

ORIGINAL



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HEARING DIVISION PROPOSED AMENDMENT #1

RECEIVED

TIME/DATE PREPARED: January 6, 2012/11:00 a.m.

2012 JAN -6 A 11:07

COMPANY: Cerbat Water Company

AGENDA ITEM NO.: 13

DOCKET NOS.: W-02391A-10-0218, W-02391A-10-0218, W-02391A-11-0166 and W-02391A-11-0309  
AZ CORP COMMISSION OPEN MEETING DATE: Jan. 10 & 11, 2012

**Page 8, Line 26:** INSERT New Findings of Fact Nos. 44, 45, 46, 47, 48 and 49:

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

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

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.

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

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.

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

**Page 18, Line 24 through Page 19, Line 19:** DELETE Findings of Fact Nos. 75, 76 and 77  
INSERT New Findings of Fact Nos. 75, 76, 77, 78, and 79:

“75. On October 25, 2011, as directed by the Commission, Cerbat filed an amendment to clarify proposed uses of loan proceeds. Cerbat’s amendment requested authorization to incur \$386,646 loan from WIFA. The amendment states that \$186,646 or 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.

Arizona Corporation Commission

DOCKETED

JAN 6 2012

DOCKETED BY	<b>THIS AMENDMENT:</b>
<input checked="" type="checkbox"/> Passed	<input type="checkbox"/> Passed as amended by _____
<input type="checkbox"/> Failed	<input type="checkbox"/> Not Offered
	<input type="checkbox"/> Withdrawn

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

77. 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.

78. 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.

<b>THIS AMENDMENT:</b>		
_____ Passed _____	Passed as amended by _____	
_____ Failed _____	_____ Not Offered _____	_____ Withdrawn _____

79. 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.
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 payment once the WIFA loan is obtained. Funds from this account shall only be used for disbursement 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: Page 19, Line 22 ½, beginning with "We believe" through Page 20, Line 8

**Page 21, Line 3:** DELETE Conclusion of Law No. 8 and INSERT the following:

"8. Staff's recommendation 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."

<b>THIS AMENDMENT:</b>		
_____ Passed _____	Passed as amended by _____	
_____ Failed _____	_____ Not Offered _____	_____ Withdrawn _____

**Page 21, Lines 6-7:**

DELETE: "October 31, 2011"

INSERT: "by January 31, 2012"

**Page 22, Line 19 ½:**

DELETE: "November 1, 2011"

INSERT: "February 1, 2012"

**Page 23, Line 8 ½:** INSERT "by" after "request"

**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: "353,755"

**Page 24, Line 27:** INSERT New Ordering paragraph:

"IT IS FURTHER 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 equal to the actual monthly WIFA loan payments. Funds from this account shall only be used for disbursements to WIFA."

<b>THIS AMENDMENT:</b>		
_____ Passed _____	Passed as amended by _____	
_____ Failed _____	_____ Not Offered _____	_____ Withdrawn _____