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July 21, 2010

ARIZONA CORPORATION COMMISSION
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Arizona Corporation Commission
DOCKETED

JUL 21 2010

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Re: Hydro Resources, Inc.
(Tusayan Water Development Association, Inc. – Docket No. W-02350A-10-0163)

Dear Steve:

Thank you for taking the time to talk with Arizona Corporation Commission Utilities Division Staff (“Staff”) on July 12, 2010, regarding Hydro Resources, Inc. (“Hydro”) and its relationship with Tusayan Water District Association (“TWDA”). Certain statements made by TWDA in its rate application filed on April 29, 2010¹ prompted Staff to seek more information concerning the arrangement between TWDA and Hydro.

TWDA stated the following in its rate application:

There have been two separate water distribution systems in Tusayan. The water supply that TWDA’s customers receive is dictated by the customer’s location and the water system to which they are connected. TWDA purchases water from the two water companies and bills the customers for the water used. The cost of the water is passed on to the customer... TWDA does not own the distribution systems, lines or any other property, plant and equipment. TWDA has no ownership or rights to the distribution lines. Those are owned and maintained by the two water companies.

As you have discussed with Staff, Hydro is one the two water companies from which TWDA purchases its water. Hydro also owns the plant, distribution systems and other property that is used to supply water. These facts suggest to Staff that Hydro may be acting as a public service corporation within the meaning of Article 15, section 2 of the Arizona Constitution.

Article 15, section 2, in relevant part, defines the term “public service corporation” as “[a]ll corporations other than municipal engaged in furnishing..... water for irrigation, fire protection, or other public purposes...” Arizona Revised Statute Section 40-281 requires that all

¹ Docket No. 10-0163

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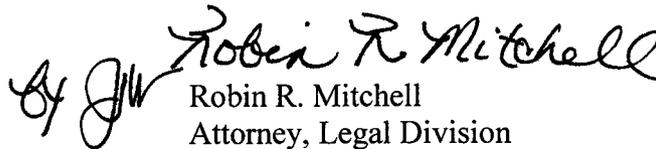
public service corporations first obtain a Certificate of Convenience and Necessity prior to installing any facilities.

Staff requests that Hydro submit an application for a Certificate of Convenience and Necessity ("CC&N"). For your convenience, an application form for a new Certificate of Convenience and Necessity may be found on the Commission's website at <http://www.azcc.gov>. In the alternative, Hydro may file a request to be adjudicated not a public service corporation. Staff would further request that an application be made for either within ninety (90) days from the date of this letter.

Any failure to take action as suggested above may result in the filing of a complaint and a petition for an order to show cause why Hydro should not be subject to Commission regulation.

The Commission Staff appreciates your prompt attention to this matter. If you have any questions regarding this issue, please feel free to contact me at (602) 542-3402.

Sincerely,


Robin R. Mitchell
Attorney, Legal Division

RRM:ah

cc: Chris Brainard, Tusayan Water Development Association, Inc.
Garry D. Hays, Esq., Attorneys for Tusayan Ventures LLC