ORIGINAL NEW APPLICATION

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AZ CORP COMMISSION
DOCKET CONTROL

FENNEMORE CRAIG, P.C.
Norman D. James (No. 006901)
Jay L. Shapiro (No. 014650)
3003 North Central Avenue
Suite 2600
Phoenix, Arizona 85012
Telephone (602)916-5000
Attorneys for Far West Water
& Sewer Company

WS-03478A-08-0454

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF FAR WEST WATER & SEWER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS SEWER UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES FOR SEWER UTILITY SERVICE BASED THEREON.	DOCKET NO: WS-03478A-08-_____
APPLICATION	Arizona Corporation Commission DOCKETED AUG 29 2008 DOCKETED BY nr

Far West Water and Sewer Company, an Arizona public service corporation (hereinafter "Far West Sewer" or "the Company"), hereby applies for an order establishing the fair value of its plant and property used for the provision of public sewer utility service and, based on such finding, approving permanent rates and charges for sewer utility service designed to produce a fair return thereon. In support thereof, Far West Sewer states as follows:

1. Far West Sewer is a public service corporation engaged in providing wastewater utility services in portions of Yuma County, Arizona, pursuant to a Certificate of Convenience and Necessity, which was transferred to the Company by order of the Commission on April 8, 1998. Decision No. 60799 (April 8, 1998). During the test year used in this application, the Company provided sewer utility service to approximately 7,200 customers.

system in order to ensure safe and reliable utility service to its customers. These increases since the test year in the prior rate proceeding have caused the revenues produced by the current rates and charges for sewer utility service to become inadequate to meet operating expenses and provide a reasonable rate of return. Therefore, the Company requests that certain adjustments to its rates and charges for such utility service be approved by the Commission so that the Company may recover its operating expenses and earn a just and reasonable rate of return on the fair value of its property.

7. Filed concurrently in support of this Application are the direct testimonies of Gary M. Lee and Thomas J. Bourassa. Mr. Lee's testimony discusses the more than $20 million of improvements to Far West Sewer's wastewater collection and treatment system that have been and are being constructed since the end of the last test year. As explained by Mr. Lee, these improvements are necessary for the Company to provide safe and reliable sewer utility service to its existing customers and over a 5-year planning horizon. Mr. Bourassa's testimonies are contained in two separately bound volumes (rate base/income statement/rate design and cost of capital) filed with the Application. Attached to Mr. Bourassa's testimonies are the schedules required pursuant to A.A.C. R14-2-103 for rate applications by Class "A" utilities, with the exception of the schedules labeled "G" (cost of service analysis). "G" Schedules are omitted because Far West Sewer (1) is not in a segment of the utility industry that recognizes cost of service studies as important tools for rate design and (2) the costs of providing sewer utility service are not likely to vary significantly from one segment of customers to another. *See* A.A.C. R14-2-103(B)(1)(G). As a consequence, a cost of service study is not required.

8. The test year utilized by the Company in connection with the preparation of such schedules is the 12-month period that ended December 31, 2007. The Company requests that the Commission utilize such test year in connection with this Application, with appropriate adjustments for utility plant that has been completed and placed in

service to serve existing customers after the test year in order to obtain a normal or more realistic relationship between revenues, expenses and rate base during the period in which the rates established in this proceeding are in effect.

9. During the test year, the Company's adjusted gross revenues were $2,139,964 from wastewater utility service. The adjusted operating income from wastewater service was $859,617. The adjusted original and fair value rate base was $23,415,596. Thus, the rate of return on the Company's wastewater operations during the test year was -3.67 percent. This is clearly inadequate to allow the Company to obtain debt, pay a reasonable dividend to its stockholders, maintain a sound credit rating, and/or enable Far West Sewer to attract additional capital on reasonable and acceptable terms in order to continue the investment in utility plant necessary to adequately serve customers.

10. The Company is requesting an increase in revenues equal to $4,595,748, an increase of 214.8 percent, for a total annual revenue requirement of $6,735,712. The adjustments to the Company's rates and charges that are proposed herein, when fully implemented, will produce a rate of return on the fair value rate base equal to 8.38 percent from wastewater operations. However, the Company is willing to accept a three-year phase-in of its proposed rate increases in order to smooth out the impact of the significant increases needed to provide Far West Sewer's recovery of its operating expenses and an opportunity to earn a reasonable return on the fair value of its plant. The Company's proposed phase-in is without recovery of lost revenues, but is expressly based on the Commission's approval of the requested rate increases without material change, including the requested inclusion of post test year plant. Far West Sewer reserves the right to request that its rates not be phased in the event the Commission does not approve sufficient relief.

11. In Phase One, residential customers would pay $54.38 per month, an increase of $32.63. Commercial customers would pay $108.75 per month. The charge at

Recreational Vehicle Parks per space will be $13.60. The Phase One increase is roughly 150% over present rates. In Phase Two, residential customers would pay $64.16 per month, while commercial customers would pay $128.33 per month. The charge at Recreational Vehicle Parks per space will be $16.05. This would bring the increase up to 195% over present rates. In the third and final phase, residential customers would pay $74.32 per month, while commercial customers would pay $148.64 per month. The charge at Recreational Vehicle Parks per space will be $18.59. At Phase Three, the increased revenues would represent an increase of 241.76% over present rates. The Company is also requesting a reduction in the effluent rate to $0.20 per 1,000 gallons, or $65.17 per acre foot.

12. In Decision 69335, the Commission set forth a number of compliance requirements. The Company has complied with each of these conditions as reflected in the compliance matrix attached to this Application as Exhibit **Far West 1**.

WHEREFORE, Far West Sewer requests the following relief:

A. That the Commission, upon proper notice and at the earliest possible time, conduct a hearing in accordance with A.R.S. § 40-251 and determine the fair value of the Company's sewer utility plant and property devoted to providing wastewater utility service;

B. Based upon such determination, that the Commission approve permanent adjustments to the rates and charges for sewer utility service provided by Far West Sewer, as proposed by the Company herein, or approve such other rates and charges as will provide for the recovery of operating expenses and produce a just and reasonable rate of return on the fair value of the Company's sewer utility plant and property; and

C. That the Commission authorize such other and further relief as may be appropriate to ensure that Far West Sewer has an opportunity to earn a just and reasonable return on the fair value of its sewer utility plant and property and as may otherwise be

2. The Company also provides water utility services pursuant to a CC&N issued by the Commission. Rates and charges for water utility service were set by the Commission in Decision No. 60826 (April 1998) and are not at issue in this application.

3. Far West Sewer's offices are located at 13157 E. 44th Street, Yuma, Arizona 85367 and its telephone number is 928-342-1238. The Company's primary management contact is Mr. Andrew J. Capestro.

4. The persons responsible for overseeing and directing the conduct of this rate application are Mr. Capestro and the Company's rate case consultant, Mr. Thomas Bourassa. Mr. Capestro's mailing address is 12486 Foothills Blvd., Yuma, AZ 85367 and his telephone number is (928) 342-3344; his telecopier number is (928) 342-1242 and his e-mail address is acapestro@aol.com. Mr. Bourassa's mailing address is 139 W. Wood Drive, Phoenix, Arizona 85029 and his telephone number is (602) 246-7150; his telecopier number is (602) 246-1040 and his e-mail address is tjb114@cox.net. **All discovery, data requests and other requests for information concerning this Application should be directed to Mr. Capestro, including copies by e-mail, and to Mr. Bourassa, with an e-mail copy to Norman James and Jay Shapiro, counsel for the Company, at njames@fclaw.com and jshapiro@fclaw.com.**

5. In this Application, Far West Sewer seeks a determination of the current, fair value of its property devoted to public service and approval of permanent adjustments to its rates and charges for utility service based thereon. Far West's current rates were approved in Decision 69335 (February 20, 2007) and became effective on March 1, 2007.

6. Far West Sewer maintains that revenues from its sewer utility operations are presently inadequate to provide the Company a fair rate of return on the fair value of its sewer utility plant and property devoted to public service. The Company's costs of providing service as well as its rate base have increased substantially since the previous rate proceeding, and the Company is continuing to add utility plant to its wastewater

required under Arizona law.

RESPECTFULLY SUBMITTED this 29th day of August, 2008.

FENNEMORE CRAIG, P.C.

By _____
Norman D. James
Jay L. Shapiro
3003 North Central Avenue
Suite 2600
Phoenix, Arizona 85012
Attorneys for Far West Water and Sewer Company

ORIGINAL and thirteen (13) copies of the foregoing, together with the separately bound direct testimony and schedules supporting this application, were delivered this 29th day of August, 2008 to:

Docket Control
Arizona Corporation Commission
1200 W. Washington St.
Phoenix, AZ 85007

Janice Alward
Chief Legal Counsel
Legal Department
Arizona Corporation Commission
1200 W. Washington St.
Phoenix, AZ 85007

Gordon Fox
Finance, Rates and Accounting
Arizona Corporation Commission
1200 W. Washington St.
Phoenix, AZ 85007

By: Maria San Jose

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Far West Water and Sewer Company

Exhibit 1

FAR WEST WATER & SEWER, INC.

LIST OF COMPLIANCE ITEMS PURSUANT TO ACC DECISION NO. 69335 (FEBRUARY 20, 2007)

ITEM NO.	COMPLIANCE ITEM & DUE DATE IF APPLICABLE	TITLE/DESCRIPTION OF COMPANY FILING	DOCKET DATE
1.	File with the Commission on or before February 28, 2007 revised schedules of rates and charges.	Notice of Filing Tariff (revised schedule of rates and charges)	03/02/2007
2.	Notify affected customers of the revised schedules of rates and charges by means of an insert in its next regularly scheduled billing in a form and manner acceptable to Commission Staff.	Notice of Filing (notice to customers regarding revised schedules of rates and charges; and proof of mailing)	05/07/2007
3.	Each January and July file with Docket Control a report covering the previous six months that contains: 1) the name and grade of each operator; 2) the type of training offered to Far West employees; 3) the name of each employee attending the trainings; and 4) the number and type of OSHA reportable violations, if any.	Report for January 1, 2007 through June 30, 2007 regarding name and grade level of operators; listing of training topics offered to employees, dates, and attendance; and affirming no reportable OSHA violations Report for July 1, 2007 through December 31, 2007 regarding name and grade level of operators; listing of training topics offered to employees, dates, and attendance; and affirming no reportable OSHA violations Notice of Filing Report of Grade Levels, Training and Reportable Violations January 1, 2008 through June 30, 2008	07/20/2007 01/17/2008 07/08/2008
4.	Review with ADOSH a fire incident that occurred on May 15, 2006 at the Palm Shadows Treatment Facility.	Notice of Filing Proof of ADOSH Consultation Re: Palm Shadows Fire	08/28/2008
5.	On an annual basis, on the anniversary date of the Order, for a period of three years, file with Docket Control certification from ADOSH that Far West has availed itself of ADOSH consultation services and that Far West operators, agents and employees, including employees and agents of contractors or subcontractors operating or constructing Far West's wastewater facilities, have taken appropriate training.	Notice of Filing Proof of ADOSH Consultation (regarding January 16, 2008 onsite consultation) Notice of Filing Proof of OSHA Approved Training (training records for Far West employees and subcontractors February 2007 through May 2008)	05/19/2008 05/23/2008

FAR WEST WATER & SEWER, INC.

LIST OF COMPLIANCE ITEMS PURSUANT TO ACC DECISION NO. 69335 (FEBRUARY 20, 2007)

ITEM NO.	COMPLIANCE ITEM & DUE DATE IF APPLICABLE	TITLE/DESCRIPTION OF COMPANY FILING	DOCKET DATE
6.	Every six months, from the effective date of the Order until Far West's next rate case, file with Docket Control a report detailing all odor complaints received.	Letter to Utilities Division from Andrew J. Capestro regarding odor issues and enclosing phone log of odor complaints for February 2007 through August 2007 Letter to Utilities Division from Andrew J. Capestro regarding odor issues and enclosing phone log of odor complaints for August 2007 through February 2008 Odor report was provided to ACC on 08/22/2008.	08/21/2007 02/20/2008
7.	Attempt to identify damages from contractors whose failure to meet contractual obligations led to Far West's ADEQ violations, and document those attempts.	Complaint filed by Far West against contractor Clear Solutions Environeering, Inc. in Yuma County Superior Court, Division 3, on May 24, 2007 (Case No. S1400CV0200-700615) regarding breach of contract, negligence and misrepresentation to determine damages. This litigation is on-going. Notice of Filing File Stamped Copy of Complaint Against Clear Solutions Environeering, Inc Kent Marley and Nadia Adias	N/A 08/28/2008
8.	Document wastewater plant retrofit costs separately from expansion costs to be accounted for in next rate case proceeding.	Webster defines "retrofit" as "furnishing with new parts or equipment." Far West has not "retrofitted" any of its plant or facilities as a result of any prior inadequacies in such facilities. Rather, Far West is upgrading and expanding its wastewater collection and treatment system utilizing its existing infrastructure as the starting point. Only those items shown as "retired" in the Company's B schedules were retired or otherwise removed from service. *See also* Testimony of Gary M. Lee at p. **X.**	

FAR WEST WATER & SEWER, INC.

LIST OF COMPLIANCE ITEMS PURSUANT TO ACC DECISION NO. 69335 (FEBRUARY 20, 2007)

ITEM NO.	COMPLIANCE ITEM & DUE DATE IF APPLICABLE	TITLE/DESCRIPTION OF COMPANY FILING	DOCKET DATE
9.	File with the Utilities Division as part of Far West's Utility Annual Report an affidavit attesting that the Company is current in paying its property taxes in Arizona.	*See* Annual Report	08/25/2008
10.	File a rate case no later than April 30, 2008.	Deadline extended to July 31, 2008 per March 25, 2008 Procedural Order. Deadline extended to 08/29/2008 per August 26, 2008 Procedural Order. *See* August 29, 2008 filing	

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Lee

Direct Testimony

FENNEMORE CRAIG, P.C.
Norman D. James
Jay L. Shapiro
3003 N. Central Ave.
Suite 2600
Phoenix, Arizona 85012
Attorneys for Far West Water and Sewer Company

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF FAR WEST WATER AND SEWER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES FOR SEWER UTILITY SERVICE BASED THEREON.	DOCKET NO: WS-03478A-08-_____

DIRECT TESTIMONY OF

GARY M. LEE

Q. PLEASE STATE YOUR NAME, PLACE OF EMPLOYMENT, AND JOB TITLE.

A. My name is Gary M. Lee. My place of employment is Universal Asset Management. Currently, I hold the following titles—President, Chief Executive Officer, and Project Manager.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?

A. I am testifying on behalf of the applicant, Far West Water & Sewer Company, Sewer Division (hereinafter "Far West Sewer" or "the Company").

Q. HOW MANY YEARS HAVE YOU BEEN WORKING WITH WATER AND WASTEWATER UTILITY SYSTEMS?

A. I have over 37 years experience in planning, financing, and implementation of wastewater and water projects. My Resume is attached hereto as Exhibit Lee DT 1.

Q. WHAT IS YOUR EDUCATIONAL BACKGROUND?

I graduated from the University of Missouri-Rolla with a Bachelor of Science and Masters of Science in Civil Engineering.

Q. DO YOU HOLD ANY CERTIFICATIONS?

A. I am licensed as a Professional Engineer (P.E.).

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A. Since the last rate case was completed, Far West Sewer has added or is in the final stages of adding millions of dollars of sewer utility infrastructure to upgrade its wastewater collection and treatment facilities. The purpose of my testimony in this rate case is to describe these infrastructure improvements.

Q. HOW IS YOUR DIRECT TESTIMONY ORGANIZED?

A. My direct testimony is primarily contained in my Engineering Report, which report is attached to my direct testimony as Exhibit Lee DT 2.

Q. WHY WAS IT NECESSARY FOR FAR WEST SEWER TO UPGRADE ITS SEWER UTILITY INFRASTRUCTURE?

A. The Company experienced substantial growth in the late 1990's and first several years of this decade. The Company's sewer facilities were simply unable to keep up with this growth and the increasing demand for higher quality wastewater effluent. As a consequence, Far West Sewer received a number of notices of violation from ADEQ, and entered into two Consent Orders. The upgrades and expansions we have planned and constructed or are constructing are intended to bring Far West Sewer's entire wastewater collection and treatment system into compliance with the Consent Order and all applicable laws. These improvements are also necessary for the Company to adequately service its existing customers and plan for new connections over a reasonable planning horizon of roughly 5 years.

Q. WILL THE COMPANY'S FACILITIES LOOK SUBSTANTIALLY DIFFERENT WHEN THE IMPROVEMENTS ARE DONE?

A. To an extent, yes. Far West's seven wastewater treatment plants are being consolidated into four wastewater treatment plants. Consolidation of the number of wastewater treatment plants will assist in managing the utility. Additionally, improvements to collection systems, improvements to the wastewater treatment plant process and an odor control program are being implemented. Process improvements will yield a much improved effluent quality and enhance Far West's' ability to expand reuse plans.

Q. DOES THAT MEAN THAT EXISTING INFRASTRUCTURE HAS BEEN REPLACED OR RETROFITTED?

A. No, although there were problems with the existing wastewater treatment plants, this project was designed and engineered to make use of the existing equipment

and facilities and did not require equipment to be retrofitted. This actually allowed us to reduce the overall cost of the upgrade and expansion project.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.

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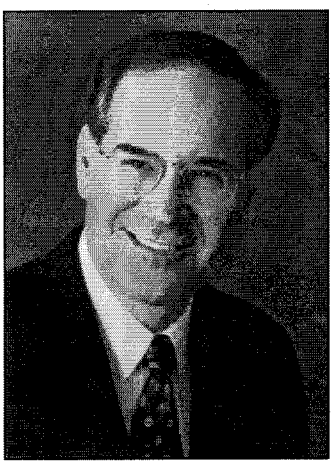
Gary D. Lee Direct Testimony

Exhibit 1

Gary M. Lee, P.E.



POSITION

President/CEO

PROFESSIONAL QUALIFICATIONS

MS/Civil Engineering/University of Missouri-Rolla

BS/Civil Engineering/University of Missouri-Rolla

Professional Engineer: Missouri, Arkansas, Oklahoma, Kansas, Colorado, Nebraska, Montana, Arizona, Hawaii and Virginia

BACKGROUND

Over 37 years experience in planning, financing and implementation of wastewater and water projects.

EXPERIENCE

I currently serve as President and Chief Executive Officer for Universal Asset Management. I have broad experience in the planning, financing and implementation of public works projects. My experience includes:

Financing – Liaison experience in developing financial strategies to facilitate funding relationships between local and state/federal programs. I am knowledgeable in municipal and governmental financing alternatives including municipal bonding and privatization.

Technical – My experience has involved a wide range of civil/environmental projects that include feasibility studies, plans, specifications, construction supervision, expert testimony, project management and project development.

Coalition Building – I have in-depth experience in the design and execution of public awareness and participation programs including the development of multi-participant alliance coalitions that are often critical to the success and acceptance of public works projects.

Industry Leadership – Origination of the insurance-backed warranty/service contract as it applied to the water and wastewater systems and equipment market. This innovative approach to extending the useful life of critical infrastructure equipment was developed through a strategic alliance with Zurich Insurance Company, one of the world's leading insurers.

Following are a few of my recent projects:

Septic Tanks Conversion Project – Kansas City, MO – Principal-in-charge of Kansas City, Missouri Public Works Department's $30 million sewer collection system improvement project to bring collection facilities into unsewered areas of the City. Our firm provided consultation on implementation program design, environmental reviews and funding to allow the City to utilize low-interest State Revolving Fund program monies.

Septic Tank Conversion Project – St. Charles, MO – Our firm is providing a full-range of consulting services to assist in the planning, development and implementation of a program to begin the elimination of nearly 6,000 failed septic systems throughout this rapidly developing suburban community. Our services have included the development of a unique outreach program and negotiation of an intergovernmental between the County government and the regional wastewater authority.

Septic Tank Conversion Project – Laie, Oahu, Hawaii – Our firm is provided a full-range of consulting services to assist in the planning, development and implementation of a program to begin the elimination of nearly 1,000 failed septic systems throughout this rapidly developing suburban community.

Tri-County Regional Water Authority – Jackson, Cass, Bates Counties, MO – I served as Principal-in-Charge for this $13 million multi-jurisdictional water supply and transmission project. It included the planning, design and construction administration of a 2.5 mgd water treatment plant, 80 miles of transmission main, and 3-1,000 gpm wells. The final project provides a stable, safe and cost effective solution to the potable water problems of 9 separate water utilities in 3 west-central Missouri counties. This project included the creation of a unique not-for-profit alliance structure to facilitate the tax exempt financing of the project.

Duckett Creek Sanitary District – St. Charles County, MO – The master planning and implementation of this $36 million project, which included an extensive public election campaign effort, a new 5 million gallon per day treatment facility and a major expansion of the collection system, was completed on an accelerated schedule to prevent the possibility of a building moratorium. Construction of these facilities was completed on schedule and$1.5 million under budget.

Platte County Regional Sewer District – Platte County, MO – Principal-in-Charge for this $7 million wastewater collection and treatment project in Platte County, Missouri. It was developed to solve the problems of several existing independent sewer systems and allow the elimination of the area's failing septic systems. The facility planning and design of the collection system expansion and one million gallon per day treatment facility were completed on an accelerated schedule to meet the requirements of the State Revolving Fund.

Far West Water and Sewer Inc, Yuma, Arizona – Principal-in-Charge overseeing the development of three wastewater treatment plant design, five wastewater pump station upgrades, and a system wide odor control program. This project was also expended to include the design of low pressure sewer systems for two new subdivisions.

La Canada Flintridge, CA – Principal-in-charge for the conceptual layout, hydraulic analysis, cost estimating, and comparative evaluation of various alternative sewer collection system alternatives for this community of approximately 1800 properties. The preferred alternative was estimated to save the City over $40 million in capital costs compared to conventional gravity sewers.

Wastewater Collection & Treatment Facilities – Pleasant Hill, MO – Principal-in-Charge for planning, design, and construction of a new 0.75-mgd wastewater treatment plant and associated interceptor facilities to serve the growth areas of the community.

Wastewater Collection & Treatment Facility – Peculiar, MO – Principal-in-Charge of planning, design, and construction of treatment plant, pump station, interceptor, and collection facilities designed to relieve capacity restrictions and operational problems, and to provide service to areas of the community on septic systems in this rapidly growing suburban area.

International Projects – I have broad experience in providing civil/environmental consulting services outside the U.S., including:

Brazil, S.A. – I served as project engineer in the development of an integrated rural potable water system for remote areas along the Amazon River in the State of Para, Brazil, S.A.

Guatemala, S.A. and Panama City, Panama, C.A. - I was principal engineer for the development of tariff analysis and restructuring of management systems for the water utilities in Guatemala City, Guatemala, S.A. and Panama City, Panama, C.A. The projects included development of new management systems and analysis of water rates and tariffs.

Gary M. Lee, P.E.

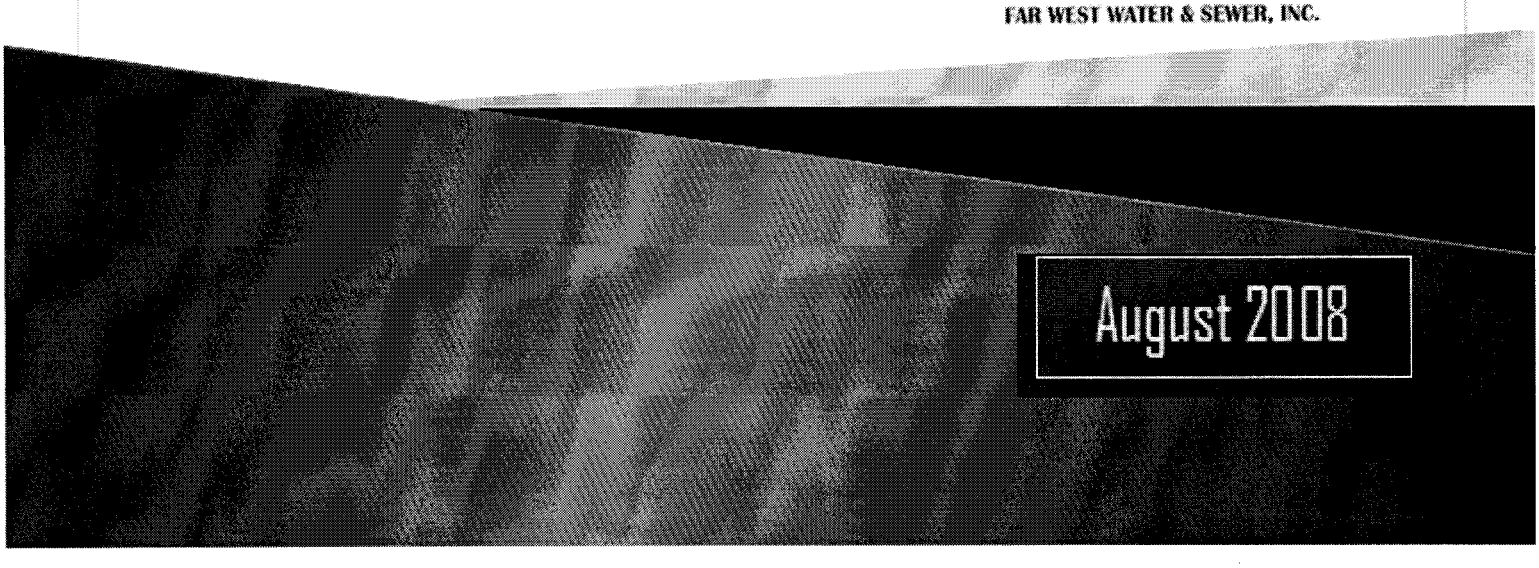
Mexico City, Mexico – I was project coordinator for the U.S. State Department Office of Foreign Disaster Assistance during the aftermath of the Mexico City earthquake. The project involved damage assessment to the City's water system and development and management of emergency response to the disruption of water service to over 9 million Mexico City residents.

Gary D. Lee Direct Testimony

Exhibit 2

Update of Engineering Report Wastewater System Improvements

FAR WEST WATER & SEWER, INC.



August 2008

Update of Engineering Report
Wastewater System Improvements
Dated April 2006
Far West Water & Sewer, Inc.
Yuma, Arizona
Updated August 2008

Table of Contents

UPDATE OF THE ENGINEERING REPORT DATED APRIL 2006 3
1.0 FINDINGS 3
2.0 WASTEWATER PROJECTIONS 3
3.0 EXISTING FACILITIES 3
4.0 EFFLUENT LIMITATIONS 4
5.0 RECOMMENDED IMPROVEMENTS 4
6.0 PROJECT PROGRESS 5
7.0 CAPITAL COSTS 6

APPENDICES

A. SEWER SYSTEM SERVICE AREAS – AFTER IMPROVEMENTS
B. PERMITTED CAPACITY EXHIBIT & SUMMARY
C. CONSTRUCTION PROGRESS CONSTRUCTION SCHEDULE
D. IMPROVEMENT PROJECT BUDGETS
E. WWTP SITE PLANS

UPDATE OF THE ENGINEERING REPORT DATED APRIL 2006

1.0 FINDINGS

The Far West Water & Sewer, Inc. utility ("FWWS" or "Utility") authorized the completion of the engineering report dated April 2006 to develop a comprehensive improvement plan for their wastewater collection and treatment systems. This update report is intended to provide a status as to the progress of the improvements recommended in the original engineering report. The original engineering report included an evaluation of various issues facing the Utility and a recommended action plan to address such issues. The recommended action plan provided for phasing of various improvements to improve FWWS' ability to meet customer demand in compliance with regulatory requirements. As part of the recommended action plan, it was recommended that the Utility's seven existing wastewater treatment plants be consolidated into four locations and major plant modifications be completed at Del Oro, Seasons, Palm Shadows and Section 14. Upon further investigation during the design and engineering of the project, certain wastewater treatment plants were further consolidated by converting the Palm Shadows wastewater treatment plant to a lift station and conveying the wastewater from Palm Shadows to a larger modified Section 14 wastewater treatment plant. Consolidation of the Del Rey and Royale plants will be accomplished by decommissioning these facilities and installing pump stations that will convey sewage to the upgraded Del Oro plant. Additionally, it was determined that the Marwood wastewater treatment plant would not be decommissioned. No major improvements to the Marwood wastewater treatment plant are required at this time. A sludge dewatering unit was added to the Marwood Plant to assist in the management of biosolids. The effluent from each of these upgraded facilities will meet Arizona Division of Environmental Quality (ADEQ) regulations for A+ discharge. It remains the intent of the Utility to maximize the use of irrigation as a primary means of effluent discharge. All proposed facilities have been designed per ADEQ guidelines and regulations.

2.0 WASTEWATER PROJECTIONS

There are currently 8,839 committed locations on this sewer system. Using ADEQ's required 187.2 gallon/day/connection yields a current required capacity of 1,654,661 gallons per day (gpd). This upgrade and expansion project, once the initial phase is completed, will yield a total permitted capacity of 1,666,000 gpd. In addition, FWWS has pending requests for capacity letters for an additional 2,200 connections. A total capacity of 2,066,500 gpd will be required to service these requests, based on ADEQ's required 187.2 gallon/day/connections. The currently approved APP permits allow for the expansion of the Section 14 plant by an additional 619,000 gpd by gradually adding new Vadose Wells and installing additional membrane cassettes, which will bring the total permitted capacity to 2,285,000 gpd. Thus, the total required capacity will be 90% of the current permitted capacity. Plans are currently being drafted to submit an APP request applying for an additional expansion of the Section 14 plant by 700,000 gpd. This expansion would allow for up to 3,740 new connections. We expect to submit this permit later this year. The initial improvements to the Section 14 wastewater treatment plant are scheduled for completion by December 30, 2008. Gradual expansion of capacity of 1,300,000 gpd will occur throughout 2009. It is anticipated that an APP permit will be approved and received in late 2009 for the additional 700,000 gpd expansion of Section 14 with construction completion occurring in late 2010.

3.0 EXISTING FACILITIES

Far West Water & Sewer, Inc. owns and operates a wastewater conveyance system and seven wastewater treatment plants within the study area. The existing wastewater treatment plants are commonly known as Del Oro, Seasons, Palm Shadows, Section 14, Marwood, Villa Del Rey and Villa Royale.

4.0 EFFLUENT LIMITATIONS

Because the intent of the utility is to maximize the use of effluent for reclamation, ADEQ discharge permit limitations of A+ have been utilized in this study for all upgraded plants in Section 14, Del Oro and Seasons.

5.0 RECOMMENDED IMPROVEMENTS

Based upon discussions with ADEQ and further analysis by our design staff, the following improvements have been implemented:

1. Various collection system improvements to facilitate the consolidation of the seven existing wastewater treatment plants into four locations. These four locations include the Del Oro, Seasons, Section 14, and Marwood wastewater treatment plants. A color coded exhibit of the consolidated sewer system service areas is provided in Appendix A.
2. The implementation of a system-wide odor control program.
3. The immediate upgrade of the Del Oro plant using a modular membrane bioreactor process which also served as a pilot plant to test the effectiveness of this process at FWWS.
4. The permanent upgrade of the Del Oro, Seasons, and Section 14 facilities to membrane bioreactor processes.
5. Conversion of the Palm Shadows wastewater treatment facility to a lift station and construction of a forcemain to the Section 14 plant. In addition to the construction of this forcemain, a recommendation for the construction of an additional lift station at Paula Street has been implemented. The Paula Street lift station allows for the decommissioning of smaller lift stations located along Foothills Boulevard.
6. The addition of a biosolids dewatering facility at the Marwood treatment plant.
7. All treatment plants will be served with biosolids dewatering allowing the Utility to dispose of their biosolids at a local landfill as opposed to land application.
8. The completion of an asset inventory of all water and sewer conveyance systems in the form of a geographical information system map. This map allows for ongoing evaluation of the piping network through the use of hydraulic models.
9. The deployment of a revised accounting, billing and work order system to better manage and monitor the performance of the Utility. The systems also are intended to provide improved customer service through timely billing practices and tracking of customer complaints and work requests.

The permitted capacity of each facility (before and after the recommended improvements) is illustrated and outlined in the "Permitted Capacity" exhibit and "Permitted Capacity Summary" attached to this report as Appendix B.

6.0 PROJECT PROGRESS

Applications for all APP permits and NOIs incidental to the projects listed above were submitted to ADEQ in October through December 2006. All APPs and NOIs have been issued with the exception of Section 14. ADEQ notified FWWS of its decision to grant the Section 14 APP in a letter dated July 29, 2008. The Section 14 APP permit is anticipated to be issued within the next 30 days. The following table illustrates various applications, the dates of their submittals and issuance dates.

ITEM	DATE APPLICATIONS SUBMITTED TO ADEQ	PERMIT STATUS
Del Oro WWTP APP	10/02/06	Permit Issued 2/25/08
Seasons WWTP APP	12/11/06	Permit Issued 4/09/08
Section 14 WWTP APP	12/15/06	Draft Issued. Permit issuance pending.
Palm Shadows Lift Station 44th Street Forcemain NOI	12/11/06	Approved
Del Rey & Royale Lift Stations and Forcemain NOI	12/12/06	Approved
Notes: (1) Copies of the permits identified above will be provided upon request to the requesting party during discovery.		

All projects for which permits have been issued have been initiated. Competitive procurement for all major equipment was conducted and equipment manufacturers have been selected, purchase orders have either been issued or are in the process of issuance at this time. Construction contractors have been selected under a competitive procurement process, and are currently progressing with the construction of the Palm Shadows forcemain and the Del Oro and Section 14 permanent treatment facilities. As of August 28, 2008, the improvement of the Del Oro wastewater treatment plant was 34% complete, the improvement of the Section 14 wastewater treatment plant was 23% complete, and the Palm Shadows forcemain was 80% complete. Decommissioning of Palm Shadows, Del Rey and Royale plants is anticipated to begin in November, 2008 and will progress through the last few month of construction with completion targeted for January, 2009. A construction progress construction schedule, which further details the anticipated completion dates of each part of the upgrade and expansion project, is attached to this report as Appendix C. Under this schedule, it is the goal of the implementation effort that the three major plant modifications be completed by the end of 2008.

7.0 CAPITAL COSTS

The total budget for the above referenced projects is approximately $20 million. Within this project budget is included approximately $1.5 million in engineering efforts associated with planning and design of the various treatment plant improvements. The following table illustrates the project budget as of May 2008. This budget has been modified to incorporate the results of competitive procurement and individual construction contract negotiations.

Description	Budget
Seasons WWTP	$1,660,254.00
Del Oro WWTP	$3,273,111.38
Section 14 WWTP	$7,371,914.00
Del Rey & Royale Lift Stations	$395,400.00
Palm Shadow Lift Station and Forcemain	$1,712,250.00
Paula Street Lift Station	$640,045.00
Marwood Sludge Dewatering Unit	$101,260.00
Miscellaneous (Including Fortuna Rd Sewer)	$712,439.64
Engineering Sewer	$1,551,170.34
Construction Administration Sewer	$1,551,170.34
Mapping	$710,485.00
Operations	$834,000.00
Odor Control	$10,877.81
Total	**$20,524,377.51**

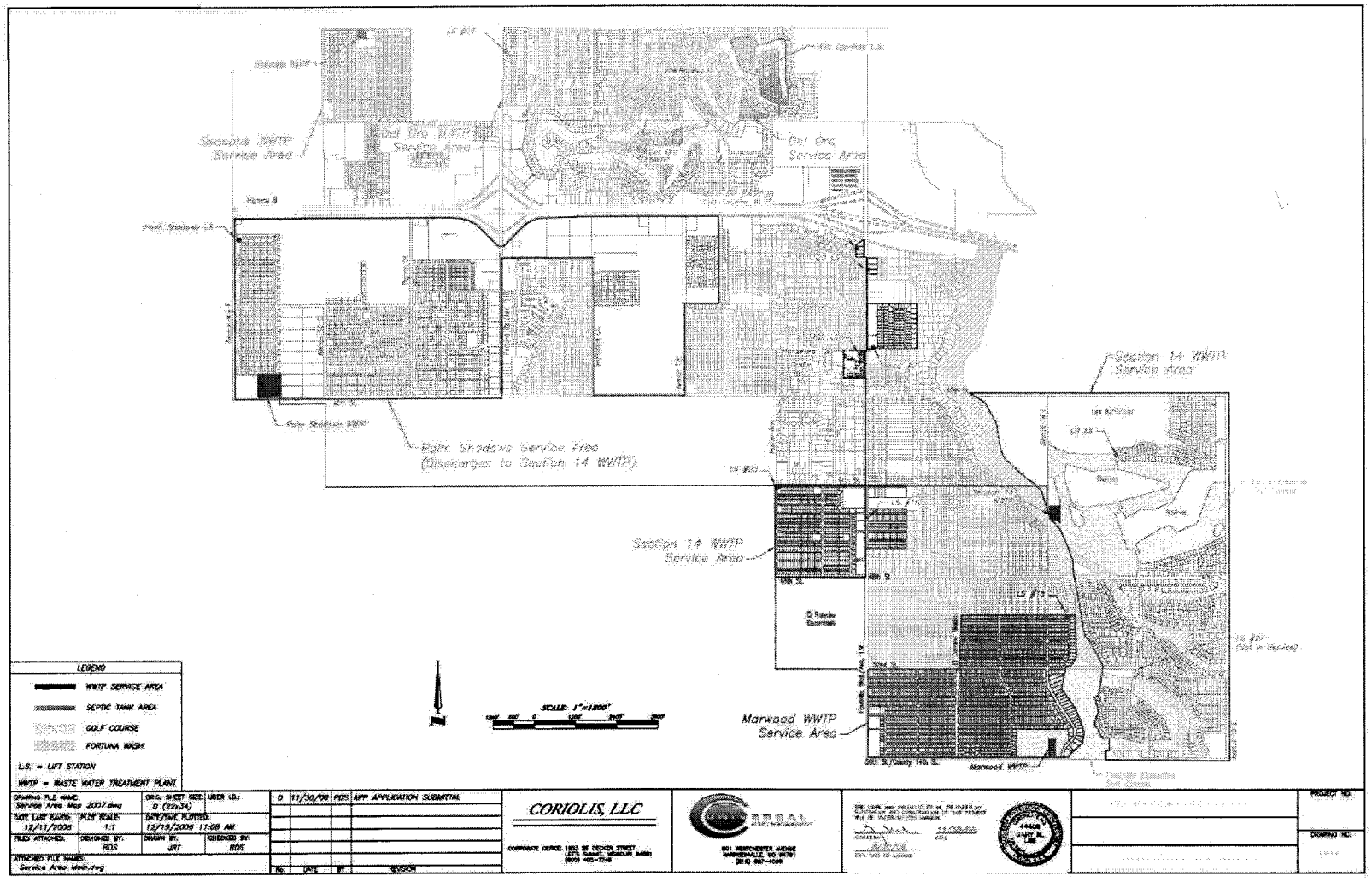
As of August 2008 approximately 45% of the project budget has been expended as the result of planning, design, equipment procurement, and construction activities. It is anticipated that the bulk of the remaining funds will have been fully obligated and implementation efforts completed by December 31, 2008.

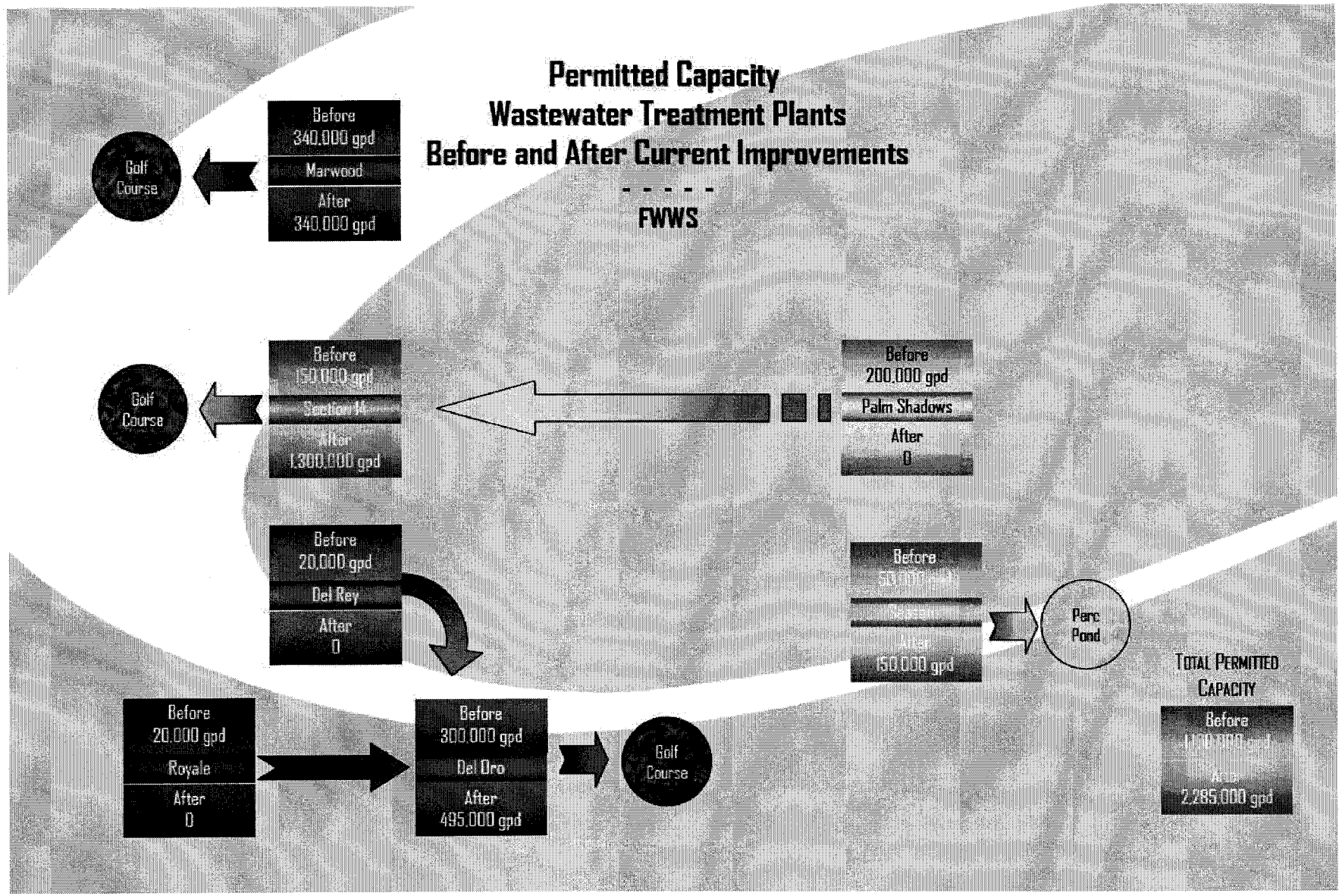
The expenditures on the improvement project are being carefully tracked and allocated to specific project endeavors. Updated budgets for the improvements can be found in Appendix D. A site plan of each of the major facilities is presented in Appendix E.

Gary D. Lee Direct Testimony

Appendices to Engineering Report

APPENDIX A – SEWER SYSTEM SERVICE AREAS – AFTER IMPROVEMENTS

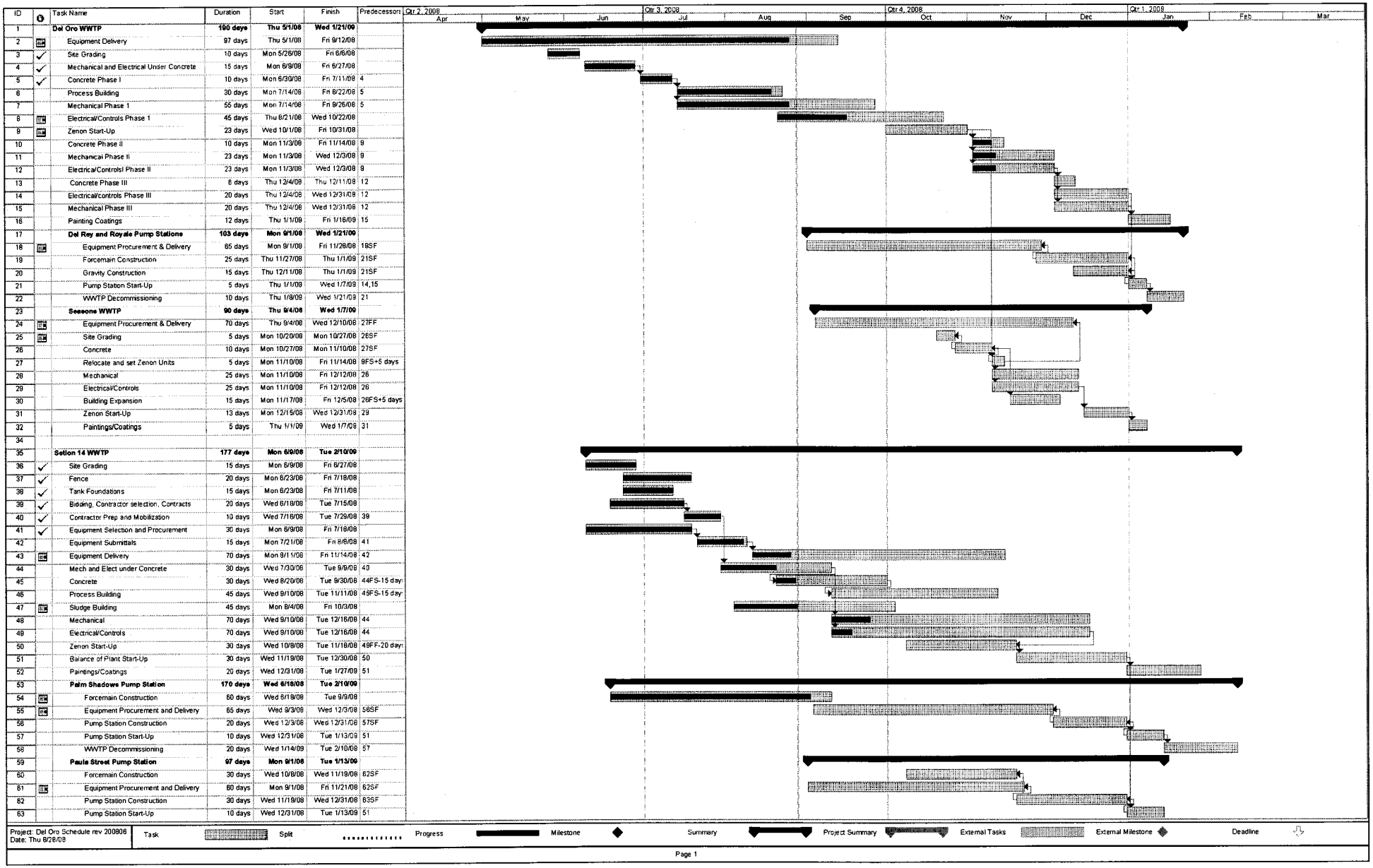



Permitted Capacity
Wastewater Treatment Plants
Before and After Current Improvements
FWWS
Golf Course
Before 340,000 gpd
Marwood
After 340,000 gpd
Golf Course
Before 150,000 gpd
Section 14
After 1,300,000 gpd
Before 200,000 gpd
Palm Shadows
After 0
Before 20,000 gpd
Del Rey
After 0
Before
After 150,000 gpd
Parc Pond
Before 20,000 gpd
Royale
After 0
Before 300,000 gpd
Del Oro
After 495,000 gpd
Golf Course
TOTAL PERMITTED CAPACITY
Before
After 2,285,000 gpd

APPENDIX B PERMITTED CAPACITY EXHIBIT & SUMMARY

Permitted Capacity - Wastewater Treatment Plants				August, 2008
Facility	Initial Hydraulic Capacity (GPD)	Initial Permitted Capacity (GPD)	Consent Order Capacity Req'ments	New Permitted Capacity (GPD)
Section 14 WWTP	150,000	150,000	File APP	
Phase 1				681,000
Future Phases - Pending phased vadose zone well capacities				pending
Ultimate Permitted Capacity				1,300,000
Del Oro WWTP	70,000 expanded to 150,000	< 20,000	Temp Plant @ 300,000 & File APP	495,000
Seasons	50,000 expanded to 150,000	50,000	File APP	150,000
Marwood WWTP	180,000 expanded to 340,000	180,000 amended to 340,000	No Change	340,000
Palm Shadows WWTP	200,000	200,000	File Closure Plan & Pump to Section 14 WWTP	Diverted to Section 14 WWTP
Villa Del Rey WWTP	40,000	< 20,000	File Closure Plan & Pump to Del Oro WWTP	Diverted to Del Oro WWTP
Villa Royale WWTP	10,000	< 20,000	File Closure Plan & Pump to Del Oro WWTP	Diverted to Del Oro WWTP

Appendix C - Construction Progress Construction Schedule



ID	Task Name	Duration	Start	Finish	Predecessors
1	**Del Oro WWTP**	**190 days**	**Thu 5/1/08**	**Wed 1/21/09**	
2	Equipment Delivery	97 days	Thu 5/1/08	Fri 9/12/08	
3	Site Grading	10 days	Mon 5/26/08	Fri 6/6/08	
4	Mechanical and Electrical Under Concrete	15 days	Mon 6/9/08	Fri 6/27/08	
5	Concrete Phase I	10 days	Mon 6/30/08	Fri 7/11/08	4
6	Process Building	30 days	Mon 7/14/08	Fri 8/22/08	5
7	Mechanical Phase I	55 days	Mon 7/14/08	Fri 9/26/08	5
8	Electrical/Controls Phase I	45 days	Thu 8/21/08	Wed 10/22/08	
9	Zenon Start-Up	23 days	Wed 10/1/08	Fri 10/31/08	
10	Concrete Phase II	10 days	Mon 11/3/08	Fri 11/14/08	9
11	Mechanical Phase II	23 days	Mon 11/3/08	Wed 12/3/08	9
12	Electrical/Controls Phase II	23 days	Mon 11/3/08	Wed 12/3/08	9
13	Concrete Phase III	6 days	Thu 12/4/08	Thu 12/11/08	12
14	Electrical/controls Phase III	20 days	Thu 12/4/08	Wed 12/31/08	12
15	Mechanical Phase III	20 days	Thu 12/4/08	Wed 12/31/08	12
16	Painting Coatings	12 days	Thu 1/1/09	Fri 1/16/09	15
17	**Del Rey and Royale Pump Stations**	**103 days**	**Mon 9/1/08**	**Wed 1/21/09**	
18	Equipment Procurement & Delivery	65 days	Mon 9/1/08	Fri 11/28/08	19SF
19	Forcemain Construction	25 days	Thu 11/27/08	Thu 1/1/09	21SF
20	Gravity Construction	15 days	Thu 12/11/08	Thu 1/1/09	21SF
21	Pump Station Start-Up	5 days	Thu 1/1/09	Wed 1/7/09	14,15
22	WWTP Decommissioning	10 days	Thu 1/8/09	Wed 1/21/09	21
23	**Seasone WWTP**	**90 days**	**Thu 9/4/08**	**Wed 1/7/09**	
24	Equipment Procurement & Delivery	70 days	Thu 9/4/08	Wed 12/10/08	27FF
25	Site Grading	5 days	Mon 10/20/08	Mon 10/27/08	26SF
26	Concrete	10 days	Mon 10/27/08	Mon 11/10/08	27SF
27	Relocate and set Zenon Units	5 days	Mon 11/10/08	Fri 11/14/08	9FS+5 days
28	Mechanical	25 days	Mon 11/10/08	Fri 12/12/08	26
29	Electrical/Controls	25 days	Mon 11/10/08	Fri 12/12/08	26
30	Building Expansion	15 days	Mon 11/17/08	Fri 12/5/08	28FS+5 days
31	Zenon Start-Up	13 days	Mon 12/15/08	Wed 12/31/08	29
32	Paintings/Coatings	5 days	Thu 1/1/09	Wed 1/7/09	31
34					
35	**Sation 14 WWTP**	**177 days**	**Mon 6/9/08**	**Tue 2/10/09**	
36	Site Grading	15 days	Mon 6/9/08	Fri 6/27/08	
37	Fence	20 days	Mon 6/23/08	Fri 7/18/08	
38	Tank Foundations	15 days	Mon 6/23/08	Fri 7/11/08	
39	Bidding, Contractor selection, Contracts	20 days	Wed 6/18/08	Tue 7/15/08	
40	Contractor Prep and Mobilization	10 days	Wed 7/16/08	Tue 7/29/08	39
41	Equipment Selection and Procurement	30 days	Mon 6/9/08	Fri 7/18/08	
42	Equipment Submittals	15 days	Mon 7/21/08	Fri 8/8/08	41
43	Equipment Delivery	70 days	Mon 9/1/08	Fri 11/14/08	42
44	Mech and Elect under Concrete	30 days	Wed 7/30/08	Tue 9/9/08	40
45	Concrete	30 days	Wed 8/20/08	Tue 9/30/08	44FS-15 days
46	Process Building	45 days	Wed 9/10/08	Tue 11/11/08	45FS-15 days
47	Sludge Building	45 days	Mon 8/4/08	Fri 10/3/08	
48	Mechanical	70 days	Wed 9/10/08	Tue 12/16/08	44
49	Electrical/Controls	70 days	Wed 9/10/08	Tue 12/16/08	44
50	Zenon Start-Up	30 days	Wed 10/8/08	Tue 11/18/08	49FF-20 days
51	Balance of Plant Start-Up	30 days	Wed 11/19/08	Tue 12/30/08	50
52	Paintings/Coatings	20 days	Wed 12/31/08	Tue 1/27/09	51
53	**Palm Shadows Pump Station**	**170 days**	**Wed 6/18/08**	**Tue 2/10/09**	
54	Forcemain Construction	60 days	Wed 6/18/08	Tue 9/9/08	
55	Equipment Procurement and Delivery	65 days	Wed 9/3/08	Wed 12/3/08	56SF
56	Pump Station Construction	20 days	Wed 12/3/08	Wed 12/31/08	57SF
57	Pump Station Start-Up	10 days	Wed 12/31/08	Tue 1/13/09	51
58	WWTP Decommissioning	20 days	Wed 1/14/09	Tue 2/10/09	57
59	**Paula Street Pump Station**	**97 days**	**Mon 9/1/08**	**Tue 1/13/09**	
60	Forcemain Construction	30 days	Wed 10/8/08	Wed 11/19/08	62SF
61	Equipment Procurement and Delivery	60 days	Mon 9/1/08	Fri 11/21/08	62SF
62	Pump Station Construction	30 days	Wed 11/19/08	Wed 12/31/08	63SF
63	Pump Station Start-Up	10 days	Wed 12/31/08	Tue 1/13/09	51

Seasons	
Item	Revised Projection 8/16/08
Influent- Pump Equipment	
Influent Flow Meter	
Screens	$2,000.00
Grit Removal-Equipment	
Transfer Pump Station	$20,000.00
Mixers	$60,000.00
Blowers	$40,000.00
Tankage	
Diffusers	$10,000.00
Steel Tanks & Walkways	
Zenon Equipment	$1,011,754.00
-Adder	
Sludge Dewatering	$50,500.00
Primary Treatment Building & Foundation	$10,000.00
Secondary Treatment Building & Foundation	
Other Treatment Foundation Processes	$15,000.00
UV Equipment	$41,000.00
Equipment Installation	
Equipment Decommission	
Misc. Cost-Redundancy on Temporary MBR	$30,000.00
Sub-Total	**$1,290,254.00**
Mobilization and Bonding (3%)	$0.00
Yard Piping (1%)	$50,000.00
Site Work (1%)	$20,000.00
Electrical (includes instrumentation &controls)(3%)	$100,000.00
Mechanical (2%)	$200,000.00
Misc. Metals (2%)	
Landscaping (3%)	
Pavement	
Construction Total	**$1,660,254.00**

Del Oro Permanent	
Item	**Actual Construction Updated 8/8/2008**
Influent- Pump Equipment (Equipment Only)	$45,568.00
Influent Flow Meter	
Screens	$26,352.00
Grit Removal-Equipment	
Transfer Pump Station (Equipment Only)	$50,889.00
Mixers	$57,144.00
Blowers	$116,390.00
Tankage	$302,000.00
Diffusers	$51,420.00
Tank Covers and Stairwells	$198,500.00
Zenon Equipment	$849,764.38
-Adder	
Sludge Dewatering	$50,500.00
Primary Treatment Building & Foundation	$96,572.00
Secondary Treatment Building & Foundation	
Other Treatment Units Foundations	$80,727.00
Retaining wall, Pipe Bollards, A.C. Pads	$10,900.00
UV Equipment	$154,280.00
Equipment Installation	
Equipment Decommission/Demolition	$0.00
Misc. Costs	$0.00
Sub-Total	**$2,091,006.38**
Mobilization and Bonding	
Yard Piping	$0.00
Site Work	$6,337.00
Electrical (includes instrumentation &controls)	$489,651.00
Elect Change Order No. 1	($24,368.00)
Elect Change Order No. 2 (Gen = $69,998.00)	$70,985.00
Mechanical & Building Piping	$574,500.00
Painting/Finishing	$30,000.00
APS Electrical Service	$35,000.00
Construction Total	**$3,273,111.38**

Section 14	
Item	**Actual Costs - Updated 8/16/2008**
Influent- Pump Equipment	$90,938.00
Influent Flow Meter	$0.00
Screens	$203,379.00
Grit Removal-Equipment	$130,150.00
Transfer Pump Station	$74,668.00
Mixers	$109,972.00
Blowers	$184,365.00
Tankage	$602,000.00
Diffusers	$109,950.00
Steel Tanks Covers	$397,000.00
Zenon Equipment	$2,111,327.00
Sludge Dewatering	$122,480.00
Primary Treatment Building	$225,291.00
Secondary Treatment Building & Foundation	$0.00
Other Treatment Unit Foundations	$241,900.00
Grit Collection Chamber	$20,000.00
UV Equipment	$229,560.00
Equipment Installation	$0.00
Equipment Decommission	$0.00
Misc. Costs-Injection Well	$200,000.00
Sub-Total	**$5,052,980.00**
Mobilization and Bonding	$0.00
Yard Piping	$0.00
Site Work Including Fence	$104,853.00
Electrical (includes instrumentation &controls)	$684,242.00
Elect Change Order No. 1 (Gen = $197,824)	$195,647.00
Mechanical & Building Piping	$1,249,192.00
Painting/Finishing	$50,000.00
APS Electrical Service	$35,000.00
Construction Total	**$7,371,914.00**

Villa Del Rey & Royale				
Item Description	**Est. Quantity**	**Units**	**Unit Price**	**Total Cost Est. 8/18/08**
Villa Del Rey Pump Station Improvements	1	EA	$100,000.00	$100,000.00
Villa Royale Pump Station Improvements	1	EA	$80,000.00	$80,000.00
Treatment Plants	2	EA	N/A	N/A
8" Gravity Main	111	LF	$100.00	$11,100.00
3" Force Main	87	LF	$35.00	$3,045.00
4" Force Main	495	LF	$35.00	$17,325.00
5" Force Main - Open Cut	1895	LF	$20.00	$37,900.00
5" Force Main - Directional Drilled	2058	LF	$35.00	$72,030.00
Air Release Valve	1	EA	$4,000.00	$4,000.00
Construction Sub-Total				**$325,400.00**
Electrical & Controls	2	EA	$10,000.00	$20,000.00
WWTP Decommissioning	2	EA	$25,000.00	$50,000.00
Construction Total				**$395,400.00**

APPENDIX D – IMPROVEMENT PROJECT BUDGETS

Palm Shadows Pump Station and Forcemain				
Item Description	Estimated Quantity	Unit	Unit Price	Total Cost Est. Updated 8/18/2008
12" FM Class 200	1,807	LF	$30.00	$54,210.00
12" FM Class 200 With traffic control	16,933	LF	$45.00	$761,985.00
12" FM Class 200 With traffic control and saw cut pavement remove and replace per Yuma County	1,445	LF	$60.00	$86,700.00
12" FM Class 150	1,375	LF	$30.00	$41,250.00
12" FM Class 150 With traffic control	3,025	LF	$45.00	$136,125.00
12" FM Class 150 With traffic control and saw cut pavement remove and replace per Yuma County	300	LF	$60.00	$18,000.00
12" FM Ductile Iron with protective liner and concrete casing	700	LF	$80.00	$56,000.00
12' FM - Foothills Crossing - Directional Drilled	200	LF	$160.00	$32,000.00
12' FM - Fortuna Crossing - Open Cut with traffic control, saw cut pavement, remove and replace per Yuma County	600	LF	$90.00	$54,000.00
2" Air Release	3	EA	$4,000.00	$12,000.00
Lift Station Connection	1	EA	$5,000.00	$5,000.00
Sewer Line Connection	1	EA	$1,000.00	$1,000.00
Pump and Control Equipment	1	EA	$160,000.00	$160,000.00
Pump Station Improvements	1	EA	$100,000.00	$100,000.00
Site Work and Fencing	1	EA	$25,000.00	$25,000.00
Surveying				$93,980.00
Treatment Plant				
Palm Shadows Decommissioning	1	EA	$75,000.00	$75,000.00
Construction Total				**$1,712,250.00**

Paula Street Pump Station				
Item Description	Est. Quantity	Unit	Unit Price	Total Cost Est. Updated 8/16/2008
Forcemain and Connection	1	EA	$15,000.00	$15,000.00
Gravity Sewer Line and Connection	1	EA	$150,000.00	$150,000.00
Pump and Control Equipment	1	EA	$100,000.00	$100,000.00
Pump Station	1	EA	$150,000.00	$150,000.00
Site Work and Fencing	1	EA	$25,000.00	$25,000.00
Land	1	EA	$200,045.00	$200,045.00
Construction Total				**$640,045.00**

Bourassa

Direct Testimony (RB)

FENNEMORE CRAIG, P.C.
Norman D. James
Jay L. Shapiro
3003 N. Central Ave.
Suite 2600
Phoenix, Arizona 85012
Telephone (602)916-5000
Attorneys for Far West Water
& Sewer Company

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF FAR WEST WATER & SEWER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS SEWER UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES FOR SEWER UTILITY SERVICE BASED THEREON.	DOCKET NO: WS-003478A-08-

DIRECT TESTIMONY OF

THOMAS J. BOURASSA

(RATE BASE, INCOME STATEMENT, RATE DESIGN)

TABLE OF CONTENTS

I. INTRODUCTION AND QUALIFICATIONS..... 1
II. OVERVIEW OF THE COMPANY'S REQUEST FOR RATE RELIEF. 2
III. SUMMARY OF A, E AND F SCHEDULES..... 5
IV. RATE BASE (B SCHEDULES)..... 8
V. INCOME STATEMENT (C SCHEDULES)..... 10
VI. THE COMPANY'S PROPOSED RATE DESIGN 15

I. INTRODUCTION AND QUALIFICATIONS.

Q. PLEASE STATE YOUR NAME AND ADDRESS.

A. My name is Thomas J. Bourassa. My business address is 139 W. Wood Drive, Phoenix, Arizona 85029.

Q. WHAT IS YOUR PROFESSION AND BACKGROUND?

A. I am a Certified Public Accountant and am self-employed, providing consulting services to utility companies as well as general accounting services. I have a B.S. in Chemistry and Accounting from Northern Arizona University (1980) and an M.B.A. with an emphasis in Finance from the University of Phoenix (1991).

Q. COULD YOU BRIEFLY SUMMARIZE YOUR PRIOR WORK AND REGULATORY EXPERIENCE?

A. Yes. Prior to becoming a private consultant, I was employed by High-Tech Institute, Inc., and served as controller and chief financial officer. Prior to working for High-Tech Institute, I worked as a division controller for the Apollo Group, Inc. Before joining the Apollo Group, I was employed at Kozoman & Kermode, CPAs. In that position, I prepared compilations and other write-up work for water and wastewater utilities, as well as tax returns.

In my consulting practice, I have prepared and/or assisted in the preparation of various water and wastewater utility rate applications before the Arizona Corporation Commission ("Commission").

Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?

A. I am testifying in this proceeding on behalf of the applicant, Far West Water & Sewer Company, Sewer Division ("Far West Sewer" or "the Company"). Far West Sewer is seeking increases in its rates and charges for sewer utility service in its certificated service area, which is located in Yuma County, Arizona.

II. OVERVIEW OF THE COMPANY'S REQUEST FOR RATE RELIEF.

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A. I will testify in support of the Company's proposed adjustments to its rates and charges for sewer utility service. I am sponsoring Schedules A through F and H, which are filed concurrently herewith in support of the Company's application. I was responsible for the preparation of these schedules based on my investigation and review of the relevant books and records for the Company. As discussed further below, the Company has not prepared a cost of service study, so the G Schedules are omitted. In a separate volume of my testimony, I also present the Company's requested cost of capital and the D Schedules.

Q. PLEASE SUMMARIZE THE COMPANY'S APPLICATION.

A. The test year used by Far West Sewer is the 12-month period ending December 31, 2007. The Company is requesting an 8.38 percent return on its fair value rate base ("FVRB"). The Company has also proposed certain pro forma adjustments to take into account known and measurable changes to rate base, expenses and revenues. These pro forma adjustments are consistent with normal ratemaking and are contemplated by the Commission's rules and regulations governing rate applications. *See* R14-2-103. These adjustments are necessary to obtain a more normal or realistic relationship between revenues, expenses and rate base on a going-forward basis.

The Company's fair value rate base is $23,415,596. The increase in revenues to provide for recovery of operating expenses and an 8.38 percent return on rate base is approximately $4,595,748, an increase of approximately 214.8 percent over the adjusted and annualized test year revenues.

Q. WHY IS THE COMPANY FILING FOR RATE INCREASES AT THIS TIME?

A. This filing is being made at this time because the Commission ordered it. Decision No. 69335 (February 20, 2007) at 28. Aside from that, and despite nearly a full year of new rates, Far West Sewer experienced an operating loss of over $900,000. Additionally, Far West Sewer began a substantial wastewater capital improvement plan in 2007, which includes over $20 million of upgrades to its wastewater collection and treatment system. The instant rate application complies with the Commission order and addresses these capital improvements as well as increases in operating expenses since the last test year which ended December 31, 2004.

Q. WHY IS FAR WEST WATER AND SEWER UNDERTAKING SUCH A LARGE CAPITAL IMPROVEMENT PLAN?

A. The wastewater system improvements were mandated by the Arizona Department of Environmental Quality through consent orders. Far West Sewer historically had a number of problems caused by inadequate capacity at its wastewater treatment facilities. Company witness Mr. Gary Lee discusses the background of the issues with the Company's wastewater treatment facilities in his testimony. *See* Direct Testimony of Gary M. Lee ("Lee Dt"). The wastewater capital improvements will provide sufficient capacity to adequately serve existing ratepayers and provide the Company with sufficient capacity for a reasonable planning period of 5 years.

Q. WAS THE CAPITAL IMPROVEMENT PLAN COMPLETE BY THE END OF THE TEST YEAR?

A. No, but a portion of the improvements were completed and placed into service by the end of 2007, the rest of the planned capital improvements are under construction now and will all be funded by the end of 2008. The Company remains hopeful that all of the improvements will be completed by year-end, or, at

worst, within a month or two thereafter. Thus, in the instant rate application the Company has treated most of the capital improvements as post test year plant.

Q. HAS THE COMMISSION ACCEPTED POST TEST YEAR PLANT IN PAST DECISIONS?

A. Yes. *See, e.g., Chaparral City Water Company*, Decision No. 68176 (Sept. 30, 2005); *Rio Rico Utilities, Inc.*, Decision No. 67279 (October 5, 2004); *Arizona Water Company—Eastern Group*, Decision No. 66489 March 19, 2004); *Bella Vista Water Company*, Decision No. 65350 (Nov. 1, 2002); *Arizona Water Company—Northern Group*, Decision No. 64282 December 28, 2001); *Paradise Valley Water Company*, Decision No. 61831 (July 20, 1999); *Far West Water Company*, Decision No. 60437 (September 29, 1997). Although this Commission utilizes the historic test year as a starting point, the rules expressly permit, and the Commission has repeatedly allowed, pro forma adjustments, including post test year plant, in order ensure a proper matching of plant to test year customers and to more accurately reflect reality during the period the rates will be in effect.

Q. WHAT CRITERIA CONCERNING THE ACCEPTANCE OF POST TEST YEAR PLANT CAN BE FOUND IN PAST COMMISSION DECISIONS?

A. In each of these decisions, the Commission approved the inclusion of post test year plant in rate base because the plant was revenue neutral and completed and placed in service in a reasonable time before the hearing so that it can be inspected and audited by the other parties. The Company believes these criteria are satisfied here.

Q. WHY DIDN'T THE COMPANY WAIT UNTIL ALL THE CAPITAL IMPROVEMENTS WERE COMPLETED BEFORE FILING A RATE CASE IN ORDER TO AVOID THE ISSUE OF POST TEST YEAR PLANT?

A. Because the Company was ordered to file this rate case. Besides having no choice

in the matter, the Company is not in the financial position to wait another 2-3 years for recognition of over $20 million of plant in service. Assuming that the plant is completed by or just after the end of 2008, and assuming a 2008 test year were used, the time to prepare the case and the time to adjudicate the case would mean that new rates would not be in effect until sometime in the latter half of 2010. Just as important, Far West Water and Sewer Company incurred debt of over $25 million (over $20 million attributed to the sewer division) in 2007 to fund the capital improvements and has already begun repayment. In fact, I don't think the Company will even be able to await the outcome of this rate filing to obtain an increased revenue requirement, and I would not be surprised at all to see an interim rate filing in the very near future.

Q. WHAT IS FAR WEST SEWER'S CURRENT RATE OF RETURN?

A. The Company's current rate of return is a negative 3.68 percent based on the adjusted test year data. Consequently, rate increases are necessary to ensure that Far West Sewer has an opportunity to earn a reasonable return on the fair value of its utility plant and property devoted to public service, and recover its reasonable operating expenses.

III. SUMMARY OF A, E AND F SCHEDULES.

Q. MR. BOURASSA, LET'S TURN TO THE COMPANY'S SCHEDULES. DO YOUR SCHEDULES COVER ONLY THE COMPANY'S SEWER UTILITY SERVICES?

A. Yes. Although Far West Water and Sewer Company is one entity providing both water and sewer utility services, the Company is able to separate plant records and other financial information for its two divisions.

Q. ARE ANY OF THE COMPANY'S RATES AND CHARGES FOR WATER UTILITY SERVICE ADDRESSED IN THIS APPLICATION?

A. No. Far West Water and Sewer Company's rates and charges for water utility service were set by the Commission in Decision No. 60826 (April 1998) and remain in effect today.

Q. WOULD YOU PLEASE DESCRIBE THE SCHEDULES LABELED AS A, E, AND F?

A. Yes. Schedule A-1 is a summary of the rate base, operating income, current operating margin, required operating margin, operating income deficiency, and the increase in gross revenue. An 8.38 percent return on FVRB is requested. The increase in the revenue requirement is $4,595,748. Revenues at present and proposed are based on customer classifications and are also shown on this schedule.

Schedule A-2 is a summary of results of operations for the test year, prior years, and a projected year at present rates and proposed rates.

Schedule A-3 contains the Company's capital structure for the test year and the two prior years.

Schedule A-4 contains the plant construction, and plant in service for the test year and prior years. The projected plant additions are also shown on this schedule.

Schedule A-5 is the summary of the Company's changes in financial position (cash flow) for the prior two years, the test year at present rates, and a projected year at present and proposed rates.

The E Schedules are based on the Company's actual operating results, as reported by the Company in annual reports filed with the Commission. The E-1 Schedule contains the comparative sewer division balance sheet data for the years

2005, 2006, and 2007.

Schedule E-2 contains the sewer division income statement for the years 2005, 2006, and 2007.

Schedule E-3 contains the comparative statement of cash flows for the test year and the two prior years.

Schedule E-4 provides the changes in the sewer division equity.

Schedule E-5 contains the Company's plant in service at the end of the test year, and one year prior to the end of the test year.

Schedule E-7 contains operating statistics for the years ended December 31, 2005, December 31, 2006, and December 31, 2007.

Schedule E-8 contains the taxes charged to operations.

The accountant's notes to the financial statements and the financial assumptions used in preparing the rate filing schedules are shown on Schedules E-9 and F-4, respectively, in accordance with the Commission's standard filing requirements. Far West Water and Sewer Company conducted its first independent audit in 2006 and it is attached with the schedules. The 2007 audit has not been completed and is therefore not provided at this time.

Schedule F-1 contains the results of operations at the present rates (actual and adjusted), and at proposed rates.

Schedule F-2 contains the summary of changes in financial position (cash flow) for the prior two years, the test year at present rates, and a projected year at present and proposed rates.

Schedule F-4 shows the Company's projected construction requirements for 2008, 2009, and 2010.

Schedule F-4 contains the assumptions used in developing the adjustments and projections contained in the rate filing.

IV. RATE BASE (B SCHEDULES).

Q. WOULD YOU EXPLAIN THE RATE BASE SCHEDULES, WHICH ARE LABELED AS THE B SCHEDULES?

A. Yes. I will start with Schedule B-5, which is the working capital allowance. The results produced by the "formula method" of computing the working capital allowance are shown only for informational purposes on Schedule B-5. The Company is not requesting a working capital allowance in this case, as reflected on Schedules B-1 and B-2.

Q. PLEASE CONTINUE.

A. The Company did not file Schedules B-3 and B-4. Again, to reduce costs and rate case expense, the Company is requesting that its original cost rate base ("OCRB") be used as its FVRB consistent with numerous prior Commission rate cases.

Q. HAVE YOU PREPARED SCHEDULES SHOWING ADJUSTMENTS TO THE ORIGINAL COST RATE BASE?

A. Yes. Schedule B-2 shows adjustments to the OCRB rate base proposed by the Company. Schedules B-2 pages 2 through 5 are the supporting schedules. These adjustments are, in summary:

Adjustment number 1 decreases plant-in-service and accumulated depreciation to the re-computed amounts per the Company's plant schedules on schedule B-2, pages 2.1-2.6.

Q. DO THE PLANT AND ACCUMULATED DEPRECIATION SHOWN ON B-2 REFLECT THE LAST COMMISSION RATE ORDER?

A. Yes. The plant shown on Schedule B-2 started with the Commission-determined plant from the last rate case. Plant additions and retirements since the test year in that case have been added to and deducted from total plant shown on the B-2 Schedule. Pages 2.5 and 2.6 show reconciliations of plant-in-service and

accumulated depreciation to the prior decision. Pages 2.1 through 2.3 of the schedule show the details for the accumulated depreciation through the end of the test year using the half-year convention for depreciation.

Q. PLEASE CONTINUE.

A. Adjustment number 2 increases plant-in-service for revenue-neutral, post-test year plant. This plant consists of the debt funded capital improvements discussed previously. These improvements are already underway, and it is expected that they will all be funded by year-end 2008 and in service by that date or no more than a month or two into 2009. The details of the costs are shown on schedule B-2, page 3. These capital improvement projects are discussed further in the direct testimony of Mr. Gary Lee, the Company's engineering consultant.

Adjustment number 3 reduces plant-in-service and accumulated depreciation for expected retirements of plant and equipment related to the capital improvement plan.

Adjustment number 4 adjusts contributions-in-aid of construction ("CIAC") to reconcile the CIAC balances with independent audit adjustments as well as proposed plant retirements associated with CIAC. The details of those adjustments are shown on schedule B-2, page 5.1. Adjustment number 4 also adjusts accumulated amortization of CIAC for the recomputed amount shown on schedule B-2, page 5.

Q. HOW WAS THE PROPOSED "FAIR VALUE" RATE BASE SHOWN ON A-1 DETERMINED?

A. As stated, the FVRB shown on Schedule A-1 is based on OCRB, with no adjustment for the current values of the Company's plant and property.

V. **INCOME STATEMENT (C SCHEDULES).**

Q. PLEASE EXPLAIN THE ADJUSTMENTS YOU ARE PROPOSING TO THE INCOME STATEMENT AS SHOWN ON SCHEDULES C-1 AND C-2.

A. The following is a summary of adjustments shown on Schedule C-1:

Adjustment 1 annualizes depreciation expense. The depreciation rates used are those approved in the Company's last decision. The depreciation rates are rates for each component of utility plant as shown on Schedule C-2, page 2.

Adjustment 2 increases the property taxes based on proposed revenues.

Q. HOW DID YOU COMPUTE THE PROPERTY TAXES AT PROPOSED RATES?

A. To determine full cash value, I used the method employed by the Arizona Department of Revenue - Centrally Valued Properties ("ADOR" or "the Department"). This method determines full cash value by using twice the average of three years of revenue, plus an addition for CWIP and a deduction for the book value of transportation equipment. In the instant case, I used two times the adjusted revenues for 2007, and revenues at proposed rates. The assessed value (24 percent of full cash value) was then multiplied by the property tax rate to determined adjusted property tax expense. I excluded CWIP because of the Company's request for post test year plant.

Q. IS THIS CONSISTENT WITH PRIOR COMMISSION DECISIONS?

A. Yes. *E.g.*, *Chaparral City Water Company,* Decision No. 68176; *Rio Rico Utilities*, Decision No. 67279 at 8; *Arizona Water Company*, Decision No. 64282 at 12-13; *Bella Vista Water Company*, Decision No. 65350 at 16; *Arizona-American Water Company*, Decision No. 67093 at 9-10: *Far West Water and Sewer Company*, Decision No. 69335 at 11-12; *Gold Canyon Sewer Company*, Decision No. 69664 at 9-10; *Black Mountain Sewer Company*, Decision No. 69164

at 10-11.

Q. HAS THE COMPANY ACCOUNTED FOR RECENT LEGISLATION IMPACTING PROPERTY TAX ASSESSMENT RATIOS?

A. Yes, the Company has recognized the recently passed Arizona legislation (H.B. 2779) now codified in A.R.S. § 42-15001, entitled "Assessed Valuation of Class One Property"). The law reduces the assessment ratio ½ percent (0.5%) for the next 10 years starting in 2006. The Company has proposed an assessment ratio of 22.5 percent, which will be the assessment ratio for the 2010 property tax year.

Q. IS THIS SYNCHRONIZATION OF PROPERTY TAX EXPENSE WITH REVENUES PROPER RATE MAKING?

A. Yes. Like income taxes, property taxes must be adjusted to ensure that the new rates are sufficient to preserve the Company's opportunity to earn its authorized return on rate base. For this reason, the Commission has repeatedly approved the use of proposed revenues to determine an appropriate level of property tax expense to be recovered through rates. *E.g.*, *Chaparral City Water* Company, Decision No. 68176 (September 30, 2006); *Rio Rico Utilities*, Decision No. 67279 (October 5, 2004) at 8 (use of only historic revenues understates the expense level); *Arizona Water Company*, Decision No. 68302 (November 14, 2005), Decision No. 66849 (March 22, 2004), Decision No. 64282 (December 28, 2002) at 12-13; and *Bella Vista Water Company*, Decision No. 65350 (November 1, 2002) at 16.

To eliminate disputes, I actually used the methodology approved by the Commission in Arizona-American Water Company's rate case, Decision No. 67093 (June 30, 2004), where two years of adjusted test year revenues and one year of proposed revenues were used to determine full cash value. In that decision, the Commission concluded: "Staff calculated property taxes using its proposed adjusted test year revenues twice and its recommended revenues once to calculate

a three year average of revenues. We agree with Staff that using only historical revenues to calculate property taxes to include in the cost of service fails to capture the effects of future revenue from new rates, and can result in an understatement or overstatement of property tax expense." Decision No. 67093 at 9-10.

Q. MR. BOURASSA, ISN'T THERE A LAG FROM THE TIME NEW RATES CHARGED CUSTOMERS GO INTO EFFECT AND THE DATE ON WHICH PROPERTY TAXES ARE ACTUALLY PAID?

A. Yes. As an example, if new rates for the Company went into effect on January 1, 2010, property taxes based on these new rates would first appear on the property tax bill received in September 2011. However, the Company should be accruing property taxes to match the revenues collected. So, there is no mismatch between revenues and expenses. Moreover, the property taxes resulting from my calculation are based on only a portion of proposed revenues. To properly consider the future impact of the rate increases, I should have computed the proposed property taxes based solely on proposed revenues rather than averaging proposed and historic revenues. Consequently, this adjustment is conservative.

Q. PLEASE CONTINUE.

A. Adjustment 3 shows the proposed rate case expense. The Company estimates rate case expense of $225,000 amortized over three years because it believes a three-year cycle for future rate cases is reasonable given this utility's circumstances. In the last case, a three year amortization period was adopted. Decision 69335 at 9.

Q. DO YOU BELIEVE THIS IS A REASONABLE AMOUNT OF RATE CASE EXPENSE GIVEN THE REQUESTED INCREASE IN REVENUE?

A. Yes. Factors that influence rate case expense include the nature and requirements of the Commission's ratemaking process and the number of parties, issues and complexity of the proceedings.

Q. PLEASE DISCUSS THESE FACTORS?

A. The Company cannot raise its rates except by filing for rate relief and the Commission dictates the process for obtaining rate relief. Far West Sewer, with roughly 7,200 customers at the end of the test year, is a Class A utility and has to file the same schedules as other Class A utilities (like APS, Arizona Water, SW Gas) with hundreds of thousands of customers. In addition to the filing and notice requirements imposed by the Commission, the Company must prepare three rounds of pre-filed testimony, participate in all of the procedural and evidentiary hearings and open meetings, and file closing briefs.

The number of parties also has a substantial impact on rate case expense. For example, cases where RUCO is a party require more effort than cases in which the only adverse party is Staff. Customers and other interveners also add to rate case expense and the complexity of the proceedings. The number and complexity of disputed issues also influences total rate case expense, and those impacts cannot be known until the case proceeds.

Q. IS THIS WHY YOU REFERRED TO THE RATE CASE EXPENSE AS AN ESTIMATE?

A. Yes, and I can only consider the foreseeable. If things turn out more complicated than anticipated, if there are unanticipated interveners, the Company may modify its request to account for increased expenses. Conversely, if the case proceeds and rate case expense is lower than expected, we would make an appropriate adjustment downward.

Q. SHOULDN'T THE COMPANY'S SHAREHOLDERS BEAR SOME OF THE BURDEN OF RATE CASE EXPENSE?

A. As a practical matter, the utility always does. My estimate of $225,000 assumes Far West Sewer will actually incur a higher amount of total rate case expense.

Q. HOW MUCH RATE CASE EXPENSE WAS ALLOWED IN THE PRIOR CASE?

A. The rate case expense allowed was $160,000. *Id.* More importantly is the fact that the Company expended far greater than $160,000. I believe this case is more complicated than the last case.

Q. PLEASE CONTINUE WITH YOUR DISCUSSION OF THE INCOME STATEMENT ADJUSTMENTS?

A. Adjustment 4 annualizes revenues to the year-end number of customers. With the exception of effluent sales, the annualization is based on the number of customers at the end of the test year, compared to the actual number of customers during each month of the test year. Average revenues by month were computed for the test year. The average revenues were then multiplied by the increase (or decrease) in number of customers for each month of the test year. For the effluent sales annualization, if its proposed effluent rate is approved, the Company estimates that it will generate and deliver approximately 6 million gallons more effluent per month (72 million gallons annually) to golf courses than it did during the test year as a result of its wastewater treatment plant improvements. These estimated additional gallons are included in the revenue annualization, but are based on the assumption that the Company's proposed new effluent rate is approved.

Adjustment 5, labeled as 5a, 5b removes other income and expenses to eliminate their effects on income taxes.

Adjustment 6 annualizes purchased power expense based on the additional gallons treated from annualizing revenues to the year-end number of customers.

Adjustment 7 increases purchased power reflecting the recent 12.33 percent increase in rates for power from APS (Decision No. 69663, June 28, 2007).

Adjustment 8 increases chemicals expenses reflecting increases in treated

water from the annualization of customers.

Adjustment 9 removes re-connection fees from miscellaneous revenues as these revenues are accounted for in the annualization of revenues in adjustment 4.

Adjustment 10 annualizes salaries and wages and payroll taxes based on personnel changes occurring during and after the end of the test year.

Adjustment 11 annualized gasoline and diesel fuel costs in transportation expenses based on the current price of gasoline and diesel. Both gasoline and diesel prices per gallon have increased significantly during and after the end of the test year.

Adjustment number 12 synchronizes interest expense with rate base.

Adjustment 13 reflects the adjustment to income taxes at the tax rates shown on schedule C-3.

VI. THE COMPANY'S PROPOSED RATE DESIGN

Q. HOW IS THE COMPANY PROPOSING TO SPREAD THE PROPOSED REVENUE INCREASE?

A. Far West Sewer's existing rate design utilizes flat monthly rates that differ based on whether the customer is classified as residential or commercial. The proposed rate design retains the use of monthly rates and generally allocates the proposed revenue increase equally among customers. That means that the percentage increases for each customer type should be approximately the same.

Q. WHAT IS THE COMPANY'S PROPOSED REVENUE INCREASE AS A PERCENTAGE OF THE COMPANY'S ADJUSTED TEST YEAR REVENUE?

A. The overall increase is approximately 214.8 percent over the existing revenue.

Q. IS THE COMPANY PROPOSING TO PHASE-IN THE RATE INCREASE?

A. Yes. The Company is proposing a three-year phase-in period for new rates;

however, the phase-in of the rate increase is not equally distributed over the three years due to the Company's minimum financial requirements. For the first year (Phase 1), the Company proposes rates intended to recover approximately 50 percent of the requested increase, or approximately $2.8 million of the approximately $4.6 million requested increase. For the second year (Phase 2), the Company proposes rates intended to provide for recovery of approximately 80 percent of the requested increase, or approximately $3.7 million. In the third year (Phase 3), the Company proposes rates (the final permanent rates) intended to provide for recovery of the remaining 20 percent of the requested rate increase.

Q. WHY IS THE COMPANY IS PROPOSING THIS SPECIFIC PHASE-IN ARRANGEMENT?

A. Because it recognizes the magnitude of the increases needed and is trying to smooth out the impacts without further degrading its financial picture. The first year (Phase 1) rates need to recover approximately $2.8 million of the requested increase in order to provide sufficient cash flows to service the over $20 million of debt for the sewer division and to provide a sufficient "cushion against" unexpected changes in operating expenses. The debt service coverage will be approximately 1.3 – not much above the minimum requirements for the bond debt of 1.1. While the Company will experience a positive operating margin of approximately 15 to 16 percent, it will still experience a net loss of over $500,000 due to the debt interest expense.

Q. IS THE COMPANY PROPOSING TO RECOVER THE LOST REVENUES PLUS INTEREST FROM THE FIRST TWO YEARS OF THE PHASE –IN?

A. No, although to my knowledge as a non-attorney, I believe the Company is legally entitled to do so. On the other hand, the Company cannot accept any phase-in of rates if the post test year plant is not included in rate base in this case, or its

revenue requirement is materially reduced from the requested level. In such a case the Company's revenues would not be at a level sufficient for the Company to justify waiving its rights.

Q. DOES THE COMPANY HAVE AN EFFLUENT RATE FOR TREATED EFFLUENT?

A. Yes. An effluent rate was approved in the last case of $1.00 per 1,000 gallons. The Company provides effluent to two golf courses under this rate.

Q. IS THE COMPANY REQUESTING A CHANGE TO THE EFFLUENT RATE?

A. Yes. The proposed charge for effluent is $0.20 per 1,000 gallons. This rate recognizes the competing interests behind effluent sales. On the one hand, treated effluent is a resource and should be sold to the benefit of the Company and ratepayers. However, treated effluent is also a byproduct of treating wastewater, and must be disposed of in some manner. Sales of effluent for irrigation purposes help preserve groundwater resources, and provide a low-cost means of disposing of effluent. But, the rate should not be set so high as to discourage sales of effluent as that would be counter to the public interest, which appears to be what happened with the current rate for effluent approved in the Company's last rate case.

Q. WHAT DO YOU MEAN, MR. BOURASSA?

A. It turns out that the golf courses own their own wells and can pump water for their needs at approximately 17-18 cents per 1,000 gallons. At $1.00 per 1,000 gallons, purchasing effluent from the Company simply doesn't make economic sense. Even though the effluent produced by the wastewater treatment plant improvements will be of higher quality than in the past, the golf courses will still have to treat the water because of the nutrients it contains, making it more expensive still.

Q. DOES THE COMPANY STILL HAVE A BULK WATER AGREEMENT FOR EFFLUENT DELIVERIES WITH MESA DEL SOL GOLF COURSE?

A. Yes, but per that agreement the Company does not charge for effluent.

Q. DID YOU IMPUTE REVENUES AT THE EFFLUENT RATE FOR EFFLUENT DELIVERIES TO THE MESA DEL SOL GOLF COURSE?

A. No. While the Mesa Del Sol golf course is receiving effluent free of charge, there is an economic benefit to the Company and its ratepayers. The Company needs a effluent disposal method and it is far cheaper to the Company to utilize this method of disposal than the alternative.

Q. CAN YOU BE MORE SPECIFIC?

A. Yes. The cost of disposing of the effluent by alternative means would be approximately $1.085 per 1,000 gallons. Effluent production at the Del Oro WWTP is expected to be 495,000 gpd, or 178,200,000 gallons annually, after the capital improvements are completed. This leads to a potential annual savings of $193,347 ($1.085 times 178,200,000 gallons divided by 1,000). This amount is a cost benefit to rate payers and the Company.

Q. WHAT IS THE ALTERNATIVE METHOD FOR DISPOSING OF EFFLUENT AND HOW DID YOU COMPUTE THE COST PER 1,000 GALLONS?

A. As explained to me, the alternative to disposing of effluent is to drill vadose zone injection wells and inject effluent into the ground. To compute a cost per 1,000 gallons, at least four components would be included: 1) depreciation; 2) return on original cost of facilities, plus income taxes; 3) repairs and maintenance; and, 4) purchased power for pumping.

Starting with the first component, depreciation, according to information provided to me by Mr. Lee, the Company's engineering consultant, a vadose

injection well with the capacity of 400,000 gpd would cost $275,000, before the cost of permits and would require ADEQ approval. After the system improvements are completed, the Del Oro WWTP will have a capacity of 495,000 gpd, so two vadose wells would be required costing at least $550,000. Further, a vadose well has a useful life of 6 to 10 years, with an average life of 7 years. Thus, the annual depreciation would be $78,571 ($550,000 divided by 7 years). Assuming the full capacity of the Del Oro WWTP (after the system improvements) of 178,200,000 gallons annually (459,000 gpd times 30 days times 12 months), the depreciation component would be $0.441 per 1,000 gallons ($78,571 divided by 178,200,0000 gallons divided by 1,000).

Next, the annual capital costs (return on investment plus income taxes), using the Company's proposed cost of capital of 8.38 percent, would be $74,666 ($550,000 times 8.38 percent time 1.62 tax factor). Again, assuming the capacity is $178,200,000 gallons annually, the return and tax component would be $0.419 per 1,000 gallons ($74,666 divided by 178,200,000 gallons divided by 1,000).

Next, again according to Mr. Lee, the annual repair and maintenance cost would be $8,000. Thus, the repair and maintenance cost component would be $0.045 per 1,000 gallons ($8,000 divided by 178,200,000 divided by 1,000).

Finally, the purchased power component would be about $0.18 per 1,000 gallons. I obtained that cost from data provided by one of the Company's golf course customers. I am assuming that the cost to pump water out of the ground is the same as would be to pump water back into the ground. Based on the $178,200,000 gallons, the annual cost would be $32,076.

Accounting for all four components, the total cost per 1,000 gallons of the alternative means of disposal is $1.085 ($0.441 plus %0.419 plus $0.045 plus $0.18).

Another way to view this is to simply add up the annual costs for each of the four components and you will arrive at the same $193,000 of savings taking into account rounding differences ($78,571 of depreciation plus $74,666 of capital costs plus $8,000 of repairs and maintenance plus $32,076 of pumping costs). The point of determining a cost per 1,000 gallons is to provide an apples-to-apples comparison with the effluent commodity rate.

Q. WHAT ARE THE COMPANY'S PRESENT RATES?

A. Residential customers currently pay $21.75 for month, while commercial customers pay $43.50 per month. Recreational Vehicle Parks pay $5.44 per parking space. The effluent rate is $1.00 per 1,000 gallons.

Q. WHAT ARE THE PROPOSED RATES?

A. Residential customers would eventually pay $74.32 per month, while commercial customers would pay $148.64 per month. The charge at Recreational Vehicle Parks per space will be $18.59. The Company is requesting a reduction in the effluent rate to $0.20 per 1,000 gallons, or $65.17 per acre foot.

Q. WHAT IS THE IMPACT ON THE RESIDENTIAL CUSTOMER?

A. The residential customer will see an increase of $52.57 or 241.7% over present rates.

Q. WHAT ARE THE YEAR 1 (PHASE 1) PROPOSED RATES?

A. Residential customers would pay $54.38 per month, while commercial customers would pay $108.75 per month. The charge at Recreational Vehicle Parks per space will be $13.60.

Q. WHAT IS THE IMPACT ON THE RESIDENTIAL CUSTOMER UNDER THE YEAR 1 (PHASE 1) RATES?

A. The residential customer will see an increase of $32.63 or 150% over present rates.

Q. WHAT ARE THE YEAR 2 (PHASE 2) PROPOSED RATES?

A. Residential customers would pay $64.16 per month, while commercial customers would pay $128.33 per month. The charge at Recreational Vehicle Parks per space will be $16.05.

Q. WHAT IS THE IMPACT ON THE RESIDENTIAL CUSTOMER UNDER THE YEAR 2 (PHASE 2) RATES?

A. The residential customer will see an increase of $42.41 or 195% over present rates.

Q. PLEASE EXPLAIN WHAT IS SHOWN ON SCHEDULE H-1.

A. The H-1 Schedule shows the revenues at present and proposed rates from each class of customer, and the revenue annualization to year-end number of customers. I have also included an adjustment to recognize revenues from effluent sales under the new tariff.

Q. WOULD YOU ALSO EXPLAIN WHAT IS SHOWN ON SCHEDULE H-2?

A. Schedule H-2 shows the rate increase based on each type of customer classification. The billing for the customer classes are computed at present and proposed rates. Also included on this schedule is the increase percentage.

Q. WHAT IS CONTAINED ON SCHEDULE H-3?

A. Schedule H-3 contains rates at both present and proposed rates. The schedule also shows the dollar increase and percentage increase.

Q. WHAT IS SHOWN ON SCHEDULE H-4?

A. Schedule H-4 shows monthly bills at both present and proposed rates, the dollar increase and percentage increase.

Q. WHAT IS SHOWN ON SCHEDULE H-5?

A. The H-5 schedules, or bill count schedules, contain the number of customers per customer classification.

Q. IS THE COMPANY PROPOSING ANY CHANGE IN ITS OTHER CHARGES?

A. No.

Q. DID YOU PREPARE A COST OF SERVICE STUDY?

A. No, I didn't. Because Far West Sewer is not proposing a change in its rate design, a cost of service study would cost far more than the benefit it would provide. Certainly another party seeking a different rate design could prepare such a study to support its position.

Q. DOES THAT CONCLUDE THIS PORTION OF YOUR DIRECT TESTIMONY?

A. Yes.

Thomas J. Bourassa
Direct Testimony
(Rate Base, Income Statement, Rate Design)

Schedules

Far West Water and Sewer Company - Sewer Division
Test Year Ended December 31, 2007
Computation of Increase in Gross Revenue
Requirements As Adjusted

Exhibit
Schedule A-1
Page 1
Witness: Bourassa

Line No.		
1	Fair Value Rate Base	$ 23,415,596
2		
3	Adjusted Operating Income	(859,617)
4		
5	Current Rate of Return	-3.67%
6		
7	Required Operating Income	$ 1,962,224
8		
9	Required Rate of Return on Fair Value Rate Base	8.38%
10		
11	Operating Income Deficiency	$ 2,821,841
12		
13	Gross Revenue Conversion Factor	1.6286
14		
15	Increase in Gross Revenue	
16	Requirement	$ 4,595,748
17		
18	Increase over Adjusted T.Y. Revenues	214.76%

19					
20	**Customer**	**Present**	**Proposed**	**Dollar**	**Percent**
21	**Classification**	**Rates**	**Rates**	**Increase**	**Increase**
22	**(Residential Commercial, Irrigation)**				
23	Residential	$ 1,701,698	$ 5,814,873	$ 4,113,175	241.71%
24	RV Park - Adobe Village	3,852	13,161	9,310	241.71%
25	RV Park - Sunset Palm	3,819	13,049	9,231	241.71%
26	RV Park - Sun Ridge	9,172	31,341	22,169	241.71%
27	RV Park - Rancho Rialto	9,645	32,958	23,313	241.71%
28	Commercial	17,835	60,944	43,109	241.71%
29	Effluent Sales	87,649	17,530	(70,119)	-80.00%
30	**Subtotal**	1,833,670	5,983,857	4,150,187	226.33%
31					
32	Impact on Rate Increase (Decision 69335)	$ (24,903)	$ -	$ 24,903	-100.00%
33	Revenue Annualization	293,141	713,762	420,621	143.49%
34				-	0.00%
35	**Subtotal w/ Rev. Annualization**	$ 2,101,908	$ 6,697,619	$ 4,595,710	218.64%
36					
37	Miscellaneous Revenues	38,047	38,047	-	0.00%
38	Other Revenues	-	-	-	0.00%
39				-	0.00%
40	**Total of Sewer Revenues**	$ 2,139,955	$ 6,735,666	$ 4,595,710	214.76%
41					
42					
43	SUPPORTING SCHEDULES:				
44	B-1				
45	C-1				
46	C-3				
47	H-1				
48					

Far West Water and Sewer Company - Sewer Division
Test Year Ended December 31, 2007
Summary of Results of Operations

Exhibit
Schedule A-2
Page 1
Witness: Bourassa

Line No.	Description	Prior Years Ended 12/31/2005	Prior Years Ended 12/31/2006	Test Year Actual 12/31/2007	Test Year Adjusted 12/31/2007	Projected Year Present Rates 12/31/2008	Projected Year Proposed Rates 12/31/2008
1	Gross Revenues	$ 1,646,196	$ 1,779,010	$ 2,004,026	$ 2,139,964	$ 2,139,964	$ 6,735,712
2							
3	Revenue Deductions and	2,857,210	2,877,806	2,959,716	2,999,582	2,999,582	4,773,489
4	Operating Expenses						
5							
6	Operating Income	$ (1,211,014)	$ (1,098,796)	$ (955,690)	$ (859,617)	$ (859,617)	$ 1,962,224
7							
8	Other Income and	(2,039)	(1,171,396)	(93,756)	-	-	-
9	Deductions						
10							
11	Interest Expense	(107,811)	(510,777)	(1,532,057)	(1,275,665)	(1,275,665)	(1,275,665)
12							
13	Net Income	$ (1,320,864)	$ (2,780,969)	$ (2,581,502)	$ (2,135,282)	$ (2,135,282)	$ 686,559
14							
15	Earned Per Average						
16	Common Share	(13.21)	(27.81)	(25.82)	(21.35)	(21.35)	6.87
17							
18	Dividends Per						
19	Common Share	-	-	-	-	-	-
20							
21	Payout Ratio	-	-	-	-	-	-
22							
23	Return on Average						
24	Invested Capital	-9.86%	-12.37%	-7.94%	-4.07%	-3.62%	1.16%
25							
26	Return on Year End						
27	Capital	-9.53%	-8.94%	-7.60%	-4.07%	-3.16%	1.02%
28							
29	Return on Average						
30	Common Equity	-94.54%	-482.55%	471.22%	191.64%	100.88%	-97.27%
31							
32	Return on Year End						
33	Common Equity	-110.15%	5970.18%	246.07%	97.87%	67.06%	-189.38%
34							
35	Times Bond Interest Earned						
36	Before Income Taxes	(11.23)	(2.15)	(0.62)	(1.73)	(1.73)	1.88
37							
38	Times Total Interest and						
39	Preferred Dividends Earned						
40	After Income Taxes	(11.23)	(2.15)	(0.62)	(0.82)	(0.82)	1.54
41							
42							
43	SUPPORTING SCHEDULES						
44	C-1						
45	E-2						
46	F-1						

Far West Water and Sewer Company - Sewer Division
Test Year Ended December 31, 2007
Summary of Capital Structure

Exhibit
Schedule A-3
Page 1
Witness: Bourassa

Line No.	Description:	Prior Years Ended 12/31/2005	12/31/2006	Test Year 12/31/2007	Projected Year 12/31/2008
1					
2					
3	Long-Term Debt	-	17,206,182	20,884,132	25,761,224
4					
5	Total Debt	$ -	$ 17,206,182	$ 20,884,132	$ 25,761,224
6					
7					
8	Preferred Stock	-	-	-	-
9					
10	Common Equity	1,199,193	(46,581)	(1,049,084)	(362,525)
11					
12					
13	Total Capital & Debt	$ 1,199,193	$ 17,159,601	$ 19,835,048	$ 25,398,699
14					
15					
16	Capitalization Ratios:				
17					
18	Long-Term Debt	0.00%	100.27%	105.29%	101.43%
19					
20	Total Debt	0.00%	100.27%	105.29%	101.43%
21					
22					
23	Preferred Stock	-	-	-	-
24					
25	Common Equity	100.00%	-0.27%	-5.29%	-1.43%
26					
27					
28	Total Capital	100.00%	100.00%	100.00%	100.00%
29					
30					
31	Weighted Cost of				
32	Senior Capital	0.00%	6.40%	6.72%	6.47%
33					
34					
35					
36					
37					
38					
39	SUPPORTING SCHEDULES:				
40	E-1				
41	D-1				

Far West Water and Sewer Company - Sewer Division
Test Year Ended December 31, 2007
Construction Expenditures
and Gross Utility Plant in Service

Exhibit
Schedule A-4
Page 1
Witness: Bourassa

Line No.		Construction Expenditures	Net Plant Placed in Service	Gross Utility Plant in Service
1				
2	Prior Year Ended 12/31/2004			13,522,773
3				
4	Prior Year Ended 12/31/2005	1,377,622	954,873	14,477,646
5				
6	Prior Year Ended 12/31/2006	5,770,611	1,640,491	16,118,137
7				
8	Test Year Ended 12/31/2007	2,799,619	2,175,349	18,293,486
9				
10	Projected Year Ended 12/31/2008	18,570,153	18,570,153	36,863,639
11				
12				
13				
14				
15	SUPPORTING SCHEDULES:			
16	B-2			
17	E-5			
18	F-3			
19				
20				

Far West Water and Sewer Company - Sewer Division
Test Year Ended December 31, 2007
Summary Statements of Cash Flows

Exhibit
Schedule A-5
Page 1
Witness: Bourassa

Line No.		Prior Year Ended 12/31/2005	Prior Year Ended 12/31/2006	Test Year Ended 12/31/2007	Projected Year Present Rates 12/31/2008	Projected Year Proposed Rates 12/31/2008
1						
2						
3						
4						
5	Cash Flows from Operating Activities					
6	Net Income	$ (1,320,864)	$ (2,780,969)	$ (2,581,502)	$ (2,135,282)	$ 686,559
7	Adjustments to reconcile net income to net cash					
8	provided by operating activities:					
9	Depreciation and Amortization	414,400	455,887	531,731	1,550,751	1,550,751
10	Deferred Income Taxes	85,525	(81,900)	217		
11	Other	-	-	-		
12	Changes in Certain Assets and Liabilities:	-	-	-		
13	Accounts Receivable	(64,754)	(48,157)	(129,416)		
14	Unbilled Revenues	-	-	-		
15	Materials and Supplies Inventory	-	(71,250)	18,968		
16	Prepaid Expenses	-	-	-		
17	Deferred Charges	212,719	140,868	(175,339)		
18	Accounts Payable	2,161,408	(507,291)	(749,381)		
19	Intercompany payable	4,550	(4,160)	6,581		
20	Customer Deposits	4,827	4,760	(22,599)		
21	Intercompany taxes receivable and taxes payable	(164)	592,496	(343,555)		
22	Other assets and liabilities	-	-	-		
23						
24	Net Cash Flow provided by Operating Activities	$ 1,497,647	$ (2,299,716)	$ (3,444,295)	$ (584,531)	$ 2,237,309
25	Cash Flow From Investing Activities:					
26	Capital Expenditures	(1,377,622)	(5,770,611)	(2,799,619)	(18,570,153)	(18,570,153)
27	Plant Held for Future Use	-	-	-		
28	Retirements of Assets	-	-	-		
29	Net Cash Flows from Investing Activities	$ (1,377,622)	$ (5,770,611)	$ (2,799,619)	$ (18,570,153)	$ (18,570,153)
30	Cash Flow From Financing Activities					
31	Change in Restricted Cash	-	-	-		
32	Change in net amounts due to parent and affiliates	-	-	-		
33	Receipt of contributions in aid of construction	(1,723,675)	-	-	-	-
34	Net Receipts for advances for construction	678,675	555,439	1,170,589	-	-
35	Repayments of Long-Term Debt	-	-	19,900,510	-	-
36	Dividends Paid	-	17,206,182	(17,089,254)	-	-
37	Deferred Financing Costs	-	-	-		
38	Paid in Capital	924,975	1,535,184	1,579,000		
39	Net Cash Flows Provided by Financing Activities	$ (120,025)	$ 19,296,805	$ 5,560,845	$ -	$ -
40	Increase(decrease) in Cash and Cash Equivalents	(0)	11,226,478	(683,069)	(19,154,684)	(16,332,843)
41	Cash and Cash Equivalents at Beginning of Year	-	(0)	11,226,478	10,543,409	10,543,409
42	Cash and Cash Equivalents at End of Year	$ (0)	$ 11,226,478	$ 10,543,409	$ (8,611,275)	$ (5,789,434)
43	SUPPORTING SCHEDULES:					
44	E-3					
45	F-2					
46						

Far West Water and Sewer Company - Sewer Division
Test Year Ended December 31, 2007
Summary of Rate Base

Exhibit
Schedule B-1
Page 1
Witness: Bourassa

Line No.		Original Cost Rate base	Fair Value Rate Base
1			
2	Gross Utility Plant in Service	$ 34,922,208	$ 34,922,208
3	Less: Accumulated Depreciation	1,152,688	1,152,688
4			
5	Net Utility Plant in Service	$ 33,769,520	$ 33,769,520
6			
7	Less:		
8	Advances in Aid of		
9	Construction	9,918,635	9,918,635
10	Contributions in Aid of		
11	Construction	844,788	844,788
12			
13	A.A. Contributions in Aid of Construction	441,792	441,792
14			
15	Customer Meter Deposits	15,406	15,406
16	Deferred Income Taxes & Credits	-	-
17	Investment tax Credits	-	-
18			
19			
20	Plus:		
21	Deferred Finance		
22	Costs	866,697	866,697
23	Deferred Tax Assets	-	-
24	Allowance for Working Capital	-	-
25			
26			
27	Total Rate Base	$ 23,415,596	$ 23,415,596
28			
29			
30			
31	SUPPORTING SCHEDULES:		
32	B-2		
33	B-3		
34	B-5		
35	E-1		
36			

Far West Water and Sewer Company - Sewer Division
Test Year Ended December 31, 2007
Original Cost Rate Base Proforma Adjustments

Exhibit
Schedule B-2
Page 1
Witness: Bourassa

Line No.		Actual at End of Test Year	Proforma Adjustments Label	Proforma Adjustments Amount	Adjusted at end of Test Year
1	Gross Utility				
2	Plant in Service	$ 19,357,810	1a	(1,064,324)	$ 34,922,208
3			2	18,570,153	
4	**Less:**		3a	(1,941,431)	
5	Accumulated				
6	Depreciation	3,352,988	1b	(258,869)	1,152,688
7			3b	(1,941,431)	
8					
9	Net Utility Plant				
10	in Service	$ 16,004,822			$ 33,769,520
11					
12	**Less:**				
13	Advances in Aid of				
14	Construction	9,918,635			9,918,635
15					
16	Contributions in Aid of				
17	Construction	2,440,167	4a	(1,595,379)	844,788
18					
19	Accumulated Amortization of CIAC	(832,073)	4b	1,273,865	441,792
20					
21	Customer Meter Deposits	15,406			15,406
22	Deferred Income Taxes	-			-
23	Investment Tax Credits	-			-
24		-			-
25					
26	**Plus:**				
27	Unamortized Debt				
28	Discount	866,697			866,697
29	Deferred Tax Assets	-			-
30	Working capital	-		-	-
31		-			-
32					
33	Total	$ 5,329,384			$ 23,415,596
34					
35					
36					
37	SUPPORTING SCHEDULES:				RECAP SCHEDULES
38	B-2, pages 2-3				B-1
39	E-1				
40					
41					
42					
43					
44					
45					
46					

Far West Water and Sewer Company - Sewer Division
Test Year Ended December 31, 2007
Original Cost Rate Base Proforma Adjustments
Adjustment #1

Exhibit
Schedule B-2
Page 2
Witness: Bourassa

Line No.				
1				
2	**Plant-in-Service and Accumulated Depreciation Adjustment**			
3				
4				
5	Plant In Service Adjustment			
6				Label
7	Plant per B-2	$	18,293,486	
8	Balance per Company Schedule E-1		19,357,810	
9	Difference	$	(1,064,324)	1a
10				
11				
12	Increase (Decrease) to Plant-in-Service	$	(1,064,324)	
13				
14	Accumulated Depreciation Adjustment			
15				
16	Computed Balance	$	3,094,119	
17	Balance per Company Schedule E-1		3,352,988	
18	Difference	$	(258,869)	
19				
20				
21	Increase (Decrease) to Accumulated Depreciation	$	(258,869)	1b
22				
23				
24				
25	SUPPORTING SCHEDULES			
26	B-2, pages 2.1 to 2.6			
27				
28				

Far West Water and Sewer - Sewer Division
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 2.1

Account No.	Description	Deprec. Rate Before Feb-07	Deprec. Rate After Feb-07	Adjusted Plant At 12/31/2004[1]	2004 Accum. Depr.[1]	2005 Plant Additions	2005 Plant Adjustments	2005 Adjusted Plant Additions	2005 Plant Retirements	2005 Plant Balance
351	Organization Cost	0.00%	0.00%	-	-			-		-
352	Franchise Cost	0.00%	0.00%	3,076	-			-		3,076
353	Land and Land Rights	0.00%	0.00%	417,154	-			-		417,154
354	Structures and Improvements	3.33%	3.33%	203,576	21,707	13,140		13,140		216,716
360	Collection Sewers - Force	2.00%	2.00%	426,049	51,906			-		426,049
361	Collection Sewers Gravity	2.00%	2.00%	7,471,189	541,187	19,605		19,605		7,490,794
363	Services	2.00%	2.00%	-	-			-		-
364	Flow Measuring Devices	10.00%	10.00%	37,103	27,167	5,588		5,588		42,691
371	Effluent Pumping Equpment	12.50%	12.50%	212,029	72,264	11,749		11,749		223,778
380	Treatment Plant	5.00%	5.00%	4,395,872	669,251	868,399		868,399		5,264,271
381	Plant Sewers	5.00%	5.00%	25,001	2,332			-		25,001
389	Other Plant Structure and Improvements	6.67%	6.67%	16,044	6,153	763		763		16,807
390	Office Furniture and Equipment	6.67%	6.67%	20,972	3,885	4,225		4,225		25,197
391	Transportation Equipment	20.00%	20.00%	193,941	55,437			-		193,941
393	Tools and Work Equipment	5.00%	5.00%	-	-			-		-
394	Laboratory Equipment	10.00%	10.00%	4,236	212	25,972		25,972		30,208
395	Power Operated Equipment	5.00%	5.00%	2,940	221	3,509		3,509		6,449
396	Communications Equipment	10.00%	10.00%	-	-			-		-
397	Miscellaneous Equipment	10.00%	10.00%	93,591	30,948	1,923		1,923		95,514
398	Other Tangible Plant	10.00%	10.00%	-	-			-		-
	Rounding			-				-		-
	Plant Held for Future Use							-		-
	TOTAL SEWER PLANT			13,522,773	1,482,670	954,873	-	954,873	-	14,477,646

Far West Water and Sewer - Sewer Division
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 2.2

Account No.	Description	Deprec. Rate Before Feb-07	Deprec. Rate After Feb-07	2005 Deprec.	2006 Plant Additions	2006 Plant Adjustments	2006 Adjusted Plant Additions	2006 Plant Retirements	2006 Plant Balance	2006 Deprec.
351	Organization Cost	0.00%	0.00%	-			-		-	-
352	Franchise Cost	0.00%	0.00%	-			-		3,076	-
353	Land and Land Rights	0.00%	0.00%	-			-		417,154	-
354	Structures and Improvements	3.33%	3.33%	6,998	10,707		10,707		227,423	8,627
360	Collection Sewers - Force	2.00%	2.00%	8,521	291,768		291,768		717,817	13,345
361	Collection Sewers Gravity	2.00%	2.00%	149,620	622,519		622,519		8,113,313	182,048
363	Services	2.00%	2.00%	-			-		-	-
364	Flow Measuring Devices	10.00%	10.00%	3,990			-		42,691	4,981
371	Effluent Pumping Equpment	12.50%	12.50%	27,238	101,215		101,215		324,993	40,015
380	Treatment Plant	5.00%	5.00%	241,504	675,303		675,303		5,939,574	326,779
381	Plant Sewers	5.00%	5.00%	1,250			-		25,001	1,458
389	Other Plant Structure and Improvements	6.67%	6.67%	1,096	9,254		9,254		26,061	1,668
390	Office Furniture and Equipment	6.67%	6.67%	1,540	7,836		7,836		33,033	2,266
391	Transportation Equipment	20.00%	20.00%	38,788	21,521		21,521	(110,278)	105,185	10,959
393	Tools and Work Equipment	5.00%	5.00%	-			-		-	-
394	Laboratory Equipment	10.00%	10.00%	1,722	1,657		1,657		31,865	3,621
395	Power Operated Equipment	5.00%	5.00%	235			-		6,449	376
396	Communications Equipment	10.00%	10.00%	-			-		-	-
397	Miscellaneous Equipment	10.00%	10.00%	9,455	8,988		8,988		104,503	11,668
398	Other Tangible Plant	10.00%	10.00%	-			-		-	-
	Rounding			-			-		-	-
				-			-		-	-
	Plant Held for Future Use									
	TOTAL SEWER PLANT			491,956	1,750,769	-	1,750,769	(110,278)	16,118,137	607,810

Far West Water and Sewer - Sewer Division
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 2.3

Account No.	Description	Deprec. Rate Before Feb-07	Deprec. Rate After Feb-07	2007 Plant Additions	2007 Plant Adjustments	2007 Adjusted Plant Additions	2007 Plant Retirements	2007 Plant Balance	2007 Deprec.
351	Organization Cost	0.00%	0.00%			-		-	-
352	Franchise Cost	0.00%	0.00%			-		3,076	-
353	Land and Land Rights	0.00%	0.00%	125,179		125,179		542,333	-
354	Structures and Improvements	3.33%	3.33%	75,205		75,205		302,628	8,825
360	Collection Sewers - Force	2.00%	2.00%	2,768		2,768		720,585	14,384
361	Collection Sewers Gravity	2.00%	2.00%	263,737		263,737		8,377,050	164,904
363	Services	2.00%	2.00%			-		-	-
364	Flow Measuring Devices	10.00%	10.00%	6,461		6,461		49,152	4,592
371	Effluent Pumping Equpment	12.50%	12.50%	27,181		27,181		352,174	42,323
380	Treatment Plant	5.00%	5.00%	1,355,239		1,355,239		7,294,813	330,860
381	Plant Sewers	5.00%	5.00%			-		25,001	1,250
389	Other Plant Structure and Improvements	6.67%	6.67%			-		26,061	1,738
390	Office Furniture and Equipment	6.67%	6.67%	5,648		5,648		38,681	2,392
391	Transportation Equipment	20.00%	20.00%			-		105,185	21,037
393	Tools and Work Equipment	5.00%	5.00%			-		-	-
394	Laboratory Equipment	10.00%	10.00%			-		31,865	3,187
395	Power Operated Equipment	5.00%	5.00%			-		6,449	322
396	Communications Equipment	10.00%	10.00%			-		-	-
397	Miscellaneous Equipment	10.00%	10.00%	75,103		75,103		179,605	14,205
398	Other Tangible Plant	10.00%	10.00%	238,828		238,828		238,828	11,941
	Rounding			1		1		1	-
						-		-	-
	Plant Held for Future Use								
	TOTAL SEWER PLANT			2,175,349	-	2,175,349	-	18,293,486	621,960

Far West Water and Sewer - Sewer Division
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 2.4

Account No.	Description	Deprec. Rate Before Feb-07	Deprec. Rate After Feb-07	Year End Accumulated Depreciation by Account 2004	2005	2006	2007
351	Organization Cost	0.00%	0.00%	-	-	-	-
352	Franchise Cost	0.00%	0.00%	-	-	-	-
353	Land and Land Rights	0.00%	0.00%	-	-	-	-
354	Structures and Improvements	3.33%	3.33%	21,707	28,705	37,332	46,158
360	Collection Sewers - Force	2.00%	2.00%	51,906	60,427	73,772	88,156
361	Collection Sewers Gravity	2.00%	2.00%	541,187	690,807	872,855	1,037,758
363	Services	2.00%	2.00%	-	-	-	-
364	Flow Measuring Devices	10.00%	10.00%	27,167	31,157	36,137	40,729
371	Effluent Pumping Equpment	12.50%	12.50%	72,264	99,502	139,516	181,839
380	Treatment Plant	5.00%	5.00%	669,251	910,755	1,237,534	1,568,393
381	Plant Sewers	5.00%	5.00%	2,332	3,582	5,040	6,290
389	Other Plant Structure and Improvements	6.67%	6.67%	6,153	7,249	8,917	10,655
390	Office Furniture and Equipment	6.67%	6.67%	3,885	5,425	7,690	10,082
391	Transportation Equipment	20.00%	20.00%	55,437	94,225	(5,093)	15,944
393	Tools and Work Equipment	5.00%	5.00%	-	-	-	-
394	Laboratory Equipment	10.00%	10.00%	212	1,934	5,555	8,742
395	Power Operated Equipment	5.00%	5.00%	221	456	832	1,154
396	Communications Equipment	10.00%	10.00%	-	-	-	-
397	Miscellaneous Equipment	10.00%	10.00%	30,948	40,403	52,071	66,276
398	Other Tangible Plant	10.00%	10.00%	-	-	-	11,941
	Rounding			-	-	-	-
					-		
				-	-	-	-
	Plant Held for Future Use			-			
	TOTAL SEWER PLANT			1,482,670	1,974,626	2,472,159	3,094,119

Far West Water and Sewer - Sewer Division
Reconcilation of Plant Starting Balances to Decision 69335

Exhibit
Schedule B-2
Page 2.5

Line No.	Account No.	Description	Balance Thru 12/31/04	Adjustments Per Decision[1]	Balance Per Decision[1]	Audit Adjustments[2]	Adjusted Balance
4	351	Organization Cost	$ -		$ -		$ -
5	352	Franchise Cost	3,076		3,076		3,076
6	353	Land and Land Rights	82,567		82,567	334,587	417,154
7	354	Structures and Improvements	213,157	(9,581)	203,576		203,576
8	360	Collection Sewers - Force	423,126	2,923	426,049		426,049
9	361	Collection Sewers Gravity	7,689,131	(217,942)	7,471,189		7,471,189
10	363	Services	-		-		-
11	364	Flow Measuring Devices	37,103		37,103		37,103
12	371	Effluent Pumping Equpment	192,774	19,255	212,029		212,029
13	380	Treatment Plant	5,444,879	(816,940)	4,627,939	(232,067)	4,395,872
14	381	Plant Sewers	20,168	4,833	25,001		25,001
15	389	Other Plant Structure and Improvements	16,044		16,044		16,044
16	390	Office Furniture and Equipment	20,972		20,972		20,972
17	391	Transportation Equipment	193,941		193,941		193,941
18	393	Tools and Work Equipment	-		-		-
19	394	Laboratory Equipment	4,236		4,236		4,236
20	395	Power Operated Equipment	2,940		2,940		2,940
21	396	Communications Equipment	-		-		-
22	397	Miscellaneous Equipment	93,591		93,591		93,591
23	398	Other Tangible Plant	-		-		-
24		Rounding			-		-
25		Total	$ 14,437,705	$ (1,017,452)	**$ 13,420,253**	$ 102,520	$ 13,522,773

[1] Plant adjustments from Decision 69335. See Decision 69335 at 7 and Staff Revised Surrebuttal Schedule CSB-4

[2] Audit adjustments on 2004 plant (Del Oro WWTP) from independent audit by Mallory & Associates CPA's.

Far West Water and Sewer - Sewer Division
Reconcilation of Accumulated Depreciation Starting Balances to Decision 69335

Exhibit
Schedule B-2
Page 2.6

Line No.	Account No.	Description	Adjusted Book Balance Thru 12/31/04[1]	Adjustments Per Decision[1]	Balance Per Decision[1]	Audit Adjustments[2]	Adjusted Balance
1			$	$	$		$
2	351	Organization Cost	-	-	-		-
3	352	Franchise Cost	-	-	-		-
4	353	Land and Land Rights	22,186	-	21,707	-	21,707
5	354	Structures and Improvements	51,906	(479)	51,906		51,906
6	360	Collection Sewers - Force	554,151	-	541,187		541,187
7	361	Collection Sewers Gravity	-	(12,964)	-		-
8	363	Services	27,167	-	27,167		27,167
9	364	Flow Measuring Devices	72,264	-	72,264		72,264
10	371	Effluent Pumping Equpment	845,522	-	675,053		669,251
11	380	Treatment Plant	2,332	(170,469)	2,332	(5,802)	2,332
12	381	Plant Sewers	6,153	-	6,153		6,153
13	389	Other Plant Structure and Improvements	3,885	-	3,885		3,885
14	390	Office Furniture and Equipment	62,481	-	55,437		55,437
15	391	Transportation Equipment	-	(7,044)	-		-
16	393	Tools and Work Equipment	212	-	212		212
17	394	Laboratory Equipment	221	-	221		221
18	395	Power Operated Equipment	-	-	-		-
19	396	Communications Equipment	30,948	-	30,948		30,948
20	397	Miscellaneous Equipment	-	-	-		-
21	398	Other Tangible Plant					
22		Total	$ 1,679,428	$ (190,956)	$ 1,488,472	$ (5,802)	$ 1,482,670
23							
24							
25							
26							
27							
28							
29							
30							

[1] Unrecorded A/D adjustments per Decision 69335. See Staff Revised Surrebuttal Schedule CSB-4 and CSB-9, page 12 and Decision 69335 at 7.

[2] Based on audit adjustments of 2004 plant (Del Oro WWTP) from independent audit by Mallory & Associates CPA's.

Far West Water and Sewer Company - Sewer Division
Test Year Ended December 31, 2007
Estimate of Capital Costs for Wastewater System Improvements
Adjustment #2

Exhibit
Schedule B-2
Page 3
Witness: Bourassa

Line No.	Description		Estimated Cost	Included in PIS or Other in 2007	Adjusted Estimated Cost	NARUC BREAKDOWN 360 Collection Sewers-Force	380 Treatment Plant	397 Misc. Equipment	398 Other Tangible Plant
1									
2									
3									
4									
5	Seasons WWTP		$ 1,660,254	$ 1,183,330	$ 476,924		$ 476,924		
6	Del Oro WWTP		3,273,111	51,300	3,221,811		3,221,811		
7	Section 14 WWTP		7,371,914		7,371,914		7,371,914		
8	Del Rey & Royale Lift Stations		395,400		395,400	395,400			
9	Palm Shadow Lift Station and Forcemain		1,712,250		1,712,250	1,712,250			
10	Paula Street Lift Station		640,045	125,179	514,866	514,866			
11	Marwood Sludge Dewatering Unit		101,260		101,260			101,260	
12	Del Oro Temporary		-		-		-		
13	Miscellaneous Equip		41,694		41,694			41,694	
14	Miscellaneous Gravity Sewer		379,488	269,715	109,773	109,773			
15	Miscellaneous Other								
16	Geotechnical Surveys	$ 72,933							
17	SCD Nitrogen Removal Program	106,900							
18	Legal Services								
19	Misc.	9,522							
20	Permit Fees	86,700							
21	Insurance	15,204							
22	Miscellaneous Other Total		291,258	143,341	147,918	28,980	117,421	1,516	-
23	Engineering		1,551,170	90,680	1,460,490	286,140	1,159,379	14,971	-
24	Construction Administration		1,551,170	90,680	1,460,490	286,140	1,159,379	14,971	-
25	Mapping		710,485		710,485				710,485
26	Operations		834,000		834,000	163,398	662,053	8,549	
27	Odor Control		10,878		10,878			10,878	
28	Contingency		-		-	-	-	-	
29									
30	Total		$ 20,524,378	$ 1,954,225	$ 18,570,153	$ 3,496,947	$ 14,168,882	$ 193,839	$ 710,485
31									
32									
33									
34	Increase (Decrease) to Plant-in-Service		$ 18,570,153						
35									
36									
37									
38									
39									

Far West Water and Sewer Company - Sewer Division
Test Year Ended December 31, 2007
Retirements Related to Wastewater System Improvements
Adjustment #3

Exhibit
Schedule B-2
Page 4
Witness: Bourassa

Line No.	Description	Original Cost	304 Structures and Improvments	360 Collection Sewers-Force	380 Treatment Plant	380 Treatment Plant AIAC	380 Treatment Plant CIAC	398 Other Tangible Plant
			NARUC BREAKDOWN Original Cost					
6	Fence- Drying Beds	$ 13,098	$ 13,098					
7	Drying Bed Concretee &ABC	48,269	48,269					
8	Wall for Drying Beds	6,225	6,225					
9	Wall for Drying Beds	400	400					
10	Palm Shadows Excavatuion	10,100			10,100			
11	Palm Shadows Sewer Plant	11,328			11,328			
12	Tasew Wastewter Screen	69,856			69,856			
13	Sec 14 plant w/ Lift Station	149,944			149,944			
14	Del Oro WWTP	265,342			265,342			
15	Seasons WWTP	207,965			207,965			
16	Del Oro Odor Control	3,895			3,895			
17	Del Oro WWTP Temporary	69,703			69,703			
18	Tank Cover	232			232			
19	Palm Shadows Steel Lines	6,011			6,011			
20	Extend Palm Shadows Ponds	17,516			17,516			
21	Trench 1" Elect Outlet	7,775			7,775			
22	Airlines Palm Shadows	2,013			2,013			
23	Palm Shadows Treatment Plant	377,781					208,088	
24	Palm Shadows Additions	6,864					6,864	
25	Del Rey Sewer Plnt Estab	34,705					34,705	
26	Royale Sewer Plant	38,678					38,678	
27	Palm Shadows Plant Addn	593,731					593,731	
28								
29								
30	Total	$ 1,941,431	$ 67,992	$ -	$ 821,680		$ 882,066	$ -
31								
32								
33			Label					
34	Adjustment to Plant-in-Service	$ (1,941,431)	3a					
35								
36	Adjustment to Accumulated Depreciation	$ (1,941,431)	3b					
37								
38	Adjustment to Accumlated Amortization	$ (882,066)	see B-2 Page 5					
39								

Far West Water and Sewer Company - Sewer Division
Test Year Ended December 31, 2007
Original Cost Rate Base Proforma Adjustments
Adjustment 4

Exhibit
Schedule B-2
Page 5
Witness: Bourassa

Line No.		Amount Recorded		Amortization Rate	Amortization	Total Amortization	Accumulated Amortization
1	Accumulated Amortization (A.A.)						
2							
3	Computation of CIAC Balances						
4							
5							
6	Balance at 12/31/2004 (Per Decision 69335)	$ 3,247,058					$ 385,294
7	Proposed Reclass Adjustment 2003 CIAC	$ (44,113)	[1]				(3,308)
8	Proposed RelcassAdjustment 2003 CIAC	$ (630,546)	[2]				(47,291)
9	Proposed Reclass Adjustment 2004 CIAC	$ (845,545)	[3]				(21,139)
10	WWTP Plant Retirements (see B-2 page 4)	$ (882,066)	[4]				(882,066)
11							
12	Adjusted Balance 12/31/2004	$ 844,788					$ (568,510)
13				5.000%	$ 42,239		
14	Additions 2005	-		2.500%	$ -	$ 42,239	
15	Balance at 12/31/2005	$ 844,788					$ (526,271)
16				5.000%	$ 42,239		
17	Additions 2006	-		2.500%	$ -	$ 42,239	
18	Balance at 12/31/2006	$ 844,788					$ (484,031)
19				5.000%	$ 42,239		
20	Additions 2007	-		2.500%	$ -		
21	Balance at 12/31/2007	$ 844,788				$ 42,239	$ (441,792)
22							
23							
24	Computed Balance	$ 844,788					$ (441,792)
25	Balance Per Books	2,440,167					832,073
26	Increase (Decrease) in A.A. Balance	$ (1,595,379)					$ (1,273,865)
27	Adjustment Label	4a					4b

[1] Palm Shadows Fortuna Rd Ex - Not funded with CIAC.
[2] Section 14 WWTP - Funded by AIAC, not CIAC.
[3] Del Oro WWTP - Not funded with CIAC.
[4] Retirements as shown page B-2, page 4.

SUPPORTING SCHEDULE
B-2, page 5.1

Far West Water and Sewer - Sewer Division
Test Year Ended December 31, 2007
CIAC Reconciliation to Prior Decision

Exhibit
Schedule B-2
Page 5.1
Witness: Bourassa

Line No.	Description		Balance Per 2004 Rate Case Filing	label	Decision 69335 Adjustments	Adjusted Balance per Decision	Label	Proposed FWS Adjustments	Proposed Retirements[1]	Adjusted Balance
1	361C	COLL SEWERS-GRAVITY-CIAC								
2										
3	7/1/2001	Swnsn\Ave 10E, Lines & 11 MH	$ 69,500	Staff CSB-5	$ (69,500)	$ -				$ -
4	7/1/2002	Seasons Unit 3 Lines	73,684	Staff CSB-5	(53,400)	20,284				20,284
5	7/1/2003	Palm Shadows Fortuna Rd Ex	121,515	Staff CSB-5	(77,402)	44,113	A	(44,113)		-
6			$ 264,699		$ (200,302)	$ 64,397		$ (44,113)		$ 20,284
7										
8										
9										
10										
11	380C	TREATMENT, DISPOSAL EQ CIAC								
12										
13	7/1/1999	Marwood Sewer Plant-Final	$ 426,690	Staff CSB-5	$ (344,910)	$ 81,780				$ 81,780
14	7/1/1999	Palm Shdws Treatment Plt	408,981	Staff CSB-5	(138,371)	$ 238,288	D		(208,088)	30,200
15				Staff CSB-5	(1,385)					-
16				Staff CSB-5	(30,937)					-
17										-
18	7/1/1999	Seasons Treatment Plant	345,247	Staff CSB-5	(64,698)	280,549				280,549
19	7/1/2000	Palm Shadows Additions	6,864			6,864	D		(6,864)	-
20	7/1/2001	Del Rey Sewer Plant-Estab	65,000			65,000	D		(34,705)	30,295
21	7/1/2001	Royale Sewer Plant	65,000			65,000	D		(38,678)	26,322
22	7/1/2001	Del Oro Plnt 20% Est w LS	52,000			52,000				52,000
23	7/1/2001	Palm Shdws Plant Addn	593,731			593,731	D		(593,731)	-
24	7/1/2004	MDS Plant Upgrade	333,471	Staff CSB-5	(10,113)	323,358				323,358
25	7/1/2003	Sec 14 Plant w Lift Station	756,615	Staff CSB-5	(126,069)	630,546	B	(630,546)		-
26	7/1/2004	Del Oro WWTP	845,545	Staff CSB-5		845,545	C	(845,545)		-
27			$ 3,899,144		$ (716,483)	$ 3,182,661		$ (1,476,091)	$ (882,066)	$ 824,504
28										-
29										
30	TOTALS		$ 4,163,843		$ (916,785)	$ 3,247,058		$ (1,520,204)	$ (882,066)	$ 844,788
31										
32										

33 A- Palm Shadows Fortuna Rd Ex - not funded with CIAC.
34 B- Section 14 WWTP - funded with AIAC, not CIAC.
35 C- Del Oro WWTp - not funded with CIAC.
36 D - See B-2, page 4 for proposed retirements.
37

Far West Water and Sewer Company - Sewer Division
Test Year Ended December 31, 2007
Computation of Working Capital

Exhibit
Schedule B-5
Page 1
Witness: Bourassa

Line No.			
1	Cash Working Capital (1/8 of Allowance		
2	Operation and Maintenance Expense)	$	294,267
3	Pumping Power (1/24 of Pumping Power)		10,731
4	Materials and Supplies		-
5	Prepaids		52,282
6			
7			
8			
9	Total Working Capital Allowance	$	357,279
10			
11			
12	Working Capital Requested	$	-
13			
14			
15	SUPPORTING SCHEDULES:	RECAP SCHEDULES:	
16	E-1	B-1	
17			

Far West Water and Sewer Company - Sewer Division
Test Year Ended December 31, 2007
Income Statement

Exhibit
Schedule C-1
Page 1
Witness: Bourassa

Line No.		Test Year Book Results	Label	Adjustment	Test Year Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	**Revenues**						
2	Flat Rate Revenues	$ 1,721,127	4	$ 293,141	$ 2,014,269	$ 4,595,748	$ 6,610,016
3	Measured Revenues	87,649			87,649		87,649
4	Other Wastewater Revenues	195,249	9	(157,203)	38,047		38,047
5		$ 2,004,026		$ 135,939	$ 2,139,964	$ 4,595,748	$ 6,735,712
6	**Operating Expenses**						
7	Salaries and Wages	$ 674,300	10a	195,821	$ 870,122		$ 870,122
8	Purchased Wastewater Treatment	-			-		-
9	Sludge Removal Expense	397,297			397,297		397,297
10	Purchased Power	221,622	6/7	35,920	257,542		257,542
11	Fuel for Power Production	-			-		-
12	Chemicals	213,513	8	20,198	233,710		233,710
13	Materials and Supplies	47,418			47,418		47,418
14	Contractual Services - Professional	77,754			77,754		77,754
15	Contractual Services - Testing	158,510			158,510		158,510
16	Contractual Services - Other	29,671			29,671		29,671
17	Repairs and Maintenance	84,113			84,113		84,113
18	Rents	199,706			199,706		199,706
19	Transportation Expenses	56,228	11	7,342	63,570		63,570
20	Insurance	38,805			38,805		38,805
21	Regulatory Comm. Exp. - Rate Cas	102,025	3	(27,025)	75,000		75,000
22	Miscellaneous Expense	34,270			34,270		34,270
23	Depreciation Expense	531,731	1	1,019,020	1,550,751		1,550,751
24	Taxes Other Than Income	28,579	10b	15,609	44,188		44,188
25	Property Taxes	64,174	2	115,294	179,467		179,467
26	Income Tax	-	13	(1,342,313)	(1,342,313)	1,773,907	431,595
27							
28	**Total Operating Expenses**	$ 2,959,716		$ 39,866	$ 2,999,582	$ 1,773,907	$ 4,773,489
29	**Operating Income**	$ (955,690)		$ 96,073	$ (859,617)	$ 2,821,841	$ 1,962,224
30	**Other Income (Expense)**						
31	Interest Income	554,835	5a	(554,835)	-		-
32	Other income	1,899	5b	(1,899)	-		-
33	Interest Expense	(1,532,057)	12	256,392	(1,275,665)		(1,275,665)
34	Other Expense	(650,490)	5c	650,490	-		-
35		-			-		-
36	**Total Other Income (Expense)**	$ (1,625,812)		$ 350,147	$ (1,275,665)	$ -	$ (1,275,665)
37	**Net Profit (Loss)**	$ (2,581,502)		$ 446,220	$ (2,135,282)	$ 2,821,841	$ 686,559
38							
39	SUPPORTING SCHEDULES:					RECAP SCHEDULES:	
40	C-2					A-1	
41	E-2						
42							

Far West Water and Sewer Company - Sewer Division
Test Year Ended December 31, 2007
Adjustments to Revenues and Expenses

Exhibit
Schedule C-2
Page 1
Witness: Bourassa

Line No.		Adjustments to Revenues and Expenses						
		1	2	3	4	5	6	Subtotal
		Depreciation Expense	Property Taxes	Rate Case Expense	Revenue Annualization	Remove Other Inc./Oth. Expense	Annualize Purchased Power	
3	Revenues				293,141			293,141
5	Expenses	1,019,020	115,294	(27,025)			20,965	1,128,253
8	Operating Income	(1,019,020)	(115,294)	27,025	293,141	-	(20,965)	(835,112)
10	Interest Expense							-
12	Other Income / Expense					93,756		93,756
16	Net Income	(1,019,020)	(115,294)	27,025	293,141	93,756	(20,965)	(741,357)

		Adjustments to Revenues and Expenses						
		7	8	9	10	11	12	Subtotal
		Purchased Power APS Increase	Chemicals	Remove Reconnect Fees	Salaries and Wages	Transportation Expense	Interest Synchronization	
23	Revenues			(157,203)				135,939
25	Expenses	14,955	20,198		211,430	7,342	(1,342,313)	39,866
28	Operating Income	(14,955)	(20,198)	(157,203)	(211,430)	(7,342)	1,342,313	96,073
31	Interest Expense							-
33	Other Income / Expense							93,756
36	Net Income	(14,955)	(20,198)	(157,203)	(211,430)	(7,342)	1,342,313	189,828

		Adjustments to Revenues and Expenses						
		13	14	15	16	17	18	Total
		Income Taxes						
43	Revenues							135,939
45	Expenses	(1,342,313)						(1,302,447)
48	Operating Income	1,342,313	-	-	-	-	-	1,438,385
51	Interest Expense							-
53	Other Income / Expense							93,756
56	Net Income	1,342,313	-	-	-	-	-	1,532,141

Far West Water and Sewer Company - Sewer Division
Test Year Ended December 31, 2007
Adjustments to Revenues and Expenses
Adjustment Number 1

Exhibit
Schedule C-2
Page 2
Witness: Bourassa

Depreciation Expense

Line No.	Account No.	Description	Original Cost	PTY Plant (B-2 Adj #2	Proposed PTY Retirements (B-2 Adj #3)	CIAC (B-2 Adj #4)	Adjusted Original Cost	Proposed Rate	Depreciation Expense
5	351	Organization Cost	-				-	0.00%	-
6	352	Franchise Cost	3,076				3,076	0.00%	-
7	353	Land and Land Rights	542,333				542,333	0.00%	-
8	354	Structures and Improvements	302,628				302,628	3.33%	10,078
9	360	Collection Sewers - Force	720,585				720,585	2.00%	14,412
10	361	Collection Sewers Gravity	8,377,050				8,377,050	2.00%	167,541
11	363	Services	-				-	2.00%	-
12	364	Flow Measuring Devices	49,152				49,152	10.00%	4,915
13	371	Effluent Pumping Equpment	352,174				352,174	12.50%	44,022
14	380	Treatment Plant	7,294,813				7,294,813	5.00%	364,741
15	381	Plant Sewers	25,001				25,001	5.00%	1,250
16	389	Other Plant Structure and Improvements	26,061				26,061	6.67%	1,738
17	390	Office Furniture and Equipment	38,681				38,681	6.67%	2,580
18	391	Transportation Equipment	105,185				105,185	20.00%	21,037
19	393	Tools and Work Equipment	-				-	5.00%	-
20	394	Laboratory Equipment	31,865				31,865	10.00%	3,187
21	395	Power Operated Equipment	6,449				6,449	5.00%	322
22	396	Communications Equipment	-				-	10.00%	-
23	397	Miscellaneous Equipment	179,605				179,605	10.00%	17,961
24	398	Other Tangible Plant	238,828				238,828	10.00%	23,883
25									
26									
27		TOTALS	$ 18,293,485	$ -			$ 18,293,485		$ 677,665
28									
29									
30	**Post Test Year Plant per B-2 (Based on Coriolis Engineering Report)**								
31	360	Collection Sewers - Force	$ -	$ 3,496,947			$ 3,496,947	3.33%	116,448
32	380	Treatment Plant	-	14,168,882			14,168,882	5.00%	708,444
33	397	Miscellaneous Equipment	-	193,839			193,839	10.00%	19,384
34	398	Other Tangible Plant	-	710,485			710,485	10.00%	71,049
35									
36									-
37	Total PTY Plant		$ -	$ 18,570,153	$ -	$ -	$ 18,570,153		$ 915,325
38									
	Totals		$ 18,293,485	$ 18,570,153	$ -	$ -	$ 36,863,638		$ 1,592,990
39	Less: Amortization of Contributions - Adjtd Balance End of TY		$ 2,440,167			$ (1,595,379)	$ 844,788	5.00%	$ (42,239)
40									
41	Total Depreciation Expense								$ 1,550,751
42									
43	Test Year Depreciation Expense								531,731
44									
45	Increase (decrease) in Depreciation Expense								1,019,020
46									
47	Adjustment to Revenues and/or Expenses								$ 1,019,020
48									

Far West Water and Sewer Company - Sewer Division
Test Year Ended December 31, 2007
Adjustment to Revenues and Expenses
Adjustment Number 2

Exhibit
Schedule C-2
Page 3
Witness: Bourassa

Line No.			
1	Adjust Property Taxes to Reflect Proposed Revenues:		
2			
3	Adjusted Revenues in year ended 12/31/07	$	2,139,964
4	Adjusted Revenues in year ended 12/31/07		2,139,964
5	Proposed Revenues		6,735,712
6	Average of three year's of revenue	$	3,671,880
7	Average of three year's of revenue, times 2	$	7,343,761
8	Add:		
9	Construction Work in Progess at 10% (excluded)	$	-
10	Deduct:		
11	Book Value of Transportation Equipment		89,241
12			
13	Full Cash Value	$	7,254,520
14	Assessment Ratio		22.5%
15	Assessed Value	$	1,632,267
16	Property Tax Rate		10.9950%
17			
18	Property Tax	$	179,467
19	Tax on Parcels		0
20			
21	Total Property Tax at Proposed Rates	$	179,467
22	Property Taxes in the test year		64,174
23	Change in Property Taxes	$	115,294
24			
25			
26	Adjustment to Revenues and/or Expenses	$	115,294
27			
28			

Far West Water and Sewer Company - Sewer Division
Test Year Ended December 31, 2007
ADJUSTMENTS TO REVENUES AND/OR EXPENSES
Adjustment Number 3

Exhibit
Schedule C-2
Page 4
Witness: Bourassa

Line No.			
1	Rate Case Expense		
2			
3	Estimated Rate Case Expense	$	225,000
4			
5	Total Rate Case Expense	$	225,000
6			
7	Estimated Amortization Period in Years		3
8			
9	Annual Rate Case Expense	$	75,000
10			
11	Test Year Rate Case Expense	$	102,025
12			
13	Increase(decrease) Rate Case Expense	$	(27,025)
14			
15	Adjustment to Revenue and/or Expense	$	(27,025)
16			
17			
18			
19			
20			
21			
22			
23			
24			
25			
26			
27			

Far West Water and Sewer Company - Sewer Division
Test Year Ended December 31, 2007
Adjustment to Revenues and Expenses
Adjustment Number 4

Exhibit
Schedule C-2
Page 5
Witness: Bourassa

Line No.			
1	Revenue Annualization		
2			
3			
4	Revenue Annualization from H1 Schedule	$	293,141
5			
6			
7			
8	Total Revenue from Annualization	$	293,141
9			
10			
11	Adjustment to Revenue and/or Expense	$	293,141
12			
13	SUPPORTING SCHEDULES		
14			
15	C-2 pages 5.1-5.7		
16			
17			
18			
19			
20			

Far West Water and Sewer Company - Sewer Division
Revenue Anualization to Year-end Number of Customers
Residential

Exhibit
Schdule C2
Page 5.1
Witness: Bourassa

Line No.		Month Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07
1	Year End Number of Customers	7,195	7,195	7,195	7,195	7,195	7,195
2	Actual Customers	7,010	7,086	6,291	6,726	6,325	6,029
3	Increase in Number of Customers/Bills	185	109	904	469	870	1,166
4	Average Revenue / Present Rates	$ 21.75	$ 21.75	$ 21.75	$ 21.75	$ 21.75	$ 21.75
5	Revenue Annualization / Present Rates	$ 4,024	$ 2,371	$ 19,662	$ 10,201	$ 18,923	$ 25,361
6							
7	Increase in Number of Customers	185	109	904	469	870	1,166
8	Average Revenue / Proposed Rates	$ 74.32	$ 74.32	$ 74.32	$ 74.32	$ 74.32	$ 74.32
9	Revenue Annualization / Proposed Rates	$ 13,750	$ 8,101	$ 67,187	$ 34,857	$ 64,660	$ 86,659
10							
11							
12							Total
13		Month					Year
14		Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	
15	Year End Number of Customers	7,195	7,195	7,195	7,195	7,195	7,195	
16	Actual Customers	5,932	5,974	6,152	6,517	7,002	7,195	
17	Increase in Number of Customers/Bills	1,263	1,221	1,043	678	193	-	8,101
18	Average Revenue / Present Rates	$ 21.75	$ 21.75	$ 21.75	$ 21.75	$ 21.75	$ 21.75	
19	Revenue Annualization / Present Rates	$ 27,470	$ 26,557	$ 22,685	$ 14,747	$ 4,198	$ -	$ 176,197
20								
21	Increase in Number of Customers	1,263	1,221	1,043	678	193	-	
22	Average Revenue / Proposed Rates	$ 74.32	$ 74.32	$ 74.32	$ 74.32	$ 74.32	$ 74.32	
23	Revenue Annualization / Proposed Rates	$ 93,869	$ 90,747	$ 77,518	$ 50,390	$ 14,344	$ -	$ 602,082
24								

Far West Water and Sewer Company - Sewer Division
Revenue Anualization to Year-end Number of Customers
Commercial

Exhibit
Schedule C-2
Page 5.2
Witness: Bourassa

Line No.		Month Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07	Jul-07
1	Year End Number of Customers	36	36	36	36	36	36	36
2	Actual Customers	34	33	32	33	33	32	34
3	Increase in Number of Customers/Bills	2	3	4	3	3	4	2
4	Average Revenue / Present Rates	$ 43.50	$ 43.50	$ 43.50	$ 43.50	$ 43.50	$ 43.50	$ 43.50
5	Revenue Annualization / Present Rates	$ 87	$ 131	$ 174	$ 131	$ 131	$ 174	$ 87
6								
7	Increase in Number of Customers	2	3	4	3	3	4	2
8	Average Revenue / Proposed Rates	$ 148.64	$ 148.64	$ 148.64	$ 148.64	$ 148.64	$ 148.64	$ 148.64
9	Revenue Annualization / Proposed Rates	$ 297	$ 446	$ 595	$ 446	$ 446	$ 595	$ 297
10	Additional Gallons to be Produced	68	99	128	99	99	128	68
11								
12								
13		Month Aug-07	Sep-07	Oct-07	Nov-07	Dec-07		Total Year
14								
15	Year End Number of Customers	36	36	36	36	36		
16	Actual Customers	38	34	38	34	35		
17	Increase in Number of Customers/Bills	(2)	2	1	-	-		22
18	Average Revenue / Present Rates	$ 43.50	$ 43.50	$ 43.50	$ 43.50	$ 43.50		
19	Revenue Annualization / Present Rates	$ (87)	$ 87	$ 44	$ -	$ -		$ 957
20								
21	Increase in Number of Customers	(2)	2	1	-	-		
22	Average Revenue / Proposed Rates	$ 148.64	$ 148.64	$ 148.64	$ 148.64	$ 148.64		
23	Revenue Annualization / Proposed Rates	$ (87)	$ 87	$ 44	$ -	$ -		$ 3,270
24	Additional Gallons to be Produced	(76)	68	35	-	-		716

Far West Water and Sewer Company - Sewer Division
Revenue Anualization to Year-end Number of Customers
RV Park - Adobe Village

Exhibit
Schdule C2
Page 5.3
Witness: Bourassa

Line No.		Month Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07
1	Year End Number of Customers	1	1	1	1	1	1
2	Actual Customers	1	1	1	-	1	-
3	Increase in Number of Customers/Bills	-	-	-	1	-	1
4	Average Revenue / Present Rates	$ 641.92	$ 641.92	$ 641.92	$ 641.92	$ 641.92	$ 641.92
5	Revenue Annualization / Present Rates	$ -	$ -	$ -	$ 642	$ -	$ 642
6							
7	Increase in Number of Customers	-	-	-	1	-	1
8	Average Revenue / Proposed Rates	$ 2,193.50	$ 2,193.50	$ 2,193.50	$ 2,193.50	$ 2,193.50	$ 2,193.50
9	Revenue Annualization / Proposed Rates	$ -	$ -	$ -	$ 2,194	$ -	$ 2,194
10							
11							
12							

Line No.		Month Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	Total Year
13								
14								
15	Year End Number of Customers	1	1	1	1	1	1	
16	Actual Customers	-	-	-	-	1	1	
17	Increase in Number of Customers/Bills	1	1	1	1	-	-	6
18	Average Revenue / Present Rates	$ 641.92	$ 641.92	$ 641.92	$ 641.92	$ 641.92	$ 641.92	
19	Revenue Annualization / Present Rates	$ 642	$ 642	$ 642	$ 642	$ -	$ -	$ 3,852
20								
21	Increase in Number of Customers	1	1	1	1	-	-	
22	Average Revenue / Proposed Rates	$ 2,193.50	$ 2,193.50	$ 2,193.50	$ 2,193.50	$ 2,193.50	$ 2,193.50	
23	Revenue Annualization / Proposed Rates	$ 2,194	$ 2,194	$ 2,194	$ 2,194	$ -	$ -	$ 13,161
24								

Far West Water and Sewer Company - Sewer Division
Revenue Anualization to Year-end Number of Customers
RV Park - Sunset Palm

Exhibit
Schdule C2
Page 5.4
Witness: Bourassa

Line No.		Month Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07
1	Year End Number of Customers	1	1	1	1	1	1
2	Actual Customers	1	1	1	-	1	-
3	Increase in Number of Customers/Bills	-	-	-	1	-	1
4	Average Revenue / Present Rates	$ 636.48	$ 636.48	$ 636.48	$ 636.48	$ 636.48	$ 636.48
5	Revenue Annualization / Present Rates	$ -	$ -	$ -	$ 636	$ -	$ 636
6							
7	Increase in Number of Customers	-	-	-	1	-	1
8	Average Revenue / Proposed Rates	$ 2,174.92	$ 2,174.92	$ 2,174.92	$ 2,174.92	$ 2,174.92	$ 2,174.92
9	Revenue Annualization / Proposed Rates	$ -	$ -	$ -	$ 2,175	$ -	$ 2,175
10							
11							
12							Total
13		Month Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	Year
14								
15	Year End Number of Customers	1	1	1	1	1	1	
16	Actual Customers	-	-	-	-	1	1	
17	Increase in Number of Customers/Bills	1	1	1	1	-	-	6
18	Average Revenue / Present Rates	$ 636.48	$ 636.48	$ 636.48	$ 636.48	$ 636.48	$ 636.48	
19	Revenue Annualization / Present Rates	$ 636	$ 636	$ 636	$ 636	$ -	$ -	$ 3,819
20								
21	Increase in Number of Customers	1	1	1	1	-	-	
22	Average Revenue / Proposed Rates	$ 2,174.92	$ 2,174.92	$ 2,174.92	$ 2,174.92	$ 2,174.92	$ 2,174.92	
23	Revenue Annualization / Proposed Rates	$ 2,175	$ 2,175	$ 2,175	$ 2,175	$ -	$ -	$ 13,049
24								

Far West Water and Sewer Company - Sewer Division
Revenue Anualization to Year-end Number of Customers
RV Park - Sun Ridge

Exhibit
Schdule C2
Page 5.5
Witness: Bourassa

Line No.		Month Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07
1	Year End Number of Customers	1	1	1	1	1	1
2	Actual Customers	1	1	1	-	1	-
3	Increase in Number of Customers/Bills	-	-	-	1	-	1
4	Average Revenue / Present Rates	$ 1,528.64	$ 1,528.64	$ 1,528.64	$ 1,528.64	$ 1,528.64	$ 1,528.64
5	Revenue Annualization / Present Rates	$ -	$ -	$ -	$ 1,529	$ -	$ 1,529
6							
7	Increase in Number of Customers	-	-	-	1	-	1
8	Average Revenue / Proposed Rates	$ 5,223.52	$ 5,223.52	$ 5,223.52	$ 5,223.52	$ 5,223.52	$ 5,223.52
9	Revenue Annualization / Proposed Rates	$ -	$ -	$ -	$ 5,224	$ -	$ 5,224
10							
11							
12							
13							
14		Month Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07
15	Year End Number of Customers	1	1	1	1	1	1
16	Actual Customers	-	-	-	-	1	1
17	Increase in Number of Customers/Bills	1	1	1	1	-	-
18	Average Revenue / Present Rates	$ 1,528.64	$ 1,528.64	$ 1,528.64	$ 1,528.64	$ 1,528.64	$ 1,528.64
19	Revenue Annualization / Present Rates	$ 1,529	$ 1,529	$ 1,529	$ 1,529	$ -	$ -
20							
21	Increase in Number of Customers	1	1	1	1	-	-
22	Average Revenue / Proposed Rates	$ 5,223.52	$ 5,223.52	$ 5,223.52	$ 5,223.52	$ 5,223.52	$ 5,223.52
23	Revenue Annualization / Proposed Rates	$ 5,224	$ 5,224	$ 5,224	$ 5,224	$ -	$ -
24							

Line No.		Total Year
1	Year End Number of Customers	
2	Actual Customers	
3	Increase in Number of Customers/Bills	6
4	Average Revenue / Present Rates	
5	Revenue Annualization / Present Rates	$ 9,172
6		
7		
8		
9		
10		
11		
12		
13		
14		
15		
16		
17		
18		
19		
20		
21		
22		
23	Revenue Annualization / Proposed Rates	$ 31,341
24		

Far West Water and Sewer Company - Sewer Division
Revenue Anualization to Year-end Number of Customers
RV Park - Rancho Rialto

Exhibit
Schdule C2
Page 5.6
Witness: Bourassa

Line No.		Month Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07
1	Year End Number of Customers	1	1	1	1	1	1
2	Actual Customers	1	1	1	1	1	1
3	Increase in Number of Customers/Bills	-	-	-	-	-	-
4	Average Revenue / Present Rates	$ 1,071.68	$ 1,071.68	$ 1,071.68	$ 1,071.68	$ 1,071.68	$ 1,071.68
5	Revenue Annualization / Present Rates	$ -	$ -	$ -	$ -	$ -	$ -
6							
7	Increase in Number of Customers	-	-	-	-	-	-
8	Average Revenue / Proposed Rates	$ 3,662.04	$ 3,662.04	$ 3,662.04	$ 3,662.04	$ 3,662.04	$ 3,662.04
9	Revenue Annualization / Proposed Rates	$ -	$ -	$ -	$ -	$ -	$ -
10							
11							
12							Total
13		Month Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	Year
14								
15	Year End Number of Customers	1	1	1	1	1	1	
16	Actual Customers	-	1	-	-	1	1	
17	Increase in Number of Customers/Bills	1	-	1	1	-	-	3
18	Average Revenue / Present Rates	$ 1,071.68	$ 1,071.68	$ 1,071.68	$ 1,071.68	$ 1,071.68	$ 1,071.68	
19	Revenue Annualization / Present Rates	$ 1,072	$ -	$ 1,072	$ 1,072	$ -	$ -	$ 3,215
20								
21	Increase in Number of Customers	1	-	1	1	-	-	
22	Average Revenue / Proposed Rates	$ 3,662.04	$ 3,662.04	$ 3,662.04	$ 3,662.04	$ 3,662.04	$ 3,662.04	
23	Revenue Annualization / Proposed Rates	$ 3,662	$ -	$ 3,662	$ 3,662	$ -	$ -	$ 10,986
24								

Far West Water and Sewer Company - Sewer Division
Revenue Anualization to Year-end Number of Customers
Effluent Sales

Exhibit
Schedule C-2
Page 5.7
Witness: Bourassa

Line No.		Month Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07	Jul-07
1								
2								
3	2 Months of Sales at Average Gallons (in 1,000's)	8,750	8,750					
4	Additonal Gallons Effluent Sold	6,000	6,000	6,000	6,000	6,000	6,000	6,000
5	Annualized Effluent Gallons	14,750	14,750	6,000	6,000	6,000	6,000	6,000
6								
7								
8	Revenue Annualization / Present Rates	$ 14,750	$ 14,750	$ 6,000	$ 6,000	$ 6,000	$ 6,000	$ 6,000
9								
10	2 Months of Sales at Average Gallons (in 1,000's)	8,750	8,750					
11	Additonal Gallons Effluent Sold (in 1,000's)	6,000	6,000	6,000	6,000	6,000	6,000	6,000
12	Annualized Effluent Gallons	14,750	14,750	6,000	6,000	6,000	6,000	6,000
13								
14								
15	Revenue Annualization / Proposed Rates	$ 2,950	$ 2,950	$ 1,200	$ 1,200	$ 1,200	$ 1,200	$ 1,200
16								

Line No.		Month Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	Year Totals
17							
18							
19	2 Months of Sales at Average Gallons (in 1,000's)						
20	Additonal Gallons Effluent Sold (in 1,000's)	6,000	6,000	6,000	6,000	6,000	
21	Annualized Effluent Gallons	6,000	6,000	6,000	6,000	6,000	89,500
22							
23							
24	Revenue Annualization / Present Rates	$ 6,000	$ 6,000	$ 6,000	$ 6,000	$ 6,000	$ 89,500
25							
26	2 Months of Sales at Average Gallons (in 1,000's)						
27	Additonal Gallons Effluent Sold (in 1,000's)	6,000	6,000	6,000	6,000	6,000	
28	Annualized Effluent Gallons	6,000	6,000	6,000	6,000	6,000	89,500
29							
30							
31	Revenue Annualization / Proposed Rates	$ 1,200	$ 1,200	$ 1,200	$ 1,200	$ 1,200	$ 17,900

Far West Water and Sewer Company - Sewer Division
Test Year Ended December 31, 2007
Adjustment to Revenues and Expenses
Adjustment Number 5

Exhibit
Schedule C-2
Page 6
Witness: Bourassa

Line No.				
1	Remove Other Income and Expenses to Eliminate Effects on Income Taxes			
2				
3				Adjustment Label
4	Test Year Interest Income	$	(554,835)	5a
5	Test Year Other Income		(1,899)	5b
6	Test Year Other Expense		650,490	5c
7				
8	Total	$	93,756	
9				
10				
11	Adjustment to Revenue and/or Expense	$	93,756	
12				
13				
14				
15				
16				
17				
18				
19				
20				

Far West Water and Sewer Company - Sewer Division
Test Year Ended December 31, 2007
Adjustment to Revenues and Expenses
Adjustment Number 6

Exhibit
Schedule C-2
Page 7
Witness: Bourassa

Line No.					
1	Annualize power cost for additonal gallons from annualization of revenues				
2					
3	(1) Test Year Purchased Power Expense				$ 221,622
4	(2) Gallons treated in Test Year (1,000's)				260,400
5	(3) Cost per 1,000 gallons (1 divided by 2)				0.85108
6	(4) Additonal gallons treated from annualization (in 1,000's)*				24,633
7	(5) Additional Purchased Power Expense (3 times 4)				$ 20,965
8					
9					
10	Adjustment to Revenue and/or Expense				$ 20,965
11					
12	*Calculation of Additional Gallons				
13			Flow per day (ga	Monthly Flow	
14	Class	Additional Monthly Billings from	(ADEQ Bul. 12)	Per Customer	Total Annual Flow (gals 1000's)
15	Residential	8,101	100	3,000	24,303
16	Commercial	22	500	15,000	330
17					24,633
18					
19					
20					

Far West Water and Sewer Company - Sewer Division
Test Year Ended December 31, 2007
Adjustment to Revenues and Expenses
Adjustment Number 7

Exhibit
Schedule C-2
Page 8
Witness: Bourassa

Line No.			
1	Increase Purchased Power Costs for APS Rate Increase in 2007		
2			
3			
4	Test Year Purchased Power	$	221,622
5	Purchased Power From Annualization		20,965
6	Total Annualized Purchased Power Expense		242,587
7	APS rate increase (12.33% effective June 28, 2007)		6.17%
8	Increase Purchased Power Costs for APS Rate Increase	$	14,955
9			
10			
11			
12	Adjustment to Revenue and/or Expense	$	14,955
13			
14			
15			
16			
17			
18			
19			
20			
21			
22			

Far West Water and Sewer Company - Sewer Division
Test Year Ended December 31, 2007
Adjustment to Revenues and Expenses
Adjustment Number 8

Exhibit
Schedule C-2
Page 9
Witness: Bourassa

Line No.			
1	Annualize chemicals for additonal gallons from annualization of revenues		
2			
3	(1) Test Year Chemicals Expense	$	213,513
4	(2) Gallons treated in Test Year (1,000's)		260,400
5	(3) Cost per 1,000 gallons (1 divided by 2)		0.81994
6	(4) Additonal gallons treated from annualization (in 1,000's)*		24,633
7	(5) Additional Chemicals Expense (3 times 4)	$	20,198
8			
9			
10	Adjustment to Revenue and/or Expense	$	20,198
11			
12			
13			
14	*Calculation of Additional Gallons		

15			Flow per day (ga	Monthly Flow	
16	Class	Additional Monthly Billings from	(ADEQ Bul. 12)	Per Customer	Total Annual Flow (gals 1000's)
17	Residential	13,992	100	3,000	41,976
18	Commercial	29	500	15,000	435
19					42,411
20					

Far West Water and Sewer Company - Sewer Division
Test Year Ended December 31, 2007
Adjustment to Revenues and Expenses
Adjustment Number 9

Exhibit
Schedule C-2
Page 10
Witness: Bourassa

Line No.		
1	Remove Reconnect Fees Captured by Revenue Annualization	
2		
3		
4	2004 Reconnection Fees Accounted for in Annualization of Revenues	$ 157,203
5		
6		
7		
8		
9		
10		
11	Adjustment to Revenue and/or Expense	$ (157,203)
12		
13		
14		
15		
16		
17		
18		
19		

Far West Water and Sewer Company - Sewer Division
Test Year Ended December 31, 2007
Adjustment to Revenues and Expenses
Adjustment Number 10

Exhibit
Schedule C-2
Page 11
Witness: Bourassa

Line No.				
1	Salaries and Wages Annualization			
2				
3				Label
4	Annualized Salaries and Wages (Excluding Benefits)	$	782,089	
5	Test Year Salaries and Wages (Excluding Benefits)		586,268	
6				
7	Increase(Decrease) in Salaries aand Wages	$	195,821	10a
8				
9				
10	Annualized Payroll Taxes	$	63,985	
11	Test Year Payroll Taxes		48,376	
12				
13	Increase(Decrease) in PR taxes	$	15,609	10b
14				
15				
16				
17				
18	Adjustment to Revenue and/or Expense	$	211,430	
19				
20	SUPPORTING SCHEDULES			
21	C-2, page 11.1 and 11.2			
22				

Far West Water and Sewer - Sewer Division
Test Year Ending December 31, 2007
Adjustment #10

Exhibit
Schedule C-2
Page 11.1
Witness: Bourassa

Line No.	Wages and Salaries Annualization													
1				Actual	Sewer	Allocated							Projected	Allocated
2		Hire		2007	Allocation	Sewer				2008	Annual		2008	Sewer
3	Position	Date		Wages	Percentage	Wages	Term. Date	Replace?	Type	Rate	Hours		Wages	Wages
4	Vice President & CEO	07/28/01		65,712	70%	45,998			Salary	72,000			72,000	50,400
5	President & CFO	07/28/01		65,712	70%	45,998			Salary	72,000			72,000	50,400
6	Officer	07/28/01		12,500	70%	8,750			Salary	12,500			12,500	8,750
7	Compliance Officer	07/16/07		19,904	50%	9,952	03/17/08	Yes	Salary	45,000			45,000	22,500
8	Safety Officer	09/30/99		23,012	50%	11,506			Salary	30,000			30,000	15,000
9	Customer Service	09/07/07		3,451	25%	863	02/27/07	Yes	Hourly	-	-		-	-
10	Customer Service		Replacement	-	25%	-			Hourly	10.00	2,080		20,800	5,200
11	Customer Service	10/01/06		5,687	25%	1,422			Hourly	10.00	2,080		20,800	5,200
12	Asst. Manager	12/02/04		11,308	25%	2,827	07/06/07	Yes	Hourly	-	-		-	-
13	Asst. Manager		Replacement		25%	-			Hourly	20.00	2,080		41,600	10,400
14	Customer Service, Clerical	11/22/04		17,986	25%	4,497	08/31/07	Yes	Hourly	-			-	-
15	Customer Service, Clerical		Replacement		25%	-			Hourly	10.00	2,080		20,800	5,200
16	Customer Service	09/19/03		18,739	25%	4,685	02/21/08	Yes	Hourly	-	-		-	-
17	Customer Service		Replacement	-	25%	-			Hourly	10.00	2,080		20,800	5,200
18	Officer Manager	10/06/05		23,345	25%	5,836			Hourly	-	-		-	-
19	Officer Manager		Replacement		25%	-			Hourly	11.00	2,080		22,880	5,720
20	Accounts Payable	03/27/00		27,423	25%	6,856	03/07/08	Yes	Hourly	-	-		-	-
21	Accounts Payable	3/7/2008	Replacement	-	25%	-			Hourly	22.50	2,080		46,800	11,700
22	Officer Manager	06/28/04		27,493	25%	6,873			Hourly	18.00	2,233		41,571	10,393
23	Customer Service	03/07/08		28,592	25%	7,148			Hourly	14.00	2,093		29,393	7,348
24	Payroll Manager	10/06/05		32,080	25%	8,020	05/03/08	Yes	Salary	-	-		-	-
25	Payroll Manager		Replacement	-	25%	-			Salary	38,000	-		38,000	9,500
26	Billing	03/27/00		34,767	25%	8,692			Salary	35,000	-		35,000	8,750
27	Accountant	6/28/2004		47,385	25%	11,846			Salary	52,000	-		52,000	13,000
28	Collections	8/1/2008	NEW HIRE	-	25%	-			Hourly	12.00	880		10,560	2,640
29	Customer Service	3/21/2008	NEW HIRE	-	25%	-			Hourly	12.00	514		6,168	1,542
30	Treatment Lead Operator	8/30/2005		48,259	100%	48,259			Hourly	21.00	2,324		51,366	51,366
31	Operator	2/16/2005		6,304	100%	6,304	2/18/2007	No	Hourly				-	-
32	CDL Truck Driver	7/29/2007		5,574	100%	5,574			Hourly	13.00	720		9,360	9,360
33	Laboratory Technician	1/19/2004		8,077	100%	8,077	2/19/2007	Yes	Hourly				-	-
34	Laboratory Technician		Replacement		100%				Hourly	20.20	2,080		42,016	42,016
35	Operator	4/17/2003		4,173	100%	4,173	5/5/2007	No	Hourly				-	-
36	Laboratory Technician	3/16/2006		3,843	100%	3,843	2/19/2007	Yes	Hourly				-	-
37	Laboratory Technician		Replacement		100%				Hourly	12.00	2,080		24,960	24,960
38	Operator	10/20/2003		32,287	100%	32,287	1/19/2008	Yes	Hourly				-	-
39	Operator		Replacement		100%	-			Hourly	13.50	2,080		28,080	28,080
40	Operator	3/5/2006		31,377	100%	31,377	6/20/2008	Yes	Hourly				-	-
41	Operator		Replacement		100%	-			Hourly	13.50	2,080		28,080	28,080
42	Operator	5/19/2003		30,086	100%	30,086			Hourly	12.50	2,145		27,211	27,211
43	Operator	3/9/2007		25,508	100%	25,508			Hourly	14.50	2,380		36,685	36,685
44	Operator	8/25/2005		31,546	100%	31,546			Hourly	14.00	2,171		31,031	31,031
45	Operator	5/23/2005		28,540	100%	28,540			Hourly	14.50	2,282		34,562	34,562
46	Operator	5/5/2007		26,499	100%	26,499	12/28/2007	Yes	Hourly				-	-
47	Operator		Replacement		100%	-			Hourly	14.00	2,080		29,120	29,120
48	Treatment Lead Operator			44,014	100%	44,014	9/5/2007	Yes	Hourly				-	-
49	Treatment Lead Operator		Replacement		100%	-			Hourly	21.00	2,080		43,680	43,680
50	Treatment Lead Operator	12/26/2001		49,001	100%	49,001			Hourly	21.00	2,338		51,807	51,807
51	CDL Truck Driver	8/13/2007		15,537	100%	15,537			Hourly	13.50	3,166		50,061	50,061
52	Asst. Manager			12,000	25%	3,000			1099	-	-		-	-
53	Accountant			3,500	25%	875			1099	-	-		-	-
54	CDL Truck Driver	1/20/2008			100%	-			Hourly	13.00	2,481		34,860	34,860
55	Operator	6/30/2008			100%	-			Hourly	12.00	864		10,368	10,368
56														
57				$ 871,220		$ 586,268							$ 1,171,918	$ 782,089
58														
59	Annualized Salaries and Wages	$ 782,089												
60	Test Year Salaries and Wages	$ 586,268												
61	Increase (Decrease)	$ 195,821												

Far West Water and Sewer - Sewer Division
Test Year Ending December 31, 2007
Adjustment #10

Exhibit
Schedule C-2
Page 11.2
Witness: Bourassa

Line No.		Actual 2007 Payroll Taxes						Projected 2008 Payroll Taxes					
1	Wages and Salaries Annualization			0.80%	1.83%		Allocated			0.80%	1.83%		Allocated
3		6.20%	1.45%	First $7,000	First $7,000	Total	Sewer	6.20%	1.45%	First $7,000	First $7,000	Total	Sewer
4		First $97,500		Fed.	State	Payroll	PR	First $102,000		Fed.	State	Payroll	PR
5	Position	SS	Medicare	Unemploy	Unemploy	Taxes	Taxes	SS	Medicare	Unemploy	Unemploy	Taxes	Taxes
6	Vice President & CEO	4,074	953	56	128	5,211	3,648	4,464	1,044	56	128	5,692	3,984
7	President & CFO	4,074	953	56	128	5,211	3,648	4,464	1,044	56	128	5,692	3,984
8	Officer	775	181	56	128	1,140	798	775	181	56	128	1,140	798
9	Compliance Officer	1,234	289	56	128	1,707	853	2,790	653	56	128	3,627	1,813
10	Safety Officer	1,427	334	56	128	1,945	972	1,860	435	56	128	2,479	1,240
11	Customer Service	214	50	28	63	355	89	-	-	-	-	-	-
12	Customer Service	-	-	-	-	-	-	1,290	302	56	128	1,775	444
13	Customer Service	353	82	45	104	585	146	1,290	302	56	128	1,775	444
14	Asst. Manager	701	164	56	128	1,049	262	-	-	-	-	-	-
15	Asst. Manager	-	-	-	-	-	-	2,579	603	56	128	3,367	842
16	Customer Service, Clerical	1,115	261	56	128	1,560	390	-	-	-	-	-	-
17	Customer Service, Clerical	-	-	-	-	-	-	1,290	302	56	128	1,775	444
18	Customer Service	1,162	272	56	128	1,618	404	-	-	-	-	-	-
19	Customer Service	-	-	-	-	-	-	1,290	302	56	128	1,775	444
20	Officer Manager	1,447	339	56	128	1,970	493	-	-	-	-	-	-
21	Officer Manager	-	-	-	-	-	-	1,419	332	56	128	1,934	484
22	Accounts Payable	1,700	398	56	128	2,282	570	-	-	-	-	-	-
23	Accounts Payable	-	-	-	-	-	-	2,902	679	56	128	3,764	941
24	Officer Manager	1,705	399	56	128	2,287	572	2,577	603	56	128	3,364	841
25	Customer Service	1,773	415	56	128	2,371	593	1,822	426	56	128	2,433	608
26	Payroll Manager	1,989	465	56	128	2,638	660	-	-	-	-	-	-
27	Payroll Manager	-	-	-	-	-	-	2,356	551	56	128	3,091	773
28	Billing	2,156	504	56	128	2,844	711	2,170	508	56	128	2,862	715
29	Accountant	2,938	687	56	128	3,809	952	3,224	754	56	128	4,162	1,041
30	Collections	-	-	-	-	-	-	655	153	56	128	992	248
31	Customer Service	-	-	-	-	-	-	382	89	49	113	634	159
32	Treatment Lead Operator	2,992	700	56	128	3,876	3,876	3,185	745	56	128	4,114	4,114
33	Operator	391	91	50	115	648	648	-	-	-	-	-	-
34	CDL Truck Driver	346	81	45	102	573	573	580	136	56	128	900	900
35	Laboratory Technician	501	117	56	128	802	802	-	-	-	-	-	-
36	Laboratory Technician	-	-	-	-	-	-	2,605	609	56	128	3,398	3,398
37	Operator	259	61	33	76	429	429	-	-	-	-	-	-
38	Laboratory Technician	238	56	31	70	395	395	-	-	-	-	-	-
39	Laboratory Technician	-	-	-	-	-	-	1,548	362	56	128	2,094	2,094
40	Operator	2,002	468	56	128	2,654	2,654	-	-	-	-	-	-
41	Operator	-	-	-	-	-	-	1,741	407	56	128	2,332	2,332
42	Operator	1,945	455	56	128	2,584	2,584	-	-	-	-	-	-
43	Operator	-	-	-	-	-	-	1,741	407	56	128	2,332	2,332
44	Operator	1,865	436	56	128	2,486	2,486	1,687	395	56	128	2,266	2,266
45	Operator	1,581	370	56	128	2,135	2,135	2,274	532	56	128	2,991	2,991
46	Operator	1,956	457	56	128	2,597	2,597	1,924	450	56	128	2,558	2,558
47	Operator	1,769	414	56	128	2,367	2,367	2,143	501	56	128	2,828	2,828
48	Operator	1,643	384	56	128	2,211	2,211	-	-	-	-	-	-
49	Operator	-	-	-	-	-	-	1,805	422	56	128	2,412	2,412
50	Treatment Lead Operator	2,729	638	56	128	3,551	3,551	-	-	-	-	-	-
51	Treatment Lead Operator	-	-	-	-	-	-	2,708	633	56	128	3,526	3,526
52	Treatment Lead Operator	3,038	711	56	128	3,933	3,933	3,212	751	56	128	4,147	4,147
53	CDL Truck Driver	963	225	56	128	1,373	1,373	3,104	726	56	128	4,014	4,014
54	Asst. Manager												
55	Accountant												
56	CDL Truck Driver	-	-	-	-	-	-	2,161	505	56	128	2,851	2,851
57	Operator	-	-	-	-	-	-	643	150	56	128	977	977
58		$ 53,055	$ 12,408	$ 1,744	$ 3,990	$ 71,197	$ 48,376	$ 72,659	$ 16,993	$ 1,953	$ 4,468	$ 96,073	$ 63,985
59													
60	Annualized Payroll Taxes	$ 63,985											
61	Test Year Payroll Taxes	$ 48,376											
62	Increase (Decrease)	$ 15,609											

Far West Water and Sewer Company - Sewer Division
Test Year Ended December 31, 2007
Adjustment to Revenues and Expenses
Adjustment Number 11

Exhibit
Schedule C-2
Page 12
Witness: Bourassa

Line No.			
1	Annualization of Transportation Fuel Charges		
2			
3			
4	Annualized Gasoline and Diesel Fuel Costs	$	29,699
5	Test Year Gasoline and Diesel Fuel Costs		22,357
6			
7	Increase (Decrease) in Transporation Expenses	$	7,342
8			
9			
10			
11			
12	Adjustment to Revenue and/or Expense	$	7,342
13			
14			
15			
16			
17			
18			
19			
20	SUPPORTING SCHEDULES		
21	C-2, page 12.1		
22			

Far West Water and Sewer - Sewer Division
Test Year Ended December 31, 2007
Adjustment #11

Exhibit
Schedule C-2
Page 12.1
Witness: Bourassa

Gasoline

Line No.	Test Year Cost	Gallons	Cost per	Weight	Weighted Cost	Cost Per	Annualized Cost
4	$ 739.84	301.31	2.46	0.06	0.15	3.60	1,084.72
5	799.59	314.80	2.54	0.07	0.17	3.60	1,133.29
6	161.00	58.45	2.75	0.01	0.04	3.60	210.41
7	262.43	106.68	2.46	0.02	0.05	3.60	384.04
8	538.51	220.80	2.44	0.05	0.11	3.60	794.89
9	788.72	277.46	2.84	0.07	0.19	3.60	998.84
10	742.43	249.94	2.97	0.06	0.19	3.60	899.78
11	849.20	280.58	3.03	0.07	0.22	3.60	1,010.07
12	865.24	296.91	2.91	0.07	0.21	3.60	1,068.86
13	779.19	274.63	2.84	0.07	0.19	3.60	988.68
14	1,091.84	404.65	2.70	0.09	0.25	3.60	1,456.72
15	949.71	350.62	2.71	0.08	0.22	3.60	1,262.25
16	1,159.76	407.31	2.85	0.10	0.28	3.60	1,466.30
17	1,059.93	351.53	3.02	0.09	0.27	3.60	1,265.50
18	1,039.20	342.61	3.03	0.09	0.27	3.60	1,233.39
19	$ 11,826.59	4,238.26		1.00	$ 2.80		$ 15,257.74

Diesel

Line No.	Test Year Cost	Gallons	Cost per	Weight	Weighted Cost	Cost Per	Annualized Cost
25	$ 1,203.68	445.88	2.70	0.11	0.31	4.00	1,783.50
26	316.75	115.36	2.75	0.03	0.08	4.00	461.43
27	267.33	97.64	2.74	0.03	0.07	4.00	390.57
28	1,040.40	472.41	2.20	0.10	0.22	4.00	1,889.65
29	99.23	33.65	2.95	0.01	0.03	4.00	134.59
30	794.58	266.91	2.98	0.08	0.22	4.00	1,067.63
31	1,403.42	481.71	2.91	0.13	0.39	4.00	1,926.83
32	993.30	338.68	2.93	0.09	0.28	4.00	1,354.72
33	1,713.27	555.96	3.08	0.16	0.50	4.00	2,223.85
34	1,110.43	328.17	3.38	0.11	0.36	4.00	1,312.69
35	1,587.63	473.88	3.35	0.15	0.51	4.00	1,895.54
36	$ 10,530.01	3,610.25		1.00	$ 2.96		$ 14,441.02

Far West Water and Sewer Company - Sewer Division
Test Year Ended December 31, 2007
Adjustment to Revenues and Expenses
Adjustment Number 12

Exhibit
Schedule C-2
Page 13
Witness: Bourassa

Line No.			
1	Interest Syncrhonization		
2			
3			
4	Weighted Cost of Debt from Schedule D-1		5.45%
5	Proposed Rate Base	$	23,415,596
6			
7	Syncrhonized Interest Expense	$	1,275,665
8	Test Year Interest Expense		1,532,057
9			
10	Increase (Decrease) in Interest Expense	$	(256,392)
11			
12			
13			
14			
15	Adjustment to Revenue and/or Expense	$	256,392
16			
17			
18			
19			
20			
21			
22			
23	SUPPORTING SCHEDULES		
24	C-2, page 12.1		
25			

Far West Water and Sewer Company - Sewer Division
Test Year Ended December 31, 2007
Adjustment to Revenues and Expenses
Adjustment Number 13

Exhibit
Schedule C-2
Page 14
Witness: Bourassa

Line No.			Test Year Book Results		Test Year Adjusted Results		Adjusted with Rate Increase	
1	Income Taxes							
2								
3								
4	Income Before Taxes		(2,581,502)		(3,477,595)		1,118,153	
5	Arizona Income Before Taxes		(2,581,502)		(3,477,595)		1,118,153	
6								
7	Less Arizona Income Tax		(179,879)		(242,319)		77,913	
8	Rate =	6.97%						
9								
10	Arizona Taxable Income		(2,401,623)		(3,235,276)		1,040,240	
11								
12								
13	Arizona Income Taxes		(179,879)		(242,319)		77,913	
14	Federal Income Before Taxes		(2,581,502)		(3,477,595)		1,118,153	
15	Less Arizona Income Taxes		(179,879)		(242,319)		77,913	
16								
17	Federal Taxable Income		(2,401,623)		(3,235,276)		1,040,240	
18								
19								
20								
21	FEDERAL INCOME TAXES:							
22	15% BRACKET		(360,243)		(485,291)		7,500	
23	25% BRACKET		-		-		6,250	
24	34% BRACKET		-	Federal	-	Federal	8,500	Federal
25	39% BRACKET		-	Effective	-	Effective	91,650	Effective
26	34% BRACKET		-	Tax	-	Tax	239,782	Tax
27				Rate		Rate		Rate
28	Federal Income Taxes		(360,243)	13.95%	(485,291)	13.95%	353,682	31.63%
29								
30								
31	Total Income Tax		(540,123)		(727,610)		431,595	
32								
33	Overall Tax Rate		20.92%		20.92%		38.60%	
34								
35	Calculated Income Tax Using Proposed Rates							
36	Adjusted Taxable Income before Income Taxes				(3,477,595)			
37	Effective Tax Rate at Proposed rates				38.60%			
38	Computed Adjusted Income Tax				(1,342,313)			
39								
40								
41								

Far West Water and Sewer Company - Sewer Division
Test Year Ended December 31, 2007
Computation of Gross Revenue Conversion Factor

Exhibit
Schedule C-3
Page 1
Witness: Bourassa

Line No.	Description	Percentage of Incremental Gross Revenues
1	Federal Income Taxes	31.63%
2		
3	State Income Taxes	6.97%
4		
5	Other Taxes and Expenses	0.00%
6		
7		
8	Total Tax Percentage	38.60%
9		
10	Operating Income % = 100% - Tax Percentage	61.40%
11		
12		
13		
14		
15	1 = Gross Revenue Conversion Factor	
16	Operating Income %	1.6286
17		
18	SUPPORTING SCHEDULES:	RECAP SCHEDULES:
19		A-1
20		

Far West Water and Sewer Company - Sewer Division
Test Year Ended December 31, 2007
Comparative Balance Sheets

Exhibit
Schedule E-1
Page 1
Witness: Bourassa

Line No.		Test Year Ended 12/31/2007	Year Ended 12/31/2006	Year Ended 12/31/2005
1	**ASSETS**			
2	Plant In Service	$ 19,357,810	$ 17,135,585	$ 15,495,193
3	Construction Work in Progress	5,035,435	4,458,041	327,822
4	Less: Accumulated Depreciation	(3,352,988)	(2,703,327)	(2,211,627)
5	Net Plant	$ 21,040,257	$ 18,890,299	$ 13,611,388
6				
7	Debt Reserve Fund	$ -	$ -	$ -
8				
9	CURRENT ASSETS			
10	Cash and Equivalents	$ 221,971	$ -	$ -
11	Restricted Cash	10,323,434	11,226,478	-
12	Accounts Receivable, Net	392,208	262,792	214,625
13	Unbilled Revenues	-	-	-
14	Materials and Supplies	-	-	-
15	Prepayments	52,282	71,250	-
16	Other Current Assets	1,066,153	652,207	38,455
17	Total Current Assets	$ 12,056,047	$ 12,212,727	$ 253,080
18				
19	Unamortized Debt Discount	$ 866,697	$ -	$ -
20				
21	Other Investments & Special Funds	$ -	$ -	$ -
22				
23	TOTAL ASSETS	$ 33,963,002	$ 31,103,026	$ 13,864,468
24				
25				
26	**LIABILITIES AND STOCKHOLDERS' EQUITY**			
27				
28	Common Equity	$ (1,049,084)	$ (46,581)	$ 1,199,193
29				
30	Long-Term Debt	$ 20,767,204	$ -	$ -
31				
32	Fines and Penalties Payable	$ 1,208,665	$ 1,208,665	$ -
33				
34	CURRENT LIABILITIES			
35	Accounts Payable	$ 224,824	$ 400,163	$ 259,295
36	Current Portion of Long-Term Debt	116,928	17,206,182	-
37	Payables to Associated Companies	905,757	1,655,138	2,162,429
38	Customer Meter Deposits, Current	15,406	6,825	10,985
39	Accrued Taxes	-	22,599	17,839
40	Accrued Interest	68,763	-	-
41	Other Current Liabilities	177,810	176,182	178,599
42	Total Current Liabilities	$ 1,509,487	$ 19,467,089	$ 2,629,148
43	DEFERRED CREDITS			
44	Customer Meter Deposits, less current	$ -	$ -	$ -
45	Advances in Aid of Construction	9,918,635	8,748,046	8,192,607
46	Accumulated Deferred Income Taxes	-	-	-
47	Contributions In Aid of Construction, Net	2,440,167	2,440,167	2,440,167
48	Accumulated Amortization - CIAC	(832,073)	(714,360)	(596,647)
49	Total Deferred Credits	$ 11,526,729	$ 10,473,853	$ 10,036,128
50				
51	Total Liabilities & Common Equity	$ 33,963,002	$ 31,103,026	$ 13,864,468
52				
53	SUPPORTING SCHEDULES:			
54	E-5			
55				

Far West Water and Sewer Company - Sewer Division
Test Year Ended December 31, 2007
Comparative Income Statements

Exhibit
Schedule E-2
Page 1
Witness: Bourassa

Line No.		Test Year Ended 12/31/2007	Prior Year Ended 12/31/2006	Prior Year Ended 12/31/2005
1	**Revenues**			
2	Flat Rate Revenues	$ 1,721,127	$ 1,535,562	$ 1,372,580
3	Measured Revenues	87,649	-	-
4	Other Wastewater Revenues	195,249	243,448	273,616
5	**Total Revenues**	$ 2,004,026	$ 1,779,010	$ 1,646,196
6	**Operating Expenses**			
7	Salaries and Wages	$ 674,300	$ 699,011	$ 529,584
8	Purchased Wastewater Treatment	-	-	-
9	Sludge Removal Expense	397,297	166,091	216,482
10	Purchased Power	221,622	169,605	132,997
11	Fuel for Power Production	-	-	-
12	Chemicals	213,513	229,964	240,155
13	Materials and Supplies	47,418	85,520	114,809
14	Contractual Services - Professional	77,754	581,875	756,208
15	Contractual Services - Testing	158,510	91,483	33,493
16	Contractual Services - Other	29,671	15,050	56,387
17	Repairs and Maintenance	84,113	60,108	149,797
18	Rents	199,706	95,007	26,151
19	Transportation Expenses	56,228	59,278	42,127
20	Insurance	38,805	39,572	32,622
21	Regulatory Commission Expense - Rate Case	102,025	3,919	2,963
22	Miscellaneous Expense	34,270	45,410	31,124
23	Depreciation Expense	531,731	455,887	414,400
24	Taxes Other Than Income	28,579	34,829	42,230
25	Property Taxes	64,174	45,197	35,679
26	Income Tax	-	-	-
27				
28	**Total Operating Expenses**	$ 2,959,716	$ 2,877,806	$ 2,857,210
29	**Operating Income**	$ (955,690)	$ (1,098,796)	$ (1,211,014)
30	**Other Income (Expense)**			
31	Interest Income	554,835	162,926	-
32	Other income	1,899	-	411
33	Interest Expense	(1,532,057)	(510,777)	(107,811)
34	Other Expense	(650,490)	(1,334,322)	(2,450)
35				
36	**Total Other Income (Expense)**	$ (1,625,812)	$ (1,682,173)	$ (109,850)
37	**Net Profit (Loss)**	$ (2,581,502)	$ (2,780,969)	$ (1,320,864)
38				
39				

Far West Water and Sewer Company - Sewer Division
Test Year Ended December 31, 2007
Comparative Statements of Cash Flows

Exhibit
Schedule E-3
Page 1
Witness: Bourassa

Line No.		Test Year Ended 12/31/2007	Prior Year Ended 12/31/2006	Prior Year Ended 12/31/2005
1				
2				
3	Cash Flows from Operating Activities			
4	Net Income	$ (2,581,502)	$ (2,780,969)	$ (1,320,864)
5	Adjustments to reconcile net income to net cash			
6	provided by operating activities:			
7	Depreciation and Amortization	531,731	455,887	414,400
8	Adjustments to Accumulated Depreciation/A.A.	217	(81,900)	85,525
9	Other	-	-	-
10	Changes in Certain Assets and Liabilities:			
11	Accounts Receivable	(129,416)	(48,157)	(64,754)
12	Materials and Supplies Inventory	-	-	-
13	Prepaid Expenses	18,968	(71,250)	-
14	Deferred Charges	-	-	-
15	Accounts Payable	(175,339)	140,868	212,719
16	Intercompany payable	(749,381)	(507,291)	2,161,408
17	Customer Deposits	6,581	(4,160)	4,550
18	Taxes payable	(22,599)	4,760	4,827
19	Other assets and liabilities	(343,555)	592,496	(164)
20				
21				
22	Net Cash Flow provided by Operating Activities	$ (3,444,295)	$ (2,299,716)	$ 1,497,647
23	Cash Flow From Investing Activities:			
24	Capital Expenditures	(2,799,619)	(5,770,611)	(1,377,622)
25	Plant Held for Future Use	-	-	-
26	Retirement of Assets	-	-	-
27	Net Cash Flows from Investing Activities	$ (2,799,619)	$ (5,770,611)	$ (1,377,622)
28	Cash Flow From Financing Activities			
29	Change in Restricted Cash	-	-	-
30	Change in net amounts due to parent and affiliates	-	-	-
31	Receipt of contributions in aid of construction	-	-	(1,723,675)
32	Net Receipts for advances for construction	1,170,589	555,439	678,675
33	Net Proceeds of Long-Term Debt	19,900,510	-	-
34	Net Proceeds of Short-Term Debt	(17,089,254)	17,206,182	-
35	Deferred Financing Costs	-	-	-
36	Paid in Capital	1,579,000	1,535,184	924,975
37	Net Cash Flows Provided by Financing Activities	$ 5,560,845	$ 19,296,805	$ (120,025)
38	Increase(decrease) in Cash and Cash Equivalents	(683,069)	11,226,478	(0)
39	Cash and Cash Equivalents at Beginning of Year	11,226,478	(0)	-
40	Cash and Cash Equivalents at End of Year	$ 10,543,409	$ 11,226,478	$ (0)
41				
42				

Far West Water and Sewer Company - Sewer Division
Test Year Ended December 31, 2007
Statement of Changes in Stockholder's Equity

Exhibit
Schedule E-4
Page 1
Witness: Bourassa

Line No.		Common Stock	Additional Paid-In-Capital	Retained Earnings	Total
1					
2					
3					
4	Balance, December 31, 2004	$ -	$ 3,580,655	$ (1,985,572)	$ 1,595,083
5	Addnl Paid In Capital Adjustment		924,974	-	924,974
6	Dividends				-
7	Net Income			(1,320,864)	(1,320,864)
8					
9	Balance, December 31, 2005	$ -	$ 4,505,629	$ (3,306,436)	$ 1,199,193
10	Addnl Paid In Capital		1,535,195		1,535,195
11	Dividends			-	-
12	Net Income			(2,780,969)	(2,780,969)
13					
14	Balance, December 31, 2006	$ -	$ 6,040,824	$ (6,087,405)	$ (46,581)
15	Addnl Paid In Capital		1,578,999		1,578,999
16	Dividends				-
17	Net Income			(2,581,502)	(2,581,502)
18					
19	Balance, December 3, 2007	$ -	$ 7,619,823	$ (8,668,907)	$ (1,049,084)
20					
21					
22					
23					
24					
25					
26	SUPPORTING SCHEDULES:			RECAP SCHEDULES:	

Far West Water and Sewer Company - Sewer Division
Test Year Ended December 31, 2007
Detail of Plant in Service

Exhibit
Schedule E-5
Page 1
Witness: Bourassa

Line No.	Acct. No.	Plant Description	Plant Balance at 12/31/2006	Plant Additions, Reclass-ications or or Retirements	Plant Balance at 12/31/2007
1					
2	351	Organization Cost	$ -	$ -	$ -
3	352	Franchise Cost	3,076	-	3,076
4	353	Land and Land Rights	417,154	125,179	542,333
5	354	Structures and Improvements	227,423	75,205	302,628
6	360	Collection Sewers - Force	717,817	2,768	720,585
7	361	Collection Sewers Gravity	8,113,313	263,737	8,377,050
8	363	Services	-	-	-
9	364	Flow Measuring Devices	42,691	6,461	49,152
10	371	Effluent Pump	324,993	27,181	352,174
11	380	Treatment Plant	5,939,574	1,355,239	7,294,813
12	381	Plant Sewers	25,001	-	25,001
13	389	Other Plant Structure and Improvements	26,061	-	26,061
14	390	Office Furniture and Equipment	33,033	5,648	38,681
15	391	Transportation Equipment	105,185	-	105,185
16	393	Tools and Work Equipment	-	-	-
17	394	Laboratory Equipment	31,865	-	31,865
18	395	Power Operated Equipment	6,449	-	6,449
19	396	Communications Equipment	-	-	-
20	397	Miscellaneous Equipment	104,503	75,103	179,605
21	398	Other Tangible Plant	-	238,828	238,828
22		Plant Held for Future Use			
23					
24		TOTAL SEWER PLANT	$ 16,118,137	$ 2,175,348	$ 18,293,485
25					
26	SUPPORTING SCHEDULES			RECAP SCHEDULES:	
27				A-4	
28				E-1	
29					

Far West Water and Sewer Company - Sewer Division
Test Year Ended December 31, 2007
Operating Statistics

Exhibit
Schedule E-7
Page 1
Witness: Bouras

Line No.		Test Year Ended 12/31/2007	Prior Year Ended 12/31/2006	Prior Year Ended 12/31/2005
1	SEWER STATISTICS			
2				
3				
4				
5	Sewer Revenues from Customer:	$ 2,004,026	$ 1,779,010	$ 1,646,196
6				
7				
8				
9				
10	Year End Number of Customers	8,328	8,418	6,280
11				
12				
13				
14	Annual Revenue per Year End Customer	$ 240.64	$ 211.33	$ 262.13
15				
16				
17				
18				
19				
20				
21				
22				
23				
24				
25				

Far West Water and Sewer Company - Sewer Division
Test Year Ended December 31, 2007
Taxes Charged to Operations

Exhibit
Schedule E-8
Page 1
Witness: Bourassa

Line No.	Description	Test Year Ended 12/31/2007	Prior Year Ended 12/31/2006	Prior Year Ended 12/31/2005
1				
2				
3	Federal Income Taxes	$ -	$ -	$ -
4	State Income Taxes	50	50	50
5	Payroll Taxes	28,579	34,829	42,230
6	Property Taxes	64,174	45,197	35,679
7				
8	Totals	$ 92,803	$ 80,076	$ 77,959
9				
10				
11				
12				
13				
14				

Far West Water and Sewer Company - Sewer Division
Test Year Ended December 31, 2007
Notes To Financial Statements

Exhibit
Schedule E-9
Page 1
Witness: Bourassa

Company conducted independent audit in 2006.
Company's independent audit for 2007 not yet completed.

FAR WEST WATER & SEWER, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2006

FAR WEST WATER & SEWER, INC.
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

CONTENTS

Independent Auditors' Report	1
Balance Sheet	2
Statement of Operations and Changes in Stockholders' Equity	3
Statement of Cash Flows	5
Notes to Financial Statements	7

Mallory & Associates | Certified Public Accountants

Little Rock Office: Mallory Plaza, 7 Shackleford Plaza
Little Rock, Arkansas 72211-1889
(501) 224-3037 Fax (501) 224-3039
Perryville Office: 208-B North Fourche Avenue
Perryville, Arkansas 72126 (501) 889-3251
gmallory@mallorycpas.com

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders
Far West Water & Sewer, Inc.
Yuma, Arizona

We have audited the accompanying balance sheet of Far West Water & Sewer, Inc., (an Arizona Corporation) as of December 31, 2006, and the related statements of income, retained earnings, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Far West Water & Sewer, Inc., as of December 31, 2006, and the results of its operation and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Geo. L. Mallory III 6/6/a
Mallory + Associates

Mallory & Associates
Certified Public Accountants

Little Rock Arkansas
June 19, 2007

FAR WEST WATER & SEWER, INC.
BALANCE SHEET
FOR THE YEAR ENDED DECEMBER 31, 2006

ASSETS	
Utility Plant:	
Land and land rights	$ 902,709
Depreciable plant and equipment	43,609,842
Construction work in progress	4,811,326
Total utility plant	49,323,877
Less accumulated depreciation and amortization	11,701,695
Net utility plant	37,622,182
Current assets:	
Cash and cash equivalents, unrestricted	362,070
Restricted cash	11,001,478
Customer receivables	1,091,653
Other accounts receivable	59,010
Prepaid expenses	79,817
Prepaid income taxes	100,080
Total current assets	12,694,108
Other assets:	
Unamortized debt discount	111,300
Placement agent fees	257,010
WIFA debt service reserve	508,073
Deferred rate case expense	332,263
Total other assets	1,208,646
Total assets	$ 51,524,936

See accompanying Notes to Financial Statements

FAR WEST WATER & SEWER, INC.
BALANCE SHEET
FOR THE YEAR ENDED DECEMBER 31, 2006

CAPITALIZATION AND LIABILITIES	
Capitalization:	
Common stock	$ 1,000,000
Additional paid-in capital	6,233,279
Retained deficit	(2,175,694)
Total Stockholders' equity	5,057,585
Current liabilities:	
Short-term bank loan	17,735,000
Current maturities of long-term debt	221,002
Accounts payable	578,107
Payable to related company	2,373,299
Deposits and prepayments	239,568
Accrued wages	34,392
Accrued property and sales taxes	182,746
Accrued interest	22,681
Other accrued liabilities	166,456
Total current liabilities	21,553,251
Other liabilities:	
Long-term debt, less current maturities	4,465,464
Advances for construction	14,768,869
Contributions in aid of construction	4,471,102
Judgment payable	1,208,665
Total other liabilities	24,914,100
Total capitalization and liabilities	$ 51,524,936

See accompanying Notes to Financial Statements

FAR WEST WATER & SEWER, INC.
STATEMENT OF OPERATIONS & CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2006

Operating revenue	$ 7,503,827
Operating expenses:	
Administrative and general	2,016,797
Maintenance	1,281,756
Purchased water, sewer, and power	1,093,094
Depreciation and amortization	1,355,776
Property and other taxes	391,134
Legal expense	576,611
Total operating expenses	6,715,168
Net operating income	788,659
Other income and expenses:	
Interest income	187,944
Interest expense	(852,266)
Fines, penalties, and restitution	(1,333,831)
Miscellaneous expense	(2,469)
Net other income and expenses	(2,000,742)
Net loss	(1,211,963)
Retained deficit, December 31, 2005	(963,731)
Retained deficit, December 31, 2006	$ (2,175,694)

See accompanying Notes to Financial Statements

FAR WEST WATER & SEWER, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2006

Operating activities:	
Net loss	$ (1,211,963)
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation and amortization	1,355,776
Changes in operating assets and liabilities	
Restricted cash	(11,001,478)
Receivables	(191,123)
Prepaid expenses	(100,129)
Accounts payable	(219,563)
Related party payables	(607,963)
Other current liabilities	211,366
Placement agent fees	257,010
Deferred rate case expense	293,808
Net cash used by operating activities	(11,214,259)
Investing activities:	
Utility plant expenditures	(2,491,870)
Construction in progress	(4,451,842)
Net cash used in investing activities	(6,943,712)

See accompanying Notes to Financial Statements

FAR WEST WATER & SEWER, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2006
(CONTINUED)

Financing activities:	
Net increase in short-term borrowings	17,735,000
Advances for construction	791,062
Unamortized debt discount	(111,300)
Contributions in aid of construction	(77,604)
Net cash provided by financial activities	18,337,158
Change in cash and cash equivalents	179,187
Cash and cash equivalents at beginning of year	182,883
Cash and cash equivalents at end of year	$ 362,070
Supplemental disclosures of cash flow information:	
Cash paid during the year for:	
Interest	$ 852,266
Income taxes	0

See accompanying Notes to Financial Statements

FAR WEST WATER & SEWER, INC.
NOTES TO FINANCIAL STATMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

Note 1. Summary of Significant Accounting Policies

Nature of Operations Far West Water & Sewer, Inc. is an Arizona Corporation providing water and sewer services to customers in the Foothills area of Yuma County. The Company was originally organized and began water utility operations in 1965 as a subsidiary of H&S Developers, Inc. Sewer operations began in 1994. The Company was reorganized and began operating as a separate corporation in 1998.

Water Supply The Company obtains its water from the Colorado River and from the Yuma area aquifer. The long-term availability of water supplies is dependent upon, among other factors, drought conditions, increases in population, water quality standards, and legislation that may potentially reduce water supplies. Various California water systems north of Yuma also draw water from the Colorado River.

Public Utility Regulation The Company is subject to regulation for rates and other matters by the Arizona Corporation Commission and follows accounting policies prescribed by the ACC. The Company prepares its financial statements in accordance with generally accepted accounting principles in the United States of America, which includes the provisions of Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation." SFAS 71 requires cost-based, rate-regulated enterprises to reflect the impact of regulatory decisions in their financial statements. The balance sheet includes regulatory assets and liabilities as appropriate.

Business Risks Although the Company has a diversified base of residential, industrial and other customers, risks arise from weather conditions, adequacy and quality of water supplies, regulatory decisions, pronouncements and laws, litigation, and general business conditions.

Use of Estimates The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 1. Summary of Significant Accounting Policies (Continued)

Revenue Revenue consists of monthly cycle customer billings for regulated water and sewer services. Revenue from metered accounts includes unbilled amounts based on the estimated usage from the latest meter reading to the end of the accounting period. The Company considers accounts receivable to be fully collectable; accordingly, no provision for doubtful accounts is provided for. When accounts become uncollectible, they are charged to operations.

Property and Equipment Depreciation is computed on a straight-line basis at various rates as approved by the Arizona Corporation Commission.

Cash and Cash Equivalents Cash and cash equivalents consist of highly liquid instruments with original maturities at the time of purchase of three months or less. The carrying amount approximates fair value.

Restricted Cash Restricted cash consists of money market cash funds held by a bank. The cash is released from restriction as continuing infrastructure improvements are approved for funding by the bank.

Concentration of Credit Risk The Company maintains its checking account at a bank which is also a related party. Account balances are insured by the Federal Deposit Insurance Corporation up to $100,000 per bank. At December 31, 2006 the Company had $401,964 on deposit at the bank in excess of the FDIC insured amount.

Utility Plant Utility plant is stated at the original cost of such property when first placed in service. Utility plant accounts are charged with the cost of improvements and replacements. Retired or disposed of depreciable plant is charged to accumulated depreciation and credited to the asset account together with any costs applicable to retirement, less any salvage received. Maintenance of utility plant is charged to expense.

Customers' Advances for Construction and Contribution in Aid of Construction Under the terms of construction contracts with real estate developers, including a related-party developer, and others, the Company periodically receives either advances for the costs of new main installations or title to the main after it is constructed and financed by the developer. Refunds are made, without interest, as services are connected to the main, over periods not exceeding ten years and not in excess of the original advance. Unrefunded balances at the end of the of the contract period are credited to contributions in aid on construction (CIAC) and are no longer refundable.

Note 1. Summary of Significant Accounting Policies (Continued)

Income Taxes The Company is a "C" corporation for income tax purposes. Accelerated depreciation methods are used for tax purposes, and those methods have the potential to create a deferred income tax liability to the extent that cumulative accelerated depreciation deductions exceed cumulative straight-line depreciation for financial accounting purposes and taxable income results from operations. However, cumulative tax and financial accounting losses at December 31, 2006 are such that neither a current nor a deferred income tax liability exists. Prepaid income taxes on the balance sheet represent amounts the Company expects to recover from amended tax returns filed for tax years prior to 2006.

Debt Service Reserve Fund Funds have been placed into a reserve account with the The Water Infrastructure Authority of Arizona, "WIFA," in accordance with the provisions of the Company's loan from WIFA.

Advances in Aid of Construction Advances for construction of collection and distribution lines and related equipment that have been paid by developers, including related-party developers, are reimbursable in part to those developers as a factor of revenue generated through the use of that infrastructure. No interest is payable on those advances.

Placement Agent Fees Fees paid to obtain anticipated long-term and current short-term financing have been capitalized, and will be amortized over the life of the loans beginning in 2007.

Interest Interest is not capitalized for financial reporting purposes, as such policy is not allowed in the ratemaking process. Interest expense is recoverable through the regulatory process as incurred.

Stockholders' Equity At December 31, 2006 the Company had 100,000 shares of common stock authorized, par value $10. At that same date, shares outstanding were 100,000. Additional paid-in capital totaled $6,233,279 at December 31, 2006.

Note 2. Related Party Transactions

In addition to maintaining its checking account at a related party bank, the Company has transactions and balances with other related parties, including a land development company with which Far West Water & Sewer, Inc. works closely in developing water infrastructure in new subdivisions and has an account payable at December 31, 2006:

Land development company	$ 2,365,833
Payables to other related parties	7,466
Total related party payables	$ 2,373,299

Additions to water lines and other utility plant totaling $1,958,663 during the year ended December 31, 2006 were purchased by the Company from its related development company, and substantially all of the Company's balances of $14,768,869 for advances for construction, and $4,471,102 of contributions in aid of construction have arisen from related party transactions with the development company.

Note 3. Short-Term Bank Loan

A bank loan of $17,735,000, secured by shareholders' stock, at an interest rate of 8.35% has been issued to the Company for purposes of constructing and improving the water and sewer treatment facilities. The loan matures in December 2007, by which time management expects permanent financing will have been obtained.

Note 4. Note Payable

The Company has obtained a loan from The Water Infrastructure Authority of Arizona, "WIFA," secured by plant assets. This loan is payable monthly in the amount of $42,331 at an interest rate of 5.81%. Total future principal and interest payments are as follows:

For the years ending December 31:	Principal	Interest
2007	221,002	244,637
2008	255,368	252,601
2009	270,607	237,363
2010	286,755	221,215
2011-2015	1,711,801	828,047
2016-2020	1,940,933	258,547
Total	4,686,466	2,042,410

Note 5. Fines and Penalties Imposed

As a result of an accident in 2001, the Yuma County Superior Court in 2006 imposed fines and penalties against the Company and its former President. The liability for those fines and penalties has been recorded as current expense and as a contingent liability as of December 31, 2006. The fine as been recorded net of discounted imputed interest of 8.25%, since payment of the fine is over several years at $17,500 per month and no interest is included in the stated amount. The case is under appeal, and management and legal counsel anticipate that a decision will be reached during 2008. If payments were to begin in January 2008, following unsuccessful appeals, the future principal and imputed interest payments would be as follows:

For the years ending December 31:	Principal	Interest
2008	114,552	95,448
2009	124,369	85,631
2010	135,026	74,974
2011	146,597	63,403
2012-2015	688,121	116,879
Total	1,208,665	436,335

Note 6. Contingent Asset

Professional services expense includes $376,480 of legal fees paid on behalf of the former President of the Company, pursuant to Arizona state law, that could potentially be recovered by the Company at the conclusion of that officer's legal appeals process. In accordance with generally accepted accounting principles in the United States, the related legal expense has been charged to current operations, and the contingent receivable from the officer has not been recorded.

Note 7. Taxes Other Than Income Taxes

Taxes other than income taxes consist of the following:

Property taxes	$ 294,118
Payroll taxes	97,016
Total	$ 391,134

Note 8. Pension and Other Employee Benefits

The Company maintains a profit sharing contributory 401 (k) plan that covers substantially all employees. Employees who have completed twelve consecutive months of service, have been employed at least 1,000 hours and have attained the age of 21 are eligible to participate in the plan. The Company matches 50% of each employee's contribution up to 8% of gross compensation.

The Company provides health insurance for all full-time employees upon their completion of six months of service. Dependents may be covered at the employees' expense.

Note 9. Subsequent Event - Rate Relief

On February 20, 2007 the Arizona Corporation Commission, at the conclusion of a rate hearing, approved a $205,384, or14.04%, increase in the Company's gross annual sewer revenues.

Far West Water and Sewer Company - Sewer Division
Test Year Ended December 31, 2007
Projected Income Statements - Present & Proposed Rates

Exhibit
Schedule F-1
Page 1
Witness: Bourassa

Line No.		Test Year Actual Results	At Present Rates Year Ended 12/31/2008	At Proposed Rates Year Ended 12/31/2008
1	**Revenues**			
2	Flat Rate Revenues	$ 1,721,127	$ 2,014,269	$ 6,610,016
3	Other Service Revenues	87,649	87,649	87,649
4	Other Wastewater Revenues	195,249	38,047	38,047
5		$ 2,004,026	$ 2,139,964	$ 6,735,712
6	**Operating Expenses**			
7	Salaries and Wages	$ 674,300	$ 870,122	$ 870,122
8	Purchased Wastewater Treatment	-	-	-
9	Sludge Removal Expense	397,297	397,297	397,297
10	Purchased Power	221,622	257,542	257,542
11	Fuel for Power Production	-	-	-
12	Chemicals	213,513	233,710	233,710
13	Materials and Supplies	47,418	47,418	47,418
14	Contractual Services - Professional	77,754	77,754	77,754
15	Contractual Services - Testing	158,510	158,510	158,510
16	Contractual Services - Other Repairs & Maint.	29,671	29,671	29,671
17	Repairs and Maintenance	84,113	84,113	84,113
18	Rents	199,706	199,706	199,706
19	Transportation Expenses	56,228	63,570	63,570
20	Insurance	38,805	38,805	38,805
21	Regulatory Commission Expense - Rate Case	102,025	75,000	75,000
22	Miscellaneous Expense	34,270	34,270	34,270
23	Depreciation Expense	531,731	1,550,751	1,550,751
24	Taxes Other Than Income	28,579	44,188	44,188
25	Property Taxes	64,174	179,467	179,467
26	Income Tax	-	(1,342,313)	431,595
27	**Total Operating Expenses**	$ 2,959,716	$ 2,999,582	$ 4,773,489
28	**Operating Income**	$ (955,690)	$ (859,617)	$ 1,962,224
29	**Other Income (Expense)**			
30	Interest Income	554,835	-	-
31	Other income	1,899	-	-
32	Interest Expense	(1,532,057)	(1,275,665)	(1,275,665)
33	Other Expense	(650,490)	-	-
34	Gain/Loss Sale of Fixed Assets	-	-	-
35	**Total Other Income (Expense)**	$ (1,625,812)	$ (1,275,665)	$ (1,275,665)
36	**Net Profit (Loss)**	$ (2,581,502)	$ (2,135,282)	$ 686,559
37				

Far West Water and Sewer Company - Sewer Division
Test Year Ended December 31, 2007
Projected Statements of Changes in Financial Position
Present and Proposed Rates

Exhibit
Schedule F-2
Page 1
Witness: Bourassa

Line No.		Test Year Ended 12/31/2007	At Present Rates Year Ended 12/31/2008	At Proposed Rates Year Ended 12/31/2008
5	Cash Flows from Operating Activities			
6	Net Income	$ (2,581,502)	$ (2,135,282)	$ 686,559
7	Adjustments to reconcile net income to net cash			
8	provided by operating activities:			
9	Depreciation and Amortization	531,731	1,550,751	1,550,751
10	Deferred Income Taxes			
11	Other	-		
12	Changes in Certain Assets and Liabilities:			
13	Accounts Receivable	(129,416)		
14	Materials and Supplies Inventory	-		
15	Prepaid Expenses	18,968		
16	Deferred Charges	-		
17	Accounts Payable	(175,339)		
18	Intercompany payable	(749,381)		
19	Customer Deposits	6,581		
20	Intercompany taxes receivable and taxes payable	(22,599)		
21	Other assets and liabilities	(343,555)		
22				
23				
24	Net Cash Flow provided by Operating Activities	$ (3,444,512)	$ (584,531)	$ 2,237,309
25	Cash Flow From Investing Activities:			
26	Capital Expenditures	(2,799,619)	(18,570,153)	(18,570,153)
27	Plant Held for Future Use	-		
28	Retirements	-		
29	Net Cash Flows from Investing Activities	$ (2,799,619)	##########	##########
30	Cash Flow From Financing Activities			
31	Change in Restricted Cash	-	-	-
32	Change in net amounts due to parent and affiliates	-	-	-
33	Receipt of contributions in aid of construction	-	-	-
34	Net Receipts for advances for construction	1,170,589	-	-
35	Repayments of Long-Term Debt	19,900,510	-	-
36	Dividends Paid	(17,089,254)	-	-
37	Deferred Financing Costs	-	-	-
38	Paid in Capital	1,579,000	-	-
39	Net Cash Flows Provided by Financing Activities	$ 5,560,845	$ -	$ -
40	Increase(decrease) in Cash and Cash Equivalents	(683,286)	(19,154,684)	(16,332,843)
41	Cash and Cash Equivalents at Beginning of Year	11,226,478	10,543,192	10,543,192
42	Cash and Cash Equivalents at End of Year	$ 10,543,192	$ (8,611,492)	$(5,789,651)
43				
44				
45				

Far West Water and Sewer Company - Sewer Division
Test Year Ended December 31, 2007
Projected Construction Requirements

Exhibit
Schedule F-3
Page 1
Witness: Bourassa

Line No.	Account Number	Plant Asset:	2008	2009	2010
1					
2					
3					
4	351	Organization Cost	$ -	$ -	$ -
5	352	Franchise Cost			
6	353	Land and Land Rights			
7	354	Structures and Improvements			
8	360	Collection Sewers - Force	3,496,947		
9	361	Collection Sewers Gravity			
10	363	Services			
11	364	Flow Measuring Devices			
12	371	Effluent Pump			
13	380	Treatment Plant	14,168,882	768,000	5,259,636
14	381	Plant Sewers			
15	389	Other Plant Structure and Improvements			
16	390	Office Furniture and Equipment			
17	391	Transportation Equipment			
18	393	Tools and Work Equipment			
19	394	Laboratory Equipment			
20	395	Power Operated Equipment			
21	396	Communications Equipment			
22	397	Miscellaneous Equipment	193,839		
23	398	Other Tangible Plant	710,485		
24					
25					
26	Total		$ 18,570,153	$ 768,000	$ 5,259,636
27					
28					
29					

Far West Water and Sewer Company - Sewer Division
Test Year Ended December 31, 2007
Assumptions Used in Rate Filing

Exhibit
Schedule F-4
Page 1
Witness: Bourassa

Line No.	
1	Property Taxes were computed using the method used by the Arizona Department
2	of Revenue
3	
4	Projected construction expenditures are shown on Schedule A-4.
5	
6	Expense adjustments are shown on Schedule C2, and are explained in the testimony.
7	
8	Income taxes were computed using statutory state and federal income tax rates.
9	
10	
11	
12	
13	
14	
15	

Far West Water and Sewer Company - Sewer Division
Revenue Summary
With Annualized Revenues to Year End Number of Customers
And Estimated Customer Growth
Test Year Ended Decmber 31, 2007

Exhibit
Schedule H1
Page 1
Witness: Bourassa

Line No.	Customer Classification and/or Meter Size	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present Sewer Revenues	Percent of Proposed Sewer Revenues
1	Residential	$ 1,701,698	$ 5,814,873	$ 4,113,175	241.71%	79.52%	86.33%
2	RV Park - Adobe Village	3,852	13,161	9,310	241.71%	0.18%	0.20%
3	RV Park - Sunset Palm	3,819	13,049	9,231	241.71%	0.18%	0.19%
4	RV Park - Sun Ridge	9,172	31,341	22,169	241.71%	0.43%	0.47%
5	RV Park - Rancho Rialto	9,645	32,958	23,313	241.71%	0.45%	0.49%
6	Commercial	17,835	60,944	43,109	241.71%	0.83%	0.90%
7	Subtotal	$ 1,746,021	$ 5,966,327	$ 4,220,306	241.71%	81.59%	88.58%
8	Impact on Rates Effective March 2007	(24,903)		-	0.00%	-1.16%	0.00%
9	Effluent	87,649	17,530	(70,119)	-80.00%	4.10%	0.26%
10	Subtotal	$ 1,808,767	$ 5,983,857	$ 4,150,187	229.45%	84.52%	88.84%
11	Misc Service Revenues	38,047	38,047	-	0.00%	1.78%	0.56%
12							
13	Subtotal Revenues before Revenue Annualization	$ 1,846,814	$ 6,021,904	$ 4,175,090	226.07%	86.30%	89.40%
14							
15	Revenue Annualizations						
16	Residential customer revenue						
17	annualized to end of year, based on						
18	year end number of customers	$ 176,197	$ 602,082	425,885	241.71%	8.23%	8.94%
19	Commercial customer revenue						
20	annualized to end of year, based on						
21	year end number of customers	957	3,270	2,313	241.71%	0.04%	0.05%
22	RV Parks annualized to year end						
23	customers						
24	Adobe Village	3,852	13,161	9,310	241.71%	0.18%	0.20%
25	Sunset Palms	3,819	13,049	9,231	241.71%	0.18%	0.19%
26	Sunridge	9,172	31,341	22,169	241.71%	0.43%	0.47%
27	Rancho Rialto	9,645	32,958	23,313	241.71%	0.45%	0.49%
28	Effluent	89,500	17,900	(71,600)	-80.00%	4.18%	0.27%
29	Subtotal Revenue Annualization	$ 293,141	$ 713,762	$ 420,621	143.49%	13.70%	10.60%
30							
31							
32	Totals	$ 2,139,955	$ 6,735,666	$ 4,595,710	214.76%	100.00%	100.00%
33							
34							
35							
36	Revenue Reconciliation						
37	Adjusted Sewer Revenue Per GL (Schedule C-1)	$ 2,004,026					
38	Adjustment to Misc Service Revenues from above	(157,203)					
39	Total	$ 1,846,823					
40							
41	Bill Count Revenues before Annualization	1,846,814					
42	Unreconciled Difference	$ 9					
43							
44							
45	Tolerance (+/- 0.5 percent)	$ 10,020					
46	Acceptable	YES					
47							
48							

Exhibit
Schedule H1
Page 2
Witness: Bourassa

Far West Water and Sewer Company - Sewer Division
Revenue Summary
With Annualized Revenues to Year End Number of Customers
And Estimated Customer Growth
Test Year Ended Decmber 31, 2007
PHASE 1

Line No.	Customer Classification and/or Meter Size	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present Sewer Revenues	Percent of Proposed Sewer Revenues
1	Residential	$ 1,701,698	$ 4,254,246	$ 2,552,547	150.00%	79.52%	85.99%
2	RV Park - Adobe Village	3,852	9,629	5,777	150.00%	0.18%	0.19%
3	RV Park - Sunset Palm	3,819	9,547	5,728	150.00%	0.18%	0.19%
4	RV Park - Sun Ridge	9,172	22,930	13,758	150.00%	0.43%	0.46%
5	RV Park - Rancho Rialto	9,645	24,113	14,468	150.00%	0.45%	0.49%
6	Commercial	17,835	44,588	26,753	150.00%	0.83%	0.90%
7	Subtotal	$ 1,746,021	$ 4,365,052	$ 2,619,031	150.00%	81.59%	88.23%
8	Impact on Rates Effective March 2007	(24,903)			0.00%	-1.16%	0.00%
9	Effluent	87,649	17,530	(70,119)	-80.00%	4.10%	0.35%
10	Subtotal	$ 1,808,767	$ 4,382,581	$ 2,548,912	140.92%	84.52%	88.58%
11	Misc Service Revenues	38,047	38,047	-	0.00%	1.78%	0.77%
12							
13	Subtotal Revenues before Revenue Annualization	$ 1,846,814	$ 4,420,628	$ 2,573,814	139.37%	86.30%	89.35%
14							
15	Revenue Annualizations						
16	Residential customer revenue						
17	annualized to end of year, based on						
18	year end number of customers	$ 176,197	$ 440,492	264,295	150.00%	8.23%	8.90%
19	Commercial customer revenue						
20	annualized to end of year, based on						
21	year end number of customers	957	2,393	1,436	150.00%	0.04%	0.05%
22	RV Parks annualized to year end						
23	customers						
24	Adobe Village	3,852	9,629	5,777	150.00%	0.18%	0.19%
25	Sunset Palms	3,819	9,547	5,728	150.00%	0.18%	0.19%
26	Sunridge	9,172	22,930	13,758	150.00%	0.43%	0.46%
27	Rancho Rialto	9,645	24,113	14,468	150.00%	0.45%	0.49%
28	Effluent	89,500	17,900	(71,600)	-80.00%	4.18%	0.36%
29	Subtotal Revenue Annualization	$ 293,141	$ 527,003	$ 233,862	79.78%	13.70%	10.65%
30							
31							
32	Totals	$ 2,139,955	$ 4,947,631	$ 2,807,676	131.20%	100.00%	100.00%
33							
34							
35	Total Increase Requested			$ 4,595,710			
36	Increase per Proposed Phase 1 Rates			$ 2,807,676			
37	% of Total Increase Recovered in Phase 1			61.09%			
38							
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Far West Water and Sewer Company - Sewer Division
Revenue Summary
With Annualized Revenues to Year End Number of Customers
And Estimated Customer Growth
Test Year Ended Decmber 31, 2007
PHASE 2

Exhibit
Schedule H1
Page 3
Witness: Bourassa

Line No.	Customer Classification and/or Meter Size	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present Sewer Revenues	Percent of Proposed Sewer Revenues
1	Residential	$ 1,701,698	$ 5,020,010	$ 3,318,312	195.00%	79.52%	86.18%
2	RV Park - Adobe Village	3,852	11,362	7,510	195.00%	0.18%	0.20%
3	RV Park - Sunset Palm	3,819	11,266	7,447	195.00%	0.18%	0.19%
4	RV Park - Sun Ridge	9,172	27,057	17,885	195.00%	0.43%	0.46%
5	RV Park - Rancho Rialto	9,645	28,453	18,808	195.00%	0.45%	0.49%
6	Commercial	17,835	52,613	34,778	195.00%	0.83%	0.90%
7	Subtotal	$ 1,746,021	$ 5,150,761	$ 3,404,740	195.00%	81.59%	88.43%
8	Impact on Rates Effective March 2007	(24,903)	-		0.00%	-1.16%	0.00%
9	Effluent	87,649	17,530	(70,119)	-80.00%	4.10%	0.30%
10	Subtotal	$ 1,808,767	$ 5,168,291	$ 3,334,621	184.36%	84.52%	88.73%
11	Misc Service Revenues	38,047	38,047	-	0.00%	1.78%	0.65%
12							
13	Subtotal Revenues before Revenue Annualization	$ 1,846,814	$ 5,206,337	$ 3,359,523	181.91%	86.30%	89.38%
14							
15	Revenue Annualizations						
16	Residential customer revenue						
17	annualized to end of year, based on						
18	year end number of customers	$ 176,197	$ 519,780	343,584	195.00%	8.23%	8.92%
19	Commercial customer revenue						
20	annualized to end of year, based on						
21	year end number of customers	957	2,823	1,866	195.00%	0.04%	0.05%
22	RV Parks annualized to year end						
23	customers						
24	Adobe Village	3,852	11,362	7,510	195.00%	0.18%	0.20%
25	Sunset Palms	3,819	11,266	7,447	195.00%	0.18%	0.19%
26	Sunridge	9,172	27,057	17,885	195.00%	0.43%	0.46%
27	Rancho Rialto	9,645	28,453	18,808	195.00%	0.45%	0.49%
28	Effluent	89,500	17,900	(71,600)	-80.00%	4.18%	0.31%
29	Subtotal Revenue Annualization	$ 293,141	$ 618,641	$ 325,500	111.04%	13.70%	10.62%
30							
31							
32	Totals	$ 2,139,955	$ 5,824,979	$ 3,685,023	172.20%	100.00%	100.00%
33							
34							
35	Total Increase Requested			$ 4,595,710			
36	Increase per Proposed Phase 2 Rates			$ 3,685,023			
37	% of Total Increase Recovered in Phase 2			80.18%			
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Exhibit
Schedule H1
Page 4
Witness: Bourassa

Far West Water and Sewer Company - Sewer Division
Revenue Summary
With Annualized Revenues to Year End Number of Customers
And Estimated Customer Growth
Test Year Ended Decmber 31, 2007
PHASE 3

Line No.	Customer Classification and/or Meter Size	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present Sewer Revenues	Percent of Proposed Sewer Revenues
1	Residential	$ 1,701,698	$ 5,814,873	$ 4,113,175	241.71%	79.52%	86.33%
2	RV Park - Adobe Village	3,852	13,161	9,310	241.71%	0.18%	0.20%
3	RV Park - Sunset Palm	3,819	13,049	9,231	241.71%	0.18%	0.19%
4	RV Park - Sun Ridge	9,172	31,341	22,169	241.71%	0.43%	0.47%
5	RV Park - Rancho Rialto	9,645	32,958	23,313	241.71%	0.45%	0.49%
6	Commercial	17,835	60,944	43,109	241.71%	0.83%	0.90%
7	Subtotal	$ 1,746,021	$ 5,966,327	$ 4,220,306	241.71%	81.59%	88.58%
8	Impact on Rates Effective March 2007	(24,903)			0.00%	-1.16%	0.00%
9	Effluent	87,649	17,530	(70,119)	-80.00%	4.10%	0.26%
10	Subtotal	$ 1,808,767	$ 5,983,857	$ 4,150,187	229.45%	84.52%	88.84%
11	Misc Service Revenues	38,047	38,047	-	0.00%	1.78%	0.56%
12							
13	Subtotal Revenues before Revenue Annualization	$ 1,846,814	$ 6,021,904	$ 4,175,090	226.07%	86.30%	89.40%
14							
15	Revenue Annualizations						
16	Residential customer revenue						
17	annualized to end of year, based on						
18	year end number of customers	$ 176,197	$ 602,082	425,885	241.71%	8.23%	8.94%
19	Commercial customer revenue						
20	annualized to end of year, based on						
21	year end number of customers	957	3,270	2,313	241.71%	0.04%	0.05%
22	RV Parks annualized to year end						
23	customers						
24	Adobe Village	3,852	13,161	9,310	241.71%	0.18%	0.20%
25	Sunset Palms	3,819	13,049	9,231	241.71%	0.18%	0.19%
26	Sunridge	9,172	31,341	22,169	241.71%	0.43%	0.47%
27	Rancho Rialto	9,645	32,958	23,313	241.71%	0.45%	0.49%
28	Effluent	89,500	17,900	(71,600)	-80.00%	4.18%	0.27%
29	Subtotal Revenue Annualization	$ 293,141	$ 713,762	$ 420,621	143.49%	13.70%	10.60%
30							
31							
32	Totals	$ 2,139,955	$ 6,735,666	$ 4,595,710	214.76%	100.00%	100.00%
33							
34							
35	Total Increase Requested			$ 4,595,710			
36	Increase per Proposed Phase 1 Rates			$ 4,595,710			
37	% of Total Increase Recovered in Phase 1			100.00%			
38							
39							
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Far West Water and Sewer Company - Sewer Division
Test Year Ended Decmber 31, 2007
Analysis of Revenue by Detailed Class

Schedule H-2
Page 1
Witness: Bourassa

Line No.	Customer Classification	Average Number of Customers at 12/31/2007	Average Effluent (in 1,000's)	Revenues Present Rates	Revenues Proposed Rates	Proposed Increase Dollar Amount	Proposed Increase Percent Amount
1	Residential	7,195	N/A	$ 1,701,698	$ 5,814,873	$ 4,113,175	241.710%
2	RV Park - Adobe Village	1	N/A	3,852	13,161	9,310	241.710%
3	RV Park - Sunset Palm	1	N/A	3,819	13,049	9,231	241.710%
4	RV Park - Sun Ridge	1	N/A	9,172	31,341	22,169	241.710%
5	RV Park - Rancho Rialto	1	N/A	9,645	32,958	23,313	241.710%
6	Commercial	36	N/A	17,835	60,944	43,109	241.710%
7	Effluent[1]	2	4,382	87,649	17,530	(70,119)	-80.000%
8							
9	Total	7,237					

[1] Average effluent is average of 12 month, however wew rates from Decision 69335, not effective until March 2007 and only 10 months of data are in annual average.

Far West Water and Sewer Company - Sewer Division
Test Year Ended Decmber 31, 2007
Analysis of Revenue by Detailed Class
PHASE 1

Schedule H-2
Page 2
Witness: Bourassa

Line No.	Customer Classification	Average Number of Customers at 12/31/2007	Average Effluent (in 1,000's)	Revenues Present Rates	Revenues Proposed Rates	Proposed Increase Dollar Amount	Proposed Increase Percent Amount
1	Residential	7,195	N/A	$ 1,701,698	$ 4,254,246	$ 2,552,547	150.000%
2	RV Park - Adobe Village	1	N/A	3,852	9,629	5,777	150.000%
3	RV Park - Sunset Palm	1	N/A	3,819	9,547	5,728	150.000%
4	RV Park - Sun Ridge	1	N/A	9,172	22,930	13,758	150.000%
5	RV Park - Rancho Rialto	1	N/A	9,645	24,113	14,468	150.000%
6	Commercial	36	N/A	17,835	44,588	26,753	150.000%
7	Effluent[1]	2	4,382	87,649	17,530	(70,119)	-80.000%
8							
9	Total	7,237					

[1] Average effluent is average of 12 month, however wew rates from Decision 69335, not effective until March 2007 and only 10 months of data are in annual average.

Far West Water and Sewer Company - Sewer Division
Test Year Ended Decmber 31, 2007
Analysis of Revenue by Detailed Class
PHASE 2

Schedule H-2
Page 3
Witness: Bourassa

Line No.	Customer Classification	Average Number of Customers at 12/31/2007	Average Effluent (in 1,000's)	Revenues Present Rates	Revenues Proposed Rates	Proposed Increase Dollar Amount	Proposed Increase Percent Amount
1	Residential	7,195	N/A	$1,701,698	$5,020,010	$ 3,318,312	195.000%
2	RV Park - Adobe Village	1	N/A	3,852	11,362	7,510	195.000%
3	RV Park - Sunset Palm	1	N/A	3,819	11,266	7,447	195.000%
4	RV Park - Sun Ridge	1	N/A	9,172	27,057	17,885	195.000%
5	RV Park - Rancho Rialto	1	N/A	9,645	28,453	18,808	195.000%
6	Commercial	36	N/A	17,835	52,613	34,778	195.000%
7	Effluent[1]	2	4,382	87,649	17,530	(70,119)	-80.000%
8							
9	Total	7,237					
10							
11							
12							
13	[1] Average effluent is average of 12 month, however wew rates from Decision 69335, not effective until March 2007 and only 10 months						
14	of data are in annual average.						
15							
16							
17							
18							
19							
20							

Far West Water and Sewer Company - Sewer Division
Test Year Ended Decmber 31, 2007
Analysis of Revenue by Detailed Class
PHASE 3

Schedule H-2
Page 4
Witness: Bourassa

Line No.	Customer Classification	Average Number of Customers at 12/31/2007	Average Effluent (in 1,000's)	Revenues Present Rates	Revenues Proposed Rates	Proposed Increase Dollar Amount	Proposed Increase Percent Amount
1	Residential	7,195	N/A	$1,701,698.25	$5,814,873.09	$ 4,113,175	241.710%
2	RV Park - Adobe Village	1	N/A	3,851.52	13,161.03	9,310	241.710%
3	RV Park - Sunset Palm	1	N/A	3,818.88	13,049.49	9,231	241.710%
4	RV Park - Sun Ridge	1	N/A	9,171.84	31,341.09	22,169	241.710%
5	RV Park - Rancho Rialto	1	N/A	9,645.12	32,958.34	23,313	241.710%
6	Commercial	36	N/A	17,835.00	60,943.98	43,109	241.710%
7	Effluent[1]	2	4,382	87,649.20	17,529.84	(70,119)	-80.000%
8							
9	Total	7,237					

[1] Average effluent is average of 12 month, however wew rates from Decision 69335, not effective until March 2007 and only 10 months of data are in annual average.

Far West Water and Sewer Company - Sewer Division
Present and Proposed Rates
Test Year Ended Decmber 31, 2007

Exhibit
Schedule H3
Page 1
Witness: Bourassa

Line No.		Present Rates	Proposed Rates	Percent Change
1				
2	**Monthly Charge for:**			
3	Residential	$ 21.75	$ 74.32	241.7100%
4	RV Park, per space	$ 5.44	$ 18.59	241.7100%
5	Commercial	$ 43.50	$ 148.64	241.7100%
6	Effluent Sales (per 1,000 gallons)	$ 1.00	$ 0.20	-80.0000%
7	Effluent Sales (per acre foot basis gallons)	$ 325.85	$ 65.17	-80.0000%
8				
9				
10				
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Far West Water and Sewer Company - Sewer Division
Present and Proposed Rates
Test Year Ended Decmber 31, 2007

Exhibit
Schedule H3
Page 2
Witness: Bourassa

Line No.		Present Rates	Phase 1 Present Rates	Phase 2 Proposed Rates	Phase 3 Proposed Rates
1					
2					
3					
4	**Monthly Charge for:**				
5	Residential	$ 21.75	$ 54.38	$ 64.16	$ 74.32
6	RV Park, per space	$ 5.44	$ 13.60	$ 16.05	$ 18.59
7	Commercial	$ 43.50	$ 108.75	$ 128.33	$ 148.64
8	Effluent Sales (per 1,000 gallons)	$ 1.00	$ 0.20	$ 0.20	$ 0.20
9	Effluent Sales (per acre foot basis gallons)	$ 325.85	$ 65.17	$ 65.17	$ 65.17
10					
11					
12					
13					
14					
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21					
22					
23					

Far West Water and Sewer Company - Sewer Division
Present and Proposed Rates
Test Year Ended Decmber 31, 2007

Exhibit
Schedule H3
Page 3
Witness: Bourassa

Line No.	Other Service Charges	Present Rates	Proposed Rates
1	Establishment	$ 20.00	$ 20.00
2	Re-Establishment (With-in 12 Months)	(a)	(a)
3	Reconnection (Deliquent)	20.00	20.00
4	Min Deposit Requirement (Residential)	(b)	(b)
5	Min Deposit Requirement (Non-Residential)	(b)	(b)
6	Deposit Interest	(c)	(c)
7	NSF Check	15.00	15.00
8	Deferred Payment finance charge, Per Month	1.50%	1.50%
9	Late Payment Charge, Per Month	1.50%	1.50%
10			
11	Main Extension Tariff, per Rule R14-2-406B	Cost	Cost
12			
13	Service Line Connection	Cost	Cost
14			
15			
16	(a) Minimum charge times number of full months disconnected.		
17	(b) Per A.A.C. R14-2-603(B)(7): Residential - two times the average bill.		
18	Non-residential - two and one-half times the average bill.		
19	(c) Per A.A.C. R-14-2-603(B)(3)		
20			
21	IN ADDITION TO THE COLLECTION OF REGULAR RATES, THE UTILITY WILL COLLECT FROM		
22	ITS CUSTOMERS A PROPORTIONATE SHARE OF ANY PRIVILEGE, SALES, USE, AND FRANCHISE		
23	TAX. PER COMMISSION RULE (14-2-409.D 5).		
24	ALL ADVANCES AND/OR CONTRIBUTIONS ARE TO INCLUDE LABOR, MATERIALS, OVERHEADS,		
25	AND ALL APPLICABLE TAXES, INCLUDING ALL GROSS-UP TAXES FOR INCOME TAXES.		
26	COST TO INCLUDE LABOR, MATERIALS AND PARTS, OVERHEADS AND ALL APPLICABLE TAXES.		
27			

Far West Water and Sewer Company - Sewer Division
Bill Comparison
Customer Classification
Residential

Exhibit
Schedule H4
Page 1
Witness: Bourassa

Present Bill	Proposed Bill	Dollar Increase	Percent Increase
$ 21.75	$ 74.32	$ 52.57	241.71%

Present Rates:

Monthly Charge: $ 21.75

Proposed Rates:

Monthly Charge: $ 74.32

Far West Water and Sewer Company - Sewer Division
Bill Comparison
Customer Classification
Commercial

Exhibit
Schedule H4
Page 2
Witness: Bourassa

Present Bill	Proposed Bill	Dollar Increase	Percent Increase
$ 43.50	$ 148.64	$ 105.14	241.71%

Present Rates:
Charge Per Gallon $ 43.50

Proposed Rates:
Charge Per Gallon $ 148.64

Far West Water and Sewer Company - Sewer Division
Bill Comparison
Customer Classification
RV Park - Adobe Village

Exhibit
Schedule H4
Page 3
Witness: Bourassa

Present Bill	Proposed Bill	Dollar Increase	Percent Increase
$ 5.44	$ 18.59	$ 13.15	241.71%

Present Rates:
Monthly Charge: $ 5.44

Proposed Rates:
Monthly Charge: $ 18.59

Far West Water and Sewer Company - Sewer Division
Bill Comparison
Customer Classification
RV Park - Sunset Palm

Exhibit
Schedule H4
Page 4
Witness: Bourassa

Present Bill	Proposed Bill	Dollar Increase	Percent Increase
$ 5.44	$ 18.59	$ 13.15	241.71%

Present Rates:
Monthly Charge: $ 5.44

Proposed Rates:
Monthly Charge: $ 18.59

Far West Water and Sewer Company - Sewer Division
Bill Comparison
Customer Classification
RV Park - Sun Ridge

Exhibit
Schedule H4
Page 5
Witness: Bourassa

Present Bill	Proposed Bill	Dollar Increase	Percent Increase
$ 5.44	$ 18.59	$ 13.15	241.71%

Present Rates:
Monthly Charge: $ 5.44

Proposed Rates:
Monthly Charge: $ 18.59

Far West Water and Sewer Company - Sewer Division
Bill Comparison
Customer Classification
RV Park - Rancho Rialto

Exhibit
Schedule H4
Page 6
Witness: Bourassa

Present Bill	Proposed Bill	Dollar Increase	Percent Increase
$ 5.44	$ 18.59	$ 13.15	241.71%

Present Rates:
Monthly Charge: $ 5.44

Proposed Rates:
Monthly Charge: $ 18.59

Far West Water and Sewer Company - Sewer Division
Bill Comparison
Customer Classification
Effluent Sales

Exhibit
Schedule H4
Page 7
Witness: Bourassa

MidPoint Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	$ -	$ -	$ -	0.00%
1,000	1.00	0.20	(1)	-80.00%
2,000	2.00	0.40	(2)	-80.00%
3,000	3.00	0.60	(2)	-80.00%
4,000	4.00	0.80	(3)	-80.00%
5,000	5.00	1.00	(4)	-80.00%
6,000	6.00	1.20	(5)	-80.00%
7,000	7.00	1.40	(6)	-80.00%
8,000	8.00	1.60	(6)	-80.00%
9,000	9.00	1.80	(7)	-80.00%
10,000	10.00	2.00	(8)	-80.00%
12,000	12.00	2.40	(10)	-80.00%
14,000	14.00	2.80	(11)	-80.00%
16,000	16.00	3.20	(13)	-80.00%
18,000	18.00	3.60	(14)	-80.00%
20,000	20.00	4.00	(16)	-80.00%
25,000	25.00	5.00	(20)	-80.00%
30,000	30.00	6.00	(24)	-80.00%
35,000	35.00	7.00	(28)	-80.00%
40,000	40.00	8.00	(32)	-80.00%
45,000	45.00	9.00	(36)	-80.00%
50,000	50.00	10.00	(40)	-80.00%
60,000	60.00	12.00	(48)	-80.00%
70,000	70.00	14.00	(56)	-80.00%
80,000	80.00	16.00	(64)	-80.00%
90,000	90.00	18.00	(72)	-80.00%
100,000	100.00	20.00	(80)	-80.00%
Average Usage				
4,382,460	$ 4,382.46	$ 876.49	$(3,505.97)	-80.00%
Median Usage				
2,536,300	$ 2,536.30	$ 507.26	$(2,029.04)	-80.00%

Present Rates:

Charge Per 1,000 Gallons $ 1.00

Proposed Rates:

Charge Per 1,000 Gallons $ 0.20

Far West Water and Sewer Company - Sewer Division
Test Year Ended Decmber 31, 2007
Customer Classification
Residential

Exhibit
Schedule H5
Page 1
Witness: Bourassa

Month												Total
Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	Year
7,010	7,086	6,291	6,726	6,325	6,029	5,932	5,974	6,152	6,517	7,002	7,195	78,239

Far West Water and Sewer Company - Sewer Division
Test Year Ended Decmber 31, 2007
Customer Classification
Commercial

Exhibit
Schedule H5
Page 2
Witness: Bourassa

Month	Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	Total Year
	34	33	32	33	33	32	34	38	34	35	36	36	410

Far West Water and Sewer Company - Sewer Division
Test Year Ended Decmber 31, 2007
Customer Classification
RV Park - Adobe Village
Spaces 118

Exhibit
Schedule H5
Page 3
Witness: Bourassa

Month	Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	Total Year
	1	1	1	-	1	-	-	-	-	-	1	1	6

Far West Water and Sewer Company - Sewer Division
Test Year Ended Decmber 31, 2007
Customer Classification
RV Park - Sunset Palm
Spaces 117

Exhibit
Schedule H5
Page 4
Witness: Bourassa

Month	Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	Total Year
	1	1	1	-	1	-	-	-	-	-	1	1	6

Far West Water and Sewer Company - Sewer Division
Test Year Ended Decmber 31, 2007
Customer Classification
RV Park - Sun Ridge
Spaces 281

Exhibit
Schedule H5
Page 5
Witness: Bourassa

Month	Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	Total Year
	1	1	1	-	1	-	-	-	-	-	1	1	6

Far West Water and Sewer Company - Sewer Division
Test Year Ended Decmber 31, 2007
Customer Classification
RV Park - Rancho Rialto
Spaces 197

Exhibit
Schedule H5
Page 6
Witness: Bourassa

Month												Total
Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	Year
1	1	1	1	1	1	-	1	-	-	1	1	9

Far West Water and Sewer Company - Sewer Division
Test Year Ended Decmber 31, 2007
Customer Classification
Effluent Sales

Exhibit
Schedule H5
Page 7
Witness: Bourassa

Usage From:	Usage To:	Month Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	Total Year	Cumul-ative Billing
														-	-
1,114,000	1,114,000	-	-	-	-	-	1	-	-	-	-	-	-	1	1
1,368,000	1,368,000	-	-	-	-	1	-	-	-	-	-	-	-	1	2
1,698,000	1,698,000	-	-	-	-	-	-	1	-	-	-	-	-	1	3
1,887,000	1,887,000	-	-	-	1	-	-	-	-	-	-	-	-	1	4
2,721,000	2,721,000	-	-	1	-	-	-	-	-	-	-	-	-	1	5
3,283,000	3,283,000	-	-	-	-	-	-	-	-	1	-	-	-	1	6
3,286,000	3,286,000	-	-	-	-	-	-	-	-	-	1	-	-	1	7
3,292,000	3,292,000	-	-	-	-	-	-	-	-	-	-	1	-	1	8
3,374,600	3,374,600	-	-	-	-	-	-	-	1	-	-	-	-	1	9
3,925,000	3,925,000	-	-	-	-	-	1	-	-	-	-	-	-	1	10
3,948,000	3,948,000	-	-	-	-	-	-	-	-	-	-	-	1	1	11
4,101,000	4,101,000	-	-	-	-	-	-	-	-	1	-	-	-	1	12
4,735,000	4,735,000	-	-	-	-	1	-	-	-	-	-	-	-	1	13
5,485,000	5,485,000	-	-	-	-	-	-	-	-	-	1	-	-	1	14
6,055,000	6,055,000	-	-	-	1	-	-	-	-	-	-	-	-	1	15
6,590,600	6,590,600	-	-	-	-	-	-	-	1	-	-	-	-	1	16
6,800,000	6,800,000	-	-	-	-	-	-	1	-	-	-	-	-	1	17
7,040,000	7,040,000	-	-	-	-	-	-	-	-	-	-	1	-	1	18
8,361,000	8,361,000	-	-	-	-	-	-	-	-	-	-	-	1	1	19
8,585,000	8,585,000	-	-	1	-	-	-	-	-	-	-	-	-	1	20
														-	20
														-	20
Totals		-	-	2	2	2	2	2	2	2	2	2	2	20	

Average Usage	4,382,460
Median Usage	3,925,000
Average # Customers	2

Bourassa

Direct Testimony (C of C)

FENNEMORE CRAIG
Norman D. James (No. 006901)
Jay L. Shapiro (No. 014650)
3003 N. Central Ave.
Suite 2600
Phoenix, Arizona 85012
Attorneys for Far West Water & Sewer Company

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF FAR WEST WATER & SEWER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS SEWER UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES FOR SEWER UTILITY SERVICE BASED THEREON.	DOCKET NO: WS-03478A-08-_____

DIRECT TESTIMONY OF
THOMAS J. BOURASSA
(COST OF CAPITAL)

TABLE OF CONTENTS

		Page
I.	INTRODUCTION AND QUALIFICATIONS.	1
II.	SUMMARY OF TESTIMONY AND THE PROPOSED COST OF CAPITAL FOR THE COMPANY.	1
III.	OVERVIEW OF THE RELATIONSHIP BETWEEN RISK AND THE EXPECTED RETURN ON AN INVESTMENT	6
IV.	THE MEANING OF "JUST AND REASONABLE" RATE OF RETURN	15
V.	THE ESTIMATED COST OF EQUITY FOR THE COMPANY	17
A.	The Publicly Traded Utilities That Comprise the Sample Group Used to Estimate the Company's Cost of Equity	17
B.	Current Stocks Prices and Their Effect on Estimating the Cost of Equity	22
C.	Overview of the DCF and CAPM Methodologies	24
D.	Explanation of the DCF Model and Its Inputs	25
E.	Explanation of the CAPM and Its Inputs	35
F.	The Results of the DCF and CAPM Models, and Recommended ROE	39

I. INTRODUCTION AND QUALIFICATIONS.

Q. PLEASE STATE YOUR NAME AND ADDRESS.

A. My name is Thomas J. Bourassa. My business address is 139 W. Wood Drive, Phoenix, Arizona 85029.

Q. ARE YOU THE SAME THOMAS J. BOURASSA THAT FILED DIRECT TESTIMONY ON RATE BASE, INCOME STATEMENT, REVENUE REQUIREMENT AND RATE DESIGN IN THIS DOCKET?

A. Yes, and all of my background information and testimony regarding my qualifications is contained in that portion of my direct testimony.

II. SUMMARY OF TESTIMONY AND THE PROPOSED COST OF CAPITAL FOR THE COMPANY.

Q. WHAT IS THE PURPOSE OF THIS PORTION OF YOUR DIRECT TESTIMONY?

A. This portion of my direct testimony will focus on cost of capital issues. I will testify in support of the Far West Water and Sewer Company's ("Far West" or the "Company") proposed rate of return on its fair value rate base. I am sponsoring the Company's D Schedules, which are attached to this testimony. Also attached to this testimony are Exhibits D-1 through D-6, which are discussed below. As noted above, I am also sponsoring direct testimony that addresses the Company's rate base, income statement (revenue and operating expenses), required increase in revenue, and its rate design and proposed rates and charges for service. For the convenience of the Commission and the parties, that testimony and my related schedules are being filed separately in this case.

Q. PLEASE SUMMARIZE YOUR RECOMMENDED COST OF DEBT AND EQUITY, AND YOUR RECOMMENDED RATE OF RETURN ON RATE BASE.

A. At the end of the test year, December 31, 2007, Far West had adjusted total capital of $30,175,477, consisting of $25,761,224 long-term debt and $4,414,253 common equity, as shown in Schedule D-1. Thus, the Company's capital structure consisted of approximately 85.4 percent debt and 14.6 percent common equity. The Company's cost of long-term debt is 6.38 percent, which I computed as shown on Schedule D-2. I am recommending a return on equity ("ROE") of 20.0 percent. My recommendation is based on (i) cost of equity estimates using constant growth and multi-stage growth discounted cash flow ("DCF") models and the capital asset pricing model ("CAPM") for the sample group of publicly traded utilities, (ii) my review of the economic conditions expected to prevail during the period in which new rates will be in effect, (iii) my judgments about the risks associated with small utilities like Far West, and (iv) the high financial risk associated with the significant amount of debt in Far West's capital structure. This results in a weighted cost of capital of 8.38 percent, as shown on Schedule D-1. The weighted cost of capital is applied to the Company's fair value rate base to compute the Company's required operating income.

Q. IS THIS THE CAPITAL STRUCTURE FOR THE COMPANY OR JUST ITS SEWER DIVISION?

A. It is for the total Company. In the last rate case, the Commission rejected the Company's position that we should use only the capital structure supporting the sewer plant. Decision No. 69335 (February 20, 2007) at 13-15. Instead, the Commission found that it was reasonable and appropriate to use the Commission's actual, total Company-wide capital structure to set rates for sewer service. *Id.*

Q. IS THERE A RELATIONSHIP BETWEEN A UTILITY'S CAPITAL STRUCTURE AND ITS COST OF CAPITAL?

A. Generally, when a firm engages in debt financing, it exposes itself to greater risk.

Once debt becomes significant relative to the total capital structure, the risk increases in a geometric fashion compared to the linear percentage increase in the debt ratio itself. This risk is illustrated by considering the effect of leverage on net earnings. For example, as leverage increases, the equity ratio falls. This creates two adverse effects on the investor. First, equity earnings decline rapidly and may even disappear. Second, the "cushion" of equity protection for debt falls. A decline in the protection afforded debt holders, or the possibility of a serious decline in debt protection, will act to increase the cost of debt financing. Therefore, one may conclude that each new financing, whether through debt or equity, impacts the marginal cost of future financing by any alternative method. For a firm already perceived as being over-leveraged, this additional borrowing would cause the marginal cost of both equity and debt to increase. On the other hand, if the same firm instead employed equity funding, this could actually reduce the real marginal cost of additional borrowing, even if the particular equity issuance occurred at a higher unit cost than an equivalent amount of debt.

Q. DOES THE COMPANY HAVE AN APPROPRIATE CAPITAL STRUCTURE GIVEN ITS SIZE AND OTHER CHARACTERISTICS?

A. The theoretical optimum ratio of debt to equity in the capital structure will vary considerably from one industry to another and, to a very significant extent, among companies within a given industry, based on the size of the company and its ability (or inability) to attract capital. A theoretically "balanced" capital structure is one that provides debt with adequate protection, yet contains enough leverage to produce equity earnings sufficient to attract new equity capital (but not so large a degree of leverage as to introduce earnings instability and render equity investment speculative). For small utilities, financial leverage often has detrimental impacts with very slight increases in expenses. Far West has over 85 percent debt in its

capital structure compared to the average 48.5 percent debt for the publicly traded water utilities. Thus, the amount of debt in Far West's capital structure is very high, which implies a much greater degree of financial risk as compared to the publicly traded water utilities. In my opinion, with the high financial risk combined with Far West's relatively small size and other firm-specific factors, my cost of equity recommendation of 20.0% is actually conservative.

Q. PLEASE SUMMARIZE THE APPROACH YOU USED TO ESTIMATE THE COST OF EQUITY FOR THE COMPANY.

A. The cost of equity for Far West cannot be estimated directly because Far West's common stock is not publicly traded and there is no market data for Far West. Consequently, I applied the DCF and CAPM models using data from a sample of water utilities selected from *Value Line Investment Survey*. There are six water utilities in my sample: American States Water, Aqua America, California Water, Connecticut Water, Middlesex Water, and SJW Corp. I selected these particular utilities because the Commission's Utilities Division ("Staff") has relied on data for these water utilities in estimating the cost of equity in a number of recent water and sewer utility rate cases. Computations of common equity returns using DCF and CAPM approaches are shown on Schedules D-4.9 through D-4.10 and Schedule D-4.13.

Using Staff's sample group, the DCF analyses indicate that a ROE in the range of 9.9 percent to 12.5 percent is appropriate. The CAPM analysis, again using Staff's sample group, indicates that a ROE in the range of 11.3 percent to 16.3 percent is appropriate.

An ROE of 20.0 percent is higher than that of the range of the averages of the results produced by both types of equity cost estimates. My recommendation takes into account the high degree of financial risk associated with FWS. It also

takes into consideration Far West's small size relative to the six water utilities in Staff's sample group and other business risks not captured by the market data, including regulatory risk resulting from Arizona's particular rate-making methods.

Q. HAVEN'T YOU CRITICIZED STAFF'S USE OF THE CAPM IN ESTIMATING THE COST OF EQUITY IN THE PAST?

A. Yes, as have other experts.[1] The DCF also has serious short-comings when the stock of a company is trading at prices substantially in excess of book value.[2] I will further discuss the short-comings of both the DCF and the CAPM later in my testimony. For now, in sum, each model examines investor behavior in its specific fashion, and each model requires the exercise of considerable judgment on the reasonableness of the underlying assumptions them and on the inputs and proxies used. As Dr. Morin states, "No one individual method provides the necessary level of precision for determining a fair return, but each method provides useful evidence to facilitate the exercise of an informed judgment."[3]

Q. GIVEN THE CRITICISM OF THE CAPM, WHY HAVE YOU EMPLOYED THAT MODEL IN YOUR COST OF EQUITY ANALYSES?

A. To reduce the number of issues in this case. Staff has employed the CAPM in a number of recent rate cases, and the Commission has accepted the CAPM as a means of estimating the cost of equity in those cases.

---

[1] *See, e.g.*, Eugene F. Fama and Kenneth R. French, "The Capital Asset Pricing Model: Theory and Evidence," *Journal of Economic Perspectives* (Summer 2004) 25-46.

[2] *See, e.g.*, Win Whitaker, "The Discounted Cash Flow Methodology: Its Use in Estimating a Utility's Cost of Capital," *Energy Law Journal* (1991) 265-290.

[3] Roger A. Morin, *New Regulatory Finance* (2006) 428.

III. OVERVIEW OF THE RELATIONSHIP BETWEEN RISK AND THE EXPECTED RETURN ON AN INVESTMENT

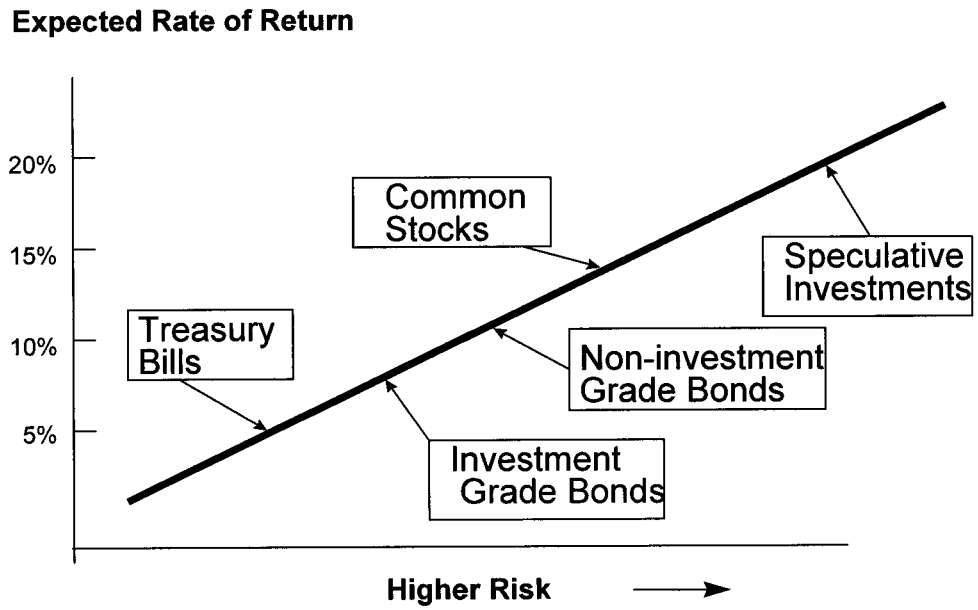
Q. HOW IS THE COST OF EQUITY TYPICALLY ANALYZED?

A. The cost of equity is the rate of return that equity investors expect to receive on their investment. Investors can choose to invest in many types of assets, not simply publicly traded stock. Each investment will have varying degrees of risk, ranging from relatively low risk assets such as Treasury securities to somewhat higher risk corporate bonds to even higher risk common stocks. As the level of risk increases, investors require higher returns on their investment. Finance models that are used to estimate the cost of equity often rely on this basic concept.

Q. CAN YOU ILLUSTRATE THE CAPITAL MARKET RISK-RETURN CONCEPT?

A. Yes. The following graph depicts the risk-return relationship that has become widely known as the Capital Market Line ("CML"). The CML illustrates in a general way the risk-return relationship.

The Capital Market Line (CML)



The CML can be viewed as a continuum of the available investment opportunities for investors. Investment risk increases moving upward and to the right along the CML. Again, the expected return increases with the risk.

Q. HOW DOES THE RISK-RETURN TRADE-OFF CONCEPT WORK IN THE CAPITAL MARKET?

A. As already suggested by the CML, the allocation of capital in a free market economy is based upon the relative risk of, and expected return from, an investment. In general, investors rank investment opportunities in the order of their relative risks. Investment alternatives in which the expected return is commensurate with the perceived risk become viable investment options. If all other factors remain equal, the greater the risk, the higher the rate of return investors will require to compensate investors for the possibility of loss of either

the principal amount invested or the expected annual income from such investment.

Short-term Treasury bills provide a high degree of certainty and in nominal terms (after considering inflation) are considered virtually risk free. Long-term bonds and preferred stocks, having priority claims to assets and fixed income payments, are relatively low risk, but are not risk free. The market values of long-term bonds often fluctuate when government policies or other factors cause interest rates to change. Common stocks are higher and to the right on the CML continuum because they are exposed to more risk. Common stock risk includes the nature of the underlying business and financial strength of the issuing corporation as well as market-wide factors, such as general changes in capital costs.

The capital markets reflect investor expectations and requirements each day through market prices. Prices for stocks and bonds change to reflect investor expectations and the relative attractiveness of one investment versus another. While the example provided above seems straightforward, returns on common stocks are not directly observable in advance, in contrast to debt or preferred stocks with fixed payment terms. This means that these returns must be estimated from market data. Estimating the cost of equity capital is a matter of informed judgment about the relative risk of the company in question and the expected rate of return of alternative investments.

Q. HOW IS THE COST OF EQUITY FOR A PARTICULAR UTILITY DETERMINED?

A. The estimation of a utility's cost of equity is complex. It requires an analysis of the factors influencing the cost of various types of capital, such as interest on long-term debt, dividends on preferred stock, and earnings on common equity. The data for such an analysis comes from highly competitive capital markets, where firms raise funds by issuing common stock, selling bonds, and by borrowing (both long-

and short-term) from banks and other financial institutions. In the capital markets, the cost of capital, whether the capital is in the form of debt or equity, is determined by two important factors:

1) The pure or real rate of interest, often called the risk-free rate of interest; and,

2) The uncertainty or risk premium (the compensation the investor requires over and above the real or pure rate of interest for subjecting his capital to additional risk).

Q. PLEASE DISCUSS THESE FACTORS IN GREATER DETAIL.

A. The pure rate of interest essentially reflects both the time preference for, and the productivity of, capital. From the standpoint of the individual, it is the rate of interest required to induce the individual to forego present consumption and offer the funds thus saved to others for a specified length of time. Moreover, the pure rate of interest concept is based on the assumption that no uncertainty affects the investment undertaken by the individual, i.e., there is no doubt that the periodic interest payments will be made and the principal returned at the end of the time period. In reality, investments without risk do not exist. Every commitment of funds involves some degree of uncertainty.

Turning to the second factor affecting the cost of capital, it is generally accepted that the higher the degree of uncertainty, the higher the cost of capital. Investors are regarded as risk adverse and require that the rate of return increase as the risk (uncertainty) associated with an investment increase.

Q. CAN YOU PROVIDE SOME PERSPECTIVE ON YOUR PREVIOUS DISCUSSION WITH RESPECT TO RETURNS ON COMMON STOCKS?

A. Yes. Conceptually,

[1] Required Return for Common Stocks = Return on a risk-free asset + Risk Premium

where the risk premium investors require for common stocks will be higher than the risk premium they require for investment grade bonds. This relationship is depicted in the graph of the CML, above. As I will discuss later in this testimony, this concept is the basis of risk premium methods, such as the CAPM, that are used to estimate the cost of equity.

Q. WHAT HAS BEEN THE RECENT EXPERIENCE IN THE U.S. CAPITAL MARKETS?

A. In the past 10 years, inflation and capital market costs have generally declined. Interest rates have been lower than in previous decades. Past inflation, as measured by the Consumer Price Index, has been at relatively low levels in the past 10 years.

Economic growth slowed to an anemic 0.6 percent in the 4th quarter of 2007 and is expected to remain week through the end of 2008. The U.S. economy has been said to be at the edge of a possible recession, but, to date, it does not appear to have materialized. The second quarter of 2008 ended with a domestic gross product increase of 1.9 percent compared with a 0.9 percent increase during the first quarter of 2008. The Blue Chip Financial Forecast ("Blue Chip") consensus forecasts (July 2008) of real GDP growth for the 3rd and 4th quarters of 2008 are 1.2 and 0.9 percent, respectively. By the 2nd quarter of 2009, the consensus forecast is for weak GDP growth of 1.6 percent.

The Federal Reserve has taken a series of rate cut actions (325 basis points) starting in September 2007 to address the weakening economy. The reductions in interest rates by the Federal Open Market Committee ("FOMC") were taken in order to promote economic growth and to mitigate risks to economic activity. The

target Federal Funds rate stands at 2.00 percent. However, the FOMC is unlikely to make further rate cuts. Although the downside risks to economic growth are expected to continue through the remainder of 2008, there are increasing concerns about the upside risks in inflation, which are expected to keep policymakers from taking rates lower. Of course, renewed systematic risk to the banking system or a deeper, more prolonged downturn in economic growth than currently expected may require more rate cuts. Federal Reserve Chairman Ben Bernanke noted in recent Congressional testimony that financial markets are currently under considerable stress and that broader retrenchment in the willingness of investors to bear risk, troubles in the credit markets, and a weaker outlook of economic growth have added to the stresses on economic growth.

Q. YOU MENTIONED "INFLATION." CAN YOU ELABORATE ON THE IMPACTS OF INFLATION ON THE ECONOMY?

A. At a recent FOMC meeting, the FOMC noted that inflation has been elevated and that uncertainty over inflation has increased. In fact, while forecasts of economic growth have been down, forecasts of inflation have gone up. The short-term expectations are for the FOMC to leave interest rates low and unchanged in order to address the overall weakness in the economy. However, the FOMC is expected to eventually lift interest rates to help dampen higher inflation as the economy strengthens. The average monthly Federal Funds Rate for the second quarter of 2008 was 2.08 percent. The average monthly Prime Rate for the second quarter 2008 was 5.08 percent. The 10-year Treasury bond and 30-year Treasury bond yields for the first quarter were 3.89 percent and 4.59 percent, respectively. Baa investment grade bond yields for the second quarter were 6.99 percent.

Long range consensus forecasts of the yields of 10-year and 30-year Treasury bonds for 2010 are 4.3 percent and 4.8 percent, respectively. Baa

investment grade bond yields are forecast to be 7.1 percent.

Q. IS THERE A RELATIONSHIP BETWEEN THE COST OF EQUITY AND INTEREST RATES?

A. Yes. The cost of equity normally moves in the same direction as interest rates. Lower interest rates on U.S. Treasuries ("risk-free" rate) imply lower equity returns and visa versa. However, as indicated by Equation 1 above, the risk premium required to compensate investors also impacts the cost of equity. Higher risk premiums required by investors imply higher equity costs and visa versa. Risk premiums are impacted by uncertainty in future interest rates, business and economic conditions, expected inflation, and other risk factors including interest rate risk, business risk, regulatory risk, financial risk, construction risk, and liquidity risk.

Q. HOW DOES ALL THE SOUR ECONOMIC NEWS IMPACT INVESTORS?

A. As the Fed Chairman said: It makes investors want to hold on to their money and put it in low risk investments.

Q. IS FAR WEST AFFECTED BY THESE SAME MARKET UNCERTAINTIES AND CONCERNS?

A. Yes, in general, all investors are impacted by bad economic news, and the Company's investors not immune to uncertainty and inflation.

Q. WHAT ARE THE RECENT DEVELOPMENTS IN THE WATER UTILITY INDUSTRY AFFECTING UTILITY INVESTMENTS AND THE MARKET?

A. The water utility industry is expected to confront increasing infrastructure demand. According to *Value Line Investment Survey*, many utilities have infrastructures that are over 100 years old and in need of significant maintenance and, in some cases, massive renovation and replacement. In addition, the EPA continues to impose more stringent water quality and operational standards, such as new maximum

contaminant levels for public drinking water systems. Additional operational requirements have also been imposed to address the threat of bio-terrorism on U.S. water systems. As infrastructure costs continue to climb, many smaller companies are at a serious disadvantage. Without sufficient resources to fund improvements to meet new and more stringent requirements, many smaller companies are being forced to sell to larger utilities, which have greater operational flexibility and resources, as well as access to capital.

Q. WOULD YOU PLEASE DISCUSS IN MORE DETAIL THE IMPACT OF RISK ON CAPITAL COSTS?

A. With reference to specific utilities, risk is often discussed as consisting of two separate types of risk: business risk and financial risk.

Business risk, the basic risk associated with any business undertaking, is the uncertainty associated with the enterprise's day-to-day operations. In essence, it is a function of the normal day-to-day business environment, both locally and nationally. Business risks include the condition of the economy and capital markets, the state of labor markets, regional stability, government regulation, technological obsolescence, and other similar factors that may impact demand for the business product and its cost of production. For utilities, business risk also includes the volatility of revenues due to abnormal weather conditions, degree of operational leverage, regulation, and regulatory climate. Regulation, for example, can compound the business risk if it is unpredictable in reacting to cost increases both in terms of the time lag and magnitude. Regulatory lag makes it difficult to earn a reasonable return particularly in an inflationary environment and/or when there is significant lag between the timing of investment in capital projects and its recognition in rates. Put simply, the greater the degree of uncertainty regarding the various factors affecting a company's business, the greater the risk of an

investment in a company and the greater the compensation required by the investor.

Financial risk, on the other hand, concerns the distribution of business risk to the various capital investors in the utility. As I discussed earlier, permanent capital is normally divided into three categories: long-term debt, preferred stock, and common equity. Because common equity owners have only a residual claim on earnings after debt and preferred stockholders are paid, financial risk tends to be concentrated in that element of the firm's capital. Thus, a decision by management to raise additional capital by issuing additional debt concentrates even more of the financial risk of the utility in the common equity owners.

An important component of financial risk is construction risk. Construction risk refers to the magnitude of a company's capital budget. If a company has a large construction budget relative to internally generated cash flows it will require external financing. It is important that companies have access to capital funds on reasonable terms and conditions. Utilities are more susceptible to construction risk to two reasons. First, utilities generally have high capital requirements to build plant to serve customers. Second, utilities have a mandated obligation to serve leaving less flexibility both in the timing and discretion of scheduling capital projects. This is compounded by the limited ability of a utility to wait for more favorable market conditions to raise the capital necessary to fund the capital projects.

Although often discussed separately, the two types of risks (business and financial) are actually interrelated. Specifically, a common equity investor may seek to offset exposure to high financial risk by investing in a firm perceived to have a low degree of business risk. In other words, the total risk to an investor would be high if the enterprise was characterized as a high business risk with a

large portion of its permanent capital financed with senior debt. To attract capital under these circumstances, the firm would have to offer higher rates of return to its common equity investors. I would also note, while the water utilities in the sample have recently encountered a more favorable regulatory environment in many states, such as California, this has not been the case in Arizona. As a result, utilities in Arizona are finding it increasingly difficult to attract capital.

IV. THE MEANING OF "JUST AND REASONABLE" RATE OF RETURN

Q. HAVE THE COURTS SET FORTH ANY CRITERIA THAT GOVERN THE RATE OF RETURN THAT A UTILITY'S RATES SHOULD PRODUCE?

A. Yes. In 1923, the U.S. Supreme Court set forth the following criteria for determining whether a rate of return is reasonable in *Bluefield Water Works and Improvement Co. v. Public Service Commission of West Virginia*, 262 U.S. 679, 692-93 (1923):

> A public utility is entitled to such rates as will permit it to earn a return on the value of the property which it employs for the convenience of the public equal to that generally being made at the same time and in the same general part of the country on investments on other business undertaking which are attended by corresponding risks and uncertainties .... The return should be reasonably sufficient to assure confidence in the financial soundness of the utility and should be adequate, under efficient and economical management to maintain and support its credit and enable it to raise money necessary for the proper discharge of its public duties. A rate of return may be reasonable at one time and become too high or too low by changes affecting opportunities for investment, the money market, and business conditions generally.

In summary, under *Bluefield Water Works*:

(1) The rate of return should be similar to the return in businesses with similar or comparable risks;

(2) The return should be sufficient to ensure the confidence in the financial integrity of the utility; and

(3) The return should be sufficient to maintain and support the utility's credit.

In addition to being widely followed by courts and regulatory commissions, the Court's discussion of the criteria that should be used to determine a reasonable rate of return is important because *Bluefield Water Works* involved the application of the "fair value" standard, which is embodied in the Arizona Constitution. Thus, in discussing the criteria for determining a fair rate of return, the Court applied the rate of return, judged according these criteria, to the current or "fair" value of the utility's plant and property devoted to public service.

Q. HOW HAVE THESE CRITERIA BEEN APPLIED IN REGULATORY PROCEEDINGS?

A. Yes, but the application of the "reasonableness" criteria laid down by the Supreme Court has resulted in controversy. The typical method of computing the overall cost of capital is quite straightforward: it is the composite, weighted cost of the various classes of capital (debt, preferred stock, and common equity), used by the utility. The weighting is done by calculating the proportion that each class of capital bears to total capital. However, there is no consensus regarding the best method of estimating the cost of equity capital. The increasing regulatory emphasis on objectivity in determining the rate of return has resulted in a proliferation of market-based finance models that are used in equity return determination. As will be discussed more fully below, however, none of these models are universally accepted as the "correct" means of estimating the ROE.

V. THE ESTIMATED COST OF EQUITY FOR THE COMPANY

A. The Publicly Traded Utilities That Comprise the Sample Group Used to Estimate the Company's Cost of Equity

Q. PLEASE BRIEFLY DESCRIBE THE APPROACH YOU FOLLOWED IN YOUR COST OF CAPITAL ANALYSIS FOR FAR WEST.

A. As I have stated, estimating the cost of equity is a matter of informed judgment. The development of an appropriate rate of return for a regulated enterprise involves the determination the level of risk associated with that enterprise and the determination of an appropriate return for that risk level. Practitioners employ various techniques that provide a link to actual capital market data and assist in defining the various relationships that underlie the equity cost estimation process.

Since Far West is not publicly traded, the information required to directly estimate Far West's cost of equity is not available. Accordingly, I used a sample group of water utilities as a starting point to develop an appropriate cost of equity for Far West. There are six water utilities included in the sample group: American States Water, Aqua America, California Water, Connecticut Water, Middlesex Water, and SJW Corp. All these companies are followed by *Value Line Investment Survey*, and, as explained previously, these particular utilities have been used consistently by the Staff to estimate the cost of equity in a number of recent water and sewer utility rate cases.

Q. ARE THE WATER UTILITIES IN YOUR SAMPLE DIRECTLY COMPARABLE TO FAR WEST?

A. No, but they are utilities for which financial information is available. All of them are regulated, they primarily provide water service, although some provide both water and wastewater services, and their primary source of revenues is from regulated services. Therefore, they provide a useful starting point for developing a

cost of equity for Far West. I emphasized "starting point" because Far West is not publicly traded, there is no market data available for smaller utilities, like Far West, that can be used to develop cost of equity estimates.

Q. DOES THE MARKET DATA PROVIDED BY THE WATER UTILITY SAMPLE CAPTURE ALL OF THE MARKET RISKS THAT FAR WEST MIGHT FACE IF IT WERE PUBLICLY TRADED?

A. No. First, as I stated, there is no comparable market data for utility companies the size of Far West. The average revenue of the water utility sample companies is nearly 34 times that of Far West and the average net plant of the water utility sample companies is nearly 22 times that of Far West. Even the smallest company in the sample, Connecticut Water, has nearly 6 times the net plant of Far West, and over 7 times the revenues.

Second, market data for the sample water utilities do not include data for water utilities primarily serving the Arizona market and thus primarily subject to Arizona rate regulation. The Commission requires the use of historical test years with limited out-of-period adjustments. Moreover, current Commission policy strongly disfavors adjustment mechanisms that allow for prompt recovery of increases in the cost of purchased water and power, in contrast to other jurisdictions. In short, the Commission's current policies make it difficult for water/sewer utilities to earn their authorized rates of return.

Q. HOW DOES THIS IMPACT FAR WEST?

A. Far West faces the risk that changes in costs, both unexpected and expected, during the period in which new rates will be in effect will not be recovered without another costly and lengthy general rate case. The water sample is heavily weighted with utilities doing business in California. American States, California Water, and SJW Corp. are based in California and receive the bulk of revenues from utility

service in that state. These utilities face less regulatory risk because the California Public Utilities Commission allows the use of future test years and balancing accounts for expenses such as purchased water and power. Aqua America, the largest water utility in the group, has operations in more than 12 states. As a result, Aqua America's systems are regulated by different state commissions and are less affected by unfavorable decisions and policies of a particular regulatory commission.

Q. PLEASE PROVIDE A GENERAL DESCRIPTION OF THE WATER UTILITIES IN YOUR SAMPLE.

A. Schedule D-4.1 lists the operating revenues and net plant for the six water utilities as reported by AUS Utility Reports (formerly C.A. Turner Utility Reports) and Far West. In addition, below is a general description of each of the companies:

(1) American States Water (AWR) primarily serves the California market through Southern California Water Company, which provides water services to over 254,000 customers and electric utility service to over 23,000 customers within 75 communities in 10 counties in the State of California, primarily in Los Angeles, San Bernardino, and Orange counties. It has one subsidiary serving the Arizona market with approximately 13,000 customers in Fountain Hills and Scottsdale. Approximately 91 percent of American States revenues were derived commercial and residential water customers. Revenues for American States were over $301 million in 2007 and net plant was over $677 million at the end of 2007.

(2) Aqua America (WTR) owns regulated utilities in Pennsylvania, Ohio, North Carolina, Illinois, Texas, New Jersey, Florida, Indiana, Virginia, Maine, Missouri, New York, and South Carolina, serving

over 950,000 customers at the end of 2007. The Company's utility base is diversified among residential water, commercial water, fire protection, industrial water, other water, and wastewater customers. Residential customers make up over 69 percent of its water revenues. Total revenues for Aqua America were over $602 million in 2007 and net plant was over $2.4 billion at the end of 2007.

(3) California Water Service Group (CWT) owns subsidiaries in California, New Mexico, Washington, and Hawaii serving over 490,000 customers. The California operations account for over 95 percent of customers and over 96 percent of operating revenues. Revenues for California Water were over $367 million in 2007 and net plant was over $890 million at the end of 2007.

(4) Connecticut Water Services (CTWS) owns subsidiaries in Connecticut and Massachusetts serving over 84,000 customers. Revenues for Connecticut Water Service were over $59 million in 2007 and net plant was over $229 million at the end of 2007.

(5) Middlesex Water (MSEX) owns subsidiaries in New Jersey and Delaware serving over 90,000 customers and provides water service under contract to municipalities in central New Jersey to a population of over 267,000. Revenues for Middlesex Water were over $86 million in 2007 and net plant was over $297 million at the end of 2007.

(6) SJW Corp. (SJW) owns San Jose Water, which provides water service in a 138 square mile area in San Jose, California, and surrounding communities. Revenues for SJW Corp were over $206 million in 2007 and net plant was over $460 million at the end of 2007.

Q. HOW DOES FAR WEST COMPARE TO THE SAMPLE WATER UTILITIES?

A. It is much smaller. At the end of the test year, Far West had approximately 14,000 water utility customers and 7,200 wastewater customers. Its combined water and wastewater revenues totaled a little over $8 million, and its combined water and wastewater net plant-in-service was approximately $39.5 million. Far West is not geographically diversified. It has a single, relatively small service territory in Yuma County, and no alternative sources of revenue.

Q. IT DOESN'T APPEAR THAT FAR WEST IS ACTUALLY COMPARABLE TO THE SAMPLE WATER UTILITIES.

A. For the reasons I have stated, a good argument could be made that Far West is not comparable to the six publicly traded water utilities in the same group. Unfortunately, as I testified, the approaches commonly used to estimate a utility's cost of equity require market data, which is not available for smaller companies, like Far West. As a result, much larger, public companies must be used as proxies. The emphasis on proxy is important. The criteria established by the Supreme Court in decisions such as *Bluefield Water Works* require the use of comparable companies, i.e., companies that would be viewed by investors as having similar risks. A rational investor would not regard Far West has having the same level of risk as Aqua America or even Connecticut Water. Consequently, the results produced by the DCF and CAPM methodologies, utilizing data for the sample

utilities, often understates the appropriate return on equity for much smaller Arizona-regulated water or sewer provided.

Q. YOU PREVIOUSLY DISCUSSED FINANCIAL RISK, WHICH IS RELATED TO A FIRM'S CAPITAL STRUCTURE. HOW DO THE CAPITAL STRUCTURES OF THE SAMPLE WATER UTILITIES COMPARE TO FAR WEST?

A. Schedule D-4.2 shows the capital structure of Far West contains 85.37 percent debt and 14.63 percent equity compared to the average capital structure of the water utility sample, which is 48.5 percent debt and 51.5 percent equity. Because Far West has significantly more debt in its capital structure, it has significantly more financial risk than the water utility sample.

B. Current Stocks Prices and Their Effect on Estimating the Cost of Equity

Q. DO YOU HAVE ANY GENERAL CONCERNS WITH THE DATA AVAILABLE TO MAKE COST OF EQUITY ESTIMATES FOR THE WATER UTILITIES?

A. Yes. Schedule D-4.3 shows that common stock prices have increased significantly during the past five years, and those increases have exceeded the average annual increases in dividends per share ("DPS"), earnings per share ("EPS") and book value per share. As a result, the current market-to-book ratio for the sample water utilities is approximately 2.1. *Value Line* (January 2004) has suggested that part of the reason for increases in the stock prices is consolidation in the water utility industry. In January 2004, *Value Line* advised investors to expect stock prices from an acquisition to be as much as four times book value. *Value Line* (April 2007) continues to advise investors to expect mergers and acquisitions.

Irrespective of investor merger and acquisition expectations, stock price

growth has exceeded book growth, and both stock price growth and book growth have exceeded dividends and earnings growth. Schedule D-4.4 shows that common stock prices have had annual price increases during the past 10 years that have exceeded the annual increases in dividends per share, earnings per share, and book value per share. The market-to-book ratios of most publicly traded utilities, including the sample utilities, have been well above 1.0 for a number of years, and there is no reason to expect those ratios to significantly change in the future, given continuing increases in the stock markets and overall economic conditions.

Q. WHAT IMPLICATIONS DOES THIS HAVE FOR ESTIMATING THE COST OF EQUITY USING THE SAMPLE WATER UTILITIES?

A. If investors have bid up prices for utility stocks in anticipation of a merger or acquisition, the stock prices will reflect the investor's expected premium at acquisition. This distorts the results produced by the DCF model by underestimating dividend yield, lowering the indicated equity cost.

Alternatively, if investors have bid up the prices for the water utility stocks because they expect increases in earnings and dividends in the future. In other words, investors expect the water utilities to be authorized and earn higher returns on equity. *Value Line* (April 2007), for example, has advised investors that the extremely consumer-conscious regulatory environments of the past several years and the corresponding delayed rate relief and unfavorable decisions appear to be at an end, especially in California. The April 2007 *Value Line* Water Utility Industry report states:

> The [California Public Utilities Commission] is currently reviewing a general rate case petitioning for a water revenue adjustment mechanism ("RAM"), which would allow recovery of revenues when actual sales are lower than adopted sales assumed in a general rate case. This would remove volatility due to weather conditions and provide some revenue stability going forward.

This is good news for both the utility companies and investors in California and other progressive states. There is no doubt investor expectations are influenced by events such as these. We can only hope that Arizona's regulators understand that lower rates means less capital investment and, ultimately, a lower quality of service. Shareholders won't keep chasing bad investment with more capital, nor will they continue to subsidize the provision of service while waiting for the regulatory system to change.

C. Overview of the DCF and CAPM Methodologies

Q. PLEASE EXPLAIN THE GENERAL APPROACHES TO ESTIMATING THE COST OF CAPITAL.

A. There two broad approaches:

1) Identify comparable-risk sample companies and estimate the cost of capital directly.

2) Find the location of the CML and estimate the relative risk of the company that jointly determines the cost of capital.

The DCF model is an example of a method falling into the first general approach. It is a direct method, but uses only a subset of the total capital market evidence. The DCF model rests on the premise that the fundamental value of an asset (stock) is its ability to generate future cash flows to the owner of that asset (stock). I will explain the DCF model in more detail later. For now, the DCF is simply the sum of a stock's expected dividend yield and the expected long-term growth rate. Dividend yields are readily available, but long-term growth estimates are more difficult to obtain.

The CAPM is an example of a method falling into the second general approach. It uses information on all securities rather than a small subset. I will explain the CAPM in more detail later. For now, the CAPM is a risk-return

relationship, often depicted graphically as the CML. The CAPM is the sum of a risk-free return and a risk premium.

Each of these two methods has their own way of measuring investor expectations. In the final analysis, ROE estimates are subjective and should be based on sound, informed judgment. I have applied several versions of the DCF, and two versions of the CAPM to "bracket" the fair cost of equity capital for Far West, but without taking into account the additional risks that Far West possesses.

D. Explanation of the DCF Model and Its Inputs

Q. PLEASE EXPLAIN THE DCF METHOD OF ESTIMATING THE COST OF EQUITY.

A. The DCF model is based on the concept that the current price of a share of stock is equal to the present value of future cash flows from the purchase of the stock. In other words, the DCF model is an attempt to replicate the market valuation process that sets the price investors are willing to pay for a share of a company's stock. It rests on the assumption that investors rely on the expected returns (i.e., cash flow they expect to receive) to set the price of a security. The DCF model in its most general form is:

$$(2) \qquad P_0 = CF_1/(1+k) + CF_2/(1+k)^2 + ... + CF_n/(1+k)^n$$

where k is the cost of equity; n is a very large number; P_0 is the current stock price; and, CF_1, CF_2,...CF_n are all the expected future cash flows expected to be received in periods 1, 2, ... n.

Equation (2) can be written to show that the current price (P_0) is also equal to

$$(3) \qquad P_0 = CF_1/(1+k) + CF_2/(1+k)^2 + \ldots + P_t/(1+k)^t$$

where P_t is the price expected to be received at the end of the period t. If the future price (P_t) included a premium (an expected increase in the stock price or capital

gain), the price the investor would pay today in anticipation of receiving that premium would increase. In other words, by estimating the cash flows from the purchase of a stock in the form of dividends and capital gains, we can calculate the investor's required rate of return, i.e., the rate of return an investor presumptively used in bidding the current price to the stock (P_0) to its current level.

Equation (3) is a Market Price version of the DCF model. As with the general form of the DCF model in equation (2), in the Market Price approach the current stock price (P_0) is the present value of the expected cash inflows. The cash flows are comprised of dividends and the final selling price of the stock. The estimated cost of equity (k) is the rate of return investors expect if they bought the stock at today's price, held the stock and received dividends through the transition period, and then sold it for price (P_t).

Q. CAN YOU PROVIDE AN EXAMPLE TO ILLUSTRATE THE MARKET PRICE VERSION OF THE DCF MODEL?

A. Yes. Assume an investor buys a share of common stock for $40. If the expected dividend during the coming year is $2.00, then the expected dividend yield is 5 percent ($2.00/$40 = 5.0 percent). If the stock price is also expected to increase to $43.00 after one year, this $3.00 expected gain adds an additional 7.5 percent to the expected total rate of return ($3.00/$40 = 7.5 percent). Thus, the investor buying the stock at $40 per share, expects a total return of 12.5 percent (5 percent dividend yield plus 7.5 percent price appreciation). The total return of 12.5 percent is the appropriate measure of the cost of capital because this is the rate of return that caused the investor to commit $40 of his capital by purchasing the stock.

I have provided a Market Price DCF model in Exhibit 1 to illustrate the Market Price DCF model approach further. The model computes the implied rate of return from a stream of cash flows. The first cash flow is negative and is the

purchase price of the stock. I used the spot price at June 25, 2008, as reported by Yahoo Finance as the initial purchase price. The next series of cash flows are the expected dividends for the next four years. The final cash flow is the dividend in year 5 plus the expected selling price of the stock. The selling price of the stock is based on the historical 5-year average annual price growth for each of the stocks. The average implied rate of return is over 15 percent.

Q. HOW DOES THE RESULT OF YOUR MARKET PRICE DCF COMPARE TO THE HISTORICAL COMPOUND ANNUAL MARKET RETURNS FOR THE WATER UTILITY SAMPLE?

A. As shown in Exhibit 2, the average 5-year historical compound annual total market return for the water utility sample is over 15 percent. Despite the fact that the historical 5-year total market returns as well as the market price DCF indicate returns in the range of 15 percent, I do not rely on this method. I have instead used it to evaluate the reasonableness of the results produced by the other versions of my DCF model.

Q. PLEASE CONTINUE WITH YOUR DESCRIPTION OF THE DCF MODEL.

A. Under the assumption that future cash flows are expected to grow at a constant rate ("g"), equation (1) can be solved for k and rearranged into the simple form:

$$(4) \quad k = CF_1/P_0 + g$$

where CF_1/P_0 is the expected dividend yield and g is the expected long term dividend (price) growth rate ("g"). The expected dividend yield is computed as the ratio of next period's expected dividend ("CF_1") divided by the current stock price ("P_0"). This form of the DCF model is known as the constant growth DCF model and recognizes that investors expect to receive a portion of their total return in the form of current dividends and the remainder through future dividends and capital

(price) appreciation. A key assumption of this form of the model is that investors expect that same rate of return (k) every year and that market price grows at the same rate as dividends. This has not been historically true for the water utility sample, as shown by the data shown in Schedules D-4.3 and D-4.4. As a result, estimates of long-term growth rates (g) should take this into account.

Q. HOW IS THE FORMULA FOR THE MULTI-STAGE DCF MODEL DERIVED?

A. Under the multi-stage growth DCF model, equation (1) is expanded to incorporate two or more growth rate periods and is written as:

$$(5)\ P_0 = CF_0(1+g_1)/(1+k) + \ldots + CF_0(1+g_2)^n/(1+k)^n + CF_0(1+g_t)^{(t+1)}/k-g_t)$$

where g_1, g_2, etc., represent growth rates for periods 1, 2, etc., and g_t represents the growth rate from period t to infinity. This version of the DCF model assumes that cash flow growth will occur at different rates for one or more periods and ultimately reach a terminal growth stage that continues indefinitely.

Q. ARE THERE ANY GENERAL CONCERNS ABOUT APPLYING THE DCF MODEL TO UTILITY STOCKS?

A. There are a number of reasons why caution must be used when applying the DCF model to utility stocks. First, as I have already discussed, the stock price and dividend yield component may be unduly influenced by structural changes such as mergers and acquisitions, which influence investor expectations. Second, the DCF model is based on a number of assumptions which may not be realistic given the current capital market environment. The traditional DCF model assumes that the stock price, book value, dividends, and earnings all grow at the same rate. This has not been historically true for the sample water utility companies. Third, the application of the DCF model produces estimates of the cost of equity that are consistent with investor expectations only when the market price of a stock and the

stock's book value are approximately the same. The DCF model will understate the cost of equity when the market-to-book ratio exceeds 1.0 and conversely will overstate the cost of equity when the market-to-book ratio is less than 1.0. The reason for this is that the market-derived return produced by the DCF is often applied to a book value (i.e., original cost) rate base by regulators. Fourth, the assumption of a constant growth rate may be unrealistic, and there may be difficulty in finding an adequate proxy for the growth rate. Historical growth rates can be biased downward by various factors, including acquisitions, mergers, unfavorable regulatory decisions, and even abnormal weather patterns.

Q. LET'S TURN TO THE SPECIFIC INPUTS USED IN YOUR DCF MODELS. WHAT DATA HAVE YOU USED TO COMPUTE THE DIVIDEND YIELD (CF_1/P_0) IN YOUR MODELS?

A. I used the spot price for each of stocks of the water utilities in the sample group on June 25, 2008 as reported by Yahoo Finance. The dividend is the expected 2008 dividend.

Q. EARLIER YOU TESTIFIED THAT STOCK PRICES HAVE BEEN INCREASING DUE TO STRUCTURAL CHANGES. HOW DO SUCH CHANGES IMPACT THE DIVIDEND YIELD?

A. The DCF model results will be negatively biased because the dividend yield (CF_1/P_0) is reduced by virtue of having a larger denominator, the stock price (P_0). This impact is not by itself problematic because the DCF model is intended to take into account changes in the stock price (upward or downward). Investors may have bid up the price of the stocks of the water utilities in the sample group because they expect increased growth in earnings and, as a result, increased dividend growth and appreciation in the price of the stock. However, if stock prices have been bid up in anticipation of a merger or an acquisition, then the DCF model estimate will not

reflect true market conditions and understate the cost of equity.

Q. WHAT MEASURES OF GROWTH ("g") HAVE YOU USED?

A. I have used earnings growth forecasts, where available, from three different, widely-followed sources: *Zack's Investment Research*, *Standard & Poor Earnings Guide*, and *Value Line Investment Survey*. Schedule D-4.6 reflects estimates of earnings growth. The currently available estimates from these three sources provide at least two estimates for each of the sample water utility companies. There are three estimates for the majority of the companies.

I have also used forecasts of book returns, retention ratios, and growth in the number of common shares from *Value Line* to determine sustainable growth estimates, which I describe in more detail below. Schedules D-4.7 and D-4.8 show my calculations of sustainable growth.

For the multi-stage DCF, I employed a two-stage model with short-term and long-term growth rates. I used analysts' forecasts of EPS growth for the near term and average long-term GDP growth for the long-term.

Q. DID YOU USE THE ARITHMETIC MEAN OR THE GEOMETRIC MEAN FOR GDP GROWTH?

A. The arithmetic mean. It is well established that if the cost of capital is estimated from historical data, an arithmetic average should be used. Dr. Morin, in his text on regulatory finance, provides a detailed explanation of why this is the case, citing various authorities, including Professors Brealey, Myers and Allen, authors of the leading graduate textbook on corporate finance.[4]

[4] Roger A. Morin, *New Regulatory Finance* (2006) 133-43.

Q. WHY DID YOU USE FORECASTED GROWTH RATES IN YOUR MODELS?

A. The DCF model requires estimates of growth that investors expect in the future. Accordingly, I used analysts' forecasts of growth. Logically, in estimating future growth, financial institutions and analysts have taken into account all relevant historical information on a company as well as other more recent information.[5] To the extent that past results provide useful indications of future growth prospects, analysts' forecasts would already incorporate that information. In addition, a stock's current price reflects known historic information on that company, including its past earnings history. Any further recognition of the past will double count what has already occurred. Therefore, forward-looking growth rates should be used.

Q. HAVE YOU COMPARED THE ANALYSTS' ESTIMATES OF GROWTH WITH HISTORICAL DATA?

A. Yes. As shown in Exhibit 3, the average 5-year historical compound annual capital (price) appreciation is 12.27 percent. The average 10-year historical compound annual capital (price) appreciation is 11.28 percent. This is significantly higher than the average of the analysts' estimates of growth of 8.92 percent as shown on Schedule D-4.5. While historical returns do not necessarily reflect what will occur in the future, the analysts' estimates of EPS growth are significantly less than the historical capital appreciation and the historical total returns. Thus, I believe using the analysts' estimates of EPS growth for the growth rate in the DCF model is conservative.

[5] David A. Gordon, Myron J. Gordon and Lawrence I Gould, "Choice Among Methods of Estimating Share Yield," *Journal of Portfolio Management* (Spring 1989) 50-55.

Q. WHY DIDN'T YOU USE FORECASTS OF DIVIDEND GROWTH?

A. Primarily because of the limited availability of analyst estimates of dividend growth for the utility sample companies. Forecasts are available for only three of the six sample companies. A second reason is that of the three DCF estimates that can be made, one produces an indicated cost of equity of only 4.3 percent – far below the current cost of investment grade bonds. One other DCF estimate produces an indicated cost of equity only 50 basis points above the current cost of investment grade bonds and only 20 basis points above the projected cost of investment grade bonds.

Q. HAVE YOU PERFORMED CONSTANT GROWTH DCF ESTIMATES USING ANALYSTS' ESTIMATES OF DPS GROWTH?

A. Yes. Exhibit 4, attached hereto, reflect constant growth DCF results using analysts' estimates of DPS growth. While the average result is 8.1 percent, two of the three estimates are questionable. As I have discussed – one estimate is as low as 4.3 percent.

Q. HAVE YOU PREPARED CONSTANT GROWTH DCF MODELS USING HISTORICAL DPS AND EPS GROWTH RATES?

A. Yes. Exhibit 5, attached hereto, reflects constant growth DCF results using five-year historical annual growth rates for DPS. The DCF results using five-year historical annual growth rates using historical DPS growth is 6.8 percent – below the current yield on investment grade bonds. Five of the six estimates are significantly below the cost of debt, with the lowest being only 4.2 percent.

Exhibit 6, attached hereto, reflects constant growth DCF results using five-year historical annual growth rates for EPS. The range of cost of equity estimates using historical EPS growth are 4.8 percent to 11.3 percent with the average of the estimates being 8.5 percent. Two of the six estimates are well below the cost of

debt with one as low as 4.8 percent. If these two estimates are removed, the average result is 9.9 percent. While I do not employ the historical growth rates in my DCF estimates, they produce indicated costs of equity ranging from 7.7 percent to 11.5 percent (excluding the two estimates below the cost of debt), and thus serve as a check on my DCF results.

Q. WHY HAVEN'T YOU INCLUDED ANALYSTS' FORECASTS OF DPS GROWTH AND HISTORICAL DPS GROWTH IN YOUR DCF ESTIMATE OF GROWTH?

A. Using analysts' forecasts of DPS growth and historical DPS growth results in returns which are unrealistic. It is important to keep in mind that there is a great deal of empirical evidence demonstrating that, on average, stocks are riskier than bonds and achieve higher returns. Morningstar (formerly Ibbotson Associates), for example, annually publishes its comprehensive study of historical returns on stocks and bonds.[6]

Putting aside the potential distortions to the result produced by the DCF model caused by structural changes to the industry and abnormal weather conditions, it does not make sense to employ grow rates that result in indicated equity returns less than the cost of debt, especially when those results fly in the face of a large body of empirical evidence. Investors would not bid up the price of a utility stock if the expected return is equivalent to returns on bonds and other debt investments. As the CML depicted previously illustrates, common stocks are higher and to the right of investment grade bonds on the CML continuum because they are riskier investments. Again, the empirical evidence supports this conclusion. The results using the analysts' expectations of DPS growth and historical DPS growth are unreasonable.

[6] Morningstar, *SBBI Valuation Edition 2006 Yearbook.*

Q. YOU MENTIONED SUSTAINABLE GROWTH EARLIER. PLEASE EXPLAIN WHAT SUSTAINABLE GROWTH IS?

A. Sustainable growth is derived by combining the expected growth from future retained earnings and expected future growth from sales of common stock. The growth rate (g) becomes:

$$(6) \quad g = br + sv$$

where b is the expected retention ratio; r is the expected return on common equity; s is the funds raised from the sale of stock as a fraction of existing common equity; and v is the fraction of funds raised from the sale of stock that accrues to shareholders.

Q. HOW DID YOU ESTIMATE "br" GROWTH?

A. I used projected rates of return, dividends per share, and earnings per share reported in *Value Line* to estimate "br" growth.

Q. HOW DID YOU ESTIMATE "sv" GROWTH?

A. I used *Value Line*'s projections of new issues of common stock to estimate "s" and reported books values and the spot price to estimate "v". All of the water utility stocks used in my sample are currently selling at prices above book value and thus have "sv" growth.

Q. HOW DO YOUR ESTIMATES FOR SUSTAINABLE GROWTH COMPARE TO THE HISTORICAL COMPOUND ANNUAL CAPITAL APPRECIATION RETURN?

A. The average sustainable growth for the utility sample as shown in Schedule D-4.7 is 7.17 percent, which is lower than the average 5-year and 10-year historical compound annual capital appreciation return of 12.27 percent and 11.28 percent, respectively.

E. Explanation of the CAPM and Its Inputs

Q. PLEASE EXPLAIN THE CAPM METHODOLOGY FOR ESTIMATING THE COST OF EQUITY.

A. As I already indicated, the CAPM is a type of risk premium methodology that is often depicted graphically in a form identical to the CML. Put simply, the CAPM formula is the sum of a risk-free rate plus a risk premium. It quantifies the additional return required by investors for bearing incremental risk. The risk-free rate is the reward for postponing consumption by investing in the market. The risk premium is the additional return compensation for assuming risk.

The CAPM formula provides a formal risk-return relationship premised on the idea that only market risk matters, as measure by beta. The CAPM formula is:

$$(7)\quad k = R_f + \beta(R_m - R_f)$$

where k is the expected return, R_f is the risk-free rate, R_m is the market return, $(R_f - R_m)$ is the market risk premium, and β is beta.

The difficulty with the CAPM is that it is a prospective or forward-looking model while most of the capital market data required to match the input variables above is historical.

Q. WHAT IS THE RISK-FREE RATE?

A. It is the return on an investment with no risk. U.S. Treasury rate serve as the basis for the risk-free rate because the yields are directly observable in the market and are backed by the U.S. government. Practically speaking, short-term rates are volatile, fluctuate widely and are subject to more random disturbances than long-term rates. In short, long-term Treasury rates are preferred for these reasons and because long-term rates are more appropriately matched to securities with an indefinite life or long-term investment horizon.

Q. WHAT IS BETA AND WHAT DOES IT MEASURE?

A. Beta is an estimate of the relative risk of a security compared to the market. In other words, it is a measure of the sensitivity of a security to the market as a whole. This sensitivity is also known as systematic risk. It is estimated by regressing a security's excess returns against a market portfolio's excess returns. The slope of the regression line is the beta.

Beta for the market is 1.0. A security with a beta greater than 1.0 is considered riskier than the market. A security with a beta less than 1.0 is considered less risky than the market.

There are computational problems surrounding beta. It depends on the return data, the time period used, its duration, the choice of the market index, and whether annual, monthly, or weekly return figures are used. Betas are estimated with error. Based on empirical evidence, high betas will tend to have a positive error (risk is overestimated) and low betas will have a negative error (risk is underestimated).[7]

Q. WHAT DID YOU USE AS THE PROXY OF THE BETA FOR FAR WEST?

A. I used the average beta of the sample water utility companies. Betas were obtained from *Value Line Investment Analyzer* (May, 2008). *Value Line* is source for estimated betas that Staff has used in a number of recent rate cases. The average beta as shown on Schedule D-4.12 is 1.01. In the past few years, beta for the sample water utility companies has increased significantly, indicating an upward trend. For example, in the average beta for the water utility sample in January 2006 was 0.74. The average beta increased to 0.85 by January 2007. I should note that because Far West is not publicly traded, Far West has no beta. I believe that

[7] Eugene F. Fama and Kenneth R. French, "The Capital Asset Pricing Model: Theory and Evidence," *Journal of Economic Perspectives* (Summer 2004) 25-46.

Far West, if it were publicly traded, would have a higher beta than the sample water utility companies.

Q. PLEASE EXPLAIN THE MARKET RISK PREMIUM?

A. The market-risk premium (R_m-R_f) is the return an investor expects to receive as compensation for market risk. It is the expected market return minus the risk-free rate. Approaches for estimating the market risk premium can be historical or prospective.

Since expected returns are not directly observable, historical realized returns are often used as a proxy for expected returns on the basis that the historical market risk premium follows what is known in statistics as a "random walk." If the historical risk premium does follow the random walk, then one should expect the risk premium to remain at its historical mean. Based on this argument, the best estimate of the future market risk premium is the historical mean. Morningstar's *SBBI Valuation Edition 2008 Yearbook* provides historical market returns for various asset classes from 1926 to 2007. This publication also provides market risk premiums over U.S. Treasury bonds, which make it an excellent source for historical market risk premiums.

Prospective market risk premium estimation approach necessarily examining the returns expected from common equities and bonds. They can be extremely volatile, especially when examining very short periods of time. When such methods are shown to be volatile, they should be avoided. One method employs applying the DCF model to a representative market index such as the S&P 500 index or the *Value Line* Composite Index. The expected return from the DCF is measured for a number of periods of time, and then subtracted from the prevailing risk-free rate for each period to arrive at market risk premium for each period. The market risk premium subsequently employed in the CAPM is the

average market risk premium of the overall period.

Q. HOW MANY MARKET RISK PREMIUM ESTIMATES DID YOU PREPARE IN CONNECTION WITH YOUR ASSIGNMENT FOR FAR WEST?

A. I prepared two market risk premium estimates: An historical market risk premium and a current market risk premium.

Q. HOW DID YOU ESTIMATE THE HISTORICAL MARKET RISK PREMIUM?

A. I used the Morningstar's *SBBI Valuation Edition 2008 Yearbook* measure of the average premium of the market over intermediate-term treasury securities from 1926 through 2007. The average historical market risk premium over intermediate-term treasury securities is 7.5 percent.

Q. HOW DID YOU ESTIMATE THE CURRENT MARKET RISK PREMIUM?

A. I derived a market risk premium by, first, using the DCF model to compute an expected market return for each of the past 12 months using *Value Line's* projections of the average dividend yield and average price appreciation (growth) on the *Value Line* Composite Index. I then subtracted the average 30-year Treasury yield for each month from the expected market returns to arrive at the expected market risk premiums. Finally, I averaged the computed market risk premiums to determine the current market risk premium. The data and computations are shown on Schedule D-4.12. The average market risk premium is 11.45 percent.

Q. WHY DID YOU USE A FULL 12 MONTHS OF DATA TO ESTIMATE THE EXPECTED MARKET RISK PREMIUM?

A. Staff typically computes a market risk premium based on a single point in time, which makes estimates extremely volatile, so much so that the expected market

risk premium estimate can change by as much as 300 basis points (or more) each time it is estimated. The accuracy of the expected risk premium in greatly enhanced by increasing the number of periods used to estimate it.

Q. WHY DID YOU USE THE 30-YEAR TREASURY AS OPPOSED TO THE 5, 7, OR EVEN 10 YEAR TREASURIES IN COMPUTING YOUR EXPECTED MARKET RISK PREMIUMS?

A. To properly match the risk-free rate (based the 30-year Treasury rate) with the expected market risk premium I used in the current market risk premium CAPM.

F. <u>The Results of the DCF and CAPM Models, and Recommended ROE</u>

Q. PLEASE DISCUSS YOUR ANALYSIS OF THE COST OF EQUITY FOR FAR WEST.

A. In the first part of my analysis, I applied two versions of the constant growth DCF and a two-stage DCF models to the six water utilities in the sample group. The DCF analyses appear on Schedules D-4.9, D-4.10, and D-4.11. The DCF models produce an indicated equity cost in the range of 9.9 percent to 12.5 percent.

In the second part of my analysis, I applied two versions of the CAPM – an historical risk premium CAPM and a current market risk premium CAPM. The CAPM analyses appear on Schedule D-4.13 and produce an indicated cost of equity in the range of 11.3 percent to 16.3 percent.

Q. PLEASE SUMMARIZE YOUR DCF AND CAPM RESULTS.

A. The following table summarizes the results of the models I have used:

	<u>Range</u>	<u>Midpoint</u>
DCF Constant Growth (earnings growth)	10.8% - 13.3%	12.0%
DCF Constant Growth (sustainable growth)	8.3% - 12.3%	10.3%
Two-Stage Growth Model	10.5% - 12.1%	11.3%
DCF Average Results	**9.9% - 12.5%**	**11.2%**

CAPM Historical MRP			11.5%
CAPM Current MRP			11.4%
Average CAPM Results		**11.3%-16.3%**	**13.8%**
Average Overall Results		**10.6%-14.4%**	**12.5%**

Q. DID YOU COMPUTE THE EFFECT ON THE COST OF EQUITY OF THE DIFFERING FINANCIAL RISKS BETWEEN FAR WEST AND THE SAMPLE WATER UTILITIES?

A. Yes. I used the methodology that Staff employs to estimate the effect of Far West's capital structure on the cost of equity. Staff's methodology is based on the methodology developed by Professor Robert Hamada of the University of Chicago. I generally do not subscribe to the Hamada method because it requires one to assume the average beta of the sample utility companies is the beta for the subject utility and that the sample water companies are comparable in every way except for the capital structure. Nevertheless, using the Hamada methodology, I computed a financial risk adjustment of nearly 14 percent. This is conservative given that I believe the beta of Far West is higher than the sample utility companies and because Far West is not comparable in every way to the sample utility companies. If one assumes that Far West's cost of equity is the average of the overall results or 12.5 percent and add the financial risk adjustment of 14 percent, the indicated cost of equity would be 26.5 percent – far greater than my 20.0 percent recommendation.

Q. HAVE YOU PREPARED AN EXHIBIT TO YOUR FINANCIAL RISK ADJUSTMENT COMPUTATION?

A. Yes. My computation is shown in Exhibit 7, attached hereto.

Q. WHY DIDN'T YOU RECOMMEND 26.5 PERCENT RETURN ON EQUITY?

A. Put simply, professional judgment. Given that Far West has a higher cost of equity than the water utility sample group due to its relatively smaller size and higher business and operational risks as well as its significantly higher financial risk, I believe a 26.5 percent return on equity recommendation is justified in the instant case. However, I believe that my recommendation of 20 percent strikes a fair balance given the circumstances presented in this rate case. My 20.0 percent ROE is roughly the midpoint between the average 12.5 percent cost of equity water utility companies and the 26.5 percent. The 650 basis point difference between the 20 percent and 26.5 percent represents a savings to ratepayers of nearly $400,000 annually.

Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

2101305.1/32116.017

Thomas J. Bourassa
Direct Testimony
(Cost of Capital)
Schedules

Far West Water and Sewer Company - Water and Sewer Divisions
Test Year Ended December 31, 2007
Summary of Cost of Capital

Exhibit
Schedule D-1
Page 1
Witness: Bourassa

Line No.	Item of Capital	End of Test Year Dollar Amount	Percent of Total	(e) Cost Rate	Weighted Cost	End of Projected Year Dollar Amount	Percent of Total	(e) Cost Rate	Weighted Cost
1	Long-Term Debt	25,761,224	85.34%	6.38%	5.45%	25,761,224	83.44%	6.38%	5.33%
2									
3	Stockholder's Equity[1]	4,425,453	14.66%	20.00%	2.93%	5,112,011	16.56%	20.00%	3.31%
4									
5	Totals	30,186,677	100.00%		8.38%	30,873,235	100.00%		8.64%
6									
7									
8									
9									
10									
11	SUPPORTING SCHEDULES:								
12	D-1								
13	D-3								
14	D-4								
15	E-1								
16									
17									
18									
19									
20									
21									
22									
23									
24									
25									
26									
27									
28									
29									
30									
31									

RECAP SCHEDULES:
A-3

Far West Water and Sewer Company - Sewer Division
Test Year Ended December 31, 2007
Cost of Long Term Debt

Exhibit
Schedule D-2
Page 1
Witness: Bourassa

Line No.	Description of Debt	End of Test Year Amount Outstanding	End of Test Year Annual Interest	End of Test Year Interest Rate	End of Test Year Weighted Cost	End of Projected Year Amount Outstanding	End of Projected Year Annual Interest	End of Projected Year Interest Rate	End of Projected Year Weighted Cost
1									
2	Yuma Series 2007 A Term Bonds	$ 3,480,000	226,200	6.50%	0.88%	$ 3,480,000	226,200	6.50%	0.88%
3	Yuma Series 2007 A Term Bonds	21,340,000	1,360,425	6.38%	5.28%	21,340,000	1,360,425	6.38%	5.28%
4	Yuma Series 2007 B Term Bonds	370,000	24,050	6.50%	0.09%	370,000	24,050	6.50%	0.09%
5	Inter-Company Payable (H&S)	571,224	33,874	5.93%	0.13%	571,224	33,874	5.93%	0.13%
6			-		0.00%	-	-	0.00%	0.00%
7			-		0.00%	-	-	0.00%	0.00%
8			-		0.00%	-	-	0.00%	0.00%
9			-		0.00%	-	-	0.00%	0.00%
10			-		0.00%	-	-	0.00%	0.00%
11									
12									
13	Totals	$ 25,761,224	1,644,549		6.38%	$ 25,761,224	1,644,549		6.38%
14									
15	Supporting Schdules:								
16	E-2								
17									
18									
19									
20									
21									

Far West Water and Sewer Company - Sewer Division
Test Year Ended December 31, 2007
Cost of Preferred Stock

Exhibit
Schedule D-3
Page 1
Witness: Bourassa

Line No.	Description of Issue	End of Test Year Shares Outstanding	Amount	Dividend Requirement	End of Projected Year Shares Outstanding	Amount	Dividend Requirement
1							
2							
3	NOT APPLICABLE, NO PREFERRED STOCK ISSUED OR OUTSTANDING						
4							
5							
6							
7							
8							
9							
10							
11							
12							
13							
14							
15							
16							
17	SUPPORTING SCHEDULES:				RECAP SCHEDULES:		
18	(a) E-1				(a) D-1		
19							
20							

Far West Water and Sewer Company - Sewer Division
Test Year Ended December 31, 2007
Cost of Common Equity

Exhibit
Schedule D-4
Page 1
Witness: Bourassa

Line No.	
1	
2	The Company is proposing a cost of common equity of 20%.
3	
4	
5	
6	
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12	
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14	
15	
16	
17	SUPPORTING SCHEDULES:
18	(a) E-1
19	
20	

RECAP SCHEDULES:
(a) D-1

Far West Water and Sewer Company
Summary of Results

Exhibit
Schedule D-4.0
Witness: Bourassa

Line No.	Method	Low	High	Midpoint
1				
2				
3				
4				
5	DCF Constant Growth	10.8%	13.3%	12.0%
6	DCF Sustainable Growth	8.2%	12.0%	10.1%
7	DCF Two-Stage	10.5%	12.1%	11.3%
8				
9	Average DCF Results	9.8%	12.4%	11.1%
10				
11	CAPM	11.3%	16.3%	13.8%
12				
13	Average DCF and CAPM Results	10.6%	14.4%	12.5%
14				
15				
16				
17				
18				
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21				
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27				
28				

Far West Water and Sewer Company
Selected Characteristics of Water Utilities

Exhibit
Schedule D-4.1
Witness: Bourassa

Line No.	Company	% Water Revenues	Operating Revenues (millions)	Net Plant (millions)	S&P Bond Rating	Moody's Bond Rating
1	1. American States	80%	$ 298.0	$ 685.7	A	A2
2	2. Aqua America	87%	$ 604.5	$ 2,415.8	AA-	NR
3	3. California Water	97%	$ 367.1	$ 892.2	NR	NR
4	4. Connecticut Water	85%	$ 59.5	$ 235.2	AAA	NR
5	5. Middlesex	90%	$ 86.1	$ 297.6	A	NR
6	6. SJW Corp.	95%	$ 208.8	$ 546.0	NR	NR
7						
8	Average	89%	$ 270.7	$ 845.4		
9						
10	Far West Water and Sewer Company	75%	$ 7.8	$ 33.7	NR	NR

Source: AUS Utility Reports (June 2008)

Far West Water and Sewer Company
Capital Structures of Water Utilities Septemeber 2007

Exhibit
Schedule D-4.2
Witness: Bourassa

No.		Book Value		Market Value	
		Long-Term Debt	Common Equity	Long-Term Debt	Common Equity
	Company				
1	1. American States	47.0%	53.0%	31.2%	68.8%
2	2. Aqua America	55.4%	44.6%	35.7%	64.3%
3	3. California Water	43.1%	56.9%	28.8%	71.2%
4	4. Connecticut Water	48.0%	52.0%	32.5%	67.5%
5	5. Middlesex	49.5%	50.5%	36.7%	63.3%
6	6. SJW Corp.	47.8%	52.2%	28.7%	71.3%
7					
8	Average	48.5%	51.5%	32.2%	67.8%
9					
10	Far West Water and Sewer Company	85.3%	14.7%	N/A	N/A
11					
12					
13	Sources:				
14	Zacks Investment Research				

Far West Water and Sewer Company
Comparisons of Past and Future Estimates of Growth

Exhibit
Schedule D-4.3
Page 1
Witness: Bourassa

Line No.	Company	Five-year historical compound annual changes Price	Book Value	DPS	EPS	Average Future Growth[1]
7	1. American States	13.68%	4.53%	2.41%	6.75%	7.83%
8	2. Aqua America	13.72%	9.84%	9.34%	6.79%	8.93%
9	3. California Water	12.76%	7.11%	0.88%	2.73%	8.50%
10	4. Connecticut Water	1.91%	3.50%	1.51%	1.01%	8.92%
11	5. Middlesex	6.86%	6.34%	1.93%	2.85%	8.00%
12	6. SJW Corp.	24.69%	8.96%	4.67%	7.70%	11.33%
15	GROUP AVERAGE	12.27%	6.71%	3.46%	4.64%	8.92%
16	GROUP MEDIAN	13.22%	6.73%	2.17%	4.80%	8.71%

[1] See Schedule D-4.5

Sources:
Value Line Data
Yahoo Finance

Far West Water and Sewer Company
Comparisons of Past and Future Estimates of Growth

Exhibit
Schedule D-4.4
Page 1
Witness: Bourassa

Line No.	Company	Ten-year historical compound annual changes Price	Book Value	DPS	EPS	Average Future Growth[1]
1	1. American States	12.35%	4.54%	1.68%	4.60%	7.83%
2	2. Aqua America	13.87%	9.39%	7.62%	8.23%	8.93%
3	3. California Water	6.33%	3.59%	0.99%	Negative	8.50%
4	4. Connecticut Water	8.84%	3.76%	1.26%	1.66%	8.92%
5	5. Middlesex	9.88%	3.98%	1.98%	2.29%	8.00%
6	6. SJW Corp.	16.43%	4.85%	3.86%	3.51%	11.33%
7						
8	GROUP AVERAGE	11.28%	5.02%	2.90%	4.06%	8.92%
9	GROUP MEDIAN	11.12%	4.26%	1.83%	3.51%	8.71%
10						
11	[1] See Schedule D-4.5					
12						
13	Sources:					
14	Value Line Data					
15	Yahoo Finance					

Far West Water and Sewer Company
Analysts Forecasts of Earnings Per Share Growth

Exhibit
Schedule D-4.5
Witness: Bourassa

Line No.		(1)	(2)	(3)	(4)
		EPS GROWTH			Average
	Company	Zacks	Morningstar	Value Line	Growth (G) (Cols 1-3)
1	1. American States	10.00%	4.00%	9.50%	7.83%
2	2. Aqua America	10.00%	9.80%	7.00%	8.93%
3	3. California Water	8.00%	8.00%	9.50%	8.50%
4	4. Connecticut Water				8.92%
5	5. Middlesex	8.00%		8.00%	8.00%
6	6. SJW Corp.	10.00%	14.00%	10.00%	11.33%
7					
8					
9	GROUP AVERAGE	9.20%	8.95%	8.80%	8.92%
10	GROUP MEDIAN				8.71%
11					
12	Sources:				
13	Value Line Investment Analyzer May 2008				
14	Zacks Investment Research Site June 20, 2008				
15	Morningstar Website June 26, 2008				
16					
17					
18					
19					
20					
21					
22					
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24					
25					
26					
27					
28					

Far West Water and Sewer Company
Estimates of Sustainable Growth

Exhibit
Schedule D-4.6
Witness: Bourassa

Line No.		(1)	(2)	(3)	(4)	(5)
	Company	Retention Ratio	Rate of Return	br Growth	sv Growth	Average Sustainable Growth (Cols 3+4)
1.	American States	0.53	13.50%	7.11%	1.91%	9.02%
2.	Aqua America	0.36	11.50%	4.18%	0.66%	4.84%
3.	California Water	0.51	11.50%	5.87%	1.11%	6.98%
4.	Connecticut Water					
5.	Middlesex					
6.	SJW Corp.					
	GROUP AVERAGE	0.47	12.17%	5.72%	1.23%	6.95%
	GROUP MEDIAN	0.51	11.50%	5.87%	1.11%	6.98%

Sources:
Value Line Data

Far West Water and Sewer Company
Estimates of sv Growth

Exhibit
Schedule D-4.7
Witness: Bourassa

Line No.	Company	(1) Stock Financing Rate	(2) Current Market to Book Ratio	(3) v	(4) sv Growth
1	1. American States	4.03%	1.90	0.47	1.91%
2	2. Aqua America	1.10%	2.49	0.60	0.66%
3	3. California Water	2.30%	1.93	0.48	1.11%
4	4. Connecticut Water				na
5	5. Middlesex				na
6	6. SJW Corp.				na
7					
8	GROUP AVERAGE	2.48%	2.11	0.52	1.23%
9	GROUP MEDIAN	2.30%	1.93	0.48	1.11%
10					
11	Sources:				
12	Value Line Data				

Far West Water and Sewer Company
Discounted Cash Flow Analysis (Water)
Constant Growth DCF Model
Using Projected EPS Growth

Exhibit
Schedule D-4.8
Witness: Bourassa

Line No.		(1)	(2)	(3)	(4)	(5)
	Company	Spot Price (Po)	Next Year's Div (D1)	Dividend Yield	EPS Growth (g)[1]	Indicated Cost of Equity k=Div Yld + g (Cols 3+4)
1	1. American States	34.39	1.02	2.97%	7.83%	10.8%
2	2. Aqua America	16.41	0.55	3.35%	8.93%	12.3%
3	3. California Water	35.08	1.17	3.34%	8.50%	11.8%
4	4. Connecticut Water	23.11	0.89	3.83%	8.92%	12.8%
5	5. Middlesex	17.59	0.71	4.02%	8.00%	12.0%
6	6. SJW Corp.	29.39	0.57	1.92%	11.33%	13.3%
7						
8						
9	GROUP AVERAGE			3.24%	8.92%	12.2%
10	GROUP MEDIAN					12.2%
11						
12	[1] See Schedules D-4.5					
13						
14	Sources:					
15	Value Line Investment Analyzer May 2008					
16	Yahoo Finance June 25, 2008					
17						

Far West Water and Sewer Company
Discounted Cash Flow Analysis (Water)
Constant Growth DCF Model - Sustainable Growth

Exhibit
Schedule D-4.9
Witness: Bourassa

Line No.		(1)	(2)	(3)	(4)	(5)	(6)	(7)
					Sustainable Growth[1]			Indicated Cost of Equity
	Company	Spot Price (Po)	Next Year's Div (D1)	Dividend Yield	br	vs	br+sv Growth (g)	k=Div Yld + g (Cols 3+6)
1	1. American States	34.39	1.02	2.97%	7.11%	1.91%	9.02%	12.0%
2	2. Aqua America	16.41	0.55	3.35%	4.18%	0.66%	4.84%	8.2%
3	3. California Water	35.08	1.17	3.34%	5.87%	1.11%	6.98%	10.3%
4	4. Connecticut Water	23.11	0.89	3.83%			6.95%	10.8%
5	5. Middlesex	17.59	0.71	4.02%			6.95%	11.0%
6	6. SJW Corp.	29.39	0.57	1.92%			6.95%	8.9%
7								
8								
9	GROUP AVERAGE			3.24%			6.95%	10.2%
10	GROUP MEDIAN							10.5%
11								
12								
13	[1] See Schedule D-4.6 and D-4.7							
14								
15								
16	Sources:							
17	Value Line Investment Analyzer May 2008							
18	Yahoo Finance June 25, 2008							

Far West Water and Sewer Company
Discounted Cash Flow Analysis (Water)
Two-Stage Growth - Projected

Exhibit
Schedule D-4.10
Witness: Bourassa

Line No.		(1)	(2)	(3)	(4)	(5)	(6)	(7)
					Projected Growth Rates			
	Company	Spot Price(P_0)	Next Year's Div (D_1)	Yield (D_1/P_0)	Near Term[1]	Long Term (GDP)	Average[1]	Indicated Cost of Equity
1	1. American States	34.39	1.02	2.97%	7.83%	6.80%	7.49%	10.5%
2	2. Aqua America	16.41	0.55	3.35%	8.93%	6.80%	8.23%	11.6%
3	3. California Water	35.08	1.17	3.34%	8.50%	6.80%	7.94%	11.3%
4	4. Connecticut Water	23.11	0.89	3.83%	8.92%	6.80%	8.22%	12.1%
5	5. Middlesex	17.59	0.71	4.02%	8.00%	6.80%	7.60%	11.6%
6	6. SJW Corp.	29.39	0.57	1.92%	11.33%	6.80%	9.84%	11.8%
7								
8	GROUP AVERAGE			3.24%			8.22%	11.5%
9	GROUP MEDIAN							11.6%

[1] See Schedule D-4.5

[2] Near term growth given weighting of .67

Far West Water and Sewer Company
Market Betas

Exhibit
Schedule D-4.11
Witness: Bourassa

Line No.		Company	
1			
2	1.	American States	1.05
3	2.	Aqua America	0.95
4	3.	California Water	1.15
5	4.	Connecticut Water	0.85
6	5.	Middlesex	0.90
7	6.	SJW Corp.	1.15
8		Average	**1.01**
9			
10	Source:		
11	Value Line Investment Analyzer May 2008		
12			
13			
14			
15			
16			

Far West Water and Sewer Company
Computation of Current Market Risk Premium

Exhibit
Schedule D-4.12
Witness: Bourassa

Line No.	Month	Dividend Yield	+	Growth	=	Expected Market Return	-	Monthly Average 30 Year Treasury Rate	=	Market Risk Premium
1										
2										
3	**Month**									
4										
5	Jun	2.17%	+	9.71%	=	11.88%	-	5.20%	=	6.68%
6	Jul	2.27%	+	10.91%	=	13.18%	-	5.11%	=	8.07%
7	Aug	2.37%	+	11.92%	=	14.29%	-	4.93%	=	9.36%
8	Sept	2.31%	+	11.16%	=	13.47%	-	4.79%	=	8.68%
9	Oct	2.45%	+	11.90%	=	14.35%	-	4.77%	=	9.58%
10	Nov	2.60%	+	13.41%	=	16.01%	-	4.52%	=	11.49%
11	Dec 2007	2.61%	+	13.51%	=	16.12%	-	4.52%	=	11.60%
12	Jan 2008	2.67%	+	15.19%	=	17.86%	-	4.33%	=	13.53%
13	Feb	2.74%	+	16.47%	=	19.21%	-	4.52%	=	14.69%
14	March	2.85%	+	17.64%	=	20.49%	-	4.39%	=	16.10%
15	April	2.69%	+	15.73%	=	18.42%	-	4.44%	=	13.98%
16	May	2.73%	+	15.51%	=	18.24%	-	4.60%	=	13.64%
17										
18										
19	Recent 12 Mon Avg	2.54%	+	13.59%	=	16.13%	-	4.68%	=	**11.45%**
23										
24	Short-term Trends									
25	Last Nine Months Avg	2.63%	+	14.50%	=	15.15%	-	4.54%	=	12.59%
26	Last Six Months Avg	2.72%	+	15.68%	=	15.35%	-	4.47%	=	13.92%
27	Last Three Months Avg	2.76%	+	16.29%	=	17.73%	-	4.48%	=	14.57%
28										
29	Sources									
30	Value Line Investment Analyzer Software Data									
31	Federal Reserve									
32										
33										

Far West Water and Sewer Company
Test Year Ended December 31, 2007
Capital Asset Pricing Model (CAPM)

Exhibit
Schedule D-4.13
Witness: Bourassa

Line No.		Rf	+	beta[3]	x	Rp	=	k
1								
2								
3	Historical Market Risk Premium CAPM[1]	3.7%	+	1.01	x	7.5% [4]	=	11.3%
4								
5	Current Market Risk Premium CAPM[2]	4.7%	+	1.01	x	11.5% [5]	=	16.3%
6								
7								
8	Average							13.8%
9								
10								
11								

12 [1] Federal Reserve May 30, 2008 average of 5, 7 and 10 year Treasury rates (Rf)
13 [2] Federal Reserve May 30, 2008 30 year Treasury rate (Rf)
14 [3] Value Line Investment Analyzer data. See Schedule D-4.11
15 [4] Historical Market Risk Premium from (Rp) MoriningStar SBBI 2008 Yearbook Table A-2 Intermediate-Horizon ERP 1926-2007
16 [5] Computed using DCF constant growth method to determine current market return on Value Line 1700 stocks
17 and CAPM with beta of 1.0 to compute Current Market Risk Premium (Rp). See Schdule D-4.12.
18
19
20

Exhibit 1
Witness: Bourassa

Far West Water and Sewer Company
Discounted Cash Flow Analysis (Water)
Market Price

Line No.	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
							EXPECTED CASH FLOWS						**Implied ROE** = Internal Rate of Return
	Company	Projected Div	5 Year Historical Average Div. Growth	Recent Price	5 Year Historical Annual Compound Price Growth	Year 5 Price	Recent Price	Year 1 Div	Year 2 Div	Year 3 Div	Year 4 Div	Year 5 Div + Price	(Cols 7-12)
1	1. American States	$ 1.00	2.47%	$ 34.39	13.68%	$ 65.29	$ (34.39)	$ 1.00	$ 1.02	$ 1.05	$ 1.08	$ 66.39	16.1%
2	2. Aqua America	0.55	9.84%	16.41	13.72%	31.21	(16.41)	0.55	0.60	0.66	0.73	32.01	16.9%
3	3. California Water	1.18	0.88%	35.08	12.76%	63.96	(35.08)	1.18	1.30	1.42	1.56	65.53	15.9%
4	4. Connecticut Water	0.89	1.51%	23.11	1.91%	25.40	(23.11)	0.89	0.98	1.07	1.18	26.60	6.3%
5	5. Middlesex	0.71	1.94%	17.59	6.86%	24.51	(17.59)	0.71	0.78	0.86	0.94	25.47	11.1%
6	6. SJW Corp.	0.57	4.70%	29.39	24.69%	88.58	(29.39)	0.57	0.63	0.69	0.76	89.37	26.2%
7													
8													
9	GROUP AVERAGE		3.56%		12.27%								15.4%
10	GROUP MEDIAN		2.21%		13.22%								16.0%
11													
12													
13													
14	Sources:												
15	Value Line Data												
16	Yahoo Finance - Stock Price June 25, 2008												
17													
18													
19													
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39													
40													

Exhibit 2
Witness: Bourassa

Far West Water and Sewer Company
Historical Compound Annual Total Market Returns

Line No.	Company	3 Yr.** Return	5 Yr.** Return	10 Yr.*** Return
1	1. American States	19.10%	16.31%	19.95%
2	2. Aqua America	9.05%	15.87%	15.63%
3	3. California Water	5.59%	16.07%	9.21%
4	4. Connecticut Water	3.15%	5.38%	12.18%
5	5. Middlesex	6.97%	10.43%	13.15%
6	6. SJW Corp.	28.54%	26.46%	17.88%
7				
8	Average	12.07%	15.09%	14.67%

* 2005-2007
** 2003-2007
*** 1998-2007

Sources:
Value Line Data
Yahoo Finance

Far West Water and Sewer Company
Historical Compound Annual Capital Appreciation Returns

Exhibit 3
Witness: Bourassa

Line No.	Company	3 Yr.* Return	5 Yr.** Return	10 Yr.*** Return
1	1. American States	16.28%	13.68%	12.35%
2	2. Aqua America	6.81%	13.72%	13.87%
3	3. California Water	2.47%	12.76%	6.33%
4	4. Connecticut Water	-0.40%	1.91%	8.84%
5	5. Middlesex	3.35%	6.86%	9.88%
6	6. SJW Corp.	26.63%	24.69%	16.43%
7				
8	Average	9.19%	12.27%	11.28%

* 2005-2007
** 2003-2007
*** 1998-2007

Sources:
Value Line Data
Yahoo Finance

Far West Water and Sewer Company
Discounted Cash Flow Analysis (Water)
Constant Growth DCF Model
Using Analyst Estimates of DPS Growth

Exhibit 4
Witness: Bourassa

Line No.		(1)	(2)	(3)	(4)	(5)	[6]
	Company	Spot Price (Po)	Next Year's Div (D1)	Dividend Yield	Div. Growth	Indicated Equity Cost k=Div Yld + G (Cols 1+4)	Indicated Equity Cost k=Div Yld + G (Cols 1+4)
7	1. American States	34.39	1.02	2.97%	4.50%	7.5%	7.5%
8	2. Aqua America	16.41	0.55	3.35%	9.00%	12.4%	12.4%
9	3. California Water	35.08	1.17	3.34%	1.00%	4.3%	*
10	4. Connecticut Water	23.11	0.89	3.83%	Not Available		
11	5. Middlesex	17.59	0.71	4.02%	Not Available		
12	6. SJW Corp.	29.39	0.57	1.92%	Not Available		
15	GROUP AVERAGE					8.1%	9.9%
16	GROUP MEDIAN					7.5%	9.9%
18	Current Baa interest rate					7.0%	
20	Blue Chip Forecast Baa Corporate Bond Interest Rate 2011 Top 10					8.0%	
21	Blue Chip Forecast Baa Corporate Bond Interest Rate 2011 Bottom 10					6.8%	
22	Blue Chip Forecast Baa Corporate Bond Interest Rate 2011 Consensus					7.3%	

24 * Indicated equity cost below current cost of debt (Baa) or negative growth.

26 Sources:
27 Value Line Analyzer Data May 2008
28 Yahoo Finance Stock Price June 25, 2008
29 Federal Reserve June 25, 2008
30 Blue Chip Financial Forecast June 2008

Far West Water and Sewer Company
Discounted Cash Flow Analysis (Water)
Constant Growth DCF Model - Historical
Using 5 Year Historical Dividend Growth

Exhibit 5
Witness: Bourassa

Line No.		(1)	(2)	(3)	(4)	(5)	[6]
	Company	Spot Price (Po)	Next Year's Div (D1)	Dividend Yield	Historical Div. Growth	Indicated Equity Cost k=Div Yld + G (Cols 1+4)	Indicated Equity Cost k=Div Yld + G (Cols 1+4)
1	1. American States	34.39	1.02	2.97%	2.47%	5.4%	*
2	2. Aqua America	16.41	0.55	3.35%	9.84%	13.2%	13.2%
3	3. California Water	35.08	1.17	3.34%	0.88%	4.2%	*
4	4. Connecticut Water	23.11	0.89	3.83%	1.51%	5.3%	*
5	5. Middlesex	17.59	0.71	4.02%	1.94%	6.0%	*
6	6. SJW Corp.	29.39	0.57	1.92%	4.70%	6.6%	*
7							
8	GROUP AVERAGE				3.6%	6.8%	13.2%
9	GROUP MEDIAN				3.8%	5.7%	13.2%
10							
11	Current Baa interest rate					7.0%	
12							
13	Blue Chip Forecast Baa Corporate Bond Interest Rate 2011 Top 10					8.0%	
14	Blue Chip Forecast Baa Corporate Bond Interest Rate 2011 Bottom 10					6.8%	
15	Blue Chip Forecast Baa Corporate Bond Interest Rate 2011 Consensus					7.3%	

* Indicated equity cost below current cost of debt (Baa) or negative growth.

Sources:
Value Line Analyzer Data May 2008
Yahoo Finance Stock Price June 25, 2008
Federal Reserve June 25, 2008
Blue Chip Financial Forecast June 2008

Far West Water and Sewer Company
Discounted Cash Flow Analysis (Water)
Constant Growth DCF Model - Historical
Using 5 Year Historical EPS Growth

Exhibit 6
Witness: Bourassa

Line No.	Company	(1) Spot Price (Po)	(2) Next Year's Div (D1)	(3) Dividend Yield	(4) Historical EPS Growth	(5) Indicated Equity Cost k=Div Yld + G (Cols 1+4)	[6] Indicated Equity Cost k=Div Yld + G (Cols 1+4)
1	1. American States	34.39	1.02	2.97%	8.37%	11.3%	11.3%
2	2. Aqua America	16.41	0.55	3.35%	6.90%	10.3%	10.3%
3	3. California Water	35.08	1.17	3.34%	3.26%	6.6%	*
4	4. Connecticut Water	23.11	0.89	3.83%	1.01%	4.8%	*
5	5. Middlesex	17.59	0.71	4.02%	3.69%	7.7%	7.7%
6	6. SJW Corp.	29.39	0.57	1.92%	8.44%	10.4%	10.4%
7							
8	GROUP AVERAGE				5.3%	8.5%	9.9%
9	GROUP MEDIAN				5.3%	9.0%	10.3%
10							
11	Current Baa interest rate					7.0%	
12							
13	Blue Chip Forecast Baa Corporate Bond Interest Rate 2011 Top 10					8.0%	
14	Blue Chip Forecast Baa Corporate Bond Interest Rate 2011 Bottom 10					6.8%	
15	Blue Chip Forecast Baa Corporate Bond Interest Rate 2011 Consensus					7.3%	
16							
17	* Indicated equity cost below current cost of debt (Baa) or negative growth.						
18							
19	Sources:						
20	Value Line Analyzer Data May 2008						
21	Yahoo Finance Stock Price June 25, 2008						
22	Federal Reserve June 25, 2008						
23	Blue Chip Financial Forecast June 2008						

Far West Water and Sewer Company
Financial Risk Computation

Exhibit 7
Witness: Bourassa

Line No.								
1	**CAPM**							
2								
3		**Rf**	+	**β**	x	**(Rp)**		**k**
4	Historical Market Risk Premium	3.7%	+	1.01	x	7.5%	=	11.3%
5	Current Market Risk Premium	4.7%	+	1.01	x	11.5%	=	16.3%
6								
7	Average							13.8%
8								
9	**CAPM Relevered Beta**							
10								
11		**Rf**	+	**β**	x	**(Rp)**		**k**
12	Historical Market Risk Premium	3.7%	+	2.47	x	7.5%	=	22.3%
13	Current Market Risk Premium	4.7%	+	2.47	x	11.5%	=	33.0%
14								
15	Average							27.6%
16								
17	Financial Risk Adjustment							**13.9%**
18								
19								
20								
21								
22								
23								
24								
25								
26								
27								
28								