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NEW APPLICATION



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WS-03478A-08-0608

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2008 DEC 19 P 2:37
ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

6 Attorneys for Far West Water
& Sewer Company

BEFORE THE ARIZONA CORPORATION COMMISSION

9 IN THE MATTER OF THE APPLICATION
10 OF FAR WEST WATER & SEWER
11 COMPANY, AN ARIZONA CORPORATION,
12 FOR APPROVAL OF INTERIM RATES AND
13 CHARGES.

DOCKET NO: WS-03478A-08-_____

**EMERGENCY APPLICATION FOR
INTERIM RATES AND CHARGES**

(EXPEDITED ACTION REQUESTED)

INTRODUCTION

15 Far West Water & Sewer Company, an Arizona corporation, ("FWWS" or the
16 "Company"), hereby requests that the Arizona Corporation Commission ("Commission")
17 approve the immediate implementation of interim rates for sewer utility service that will
18 be effective until a decision has been issued on the Company's application for permanent
19 rate increases, which was filed pursuant to Commission order on August 29, 2008 in
20 Docket No. WS-03478A-08-0454 ("2008 Rate Case"). As explained below, and in the
21 supporting testimony filed with this application, an immediate increase in revenue is
22 necessary to ensure that Company does not become insolvent and unable to continue
23 providing utilities services to its customers. The interim rates sought herein would
24 appreciably improve the Company's financial condition, yet be subject to refund, pending
25 a final order of the Commission setting permanent rates in the 2008 Rate Case.

26

1 The interim revenue increase sought by the Company is \$2,161,788, an increase of
 2 101.02% over the Company's 2007 adjusted test year revenues. This revenue requirement
 3 would provide the Company with a 0% operating margin. Residential customers would
 4 pay \$45.59 per month, an increase of \$23.84. Commercial customers would pay \$91.18
 5 per month. The charge at Recreational Vehicle Parks per space will be \$11.40. The
 6 requested interim increase would increase customer rates roughly 109.60% over present
 7 rates. In the 2008 Rate Case, the Company has proposed a three-year phase in of the
 8 requested overall rate increase to smooth out the impact of the rate increase. The interim
 9 rates proposed in this application would be, in effect, a preliminary phase of the rate
 10 increase sought by the Company in the 2008 Rate Case. The interim rates would still be
 11 significantly less than the "Phase 1" rates proposed in the 2008 Rate Case, but would be
 12 enough to prevent the Company from becoming insolvent. This increase would provide
 13 enough cash flow to cover 83% of the Company's annual debt payments. Again, this
 14 would appreciably improve the Company's ability to service its debt obligations and
 15 maintain operations.

16 LEGAL BASIS FOR INTERIM RATES

17 Arizona courts have long affirmed the general theory of utility regulation that total
 18 revenue, including income from rates and charges, should be sufficient to meet a utility's
 19 operating costs and allow the utility and its stockholders a reasonable rate of return on the
 20 utility's investment. *E.g., Scates v. Ariz. Corp. Comm'n*, 118 Ariz. 531, 533-34, 578 P.2d
 21 612, 614-15 (App. 1978) (citations omitted). "[R]ates cannot be considered just and
 22 reasonable if they fail to produce a reasonable rate of return or if they produce revenue
 23 which exceeds a reasonable rate of return." *Id.* at 534, 578 P.2d at 615. The Company's
 24 current rates fail to cover its expenses and liabilities, resulting in a *negative* 9.23% rate of
 25 return. While this extraordinary deficiency should be addressed in the 2008 Rate Case,
 26 the Company is in dire need of interim relief.

1 The Commission has the authority to authorize the implementation of interim rates,
2 subject to refund, pending the completion of the 2008 Rate Case. *Pueblo del Sol Water*
3 *Company v. Arizona Corporation Commission*, 160 Ariz 285, 772 P. 2d 1138 (App.
4 1989). Interim rates are appropriate when “(1) an emergency exists; (2) a bond is posted
5 by the utility guaranteeing a refund to customers if the interim rates paid are higher than
6 the final rates determined by the Commission; and (3) the Commission undertakes to
7 determine final rates after valuation of the utility’s property.”¹ *Residential Utility*
8 *Consumer Office v. Ariz. Corp. Comm’n*, 199 Ariz. 588, 592, 20 P.3d 1169, 1172 (Ariz.
9 Ct. App. 2001. An “emergency” exists “when sudden change brings hardship to the
10 company, the company is insolvent or when the condition of the company is such that its
11 ability to maintain service pending a formal rate determination is in serious doubt.” Op.
12 Att’y Gen. 71-17 at 13.

13 Interim rate relief is appropriate, and necessary, in the instant application. First,
14 the threat of insolvency the Company is facing constitutes a lawful basis for a finding of
15 an “emergency.” Second, a permanent rate case is pending in which the Commission will
16 undertake to determine final rates after valuation of the Company’s property. Third, if
17 required, the Company can post a bond to guarantee a refund to the Company’s customers
18 if the interim rates paid are higher than the final rates determined by the Commission in
19 the 2008 Rate Case.

20 While the Company is not yet insolvent, the threat of insolvency certainly
21 constitutes an emergency. It is doubtful that the Commission would lack the authority to
22 take action to prevent such a catastrophe. In any event, the financial condition of the
23 Company is such that its ability to maintain service pending a formal rate determination is
24

25 ¹ Interim rates are also appropriate when a delay in implementing new rates leads to financial
26 harm to the utility. *See, Arizona Corporation Commission v. Mountain States*, 71 Ariz 404, 228
P. 2d 749 (1951).

1 in serious doubt. Currently, the Company has an operating income deficiency of
2 \$2,161,788. The Company borrowed approximately \$25.2 million in accordance with the
3 Commission's authorization in Decision No. 69950 (October 30, 2007).² The vast
4 majority of these funds is being expended on additional sewer utility infrastructure to
5 upgrade the Company's wastewater collection and treatment facilities to ensure reliable
6 service to its customers. In its 2008 Rate Case, the Company will prove that these plant
7 improvements are necessary for the Company to adequately service its existing customers.
8 In fact, ADEQ mandated these plant improvements. The Company must complete the
9 plant improvements to comply with two Consent Orders and all applicable laws. In the
10 meantime, the Company is already making payments on this debt, amounting to over \$1.6
11 million annually. The Company cannot service this debt and continue to operate until
12 permanent rates are set. In 2007 alone, the sewer division lost over \$2.5 million. Based
13 on the adjusted test year results, the sewer division will lose over \$3.2 million. The
14 Company has been able to cover this deficit in large part with revenues from the
15 Company's water division; however, this parasitic practice is draining the water division
16 of the financial resources it requires to complete necessary improvements and continue
17 providing safe and reliable water service to its customers. Even combined with the water
18 division results, the Company as a whole will lose over \$1.65 million annually. It is not in
19 the public interest for the Company to operate with these kinds of losses. The ratepayers
20 will benefit from a utility that has sufficient revenue to pay its operating expenses and
21 make necessary investment in utility plant. More importantly, immediate rate relief will

22
23 _____
24 ² The Commission authorized the Company to enter into a loan agreement with the Industrial
25 Development Authority of the County of Yuma ("IDA") for \$25,215,000 to finance additional
26 plant and infrastructure improvements to the Company's sewer system necessary to comply with
two Consent Orders between the Company and ADEQ and repay existing debt. A portion of the
proceeds of the IDA bonds was used to retire the unpaid balance of Water Infrastructure
Financing Authority ("WIFA") debt, which was used to fund the Company's water division plant.
See Decision No. 61713 (May 13, 1999).

1 protect the public from exposure to harm. The Company as a whole is on the brink of
2 insolvency, threatening the Company's ability to provide safe and reliable sewer service
3 and water service to its customers. This threat needs to be mitigated.

4 For all of those reasons, interim rate relief is both authorized under Arizona law
5 and necessary to protect the financial stability of the Company and its ability to provide
6 safe and reliable service.

7 In support of these requests, FWWS states as follows:

8 1. FWWS is an Arizona corporation engaged in providing water and
9 wastewater utility service within portions of Yuma County. FWWS holds a Certificate of
10 Convenience and Necessity, which was transferred to the Company by order of the
11 Commission on April 8, 1998. Decision No. 60799 (April 8, 1998).

12 2. FWWS's current rates were approved in Decision No. 69335 (February 20,
13 2007) and became effective on March 1, 2007. Rates and charges for water utility service
14 were set by the Commission in Decision No. 60826 (April 1998) and are not at issue in
15 this application.

16 3. FWWS's business office is located at 13157 E. 44th Street, Yuma, Arizona
17 85367 and its telephone number is 928-342-1238. The Company's primary management
18 contact is Mr. Andrew J. Capestro. Mr. Capestro is responsible for managing all of the
19 operational, administrative, financial and regulatory performance of FWWS.

20 4. FWWS has retained Mr. Thomas Bourassa, a certified public accountant, to
21 assist the utility in connection with FWWS's applications for interim and permanent rate
22 increases. Mr. Bourassa's business address is 139 W. Wood Drive, Phoenix, AZ 85029.
23 His telephone number is (602) 246-7150. **Copies of all data requests and other**
24 **requests for information relating to this application should be provided by email to**
25 **Mr. Bourassa with a copy to counsel undersigned and Mr. Capestro.** The emails for
26 the following are tjb114@cox.net; jshapiro@fclaw.com and acaestro@aol.com.

1 5. At present, FWWS has approximately 7,130 service connections for sewer
2 and water service, and approximately 8,286 service connections for water service.

3 6. FWWS requests that the Commission immediately approve, on an interim
4 basis, the rate increases proposed on schedule A-1, which will produce an increase in
5 revenues of \$2,161,788 over a 12-month period resulting in an operating margin of 0%.

6 7. As indicated above, attached to this application is the Testimony of
7 Mr. Bourassa (**Exhibit 1**). Mr. Bourassa's testimony provides an overview of FWWS's
8 financial condition, then addresses the Company's proposed interim rate relief.

9 WHEREFORE, FWWS respectfully requests the following relief:

10 A. That the Commission immediately issue a procedural order setting a hearing
11 as soon as practicable to consider FWWS's request for interim rate relief;

12 B. That the Commission, based upon the evidence presented, approve interim
13 adjustments to FWWS's rates and charges for sewer service as proposed by FWWS
14 herein, or approve such other interim rates and charges sufficient to improve the financial
15 condition of the Company and bring the sewer division to solvency;

16 C. That the Commission authorize the interim surcharge until such time that
17 FWWS is granted permanent rates;

18 D. That the Commission authorize such other and further relief, including
19 setting a reasonable bond requirement, as may be appropriate under the circumstances
20 herein.

21 RESPECTFULLY SUBMITTED this 19th day of December, 2008.

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FENNEMORE CRAIG, P.C.



By: _____
Norman D. James
Jay L. Shapiro
Attorneys for Far West Water & Sewer Company

1 ORIGINAL and 13 copies delivered
2 this 19th day of December, 2008 to:

3 Docket Control
4 Arizona Corporation Commission
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7 COPY hand-delivered
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24 2143058.2

25
26

**Far West Water & Sewer Company
Emergency Application For Interim Rates And Charges**

Exhibit 1

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Water Company, Inc.

5
6 **BEFORE THE ARIZONA CORPORATION COMMISSION**

7
8 IN THE MATTER OF THE APPLICATION
OF FAR WEST WATER AND SEWER
9 COMPANY, AN ARIZONA
CORPORATION, FOR APPROVAL OF
10 INTERIM RATES AND CHARGES

DOCKET NO. WS-03478A-08-_____

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16
17 **TESTIMONY OF**
18 **THOMAS J. BOURASSA**
19 **IN SUPPORT OF INTERIM RATES**

20
21 **(December 19, 2008)**
22
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24
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I. INTRODUCTION AND PURPOSE.

Q. PLEASE STATE YOUR NAME AND ADDRESS?

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

Q. HAVE YOU PREVIOUSLY PROVIDED TESTIMONY IN THIS DOCKET?

A. Yes. I am a witness in the Company's pending rate case in Docket No. WS-03478A-08-0454 ("2008 Rate Case").

Q. WHAT IS THE PURPOSE OF THIS TESTIMONY?

A. I will provide testimony in support of the immediate implementation of interim rates and charges for Far West Water and Sewer Company's ("Company" or "FWWS") sewer division. I am sponsoring schedules A through D and H, which are filed concurrently herewith in support of the Company's application. I was responsible for preparation of these schedules based on my investigation and review of the relevant books and records for the Company.

II. FWWS REQUEST FOR INTERIM RATE RELIEF.

Q. PLEASE SUMMARIZE THE COMPANY'S REQUEST FOR INTERIM RATE RELIEF?

A. The interim rate schedules are based on the Company's application for permanent rate increases. The test year is the same test year as used in the 2008 Rate Case – the 12-month period ending December 31, 2007. The proposed interim revenue increase is \$2,161,788, an increase of 101.02% over the Company's 2007 adjusted test year revenues. The Company believes that this is the minimum increase necessary to prevent it from becoming insolvent. In fact, as I will explain later in my testimony, the increase will only produce a 0% operating margin.

1 **Q. WHY IS THE COMPANY SEEKING INTERIM RATES?**

2 A. To remain solvent. The interim rates will provide nearly sufficient cash flows for
3 the Company to service long-term debt recently authorized by the Commission in
4 Decision No. 69950 (October 30, 2007). In Decision No. 69950, the Commission
5 approved long-term financing of approximately \$25.2 million. Subsequent to the
6 decision, the Company obtained Industrial Development Authority ("IDA") bonds.
7 The Company filed with the Commission the loan closing documents as a
8 compliance filing on February 11, 2008 in docket WS-03478A-07-0442. The
9 Company began repayment of the IDA bonds in January 2008.

10 The vast majority of the proceeds of the IDA bonds has been and continues
11 to be used to finance additional sewer utility infrastructure to upgrade the
12 Company's wastewater collection and treatment facilities. These improvements
13 were required by ADEQ under two consent orders and are necessary to provide
14 sufficient capacity to adequately serve the Company's customers. See Direct
15 Testimony of Gary M. Lee ("Lee Dt.") in Docket WS-03478A-08-0454, and Direct
16 Testimony of Thomas J. Bourassa - Rate Base, Income Statement, and Rate Design
17 ("Bourassa Dt.") in Docket WS-03478A-08-0454. The remaining portion of the
18 proceeds of the IDA bonds was used to retire the unpaid balance of Water
19 Infrastructure Financing Authority ("WIFA") debt which was used to fund the
20 Company's water division plant. See Decision No. 61713 (May 13, 1999).

21 The annual debt service on the sewer division portion of the IDA bond debt
22 is over \$1.6 million. The necessity of meeting its debt obligations is having a
23 serious negative financial impact on the Company. In 2007, the sewer division lost
24 over \$2.5 million. Based on the adjusted test year results, the sewer division will
25 lose over \$3.2 million. Even combined with the water division results, the
26 Company as a whole will lose over \$1.65 million annually. Combined with the

1 water division, the Company as a whole will have debt service of nearly \$2 million
2 annually. As I will explain later in my testimony, the sewer division has a negative
3 cash flow.

4 Even using the revenues of the water division to subsidize the Company's
5 sewer division, the Company will be scraping by with a cash flow that is on the
6 cusp of minimum requirements. There is no cushion or room for error. Under the
7 current scenario, a minor unanticipated event could push the Company as a whole,
8 both the sewer division and water division, into insolvency. While the Company
9 has applied for permanent rate increases, the Company anticipates that new rates
10 will not be approved until late 2009. That is too long. The Company cannot
11 realistically continue to service its debt until the 2008 Rate Case is decided.
12 Without immediate rate relief, the Company's financial condition will continue to
13 deteriorate, jeopardizing its ability to provide safe and reliable service to its
14 customers, both water and sewer utility service customers, for the short-term and
15 into the foreseeable future.

16 **III. SUMMARY OF INTERIM RATE SCHEDULES A, B, AND C.**

17 **Q. MR. BOURASSA, LET'S TURN TO THE COMPANY'S INTERIM RATE**
18 **SCHEDULES. DO YOUR SCHEDULES COVER ONLY THE**
19 **COMPANY'S SEWER UTILITY SERVICES?**

20 A. Yes.

21 **Q. ARE ANY OF THE COMPANY'S RATES AND CHARGES FOR WATER**
22 **UTILITY SERVICE ADDRESSED IN THIS INTERIM RATE**
23 **APPLICATION?**

24 A. No.

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Q. WOULD YOU PLEASE DESCRIBE THE SCHEDULES LABELED AS A, B, AND C?

A. Yes. Interim rates schedule A-1 is a summary of the rate base, operating income, current operating margin, requested operating margin, operating income deficiency, and the increase in gross revenue. The rate base shown on schedule A-1 is the same as proposed in the 2008 Rate Case. The adjusted operating income shown on schedule A-1 is based upon the adjusted operating income proposed in the Company's permanent rate application in the above reference docket with some changes. As I will discuss, these changes are to derive a more realistic determination of available cash flows under interim rates.

The proposed increase in the revenue requirement under interim rates is \$2,161,788. This results in a 0% operating margin. Revenues at present rates and proposed interim rates based on customer classifications are also shown on schedule A-1.

Interim rates schedule B-1 summarizes the rate base. Again, the rate base is the same as that proposed in the Company's 2008 Rate Case.

Interim rates schedule C-1 summarizes the Company's revenues and expenses. The adjusted revenues and expenses found on schedule C-1 are based on the revenue and expense adjustment proposed in the Company's permanent rate application, except for three adjustments that were made to provide a more realistic determination of expected cash flows and the computation of debt service coverage. The first adjustment is to property taxes. The second adjustment is for interest expense. The third adjustment is for income taxes.

1 **Q. PLEASE SUMMARIZE THESE THREE REVENUE AND EXPENSE**
2 **ADJUSTMENTS?**

3 A. The adjustment to property taxes, shown as adjustment number 2, reflects property
4 taxes at the proposed revenues under interim rates. The Company has utilized the
5 same methodology as proposed in its 2008 Rate Case. *See* Bourassa Dt. at 10-12.
6 The difference from the Company's permanent rate application computation of
7 property taxes is in the proposed revenue component of the method. For interim
8 rates, the Company is proposing this component be equal to the revenues using the
9 Company's proposed interim rates rather than the revenue level shown in the
10 Company's permanent rate application.

11 The adjustment to interest expense, shown as adjustment number 12,
12 reflects projected interest expense for the sewer division debt as shown on interim
13 rates schedule D-1. The difference from the Company's permanent rate
14 application for interest expense is that interest expense in the Company's
15 permanent rate application is determined by interest synchronization with rate base
16 using the weighted cost of debt of both the Company's water and sewer divisions.

17 Finally, income taxes are based on the expected actual income taxes
18 associated with the sewer division under the proposed interim rates. Even under
19 the proposed interim rates the sewer division will continue to have a net loss,
20 meaning there will be no income taxes.

21 **IV. INTERIM RATE SCHEDULE D.**

22 **Q. PLEASE DISCUSS THE D SCHEDULES.**

23 A. The D schedules show the equity and debt for the sewer division. The sewer
24 division's long-term debt totaled nearly \$21 million at the end of the test year, as
25 shown on schedule D-1. The sewer division's equity was negative by over
26 \$1 million. The detail of the sewer division's debt is shown on schedule D-2.

1 The debt service coverage ratio ("DSCR") and times interest earned ratio
2 ("TIER") computation under present rates and proposed interim rates are shown on
3 schedule D-1, page 2. As shown, the DSCR and TIER under present rates are
4 negative 0.45 and negative 1.65, respectively. The DSCR and TIER under the
5 proposed interim rates are 0.83 and 0, respectively.

6 **Q. WHAT DOES THE DSCR INDICATE?**

7 A. The DSCR indicates the amount of cash flow available to meet annual interest and
8 principal payments on debt. A DSCR of less than 1 means a negative cash flow.
9 A DSCR of 0.83, for example, means that there is only enough cash flow to cover
10 83% of annual debt payments.

11 **Q. WHAT DOES THE TIER INDICATE?**

12 A. The TIER is a profitability ratio and indicates the extent of which earnings are
13 available to meet interest payments. A lower TIER means less earnings are
14 available to meet interest payments and that the business is more vulnerable to
15 increases in interest rates. Ensuring interest payments to debt holders and
16 preventing bankruptcy depends mainly on a company's ability to sustain earnings.

17 **Q. WHY IS THE COMPANY PROPOSING INTERIM RATES THAT WILL**
18 **PROVIDE FOR A DSC OF ONLY 0.83?**

19 A. To minimize the impact on ratepayers. Even though the proposed interim rates
20 will only provide enough cash flow to cover 83% of the Company's annual debt
21 payments, this relief would appreciably improve the Company's ability to service
22 its debt obligations. Clearly, however, the shortfall in cash flows will be made up
23 by cash flows from the Company's water division operations.

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1 **Q. WHY COULDN'T ALL OF THE SHORTFALL IN CASH FLOWS TO THE**
2 **SEWER DIVISION COME ENTIRELY FROM THE WATER DIVISION?**

3 A. Under normal circumstances, the water division's operations should not subsidize
4 the sewer division's operations. Further, the water division faces significant
5 capital improvement requirements of its own. A significant drain on cash flows of
6 the water division operations due to meeting the sewer division's cash flow needs
7 hampers the water division's ability to address its own capital needs. In fact, the
8 amount of debt incurred by the Company to address the sewer division's capital
9 needs has significantly diminished the Company's ability to raise additional capital
10 for the water division.

11 **V. INTERIM RATE DESIGN (H SCHEDULES).**

12 **Q. PLEASE SUMMARIZE THE H SCHEDULES.**

13 A. Schedule H-1 is a summary of revenues by customer class and includes annualized
14 revenues to the test year-end number of customers. Schedule H-2, pages 1 and 2,
15 show an analysis of revenue by detail class. Schedule H-3 shows the present rates
16 and proposed interim rates.

17 **Q. WHAT ARE THE COMPANY'S CURRENT RATES?**

18 A. The present monthly charges are listed below.

19	Residential	\$ 21.75
20	RV Park, per space	\$ 5.44
21	Commercial	\$ 43.50
22	Effluent (per acre foot)	\$325.85

23 **Q. WHAT ARE THE COMPANY'S PROPOSED INTERIM RATES?**

24 A. The proposed monthly charges are listed below.

25	Residential	\$ 45.59
26	RV Park, per space	\$ 11.40

1 Commercial \$ 91.18

2 Effluent (per acre foot) \$325.85

3 **Q. HOW DO THE COMPANY'S PROPOSED INTERIM RATES COMPARE**
4 **TO THE PHASE 1 RATES PROPOSED IN THE 2008 RATE CASE?**

5 A. The proposed monthly charges are listed below.

6 Residential \$ 54.38

7 RV Park, per space \$ 13.60

8 Commercial \$108.75

9 Effluent (per acre foot) \$ 65.17

10 **Q. WHAT IS THE IMPACT ON RESIDENTIAL CUSTOMERS?**

11 A. Residential customers will see a monthly increase of \$23.84, or 109.6%, over
12 current rates.

13 **Q. DOES THAT CONCLUDE YOUR TESTIMONY?**

14 A. Yes.

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**Far West Water & Sewer Company
Emergency Application For Interim Rates And Charges**

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
 Interim Rates
 Schedule A-1
 Page 1
 Witness: Bourassa

Line
 No.

1	Fair Value Rate Base	\$ 23,415,596
2		
3	Adjusted Operating Income	(2,161,788)
4		
5	Current Rate of Return	-9.23%
6		
7	Required Operating Income	\$ -
8		
9	Proposed Operating Margin	0.00%
10		
11	Operating Income Deficiency	\$ 2,161,788
12		
13	Gross Revenue Conversion Factor	1.0000
14		
15	Increase in Gross Revenue Requirement	\$ 2,161,788
16		
17		
18	Increase over Adjusted T.Y. Revenues	101.02%
19		
20		

Customer Classification	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
23 Residential	\$ 1,701,698	\$ 3,566,760	\$ 1,865,061	109.60%
24 RV Park - Adobe Village	3,852	8,073	4,221	109.60%
25 RV Park - Sunset Palm	3,819	8,004	4,185	109.60%
26 RV Park - Sun Ridge	9,172	19,224	10,052	109.60%
27 RV Park - Rancho Rialto	9,645	20,216	10,571	109.60%
28 Commercial	17,835	37,382	19,547	109.60%
29 Effluent Sales	87,649	87,649	-	0.00%
30 Subtotal	<u>1,833,670</u>	<u>3,747,308</u>	<u>1,913,639</u>	<u>104.36%</u>
31				
32 Impact on Rate Increase (Decision 69335)	\$ (24,903)	\$ -	\$ 24,903	-100.00%
33 Revenue Annualization	293,141	516,332	223,191	76.14%
34			-	0.00%
35 Subtotal w/ Rev. Annualization	<u>\$ 2,101,908</u>	<u>\$ 4,263,640</u>	<u>\$ 2,161,732</u>	<u>102.85%</u>
36				
37 Miscellaneous Revenues	38,047	38,047	-	0.00%
38 Other Revenues	-	-	-	0.00%
39 Reconciling Amount to C-1	9	65	56	622.22%
40 Total of Sewer Revenues	<u>\$ 2,139,964</u>	<u>\$ 4,301,752</u>	<u>\$ 2,161,788</u>	<u>101.02%</u>
41				
42				

SUPPORTING SCHEDULES:

- 44 Interim Rates B-1
- 45 Interim Rates C-1
- 46 Interim Rates C-3
- 47 Interim Rates H-1
- 48

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

Exhibit
 Interim Rates
 Schedule B-1
 Page 1
 Witness: Bourassa

Line No.	<u>Original Cost</u> <u>Rate base</u>	<u>Fair Value</u> <u>Rate Base</u>
1		
2	\$ 34,922,208	\$ 34,922,208
3	Less: Accumulated Depreciation	1,152,688
4		
5	\$ 33,769,520	\$ 33,769,520
6		
7	<u>Less:</u>	
8	Advances in Aid of	
9	Construction	9,918,635
10	Contributions in Aid of	
11	Construction	844,788
12		
13	Accum. Amort. Contrib. in Aid of Const.	441,792
14		
15	Customer Meter Deposits	15,406
16	Deferred Income Taxes & Credits	-
17	Investment tax Credits	-
18		
19		
20	<u>Plus:</u>	
21	Deferred Finance	
22	Costs	866,697
23	Deferred Tax Assets	-
24	Allowance for Working Capital	-
25		
26		
27	Total Rate Base	\$ 23,415,596

28
29
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SUPPORTING SCHEDULES:

Co. Application B-2 filed in Docket WS-03478A-08-0454
 Co. Application B-5 filed in Docket WS-03478A-08-0454
 Co. Application E-1 filed in Docket WS-03478A-08-0454

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

Exhibit
 Interim Rates
 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	\$ 2,161,788	\$ 4,176,056
3	Measured Revenues	87,649			87,649		87,649
4	Other Wastewater Revenues	195,249	9	(157,203)	38,047		38,047
5		<u>\$ 2,004,026</u>		<u>\$ 135,939</u>	<u>\$ 2,139,964</u>	<u>\$ 2,161,788</u>	<u>\$ 4,301,752</u>
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	75,152	139,325		139,325
26	Income Tax	-			-		-
27							
28	Total Operating Expenses	<u>\$ 2,959,716</u>		<u>\$ 1,342,037</u>	<u>\$ 4,301,752</u>	<u>\$ -</u>	<u>\$ 4,301,752</u>
29	Operating Income	<u>\$ (955,690)</u>		<u>\$ (1,206,098)</u>	<u>\$ (2,161,788)</u>	<u>\$ 2,161,788</u>	<u>\$ (0)</u>
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	225,782	(1,306,274)		(1,306,274)
34	Other Expense	(650,490)	5c	650,490	-		-
35		-			-		-
36	Total Other Income (Expense)	<u>\$ (1,625,812)</u>		<u>\$ 319,538</u>	<u>\$ (1,306,274)</u>	<u>\$ -</u>	<u>\$ (1,306,274)</u>
37	Net Profit (Loss)	<u>\$ (2,581,502)</u>		<u>\$ (886,560)</u>	<u>\$ (3,468,062)</u>	<u>\$ 2,161,788</u>	<u>\$ (1,306,274)</u>

38
 39 SUPPORTING SCHEDULES:
 40 Co. Application C-2 filed in Docket WS-03478A-08-0454
 41 Co. Application E-2 filed in Docket WS-03478A-08-0454
 42 Interim Rates D-1, page 2
 43 C-2

RECAP SCHEDULES:
 Interim Rates A-1

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

Exhibit
 Interim Rates
 Schedule C-2
 Page 1
 Witness: Bourassa

Line No.			
1	<u>Adjust Property Taxes to Reflect Proposed Revenues:</u>		
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		<u>4,301,752</u>
6	Average of three year's of revenue	\$	2,860,560
7	Average of three year's of revenue, times 2	\$	5,721,121
8	Add:		
9	Construction Work in Progress at 10% (excluded)	\$	-
10	Deduct:		
11	Book Value of Transportation Equipment		<u>89,241</u>
12			
13	Full Cash Value	\$	5,631,880
14	Assessment Ratio		22.5%
15	Assessed Value	\$	<u>1,267,173</u>
16	Property Tax Rate		10.9950%
17			
18	Property Tax	\$	139,325
19	Tax on Parcels		0
20			
21	Total Property Tax at Proposed Rates	\$	<u>139,325</u>
22	Property Taxes in the test year		<u>64,174</u>
23	Change in Property Taxes	\$	<u><u>75,152</u></u>
24			
25			
26	Adjustment to Revenues and/or Expenses	\$	<u><u>75,152</u></u>
27			
28			

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

Exhibit
 Interim Rates
 Schedule C-3
 Page 1
 Witness: Bourassa

Line No.	<u>Description</u>	Percentage of Incremental Gross <u>Revenues</u>
1	Federal Income Taxes	0.00%
2		
3	State Income Taxes	0.00%
4		
5	Other Taxes and Expenses	0.00%
6		
7		
8	Total Tax Percentage	0.00%
9		
10	Operating Income % = 100% - Tax Percentage	100.00%
11		
12		
13		
14		
15	<u>1</u> = Gross Revenue Conversion Factor	
16	Operating Income %	1.0000
17		
18	<u>SUPPORTING SCHEDULES:</u>	<u>RECAP SCHEDULES:</u>
19		Interim Rates A-1
20		

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

Exhibit
 Interim Rates
 Schedule D-1
 Page 1
 Witness: Bourassa

Line No.	Item of Capital	End of Test Year			End of Projected Year				
		Dollar Amount	Percent of Total	Cost Rate	Weighted Cost	Dollar Amount	Percent of Total	Cost Rate	Weighted Cost
1	Long-Term Debt	20,884,112	105.29%	6.37%	6.70%	20,522,587	112.96%	6.37%	7.19%
3	Stockholder's Equity ¹	(1,049,084)	-5.29%	N/A	N/A	(2,355,358)	-12.96%	N/A	N/A
5	Totals	19,835,028	100.00%			18,167,229	100.00%		

SUPPORTING SCHEDULES:

Interim Rates D-2
 Co. Application E-1 filed in Docket WS-03478A-08-0454

RECAP SCHEDULES:

Line No. 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30

**Far West Water and Sewer Company - Sewer Division
Debt Service Coverage ("DSC") and Times Interest Earned Ratio ("TIER")**

Exhibit
Interim Rates
Schedule D-1
Page 2
Witness: Bourassa

Line No.	Description	Test Year Adjusted Revenues and Expenses	Proposed Interim Rates
1			
2			
3			
4			
5	[1] Operating Income Per C-1	\$ (2,161,788)	\$ (0)
6	Add:		
7	[2] Depreciation and Amortization	1,550,751	1,550,751
8	[3] Income Taxes		
9			
10	Less:		
11	[4] Refunds of Advances-in-aid of Construction	142,500	142,500
12			
13	[5] Cash Available for Debt Service	<u>\$ (753,537)</u>	<u>\$ 1,408,251</u>
14			
15	[6] Interest ¹	1,306,274	1,306,274
16	[7] Principle ²	384,517	384,517
17	[8] Annual Debt Service [6] plus [7]	<u>\$ 1,690,791</u>	<u>\$ 1,690,791</u>
18			
19	[9] DSC [[5] divided by [8]	(0.45)	0.83
20	[10] TIER [1] plus [3] divided by [6]	(1.65)	(0.00)
21			
22			
23			
24	¹ Projected Year Interest		
25	² Projected Year Principle		
26			
27			

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 December 31, 2007

Exhibit
 Interim Rates
 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	\$ 3,566,760	\$ 1,865,061	109.60%	79.52%	82.91%
2	RV Park - Adobe Village	3,852	8,073	4,221	109.60%	0.18%	0.19%
3	RV Park - Sunset Palm	3,819	8,004	4,185	109.60%	0.18%	0.19%
4	RV Park - Sun Ridge	9,172	19,224	10,052	109.60%	0.43%	0.45%
5	RV Park - Rancho Rialto	9,645	20,216	10,571	109.60%	0.45%	0.47%
6	Commercial	17,835	37,382	19,547	109.60%	0.83%	0.87%
7	Subtotal	\$ 1,746,021	\$ 3,659,659	\$ 1,913,639	109.60%	81.59%	85.07%
8	Impact on Rates Effective March 2007	(24,903)		(24,903)	100.00%	-1.16%	0.00%
9	Effluent	87,649	87,649		0.00%	4.10%	2.04%
10	Subtotal	\$ 1,808,767	\$ 3,747,308	\$ 1,888,736	104.42%	84.52%	87.11%
11	Misc Service Revenues	38,047	38,047		0.00%	1.78%	0.88%
12	Subtotal Rev. before Rev. Annualization	\$ 1,846,814	\$ 3,785,355	\$ 1,938,541	104.97%	86.30%	88.00%
13							
14							
15	Revenue Annualizations						
16	Residential customer revenue						
17	annualized to end of year, based on						
18	year end number of customers	\$ 176,197	\$ 369,308	193,112	109.60%	8.23%	8.59%
19	Commercial customer revenue						
20	annualized to end of year, based on						
21	year end number of customers	957	2,006	1,049	109.60%	0.04%	0.05%
22	RV Parks annualized to year end						
23	customers						
24	Adobe Village	3,852	8,073	4,221	109.60%	0.18%	0.19%
25	Sunset Palms	3,819	8,004	4,185	109.60%	0.18%	0.19%
26	Sunridge	9,172	19,224	10,052	109.60%	0.43%	0.45%
27	Rancho Rialto	9,645	20,216	10,571	109.60%	0.45%	0.47%
28	Effluent	89,500	89,500		0.00%	4.18%	2.08%
29	Subtotal Revenue Annualization	\$ 293,141	\$ 516,332	\$ 223,191	76.14%	13.70%	12.00%
30							
31	Reconciling Amount to C-1	9	65	56	622.22%	0.00%	0.00%
32							
33	Totals	\$ 2,139,964	\$ 4,301,752	\$ 2,161,788	101.02%	100.00%	100.00%
34							
35							
36							
37							
38							
39							
40							

Far West Water and Sewer Company - Sewer Division

Test Year Ended December 31, 2007
Analysis of Revenue by Detailed Class

Exhibit
Interim Rates
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		Proposed Increase	
				Present Rates	Proposed Rates	Dollar Amount	Percent Amount
1	Residential	7,195	N/A	\$ 1,701,698	\$ 3,566,760	\$ 1,865,061	109.600%
2	RV Park - Adobe Village	1	N/A	3,852	8,073	4,221	109.600%
3	RV Park - Sunset Palm	1	N/A	3,819	8,004	4,185	109.600%
4	RV Park - Sun Ridge	1	N/A	9,172	19,224	10,052	109.600%
5	RV Park - Rancho Rialto	1	N/A	9,645	20,216	10,571	109.600%
6	Commercial	36	N/A	17,835	37,382	19,547	109.600%
7	Effluent ¹	2	4,382	87,649	87,649	-	0.000%
8							
9	Total						
10							
11							
12							
13							
14							
15							
16							
17							
18							
19							
20							

¹ Average effluent is average of 12 months. However, new rates from Decision 69335 were not effective until March 2007 and only 10 months of data are in annual average.

7,237

Far West Water and Sewer Company - Sewer Division

Test Year Ended December 31, 2007
Analysis of Revenue by Detailed Class

Exhibit
Interim Rates
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)	Average Bill		Proposed Increase	
				Present Rates	Proposed Rates	Dollar Amount	Percent
1	Residential	7,195	N/A	\$ 21.75	\$ 45.59	\$ 23.84	109.600%
2	RV Park - Adobe Village	1	N/A	320.96	672.73	352	109.600%
3	RV Park - Sunset Palm	1	N/A	318.24	615.72	297	93.477%
4	RV Park - Sun Ridge	1	N/A	764.32	1,602.01	838	109.600%
5	RV Park - Rancho Rialto	1	N/A	803.76	1,684.68	881	109.600%
6	Commercial	36	N/A	1,486.25	3,115.18	1,629	109.600%
7	Effluent ¹	2	4,382	4,382.46	4,382.46	-	0.000%
8							
9	Total						
10							
11							
12							
13							
14							
15							
16							
17							
18							
19							
20							

¹ Average effluent is average of 12 months. However, new rates from Decision 69335 were 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 December 31, 2007

Exhibit
Interim Rates
Schedule H-3
Page 1
Witness: Bourassa

<u>Line No.</u>		<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Percent Change</u>
1				
2	Monthly Charge for:			
3	Residential	\$ 21.75	\$ 45.59	109.6000%
4	RV Park, per space	\$ 5.44	\$ 11.40	109.6000%
5	Commercial	\$ 43.50	\$ 91.18	109.6000%
6	Effluent Sales (per 1,000 gallons)	\$ 1.00	\$ 1.00	0.0000%
7	Effluent Sales (per acre foot)	\$ 325.85	\$ 325.85	0.0000%
8				
9				
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