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RANCHO DEL CONEJO COMMUNITY WATER COC

13130 W. Rudasill Road

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December 5, 2012

Arizona Corporation Commission

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Steven M. Olea
Director, Utilities Division
c/o Docket Control
Arizona Corporation Commission
1200 W. Washington Street
Phoenix, AZ 85007

ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

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RE: W-02102B-12-0286
Response to Staff Report

First, please note that Rancho del Conejo Water has requested rate increases just three times in the past 20 years. As a community water cooperative we are part of and responsive to our community of neighbors and friends. Our volunteer Board of Directors are part of this community and put in many long hours without recompense to keep our drinking water safe and reliably delivered. We have erred in not requesting more rate increases over the years, and have only asked for what we need when we needed it. Nothing more. That remains true today.

Staff's recommendation in the above-docketed rate case does not give Rancho del Conejo the necessary revenue to avoid default and/or bankruptcy, and forces us in continuing violation of EPA/ADEQ arsenic exposure limits. This is a crisis for Rancho del Conejo.

- 1) The increase granted five years ago gave Rancho essentially a \$1 increase in the base rate, from \$13 to \$14, plus an arsenic surcharge that paid only 2/3 of the amount of the monthly WIFA loan payment; we attempted with all due diligence to solve our arsenic problem but the ACC did not grant us enough to pay for the arsenic removal system WIFA loan, much less to accumulate funds for the substantial expense of necessary replacement media. As a result of the inadequate rate increase Rancho del Conejo has faced monthly losses and when the arsenic media expired, has not had sufficient funds to purchase new media.
- 2) Staff's recommendation in the pending case includes removal of the Arsenic Surcharge, which increases Rancho's monthly expenses by about \$1000. Subtracting the actual monthly cost of the WIFA loan, the increase in the base rate to most of our customers (on 5/8" meters) of \$6/month is actually reduced to \$1.23. By comparison Avra Water, which serves families in Picture Rocks and surrounds Rancho del Conejo's small service area, has had a \$28/month base rate for years and is currently seeking an increase. Why is there such a discrepancy in base rates for a comparable customer base?

- 3) The arsenic removal system benefits all customers and it seems fair and reasonable that the cost of that system – the WIFA loan and replacement media costs – be shared by all customers equally. That is why Rancho del Conejo proposed an increase in the base rate and not in Commodity Charges. Staff's recommendation to raise Commodity Charges per 1,000 gallons puts substantially more burden on higher water users and goes against the basic fairness of sharing the arsenic removal cost among all users equally.

Picture Rocks is significantly different than Phoenix or Tucson. We are a rural area with *colonia* status, with most families living in manufactured homes. There is only one lawn in our service area, and one swimming pool. In Picture Rocks we understand that we live in a desert and water is a precious resource that must be carefully conserved. Conservation in large urban areas where water is wasted on lawns, pools, lush landscaping and the like is a serious issue, but our community's "landscaping" is natural desert. Our higher-usage customers have large families, and/or horses, goats, chickens and other livestock. Higher Commodity Charges, therefore, put an unfair burden on those least able to afford it.

- 4) Staff's recommendation is designed only to pay for the WIFA loan payments and only supports accumulation towards purchase of arsenic media in two years. The media is, however, needed now. Rancho del Conejo is an aging system that has a 16-year-old truck (which recently incurred over \$1,000 in repairs, with more to come), a 40-year-old modular office that is falling apart, an old backhoe that is currently inoperable, and a delivery system facing increasing need of repair. An estimate received yesterday for a failing electrical panel and pressure gauge comes to about \$10,000. Our gross sales have declined over the last year as the recession has forced people into foreclosure or abandonment while our expenses have increased. About 10 percent of the housing stock in Picture Rocks is vacant.

Our Checking account balance is kept just over \$12,000 to avoid high bank service charges and is made up of refundable customer deposits. Our Savings account has \$25,000 and nearly half of it is scheduled to be spent on immediately necessary repairs. Staff's recommendation gives us little or nothing to meet these critical ongoing and increasing expenses, much less stem the significant losses of the past several years.

- 5) Rancho del Conejo has a limited customer base and no real possibility of expansion. Contrary to the Staff Engineer's report, an upturn in the economy will have little impact on Rancho del Conejo's service area. We are "land-locked" and surrounded

by Avra Water. There are few lots left to be developed and none have been developed this year.

It should be mentioned that all BMP Tariffs requested by the Staff Engineer were filed prior to issuance of the Staff Report. It should also be mentioned that, while Well # 1 is not in service, the pressure tank adjacent to it is a functioning part of the current operating water delivery system. The ADWR reports, which we were unaware of, will be filed shortly.

- 6) Finally, we are out of compliance with federal and state limits on arsenic in drinking water; not by much, but out of compliance none-the-less. That is why we were forced to seek a WIFA loan to construct an arsenic removal system. The media in that system has expired and is quite expensive to replace, as Staff has rightly noted.

Rancho del Conejo has diligently constructed a workable plan to regain compliance but Staff's recommendation will not let us accomplish this plan. We have switched to using our smaller Well #2 as our primary water source, and that well is in compliance. Well #3, which is where the arsenic removal system is located, is larger and has been our primary source, is out of compliance.

By using Well # 2 for 70 percent of our water delivery needs during these cooler months, less non-compliant water goes into the system. If we replace the media in one of the arsenic system's two towers and continue using #2 as our primary source, there is a reasonable chance we can extend the life of the media in the one tower for two years. That would keep us on a two-year media replacement cycle which will avoid substantial additional costs if done yearly.

The cost of one tower's worth of media is about \$40,000, which we do not have. We can, with USDA's permission, access \$10,000 of our required reserve to put towards media. But USDA requires, as a condition of such permission, that Rancho del Conejo have a plan in place to repay the reserve account over one year. We can reluctantly use part of our shrinking reserve or, hopefully, obtain a bank loan or supplier financing to cover the balance. That may be problematical since most of our equity is taken up by the existing USDA and WIFA loans. We cannot meet our goals with Staff's recommended rate increase.

This is all predicated on having sufficient income to make those payments while accumulating funds for two years to replace media in both towers. Well #2, drilled in 1972, cannot be expected to remain our primary source, especially as hot weather moves in. Unfortunately, Staff's recommendation will not give us sufficient income

to meet these challenges and leaves Rancho del Conejo without a viable way to return to arsenic compliance in the near future. We need your help to avoid default and/or bankruptcy.

The volunteer Board members spent many months crafting a modest, prudent and workable plan to come back into arsenic level compliance. We factored every option and cost and submitted the barest bones rate increase proposal possible. It is significant that the Commission has not received one single objection from any Rancho del Conejo customer to the rate increase we proposed.

If this response is not sufficient to convince you that we need substantially more than Staff recommends, as requested in our application for a rate increase, we respectfully request that a hearing be held so that we can further discuss the crisis we face.

Sincerely,

A handwritten signature in black ink, appearing to read "Albert V. Lannon", with a long horizontal flourish extending to the right.

Albert V. Lannon
Vice President

Original and 16 copies

Cc: Jon Bernreuter
Karen Hartwell
Darren Carlson