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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

GARY PIERCE - Chairman  
BOB STUMP  
SANDRA D. KENNEDY  
PAUL NEWMAN  
BRENDA BURNS

Arizona Corporation Commission

DOCKETED

AUG 31 2012

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IN THE MATTER OF THE APPLICATION OF CIENEGA WATER COMPANY, INC. FOR APPROVAL OF A RATE INCREASE.

DOCKET NO. W-02034A-11-0194

IN THE MATTER OF THE APPLICATION OF CIENEGA WATER COMPANY, INC. FOR APPROVAL OF A FINANCING APPLICATION.

DOCKET NO. W-02034A-11-0195

PROCEDURAL ORDER

BY THE COMMISSION:

On May 9, 2011, Cienega Water Company ("CWC" or "Company") filed with the Arizona Corporation Commission ("Commission") an Application for a rate increase and a Financing Application, seeking Commission approval of its request to borrow \$50,000 from the Water Infrastructure Finance Authority ("WIFA").

By Procedural Order dated December 12, 2011, the Applications were consolidated and the time clock pursuant to A.A.C. R14-2-103 was suspended indefinitely to accommodate the Company.

On July 19, 2012, the Commission's Utilities Division ("Staff") filed a Staff Report, in which Staff recommended rates and charges, approval of the financing request and approval of a loan surcharge mechanism.

The Staff Report describes the situation with fluoride in excess of the Maximum Contaminant Level ("MCL") in the well water and the Company's proposed solution to employ Point of Use ("POU") filters for the residential customers and to disconnect its largest customer, Cienega Springs RV Park ("RV Park"). According to the Staff Report, the RV Park will connect to a well owned by Cienega Development Corporation and will apply for a permit for a new Transient, Non-Community Water System, which will be operated separately from the Company's current water system. In developing its recommended rates, Staff adjusted test year revenue to remove the RV Park revenues.

1 Staff also analyzed the costs of the POU filters and found that the costs are reasonable. In earlier  
2 dockets and in the ADEQ report included with the Applications, the assumptions was that the  
3 fluoride MCL issue would be mitigated by blending. Additional information concerning the proposed  
4 fluoride treatment methodology and disconnection of the RV Park is necessary for a thorough  
5 understanding and complete record.

6 Thus, Staff should supplement its Staff Report to, at a minimum, address the following  
7 questions:

- 8 1. When will the RV Park be disconnected from the system?
- 9 2. The Staff Report indicates that the well that the RV Park will use is owned by Cienega  
10 Development Corp. Is Cienega Development Corp. affiliated with Cienga Water  
11 Company, Inc. and/or the RV Park? Is the RV Park affiliated in any way with CWC?
- 12 3. Will Cienega Development Corp or the RV Park be the permit holder of the new  
13 transient water system?
- 14 4. Why is the new well that the RV Park plans to utilize not appropriate for use by the  
15 residential users?
- 16 5. Is it in the public interest for the RV Park to be disconnected from the system and  
17 operated as a separate system? Does the proposed transaction implicate a sale or  
18 transfer of utility assets or affect the Certificate of Convenience and Necessity of  
19 CWC?
- 20 6. As a "transient water system," would the RV Park operate under the jurisdiction of the  
21 Commission?
- 22 7. Were other solutions to the fluoride MCL problem considered? If, so, why was the  
23 POU filter solution considered the best solution? If not, why not?
- 24 8. Should the effective date of new rates and charges be coordinated with the  
25 disconnection of the RV Park? If not, would the Company potentially over-collect its  
26 authorized revenue requirement?
- 27 9. Staff recommends that the WIFA loan surcharge mechanism include an allowance for  
28 the income taxes associated with the additional surcharge revenue, and that surcharge

1 funds be deposited in an interest-bearing account and used solely for payments to  
2 WIFA. Should the loan surcharge revenues also be available for the payment of  
3 income taxes associated with the surcharge revenues? If not, why not? Does WIFA  
4 require the maintenance of a loan reserve? If so, does the Staff proposed WIFA  
5 surcharge mechanism address a loan reserve? If not, why not?

6 The Company may file its own responses to these questions, and may file a response to Staff's  
7 supplemental Staff Report within ten days of its filing. With the additional information, a hearing in  
8 this matter may not be necessary, but the ultimate determination of whether the parties will be  
9 required to provide additional testimony in an evidentiary hearing will depend on the sufficiency of  
10 the record.

11 IT IS THEREFORE ORDERED that **Staff should file a Supplement to the Staff Report**  
12 addressing the questions listed above by **September 28, 2012**. In addition to responses to the  
13 questions set forth herein, Staff should provide copies of any ADEQ documents referenced in its July  
14 19, 2012, Staff Report which were not included in the Applications.

15 IT IS FURTHER ORDERED that the **Company may also supplement the record** by  
16 providing responses to the questions, **or provide any additional information** the Company believes  
17 would assist the Commission in this matter **by September 28, 2012**. In addition, **the Company**  
18 **may, file a response to the Supplemental Staff Report within ten (10) of the date Staff files its**  
19 **Report.**

20 IT IS FURTHER ORDERED that the **time clock** for a final order in this matter established in  
21 A.A.C. R14-2-103 **continues to be suspended.**

22 IT IS FURTHER ORDERED that the Ex Parte Rule (A.A.C. R14-3-113-Unauthorized  
23 Communications) continues to apply to this proceeding.

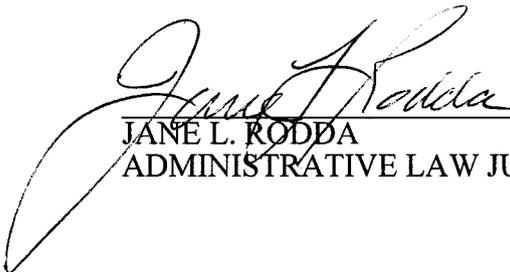
24 IT IS FURTHER ORDERED that all parties must comply with Rules 31 and 38 of the Rules  
25 of the Arizona Supreme Court and A.R.S. § 40-243 with respect to practice of law and admission *pro*  
26 *hac vice*.

27 IT IS FURTHER ORDERED that withdrawal of representation must be made in compliance  
28 with A.A.C. R14-3-104(E) and Rule 1.16 of the Rules of Professional Conduct (under Rule 42 of the

1 Rules of Arizona Supreme Court). Representation before the Commission includes the obligation to  
2 appear at all hearings and procedural conferences, as well as all Open Meetings for which the matter  
3 is scheduled for discussion, unless counsel has previously been granted permission to withdraw by  
4 the Administrative Law Judge or the Commission.

5 IT IS FURTHER ORDERED that the Presiding Officer may rescind, alter, amend, or waive  
6 any portion of this Procedural Order either by subsequent Procedural Order or by ruling at hearing.

7 DATED this 29<sup>th</sup> day of August, 2012.

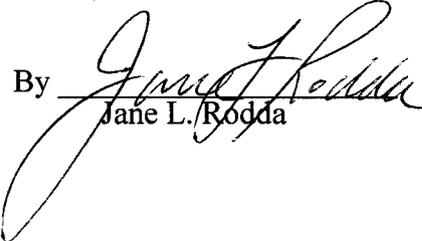
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10   
11 JANE L. RODDA  
ADMINISTRATIVE LAW JUDGE

12 Copies of the foregoing mailed  
this 29<sup>th</sup> day of August, 2012 to:

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22 By   
23 Jane L. Rodda

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