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BEFORE THE ARIZONA CORPORATION COMMISSION

- 1
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- 3 GARY PIERCE
COMMISSIONER
- 4 SANDRA D. KENNEDY
COMMISSIONER
- 5 PAUL NEWMAN
COMMISSIONER
- 6 BOB STUMP
COMMISSIONER
- 7

Arizona Corporation Commission
DOCKETED

MAR 19 2009

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

Docket No. WS-03478A-08-0608

NOTICE OF FILING

11

12

13 The Residential Utility Consumer Office ("RUCO") hereby provides notice of filing the
 14 Direct Testimony of William A. Rigsby, CRRA in the above-referenced matter.

15 RESPECTFULLY SUBMITTED this 19th day of March, 2009.

Michelle L. Wood
Counsel

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BY 
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FAR WEST WATER & SEWER COMPANY

DOCKET NO. WS-03478A-08-0608

DIRECT TESTIMONY

OF

WILLIAM A. RIGSBY, CRAA

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

MARCH 19, 2009

TABLE OF CONTENTS

1		
2	INTRODUCTION.....	1
3	SUMMARY OF TESTIMONY AND RECOMMENDATIONS	5
4	FAR WEST'S INTERIM RATE REQUEST	7
5	FINANCIAL ANALYSIS.....	13
6	CRITERIA FOR EMERGENCY INTERIM RATES	20
7	FINAL RECOMMENDATIONS.....	24
8	APPENDIX 1	
9	ATTACHMENT A	
10	ATTACHMENT B	
11	ATTACHMENT C	
12	ATTACHMENT D	
13	ATTACHMENT E	
14	SCHEDULES WAR-1 THROUGH 3	

1 **INTRODUCTION**

2 Q. Please state your name, occupation, and business address.

3 A. My name is William A. Rigsby. I am a Public Utilities Analyst V employed
4 by the Residential Utility Consumer Office ("RUCO") located at 1110 W.
5 Washington, Suite 220, Phoenix, Arizona 85007.

6

7 Q. Please describe your qualifications in the field of utilities regulation and
8 your educational background.

9 A. I have been involved with utilities regulation in Arizona since 1994. During
10 that period of time I have worked as a utilities rate analyst for both the
11 Arizona Corporation Commission ("ACC" or "Commission") and for RUCO.
12 I hold a Bachelor of Science degree in the field of finance from Arizona
13 State University and a Master of Business Administration degree, with an
14 emphasis in accounting, from the University of Phoenix. I have been
15 awarded the professional designation, Certified Rate of Return Analyst
16 ("CRRRA") by the Society of Utility and Regulatory Financial Analysts
17 ("SURFA"). The CRRRA designation is awarded based upon experience
18 and the successful completion of a written examination. Appendix I, which
19 is attached to this testimony, further describes my educational background
20 and also includes a list of the rate cases and regulatory matters that I have
21 been involved with.

22

1 Q. Please state the purpose of your testimony.

2 A. The purpose of my testimony is to present RUCO's recommendations on
3 Far West Water and Sewer Company's ("Far West" or the "Company")
4 emergency application requesting approval of interim rates and charges
5 ("Application"). Far West's Application was filed with the Arizona
6 Corporation Commission ("ACC" or "Commission") on December 19,
7 2008. The Company is seeking a \$2,161,788, or 101.02 percent,
8 emergency interim increase in revenues (subject to refund) for the
9 Company's Sewer Division. Far West states in its Application that the
10 increase is needed to provide cash flow to cover 83 percent of the annual
11 debt service obligation associated with Industrial Development Authority
12 ("IDA") bonds. The IDA bonds are financing new wastewater plant
13 additions that are currently under construction. Far West previously filed
14 an application for a permanent rate increase¹ for the Sewer Division on
15 August 29, 2008.

16

17

18 ...

19

¹ Docket No. WS-03478A-08-0454. Far West filed its application for permanent rates pursuant to Decision No. 69335 dated February 20, 2007.

1 Q. What is the current status of Far West's application for a permanent rate
2 increase for the Company's Sewer Division?

3 A. The time clock on Far West's application for a permanent rate increase for
4 the Company's Sewer Division was suspended pending further order by
5 the Administrative Law Judge ("ALJ") assigned to the case in a procedural
6 order dated January 26, 2009. The ALJ acted on a motion from ACC
7 Staff that was filed on January 12, 2009.

8
9 Q. Briefly describe Far West and the Company's Sewer Division operations in
10 Arizona.

11 A. Far West provides water and wastewater services in an unincorporated
12 portion of Yuma County, which is located along Interstate 8 in the Foothills
13 Area just east of the City of Yuma. The Company is a closely held
14 Arizona C Corporation² based in the Foothills Area. Far West's Sewer
15 Division was classified as a Class A utility in the sufficiency letter issued
16 on November 8, 2008 by ACC Staff. According to the Company's
17 Application, Far West's Sewer Division served 7,195 residential
18 customers, four RV parks, 36 commercial customers and 2 effluent
19 customers during the test year ended December 31, 2007 ("Test Year").

² See Decision No. 60437, dated September 29, 1997, authorized the transfer of assets and the Certificate of Convenience and Necessity ("CC&N") from the water division of H&S Developers to a separately operated division of H&S Developers doing business as Far West Water Company and Far West Sewer Company. See also Decision No. 60799, dated April 8, 1998, in which the Commission authorized the transfer of assets, and the CC&N held by H&S Developers, Inc. dba Far West Water Company and Far West Sewer Company to Far West.

1 Q. Please explain your role in RUCO's analysis of Far West's Application.

2 A. I reviewed Far West's Application and conducted discovery to better
3 understand the Company's request for emergency interim rates. During
4 the first week of February 2009, I had the opportunity to tour the
5 Company's existing wastewater facilities and to view the new wastewater
6 plant that is presently under construction. On March 5, 2009, I attended a
7 public comment meeting that was conducted by the ACC for the benefit of
8 Far West's Sewer Division ratepayers. The recommendations contained
9 in this testimony are based on information obtained from the Company's
10 responses to data requests, its Application, and from the aforementioned
11 tour of the Company's wastewater facilities.

12
13 Q. Is this your first case involving Far West?

14 A. No. I was briefly involved with Far West's prior request for an increase in
15 rates³ for the Company's Water Division in 1999. I later provided cost of
16 capital testimony on the Company's Sewer Division during Far West's
17 most recent rate case⁴ before the ACC, which resulted in the Company's
18 current rates and charges for wastewater service⁵.

19

³ Decision No. 62649, which authorized the Company's current water rates and charges.

⁴ Docket No. WS-03478A-05-0801

⁵ Decision No. 69335

1 Q. Please identify the exhibits that you are sponsoring.

2 A. I am sponsoring Schedules WAR-1 through WAR-3.

3

4 **SUMMARY OF TESTIMONY AND RECOMMENDATIONS**

5 Q. Briefly summarize how your testimony is organized.

6 A. My testimony is organized into five sections. First, the introduction I have
7 just presented and second, the summary of my testimony that I am about
8 to give. Third, I will discuss Far West's Applications for Interim and
9 Permanent Rates. Fourth, I will present the findings of my analysis of Far
10 West's Application and discuss the rationale for RUCO's
11 recommendations on the Company's request for emergency interim rates.
12 Fifth, I will present RUCO's position on what constitutes an emergency
13 and under what circumstances interim rates should be granted.

14

15 Q. Please summarize the recommendations and adjustments that you will
16 address in your testimony.

17 A. Based on the results of my analysis of Far West, I am making the
18 following recommendations:

19

20 Requested Emergency Interim Rate Increase – I am recommending that
21 the Commission deny Far West's request for emergency interim rates in
22 its entirety. My recommendation is based on a financial analysis of Far

1 West's ability to meet its debt service obligations on \$25.2 million in
2 Industrial Development Authority ("IDA") bonds. According to the
3 Company's Application, the sole reason for the Company's request for an
4 emergency interim 101.02 percent increase in existing wastewater rates is
5 for the Company to meet this obligation.

6
7 Request for Permanent Rates – Pursuant to the responsive motion⁶ filed
8 by RUCO in this matter, I am continuing to recommend that the
9 Commission suspend the time clock on Far West's permanent rate case
10 proceeding for a twelve-month period from the date when the IDA bond
11 funded wastewater plant additions are placed into service. I further
12 recommend that Far West be required to update the Company's pending
13 application for permanent rates at the end of the twelve-month period
14 using a more current test year. This will provide both ACC Staff and
15 RUCO with a full year of information on the actual operating expenses
16 associated with the new plant additions and to account for any existing
17 plant that no longer meets the used and useful standard. RUCO is also
18 requesting that the twelve-month period be used for discovery and that the
19 updated application for permanent rates be handled on an expedited
20 basis.

⁶ See RUCO's Response to Staff's Request to Suspend Time Clock, Docket No.
WS-03478A-08-0454, dated January 231, 2009.

1 **FAR WEST'S INTERIM RATE REQUEST**

2 Q. Why is Far West seeking emergency interim rate relief?

3 A. Far West states in its Application that the emergency interim rate increase
4 is needed to keep the Company's Sewer Division solvent. According to
5 the Company's witness, Mr. Thomas J. Bourassa, the requested rate
6 increase will provide nearly sufficient cash flows to meet Far West's debt
7 service obligations on the \$25.2 million in IDA bonds that I noted at the
8 beginning of my testimony. According to the Company's Application, the
9 requested rate increase will only cover adjusted test year operating
10 expenses, and will not result in any operating income for Far West. The
11 Company-proposed level of depreciation expense (a non-cash charge) will
12 provide Far West with the cash flow to cover 83 percent of the annual debt
13 service obligation associated with the IDA bonds that are financing the
14 new wastewater treatment plant improvements.

15
16 Q. How did Far West obtain IDA debt financing for \$ 25.2 million?

17 A. On July 26, 2007, Far West filed an application with the ACC requesting
18 authorization to issue approximately \$25.2 million in IDA bonds and to
19 encumber its real property and utility plant as security for the IDA debt
20 ("Financing Application"). The application stated that the IDA bond
21 financing would fund the construction of additional plant and infrastructure
22 improvements to the Company's sewer system and would be used to

1 repay and consolidate existing long-term and short-term debt obligations⁷.

2 The aforementioned plant and infrastructure improvements were
3 necessary to comply with two Consent Orders between Far West and the
4 Arizona Department of Environmental Quality ("ADEQ").

5

6 Q. Did the Commission approve Far West's request for issuance of long-term
7 debt?

8 A. Yes. The Commission approved the Company's request in Decision No.
9 69950 dated October 30, 2007. Under the terms of the Company's
10 agreement with the Industrial Development Authority of Yuma County,
11 Arizona ("IDA Authority"), the IDA Authority would issue the IDA bonds
12 and the proceeds from the sale would be loaned to Far West. The
13 Company would then make regular monthly principal and interest
14 payments to retire the bonds – the majority of which are slated to mature
15 in December of 2037.

16

17

18 ...

19

⁷ In addition to the construction of plant and infrastructure improvements, the proceeds from the bond issuance were also used to retire the balance on a \$4.7 million Water Infrastructure Finance Authority ("WIFA") loan balance, to establish a \$0.9 million debt service reserve, and to pay \$1.3 million in issuance costs.

1 Q. What financial information did the ACC Staff and the IDA Authority rely
2 upon to determine that Far West had the ability to meet the debt
3 obligations associated with the IDA bonds?

4 A. Both ACC Staff and the IDA Authority relied on financial statements that
5 presented the results of an independent audit conducted by Mallory &
6 Associates, CPA's of Little Rock, Arkansas (Attachment B).

7
8 Q. Was the independent audit limited to the operations of Far West's Sewer
9 Division only?

10 A. No. The independent audit provided information on both Far West's
11 Water and Sewer Divisions.

12
13 Q. So the approval of Far West's Financing Application and the issuance of
14 the IDA bonds were based on a total company basis?

15 A. Yes.

16
17 Q. At the time the Commission approved the Company's request for issuance
18 of \$25.2 million in long term-debt, did the Company have the ability to
19 cover the projected debt service obligations associated with the IDA bond
20 issuance?

21 A. Yes. According to the ACC Staff report on the Company's Financing
22 Application, Far West had adequate cash flow from utility operations to

1 cover the debt service on the IDA bonds. The ACC Staff determined that
2 the proposed debt would result in a pro forma debt service coverage
3 ("DSC") ratio of 1.15 (Attachment A). The DSC ratio represents the
4 number of times internally generated cash (typically operating income plus
5 non-cash depreciation expense) will cover required principal and interest
6 payments on long-term debt. A DSC ratio that is greater than 1.0
7 indicates that a utility's operating cash flow is sufficient to cover debt
8 obligations. The ACC Staff also determined that the proposed debt would
9 result in a times interest earned ratio ("TIER") of 0.50 (Attachment A).
10 TIER represents the number of times earnings will cover interest expense
11 on long-term debt. A TIER that is greater than 1.0 means that operating
12 income is greater than interest expense. The ACC Staff explained that
13 while a TIER of less than 1.0 is not sustainable over the long run, it does
14 not mean that debt obligations cannot be met on a short-term basis.

15
16 Q. Does Far West's Application treat the debt service associated with the IDA
17 bond issuance on a total company basis?

18 A. No. Far West's Application treats the debt service on a Sewer Division
19 basis only. The Company seeks to obtain increased revenue to cover the
20 debt service on approximately \$20.9 million of the \$25.2 million of IDA
21 bond debt. According to the Company's Application, Far West's Sewer
22 Division incurred an operating loss of \$955,690 based on unadjusted test

1 year results, producing a DSC ratio of negative 0.45 and a TIER of
2 negative 1.65. The Company asserts that its requested level of operating
3 revenue will result in a DSC ratio of 0.83 and a TIER of 0.00. Far West's
4 analysis was not determined on a total company basis.

5
6 Q. What level of operating revenue is the Company requesting?

7 A. The Company is requesting a \$4,301,752 level of operating revenue,
8 which is a \$2,161,788 increase over adjusted test year operating revenues
9 of \$2,139,964. According to the Company, the requested increase will
10 produce zero operating income for Far West's Sewer Division. The
11 Company-proposed level of operating revenue will cover \$1,342,037 in
12 test year pro forma operating expense adjustments, which RUCO has not
13 had adequate time to fully analyze.

14
15 Q. If the Commission found the Company had sufficient revenue to meet its
16 debt service obligation less than 18 months ago in Decision No. 69950,
17 what part of the Company's financial outlook has changed to justify
18 emergency interim rates?

19 A. The Company provides some pro forma adjustments to its operating
20 expenses.

21
22

1 Q. What are the largest pro forma adjustments to test-year operating
2 expenses made by the Company in its Application?

3 A. The two largest pro forma adjustments to test-year operating expenses
4 are for depreciation expense and for salaries and wages expense.
5 Included in the \$4,301,752 Company-proposed level of operating expense
6 is a pro forma level of depreciation expense of \$1,550,751 (a \$1,019,020,
7 or 191.7 percent, increase over the unadjusted test year level of
8 \$531,731), which allows for cost recovery of \$15,564,398 in the yet to be
9 completed wastewater treatment plant additions that are funded by the
10 IDA bonds. Far West is also seeking a \$195,821, or 29.0 percent,
11 increase in unadjusted test year salaries and wages expense.

12
13 Q. Are the wastewater treatment plant additions funded by the IDA bonds
14 providing service to Far West's ratepayers at this time?

15 A. No. During my tour of the Company's wastewater plant in early February
16 2009, all of the IDA bond-funded additions were still under construction. A
17 response to RUCO data request 2.12 (Attachment C) stated that Phase 1
18 of the Company's Del Oro wastewater treatment plant improvements was
19 expected to be in service sometime in March 2009, however that has not
20 yet been verified. The Company expects the remaining improvements will
21 be placed into service sometime between May 2009 and the fourth quarter
22 of 2009. As with Far West's pro forma expense adjustments, RUCO has

1 not had time during the interim proceeding to perform a complete study of
2 the cost of the plant additions or to determine whether excess capacity, if
3 any, exists. However, based on information obtained on the plant
4 improvements to date, RUCO believes that it is more appropriate to
5 classify these projects as construction work in progress ("CWIP") as
6 opposed to post-test year plant. By definition, CWIP fails the used and
7 useful standard that the Commission has historically relied on to
8 determine if cost recovery should be included in rates.

9
10 Q. Has the Commission typically denied the inclusion of CWIP in rates?

11 A. Yes. With the exception of the Palo Verde Nuclear Generating Station
12 that was being built by Arizona Public Service Company ("APS") in the late
13 1970's and early 1980's, the Commission has to the best of my
14 knowledge, typically denied the recovery of CWIP in rates.

15
16 **FINANCIAL ANALYSIS**

17 Q. Have you conducted a financial analysis of Far West?

18 A. Yes. In addition to analyzing Far West's Application, which presented
19 information on the Company's Sewer Division, I have also performed an
20 analysis that looks at Far West on a total company basis. Because the
21 IDA bonds were approved by the ACC and issued by the IDA Authority on
22 a total company basis, I believe that the Company's request for

1 emergency interim rates should also be judged on a total company basis
2 also.

3

4 Q. Please describe your analysis.

5 A. Based on information obtained from data requests initiated by RUCO and
6 ACC Staff to Far West, I have performed a financial analysis of the total
7 Company's ability to cover the debt service obligations on the IDA bond
8 issuance. Schedule WAR-1 presents a financial analysis of Far West's
9 combined operations for the Test Year and for 2008. My analysis is
10 similar to the DSC and TIER analysis performed by ACC Staff during Far
11 West's financing proceeding (Attachment A) in that it is determined on a
12 total company basis. The main difference is that Line 11 of Schedule
13 WAR-1 provides the amount of free cash flow that is available to Far West
14 after annual interest and principal payments have been satisfied.

15

16 Q. Please explain what information is being exhibited in Columns A, B and C
17 of Schedule WAR-1.

18 A. The information contained in Columns A and B of Schedule WAR-1 was
19 obtained from the Company's response to ACC Staff data requests GWB
20 1.1 and GWB 1.2, and reflects compiled (as opposed to audited) annual
21 operating revenue and expense data on Far West's Water and Sewer
22 Divisions for the Test Year and 2008 (Schedule WAR-3). A CPA in Yuma

1 Arizona performed the compilation. The interest and principal amounts
2 were verified from information obtained in RUCO data requests 2.05 and
3 4.01 (Attachment D). As can be seen in Schedule WAR-1, Far West's
4 combined operations had DSC ratios of 1.49 and 1.35 in 2008 and 2007,
5 respectively and a TIER of 0.89 and 0.77 for the same respective years.
6 In contrast, the Company's DSC ratio and TIER at the time of procuring
7 financing was 1.15 and 0.50, respectively. The ratios from 2007 and 2008
8 indicate that Far West's ability to cover its IDA bond debt obligations
9 actually improved since the Commission approved its Financing
10 Application. In terms of free cash flow, Far West had \$939,066 and
11 \$674,756 available, for 2008 and 2007 respectively, after annual interest
12 and principal payments were satisfied.

13
14 Q. What information is being presented in Column C of Schedule WAR-1?

15 A. Column C of Schedule WAR-1 presents the combined operating and
16 expense data on Far West's Water and Sewer Divisions that were
17 compiled by ACC Staff. The information was obtained from Far West's
18 2007 Annual Reports to the Commission. The information was presented
19 to the Company in ACC Staff data request GWB 4.1 which asked the
20 Company to reconcile a \$698,308 difference between ACC Staff's
21 compilation and the compilation provided by the Company's CPA in Yuma.

22

1 Q. Did the Company provide a reconciliation of the differences?

2 A. Yes. The Company reclassified certain below the line expenses described
3 as below the line extraordinary deductions and prior period
4 income/expense in Far West's CPA's compilation and moved them to
5 above the line operating revenues, purchased water, other contractual
6 services and miscellaneous expenses that were presented in ACC Staff's
7 compilation. Of the \$698,308 difference, the largest single amount of
8 reclassified expense was for \$563,715 in below the line extraordinary
9 expense, which was moved to above the line miscellaneous expense.

10

11 Q. Assuming that the information contained in Column C of Schedule WAR-1
12 is more reflective of Far West's combined water and wastewater
13 operations, what does it mean in terms of the financial ratios?

14 A. As can be seen in Column C of Schedule WAR-1, Far West's combined
15 operations had a lower DSC and TIER ratio of 0.99 and 0.34 respectively.
16 If the below the line expenses were moved above the line as a
17 miscellaneous expense, free cash flow would be a negative \$23,553 for
18 that operating period.

19

20 Q. Is this problematic?

21 A. It would be if the Company did not have other funds available to make up
22 the shortfall in cash. However, in this particular year Far West had below

1 the line interest income of \$635,231 that was generated from unexpended
2 IDA bond proceeds that were deposited in an interest bearing account⁸.

3
4 Q. Is below the line interest income typically not included in DSC and TIER
5 analyses?

6 A. Typically no, because below the line interest income is often derived from
7 non-utility related funds. In this case though, a strong argument could be
8 made that the below the line interest income should be applied to interest
9 expense since the interest income and the interest expense are both
10 directly attributable to the IDA bond issuance.

11
12 Q. What would be the differences in the DSC and TIER results if interest
13 income related to the IDA bond proceeds is applied to the annual IDA
14 interest expense?

15 A. Schedule WAR-2 presents the DSC and TIER results when interest
16 income derived from unexpended IDA bond proceeds is applied to IDA
17 bond interest expense. As can be seen in Column C in Schedule WAR-2,
18 the DSC and TIER ratios improve from 0.99 and 0.34 to 1.47 and 0.56
19 respectively. Free cash flow improved from the aforementioned negative

⁸ Per Company's response to ACC Staff data request 4.2

1 \$23,553 to a positive \$611,678. Columns A and B also reflect the effects
2 of including interest income for 2007 and 2008.

3
4 Q. Has the Company had an opportunity to respond to the results described
5 above?

6 A. Yes. ACC Staff data request GWB 4.2 asked the Company to explain why
7 \$611,678 in free cash was not representative of its 2009 cash flows. The
8 Company stated a number of reasons why it was not (Far West's
9 responses can be seen in Attachment E).

10
11 Q. Do you agree with the reasons why \$611,678 in free cash during 2007
12 was not representative of its 2009 cash flows?

13 A. I agree with the Company that interest income attributable to the
14 unexpended IDA bond proceeds will diminish as the funds are used to pay
15 for wastewater treatment improvements. However, some of the reasons
16 given are questionable and need to be examined in Far West's permanent
17 rate case now before the Commission. For example, the Company takes
18 the position that it is facing cost overruns on its wastewater treatment
19 plant. Also questionable is the Company's argument that funds will be
20 needed for Water Division capital improvements and payments to affiliated
21 companies. These improvements could conceivably be placed on hold
22 until the permanent Wastewater Division case is decided. The Company

1 further cites 2008 below the line legal expenses associated with ongoing
2 litigation with the Arizona Department of Environmental Quality, expense
3 increases attributable to uncompleted wastewater treatment plant, and
4 effluent disposal expenses of \$501,363 that have yet to be confirmed by
5 an audit.

6
7 Q. What would be the impact on the Company's 2008 financial ratios if the
8 effluent disposal expenses of \$501,363 were reclassified as an above the
9 line expense?

10 A. Adding an additional \$501,363 in expense for 2008 would result in a DSC
11 of 1.23 and a TIER of 0.58 if IDA bond interest income were not applied to
12 IDA bond interest expense. These ratios are actually higher than the DSC
13 of 1.15 and the TIER of 0.50 that the Commission relied on to approve Far
14 West's financing application in Decision No. 69950.

15 ..

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1 **CRITERIA FOR EMERGENCY INTERIM RATES**

2 Q. What criteria are used in Arizona regarding interim rates?

3 A. The Arizona courts as well as the Attorney General have provided
4 guidance on the establishment of interim rates when an emergency
5 exists.⁹

6
7 Q. According to case law and the Attorney General, when may the
8 Commission approve interim rates?

9 A. The Commission's authority to establish interim rates is limited to
10 circumstances in which 1) an emergency exists; 2) a bond is posted
11 guaranteeing refund if interim rates are higher than final rates determined
12 by the Commission; and 3) the Commission undertakes to determine final
13 rates after making a finding of fair value.¹⁰ The Attorney General has
14 opined that an emergency exists when "sudden change brings hardship to
15 a company, when a company is insolvent, or when the condition of the
16 company is such that its ability to maintain service pending a formal rate
17 determination is in serious doubt."¹¹

18
19

⁹ There are other situations, which are not applicable here, where interim rates may be appropriate. For example, when final rates are not put into effect within the statutory timelines, the Commission may establish interim rates subject to refund pursuant to AAC R14-2-103(ii)(h).

¹⁰ 199 Ariz. At 591, ¶12, citing Scates.

¹¹ 71-17 Op. Atty. Gen. at 13 (1971).

1 Q. Does an emergency exist?

2 A. No. The company has not provided compelling evidence that a sudden
3 change has occurred that has resulted in financial hardship. Furthermore,
4 the Company has not claimed that it is insolvent or that its financial
5 condition is so bad that its ability to maintain service is at peril.

6

7 Q. Far West's witness Mr. Bourassa argues that interim rates are necessary
8 to minimize the impact on ratepayers and to avoid subsidization from the
9 Company's Water Division, which faces capital improvement requirements
10 of its own. Please comment.

11 A. As I pointed out earlier, the IDA bond debt was incurred on a total
12 Company basis and not on the basis of the financial strengths or
13 weaknesses of just the Sewer Division. Far West did not attempt to make
14 such a distinction during the Company's Finance Application Proceeding.
15 In point of fact, Far West entered into the IDA bond issuance agreement
16 with the full understanding that the real property of both the Company's
17 Water and Sewer Divisions would be pledged as security in order to obtain
18 the financing for the wastewater improvements. The Company cannot
19 have it both ways. It cannot seek approval for long-term debt by making
20 the case that it can handle the debt service obligation on a total company
21 basis, and then later claim that interim rates are needed because the
22 Sewer Division faces insolvency if forced to cover the debt service

1 obligation by itself. Based on the results of my financial analysis, Far
2 West is not insolvent on a total company basis. Given the fact that Far
3 West is not insolvent, there is no question that the Company can continue
4 to maintain service. Ratepayers should not have to pay increased rates to
5 cover below the line expenses that are not directly related to the provision
6 of utility service.

7
8 Q. Has the Commission denied emergency interim rate requests in the past
9 based on the criteria that you described above?

10 A. Yes, in a prior case involving APS that resulted in Decision No. 68685. In
11 that specific case, the Commission relied primarily on the Arizona
12 Constitution Article 15, which requires a finding of fair value in order to
13 increase rates, and Attorney General Opinion 71-17, which opines that the
14 Commission may approve interim rates only upon a finding that an
15 emergency exists. Decision No. 68685 specifically states that the criteria
16 necessary for the granting of emergency interim rates, as set forth in
17 Opinion 71-17 was not met by APS in its request.

18 ..

19 ..
20 ..

1 Q. Are the circumstances any different in Far West's current emergency
2 interim rate request than they were back in 2006 when the Commission
3 denied APS' request for interim rates?

4 A. No. The Commission correctly determined in the APS case that the
5 circumstances did not meet the criteria for an emergency. Since Far West
6 is able to provide utility service and is not insolvent, the Commission
7 should reach the same conclusion, and deny Far West's request.

8
9 Q. Didn't the Commission recently authorize interim rates in APS application
10 for permanent rates that is currently pending before the ACC?

11 A. Yes, but the circumstances in that case are very different than in this case.
12 In the recent APS interim rate case, APS faced a number of other issues,
13 such as the risk of having its credit rating downgraded to junk status,
14 which would have cost ratepayers millions of dollars a year in additional
15 interest expense. The Commission also took into consideration the fact
16 that APS' ability to generate power through renewable resources, which
17 would decrease carbon emissions, was also put into jeopardy¹².

18
19 ...

20

¹² Decision No. 70667, dated December 24, 2008

1 Q. Are there policy issues, which also need to be considered, that go beyond
2 the emergency rate request?

3 A. Yes. Far West's request is yet another example of how Arizona utilities
4 are attempting to redefine the regulatory paradigm in Arizona, which has
5 worked fairly and rationally for decades. Utilities, through requests for
6 automatic adjustors, interim/emergency rates, single issue ratemaking,
7 decoupling mechanisms, and "ACRM-like" mechanisms would like to
8 create a new regulatory system that shifts the risk from their shareholders
9 to their ratepayers. Consideration of these types of schemes is a very
10 slippery slope that could easily lead to a situation where monopoly
11 enterprises could operate in the absence of any effective or meaningful
12 regulation. Moreover, requests for these types of schemes have become
13 the norm and not the exception. Extraordinary relief, if ever, should only
14 be allowed in extraordinary situations, in this case there is no
15 extraordinary situation. The Commission should not allow non-traditional
16 ratemaking practices to become the norm.

17

18 **FINAL RECOMMENDATIONS**

19 Q. What are RUCO's final recommendations on Far West's request for
20 emergency interim rates?

21 A. RUCO recommends that the Commission deny Far West's request for
22 emergency interim rates. RUCO also recommends that the Commission

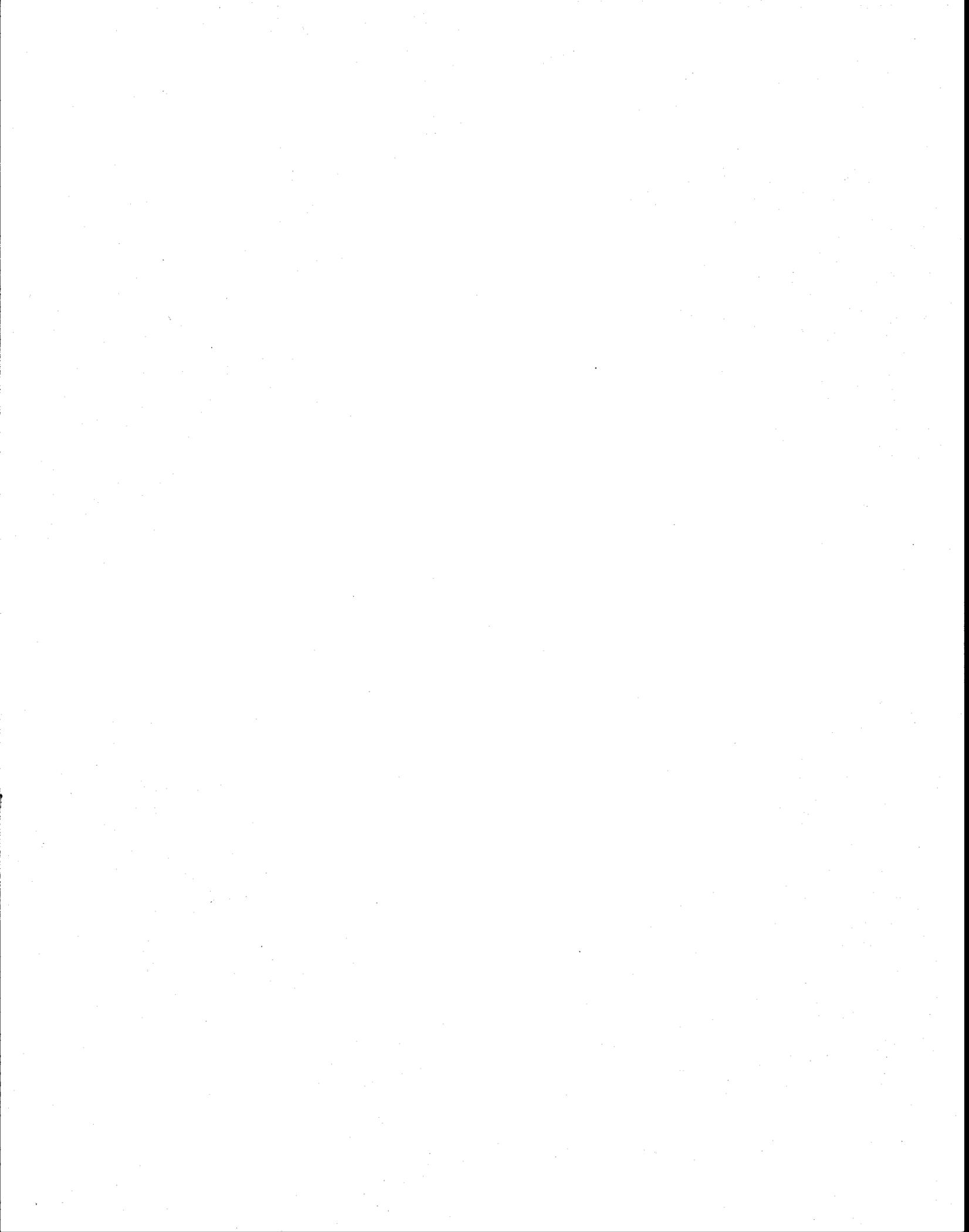
1 suspend the time clock on Far West's permanent rate case proceeding for
2 a twelve-month period from the date that the IDA bond funded wastewater
3 plant additions are placed into service, and that Far West be required to
4 update the Company's pending application for permanent rates at the end
5 of the twelve-month period to include a more current test year. This will
6 provide both RUCO and ACC Staff with the opportunity to see what the
7 actual expenses associated with the wastewater treatment plant are
8 before setting permanent rates. RUCO further recommends that the
9 twelve-month period be used for discovery and that the updated
10 application for permanent rates be handled on an expedited basis.

11
12 Q. Does your silence on any of the issues, matters or findings addressed in
13 the testimony of any of the witnesses for Far West constitute your
14 acceptance of their positions on such issues, matters or findings?

15 A. No, it does not.

16
17 Q. Does this conclude your surrebuttal testimony on Far West's request for
18 emergency interim rates?

19 A. Yes, it does.



Qualifications of William A. Rigsby, CRRA

EDUCATION:

University of Phoenix
Master of Business Administration, Emphasis in Accounting, 1993

Arizona State University
College of Business
Bachelor of Science, Finance, 1990

Mesa Community College
Associate of Applied Science, Banking and Finance, 1986

Society of Utility and Regulatory Financial Analysts
38th Annual Financial Forum and CRRA Examination
Georgetown University Conference Center, Washington D.C.
Awarded the Certified Rate of Return Analyst designation
after successfully completing SURFA's CRRA examination.

Michigan State University
Institute of Public Utilities
N.A.R.U.C. Annual Regulatory Studies Program, 1997 & 1999

Florida State University
Center for Professional Development & Public Service
N.A.R.U.C. Annual Western Utility Rate School, 1996

EXPERIENCE:

Public Utilities Analyst V
Residential Utility Consumer Office
Phoenix, Arizona
April 2001 – Present

Senior Rate Analyst
Accounting & Rates - Financial Analysis Unit
Arizona Corporation Commission, Utilities Division
Phoenix, Arizona
July 1999 – April 2001

Senior Rate Analyst
Residential Utility Consumer Office
Phoenix, Arizona
December 1997 – July 1999

Utilities Auditor II and III
Accounting & Rates – Revenue Requirements Analysis Unit
Arizona Corporation Commission, Utilities Division
Phoenix, Arizona
October 1994 – November 1997

Tax Examiner Technician I / Revenue Auditor II
Arizona Department of Revenue
Transaction Privilege / Corporate Income Tax Audit Units
Phoenix, Arizona
July 1991 – October 1994

RESUME OF RATE CASE AND REGULATORY PARTICIPATION

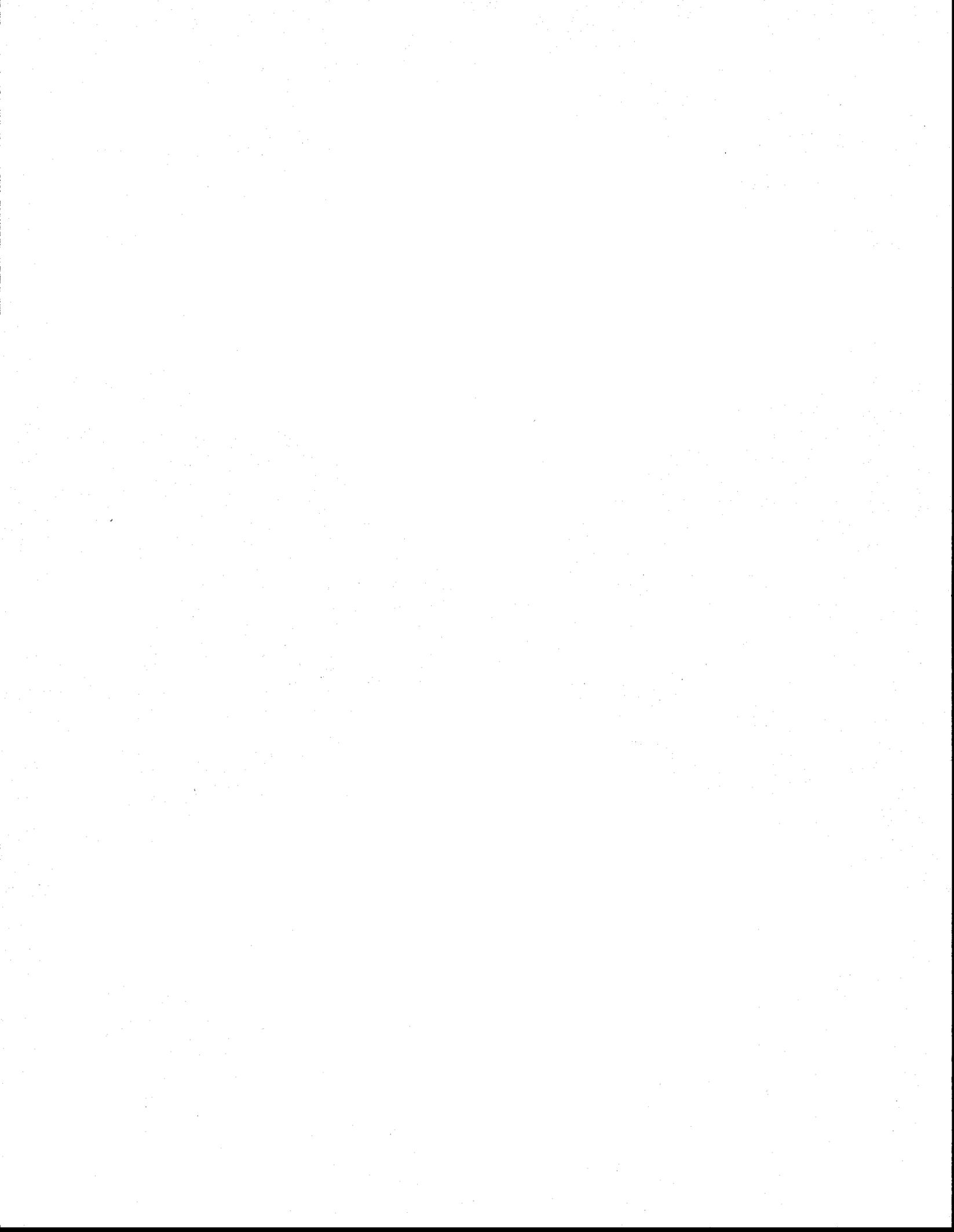
<u>Utility Company</u>	<u>Docket No.</u>	<u>Type of Proceeding</u>
ICR Water Users Association	U-2824-94-389	Original CC&N
Rincon Water Company	U-1723-95-122	Rate Increase
Ash Fork Development Association, Inc.	E-1004-95-124	Rate Increase
Parker Lakeview Estates Homeowners Association, Inc.	U-1853-95-328	Rate Increase
Mirabell Water Company, Inc.	U-2368-95-449	Rate Increase
Bonita Creek Land and Homeowner's Association	U-2195-95-494	Rate Increase
Pineview Land & Water Company	U-1676-96-161	Rate Increase
Pineview Land & Water Company	U-1676-96-352	Financing
Montezuma Estates Property Owners Association	U-2064-96-465	Rate Increase
Houghland Water Company	U-2338-96-603 et al	Rate Increase
Sunrise Vistas Utilities Company – Water Division	U-2625-97-074	Rate Increase
Sunrise Vistas Utilities Company – Sewer Division	U-2625-97-075	Rate Increase
Holiday Enterprises, Inc. dba Holiday Water Company	U-1896-97-302	Rate Increase
Gardener Water Company	U-2373-97-499	Rate Increase
Cienega Water Company	W-2034-97-473	Rate Increase
Rincon Water Company	W-1723-97-414	Financing/Auth. To Issue Stock
Vail Water Company	W-01651A-97-0539 et al	Rate Increase
Bermuda Water Company, Inc.	W-01812A-98-0390	Rate Increase
Bella Vista Water Company	W-02465A-98-0458	Rate Increase
Pima Utility Company	SW-02199A-98-0578	Rate Increase

RESUME OF RATE CASE AND REGULATORY PARTICIPATION (Cont.)

<u>Utility Company</u>	<u>Docket No.</u>	<u>Type of Proceeding</u>
Pineview Water Company	W-01676A-99-0261	WIFA Financing
I.M. Water Company, Inc.	W-02191A-99-0415	Financing
Marana Water Service, Inc.	W-01493A-99-0398	WIFA Financing
Tonto Hills Utility Company	W-02483A-99-0558	WIFA Financing
New Life Trust, Inc. dba Dateland Utilities	W-03537A-99-0530	Financing
GTE California, Inc.	T-01954B-99-0511	Sale of Assets
Citizens Utilities Rural Company, Inc.	T-01846B-99-0511	Sale of Assets
MCO Properties, Inc.	W-02113A-00-0233	Reorganization
American States Water Company	W-02113A-00-0233	Reorganization
Arizona-American Water Company	W-01303A-00-0327	Financing
Arizona Electric Power Cooperative	E-01773A-00-0227	Financing
360networks (USA) Inc.	T-03777A-00-0575	Financing
Beardsley Water Company, Inc.	W-02074A-00-0482	WIFA Financing
Mirabell Water Company	W-02368A-00-0461	WIFA Financing
Rio Verde Utilities, Inc.	WS-02156A-00-0321 et al	Rate Increase/ Financing
Arizona Water Company	W-01445A-00-0749	Financing
Loma Linda Estates, Inc.	W-02211A-00-0975	Rate Increase
Arizona Water Company	W-01445A-00-0962	Rate Increase
Mountain Pass Utility Company	SW-03841A-01-0166	Financing
Picacho Sewer Company	SW-03709A-01-0165	Financing
Picacho Water Company	W-03528A-01-0169	Financing
Ridgeview Utility Company	W-03861A-01-0167	Financing
Green Valley Water Company	W-02025A-01-0559	Rate Increase
Bella Vista Water Company	W-02465A-01-0776	Rate Increase
Arizona Water Company	W-01445A-02-0619	Rate Increase

RESUME OF RATE CASE AND REGULATORY PARTICIPATION (Cont.)

<u>Utility Company</u>	<u>Docket No.</u>	<u>Type of Proceeding</u>
Arizona-American Water Company	W-01303A-02-0867 et al.	Rate Increase
Arizona Public Service Company	E-01345A-03-0437	Rate Increase
Rio Rico Utilities, Inc.	WS-02676A-03-0434	Rate Increase
Qwest Corporation	T-01051B-03-0454	Renewed Price Cap
Chaparral City Water Company	W-02113A-04-0616	Rate Increase
Arizona Water Company	W-01445A-04-0650	Rate Increase
Tucson Electric Power	E-01933A-04-0408	Rate Review
Southwest Gas Corporation	G-01551A-04-0876	Rate Increase
Arizona-American Water Company	W-01303A-05-0405	Rate Increase
Black Mountain Sewer Corporation	SW-02361A-05-0657	Rate Increase
Far West Water & Sewer Company	WS-03478A-05-0801	Rate Increase
Gold Canyon Sewer Company	SW-02519A-06-0015	Rate Increase
Arizona Public Service Company	E-01345A-05-0816	Rate Increase
Arizona-American Water Company	W-01303A-06-0014	Rate Increase
Arizona-American Water Company	W-01303A-05-0718	Transaction Approval
Arizona-American Water Company	W-01303A-05-0405	ACRM Filing
UNS Gas, Inc.	G-04204A-06-0463	Rate Increase
Arizona-American Water Company	W-01303A-07-0209	Rate Increase
Tucson Electric Power	E-01933A-07-0402	Rate Increase
Southwest Gas Corporation	G-01551A-07-0504	Rate Increase
Chaparral City Water Company	W-02113A-07-0551	Rate Increase
Arizona-American Water Company	W-01303A-08-0227 et al.	Rate Increase
Johnson Utilities, LLC	WS-02987A-08-0180	Rate Increase



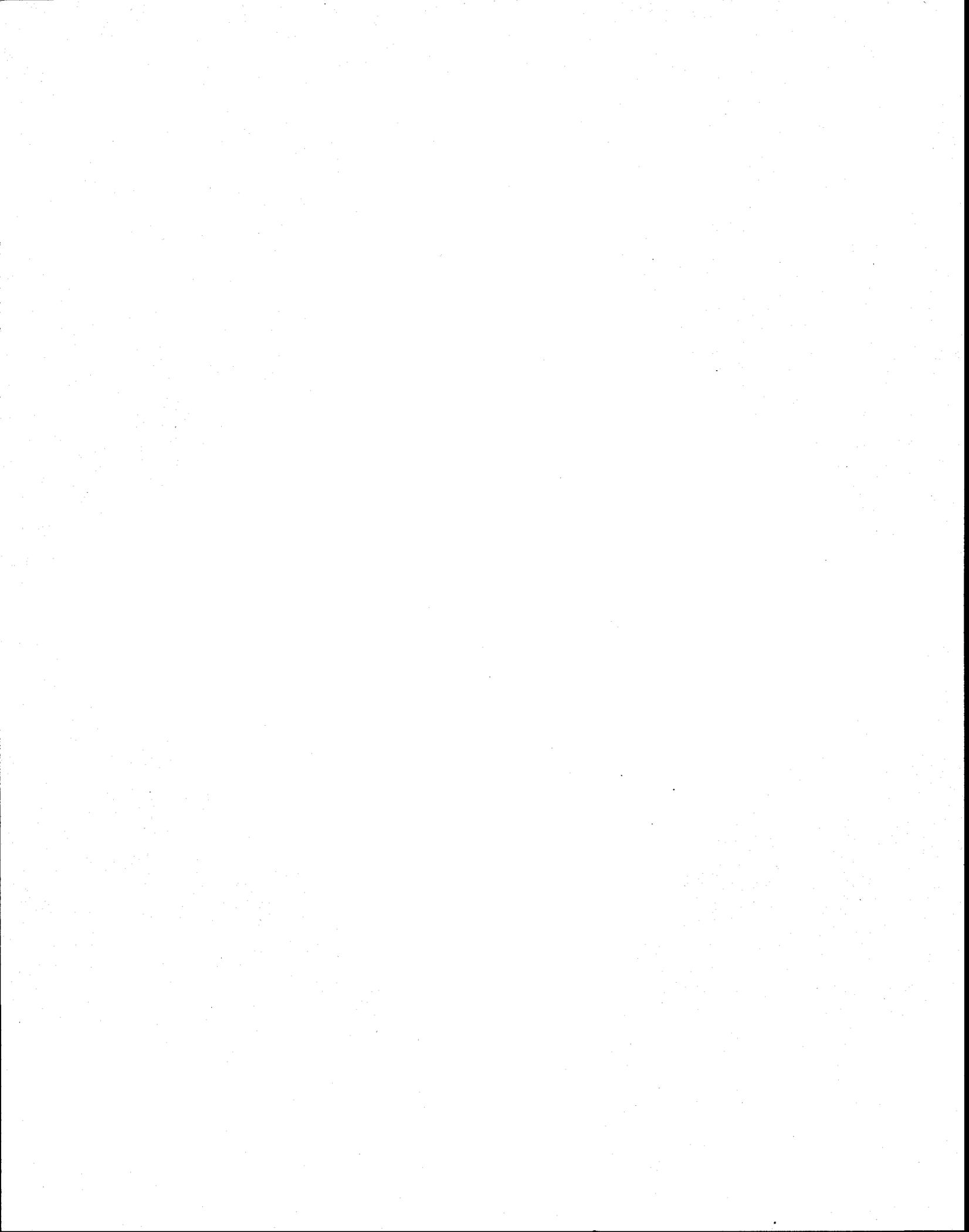
ATTACHMENT A

FINANCIAL ANALYSIS

Selected Financial Data

	[A] <u>12/31/2006</u>		[B] <u>Pro Forma¹</u>	
1	Operating Income	\$ 788,659	\$ 788,659	
2	Depreciation & Amort.	1,355,776	1,355,776	
3	Income Tax Expense	0	0	
4	Interest Expense	852,266	1,573,487	
5	Repayment of Principal	221,002	294,167	
6	TIER			
	[1+3] ÷ [5]	0.93	0.50	
7	DSC			
	[1+2+3] ÷ [5+6]	2.00	1.15	
8	Short-term Debt	\$20,329,301	68.1%	\$294,167 1.0%
9	Long-term Debt	\$4,465,464	15.0%	\$24,920,833 82.3%
10	Common Equity	\$5,057,585	16.9%	\$5,057,585 16.7%
11	Total Capital	\$29,852,350	100.0%	\$30,272,585 100.0%

¹Column B reflects a \$25.2 million, 30-year amortizing loan at 6.27 percent and repayment of WIFA loan (\$4.5 million) and a short-term loan (\$17.7million).



ATTACHMENT B

Mallory | **Certified**
& | **Public**
Associates | **Accountants**

Little Rock Office: Mallory Plaza, 7 Shackelford 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.

Little Rock Arkansas
June 19, 2007

Rev. L. Mallory III d/s/ja
Mallory & Associates
Mallory & Associates
Certified Public Accountants

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	<u>4,811,326</u>
Total utility plant	49,323,877
Less accumulated depreciation and amortization	<u>11,701,695</u>
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	<u>12,694,108</u>

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	<u>1,208,646</u>

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	<u>5,057,585</u>

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	<u>21,553,251</u>

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	<u>24,914,100</u>
Total capitalization and liabilities	<u>\$ 51,524,936</u>

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	<u>576,611</u>
Total operating expenses	<u>6,715,168</u>
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	<u>(2,469)</u>
Net other income and expenses	(2,000,742)
Net loss	(1,211,963)
Retained deficit, December 31, 2005	<u>(963,731)</u>
Retained deficit, December 31, 2006	<u>\$ (2,175,694)</u>

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	<u>(11,214,259)</u>

Investing activities:

Utility plant expenditures	(2,491,870)
Construction in progress	(4,451,842)
Net cash used in investing activities	<u>(6,943,712)</u>

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	<u>18,337,158</u>
Change in cash and cash equivalents	179,187
Cash and cash equivalents at beginning of year	<u>182,883</u>
Cash and cash equivalents at end of year	<u>\$ 362,070</u>

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 STATEMENTS
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.

FAR WEST WATER & SEWER, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(CONTINUED)

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.

FAR WEST WATER & SEWER, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(CONTINUED)

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.

FAR WEST WATER & SEWER, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(CONTINUED)

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	<u>7,466</u>
Total related party payables	<u>\$ 2,373,299</u>

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	<u>4,686,466</u>	<u>2,042,410</u>

**FAR WEST WATER & SEWER, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(CONTINUED)**

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 has 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	<u><u>1,208,665</u></u>	<u><u>436,335</u></u>

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	<u>97,016</u>
Total	<u><u>\$ 391,134</u></u>

FAR WEST WATER & SEWER, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(CONTINUED)

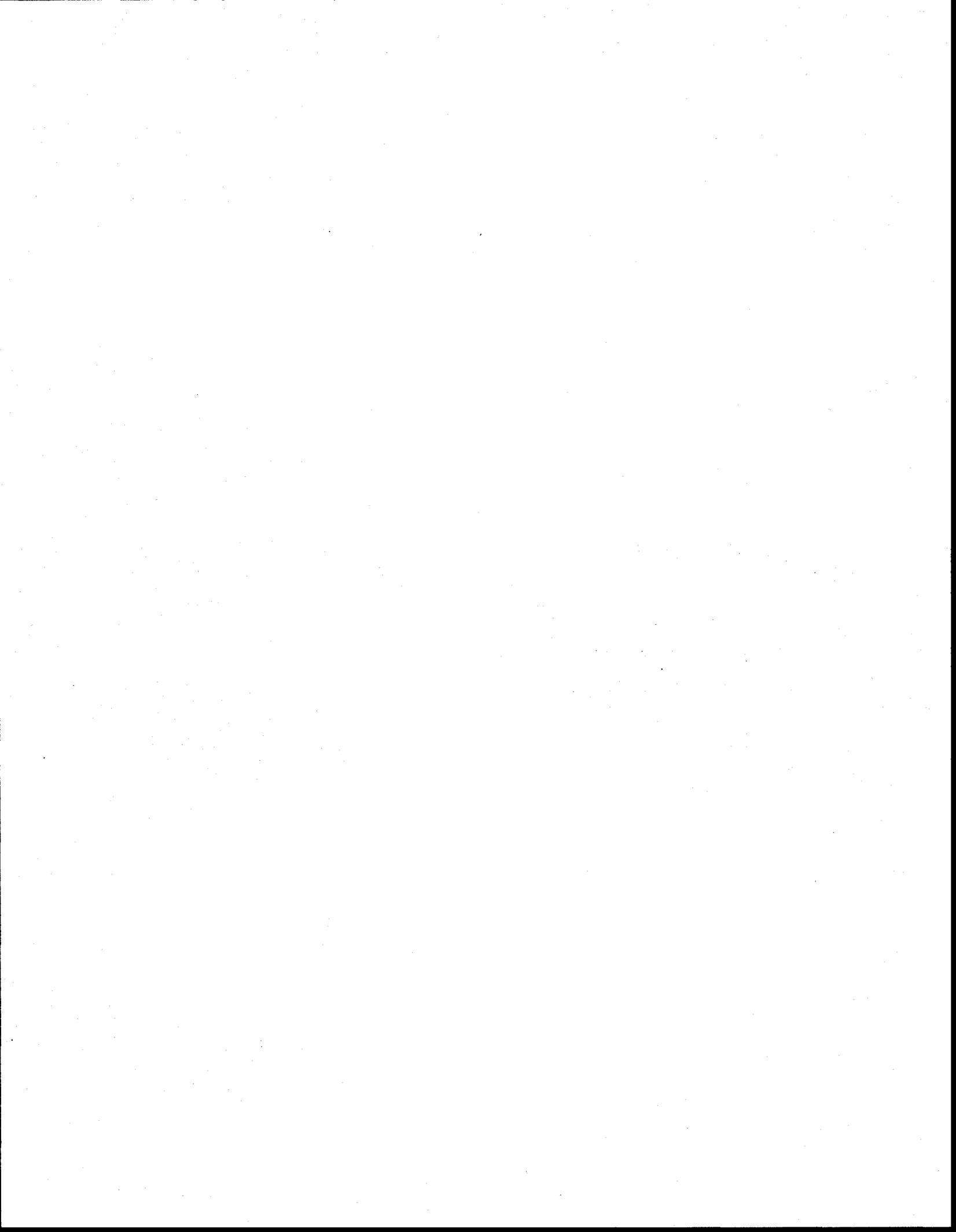
Note 8. Pension and Other Employee Benefits

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, or 14.04%, increase in the Company's gross annual sewer revenues.



ATTACHMENT C

FAR WEST WATER & SEWER, INC.
 INTERIM RATE CASE
 DOCKET NO. WS-03478A-08-0608

RESPONSE TO RUCO'S SECOND SET OF DATA REQUESTS

February 27, 2009

Response provided by: Gary M. Lee, P.E.
 Title: Engineer
 Company: Universal Asset Management
 Address: 801 Westchester Avenue
 Harrisonville, MO 64701

Company Response Number: 2.12

Q. Wastewater Treatment Plant – Please provide the Company's best estimate of when the \$18,570,153 of pro forma wastewater treatment plant cited in RUCO D.R. 2.11 will be placed into service.

RESPONSE: The table below outlines the estimated in-service dates for each of the line items provided in Schedule B-2, page 3 (as of February 26, 2009):

Description	Est. In-Service Date
Seasons WWTP	July, 2009
Del Oro WWTP	Phase 1 – March, 2009
	Phase 2 – June, 2009
Section 14 WWTP	June, 2009
Villa Del Rey & Royale	July, 2009
Palm Shadows Pump Sta.	July, 2009
Paula Street Pump Sta.	4 th Quarter, 2009
Marwood Sludge Unit	In-Service
Del Oro Temporary WWTP	In-Service
Miscellaneous	In-Service
Engineering	Completed
Construction Management	July 2009
Mapping	March, 2009
Operations	May 2009
Odor Control	In Service



ATTACHMENT D



January 17, 2008

Andrew Capestro
Far West Water & Sewer, Inc.
13157 E. 44th Street
Yuma, AZ 85367

VIA: email

Re: \$25,190,000 Industrial Development Authority of Yuma County, Arizona
Water & Sewer Exempt Facility Refunding Revenue Bonds
(Far West Water & Sewer, Inc. Project) Series 2007

Dear Andrew:

It was a real pleasure to speak with you today. I apologize for thinking I had sent you a letter regarding these monthly payments back in December. My intentions were good, but the follow through let something to be desired.

Anyway, I have scanned in with the letter the sections from the Loan Agreement and Trust Indenture which requires the payments I will outline below. Also attached is a copy of the debt service schedule.

Because we have only 5 months to collect prior to the next interest payment date and eleven months to collect for the next principal payment, the monthly amounts will vary based upon those time frames for the first five payments. The next six payments will reflect a full 6 months for interest due on December 1, 2008.

That being said here is the breakdown for those payments:

Interest due 6/1/08: \$805,337.50 less interest on deposit (accrued 12/1 to 12/13) \$53,789.62 equals \$751,547.88 due prior to June 1, 2008. Or \$150,309.58 per month.

Principal due 12/1/08: \$145,000 divided by 11 months equals \$13,181.82 per month for 11 months (January 20th through November 20th 2008).

Annual Trustee Fees of \$5,500.00, due each December 1 divided by 11 equals \$500.00 per month.

Total monthly payment for January, February, March, April, May will be \$163,991.40. This amount covers principal, interest and trustee fees only. An additional

deposit due monthly on the 20th for the Debt Service Reserve Fund over the next 24 months in accordance with Section 4.08 of the Trust Indenture will be \$40,000.91.

Beginning on June 20th through November 20th, 2008, the amount of interest due on 12/1/08 will be calculated by 6 months. The new payment, per month for interest will be \$134,222.92.

Therefore, the monthly payments due from June 20th through November 20th, 2008 will be **\$147,904.74 (principal, interest & fees)** plus the DSR deposit of **\$40,000.91**.

We will look forward to receiving your monthly payments beginning on January 20th in the amount of **\$203,992.31** through May 20th.

Then the amount monthly for June 20th through November 20th will become **\$187,905.65**.

I hope I did not make this too confusing for you. If you have any questions or concerns related to this information, please let me know.

It is always a pleasure working with you.

Sincerely,



Dyan Kirkpatrick
Vice President
Regions Corporate Trust

Enclosures

Preliminary

\$24,820,000

Yuma, Arizona

Water and Waste Water Revenue Bonds

Series 2007A (Tax Exempt)

Debt Service Schedule

Part 1 of 2

Date	Principal	Coupon	Interest	Total P+I	Fiscal Total
12/13/2007	-	-	-	-	-
06/01/2008	-	-	793,312.50	793,312.50	-
12/01/2008	-	-	793,312.50	793,312.50	1,586,625.00
06/01/2009	-	-	793,312.50	793,312.50	-
12/01/2009	90,000.00	6.500%	793,312.50	883,312.50	1,676,625.00
06/01/2010	-	-	790,387.50	790,387.50	-
12/01/2010	335,000.00	6.500%	790,387.50	1,125,387.50	1,915,775.00
06/01/2011	-	-	779,500.00	779,500.00	-
12/01/2011	360,000.00	6.500%	779,500.00	1,139,500.00	1,919,000.00
06/01/2012	-	-	767,800.00	767,800.00	-
12/01/2012	380,000.00	6.500%	767,800.00	1,147,800.00	1,915,600.00
06/01/2013	-	-	755,450.00	755,450.00	-
12/01/2013	405,000.00	6.500%	755,450.00	1,160,450.00	1,915,900.00
06/01/2014	-	-	742,287.50	742,287.50	-
12/01/2014	435,000.00	6.500%	742,287.50	1,177,287.50	1,919,575.00
06/01/2015	-	-	728,150.00	728,150.00	-
12/01/2015	460,000.00	6.500%	728,150.00	1,188,150.00	1,916,300.00
06/01/2016	-	-	713,200.00	713,200.00	-
12/01/2016	490,000.00	6.500%	713,200.00	1,203,200.00	1,916,400.00
06/01/2017	-	-	697,275.00	697,275.00	-
12/01/2017	525,000.00	6.500%	697,275.00	1,222,275.00	1,919,550.00
06/01/2018	-	-	680,212.50	680,212.50	-
12/01/2018	555,000.00	6.375%	680,212.50	1,235,212.50	1,915,425.00
06/01/2019	-	-	662,521.88	662,521.88	-
12/01/2019	595,000.00	6.375%	662,521.88	1,257,521.88	1,920,043.76
06/01/2020	-	-	643,556.25	643,556.25	-
12/01/2020	630,000.00	6.375%	643,556.25	1,273,556.25	1,917,112.50
06/01/2021	-	-	623,475.00	623,475.00	-
12/01/2021	670,000.00	6.375%	623,475.00	1,293,475.00	1,916,950.00
06/01/2022	-	-	602,118.75	602,118.75	-
12/01/2022	715,000.00	6.375%	602,118.75	1,317,118.75	1,919,237.50
06/01/2023	-	-	579,328.13	579,328.13	-
12/01/2023	760,000.00	6.375%	579,328.13	1,339,328.13	1,918,656.26
06/01/2024	-	-	555,103.13	555,103.13	-
12/01/2024	805,000.00	6.375%	555,103.13	1,360,103.13	1,915,206.26
06/01/2025	-	-	529,443.75	529,443.75	-
12/01/2025	860,000.00	6.375%	529,443.75	1,389,443.75	1,918,887.50
06/01/2026	-	-	502,031.25	502,031.25	-
12/01/2026	915,000.00	6.375%	502,031.25	1,417,031.25	1,919,062.50
06/01/2027	-	-	472,865.63	472,865.63	-
12/01/2027	970,000.00	6.375%	472,865.63	1,442,865.63	1,915,731.26
06/01/2028	-	-	441,946.88	441,946.88	-
12/01/2028	1,035,000.00	6.375%	441,946.88	1,476,946.88	1,918,893.76
06/01/2029	-	-	408,956.25	408,956.25	-

Long-Term Debt (11-19-07) | Tax Exempt | 12/ 4/2007 | 1:02 PM

Preliminary

\$24,820,000

Yuma, Arizona

Water and Waste Water Revenue Bonds

Series 2007A (Tax Exempt)

Debt Service Schedule

Part 2 of 2

Date	Principal	Coupon	Interest	Total P+I	Fiscal Total
12/01/2029	1,100,000.00	6.375%	408,956.25	1,508,956.25	1,917,912.50
06/01/2030	-	-	373,893.75	373,893.75	-
12/01/2030	1,170,000.00	6.375%	373,893.75	1,543,893.75	1,917,787.50
06/01/2031	-	-	336,600.00	336,600.00	-
12/01/2031	1,245,000.00	6.375%	336,600.00	1,581,600.00	1,918,200.00
06/01/2032	-	-	296,915.63	296,915.63	-
12/01/2032	1,325,000.00	6.375%	296,915.63	1,621,915.63	1,918,831.26
06/01/2033	-	-	254,681.25	254,681.25	-
12/01/2033	1,405,000.00	6.375%	254,681.25	1,659,681.25	1,914,362.50
06/01/2034	-	-	209,896.88	209,896.88	-
12/01/2034	1,495,000.00	6.375%	209,896.88	1,704,896.88	1,914,793.76
06/01/2035	-	-	162,243.75	162,243.75	-
12/01/2035	1,595,000.00	6.375%	162,243.75	1,757,243.75	1,919,487.50
06/01/2036	-	-	111,403.13	111,403.13	-
12/01/2036	1,695,000.00	6.375%	111,403.13	1,806,403.13	1,917,806.26
06/01/2037	-	-	57,375.00	57,375.00	-
12/01/2037	1,800,000.00	6.375%	57,375.00	1,857,375.00	1,914,750.00
Total	\$24,820,000.00	-	\$32,130,487.58	\$56,950,487.58	-

Yield Statistics

Accrued Interest from 12/01/2007 to 12/13/2007	52,887.50
Bond Year Dollars	\$503,550.00
Average Life	20.288 Years
Average Coupon	6.3807939%
Net Interest Cost (NIC)	6.5636226%
True Interest Cost (TIC)	6.7401925%
Bond Yield for Arbitrage Purposes	6.3372784%
All Inclusive Cost (AIC)	6.8361116%

IRS Form 8038

Net Interest Cost	6.3337892%
Weighted Average Maturity	20.218 Years

Preliminary

\$370,000

Yuma, Arizona

Water and Waste Water Revenue Bonds

Series 2007B (Taxable)

Debt Service Schedule

Date	Principal	Coupon	Interest	Total P+I	Fiscal Total
12/13/2007	-	-	-	-	-
06/01/2008	-	-	12,025.00	12,025.00	-
12/01/2008	145,000.00	6.500%	12,025.00	157,025.00	169,050.00
06/01/2009	-	-	7,312.50	7,312.50	-
12/01/2009	225,000.00	6.500%	7,312.50	232,312.50	239,625.00
Total	\$370,000.00	-	\$38,675.00	\$408,675.00	-

Yield Statistics

Accrued Interest from 12/01/2007 to 12/13/2007	801.67
Bond Year Dollars	\$595.00
Average Life	1.608 Years
Average Coupon	6.5000000%
Net Interest Cost (NIC)	10.4188908%
True Interest Cost (TIC)	10.9970325%
Bond Yield for Arbitrage Purposes	6.3372784%
All Inclusive Cost (AIC)	11.6479402%

IRS Form 8038

Net Interest Cost	7.6232072%
Weighted Average Maturity	1.608 Years



December 17, 2008

Andrew Capestro
Far West Water & Sewer, Inc.
13157 E. 44th Street
Yuma, AZ 85367

VIA: email

Re: \$25,190,000 Industrial Development Authority of Yuma County, Arizona
Water & Sewer Exempt Facility Refunding Revenue Bonds
(Far West Water & Sewer, Inc. Project) Series 2007 A & B

Dear Andrew:

Please use the following information for the next 12 month payments for the above-referenced bond issues.

Interest due 6/1/09: $\$808,824.25 / 6 = \$134,804.04$
Interest due 12/1/09: $\$799,398.75 / 6 = \$133,233.13$
Principal due 12/1/09: $\$310,000 / 12$ months equals $\$25,833.33$.

Annual Trustee Fees of \$5,500.00, due each December 1 divided by 12 = \$458.33 per month.

Total monthly payment for December 08, January, February, March, April, & May 09 will be **\$161,095.70**. This amount covers principal, interest and trustee fees only. An additional deposit due monthly on the 20th for the Debt Service Reserve Fund over the next 24 months in accordance with Section 4.08 of the Trust Indenture will be **\$40,000.91**.

Beginning on June 20th through November 20th, 2009, the new monthly payment will be **\$159,524.79**.

We will look forward to receiving your monthly payments beginning on December 20th in the amount of **\$161,095.70** through May 20th.

Then the amount monthly for June 20th through November 20th will become **\$159,524.79**.

If you have any questions or concerns related to this information, please let me know.

It is always a pleasure working with you.

Sincerely,

Dyan Kirkpatrick

Dyan Kirkpatrick
Vice President
Regions Corporate Trust

Attachments

Preliminary

\$24,820,000

Yuma, Arizona

Water and Waste Water Revenue Bonds

Series 2007A (Tax Exempt)

Debt Service Schedule

Part 1 of 2

Date	Principal	Coupon	Interest	Total P+I	Fiscal Total
12/13/2007	-	-	-	-	-
06/01/2008	-	-	793,312.50	793,312.50	-
12/01/2008	-	-	793,312.50	793,312.50	1,586,625.00
06/01/2009	-	-	793,312.50	793,312.50	-
12/01/2009	90,000.00	6.500%	793,312.50	883,312.50	1,676,625.00
06/01/2010	-	-	790,387.50	790,387.50	-
12/01/2010	335,000.00	6.500%	790,387.50	1,125,387.50	1,915,775.00
06/01/2011	-	-	779,500.00	779,500.00	-
12/01/2011	360,000.00	6.500%	779,500.00	1,139,500.00	1,919,000.00
06/01/2012	-	-	767,800.00	767,800.00	-
12/01/2012	380,000.00	6.500%	767,800.00	1,147,800.00	1,915,600.00
06/01/2013	-	-	755,450.00	755,450.00	-
12/01/2013	405,000.00	6.500%	755,450.00	1,160,450.00	1,915,900.00
06/01/2014	-	-	742,287.50	742,287.50	-
12/01/2014	435,000.00	6.500%	742,287.50	1,177,287.50	1,919,575.00
06/01/2015	-	-	728,150.00	728,150.00	-
12/01/2015	460,000.00	6.500%	728,150.00	1,188,150.00	1,916,300.00
06/01/2016	-	-	713,200.00	713,200.00	-
12/01/2016	490,000.00	6.500%	713,200.00	1,203,200.00	1,916,400.00
06/01/2017	-	-	697,275.00	697,275.00	-
12/01/2017	525,000.00	6.500%	697,275.00	1,222,275.00	1,919,550.00
06/01/2018	-	-	680,212.50	680,212.50	-
12/01/2018	555,000.00	6.375%	680,212.50	1,235,212.50	1,915,425.00
06/01/2019	-	-	662,521.88	662,521.88	-
12/01/2019	595,000.00	6.375%	662,521.88	1,257,521.88	1,920,043.76
06/01/2020	-	-	643,556.25	643,556.25	-
12/01/2020	630,000.00	6.375%	643,556.25	1,273,556.25	1,917,112.50
06/01/2021	-	-	623,475.00	623,475.00	-
12/01/2021	670,000.00	6.375%	623,475.00	1,293,475.00	1,916,950.00
06/01/2022	-	-	602,118.75	602,118.75	-
12/01/2022	715,000.00	6.375%	602,118.75	1,317,118.75	1,919,237.50
06/01/2023	-	-	579,328.13	579,328.13	-
12/01/2023	760,000.00	6.375%	579,328.13	1,339,328.13	1,918,656.26
06/01/2024	-	-	555,103.13	555,103.13	-
12/01/2024	805,000.00	6.375%	555,103.13	1,360,103.13	1,915,206.26
06/01/2025	-	-	529,443.75	529,443.75	-
12/01/2025	860,000.00	6.375%	529,443.75	1,389,443.75	1,918,887.50
06/01/2026	-	-	502,031.25	502,031.25	-
12/01/2026	915,000.00	6.375%	502,031.25	1,417,031.25	1,919,062.50
06/01/2027	-	-	472,865.63	472,865.63	-
12/01/2027	970,000.00	6.375%	472,865.63	1,442,865.63	1,915,731.26
06/01/2028	-	-	441,946.88	441,946.88	-
12/01/2028	1,035,000.00	6.375%	441,946.88	1,476,946.88	1,918,893.76
06/01/2029	-	-	408,956.25	408,956.25	-

Long-Term Debt (11-19-07) | Tax Exempt | 12/4/2007 | 1:02 PM

Preliminary

\$24,820,000

Yuma, Arizona

Water and Waste Water Revenue Bonds

Series 2007A (Tax Exempt)

Debt Service Schedule

Part 2 of 2

Date	Principal	Coupon	Interest	Total P+I	Fiscal Total
12/01/2029	1,100,000.00	6.375%	408,956.25	1,508,956.25	1,917,912.50
06/01/2030	-	-	373,893.75	373,893.75	-
12/01/2030	1,170,000.00	6.375%	373,893.75	1,543,893.75	1,917,787.50
06/01/2031	-	-	336,600.00	336,600.00	-
12/01/2031	1,245,000.00	6.375%	336,600.00	1,581,600.00	1,918,200.00
06/01/2032	-	-	296,915.63	296,915.63	-
12/01/2032	1,325,000.00	6.375%	296,915.63	1,621,915.63	1,918,831.26
06/01/2033	-	-	254,681.25	254,681.25	-
12/01/2033	1,405,000.00	6.375%	254,681.25	1,659,681.25	1,914,362.50
06/01/2034	-	-	209,896.88	209,896.88	-
12/01/2034	1,495,000.00	6.375%	209,896.88	1,704,896.88	1,914,793.76
06/01/2035	-	-	162,243.75	162,243.75	-
12/01/2035	1,595,000.00	6.375%	162,243.75	1,757,243.75	1,919,487.50
06/01/2036	-	-	111,403.13	111,403.13	-
12/01/2036	1,695,000.00	6.375%	111,403.13	1,806,403.13	1,917,806.26
06/01/2037	-	-	57,375.00	57,375.00	-
12/01/2037	1,800,000.00	6.375%	57,375.00	1,857,375.00	1,914,750.00
Total	\$24,820,000.00	-	\$32,130,487.58	\$56,950,487.58	-

Yield Statistics

Accrued Interest from 12/01/2007 to 12/13/2007	52,887.50
Bond Year Dollars	\$503,550.00
Average Life	20.288 Years
Average Coupon	6.3807939%
Net Interest Cost (NIC)	6.5636226%
True Interest Cost (TIC)	6.7401925%
Bond Yield for Arbitrage Purposes	6.3372784%
All Inclusive Cost (AIC)	6.8361116%

IRS Form 8038

Net Interest Cost	6.3337892%
Weighted Average Maturity	20.218 Years

Preliminary

\$370,000

Yuma, Arizona

Water and Waste Water Revenue Bonds

Series 2007B (Taxable)

Debt Service Schedule

Date	Principal	Coupon	Interest	Total P+I	Fiscal Total
12/13/2007	-	-	-	-	-
06/01/2008	-	-	12,025.00	12,025.00	-
12/01/2008	145,000.00	6.500%	12,025.00	157,025.00	169,050.00
06/01/2009	-	-	7,312.50	7,312.50	-
12/01/2009	225,000.00	6.500%	7,312.50	232,312.50	239,625.00
Total	\$370,000.00	-	\$38,675.00	\$408,675.00	-

Yield Statistics

Accrued Interest from 12/01/2007 to 12/13/2007	801.67
Bond Year Dollars	\$595.00
Average Life	1.608 Years
Average Coupon	6.5000000%
Net Interest Cost (NIC)	10.4188908%
True Interest Cost (TIC)	10.9970325%
Bond Yield for Arbitrage Purposes	6.3372784%
All Inclusive Cost (AIC)	11.6479402%

IRS Form 8038

Net Interest Cost	7.6232072%
Weighted Average Maturity	1.608 Years



ATTACHMENT E

FAR WEST WATER & SEWER, INC.
INTERIM RATE CASE
DOCKET NO. WS-03478A-08-0608

RESPONSE TO STAFF'S FOURTH SET OF DATA REQUESTS

March 4, 2009

Response provided by: Thomas J. Bourassa, CPA
Title: Accountant
Address: 139 W. Wood Drive
Phoenix AZ 85029

Company Response Number: GWB 4.2

Q. Please refer to the chart below which is an extension of the chart above with adjustments reflecting certain anticipated changes for 2009. First, the adjustments remove depreciation expense, interest expense and interest income in the year ended December 31, 2007. Then the adjustments add the principal and interest payments due in 2009, per the Company's response to Staff data request, GWB 1.1. The 2009 principal and interest amounts are based on the proportionate principal amounts owed under the IDA bonds as of December 31, 2007. As indicated, this chart shows a projected free cash flow of \$611,678.

In the previous rate proceeding (Docket No. WS-03478A-05-0801 and Decision No. 69335), the Commission rejected the Company's argument in the cost of capital section that the Company could selectively allocate its pool of capital resources to each of its Divisions in its cost of capital calculations. Since the Commission has ruled that the Company has a common pool of funds from which to operate and if the calculations in the chart are reasonably correct, the Company will generate approximately \$600,000 in cash flow in 2009.

- a. Please identify the specific reason(s), if any, known to the Company why the approximately \$600,000 in cash flow calculated in the chart is not representative of its anticipated 2009 cash flows;
- b. Provide a detailed explanation for any reasons identified in part "a";
- c. Provide a revised chart reflecting any revision(s) the Company deems appropriate due to the reasons specified in part "a" that the chart is not representative of its 2009 cash flows;
- d. Please provide detailed calculations to support the response to part "c";

- e. Please explain any reason(s) that the Company, if it generates free cash flow in 2009 of approximately \$600,000, would have an emergency, be unable to pay its bills, or be unable to provide service.
- f. Provide the Company's 2009 cash flow projections and identifying the reason(s) and amount(s) for any adjustment(s) to the amounts presented in response to part "c"; and
- g. Please explain any reasons that the Company would have an emergency, be unable to pay its bills, or be unable to provide service with the cash flows that it calculated in part "f".
- h. Identify the source(s) of funds for any capital improvements included in the response to part "f".

Year ended Dec 31, 2007	Sewer	Water	Totals	Per DR	Difference
Revenues	\$2,004,026	\$ 5,855,680	\$ 7,859,706	\$7,841,336	\$(18,370)
Expenses:					
Salaries and Wages	\$ 699,621	\$ 764,955	\$1,464,576	\$1,248,809	\$(215,767)
Payroll Overhead				\$ 286,222	\$ 286,222
Purchased Water		\$ 501,924	\$ 501,924	\$ 479,237	\$ (22,687)
Sludge Removal Exp	\$ 397,297		\$ 397,297	\$ 397,297	\$ -
Purchased Power	\$ 221,622	\$ 500,328	\$721,950	\$ 721,950	\$ -
Chemicals	\$ 213,513	\$ 145,580	\$ 359,093	\$ 359,092	\$ (1)
Repairs & Maintenance		\$ 167,316	\$ 167,316	\$ 221,233	\$ 53,917
Materials & Supplies	\$ 45,519		\$ 45,519	\$ 55,604	\$ 10,085
Office Supplies		\$ 87,368	\$ 87,368	\$113,850	\$ 26,482
Water Testing		\$ 71,813	\$ 71,813		\$(71,813)
Contractual Services-Professional	\$ 77,754		\$ 77,754	\$411,109	\$ 333,355
Contractual Services-Testing	\$158,510		\$ 158,510		\$(158,510)
Contractual Services-Other	\$ 29,671	\$ 80,786	\$ 110,457		\$(110,457)
Rents	\$199,706	\$ 21,711	\$ 221,417	\$ 221,417	\$ -
Transportation Exp	\$ 56,228	\$ 62,303	\$ 118,531	\$ 118,531	\$ -
Insurance	\$ 38,805	\$ 111,693	\$150,498	\$ 80,043	\$(70,455)
Reg Commission Exp	\$ 102,025	\$ -	\$102,025	\$ 119,706	\$ 17,681
Misc Expense	\$ 767,974	\$ 103,445	\$ 871,419	\$ 75,402	\$(796,017)
Depreciation, net of amort	\$ 531,731	\$ 826,649	\$1,358,380	\$1,358,380	\$ -
Taxes Other than Income	\$ 3,259	\$ 156	\$ 3,415	\$ 4,702	\$ 1,287
Property Taxes	\$ 64,174	\$ 262,528	\$ 326,702	\$ 326,702	\$ -
Total Expenses	\$3,607,409	\$ 3,708,555	\$ 7,315,964	\$6,599,286	\$(716,678)
Operating Income	\$(1,603,383)	\$ 2,147,125	\$ 543,742	\$1,242,050	\$(698,308)
Depreciation	\$ 531,731	\$ 826,649	\$ 1,358,380	\$1,358,380	\$ -
Operating Income plus Deprec.	\$(1,071,652)	\$ 2,973,774	\$ 1,902,122	\$2,600,430	\$(698,308)
Interest Income	\$ 122,989	\$ 512,242	\$ 635,231	\$ 635,231	\$ -
Interest Expense	\$ 361,340	\$1,504,961	\$1,866,301	\$1,866,301	\$ -
Oper Inc + Dep, Int Inc. less Int Exp	\$(1,310,003)	\$1,981,055	\$ 671,052	\$1,369,360	\$(698,308)

Update to 2009:

2009 Principal	\$ 60,988	\$254,012	\$ 315,000	\$315,000
2009 Interest	\$ 311,848	\$1,298,827	\$1,610,675	\$1,610,675
Less Interest Above	\$ 361,340	\$ 1,504,961	\$ 1,866,301	\$1,866,301
Projected Free Cash Flow	\$(1,321,499)	\$ 1,933,177	\$ 611,678	\$1,309,986
IDA Bonds Principal 12/31/07	\$ 4,877,112	\$20,312,888	\$25,190,000	
Allocation Factors	19.36%	80.64%	100.00%	

RESPONSE:

- a. Please identify the specific reason(s), if any, known to the Company why the approximately \$600,000 in cash flow calculated in the chart is not representative of its anticipated 2009 cash flows;

This above analysis contains a number of erroneous assumptions and excludes a number of factors that impact the available cash flows to the Company. These errors include the following:

1. The interest income included in the analysis above is temporary and should not be considered. This interest was generated from the unexpended proceeds of the bond financing used to construct the wastewater facilities. As this cash is expended, the cash balance for generating interest will drop to zero. As you will find from the 2008 financial statements provided with this response, interest income for 2008 was \$162,379 - \$472,852 less than in 2007. For 2009, the interest income is expected to be negligible. Thus, Staff erroneously included \$635,231 of interest income that will not be realized. If Staff's analysis is corrected to exclude the assumed interest income, the Company has a negative "free" cash flow.

2. The costs for the wastewater capital projects are currently exceeding the original budget. As a result, the proceeds received from the bond issue will not be sufficient to fund all of the wastewater. The Company expects the costs to exceed the budgeted costs by \$2,105,367. These additional costs have not been considered by Staff. The source of funds to make up the shortfall is the cash flow generated by the Company. While the Company is exploring other funding sources, the ability to raise additional capital is severely limited by to the already high debt ratio and limited cash flow, as well as the tight capital markets.

3. There are necessary capital repairs and improvements for the water division that have been delayed due to the concentration of work dealing with the wastewater improvements. While some of those projects can be delayed, for others work needs to begin within the next year or so in order to continue to provide safe and reliable water service. The budgeted cost for water well improvements totals \$3,000,000. The budgeted cost for storage tank improvements is \$1,000,000. The budgeted cost to expand the water treatment plant is \$16,928,016. The total of these water projects is \$19,928,016. None of these costs has been considered by Staff. While the Company is exploring other funding sources for the water division capital improvements, the ability to raise

additional capital is severely limited due to the already high debt ratio and limited cash flow, as well as tight capital markets.

4. The Company has and is expected to continue to incur significant legal expense for dealing with ADEQ, at least through 2010. For 2007 and 2008, legal costs were \$130,398 and \$47,488, respectively. These costs have not been considered by Staff. These costs were included below the line (not in operating expenses) in Extraordinary Deductions in the 2007, and 2008 operating statements. But they negatively affect cash flow.

5. The Company has and is expected to continue to incur significant effluent disposal expenses at least through the end of 2009 or until the wastewater improvements are completed. These costs have not been considered in the analysis above. For 2008, these costs totaled \$501,363 and were included below the line (not in operating expenses) in Extraordinary Deductions in the 2008 operating statement. But they negatively affect cash flow.

6. As the Company completes its wastewater system improvements, the Company will incur additional operating expenses. Increases are expected in the following categories:

• Purchased Power:	\$173,430.00
• Chemicals:	\$ 2,500.00
• Materials & Supplies:	\$ 22,416.00
• Repairs & Maintenance:	\$ 22,916.00

7. The financial statements for 2007 and 2008 (previously provided) show that the Company experienced negative net cash flows for 2007 of (\$190,657) and 2008 of (\$158,355). The negative net cash flow for 2008 was mitigated by the fact that accounts payable balance increased by over \$3 million over the 2007 balance contributing a positive net cash flow. With the increase in accounts payable excluded, the net cash flow for the year would have been negative to the tune of over nearly \$3.2 million. However, the accounts payable balance, at over \$3.4 million at the end of 2008, will consume cash in 2009 as it is paid. As the projected 2009 cash flow statement provided in response to subpart (f) below indicates, the Company will need over \$2.5 million of cash flow to pay down its accounts payable balance. This is before consideration of the shortfalls in cash required to complete the wastewater system improvements and any immediate and necessary water system improvements.

b. Provide a detailed explanation for any reasons identified in part "a";

See response to (a).

c. Provide a revised chart reflecting any revision(s) the Company deems appropriate due to the reasons specified in part "a" that the chart is not representative of its 2009 cash flows;

See response to (f).

- d. Please provide detailed calculations to support the response to part “c”;

See response to (f).

- e. Please explain any reason(s) that the Company, if it generates free cash flow in 2009 of approximately \$600,000, would have an emergency, be unable to pay its bills, or be unable to provide service.

As explained in the response to subpart (a), the Company will not generate enough “free” cash flow after debt to provide sufficient cash to meet necessary additional capital requirements, pay down trade payables, pay other short-term obligations, refund advances, and pay other expenses.

- f. Provide the Company’s 2009 cash flow projections and identifying the reason(s) and amount(s) for any adjustment(s) to the amounts presented in response to part “c”; and

Please see attached PDF file.

- g. Please explain any reasons that the Company would have an emergency, be unable to pay its bills, or be unable to provide service with the cash flows that it calculated in part “f”.

See response to (e).

- h. Identify the source(s) of funds for any capital improvements included in the response to part “f”.

It is unclear how the Company will fund the required 2009 capital improvements. As you will find, the cash flows from additional debt or issuances of stock are zero in the projected 2009 cash flow statement. The Company is severely limited in its ability to raise additional capital is severely limited due to the already high debt ratio and limited cash flow.

Far West Water and Sewer Company
Actual and Projected Statements of Cash Flows

Exhibit
Response to 4.2(f)

Line No.	Actual Year Ended <u>12/31/2007</u>	Actual Year Ended <u>12/31/2008</u>	Projected Year Ended <u>12/31/2009</u>
1			
2			
3	Cash Flows from Operating Activities		
4	\$ (632,134)	\$ (809,864)	\$ (1,074,183) ¹
5	Adjustments to reconcile net income to net cash		
6	provided by operating activities:		
7	1,358,380	1,423,338	1,687,657 ²
8	-	(18,596)	-
9	-	-	-
10	Changes in Certain Assets and Liabilities:		
11	456,072	8,674,486	(49,080) ³
12	(55,111)	223,284	
13	-	(197,730)	253,172 ⁴
14	(10,541)	(3,850)	
15	87,650	12,430	
16		(7,430)	
17	66,998	47,671	47,671
18	(145,615)	3,031,100	(3,400,000) ⁵
19	(1,462,684)	(918,871)	-
20	(87,892)	14,126	
21	(86,198)	189,375	
22			
23			
24	<u>\$ (511,075)</u>	<u>\$ 11,659,469</u>	<u>\$ (2,534,763)</u>
25	Cash Flow From Investing Activities:		
26	(3,094,728)	(1,001,411)	(3,266,000) ⁶
27	(818,658)	(10,836,510)	-
28		1,392	
29	<u>\$ (3,913,386)</u>	<u>\$ (11,836,529)</u>	<u>\$ (3,266,000)</u>
30	Cash Flow From Financing Activities		
31	(17,735,000)	(716,244)	-
32	21,074,778	-	(315,000) ^{7,8}
33	(1,203,889)	(140,183)	(140,183)
34		118,258	118,258
35	508,073	-	-
36	(577,150)	577,150	-
37	880,959	(203,862)	(300,000) ⁹
38	1,286,033	383,586	
39			- ⁷
40			
41	<u>\$ 4,233,804</u>	<u>\$ 18,705</u>	<u>\$ (636,925)</u>
42	(190,657)	(158,355)	(6,437,688)
43	362,070	171,413	13,058
44	<u>\$ 171,413</u>	<u>\$ 13,058</u>	<u>\$ (6,424,630)</u>

¹ Assumes only change in net income will be due to depreciation. Assumes Composite rate of 3.5% on new plant and half-year conv.. Growth in revenues on the system is expected to be minimal in 2009 as little customer growth expected. Expenses are assumed to continue at the same level as 2008.

² Estimated based in plant installed in 2008 and 2009.

³ Restricted cash reserve balance must contain a full year on interest and principle totaling \$1,920,000 by end of 2009. Current balance is \$1,632,432. This will consume approximately \$287,568 of cash flow. On the other hand there was \$238,488 of restricted cash for construction funds at the end of 2008 which is assumed to be used for construction projects. The net increase (decrease) in restricted cash is \$(49,080).

⁴ Assume associated co. receivable at end of 2008 is collected.

⁵ Pay down of trade payables primarily the result of ww system improvements. Payable balance at end of 2008 was over \$3.4 million.

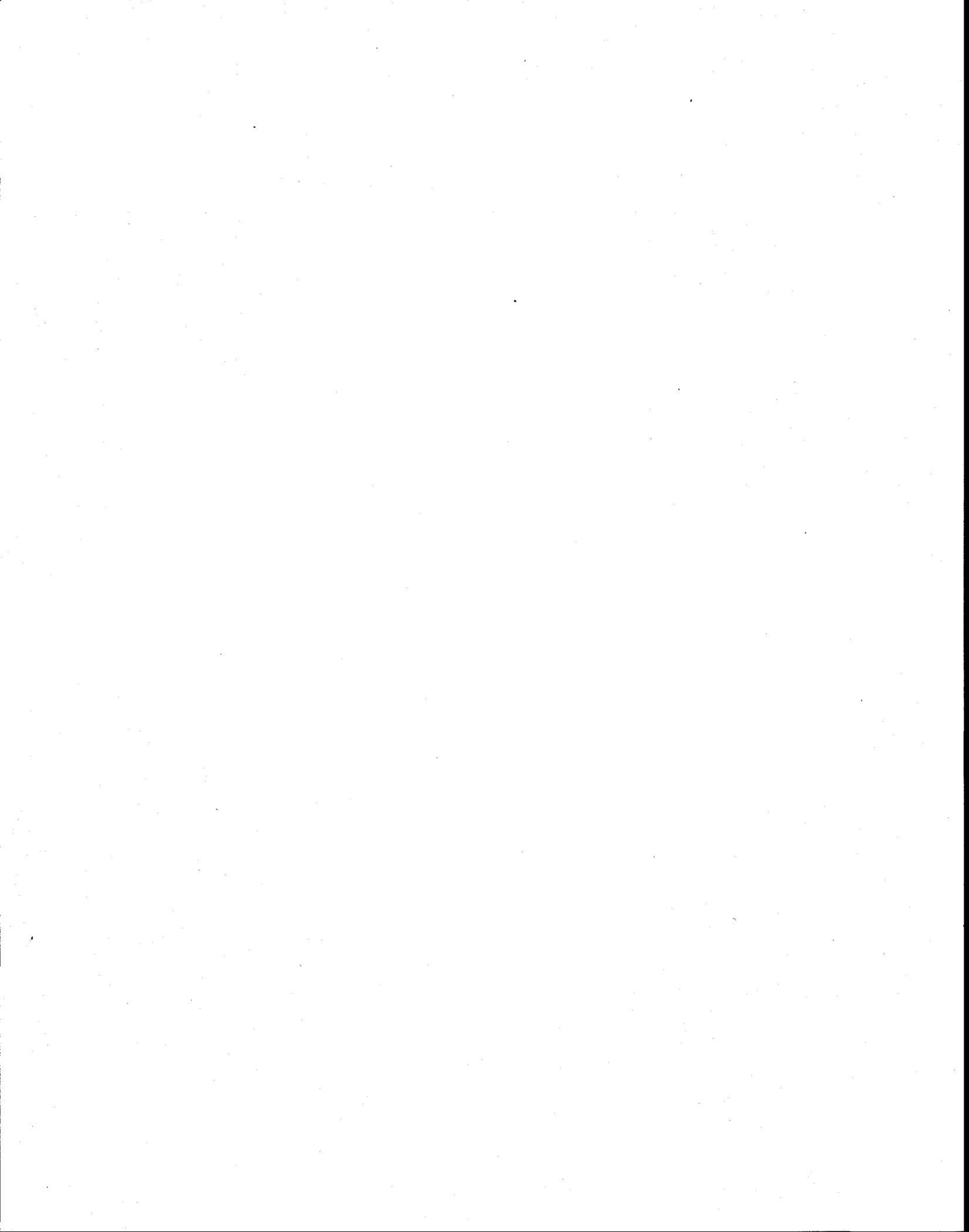
⁶ Estimated 2009 cost to complete wastewater system improvements is \$2,266,000.

⁷ Estimated required 2009 costs for water system improvements is \$1,000,000.

⁷ It is still unclear how Company will fund capital requirements and cash shortfalls.

⁸ Principle payment on Yuma Bonds for 2009 is \$315,000.

⁹ Refunds of advances are over \$300,000 annually.



**FAR WEST WATER AND SEWER COMPANY
SEWER DIVISION
DOCKET NO. WS-03478A-08-0608
TABLE OF CONTENTS TO SCHEDULES WAR**

SCHEDULE #

WAR - 1	FINANCIAL ANALYSIS 1
WAR - 2	FINANCIAL ANALYSIS 2
WAR - 3	COMPARATIVE STATEMENTS OF INCOME - DECEMBER 31, 2007 - 2008

FINANCIAL ANALYSIS 1

LINE NO.		(A)	(B)	(C)
		Far West's Combined Income Statement 2008 (a)	Far West's Combined Income Statement 2007 (b)	Far West's Combined Annual Reports to the ACC 2007 (c)
1	Pre-Tax Operating Income	\$ 1,441,403	\$ 1,242,051	\$ 543,742
2	Depreciaion and Amortization	1,423,338	1,358,380	1,358,380
3	Income Tax Expense	-	-	-
4	Interest Expense	1,610,675	1,610,675	1,610,675
5	Repayment of Principal	315,000	315,000	315,000
6	TIER (Interest Coverage)			
7	[(1) + (3)] ÷ (4)	0.89	0.77	0.34
8	DSC			
9	[(1) + (2) + (3)] ÷ [(4) + (5)]	1.49	1.35	0.99
10	Free Cash Flow			
11	[(1) + (2) + (3)] - [(4) + (5)]	\$ 939,066	\$ 674,756	\$ (23,553)

CAPITAL STRUCTURE

LINE		2008		2007	
13	Short-term Debt	\$ -	0.0%	\$ -	0.0%
14	Long-term Debt	25,360,000	87.5%	25,190,000	85.1%
15	Common Equity	3,615,588	12.5%	4,425,452	14.9%
16	Total Capital	\$ 28,975,588	100.0%	\$ 29,615,452	100.0%

Notes:

- (a) Based on a compilation performed by Lloyd H. Sunderman, CPA, Yuma, Arizona - ACC data request GWB 1.2
- (b) Based on a compilation performed by Lloyd H. Sunderman, CPA, Yuma, Arizona - ACC data request GWB 1.1
- (c) ACC Staff data request GWB 4.2 - reconciled income statement

FINANCIAL ANALYSIS 2

LINE NO.	(A)	(B)	(C)	
	Far West's Combined Income Statement 2008	Far West's Combined Income Statement 2007	Far West's Combined Annual Reports to the ACC 2007	
	(a)	(b)	(c)	
1	Pre-Tax Operating Income	\$ 1,441,403	\$ 1,242,051	\$ 543,742
2	Depreciaion and Amortization	1,423,338	1,358,380	1,358,380
3	Income Tax Expense	-	-	-
4	Interest Expense net of Interest Income	1,448,296	975,444	975,444
5	Repayment of Principal	315,000	315,000	315,000
6	TIER (Interest Coverage)			
7	[(1) + (3)] ÷ (4)	1.00	1.27	0.56
8	DSC			
9	[(1) + (2) + (3)] ÷ [(4) + (5)]	1.62	2.02	1.47
10	Free Cash Flow			
11	[(1) + (2) + (3)] - [(4) + (5)]	\$ 1,101,445	\$ 1,309,987	\$ 611,678

CAPITAL STRUCTURE

	2008		2007	
12				
13	Short-term Debt	\$ - 0.0%	\$ - 0.0%	
14	Long-term Debt	25,360,000 87.5%	25,190,000 85.1%	
15	Common Equity	3,615,588 12.5%	4,425,452 14.9%	
16	Total Capital	\$ 28,975,588 100.0%	\$ 29,615,452 100.0%	

Notes:

- (a) Based on a compilation performed by Lloyd H. Sunderman, CPA, Yuma, Arizona - ACC data request GWB 1.2
- (b) Based on a compilation performed by Lloyd H. Sunderman, CPA, Yuma, Arizona - ACC data request GWB 1.1
- (c) ACC Staff data request GWB 4.2 - reconciled income statement

COMPARATIVE STATEMENTS OF INCOME - DECEMBER 31, 2007 - 2008

LINE NO.		2008	(a)	2007	(b)
1	OPERATING REVENUES:				
2	Total Operating Revenue	\$ 7,857,117		\$ 7,841,336	
3					
4	OPERATING EXPENSES:				
5	Salaries & wages	1,142,948		1,248,809	
6	Payroll overhead	293,663		286,222	
7	Automotive	124,832		118,531	
8	Chemicals	435,709		359,092	
9	Depreciation & amortization	1,423,338		1,358,380	
10	Electricity	664,325		721,950	
11	Insurance	77,691		80,043	
12	Miscellaneous	61,317		75,402	
13	Office	87,263		113,850	
14	Contract Services	360,669		411,109	
15	Regulatory commission	138,371		119,706	
16	Rent - Buildings	27,034		25,259	
17	Rent - Equipment	190,550		196,158	
18	Repairs and Maintenance	254,929		221,233	
19	Sludge removal	102,507		397,297	
20	Supplies	78,929		55,604	
21	Taxes - other	3,994		4,702	
22	Taxes - property	318,282		326,701	
23	Water purchased	629,363		479,237	
24	Income tax expense	-		-	
25	Total Operating Expenses	6,415,714		6,599,285	
26					
27	Operating Income From Utility Operations	1,441,403		1,242,051	
28					
29	OTHER INCOME & EXPENSES:				
30	Interest income	162,379		635,231	
31	Interest expense	(1,698,978)		(1,866,301)	
32	Amortization of premium on debt	4,078		-	
33	Amortization of debt discount, expenses	(59,045)		-	
34	Restitution	(5,533)		-	
35	Fines & penalties	(9,800)		-	
36	Prior period income & expenses	(9,282)		(75,212)	
37	Extraordinary deductions	(633,410)		(563,715)	
38	Miscellaneous non-utility expense	(1,676)		(4,188)	
39	Total Other Income/(Expenses)	(2,251,267)		(1,874,185)	
40					
41	Net Operating Income	\$ (809,864)		\$ (632,134)	
42					
43	Prior Year Retained Deficit	(2,807,827)		(2,175,693)	
44					
45	Current Year Retained Deficit	(3,617,691)		(2,807,827)	

Notes:

- (a) Based on a compilation performed by Lloyd H. Sunderman, CPA, Yuma, Arizona - ACC data request GWB 1.2
(b) Based on a compilation performed by Lloyd H. Sunderman, CPA, Yuma, Arizona - ACC data request GWB 1.1