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BEFORE THE ARIZONA CORPORATION

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COMMISSIONERS
KRISTIN K. MAYES, Chairman
GARY PIERCE
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP

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AZ CORP COMMISSION
DOCKET CONTROL

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

DOCKET NO. WS-03478A-08-0608

STAFF'S UPDATE ON USE OF BOND
PROCEEDS

10 **I. BACKGROUND.**

11 Far West Water & Sewer Company ("FWWS" or the "Company") is a for-profit Class A
12 public service corporation which provides water service to approximately 15,000 customers and
13 sewer service to approximately 7,300 customers in Yuma County, Arizona.

14 In Decision No. 69950, dated October 30, 2007, the Commission granted FWWS authority to
15 incur indebtedness not to exceed \$25,215,000. The funds were authorized for the purposes of
16 constructing additional plant and infrastructure improvements to the Company's sewer system
17 necessary to comply with two Consent Orders between the Company and the Arizona Department of
18 Environmental Quality, and for the repayment and consolidation of existing long-term and short-term
19 debt.¹ The decision ordered "that such authority is expressly contingent upon Far West Water &
20 Sewer, Inc.'s use of the proceeds for the purposes set forth in its application."² The Company raised
21 the \$25.2 million through revenue bonds issued by the Industrial Development Authority of the
22 County of Yuma ("IDA").³

23 On August 29, 2008, FWWS filed an application before the Arizona Corporation Commission
24 ("ACC" or "Commission") requesting rate relief in Docket No. WS-03478A-08-0454. At some point
25 thereafter, however, FWWS concluded that it lacked sufficient revenue to remain financially solvent

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¹ Decision No. 69950, 2:12-3:2.
² *Id.*, 5: 17-18.
³ Hrg. Tr., 122:23-123:6 (Apr. 6, 2009).

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1 for the typical period required to complete a permanent rate case. As a result, on December 19, 2008,
2 FWWS filed the instant application before the Commission requesting emergency rate relief.

3 The hearing on the emergency rate application began April 6, 2009, and was completed on
4 May 21, 2009. During the hearing, the Company provided a schedule to account for the IDA loan
5 proceeds. This schedule was admitted into evidence, and clearly shows that significant amounts of
6 the proceeds from financing were spent on projects that were not in accordance with the
7 Commission's order.⁴

8 At the September 22, 2009, Open Meeting, Chairman Mayes indicated that the potential
9 misuse of the bond proceeds should be examined and directed Staff to file its recommendation
10 regarding how to proceed in such an investigation. Pursuant to that request, Staff hereby makes this
11 filing.

12 **II. STAFF'S RECOMMENDATION.**

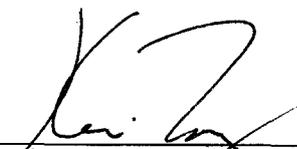
13 In order to thoroughly review the propriety of the Company's actions, Staff must more fully
14 examine each transaction in the schedule the Company provided at hearing and obtain any additional
15 information necessary to complete that examination. A full investigation cannot properly be
16 conducted within the context of this emergency rate case. In order to make complete and appropriate
17 recommendations, Staff must perform a more extensive review of the activity as well as the
18 underlying source documentation. Staff believes that such an investigation can more readily be
19 accomplished within a full rate case and, therefore, recommends completing the investigation in the
20 Company's pending permanent rate case. Staff's final conclusions and recommendation(s) on this
21 issue will be made as part of that rate case.

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28 ⁴ See exhibit A-8 (E-docket filing June 5, 2009, pp. 137-57).

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RESPECTFULLY SUBMITTED this 16th day of October, 2009.



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Original and thirteen (13) copies
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