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ORIGINAL

BEFORE THE ARIZONA CORPORATION COMMISSION

- 2 **COMMISSIONERS**
- 3 KRISTIN K. MAYES, Chairman
- 4 GARY PIERCE
- 5 PAUL NEWMAN
- 6 SANDRA D. KENNEDY
- 7 BOB STUMP

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

DOCKET NO. WS-03478A-08-0608

NOTICE OF FILING

10 Attached to this notice of filing is the Staff Report for the above docket. During a telephonic
 11 procedural conference, Staff requested and received an extension of time to file its Staff Report until
 12 March 23, 2009. Staff hopes the late filing will not inconvenience the parties.

13 RESPECTFULLY SUBMITTED this 24th day of March, 2009.

14 Arizona Corporation Commission

15 **DOCKETED**

16 MAR 24 2009

17 DOCKETED BY

18 Kevin O. Torrey
 19 Robin R. Mitchell
 20 Attorney, Legal Division
 21 Arizona Corporation Commission
 22 1200 West Washington Street
 23 Phoenix, Arizona 85007
 24 (602) 542-3402

25 Original and thirteen (13) copies
 26 of the foregoing were filed this
 27 24th day of March, 2009 with:

28 Docket Control
 Arizona Corporation Commission
 1200 West Washington Street
 Phoenix, Arizona 85007

AZ CORP COMMISSION
DOCKET CONTROL

2009 MAR 24 P 4: 02

RECEIVED

1 Copies of the foregoing were mailed
2 this 24th day of March, 2009 to:

3 Norman D. James
4 Jay L. Shapiro
5 FENNEMORE CRAIG, PC
6 3003 North Central Avenue, Suite 2600
7 Phoenix, Arizona 85012-2913

8 Daniel W. Pozefsky, Chief Counsel
9 RESIDENTIAL UTILITY CONSUMER OFFICE
10 1110 West Washington Street, Suite 220
11 Phoenix, Arizona 85007-2958
12
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14
15
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22
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MEMORANDUM

TO: Docket Control

FROM: Ernest G. Johnson
Director
Utilities Division

EA for EGJ

DATE: March 24, 2009

RE: STAFF REPORT FOR FAR WEST WATER AND SEWER COMPANY
EMERGENCY APPLICATION FOR INTERIM RATES AND CHARGES
(DOCKET NO. WS-03478A-08-0608)

Attached is the Staff Report for Far West Water and Sewer Company application for an emergency rate increase. Staff recommends denial of the application to grant emergency rate relief.

A hearing date on this case will be commence April 06, 2009. Any comments or exceptions to the Staff Report may be filed with Docket Control no later than 4:00 p.m., March 30, 2009.

EGJ:GWB:kdh

Originator: Gerald Becker

Service List for: Far West Water and Sewer Company
Docket No. WS-03478A-08-0608

Mr. Andrew Capestro
Far West Water and Sewer Company
13157 East 64th Street
Yuma, Arizona 85029

Mr. and Mrs. Seth Davis
2006 South Arboleda Drive
Merced, California 95341

Mr. and Mrs. Seth Davis
14833 East 51st
Yuma, Arizona 85367

Mr. Norman D. James
Mr. Jay L. Shapiro
FENNEMORE CRAIG
1003 North Central Avenue, Suite 2600
Phoenix, Arizona 85012-2913

Ms. Michelle Wood
Resident Utility Consumer Office
1110 West Washington, Suite 220
Phoenix, Arizona 85007

Ms. Janice M. Alward
Chief, Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Mr. Ernest G. Johnson
Director, Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Ms. Jane Rodda
Administrative Law Judge
Arizona Corporation Commission
400 West Congress Street
Tucson, Arizona 85701-1347

**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

FAR WEST WATER AND SEWER COMPANY

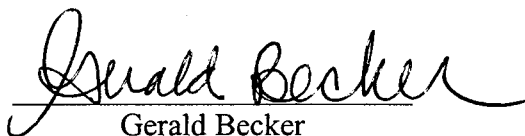
DOCKET NO. WS-03478A-08-0608

**APPLICATION FOR AN
EMERGENCY RATE INCREASE**

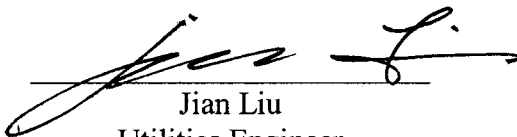
MARCH 24, 2009

STAFF ACKNOWLEDGMENT

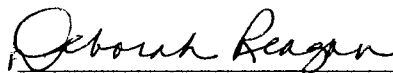
The Staff Report for the Far West Water and Sewer Company, ("Far West" or "Company") application for an emergency rate increase, Docket No. WS-03478A-08-0608, is the responsibility of the Staff members listed below. Gerald Becker is responsible for the review and analysis of the Company's application. Jian Liu is responsible for the engineering and technical analysis. Deborah Reagan was responsible for reviewing the Commission's records on the Company.



Gerald Becker
Public Utility Analyst V



Jian Liu
Utilities Engineer



Deborah Reagan
Public Utilities Consumer Analyst II

**EXECUTIVE SUMMARY
FAR WEST WATER AND SEWER COMPANY
DOCKET NO. WS-03478A-08-0608**

On December 19, 2008, Far West Water and Sewer Company ("Far West" or "Company") filed an application for an emergency rate increase with the Arizona Corporation Commission ("Commission").

Far West is a for-profit Class A public service corporation that provides water and sewer services to approximately 7,237 sewer customers and 8,286 water customers in Yuma County, Arizona. The current rates, authorized in Decision No. 69335, have been in effect since March 1, 2007.

In March and October 2006, Arizona Department Environmental Quality ("ADEQ") Consent Orders were issued for Far West to bring the all seven wastewater treatment plants into full compliance with ADEQ regulations.

Present rates were approved in Decision No. 69335 dated February 20, 2007. These rates are based on an Original Cost Rate Base of \$1,549,650 and a rate of return of 7.80 percent. Approval of the emergency rate application would increase the residential sewer charge by \$23.84 from \$21.75 to \$45.59, or 109.61 percent, as shown on attached Schedule GWB-2.

In Decision No. 69950 dated October 30, 2007, the Company applied for and was granted authority to incur indebtedness in the amount of \$25,215,000. The Company demonstrated that it would be able to support the indebtedness based on existing rates. Staff's analysis in that case indicated that the Company was able to support this amount of debt. The Company indicated that it has borrowed \$25.2 million in accordance with the authorization granted in Decision No. 69950.

On August 29, 2008, Far West filed an application for a permanent rate increases for it's Sewer Division in Docket No. WS-03478A-08-0454 ("2008 Rate Case"). In its 2008 Rate Case, the Company indicates unadjusted rate base of \$5,329,384. It seeks a rate of return of 8.38 percent. The 2008 Rate Case seeks to raise rates in excess of 241 percent.

Staff reviewed the 2008 Rate Case and noted that the Company claims a fair value rate base of \$23,415,796, adjusted operating income of (\$2,161,788) for a negative rate of return of 9.23 percent for the year ended December 31, 2007. These results were filed by the Company in its 2008 Rate Case but have not been audited by Staff. The Company makes further representations on its cost of capital which was also not reviewed by Staff in this proceeding.

On December 19, 2008, the Company filed a request for an emergency rate increase for its Sewer Division only in the amount of \$2,161,788 from \$2,139,964 (2007) to \$4,301,752, or 101.02 percent.

Staff concluded that the Company has not demonstrated the existence of an emergency and recommends denial of the application for emergency rates.

However, Staff presents the basis for an alternative amount in the event that the Commission decides to grant interim relief. Staff alternately recommends:

1. Approval of interim rates that will increase revenues for the Sewer Division by \$972,150 from \$2,098,426 (2008 results) to \$3,070,576, or 46.3 percent.
2. That the rates for all classes of customers be increased by the same percentage. The present and proposed rates are shown in the attached Schedule GWB-2.
3. That the Company maintain records that show the revenue generated each month by the interim rates authorized herein segregated from all other revenue.
4. That all rates approved in this proceeding be subject to refund plus interest.
5. The interim rate be subject to refund pending the decision resulting from the 2008 Rate Case that has been filed but is presently suspended.
6. That the Company post a bond or a letter of credit with the Commission in the amount of \$300,000, with the Commission prior to implementing the emergency rate increase authorized in this proceeding. This amount is approximately 30 percent of the annual rate increase Staff recommends in this proceeding. Staff estimates that these rates will be in effect for approximately 12 months.
7. That the Company be directed to file, within 30 days of the decision, a revised rate schedule reflecting the emergency rate increase with Docket Control, as a compliance item in this docket.
8. That the Company notify its customers of the revised rate, and its effective date, in a form acceptable to Staff, by means of an insertion in the Company's next regularly scheduled billing.

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SCHEDULE

FAR WEST FINANCIAL ANALYSIS.....	SCHEDULE GWB-1
SCHEDULE OF PROPOSED RATES	SCHEDULE GWB-2

ATTACHMENT

ENGINEERING REPORT	ATTACHMENT 1
CONSUMER SERVICES REPORT	ATTACHMENT 2

INTRODUCTION

On August 29, 2008, Far West Water and Sewer ("Far West" or "Company") filed an application for permanent rate increases in Docket No. WS-03478A-08-0454 ("2008 Rate Case"). Staff notified the Company on November 6, 2008 that its application, along with its October 22, 2008 response, met the sufficiency requirements of A.A.C. R14-2-103 and classified the Company as a Class A utility. By Procedural Order dated December 12, 2008, the hearing was scheduled for July 27, 2009. On December 19, 2008, the Company filed an emergency application for interim rates and charges. Staff filed a motion to suspend the 2008 Rate Case pending a final decision in this docket, which was granted on January 27, 2009.

BACKGROUND

Far West is a for-profit Class A public service corporation that provides water and sewer services to approximately 7,237 sewer customers and 8,286 water customers in Yuma County, Arizona. The current rates, authorized in Decision No. 69335, have been in effect since March 1, 2007.

In March and October 2006, Arizona Department of Environmental Quality ("ADEQ") Consent Orders were issued for Far West to bring all seven wastewater treatment plants into full compliance with ADEQ regulations.

Present rates were approved in Decision No. 69335 dated February 20, 2007. These rates were based on an Original Cost Rate Base of \$1,549,650 and a rate of return of 7.80 percent. Approval of the emergency rate request would increase the residential sewer charge by \$23.84 from \$21.75 to \$45.59, or 109.61 percent as shown in attached Schedule GWB-2. The Company was ordered to file a rate case by April 30, 2008.

In Decision No. 69950, dated October 30, 2007, the Company applied for and was granted authority to incur indebtedness in the amount of \$25,215,000. The Company demonstrated that it would be able to support the indebtedness based on existing rates, and the Company did not request a rate increase at that time. Staff's analysis in that case indicated that the Company had the ability to support the requested amount of debt, and accordingly, Staff did not recommend that the Company file a rate increase application in that proceeding because the Company had been ordered to file in a previous Commission Decision. The Company indicated that it has borrowed \$25.2 million in accordance with the authorization granted in Decision No. 69950.

On August 29, 2008, Far West filed an application for permanent rate increases in 2008 Rate Case. In 2008 Rate Case, the Company indicates unadjusted rate base of \$5,329,384. It seeks a rate of return of 8.38 percent. The 2008 Rate Case seeks to raise rates in excess of 241 percent.

Staff reviewed the 2008 Rate Case and noted that the Company claims a fair value rate base of \$23,415,796, adjusted operating income/(loss) of (\$2,161,788) for a negative rate of return of 9.23 percent for the year ended December 31, 2007. These results were filed by the Company in its 2008 Rate Case but have not been audited by Staff. The Company makes further representations on its cost of capital which was also not reviewed by Staff in this proceeding.

On December 19, 2008, the Company filed a request for an emergency rate increase in the amount of \$2,161,788 from \$2,139,964 (2007) to \$4,301,752, or 101.02 percent.

CONSUMER SERVICES

Staff reviewed the Commission's records for the period of January 1, 2006 through March 19, 2009, and found 26 complaints, 2058 opinions opposed to the rate case plus one petition with 539 signatures. The Company is in good standing with the Corporations Division of the Commission as of March 19, 2009.

ENGINEERING ANALYSIS

Staff reviewed the Company's operations and assessed the use of the funds associated with the \$25.2 million debt issuance authorized in Decision No. 69950. The Company expended the vast majority of these funds to upgrade facilities to ensure reliable service and to comply with ADEQ requirements.

In March and October 2006, ADEQ issued Consent Orders for Far West to bring all seven wastewater treatment plants into full compliance with ADEQ regulations.

COMPLIANCE

A check of the Commission's compliance database indicates that there are currently no delinquencies for Far West.

CONDITIONS NECESSARY FOR EMERGENCY RATE RELIEF

General conditions necessary for interim emergency rates may include:

1. A sudden change that causes hardship to a company.
2. A company is insolvent.
3. A company's ability to maintain service (pending a formal rate determination) is in serious doubt.

SUMMARY OF COMPANY'S JUSTIFICATION FOR EMERGENCY RATE RELIEF

The Company states that while it is not yet insolvent, the threat of insolvency constitutes an emergency. The Company further states that the financial condition of the Company is such

that its ability to maintain service pending a formal rate determination is in serious doubt. The Company further states and provides supporting schedules to demonstrate its Sewer Division had an operating income/(loss) of (\$2,161,788) for the year ending December 31, 2007.

STAFF'S ANALYSIS

Staff reviewed the application and requested and received additional information to analyze and process the emergency rate application. Staff concluded that the operating results for the overall Company (Water Division and Sewer Division), not solely the Sewer Division, should be considered to determine whether an emergency exists and the amount, if any, of emergency rate relief. Staff also concluded that financial results for the period ended December 31, 2008, instead of for the year 2007, would provide a more current basis for evaluating the condition of the total Company.

In Decision No. 69950, the Company applied for and was granted authority to incur indebtedness in the amount of \$25,215,000. In that case, the Company demonstrated that it would be able to support the indebtedness based on existing rates, and the Company did not seek a rate increase at that time. Staff's analysis in that case revealed that the requested indebtedness would result in a Times Interest Earned Ratio ("TIER") of 0.50 and Debt Service Coverage ("DSC") ratio of 1.15. Accordingly, Staff determined that the Company's revenue were adequate to support the requested indebtedness and did not recommend a rate increase in that proceeding.

TIER represents the number of times earnings will cover interest expense on long term debt. A TIER greater than 1.0 means that operating income is greater than interest expense.

DSC represents the number of times internally generated cash will cover required principal and interest payments on long term debt. A DSC greater than 1.0 indicates that operating cash flow is sufficient to cover debt obligations.

Staff obtained the unaudited financial statements from Far West for each of its Divisions for the period ending December 31, 2008. Staff compiled this information on the attached Schedule GWB-1. Due to the emergency nature of the application, Staff considered other income, i.e., non-operating and expenses in its analysis. Further, Staff adjusted these results as shown to remove interest and dividend income that is not expected to continue because the associated principal has been used for capital expenditures.

Staff notes that a negative net income does not necessarily represent an emergency because non cash expenses are considered in the calculation of net income.

On the attached schedule GWB-2, Staff has calculated "Net Income (Loss) Plus Interest Exp and Interest/Dividend Income" in the amount of (\$809,865) to provide its best estimate of this amount for 2009. In response to a Staff data request, the Company contends that the Other Income of \$162,379 for interest and dividend income should be removed because the associated

principal has been expended on capital improvements. Staff agrees that adjustment is reasonable.

Staff notes, however, that the (\$809,865) amount reflects non-cash expenses \$1,698,979, \$59,045, and (\$4,078) for depreciation expense, amortization of debt discount, and amortization of debt premium, respectively, for net non cash expenses of \$1,753,946.

Staff notes, however, that the (\$809,865) amount reflects \$1,753,946 pertaining to non-cash expenses including: \$1,698,979 for depreciation expense; \$59,045 for amortization of debt discount; and (\$4,078) for amortization of debt premium. Adjusting the \$809,865 net loss for non-cash expenses (\$1,753,946) and Interest/Dividend Income (\$162,379) results in a pro forma positive cash flow for 2009 of \$781,702 as shown below:

Net Income (Loss) Plus Interest Exp	(\$809,865)
Less: Interest/Dividend Income	<u>\$162,379</u>
Subtotal	(\$972,244)
Net Non-cash Expenses	<u>\$1,753,946</u>
Estimated Cash Flow 2009	\$781,702

Based on the findings in Decision No. 69950 and Staff's reviews of the Company's financial results for 2008, Staff concludes that the Company has not demonstrated the existence of an emergency. Accordingly, Staff recommends denial of this application.

OTHER CONSIDERATIONS

Staff issued a series of data requests to the Company during the period with its fourth set of data requests being issued to the Company on February 9, 2009. Staff received responses to the fourth set from the Company on March 4, 2009. Responses to data requests are customarily expected within 10 calendar days. Staff, the Company and Residential Utility Consumer Office ("RUCO") agreed to an extension of time in which to file the Staff and RUCO testimony in this docket. The delays by the Company in responding to Staff's data requests contributed to delays in Staff's ability to timely process the Company's application.

ALTERNATIVE OPTION

If the Commission were to conclude that interim rate relief is justified, Staff developed rates to support this alternative option as shown on Schedule GWB-2. Staff determined an interim rate increase of \$972,150 or 46.3 percent would provide the Company with a projected net income of zero. Further, a net income of zero reflects non-cash items such as depreciation expense of \$1,423,338 (not shown as a line item) which will provide funds to Far West for unexpected events/contingencies.

CONCLUSION

Staff concludes that Far West has not demonstrated the existence of an emergency. The Company's existing rates are sufficient to cover its operating and interest expenses while providing a reasonable amount of funds for unexpected events/contingencies.

STAFF'S RECOMMENDATIONS

Staff recommends denial of this application. However, if the Commission is inclined to grant relief, Staff would recommend an alternative proposal:

1. Approval of interim rates that will increase annual revenues for the Sewer Division by \$972,150 from \$2,098,426 to \$3,070,576, or 46.3 percent.
2. That the rates for all classes of customers be increased by the same percentage. The present and proposed rates are shown in the attached Schedule GWB-2.
3. That the Company maintain records that show the revenue generated each month by the interim rates authorized herein segregated from all other revenue.
4. That all rates approved in this proceeding be subject to refund plus interest.
5. That the interim rate be subject to refund pending the decision resulting from the 2008 Rate Case that has been filed but is presently suspended.
6. The Company post a bond or a letter of credit with the Commission in the amount of \$300,000, prior to implementing the emergency rate increase authorized in this proceeding. This amount is approximately 30 percent of the annual rate increase being approved in this proceeding. Staff estimates that, if approved, these rates will be in effect for approximately 12 months.
7. That the Company be directed to file, within 30 days of the decision, a revised rate schedule reflecting the interim rate increase with Docket Control, as a compliance item in this docket.
8. That the Company notify its customers of the revised rate, and its effective date, in a form acceptable to Staff, by means of an insertion in the Company's next regularly scheduled billing.

Far West Water and Sewer Company
DOCKET NO. WS-03478A-08-0608
Application For Emergency Rates

Schedule GWB-1

UNAUDITED

Year ended Dec 31, 2008

	Sewer	Water	Totals
Revenues	\$ 2,098,426	\$ 5,758,692	\$ 7,857,118
Total Expenses	\$ 2,764,725	\$ 3,650,989	\$ 6,415,714
Net Ordinary Income	\$ (666,299)	\$ 2,107,703	\$ 1,441,404
Other Income			
Interest Dividend	\$ 133,364	\$ 28,921	\$ 162,285
Misc.	\$ 18	\$ 76	\$ 94
Total Other Income	\$ 133,382	\$ 28,997	\$ 162,379
Other Expenses			
Non Util Exp	\$ 665	\$ 1,012	\$ 1,677
Non -Recurring Exp	\$ 609,666	\$ 23,744	\$ 633,410
Restitution	\$ 5,533		\$ 5,533
Fines & Penalties	\$ 4,900	\$ 4,900	\$ 9,800
Interest Exp	\$ 1,373,798	\$ 325,181	\$ 1,698,979
Amort of Debt Disc	\$ 49,593	\$ 9,452	\$ 59,045
Amort of Debt Premium	\$ (3,285)	\$ (793)	\$ (4,078)
Prior Period Expense	\$ 2,881	\$ 6,401	\$ 9,282
Total Expenses	\$ 2,043,751	\$ 369,897	\$ 2,413,648
Net Other Income/Exp	\$ (1,910,369)	\$ (340,900)	\$ (2,251,269)
Net Income/ (Loss)	\$ (2,576,668)	\$ 1,766,803	\$ (809,865)
Adjustments			
Less Interest Div Income	\$ 133,364	\$ 28,921	\$ 162,285
Net Income (Loss) Less Interest/Dividend Income	\$ (2,710,032)	\$ 1,737,882	\$ (972,150)
Staff's Alternative Recommendation for Emergency Rate Increase	\$ 972,150	\$ -	\$ 972,150
Adjusted net Income with Rate Increase	\$ (1,737,882)	\$ 1,737,882	\$ -

RATES

Company Proposed

	Current Rates	Proposed	Increase	Percentage
Residential	\$ 21.75	\$ 45.59	\$ 23.84	109.61%
RV Park, per space	\$ 5.44	\$ 11.40	\$ 5.96	109.56%
Commercial	\$ 43.50	\$ 91.18	\$ 47.68	109.61%
Effluent, Per acre foot	\$ 325.85	\$ 325.85	\$ -	0.00%

Staff Recommended

Residential	\$ 21.75	\$ 21.75	\$ -	0.00%
RV Park, per space	\$ 5.44	\$ 5.44	\$ -	0.00%
Commercial	\$ 43.50	\$ 43.50	\$ -	0.00%
Effluent, Per acre foot	\$ 325.85	\$ 325.85	\$ -	0.00%

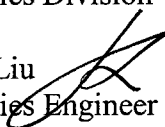
Staff Alternative

Residential	\$ 21.75	\$ 21.75	\$ 31.23	143.60%
RV Park, per space	\$ 5.44	\$ 5.44	\$ 7.81	143.60%
Commercial	\$ 43.50	\$ 43.50	\$ 62.47	143.60%
Effluent, Per acre foot	\$ 325.85	\$ 325.85	\$ 467.92	143.60%

MEMORANDUM

DATE: March 23, 2009

TO: Gerald Becker
Public Utilities Analyst V
Utilities Division

FROM: Jian Liu 
Utilities Engineer
Utilities Division

RE: Far West Water & Sewer, Inc.
Docket No. WS-03478A-08-0608 (Interim Rate Request)

Introduction

On December 19, 2008, Far West Water & Sewer, Inc. ("Far West" or "Company") filed an application with the Arizona Corporation Commission ("ACC" or "Commission") requesting to approve the immediate implementation of Interim Rates for sewer utility service that will be effective until a decision has been issued on the Company's application for a permanent rate increase for its sewer utility service, which was filed on August 29, 2008.

The Company presently provides utility service to approximately 7,130 sewer connections and approximately 8,286 water connections in portions of Yuma County, Arizona. Far West's business office is located at 13157 East 44th Street, Yuma, Arizona 85367.

The interim revenue increase sought by the Company is \$2,161,788, an increase of 101.02 percent over the Company's 2007 adjusted test year revenues.

Far West Wastewater System

The operation of the wastewater system consists of seven wastewater treatment plants ("WWTP") serving over 7,000 customers. On April 11, 2006, Staff reported "all seven of the Company's WWTPs had deficiencies. Arizona Department of Environmental Quality ("ADEQ") has cited the Company for water quality violations at six of the Company's plants in Yuma County.¹ These citations are in addition to the violations at Far West's Del Oro facility, for which ADEQ recently entered a Consent Order² against Far West."

¹ Engineering Staff Report filed in Docket No. WS-03478A-05-0801.

² A Consent Order is a bilateral agreement between the ADEQ and the owner and/or operator which outlines a specific schedule for achieving compliance. The compliance schedule negotiated between the ADEQ and the owner and/or operator is legally binding and enforceable by the Superior Court.

Since late 2006, Far West has planned and constructed or is constructing the upgrades and expansions for its wastewater collection and treatment system.³ After the improvements, the Company's seven existing wastewater treatment plants will be consolidated into four facilities. Staff will address wastewater treatment capacity issue in the permanent case.

Compliance

ADEQ Compliance

In March and October 2006, ADEQ Consent Orders were issued for Far West to bring the all seven wastewater treatment plants into full compliance with ADEQ regulations.


ACC Compliance

According to the Utilities Division Compliance Section, the Company has no delinquent compliance issues (Email dated Feb 24, 09).

³ The referenced system upgrades and expansions are in various stages of completion. For example, Phase 1 of the new Del Oro treatment plant is expected to be placed into service in March, 2009.

MEMORANDUM

TO: Gerald Becker
Public Utilities Analyst V
Utilities Division

FROM: Deb Reagan 
Public Utilities Consumer Analyst II
Utilities Division

DATE: March 24, 2009

RE: FAR WEST WATER AND SEWER COMPANY APPROVAL OF INTERIM
RATES AND CHARGES DOCKET NO. WS-03478A-08-0608

In the matter of the Application of Far West Water and Sewer Company for approval of Interim Rates and Charges.

This company is in Good Standing with the Corporations Division of the Commission on this date.

In researching the Utilities database for complaints for this company from January 1, 2006 through current, the results are listed below:

2009 – Fourteen Complaints – One Billing, One New Service, One Service, One Quality of Service, Five Rates & Tariffs, Five ADEQ.

2058 Opinions - In opposition to the rate case and one petition with 539 signatures.

(At the request of staff, the number of opinions counted is being treated as one for the rate case and emergency rate case)

2008 – One Complaint – Quality of Service
No Opinions

2007 – Three Complaints – One Quality of Service, One Rates/Tariffs, and One Billing
No Opinions

2006 – Eight Complaints – Five Billing, One Disconnect, One New Service, and One Other
(ADEQ)
No Opinions

All Complaints are resolved and have been closed.

The Public Comment meeting was held March 5, 2009 in Yuma, AZ. Approximately 1,000 were in attendance.