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MEMORANDUM

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AZ CORP COMMISSION

DOCKET CONTROL

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2013 OCT 31 PM 3 59

TO: Docket Control  
FROM: Steven M. Olea  
Director  
Utilities Division

DATE: October 31, 2013

RE: STAFF REPORT FOR CERBAT WATER COMPANY INC'S APPLICATION  
FOR A PERMANENT RATE INCREASE (DOCKET NO. W-0239113-0234)

Attached is the Staff Report for Cerbat Water Company Inc's application for a permanent rate increase. Staff recommends approval of Staff's rates and charges contingent upon the Company establishing a payment plan with the Mohave County Assessor's Office for its delinquent property taxes.

Any party who wishes may file comments to the Staff Report with the Commission's Docket Control by 4:00 p.m. on or before November 12, 2013.

SMO:CLP:red\CHH

Originator: Christine Payne

Arizona Corporation Commission

DOCKETED

OCT 31 2013

DOCKETED BY *[Signature]*

Service List for: Cerbat Water Company, Inc.  
Docket No. W-02391-13-0234

Ms. Michelle Monzillo  
Office Manager  
7313 East Concho Drive, Suite B  
Kingman, Arizona 86401

Ms. Sonn Rowell  
PO Box 51628  
Ahwatukee, Arizona 85076

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

**STAFF REPORT  
UTILITIES DIVISION  
ARIZONA CORPORATION COMMISSION**

**CERBAT WATER COMPANY, INC.  
DOCKET NO. W-02391-13-0234**

**APPLICATION  
FOR A  
PERMANENT RATE INCREASE**

**OCTOBER 31, 2013**

## STAFF ACKNOWLEDGMENT

The Staff Report for Cerbat Water Company Inc. ("Company") Docket No. W-02391-13-0234 was the responsibility of the Staff members listed below. Christine Payne was responsible for the review and analysis of the Company's application for a permanent rate increase, revenue requirement, rate base, and rate design. Dorothy Hains was responsible for the engineering and technical analysis. Alfonso Amezcua was responsible for reviewing the Arizona Corporation Commission's ("Commission") records on the Company and reviewing customer complaints filed with the Commission.

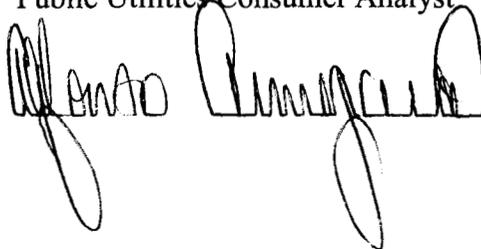


Christine Payne  
Public Utilities Analyst



Dorothy Hains P. E.  
Utilities Engineer

Alfonso Amezcua  
Public Utilities Consumer Analyst



**EXECUTIVE SUMMARY  
CERBAT WATER COMPANY, INC.  
DOCKET NO. W-02391A-13-0234**

Cerbat Water Company, Inc. ("Cerbat" or "Company") is a Class D water utility located approximately four miles northwest of the City of Kingman. The Company provides water service to approximately 322 customers based on rates and charges approved by the Commission in Decision No. 72739, dated January 19, 2012. Cerbat is owned by the Claude K. Neal Family Trust ("Trust").

Cerbat proposes to increase its test year total operating revenues by \$80,000 or 62.03 percent, from \$128,977 to \$208,977; resulting in an operating income of \$23,888. The Company's Original Cost Rate Base ("OCRB") is a negative \$56,112 at test year end. The Company's proposal will increase the monthly bill of a typical residential customer on a 3/4 inch meter, with a median usage of 5,500 gallons by \$20.30 or 69.52 percent, from \$29.20 to \$49.50.

Staff is recommending rates that will increase the Company's test year revenues by \$67,654 or 52.45 percent, from \$128,977 to \$196,963. Staff's recommendation results in an operating income of \$19,780. Staff's recommended rates will increase the monthly bill of a typical residential customer on a 3/4 inch meter, with a median usage of 5,500 gallons, by \$16.93 or 57.98 percent, from \$29.20 to \$46.13.

Based on these findings, Staff recommends as follows:

1. The Commission approve Staff's recommended rates and charges in this proceeding contingent upon the Company establishing a payment plan with the Mohave County's Assessor's office for its delinquent property taxes.
2. The Commission authorize Cerbat to collect from its customers an appropriate share of any privilege, sales or use tax as provided for in AAC R14-2-409(D).
3. The Commission order Cerbat to adopt the depreciation rates by individual National Association of Regulatory Utility Commissioners ("NARUC") category, as set forth on Exhibit 6 of Staff's Engineering Report.
4. That the Commission terminate the meter installation requirements at each interconnection location ordered in Decision No. 72739 on January 19, 2012.
5. That the Commission order Cerbat to file a rate case no later than June 2, 2017, using a 2016 test year.
6. That the Commission order Cerbat's accounting books and records be in compliance with NARUC Uniform System of Accounts and Generally Accepted Accounting Principles ("GAAP"), no later than 90 days from the date of the

Commission decision in this docket. The Company file an affidavit with the Commission confirming compliance with this condition.

7. That Cerbat file documentation, as a compliance item in this docket, no later than 30 days from the effective date of Commission decision in this docket, demonstrating it has a certified water operator. As an additional compliance item, the Company shall notify the Commission if in the future, it changes certified water operators.
8. That Cerbat file with Docket Control, as a compliance item in this docket and within 90 days of the effective date of a decision in this proceeding, at least three BMPs in the form of tariffs that substantially conform to the templates created by Staff for the Commission's review and consideration.
9. That the Commission approve the curtailment tariff attached to the Engineering Report as Exhibit 7. Staff further recommends that the Company file the recommended Curtailment Tariff with Docket Control, as a compliance item in this docket and within 45 days of the effective date of a decision in this proceeding.
10. Staff recommends that the Company monitor the water system closely and take action to ensure the water loss is 10 percent or less. If the reported water loss is greater than 10 percent, the Company shall prepare a report containing a detailed analysis and plan to reduce water loss to 10 percent or less. If the Company believes it is not cost effective to reduce the water loss to less than 10 percent, it should submit a detailed cost benefit analysis to support its opinion. In no case shall the Company allow water loss to be greater than 15 percent. The water loss reduction report or the detailed analysis, whichever is submitted, shall be docketed as a compliance item within 180 days of the effective date of the order issued in this proceeding. Staff recommends that the Company continue to monitor its water use data to ensure that water loss remains within acceptable limits. Any future rate case filed by the Company may be found insufficient if these items are not properly submitted.

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### ATTACHMENT

Engineering Report .....	Attachment A
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**FACT SHEET**

**Company:**

Current Rates: Decision No. 72739, dated January 19, 2012  
Type of Ownership: C Corporation

Location: Cerbat Water Company, Inc. is located approximately four miles northwest of the City of Kingman, Mohave County, Arizona. The Company is not located within an Active Management Area ("AMA").

**Rates:**

Permanent rate increase application filed: July 2, 2013  
Current test year ended: December 31, 2012  
Prior test year ended: December 31, 2009

**Metered Rates:**

	<u>Company Current Rates</u>	<u>Company Proposed Rates</u>	<u>Staff Recommended Rates</u>
<b>Based on 3/4-inch meter</b>			
<b>Monthly Minimum Charge</b>	\$18.00	\$48.00	\$24.00
<b>Gallons in minimum</b>	0	0	0
<b>Commodity Charge (per 1,000 gallons)</b>			
0 to 3,000 gallons	\$1.65	\$2.50	\$3.00
3,001 to 7,000 gallons	\$2.50	\$4.00	\$5.25
Over 7,000 gallons	\$3.65	\$5.13	\$7.00
<b>Typical residential bill</b>			
(based on median usage of 5,500 gallons)	\$29.20	\$49.50	\$42.13

**Customers:**

Average number of metered customers in the current test year (12/31/12): 322  
Current test year customers by meter size:

5/8 X 3/4-inch	0
3/4-inch	252
1-inch	70
1 1/2-inch	0
2-inch	0
4-inch	0
6-inch	0

Seasonal customers: N/A

**Customer Notification:**

On July 2, 2013, the Company filed an *Affidavit of Mailing* with the Commission, confirming that its customers of record were notified of its application for a rate increase. The Company's *Public Notice* was posted as a bill insert, on July 2, 2013, via United States First Class Mail.

**Complaints:**

Number of customer complaints from January 1, 2010 through current: 6

Number of opinions regarding rate application: 0

## **SUMMARY OF FILING**

On July 2, 2013, Cerbat Water Company Inc., (“Cerbat or “Company”) filed an application with the Arizona Corporation Commission (“Commission”) for a permanent rate increase. On July 31, 2013, the Commission Utilities Division Staff (“Staff”) determined that the Company’s application met sufficiency requirements of the Arizona Administrative Code, Section R14-2-103. Cerbat is a Class D water utility.

Cerbat’s proposed rates, as filed, would produce Total Operating Revenue of \$208,977 and Operating Income of \$23,888 resulting in an 11.43 percent operating margin. The Company’s Original Cost Rate Base (“OCRB”) is a negative \$52,513. The Company’s proposed rates would increase the typical residential bill, with a median usage of 5,500 gallons, from \$29.20 to \$49.50 for an increase of \$20.30, or 69.52 percent, as shown on Schedule CLP-5.

Staff recommends rates that would produce Total Operating Revenue of \$196,631 and Operating Income of \$19,780 resulting in a 10.06 percent operating margin. Staff adjusted the Company’s OCRB to a negative \$34,909. Staff’s recommended rates would increase the typical residential bill, with a median usage of 5,500 gallons, from \$29.20 to \$46.13 for an increase of \$16.93, or 57.98 percent, as shown on Schedule CLP-5.

## **BACKGROUND**

Cerbat is a Class D water utility located approximately four miles northwest of the City of Kingman. The Company provides water service to 322 customers based on rates and charges approved by the Commission in Decision No. 72739, dated January 19, 2012. Cerbat is owned by the Claude K. Neal Family Trust (“Trust”).

Cerbat is a wholly owned subsidiary of the Trust. The Trust is responsible for the day to day management of Cerbat, based on a Management Agreement between both entities.

## **CONSUMER SERVICES**

### *Complaint History*

A search of Consumer Services database reveals the following from January 1, 2010 through current:

**2013** – One complaint (one repair issue)

**2012** – Zero complaints

**2011** – Three complaints (one billing, one service and one quality of service)

**2010** – Two complaints (one billing and one quality of service)

All complaints have been resolved and closed.

## **ENGINEERING ANALYSIS**

Staff conducted a field inspection of Cerbat's facilities on September 10, 2013. A complete description of the Company's water system, Staff's technical findings and recommendations are contained in the Engineering Report, attached as Attachment A.

## **COMPLIANCE**

### *Compliance Requirements*

Decision No.72739 ordered Cerbat to install a meter at each interconnection location on its system. Once the interconnection meters have been installed, Cerbat is required to record for 12 consecutive months the water entering its system and the water purchased by its customers and file with Docket Control, within 15 months of the effective date of this Decision as a compliance item in this docket, for Staff's review and certification, the 12 months of recorded data.

The Engineering Report indicates that the meter installations are no longer necessary. Staff recommends that the Commission terminate the meter installation requirements in this rate case.

## **RATE BASE**

The Company did not propose a fair value rate base that differs from its original cost rate base. Staff's adjustments increased the Company's proposed rate base by \$16,374, from a negative \$52,513 to a negative \$34,909, as shown on Schedule CLP-2, page 1. Details of Staff's adjustments are discussed below.

### *Plant in Service*

Structures and Improvements – Adjustment "a" increases Structures and Improvements by \$13,875 that was misclassified in Pumping Equipment.

Wells and Springs – Adjustment "b" increases Wells and Springs by \$3,355 to reflect water testing expense related to the construction of the new well.

Pumping Equipment – Adjustment "c" decreases Pumping Equipment by \$13,875 that was misclassified in Structures and Improvements.

*Accumulated Depreciation*

Adjustment B reflects an adjustment to Accumulated Depreciation based on Staff's calculated plant balances.

*Working Capital*

Adjustment C reflects the result of Staff's calculation of cash working capital based on the formula method. Staff added this to Prepayments for total working capital of \$15,913.

**OPERATING INCOME STATEMENT**

*Operating Revenue*

As shown on Schedule CLP-3, page 1 of 2, Staff concurs with the Company's test year operating revenue of \$128,977.

*Operating Expenses*

The Company reports test year total operating expenses of \$185,089. Staff's adjustments shown on Schedule CLP-3, page 1 of 3, results in test year total operating expenses of \$168,109, \$16,980 less than the Company's reported expenses. Staff's adjustments are as follows:

Outside Services – Adjustment A decreases outside services by \$12,004 (\$6,304 and \$5,700) from \$45,613 to \$33,609. The Company received an invoice from Dennis Schmich & Co., LTD totaling \$19,255 that included \$6,304 of finance charges. Staff recommends removal of the finance charges because management's decision not to pay bills in a timely manner is not a normal operating expense and that cost should not be reflected in ratepayer's rates. The Company received an invoice from Walker Service Electric for \$5,700 made out to the Trust. The invoice description states "labor and materials per proposal". The Company was unable to identify the project for the \$5,700 invoice. Staff recommends removal of \$5,700 from Outside Services.

Water Testing – Adjustment B decreases water testing expense by \$3,355 as per Staff's Engineering Report on pages 5-6. The Company's recorded test year water expense of \$3,966 consisted of costs associated with the purchase of a new well that are not ongoing. Staff reclassified \$3,355 as an addition to Wells and Springs Plant Account and removed \$3,355 from Water Testing Expense.

Insurance-General Liability – Adjustment C decreases Insurance by \$486. The Company received an invoice made out to the Trust for \$1,943. The invoice described the items as personal property which included a home trailer and several vehicles. The Company allocated \$486 to Cerbat (25 percent) and \$1,457 (75 percent) to Truxton Water. The Company was

unable to provide details on how the vehicles were used in the business. Staff recommends removing \$486 from Insurance-General Liability.

Depreciation Expense – Adjustment D increases depreciation expense by \$3,748 to reflect Staff's calculation of depreciation expense based on Staff adjusted plant in service at test year end. Staff's calculation is depicted on Schedule CLP-3, page 1 of 3.

Income Tax Expense – Adjustment E decreases income tax expense by \$4,883 to reflect Staff's calculation of income tax expense based on Staff's recommended operating income.

## **REVENUE REQUIREMENT**

Cerbat seeks Commission authorization to increase its revenue by \$80,000 or 62.03 percent for a total of \$208,977. The Company's proposal results in an operating income of \$23,888 or an 11.43 percent operating margin.

Staff recommends an increase in revenue of \$67,654 or 52.45 percent for a total of \$196,631. Staff's recommendation results in an operating income of \$19,780 or 10.06 percent operating margin. As fully discussed below, Staff and the Company employed cash flow analyses in order to derive the respective operating income recommendations because the Company's negative rate base does not provide enough revenue to cover its costs.

Typically, operating income is established by multiplying rate base by a rate of return, derived through a cost of capital analysis. Because Cerbat currently has a negative rate base, Staff has employed the cash flow methodology in determining its operating income in this proceeding. Staff's recommended revenue requirement will enable Cerbat to cover its operating expenses, contingencies, and meet the debt service coverage ("DSC") ratio for its Commission authorized loan obtained from the Water Infrastructure Finance Authority of Arizona ("WIFA"). The resulting 5.62 DSC easily meets WIFA's requirements.

## **OTHER MATTER**

### *Accounting Records*

Staff noted during its review that the Company did not maintain its accounting records in accordance with the National Association of Regulatory Utility Commissioner ("NARUC") Uniform Systems of Accounts ("USoA") and Generally Accepted Accounting Principles ("GAAP"). However, the Company has recently implemented an accounting system that will enable it to comply with NARUC USoA and GAAP. Because Staff has not reviewed the Company's newly implemented accounting system, Staff continues to recommend that Cerbat's accounting books and records be in compliance with NARUC USoA and GAAP no later than 90 days from the date of the Commission decision in this docket. The Company should file an affidavit with the Commission confirming compliance with this condition.

## **RATE DESIGN**

Cerbat's current rate design is comprised of three tiers, with a first-tier break-over of 3,000; 9,000-gallons for the second-tier; and over 9,000-gallons for the third-tier. The Company's current monthly minimum charges do not include any gallons. Cerbat has proposed a new rate structure, with a break-over of 3,000-gallons for the first-tier, 7,000-gallons for the second-tier and over 7,000-gallons for the third-tier.

Staff recommends the same three tiered rate structure that is used in the Company's current rate design, but with different prices. Staff's recommended rate design will encourage a more efficient use of water within the Company's certificated territory.

As shown on Schedule CLP-5, the Company's proposed rates for a typical residential customer, on a 3/4-inch meter, with a median usage of 5,500-gallons, result in a monthly increase of \$29.20 or 57.98 percent. Staff's recommended rates result in an increase of \$16.93 or 57.98 percent for a typical residential customer with the same level of consumption.

Staff recommends adoption of its recommended Service Line and Meter Installation Charges as well as Service Charges, shown on Schedule CLP-4.

## **STAFF RECOMMENDATIONS**

Based on Staff's analysis and findings in this proceeding, Staff recommends as follows:

1. The Commission approve Staff's recommended rates and charges in this proceeding contingent upon the Company establishing a payment plan with the Mohave County's Assessor's office for its delinquent property taxes.
2. The Commission authorize Cerbat to collect from its customers an appropriate share of any privilege, sales or use tax as provided for in AAC R14-2-409(D).
3. The Commission order Cerbat to adopt the depreciation rates by individual NARUC category, as set forth on Exhibit 6 of Staff's Engineering Report.
4. That the Commission terminate the meter installation requirements at each interconnection location ordered in Decision No. 72739 on January 19, 2012.
5. That the Commission order Cerbat to file a rate case no later than June 2, 2017, using a 2016 test year.
6. That the Commission order Cerbat's accounting books and records be in compliance with NARUC USoA and GAAP, no later than 90 days from the date

**Cerbat Water Company**

Docket No. W-02391A-13-0234

Test Year Ended December 31, 2012

Schedule CLP-1

**SUMMARY OF FILING**

	-- Present Rates --		-- Proposed Rates --	
	Company as Filed	Staff as Adjusted	Company as Filed	Staff as Adjusted
<b>Revenues:</b>				
Metered Water Revenue	\$125,596	\$125,596	\$205,596	\$193,250
Unmetered Water Revenue	0	0	0	0
Other Water Revenues	3,381	3,381	3,381	3,381
<b>Total Operating Revenue</b>	<b>\$128,977</b>	<b>\$128,977</b>	<b>\$208,977</b>	<b>\$196,631</b>
<b>Operating Expenses:</b>				
Operation and Maintenance	\$146,750	\$130,905	\$146,750	\$130,905
Depreciation	20,167	23,915	20,167	23,915
Property & Other Taxes	13,239	13,239	13,239	15,410
Income Tax	4,933	50	4,933	6,621
<b>Total Operating Expense</b>	<b>\$185,089</b>	<b>\$168,109</b>	<b>\$185,089</b>	<b>\$176,851</b>
<b>Operating Income/(Loss)</b>	<b>(\$56,112)</b>	<b>\$60,868</b>	<b>\$23,888</b>	<b>\$19,780</b>
<b>Rate Base O.C.L.D.</b>	<b>(\$52,513)</b>	<b>(\$34,909)</b>	<b>(\$52,513)</b>	<b>(\$34,909)</b>
<b>Rate of Return - O.C.L.D.</b>	<b>N/M</b>	<b>N/M</b>	<b>N/M</b>	<b>N/M</b>
<b>Operating Margin</b>	<b>N/M</b>	<b>N/M</b>	<b>11.43%</b>	<b>10.06%</b>

**RATE BASE**

	----- Original Cost -----			
	Company	Adjustment	Ref	Staff
Plant in Service	\$966,262	\$3,355	A	\$969,617
Less:				
Accum. Depreciation	674,376	(1,230)	B	673,146
<b>Net Plant</b>	<b>\$291,886</b>	<b>\$4,585</b>		<b>\$296,471</b>
Less:				
Plant Advances	\$335,362	\$0		\$335,362
Accumulated Deferred Income Taxes	0	0		0
<b>Total Advances</b>	<b>\$335,362</b>	<b>\$0</b>		<b>\$335,362</b>
Contributions Gross	\$196,718	\$0		\$196,718
Less:				
Amortization of CIAC	184,787	0		184,787
<b>Net CIAC</b>	<b>\$11,931</b>	<b>\$0</b>		<b>\$11,931</b>
<b>Total Deductions</b>	<b>\$347,293</b>	<b>\$0</b>		<b>\$347,293</b>

**CASH WORKING CAPITAL**

Plus:				
1/24 Power	\$0	\$1,672	C	\$1,672
1/8 Operation & Maint.	0	11,347	C	11,347
Inventory	0	0		0
Prepayments	2,894	0		2,894
<b>Total Additions</b>	<b>\$2,894</b>	<b>\$13,019</b>		<b>\$15,913</b>
<b>Rate Base</b>	<b>(\$52,513)</b>	<b>\$17,604</b>		<b>(\$34,909)</b>

*Explanation of Adjustment:*

- A- See Schedule CLP-2, page 2.
- B- See Schedule CLP- 2, page 3.
- C- To reflect Staff's cash working capital.

**PLANT ADJUSTMENT**

	Company Exhibit	Adjustment	Ref	Staff Adjusted
301 Organization	\$0	\$0		\$0
302 Franchises	0	0		0
303 Land & Land Rights	4,500	0		4,500
304 Structures & Improvements	14,500	13,875	a	28,375
307 Wells & Springs	90,716	3,355	b	94,071
311 Pumping Equipment	82,459	(13,875)	c	68,584
320 Water Treatment Equipment	0	0		0
330 Distribution Reservoirs & Sta	135,220	0		135,220
331 Transmission & Distribution L	543,756	0		543,756
333 Services	57,228	0		57,228
334 Meters & Meter Installations	21,183	0		21,183
335 Hydrants	14,400	0		14,400
336 Backflow Prevention Devices	0	0		0
339 Other Plant and Misc. Equipn	0	0		0
340 Office Furniture & Equipment	0	0		0
341 Transportation Equipment	0	0		0
343 Tools Shop & Garage Equipn	0	0		0
344 Laboratory Equipment	0	0		0
345 Power Operated Equipment	0	0		0
346 Communication Equipment	0	0		0
347 Miscellaneous Equipment	2,300	0		2,300
348 Other Tangible Plant	0	0		0
105 C.W.I.P.	0	0		0
<b>TOTALS</b>	<b>\$966,262</b>	<b>\$3,355</b>	<b>A</b>	<b>\$969,617</b>

*Explanation of Adjustment:*

- a Staff increased Structures & Improvements by \$13,875. The Company misclassified this account to Pumping Equipment.
- b Staff decreased Pumping Equipment by \$13,875 that was misclassified in Structures to Structures & Improvement.
- c To reflect water testing expense related to the construction of the new well.

**ACCUMULATED DEPRECIATION ADJUSTMENT**

	<u>Amount</u>
Accumulated Depreciation - Per Company	\$674,376
Accumulated Depreciation - Per Staff	<u>673,146</u>
<b>Total Adjustment</b>	<b>B <u><u>(\$1,230)</u></u></b>

*Explanation of Adjustment:*

- B - To reflect application of the authorized depreciation rates and removal of depreciation accrued on fully depreciated plant and to recognize retirements.

<u>Accumulated Depreciation Balances</u>	Per Company	Per Staff <sup>1</sup>
304 Structures & Improvements	241	473
307 Wells & Springs	1,510	1,566
310 Power Generated Equipment	-	-
311 Pumping Equipment	52,795	58,805
320.1 Water Treatment Equipment	-	-
320.2 Solution Chemical Feeders	-	-
330.1 Storage Tanks	104,380	104,380
330.2 Pressure Tanks	-	-
331 Transmission & Distribution Mains	440,767	440,767
333 Services	41,385	41,385
334 Meters & Meter Installations	21,183	21,183
335 Hydrants	11,769	2,631
336 Backflow Prevention Devices	-	-
339 Other Plant and Misc. Equipment	-	-
340 Office Furniture & Equipment	-	-
341 Transportation Equipment	-	-
343 Tools, Shop & Garage Equip.	-	-
344 Laboratory Equipment	-	-
345 Power Operated Equipment	-	-
346 Communication Equipment	-	-
347 Miscellaneous Equipment	345	1,955
348 Other Tangible Plant	-	-
<b>Total Accumulated Depreciation <sup>1</sup></b>	<u><u>674,376</u></u>	<u><u>673,146</u></u>

<sup>1</sup> The Company's balance sheet shows \$674,376.

**STATEMENT OF OPERATING INCOME**

	Company Exhibit	Staff Adjustments	Ref	Staff Adjusted
<b>Revenues:</b>				
461 Metered Water Revenue	\$125,596	\$0		\$125,596
460 Unmetered Water Revenue	0	0		0
474 Other Water Revenues	3,381	0		3,381
<b>Total Operating Revenue</b>	<b>\$128,977</b>	<b>\$0</b>		<b>\$128,977</b>
<b>Operating Expenses:</b>				
601 Salaries and Wages	\$24,617	\$0		\$24,617
610 Purchased Water	-	-		-
615 Purchased Power	40,133			40,133
618 Chemicals	218	0		218
620 Repairs and Maintenance	9,967	0		9,967
621 Office Supplies & Expense	5,763	0		5,763
630 Outside Services	45,613	(12,004)	A	33,609
635 Water Testing	3,966	(3,355)	B	611
641 Rents	1,838	0		1,838
650 Transportation Expenses	9,012	0		9,012
657 Insurance - General Liability	2,479	(486)	C	1,993
659 Insurance - Health and Life	0	0		-
666 Regulatory Commission Expense - Rate Case	1,404	0		1,404
675 Miscellaneous Expense	1,740	0		1,740
403 Depreciation Expense	20,167	3,748	D	23,915
408 Taxes Other Than Income	8,995	0		8,995
408.11 Property Taxes	4,244	0		4,244
409 Income Tax	4,933	(4,883)	E	50
<b>Total Operating Expenses</b>	<b>\$185,089</b>	<b>(\$16,980)</b>		<b>\$168,109</b>
<b>OPERATING INCOME/(LOSS)</b>	<b>(\$56,112)</b>	<b>\$16,980</b>		<b>(\$39,132)</b>
<b>Other Income/(Expense):</b>				
419 Interest and Dividend Income	\$0	\$0		\$0
421 Non-Utility Income	0	0		0
427 Interest Expense	(5,243)	0		(5,243)
4XX Reserve/Replacement Fund Deposit	0	0		0
426 Miscellaneous Non-Utility Expense	0	0		0
<b>Total Other Income/(Expense)</b>	<b>\$5,243</b>	<b>\$0</b>		<b>\$5,243</b>
<b>NET INCOME/(LOSS)</b>	<b>(\$50,869)</b>	<b>\$16,980</b>		<b>(\$33,889)</b>

### STAFF ADJUSTMENTS

A -	OUTSIDE SERVICES - Per Company	\$45,613	
	Per Staff	33,609	(\$12,004)
	To remove \$6,304 of Finance Charges due to Cerbat's delinquent payments.		
B -	WATER TESTING - Per Company	\$3,966	
	Per Staff	611	(\$3,355)
	To reflect Staff's recommended water testing expense		
C -	INSURANCE - GENERAL LIABILITY - Per Company	\$2,479	
	Per Staff	1,993	(\$486)
	To remove invoice for \$486 made out to the Trust for personal property.		
D -	DEPRECIATION - Per Company	\$20,167	
	Per Staff	23,915	\$3,748
	To reflect Staff's calculation of depreciation as follows:		

Acct No.	DESCRIPTION	[A]	[B]	[C]	[D]	[E]
		PLANT In SERVICE Per Staff	NonDepreciable or Fully Depreciated PLANT	DEPRECIABLE PLANT (Col A - Col B)	DEPRECIATION RATE	DEPRECIATION EXPENSE (Col C x Col D)
301	Organization	\$ -	\$ -	\$ -	0.00%	\$ -
302	Franchises	\$ -	\$ -	\$ -	0.00%	\$ -
303	Land & Land Rights	\$ 4,500	\$ 4,500	\$ -	0.00%	\$ -
304	Structures & Improvements	\$ 28,375	\$ -	\$ 28,375	3.33%	\$ 472
307	Wells & Springs	\$ 94,071	\$ -	\$ 94,071	3.33%	\$ 1,566
311	Pumping Equipment	\$ 68,584	\$ 48,084	\$ 20,500	12.50%	\$ 10,721
320	Water Treatment Equipmer	\$ -	\$ -	\$ -	0.00%	\$ -
330.1	Distribution Reservoirs - Sti	\$ 135,220	\$ -	\$ 135,220	427700.00%	\$ 2,873
330.2	Distribution Reservoirs - Pr	\$ -	\$ -	\$ -	5.00%	\$ -
331	Transmission & Distributor	\$ 543,756	\$ -	\$ 543,756	2.00%	\$ 10,829
333	Services	\$ 57,228	\$ -	\$ 57,228	3.33%	\$ 1,701
334	Meters & Meter Installation:	\$ 21,183	\$ -	\$ 21,183	8.33%	\$ 1,765
335	Hydrants	\$ 14,400	\$ -	\$ 14,400	2.00%	\$ 288
336	Backflow Prevention Device	\$ -	\$ -	\$ -	0.00%	\$ -
339	Other Plant and Misc. Equip	\$ -	\$ -	\$ -	0.00%	\$ -
340.1	Computer Equipment	\$ -	\$ -	\$ -	20.00%	\$ -
341	Transportation Equipment	\$ -	\$ -	\$ -	20.00%	\$ -
347	Miscellaneous Equipment	\$ 2,300	\$ -	\$ 2,300	10.00%	\$ 230
	<b>Total Plant</b>	<b>\$ 969,617</b>	<b>\$ 52,584</b>	<b>\$ 917,033</b>		<b>\$ 30,446</b>

Depreciation Expense Before Amortization of CIAC:	\$	30,446
Less Amortization of CIAC*:	\$	6,531
<b>Test Year Depreciation Expense - Staff:</b>	<b>\$</b>	<b>23,915</b>
Depreciation Expense - Company:	\$	20,167
<b>Staff's Total Adjustment:</b>	<b>\$</b>	<b>3,748</b>

**\* Amortization of CIAC Calculation:**

Contribution(s) in Aid of Construction (Gross)	\$196,718
Less: Non Amortizable Contribution(s)	0
Less: Fully Amortized Contribution(s)	0
Amortizable Contribution(s)	\$ 196,718
CIAC Amortization Rate (Depreciation Expense / Depreciable Plant):	3.320%
<b>Amortization of CIAC</b>	<b>\$ 6,531</b>

**STAFF ADJUSTMENTS (Cont.)**

E -	INCOME TAX - Per Company	\$4,933	
	Per Staff	<u>50</u>	<u>(\$4,883)</u>

To reflects income taxes based on Staff's recommended operating income.

Monthly Usage Charge	Present	Company Proposed Rates	Staff Recommended Rates
<u>Meter Size (All Classes):</u>			
5/8 x 3/4 Inch	\$ 18.00	\$ 32.00	\$ 24.00
3/4 Inch	18.00	\$ 48.00	24.00
1 Inch	45.00	\$ 80.00	50.00
1 1/2 Inch	75.00	\$ 160.00	80.00
2 Inch	144.00	\$ 256.00	160.00
24	288.00	\$ 512.00	290.00
.24	450.00	\$ 800.00	500.00
6 Inch	900.00	\$ 1,600.00	1,000.00
8 Inch	N/A	N/A	-
10 Inch	N/A	N/A	-
12 Inch	N/A	N/A	-

Commodity Charge - Per 1,000 Gallons

<u>All Meter Sizes</u>			
First 3,000 gallons	1.65000	2.5000	3.00
3,001 to 7,000 gallons	2.50000	4.0000	5.25
Over 7,000 gallons	3.65000	5.1300	7.00
Standpipe			
All Gallons	3.65	5.1300	5.0000

Other Charges

Establishment	\$ 25.00	\$ 30.00	\$ 30.00
Establishment (After Hours)	\$ 25.00	N/A	N/A
Reconnection (Delinquent)	\$ 60.00	\$ 60.00	\$ 60.00
Meter Test (If Correct)	\$ 35.00	\$ 35.00	\$ 35.00
Deposit	*	*	*
Deposit Interest	**	**	**
Reestablishment (Within 12 Months)	***	***	***
NSF Check	\$ 15.00	\$ 25.00	25.00
Deferred Payment	1.50% per month	1.50% per month	1.5% per month
Meter Reread (If Correct)	\$ 15.00	\$ 20.00	\$ 20.00
Late Payment Charge (Per Month)	1.50%	2.00%	1.50%
Charge for Moving Meter	Min Cost	Min Cost	Min Cost
After Hours Service Charge	N/A	\$ 30.00	\$ 30.00

Monthly Service Charge for Fire Sprinkler

4" or Smaller	Min. Cost	Min. Cost	Min. Cost
	N/A	\$30.00	\$ 20.00
8"	0.00	0.00	****
10"	0.00	0.00	****
Larger than 10"	0.00	0.00	****

\*Per Commission rule A.A.C. R- 14-2-403(B)(7).

\*\*Per Commission rule A.A.C. R- 14-2-403(B)(3).

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

\*\*\*\* 2.0 % of monthly minimum for a comparable meter size meter connection, but no less



**Typical Bill Analysis**  
General Service 3/4-Inch Meter

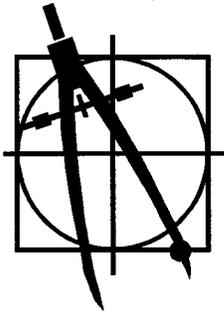
Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	7,708	\$ 34.72	\$ 59.13	\$ 24.41	70.31%
Median Usage	5,500	29.20	49.50	\$ 20.30	69.52%
<b>Staff Recommended</b>					
Average Usage	7,708	\$ 34.72	\$ 58.96	\$ 24.24	69.80%
Median Usage	5,500	29.20	46.13	\$ 16.93	57.98%

**Present & Proposed Rates (Without Taxes)**  
General Service 5/8 x 3/4-Inch Meter

Gallons	Company Proposed		%	Staff Recommended	
	Present	Proposed		Rates	Increase
	<b>3/4"</b>	<b>3/4"</b>		<b>3/4"</b>	
	Minimum Charge \$ 18.00	Minimum Charge \$ 32.00		Minimum Charge \$ 24.00	
	1st Tier Rate 1.65	1st Tier Rate 2.50		1st Tier Rate 3.00	
	1st Tier Breakover 3,000	1st Tier Breakover 3,000		1st Tier Breakover 3,000	
	2nd Tier Rate 2.5000	2nd Tier Rate 4.00		2nd Tier Rate 5.25	
	2nd Tier Breakover 9,000	2nd Tier Breakover 7,000		2nd Tier Breakover 7,000	
	3rd Tier Rate 3.65	3rd Tier Rate 5.13		3rd Tier Rate 7.00	
Consumption	Rates	Rates	Increase	Rates	Increase
-	\$ 18.00	\$ 32.00	77.78%	\$ 24.00	33.33%
1,000	19.65	34.50	75.57%	27.00	37.40%
2,000	21.30	37.00	73.71%	30.00	40.85%
3,000	22.95	39.50	72.11%	33.00	43.79%
4,000	25.45	43.50	70.92%	38.25	50.29%
5,000	27.95	47.50	69.95%	43.50	55.64%
5,500	29.20	49.50	69.52%	46.13	57.96%
6,000	30.45	51.50	69.13%	48.75	60.10%
7,000	32.95	55.50	68.44%	54.00	63.88%
7,708	34.72	59.13	70.31%	58.96	69.80%
8,000	35.45	60.63	71.03%	61.00	72.07%
9,000	37.95	65.76	73.28%	68.00	79.18%
10,000	41.60	70.89	70.41%	75.00	80.29%
11,000	45.25	76.02	68.00%	82.00	81.22%
12,000	48.90	81.15	65.95%	89.00	82.00%
13,000	52.55	86.28	64.19%	96.00	82.68%
14,000	56.20	91.41	62.65%	103.00	83.27%
15,000	59.85	96.54	61.30%	110.00	83.79%
16,000	63.50	101.67	60.11%	117.00	84.25%
17,000	67.15	106.80	59.05%	124.00	84.66%
18,000	70.80	111.93	58.09%	131.00	85.03%
19,000	74.45	117.06	57.23%	138.00	85.36%
20,000	78.10	122.19	56.45%	145.00	85.66%
25,000	96.35	147.84	53.44%	180.00	86.82%
30,000	114.60	173.49	51.39%	215.00	87.61%
35,000	132.85	199.14	49.90%	250.00	88.18%
40,000	151.10	224.79	48.77%	285.00	88.62%
45,000	169.35	250.44	47.88%	320.00	88.96%
50,000	187.60	276.09	47.17%	355.00	89.23%
75,000	278.85	404.34	45.00%	530.00	90.07%
100,000	370.10	532.59	43.90%	705.00	90.49%

**CASH FLOW ANALYSIS**

Line No.			
1	<b>INCOME STATEMENT</b>		
2	<b>Operating Revenue</b>		
3	Metered Water Revenue	\$	190,596
4	Unmetered Revenue	\$	-
5	Other Water Revenues	\$	3,381
6	<b>Total Operating Rev:</b>	\$	<u>193,977</u>
7	<b>Operating Expenses</b>		
8	601 Salaries and Wages	\$	24,617
9	610 Purchased Water	\$	-
10	615 Purchased Power	\$	40,133
11	618 Chemicals	\$	218
12	620 Repairs and Maintenance	\$	9,967
13	621 Office Supplies & Expense	\$	5,763
14	630 Contractual Services	\$	33,609
15	635 Water Testing	\$	611
16	641 Rents	\$	1,838
17	650 Transportation Expenses	\$	9,012
18	657 Insurance - General Liability	\$	1,993
19	657 Insurance - Health and Life	\$	-
20	666 Regulatory Comm Exp - Rate Case	\$	1,404
21	675 Miscellaneous Expense	\$	1,740
22	403 Depreciation Expense	\$	23,915
23	408 Taxes Other Than Income	\$	8,995
24	408.11 Property Taxes	\$	4,244
25	409 Income Tax	\$	4,427
26	<b>Total Operating Expense</b>	\$	<u>172,486</u>
27	<b>Operating Income</b>	\$	21,491
28	Interest Income	\$	-
29	Interest Expense on Long-term debt	\$	5,243
30	<b>Total Other Interest Expense</b>	\$	<u>(5,243)</u>
31	<b>Net Income</b>	\$	26,734
32	<b>Rate Base</b>	\$	(34,909)
33	<b>Rate of Return (Line 27 / Line 32)</b>		-61.56%
34	<b>Operating Margin (Line 27 / Line 6)</b>		11.08%
35	<b>Principal Repayment</b>	\$	1,844
36	<b>Cash Flow [(L22+L27) - (L29+I35)]</b>	\$	38,318.7
37	TIER		
38	[L 26 + L 27] ÷ L 29		4.94
39	DSC		
40	[L 18 + L 21 + L 23] ÷ [L 25 + L 31]		7.03



**Engineering Report  
Cerbat Water Company  
By Dorothy Hains, P. E.  
Docket Nos. W-02391A-13-0234 (Rates)**

**October 16, 2013**

**EXECUTIVE SUMMARY**

**Recommendations:**

1. Staff recommends that Cerbat Water Company (“Cerbat” or “the Company”) use depreciation rates by individual National Association of Regulatory Utility Commissioners (“NARUC”) category, as delineated in Exhibit 6. (See §J and Exhibit 6 for a discussion and a tabulation of the recommended rates.)
2. Staff recommends approval of the Company’s proposed service line and meter installation charges listed in the right-hand columns of Table 5. (See §K of report for discussion and details.)
3. Annual testing expenses should be adjusted to \$1,655. The Company alternately operates its wells. To ensure water sources do not contain bacteria, Staff recommends that the Company test bacteria in both wells monthly. (See §I and Tables 4 for discussion and details.)
4. The non-account water during the test year was 19 percent which exceeds Staff’s recommended 10 percent threshold. Staff recommends that the Company monitor the water system closely and take action to ensure the water loss is 10 percent or less. If the reported water loss is greater than 10 percent, the Company shall prepare a report containing a detailed analysis and plan to reduce water loss to 10 percent or less. If the Company believes it is not cost effective to reduce the water loss to less than 10 percent, it should submit a detailed cost benefit analysis to support its opinion. In no case shall the Company allow water loss to be greater than 15 percent. The water loss reduction report or the detailed analysis, whichever is submitted, shall be docketed as a compliance item within 180 days of the effective date of the order issued in this proceeding. Staff recommends that the Company continue to monitor its water use data to ensure that water loss remains within acceptable limits. Any future rate case filed by the Company may be found insufficient if these items are not properly submitted. (See §D for discussion and details.)
5. In Decision No. 72739, the Commission ordered the Company to install interconnection meters. Since the Company now has its own water supply source, the interconnection

meters are no longer needed. Therefore Staff recommends that the Commission terminate the interconnection meter installation requirement in this rate case. (See §C of report for discussion and details.)

6. Staff recommends that Cerbat file with Docket Control, as a compliance item in this docket and within 90 days of the effective date of a decision in this proceeding, at least three BMPs in the form of tariffs that substantially conform to the templates created by Staff for the Commission's review and consideration. Staff further recommends that Cerbat use the templates created by Staff that are available on the Commission's website at <http://www.azcc.gov/Divisions/Utilities/forms.asp>. A maximum of two BMPs may come from the "Public Awareness/Public Relations" or "Education and Training" categories. The Company may request cost recovery of the actual costs associated with the BMPs implemented in its next general rate application. (See §K of report for discussion and details.)
7. Staff recommends the Commission approve the curtailment tariff in Exhibit 7. Staff further recommends that the Company file the recommended Curtailment Tariff with Docket Control, as a compliance item in this docket and within 45 days of the effective date of a decision in this proceeding. (See §K of report for discussion and details.)
8. Four acres of land which contain the Company's wells were transferred from the Neal Family Trust to Cerbat in May 2011. Any value assigned to this land should be classified under NARUC Account No. 303 (Land & Land Rights). (See §K of report for discussion and details.)
9. The Company recorded initial ground water quality testing expenses of \$3,355 for Well No. 55-914098 as Operation and Maintenance Expense. The initial water quality testing costs for a new water source should be treated as a capital improvement. Therefore, Staff recommends \$3,355 be reclassified to NARUC Account No. 307 (Wells & Springs). (See §K of report for discussion and details.)
10. Staff recommends \$13,875 be reclassified from NARUC Account No. 311 (Pumping Equipment) to NARUC Account No. 304 (Structure & Improvements). (See §K of report for discussion and details.)

**Conclusions:**

1. ADEQ stated that that the Company's water system operating under PWS No. 08-0341 has no major deficiencies and is delivering water that meets water quality standards established by 40 CFR 141 (National Primary Drinking Water Regulations) and Arizona Administrative Code, Title 18, Chapter 4. (See §F of report for discussion and details.)
2. Cerbat is not located in any ADWR Active Management Area ("AMA"), and is not subject to AMA reporting and conservation rules. ADWR reported that Cerbat is currently in compliance with system water plan filing requirements for community water systems. (See §G of report for discussion and details.)

3. Staff concludes that the Cerbat system has adequate production and storage capacities to serve existing customers and reasonable growth. (See §C of report for discussion and details.)
4. Cerbat has an approved Cross Connection Tariff on file with the Commission. (See §K of report for discussion and details.)

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**ENGINEERING REPORT  
CERBAT WATER COMPANY, INC.  
DOCKET NO. W-02391A-13-0234 (RATES)**

**A. PURPOSE OF REPORT AND INTRODUCTION**

This report was prepared in response to the rate application filed by Cerbat Water Company (“Cerbat” or “Company”) with the Arizona Corporation Commission (“ACC” or “the Commission”) on July 3, 2013. On August 2, 2013, Commission Utilities Division Staff (“Staff”) informed the Company that the application met the sufficiency requirements outlined in the Arizona Administrative Code R-14-2-103.B.7. Staff classified the Company as a Class D utility. An inspection and evaluation of the Company’s water system was conducted by Dorothy Hains, Staff Engineer, accompanied by Michael Neal, the Company’s Manager, on September 10, 2013.

**B. LOCATION OF SYSTEM**

The Company is located northwest of the City of Kingman in Mohave County. Attached Exhibits 1 and 2 detail the location of the service area in relation to other Commission regulated companies in Mohave County and in the immediate area. The Company serves an area approximately three square miles in size that includes Sections 1 and 12, and a portion of Section 13 in Township 22 North, Range 17 West.

**C. DESCRIPTION OF SYSTEM**

*I. System Description*

The Company operates a water system, Arizona Department of Environmental Quality (“ADEQ”) Public Water System (“PWS”) Identification No. 08-0341, that consists of two wells, two storage tanks, a booster pump station and a distribution system. The system served approximately 290 customers during the test year ending December 2012. A standpipe system which existed during the prior rate case was dismantled in January 2010. The majority of the Company’s customers are residential. Exhibits 3A and 3B are schematic drawings of the water system. Detailed plant items are listed as follows:

**Table 1 Cerbat Water System Plants**

Active Wells

ADWR No.	Year Drilled	Casing Size (inches)	Well Depth (ft)	Well Meter Size (inches)	Pump (HP)	Pump Yield (GPM)	Location
55-624996	1977	16	1,000	8	350	325	Parcel # 310-04-082 ( N Bank St/E Calle Blanca)
55-914098	2012	8	949	8	40	120	Parcel # 310-04-082 ( N Bank St/E Calle Blanca)

Active Storage, Pumping (in PWS #08-0341)

Location	Structure or equipment	Capacity
Parcel # 330-09-024 (near W Cactus Wren Rd/N Stockton Hill Rd)	Storage Tank	One 500,000 gal
Parcel #330-11-012C (E Cactus Wren Rd/N Cherum Rd)	Storage Tank	One 120,000 gal
Parcel #330-11-012C (E Cactus Wren Rd/N Cherum Rd)	Booster pump station	Two 20-HP

Distribution Mains in Cerbat CC&N Area

Diameter (inches)	Material	Length (feet)
2	polyvinyl chloride ("PVC")	1,200
4	PVC	6,100
6	PVC	17,815
8	PVC	30,909
10	PVC	5,112

Meters in Cerbat CC&N Area

Size (inches)	Quantity
$\frac{5}{8} \times \frac{3}{4}$	N/A
$\frac{3}{4}$	247
1	6
1½	N/A
2	N/A
3 (comp)	N/A
(Bulk)	36

Inactive Tank

Location	Structure or equipment	Capacity
Parcel #330-11-012C (E Cactus Wren Rd/N Cherum Rd)	Storage Tank	One 22,000 gallon tank

II. System Analysis

The water system has a total source capacity of 445 GPM and storage capacity of 620,000 gallons. Staff concludes that the system has adequate production and storage capacity to serve existing customers and reasonable growth.

**D. WATER USAGE**

Table 2 summarizes water usage in the Company’s CC&N service area. Exhibit 4 is a graph that shows water consumption data in gallons per day (“GPD”) per connection for the Company water system for the test year period of January 2012 through December 2012.

**Table 2 Water Usage in Cerbat Service Area**

Month	Number of Customers	Water Sold (in gallons)	Water pumped (in gallons)	Daily Average (in gpd/customer)
Jan 12	286	1,538,000	1,909,000	173
Feb 12	286	1,356,000	1,952,000	169
Mar 12	284	1,531,000	1,866,000	174
Apr 12	286	1,946,000	2,364,000	227
May 12	288	2,419,000	2,877,000	271
Jun 12	292	3,067,000	4,050,000	350
Jul 12	289	3,330,000	3,861,000	372
Aug 12	292	2,415,000	2,727,000	267
Sep 12	291	2,391,000	2,837,000	274
Oct 12	292	2,685,000	3,100,000	297
Nov 12	295	2,044,000	2,395,000	231
Dec 12	289	1,154,000	1,913,000	129
Total		25,876,000	31,851,000	
Average				244

*I. Water Sold*

Based on information provided by the Company, during the test year the Company experienced an overall daily average use of 244 GPD per customer, a high use of 372 GPD per customer, and a low use of 129 GPD per customer. The highest total monthly use occurred in July, when a total of 3,330,000 gallons were sold to 289 customers. The lowest total monthly use occurred in December, when 1,154,000 gallons were sold to 289 customers.

*II. Non-account Water*

Non-account water should be 10 percent or less and never more than 15 percent. It is important to be able to reconcile the difference between the water sold and the water produced by the source. A water balance will allow a water company to identify water and revenue losses due to leakage, theft, and flushing, etc. The calculated water loss for Cerbat is 19 percent which exceeds Staff’s recommended 10 percent threshold. Staff believes the calculated water loss of 19 percent may be significantly overstated and therefore recommends further monitoring as discussed below.<sup>1</sup>

1. The water use data reported by the Company is suspect due to billing inaccuracies and there are issues related to system operation.

Staff recommends that the Company monitor the water system closely and take action to ensure the water loss is 10 percent or less. If the reported water loss is greater than 10 percent, the Company shall prepare a report containing a detailed analysis and plan to reduce water loss to 10 percent or less. If the Company believes it is not cost effective to reduce the water loss to less than 10 percent, it should submit a detailed cost benefit analysis to support its opinion. In no case shall the Company allow water loss to be greater than 15 percent. The water loss reduction report or the detailed analysis, whichever is submitted, shall be docketed as a compliance item within 180 days of the effective date of the order issued in this proceeding. Staff recommends that the Company continue to monitor its water use data to ensure that water loss remains within acceptable limits. Any future rate case filed by the Company may be found insufficient if these items are not properly submitted.

#### **E. GROWTH PROJECTION**

Based on the service meter data contained in the Company's annual reports, the number of customers increased from 122 at the end of 1999 to 289 at the end of 2012, which results in an average growth rate of 12 customers per year for the period. Based on the linear regression analysis, the Company could serve approximately 310 customers by end of 2016. The following table summarizes both actual and projected growth in the Company's certificated service area.

**Table 3 Actual and Projected Growth**

Year	Nos. of Customers	
1999	122	Reported
2000	140	Reported
2001	162	Reported
2002	166	Reported
2003	180	Reported
2004	218	Reported
2005	246	Reported
2006	247	Reported
2007	256	Reported
2008	256	Reported
2012	255	Reported
2010	260	Reported
2011	285	Reported
2012	289	Reported
2013	290	Estimated
2014	296	Estimated
2015	303	Estimated
2016	310	Estimated

#### **F. ADEQ COMPLIANCE**

Staff received a compliance status report from ADEQ dated July 12, 2013, in which ADEQ stated that the Company's water system operating under PWS No. 08-0341 has no major deficiencies and is delivering water that meets water quality standards required by 40 CFR 141

(National Primary Drinking Water Regulations) and Arizona Administrative Code, Title 18, Chapter 4.

#### **G. ARIZONA DEPARTMENT OF WATER RESOURCES (“ADWR”) COMPLIANCE**

Cerbat is not located in any Active Management Area (“AMA”) as designated by ADWR, and is not subject to AMA reporting and conservation rules. Staff received an ADWR compliance status report dated July 10, 2013, in which ADWR reported that the water system is currently compliant with departmental requirements governing water providers and/or community water systems.

#### **H. ACC COMPLIANCE**

A check of the Utilities Division Compliance Section database indicated that Cerbat has one delinquent compliance item (Per status check dated September 23, 2013). In Decision No. 72739, the Commission ordered the Company to install interconnection meters. Since the Company now has its own water supply source, the interconnection meters are no longer needed. Therefore, Staff recommends that the Commission terminate the interconnection meter installation requirement in this rate case.

#### **I. WATER TESTING EXPENSES**

Cerbat reported its water testing expense at \$3,966 for the test year. Cerbat is subject to mandatory participation in the ADEQ Monitoring Assistance Program (“MAP”). Staff calculated the Company’s testing expense based on the following assumptions:

1. MAP will do baseline testing on everything except copper, lead, bacteria, and disinfection by-products.
2. ADEQ testing is performed in 3-year compliance cycles. Therefore, monitoring costs are estimated for a 3-year compliance period and then presented as a pro forma expense on an annualized basis.
3. MAP fees were the ADEQ MAP invoices.
4. All monitoring expenses are based on Staff’s best knowledge of lab costs and methodology and one point of entry.
5. The estimated water testing expenses represent a minimum cost based on no “hits” other than lead and copper, and assume compositing of well samples. If any constituents were found, then the testing costs could dramatically increase.

Water testing expenses should be adjusted to Staff’s annual expense amount of **\$1,655** shown in Table 4 below.

**Table 4 Water Testing Cost (Cerbat)**

Monitoring – 2 well & one POE to the Distribution System (Tests per 3 years)	Cost per test	No. of tests per three year period	Total cost per three year period	Annual Cost
Bacteriological <sup>1</sup> – monthly	\$20	72	\$1,440	\$480
Inorganics – Priority Pollutants	\$300	MAP	MAP	MAP
Radiochemical – (1/ 4 yr)	\$60	MAP	MAP	MAP
Phase II and V:				
IOC's, SOC's, VOC's	\$2,805	MAP	MAP	MAP
Nitrites	\$25	MAP	MAP	MAP
Nitrates – annual	\$25	MAP	MAP	MAP
Asbestos – per 9 years	\$180	2½	MAP	MAP
Lead & Copper	\$45	10	\$450	\$150
TTHM/HHAs	\$360	0	\$0	\$0
Maximum chlorine residual levels	\$20	0	\$0	\$0
MAP Fee				\$1,025.36
Total				\$1,655

Note: 1. The Company alternates the operation of its two wells. To ensure water source does not contain bacteria, Staff recommends that the Company test bacteria in both wells monthly.

**J. DEPRECIATION RATES**

Staff has developed typical and customary depreciation rates within the range of anticipated equipment life. These rates are presented in Exhibit 6, and should be used to calculate the annual depreciation expense for the Company in this application. It is recommended that the Company



## *II. Curtailment Tariff*

The Company has an approved Consecutive System Curtailment tariff on file with the Commission. However, because the Company now owns and operates its own production system, the Company filed a Standard Curtailment tariff with this rate application. The proposed Standard Curtailment tariff replaces the Consecutive System Curtailment tariff currently filed. Staff recommends the Commission approve the Standard Curtailment tariff labeled Exhibit 7. Staff further recommends that the Company file the recommended Curtailment Tariff with Docket Control, as a compliance item in this docket and within 45 days of the effective date of a decision in this proceeding.

## *III. Cross Connection/Backflow Tariff*

The Company has an approved backflow prevention tariff on file with the Commission.

## *IV. Best Management Practices ("BMPs") Tariff*

Staff recommends that Cerbat file with Docket Control, as a compliance item in this docket and within 90 days of the effective date of a decision in this proceeding, at least three BMPs in the form of tariffs that substantially conform to the templates created by Staff for the Commission's review and consideration. Staff further recommends that the Company use the templates created by Staff that are available on the Commission's website at <http://www.azcc.gov/Divisions/Utilities/forms.asp>.

A maximum of two BMPs may come from the "Public Awareness/Public Relations" or "Education and Training" categories. The Company may request cost recovery of the actual costs associated with the BMPs implemented in its next general rate application.

## *V. Others*

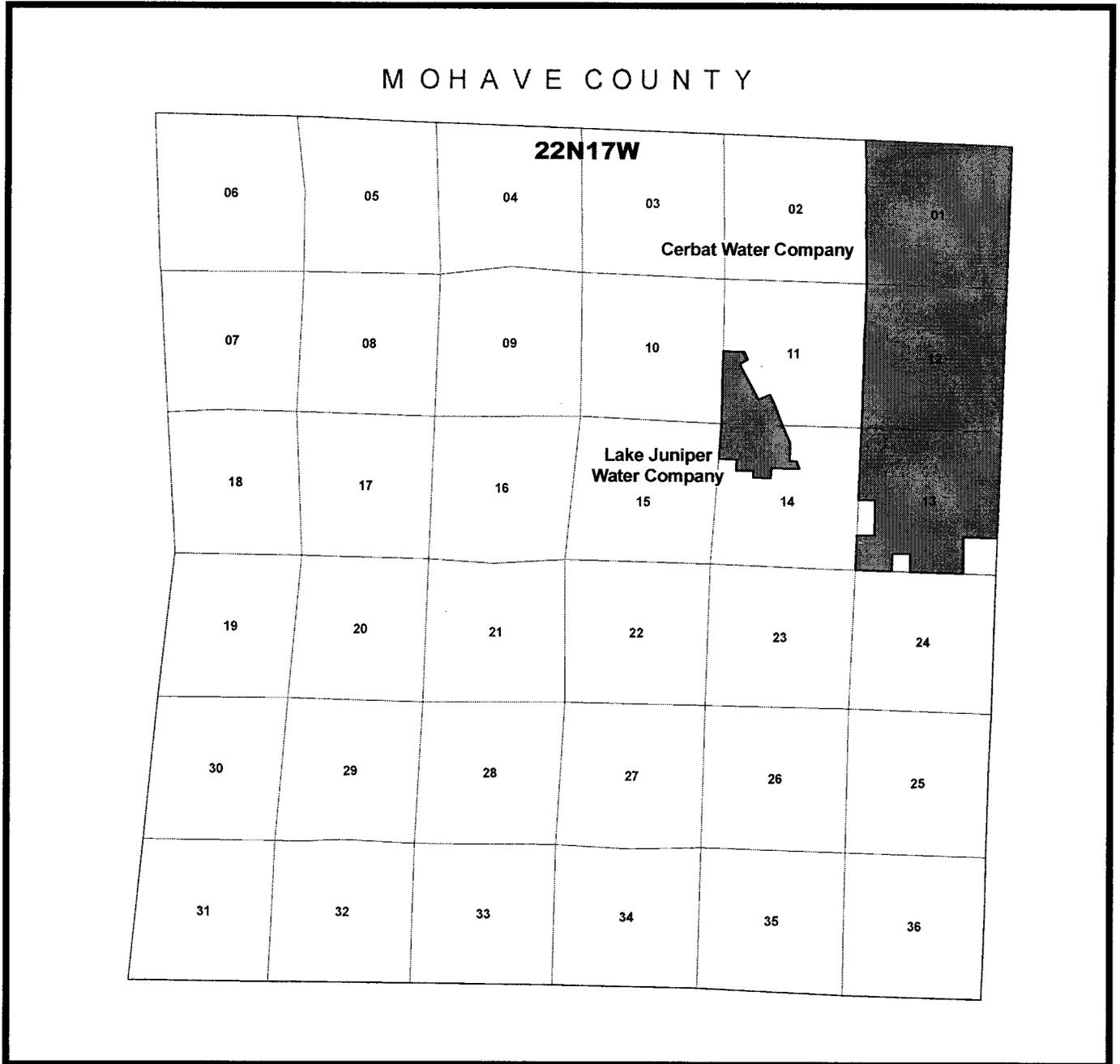
### Miscellaneous Information and Accounting Adjustments:

1. Per the Company's response to Staff Data Request DMH 4.2 Staff understands that four acres of land which contains the Company's wells were transferred from the Neal Family Trust to Cerbat in May 2011. Any value assigned to this land should be classified under NARUC Account No. 303 (Land & Land Rights).
2. The parcels of land which contain the Company's storage tanks and booster pump station are not owned by Cerbat.
3. The Company recorded initial ground water quality testing expenses of \$3,355 for Well No. 55-914098 as Operation and Maintenance Expense. The initial water quality testing costs for a new water source should be treated as a capital improvement, therefore, Staff recommends \$3,355 be reclassified to NARUC Account No. 307 (Wells & Springs).

4. The cost of constructing a new pump house was incorrectly recorded as pumping equipment. Staff recommends \$13,875 be reclassified from NARUC Account No. 311(Pumping Equipment) to NARUC Account No. 304 (Structure & Improvements).

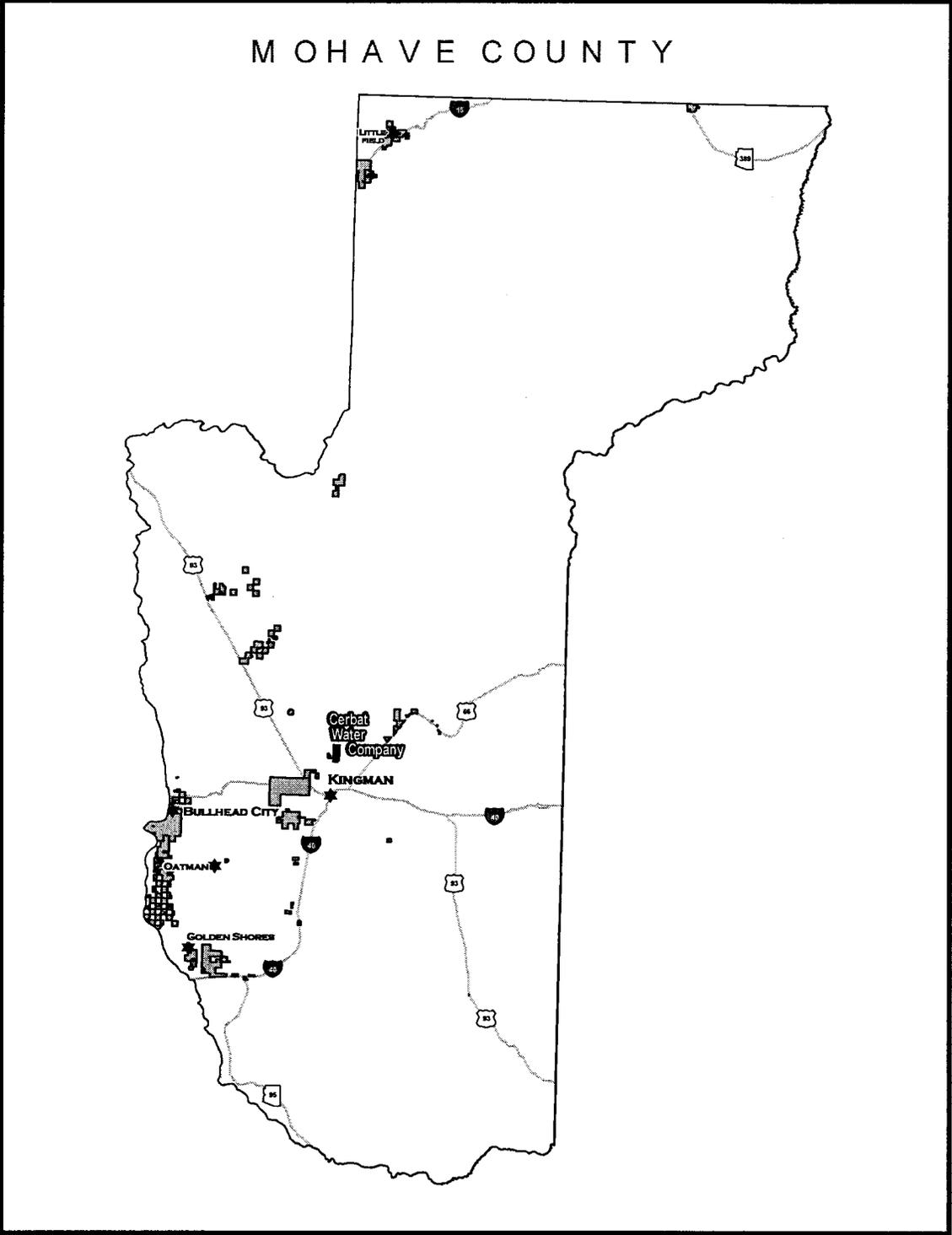
**EXHIBIT 1**

**Cerbat Certificate Service Area**

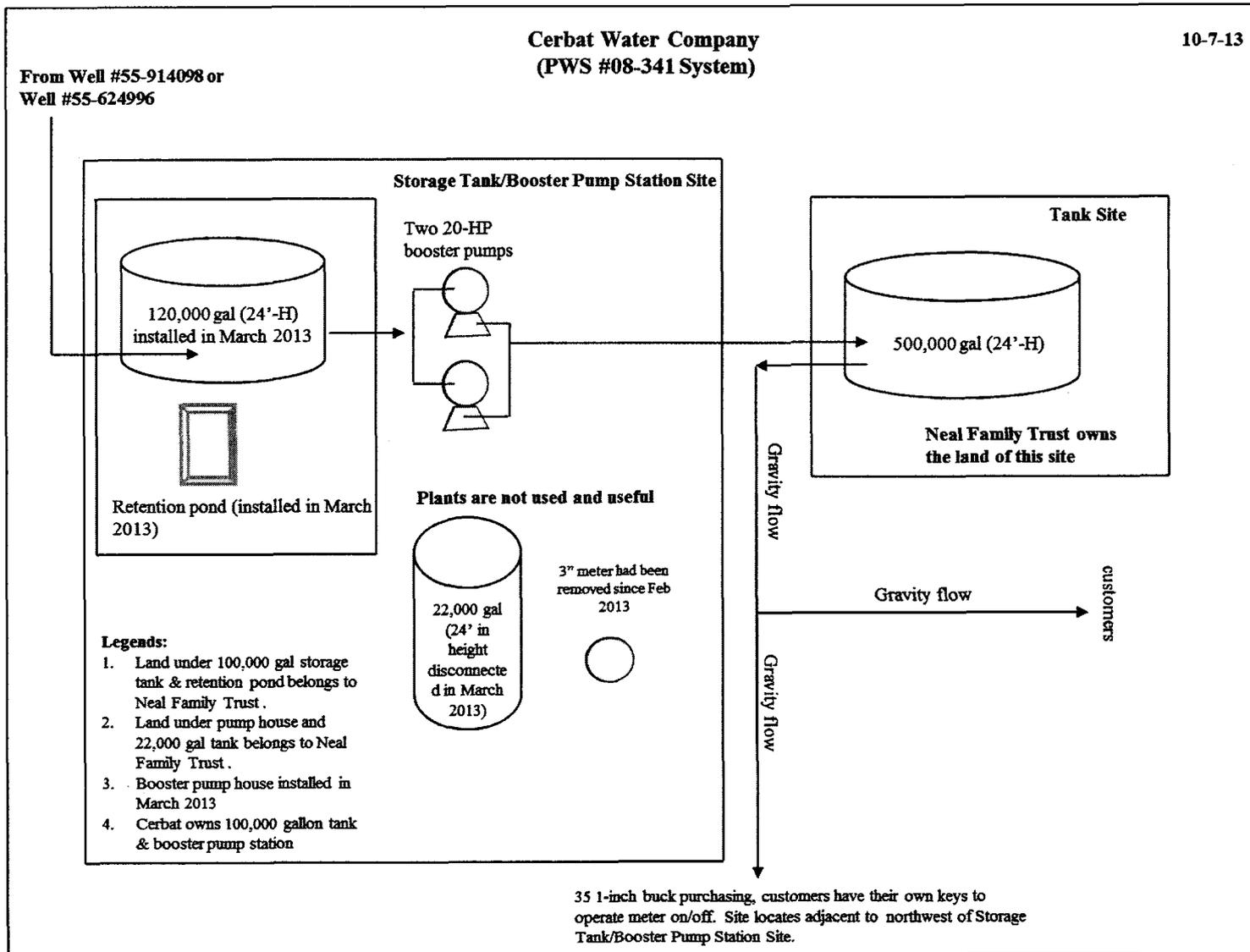


**EXHIBIT 2.**

**LOCATION OF CERBAT SERVICE AREA**

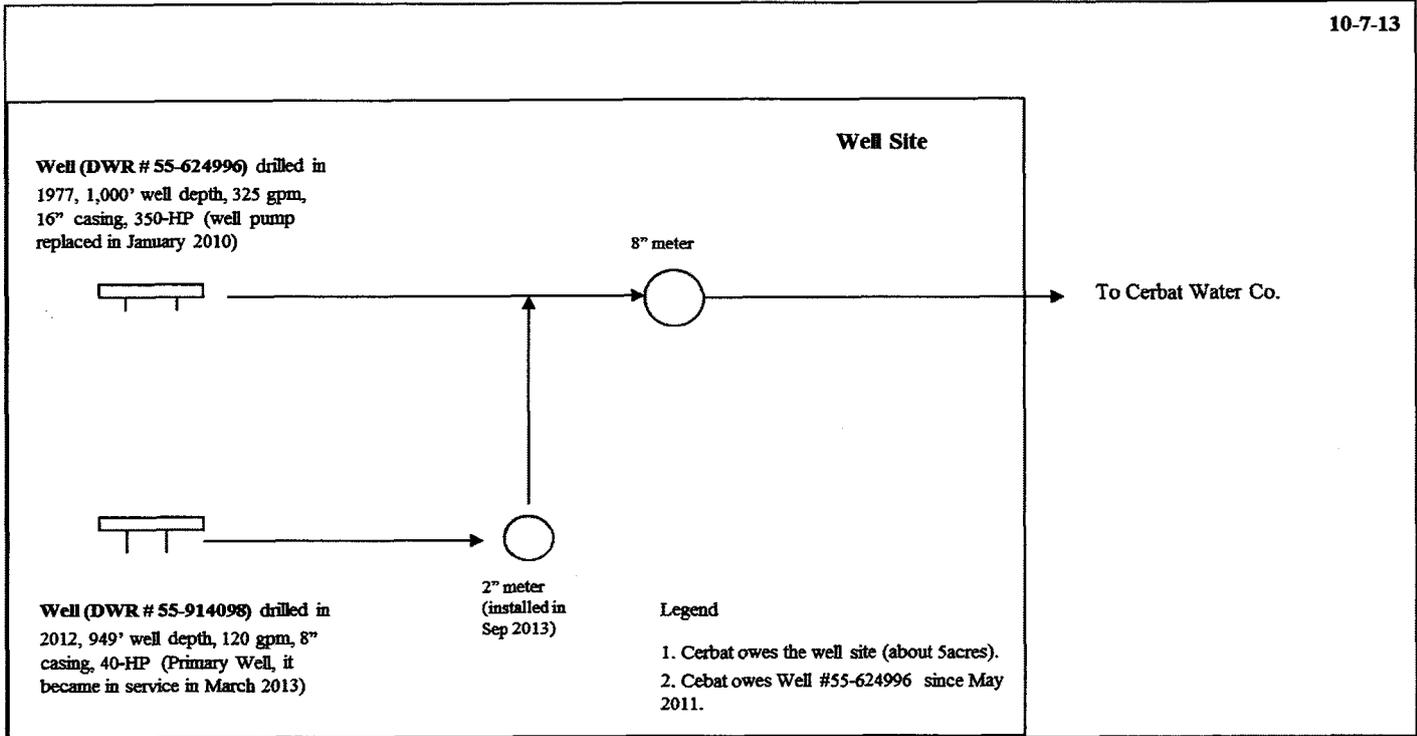


**EXHIBIT 3A**  
**SYSTEMATIC DRAWING (CERBAT)**



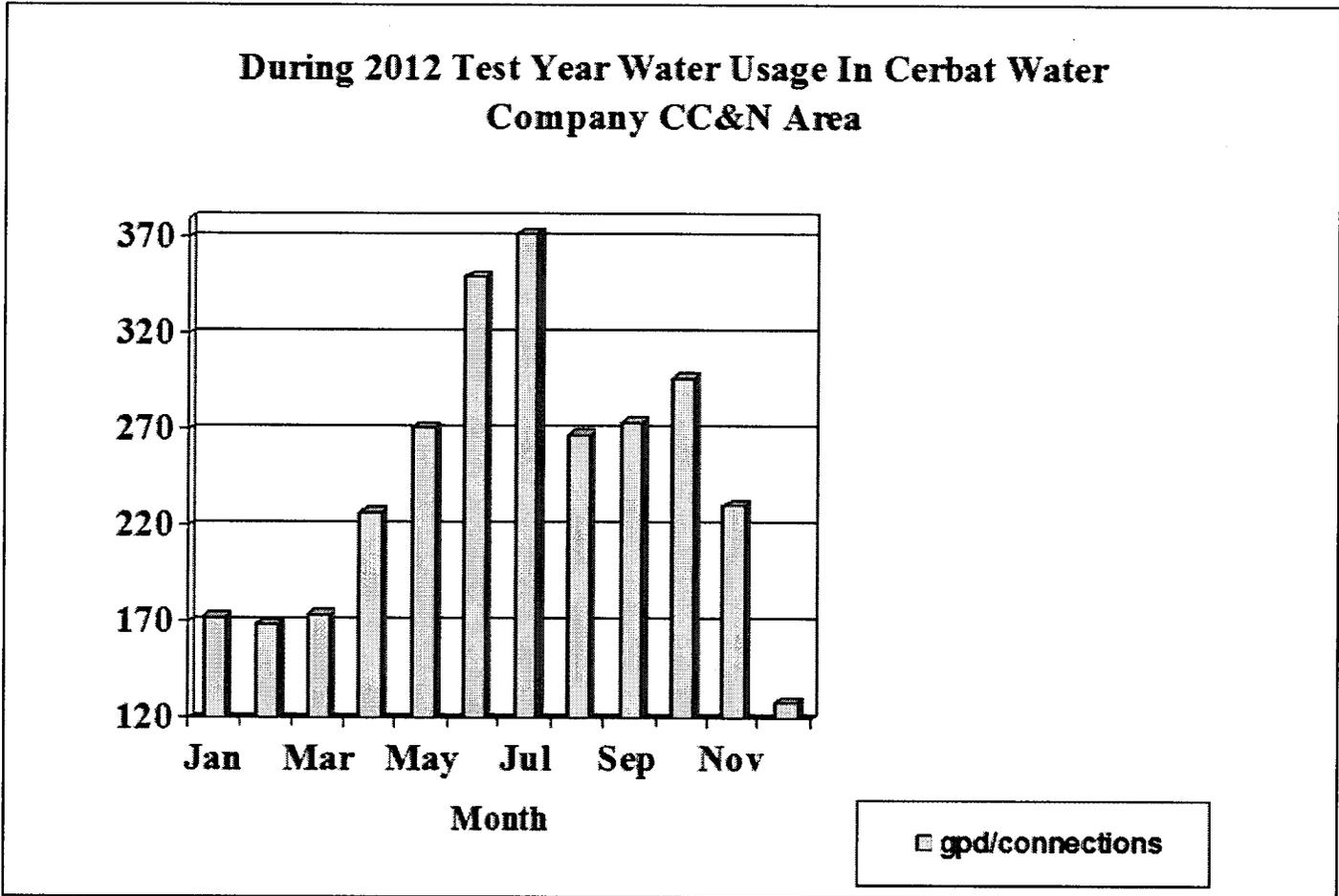
**EXHIBIT 3B**  
**SYSTEMATIC DRAWING (CERBAT)**

10-7-13



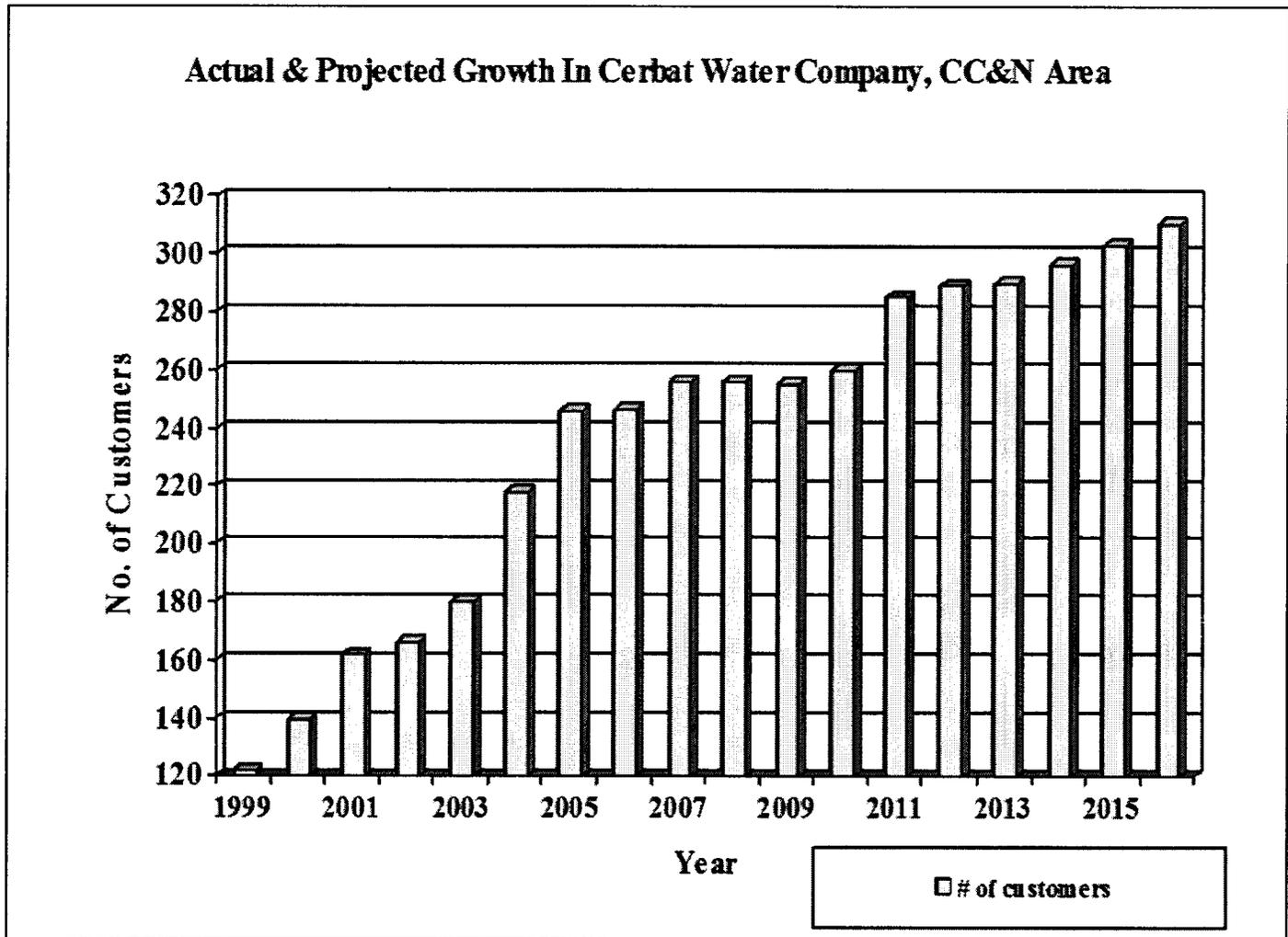
**EXHIBIT 4**

**WATER USAGE IN THE CERBAT SERVICE AREA**



**EXHIBIT 5**

**ACTUAL AND PROJECTED GROWTH IN CERBAT SERVICE AREA**



**EXHIBIT 6**

**WATER DEPRECIATION RATES (Cerbat)**

Acct. No.	Depreciable Plant	Decision # 72739 (approved rate %)	Company proposed	Staff recommended Rate (%)
301	Organization	N/A	N/A	0.00
302	Franchises	N/A	N/A	0.00
303	Land & Land Rights	N/A	N/A	0.00
304	Structures & Improvements	3.33	3.33	3.33
305	Collecting & Impounding Reservoirs	2.50	N/A	2.50
306	Lake, River, Canal Intakes	2.50	N/A	2.50
307	Wells & Springs	3.33	N/A	3.33
308	Infiltration Galleries	6.67	N/A	6.67
309	Raw Water Supply Mains	2.00	N/A	2.00
310	Power Generation Equipment	5.00	N/A	5.00
311	Pumping Equipment	12.5	12.5	12.5
320	Water Treatment Equipment			
320.1	Water Treatment Plants	3.33	3.33	3.33
320.2	Solution Chemical Feeders	20.0	20.0	20.0
330	Distribution Reservoirs & Standpipes		5.00	2.22
330.1	Storage Tanks	2.22	2.22	2.22
330.2	Pressure Tanks	5.00	5.00	5.00
331	Transmission & Distribution Mains	2.00	2.00	2.00
333	Services	3.33	3.33	3.33
334	Meters	8.33	8.33	8.33
335	Hydrants	2.00	2.00	2.00
336	Backflow Prevention Devices	6.67	6.67	6.67
339	Other Plant & Misc Equipment	6.67	6.67	6.67
340	Office Furniture & Equipment	6.67	6.67	6.67
340.1	Computers & Software	20.00	20.00	20.00
341	Transportation Equipment	20.00	20.00	20.00
342	Stores Equipment	4.00	N/A	4.00
343	Tools, Shop & Garage Equipment	5.00	5.00	5.00
344	Laboratory Equipment	10.00	10.00	10.00
345	Power Operated Equipment	5.00	5.00	5.00
346	Communication Equipment	10.00	10.00	10.00
347	Miscellaneous Equipment	10.00	10.00	10.00
348	Other Tangible Plant	----	5.00	5.00

**EXHIBIT 7**

**CURTAILMENT TARIFF FOR CERBAT**

### TARIFF SCHEDULE

Utility: Cerbat Water Company Tariff Sheet No.: 1 of 4  
Docket No.: W-02391A-0234 Decision No.: \_\_\_\_\_  
Phone No.: 928-757-2205 Effective: \_\_\_\_\_

**CURTAILMENT PLAN FOR:** Cerbat Water Company  
(Template 102109)

ADEQ Public Water System No: 08-341

Cerbat Water Company (“Company”), is authorized to curtail water service to all customers within its certificated area under the terms and conditions listed in this tariff.

This curtailment plan shall become part of the Arizona Department of Environmental Quality Emergency Operations Plan for the Company.

The Company shall notify its customers of this new tariff as part of its next regularly scheduled billing after the effective date of the tariff or no later than sixty (60) days after the effective date of the tariff.

The Company shall provide a copy of the curtailment tariff to any customer, upon request.

**Stage 1 Exists When:**

Company is able to maintain water storage in the system at 100 percent of capacity and there are no known problems with its well production or water storage in the system.

Restrictions: Under Stage 1, the Company is deemed to be operating normally and no curtailment is necessary.

Notice Requirements: Under Stage 1, no notice is necessary.

**Stage 2 Exists When:**

- a. Company’s water storage or well production has been less than 80 percent of capacity for at least 48 consecutive hours, and
- b. Company has identified issues such as a steadily declining water table, increased draw down threatening pump operations, or poor water production, creating a reasonable belief the Company will be unable to meet anticipated water demand on a sustained basis.

Restrictions: Under Stage 2, the Company may request the customers to voluntarily employ water conservation measures to reduce water consumption by approximately 50 percent. Outside watering should be limited to essential water, dividing outside watering on some uniform basis (such as even and odd days) and eliminating outside watering on weekends and holidays.

### TARIFF SCHEDULE

Utility: Cerbat Water Company Tariff Sheet No.: 2 of 4  
Docket No.: W-02391A-13-0234 Decision No.: \_\_\_\_\_  
Phone No.: 928-757-2205 Effective: \_\_\_\_\_

Notice Requirements: Under Stage 2, the Company is required to notify customers by delivering written notice door to door at each service address, or by United States first class mail to the billing address or, at the Company's option, both. Such notice shall notify the customers of the general nature of the problem and the need to conserve water.

#### **Stage 3 Exists When:**

- a. Company's total water storage or well production has been less than 50 percent of capacity for at least 24 consecutive hours, and
- b. Company has identified issues such as a steadily declining water table, increased draw down threatening pump operations, or poor water production, creating a reasonable belief the Company will be unable to meet anticipated water demand on a sustained basis.

Restrictions: Under Stage 3, the Company shall request the customers to voluntarily employ water conservation measures to reduce daily consumption by approximately 50 percent. All outside watering should be eliminated, except livestock, and indoor water conservation techniques should be employed whenever possible. Standpipe service shall be suspended.

#### Notice Requirements:

1. Company is required to notify customers by delivering written notice to each service address, or by United States first class mail to the billing address or, at the Company's option, both. Such Notice shall notify the customers of the general nature of the problem and the need to conserve water.
2. Beginning with Stage 3, the Company shall post at least 2 signs showing the curtailment stage. Signs shall be posted at noticeable locations, like at the well sites and at the entrance to major subdivisions served by the Company.
3. The Company shall notify the Consumer Services Section of the Utilities Division of the Corporation Commission at least 12 hours prior to entering Stage 3.

Once Stage 3 has been reached, the Company must begin to augment the supply of water by either hauling or through an emergency interconnect with an approved water supply in an attempt to maintain the curtailment at a level no higher than Stage 3 until a permanent solution has been implemented.

### TARIFF SCHEDULE

Utility: Cerbat Water Company  
Docket No.: W-02391A-13-0234  
Phone No.: 928-757-2205

Tariff Sheet No.: 3 of 4  
Decision No.: \_\_\_\_\_  
Effective: \_\_\_\_\_

#### Stage 4 Exists When:

- a. Company's total water storage or well production has been less than 25 percent of capacity for at least 12 consecutive hours, and
- b. Company has identified issues such as a steadily declining water table, increased draw down threatening pump operations, or poor water production, creating a reasonable belief the Company will be unable to meet anticipated water demand on a sustained basis.

Restrictions: Under Stage 4, Company shall inform the customers of a **mandatory** restriction to employ water conservation measures to reduce daily consumption. Failure to comply will result in customer disconnection. The following uses of water shall be prohibited:

- Irrigation of outdoor lawns, trees, shrubs, or any plant life is prohibited
- Washing of any vehicle is prohibited
- The use of water for dust control or any outdoor cleaning uses is prohibited
- The use of drip or misting systems of any kind is prohibited
- The filling of any swimming pool, spas, fountains or ornamental pools is prohibited
- The use of construction water is prohibited
- Restaurant patrons shall be served water only upon request
- Any other water intensive activity is prohibited

The Company's operation of its standpipe service is prohibited. The addition of new service lines and meter installations is prohibited.

#### Notice Requirements:

1. Company is required to notify customers by delivering written notice to each service address, or by United States first class mail to the billing address or, at the Company's option, both. Such notice shall notify the customers of the general nature of the problem and the need to conserve water.

2. Company shall post at least 2 signs showing curtailment stage. Signs shall be posted at noticeable locations, like at the well sites and at the entrance to major subdivisions served by the Company.
3. Company shall notify the Consumer Services Section of the Utilities Division of the Corporation Commission at least 12 hours prior to entering Stage 4.

**TARIFF SCHEDULE**

Utility: Cerbat Water Company Tariff Sheet No.: 4 of 4  
Docket No.: W-02391A-13-0234 Decision No.: \_\_\_\_\_  
Phone No.: 928-757-2205 Effective: \_\_\_\_\_

Once Stage 4 has been reached, the Company must augment the supply of water by hauling or through an emergency interconnect from an approved supply or must otherwise provide emergency drinking water for its customers until a permanent solution has been implemented.

Customers who fail to comply with the above restrictions will be given a written notice to end all outdoor use. Failure to comply with two (2) working days of receipt of the notice will result in temporary loss of service until an agreement can be made to end unauthorized use of outdoor water. To restore service, the customer shall be required to pay all authorized reconnection fees. If a customer believes he/she has been disconnected in error, the customer may contact the Commission's Consumer Services Section at 1-800-222-7000 to initiate an investigation.