



8BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

Arizona Corporation Commission

DOCKETED

JAN 19 2012

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

DOCKETED BY ne

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. 72739

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.)<sup>1</sup>

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.<sup>2</sup> (*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 <sup>1</sup> 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 <sup>2</sup> 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           7.       On October 13, 2010, Cerbat filed a Response to Staff's Letter of Insufficiency.

2           8.       On November 17, 2010, Staff issued its Letter of Sufficiency classifying the Company  
3 as a "Class D" water utility and indicating that a Staff Report would be filed by January 29, 2011.  
4 However, on February 1, 2011, Staff filed a Motion for Extension of Time requesting until February  
5 4, 2011, to file the Staff Report.

6           9.       By Procedural Order issued February 1, 2011, Staff's request for an extension of time  
7 was granted.

8           10.      On February 4, 2011, Staff filed its Staff Report recommending approval of a revenue  
9 increase less than that proposed by the Company, and subject to compliance with several conditions.  
10 Under Staff's recommendation, Cerbat's permanent base rate operating revenues would be increased  
11 by \$18,052 (approximately 16.8 percent), from \$107,339 to \$125,740. Staff's recommended rates for  
12 a typical ¾-inch meter residential customer, with median usage of 4,569 gallons of water per month,  
13 would result in an increase of \$0.48 per month (1.9 percent), from \$25.54 to \$26.02.

14          11.      On February 22, 2011, the Company filed Comments to the Staff Report opposing  
15 several of Staff's recommendations including Staff's recommended revenue requirement. Among  
16 other things, Cerbat opposed Staff's recommended reduction to the Company's plant-in-service and  
17 the recommended disallowance of expenditures related to well repairs for a well which, at that time,  
18 was owned by the Trust.

19          12.      On February 25, 2011, a Procedural Order was issued scheduling a procedural  
20 conference for March 21, 2011, to address the issues raised by the Company's Comments.

21          13.      The procedural conference was conducted on March 21, 2011, as scheduled, during  
22 which it was determined that the issues could not be readily resolved and it would be necessary for a  
23 hearing to be conducted to allow evidence to be presented by the parties.

24          14.      On April 6, 2011, a Procedural Order was issued scheduling a hearing for May 26,  
25 2011; directing Cerbat to file testimony, comments and exhibits by May 2, 2011; suspending the  
26 applicable time clock indefinitely; and ordering the Company to provide notice of the hearing by  
27  
28

1 publication and mailing to customers.<sup>3</sup>

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.<sup>4</sup> 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 <sup>3</sup> 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 <sup>4</sup> 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  
6 Company is not in full compliance with Commission rules, regulations  
7 or orders. Staff requested that the interim manager authority remain in  
8 effect until further order of the Commission.

9 23. During the May 24, 2011, Open Meeting, the Commission discussed Staff's proposed  
10 \$12.52 Well Repairs Surcharge, as well as Staff's other recommended conditions. The Commission  
11 agreed with Staff's recommendations except that Staff was directed to "appoint an interim manager  
12 as soon as possible."<sup>5</sup>

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

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

26 <sup>5</sup> Decision No. 72385 (May 27, 2011), at 4. *See, also*, Decision No. 72384 (May 27, 2011), formally consolidating the  
Rate and OSC Dockets.

27 <sup>6</sup> On May 25, 2011, counsel for Cerbat requested a teleconference with Staff counsel and the Administrative Law Judge to  
28 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  
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.<sup>7</sup>

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.<sup>8</sup>

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 <sup>7</sup> 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).

<sup>8</sup> 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.<sup>9</sup>

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          44.    On September 26, 2011, the Hearing Division filed a Recommended Opinion and  
27

28 <sup>9</sup> On September 7, 2011, a Procedural Order was issued consolidating the Finance Docket with the Rate and OSC Dockets.

1 .Order on Cerbat Water Company (Rates/Finance/Order to Show Cause).

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

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

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

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

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

13 **Rate Docket**

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

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

25 52. Staff indicates that, during the test year, Cerbat suffered a non-account water loss rate  
26 of approximately 17 percent, based on the difference between the Company's reported water  
27 purchases and sales. Consistent with its normal practice, Staff recommends that Cerbat be required to  
28 reduce its non-account water loss rate to no more than 10 percent, or submit a detailed cost-benefit

1 analysis to explain why it is not cost effective to do so. Staff further recommends that the Company  
 2 be required to: install a meter at each interconnection location; submit documentation within 90 days  
 3 of the effective date of this Order showing that such meters have been installed; and to file, within 15  
 4 months of the effective date of this Order, 12 consecutive months of data showing the amount of  
 5 water entering the system and being purchased. (*Id.*)

6 53. The Staff Report indicated that, according to a May 3, 2010, Compliance Status  
 7 Report issued by the Arizona Department of Environmental Quality (“ADEQ”), Cerbat has major  
 8 deficiencies due to non-compliance with ADEQ operational requirements, and monitoring and  
 9 reporting deficiencies.

10 54. As described in the Staff Report, Cerbat’s rate application is based on a test year  
 11 ending December 31, 2009. The water rates and charges for Cerbat at present, as proposed by the  
 12 Company and as recommended by Staff are as follows:

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

<u>COMMODITY RATES:</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	
		<u>Company</u>	<u>Staff</u>
0 – 5,000 gallons	\$1.65		
5,001 – 20,000 gallons	2.25		
Over 20,000 gallons	2.65		
<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	
<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
Standpipe (Per 1,000 gallons)	\$2.65	\$4.15	\$3.65

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

	Present Rates	Company Proposed	Staff Recommended		
			Service Line Charge	Meter Installation	Total
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

	Current Charges	Company Proposed	Staff Recommended
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%	**
Re-establishment (Within 12 Months)	***	***	***
NSF Check	15.00	15.00	15.00
Deferred Payment	1.50%	1.50%	1.50%
Meter Re-Read (If Correct)	\$15.00	\$15.00	\$15.00
Late Payment Charge (Per Month)	1.5%	1.5%	1.50%
Charge for Moving Meter	Minimum Cost	Minimum Cost	Minimum Cost

**MONTHLY SERVICE CHARGE FOR FIRE SPRINKLERS:**

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

\*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.

55. Because the Company did not provide a reconstructed cost new less depreciation ("RCND") study, its fair value rate base ("FVRB") is the same as its original cost rate base ("OCRB"). The Company proposed a negative OCRB of \$255,740. However, Staff removed a total

1 of \$338,741 from plant in service because it found no evidence that the Company's reported plant  
2 additions were acquired for the benefit of Cerbat's ratepayers. According to Staff, the identified plant  
3 costs of \$300,459 for transmission and distribution mains, \$27,102 for meters and meter installations,  
4 and \$11,180 for hydrant equipment, were invoiced to the Trust or to Truxton Canyon and should  
5 therefore be disallowed from Cerbat's rate base. (Ex. S-2, at 5-6, Sched. AII-2, at 3.)

6         56. Staff also recalculated accumulated depreciation to reflect Staff's adjusted plant in  
7 service amount, resulting in a \$49,900 reduction to accumulated depreciation. (*Id.*, Sched. AII-2, at  
8 4.) In addition, Staff restated Cerbat's advances in aid of construction ("AIAC") and amortization of  
9 contributions in aid of construction ("CIAC") in accordance with Decision No. 64886, the  
10 Company's last rate case. (Ex. S-2, at 6.) Finally, using the formula method, Staff decreased Cerbat's  
11 cash working capital by \$1,085. Staff's recommended adjustments resulted in a decrease of \$43,174  
12 to the Company's proposed OCRB, for a Staff recommended OCRB and FVRB of negative  
13 \$212,566. (*Id.*, Sched. AII-2, at 1.)

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

16         58. Staff made adjustments to Cerbat's claimed test year total operating expenses of  
17 \$136,633, and recommended an expense allowance of \$104,534, which is \$32,099 less than the  
18 Company's reported expenses. Staff reduced purchased water expense by \$14,806, from \$44,513 to  
19 \$29,707. (*Id.*, Sched. AII-3, at 1-2.) This adjustment results from Staff's reclassification of \$27,030  
20 for management fees to outside expense, and an increase of \$10,588 over actual test year purchased  
21 water expenses, to reflect a known and measurable increase in the per 1,000 gallon cost from \$0.75 to  
22 \$1.01 that became effective after the test year. (*Id.*) Staff also increased Cerbat's purchased power  
23 expense by \$320 to reflect actual test year costs; decreased water testing expense by \$776; decreased  
24 depreciation expense by \$8,492 based on Staff's test year plant in service calculation; decreased  
25 property tax expense by \$620 to reflect an appropriate level of expense using the Arizona Department  
26 of Revenue ("ADOR") methodology; and increased income tax expense by \$8,493. (*Id.*)

27         59. In addition to the adjustments discussed above, Staff eliminated \$43,249 of well repair  
28

1 expenses incurred by the Trust. Staff indicated that Cerbat's customers should not be responsible for  
2 the Trust's well repair expenses, and suggested that if the Company would like to recover such  
3 expenses in the future, it could acquire all of the system assets from the Trust. Alternatively, Staff  
4 recommended that the Trust should submit an application for a Certificate of Convenience and  
5 Necessity ("CC&N") to provide utility service. (*Id.*)<sup>10</sup>

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

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

12 62. The water rates and charges recommended by Staff would produce operating revenues  
13 of \$125,391, and adjusted operating expenses of \$108,463, resulting in operating income of \$16,928,  
14 for a 13.50 percent operating margin. (*Id.*) Staff explained that a company's operating income is  
15 typically determined by multiplying its rate base by a rate of return derived through a cost of capital  
16 analysis. However, because Cerbat has a negative rate base, Staff used an operating margin  
17 mechanism to enable the Company to cover its operating expenses and to meet contingencies. (*Id.* at  
18 8-9.)

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

25 64. Staff also recommended a three-tier rate structure, but with a first tier breakover point  
26

---

27 <sup>10</sup> 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 of 4,000 gallons,<sup>11</sup> a second tier breakover point of 9,000 gallons, and a third tier for usage over 9,000  
 2 gallons. Staff stated that its first tier breakover point is slightly lower than the customers' median  
 3 usage of 4,269 gallons per month, which provides a lower first-tier rate for non-discretionary usage.  
 4 Staff also stated that its recommended rate structure will encourage a more efficient use of water.  
 5 (*Id.*)

6 65. Cerbat's proposed rates for a ¾-inch meter residential customer with median usage of  
 7 4,569 gallons of water per month would result in an increase of \$13.24 per month (51.9 percent),  
 8 from \$25.54 to \$38.78. (*Id.*)

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

12 67. In addition to approval of its proposed rates, Staff recommended that:

- 13 a. Cerbat be authorized to collect from its customers an appropriate  
 14 share of any privilege, sales, or use tax as provided for in A.A.C.  
 R14-2-409(D);
- 15 b. Cerbat adopt the depreciation rates set forth in Exhibit 6 of the  
 16 Engineering Report attached to the Staff Report on a going-  
 forward basis;
- 17 c. Cerbat be ordered to file with Docket Control, as a compliance  
 18 item in this docket, ADEQ documentation showing the system is  
 19 currently delivering water that meets water quality standards in  
 accordance with A.A.C., Title 18, Chapter 4, no later than 90 days  
 from the effective date of this Decision;
- 20 d. Cerbat be ordered to file with Docket Control, as a compliance  
 21 item in this docket, ADWR documentation showing compliance  
 22 with ADWR requirements, no later than 90 days from the effective  
 date of this Decision;
- 23 e. The rates approved by the Commission not become effective until  
 24 the Company has filed documentation showing compliance with  
 the ADEQ and ADWR requirements;
- 25 f. Cerbat be ordered to install a meter at each interconnection  
 26 location on its system, and file with Docket Control within 90 days  
 of the effective date of this Decision, as a compliance item in this  
 docket, documentation showing that the meters have been installed

27 <sup>11</sup> 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.)

and are in-service, for Staff's review and certification;

- 1
- 2 g. Once the interconnection meters have been installed, Cerbat be
- 3 required to record for 12 consecutive months the water entering its
- 4 system and the water purchased by its customers, and file with
- 5 Docket Control within 15 months of the effective date of this
- 6 Decision, as a compliance item in this docket, for Staff's review
- 7 and certification, the 12 consecutive months of recorded data;
- 8 h. Cerbat be ordered to file a rate case application no later than three
- 9 years from the effective date of this Decision;
- 10 i. Cerbat be ordered to maintain compliance with all Commission
- 11 rules and regulations;
- 12 j. Cerbat be ordered to bring its books and records in compliance
- 13 with the NARUC USOA and Generally Accepted Accounting
- 14 Principles ("GAAP"), within 30 days from the effective date of
- 15 this Decision;<sup>12</sup>
- 16 k. Cerbat be ordered to acquire from the Trust all water system assets
- 17 necessary to provide service to the Company's customers, or, in
- 18 the alternative, the Trust be required to file an application to the
- 19 Commission for a CC&N;
- 20 l. If Cerbat maintains its current management and ownership
- 21 structure by the time of its next rate case, the Company be required
- 22 to grant Staff access to the Trust's accounting books and records
- 23 for regulatory auditing by Staff during Cerbat's next rate case;
- 24 m. Cerbat be required to file documentation within 30 days of the
- 25 effective date of this Decision with Docket Control, as a
- 26 compliance item in this docket, demonstrating that the Company
- 27 has a certified water operator, and that Cerbat be required to notify
- 28 the Commission in the event that the Company changes its
- certified operator; and
- n. Cerbat be ordered to cease and desist from commingling its
- financial records with the Trust based on Staff's assertion that it
- found evidence of commingling of financial records between
- Cerbat and the Trust. (Ex. S-2, at 9-11.)

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

<sup>12</sup> Staff indicated in the Staff Report that Cerbat claimed to have recently implemented an accounting system that would 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.)

<sup>13</sup> 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           69.     The Commission has previously approved the Company's Curtailment Tariff and its  
2 Backflow Prevention Tariff. (*Id.*, Engineering Report, at 8.)

3           70.     We find that Staff's recommendations regarding the Rate Docket, as discussed herein,  
4 are reasonable and should be adopted.

5 **Finance Docket**

6           71.     On August 3, 2011, Cerbat filed an application requesting authorization to incur  
7 \$534,710 in long-term debt from WIFA.

8           72.     On August 31, 2011, Staff issued a Staff Report recommending partial approval of the  
9 application subject to certain conditions. Staff states that the only details regarding the loan were  
10 contained in the Company's application filed with WIFA in January 2011, and therefore Staff was  
11 required to make various assumptions regarding the finance application filed with the Commission.  
12 (Finance Docket Staff Report, at 1.) Staff states that it assumed the intent of the proposed \$534,710  
13 WIFA loan was to drill a new back-up well (\$89,000), pay for past repairs to the existing well  
14 (\$110,000), and to purchase the existing well from the Trust (\$335,715). (*Id.*) According to Staff,  
15 Cerbat subsequently revised its application and the Company is now requesting authorization only for  
16 a loan of \$171,310 to drill a new well, but is no longer seeking financing to purchase the well  
17 formerly owned by the Trust, but now owned by Cerbat. (*Id.*)

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

27           74.     On September 21, 2011, Cerbat filed Comments to the Staff Report in which the  
28 Company seeks authority to use the proposed WIFA loan proceeds to pay for prior well repairs

1 (\$186,646)<sup>14</sup> and for drilling a new well and booster station improvements (\$200,000). Cerbat asserts  
 2 that Staff's \$131,000 financing recommendation is inadequate to drill a new well, and further claims  
 3 that booster station and other improvements will require financing of at least \$200,000.

4 Engineering Analysis

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

10 76. Staff concluded that the Company's proposed costs, as modified by Staff's  
 11 recommendations, are reasonable and appropriate. Staff therefore recommends that its estimated  
 12 costs should be adopted as the amount approved for Cerbat's new well project. Staff noted that in  
 13 making this recommendation, it is not making a used and useful determination for the proposed plant  
 14 and that no future treatment should be inferred for ratemaking or rate base purposes. (*Id.* at 2-3.) A  
 15 summary of Cerbat's proposed costs and Staff's recommended "Costs to be Financed" are set forth  
 16 below.

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

Project Description	Company Proposed Costs To Be Financed (\$) <sup>1</sup>	Staff Recommended Costs To Be Financed (\$) <sup>2</sup>
Earth work includes site grade, survey, County permitting fee (from Raymond W. Stadler, P.E.)	3,575	1,375 <sup>2</sup>
Hydrologic Study, Engineering design and construction plan drawings	0	10,000
Booster improvements	23,300	0 <sup>3</sup>
Drill a 1,000' deep well with 8" steel casing and well installation	55,335 <sup>4</sup>	0
Drill a 1,000' deep, 6" steel casing with yield of 200	0	43,000 <sup>5</sup>

14 The Company was authorized in Decision No. 72385 to implement a \$12.52 per month surcharge to pay \$119,444 to well repair vendors for work done before the Trust transferred well ownership to Cerbat. The Company now seeks to use 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	gpm and well installation		
2	Test Pumping	26,700	27,000
3	New Source Water Quality tests	3,325 <sup>6</sup>	2,769 <sup>7</sup>
4	A 50-HP, 150 gpm well pump, motors, parts, labor & other electrical associated with pump installation	33,584 <sup>8</sup>	33,584
5	6" concrete pad around well head & discharging piping	5,000	5,000
6	Connecting the 50-HP pump to 60' from existing electric service	18,000 <sup>9</sup>	0
7	Electric Conduit (including parts, labor and installation)		5,740 <sup>10</sup>
8	ADEQ Permit fee	2,500 <sup>11</sup>	2,500
9	<b>Total</b>	<b>171,319</b>	<b>130,968</b>

## 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

77. 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.)

78. 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

1 closed. (*Id.*)

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

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

10 81. On October 25, 2011, as directed by the Commission, Cerbat filed an amendment to  
11 clarify proposed uses of loan proceeds. Cerbat's amendment requested authorization to incur a  
12 \$386,646 loan from WIFA. The amendment states that \$186,646 of loan proceeds will be to pay the  
13 vendors who performed work on the Company's well between June 2009 and August 2011, and the  
14 additional \$200,000 will be for the construction of a new 8" well and to make the related  
15 improvements to the booster pump, electric plant, and storage tank.

16 82. Cerbat proposed two alternatives to structure rates and/or finance the loan:

17 In Alternative 1, the Commission would authorize a WIFA loan in the  
18 amount of approximately \$389,000 and incorporate the debt service into  
19 base rates. This would increase proposed revenue from \$18,052 in the  
20 ROO (about 17%) to \$38,052 or about 35.45%, and no surcharge would  
21 be required. This operating margin will provide sufficient cash flow.  
22 The revenue increase will provide a 25.34% operating margin. The Debt  
23 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.

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

1 alternatives result in increases that would be less than the \$12.52  
2 surcharge now in place.

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

13 84. Since Staff's recommended long-term debt in the amount of \$343,755 will result in a  
14 DSC ratio of 1.26 and a Times Interest Earned Ratio ("TIER") of 1.27, as shown on Schedule EOA-  
15 1, Staff believes that the proposed operating income in Cerbat's pending rate case will provide it  
16 with adequate cash flow to cover its operating costs and to make interest and principal repayments  
17 on the loan amount of \$343,755.

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

- 20 1. The Commission authorize Cerbat to obtain WIFA long-term debt in  
21 an amount up to \$343,755.
- 22 2. The Commission authorize Cerbat to engage in any transactions and  
23 to execute or cause to be executed any documents so as to effectuate  
24 the authorization requested in this application.
- 25 3. The Commission order Cerbat to file with Docket Control, as a  
26 compliance item in this docket, a copy of all notes and other  
27 documents memorializing the authorized transaction, within 30 days  
28 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

1 first month that the new rates are collected, the Company shall be  
 2 required to first deposit from revenues in that separate interest  
 3 bearing account \$2,000 per month. This amount should equal the  
 4 actual monthly payment once the WIFA loan is obtained. Funds from  
 5 this account shall only be used for disbursement to WIFA.

6 7. The Commission order Cerbat to file a rate case by April 30, 2013,  
 7 utilizing a 2012 test year.

8 8. Staff further recommends that the Commission deny the Company's  
 9 request to incur \$28,256 for additional professional services  
 10 (Engineer, Hydrologist, inspector, etc.) and contingency.

### 11 Conclusion

12 86. We find Staff's recommendations, as described and modified herein, to be reasonable  
 13 and appropriate, and we will therefore approve Cerbat's financing application, as amended by the  
 14 Supplemental Staff Report recommendations and discussion.

### 15 CONCLUSIONS OF LAW

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

18 2. The Commission has jurisdiction over Cerbat and the subject matter of the  
 19 applications.

20 3. Notice of the rate and financing applications were provided in accordance with the  
 21 law.

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

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

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

7. Approval of the proposed financing is not intended to, and should not be interpreted  
 to, guarantee or imply any specific treatment of any capital additions for rate base or ratemaking

1 purposes.

2 8. Staff's recommendations concerning the rate application and Staff's supplemental  
3 recommendations for the amended financing application, as described and modified herein, are  
4 reasonable and appropriate and should be adopted.

5 **ORDER**

6 IT IS THEREFORE ORDERED that Cerbat Water Company is hereby directed to file by  
7 January 31, 2012, 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 **MONTHLY USAGE CHARGE:**

11	5/8" x 3/4" Meter	\$18.00
	3/4" Meter	18.00
	1" Meter	45.00
12	1 1/2" Meter	75.00
	2" Meter	144.00
13	3" Meter	288.00
	4" Meter	450.00
14	6" Meter	900.00

15 **COMMODITY RATES:**

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

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

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

	<u>Service Line</u> <u>Charge</u>	<u>Meter</u> <u>Installation</u>	<u>Total</u>
21	5/8" x 3/4 " Meter	\$ 135.00	\$ 385.00
	3/4 " Meter	215.00	600.00
22	1" Meter	255.00	690.00
	1 1/2" Meter	465.00	935.00
23	2" Meter Turbo	965.00	1,595.00
	2" Meter Compound	1,690.00	2,320.00
	3" Meter Turbo	1,470.00	2,275.00
24	3" Meter Compound	2,265.00	3,110.00
	4" Meter Turbo	2,350.00	3,520.00
25	4" Meter Compound	3,245.00	4,475.00
	6" Meter Turbo	4,545.00	6,275.00
	6" Meter Compound	6,280.00	8,050.00
26	Over 6-inch Meter	Actual Cost	Actual Cost

**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 February 1, 2012, 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 by 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  
27  
28

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 April 30, 2013, utilizing a 2012 test year.

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 \$343,755, 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 shall set up a separate interest  
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1 bearing bank account the same month the new rates take effect and starting the first month that the  
2 new rates are collected, first deposit from revenues in that separate interest bearing account \$2,000  
3 per month. Once the WIFA loan is obtained, the amount deposited first from revenues shall be equal  
4 to the actual monthly WIFA loan payments. Funds from this account shall only be used for  
5 disbursements to WIFA. The Company may continue to collect the current \$12.52 surcharge until the  
6 WIFA loan is obtained, but shall cease collecting the surcharge upon execution of the WIFA loan  
7 documents.

8           IT IS FURTHER ORDERED that Cerbat Water Company is hereby authorized to engage in  
9 any transactions and to execute any documents necessary to effectuate the authorizations granted  
10 herein.

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

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

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

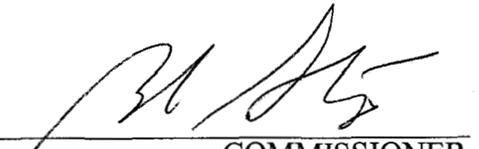
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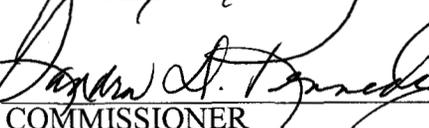
1 IT IS FURTHER ORDERED that approval of the financing set forth herein does not  
2 constitute or imply approval or disapproval by the Commission of any particular expenditure of the  
3 proceeds derived thereby for purposes of establishing just and reasonable rates.

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

5 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

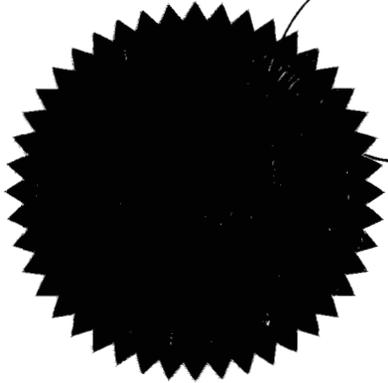
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8 CHAIRMAN

  
9 COMMISSIONER

10   
11 COMMISSIONER

  
12 COMMISSIONER

  
13 COMMISSIONER



14 IN WITNESS WHEREOF, I, ERNEST G. JOHNSON,  
15 Executive Director of the Arizona Corporation Commission,  
16 have hereunto set my hand and caused the official seal of the  
17 Commission to be affixed at the Capitol, in the City of Phoenix,  
18 this 19th day of JANUARY, 2012.

19   
20 ERNEST G. JOHNSON  
21 EXECUTIVE DIRECTOR

22 DISSENT: \_\_\_\_\_

23 DISSENT: \_\_\_\_\_

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SERVICE LIST FOR:

CERBAT WATER COMPANY

DOCKET NOS.:

W-02391A-10-0218, W-02391A-11-0166 and  
W-02391A-11-0309

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