
20 Phoenix, AZ 85007

21 COPY of the foregoing hand-delivered
22 this 19th day of September, 2006, to:

23 Brian Bozzo, Compliance Manager
24 Utilities Division
25 Arizona Corporation Commission
26 1200 West Washington
Phoenix, AZ 85007

By: 
1836398.1/10696.002

EXHIBIT

1

FOUNTAIN HILLS SANITARY DISTRICT

**16941 E. PEPPERWOOD CIRCLE
FOUNTAIN HILLS, AZ 85268-2901
(480) 837-9444 FAX (480) 837-0819**

September 8, 2006

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

Re: Use of Reclaimed Water in Fountain Hills

Dear Commissioner Mayes:

I am the general manager of the Fountain Hills Sanitary District. The Fountain Hills Sanitary District is a political subdivision of the State of Arizona and the only provider of wastewater service within the Town of Fountain Hills.

Through representatives of Chaparral City Water Company, I understand that you are interested in increasing the use of reclaimed water in Fountain Hills as it pertains to golf courses, ornamental lakes and other aesthetic water features. As explained below, the District shares your interest.

The District actively advocates the use of reclaimed water within the Town of Fountain Hills. It maintains an independent distribution system that enables the delivery of reclaimed water to three of the four golf courses within the Town,¹ as well as to three parks, including Fountain Lake. The District will have spent in excess of \$5,000,000 in calendar years 2005 and 2006 to construct improvements to its reclaimed water distribution system. The upgrades will improve water quality and decrease delivery time.

The amount of reclaimed water currently generated by the District is insufficient to meet 100% of the water needs of the six facilities served by the District. On the other hand, the six facilities do not take 100% of the reclaimed water offered for delivery by the District. As a result, approximately 86% (approximately 647,000,000 gallons) of the reclaimed water available from the District (approximately 750,000,000 gallons) is put to direct reuse.

The Eagle Mountain Golf Course, in particular, under-utilizes reclaimed water (by approximately 110,000,000 gallons each year). Unless current reclaimed water customers increase use or new users are added, the amount of unused reclaimed water will continue to increase until the Town reaches build-out. Unfortunately, the District knows of no current or anticipated new users of any significance.

¹ The fourth course, Desert Canyon Golf Course constructed in the 1970s, was not designed to receive reclaimed water. It would need a National Pollutant Discharge Elimination System (NPDES) permit. The cost to retrofit the golf course and secure necessary approvals, if possible, would be prohibitive.

Commissioner Kristin K. Mayes
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The District uses multiple wells to inject unused reclaimed water into the aquifer for storage. The reclaimed water is withdrawn at a later date to meet reclaimed water needs. This aquifer storage and recovery process makes it possible for the District to better meet the highs and lows of the demands on its reclaimed water delivery system without constructing large surface reservoirs. The District currently has almost 450,000,000 gallons of stored reclaimed water available for delivery. This operation is permitted by both the Arizona Department of Water Resources and the Arizona Department of Environmental Quality.

The geology of the area is such that the aquifer may not accept an unlimited amount of reclaimed water. The exact maximum quantity is unknown and the amount the District currently recharges is safely within the permitted levels. However, the District has concerns that if reuse is not increased, saturation will occur at some point. Therefore, the District welcomes any ideas and actions that will encourage its existing reclaimed water users to maximize the use of reclaimed water.

I appreciate the opportunity to provide this background on the Fountain Hills Sanitary District. Please do not hesitate to contact me if you would like to discuss these matters further.

Sincerely,

Ronald D. Huber

Ronald D. Huber, P.E.
General Manager

/hf

cc: Chairman Jeff Hatch-Miller
Commissioner William Mundell
Commissioner Mike Gleason
Commissioner Barry Wong
Mr. Robert Hanford
District Board of Directors
William P. Sullivan