

OPEN MEETING ITEM

COMMISSIONERS
BOB STUMP - Chairman
GARY PIERCE
BRENDA BURNS
BOB BURNS
SUSAN BITTER SMITH



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ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION
DOCKET CONTROL

DATE: MARCH 21, 2014
DOCKET NO.: W-02391A-13-0234

TO ALL PARTIES:

ORIGINAL

Enclosed please find the recommendation of Administrative Law Judge Jane L. Rodda. The recommendation has been filed in the form of an Order on:

CERBAT WATER COMPANY
(RATES)

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

MARCH 31, 2014

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

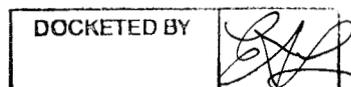
APRIL 8, 2014 and APRIL 9, 2014

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

Arizona Corporation Commission

DOCKETED

MAR 21 2014



Jodi A. Jerich
JODI JERICH
EXECUTIVE DIRECTOR

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

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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

BOB STUMP - Chairman
GARY PIERCE
BRENDA BURNS
BOB BURNS
SUSAN BITTER SMITH

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

DOCKET NO. W-02391A-13-0234

DECISION NO. _____

ORDER

Open Meeting
April 8 & 9, 2014
Phoenix, Arizona

BY THE COMMISSION:

* * * * *

Having considered the entire record herein and being fully advised in the premises, the Arizona Corporation Commission ("Commission") finds, concludes, and orders that:

FINDINGS OF FACT

Procedural History

1. On July 2, 2013, Cerbat Water Company ("Cerbat" or "Company") filed with the Commission an application for a permanent rate increase. Cerbat included an Affidavit of Mailing with its Application confirming that it notified its customers of the Application by means of a bill insert that was mailed on July 2, 2013.
2. On July 31, 2013, the Commission's Utilities Division ("Staff") filed a Letter of Deficiency stating that Cerbat's Application did not meet the sufficiency requirements of Arizona Administrative Code ("A.A.C.") R14-2-103.
3. On August 2, 2013, Staff filed a Letter of Sufficiency stating that Cerbat's Application had met the sufficiency requirements outlined in A.A.C. R14-2-103, and that the Company had been classified as a Class D Utility. According to the Sufficiency Letter, Staff anticipated filing its Staff Report by October 17, 2013.

1 4. On August 8, 2013, Cerbat filed an amended Schedule of Current and Proposed
2 Charges.

3 5. On August 13, 2013, Cerbat filed a proposed Curtailment Tariff.

4 6. On August 19, 2013, Cerbat filed a revised Curtailment Tariff.

5 7. On October 17, 2013, Staff filed an unopposed Request for Extension to file its Staff
6 Report. Staff indicated that it would not be able to meet the October 17, 2013, deadline for filing the
7 Staff Report and requested an extension of the deadline to October 31, 2013.

8 8. On October 18, 2013, Cerbat filed an updated "Terms and Conditions" of service.

9 9. By Procedural Order dated October 21, 2013, Staff's Request for Extension was
10 granted.

11 10. On October 31, 2013, Staff filed a Staff Report that recommended approval of Staff's
12 proposed rates and charges conditioned upon the Company establishing a payment plan with the
13 Mohave County Assessor's Office for the Company's delinquent property taxes. Any Comments to
14 the Staff Report were due on or before November 12, 2013. No Comments were filed.

15 11. On November 14, 2013, Staff filed an Amended Staff Report, recommending approval
16 of Staff's recommended rates and charges, contingent on the Company establishing a payment plan
17 with the Mohave County Assessor's office for its delinquent property taxes. The Amended Staff
18 Report requested that any Comments be filed by November 22, 2013. No Comments were filed.

19 12. On November 18, 2013, Staff filed a Notice of Errata that corrected some of the
20 recommended rates contained in the Amended Staff Report.

21 13. By Procedural Order dated November 25, 2013, Staff was directed to provide
22 additional information concerning the Application and Amended Staff Report, and the time clock
23 established by A.A.C. R14-2-103 was suspended indefinitely to allow for a complete and accurate
24 record.

25 14. The November 25, 2013 Procedural Order, directed Staff to file the supplemental
26 information by January 8, 2014. On January 7, 2014, Staff filed a request for extension to file the
27 Supplemental Staff Report until January 15, 2014, based on the time it took to receive the necessary
28 information from the Company. Staff's request for extension was granted by Procedural Order dated

1 January 8, 2014.

2 15. On January 15, 2014, Staff filed a Supplemental Staff Report in response to the
3 Procedural Order. In its Supplemental Staff Report, Staff provided revised schedules and revised
4 recommended rates. The January 8, 2014 Procedural Order, directed that any comments to the
5 Supplemental Staff Report be filed by January 29, 2014. No Comments were filed.

6 **Company Background**

7 16. Cerbat is a Class D water utility located approximately four miles northwest of the
8 City of Kingman. In the test year ended December 31, 2012, the Company provided water service to
9 approximately 290 customers.¹

10 17. Cerbat's current rates and charges were approved by the Commission in Decision No.
11 72739 (January 19, 2012). Decision No. 72739 ordered the Company to file a rate case application no
12 later than April 30, 2013, using a 2012 test year.²

13 18. Cerbat is owned by the Claude K. Neal Family Trust ("Trust"). Cerbat is a wholly
14 owned subsidiary of the Trust, and the Trust is responsible for the day-to-day management of the
15 Company based on a Management Agreement between the entities.

16 19. Cerbat is a C Corporation.

17 20. The Amended Staff Report indicates that a search of the Consumer Services database
18 for Cerbat revealed that there was one complaint (repair issue) filed in 2013, no complaints filed in
19 2012, three complaints (one billing, one service and one quality of service) filed in 2011 and two
20 complaints (one billing and one quality of service) filed in 2010. Staff reports that all complaints were
21 resolved and closed.

22 21. The Commission's Staff Engineer conducted a field inspection of Cerbat's facilities on
23 September 10, 2013. Cerbat's water system consists of two wells, two storage tanks (500,000 gallons
24 and 120,000 gallons), a booster pump station and a distribution system. Staff states that a standpipe
25 system that existed during the prior rate case was dismantled in January 2012.³

26 ¹ Supplemental Staff Report at 1.

27 ² Decision No. 72739 at 25. On April 25, 2013, and July 28, 2013, in Docket No. W-02391A-10-0218 (the last the rate
case) Cerbat filed Requests for an Extension of Time to file its rate case until June, 30, 2013, and then July 5, 2013,
respectively. The record does not reflect any Commission action on these requests.

28 ³ Amended Staff Report, Engineering Report at § C.

1 22. The water system has a total source capacity of 445 gallons per minute (“GPM”) and
2 storage capacity of 620,000 gallons. Staff concludes that Cerbat’s system has adequate production and
3 storage capacities to serve existing customers and reasonable growth.⁴

4 23. Cerbat’s non-account water during the test year was 19 percent, which exceeds Staff’s
5 recommended 10 percent threshold. Staff believes that the 19 percent may be overstated due to billing
6 inaccuracies and issues related to system operations.⁵ Staff recommends that the Commission order
7 Cerbat to monitor the water system closely and take action to ensure the water loss is 10 percent or
8 less. If the reported water loss is greater than 10 percent, Staff recommends that the Company prepare
9 a report containing a detailed analysis and plan to reduce water loss to 10 percent or less, and that if
10 the Company believes it is not cost effective to reduce the water loss to less than 10 percent, the
11 Company should submit a detailed cost/benefit analysis to support its opinion. Staff states that in no
12 case should the Company allow water loss to be greater than 15 percent. The water loss reduction
13 report or the detailed analysis, whichever is submitted, should be docketed as a compliance item
14 within 180 days of the effective date of the order issued in this proceeding. Staff recommends that the
15 Company continue to monitor its water use data to ensure that water loss remains within acceptable
16 limits. Staff states that it is putting the Company on notice that any future rate case filed by the
17 Company may be found insufficient if these items are not properly submitted.⁶

18 24. Decision No. 72739 ordered Cerbat to install a meter at each interconnection location
19 on its system, and once the interconnection meters had been installed, to record for 12 consecutive
20 months the water entering its system and the water purchased by its customers, and to file the 12
21 months of recorded data with Docket Control for Staff’s review and certification.⁷ Staff states that
22 because the Company now has its own water supply source, the interconnection meters are no longer
23 needed. Therefore, Staff recommends that the Commission now terminate the interconnection meter
24 installation requirement as part of this rate proceeding.⁸

25
26 _____
27 ⁴ Amended Staff Report, Engineering Report § C at 1-2.

28 ⁵ Amended Staff Report, Engineering Report at § D.

⁶ Amended Staff Report, Engineering Report § D at 3-4.

⁷ Decision No. 72739 at 25.

⁸ Amended Staff Report, Engineering Report at § C.

1 25. The Arizona Department of Environmental Quality (“ADEQ”) has stated that Cerbat’s
2 water system operating under PWS No. 08-0341 has no major deficiencies and is delivering water that
3 meets water quality standards established by 40 CFR 141 (National Primary Drinking Water
4 Regulations) and A.A.C., Title 18, Chapter 4.⁹

5 26. Cerbat is not located in any Arizona Department of Water Resources (“ADWR”)
6 Active Management Area (“AMA”), and is not subject to AMA reporting and conservation rules.
7 ADWR reported that Cerbat is currently in compliance with system water plan filing requirements for
8 community water systems.¹⁰

9 27. Cerbat has an approved Cross Connection Tariff on file with the Commission.¹¹

10 **Rate Application and Staff Recommendations**

11 28. In the test year, as adjusted by Staff, Cerbat experienced an operating loss of \$20,817,
12 on total revenues of \$128,977, and operating expenses of \$149,794, for no rate of return on an
13 adjusted Original Cost Rate Base (“OCRB”) of negative \$40,224.¹²

14 29. In its Application, Cerbat proposed rates that would produce total operating revenue of
15 \$208,977, an increase of \$80,000, or 62.0 percent, over adjusted test year revenues. Based on Cerbat’s
16 adjusted total operating expenses of \$185,090, Cerbat’s proposed rates would yield operating income
17 of \$23,887. The negative rate base makes determining a return on rate base meaningless.

18 30. Staff recommends total operating revenues of \$183,977, an increase of \$55,000 over
19 adjusted test year revenues. Based on Staff’s recommended adjusted operating expenses of \$162,654,
20 Staff’s recommended rates would produce operating income of \$21,323.¹³

21 **Rate Base**

22 31. The Company did not provide Reconstruction Cost New Less Depreciation (“RCND”)
23 schedules nor propose a Fair Value Rate Base (“FVRB”) that differs from its OCRB.

24 ...

25 ...

26 ⁹ Amended Staff Report, Engineering Report § F at 4.

27 ¹⁰ Amended Staff Report, Engineering Report § G at 5.

¹¹ Amended Staff Report, Engineering Report § K at 8.

¹² Supplemental Staff Report at Revised Schedule CLP-1.

28 ¹³ Supplemental Staff Report and Revised Schedule CLP-1.

1 32. Staff's adjustments increased the Company's proposed rate base by \$21,657, from a
 2 negative \$61,881, to a negative \$40,224.¹⁴ Staff increased Net Plant-In-Service by \$3,491, from
 3 \$291,887 to \$295,378, by increasing Structures and Improvements by \$13,875 and decreasing
 4 Pumping Equipment by the same amount to correct a misclassification, and increasing Wells and
 5 Springs by \$3,355 to reflect water testing expense related to the construction of a new well. Staff's
 6 adjustments reduced Accumulated Depreciation by \$136, from \$674,375 to \$674,239, to reflect Staff's
 7 calculated plant balances. In addition, Staff calculated a Cash Working Capital Allowance of \$21,060,
 8 based on the formula method that is typically used for utilities the size of Cerbat (an increase of
 9 \$18,166, from \$2,894).¹⁵

10 33. Staff's adjustments to rate base, as discussed in the Amended and Supplemental Staff
 11 Reports are reasonable, except that the schedules contain a deduction for the Advances in Aid of
 12 Construction ("AIAC") refunds that should not be included in the rate base calculation.¹⁶ In this
 13 case, we adopt a rate base of negative \$30,855. Because the Company did not provide RCND
 14 schedules, its FVRB is the same as its OCRB.

15 Operating Income

16 34. Staff did not adjust the Company's reported test year revenue of \$128,977. The
 17 Application reflects adjusted test year operating expenses of \$185,090. Staff's adjustments reduced
 18 test year expenses by \$35,296, from \$185,090 to \$149,794.¹⁷ Staff's adjustments to test year operating
 19 expenses are as follows:

20 (a) Staff reduced outside services by a total of \$12,004, from \$45,613 to \$33,609. First,
 21 Staff removed \$6,304 in finance charges included on an invoice from Dennis Schmich & Co. LTD,
 22 because Staff does not believe that management's decision not to pay bills in a timely manner is a

23 ¹⁴ Supplemental Staff Report at Revised Schedule CLP-2, page 1.

24 ¹⁵ Supplemental Staff Report at Revised Schedule CLP-2.

25 ¹⁶ See Supplemental Staff Report at Revised Schedule CLP-2. In its Application, Cerbat reported Customer Deposits of
 26 \$1,445 at the end of the test year, and that it had refunds of AIAC of \$9,869. (Application at 22). Staff's schedules show a
 27 deduction of \$9,869 for "Meter Refunds" rather than a deduction of \$1,445 for customer deposits. While plant values
 28 associated with Contributions in Aid of Construction ("CIAC") and AIAC are deductions from rate base, the refunds of
 meter and service line AIAC are not part of the rate base calculation. Thus we adjust Staff's OCRB calculation to eliminate
 the deduction. We address the refund obligations further in the discussion of revenue requirement. Because Cerbat's rate
 base remains negative, and because it would not be material, we do not also adjust the rate base for the deduction of the
 ending customer deposit balance.

¹⁷ Supplemental Staff Report at Revised Schedule CLP-3.

1 normal operation expense that should be reflected in customer rates. In addition, Staff reduced this
2 account by \$5,700 for an invoice from Walker Service Electric made out to the Trust for "labor and
3 materials per proposal" because the Company could not identify the project related to the invoice.¹⁸

4 (b) Staff reduced water testing expense by \$2,311, from \$3,966 to \$1,655, to reflect the
5 Staff Engineering Report recommendations.¹⁹ Staff states that the Company's recorded test year water
6 testing expense of \$3,966 included costs associated with the purchase of a new well which would not
7 be on-going.²⁰

8 (c) Staff decreased insurance-general liability expense by \$486, from \$2,479 to \$1,993.
9 Staff removed the portion of an insurance bill related to a trailer and vehicles that had been sent to the
10 Trust and allocated to Cerbat because the Company was unable to provide details on how the vehicles
11 were used in the utility's business.

12 (d) Staff decreased depreciation expense by \$4,956, from \$20,168 to \$15,212, to reflect
13 Staff's calculation based on Staff adjusted Plant-in-Service at test year end;²¹ and

14 (e) Staff decreased income tax expense by \$15,328, from \$4,933 to negative \$10,395,
15 to reflect Staff's tax calculation based on Staff's recommended operating income.

16 35. The Company did not object to Staff's adjustments to test year operating expenses.
17 Based on the foregoing, we find that in the test year, the Company experienced an operating loss of
18 \$20,817, based on total operating revenue of \$128,977 and total operating expenses of \$149,794.

19 Revenue Requirement

20 36. Staff recommends an increase in revenue of \$55,000, or 42.6 percent over test year
21 revenues, for a total revenue requirement of \$183,977. Staff's recommendation results in an operating
22 income of \$21,323 or an 11.59 percent operating margin. Staff employed a cash flow analysis to
23 derive the operating income recommendation because the Company's negative rate base does not
24 provide a basis to determine a revenue requirement. Staff believes that its recommended revenue
25 requirement will enable Cerbat to cover its operating expenses, contingencies, and meet the debt

26
27 ¹⁸ Amended Staff Report at 5.

¹⁹ Amended Staff Report, Engineering Report at 5-6. Supplemental Staff Report at Revised Schedule CLP-3

²⁰ Amended Staff Report at 5.

28 ²¹ Supplemental Staff Report Revised Schedule CLP-3 at 2.

1 service coverage ("DSC") ratio for the Commission-authorized loan obtained from the Water
 2 Infrastructure Finance Authority ("WIFA").²² According to Staff, the annual payments on the WIFA
 3 loan include principal repayment of \$11,000, interest expense of \$14,000 and the Debt Service
 4 Reserve Fund ("DSRF") obligation of \$5,000.²³

5 Rate Design

6 37. Cerbat's current rate design is comprised of three tiers for all meter sizes, with a first-
 7 tier break-over at 3,000, a second tier break-over at 9,000 gallons, and a third tier for usage over 9,000
 8 gallons. The Company's current monthly minimum charges do not include any gallons.

9 38. Cerbat has proposed a new three-tier rate structure, with a break-over at 3,000-gallons
 10 for the first tier, 7,000 gallons for the second tier, and over 7,000 gallons for the third tier.

11 39. Staff also recommends a three tiered rate structure for all meter sizes and with break-
 12 overs at 3,000 gallons and 7,000 gallons, but different commodity prices. Staff states that its
 13 recommended rate design will encourage efficient use of water within the Company's certificated
 14 territory.²⁴

15 40. The Company's current rates and its proposed rates, and Staff's recommended rates
 16 (based on each party's recommended revenue requirement) are as follows:

	Present Rates	Proposed Rates	
		Company	Staff ²⁵
<u>MONTHLY USAGE CHARGE:</u>			
5/8" x 3/4" Meter	\$18.00	\$32.00	\$24.00
3/4" Meter	18.00	48.00	24.00
1" Meter	45.00	80.00	50.00
1 1/2" Meter	75.00	160.00	80.00
2" Meter	144.00	256.00	160.00
3" Meter	288.00	512.00	290.00
4" Meter	450.00	800.00	500.00
6" Meter	900.00	1,600.00	1,000.00
Gallons included in minimum	0	0	0

26 ²² In Decision No. 72739, the Commission authorized Cerbat to borrow up to \$343,755 from WIFA. Cerbat obtained a loan
 from WIFA in the principal amount of \$331,875 commencing on April 12, 2012, and maturing April 1, 2031 at an interest
 rate of 4.20 percent.

27 ²³ Supplemental Staff Report at 4.

27 ²⁴ Staff Report at 7.

28 ²⁵ Supplemental Staff Report at Revised Schedule CLP-4.

1 **Commodity Rate Charge – Per 1,000 Gallons**

2 **All Meter Sizes**

3	Tier 1 0-3,000 gallons	1.65		
	Tier 2 3,001 to 9,000 gallons	2.50		
4	Tier 3 Over 9,000 gallons	3.65		

5	Tier 1 0-3,000 gallons		2.50	2.65
6	Tier 2 3,001 to 7,000 gallons		4.00	4.00
7	Tier 3 Over 7,000 gallons		5.13	5.75

8	Standpipe/Bulk Water – all gallons	3.65	5.13	5.00
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9 **SERVICE CHARGES:**

9	Establishment	\$25.00	\$30.00	\$30.00
10	Establishment (After Hours)	25.00	N/A	N.A
	Reconnection (Delinquent)	60.00	60.00	30.00
11	Meter Test (If Correct)	35.00	35.00	30.00
	Deposit	*	*	*
12	Deposit Interest	*	*	*
	Re-establishment (Within 12 Months)	**	**	**
13	NSF Check	15.00	25.00	25.00
14	Deferred Payment ***	1.5%	1.5%	1.5%
	Meter Reread (If Correct)	15.00	20.00	20.00
15	Late Fee	1.5%	2.0%	2.0%
	After Hours Service Charge	NT	30.00	30.00
16	Charge for Moving Meter	Min Cost	Min Cost	Min Cost
17	NT=No Tariff			

18 **Monthly Service Charge for Fire Sprinkler:**

18	4" or Smaller	****	****	****
19	6"	****	****	****
	8"	****	****	****
20	10"	****	****	****
21	Larger than 10"	****	****	****

22 * Per Commission rule A.A.C. R-14-2-403(B).
 23 ** Months off system times the monthly minimum per Commission rule A.A.C. R14-2-403(D).
 24 *** 1.5% on the unpaid balance per month.
 25 **** 1.00% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than \$5.00 per month. The Service Charge for Fire Sprinkles is only applicable for service lines separate and distinct from the primary water service line.
 26
 27
 28

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

	<u>Current</u>			<u>Company Proposed</u>			<u>Staff Recommended</u>		
	<u>Service Line</u>	<u>Meter Installation</u>	<u>Total</u>	<u>Service Line</u>	<u>Meter Installation</u>	<u>Total</u>	<u>Service Line</u>	<u>Meter Installation</u>	<u>Total</u>
5/8" x 3/4" Meter	\$135.00	\$385.00	\$520.00	\$430.00	\$130.00	\$560.00	\$430.00	\$130.00	\$560.00
3/4" Meter	215.00	385.00	\$600.00	430.00	230.00	660.00	430.00	230.00	660.00
1" Meter	255.00	335.00	\$690.00	480.00	290.00	770.00	480.00	290.00	770.00
1 1/2" Meter	465.00	470.00	\$935.00	535.00	500.00	1,035.00	535.00	500.00	1,035.00
2"Meter - Turbo	965.00	630.00	\$1,595.00	815.00	1,020.00	1,835.00	815.00	1,020.00	1,835.00
2"Meter-compound	1,690.00	630.00	\$2,320.00	815.00	1,865.00	2,680.00	815.00	1,865.00	2,680.00
3" Meter-Turbo	1,470.00	805.00	\$2,275.00	1,030.00	1,645.00	2,675.00	1,030.00	1,645.00	2,675.00
3"Meter-compound	2,265.00	845.00	\$3,110.00	1,150.00	2,520.00	3,670.00	1,150.00	2,520.00	3,670.00
4" Meter-Turbo	2,350.00	1,170.00	\$3,520.00	1,460.00	2,620.00	4,080.00	1,460.00	2,620.00	4,080.00
4"Meter-compound	3,245.00	1,230.00	\$4,475.00	1,640.00	3,595.00	5,235.00	1,640.00	3,595.00	5,235.00
6" Meter-Turbo	4,545.00	1,730.00	\$6,275.00	2,180.00	4,975.00	7,155.00	2,180.00	4,975.00	7,155.00
6"Meter-compound	6,280.00	1,770.00	\$8,050.00	2,300.00	6,870.00	9,170.00	2,300.00	6,870.00	9,170.00
Over 6 inch	Cost	\$1,770.00	Cost	Cost	Cost	Cost	Cost	Cost	Cost

41. Based on its proposed revenue requirement, 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 \$36.30, or 124.32 percent, from \$29.20 to \$65.50.

42. For the typical 3/4-inch meter customer with a median usage of 5,500 gallons, Staff's recommended rates result in a monthly increase of \$12.75, or 43.66 percent, from \$29.20 to \$41.95.

43. Staff agreed with the Company's proposal to eliminate the "Establishment (After Hours)" charge and institute a general "After Hours Service Charge" for circumstances when work is performed after normal business hours at the customer's request or for the customer's convenience. Staff's recommendations modified the proposed "Reconnection (Delinquent)" and "Meter Test (If Correct)" charges.

44. Cerbat filed a Cross-Connection/Backflow Tariff on October 18, 2013, that corrects the reference to Commission Rules R14-2-410.B.1.a, as recommended in the Amended Staff Report.²⁶

45. Staff also recommended that the Company update its Statement of Terms and Conditions for Water Service Section III, by adding the following new subsection B:

B. After Hours Service Charge. The After-Hours Service charge fee is for service provided after normal business hours and appropriate when such is at the customer's request or for the customer's convenience. Such a tariff compensates the utility for additional expenses incurred from

²⁶ See Amended Staff Report at 7.

1 providing after-hours service. For example, a customer would be subject
2 to an **Establishment** fee if work is done during normal business hours, but
3 would pay an additional After-Hours Service charge if the customer
4 requested the establishment be done after normal business hours.

5 46. Cerbat did not file an objection to Staff's proposed rates and charges.

6 **Other Matters**

7 47. Staff noted during its review that the Company did not maintain its accounting records
8 in accordance with the National Association of Regulatory Utility Commissioners ("NARUC")
9 Uniform System of Accounts ("USoA") and Generally Accepted Accounting Principles ("GAAP").
10 Staff states, however, that the Company recently implemented a new accounting system that should
11 allow it to comply with NARUC USoA and GAAP. Because Staff has not reviewed the Company's
12 newly implemented accounting system, Staff continues to recommend that Cerbat's accounting books
13 and records be maintained in compliance with NARUC USoA and GAAP, and that the Company file
14 an affidavit with the Commission, no later than 90 days from the date of this Decision, confirming
15 compliance with this directive.

16 48. Based on Staff's analysis and findings, Staff recommends as follows:

17 (a) Approve Staff's recommended rates and charges in this proceeding contingent
18 upon the Company establishing a payment plan with the Mohave County Assessor's office for the
19 Company's delinquent property taxes.

20 (b) Authorize Cerbat to collect from its customers an appropriate share of any
21 privilege, sales or use tax as provided for in A.A.C. R14-2-409(D).

22 (c) Order Cerbat to adopt the depreciation rates by individual NARUC category, as set
23 forth on Exhibit 6 of Staff's Engineering Report.

24 (d) Order Cerbat to file a rate case no later than June 2, 2017, using a 2016 test year,

25 (e) Order Cerbat's accounting books and records be kept in compliance with NARUC
26 USoA and GAAP, no later than 90 days from the date of the Decision in this docket, and require the
27 Company to file an affidavit with the Commission confirming compliance with this condition.

28 (f) Order Cerbat to file documentation, as a compliance item in this docket, no later
than 30 days from the effective date of a Commission Decision in this docket, demonstrating it has a
certified water operator. As an additional compliance item, Staff recommends that the Company notify

1 the Commission if in the future, it changes certified water operators.

2 (g) File with Docket Control, as a compliance item in this docket within 90 days of the
3 effective date of a Decision in this proceeding, at least three Best Management Practices (“BMPs”) in
4 the form of tariffs that substantially conform to the templates created by Staff for the Commission’s
5 review and consideration.

6 (h) Approve the curtailment tariff attached to the Engineering Report as Exhibit 7.
7 Staff further recommends that the Company file the recommended Curtailment Tariff with Docket
8 Control, as a compliance item in this docket, within 45 days of the effective date of a Decision in this
9 proceeding.

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

21 **Analysis and Conclusions**

22 49. In general we find that with the following exceptions, Staff’s recommendations are fair
23 and reasonable:

24 (a) Staff’s analysis shows a cash flow after debt service (including the DSRF) of
25 \$6,531.²⁷ With average AIAC refunds of \$5,145 for the three years 2010-2012, we are concerned that
26 Staff’s recommended revenue requirement would not provide adequate funds to allow for
27

28 ²⁷ Supplemental Staff Report at Revised Schedule CLP-6.

1 contingencies.²⁸ Staff is correct that traditionally the AIAC refund obligation is not part of the rate
 2 base/rate of return revenue requirement methodology. However, we must balance the burden on
 3 ratepayers with the need for a financially viable utility that is able to deliver safe and reliable service.
 4 In this case, we find that a revenue requirement of \$197,202, which is designed to yield an annual cash
 5 flow of \$11,700 after debt service (including the DSRF) and AIAC refunds, is reasonable, as it will
 6 allow the Company to cover its costs of operation, plus provide for contingencies. This revenue
 7 requirement is an increase of \$68,225 over test year revenues.²⁹ Because we are adopting a revenue
 8 requirement that differs from that recommended by Staff, we also adjust rates accordingly.

9 (b) This small Company has several managerial issues that it must address in the short
 10 term, including negotiating a plan for paying its delinquent property taxes with Mohave County and
 11 bringing its books and records into compliance with NARUC. We do not want to distract management
 12 from these very important obligations. Thus, we do not require Cerbat to file BMPs at this time.

13 (c) We find that it is premature to pre-determine the sufficiency of a future rate case
 14 filing based on a failure by the Company to file a water loss analysis which is not part of the
 15 Commission's rules for determining sufficiency. If this Company fails to adhere to the terms of this
 16 Order, it will leave itself open to having to explain its failure in an Order to Show Cause proceeding,
 17 which could result in administrative penalties.

18 50. We find that the three-tier rate structure for the smaller meter sizes is appropriate.
 19 Neither Cerbat nor Staff proposed rate designs that include tier break-overs that increase with meter
 20 size. Currently, the Company does not have any customers on meters greater than 1 inch. We take this
 21 opportunity to provide rates that scale the tier break-over points by meter size and which anticipate
 22 future larger meter size customers. Based on the revenue requirement adopted herein, we approve the
 23 following rates and charges:

24

25

26 _____
 27 ²⁸ The Company's test year AIAC refund amount may overstate its annual obligation as its Application indicates that no
 refunds were made in 2011. This may indicate that some of the 2011 obligations were paid in 2012 (the test year).
 Consequently, we use a three-year average of the AIAC refunds in our cash flow analysis.

28 ²⁹ The authorized increase is \$14,225 greater than that recommended by Staff and \$11,775 less than that requested in the
 Application.

MONTHLY USAGE CHARGES:

1	5/8" x 3/4" Meter	\$ 30.00
2	3/4" Meter	30.00
	1" Meter	50.00
3	1-1/2" Meter	100.00
	2" Meter	160.00
4	3" Meter	320.00
	4" Meter	500.00
5	6" Meter	1,000.00
	8" Meter	1,600.00

6	Gallons in Minimum	0
---	--------------------	---

COMMODITY RATES (Per 1,000 Gallons):

8	<u>5/8" x 3/4" Meter GS</u>	
9	First 3,000 gallons	\$2.15
	3,001 to 8,000 gallons	3.75
10	Over 8,000 gallons	5.35

11	<u>3/4" Meter GS</u>	
	First 3,000 gallons	2.15
12	3,001 to 8,000 gallons	3.75
	Over 8,000 gallons	5.35

13	<u>1" Meter GS</u>	
14	First 16,000 gallons	3.75
	Over 16,000 gallons	5.35

15	<u>1 1/2" Meter GS</u>	
16	First 38,000 gallons	3.75
	Over 38,000 gallons	5.35

17	<u>2" Meter GS</u>	
18	First 60,000 gallons	3.75
	Over 60,000 gallons	5.35

19	<u>3" Meter GS</u>	
20	First 128,000 gallons	3.75
	Over 128,000 gallons	5.35

21	<u>4" Meter GS</u>	
22	First 192,000 gallons	3.75
	Over 192,000 gallons	5.35

23	<u>6" Meter GS</u>	
24	First 403,000 gallons	3.75
	Over 403,000 gallons	5.35

25	<u>8" Meter GS</u>	
26	First 622,000 gallons	3.75
	Over 622,000 gallons	5.35

27	<u>Bulk Water</u>	
28	Per 1,000 gallons	5.35

SERVICE LINE AND METER**INSTALLATION CHARGES:**

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

	<u>Service Line Charge</u>	<u>Meter Charges</u>	<u>TOTAL</u>
5/8" x 3/4" Meter	\$ 430.00	\$ 130.00	\$ 560.00
3/4" Meter	430.00	230.00	660.00
1" Meter	480.00	290.00	770.00
1-1/2" Meter	535.00	500.00	1,035.00
2" Turbo	815.00	1,020.00	1,835.00
2" Compound	815.00	1,865	2,680.00
3" Turbo	1,030.00	1,645.00	2,675.00
3" Compound	1,150.00	2,520.00	3,670.00
4" Turbo	1,460.00	2,620.00	4,080.00
4" Compound	1,640.00	3,595.00	5,235.00
6" Turbo	2,180.00	4,975.00	7,155.00
6" Compound	2,300.00	6,870.00	9,170.00
Over 6"	Cost	Cost	Cost

SERVICE CHARGES:

Establishment	\$ 30.00
Reconnection (Delinquent)	30.00
After Hours Service Charge	30.00
Meter Test (If Correct)	30.00
NSF Check	25.00
Meter Reread (If Correct)	20.00
Deposit	*
Deposit Interest (Per Month)	*
Deferred Payment(Per Month)***	1.5%
Late Payment Charge (Per Month)	2.0%
Re-establishment (Within 12 Months)	**

Monthly Service Charge for Fire Sprinkler:

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

* Per Commission Rule A.A.C. R-14-2-403(B).

** Months off system times the monthly minimum A.A.C. R-14-2-403(D).

*** 1.5 percent of unpaid monthly balance.

**** 1.00% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than \$5.00 per month. The Service Charge for Fire Sprinkles is only applicable for service lines separate and distinct from the primary water service line.

In addition to the collection of regular rates, the utility will collect from its customers a proportionate share of any privilege, sales, use, and franchise tax. Per Commission Rule R-14-2-409(D)(5).

1 51. The authorized rates would increase the monthly ¾-inch meter bill for the median user
 2 of 5,500 gallons, by \$16.62, or 56.9 percent, from \$29.20 to \$45.82.

3 52. Because an allowance for property tax expense is included in the Company's rates and
 4 will be collected from its customers, the Commission seeks assurances from the Company that any
 5 taxes collected from ratepayers have been remitted to the appropriate taxing authority. A number of
 6 water companies, including Cerbat, have been unwilling or unable to fulfill their obligations to pay the
 7 taxes that were collected from ratepayers. It is reasonable, therefore, that as a preventive measure, the
 8 Company shall annually file, as part of its Annual Report, an affidavit with the Utilities Division
 9 attesting that the Company is current in paying its property taxes in Arizona, or that it is current with
 10 its payment plan with the County for any delinquent taxes.

11 **CONCLUSIONS OF LAW**

12 1. Cerbat is a public service corporation pursuant to Article XV of the Arizona Constitution
 13 and A.R.S. §§ 40-250, 40-251 and 40-285.

14 2. The Commission has jurisdiction over Cerbat and the subject matter of the
 15 Application.

16 3. Notice of the proceeding was provided in conformance with law.

17 4. Cerbat's FVRB is negative \$30,855.

18 5. The rates, charges and conditions of service approved herein are just and reasonable
 19 and in the public interest.

20 **ORDER**

21 IT IS THEREFORE ORDERED Cerbat Water Company is hereby directed to file, with
 22 Docket Control, as a compliance item in this docket, on or before April 30, 2014, revised rate
 23 schedules reflecting the following rates and charges approved herein:

24 **MONTHLY USAGE CHARGES:**

25	5/8" x 3/4" Meter	\$ 30.00
	3/4" Meter	30.00
26	1" Meter	50.00
	1-1/2" Meter	100.00
27	2" Meter	160.00
	3" Meter	320.00
28	4" Meter	500.00

1	6" Meter	1,000.00
	8" Meter	1,600.00

2 **COMMODITY RATES (Per 1,000 Gallons):**

3	<u>5/8" x 3/4" Meter GS</u>	
4	First 3,000 gallons	\$2.15
	3,001 to 8,000 gallons	3.75
5	Over 8,000 gallons	5.35
6	<u>3/4" Meter GS</u>	
	First 3,000 gallons	2.15
7	3,001 to 8,000 gallons	3.75
	Over 8,000 gallons	5.35
8	<u>1" Meter GS</u>	
9	First 16,000 gallons	3.75
	Over 16,000 gallons	5.35
10	<u>1 1/2" Meter GS</u>	
	First 38,000 gallons	3.75
11	Over 38,000 gallons	5.35
12	<u>2" Meter GS</u>	
	First 60,000 gallons	3.75
13	Over 60,000 gallons	5.35
14	<u>3" Meter GS</u>	
	First 128,000 gallons	3.75
15	Over 128,000 gallons	5.35
16	<u>4" Meter GS</u>	
	First 192,000 gallons	3.75
17	Over 192,000 gallons	5.35
18	<u>6" Meter GS</u>	
	First 403,000 gallons	3.75
19	Over 403,000 gallons	5.35
20	<u>8" Meter GS</u>	
	First 622,000 gallons	3.75
21	Over 622,000 gallons	5.35
22	<u>Bulk Water</u>	
	Per 1,000 gallons	5.35

23 **SERVICE LINE AND METER**

24 **INSTALLATION CHARGES:**

25 (Refundable pursuant to A.A.C. R14-2-405)

	<u>Service Line Charge</u>	<u>Meter Charges</u>	<u>TOTAL</u>
26			
27	5/8" x 3/4" Meter	\$ 130.00	\$ 560.00
	3/4" Meter	230.00	660.00
	1" Meter	290.00	770.00
28	1-1/2" Meter	500.00	1,035.00

1	2" Turbo	815.00	1,020.00	1,835.00
	2" Compound	815.00	1,865	2,680.00
2	3" Turbo	1,030.00	1,645.00	2,675.00
	3" Compound	1,150.00	2,520.00	3,670.00
3	4" Turbo	1,460.00	2,620.00	4,080.00
	4" Compound	1,640.00	3,595.00	5,235.00
4	6" Turbo	2,180.00	4,975.00	7,155.00
	6" Compound	2,300.00	6,870.00	9,170.00
5	Over 6"	Cost	Cost	Cost

SERVICE CHARGES:

6	Establishment			\$ 30.00
7	Reconnection (Delinquent)			30.00
	After Hours Service Charge			30.00
8	Meter Test (If Correct)			30.00
	NSF Check			25.00
9	Meter Reread (If Correct)			20.00
	Deposit			*
10	Deposit Interest (Per Month)			*
	Deferred Payment(Per Month)***			1.5%
11	Late Payment Charge (Per Month)			2.0%
	Re-establishment (Within 12 Months)			**

Monthly Service Charge for Fire Sprinkler:

13	4" or Smaller	****
14	6"	****
	8"	****
15	10"	****
	Larger than 10"	****

- * Per Commission Rule A.A.C. R-14-2-403(B).
- ** Months off system times the monthly minimum A.A.C. R-14-2-403(D).
- *** 1.5 percent of unpaid monthly balance.
- **** 1.00% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than \$5.00 per month. The Service Charge for Fire Sprinkles is only applicable for service lines separate and distinct from the primary water service line.

In addition to the collection of regular rates, the utility will collect from its customers a proportionate share of any privilege, sales, use, and franchise tax. Per Commission Rule R-14-2-409(D)(5).

IT IS FURTHER ORDERED that the rates and charges approved herein shall be effective for all usage on and after the first of the month after Cerbat Water Company has provided evidence that it has established a payment plan with the Mohave County Assessor's office for delinquent property taxes.

...
...

1 IT IS FURTHER ORDERED that Cerbat Water Company shall file with Docket Control, as a
2 compliance item in this Docket, evidence that it has established a payment plan with Mohave County
3 for the payment of delinquent property taxes.

4 IT IS FURTHER ORDERED that Cerbat Water Company shall notify its customers of the
5 revised schedules of rates and charges authorized herein, in a form acceptable to Staff, by means of
6 an insert included in its next regularly scheduled billing, or as a separate mailing, to be completed no
7 later than thirty (30) days after the effective date of this Order, and shall file copies of the notice with
8 Docket Control, as a compliance item in this docket, within 10 days of the date notice is sent to
9 customers.

10 IT IS FURTHER ORDERED that in addition to collection of its regular rates and charges,
11 Cerbat Water Company may collect from its customers a proportionate share of any privilege, sales
12 or use tax, per A.A.C. R14-2-409(D)(5).

13 IT IS FURTHER ORDERED that Cerbat Water Company shall utilize the depreciation rates
14 by individual NARUC category, as set forth on Exhibit 6 of Staff's Engineering Report in this
15 proceeding.

16 IT IS FURTHER ORDERED that Cerbat Water Company shall file a rate case no later than
17 June 2, 2017, using a 2016 test year.

18 IT IS FURTHER ORDERED that Cerbat Water Company shall maintain its accounting books
19 and records in compliance with NARUC USoA and GAAP, and shall file an affidavit with Docket
20 Control as a compliance item in this docket no later than 90 days from the effective date of this
21 Decision, confirming that it is in compliance with this directive.

22 IT IS FURTHER ORDERED that no later than 30 days from the effective date of this
23 Decision, Cerbat Water Company shall file evidence with Docket Control, as a compliance item in
24 this docket, that it has a certified water operator; and in the future, Cerbat Water Company shall
25 notify the Commission if it changes certified water operators.

26 IT IS FURTHER ORDERED that the curtailment tariff attached to the Engineering Report as
27 Exhibit 7 is approved, and Cerbat Water Company shall file a conforming Curtailment Tariff, and a
28

1 revised Statement of Terms and Conditions as discussed herein, within 45 days of the effective date
2 of this Decision.

3 IT IS FURTHER ORDERED that Cerbat Water Company shall monitor its water system
4 closely and take action to ensure the water loss is 10 percent or less. If the reported water loss is
5 greater than 10 percent, Cerbat Water Company shall prepare a report containing a detailed analysis
6 and plan to reduce water loss to 10 percent or less, and if Cerbat Water Company believes it is not
7 cost effective to reduce the water loss to less than 10 percent, it should submit a detailed cost/benefit
8 analysis to support its opinion. In no case shall Cerbat Water Company allow water loss to be greater
9 than 15 percent. The water loss reduction report or the detailed analysis, whichever is submitted,
10 shall be docketed as a compliance item within 180 days of the effective date of this Decision.

11 IT IS FURTHER ORDERED that the requirement in Decision No. 72739 that Cerbat Water
12 Company install interconnection meters is terminated.

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1 IT IS FURTHER ORDERED that Cerbat Water Company shall annually file, as part of its
2 Annual Report, an affidavit with the Commission's Utilities Division attesting that the Cerbat Water
3 Company is current in paying its property taxes in Arizona or that it is current and in compliance with
4 any payment plan negotiated with the Mohave County for delinquent property taxes.

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

6 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.
7
8

9 CHAIRMAN _____ COMMISSIONER _____

10
11 COMMISSIONER _____ COMMISSIONER _____ COMMISSIONER _____

12
13 IN WITNESS WHEREOF, I, JODI JERICH, Executive
14 Director of the Arizona Corporation Commission, have
15 hereunto set my hand and caused the official seal of the
16 Commission to be affixed at the Capitol, in the City of Phoenix,
17 this _____ day of _____ 2014.

18 JODI JERICH _____
19 EXECUTIVE DIRECTOR

20 DISSENT _____

21 DISSENT _____
22 JLR:tv

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26
27
28

1 SERVICE LIST FOR: CERBAT WATER COMPANY

2 DOCKET NO.: W-02391A-13-0234

3 Rick Neal
4 Michelle Monzillo, Office Manager
5 7313 East Concho Drive, Suite B
6 Kingman, AZ 86401

7 Janice Alward, Chief Counsel
8 Legal Division
9 ARIZONA CORPORATION COMMISSION
10 1200 West Washington Street
11 Phoenix, AZ 85007

12 Steven M. Olea, Director
13 Utilities Division
14 ARIZONA CORPORATION COMMISSION
15 1200 West Washington Street
16 Phoenix, AZ 85007

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