

ORIGINAL



0000107523

MEMORANDUM

TO: Docket Control

FROM: Steve Olea  
Director  
Utilities Division

DATE: January 5, 2010

RE: STAFF REPORT FOR CERBAT WATER COMPANY'S APPLICATION FOR AN EMERGENCY RATE INCREASE (DOCKET NO. W-02391A-09-0516)

Attached is the Staff Report for Cerbat Water Company's ("Cerbat" or "Company") application for an emergency rate increase. Staff recommends denial of the Company's request for an emergency rate increase.

Any party who wishes may file comments to the Staff Report with the Commission's Docket Control by 4:00 p.m. on or before January 15, 2010.

SMO:All:red

Originator: Alexander Ibhade Igwe, CPA

Attachment: Original and ten copies

Arizona Corporation Commission  
**DOCKETED**

JAN - 5 2010

DOCKETED BY *MA*

RECEIVED  
2010 JAN - 5 PM 3:31  
DOCKET CONTROL

Service List for: Cerbat Water Company  
Docket No. W-02391A-09-0516

Cerbat Water Company  
2409 Ricca Drive  
Kingman, Arizona 86401

Ms. Janice Alward  
Chief, Legal Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

Mr. Steve Olea  
Director, Utilities Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

Ms. Lyn Farmer  
Chief, Hearing Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

**STAFF REPORT  
UTILITIES DIVISION  
ARIZONA CORPORATION COMMISSION**

**CERBAT WATER COMPANY  
DOCKET NO. W-02391A-09-0516**

**APPLICATION FOR AN  
EMERGENCY RATE INCREASE**

**JANUARY 5, 2010**

## STAFF ACKNOWLEDGMENT

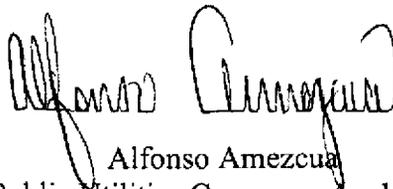
The Staff Report for Cerbat Water Company, Docket No. W-02391A-09-0516, was the responsibility of the Staff members listed below. Alexander Ihade Igwe was responsible for the financial review and analysis of the Company's application. Dorothy Hains was responsible for the engineering and technical analysis. Alfonso Amezcua was responsible for reviewing the Commission's records on customer complaints filed with the Commission.



Alexander Ihade Igwe, CPA  
Executive Consultant III



Dorothy Hains  
Utilities Engineer



Alfonso Amezcua  
Public Utilities Consumer Analyst II

**EXECUTIVE SUMMARY  
CERBAT WATER COMPANY, LLC  
APPLICATION FOR AN EMERGENCY RATE INCREASE  
DOCKET NO. W-02391A-09-0516**

On November 9, 2009, Cerbat Water Company ("Cerbat" or "Company") filed an application with the Arizona Corporation Commission ("Commission") for approval of an emergency rate increase. The Company "...experienced a major mechanical failure in the water system on October 26, 2009 resulting in repair cost that the company cannot absorb and a Stage 4 water curtailment." On November 24, 2009, the Company revised its application to exclude certain capital costs relating to the construction of a new back-up well.

Cerbat is certificated to provide water service in an area located northwest of the City of Kingman, Mohave County, Arizona. The Company currently serves approximately 258 customers under rates and charges that were approved in Decision No. 64886, dated June 5, 2002. Cerbat is a wholly owned subsidiary of the Claude K. Neal Family Trust ("Trust"). Also, the Company is managed by the Trust under a Management Agreement ("MA").

Staff recommends that the Commission deny the Company's request for an emergency rate increase.

Staff further recommends that the Company file for a permanent rate increase, using a test year ended December 31, 2009, no later than April 30, 2010.

Staff further recommends that Cerbat file with Docket Control, as a compliance item in this docket, a letter from ADEQ affirming that the Company is in compliance with ADEQ water quality requirements, no later than April 30, 2010.

Staff further recommends that the Company file with Docket Control, as a compliance item in this docket, documentation from ADWR affirming that it is in compliance with ADWR, no later than April 30, 2010.

Staff further recommends that the Company maintain a separate account for all transactions under its name, and make payment for such transactions through its bank account.

Staff further recommends that the Trust bill Cerbat for management services based on documented customer count at the end of each month. Also, that payment for management fees should be effected through Cerbat's bank account on a monthly basis.

Staff further recommends that the Trust bill Cerbat for purchased water based on monthly metered quantity as provided for in the WSA. Also, that payment for purchased water under the WSA should be effected through Cerbat's bank account on a monthly basis.

Finally, in the event that the Company is not in full compliance with Staff's recommendations by April 30, 2010, Staff may initiate an Order to Show Cause.

**TABLE OF CONTENTS**

	<b><u>PAGE</u></b>
<b>INTRODUCTION</b> .....	<b>1</b>
<b>OWNERSHIP AND OPERATING STRUCTURE</b> .....	<b>1</b>
<b>THE EMERGENCY</b> .....	<b>1</b>
THE TRUST WELL & WATER SUPPLY AGREEMENT .....	2
WATER SERVICE AGREEMENT WITH THE CITY OF KINGMAN.....	2
LEASED EQUIPMENTS & REPAIR COSTS.....	3
<b>ARIZONA CORPORATION COMMISSION COMPLIANCE</b> .....	<b>4</b>
<b>CONSUMER SERVICES</b> .....	<b>4</b>
<b>PUBLIC NOTICES</b> .....	<b>4</b>
<b>ENGINEERING ANALYSIS</b> .....	<b>4</b>
<b>FINANCIAL ANALYSIS</b> .....	<b>5</b>
<b>OTHER MATTERS</b> .....	<b>5</b>
ACCOUNTING ISSUES .....	5
SOURCES OF WATER SUPPLY .....	6
<b>CONCLUSIONS</b> .....	<b>6</b>
<b>RECOMMENDATIONS</b> .....	<b>6</b>

**ATTACHMENTS**

Engineering Report.....	A
Affidavit of Publication.....	B
Management Agreement .....	C
Water Supply Agreement .....	D

## INTRODUCTION

On November 9, 2009, Cerbat Water Company ("Cerbat" or "Company") filed an application with the Arizona Corporation Commission ("Commission") for approval of an emergency rate increase. The Company "...experienced a major mechanical failure in the water system on October 26, 2009 resulting in repair cost that the company cannot absorb and a stage 4 water curtailment." On November 24, 2009, the Company revised its application to exclude certain capital costs relating to the construction of a new back-up well.

Cerbat is certificated to provide water service in an area located northwest of the City of Kingman, Mohave County, Arizona. The Company currently serves approximately 258 customers under rates and charges that were approved in Decision No. 64886, dated June 5, 2002.<sup>1</sup>

## OWNERSHIP AND OPERATING STRUCTURE

Cerbat is managed by the Claude K. Neal Family Trust ("Trust") under a Management Agreement ("MA"). Also, the Company is a wholly owned subsidiary of the Trust. Mr. B. Marc Neal, the Sole Trustee of the Trust, executed both the MA and a Water Supply Agreement ("WSA") on behalf of Cerbat and the Trust. The MA requires the Trust to administer the day-to-day operation of the Company for a monthly fee of \$8.50 per connection. The Trust has similar ownership, management and water supply agreements with Truxton Canyon Water Company, a certificated water company in the Kingman area.

## THE EMERGENCY

Cerbat seeks Commission approval of emergency rate relief due to a mechanical failure of the diesel engine at its only source of water supply, a well ("Trust Well") owned and operated by the Trust. In lieu of a commercial electric connection, the Trust utilized the failed diesel engine for pumping water from the Trust Well. Prior to this mechanical failure, Cerbat purchased almost all water produced at the Trust Well under the WSA. The WSA requires the Trust to produce and supply water to the Company at the rate of \$0.65 per 1,000-gallons. As a result of the mechanical failure, the Trust could no longer fulfill its contractual obligation of supplying water to the Company. Consequently, Cerbat was compelled to institute a Stage 4 Curtailment within its certificated area and to seek alternate sources of water supply to its customers. During the initial stage of this emergency, the Company purchased water from the City of Kingman ("City") under a Water Service Agreement ("City Agreement"). However, the Company could not continue to purchase water from the City, because of its inability to timely fulfill payment obligations and certain limitations imposed on the number of times the Company could purchase water under the City Agreement. As an interim measure, water is being pumped

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<sup>1</sup> On December 29, 2006, the Company filed an application for a permanent rate increase, in Docket No. W-02391A-06-0808. This docket was administratively closed (Decision No. 69752 dated on August 9, 2009) due to the Company's inability to meet the sufficiency requirements for a rate application.

from the Trust Well with leased equipment consisting of a starter, an electric motor and a portable generator.

*The Trust Well & Water Supply Agreement*

As previously stated, the Trust Well is owned and operated by Trust for the purpose of producing and supplying water at wholesale to Cerbat, and for the Trust to "...take bulk water deliveries at any standpipe adjacent to the deliver points under this agreement." The WSA states as follow:

*"...Family Trust has certain water rights and owns and operates water production, collection, transmission and certain facilities in portions of Mohave County, Arizona...."*

*"...Family Trust will furnish and deliver portable water to Cerbat for the requirements of Cerbat's customers located within Cerbat's service area as hereinafter defined."*

Further, the Agreement requires the Trust to supply Cerbat with water that meets regulatory standards as prescribed by the Arizona Department of Health and other appropriate regulatory agencies. And that:

*"The water quality compliance beyond the point of delivery by Family Trust shall be the responsibility of Cerbat."*

The WSA does not explicitly assign any responsibility to Cerbat for the production and distribution of water from the Trust Well, prior to the designated delivery points. Further, there is no indication in the WSA that Cerbat has any obligation to operate and maintain the Trust Well.

Based on the above findings, Staff concludes the Cerbat has no responsibility for maintaining the Trust Well or any appurtenances relating to its operations. Staff finds that failure of the diesel engine impaired the Trust's ability to fulfill its contractual obligation to supply water to Cerbat under the subsisting WSA. While Staff agrees with Cerbat that failure of the diesel engine created an emergency, Staff does not find that the WSA requires Cerbat and its ratepayers to incur the cost of maintaining the Trust Well.

*Water Service Agreement with the City of Kingman*

Cerbat signed a back-up Water Service Agreement with the City of Kingman, previously referred to as City Agreement. The City Agreement became effective February 20, 2009, for a period of a year, renewal for up to five years. By this agreement, the City agrees to provide a wholesale water supply to Cerbat no more than two (2) times a year and for a period of no longer

than seventy-five (75) consecutive days. The agreement required Cerbat to make a deposit in an amount of two and one-half times its monthly purchase or \$5,000, whichever is greater.

The Company requested Commission approval to recover City invoices totaling \$37,200 in its initial application. Staff's review of the invoices indicate that they relate to past due obligations for water purchased prior to the emergency period. It appears the Company has withdrawn this request in its revised filing. Also, the Company has brought its account current with the City.

As to the Company's claim that it purchased water from the City during the initial phase of the emergency, Staff finds no evidence to support such assertion. Based on the water supply data provided by the City, Staff found that the Company purchased approximately 1,000,000 gallons in October and November 2009, for a total of \$3,028.61. Also, Staff found that the Company purchased more water from the City prior to the reported emergency. The Company's water purchases from June 2008 through November 2009, are depicted in the table below.

<b>PURCHASED WATER FROM CITY</b>			
<b>DATE</b>	<b>USAGE (GALLONS)</b>	<b>AMOUNT</b>	<b>DAYS</b>
11/12/2009	358,900	\$1,000.56	9
11/03/2009	647,800	\$1,745.53	5
10/22/2009		\$25.07	6
10/07/2009	81,800	\$257.45	6
06/29/2009	2,430,400	\$6,478.77	17
06/09/2009	3,922,100	\$10,465.95	32
05/08/2009	1,755,700	\$4,754.24	30
04/08/2009	3,178,700	\$8,505.98	30
03/09/2009	997,800	\$2,701.72	17
07/09/2008	1,773,600	\$4,664.57	30
06/09/2008	1,472,200	\$3,871.89	25

The Company seeks Commission approval of \$19,000 for security deposit with the City. However, the City has indicated that Cerbat will be required to make a deposit of \$28,750, based on the provisions of the City Agreement. Accordingly to the City, its policy on security deposit is consistently applied to all customers and cannot be waived for Cerbat. Furthermore, the City will require Cerbat to enter into a new agreement, which would become effective subject to the City Council's approval. As to the Company's request for recovery of \$19,000 through this emergency proceeding, Staff finds that consideration of such a proposal is premature since the Company no longer has a subsisting agreement with the City.

#### *Leased Equipments & Repair Costs*

As part of its revised emergency rate increase, the Company seeks Commission approval of \$116,488 for repairs, equipment leases, installation of new equipments, and security bond.

The Company's requested amount includes \$3,600 for procuring a security bond for commercial electric connection of the Trust Well to UNS Electric, Inc's distribution line. The remainder includes \$50,760 for leasing a starter, an electric motor, a generator and related fuel cost; \$4,083 for repairs of diesel engine; and \$58,045 for installing a new booster pump and electric motor. All of these cost estimates are for repairing and installing new equipments at the Trust Well.

Staff's analysis indicates that the Company's estimated costs for repairing and installing new equipment at the Trust Well are necessary for ensuring stable supply of water to Cerbat's customers. As previously discussed under "The Trust Well & Water Supply Agreement", Staff does not find any evidence in the WSA requiring Cerbat to repair and maintain the Trust Well. Staff finds that it is incumbent on the Trust to make necessary repairs to the Trust Well to enable it to fulfill its obligation under the WSA. Based on these factors, Staff recommends against Commission approval of any maintenance or capital costs relating to operating the Trust Well. Staff's conclusion is further corroborated by the fact that all contractors' quotes or invoices related to these transactions are addressed to the Trust.

#### **ARIZONA CORPORATION COMMISSION COMPLIANCE**

A review by the Commission Compliance Section indicates that the Company has no pending compliance issues on its database.

As of December 19, 2009, Cerbat is **not** in good standing with the Corporations Division of the Commission for failure to file its Annual Report.

#### **CONSUMER SERVICES**

A review of the Consumer Services Section database from January 1, 2006 to December 29, 2009, reveals that the Company had 27 complaints and 8 opinions in 2009, 1 complaint in 2008, zero complaints in 2007 and 1 complaint in 2006. Staff notes that 23 of the 2009 complaints relate to service outages or interruptions, while 7 of the opinions are against approving the Company's requested emergency rate increase.

#### **PUBLIC NOTICES**

On December 16, 2009, Cerbat published a Notice of its requested emergency rate application and the related Hearing in *The Standard*, a newspaper of general circulation in Kingman. The Affidavit of Publication was docketed with the Commission on December 24, 2009. Also, the Company reports that it has mailed the published Notice to each customer of record. These publications are consistent with the Procedural Order in this proceeding.

#### **ENGINEERING ANALYSIS**

Staff's engineering analysis and recommendations are fully discussed in the Engineering Report, attached herewith as Attachment A.

## **FINANCIAL ANALYSIS**

Ordinarily, Staff would have reviewed the Company's financial position relative to its claim that it does not have the cash flow to absorb the costs of its reported emergency. If the Company's claim of inadequate cash flow was substantiated, Staff would have recommended Commission approval of an amount necessary to cover such costs, through an interim emergency rate increase. Because Staff has determined that the Company's reported emergency relates to the Trust Well and that Cerbat has no responsibility for operating and maintaining it, Staff recommends no emergency rate increase in this proceeding.

## **OTHER MATTERS**

### *Accounting Issues*

As a part of this proceeding, Staff performed a cursory review of the Company's accounting system and the related records. Staff found that the Company maintains a bank account and an accounting record that appears separate from the Trust's operations. However, Staff observed that most of Cerbat's revenues are transferred to the Trust's account. The Company explains that because the Trust has responsibility for its management, funds transferred to the Trust are utilized for paying the Company's expenses. Also, Staff noted that the Trust did not issue a monthly bill to Cerbat for management fees and purchased water. Again, the Company asserted that the balance of money transferred from Cerbat's account covers such costs. Further, Staff noted that certain services contracted for the benefit of the Company are established in the name of the Trust. Based on these observations, there appears to be a significant commingling of the Company's financial transactions with the Trust. As a result, Staff cannot substantiate the Company's assertion that it has been incurring losses over the years. Staff finds that a comprehensive analysis of the Company's financial position will be best accomplished in a permanent rate proceeding. Based on these findings, Staff recommends the following:

1. That the Company file for a permanent rate increase using a test year ended December 31, 2009, no later than April 30, 2010.
2. That the Company maintain a separate account for all transactions under its name, and make payment for such transactions through its bank account.
3. That the Trust bill Cerbat for management services based on documented customer count at the end of each month. Also, that payment for management fees should be effected through Cerbat's bank account on a monthly basis.
4. That the Trust bill Cerbat for purchased water based on monthly metered quantity as provided for in the WSA. Also, that payment for purchased water under the WSA should be effected through Cerbat's bank account on a monthly basis.

*Sources of Water Supply*

Staff observed that the Company has a source of water supply that is not under its direct control. Staff finds that it may be appropriate for the Trust to transfer ownership and operations of the Trust Well to Cerbat.

**CONCLUSIONS**

Staff concludes that Cerbat experienced an emergency due to failure of the diesel pump at the Trust Well. However, Staff finds no evidence that the Company is responsible for maintaining the Trust Well. Accordingly, Staff recommends denial of the Company's request to recover the costs of repairing and installing new equipments at the Trust Well through an emergency rate increase.

Further, Staff finds that the Company purchased a limited quantity of water from the City during the emergency period. Also, Staff finds that the Company's request for security deposit with the City is not appropriate at this time, because the related City Agreement has been annulled.

Further, Staff's investigations indicate that Cerbat is not in compliance with ADEQ, ADWR and the Corporations Division of the Commission.

Finally, Staff concludes that the Company commingles its financial transactions with the Trust.

**RECOMMENDATIONS**

Staff recommends that the Commission deny the Company's request for an emergency rate increase.

Staff further recommends that the Company file for a permanent rate increase using a test year ended December 31, 2009, no later than April 30, 2010.

Staff further recommends that Cerbat file with Docket Control, as a compliance item in this docket, a letter from ADEQ affirming that the Company is in compliance with ADEQ water quality requirements, no later than April 30, 2010.

Staff further recommends that the Company file with Docket Control, as a compliance item in this docket, documentation from ADWR affirming that it is in compliance with ADWR, no later than April 30, 2010.

Staff further recommends that the Company maintain a separate account for all transactions under its name, and make payment for such transactions through its bank account.

Staff further recommends that the Trust bill Cerbat for management services based on documented customer count at the end of each month. Also, that payment for management fees should be effected through Cerbat's bank account on a monthly basis.

Staff further recommends that the Trust bill Cerbat for purchased water based on monthly metered quantity as provided for in the WSA. Also, that payment for purchased water under the WSA should be effected through Cerbat's bank account on a monthly basis.

Finally, in the event that the Company is not in full compliance with Staff's recommendations by April 30, 2010, Staff may initiate an Order to Show Cause.

**MEMORANDUM**

**DATE:** December 3, 2009

**TO:** Alexander Igwe  
Executive Consultant III

**FROM:** Dorothy Hains, P. E.   
Utilities Engineer

**RE:** IN THE MATTER OF THE APPLICATION OF CERBAT WATER COMPANY, INC.  
FOR EMERGENCY RATE RELIEF (Docket No. W-02391A-09-0516)

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**Background**

Cerbat Water Company (“Cerbat” or “Company”) is located northwest of the City of Kingman in Mohave County. The Company’s service area contains approximately three square miles in portions of Section 1, Section 12 and Section of 13 of Township 22 South and Range 17 East. As of December 2008, the Company was serving 256 metered connections.<sup>1</sup>

On November 2, 2009, Cerbat filed an Emergency Rate Application with the Arizona Corporation Commission (“ACC” or “Commission”). The Company indicated in its application that its request for an emergency surcharge was necessary because on October 26, 2009, the Company experienced a major failure in the water system and a Stage 4 water curtailment.<sup>2</sup> The Company stated that the emergency funds were needed to “cover the costs of repairing the failed pump motor which supplies water to all of Cerbat’s customers” and to “implement the emergency backup plan with the City of Kingman, and installing a backup pump to prevent this Stage 4 scenario from repeating itself”. The backup plan for Cerbat was to temporarily purchase water from the City of Kingman while repairs were made.

On October 29, 2009, ACC Staff members Al Amezcua and Dorothy Hains inspected the Company’s water system and Arizona Department of Water Resources (“ADWR”) Well No.55-624996<sup>3</sup> in the accompaniment of Arizona Department of Environmental Quality (“ADEQ”) Field Inspector, Andy Wilson and Company Representatives.

**System Analysis**

The Company water system consists of a 22,000 gallon storage tank, a 500,000 gallon storage tank, a booster pump station and distribution system. The Company does not own the source of

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<sup>1</sup> The Company also provides stand-pipe service.

<sup>2</sup> The Company’s has an approved curtailment tariff that became effective on June 1, 2002 per Commission Decision No. 64886.

<sup>3</sup> This is the well served by the failed pump motor which supplies water to all of Cerbat’s customers.

its water which is Well No. 55-624996 ("Well"). Instead the Company purchases the water produced by this Well from the Claude K. Neal Family Trust ("Trust"), which Staff understands owns the Well and is responsible for its maintenance and repair. Cerbat relies on the Well as its sole source of water. Water from the Well is piped to the 22,000 gallon storage tank then after being pressurized via a booster pump it is piped to the 500,000 gallon storage tank. Water is delivered to customers from the 500,000 gallon storage tank via gravity flow. A permanent interconnection exists between the City of Kingman water system and the Cerbat water system. This interconnection consists of a two-inch pipeline and a meter located at the Well. This interconnection is used during emergencies to deliver water to Cerbat.<sup>4</sup>

According to ADWR well registration records, Well No. 55-624996 was drilled in 1977 to a depth of 1,000 feet and is equipped with a 16-inch casing. Records indicate the well is capable of producing water at a rate of 6,000 gallons per minutes ("GPM"). A diesel engine was used to run the well pump. According to the Company, the subject water curtailment and outage occurred when the diesel engine failed. When the diesel engine failed, the Trust could not deliver water to the 22,000 gallon storage tank. Initially the City of Kingman refused to deliver water through the interconnection because the Trust was delinquent in paying its bill for water previously delivered. Since the Trust provides the sole source of water to the Company the Company, was faced with an emergency condition.

At the time the diesel engine failed commercial power had not been extended to the well site. On December 3, 2009, the Trust informed Staff that commercial power is being installed at the Well site as well as an electric pump motor. Final inspection of the electrical facility extension is underway. Staff understands that repairs to the diesel engine are still not complete. Meanwhile, the Trust rented an electric pump to produce water for the Company.

### **ADEQ Compliance**

Staff received a memorandum from ADEQ dated November 20, 2009, in which ADEQ stated that major water system operation and maintenance deficiencies exist. ADEQ has determined the water system is not in compliance with ADEQ requirements and ADEQ can not determine if this system is delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

### **ADWR Compliance**

The Company is not located in any ADWR Active Management Area ("AMA"). Staff received a memorandum dated November 18, 2009, from ADWR stating that ADWR has determined that Cerbat failed to file its System Water Plan and is currently not in compliance with departmental requirements governing water providers and/or community water systems.

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<sup>4</sup> The physical connection with the City of Kingman water system occurs at the Well.

### **ACC Compliance**

A check of the ACC Compliance Section Database indicates that there are currently no delinquent compliance items for Cerbat.

### **Summary**

#### *Conclusions*

1. ADEQ stated that it has determined the water system is not in compliance with ADEQ requirements and ADEQ can not determine if this system is delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.
2. A check of the ACC Compliance Section Database indicates that there are currently no delinquencies for Cerbat.
3. ADWR has determined that Cerbat is currently not in compliance with departmental requirements governing water providers and/or community water systems.
4. The Trust acts as the sole source of water to Cerbat. Staff concludes that Cerbat faced an emergency when the Well pump failed and the Trust failed to deliver water to Cerbat.

# AFFIDAVIT OF PUBLICATION

## MOHAVE COUNTY NEWSPAPERS THE STANDARD

221 E. Beale St. Kingman, AZ 86401  
Phone: (928) 753-1143 Fax: (928) 753-1312

STATE OF ARIZONA  
COUNTY OF MOHAVE

I, Billie Jo Perkins, am authorized by the publisher as agent to make this affidavit of publication. Under oath, I state that the following is true and correct.

*The Standard* is a newspaper which is published weekly, is of general circulation, and is in compliance with Arizona Revised Statutes 10-140.34 & 39-201.A & B.

The notice will be/has been published 1 consecutive times in the newspaper listed above.

DATES OF PUBLICATION:

- 1) 12/16/09
- 2) \_\_\_\_\_
- 3) \_\_\_\_\_
- 4) \_\_\_\_\_

ORIGINAL

TYPE OF DOCUMENT: Notice of Hearing  
Example: Merger between parties; name change from/to; foreign authority with a fictitious name; articles of incorporation; application for authority; articles of organization; amendment; etc.

NAME/ ACTION(FILE #): Cerbat Water Company, Inc.

AUTHORIZED SIGNATURE:

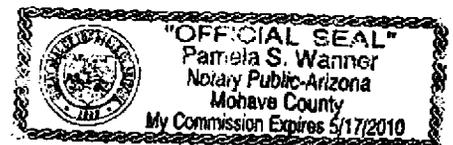
*Billie Jo Perkins*  
Billie Jo Perkins

SUBSCRIBED AND SWORN TO BEFORE ME ON THE

16<sup>th</sup> DAY OF December, 2009.

NOTARY SIGNATURE:

Pamela S. Warner



PUBLIC NOTICE OF THE HEARING ON CERBAT WATER COMPANY, INC'S REQUEST FOR AN EMERGENCY WATER RATE INCREASE/SURCHARGE DOCKET NO. W-02391A-09-0516 Carbat Water Company, Inc., ("Company") has requested the Arizona Corporalton Commission determine if an emergency one-time surcharge of \$30.00 per customer, and an emergency base rate increase of \$20.00 per month, per customer and an increase in gallonage charges should be granted. The Company asserts that it does not have the funds necessary to effectuate much needed repairs to the system. The Commission may approve the amount of the request or modify the amount higher or lower, or may deny the request by the Company. THE COMMISSION WILL HOLD A PUBLIC HEARING ON JANUARY 20, 2010, AT 10:00 A.M. AT THE COMMISSION'S PHOENIX OFFICES AT 1200 WEST WASHINGTON STREET, ROOM 100, PHOENIX, ARIZONA. CUSTOMERS CAN ATTEND THE HEARING AND MAKE PUBLIC COMMENT, OR FILE WRITTEN COMMENTS WITH THE COMMISSION. INTERESTED PARTIES MAY INTERVENE BY FILING A WRITTEN MOTION TO INTERVENE WITH THE COMMISSION BY JANUARY 8, 2010. IF YOU DESIRE FOR INFORMATION ON HOW TO INTERVENE OR SUBMIT PUBLIC COMMENT, CONTACT THE COMMISSION'S CONSUMER SERVICES SECTION AT 1-800-222-7000. THE APPLICATION AND ALL FILINGS ARE AVAILABLE ON THE INTERNET VIA THE COMMISSION WEBSITE (WWW.AZCC.GOV) USING THE E-DOCKET FUNCTION. The Commission does not discriminate on the basis of disability in admission to its public meetings. Persons with a disability may request a reasonable accommodation such as sign language interpreter, as well as request this document in an alternative format, by contacting Shaylin Bernal, ADA Coordinator, voice phone number 602-542-3931, E-mail SABernal@azcc.gov. Requests should be made as early as possible to allow time to arrange the accommodation.  
Publish: 12/16/09

ORIGINAL

**PUBLIC NOTICE OF THE HEARING ON CERBAT WATER COMPANY, INC.'S  
REQUEST FOR AN EMERGENCY WATER RATE INCREASE/SURCHARGE  
DOCKET NO. W-02391A-09-0516**

Cerbat Water Company, Inc. ("Company") has requested the Arizona Corporation Commission determine if an emergency one-time surcharge of \$30.00 per customer, and an emergency base rate increase of \$20.00 per month, per customer and an increase in gallonage charges should be granted. The Company asserts that it does not have the funds necessary to effectuate much needed repairs to the system. The Commission may approve the amount of the request or modify the amount higher or lower, or may deny the request by the Company.

**THE COMMISSION WILL HOLD A PUBLIC HEARING ON JANUARY 20, 2010, AT 10:00 A.M. AT THE COMMISSION'S PHOENIX OFFICES AT 1200 WEST WASHINGTON STREET, ROOM 100, PHOENIX, ARIZONA. CUSTOMERS CAN ATTEND THE HEARING AND MAKE PUBLIC COMMENT, OR FILE WRITTEN COMMENTS WITH THE COMMISSION.**

**INTERESTED PARTIES MAY INTERVENE BY FILING A WRITTEN MOTION TO INTERVENE WITH THE COMMISSION BY JANUARY 8, 2010. IF YOU DESIRE MORE INFORMATION ON HOW TO INTERVENE OR SUBMIT PUBLIC COMMENT, CONTACT THE COMMISSION'S CONSUMER SERVICES SECTION AT 1-800-222-7000. THE APPLICATION AND ALL FILINGS ARE AVAILABLE ON THE INTERNET VIA THE COMMISSION WEBSITE ([WWW.AZCC.GOV](http://WWW.AZCC.GOV)) USING THE E-DOCKET FUNCTION.**

The Commission does not discriminate on the basis of disability in admission to its public meetings. Persons with a disability may request a reasonable accommodation such as sign language interpreter, as well as request this document in an alternative format, by contacting Shaylin Bernal, ADA Coordinator, voice phone number 602-542-3931, E-mail [SBernal@azcc.gov](mailto:SBernal@azcc.gov). Requests should be made as early as possible to allow time to arrange the accommodation.

CLAUDE K. NEAL FAMILY TRUST

THE STANDARD

CWC NOTICE OF RATE INCREASE

12/14/2009

6177

39.20

PAYMENT  
RECORD

MOHAVE STATE BA PUBLIC NOTICE DEC 09

39.20

# THE STANDARD

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Classified Advertising  
Pre-Bill

221 E. Beale Street Kingman, AZ 86401 928-753-1143

W-02391A-09-0516

57

Please pay from this Pre-Bill. Return stub with payment. Rep ID: MW Terms: Prepay

**Description**  
Classification of Ad: 100 - Legals Zone:  
Text: PUBLIC NOTICE OF THE HEARING ON CERBAT WATER COMPANY, I...

Charges from 12/16/2009 to 12/16/2009

Date	Pub Type	Description	Price	Discount	Applied	Due
12/16/09	STN Ad	Legals Legals	\$39.20			\$39.20
			\$39.20			\$39.20

ORIGINAL

RECEIVED

2009 DEC 24 P 2:08

ARIZONA CORPORATION COMMISSION  
DOCKET CONTROL

Arizona Corporation Commission  
DOCKETED

DEC 24 2009

DOCKETED BY NR

ORIGINAL

**PAID**

Please return this portion with your payment

Remit Payment to:  
Mohave County Newspapers  
221 E. Beale Street  
Kingman, AZ 86401  
Fax: 928-753-1312

Laura Thode  
Cerbat Water Co.  
2409 Ricca Dr.  
Kingman, AZ 86401

**Classified Advertising Pre-Bill**

Amount Due \$39.20

Amount Enclosed \_\_\_\_\_

Issue Date: 12/16/09

Prebill Date: December 14, 2009

Ad # 16762

Account # 11150

## COVER SHEET

FROM TRUXTON CANYON WATER CO.  
2409 RICCA DRIVE  
KINGMAN AZ 86401  
928-753-1121  
928-753-1963 FAX

TO AL AMEZCUA  
602-542-2129 FAX

SUBJECT MANAGEMENT AGREEMENT WITH CLAUDE K. NEAL FAMILY TRUST  
& CERBAT WATER CO.

PAGES -2- INCLUDES COVER

**MANAGEMENT AGREEMENT**

THIS AGREEMENT, made as of the 1st day of January, 1991, by and between CERBAT WATER COMPANY, an Arizona corporation, hereinafter referred to as "Owner" and CLAUDE K. NEAL FAMILY TRUST, hereinafter referred to as "Manager."

**WITNESSETH:**

WHEREAS, Owner is a public service corporation operating a water utility system near the Cerbat Mountains and the Hualapai Valley area, and

WHEREAS, Owner is desirous of delegating the day-to-day operation and management functions to professional management, and

WHEREAS, Manager has substantial ability and experience enabling it to manage and operate Owner's facilities.

NOW, THEREFORE, the parties enter into this Agreement and for and in consideration of the mutual covenants, warranties and representations, and agree as follows:

1. Manager shall operate Owner's facilities, utilizing Manager's employees, in a manner consistent with the industry standards for the operation of said facilities, and consistent with the requirements of the appropriate health agencies. The operation shall include the right to modify, remove and replace any and all facilities. Consistent with the above standards and requirements, the day-to-day operation and maintenance of the facilities shall be the responsibility and prerogative of Manager; however, any maintenance or capital expenditures exceeding \$1,000.00 will

require the specific approval of Owner. Such management and operation shall include but not be limited to the following:

- A. Provision of a certified operator in accordance with the rules of the State of Arizona and Mohave County.
- B. Inspection and operation of the water plants, including disinfection, if necessary. Checking for proper operation of the well pumps, booster pumps, air compressors, tank levels and pressures.
- C. 24 hour a day availability to assist in emergencies.
- D. Regular inspection of the distribution system for leaks or other problems.
- E. Arrange for repairs to the system by qualified parties.
- F. Arrange for installation of water meters for new service connections within the Owner's service area.
- G. Monthly reading of the water meters as prescribed by the Arizona Corporation Commission.
- H. Bill customers monthly for water service, according to the rate schedule set by the Arizona Corporation Commission.
- I. Collect past-due water bills by turn-offs if necessary. The legal expenses associated with the prosecution and defense of collection matters involving the Commission or courts shall be borne by the Owner.
- J. Deposit payments to the water company account and provide full accounting to Owner.

Additionally, Manager shall provide to the Owner:

- K. Information regarding emergency repair; however, the Manager may at his sole discretion commit Owner to expenditures not to exceed \$1,000.00 without prior consent of Owner.
- L. Bid comparative information for non-emergency materials to be purchased.

- N. Information for annual reports as required by the Arizona Corporation Commission.
- N. Monthly revenue, expense and sales data.
- O. Recommendations regarding approval of bills for payment.
- P. A non-exclusive water company office in which normal customer service and payment can be conducted.
- Q. Cost accounting for petty cash expenditures.
- R. Data for annual A.D.W.R. withdrawal reports.

2. Owner and Manager agree that certain of the work contemplated to be performed by the Manager cannot be defined sufficiently at the time of execution of the Agreement, and that substantial additional work related to the operation and not covered in Paragraph 1 may be needed during performance of this Agreement. It is intended that such categories of work classified as special services for which Manager shall be paid by Owner at the rate of \$40.00 per man-hour, plus all direct costs to Manager as supported by invoice from the provider. These special services may include, but are not limited to, the following:

- A. Assist Owner in arbitration, litigation, public hearing, or other legal or administrative proceedings involving the water system.
- B. Services and costs necessitated by out-of-town travel required of the Manager.
- C. Consultation, review of plans contract and bid preparation, inspection and supervision of additions or construction, contract repairs or significant changes in the size or complexity of the water system.
- D. Meter installations and other construction projects requested by the Owner.

E. Consultation or other services on matters not otherwise provided in the Agreement.

F. Equipment repair services.

All special services except for emergencies and regulatory requirements must be authorized in writing by the Owner before work can progress and be billed per the current rate schedule.

3. The Owner shall pay to the Manager a fee of \$8.50 per service, per month, for services rendered pursuant to this Agreement. Special services performed pursuant to Paragraph 2 of this Agreement shall be paid monthly. If Owner fails to make any payment due Manager for services and expenses within 15 days after due date, an additional charge shall be 1.5 percent per month on the unpaid fees from the due date until fully paid.

4. The Owner is responsible for, and will arrange the funding of, all costs, expenses and capital improvements of the Company including but not limited to the following:

- A. Electric power and energy for the operation of the water system within the certificated area.
- B. All chemicals required to treat the water.
- C. Required testing performed by a laboratory.
- D. Insurance as may be required on the water system.
- E. Replacement of and repairs to the water system.
- F. All plant additions and improvements.
- G. Legal counsel for the water system.
- H. Engineering services.
- I. Accounting services for the water company.

Additionally, Owner shall:

- J. Assist Manager by placing at his disposal all available information pertinent to the water system, including all reports, as-built plans, specifications and any other data relative to the water system.
- K. Examine all information and reports presented by the Manager and render in writing decision or directives within a reasonable time.
- L. Give prompt notice to the Manager whenever the Owner becomes aware of any problem relating to the water system.
- M. Furnish or direct Manager to provide necessary special services as stipulated to in Paragraph 2 of the Agreement or other services as required.

5. Payment for the services performed under this Agreement shall be made monthly by Owner to Manager at its offices in Kingman, Arizona, within 15 days from date of receipt of the billing therefor.

6. Owner shall have the right to review the charges and billing procedure under Paragraph 3, including the man-hours assigned to the facilities, billings for services performed, and capital expenditures.

7. Owner shall be responsible for filing, maintaining, and reporting all regulatory, health, tax and corporate documents necessary for the continued operation of the plant.

8. Owner agrees that to the extent it is capable, and in its sole discretion, consistent with sound utility and management practices, it will provide the capital, or Commission approved funding mechanism, necessary to provide needed capital improvements as agreed upon by the Owner and Manager.

9. Owner shall arrange to have Manager named as an

additional insured on its liability insurance coverage and shall maintain reasonable amounts of liability insurance during the term hereof. Owner shall indemnify and hold Manager harmless from any and all liability for acts or omissions related to the operation of the facilities occurring during the term of this Agreement.

10. Manager shall not be liable to Owner nor to any of Owner's consumers, nor to any other person, firm or corporation whatsoever, for or on account of any claim resulting from any condition on the system that existed prior to the date of this Agreement, or for any interruption or failure in delivery of water in accordance with this Agreement, or for any substandard quality water supplied, or for or on account of any loss, injury or damage occasioned thereby, where such interruption or failure, either directly or indirectly, is caused by or results from any of the following:

- A. Fire, lightning, flood, windstorm, Act of God, invasion or force majeure.
- B. Compliance with any orders, rules or regulations, whether valid or invalid, of any governmental authority or agency.
- C. Strikes, lockouts or labor disputes.
- D. Interruption in supply or delivery, or any other failure to perform by any person under any contracted supplier of water to Owner.
- E. Breakdown, repair or replacement of any machinery, equipment, pipeline or other facility.
- F. Shortage of power, supplies, material or labor, or where such interruption or failure is directly or indirectly due to any cause not reasonably preventable by Manager or not reasonably within its control.

In case such interruption or failure shall be occasioned by any

cause specified under E or F above, Manager will endeavor to remedy or eliminate such cause as expeditiously as is reasonably possible. In the event claims or causes of action are instituted by third parties as a result of the interruptions or substandard quality water supplied as hereinabove specified, Owner shall indemnify and defend Manager against all liability or loss.

11. Manager shall perform no public service corporation functions or services as a result of this Agreement. If, at any time, the Arizona Corporation Commission, or any other state or federal commission or body having authority to regulate public utilities, should attempt or threaten to exercise jurisdiction over Manager for the purpose of regulating the operation of the facilities for Owner, or for the purpose of examining the books, accounts or other internal affairs of Manager in connection with such services, Manager may notify Owner of such facts, and this Agreement shall be deemed terminated fifteen (15) days following receipt of such notice by Owner. Waiver by Family Trust of the exercise of jurisdiction by any regulatory commission or body shall not be deemed a waiver with respect to any subsequent or additional regulation.

12. By terms of this Agreement, Manager shall not obtain and Owner does not surrender any ownership rights in the subject facilities.

13. This Agreement shall remain in full force and effect for the term of one year from the effective date and thereafter until terminated by either party hereto by giving written notice of such termination to the other. Such notice must specify the date of

termination and shall be given not less than sixty (60) days prior to such date.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the day and year first written above.

CLAUDE K. NEAL FAMILY TRUST

By B Marc Neal

CO-TRUSTEE

By Rita B. Neal

CO-TRUSTEE

CERBAT WATER COMPANY

By B Marc Neal

OWNER

## COVER SHEET

**FROM** TRUXTON CANYON WATER CO.  
2409 RICCA DRIVE  
KINGMAN AZ 86401  
928-753-1121  
928-753-1963 FAX

**TO** ALEX IGWEY  
602-542-2129 FAX

**SUBJECT** WATER SUPPLY AGREEMENT

**PAGES** -9- INCLUDES COVER

**WATER SUPPLY AGREEMENT**

This Agreement, made as of the 1st day of January, 1991, by and between CLAUDE K. NEAL FAMILY TRUST, an Arizona corporation (hereinafter referred to as "Family Trust"), and CERBAT WATER COMPANY, an Arizona corporation (hereinafter referred to as "Cerbat").

**WITNESSETH:**

WHEREAS, Family Trust has certain water rights and owns and operates water production, collection, transmission and certain pressure facilities in portions of Mohave County, Arizona, and

WHEREAS, Cerbat owns and operates a public water distribution system in and near the Cerbat Mountains and the Hualapai Valley area.

NOW, THEREFORE, in consideration of the premises and mutual covenants of the parties hereto, respectively, the parties hereby agree as follows:

1. During the term of this Agreement, Family Trust will furnish and deliver potable water to Cerbat for the requirements of Cerbat's customers located within Cerbat's service area as hereinafter defined.

2. Delivery of the water under this Agreement shall be to mutually agreed upon delivery points through Family Trust owned and operated non-utility facilities.

3. Service under this Agreement shall be provided by Family Trust through an existing sixteen inch service line at peak delivery rate of 250 gallons per minute, not to exceed 100,000

gallons per day. Cerbat shall utilize said water only within its service area. That area is defined to be the lesser of: (1) Cerbat's certificated area as authorized by the Arizona Corporation Commission; or (2) Cerbat's service area as defined by the Arizona Department of Water Resources, as those areas may be modified from time to time. All water used by Cerbat shall be consistent with Arizona law.

4. Family Trust is not obligated to provide any water storage for Cerbat under this Agreement. Family Trust will use its best effort to maintain a continuous water supply to Cerbat consistent with Paragraph 3 above. Cerbat agrees to maintain adequate storage to meet its service obligations. In determining that storage request, Cerbat recognizes the normal operational outages on the Family Trust system. In the event Cerbat needs water quantity, quality or reliability greater than set forth in the Agreement, it shall give written notice of those requirements to Family Trust not less than one year prior to the anticipated need. Family Trust will endeavor to provide that service if, in the sole opinion of Family Trust, such service is technically, legally, and commercially feasible. Nothing in this Agreement shall be interpreted to prohibit Cerbat from obtaining its own replacement or supplemental water supply.

5. Family Trust, at its expense, shall install and maintain water meters at mutually agreed upon delivery points. The meters shall be calibrated to the satisfaction of both parties and shall be recalibrated within a reasonable time after request made by

either party, in accordance with the following procedures:

(a) The recalibration shall be done in the presence of the authorized representative of each party and the cost shall be borne equally by both parties.

(b) If the recalibration discloses inaccuracy exceeding 3%, the consumption recorded during the previous 30 days, or the part thereof which may be subsequent to the last preceding recalibration, shall be corrected using the recalibration data.

(c) In the event any meter ceases registration or it is evident that the inaccuracy has existed for a period shorter than 30 days, correction shall be made based upon estimates from other meters or from other proper data.

(d) Corrections so made shall be accepted by both parties as adjusting all claims arising out of such inaccuracy.

6. Family Trust shall test, or cause to be tested, and treat as necessary all water subject to this Agreement. Testing and treatment standards shall be those established by the Arizona Department of Health Services or other appropriate regulatory agency. In the event treatment of the water is required, Family Trust may, at its option, undertake such treatment and make such capital investment as is necessary to comply with the water quality requirements of the appropriate regulatory agency(s). In that event, Family Trust shall own and operate or cause to be operated the necessary treatment facilities. The capital, operating and maintenance cost associated with said treatment will be recovered by adjustments in the water purchase price as set forth in

Paragraph 8 below. The testing and water quality compliance beyond the point of delivery by Family Trust shall be the responsibility of Cerbat.

7. Family Trust retains the right to take bulk water deliveries at any standpipe adjacent to delivery points under this Agreement. Family Trust agrees that 1) it will not take such water deliveries for use within Cerbat's service area or if Cerbat needs the available water for its fixed or standpipe customers, 2) all water taken by Family Trust shall be metered and not billed to Cerbat, and 3) the water price to Cerbat under Paragraph 8, as adjusted from time to time, shall not reflect any increase in capital, operation or maintenance costs caused by the volume of water used by Family Trust.

8. Cerbat shall pay to Family Trust all metered water deliveries at the agreed upon delivery points at the rate of \$.65 per 1,000 gallons delivered. That price shall be subject to review on each anniversary date of the Agreement, but will not be changed except upon 90 days written notice to Cerbat. Said price will be based upon the market value of the water considering the operation, maintenance and capital cost to Family Trust, plus a return on the value of the equipment and facilities necessary to provide service under this Agreement.

9. On or before the 10th day of each month, Family Trust shall furnish to Cerbat a statement for the water delivered during the preceding month. Payment for all said deliveries shall be made monthly by Cerbat to Family Trust at its general offices in

Kingman, Arizona, within 15 days from the receipt of the statement therefore, which payment shall be in conformity with the charges provided for in this Agreement.

10. In the event either party, by reason of an uncontrollable force as hereinafter defined, is rendered unable, wholly or in part to perform its obligations under this Agreement (other than its obligations under this Agreement to pay money), then upon said party giving notice and particulars of such uncontrollable force in writing to the other party promptly after learning thereof, the obligations of said party so far as they are affected by such uncontrollable force shall be suspended during the continuance of any inability so caused but for no longer period and the effects of such cause shall, so far as possible, be remedied with all reasonable dispatch. However, nothing contained herein shall be so construed as to require a party to settle any strike or labor dispute in which it may be involved. The affected party shall not be responsible for its delay in performance under this Agreement during delays caused by an uncontrollable force nor shall such uncontrollable force give rise to a claim for damages or constitute default, except for the obligation to make payment for bills rendered pursuant to Paragraph 9 hereof.

An "uncontrollable force" shall mean an act of God, act or omission of government, government priority, failure of or threat of failure of facility, scheduled or unscheduled maintenance and repair, labor or material shortage, act or omission of civil or military authority, labor dispute, strike, lockout or other

industrial disturbance, act of the public enemy, war, blockade, insurrection, riot, epidemic, landslide, earthquake, fire, storm, lightning, flood, washout, civil disturbance, restraint by court order or public authority, action or nonaction by or inability to obtain necessary authorization or approval from any governmental agency or authority, and any other act or omission similar to the kind herein enumerated not within the control of the affected party and which by the exercise of due diligence said party is unable to overcome.

11. Family Trust, its officers, directors and employees shall not be liable to Cerbat or to any other person whomsoever for any death, injury or damage that may result to any person or property by or from any cause whatsoever for the provision, or failure to provide any water or service under this Agreement, unless caused by the willful misconduct of Family Trust, its officers, directors or employees. Cerbat shall indemnify and hold Family Trust, its officers, directors and employees, harmless from and defend them and each of them against any and all claims, losses or judgments for a death of, or injury to, any person, or for damage to any property whatsoever incurred in the provision, or failure to provide, any water or service under this Agreement, unless caused by the willful misconduct of Family Trust, its officers, directors or employees. In the event any action or proceeding is brought against Family Trust, its officers, directors or employees, by reason of any such claim, Cerbat, upon notice from Family Trust, shall resist or defend such action or proceeding at its expense.

12. Family Trust shall not be required to perform any public service corporation functions or services as a result of this Agreement. If, at any time, the Arizona Corporation Commission, or any other state or federal commission or body should attempt or threaten to exercise jurisdiction over Family Trust for the purpose of regulating sales of water made by it, whether to Cerbat or any other person, firm or corporation, or for the purpose of examining the books, accounts or other internal affairs of Family Trust in connection with such sales or any thereof, Family Trust may, notwithstanding Paragraph 14, notify Cerbat of such facts, and this Agreement shall be deemed terminated sixty (60) days following receipt of such notice by Cerbat. Waiver by Family Trust of the exercise of jurisdiction by any regulatory commission or body shall not be deemed a waiver with respect to any subsequent or additional regulation.

13. This Agreement shall remain in full force and effect for a term of one year from the date hereof and shall be automatically extended from year to year thereafter until terminated by either party hereto by giving written notice of such termination to the other. Such notice shall specify the date of termination and shall be given not less than sixty (60) days prior to the termination date.

14. This Agreement shall be governed by and construed in accordance with the laws of the State of Arizona.

15. This Agreement may be executed in any number of counterparts, each of which when so executed shall be deemed to be

an original, but each such counterpart shall together constitute but one Agreement.

16. Written notice to either party concerning this Agreement shall be sent by certified mail, except that invoices may be sent by first class mail. Written notice and communications to Cerbat shall be addressed to:

CERBAT WATER COMPANY  
President  
2409 Ricca Drive  
Kingman, Arizona 86401

17. Written notices and communications to Family Trust shall be addressed as follows:

CLAUDE B. NEAL FAMILY TRUST  
Co-Trustee  
2409 Ricca Drive  
Kingman, Arizona 86401

18. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns. Assignment shall only be upon written approval of the other party, which approval shall not be withheld or delayed unreasonably.

IN WITNESS WHEREOF, the parties hereto have caused this Water Supply Agreement to be executed as of the day and year first written.

CLAUDE K. NEAL FAMILY TRUST

By B Marc Neal

Its Co-Trustee

By Rita B Neal

Its Co-Trustee

CERBAT WATER COMPANY

By B Marc Neal

Its President