

OPEN MEETING ITEM
ORIGINAL



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



ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION
DOCKET CONTROL

DATE: SEPTEMBER 26, 2011

DOCKET NO.: W-02391A-10-0218, W-02391A-11-0166 and W-02391A-11-0309

TO ALL PARTIES:

Enclosed please find the recommendation of Administrative Law Judge Dwight D. Nodes. The recommendation has been filed in the form of an Opinion and Order on:

CERBAT WATER COMPANY
(RATES/FINANCE/ORDER TO SHOW CAUSE)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and thirteen (13) copies of the exceptions with the Commission's Docket Control at the address listed below by 4:00 p.m. on or before:

OCTOBER 6, 2011

The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Open Meeting to be held on:

OCTOBER 11, 2011 AND OCTOBER 12, 2011

For more information, you may contact Docket Control at (602) 542-3477 or the Hearing Division at (602) 542-4250. For information about the Open Meeting, contact the Executive Director's Office at (602) 542-3931.

Arizona Corporation Commission
DOCKETED

SEP 26 2011

DOCKETED BY

ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

1200 WEST WASHINGTON STREET, PHOENIX, ARIZONA 85007-2927 / 400 WEST CONGRESS STREET, TUCSON, ARIZONA 85701-1347

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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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

IN THE MATTER OF THE APPLICATION OF
CERBAT WATER COMPANY FOR A
PERMANENT RATE INCREASE.

DOCKET NO. W-02391A-10-0218

IN THE MATTER OF STAFF'S REQUEST FOR
COMMISSION ISSUANCE OF AN ORDER TO
SHOW CAUSE FOR THE FAILURE OF CERBAT
WATER COMPANY TO COMPLY WITH
COMMISSION RULES AND REGULATIONS.

DOCKET NO. W-02391A-11-0166

IN THE MATTER OF THE APPLICATION OF
CERBAT WATER COMPANY FOR AUTHORITY
TO INCUR LONG-TERM DEBT.

DOCKET NO. W-02391A-11-0309

DECISION NO. _____

OPINION AND ORDER

DATE OF HEARINGS:

March 21, 2011 (Procedural Conference); April 27, 2011 (Open Meeting Hearing); May 26, 2011 (Hearing/Procedural Conference); May 27, 2011 (Emergency Open Meeting Hearing).

PLACE OF HEARINGS:

Phoenix, Arizona

ADMINISTRATIVE LAW JUDGE:

Dwight D. Nodes

APPEARANCES:

Mr. Steve Wene, MOYES SELLERS & HENDRICKS, LTD, on behalf of Cerbat Water Company; and

Ms. Kimberly A. Ruht and Mr. Charles Hains, Staff Attorneys, Legal Division, on behalf of the Utilities Division of the Arizona Corporation Commission.

BY THE COMMISSION:

Having considered the entire record herein and being fully advised in the premises, the Commission finds, concludes, and orders:

FINDINGS OF FACT

Background and Procedural History

1. On June 1, 2010, Cerbat Water Company ("Cerbat" or "Company") filed with the

1 Arizona Corporation Commission (“Commission”) an application for approval of a permanent rate
2 increase in Docket No. W-02391A-10-0218 (“Rate Docket”). Cerbat provides water utility service to
3 approximately 265 customers in an area located 4 miles northwest of the City of Kingman, Arizona
4 (“Kingman” or “City”). (Ex. S-2, at 3.)¹

5 2. Cerbat is a C corporation originally certificated to provide water service in Mohave
6 County, Arizona, by Decision No. 52443 (September 4, 1981). The Company’s current rates and
7 charges were established in Decision No. 64886 (June 5, 2002). (*Id.*)

8 3. By its application, the Company seeks to increase its permanent base rate operating
9 revenues by \$57,946 (approximately 54 percent), from \$107,339 to \$165,285. Cerbat’s proposed
10 rates for a typical ¾-inch meter residential customer, with median usage of 4,569 gallons of water per
11 month, would result in an increase of \$13.24 per month (51.9 percent), from \$25.54 to \$38.78. (*Id.*)

12 4. Cerbat is a wholly owned subsidiary of the Claude K. Neal Family Trust (“Trust”), an
13 entity that, until recently, sold water to Cerbat pursuant to a Water Supply Agreement.² (*Id.*) The
14 Trust continues to operate the Company under the terms of a Management Agreement, through the
15 management of Blackhawk Development, LLC (“Blackhawk”), a company located in Las Vegas,
16 Nevada, and operated by Rick Neal as Blackhawk’s member manager. (*Id.*; Tr. 4.) The Trust and
17 Blackhawk also own and operate, respectively, Truxton Canyon Water Company.

18 5. By Procedural Order issued June 18, 2010, a public comment session was scheduled
19 for June 24, 2010, in Kingman. The public comment session was conducted by the Commission on
20 June 24, 2010, as scheduled, during which customers of Cerbat provided comments regarding the
21 proposed rate increase and problems related to service provided by the Company. The Commission’s
22 Consumer Services Section has also received a number of public comments in opposition to Cerbat’s
23 proposed rate increase.

24 6. On July 1, 2010, the Commission’s Utilities Division (“Staff”) issued a Notice of
25 Insufficiency pursuant to Arizona Administrative Code (“A.A.C.”) R14-2-103(B).

26 _____
27 ¹ Unless otherwise indicated, citations are to the exhibits admitted at the Commission’s April 27, 2011 hearing conducted
during an Open Meeting and to the transcript prepared from the recording of that hearing.

28 ² See, Notice of Errata filed May 18, 2011, and attached Quitclaim Deed dated May 12, 2011, evidencing transfer of the
well used to supply water to Cerbat’s customers, from the Trust to the Company.

1 publication and mailing to customers.³

2 15. On April 19, 2011, Staff filed a Petition for Order to Show Cause and Motion for
3 Preliminary Relief in Docket No. W-02391A-11-0166 ("OSC Docket"). Staff's OSC Petition
4 requested that the Commission immediately appoint an interim manager for Cerbat, require the
5 interim manager to investigate the need for emergency rate relief and to work with Kingman to re-
6 establish an interconnection with the City, and consolidate the Rate and OSC Dockets.

7 16. On April 20, 2011, the Commission convened a Special Open Meeting to discuss
8 Staff's request for an OSC against Cerbat. The Commission adjourned the Special Open Meeting to
9 provide the Company and the public with additional notice.

10 17. On April 27, 2011, Cerbat filed a Response to Staff's Petition and Motion. The
11 Company argued that the Commission has no legal authority to appoint an interim manager, that it
12 was unable to pay vendors more than \$85,000 for repair work on the well then owned by the Trust,
13 and that the Company owed UNS Electric Company approximately \$12,000 for electric charges and
14 deposits. Cerbat therefore requested that the Commission immediately approve a monthly surcharge
15 of \$10.00 per customer to pay delinquent bills and ongoing expenses.

16 18. Both the Rate Docket and OSC Docket were discussed at the Commission's April 27,
17 2011 Open Meeting.⁴ At the conclusion of the discussion, the Commission directed Cerbat to file a
18 deed and bill of sale evidencing transfer to the Company of the sole well that provides water to
19 Cerbat's customers. The Company was also directed to provide documentation regarding debts
20 associated with well improvements made in the recent past.

21 19. On May 4, 2011, a Procedural Order was issued granting Cerbat an extension of time
22 to file its response to the Staff Report in the Rate Docket.

23 20. On May 13, 2011, Cerbat filed Additional Comments and Exhibits in the Rate Docket.
24 The Company attached to its filing pages from a Cash Disbursement Journal and Cash Receipts
25 Journal, various invoices related to well repairs, and a Quitclaim Deed showing that the well used to

26

27 ³ Cerbat filed on May 13, 2011, Notice of Mailing and Publication of Public Notice of Hearing along with affidavits
attesting to compliance with the notice provisions set forth in the April 6, 2011, Procedural Order.

28 ⁴ The Commission also discussed a pending OSC case involving Cerbat's sister company, Truxton Canyon Water
Company ("Truxton Canyon"), (Docket No. W-02168A-10-0247) during the April 27, 2011, Open Meeting.

1 serve Cerbat's customers had been transferred from the Trust to the Company on May 12, 2011.

2 21. On May 18, 2011, Cerbat filed a Notice of Errata including two attachments that were
3 omitted from Quitclaim Deed filed on May 13, 2011.

4 22. On May 20, 2011, Staff filed in the OSC Docket Comments on Cerbat Water
5 Company's Application for Emergency Rate Surcharge. Based on its review of the Quitclaim Deed
6 and well repair invoices submitted by the Company, Staff recommended that Cerbat be permitted to
7 implement a Well Repairs Surcharge of \$12.52 per customer per month to enable the Company to
8 repay \$119,444 for past due well repair expenses. Staff's recommendation was as follows:

- 9
- 10 a. Cerbat should be authorized to collect a Well Repairs Surcharge of
11 \$12.52 per customer per month, effective June 1, 2011, or on the first
12 day of the month after the Company provides docketed evidence of
13 customer notice of the surcharge;
 - 14 b. Cerbat should be ordered to segregate proceeds from the Well Repairs
15 Surcharge in a dedicated and separate bank account;
 - 16 c. Cerbat should be ordered to utilize proceeds of the Well Repairs
17 Surcharge for the sole purpose of paying the \$119,444 incurred for
18 well repairs;
 - 19 d. Cerbat should be ordered to pay each vendor a pro rata amount based
20 on the vendor's share of the balance of past due debt each month from
21 the proceeds of the Well Repairs Surcharge;
 - 22 e. The emergency surcharge should remain in effect for three years from
23 the date of implementation, or until the \$119,444 in costs are paid in
24 full, whichever comes first;
 - 25 f. Cerbat should be ordered to file a quarterly report with Docket Control
26 stating the amount collected by the Well Repairs Surcharge and
27 amounts paid to each vendor, not later than 30 days following the end
28 of each calendar quarter, beginning in October 2011;
 - g. Cerbat should be ordered to seek Commission approval prior to
transferring or selling any parcel of its land or other assets to the Trust
or any other entity;
 - h. Cerbat should be ordered to file a copy of its stamped, recorded deed
reflecting the Company's ownership of the well no later than 60 days
from the effective date of the Commission's Order approving the
emergency surcharge;
 - i. Cerbat should be ordered to register with the Arizona Department of
Water Resources ("ADWR") its ownership of ADWR Well No. 55-
624996, and to file evidence of such registration no later than 60 days
from the effective date of the Commission's Order approving the
emergency surcharge;
 - j. Cerbat should be ordered to acquire all infrastructure, equipment
and/or easements, including but not limited to wells, pipes, storage

1 tanks, and standpipes, necessary to provide adequate, proper and
reliable service to customers; and

- 2 k. Staff should be granted authority to appoint an interim manager for
3 Cerbat, without further action of the Commission, if Cerbat fails to
4 comply with any of the requirements imposed by the Commission as
5 conditions of approval of the emergency rate surcharge, or if the
Company is not in full compliance with Commission rules, regulations
or orders. Staff requested that the interim manager authority remain in
effect until further order of the Commission.

6 23. During the May 24, 2011, Open Meeting, the Commission discussed Staff's proposed
7 \$12.52 Well Repairs Surcharge, as well as Staff's other recommended conditions. The Commission
8 agreed with Staff's recommendations except that Staff was directed to "appoint an interim manager
9 as soon as possible."⁵

10 24. On May 26, 2011, the hearing in the Rate Docket was convened, as scheduled.⁶ At the
11 hearing, counsel for Cerbat claimed that he could no longer represent the Company due to an alleged
12 conflict of interest that existed following the Commission's vote to direct Staff to appoint an interim
13 manager as soon as possible. Counsel argued that his client was Cerbat Water Company, "on behalf
14 of the Neals," and that "we no longer own the water company." (May 24, 2011, Tr. 4-5.) Due to
15 concerns that the Neals may not appreciate fully the continuing obligation to manage and operate
16 Cerbat until such time as an interim manager is appointed, the Company's counsel was directed to
17 file a statement, by May 27, 2011, acknowledging the ongoing obligation to serve. (*Id.* at 36-39.)
18 Staff and the Company's counsel also agreed that a hearing in the Rate Docket was no longer
19 necessary and a decision regarding the rate application could be issued based on the filings previously
20 submitted in the case. (*Id.* at 13-16, 32, 39-40.)

21 25. On May 27, 2011, Cerbat filed a Clarification of Managerial Responsibility affirming
22 that Rick Neal would continue to carry out the day-to-day management and operations of the
23 Company until Staff appoints an interim manager.

24
25 ⁵ Decision No. 72385 (May 27, 2011), at 4. *See, also*, Decision No. 72384 (May 27, 2011), formally consolidating the
Rate and OSC Dockets.

26 ⁶ On May 25, 2011, counsel for Cerbat requested a teleconference with Staff counsel and the Administrative Law Judge to
27 discuss Cerbat counsel's assertion that he could not represent the Company due to an alleged ethical conflict following
the Commission's vote at the May 24, 2011, Open Meeting directing Staff to appoint an interim manager as soon as
28 possible. Cerbat's counsel was directed to appear at the hearing on May 26, 2011, to present arguments on the record
regarding his alleged conflict of interest.

1 26. On May 27, 2011, the Commission convened an Emergency Open Meeting to address
2 emergency measures necessary to avoid an interruption of service due to a sudden outage of Cerbat's
3 well. The Company, with the assistance of Staff, was able to secure a temporary interconnection and
4 water purchase agreement with Kingman until the well could be repaired. The Commission also
5 verbally approved an Emergency Water Purchase Surcharge Mechanism ("EWPSM") to enable
6 Cerbat to collect from its customers a one-time surcharge to recover the costs of water purchased
7 from the City during the well outage.

8 27. On June 2, 2011, Staff filed a Proposed Form of Order to memorialize the
9 Commission's actions taken at the May 27, 2011, Emergency Open Meeting.⁷

10 28. On June 13, 2011, Cerbat filed an affidavit attesting that Notice of the EWPSM had
11 been mailed to all customers on June 3, 2011.

12 29. On June 16, 2011, Cerbat filed an Application for Reconsideration of Decision No.
13 72385. The Company requested that the Commission reconsider its directive for Staff to appoint an
14 interim manager as soon as possible.⁸

15 30. On June 23, 2011, Cerbat filed an EWPSM tariff in compliance with Decision No.
16 72428, reflecting the methodology for calculating the surcharge for water purchased from the City
17 during the well outage. The Company also filed a letter stating that it had purchased 1 million
18 gallons of water from Kingman, at a total cost of \$3,325, and that "Cerbat employees are in the
19 process of reading customer meters and calculating the individual surcharge."

20 31. On July 1, 2011, Cerbat filed a Notice of Mailing of Public Notices attesting that it
21 had mailed to customers notice of the implementation of the \$12.52 surcharge approved in Decision
22 No. 72385.

23 32. On July 7, 2011, the Company filed a Notice of Filing Recorded Deed and attached a
24 copy of the recorded quitclaim deed filed with the Mohave County Recorder.

25 _____
26 ⁷ Staff's Proposed Form of Order for approval of the EWPSM was discussed and approved during the Commission's June
27 16, 2011, Open Meeting. The signed Order approving the surcharge was docketed on June 22, 2011 (Decision No.
28 72428).

⁸ On June 24, 2011, Commissioner Stump filed a letter requesting that Cerbat's request for rehearing be placed on a Staff
Open Meeting agenda for discussion. At the Staff Open Meeting held on June 28, 2011, the Commission voted to grant
rehearing for the limited purpose of allowing additional time for consideration of the Company's request, and directed
Staff to file a response to Cerbat's rehearing application. (See, Decision No. 72449, June 28, 2011.)

1 33. On July 20, 2011, Staff filed a Response to Company's Application for
2 Reconsideration of Decision No. 72385.

3 34. On July 20, 2011, Staff also filed a recommended proposed form of order addressing
4 Cerbat's request for reconsideration.

5 35. On July 27, 2011, Cerbat filed the change of well ownership form filed with ADWR.

6 36. On August 3, 2011, the Company filed a Reply to Staff's Response to the Request for
7 Reconsideration of Decision No. 72385.

8 37. On August 3, 2011, Cerbat filed an application for authority to incur long-term debt in
9 the form of a loan from the Water Infrastructure Finance Authority ("WIFA") in Docket No. W-
10 0239A-11-0309 ("Finance Docket").

11 38. On August 22, 2011, Staff filed a Motion to Consolidate the Finance Docket with the
12 previously consolidated Rate and OSC Dockets.⁹

13 39. On August 24, 2011, the Commission issued Decision No. 72549 extending the time
14 period for further consideration of the request for rehearing of Decision No. 72385. Decision No.
15 72385 also directed Cerbat to file by October 17, 2011, "a status report concerning improvements in
16 Company management and any issues related to its provision of safe and adequate water service to its
17 customers."

18 40. On August 24, 2011, Cerbat filed a statement showing the amount paid to the City of
19 Kingman during the water emergency and the amount collected from customers under the EWPSM.

20 41. On August 31, 2011, Staff filed its Staff Report in the Finance Docket recommending
21 approval of the Company's application subject to certain modifications and conditions.

22 42. On September 21, 2011, Cerbat filed its Comments to Staff Report in the Finance
23 Docket.

24 43. On September 22, 2011, Cerbat filed an Affidavit of Publication regarding the notice
25 published in the *Kingman Daily Miner* regarding the Finance Docket.

26 ...

27 _____
28 ⁹ On September 7, 2011, a Procedural Order was issued consolidating the Finance Docket with the Rate and OSC Dockets.

1 Rate Docket

2 44. As indicated above, Cerbat provides water utility service to approximately 265
3 customers in an area located 4 miles northwest of Kingman. (February 4, 2011, Staff Report, Ex. S-2,
4 at 3.) Cerbat is a C corporation originally certificated to provide water service in Mohave County,
5 Arizona, by Decision No. 52443 (September 4, 1981). The Company's current rates and charges
6 were established in Decision No. 64886 (June 5, 2002). (*Id.*)

7 45. According to the Staff Report, Cerbat's water system is comprised of two storage
8 tanks, a booster pump, and a distribution system. (*Id.* at 4.) Prior to the transfer of the Trust well to
9 Cerbat, the Company did not own a producing well, and, even after the well transfer, it has only a
10 single well to serve its customers. A back-up water supply is available through an interconnection
11 with Kingman, on an emergency basis, subject to the City's approval of the sale of water to Cerbat.
12 (*Id.*)

13 46. Staff indicates that, during the test year, Cerbat suffered a non-account water loss rate
14 of approximately 17 percent, based on the difference between the Company's reported water
15 purchases and sales. Consistent with its normal practice, Staff recommends that Cerbat be required to
16 reduce its non-account water loss rate to no more than 10 percent, or submit a detailed cost-benefit
17 analysis to explain why it is not cost effective to do so. Staff further recommends that the Company
18 be required to: install a meter at each interconnection location; submit documentation within 90 days
19 of the effective date of this Order showing that such meters have been installed; and to file, within 15
20 months of the effective date of this Order, 12 consecutive months of data showing the amount of
21 water entering the system and being purchased. (*Id.*)

22 47. The Staff Report indicated that, according to a May 3, 2010, Compliance Status
23 Report issued by the Arizona Department of Environmental Quality ("ADEQ"), Cerbat has major
24 deficiencies due to non-compliance with ADEQ operational requirements, and monitoring and
25 reporting deficiencies.

26 48. As described in the Staff Report, Cerbat's rate application is based on a test year
27 ending December 31, 2009. The water rates and charges for Cerbat at present, as proposed by the
28 Company and as recommended by Staff are as follows:

	<u>Present Rates</u>	<u>Proposed Rates</u>	
		<u>Company</u>	<u>Staff</u>
1 <u>MONTHLY USAGE CHARGE:</u>			
5/8" x 3/4" Meter	\$ 18.00	\$ 27.36	\$18.00
2 3/4" Meter	18.00	27.36	18.00
1" Meter	33.00	50.16	45.00
3 1 1/2" Meter	70.00	106.40	75.00
2" Meter	110.40	167.81	144.00
4 3" Meter	207.00	314.64	288.00
4" Meter	345.00	524.40	450.00
5 6" Meter	690.00	1,048.00	900.00

	<u>Present Rates</u>	<u>Proposed Rates</u>	
		<u>Company</u>	<u>Staff</u>
6 <u>COMMODITY RATES:</u>			
0 - 5,000 gallons	\$1.65		
5,001 - 20,000 gallons	2.25		
Over 20,000 gallons	2.65		
7 <u>Company Proposed - All Sizes</u>			
0 - 5,000 gallons		\$2.50	
5,001 - 15,000 gallons		3.30	
Over 15,000 gallons		4.15	
8 <u>Staff Recommended - All Sizes</u>			
0 - 3,000 gallons			\$1.65
3,001 - 9,000 gallons			2.50
Over 9,000 gallons			3.65
9 Standpipe (Per 1,000 gallons)	\$2.65	\$4.15	\$3.65

12 SERVICE LINE AND METER INSTALLATION
16 CHARGES:
17 (Refundable Pursuant to A.A.C. R14-2-405)

	<u>Present Rates</u>	<u>Company Proposed</u>	<u>Staff Recommended</u>		
			<u>Service Line Charge</u>	<u>Meter Installation</u>	<u>Total</u>
5/8" x 3/4 " Meter	\$480.00	\$520.00	\$ 135.00	\$ 385.00	\$ 520.00
3/4 " Meter	550.00	600.00	215.00	385.00	600.00
1" Meter	630.00	690.00	255.00	435.00	690.00
1 1/2" Meter	865.00	935.00	465.00	470.00	935.00
2" Meter Turbo	1,455.00	1,595.00	965.00	630.00	1,595.00
2" Meter Compound	2,120.00	2,320.00	1,690.00	630.00	2,320.00
3" Meter Turbo	2,055.00	2,275.00	1,470.00	805.00	2,275.00
3" Meter Compound	2,810.00	3,110.00	2,265.00	845.00	3,110.00
4" Meter Turbo	3,200.00	3,520.00	2,350.00	1,170.00	3,520.00
4" Meter Compound	4,055.00	4,475.00	3,245.00	1,230.00	4,475.00
6" Meter Turbo	5,795.00	6,275.00	4,545.00	1,730.00	6,275.00
6" Meter Compound	7,450.00	8,050.00	6,280.00	1,770.00	8,050.00
Over 6-inch Meter	Actual Cost	Actual Cost	Actual Cost	Actual Cost	Actual Cost

	<u>Current Charges</u>	<u>Company Proposed</u>	<u>Staff Recommended</u>
24 <u>SERVICE CHARGES:</u>			
Establishment	\$25.00	\$25.00	\$25.00
Establishment (After Hours)	0.00	25.00	25.00
Reconnection (Delinquent)	60.00	60.00	60.00
Meter Test (If Correct)	35.00	35.00	35.00
Deposit	*	*	*
Deposit Interest	3.0%	3.0%	**

	***	***	***
1 Re-establishment (Within 12 Months)			
1 NSF Check	15.00	15.00	15.00
2 Deferred Payment	1.50%	1.50%	1.50%
2 Meter Re-Read (If Correct)	\$15.00	\$15.00	\$15.00
3 Late Payment Charge (Per Month)	1.5%	1.5%	1.50%
3 Charge for Moving Meter	Minimum	Minimum	Minimum Cost
4	Cost	Cost	

MONTHLY SERVICE CHARGE FOR FIRE SPRINKLERS:

5 4" or Smaller	N/A	N/A	****
6 6"	N/A	N/A	****
6 8"	N/A	N/A	****
7 10"	N/A	N/A	****
7 Larger than 10"	N/A	N/A	****

8 *Per Commission Rule A.A.C. R14-2-403(B)(7).

9 **Per Commission Rule A.A.C. R14-2-403(B)(3).

***Number of months off system times the monthly minimum A.A.C. R14-2-403(D).

10 ****2.0% of monthly minimum for a comparable size meter connection, but no less than \$10.00 per month.
11 The service charge for fire sprinklers is only applicable for service lines separate and distinct from the primary water service line.

12 49. Because the Company did not provide a reconstructed cost new less depreciation
13 ("RCND") study, its fair value rate base ("FVRB") is the same as its original cost rate base
14 ("OCRB"). The Company proposed a negative OCRB of \$255,740. However, Staff removed a total
15 of \$338,741 from plant in service because it found no evidence that the Company's reported plant
16 additions were acquired for the benefit of Cerbat's ratepayers. According to Staff, the identified plant
17 costs of \$300,459 for transmission and distribution mains, \$27,102 for meters and meter installations,
18 and \$11,180 for hydrant equipment, were invoiced to the Trust or to Truxton Canyon and should
19 therefore be disallowed from Cerbat's rate base. (Ex. S-2, at 5-6, Sched. AII-2, at 3.)

20 50. Staff also recalculated accumulated depreciation to reflect Staff's adjusted plant in
21 service amount, resulting in a \$49,900 reduction to accumulated depreciation. (*Id.*, Sched. AII-2, at
22 4.) In addition, Staff restated Cerbat's advances in aid of construction ("AIAC") and amortization of
23 contributions in aid of construction ("CIAC") in accordance with Decision No. 64886, the
24 Company's last rate case. (Ex. S-2, at 6.) Finally, using the formula method, Staff decreased Cerbat's
25 cash working capital by \$1,085. Staff's recommended adjustments resulted in a decrease of \$43,174
26 to the Company's proposed OCRB, for a Staff recommended OCRB and FVRB of negative
27 \$212,566. (*Id.*, Sched. AII-2, at 1.)
28

1 51. Staff accepted the Company's reported test year operating revenue of \$107,339. (Ex.
2 S-2, at 7.)

3 52. Staff made adjustments to Cerbat's claimed test year total operating expenses of
4 \$136,633, and recommended an expense allowance of \$104,534, which is \$32,099 less than the
5 Company's reported expenses. Staff reduced purchased water expense by \$14,806, from \$44,513 to
6 \$29,707. (*Id.*, Sched. AII-3, at 1-2.) This adjustment results from Staff's reclassification of \$27,030
7 for management fees to outside expense, and an increase of \$10,588 over actual test year purchased
8 water expenses, to reflect a known and measurable increase in the per 1,000 gallon cost from \$0.75 to
9 \$1.01 that became effective after the test year. (*Id.*) Staff also increased Cerbat's purchased power
10 expense by \$320 to reflect actual test year costs; decreased water testing expense by \$776; decreased
11 depreciation expense by \$8,492 based on Staff's test year plant in service calculation; decreased
12 property tax expense by \$620 to reflect an appropriate level of expense using the Arizona Department
13 of Revenue ("ADOR") methodology; and increased income tax expense by \$8,493. (*Id.*)

14 53. In addition to the adjustments discussed above, Staff eliminated \$43,249 of well repair
15 expenses incurred by the Trust. Staff indicated that Cerbat's customers should not be responsible for
16 the Trust's well repair expenses, and suggested that if the Company would like to recover such
17 expenses in the future, it could acquire all of the system assets from the Trust. Alternatively, Staff
18 recommended that the Trust should submit an application for a Certificate of Convenience and
19 Necessity ("CC&N") to provide utility service. (*Id.*)¹⁰

20 54. Based on Staff's analysis, Cerbat's present water rates and charges produced operating
21 revenues of \$107,339 and adjusted operating expenses of \$104,534, which resulted in operating
22 income of \$2,805, for an operating margin of 2.61 percent in the test year. (*Id.*, Sched. AII-1.)

23 55. The water rates and charges proposed by the Company would produce operating
24 revenue of \$165,285, and adjusted operating expenses of \$148,757, resulting in an operating income
25 of \$16,528, for a 10.0 percent operating margin. (*Id.*)

26 _____
27 ¹⁰ As discussed above, Cerbat obtained ownership of the Trust well through a Quitclaim Deed conveyance on May 12,
28 2011, and, in accordance with the findings contained in Decision No. 72385, the Company was authorized to implement a
Well Repairs Surcharge of \$12.52 per customer per month to enable the Company to repay \$119,444 for past due well
repair expenses incurred by the Trust.

1 56. The water rates and charges recommended by Staff would produce operating revenues
 2 of \$125,391, and adjusted operating expenses of \$108,463, resulting in operating income of \$16,928,
 3 for a 13.50 percent operating margin. (*Id.*) Staff explained that a company's operating income is
 4 typically determined by multiplying its rate base by a rate of return derived through a cost of capital
 5 analysis. However, because Cerbat has a negative rate base, Staff used an operating margin
 6 mechanism to enable the Company to cover its operating expenses and to meet contingencies. (*Id.* at
 7 8-9.)

8 57. Cerbat's current rate structure consists of three tiers, with the first tier covering usage
 9 of 0 to 5,000 gallons; the second tier for usage between 5,001 and 20,000 gallons; and the third tier
 10 for all usage over 20,000 gallons for the month. The Company proposed to continue its three-tier rate
 11 design, and to retain its current first tier breakover point of 5,000 gallons. The Company proposed a
 12 change to its second tier breakover point for usage between 5,001 and 15,000 gallons, with the third
 13 tier breakover point for usage over 15,000 gallons. (*Id.* at 9.)

14 58. Staff also recommended a three-tier rate structure, but with a first tier breakover point
 15 of 4,000 gallons,¹¹ a second tier breakover point of 9,000 gallons, and a third tier for usage over 9,000
 16 gallons. Staff stated that its first tier breakover point is slightly lower than the customers' median
 17 usage of 4,269 gallons per month, which provides a lower first-tier rate for non-discretionary usage.
 18 Staff also stated that its recommended rate structure will encourage a more efficient use of water.
 19 (*Id.*)

20 59. Cerbat's proposed rates for a ¾-inch meter residential customer with median usage of
 21 4,569 gallons of water per month would result in an increase of \$13.24 per month (51.9 percent),
 22 from \$25.54 to \$38.78. (*Id.*)

23 60. Staff's recommended rates for a ¾-inch meter residential customer with median usage
 24 of 4,569 gallons of water per month would result in an increase of \$0.48 per month (1.9 percent),
 25 from \$25.54 to \$26.02. (*Id.*)

26 61. In addition to approval of its proposed rates, Staff recommended that:

27 ¹¹ Although Staff's Schedule AII-4 shows a first tier breakover point at 3,000 gallons, it appears Staff intended the break
 28 points to be at 4,000 and 9,000 gallons per month. This assumption is confirmed by a review of the text of the Staff
 Report and the Typical Bill Analysis contained in Schedule 5 to the Staff Report. (Ex. S-2, at 9; Sched. 5.)

- 1 a. Cerbat be authorized to collect from its customers an appropriate
share of any privilege, sales, or use tax as provided for in A.A.C.
R14-2-409(D);
- 2
- 3 b. Cerbat adopt the depreciation rates set forth in Exhibit 6 of the
Engineering Report attached to the Staff Report on a going-
forward basis;
- 4
- 5 c. Cerbat be ordered to file with Docket Control, as a compliance
item in this docket, ADEQ documentation showing the system is
currently delivering water that meets water quality standards in
6 accordance with A.A.C., Title 18, Chapter 4, no later than 90 days
from the effective date of this Decision;
- 7
- 8 d. Cerbat be ordered to file with Docket Control, as a compliance
item in this docket, ADWR documentation showing compliance
with ADWR requirements, no later than 90 days from the effective
9 date of this Decision;
- 10 e. The rates approved by the Commission not become effective until
the Company has filed documentation showing compliance with
11 the ADEQ and ADWR requirements;
- 12 f. Cerbat be ordered to install a meter at each interconnection
location on its system, and file with Docket Control within 90 days
13 of the effective date of this Decision, as a compliance item in this
docket, documentation showing that the meters have been installed
14 and are in-service, for Staff's review and certification;
- 15 g. Once the interconnection meters have been installed, Cerbat be
required to record for 12 consecutive months the water entering its
16 system and the water purchased by its customers, and file with
Docket Control within 15 months of the effective date of this
17 Decision, as a compliance item in this docket, for Staff's review
and certification, the 12 consecutive months of recorded data;
- 18
- 19 h. Cerbat be ordered to file a rate case application no later than three
years from the effective date of this Decision;
- 20
- 21 i. Cerbat be ordered to maintain compliance with all Commission
rules and regulations;
- 22 j. Cerbat be ordered to bring its books and records in compliance
with the NARUC USOA and Generally Accepted Accounting
Principles ("GAAP"), within 30 days from the effective date of
23 this Decision;¹²
- 24 k. Cerbat be ordered to acquire from the Trust all water system assets
necessary to provide service to the Company's customers, or, in
25 the alternative, the Trust be required to file an application to the
Commission for a CC&N;
- 26

27 ¹² Staff indicated in the Staff Report that Cerbat claimed to have recently implemented an accounting system that would
28 enable the Company to comply with the NARUC USOA and GAAP. However, Staff stated that it had not reviewed the
new system and therefore recommends that the accounting compliance requirement remain in place. (*Id.* at 9.)

- 1 1. If Cerbat maintains its current management and ownership
2 structure by the time of its next rate case, the Company be required
3 to grant Staff access to the Trust's accounting books and records
4 for regulatory auditing by Staff during Cerbat's next rate case;
- 5 m. Cerbat be required to file documentation within 30 days of the
6 effective date of this Decision with Docket Control, as a
7 compliance item in this docket, demonstrating that the Company
8 has a certified water operator, and that Cerbat be required to notify
9 the Commission in the event that the Company changes its
10 certified operator; and
- 11 n. Cerbat be ordered to cease and desist from commingling its
12 financial records with the Trust based on Staff's assertion that it
13 found evidence of commingling of financial records between
14 Cerbat and the Trust. (Ex. S-2, at 9-11.)

15 62. According to the Staff Report, a search of the Compliance Section's database showed
16 that Cerbat has no outstanding compliance issues with the Commission and the Company is in good
17 standing with the Commission's Corporations Division. (*Id.* at 5.)¹³

18 63. The Commission has previously approved the Company's Curtailment Tariff and its
19 Backflow Prevention Tariff. (*Id.*, Engineering Report, at 8.)

20 64. We find that Staff's recommendations regarding the Rate Docket, as discussed herein,
21 are reasonable and should be adopted.

22 **Finance Docket**

23 65. On August 3, 2011, Cerbat filed an application requesting authorization to incur
24 \$534,710 in long-term debt from WIFA.

25 66. On August 31, 2011, Staff issued a Staff Report recommending partial approval of the
26 application subject to certain conditions. Staff states that the only details regarding the loan were
27 contained in the Company's application filed with WIFA in January 2011, and therefore Staff was
28 required to make various assumptions regarding the finance application filed with the Commission.
(Finance Docket Staff Report, at 1.) Staff states that it assumed the intent of the proposed \$534,710
WIFA loan was to drill a new back-up well (\$89,000), pay for past repairs to the existing well
(\$110,000), and to purchase the existing well from the Trust (\$335,715). (*Id.*) According to Staff,

¹³ However, according to the more recent Staff Report filed in the Finance Docket, Cerbat is not currently in compliance with the Corporations Division's Annual report filing requirements (see discussion below).

1 Cerbat subsequently revised its application and the Company is now requesting authorization only for
2 a loan of \$171,310 to drill a new well, but is no longer seeking financing to purchase the well
3 formerly owned by the Trust, but now owned by Cerbat. (*Id.*)

4 67. Staff indicated that the Company planned to publish notice of the financing
5 application the week of August 29, 2011, and to file an affidavit attesting to completion of the notice
6 of publication immediately upon receipt. (*Id.*) On September 22, 2011, Cerbat filed an Affidavit of
7 Publication from the Kingman Daily Miner attesting that the notice of the Company's financing
8 application had been published on August 31, 2011. Although the attached text of the notice
9 indicates that Cerbat is seeking authorization to issue debt of \$734,710, instead of the \$534,710
10 actually requested in the application, we find that the notice is in substantial compliance with the
11 notice requirements of A.R.S. § 40-302.A., because it lists a requested debt amount greater than the
12 amount actually sought by the Company.

13 68. On September 21, 2011, Cerbat filed Comments to the Staff Report in which the
14 Company seeks authority to use the proposed WIFA loan proceeds to pay for prior well repairs
15 (\$186,646)¹⁴ and for drilling a new well and booster station improvements (\$200,000). Cerbat asserts
16 that Staff's \$131,000 financing recommendation is inadequate to drill a new well, and further claims
17 that booster station and other improvements will require financing of at least \$200,000.

18 Engineering Analysis

19 69. Staff's Engineering Report analysis in the Finance Docket considered only the
20 estimated costs associated with drilling and equipping a new well for Cerbat. (*Id.* at 2.) Based on its
21 analysis, Staff concluded that \$131,000 is a reasonable cost estimate for Cerbat to drill a new well
22 and install the necessary equipment. This compares to the Company's estimated cost of \$171,319 to
23 drill and equip a new well. (*Id.*)

24 70. Staff concluded that the Company's proposed costs, as modified by Staff's
25 recommendations, are reasonable and appropriate. Staff therefore recommends that its estimated

26 ¹⁴ The Company was authorized in Decision No. 72385 to implement a \$12.52 per month surcharge to pay \$119,444 to
27 well repair vendors for work done before the Trust transferred well ownership to Cerbat. The Company now seeks to use
28 the WIFA loan to pay those vendors, as well as \$67,202 owed to another company, Weber Group, LC ("Weber") for well
repair work performed after the well was transferred to Cerbat. Cerbat alleges that Staff assured Weber that it would be
paid out of the WIFA loan proceeds prior to undertaking the repair work. (Cerbat Comments, at 2-3.)

1 costs should be adopted as the amount approved for Cerbat's new well project. Staff noted that in
 2 making this recommendation, it is not making a used and useful determination for the proposed plant
 3 and that no future treatment should be inferred for ratemaking or rate base purposes. (*Id.* at 2-3.) A
 4 summary of Cerbat's proposed costs and Staff's recommended "Costs to be Financed" are set forth
 5 below.

6 **SUMMARY OF ESTIMATED COSTS FOR DRILLING A NEW WELL**

7			
8	Project Description	Company Proposed Costs To Be Financed (\$)¹	Staff Recommended Costs To Be Financed (\$)
9	Earth work includes site grade, survey, County	3,575	1,375²
10	permitting fee (from Raymond W. Stadler, P.E.)		
11	Hydrologic Study, Engineering design and construction	0	10,000
12	plan drawings		
13	Booster improvements	23,300	0³
14	Drill a 1,000' deep well with 8" steel casing and well	55,335⁴	0
15	installation		
16	Drill a 1,000' deep, 6" steel casing with yield of 200	0	43,000⁵
17	gpm and well installation		
18	Test Pumping	26,700	27,000
19	New Source Water Quality tests	3,325⁶	2,769⁷
20	A 50-HP, 150 gpm well pump, motors, parts, labor &	33,584⁸	33,584
21	other electrical associated with pump installation		
22	6" concrete pad around well head & discharging piping	5,000	5,000
23	Connecting the 50-HP pump to 60' from existing	18,000⁹	0
24	electric service		
25	Electric Conduit (including parts, labor and installation)		5,740¹⁰
26	ADEQ Permit fee	2,500¹¹	2,500
27	Total	171,319	130,968

28 Notes:

1. Company's Response to Staff DR #1.4.
2. Staff removed \$2,200 for engineering construction plan cost and included it in the engineering design column.
3. Staff determined that this item should not be included in this job because it is for existing plant improvement, not for the new well installation. Further, because the Company failed to provide engineering design and construction information, Staff could not determine whether the proposed water system addition is appropriate, and whether the cost estimates are reasonable.
4. Brown Drilling's estimate.
5. Based on information from B J Drilling, which installed a new well for Mt. Tipton Water Company in

- 2010 (located northwest of Kingman).
6. Mohave Environmental Lab estimates.
 7. Legend Technical Services, Inc. estimates.
 8. Short Enterprises LLC estimates.
 9. Walker Service Electric Inc. estimates.
 10. Based on data from 2010 Granite Mountain Water Company project.
 11. Company estimate.

Compliance Status

71. Based on a review of the Commission's Corporations Division records, Staff indicates that Cerbat is not currently in good standing due to the Company's failure to file by August 16, 2011, its 2011 Corporate Annual Report. (*Id.* at 4.)

72. Staff stated that a search of the Consumer Services database for Cerbat shows that in 2011 the Commission has received 1 complaint regarding service quality and 6 opinions in opposition to a rate increase. In 2010, the Consumer Services database shows that the Company had 2 complaints regarding billing and quality of service and 24 opinions in opposition to an emergency surcharge. In 2009, Cerbat had 27 complaints and 9 opinions in opposition. In 2008, the Company had 1 complaint. According to Staff, all of the complaints and/or inquiries have been resolved and closed. (*Id.*)

73. Staff stated that Cerbat's service area is not located within an active management area under ADWR guidelines. As of August 15, 2011, the Company was in compliance with ADWR requirements for water providers and/or community water systems. (Staff Engineering Report, at 3.)

74. As pointed out in the Staff Report, the ADEQ regulates the Cerbat system under ADEQ Public Water System ID No. 08-341. Based on a May 19, 2011, ADEQ Drinking Water Compliance Status Report, Cerbat has major deficiencies and ADEQ cannot determine if the Company is delivering water that meets the water quality standards required by A.A.C. Title 18, Chapter 4. (*Id.*)

Financial Analysis

75. Staff analyzed the financial effect of the proposed financing on Cerbat's operations and indicated that, upon approval by the Commission of Staff's recommended operating income of

1 \$16,928,¹⁵ the recommended long-term debt amount of \$131,000 would result in a Debt Service
 2 Coverage ("DSC") ratio of 2.85¹⁶ and a Times Interest Earned Ratio ("TIER")¹⁷ of 2.48. (Staff
 3 Report, at 3.)

4 76. Staff states that, as shown on Schedule AII-1 to the Staff Report, approval of Staff's
 5 recommended operating income in Cerbat's rate case will provide the Company with adequate cash
 6 flow to cover its operating costs and to make principal and interest repayments on a loan amount up
 7 to \$131,000. (*Id.*)

8 Staff Finance Docket Recommendations

9 77. For the reasons discussed above, Staff recommends approval of Cerbat's requested
 10 financing, as modified to allow a WIFA loan amount of \$131,000, under the following terms and
 11 conditions:

- 12 a. Cerbat should be authorized to obtain a WIFA loan in an amount
 13 up to \$131,000.
 14 b. Cerbat should be authorized to engage in any transactions, and to
 15 execute any documents necessary, to effectuate the authorizations
 16 granted.
 17 c. Cerbat should be required to file with Docket Control, as a
 18 compliance item in this docket, copies of all notes and other
 19 documents executed for the financing authorized herein, within 60
 20 days of the loan package closing.
 21 d. Cerbat should be ordered to file with Docket Control, as a
 22 compliance item in this docket, a Certificate of Construction for its
 23 new well by June 30, 2012.

24 Conclusion

25 78. We find Staff's recommendations, as described and modified herein, to be reasonable
 26 and appropriate, and we will therefore approve Cerbat's financing application, as amended by the
 27 Staff Report recommendations and discussion. We believe that Staff's recommendation for approval
 28

¹⁵ The Staff Report in the Finance Docket referred to the recommended operating income recommendation as \$16,923, which we assume was a typographical error. (Financing Staff Report, at 3.)

¹⁶ DSC represents the number of times internally generated cash will cover required principal and interest payments on short-term and long-term debt. A DSC greater than 1.0 indicates that cash flow from operations is sufficient to cover debt obligations. A DSC less than 1.0 means that debt service obligations cannot be met by cash generated from operations and that another source of funds is needed to avoid default.

¹⁷ TIER represents the number of times earnings cover interest expense on short-term and long-term debt. A TIER greater than 1.0 means that operating income is greater than interest expense. A TIER less than 1.0 is not sustainable in the long term but does not mean that obligations can not be met in the short term.

1 of WIFA financing of \$131,000 reflects a reasonable amount needed, based on Staff's comprehensive
 2 engineering analysis, for Cerbat to drill and equip a new well for use as a backup to the single well
 3 that is currently in service. Cerbat's Comments to the Staff Report reflect an attempt to effectively
 4 amend its financing application, after the completion of Staff's analysis, by proposing to use WIFA
 5 proceeds to pay for what could be considered, at least in part, operating expenses.¹⁸ The Company's
 6 modified proposal is also inconsistent with the relief granted by the Commission in Decision No.
 7 72385, which specifically permitted Cerbat to impose a \$12.52 surcharge as a means of paying for
 8 prior well repair expenses incurred by the Trust.

CONCLUSIONS OF LAW

9
 10 1. Cerbat is a public service corporation within the meaning of Article XV of the Arizona
 11 Constitution and A.R.S. §§ 40-250, 40-251, 40-285, 40-301, 40-302, 40-303, 40-321, and 40-331.

12 2. The Commission has jurisdiction over Cerbat and the subject matter of the
 13 applications.

14 3. Notice of the rate and financing applications were provided in accordance with the
 15 law.

16 4. The rates and charges proposed by Staff and authorized hereinafter are just and
 17 reasonable and should be approved.

18 5. The financing approved herein is for lawful purposes within Cerbat's corporate
 19 powers, is compatible with the public interest, with sound financial practices, and with the proper
 20 performance by Cerbat as a public service corporation and will not impair Cerbat's ability to perform
 21 the service.

22 6. The financing approved herein is for the purposes stated in the application and is
 23 reasonably necessary for those purposes, and such purposes are not, wholly or in part, reasonably
 24 chargeable to operating expenses or to income.

25 7. Approval of the proposed financing is not intended to, and should not be interpreted

26 ¹⁸ A.R.S. § 40-302.A. provides, in relevant part, that in its authorization for the issuance of debt the Commission must
 27 "[state] the amount thereof, the purposes to which the issue or proceeds thereof are to be applied, and that, in the opinion
 28 of the commission, the issue is reasonably necessary or appropriate for the purposes specified in the order...and that,
 except as otherwise permitted in the order, *such purposes are not, wholly or in part, reasonably chargeable to operative
 expenses or to income.*" (emphasis added)

1 to, guarantee or imply any specific treatment of any capital additions for rate base or ratemaking
2 purposes.

3 8. Staff's recommendations, as described and modified herein, are reasonable and
4 appropriate and should be adopted.

5 **ORDER**

6 IT IS THEREFORE ORDERED that Cerbat Water Company is hereby directed to file by
7 October 31, 2011, with Docket Control, as a compliance item in this docket, revised rate schedules
8 that reflect the Company's actual corporate name and that set forth the following new rates and
9 charges:

10
11 **MONTHLY USAGE CHARGE:**

12	5/8" x 3/4" Meter	\$18.00
	3/4" Meter	18.00
	1" Meter	45.00
13	1 1/2" Meter	75.00
	2" Meter	144.00
14	3" Meter	288.00
	4" Meter	450.00
15	6" Meter	900.00

16 **COMMODITY RATES:**

17	<u>All Meter Sizes (Per 1,000 gallons)</u>	
18	0 - 3,000 gallons	\$1.65
	3,001 - 9,000 gallons	2.50
19	Over 9,000 gallons	3.65
20	Standpipe (Per 1,000 gallons)	\$3.65

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

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

	<u>Service Line Charge</u>	<u>Meter Installation</u>	<u>Total</u>
22	5/8" x 3/4 " Meter	\$ 135.00	\$ 385.00
	3/4 " Meter	215.00	385.00
23	1" Meter	255.00	435.00
	1 1/2" Meter	465.00	470.00
24	2" Meter Turbo	965.00	630.00
	2" Meter Compound	1,690.00	630.00
	3" Meter Turbo	1,470.00	805.00
25	3" Meter Compound	2,265.00	845.00
	4" Meter Turbo	2,350.00	1,170.00
26	4" Meter Compound	3,245.00	1,230.00
	6" Meter Turbo	4,545.00	1,730.00
27	6" Meter Compound	6,280.00	1,770.00
	Over 6-inch Meter	Actual Cost	Actual Cost

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SERVICE CHARGES:

Establishment	\$25.00
Establishment (After Hours)	25.00
Reconnection (Delinquent)	60.00
Meter Test (If Correct)	35.00
Deposit	*
Deposit Interest	**
Re-establishment (Within 12 Months)	***
NSF Check	15.00
Deferred Payment	1.50%
Meter Re-Read (If Correct)	\$15.00
Late Payment Charge (Per Month)	1.50%
Charge for Moving Meter	Min. Cost

**MONTHLY SERVICE CHARGE FOR
FIRE SPRINKLERS:**

4" or Smaller	****
6"	****
8"	****
10"	****
Larger than 10"	****

- * Per Commission Rule A.A.C. R14-2-403(B)(7).
- ** Per Commission Rule A.A.C. R14-2-403(B)(3).
- *** Number of months off system times the monthly minimum A.A.C. R14-2-403(D).
- **** 2.0% of monthly minimum for a comparable size meter connection, but no less than \$10.00 per month. The service charge for fire sprinklers is only applicable for service lines separate and distinct from the primary water service line.

IT IS FURTHER ORDERED that the above rates and charges shall be effective for all services provided on and after November 1, 2011, except that the rates approved herein shall not become effective until Cerbat Water Company has filed documentation showing compliance with the ADEQ and ADWR requirements described herein.

IT IS FURTHER ORDERED that Cerbat Water Company shall file documentation in a manner acceptable to Staff, within 60 days of the effective date of this Order, as a compliance item this docket, showing that Cerbat has acquired from the Trust, and any other entities, all water system assets, and that Cerbat has full ownership and control of all water system assets used to provide service to Cerbat's customers. The rates and financing approved by this Decision shall not become effective until the required documentation has been filed in a manner acceptable to Staff.

1 IT IS FURTHER ORDERED that if Cerbat Water Company fails to file, within 60 days of the
2 effective date of this Order, as a compliance item this docket, documentation in a manner acceptable
3 to Staff, showing that Cerbat has acquired from the Trust, and any other entities, all water system
4 assets, and that Cerbat has full ownership and control of all water system assets used to provide
5 service to Cerbat's customers, the Trust shall file within 60 days of the effective date of this Order, an
6 application with the Commission for a Certificate of Convenience and Necessity.

7 IT IS FURTHER ORDERED that Cerbat Water Company shall grant Staff full access to the
8 Trust's accounting books and records for regulatory auditing upon request Staff.

9 IT IS FURTHER ORDERED that Cerbat Water Company shall notify its customers of the
10 water rates and charges approved herein, and their effective date, by means of an insert in its next
11 monthly billing and shall file a copy of the notice when sent to its customers with the Commission's
12 Docket Control as a compliance item in this docket.

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

16 IT IS FURTHER ORDERED that Cerbat Water Company shall annually file, as part of its
17 Annual Report, an affidavit with the Utilities Division attesting that it is current in paying its property
18 taxes in Arizona.

19 IT IS FURTHER ORDERED that Cerbat Water Company shall, on a going-forward basis, use
20 the depreciation rates by individual National Association of Regulatory Utilities Commissioners
21 category shown in Exhibit 6 of the Rate Docket Staff Engineering Report.

22 IT IS FURTHER ORDERED that Cerbat Water Company shall file with Docket Control, as a
23 compliance item in this docket, ADEQ documentation showing the system is currently delivering
24 water that meets water quality standards in accordance with Title 18, Chapter 4, of the Arizona
25 Administrative Code no later than 90 days from the effective date of this Decision.

26 IT IS FURTHER ORDERED that Cerbat Water Company shall install a meter at each
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1 interconnection location on its system, and file with Docket Control within 90 days of the effective
2 date of this Decision, as a compliance item in this docket, documentation showing that the meters
3 have been installed and are in-service, for Staff's review and certification.

4 IT IS FURTHER ORDERED that once the interconnection meters have been installed, Cerbat
5 Water Company shall record for 12 consecutive months the water entering its system and the water
6 purchased by its customers, and file with Docket Control within 15 months of the effective date of
7 this Decision, as a compliance item in this docket, for Staff's review and certification, the 12
8 consecutive months of recorded data.

9 IT IS FURTHER ORDERED that Cerbat Water Company shall file a rate case application no
10 later than three years from the effective date of this Decision.

11 IT IS FURTHER ORDERED that Cerbat Water Company shall maintain compliance with all
12 Commission rules and regulations.

13 IT IS FURTHER ORDERED that Cerbat Water Company shall bring its books and records in
14 compliance with the NARUC USOA and GAAP within 30 days from the effective date of this
15 Decision.

16 IT IS FURTHER ORDERED that Cerbat Water Company shall file documentation within 30
17 days of the effective date of this Decision with Docket Control, as a compliance item in this docket,
18 demonstrating that the Company has a certified water operator, and Cerbat shall in the future notify
19 the Commission in the event that the Company changes its certified operator.

20 IT IS FURTHER ORDERED that Cerbat Water Company shall immediately cease and desist
21 from commingling its financial records with the Trust.

22 IT IS FURTHER ORDERED that Cerbat Water Company is hereby authorized to obtain a
23 WIFA loan in an amount up to \$131,000, conditioned on compliance with the requirements set forth
24 in the following ordering paragraphs, with the loan proceeds to be used solely for the purposes
25 described hereinabove.

26 IT IS FURTHER ORDERED that Cerbat Water Company is hereby authorized to engage in
27
28

1 any transactions and to execute any documents necessary to effectuate the authorizations granted
2 herein.

3 IT IS FURTHER ORDERED that Cerbat Water Company is hereby authorized to pledge,
4 mortgage, lien and/or encumber its assets in the State of Arizona pursuant to A.R.S. § 40-285 in
5 connection with the proposed WIFA loan.

6 IT IS FURTHER ORDERED that Cerbat Water Company shall file with Docket Control, as a
7 compliance item in this docket, copies of all notes and other documents executed for the financing
8 authorized herein, within 60 days of the loan package closing.

9 IT IS FURTHER ORDERED that Cerbat Water Company shall file with Docket Control, as a
10 compliance item in this docket, a Certificate of Construction for its new well by June 30, 2012.

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1 IT IS FURTHER ORDERED that approval of the financing set forth herein does not
2 constitute or imply approval or disapproval by the Commission of any particular expenditure of the
3 proceeds derived thereby for purposes of establishing just and reasonable rates.

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

5 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

6
7
8 CHAIRMAN _____ COMMISSIONER

9
10 COMMISSIONER _____ COMMISSIONER _____ COMMISSIONER

11 IN WITNESS WHEREOF, I, ERNEST G. JOHNSON,
12 Executive Director of the Arizona Corporation Commission,
13 have hereunto set my hand and caused the official seal of the
14 Commission to be affixed at the Capitol, in the City of Phoenix,
15 this _____ day of _____, 2011.

16 _____
17 ERNEST G. JOHNSON
18 EXECUTIVE DIRECTOR

19 DISSENT: _____

20 DISSENT: _____

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1 SERVICE LIST FOR: CERBAT WATER COMPANY
2 DOCKET NOS.: W-02391A-10-0218, W-02391A-11-0166 and
3 W-02391A-11-0309
4 Steven L. Wene
4 MOYES SELLERS & HENDRICKS LTD.
1850 North Central Avenue, Suite 1100
5 Phoenix, AZ 85004-4527
6 Attorneys for Cerbat Water Company
7 Rick Neal
7 CERBAT WATER COMPANY
7313 East Concho Drive, Suite B
8 Kingman, AZ 86401
9 Janice Alward, Chief Counsel
Legal Division
10 ARIZONA CORPORATION COMMISSION
1200 W. Washington St
11 Phoenix, AZ 85007
12 Steve Olea, Director
Utilities Division
13 ARIZONA CORPORATION COMMISSION
1200 W. Washington St
14 Phoenix, AZ 85007
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