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ARIZONA CORPORATION COMMISSION
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Chairman Mike Gleason
Arizona Corporation Commission
Commissioners Wing
1200 West Washington
Phoenix, AZ 85007-2996

W-02113A-05-0178

Re: Order Preliminary: Decision No: 68238; Request for Time Extension

Dear Chairman Gleason:

Chaparral City Water Company ("Chaparral City") respectfully requests an extension of time in which it may comply with the above-referenced Order Preliminary (a copy of the Order Preliminary is attached). The Order Preliminary will expire on October 25, 2008, unless this extension is granted.

The Order Preliminary grants Chaparral City preliminary approval to extend its Certificate of Convenience and Necessity ("CC&N") to include approximately 1,300 acres of recently auctioned state trust lands. The Order Preliminary includes an extensive list of information and materials to be submitted as prerequisites to obtaining a final order approving the expansion of Chaparral City's CC&N. For all the reasons set forth below, the extension will optimize the efficient use of Commission resources and ensure the public interest is served in reserving the opportunity to consolidate water service to former state trust lands.

1. Chaparral City is the Only Appropriate Public Water Purveyor

The lands at issue are located immediately north of and adjacent to the currently approved Chaparral City CC&N. (See attached map.) The land would be annexed into the Town of Fountain Hills as part of its development approval. State park and tribal lands otherwise border this property. Since Chaparral City provides the public water service to the Town of Fountain Hills, Chaparral City is the only operating utility provider capable of serving this property. Presumably, the Commission would discourage the creation of a new utility provider to serve approximately 1,500 customers.

2. The Three-Year Time Limit of the Original Order Preliminary Proved Too Aggressive

Chaparral City submitted the original Order Preliminary application, in part, to facilitate the anticipated auction of the state trust lands. Both the Town of Fountain Hills and the State Lands Commission supported the Order Preliminary. With some assurance that the land had available a conveniently located water purveyor, the auction was expected to consummate in a sale promptly following the approval of the Order Preliminary.

Instead, the initial auction attempt was not successful. The State Lands Commission was forced to re-price and resubmit for public bid, the lands at issue. The land sale did succeed with the second auction, but not until March 15, 2007 - 17 months following the approval of the Order Preliminary. By then, the time available for compliance with the Order Preliminary had been reduced by half.

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The purchaser of the trust lands (The Ellman Company) promptly began preparing its development plans and held meetings with Town of Fountain Hills representatives to outline the process needed to obtain the multiple regulatory approvals associated with the proposed project. Development approval for certain aspects of the project have been granted, but are subject to an active public referendum. Other aspects of project approval are being litigated both before the Arizona Supreme Court and the Arizona Appellate Court.

3. Compliance with the Order Preliminary Must Await Approval of the Development Project

The Order Preliminary requires submission of information that cannot be developed until the development project is approved, or at least until its final design is reasonably certain. For example, Chaparral City must update its "Designation of Assured Water Supply" with the Arizona Department of Water Resources ("ADWR") to include the proposed development project. Among other analyses, ADWR will require an estimate of the water demand associated the project. Of course, the demand estimates cannot be developed until the scope of the project is more reliable. That is, the referendum and the associated litigation must be resolved so that the project design can be completed and relied upon.

Other aspects of the Order Preliminary are also dependent on a confirmed or reliable project design. Chaparral City has been reticent to expend its resources on developing the materials needed to comply with the Order Preliminary, pending a reliable final project design.

4. Commission Resources and the Public Interest are Best Served in Extending the Order Preliminary

The Commission staff, Chaparral City and the Town of Fountain Hills all made significant and intelligent efforts in composing the comprehensive requirements of the existing Order Preliminary. Its issuance was uncontested. All of the unique facts and circumstances warranting the Order Preliminary remain applicable.

Rather than request an extension of the Order Preliminary, Chaparral City could simply reapply for a new Order Preliminary, or for final approval of an extension of its CC&N when circumstances warrant. However, this would likely be detrimental to the potential success of the development project. The Order Preliminary provides an important level of public service commitment to the Town of Fountain Hills in processing the project development plans.

The Order Preliminary also sends an appropriate signal from the Commission that service from a well-established and stable utility is much preferred over a new utility.

Simply stated, allowing an extension of the Order Preliminary respects the integrity of the Commission's prior efforts and policy concerns, and reserves every opportunity to scrutinize the details of the CC&N extension once the entirety of the applicable information is available.

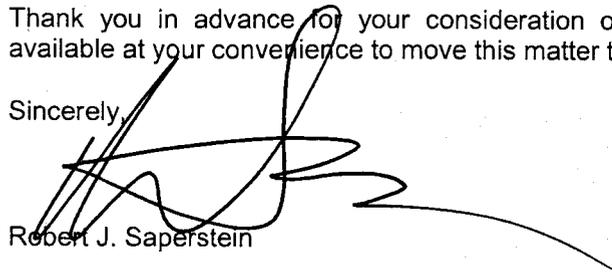
Presuming the Commission is willing to consider granting an extension, Chaparral City leaves to the Commission's discretion whether: (a) Order 68238 is modified to remove the time limitation on compliance (the Order Preliminary compliance is made open-ended); or (b) an additional three- to five-year compliance period is granted.

Concurrently with this letter request, Chaparral City submits the attached "Request for Extension of Time to Comply with Decision No. 68238 (Order Preliminary)" in pleading format. The information in the pleading format is essentially the same as provided in this letter request. The pleading format is intended to facilitate the docketing of this request.

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Thank you in advance for your consideration of this matter. Chaparral City representatives are available at your convenience to move this matter to conclusion at the Commission's preference.

Sincerely,



Robert J. Saperstein

ROBS/gml
Enclosures

cc: Ken Rozen, Advisor to Chairman Gleason
William A. Mundell, Commissioner
Adam Stafford, Advisor to Commissioner William A. Mundell
Jeff Hatch-Miller, Commissioner
Dean Miller, Advisor to Commissioner Jeff Hatch-Miller
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Councilmember Mike Archambault, Town of Fountain Hills
Councilmember Dennis Contino, Town of Fountain Hills
Councilmember Ginny Dickey, Town of Fountain Hills
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