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ORIGINAL
ARIZONA CORPORATION COMMISSION
UTILITY COMPLAINT FORM

47CO

Investigator: John La Porta

Phone: [REDACTED]

Fax: [REDACTED]

Priority: Respond Within Five Days

Opinion No. 2007 61528

Date: 7/6/2007

Complaint Description: 19Z Other
N/A Not Applicable

Complaint By: First: Dina Last: Galassini

Account Name: Dina Galassini

Home: [REDACTED]

Street: [REDACTED]

Work: (000) 000-0000

City: Fountain Hills

CBR: [REDACTED]

State: AZ Zip: 85268

is: [REDACTED]

Utility Company: Pine Water Co., Inc.

Division: [REDACTED]

Contact Name: [REDACTED]

Contact Phone: [REDACTED]

Nature of Complaint:

CUSTOMER SENT THE FOLLOWING CORRESPONDENCE TO THE COMMISSION.

Gregory Larson &
Dina Galassini
[REDACTED]
Fountain Hills, AZ 85268
[REDACTED]

Arizona Corporation Commission
DOCKETED

JUL -6 2007

DOCKETED BY
KK NR

AZ CORP COMMISSION
DOCKET CONTROL

2007 JUL -6 P 3:47

RECEIVED

July 6, 2007

Ms. Kristin Mayes, Commissioner
Arizona Corporation Commission
Commissioners Wing
1200 W. Washington - 2nd Floor
Phoenix, Arizona 85007

Re: In the matter of the application of Pine Water Company (PWC) for approval to (1) Encumber a part of its plant and system pursuant to A.R.S. 40-285(A); and (2) Issue Evidence of Indebtedness Pursuant to A.R.S. 40-302(A)

Docket #W-03512A-07-0362

Dear Commissioner Mayes,

I am writing you in the utmost concern regarding the above application. I object to this agreement as it is extremely one-sided and a raw deal for Strawberry residents. My concerns and comments are:

Page 3, Line 23. States: The Agreement represents a private-public effort to pursue viable options for locating

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new water supplies in and around the Pine-Strawberry area. By pooling public and private resources to develop new water resources, PWCo submits that it stands a higher likelihood of success at a lower risk to customers.

THIS IS NOTHING BUT A PREPOSTEROUS, BLATANT SCHEME TO INVOLVE PRIVATE RESOURCES TO SAIL RIGHT THROUGH THE ACC'S RULES AND REGULATIONS, FOR PWCo TO TAKE OVER STRAWBERRY'S PROPERTY AND TO DRILL THE K2 WELL WITHOUT THE NEED FOR ACC APPROVAL. WHEN IT READS, "LOWER RISK TO CUSTOMERS," IT REALLY MEANS LOWER RISK TO PWCo, AND RISKS JEOPARDIZING STRAWBERRY'S WATER SUPPLY AND EXISTING WELLS.

IF THE ACC CANNOT SEE RIGHT THROUGH THESE PARTIES AND THIS DECEITFUL GAME, THEN THE ACC IS NOT DOING ITS JOB.

Consequently, in this new application the conflict of interest is very clear in that Brooke Utility owns both PWCo and SWCo. It is also very clear that the PSWID is not in SWCo customers' best interest. I truly believe that PWCo (and the District) intend to intentionally do harm to Strawberry's residents with this agreement.

To give you an example, in the above-referenced docket dated 6/13/07 filed by Attorney Sullivan, regarding the letter dated May 22, 2007, written by Gary Sherlock, Chairman of the PSWID, he states that "The landowners and residents within the District served by PWCo are in need of additional wells to meet the existing and projected needs of the area." Not once does he mention Strawberry's customers, new water shortages, outages and need for additional wells under SWCo. Unbelievable!

In the withdrawn application (Docket W-03512A-07-0301) SWCo was going to give away a portion of its land to PWCo for the K2 well site. Now their new application regarding the above-referenced docket was revised to slip through the ACC's loopholes once more, SWCo is "selling" the property to the District (whom is not regulated by the ACC). The scheme is that the District is not regulated by the ACC and will turn around and sell this property to PWCo once a sustainable yield is reached. This is totally unacceptable to me as a taxpayer!

Again, if this blatant scheme isn't apparent to the ACC, what is? How can the ACC knowingly let this happen to my family and Strawberry residents? I object to SWCo selling a portion of its property to the District.

I urge the ACC to decline the approval to encumber a part of PWCo's plant and system and reject the request for them to incur into the debt of \$300,000.

I was informed that when Strawberry experiences water shortages, the Magnolia Pipeline is to be shut down and water is to be hauled via truck to Pine or wherever. I am asking the ACC to take this into consideration in the event Strawberry encounters a water shortage after the K2 well's success. It will be interesting to me to see how PWCo sails through the ACC's loopholes regarding the existing SWCo's curtailment tariffs.

According to The K2 Well Site Evaluation Report dated 5/30/06 from Highland Water Resources Consulting, they state more than once that caution should be taken in this endeavor due to water rights and environmental concerns including the draining of Fossil Springs. They too, recommend that Pine Water Company drill in Pine and that it would be more cost effective. THEY STATE THAT THE K2 AREA MAY BEST SERVE AS AN AUGMENTATION SUPPLY FOR THE STRAWBERRY AREA AS OPPOSED TO A NEW SOURCE FOR PINE AND SUCH A SCENARIO WOULD ENSURE THAT EXISTING RESOURCES AVAILABLE TO THE STRAWBERRY AREA ARE PRESERVED. I plead with the ACC to take this valuable report into consideration and to NOT disregard it.

I am concerned that once the Pine Water Company reaches their sustainable yield of 150 gpm, they will stop drilling and interconnect the well to the Pine Water Company delivery system. If they hit more water, where does it state that larger casing will be installed to accommodate such water?

Has there been an extensive study to see if Pine Water Company is infringing on Strawberry Water Company's franchise area to drill the K2 well? What about a survey?

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As expressed by a Strawberry resident at the June 21, 2007, PSWID meeting, easements required to access the K2 well site have been abandoned and the property owner(s) is in objection to any and all trespassing.

SWCo and their customers need to be included in the agreement as primary users or pro-rated, not just PWCo and their customers. Also, this agreement should address the issues if the K2 well draws water from the C aquifer versus the R aquifer, or draws water from Fossil Creek. I object to the vague terms of the agreement in these matters.

A major concern is the possible impact of the K2 well on Strawberry's existing wells and aquifer. Brooke Utility's representative claims that Strawberry's existing wells will be monitored during the drilling of the K2 well. A hydrogeologist told me that testing equipment and sounding tubes need to be in place in Strawberry's wells to report static levels and to see if they are being affected by such drilling. I feel dye needs to be inserted (after the casing is in place that seals off the K2 from C aquifer) in Strawberry's wells to confirm that the wells are not being affected. Where is any protection of Strawberry's existing wells in this agreement?

I feel one conflict of interest is Brooke Utility is giving PWCo favor over and above SWCo creating gross negligence and discrimination resulting in the possible intent of harming SWCo customers. We trusted Brooke Utility and SWCo with our own livelihood and preservation of our resources, and now they are risking our water source and not prorating any water to SWCo and their customers.

I have requested reports from Brooke Utility of the water static levels for the past 2.5 years reflecting how much water was pumped through the Magnolia pipeline from Strawberry to Pine. I have not heard a response from Brooke Utility.

PWCo has not for years and is not providing full adequate service to its customers. What makes them think that they will provide service to SWCo? Will it be by stealing Strawberry's water, then charging us again for our own water? The ACC defines if customers have to have hauled water, it is violating the rules to continuously haul water. I urge the Commissioner to make PWCo responsible to its customers first and foremost prior to the approval of this unbelievable scheme.

PWCo is not only proposing to use one existing storage tank, but proposing TWO more future ones in the agreement. This is downright stealing of our water out of our own backyard and unacceptable to us. At the very least, SWCo should retain ownership of the existing water storage tank.

To include Strawberry customers as last in line to acquire water just to appease us is unacceptable. I request the ACC to make PWCo submit an amendment stating a minimum pro-rated share for SWCo customers.

My husband and I own two properties in Strawberry. We awoke on May 28 (Memorial Day) to no water. On June 2, 9 and 26 we received e-mails from Brooke Utility that there would be low pressure or no water conditions in Strawberry. Yesterday and today, Strawberry residents are complaining to me of low water pressure.

I have spoken with Brooke Utility's representative on several occasions. These concerns continue to be unaddressed. SWCo and its customers need representation from the ACC as it is clear that the PSWID's best interest is in PWCo. Strawberry residents cannot afford an attorney and/or hydrogeologist as such costs would be a huge burden on them. Is the ACC going to just stand by and watch PWCo jeopardize Strawberry's water supply and slip through the loopholes?

Pine's problems are not Strawberry's issues and they should not look at Strawberry for their answers. They need to work out their issues with the Pine residents who own are offering them water. Why doesn't the PWCo drill in Pine where the water is proven to be and listen to Highland Consultants? They say it's cost effective, but according to reports, that is incorrect.

I urge the Arizona Corporation Commission to do everything in their power to reject the application. This is a

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bad deal for Strawberry.

Sincerely,
Dina Galassini

Attachment
End of Complaint

Utilities' Response:

N/A
End of Response

Investigator's Comments and Disposition:

07/06/07-I thanked the customer for writing the Commission regarding her opinion on Pine Water Company's finance application. I informed the customer that her opinion will be placed on file with the Docket Control Center of the Commission and will be made part of the record. I also informed the customer that the Commission will also take her opinion into consideration before rendering a decision in this matter. W-03512A-07-0362. CLOSED.
End of Comments

Date Completed: 7/6/2007

Opinion No. 2007 - 61528

Substantiated/Un-Substantiated not yet determined

Notes:



HIGHLAND WATER
RESOURCES CONSULTING Inc.

Water Resources Solutions

May 30th, 2006

PSWID
Attn. Wes Surh
P.O. Box 134
Pine, AZ 85544

RE: K2 Well Site Evaluation -- Groundwater Resources Potential

Dear Mr. Surh,

Upon the May 18th, 2006 approval and direction of the PSWID board, Highland Water Resources Consulting Inc. (HWRC) has completed its evaluation of the groundwater resources potential at the "K2" well site. The K2 location was considered in light of the local structural geology and both the deep regional and shallower perched groundwater systems. The evaluation focused on the structural geology in the vicinity of the site via a photo lineament analysis. Additionally, data presented in recent publicly available reports of the SHDWID, PSWID, USGS, and ADWR were considered as well. The ongoing Mogollon Study "MRWRMS" has produced a few draft documents of late and is currently wrapping up. However, preliminary data of the MRWRMS available to the public is also considered. The findings of the K2 investigation are presented in this five page letter report.

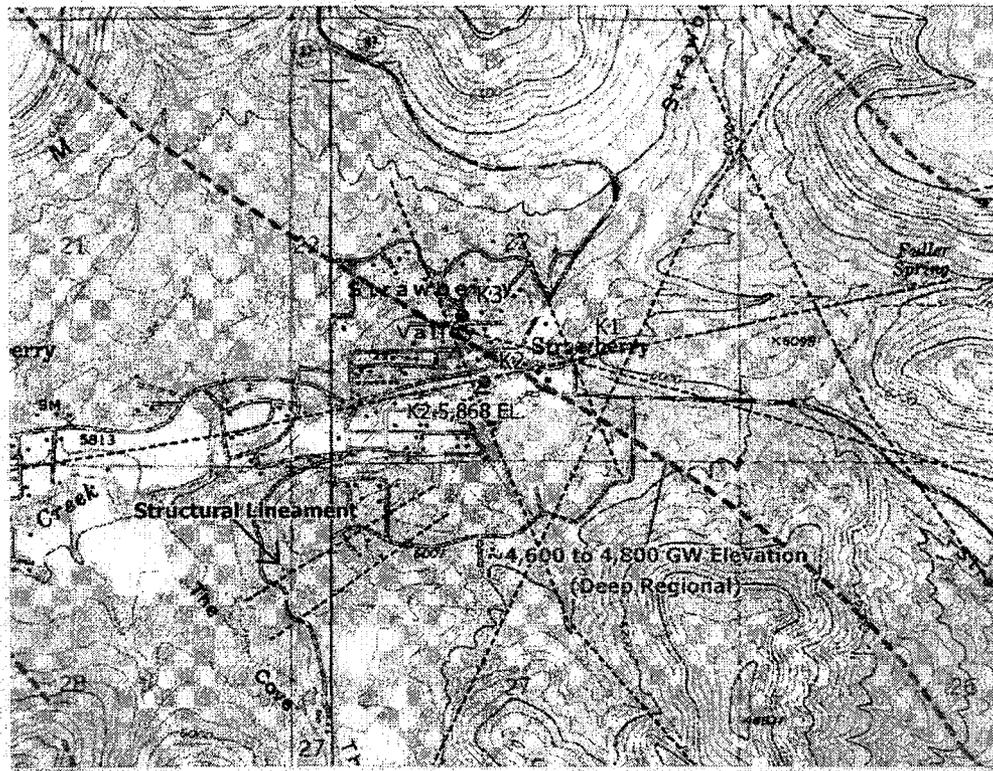
K2 WELL SITE LOCATION

The K2 well site is located in eastern Strawberry at an old water distribution site currently owned by Brooke Utilities. The site is located at approximately N34 °24.388 W111 °29.712 at a surface elevation of approximately 5,868ft. An existing old shallow production well at the site (55-616681) is reportedly a "dry hole".

K2 WELL SITE EVALUATION – GROUNDWATER RESOURCES POTENTIAL

Upon review of existing data and the completion of a lineament analysis of the site HWRC is confident that the location is quite adequate for the drilling of a deep test and/or production well. Figure I below, displays the results of the lineament analyses. Numerous structural features exist in the vicinity of the K2 site and at other sites to the north and northeast herein referred to as optional sites "K1" and "K3" for consistency. The existence of such structural features indicate a higher probability for the presence of secondary permeability (fractures) in the geology below. This situation would enhance the groundwater production potential within the deep regional aquifer.

FIGURE I – K2 Area Lineament Analysis



It is anticipated that the groundwater elevation of the deep regional system will be found between 4,600ft. and 4,800ft. (1,260ft. – 1,100ft. depth to water) in the vicinity. If a well is drilled in this area it is anticipated that the Redwall Fm. would be entirely to partially saturated. However, the primary producing geology may be within the Martin Fm. thru the Tapeats sandstone and into the Precambrian basement rocks at depths below approximately 1,460ft.. These strata should be saturated in this area; in this respect, drilling to a depth of approximately 2,000ft. ought to be sufficient to determine the level

of groundwater production encountered and penetrate a significant section of the deep regional aquifer. It should be noted that the deeper the well is installed the higher the groundwater elevation may rise due to the potentially semi-confined nature of the Precambrian system in this region. Also notable is that the Redwall (where productive) is producing an extremely fine red sediment and that the Tapeats and Martin may be producing sand. This situation can require more costly well construction via necessity for filter pack and well screen or surface filtration in combination with a down-hole sand separator. This issue also will add to the life cycle costs of the well and equipment. It is currently unclear if the sediment concern is a localized issue or a regional characteristic of the deep regional aquifer.

The upper 1,000ft. of strata encountered in the subject area is anticipated to consist of the Schnebly Hill and Supai formations and into the upper Naco Formation. Of consideration is the groundwater that will be encountered in this sequence as "fringe" C-Aquifer groundwater. Perched producing zones within this system occur within thin saturated sandy lime layers and fracture systems. These small systems may be interconnected w/o proper well construction resulting in vertical gradients in the well. In consequence, it is recommended that any wells installed in the Strawberry area deeper than 400ft. be constructed to utilize these aquifers discretely. HWRC believes that there is a lowermost unit of this upper system not currently utilized in the Strawberry area, as it would likely be encountered between 700ft. and 1,000ft. The potential yield of this lower perched aquifer unit is unknown. Therefore, upon encountering this zone it is recommended that the yield of this unit be quantified and isotope and chemistry samples be collected prior to casing and grouting it off from the deep regional aquifer and perched units above. The potential exists that sufficient groundwater production could be encountered from this lower unit such that drilling need not necessarily continue. If this situation were to occur, proper well construction and provisions for the potential future deepening of the well could be made.

RELATIONSHIP TO FOSSIL SPRINGS and THE DEEP REGIONAL AQUIFER

Fossil Springs exist approximately five miles to the west-northwest of the K2 area. This fact should be considered in light of the reality of water rights and environmental concerns relating to any significant (200gpm plus) wells constructed in the deep regional aquifer in the Strawberry area. This too should be considered as part of the risk of investing public funds into such a project. HWRC currently believes that the subject K2 area may not be within that portion of the deep regional groundwater flow system supporting Fossil Springs. However, the exact location of the springs "capture" area is not clearly defined and the complexities of fractured groundwater flow occurring in the deep regional system may never be completely understood. Other than for monitoring purposes, the installation of deep regional groundwater wells much further to the west of the K2 area is not recommended. HWRC believes that sufficient data currently exists indicating that deep regional groundwater wells installed to the east, in Pine, would not produce groundwater that otherwise would have discharged at Fossil Springs. As such, deep regional groundwater wells installed in Pine are less likely to be the subject of

potential future litigation regarding water rights or environmental issues surrounding Fossil Springs. Another benefit to the drilling of deep regional groundwater wells in Pine rather than in Strawberry is the cost savings that would surely be observed due to shallower well construction requirements in the Pine area.

SUMMARY AND RECOMENDATIONS

HWRC recommends site K1 as the optimum drilling site in the K2 area. However, HWRC is confident that each of the sites in the K2 area provides adequate opportunity for deep and perched groundwater production. Additionally, opportunity for new groundwater production from a currently unutilized lower perched aquifer is a potential at each site. This affords an option in the completion of a potentially shallower well if sufficient production is encountered within or above the Naco Fm. (above approximately 1,000ft. in depth).

A caution should be taken when considering the drilling of deep regional aquifer wells in the Strawberry area as water rights and environmental concerns may arise if significant production capacity is committed. With this in mind, many opportunities currently exist in the Pine area for development of the deep regional aquifer at a significantly lower cost and risk than in Strawberry. This is due to the fact that wells in Pine need be installed to depths typically less than 1,500ft. to fully penetrate the deep regional system vs. greater than 2,000ft. in Strawberry. So too, deep wells in Pine are further from Fossil Springs and existing data clearly indicate such wells would not capture groundwater that would otherwise have discharged at the springs. The K2 area may not capture groundwater that would otherwise discharge at Fossil Springs, but this cannot currently be confirmed. Additionally, current events in the Pine area surrounding the development of the deep regional aquifer point to opportunities for partnerships with other water improvement districts and private entities that currently have wells in place and/or have tentative plans to drill.

In light of all the findings above, HWRC recommends that the K2 site be drilled once the following lower risk opportunities are explored where the water is needed:

- Conduct a hydrogeological investigation to identify at least three optimum deep regional aquifer drilling sites in the Pine area. Such an investigation should include recommendations as to the most efficient and cost saving well drilling methods as well as site specific yet practical well design criteria. Ideally, at least one of the sites may be drilled and tested in 2006.
- Explore and define the opportunities for partnerships with other local Domestic Water Improvement Districts and/or private entities which may currently be in possession of deep regional groundwater supplies or that may be considering the drilling of a deep regional groundwater well in Pine.

- Explore and define the opportunities for partnerships with Federal and/or County governments.
- Explore and define the opportunities for any combination of the partnerships above.
- Prioritize the resulting opportunities.
- Investigate the legality of any such potential arrangements and define a legal path to successful delivery of the new long-term water source to the community of Pine in the most feasible manor possible.

HWRC does not wish to diminish the opportunities presented by the K2 area as it appears to be a good location. Rather, HWRC wishes to recommend consideration of the K2 site alongside other existing opportunities. The K2 area may best serve as an augmentation supply for the Strawberry area as apposed to a new source for Pine. In this way, the costs born by Pine's water customers for the distribution of the water from great depths and over the distance from Strawberry to Pine may be avoided. In addition, such a scenario would ensure that existing resources available to the Strawberry area are preserved. Ideally groundwater from the lowermost perched aquifer may be identified at the K2 site in sufficient quantities. If this zone were slated for future reserve development in Strawberry as apposed to the deeper system in Strawberry, potential water rights and environmental questions may be averted while providing for the utilization of the K2 area at some time in the near future.

Respectfully Submitted,

Michael Ploughe P.G.
HWRC