

ORIGINAL



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BEFORE THE ARIZONA CORPORATION COMMISSION

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- GARY PIERCE
- BRENDA BURNS
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ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

IN THE MATTER OF THE APPLICATION OF FAR WEST WATER AND SEWER, INC., AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS WASTEWATER RATES AND CHARGES BASED THEREON FOR UTILITY SERVICE.

DOCKET NO. WS-03478A-12-0307

STAFF'S NOTICE OF FILING SURREBUTTAL TESTIMONIES

The Utilities Division ("Staff") of the Arizona Corporation Commission ("Commission") hereby files Surrebuttal Testimonies (except rate design) of Gerald W. Becker, Jian W. Liu and John A. Cassidy in the above-captioned matter.

RESPECTFULLY SUBMITTED this 29th day of March, 2013.

Wesley C. Van Cleve
 Robin R. Mitchell
 Attorneys, Legal Division
 Arizona Corporation Commission
 1200 West Washington Street
 Phoenix, Arizona 85007
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Original and thirteen (13) copies of the foregoing filed this 29th day of March, 2013, with:

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

Arizona Corporation Commission
DOCKETED

MAR 29 2013

DOCKETED BY [Signature]

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BEFORE THE ARIZONA CORPORATION COMMISSION

BOB STUMP
Chairman
GARY PIERCE
Commissioner
BRENDA BURNS
Commissioner
BOB BURNS
Commissioner
SUSAN BITTER SMITH
Commissioner

IN THE MATTER OF THE APPLICATION OF) DOCKET NO. WS-03478A-12-0307
FAR WEST WATER & SEWER COMPANY, INC.,)
AN ARIZONA CORPORATION, FOR A)
DETERMINATION OF THE CURRENT)
FAIR VALUE OF ITS UTILITY PLANT AND)
PROPERTY AND FOR INCREASES IN ITS)
WASTEWATER RATES AND CHARGES BASED)
THEREON FOR UTILITY SERVICE)
_____)

SURREBUTTAL

TESTIMONY

OF

GERALD BECKER

EXECUTIVE CONSULTANT

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

MARCH 29, 2013

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EXECUTIVE SUMMARY
FAR WEST WATER & SEWER COMPANY, INC.
DOCKET NO. WS-03478A-12-0307

Far West states that its rate base has increased from \$1,549,650 in its prior rate case, which used a 2004 test year, to \$22,800,578 using a 2011 test year in this proceeding. In its application, the Company indicates that it incurred an adjusted test year operating loss of \$1,187,812 resulting in a negative rate of return.

The Company proposes a revenue increase of \$3,866,046 or 173.52 percent over the Company proposed test year revenues of \$2,227,982 to \$6,094,028. The Company proposed revenue increase would produce an operating income of \$1,689,390 for a 7.41 percent rate of return on an original cost rate base ("OCRB") of \$22,800,578. Staff recommends a revenue increase of \$3,293,186 or 147.81 percent over the test year revenues of \$2,227,982 to \$5,521,168. The Staff recommended revenue increase would produce an operating income of \$1,422,248 for a 7.40 percent rate of return on a Staff adjusted OCRB of \$19,219,569. The Company proposes to use OCRB as its fair value rate base.

I address the specific issues listed below that are discussed in the rebuttal testimony of Company witness. I also sponsor the attached schedules.

1. Zenon Temporary Plant – Staff disagrees with the Company’s rebuttal position that this should be accepted as post-test year plant.
2. Las Barrancas #1 – Staff accepts the Company’s position to correct the valuation of the plant disallowance of associated Advances in Aid of Construction adjustment disallowance.
3. Allowance for Funds Used During Construction (“AFUDC”) Disallowance – Staff disagrees with the Company’s rebuttal position to reduce the AFUDC disallowance by \$436,809 from \$1,438,746 to \$1,001,937, or \$436,809 which is one-half of the interest disallowance recommended by Staff in its Direct Testimony.
4. Interest Disallowance - Staff continues to recommend a disallowance of \$873,673.
5. Capestro Management Fees – Staff disagrees with the Company’s rebuttal position to reduce the net effect of Capestro Management Fees by one half from \$196,573 to \$98,288.
6. Working Capital – Staff agrees with the Company’s position that interest payments are made monthly and accepts the Company’s rebuttal positions of 17.5322 lag days for its interest expense and 37.8750 lag days for income tax expense. Staff has adjusted its cash working capital calculation accordingly.
7. Competitive Bidding and Affiliate Transactions – Staff is awaiting the response to Staff data request GB 11.1 and 11.2 which deals with competitive bidding including work performed by affiliated parties and the support for certain long term construction contracts. Staff is awaiting the Company’s response to this data request and will file supplemental testimony to discuss results of its review of the response to that data request.

1 **INTRODUCTION**

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

3 A. My name is Gerald Becker. I am an Executive Consultant III employed by the Arizona
4 Corporation Commission ("Commission") in the Utilities Division ("Staff"). My business
5 address is 1200 West Washington Street, Phoenix, Arizona 85007.

6
7 **Q. Are you the same Gerald Becker who previously submitted Direct Testimony in this**
8 **case?**

9 A. Yes, I am.

10
11 **PURPOSE OF SURREBUTTAL TESTIMONY**

12 **Q. What is the purpose of your Surrebuttal Testimony in this proceeding?**

13 A. The purpose of my Surrebuttal Testimony in this proceeding is to respond, on behalf of
14 Staff, to the Rebuttal Testimonies of Mr. Ray Jones, who represents Far West Water &
15 Sewer, Inc. Sewer Division - ("Far West" or "Company").

16
17 **Q. Do you attempt to address every issue raised by the Company in its Rebuttal**
18 **Testimony?**

19 A. No. I limit my discussion to certain issues as outlined below. My silence on any
20 particular issue raised in the Company's Rebuttal Testimony does not indicate that Staff
21 agrees with the Company's stated Rebuttal position on the issue. I rely on my Direct
22 Testimony unless modified by this Surrebuttal Testimony.

23

1 **SUMMARY OF RECOMMENDED REVENUES**

2 **Q. Please summarize Staff's recommended revenue.**

3 A. Staff recommends a revenue increase of \$3,293,186 or 147.81 percent increase over test
4 year revenue of \$2,227,982. The total annual revenue of \$5,521,168 produces an
5 operating income of \$1,422,248 or a 7.40 percent rate of return on an original cost rate
6 base of \$19,219,569.

7
8 **Q. Has the weighted average cost of capital ("WACC") used to develop the revenue
9 requirement in Staff's Direct Testimony changed from the WACC in Staff's
10 Surrebuttal Testimony?**

11 A. No. Staff's recommended WACC is the same as in my Direct Testimony filed on
12 February 13, 2013, or 7.40 percent.

13
14 **Q. How does Staff's recommended revenue compare to the recommended revenue in
15 Staff's Direct Testimony?**

16 A. Staff's recommended revenue has decreased by \$58,236, from \$5,579,404 in its Direct
17 Testimony to \$5,521,168 in its Surrebuttal Testimony due to various adjustments
18 discussed herein.

19
20 **RATE BASE**

21 **Q. Please summarize Staff's adjustments to the Company's rate base shown on
22 Surrebuttal Schedule GWB-3.**

23 A. Staff recommends a reduction of \$3,581,009 to rate base from \$22,800,578 proposed by
24 the Company in its application to \$19,219,569, as recommended by Staff.

25

1 **Rate Base Adjustment No. 1 – Zenon Plant at Seasons**

2 **Q. Did Staff review the Company’s Rebuttal Testimony regarding the Zenon Plant at**
3 **Seasons?**

4 A. Yes.

5
6 **Q. Does Staff agree with the Company?**

7 A. No. According to the Company, this plant is still not returned to service.

8
9 **Q. What is Staff’s recommendation for the Zenon Plant at Seasons?**

10 A. Staff continues to recommend the removal of \$1,060,096 for account 380, Treatment and
11 Disposal Equipment, as shown in Surrebuttal Schedules GWB-4 and GWB-5. On
12 Surrebuttal Schedule GWB-5, Staff also estimates that the accumulated depreciation
13 recorded on this item since being placed in service on September 30, 2006, is \$291,526.
14 The adjustment to decrease accumulated depreciation is shown in Col [B], line 34, of
15 Surrebuttal Schedule GWB-4.

16
17 **Rate Base Adjustment No. 2 – Removal of Plant at Las Barrancas #1**

18 **Q. Did Staff review the Company’s Rebuttal Testimony concerning Plant at Las**
19 **Barrancas No. 1?**

20 A. Yes.

21
22 **Q. Does Staff agree?**

23 A. Yes. Staff agrees with the Company’s valuation of the plant, adjustment to Accumulated
24 Depreciation, and Advances in Aid of Construction (“AIAC”).

25

1 **Q. What is Staff's recommendation?**

2 A. Staff recommends the removal of \$622,519 for account 360, Collections Sewers - Force, a
3 reduction of \$68,477 to Accumulated Depreciation, and a reduction to AIAC of \$622,519,
4 as shown in Surrebuttal Schedules GWB-4 and GWB-5. The adjustment to decrease
5 accumulated depreciation is shown in Col [C], line 34, of Surrebuttal Schedule GWB-4.
6

7 **Rate Base Adjustment No. 3 – Disallowance of Allowance for Funds Used During**
8 **Construction (“AFUDC”) Included In Utility Plant in Service (“UPIS”)**

9 **Q. Did Staff review the Company's Rebuttal Testimony concerning the adjustment to**
10 **AFUDC?**

11 A. Yes.
12

13 **Q. Does Staff agree?**

14 A. No.
15

16 **Q. What is Staff's recommendation?**

17 A. Staff continues to recommend the disallowance of AFUDC recorded after April 30, 2009,
18 or \$1,473,172, consistent with its recommendation in its Direct Testimony. Staff also
19 continues to recommend an adjustment to Accumulated Depreciation since the excessive
20 AFUDC amounts were included in UPIS closed during 2011 and subject to depreciation
21 using a half year convention. Staff also recommends a decrease of \$34,426 to
22 Accumulated Depreciation for the depreciation expense recorded on the excess AFUDC
23 amounts, as shown in Surrebuttal Schedules GWB-4 and GWB-7.
24

1 **Rate Base Adjustment No. 4 –Disallowance of Late Fees Included In UPIS**

2 **Q. Did Staff review the Company’s Rebuttal Testimony concerning the adjustment to**
3 **late fees included in UPIS?**

4 A. Yes.

5
6 **Q. Does Staff agree?**

7 A. No.

8
9 **Q. What is Staff’s recommendation?**

10 A. Staff continues to recommends the disallowance of \$896,462 of capitalized late fees in the
11 Company’s UPIS balances, as shown in Surrebuttal Schedules GWB-4 and GWB-8A.
12 Since the capitalized late fee amounts were included in UPIS closed during 2011 and
13 subject to depreciation using a half year convention, Staff also recommends a decrease of
14 \$22,789 to Accumulated Depreciation for the depreciation expense recorded on the
15 capitalized late fees, as shown in Surrebuttal Schedules GWB-4 and GWB-8A.

16
17 **Rate Base Adjustment No. 5 – Disallowance of Legal and Other Fees Included In UPIS**

18 **Q. Did Staff review the Company’s rebuttal testimony concerning the adjustment to**
19 **legal and other fees included in UPIS?**

20 A. Yes.

21
22 **Q. Does Staff agree?**

23 A. No.

24

1 **Q. What is Staff's recommendation?**

2 A. Staff continues to recommend the disallowance of \$168,193 of capitalized legal and other
3 expenses in the Company's UPIS balances, as shown in Surrebuttal Schedules GWB-4
4 and GWB-8B.

5
6 Since the capitalized legal and other expense amounts were included in UPIS closed
7 during 2011 and subject to depreciation using a half year convention, Staff also
8 recommends a decrease of \$4,270 to Accumulated Depreciation for the depreciation
9 expense recorded on the capitalized legal and other expenses, as shown in Surrebuttal
10 Schedules GWB-4 and GWB-8B.

11

12 **Rate Base Adjustment No. 6 –Disallowance of Management Fees Paid to Andy Capestro and**
13 **Included In UPIS**

14 **Q. Did Staff review the Company's Rebuttal Testimony concerning the adjustment to**
15 **management fees paid to Andy Capestro and included in UPIS?**

16 A. Yes.

17

18 **Q. Does Staff agree?**

19 A. No.

20

21 **Q. What is Staff's recommendation?**

22 A. Staff continues to recommend the disallowance of \$201,562 of capitalized construction
23 management fees in the Company's UPIS balances, as shown in Surrebuttal Schedules
24 GWB-4 and GWB-8C.

25

1 Since the capitalized construction management fee amounts were included in UPIS closed
2 during 2011 and subject to depreciation using a half year convention, Staff also
3 recommends a decrease of \$4,989 to Accumulated Depreciation for the depreciation
4 expense recorded on the capitalized construction management fees, as shown in
5 Surrebuttal Schedules GWB-4 and GWB-8C.
6

7 **Rate Base Adjustment No. 7 – Working Capital**

8 **Q. Did Staff review the Company's Rebuttal Testimony concerning the adjustment to**
9 **working capital?**

10 A. Yes.
11

12 **Q. Does Staff agree?**

13 A. Yes. Staff adopts the Company's rebuttal position concerning the number of lag days for
14 interest expense and income tax expense of 17.5322 and 37.8750 days, respectively.
15

16 **Q. What is Staff's recommendation for the overall adjustment to working capital?**

17 A. The above changes are reflected on Surrebuttal Schedule GWB-9 which provides the
18 calculations of Staff's recommended cash working capital. Staff recommends a reduction
19 to working capital of \$134,230 from \$1,653,938 to \$1,445,938 as shown on Surrebuttal
20 Schedules GWB-4 and GWB-9.
21

22 **Quality of Service and Other Statues**

23 **Q. Did Decision No. 72594 in Docket No. WS-03478A-08-0256 require Staff to formulate**
24 **and include certain recommendations in this proceeding?**

25 A. Yes. Decision No. 72594 ordered:
26

1 IT IS FURTHER ORDERED that Staff shall, as part of Far West Water and
2 Sewer, Inc.'s next rate case, investigate and formulate a recommendation
3 about whether Far West Water and Sewer, Inc. has violated the A.R.S. 40-
4 361(B) and any other applicable statute or Commission rule.

5
6 **Q. Did Staff review the Company's compliance with ARS 40-361(B) and other statutes?**

7 A. As discussed more fully in the testimony of the Staff engineer, Far West is not in
8 compliance with ADEQ. As discussed in Staff's Direct Testimony, Staff recommends
9 that any rates approved in this proceeding not be implemented until the Company is in
10 compliance with ADEQ.

11
12 **Q. Is Staff aware of any other instances in which the Company may not be in
13 compliance other statutes?**

14 A. No. However, Staff notes that Far West has incurred long term debt without obtaining
15 Commission approval in advance as required by ARS 40-301 and ARS 40-302, as
16 discussed more fully in the Direct Testimony of John Cassidy. However, the Company
17 filed a Request for Declaratory Ruling in Docket No. WS-03478A-12-0085 on March 5,
18 2012, and this case is pending. Based on this, Staff considers the Company to be in
19 compliance on this matter.

20
21 **Affiliate Transactions**

22 **Q. Has Staff performed additional review of affiliate transactions?**

23 A. On March 20, 2013, Staff issued data request GB 11.1 and 11.2 which seeks information
24 regarding transactions with affiliated parties and the degree to which competitive bidding
25 procedures were applied when the Company constructed improvements to its system.
26 However, the Company's response to this data request was not received in time for Staff
27 to analyze the responses therein. Staff will include Supplemental Surrebuttal Testimony

1 with its rate design testimony by April 3, 2013, to address these issues. Staff may revise
2 its position as appropriate.

3

4 **Q. Does this conclude your Surrebuttal Testimony?**

5 A. Yes, it does.

SURREBUTTAL TESTIMONY OF GERALD BECKER

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REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY ORIGINAL COST	(B) COMPANY FAIR VALUE	(C) STAFF ORIGINAL COST	(D) STAFF FAIR VALUE
1	Adjusted Rate Base	\$ 22,800,578	\$ 22,800,578	\$ 19,219,569	\$ 19,219,569
2	Adjusted Operating Income (Loss)	\$ (1,187,812)	\$ (1,187,812)	\$ (560,157)	\$ (560,157)
3	Current Rate of Return (L2 / L1)	-5.21%	-5.21%	-2.91%	-2.91%
4	Required Rate of Return	7.41%	7.41%	7.40%	7.40%
5	Required Operating Income (L4 * L1)	\$ 1,689,390	\$ 1,689,390	\$ 1,422,248	\$ 1,422,248
6	Operating Income Deficiency (L5 - L2)	\$ 2,877,202	\$ 2,877,202	\$ 1,982,405	\$ 1,982,405
7	Gross Revenue Conversion Factor	1.3437	1.3437	1.6612	1.6612
8	Required Revenue Increase (L7 * L6)	\$ 3,866,046	\$ 3,866,046	\$ 3,293,186	\$ 3,293,186
9	Adjusted Test Year Revenue	\$ 2,227,982	\$ 2,227,982	\$ 2,227,982	\$ 2,227,982
10	Proposed Annual Revenue (L8 + L9)	\$ 6,094,028	\$ 6,094,028	\$ 5,521,168	\$ 5,521,168
11	Required Increase in Revenue (%)	173.52%	173.52%	147.81%	147.81%
12	Rate of Return on Common Equity (%)	10.00%	10.00%		

References:

- Column (A): Company Schedule A-1
- Column (B): Company Schedule A-1
- Column (C): Company Schedules A-1, A-2, & D-1
- Column (D): Staff Schedules GWB-2, GWB-3, and GWB-10

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)
<u>Calculation of Gross Revenue Conversion Factor:</u>				
1	Revenue	100.0000%		
2	Uncollectible Factor (Line 11)	0.3561%		
3	Revenues (L1 - L2)	99.6439%		
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	39.4467%		
5	Subtotal (L3 - L4)	60.1972%		
6	Revenue Conversion Factor (L1 / L5)	1.661208		
<u>Calculation of Uncollectible Factor:</u>				
7	Unity	100.0000%		
8	Combined Federal and State Tax Rate (Line 17)	38.5989%		
9	One Minus Combined Income Tax Rate (L7 - L8)	61.4011%		
10	Uncollectible Rate	0.5800%		
11	Uncollectible Factor (L9 * L10)		0.3561%	
<u>Calculation of Effective Tax Rate:</u>				
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%		
13	Arizona State Income Tax Rate	6.9680%		
14	Federal Taxable Income (L12 - L13)	93.0320%		
15	Applicable Federal Income Tax Rate (Line 44)	34.0000%		
16	Effective Federal Income Tax Rate (L14 x L15)	31.6309%		
17	Combined Federal and State Income Tax Rate (L13 +L16)		38.5989%	
<u>Calculation of Effective Property Tax Factor</u>				
18	Unity	100.0000%		
19	Combined Federal and State Income Tax Rate (L17)	38.5989%		
20	One Minus Combined Income Tax Rate (L18-L19)	61.4011%		
21	Property Tax Factor (GWB-17, L24)	1.3808%		
22	Effective Property Tax Factor (L20*L21)		0.8478%	
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			39.4467%
24	Required Operating Income (Schedule GWB-1, Line 5)	\$ 1,422,248		
25	Adjusted Test Year Operating Income (Loss) (Schedule GWB-10, Line 42)	\$ (560,157)		
26	Required Increase in Operating Income (L24 - L25)		\$ 1,982,405	
27	Income Taxes on Recommended Revenue (Col. (F), L52)	\$ 253,724		
28	Income Taxes on Test Year Revenue (Col. (C), L52)	\$ (992,485)		
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		\$ 1,246,209	
30	Required Revenue Increase (Schedule GWB-1, Line 8)	\$ 3,293,186		
31	Uncollectible Rate (Line 10)	0.5800%		
32	Uncollectible Expense on Recommended Revenue (L30 * L31)	\$ 19,100		
33	Adjusted Test Year Uncollectible Expense	\$ -		
34	Required Increase in Revenue to Provide for Uncollectible Exp.		\$ 19,100	
35	Property Tax with Recommended Revenue (GWB-18, Line 20)	\$ 141,200		
36	Property Tax on Test Year Revenue (GWB-18, Col A, L17)	\$ 95,728		
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		\$ 45,472	
38	Total Required Increase in Revenue (L26 + L29 + L34+ L37)		\$ 3,293,186	

	(A) Test Year	(B)	(C) Staff Recommended
<u>Calculation of Income Tax:</u>			
39	Revenue (Sch GWB-9, Col.(C) L5, GWB-1, Col. (D), L9)	\$ 2,227,982	\$ 5,521,168
40	Operating Expenses Excluding Income Taxes	\$ 3,780,624	\$ 3,845,196
41	Synchronized Interest (L52)	\$ 1,018,637	\$ 1,018,637
42	Arizona Taxable Income (L39 - L40 - L41)	\$ (2,571,279)	\$ 657,335
43	Arizona State Income Tax Rate	6.9680%	6.9680%
44	Arizona Income Tax (L42 x L43)	\$ (179,167)	\$ 45,803
45	Federal Taxable Income (L42 - L44)	\$ (2,392,112)	\$ 611,532
46	Federal Tax	\$ (813,318)	\$ 207,921
47	Total Federal Income Tax	\$ (813,318)	\$ 207,921
48	Combined Federal and State Income Tax (L43 + L47)	\$ (992,485)	\$ 253,724

50	<u>Effective Tax Rate</u>		
<u>Calculation of Interest Synchronization:</u>			
51	Rate Base (Schedule GWB-3, Col. (C), Line 18)		N/A
52	Weighted Average Cost of Debt		\$ 19,219,569
53	Synchronized Interest (L50 X L51)		\$ 5,300,000
			\$ 1,018,637

RATE BASE - ORIGINAL COST

LINE NO.	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	(C) STAFF AS ADJUSTED
1	Plant in Service	\$ 37,751,132	\$ 33,329,128
2	Less: Accumulated Depreciation	4,945,733	4,519,256
3	Net Plant in Service	<u>\$ 32,805,399</u>	<u>\$ 28,809,872</u>
<u>LESS:</u>			
4	Contributions in Aid of Construction (CIAC)	\$ 1,726,854	\$ 1,726,854
5	Less: Accumulated Amortization	909,423	909,423
6	Net CIAC	<u>817,431</u>	<u>817,431</u>
7	Advances in Aid of Construction (AIAC)	10,814,970	10,192,451
8	Imputed Reg AIAC	-	-
9	Imputed Reg CIAC	-	-
10	Accumulated Deferred Income Tax Credits	-	-
	Customer Meter Deposits	26,359	26,359
<u>ADD:</u>			
11	Accumulated Deferred Income Tax Debits	-	-
12	Cash Working Capital	1,653,938	1,445,938
13	Prepayments	-	-
14	Supplies Inventory	-	-
15	Projected Capital Expenditures	-	-
16	Deferred Debits	-	-
17	Purchase Wastewater Treatment Charges	-	-
18	Original Cost Rate Base	<u>\$ 22,800,578</u>	<u>\$ 19,219,569</u>

References:

Column (A), Company Schedule B-2
Column (B): Schedule GWB-4
Column (C): Column (A) + Column (B)

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] Zenon Temp Plant ADJ #1 GWB-5	[C] Las Barrancas #1 ADJ #2 GWB-6	[D] AFUDC Disallowance ADJ #3 GWB-7	[E] Interest Disallowance ADJ #4 GWB-8A	[F] Legal Other Disallowance ADJ #5 GWB-8B	[G] Capestro Mgt Fees ADJ #6 GWB-8C	[H] Working Capital ADJ #7 GWB-9	[I] STAFF ADJUSTED
PLANT IN SERVICE:											
1	351	Organization Cost	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	352	Franchise Cost	3,076								3,076
3	353	Land and Land Rights	1,413,437								1,413,437
4	354	Structures & Improvements	2,477,482			(157,878)	(114,449)	(21,911)	(20,846)		2,162,399
5	355	Power Generating Equipment	68,993			(3,654)	(775)	(14)	(2,282)		62,268
6	360	Collection Sewers - Force	3,504,328		(622,519)	(223,711)	(5,243)	(321)	(24,848)		2,627,686
7	361	Collection Sewers - Gravity	8,727,577								8,727,577
8	362	Special Collecting Structures	-								-
9	363	Sevices to Customers	173,621								173,621
10	364	Flow Measuring Devices	32,468								32,468
11	365	Flow Measuring Installations	16,683								16,683
12	366	Reuse Services	-								-
13	367	Reuse Meters and Meter Installations	2,310			(108)	(75)	(14)	(16)		2,097
14	370	Receiving Wells	74,227			(6,555)	(4,571)	(821)	(985)		61,295
15	371	Pumping Equipment	1,395,638			(56,002)	(34,962)	(6,178)	(12,563)		1,285,833
16	374	Reuse Distribution Reservoirs	-								-
17	375	Reuse Transmission and Dist. Sys.	-								-
18	380	Treatment and Disposal Equipment	17,685,412	(1,060,096)		(950,159)	(682,992)	(129,026)	(129,306)		14,733,833
19	381	Plant Sewers	623,671			(51,514)	(36,934)	(6,949)	(7,074)		521,201
20	382	Outfall Sewer Lines	1,805			(159)	(111)	(20)	(24)		1,490
21	389	Other Plant and Misc. Equipment	394,141			(22,881)	(15,958)	(2,867)	(3,439)		348,997
22	390	Office Furniture & Equipment	254,572				(285)		(55)		254,233
23	390	Computers & Software	11,356			(398)		(53)			10,906
24	391	Transportation Equipment	271,810								271,810
25	392	Stores Equipment	-								-
26	393	Tools, Shop & Garage Equipment	27,069								27,069
27	394	Laboratory Equipment	17,418								17,418
28	395	Power Operated Equipment	181,667								181,667
29	396	Communications Equipment	17,191			(154)	(108)	(19)	(23)		16,886
30	397	Miscellaneous Equipment	136,351								136,351
31	398	Other Tangible Plant	238,828								238,828
32		Total Plant In Service	37,751,132	(1,060,096)	(622,519)	(1,473,172)	(896,482)	(168,193)	(201,562)	-	33,329,128
33											
34		Accumulated Depreciation	4,945,733	(291,526)	(68,477)	(34,426)	(22,789)	(4,270)	(4,989)		4,519,256
35		Net Plant In Service	\$ 32,805,399	\$ (768,570)	\$ (554,042)	\$ (1,438,746)	\$ (873,673)	\$ (163,923)	\$ (196,573)		\$ 28,809,872
36											
37		LESS:									
38		Contributions in Aid of Construction (CIAC)	\$ 1,726,854		\$ -	\$ -					\$ 1,726,854
39		Less: Accumulated Amortization	909,423								909,423
40		Net CIAC (L63 - L64)	817,431								817,431
41		Advances in Aid of Construction (AIAC)	10,814,970		(622,519)						10,192,451
42		Imputed Reg Advances	-								-
43		Imputed Reg CIAC	-								-
44		Accumulated Deferred Income Tax Credits	-								-
45		Customer Meter Deposits	26,359								26,359
46		ADD:									
47		Accumulated Deferred Income Tax Debits	-								-
48		Working Capital Allowance	1,653,938							(208,001)	1,445,938
49		Pumping Power	-								-
50		Purchase Wastewater Treatment Charges	-								-
51		Material and Supplies Inventory	-								-
52		Prepayments	-								-
53		Projected Capital Expenditures	-								-
54		Deferred Debits	-								-
55		Original Cost Rate Base	\$ 22,800,578	\$ (768,570)	\$ 68,477	\$ (1,438,746)	\$ (873,673)	\$ (163,923)	\$ (196,573)	\$ (208,001)	\$ 19,219,569

Far West Water & Sewer, Inc., Sewer Division
 Docket No. WS-03478A-12-0307
 Test Year Ended December 31, 2011

Schedule GWB-5
 SURREBUTTAL

RATE BASE ADJUSTMENT #1 ZENON TEMPORARY PLANT

LINE NO.	ACCT NO.	Description	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	380		1,060,096	(1,060,096)	-

References:

Column [A] : Amount reflected in Acct. 380, Treatment and Disposal Equipment
 Column [B] , Col [C] less Col [A]
 Column [C] , Per testimony GWB

Far West Water & Sewer, Inc., Sewer Division
 Docket No. WS-03478A-12-0307
 Test Year Ended December 31, 2011

Schedule GWB-6
 SURREBUTTAL

RATE BASE ADJUSTMENT #2 LAS BARRANCAS #1

<u>LINE NO.</u>	<u>ACCT NO.</u>	<u>Description</u>	<u>[A] COMPANY AS FILED</u>	<u>[B] STAFF ADJUSTMENTS</u>	<u>[C] STAFF AS ADJUSTED</u>
1	380		622,519	(622,519)	-
2		AIAC	622,519	(622,519)	-
3		Accumulated Depreciation	68,477	(68,477)	-

References:

Column [A] : line 1, amount reflected in Acct. 380, Treatment and Disposal Equipment

Column [A] : line 2, amount reflected in total AIAC balance

Column [B] , Col [C] less Col [A]

Column [C] , Per testimony GWB

RATE BASE ADJUSTMENT #3 AFUDC DISALLOWANCE

Account	Section 14		AFUDC by NARUC		Del Oro		PS LS		PS FM		Totals		AFUDC by NARUC					
	UPIS		UPIS		UPIS		UPIS		UPIS		UPIS		UPIS					
354	\$	1,425,696	\$	100,716	\$	737,402	\$	57,161					\$	2,163,098	\$	157,878		
355														\$	68,993	\$	3,654	
360	\$	23,849	\$	1,685	\$	156	\$	12	\$	361,203	\$	19,131	\$	2,254,102	\$	202,883		
370	\$	92,784	\$	6,555										\$	92,784	\$	6,555	
371	\$	505,333	\$	35,699	\$	132,358	\$	10,260	\$	189,617	\$	10,043		\$	827,308	\$	56,002	
380	\$	9,660,274	\$	682,437	\$	3,453,701	\$	267,721						\$	13,113,974	\$	950,159	
381	\$	541,509	\$	38,254	\$	171,054	\$	13,260						\$	712,563	\$	51,514	
382	\$	2,256	\$	159										\$	2,256	\$	159	
389	\$	323,894	\$	22,881										\$	323,894	\$	22,881	
390	\$	4,253	\$	300				97						\$	5,506	\$	398	
367	\$	1,532	\$	108										\$	1,532	\$	108	
396	\$	2,185	\$	154										\$	2,185	\$	154	
	\$	12,583,566	\$	888,949	\$	4,495,923	\$	348,512	\$	619,813	\$	32,829	\$	2,254,102	\$	19,953,404	\$	1,473,172
AFUDC Total	\$	1,757,533			\$	689,039			\$	401,118			\$	2,912,595				
AFUDC APR 2009 Excess														\$	1,439,423			
AFUDC Disallowance	\$	888,949			\$	348,512			\$	202,883			\$	1,473,172				

UPIS per Co Response to Staff DR 1.4
except PS FM in NARUC 360

RATE BASE ADJUSTMENT #4 LATE FEES DISALLOWANCE

Account	Section 14		Late Fees by NARUC		Del Oro	Late Fees by NARUC		PS LS	Late Fees by NARUC		PS FM	Late Fees by NARUC		Total		
	UPIS		UPIS			UPIS			UPIS			UPIS				
354	\$	1,425,696	\$	70,241	\$	737,402	\$	44,208	\$	68,993	\$	775	\$	2,163,098	\$	114,449
355	\$	23,849	\$	1,175	\$	156	\$	9	\$	361,203	\$	4,058	\$	68,993	\$	775
360	\$	92,784	\$	4,571	\$	132,358	\$	7,935	\$	189,617	\$	2,130	\$	2,639,310	\$	5,243
370	\$	505,333	\$	24,897	\$	3,453,701	\$	207,052	\$		\$		\$	92,784	\$	4,571
371	\$	9,660,274	\$	475,940	\$	171,054	\$	10,255	\$		\$		\$	827,308	\$	34,962
380	\$	541,509	\$	26,679	\$	1,252	\$	75	\$		\$		\$	13,113,974	\$	682,992
381	\$	2,256	\$	111	\$		\$		\$		\$		\$	712,563	\$	36,934
382	\$	323,894	\$	15,958	\$		\$		\$		\$		\$	2,256	\$	111
389	\$	4,253	\$	210	\$		\$		\$		\$		\$	323,894	\$	15,958
390	\$	1,532	\$	75	\$		\$		\$		\$		\$	5,506	\$	285
367	\$	2,185	\$	108	\$		\$		\$		\$		\$	1,532	\$	75
396	\$	12,583,566	\$	619,964	\$	4,495,923	\$	269,534	\$	619,813	\$	6,964	\$	2,185	\$	108
Late Fees, Per Co.	\$	619,964			\$	269,534			\$	6,964			\$	896,462		
Disallowance	\$	619,964			\$	269,534			\$	6,964			\$	896,462		
					\$	4,495,923	\$	269,534	\$	619,813	\$	6,964	\$	2,254,102	\$	896,462
					\$	269,534			\$	6,964			\$	896,462		
					\$	269,534			\$	6,964			\$	896,462		

UPIS per Co Response to Staff DR 1.4
except PS FM in NARUC 360

RATE BASE ADJUSTMENT #5 LEGAL & OTHER FEES DISALLOWANCE

Account	Section 14		Legal/Other by NARUC		Del Oro		Legal/Other by NARUC		PS LS		Legal/Other by NARUC		PS FM		Legal/Other by NARUC		Totals				
	UPIS		UPIS		UPIS		UPIS		UPIS		UPIS		UPIS		UPIS		UPIS				
354	\$	1,425,696	\$	12,620	\$	737,402	\$	9,291													
355	\$	23,849	\$	211	\$	156	\$	2	\$	68,993	\$	14	\$	68,993	\$	14	\$	2,163,098	\$	21,911	
360	\$	92,784	\$	821	\$		\$		\$	361,203	\$	71	\$	2,254,102	\$	37	\$	2,639,310	\$	321	
370	\$	505,333	\$	4,473	\$	132,358	\$	1,668	\$	189,617	\$	37	\$	827,308	\$		\$	92,784	\$	821	
371	\$	9,660,274	\$	85,511	\$	3,453,701	\$	43,515	\$		\$		\$	13,113,974	\$		\$	13,113,974	\$	129,026	
380	\$	541,509	\$	4,793	\$	171,054	\$	2,155	\$		\$		\$	712,563	\$		\$	712,563	\$	6,949	
381	\$	2,256	\$	20	\$		\$		\$		\$		\$	2,256	\$	20	\$	2,256	\$	20	
382	\$	323,894	\$	2,867	\$		\$		\$		\$		\$	323,894	\$	2,867	\$	323,894	\$	2,867	
389	\$	4,253	\$	38	\$	1,252	\$	16	\$		\$		\$	5,506	\$	53	\$	5,506	\$	53	
390	\$	1,532	\$	14	\$		\$		\$		\$		\$	1,532	\$	14	\$	1,532	\$	14	
367	\$	2,185	\$	19	\$		\$		\$		\$		\$	2,185	\$	19	\$	2,185	\$	19	
396	\$	12,583,566	\$	111,387	\$	4,495,923	\$	56,647	\$	619,813	\$	122	\$	2,254,102	\$		\$	19,953,404	\$	168,193	
Late Fees, Per Co	\$	111,387			\$	56,647			\$	122			\$	37			\$	-		\$	168,193

UPIS per Co Response to Staff DR 1.4
 except PS FM in NARUC 360

RATE BASE ADJUSTMENT #6 CAPESTRO MANAGEMENT FEES DISALLOWANCE

Account	Section 14		Mgt. Fees by NARUC		Del Oro		Mgt. Fees by NARUC		PS LS		Mgt. Fees by NARUC		PS FM		Mgt. Fees by NARUC		Totals		Mgt. Fees NARUC			
	UPIS		UPIS		UPIS		UPIS		UPIS		UPIS		UPIS		UPIS		UPIS					
354	\$	1,425,696	\$	15,138	\$	737,402	\$	5,707														
355																						
360	\$	23,849	\$	253	\$	156	\$	1														
370	\$	92,784	\$	985																		
371	\$	505,333	\$	5,366	\$	132,358	\$	1,024														
380	\$	9,660,274	\$	102,575	\$	3,453,701	\$	26,731														
381	\$	541,509	\$	5,750	\$	171,054	\$	1,324														
382	\$	2,256	\$	24																		
389	\$	323,894	\$	3,439																		
390	\$	4,253	\$	45	\$	1,252	\$	10														
367	\$	1,532	\$	16																		
396	\$	2,185	\$	23																		
	\$	12,583,566	\$	133,615	\$	4,495,923	\$	34,798	\$	619,813	\$	20,505	\$	2,254,102	\$	19,953,404	\$	201,562				
Mgt. Fees, Per Co.	\$	133,615			\$	34,798			\$	20,505			\$	12,644	\$	-	\$	201,562				

UPIS per Co Response to Staff DR 1.4
 except PS FM in NARUC 360

RATE BASE ADJUSTMENT #7 WORKING CAPITAL

Line No.		Test Year Adjusted Amount	Revenue Lag Days	Expense Lag Days	Net Lag Days	Lead / Lag Factor	Cash Working Capital Required
1	OPERATING EXPENSES						
2	Salaries and Wages	\$ 878,824	45.5768	12.0000	33.5768	0.0920	\$ 80,844
3	Group Insurance	27,421	45.5768	(2.3334)	47.9102	0.1313	\$ 3,599
4	Sludge Removal	55,247	45.5768	239.8508	(194.2740)	(0.5323)	\$ (29,406)
5	Purchased Power	342,364	45.5768	59.8970	(14.3202)	(0.0392)	\$ (13,432)
6	Chemicals	219,910	45.5768	63.9648	(18.3880)	(0.0504)	\$ (11,079)
7	Repairs and Maintenance	181,981	45.5768	66.6282	(21.0514)	(0.0577)	\$ (10,496)
8	Contractual Services	225,961	45.5768	67.2163	(21.6395)	(0.0593)	\$ (13,396)
9	Rent - Buildings	20,669	45.5768	(18.5294)	64.1062	0.1756	\$ 3,630
10	Rent - Equipment	45,758	45.5768	25.4922	20.0846	0.0550	\$ 2,518
11	Transportation Expense	129,723	45.5768	(11.7634)	57.3402	0.1571	\$ 20,379
12	Insurance	62,877	45.5768	20.6635	24.9133	0.0683	\$ 4,292
13	Depreciation & Amortization	-	45.5768	-	45.5768	0.1249	\$ -
14	Other Operating Expenses	63,120	45.5768	30.0000	15.5768	0.0427	\$ 2,694
15	TAXES						
16	Taxes Other than income	76,451	45.5768	15.9481	29.6287	0.0812	\$ 6,206
17	Property Taxes	141,200	45.5768	729.6032	(684.0264)	(1.8740)	\$ (264,615)
18	Income Tax	253,724	45.5768	37.8750	7.7018	0.0211	\$ 5,354
19	Interest	1,018,637	45.5768	17.5322	28.0446	0.0768	\$ 78,266
20							
21							
22							
23	WORKING CASH REQUIREMENT						<u>\$ (134,641)</u>
24							
25							
26							
27							
28							
29			Per FWWS		Per Staff		
30							
31	Cash Working Capital, per Above	\$ 73,359			\$ (134,641)		\$ (208,001)
32	Material and Supplies Inventories	18,440			18,440		-
33	Working Funds and Special Deposits	1,548,498			1,548,498		0
34	Prepayments	13,641			13,641		-
35	Total Working Capital Allowance, Per Company	\$ 1,653,938			\$ 1,445,938		\$ (208,001)

OPERATING INCOME STATEMENT - TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF RECOMMENDED CHANGES	[E] STAFF RECOMMENDED
1	Flat Rate Revenue	\$ -	\$ -	\$ -		\$ -
2	Other Sewer Revenues	2,053,159	-	2,053,159	3,280,011	5,333,169
3	Metered Reuse Revenue	43,064	-	43,064		43,064
4	Total Operating Revenues	131,759	-	131,759	13,176	144,935
		<u>\$ 2,227,982</u>	<u>\$ -</u>	<u>\$ 2,227,982</u>	<u>\$ 3,293,186</u>	<u>\$ 5,521,168</u>
5	Salaries and Wages	\$ 802,071	\$ -	\$ 802,071	\$ -	\$ 802,071
6	Salaries and Wages - Officers and Directors	137,000	(60,247)	76,753	-	76,753
7	Employee Pension and Benefits	27,421	-	27,421	-	27,421
8	Purchased Sewer Treatment	-	-	-	-	-
9	Sludge Removal Expense	55,247	-	55,247	-	55,247
10	Purchased Power	342,364	-	342,364	-	342,364
11	Chemicals	219,910	-	219,910	-	219,910
12	Repairs and Maintenance	181,981	-	181,981	-	181,981
13	Contractual Services - Engineering	-	-	-	-	-
14	Contractual Services - Accounting	7,230	-	7,230	-	7,230
15	Contractual Services - Legal	43,865	(32,975)	10,890	-	10,890
16	Contractual Services - Management Fees	-	-	-	-	-
17	Contractual Services - Testing	147,025	-	147,025	-	147,025
18	Contractual Services - Other	60,716	-	60,716	-	60,716
19	Rent - Buildings	20,669	-	20,669	-	20,669
20	Rent - Equipment	45,758	-	45,758	-	45,758
21	Transportation Expense	129,723	-	129,723	-	129,723
22	Insurance - Vehicle	12,610	-	12,610	-	12,610
23	Insurance - General Liability	33,142	-	33,142	-	33,142
24	Insurance - Workman's Compensation	17,125	-	17,125	-	17,125
25	Insurance - Other	-	-	-	-	-
26	Advertising Expense	476	-	476	-	476
27	Regulatory Commission Expense - Rate Ca:	75,000	-	75,000	-	75,000
28	Regulatory Expense - Other	-	-	-	-	-
29	Bad Debt Expense	33,490	(20,450)	13,040	19,100	32,140
30	Miscellaneous Expense	30,503	-	30,503	-	30,503
31	Depreciation Expense	1,497,193	(198,403)	1,298,790	-	1,298,790
32	Taxes Other Than Income	76,451	-	76,451	-	76,451
33	Property Taxes	95,728	-	95,728	45,472	141,200
34	Income Tax	<u>\$ (676,904)</u>	<u>\$ (315,581)</u>	<u>\$ (992,485)</u>	<u>\$ 1,246,209</u>	<u>\$ 253,724</u>
35	Total Operating Expenses	<u>3,415,794</u>	<u>(627,655)</u>	<u>2,788,139</u>	<u>1,310,781</u>	<u>4,098,920</u>
36	Operating Income (Loss)	<u>\$ (1,187,812)</u>	<u>\$ 627,655</u>	<u>\$ (560,157)</u>	<u>\$ 1,982,405</u>	<u>\$ 1,422,248</u>

References:

- Column (A): Company Schedule C-1
- Column (B): Schedule GWB 11
- Column (C): Column (A) + Column (B)
- Column (D): Schedules GWB 2, Lines 29, 34 and 37
- Column (E): Column (C) + Column (D)

Far West Water & Sewer, Inc., Sewer Division
Docket No. WS-03478A-12-0307
Test Year Ended December 31, 2011

SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] Executive Comp ADJ #1 GWB-12	[C] Bad Debts Exp ADJ #2 GWB-13	[D] Legal Exp ADJ #3 GWB-14	[E] Deprec. Exp ADJ #4 GWB-16	[F] Income Taxes ADJ #5 GWB-17	[H] STAFF ADJUSTED
1	Fiat Rate Revenue	2,053,159	-	-	-	-	-	2,053,159
2	Other Sewer Revenues	43,064	-	-	-	-	-	43,064
3	Metered Reuse Revenue	131,759	-	-	-	-	-	131,759
4	Total Operating Revenues	\$ 2,227,982	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,227,982
	Operating Expenses							
5	Salaries and Wages	\$ 802,071	-	-	-	-	-	\$ 802,071
6	Salaries and Wages - Officers and Director	137,000	-	-	-	-	-	76,753
7	Employee Pension and Benefits	27,421	(60,247)	-	-	-	-	27,421
8	Purchased Sewer Treatment	-	-	-	-	-	-	-
9	Sludge Removal Expense	55,247	-	-	-	-	-	55,247
10	Purchased Power	342,364	-	-	-	-	-	342,364
11	Chemicals	219,910	-	-	-	-	-	219,910
12	Repairs and Maintenance	181,981	-	-	-	-	-	181,981
13	Contractual Services - Engineering	-	-	-	-	-	-	-
14	Contractual Services - Accounting	7,230	-	-	-	-	-	7,230
15	Contractual Services - Legal	43,865	-	-	(32,975)	-	-	10,890
16	Contractual Services - Management Fees	-	-	-	-	-	-	-
17	Contractual Services - Testing	147,025	-	-	-	-	-	147,025
18	Contractual Services - Other	60,716	-	-	-	-	-	60,716
19	Rent - Buildings	20,669	-	-	-	-	-	20,669
20	Rent - Equipment	45,758	-	-	-	-	-	45,758
21	Transportation Expense	129,723	-	-	-	-	-	129,723
22	Insurance - Vehicle	12,610	-	-	-	-	-	12,610
23	Insurance - General Liability	33,142	-	-	-	-	-	33,142
24	Insurance - Workman's Compensation	17,125	-	-	-	-	-	17,125
25	Insurance - Other	-	-	-	-	-	-	-
26	Advertising Expense	476	-	-	-	-	-	476
27	Regulatory Commission Expense - Rate C:	75,000	-	-	-	-	-	75,000
28	Regulatory Commission Expense - Other	-	-	(20,450)	-	-	-	-
29	Bad Debt Expense	33,490	-	-	-	-	-	33,490
30	Miscellaneous Expense	30,503	-	-	-	-	-	30,503
31	Depreciation Expense	1,497,193	-	-	-	(198,403)	-	1,298,790
32	Taxes Other Than Income	76,451	-	-	-	-	-	76,451
33	Property Taxes	95,728	-	-	-	-	-	95,728
34	Income Tax	(676,904)	-	-	-	-	(315,581)	(992,485)
35	Total Operating Expenses	\$ 3,415,794	\$ (60,247)	\$ (20,450)	\$ (32,975)	\$ (198,403)	\$ (315,581)	\$ 2,788,139
36	Operating Income	\$ (1,187,812)	\$ 60,247	\$ 20,450	\$ 32,975	\$ 198,403	\$ 315,581	\$ (560,157)

OPERATING INCOME ADJUSTMENT #1 - SALARIES AND WAGES - OFFICERS AND DIRECTORS

LINE
NO.

1	Payroll Sandy Braden	\$	68,500
2	Sandy's Hours		250
3	Paula's Hours		2075
4	Allowable portion		<u>12.05%</u>
5	Disallowable portion		87.95%
6	Disallowance	\$	60,247

Line 1: Amount of payroll proposed for Sandy Braden
Line 2 & 3: Respective hours worked by each per Staff DR 6.3
Line 4: Line 2 / line 3
Line 5: 1 minus line 4
Line 6: Line 1 times line 5
Lines 1 - 6: See also testimony GWB

Far West Water & Sewer, Inc., Sewer Division
Docket No. WS-03478A-12-0307
Test Year Ended December 31, 2011

Schedule GWB-13
SURREBUTTAL

OPERATING INCOME ADJUSTMENT #2 - BAD DEBT EXPENSE

<u>LINE NO.</u>	<u>DESCRIPTION</u>	<u>[A] COMPANY PROPOSED</u>	<u>[B] STAFF ADJUSTMENTS</u>	<u>[C] STAFF RECOMMENDED*</u>
1		\$ 33,490	\$ (20,450)	\$ 13,040

References:

Column (A), Company Workpapers

Column (B): Testimony GWB

Column (C): Column (A) + Column (B), Per Co Response
to Staff DR 5.8

Far West Water & Sewer, Inc., Sewer Division
Docket No. WS-03478A-12-0307
Test Year Ended December 31, 2011

Schedule GWB-14
SURREBUTTAL

OPERATING INCOME ADJUSTMENT #3 - LEGAL EXPENSE

<u>LINE NO.</u>	<u>DESCRIPTION</u>	<u>[A] COMPANY PROPOSED</u>	<u>[B] STAFF ADJUSTMENTS</u>	<u>[C] STAFF RECOMMENDED*</u>
1		\$ 43,865	\$ (32,975)	\$ 10,890

References:

Column (A), Company Workpapers

Column (B): Testimony GWB

Column (C): Column (A) + Column (B)

OPERATING INCOME ADJUSTMENT #4 - DEPRECIATION EXPENSE

LINE NO.	ACCT. NO.	DESCRIPTION	[A] PLANT BALANCE	[B] DEPRECIATION RATE	[C] DEPRECIATION EXPENSE
1		<u>PLANT IN SERVICE:</u>			
2	351	Organization Cost	-	0.00%	-
3	352	Franchise Cost	3,076	0.00%	-
4	353	Land and Land Rights	1,413,437	0.00%	-
5	354	Structures & Improvements	2,162,399	3.33%	72,008
6	355	Power Generating Equipment	62,268	5.00%	3,113
7	360	Collection Sewers - Force	2,627,686	2.00%	52,554
8	361	Collection Sewers - Gravity	8,727,577	2.00%	174,552
9	362	Special Collecting Structures	-	2.00%	-
10	363	Sevices to Customers	173,621	2.00%	3,472
11	364	Flow Measuring Devices	32,468	10.00%	3,247
12	365	Flow Measuring Installations	16,683	10.00%	1,668
13	366	Reuse Services	-	2.00%	-
14	367	Reuse Meters and Meter Installations	2,097	8.33%	175
15	370	Receiving Wells	61,295	3.33%	2,041
16	371	Pumping Equipment	1,285,833	12.50%	160,729
17	374	Reuse Distribution Reserviors	-	2.50%	-
18	375	Reuse Transmission and Dist. Sys.	-	2.50%	-
19	380	Treatment and Disposal Equipment	14,733,833	5.00%	736,692
20	381	Plant Sewers	521,201	5.00%	26,060
21	382	Outfall Sewer Lines	1,490	3.33%	50
22	389	Other Plant and Misc. Equipment	348,997	6.67%	23,278
23	390	Office Furniture & Equipment	254,233	6.67%	16,957
24	390.1	Computers & Software	10,906	20.00%	2,181
25	391	Transportation Equipment	271,810	20.00%	54,362
26	392	Stores Equipment	-	4.00%	-
27	393	Tools, Shop & Garage Equipment	27,069	5.00%	1,353
28	394	Laboratory Equipment	17,418	10.00%	1,742
29	395	Power Operated Equipment	181,667	5.00%	9,083
30	396	Communications Equipment	16,886	10.00%	1,689
31	397	Miscellaneous Equipment	136,351	10.00%	13,635
32	398	Other Tangible Plant	238,828	10.00%	23,883
33			33,329,128		1,384,524
34		Less:			
35		Amortization of CIAC at Company's Rate	\$ 1,726,854	4.9648%	\$ 85,734
36		Staff Recommended Depreciation Expense			\$ 1,298,790
37		Company Proposed Depreciation Expense			\$ 1,497,193
38		Staff Adjustment			\$ (198,403)

	<u>References:</u>
Col [A]	Schedule GWB-4
Col [B]	Proposed Rates per Staff Engineering Report for Non Allocated Plant
Col [C]	Col [A] times Col [B]

Far West Water & Sewer, Inc., Sewer Division
Docket No. WS-03478A-12-0307
Test Year Ended December 31, 2011

Schedule GWB-17
SURREBUTTAL

OPERATING INCOME ADJUSTMENT #5 - INCOME TAXES

<u>LINE NO.</u>	<u>DESCRIPTION</u>	<u>[A] COMPANY PROPOSED</u>	<u>[B] STAFF ADJUSTMENTS</u>	<u>[C] STAFF RECOMMENDED</u>
1	Income Taxes	<u>\$ (676,904)</u>	<u>\$ (315,581)</u>	<u>\$ (992,485)</u>

References:

Column (A), Company Schedule C-2

Column (B): Testimony GWB

Column (C): Column (A) + Column (B),
see also Sch. GWB-2, line 48

OPERATING INCOME ADJUSTMENT #6 - PROPERTY TAX EXPENSE GRCF COMPONENT

LINE NO.	DESCRIPTION	[A]	[B]
		STAFF AS ADJUSTED	STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues - 2007	\$ 2,227,982	\$ 2,227,982
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	4,455,963	4,455,963
4	Staff Adjusted Test Year Revenues - 2007	2,227,982	
5	Staff Recommended Revenue		5,521,168
6	Subtotal (Line 4 + Line 5)	6,683,945	9,977,131
7	Number of Years	3	3
8	Three Year Average (Line 5 / Line 6)	2,227,982	3,325,710
9	Department of Revenue Mutilplier	2	2
10	Revenue Base Value (Line 7 * Line 8)	4,455,963	6,651,421
11	Plus: 10% of CWIP	243,735	243,735
12	Less: Net Book Value of Licensed Vehicles	77,783	77,783
13	Full Cash Value (Line 9 + Line 10 - Line 11)	4,621,915	6,817,373
14	Assessment Ratio	20.0%	20.0%
15	Assessment Value (Line 12 * Line 13)	924,383	1,363,475
16	Composite Property Tax Rate	10.3559%	10.3559%
17	Staff Test Year Adjusted Property Tax Expense (Line 14 * Line 15)	\$ 95,728	
18	Company Proposed Property Tax	\$ 95,728	
19	Staff Test Year Adjustment (Line 16 - Line 17)	\$ 0	
20	Property Tax on Staff Recommended Revenue (Line 14 * Line 15)		\$ 141,200
21	Staff Test Year Adjusted Property Tax Expense (Line 16)		\$ 95,728
22	Increase in Property Tax Due to Increase in Revenue Requirement		\$ 45,472
23	Increase in Property Tax Due to Increase in Revenue Requirement (Line 21)		\$ 45,472
24	Increase in Revenue Requirement		\$ 3,293,186
25	Increase in Property Tax Per Dollar Increase in Revenue (Line 22 / Line 23)		1.38079%

REFERENCES:

Line 15: Composite Tax Rate, per Company
Line 18: Company Schedule C-1, Line 23

BEFORE THE ARIZONA CORPORATION COMMISSION

BOB STUMP
Chairman
GARY PIERCE
Commissioner
BRENDA BURNS
Commissioner
BOB BURNS
Commissioner
SUSAN BITTER SMITH
Commissioner

IN THE MATTER OF THE APPLICATION OF)
FAR WEST WATER & SEWER COMPANY FOR)
A DETERMINATION OF THE FAIR VALUE)
OF ITS UTILITY PLANT AND PROPERTY)
AND FOR INCREASES IN ITS)
WASTEWATER RATES AND CHARGES FOR)
UTILITY SERVICE THEREON.)
_____)

DOCKET NO. WS-03478A-12-0307

SURREBUTTAL

TESTIMONY

OF

JIAN W. LIU

UTILITIES ENGINEER

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

MARCH 29, 2013

**EXECUTIVE SUMMARY
FAR WEST WATER & SEWER COMPANY
DOCKET NO. WS-03478A-12-0307**

Staff concludes that Company's wastewater treatment plants have no excess capacity.

Based on the reports provided by the Arizona Corporation Commission ("Commission" or "ACC") Consumer Services Section and the Arizona Department of Environmental Quality ("ADEQ"), there is no evidence to demonstrate that Company has violated the Quality of Service Statute.

1 **INTRODUCTION**

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

3 A. My name is Jian W. Liu. My job title is Water/Wastewater Engineer. My place of
4 employment is the ACC, Utilities Division ("Staff"), 1200 West Washington Street,
5 Phoenix, Arizona 85007.

6
7 **Q. Are you the same Jian W. Liu who filed Direct Testimony in this case?**

8 A. Yes, I am.

9
10 **Q. What is the purpose of your Surrebuttal Testimony in this proceeding?**

11 A. The purpose of my Surrebuttal Testimony in this proceeding is to discuss, on behalf of
12 Staff, excess capacity and Quality of Service issues regarding Far West.

13
14 **Q. What is The Residential Utility Consumer Office ("RUCO")'s position regarding
15 excess capacity?**

16 A. Mr. Royce A. Duffett, on behalf of RUCO, concludes that Company's wastewater
17 treatment plants ("WWTPs") have 11.4 percent excess design capacity.

18
19 **Q. What is the Definition of Excess Capacity?**

20 A. Excess Capacity refers to constructed plant facilities that exceed the system requirements
21 within a reasonable planning period.

22
23 **Q. How is the Excess Capacity determined by Staff?**

24 A. In determining excess capacity, Staff will typically use the average daily flow from the
25 peak month of the year as the requirement and 5 years as a reasonable planning period.

1 **Q. What treatment capacity does Company have for its wastewater treatment plants in**
2 **test year 2011?**

3 A. The following table shows the Treatment Capacity Utilization Rate on the Peak Day for
4 each Wastewater Treatment Plant in test year 2011.

5

Name	Treatment Capacity in service on December 31, 2011 gallon per day ("GPD")	Peak Day flow in 2011 (GPD)	Treatment Capacity Utilization Rate on Peak Day
Marwood	340,000	362,000	106%
Section 14	681,000	511,000	75%
Villa Royale	10,000	11,000	110%
Del Oro	300,000	249,000	83%
Del Rey	40,000	68,000	170%
Seasons	70,000	100,000	142%

6
7 **Q. Using 5 years as a reasonable planning period, is there any excess capacity for the**
8 **Company?**

9 A. Far West currently has 7,067 residential customers, 44 commercial customers and 4 RV
10 parks with 713 spaces. This adds to a total of 7,824 customers. The Company estimates
11 between 1,100 and 1,200 new customers by 2016. Therefore, the Company could have
12 over 9,000 customers by end of 2016.

13

1 Using the ADEQ 240 GPD per household standard, the design capacity of the Far West's
2 facilities should be 2,160,000 GPD.

3
4 Assuming all ongoing wastewater treatment plant improvements of Far West were
5 complete by end of 2016, the Company would have the design capacity of 2,285,000
6 GPD. The difference between Company's design capacity and required design capacity is
7 125,000 GPD. This capacity can serve approximately 520 new customers.

8
9 Considering the Company added more than 1,000 new customers every year from 2001 to
10 2004, Staff believes it is reasonable to conclude that the 125,000 GPD is extra capacity
11 that could easily be needed during the planning period.

12
13 Staff concludes that Company's wastewater treatment plants have no excess capacity.

14
15 **Q. In Decision 72594, did the Commission direct Staff to investigate whether Far West**
16 **violated the Quality of Service Statute?**

17 **A.** Yes. Based on Consumer complaint records provided by the Commission's Consumer
18 Services Section, it doesn't appear there were any complaints recorded in the service
19 quality category since 2010 and the number of Complaints is trending downward. The
20 Commission's Consumer Services Section reported the following complaints for the
21 period from January 1, 2010 through February 19, 2013:

22
23 **2013 – Zero Complaints**
24 **658 Opinions – Opposed to the proposed rate case**

25
26 **2012 – One Complaint – Billing**
27 **Zero opinions**

28
29 **2011 – One Complaint – Disconnect Non-Pay**
30

1 **2010 – Five Complaints – One - New Service, Four – Billing**

2
3 All complaints have been resolved and closed.

4
5 In October 2012, ADEQ issued Compliance Status Reports regarding Far West's WWTPs.
6 ADEQ reported that while not yet in compliance with the Consent Judgment, ADEQ is
7 encouraged by the progress that Far West has made. ADEQ did not specify why it is
8 encouraged.

9
10 In addition, Staff visited Far West's wastewater plant facilities on January 9th, 2013.
11 During the physical inspection Staff did not observe any operation issues.

12
13 Based on the reports provided by the Commission Consumer Services Section and the
14 ADEQ, and the physical inspection, there is no evidence to demonstrate that Company has
15 violated the Quality of Service Statute.

16
17 **Q. Did you attempt to address every issue the Company raised in its Rebuttal**
18 **Testimony?**

19 A. No. Staff limited its discussion to the specific issue as outlined above. Staff's lack of
20 response to any issue in this proceeding should not be construed as agreement with the
21 Company's position in its Rebuttal Testimony; rather where there is no response, Staff
22 relies on its original Direct Testimony.

23
24 **Q. Does this conclude your Surrebuttal Testimony?**

25 A. Yes, it does.

BEFORE THE ARIZONA CORPORATION COMMISSION

BOB STUMP
Chairman
GARY PIERCE
Commissioner
BRENDA BURNS
Commissioner
BOB BURNS
Commissioner
SUSAN BITTER SMITH
Commissioner

IN THE MATTER OF THE APPLICATION OF) DOCKET NO. WS-03478A-12-0307
FAR WEST WATER AND SEWER, INC., AN)
ARIZONA CORPORATION, FOR A)
DETERMINATION OF THE CURRENT FAIR)
VALUE OF ITS UTILITY PLANT AND)
PROPERTY AND FOR INCREASES IN ITS)
WASTEWATER RATES AND CHARGES)
BASED THEREON FOR UTILITY SERVICE.)
_____)

SURREBUTTAL
TESTIMONY
OF

JOHN A. CASSIDY

PUBLIC UTILITIES ANALYST
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

MARCH 29, 2013

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**EXECUTIVE SUMMARY
FAR WEST WATER & SEWER, INC.
DOCKET NO. WS-03478A-12-0307**

The Surrebuttal Testimony of Staff witness John A. Cassidy addresses the following issues:

Capital Structure – Staff recommends that the Commission adopt a capital structure for Far West Water & Sewer Company (the “Company”) for this proceeding consisting of 79.2 percent debt and 20.8 percent equity.

Cost of Equity – Staff recommends that the Commission adopt a 10.0 percent return on equity (“ROE”) for the Company. Staff’s estimated ROE for the Company is based on the average of its discounted cash flow (“DCF”) method and capital asset pricing model (“CAPM”) cost of equity methodology estimates for the sample companies of 8.7 percent for the DCF and 8.3 percent for the CAPM. Staff’s recommended ROE includes an upward economic assessment adjustment of 60 basis points and an upward financial risk adjustment of 90 basis points.

Cost of Debt – Staff recommends that the Commission adopt a 6.7 percent cost of debt for the Company.

Overall Rate of Return – Staff recommends that the Commission adopt a 7.4 percent overall rate of return.

Company’s Cost of Capital Testimony – The Company’s cost of capital witness, Mr. Ray L. Jones, proposes a 7.5 percent overall rate of return based on a capital structure composed of 79.18 percent debt and 20.82 percent equity, an overall cost of debt of 6.8 percent and a cost of equity of 10 percent.

1 **I. INTRODUCTION**

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

3 A. My name is John A. Cassidy. I am a Public Utilities Analyst employed by the Arizona
4 Corporation Commission (“Commission”) in the Utilities Division (“Staff”). My business
5 address is 1200 West Washington Street, Phoenix, Arizona 85007.

6
7 **Q. Are you the same John A. Cassidy who filed Direct Testimony in this case?**

8 A. Yes, I am.

9
10 **Q. What is the purpose of your Surrebuttal Testimony in this rate proceeding?**

11 A. The purpose of my Surrebuttal Testimony is to report on Staff’s updated cost of capital
12 analysis with its recommendations regarding Far West Water & Sewer Company’s (“Far
13 West” or “Company”) cost of capital, and to respond to the cost of capital Rebuttal
14 Testimony of Company witness, Ray L. Jones (“Mr. Jones’ Rebuttal”).

15
16 **Q. Please explain how Staff’s surrebuttal testimony is organized.**

17 A. Staff’s Surrebuttal Testimony is presented in four sections. Section I is this introduction.
18 Section II discusses Staff’s updated cost of capital analysis. Section III presents Staff’s
19 comments on the Rebuttal Testimony of the Company’s cost of capital witness, Mr. Jones.
20 Lastly, Section IV presents Staff’s recommendations.

21

1 **II. COST OF EQUITY AND OVERALL RATE OF RETURN**

2 **Q. Is Staff recommending a different capital structure for Far West in its Surrebuttal**
3 **Testimony than it did in Direct Testimony?**

4 A. Yes. Staff has made two substantive changes to its original recommended capital
5 structure. First, Staff is reinstating all \$1,732,342 of the short-term debt provisionally
6 disallowed when filing its Direct Testimony. Staff provisionally disallowed this short-
7 term debt pending additional discovery, and based upon the Company's responses to data
8 requests issued during the interim, Staff has increased the debt component of Far West's
9 capital structure by \$1,732,342 to give recognition to this short-term debt. Second, Staff
10 is reversing a debt conversion adjustment previously made to the Company's capital
11 structure in its Direct Testimony, thus giving recognition to the \$1,942,448
12 Zenon/Liberation Capital obligation as debt capital, rather than equity capital.

13
14 **Q. What impact did these three changes have upon Staff's recommended capital**
15 **structure?**

16 A. In making these two changes, Staff effectively increased the debt component of the
17 Company's capital structure by \$3,674,790 (\$1,732,342 + \$1,942,448), and decreased the
18 equity component by \$1,942,448. When filing its Direct Testimony, Staff had
19 recommended a capital structure composed of 72.3 percent debt and 27.7 percent common
20 equity; as a consequence of these changes, Staff now recommends a capital structure
21 consisting of 79.2 percent debt and 20.8 percent equity.

22
23 **Q. In reinstating the short-term debt previously disallowed, did Staff adopt the cost of**
24 **debt proposed by the Company for each of its short-term debt obligations?**

25 A. No. However, Staff adopted the cost of debt proposed by the Company for all short-term
26 debt obligations except for two; namely, the 12 percent cost of debt proposed for both the

1 \$175,000 Scott Spencer obligation and the \$36,837 Gallagher & Kennedy obligation.
2 Pursuant to responses to data requests issued the Company¹, Staff learned that the short-
3 term debt proceeds borrowed from Scott Spencer were used to fund a liability owed to the
4 Arizona Department of Environmental Quality (“ADEQ”) for a suspended civil penalty,
5 and that the Gallagher & Kennedy debt financed an accounts payable concerned with legal
6 services relating to action taken by ADEQ against Far West. Accordingly, Staff
7 determined that it would be inappropriate to burden ratepayers with the Company’s
8 proposed 12 percent cost of debt for these obligations, as ratepayers should be held
9 harmless from the Company’s incurrence of penalties or from Far West’s inability to pay
10 its ongoing business expenses as they come due.

11
12 **Q. Why did Staff decide to leave these two debt instruments in the Far West capital**
13 **structure, as proposed by the Company, instead of just removing these from the**
14 **capital structure?**

15 A. If these obligations were simply removed from the capital structure the resulting percent
16 of equity would be higher leading to a slightly higher overall weighed cost of capital and
17 to a slightly higher annual revenue requirement for the Company.

18
19 **Q. For purposes of its recommended capital structure, what cost of debt did Staff assign**
20 **to the Scott Spencer and Gallagher & Kennedy short-term debt obligations?**

21 A. Staff assigned a cost of 7.4 percent to each of these short-term debt obligations, a cost
22 equal to Staff’s recommended weighted cost of capital (“WACC”) for Far West.

23

¹ Staff data requests JAC 8.1 and JAC 9.1.

1 **Q. Why did Staff elect to reverse the debt conversion adjustment made in its Direct**
2 **Testimony relating to the Zenon/Liberation Capital long-term debt?**

3 A. The debt conversion adjustment made by Staff in its direct testimony effectively converted
4 Far West's proposed \$1,942,448 Zenon/Liberation Capital loan from debt capital to equity
5 capital. Subsequent to filing its Direct Testimony, upon reconsideration of the matter,
6 Staff determined that the proceeds associated with the Zenon/Liberation Capital loan were
7 not, in fact, of an equity character, and as such Staff's debt conversion adjustment should
8 be reversed. Accordingly, for purposes of its Surrebuttal Testimony, Staff has reversed its
9 prior adjustment and has included the proposed \$1,942,448 Zenon/Liberation Capital in
10 the debt component of the Company's capital structure.

11
12 **Q. Has Staff updated its analysis concerning the Company's cost of equity ("COE")**
13 **since filing direct testimony in this proceeding?**

14 A. Yes. Staff updated its analysis to include more recent market data.

15
16 **Q. What is Staff's updated estimate for the COE?**

17 A. Staff's updated estimate for the COE is 8.5 percent. This figure is derived from cost of
18 equity estimates which range from 8.7 percent for the discounted cash flow ("DCF")
19 method to 8.3 percent for the capital asset pricing model ("CAPM") estimation
20 methodologies, as shown in Surrebuttal Schedule JAC-3. In Direct Testimony, Staff's
21 COE estimate was 8.7 percent.

22

1 **Q. In its Surrebuttal Testimony, does Staff continue to recommend the 60 basis point**
2 **(0.6 percent) upward economic assessment adjustment to Far West's cost of equity**
3 **that it recommended in its Direct Testimony?**

4 A. Yes. As shown in Surrebuttal Schedule JAC-3, Staff continues to recommend a 60 basis
5 point upward economic assessment adjustment to the Company's cost of equity.

6
7 **Q. In its Surrebuttal Testimony, does Staff continue to recommend the 70 basis point**
8 **(0.7 percent) upward financial risk adjustment to Far West's cost of equity that it**
9 **recommended in its Direct Testimony?**

10 A. No. As a consequence of the adjustments made by Staff to Far West's capital structure,
11 the debt component has increased while the equity component has decreased.
12 Accordingly, as shown in Surrebuttal Schedule JAC-3, Staff now recommends a 90 basis
13 point upward financial risk adjustment to the Company's cost of equity.

14
15 **Q. Based upon its updated analysis, what is Staff's indicated COE for Far West?**

16 A. As shown in Surrebuttal Schedule JAC-3, Staff calculated an estimated 10.0 percent for
17 Far West's cost of equity. This figure represents the 8.5 percent average overall COE
18 estimate derived from Staff's DCF and CAPM estimation methodologies $((8.7\% + 8.3\%) /$
19 $2)$, and includes Staff's recommended 60 basis point economic assessment adjustment and
20 Staff's recommended 90 basis point financial risk adjustment.

21
22 **Q. What ROE is Staff recommending for Far West?**

23 A. Staff recommends a 10.0 percent return on equity.

24
25 **Q. Did Staff update its analysis concerning the Company's overall rate of return?**

26 A. Yes, the updated analysis is supported by Surrebuttal Schedules JAC-1 to JAC-10.

1 **Q. Does Staff's updated cost of equity analysis result in a change to Staff's weighted**
2 **average cost of capital?**

3 A. No. Based upon its updated cost of equity analysis, Staff's weighted average cost of
4 capital remains at 7.4 percent, the same level as in Staff's Direct Testimony.

5

6 **Q. What overall rate of return is Staff recommending for Far West?**

7 A. Staff recommends a 7.4 percent overall rate of return. Staff's recommendation is based on
8 an ROE of 10.0 percent, a cost of debt of 6.7 percent, and a capital structure consisting of
9 79.0 percent debt and 21.0 percent common equity, as shown in Surrebuttal Schedule
10 JAC-1.

11

12 **III. STAFF RESPONSE TO COMPANY'S COST OF CAPITAL WITNESS MR. RAY**
13 **L. JONES**

14 **Q. Please summarize the capital structure, cost of equity and overall rate of return**
15 **proposed in Mr. Jones' Rebuttal.**

16 A. Mr. Jones' Rebuttal proposes a capital structure composed of 79.18 percent debt and
17 20.82 percent equity, a cost of equity of 10.0 percent, and a cost of debt of 6.8 percent for
18 a 7.5 percent overall rate of return.

19

20 **IV. STAFF RECOMMENDATIONS**

21 **Q. What are Staff's recommendations for Far West's cost of capital?**

22 A. Staff recommends the following for Far West's cost of capital:

23 1. A capital structure of 79.2 percent debt and 20.8 percent equity.

24 2. A 6.7 percent cost of debt.

25 3. A 10.0 percent return on equity (including a 60 basis point upward economic
26 assessment adjustment and a 90 basis point upward financial risk adjustment).

1 4. A 7.4 percent overall rate of return.

2

3 **Q. Does this conclude your Surrebuttal Testimony?**

4 **A. Yes, it does.**

Far West Water & Sewer, Inc. Cost of Capital Calculation
Capital Structure
And Weighted Average Cost of Capital
Staff Recommended and Company Proposed

[A] [B] [C] [D]

<u>Description</u>	<u>Weight (%)</u>	<u>Cost</u>	<u>Weighted Cost</u>
Staff Recommended Structure			
Debt	79.2%	6.7%	5.3%
Common Equity	20.8%	10.0%	<u>2.1%</u>
Weighted Average Cost of Capital			7.4%
Company Proposed Structure			
Debt	79.18%	6.8%	5.4%
Common Equity	20.82%	10.0%	<u>2.1%</u>
Weighted Average Cost of Capital			7.5%

[D] : [B] x [C]

Supporting Schedules: JAC-3 and JAC-4.

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Far West Water & Sewer, Inc. Cost of Capital Calculation
 Final Cost of Equity Estimates
 Sample Water Utilities

[A]	[B]	[C]	[D]	[E]			
DCF Method							
		<u>D_t/P_t</u> ¹	+	<u>g</u> ²	=	<u>k</u>	
Constant Growth DCF Estimate		3.0%	+	4.9%	=	7.9%	
Multi-Stage DCF Estimate					=	<u>9.4%</u>	
Average DCF Estimate						8.7%	
 CAPM Method							
	<u>R_f</u>	+	<u>β</u> ⁵	x	<u>(R_p)</u>	=	<u>k</u>
Historical Market Risk Premium ³	1.4%	+	0.71	x	7.1%	=	6.5%
Current Market Risk Premium ⁴	3.2%	+	0.71	x	9.7%	=	<u>10.0%</u>
Average CAPM Estimate							8.3%
Average of Overall Estimates						8.5%	
Economic Assessment Adjustment						<u>0.6%</u>	
Sub-Total						9.1%	
Financial risk adjustment						<u>0.9%</u>	
Total						10.0%	

1 MSN Money and Value Line

2 Schedule JAC-8

3 Risk-free rate (Rf) for 5, 7, and 10 year Treasury rates from the U.S. Treasury Department at www.ustreas.gov

4 Risk-free rate (Rf) for 30 Year Treasury bond rate from the U.S. Treasury Department at www.ustreas.gov

5 Value Line

6 Historical Market Risk Premium (Rp) calculated from Ibbotson Associates SBBI 2012 Yearbook data

7 Testimony

Far West Water & Sewer, Inc. Cost of Capital Calculation
Average Capital Structure of Sample Water Utilities

[A]	[B]	[C]	[D]
<u>Company</u>	<u>Debt</u>	<u>Common Equity</u>	<u>Total</u>
American States Water	46.0%	54.0%	100.0%
California Water	53.3%	46.7%	100.0%
Aqua America	53.9%	46.1%	100.0%
Connecticut Water	57.1%	42.9%	100.0%
Middlesex Water	43.3%	56.7%	100.0%
SJW Corp	<u>55.7%</u>	<u>44.3%</u>	<u>100.0%</u>
Average Sample Water Utilities	51.6%	48.4%	100.0%
Far West - Actual Capital Structure	79.0%	21.0%	100.0%

Source:

Sample Water Companies from Value Line

Far West Water & Sewer, Inc. Cost of Capital Calculation
Growth in Earnings and Dividends
Sample Water Utilities

[A]	[B]	[C]	[D]	[E]
Company	Dividends Per Share 2003 to 2012 DPS ^{1,2}	Dividends Per Share Projected DPS ^{1,3}	Earnings Per Share 2002 to 2011 EPS ¹	Earnings Per Share Projected EPS ¹
American States Water	3.9%	5.9%	5.1%	4.7%
California Water	1.2%	3.4%	6.2%	8.6%
Aqua America	7.7%	4.5%	7.3%	5.6%
Connecticut Water	1.7%	3.5%	0.4%	9.1%
Middlesex Water	1.7%	1.9%	2.4%	8.3%
SJW Corp	<u>4.4%</u>	<u>3.0%</u>	<u>3.7%</u>	<u>4.0%</u>
Average Sample Water Utilities	3.4%	3.7%	4.2%	6.7%

¹ Value Line

² Value Line – Ten- year historical dividend growth updated from 2003-2012 as it is known and measurable.

³ Value Line – Projected DPS growth covers the four-year period, 2012-2016.

Far West Water & Sewer, Inc. Cost of Capital Calculation
Sustainable Growth
Sample Water Utilities

[A]	[B]	[C]	[D]	[E]	[F]
<u>Company</u>	Retention Growth 2002 to 2011 <u>br</u>	Retention Growth Projected <u>br</u>	Stock Financing Growth <u>vs</u>	Sustainable Growth 2002 to 2011 <u>br + vs</u>	Sustainable Growth Projected <u>br + vs</u>
American States Water	3.6%	5.3%	2.6%	6.2%	7.8%
California Water	2.2%	4.8%	2.3%	4.5%	7.1%
Aqua America	4.4%	5.2%	2.4%	6.8%	7.6%
Connecticut Water	2.2%	4.0%	1.0%	3.2%	5.0%
Middlesex Water	1.3%	3.3%	3.5%	4.9%	6.8%
SJW Corp	<u>3.7%</u>	<u>2.9%</u>	<u>0.1%</u>	<u>3.8%</u>	<u>3.0%</u>
Average Sample Water Utilities	2.9%	4.2%	2.0%	4.9%	6.2%

[B]: Value Line

[C]: Value Line

[D]: Value Line and MSN Money

[E]: [B]+[D]

[F]: [C]+[D]

Far West Water & Sewer, Inc. Cost of Capital Calculation
 Selected Financial Data of Sample Water Utilities

[A]	[B]	[C]	[D]	[E]	[F]	[G]
Company	Symbol	Spot Price 2/20/2013	Book Value	Mkt To Book	Value Line Beta β	Raw Beta β_{raw}
American States Water	AWR	52.26	22.34	2.3	0.70	0.52
California Water	CWT	20.03	11.43	1.8	0.65	0.45
Aqua America	WTR	28.70	9.53	3.0	0.60	0.37
Connecticut Water	CTWS	29.90	13.69	2.2	0.75	0.60
Middlesex Water	MSEX	19.11	12.01	1.6	0.70	0.52
SJW Corp	SJW	27.36	15.40	1.8	0.85	0.75
Average				2.1	0.71	0.53

[C]: Msn Money

[D]: Value Line

[E]: [C] / [D]

[F]: Value Line

[G]: (-0.35 + [F]) / 0.67

Far West Water & Sewer, Inc. Cost of Capital Calculation
 Calculation of Expected Infinite Annual Growth in Dividends
 Sample Water Utilities

[A]	[B]
<u>Description</u>	<u>g</u>
DPS Growth - Historical ¹	3.4%
DPS Growth - Projected ¹	3.7%
EPS Growth - Historical ¹	4.2%
EPS Growth - Projected ¹	6.7%
Sustainable Growth - Historical ²	4.9%
<u>Sustainable Growth - Projected²</u>	<u>6.2%</u>
 Average	 4.9%

¹ Schedule JAC-5

² Schedule JAC-6

Far West Water & Sewer, Inc. Cost of Capital Calculation
Multi-Stage DCF Estimates
Sample Water Utilities

[A] <u>Company</u>	[B] Current Mkt. Price (P_0) ¹ 2/20/2013	[C] Projected Dividends ² (Stage 1 growth) (D_t)				[E]	[F]	[G] Stage 2 growth ³ (g_n)	[H] Equity Cost Estimate (K) ⁴
		d_1	d_2	d_3	d_4				
American States Water	52.3	1.30	1.36	1.43	1.50		6.5%	8.9%	
California Water	20.0	0.66	0.69	0.73	0.76		6.5%	9.7%	
Aqua America	28.7	0.69	0.73	0.76	0.80		6.5%	8.8%	
Connecticut Water	29.9	0.98	1.03	1.08	1.13		6.5%	9.7%	
Middlesex Water	19.1	0.75	0.79	0.83	0.87		6.5%	10.3%	
SJW Corp	27.4	0.74	0.78	0.82	0.86		6.5%	9.1%	

Average **9.4%**

$$P_0 = \sum_{t=1}^n \frac{D_t}{(1+K)^t} + \frac{D_n(1+g_n)}{K-g_n} \left[\frac{1}{(1+K)} \right]^n$$

Where : P_0 = current stock price
 D_t = dividends expected during stage 1
 K = cost of equity
 n = years of non - constant growth
 D_n = dividend expected in year n
 g_n = constant rate of growth expected after year n

1 [B] see Schedule JAC-7

2 Derived from Value Line Information

3 Average annual growth in GDP 1929 - 2011 in current dollars.

4 Internal Rate of Return of Projected Dividends

Far West Water & Sewer, Inc. Cost of Capital Calculation				
Capitalization				
	<u>Interest Rate</u>	<u>Annual Interest</u>	<u>Amount Outstanding as of 12/31/2011</u>	<u>Percentage of Capital Structure</u>
Long-Term Debt				
	6.50%	\$ 175,175	\$ 2,695,000	
	6.375%	1,360,425	21,340,000	
	10.00%	194,245	1,942,448	
Long-Term Debt	6.66%	\$ 1,729,845	\$ 25,977,448	74.23%
Short-Term Debt				
	7.5%	114,426	1,520,505	
	7.40%	15,669	211,837	
Short-Term Debt	7.51%	130,095	1,732,342	4.95%
Total Debt	6.71%	\$ 1,859,939	\$ 27,709,790	79.18%
Common Equity				
Common Shares Outstanding				
Paid in Capital				
Retained Earnings				
Total Common Equity			\$ 7,285,912	20.82%
Total Capitalization			\$ 34,995,702	100.00%

Staff Adjustments to Equity:

Stockholders' Equity -- Consolidated

Common Stock	\$ 900,000	
Paid in Capital	9,430,633	
Retained Earnings -- Water and Sewer	(2,764,670)	
Total Stockholders' Equity -- Consolidated		\$ 7,565,963

Company Equity Adjustments

Plant in Service	\$ (3,229,531)	
Accumulated Depreciation	522,158	
Contributions in Aid of Construction (CIAC)	713,313	
Accumulated Amortization of CIAC	(393,502)	
Company Equity Adjustments		\$ (2,387,562)

Reversing Adjustments to Equity made by Staff

Section 14 Phase II Costs Excluded	\$ 2,165,201	
Less: A/D on Section 14 Phase II Costs Excluded	(57,690)	
Net Staff Reversing Adjustments		\$ 2,107,511

Total Common Equity, as Adjusted by Staff**\$ 7,285,912**

Sources:

Stockholders' Equity -- Consolidated: RLJ Schedule E-1, p. 3, "Comparative Balance Sheet" (Water and Sewer Consolidated)
Company Equity Adjustments: RLJ Schedule D-1, lines 14-18.
Reversing Adjustments to Equity made by Staff: RLJ Schedule B-2, pages 2 and 3 (Equity Adjustments as shown on line 38).