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BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONERS

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

2011 DEC 28 P 3:12

AZ CORP COMMISSION
DOCKET CONTROL

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

DOCKET NO. W-02391A-10-0218

IN THE MATTER OF STAFF'S REQUEST
FOR THE 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
OF CERBAT WATER COMPANY FOR
APPROVAL TO INCUR LONG-TERM DEBT

DOCKET NO. W-02391A-11-0309

**NOTICE OF FILING PROPOSED
AMENDMENT NO. 1**

On September 26, 2011, the Hearing Division of the Arizona Corporation Commission ("Hearing Division") filed a Recommended Opinion and Order on Cerbat Water Company (Rates/Finance/Order to Show Cause) ("ROO"). The Commission heard and discussed the ROO at the October 11, 2011 Open Meeting, where the Commission ordered the Company to file a complete amended financing application. On October 25, 2011, the Company filed an Amendment to Clarify Proposed Uses of Loan Proceeds, and on November 1, 2011 filed additional compliance documentation. On December 12, 2011, Utilities Division Staff ("Staff") filed a Supplemental Staff Report for Cerbat Water Company's Request for Authorization to Incur Long-Term Debt.

Arizona Corporation Commission
DOCKETED

DEC 28 2011

DOCKETED BY

1 Staff hereby files Proposed Amendment No. 1 (Attachment A) for the Commission's
2 convenience of consideration. Should the Commission wish to amend the current ROO to adopt
3 Staff's supplemental recommendations, the attached document could serve as a guideline.

4 RESPECTFULLY SUBMITTED this 28th day of December 2011.

5
6 

7 Kimberly A. Ruht, Attorney
8 Charles H. Hains, Attorney
9 Legal Division
10 Arizona Corporation Commission
11 1200 West Washington Street
12 Phoenix, Arizona 85007
13 (602) 542-3402

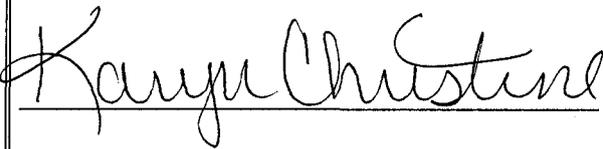
14 Original and thirteen (13) copies
15 of the foregoing filed this
16 28th day of December 2011 with:

17 Docket Control
18 Arizona Corporation Commission
19 1200 West Washington Street
20 Phoenix, Arizona 85007

21 Copies of the foregoing mailed this
22 28th day of December 2011 to:

23 B. Marc Neal
24 Cerbat Water Company, Inc.
25 7313 East Concho Drive
26 Suite 2
27 Kingman, Arizona 86401-9707

28 Steve Wene, Esq.
Moyes Sellers & Sims
1850 North Central Avenue
Suite 1100
Phoenix, Arizona 85004



ATTACHMENT A

PROPOSED AMENDMENT NO. 1

TIME/DATE PREPARED: _____

COMPANY:

AGENDA ITEM NO. __

DOCKET NO(S).

OPEN MEETING DATE:

Page 8, Line 26:

INSERT: Finding of Fact 44:

“On September 26, 2011, the Hearing Division filed a Recommended Opinion and Order on Cerbat Water Company (Rates/Finance/Order to Show Cause).”

INSERT: Finding of Fact 45:

“On October 6, 2011, Cerbat filed Exceptions to the Recommended Opinion and Order.”

INSERT: Finding of Fact 46:

“The Commission heard and discussed the Recommended Opinion and Order at the October 11, 2011 Open Meeting. The Commission ordered the Company to file a complete amended financing application.”

INSERT: Finding of Fact 47:

“On October 25, 2011, Cerbat filed an Amendment to Clarify Proposed Uses of Loan Proceeds.”

INSERT: Finding of Fact 48:

“On November 1, 2011, Cerbat filed a Compliance filing that included: an affidavit certifying Cerbat owns the plant equipment used to provide water service; complaints filed by Gilbert Pump and Empire Pump; and balances with the vendors.”

INSERT: Finding of Fact 49:

“On December 12, 2011, Staff filed its Supplemental Staff Report for Cerbat Water Company’s Request for Authorization to incur Long-Term Debt.”

**** Make all conforming changes**

THIS AMENDMENT:		
_____ Passed _____	Passed as amended by _____	
_____ Failed _____	_____ Not Offered _____	_____ Withdrawn _____

PROPOSED AMENDMENT NO. 1

TIME/DATE PREPARED: _____

COMPANY: _____

AGENDA ITEM NO. __

DOCKET NO(S). _____

OPEN MEETING DATE: _____

Page 19, Lines 9 – 19:

DELETE: Finding of Fact 77 and REPLACE with:

“On October 25, 2011, as directed by the Arizona Corporation Commission, Cerbat filed an amendment to clarify proposed uses of loan proceeds. Cerbat’s amendment requests authorization to incur a \$386,646 loan from WIFA. The amendment states that \$186,646 of loan proceeds will be to pay the vendors who performed work on the Company’s well between June 2009 and August 2011, and the additional \$200,000 will be for the construction of a new 8” well and to make the related improvements to the booster pump, electric plant, and storage tank.”

INSERT: Finding of Fact 78

“Cerbat proposed two alternatives to structure rates and/or finance the loan:

In Alternative 1, the Commission would authorize a WIFA loan in the amount of approximately \$389,000 and incorporate the debt service into base rates. This would increase proposed revenue from \$18,052 in the ROO (about 17%) to \$38,052 or about 35.45%, and no surcharge would be required. This operating margin will provide sufficient cash flow. The revenue increase will provide a 25.34% operating margin. The Debt Service Coverage Ratio will be 1.70 and the Interest Coverage Ratio 2.02. See Attachment 3 (Schedule C-1 - Revenues and Expenses, Schedule H-3 - Proposed Rates for Alternative 1, and Debt Coverage Ratio Schedule). The result would be that the customer would pay less per month than they currently pay due to the surcharge.

In Alternative 2, the Commission would authorize a WIFA loan amount of approximately \$389,000 for the purposes described above and keep ROO rates. Then the Commission would authorize a debt surcharge to pay for the annual debt service of the WIFA Loan. The surcharge would amount to \$10.85, which is lower than the surcharge currently in place. See Attachment 4 (WIFA Loan Surcharge Computation). Again, both alternatives result in

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COMPANY:

AGENDA ITEM NO. __

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OPEN MEETING DATE:

increases that would be less than the \$12.54 surcharge now in place.”

INSERT: Finding of Fact 79

“On December 12, 2011, Staff filed a Supplemental Staff Report for Cerbat Water Company’s Request for Authorization to Incur Long-Term Debt. Staff recommended authorization to incur a \$343,755 loan from WIFA. Staff recommended that \$172,436 be utilized to pay vendors who performed work for the Company from June 2009 through August 2011. The recommended amount reflects a decrease in the Company’s requested amount of \$186,646 to reflect amounts already collected through the Emergency Well Repair Surcharge (\$11,819) and for amounts associated with late fees and finance charges (\$2,391). As detailed in an Exhibit to the Supplemental Staff Report, Staff recommends that \$171,319 of the loan amount should be utilized to fund the construction of a new 8-inch well. Staff also recommends that the Commission deny the Company’s request to incur \$28,256 for additional professional services.”

INSERT: Finding of Fact 80:

“Since Staff’s recommended long-term debt in the amount of \$343,755 will result in a DSC ratio of 1.26 and a Times Interest Earned Ratio (“TIER”) of 1.27, as shown on Schedule EOA-1, Staff believes that the proposed operating income in Cerbat’s pending rate case will provide it with adequate cash flow to cover its operating costs and to make interest and principal repayments on the loan amount of \$343,755.”

INSERT: Finding of Fact 81:

“For the reasons discussed above, Staff recommends approval of Cerbat’s requested financing, as modified to allow a WIFA loan amount of \$343,755, under the following conditions:

1. The Commission authorize Cerbat to obtain WIFA long-term debt in an amount up to \$343,755.

**** Make all conforming changes**

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COMPANY: _____

AGENDA ITEM NO. __

DOCKET NO(S). _____

OPEN MEETING DATE: _____

- 2. The Commission authorize Cerbat to engage in any transactions and to execute or cause to be executed any documents so as to effectuate the authorization requested in this application.
- 3. The Commission order Cerbat to file with Docket Control, as a compliance item in this docket, a copy of all notes and other documents memorializing the authorized transaction, within 30 days of the loan package closing.
- 4. The Commission order Cerbat to file with Docket Control, as a compliance item in this docket, a Certificate of Approval of Construction for its new 8-inch well by June 30, 2012.
- 5. The Commission order Cerbat to cease collecting the Emergency Well Repair Surcharge approved in Decision No. 72385.
- 6. The Commission order Cerbat to set up a separate interest bearing bank account the same month the new rates take effect. Starting the first month that the new rates are collected, the Company shall be required to first deposit from revenues in that separate interest bearing account \$2,000 per month. This amount should equal the actual monthly payments once the WIFA loan is obtained. Funds from this account shall only be used for disbursements to WIFA.
- 7. The Commission order Cerbat to file a rate case by April 30, 2013, utilizing a 2012 test year.
- 8. Staff further recommends that the Commission deny the Company's request to incur \$28,256 for additional professional services (Engineer, Hydrologist inspector, etc.) and contingency.

Page 19, Line 20

DELETE: Finding of Fact 78, page 19, line 20 through page 20, line 8.

**** Make all conforming changes**

THIS AMENDMENT:		
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Page 21, line 3:

DELETE: Conclusion of Law 8 and INSERT the following new Conclusion of Law:

“Staff’s recommendations concerning the rate application and Staff’s supplemental recommendations for the amended financing application, as described and modified herein, are reasonable and appropriate and should be adopted.”

Page 21, line 6-7:

DELETE: by October 31, 2011

INSERT: “within 30 days of the date of this Order,”

Page 24, line 10:

DELETE: “three years from the effective date of this Decision.”

INSERT: “April 30, 2013, utilizing a 2012 test year.”

Page 24, line 24:

DELETE: “131,000”

INSERT: “343,755”

Page 24, line 27:

INSERT:

“IT IS FUTHER ORDERED that Cerbat Water Company shall set up a separate interest bearing bank account the same month the new rates take effect and starting the first month that the new rates are collected, first deposit from revenues in that separate interest bearing account \$2,000 per month. Once the WIFA loan is obtained, the amount deposited first from revenues shall be

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equal to the actual monthly WIFA loan payments. Funds from this account shall only be used for disbursements to WIFA.”

**** Make all conforming changes**

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