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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

Arizona Corporation Commission

DOCKETED

NOV 21 2012

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

DOCKETED BY *mn*

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.

DOCKET NO. W-02034A-11-0195

DECISION NO. 73574

ORDER

Open Meeting
November 7, and 8, 2012
Phoenix, Arizona

BY THE COMMISSION:

* * * * *

Having considered the entire record herein and being fully advised in the premises, the Arizona Corporation Commission ("Commission") finds, concludes, and orders that:

FINDINGS OF FACT

Procedural History

1. On May 9, 2011, Cienega Water Company, Inc. ("CWC" or "Company") filed with the Commission an Application for a rate increase ("Rate Application"), and an Application seeking Commission authorization for it to borrow \$50,000 from the Water Infrastructure Finance Authority ("WIFA") ("Financing Application").

2. With its Applications, CWC included an affidavit attesting that copies of a notice of the Rate and Financing Applications had been mailed to all customers on April 28, 2011.

3. On June 8, 2011, the Commission's Utilities Division ("Staff") notified the Company that its Rate Application was not sufficient under the requirements of Arizona Administrative Code ("A.A.C.") R14-2-103.

1 4. On November 7, 2011, Staff notified the Company that its Rate Application was
2 sufficient and classified the Company as a Class E utility.

3 5. On December 5, 2011, Staff filed a Motion to Consolidate the Rate and Financing
4 Applications on the grounds that they are substantially related and no parties' rights would be
5 prejudiced by consolidation.

6 6. On December 6, 2011, the Company filed a request to suspend the time clock
7 contained in A.A.C. R14-2-103 because the Company's former accountant was not well, and the
8 current accountant was having trouble obtaining all the information needed to process the rate case.

9 7. By Procedural Order dated December 12, 2011, the Applications were consolidated
10 and the time clock set forth in A.A.C. R14-2-103 was suspended indefinitely.

11 8. On July 19, 2012, Staff filed a Staff Report recommending a rate increase in
12 accordance with Staff's recommendations and approval of the requested financing and an associated
13 surcharge mechanism with conditions.¹ The Company did not file comments or objections to the Staff
14 Report.

15 9. By Procedural Order dated August 29, 2012, Staff was directed to file a supplement to
16 the Staff Report in order to augment or clarify the Staff Report. The Procedural Order continued the
17 suspension of the time clock, and permitted the Company to file a response to the Supplemental Staff
18 Report within ten days of its filing.

19 10. On September 28, 2012, Staff filed a Supplement to the Staff Report. CWC did not
20 file a Response.²

21 11. The Commission received one written objection to the rate increase from a customer.

22 **System Description**

23 12. CWC is a for-profit Arizona public service corporation that provides water utility
24 service to approximately 57 customers—56 residential customers in the Cienega Springs subdivision,
25 and one RV Park in the community of Cienega Springs. The Company's service area is located
26 approximately four miles northeast of the town of Parker on Highway 95 in La Paz County, Arizona.

27 ¹ Staff directed interested parties to file comments to the Staff Report on or before July 31, 2012.

28 ² Pursuant to the August 29, 2012, Procedural Order, CWC had until October 9, 2012, to file a Response to the Supplemental Staff Report.

1 13. The CWC water system has two wells, each with a 25 gallon per minute (“gpm”)
2 capacity, and four 5,000 gallon storage tanks, for a total storage capacity of 20,000 gallons. Staff
3 concludes that CWC has adequate production and storage capacity to serve its current customer base
4 and reasonable growth.

5 14. CWC is owned by Cienega Springs Development Corp. (“CS Development”), which
6 also owns the RV Park.

7 **Compliance Issues**

8 15. The water produced by the Company’s Well No. 3 contains naturally-occurring
9 fluoride minerals of approximately 5.6 parts per billion which exceeds the fluoride Maximum
10 Contaminant Level (“MCL”) of 4 parts per billion. The Arizona Department of Environmental
11 Quality (“ADEQ”) has determined that CWC has major deficiencies and ADEQ cannot determine if
12 the system is currently delivering water that meets the water quality standards required by 40 CFR
13 141 and Arizona Administrative Code, Title 18, Chapter 4.³

14 16. To address the excess fluoride in its water, CWC has applied for a loan to install 55
15 Point of Use (“POU”) filters in the homes of all of its customers except for the RV Park. The RV
16 Park will be disconnected from the system and obtain its water from a separate well owned by CS
17 Development. CS Development has applied for its own public water system number as a transient
18 water system.⁴ Staff asserts that the new well has been tested and is expected to provide an adequate
19 source of water to serve the RV Park. As addressed later, the Company expects to finance the
20 purchase and installation of the filters with a loan from WIFA.

21 17. In Decision No. 63751 (June 6, 2001), the Commission approved a financing request
22 for CWC to borrow \$103,000 to provide funds to replace all water lines, add 10,000 gallons of
23 storage capacity, and replace electrical controls for the tanks and well sites. At that time, the
24 Commission ordered CWC to file an ADEQ Approval of Construction (“AOC”) for the financed

25 _____
26 ³ Per ADEQ Compliance Status Report dated February 17, 2012.

27 ⁴ The Engineering Staff Report indicates that the RV Park system will consist of a new storage tank and will use an
28 existing well that is currently registered to Cienega Springs Development Corp. Staff asserts that Transient, Non-
Community water systems are not subject to the same monitoring, reporting and Clean Water Act requirements as affect
the water sources for a public water utility. The Supplemental Staff Report indicates that the new well that will be serving
the RV Park also exceeds the fluoride MCL and is therefore not available to serve the residential customers who will be
remaining on the Company’s distribution system without a costly treatment facility.

1 plant by December 31, 2002.

2 18. On January 20, 2009, the Commission issued Decision No. 70697 in a complaint
3 brought by Staff against CWC for failing to comply with Decision No. 63751 and for violating
4 A.A.C. R14-2-407(C) by not providing water that meets ADEQ quality standards because of the
5 fluoride MCL violation and the Company's alleged failure to submit a lead and copper monitoring
6 report. In Decision No. 70697, the Commission ordered CWC to file the ADEQ AOC for the system
7 improvements addressed in Decision No. 63751 by March 31, 2009, and a status report from ADEQ
8 indicating that CWC is in full compliance with ADEQ by December 31, 2009.

9 19. Staff reports that ADEQ records indicate that an Approval to Construct ("ATC") for
10 the plant improvements was issued and that construction was completed. However, ADEQ has
11 indicated that it will not issue the corresponding AOC until the Company addresses its fluoride issue.

12 20. As a result of the foregoing, Staff considers that CWC has three delinquent
13 Commission compliance items, including:

14 (a) Failure to file the ADEQ AOC documentation for the various system
15 improvements required by Decision No. 63751 by December 31, 2002;

16 (b) Failure to file ADEQ AOC documentation for the system improvements by March
17 31, 2009, as required by Decision No. 70697; and

18 (c) Failure to file an ADEQ Compliance Status Report indicating that CWC's water
19 system is in full compliance with ADEQ requirements by December 31, 2009, as required by
20 Decision No. 70697.

21 21. According to Staff, on March 7, 2011, ADEQ's Water Quality Division issued a letter
22 approving the Company's POU Application for fluoride reduction in the Cienega Springs
23 subdivision.⁵

24 22. Staff asserts that allowing the RV Park to disconnect from the system and installing
25 POU filters on the residential connections is in the public interest because it is the least burdensome
26 solution for ratepayers. Staff states that the alternative would be to construct a centralized water
27

28 ⁵ Staff states further that ADEQ's letter of approval expired because the units were not installed within 90 days, and as a result, CWC must reapply. ADEQ will re-evaluate the request, but Staff expects another letter of approval to be issued.

1 treatment plant which would be expensive. Because the residential customers are “captive” but the
2 RV customers are free to use other providers, the residential customers would be stuck with the bill
3 for a costly treatment plant. Staff concludes that disconnecting the RV Park and installing the POU
4 filters is the most practical solution.

5 23. Staff recommends that the Company file with Docket Control, as a compliance item in
6 this docket by June 20, 2013, a copy of the ADEQ Approval of Installation of the POU treatment
7 devices.

8 24. In addition, during the site visit on October 5, 2011, ADEQ representatives identified
9 a minor system deficiency based on cracks in the slab and openings around wires that need to be
10 caulked at Well No. 2.

11 25. Staff recommends that the Company file with Docket Control, as a compliance item in
12 this Docket within 45 days of the effective date of this Decision, documentation showing that the slab
13 and well head at Well No. 2 have been sealed to prevent contaminants from entering the well.

14 26. CWC is not located within an Active Management Area (“AMA”). In a Water
15 Provider Compliance Report dated May 16, 2012, the Arizona Department of Water Resources
16 (“ADWR”) determined that CWC is currently compliant with departmental requirements governing
17 water providers and/or community water systems.

18 27. CWC has approved Curtailment and Backflow Prevention Tariffs on file with the
19 Commission.

20 28. Staff’s recommendations concerning installation of the POU filters and maintenance
21 of the well site are reasonable and should be adopted. In addition, it is reasonable to require CWC to
22 address its compliance with Decision Nos. 62751 and 70697 by filing the appropriate AOCs and an
23 ADEQ status report indicating that CWC is in compliance with ADEQ regulations and supplying
24 water that meets water quality standards.

25 **Rate Application**

26 29. CWC’s current rates were authorized in Decision No. 63751 (June 6, 2001).

27 30. CWC’s current and proposed rates and charges, and Staff’s recommended rates and
28 charges are as follows:

	<u>Present Rates</u>	<u>Proposed Rates</u>	
<u>MONTHLY USAGE CHARGE:</u>		<u>Company</u>	<u>Staff</u>
5/8" x 3/4" Meter	\$22.00	\$30.00	\$30.00
3/4" Meter	33.00	35.00	45.00
1" Meter	50.00	60.00	75.00
1-1/2" Meter	100.00	150.00	150.00
2" Meter	250.00	300.00	240.00
3" Meter	375.00	400.00	450.00
4" Meter	500.00	525.00	750.00
6" Meter	750.00	800.00	1,500.00

<u>COMMODITY RATES:</u>			
(Per 1,000 gallons)			
0 to 10,000 gallons	\$3.75	N/A	N/A
10,001 to 25,000 gallons	\$4.55	N/A	N/A
Over 25,000 gallons	\$6.90	N/A	N/A
0 to 3,000 gallons	N/A	\$5.00	N/A
3,001 to 10,000 gallons	N/A	\$5.25	N/A
Over 10,000 gallons	N/A	\$8.00	N/A
0 to 2,000 gallons	N/A	N/A	\$3.00
2,001 to 7,000 gallons	N/A	N/A	\$6.80
Over 7,000 gallons	N/A	N/A	\$10.60

<u>SERVICE LINE AND METER INSTALLATION CHARGES:</u>						
(Refundable pursuant to A.A.C. R14-2-405)						
	<u>Staff Recommended</u>					
	<u>Current Charges</u>	<u>Company Proposed Charges</u>	<u>Service Line Charges</u>	<u>Meter Charges</u>	<u>Total Charges</u>	
5/8" x 3/4" Meter	\$350.00	\$400.00	\$297.00	\$103.00	\$400.00	
3/4" Meter	\$400.00	450.00	286.00	164.00	450.00	
1" Meter	500.00	550.00	336.00	214.00	550.00	
1-1/2" Meter	700.00	750.00	384.00	366.00	750.00	
2" Meter	1,200.00	1,300.00	575.00	725.00	1,300.00	
3" Meter	1,700.00	1,800.00	693.00	1,107.00	1,800.00	
4" Meter	2,600.00	2,700.00	967.00	1,733.00	2,700.00	
6" Meter	5,000.00	5,000.00	1,527.00	3,473.00	5,000.00	

	<u>Current</u>	<u>Company Proposed</u>	<u>Staff Proposed</u>
<u>SERVICE CHARGES:</u>			
Establishment	\$25.00	\$50.00	\$25.00
Establishment (After Hours)	35.00	75.00	NT
Reconnection (Delinquent)	40.00	50.00	40.00
Reconnection (Delinquent After Hours)	50.00	60.00	NT
Meter Test (If Correct)	25.00	35.00	30.00

1	Deposit	(a)	(a)	(a)
	Deposit Interest per annum	(a)	(a)	(a)
2	Re-establishment (Within 12 Months)	(b)	(b)	(b)
	NSF Check	15.00	25.00	15.00
3	Deferred Payment - per month	1.5%	1.5%	1.5%
	Meter Re-read (If Correct)	15.00	20.00	15.00
4	Late Payment Charge - per month	1.5%	1.5%	1.5%
5	Service Charge (After Hours)	N/A	N/A	40.00

6 (a) Per Commission rule A.A.C. R14-2-403.B.

7 (b) Per Rule R14-2-403.D. Monthly Minimum times the number of months off the system.

8 31. The Company's Rate Application indicated that based on its reported operating
9 revenues of \$30,620 and expenses of \$21,920, its operating income was \$8,700 in the test year ended
10 December 31, 2010, which was a rate of return of 4.37 percent on an Original Cost Rate Base
11 ("OCRB") of \$199,279. In its Rate Application, the Company states that it needs the rate increase
12 due to increased operating expenses, the anticipated loss of its only 2-inch meter customer, an RV
13 Park, and to service the proposed WIFA loan. The Company requested a revenue increase of \$12,900,
14 or 42.13 percent over the test year, for total revenues of \$43,520, which according to the Company,
15 would result in operating income of \$21,600, a 10.84 percent rate of return on an OCRB of \$199,279.

16 32. Staff's adjustments for the test year resulted in revenues of \$26,141, expenses of
17 \$23,070, and operating income of \$3,071, a 2.28 percent rate of return on an adjusted OCRB of
18 \$134,752. Staff recommends a revenue increase of \$9,749, or 37.29 percent, for total base rate
19 revenues of \$35,890, which after adjusted expenses of \$25,110, would produce operating income of
20 \$10,780, and a rate of return of 8.0 percent on the adjusted OCRB.

21 33. In addition to base rates, Staff recommends a surcharge that would generate estimated
22 revenue of \$4,800 to service the proposed WIFA loan. Combined, Staff's recommended base rate
23 increase and WIFA surcharge are estimated to generate revenues of \$40,691, an increase of \$14,550,
24 or 55.6 percent, over test year revenues, and yield operating income of \$14,576, a 10.82 percent rate
25 of return on adjusted OCRB.

26 Rate Base

27 34. Staff's adjustments decreased the Company's proposed rate base by \$64,527, from
28 \$199,279 to \$134,752. By starting with plant balances in the last rate case and accounting for plant

1 additions and retirements, Staff reduced Plant-in-Service by a net of \$3,847. Staff's adjustments
2 increased accumulated depreciation by \$61,500, from \$0 to \$61,500, by applying the Commission-
3 approved depreciation rates to the plant balances.

4 35. CWC did not claim a working capital allowance. Staff utilized the formula method of
5 calculating cash working capital which adds one-eighth of the operating expenses less depreciation,
6 taxes, purchased power and purchased water expenses, to one-twenty-fourth of purchased power and
7 purchased water expenses. Pursuant to the formula, Staff calculated a cash working capital allowance
8 of \$820.

9 36. The Company did not request a Fair Value Rate Base ("FVRB") that differs from its
10 OCRB, and did not object to Staff's adjustments to its OCRB. We find that Staff's recommended
11 adjustments to OCRB are reasonable and that an OCRB of \$134,752 is fair and reasonable and
12 should be adopted as CWC's FVRB.

13 **Operating Revenues and Expenses**

14 37. Staff adjusted operating revenue to reflect the anticipated loss of revenue from the
15 Company's largest customer, an RV Park. Staff's adjustments to total operating revenue resulted in a
16 net decrease of \$4,479, from \$30,620 to \$26,141.

17 38. Staff's adjustments to operating expenses resulted in a net increase of \$1,150, from
18 \$21,920 to \$23,070. Staff made the following test year adjustments:

19 (a) Increased repair and maintenance expense by \$2,750, from \$1,173 to \$3,923, to
20 reflect the known and measurable cost to replace the filters for the POU water treatment units on an
21 annual basis.

22 (b) Increased outside expenses by \$6,200, from \$803 to \$7,003, to reflect the cost of
23 providing management, bookkeeping, customer service and meter reading services. The Company
24 currently provides these services at little or no cost to its customers, but has indicated that it can no
25 longer continue to provide these services without recovering the costs. According to the Staff Report,
26 the Company calculated outside services for meter reading, bookkeeping, customer service and
27 management services at \$6,000 annually. Staff accepted the Company estimate and added \$200 for
28 tax preparation services.

1 (c) Decreased water testing expense by \$60, from \$1,184 to \$1,124 to reflect Staff's
2 calculation of this expense item.

3 (d) Increased rate case expense by \$167, from \$0 to \$167. Staff normalized \$500 in
4 rate case expense using three years as the expected period for the next rate case, to allow one-third, or
5 \$167, per year.

6 (e) Decreased depreciation expense by \$4,327, from \$10,199 to \$5,872 to reflect
7 Staff's recommended deprecation rates and plant balances.

8 (f) Decreased taxes other than income expense by \$1,896, from \$1,896 to \$0, because
9 the Company could not provide invoices to support the amount.

10 (g) Decreased income tax expense by \$1,683, from \$0 to a negative \$1,683, to reflect
11 Staff's calculation of the income tax obligation on Staff's adjusted test year taxable income.

12 39. Staff recommends that on a going-forward basis, the Company use the depreciation
13 rates by individual National Association of Regulatory Utility Commissioners account as presented in
14 Table B of the Engineering Report attached to the Staff Report in this matter.

15 40. The Company did not object to the Staff Report recommendations. Staff's adjustments
16 to test year revenues and expenses are reasonable. Consequently, for the test year, we accept Staff's
17 recommended adjusted operating income of \$3,071, on total operating revenues of \$26,141 and
18 expenses of \$23,070, a 2.28 percent rate of return on the FVRB of \$134,752.

19 **Base Revenue Requirement**

20 41. Staff recommends total base revenues of \$35,890, which is an increase of \$9,749, or
21 37.30 percent, over adjusted test year revenue of \$26,141. Staff's recommended revenue level and
22 operating expenses provide operating income of \$10,780, an 8.0 percent rate of return on the FVRB
23 of \$134,752.

24 42. CWC has existing debt with a balance outstanding at the end of the test year of
25 \$120,724, and an annual debt service associated with its existing debt of \$13,072.⁶ Under Staff's
26 recommended operating income of \$10,780 and annual depreciation of \$5,872, the Company would

27 ⁶ Staff Report at CSB-6. On May 16, 2003, in Decision No. 65916, the Commission authorized CWC to borrow a total of
28 \$146,553, which was a refinancing of the \$103,000 approved in Decision No. 63751, the addition of \$18,553 for cost
over-runs associated with that project, and an additional \$25,000 for the installation of two 5,000 gallon storage tanks.

1 have a cash flow from operations of \$16,652 available for debt service and contingencies. Staff's
2 analysis indicates that with Staff's recommended base rate revenue (not including the proposed
3 WIFA loan or surcharge), the Company would have a before-tax Times Interest Earned Ratio
4 ("TIER") of 1.10 (after-tax of 1.06) and a before-tax Debt Service Coverage ("DSC") ratio of 1.30
5 (after-tax of 1.27).⁷

6 43. Staff's recommended base revenue requirement is reasonable and should be approved.

7 **Rate Design**

8 44. Staff states that it typically designs rates with a goal of gradually increasing the
9 amount of revenue that is generated from the commodity charges, such that over time, the revenue
10 generated from the commodity charges is more than the revenues generated from the monthly
11 customer charge. Staff believes that this approach allows ratepayers to gain greater control over their
12 water bills. However, Staff states that this approach is not always appropriate for small water
13 companies such as CWC.

14 45. In its recommended rate design for CWC, Staff included more of the increase in the
15 monthly customer charge than it might typically recommend because of the Company's small size
16 and the loss of the Company's largest customer. Staff states that the Company does not have access
17 to significant amounts of cash should a cash shortage occur, and by including more of the increase in
18 the monthly charge, Staff is attempting to provide revenue stability needed for the payment of the
19 Company's existing and proposed loans. Under Staff's recommended rates, approximately 60
20 percent of the revenue is generated from the monthly customer charge and 40 percent from the
21 commodity charge.

22 46. The Company's proposed rates would increase the typical 5/8 x 3/4 inch meter
23 residential bill, with a median usage of 1,777 gallons, by \$10.22, or 35.7 percent, from \$28.66 to
24 \$38.88.

25 47. Staff's recommended base rates would increase the typical 5/8 x 3/4 inch meter
26 residential bill, with median usage of 1,777 gallons, by \$6.67, or 23.3 percent, from \$28.66 to \$35.33.
27 In addition, however, as discussed below, Staff is recommending a surcharge to service the proposed

28 ⁷ WIFA requires a 1.2 DSC.

1 WIFA loan, which under Staff's projections and assumptions, would add \$7.27 to the 5/8 x 3/4 inch
2 meter bill.⁸ Thus, the total overall monthly estimated increase for the median usage residential
3 customer under Staff's recommendations would be \$13.94, or 48.6 percent, from \$28.66 to \$42.60.

4 48. The Company proposed to increase the Establishment Service Charge from \$25 to
5 \$50, the Reconnection (Delinquent) Charge from \$40 to \$50, and the Meter Re-read Charge from \$15
6 to \$20. Staff finds that the current charges are within the range of charges for similar companies and
7 that because the Company did not provide sufficient reason for its proposed increases, Staff
8 recommends denial of these increased charges.

9 49. The Company proposed to increase the Meter Test Service Charge from \$25 to \$35.
10 Staff states that the Company's cost to mail items related to the meter test charge has increased, but is
11 less than the \$10 requested. Staff recommends a Meter Test Service Charge of \$30 because it more
12 closely reflects the increased cost.

13 50. The Company proposed to increase the NSF Check Charge from \$15 to \$25. Staff
14 states that the charge exceeds the amount charged by the Company's bank, and recommends denial.

15 51. The Company proposed to increase its Establishment (After Hours) Charge from \$35
16 to \$75, and Re-establishment – Delinquent (After Hours) Charge from \$50 to \$60. Staff agrees that
17 an additional fee for service provided after normal business hours is appropriate when such service is
18 at the customer's request or for the customer's convenience. Staff believes the tariff should include
19 compensation to the utility for the additional expenses incurred from providing after-hours service.
20 Staff concludes, however, that it is appropriate to apply an after-hours service charge in addition to
21 the regular service charge for any utility service provided after hours at the customer's request or for
22 the customer's convenience. Staff recommends eliminating the current after-hours charges and
23 creating in their stead a separate \$40 after-hours service charge. Thus, under Staff's recommendation,
24 a customer would be subject to a \$25 Establishment Charge if the work is performed during normal
25 business hours, but would pay an additional \$40 after-hours charge, for a total charge of \$65, if the
26 customer requested that the establishment be done after normal business hours.

27 _____
28 ⁸ Staff estimates a \$50,000 loan over 20 years at 4.5 percent annual interest would require additional cash flow of \$4,800 annually. Based on fifty-five 5/8 x 3/4 inch metered customers, the monthly surcharge is estimated to be \$7.27.

52. Staff recommends separate Service Line and Meter Installation Charges based upon the Staff Engineer's analysis of costs. Because the Company may at times install meters on existing service lines, Staff believes that it is appropriate that these customers are only charged for the meter installation.

53. Staff recommends approval of its recommended rates and charges and that the Company file with Docket Control, as a compliance item in this Docket, a schedule of its approved rates and charges within 30 days after the Decision in this matter is issued.

54. The Company did not object to Staff's proposed modifications to its Rates and Charges. Staff's recommended modifications are reasonable, in-line with those of similar water companies, and should be adopted.

Finance Request

55. CWC requests authority to borrow \$50,000 from WIFA to fund the purchase and installation of 55 POU Fluoride Removal Water Treatment System devices for the kitchens of its residential customers. The POU devices are needed to reduce the amount of fluoride in the drinking water so that it does not exceed the ADEQ MCL.

56. A general description and breakdown of the costs for the fluoride treatment project to be financed is as follows:

Description	Unit Cost ⁹	Company		Unit Cost	Staff	
		# of Units ¹⁰	Total		# of Units ¹¹	Total
Reverse Osmosis (RO) Systems	\$300	62	\$18,600	\$300	62	\$18,600
TDS Monitors	\$32	62	\$1,984	\$32	62	\$1,984
Booster	\$95	62	\$5,890	\$95	62	\$5,890
Installation Labor	\$90	62	\$5,580	\$90	55	\$4,950
RO Subtotal			\$32,054			\$31,424
Davis Bacon Contingency ¹²			\$1,116			\$990
Loan Authorization Legal Fees:						
ACC Hearing/Open Meeting Counsel			\$2,400			\$2,400

⁹ Based on unit costs listed in the Tennison proposal dated May 15, 2011.

¹⁰ Contingency amount estimated at 20 percent of the Reverse Osmosis System installation labor.

¹¹ Includes spare units for maintenance and new connections.

¹² Includes Staff adjustment to reflect the labor cost to install 55 units.

1 calculating the surcharge, and once the Company has closed on the loan, it would file an application
2 in this Docket requesting implementation of the surcharge. Staff would then calculate the appropriate
3 surcharge based on actual costs and customer counts and prepare and file a Recommended Order for
4 Commission consideration.

5 61. Staff estimated that under its proposed surcharge methodology, a residential customer
6 on a 5/8 x 3/4 inch meter would pay a monthly surcharge of \$7.27.

7 62. With Staff's estimated proposed WIFA loan and surcharge, Staff calculates a before
8 tax TIER of 1.29 (1.18 after tax) and a before tax DSC of 1.29 (1.21 after tax).

9 63. Staff recommends:

10 (a) That the Commission authorize CWC to borrow \$50,000 from WIFA and approve
11 Staff's proposed surcharge mechanism;

12 (b) That the actual amount of the WIFA loan surcharges be calculated based on the
13 actual terms of the WIFA loan and actual number of customers at the time of loan closing;

14 (c) That the Company file as a compliance item in this Docket, within 30 days of the
15 execution of any financing transaction authorization herein, a notice confirming that such execution
16 has occurred and a certification by an authorized Company representative that the terms of the
17 financing fully comply with the authorizations granted;

18 (d) That the Company provide to Staff, upon request, a copy of any loan documents
19 executed pursuant to the authorizations granted herein;

20 (e) That upon filing the loan closing notice, the Company may file in this Docket an
21 application requesting implementation of the associated surcharge;

22 (f) That within 30 days of the filing of a surcharge implementation request, Staff will
23 calculate the appropriate WIFA surcharge and prepare and file a Recommended Order for
24 Commission consideration;

25 (g) That approval of the loan and surcharge be rescinded if the Company has not
26 drawn funds from the loan within one year of the date of this Decision;

27 (h) That upon approval of the WIFA surcharge, the Company shall open a separate
28 interest-bearing account in which all surcharge monies collected from customers will be deposited;

1 (i) That the only disbursement of funds from the above account will be to make debt
2 service payments to WIFA and any income tax expense attributed to the surcharge revenues;¹⁴ and

3 (j) That the Company shall file, by April 15 of each year, as a compliance item in this
4 Docket, a report reconciling all surcharge monies billed and collected, along with copies of the prior
5 year's monthly bank statements for the surcharge account.

6 64. Staff's recommendations for the Financing Application are reasonable and should be
7 adopted.

8 **Total Revenue Requirement (Base Revenues and Surcharge)**

9 65. Staff recommends a total revenue requirement, including the WIFA loan surcharge of
10 \$40,691, in order to provide the Company with sufficient cash flow to pay operating expenses,
11 contingencies, principal and interest on its existing \$146,533 loan and its proposed \$50,000 loan, and
12 to meet the minimum 1.2 DSC ratio required by WIFA for both loans.

13 66. Staff's recommendations regarding the revenue requirement and the WIFA surcharge
14 are just and reasonable and should be adopted.

15 **Other Issues**

16 **POU Tariff**

17 67. In its Rate Application, CWC included a POU Tariff to enable the Company to
18 comply with the requirements of the ADEQ Point of Use Compliance Program ("POU Compliance
19 Program"). Under the POU Compliance Program, the water system is required to install a POU
20 device that will treat only the water intended for direct consumption, typically installed at a single tap
21 such as the kitchen sink on the customer's premises. The POU device is installed, maintained, and
22 tested pursuant to the provisions of A.A.C. R14-4-222 and ADEQ's POU Compliance Program.
23 Federal law¹⁵ requires that the POU device be owned, controlled, and maintained by the public water
24 system, or by a person under contract with the public water system, to ensure proper operation and
25 maintenance and compliance with the established drinking water MCL.

26 68. Staff states that to be in compliance with Commission and ADEQ Rules (A.A.C. R14-
27

28 ¹⁴ See Supplemental Staff Report.

¹⁵ 42 U.S.C. 3000G 1 (b)(E)(ii).

1 2-407, R14-2-410, and R18-4-222) and the POU Compliance Program, the POU Tariff must include
2 the following:

3 (a) That the Company purchase and install the POU treatment device;

4 (b) That subject to the provisions of A.A.C. R18-4-222 and the POU Compliance
5 Program, the installation of the POU treatment device will be a condition of service for all customers;

6 (c) That installation of the POU treatment device will be arranged at a time convenient
7 to the customer and the Company;

8 (d) That the customer must permit the Company or its agents to enter the home to
9 maintain the system in good working order, including, but not limited to, periodic replacement of
10 filters, water sampling, and replacement of the system from time to time;

11 (e) That the POU treatment device shall be the property of the Company;

12 (f) That subject to the provisions of A.A.C. R14-2-407 and -410, and in accordance
13 with Paragraphs 1 and 4 of the tariff, the Company may terminate service or may deny service to a
14 customer who fails to install a POU treatment device or to permit the servicing and testing of the
15 POU treatment device as required by the tariff;

16 (g) That the Company shall give any customer who is required to install a POU
17 treatment device written notice of said requirement, and that the customer shall be given sixty (60)
18 days from the time such written notice is received in which to comply with this notice. If A.A.C.
19 R14-2-410.B.1 is not applicable and the customer can show good cause as to why the device cannot
20 be installed within sixty (60) days, the Company may allow the customer an additional sixty (60)
21 days to have the device installed;

22 (h) That testing of the POU treatment device shall be in conformance with the
23 requirements of A.A.C. R18-4-222 and the POU Compliance Program;

24 (i) That consistent with the provisions of A.A.C. R14-2-407.B.2 and 3, each customer
25 shall be responsible for safeguarding all Company property installed on the customer's premises for
26 the purpose of supplying clean water to that customer. Each customer shall exercise all reasonable
27 care to prevent loss or damage to the Company property, excluding ordinary wear and tear. The
28 customer shall be responsible for loss or damage to Company property on the customer's premises

1 arising from neglect, carelessness, or misuse and shall reimburse the Company for the cost of
2 necessary repairs or replacements; and

3 (j) That pursuant to A.A.C. R14-2-407.B.5, each customer shall be responsible for
4 notifying the Company of any failure identified in the Company's POU treatment device and system.

5 69. Staff concludes that the POU Tariff filed by CWC conforms to the POU tariff
6 template developed by Staff, and Staff recommends approval of CWC's proposed POU Tariff.

7 70. Staff further recommends that CWC file with Docket Control, as a compliance item in
8 this docket, the POU Tariff authorized herein within 60 days of the effective date of this Decision,
9 and that CWC provide a copy of the approved POU Tariff to all of its customers serviced by CWC
10 water system PWS ID No. 15-002.

11 **Non-Account Water**

12 71. Staff states that non-account water should be 10 percent or less, and that it is important
13 to be able to reconcile the difference between water sold and water produced at the source. Staff
14 believes a water balance will allow the Company to identify water and revenue losses due to leakage,
15 theft and flushing. Staff calculated the water loss for CWC in 2010 was 57 percent, which far
16 exceeded acceptable limits. Staff states that the water use data reported in recent Commission annual
17 reports indicates that the Company's level of non-account water is increasing, as in the Company's
18 2008 Annual Report, non-account water was 12.4 percent, but had increased to over 60 percent in the
19 2010 Annual Report.

20 72. The 2010 loss numbers prompted the Company to begin an "intense investigation"
21 into its water loss issue. In its Rate Application, the Company states that "significant water loss
22 issues" affected its revenues and expenses. The Company suspected that the 2-inch meter serving the
23 RV Park may not have been functioning properly. Because most of the Company's distribution
24 system was replaced in 2003, Staff states that the condition and accuracy of the meters is a good
25 place to start the investigation into non-account water. After the Company replaced the meter for the
26 RV Park and for the two production meters, as well as several other customer meters, the Company
27 submitted a water use data sheet that that indicates non-account water of 9.2 percent.

28 73. Staff recommends that CWC implement a program as soon as practicable to

1 physically inspect and test all in-service meters on a regular basis, including its production meters,
2 and that it insure the proper operation of the meters and repair or replace any under-recording meters.
3 Staff further recommends that the Company ensure that properly functioning meters of the
4 appropriate size have been installed on all connections, and that the Company coordinate the reading
5 of its well meters and individual customer meters on a monthly basis and report this data in its
6 Commission Annual Report for the year ending December 31, 2013.

7 74. Staff also recommends that if the reported water loss in the Annual Report is greater
8 than 10 percent, the Company should prepare a report containing a detailed analysis and plan to
9 reduce water loss to less than 10 percent. Staff states that if the Company believes that it is not cost
10 effective to reduce the water loss to less than 10 percent, it should submit a detailed cost/benefit
11 analysis to support its opinion. Staff states that in no case should the Company allow water loss to be
12 greater than 15 percent. The water loss reduction report or the detailed analysis, whichever is
13 submitted, shall be docketed as a compliance item no later than March 31, 2014.

14 75. Staff's recommendations concerning non-account water are reasonable and should be
15 adopted.

16 **Best Management Practices ("BMPs")**

17 76. Staff states that in 2008, ADWR added a new regulatory program for the ADWR
18 Third Management Plan for AMAs. The new program, called the Modified Non-Per Capita
19 Conservation Program ("Modified NPCCP"), addresses large municipal water providers and was
20 developed in conjunction with stakeholders from all AMAs. Participation in the program is required
21 for all large municipal water providers that do not have a Designation of Assured Water Supply and
22 that are not regulated as a large untreated water provider or as an institutional provider.

23 77. Staff states that the Modified NPCCP is a performance-based program that requires
24 participating providers to implement water conservation measures that result in water use efficiency
25 in their service areas. A water provider regulated under the program must implement a required
26 Public Education Program and choose one or more additional BMPs based on its size, as defined by
27 its total number of water service connections. The provider must select the additional BMPs from the
28 list included in the Modified NPCCP Program. The BMPs are a mix of technical, policy, and

1 information conservation efforts. Staff states that although implementation of the Modified NPCCP
 2 is required of large municipal water providers within an AMA, the Commission has previously
 3 adopted the BMPs for implementation by Commission-regulated small and large water companies.

4 78. Staff recommends that the Company file with Docket Control, as a compliance item in
 5 this docket and within 90 days of the effective date of a Decision in this proceeding, at least three
 6 BMPs in the form of tariffs that substantially conform to the templates created by Staff for
 7 Commission review and consideration.¹⁶

8 79. Staff further recommends that a maximum of two BMPs come from the "Public
 9 Awareness/Public Relations" or "Education and Training" categories, and that the Company may
 10 request cost recovery of the actual costs associated with the BMPs implemented in its next general
 11 rate application.

12 80. Staff's recommendations comport with recent Commission decisions. While we
 13 believe that water conservation is an important issue in Arizona and can provide benefits to rate
 14 payers, in this case, the recommended 90 day time frame to file BMP Tariffs may conflict with
 15 management's efforts to address water quality, water loss, and the other Commission compliance
 16 matters discussed herein. Consequently, we will adopt Staff's recommendation, but extend the time
 17 frame for filing tariffs until September 30, 2013. Of course, the Company may submit its BMP
 18 Tariffs any time prior to the deadline.

19 CONCLUSIONS OF LAW

20 1. CWC is a public service corporation pursuant to Article XV of the Arizona
 21 Constitution and A.R.S. §§ 40-250, 40-251, 40-285, 40-301, 40-302 and 40-303.

22 2. The Commission has jurisdiction over CWC and the subject matter of the Rate and
 23 Financing Applications.

24 3. Notice of the Rate and Financing Applications was provided in conformance with law.

25 4. CWC's FVRB is \$134,752.

26 5. The rates, charges and conditions of service approved herein are just and reasonable

27
 28 ¹⁶ The templates created by Staff are available on the Commission's website at
<http://www.azcc.gov/Divisions/Utilities/forms.asp>.

1 and in the public interest.

2 6. The financing as approved herein is for lawful purposes within CWC's corporate
 3 powers, is compatible with the public interest, with sound financial practices, and with the proper
 4 performance by CWC of service as a public service corporation, and will not impair CWC's ability to
 5 perform the service.

6 7. The financing approved herein is for the purposes stated in the Financing Application,
 7 is reasonably necessary for those purposes and such purposes may not be reasonably chargeable to
 8 operating expenses or to income.

9 8. Staff's recommendations, as modified herein, are reasonable and should be adopted.

10 **ORDER**

11 IT IS THEREFORE ORDERED Cienega Water Company, Inc. is hereby authorized and
 12 directed to file with Docket Control, as a compliance item in this Docket, within thirty (30) days of
 13 the effective date of this Decision, a revised tariff setting forth the following rates and charges:

14 **MONTHLY USAGE CHARGE:**

	<u>Staff</u>
15 5/8" x 3/4" Meter	\$30.00
16 3/4" Meter	45.00
17 1" Meter	75.00
18 1-1/2" Meter	150.00
19 2" Meter	240.00
3" Meter	450.00
4" Meter	750.00
6" Meter	1,500.00

20 **COMMODITY RATES:**

(Per 1,000 gallons)

21 0 to 2,000 gallons	\$3.00
22 2,001 to 7,000 gallons	\$6.80
23 Over 7,000 gallons	\$10.60

24 **SERVICE LINE AND METER INSTALLATION CHARGES:**

(Refundable pursuant to A.A.C. R14-2-405)

	<u>Service Line Charges</u>	<u>Meter Charges</u>	<u>Total Charges</u>
26 5/8" x 3/4" Meter	\$297.00	\$103.00	\$400.00
27 3/4" Meter	286.00	164.00	450.00
28 1" Meter	336.00	214.00	550.00

1	1-1/2" Meter	384.00	366.00	750.00
	2" Meter	575.00	725.00	1,300.00
	3" Meter	693.00	1,107.00	1,800.00
2	4" Meter	967.00	1,733.00	2,700.00
3	6" Meter	1,527.00	3,473.00	5,000.00

SERVICE CHARGES:

4	Establishment	\$25.00		
5	Reconnection (Delinquent)	40.00		
	Meter Test (If Correct)	30.00		
6	Deposit	(a)		
	Deposit Interest per annum	(a)		
7	Re-establishment (Within 12 Months)	(b)		
8	NSF Check	15.00		
	Deferred Payment - per month	1.5%		
9	Meter Re-read (If Correct)	15.00		
	Late Payment Charge - per month	1.5%		
10	Service Charge (After Hours)	40.00		
11	(a)	Per Commission rule A.A.C. R14-2-403.B.		
12	(b)	Per Rule R14-2-403.D. Monthly Minimum times the number of months off the system.		

13 IT IS FURTHER ORDERED that the rates and charges approved herein shall be effective for
14 all usage on and after December 1, 2012.

15 IT IS FURTHER ORDERED that Cienega Water Company, Inc. is hereby authorized to
16 obtain from WIFA a 20 year amortizing loan in an amount not to exceed \$50,000 at the prevailing
17 WIFA interest rate at the time the loan is secured.

18 IT IS FURTHER ORDERED that the financing authority granted herein is expressly
19 contingent upon Cienega Water Company, Inc.'s use of the proceeds for the purposes stated in the
20 Financing Application and approved herein.

21 IT IS FURTHER ORDERED that Cienega Water Company, Inc. is authorized to engage in
22 any transaction and to execute any documents necessary to effectuate the granted authorization.

23 IT IS FURTHER ORDERED that the WFIA Surcharge mechanism as proposed by Staff in
24 this proceeding is approved.

25 IT IS FURTHER ORDERED that Cienega Water Company, Inc. shall notify its customers of
26 the revised schedules of rates and charges authorized herein, as well as information explaining the
27 WIFA surcharge, by means of an insert, in a form acceptable to Staff, included in its next regularly
28 scheduled billing or as a separate mailing to be completed no later than twenty (20) days after the

1 effective date of this Order.

2 IT IS FURTHER ORDERED that in addition to its regular rates and charges, Cienega Water
3 Company, Inc. shall collect from its customers a proportionate share of any privilege, sales or use tax
4 per A.A.C. R14-2-409(D).

5 IT IS FURTHER ORDERED that Cienega Water Company, Inc. shall within 30 days of the
6 execution of any financing transaction authorization herein, file a notice in this docket confirming
7 that such execution has occurred and a certification by an authorized Company representative that the
8 terms of the financing fully comply with the authorizations granted.

9 IT IS FURTHER ORDERED that Cienega Water Company, Inc. shall provide to Staff, upon
10 request, a copy of any loan documents executed pursuant to the authorizations granted herein.

11 IT IS FURTHER ORDERED that the actual amount of the WIFA loan surcharges be
12 calculated based on the actual terms of the WIFA loan and actual number of customers at the time of
13 loan closing.

14 IT IS FURTHER ORDERED that upon filing the loan closing notice, Cienega Water
15 Company, Inc. may file in this docket an application requesting implementation of the associated
16 surcharge.

17 IT IS FURTHER ORDERED that within 30 days of the filing of a surcharge implementation
18 request, Staff shall calculate the appropriate WIFA surcharge and prepare and file a Recommended
19 Order for Commission consideration.

20 IT IS FURTHER ORDERED that approval of the loan and surcharge shall be rescinded if
21 Cienega Water Company, Inc. has not drawn funds from the loan within one year of the effective date
22 of this Decision.

23 IT IS FURTHER ORDERED that upon approval of the WIFA surcharge, Cienega Water
24 Company, Inc. shall open a separate interest-bearing account in which all surcharge monies collected
25 from customers will be deposited; and that the only disbursement of funds from such account will be
26 to make debt service payments to WIFA or income taxes directly attributable to the surcharge
27 revenue.

28 IT IS FURTHER ORDERED that Cienega Water Company, Inc. shall file, by April 15 of

1 each year, as a compliance item in this docket, a report reconciling all surcharge monies billed and
2 collected, along with copies of the prior year's monthly bank statements for the surcharge account.

3 IT IS FURTHER ORDERED that Cienega Water Company, Inc.'s proposed POU Tariff is
4 approved and that Cienega Water Company, Inc. shall file with Docket Control, as a compliance item
5 in this docket, the POU Tariff authorized herein within 60 days of the effective date of this Decision,
6 and shall provide a copy of the approved POU Tariff to all of its customers serviced by Cienega
7 Water Company, Inc. water system PWS ID No. 15-002.

8 IT IS FURTHER ORDERED that Cienega Water Company, Inc. shall file with Docket
9 Control, as a compliance item in this docket by September 30, 2013, at least three BMPs in the form
10 of tariffs that substantially conform to the templates created by Staff for Commission review and
11 consideration.

12 IT IS FURTHER ORDERED that a maximum of two BMPs may come from the "Public
13 Awareness/Public Relations" or "Education and Training" categories, and that Cienega Water
14 Company, Inc. may request cost recovery of the actual costs associated with the BMPs implemented
15 in its next general rate application.

16 IT IS FURTHER ORDERED that Cienega Water Company, Inc. shall file with Docket
17 Control, as a compliance item in this docket by June 30, 2013, a copy of the ADEQ Approval of
18 Installation of the POU treatment devices. If Cienega Water Company, Inc. is unable to comply with
19 this deadline, it shall file an explanation of why not and any request for an extension of time prior to
20 June 30, 2013.

21 IT IS FURTHER ORDERED that Cienega Water Company, Inc. shall implement a program
22 as soon as practicable to physically inspect and test all in-service meters on a regular basis, including
23 production meters, to insure the proper operation of the meters, and repair or replace any under-
24 recording meters; ensure that properly functioning meters of the appropriate size have been installed
25 on all connections; and coordinate the reading of its well meters and individual customer meters on a
26 monthly basis and report this data in its Commission Annual Report for the year ending December
27 31, 2013.

28 IT IS FURTHER ORDERED that if the reported water loss in the Annual Report is greater

1 than 10 percent, Cienega Water Company, Inc. shall prepare a report containing a detailed analysis
2 and plan to reduce water loss to less than 10 percent. If Cienega Water Company, Inc. believes that it
3 is not cost effective to reduce the water loss to less than 10 percent, it should submit a detailed
4 cost/benefit analysis to support its opinion. In no case shall Cienega Water Company, Inc. allow
5 water loss to be greater than 15 percent. The water loss reduction report or the detailed analysis,
6 whichever is submitted, shall be docketed as a compliance item no later than March 31, 2014.

7 IT IS FURTHER ORDERED that on a going-forward basis, Cienega Water Company, Inc.
8 shall use the depreciation rates by individual National Association of Regulatory Utility
9 Commissioners account as presented in Table B of the Engineering Report attached to the Staff
10 Report in this matter.

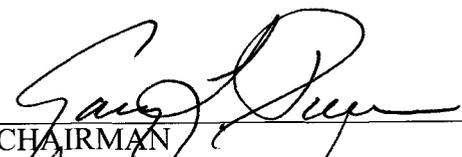
11 IT IS FURTHER ORDERED that Cienega Water Company, Inc. shall file with Docket
12 Control, as a compliance item in this docket and within 45 days of the effective date of this Decision,
13 documentation showing that the slab and well head at Well No. 2 have been sealed to prevent
14 contaminants from entering the well.

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1 IT IS FURTHER ORDERED that Cienega Water Company, Inc. shall file as a compliance
2 item in this Docket by July 31, 2013, copies of the AOCs associated with the plant installed pursuant
3 to Decision No. 63751 and a status report from ADEQ indicating that Cienega Water Company, Inc.
4 is in full compliance with ADEQ; or if such documents cannot be filed, Cienega Water Company,
5 Inc. shall file an explanation why not, and, if appropriate, a request for an extension of time.

6 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

7 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

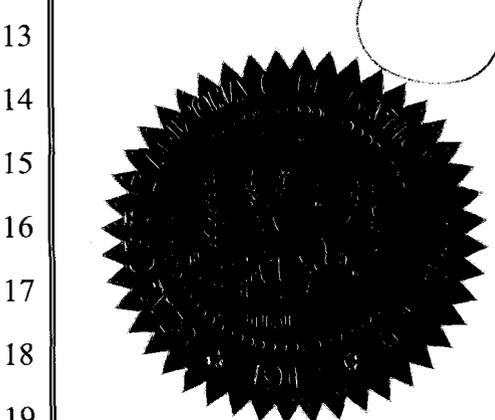
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9 
10 CHAIRMAN


COMMISSIONER

11 
12 COMMISSIONER

EXCUSED
COMM. NEWMAN
COMMISSIONER


COMMISSIONER



IN WITNESS WHEREOF, I, ERNEST G. JOHNSON,
Executive Director of the Arizona Corporation Commission,
have hereunto set my hand and caused the official seal of the
Commission to be affixed at the Capitol, in the City of Phoenix,
this 21st day of November, 2012.


ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

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21 DISSENT _____

22
23 DISSENT _____

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1 SERVICE LIST FOR:

CIENEGA WATER COMPANY, INC.

2 DOCKET NOS.:

W-02034A-11-0194 AND W-02034A-11-0195

3

4 Debra Kilgore, Vice President
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10 ARIZONA CORPORATION COMMISSION
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12 Steven M. Olea, Director
Utilities Division
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