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Thomas J. Bourassa
CERTIFIED PUBLIC ACCOUNTANT
139 W. Wood Drive
Phoenix, Arizona 85029



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February 27, 2009

AZ CORP COMMISSION
DOCKET CONTROL

Ernest G. Johnson
Director
Utilities Division
Arizona Corporation Commission
1200 W. Washington Street
Phoenix, Arizona 85007-2927

Arizona Corporation Commission
DOCKETED

FEB 27 2009

Re: Orange Grove Water Company
Application for a Permanent Rate Increase
Docket No. W-02237-A-08-0455

DOCKETED BY 

Dear Mr. Johnson:

This letter is in response to the Staff Report of the Utilities Division of the Arizona Corporation Commission dated February 17, 2009 in the above reference matter. The Company appreciates Staff's work on the Company's application. The Company is in general agreement with Staff on the recommended revenue requirement, rate increase, and rate design and accepts Staff's recommendations. It is also in general agreement with Staff Engineering recommendations. However, the Company does have some concerns regarding the recommendation contained in the Engineering Report that the Company construct a 60,000 gallon storage tank. At the present time, the Company expects the costs of the new storage tank to be between \$85,000 and \$100,000. This is a significant capital project for a small utility like Orange Grove.

While the Company does not believe a storage tank is required, or at least required in the immediate future, it is willing to accept Staff's recommendation. The Company does have concerns about its ability to raise the necessary capital to fund the new storage tank. This concern may be mitigated by its ability to obtain financing from the Water Infrastructure Finance Authority (WIFA) and it will begin process as soon as practically possible. More importantly, however, the Company is concerned about its ability to meet the deadline of December 31, 2009 to obtain a Certificate of Approval to Construct, and its ability to meet the deadline of May 31, 2010 to complete the project and obtain a Certificate of Construction. Particularly, at present the Company has severe cash flow problems. This fact can be ascertained by the Company's rate application. Improvement in cash flows will not be realized until new rates are in effect and it will take some time to build cash reserves sufficient to pay the anticipated costs. More specifically, the Company expects to incur legal and consulting fees to obtain financing approval from the

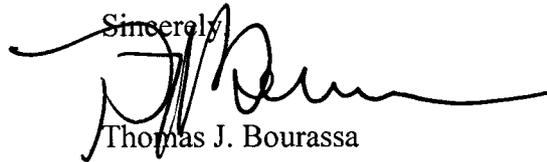
Commission, to prepare and file another application for new rates, and to obtain the Certificate of Approval to Construct for the new storage tank.

In the longer term, the Company is concerned about the impact on operating expenses, and ultimately the impact on rates. The Company believes an increase in rates will be required upon completion of the new storage tank. Further, to obtain a full year of operating cost history for consideration of inclusion in new rates in its next rate case, the Company will have to wait a 12 months from the in-service date of the new storage tank to prepare and file another rate case. This delay may have negative impacts on the financial health of the utility.

The Company would appreciate a consideration of extending the deadlines for 6-12 months. This will afford the Company additional time to realize positive cash flows and accumulate a cash reserve from its rate increase to help pay for the costs of a financing application proceeding and another rate proceeding, as well as cost related to initiating the design and engineering of the new storage tank.

Orange Grove Water Company is a very small utility with about 300 connections. There is no expectation of growth on the system. It is owned by Kathleen Day and her husband and who have operated the utility for over 25 years. The Company has no major deficiencies with the Arizona Department of Environmental Quality ("ADEQ") and is in compliance with the requirements of the Arizona Department of Water Resources ("ADWR"). As you are probably aware, this is the first rate increase in 25 years. The full impact of the rate increase and positive cash flows will not be realized for at least 12 months and the Company would greatly appreciate some additional time to realize these cash flows and accumulate some case reserves.

Thank you for your consideration of the Company's concerns.

Sincerely,

Thomas J. Bourassa

cc: Kathleen Day, Orange Grove Water Company
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