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BEFORE THE ARIZONA CORPORATION COMMISSION
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COMMISSIONERS

BOB STUMP - CHAIRMAN
GARY PIERCE
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BOB BURNS
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2013 APR 18 A 10: 28

AZ CORP 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 TESTIMONY SUMMARIES

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

RESPECTFULLY SUBMITTED this 18th day of April, 2013.

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Robin R. Mitchell
Attorneys, Legal Division
Arizona Corporation Commission
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Original and thirteen (13) copies of the foregoing filed this 18th day of April, 2013, with:

Docket Control
Arizona Corporation Commission
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Phoenix, Arizona 85007

Arizona Corporation Commission
DOCKETED

APR 18 2013

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TESTIMONY SUMMARY
GERALD W. BECKER
FAR WEST WATER & SEWER, INC.
DOCKET NO. WS-03478A-12-0307
APRIL 18, 2013

I address the issues listed below. I also sponsor the Staff's supporting schedules, including rate design.

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 - Staff continue to recommend the adoption of a formal written competitive bidding process.
8. Income Statement - Other than differences in depreciation and income taxes, there are no remaining significant differences between the Staff and Company positions.
9. Rate Design - Staff continues to advocate a \$1.10 per thousand gallons charge for effluent. Staff disagrees with the meter multipliers for commercial customers as proposed by the Company.
10. Implementation of Rates - Staff continues to recommend that rates not go into effect until the Company attains compliance with Arizona Department of Environmental Quality ("ADEQ") and full payment of past due amounts to Spartan Homes.
11. Phase-in - Staff continues to recommend a two-step phase in of the increase to mitigate the rate shock associated with the large increase.

TESTIMONY SUMMARY
JIAN W. LIU
FAR WEST WATER & SEWER COMPANY
DOCKET NO. WS-03478A-12-0307
APRIL 18, 2013

CONCLUSIONS

- A. The Company's WWTPs are not in compliance with Arizona Department of Environmental Quality ("ADEQ") regulations. On June 22, 2010, ADEQ issued a Consent Judgment against Far West.
- B. A check with the Utilities Division Compliance Section indicates that there is one delinquent item for Far West (ACC Compliance Section Email dated 1/18/2013).
- C. Staff inspected the Seasons WWTP on January 9th, 2013. The portable Membrane Bio Reactor ("MBR") wastewater treatment module was not in service and therefore not used and useful during Staff's field inspection.
- D. Staff concludes that Far West has adequate treatment capacity to serve the existing customer base and reasonable growth.

RECOMMENDATIONS

- 1. Staff recommends that Far West be required to provide separate wastewater descriptions (Lift Stations, Force Mains, Manholes, Cleanouts, Collection Mains, and Service Laterals) for each of its Wastewater Treatment Plants in future Commission Annual Reports, beginning with the 2013 Annual Report filed in 2014.
- 2. Staff recommends that any increase in rates and charges approved in this proceeding shall not become effective until the Company files documentation from ADEQ that the Far West's WWTPs are in compliance with ADEQ's Consent Judgment as it may be amended.
- 3. In the prior rate case, the Company adopted Staff's typical and customary depreciation rates for wastewater system plant. These rates are presented in Table G-1 and it is recommended that the Company continue to use these depreciation rates by individual National Association of Regulatory Utility Commissioners category.
- 4. Staff has reviewed the information provided by the Company and recommends the Company's reported annual testing expense of \$147,025 be used for purposes of this application.

5. Staff recommends that the portable MBR wastewater treatment module located in Seasons WWTP be removed from rate base in this proceeding because it was not in service by end of the test year , and not in service during Staff's field inspection. The cost is \$1,060,096.

ADDITIONAL CONCLUSIONS

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.

TESTIMONY SUMMARY
JOHN A. CASSIDY
FAR WEST WATER & SEWER, INC.
DOCKET NO. WS-03478A-12-0307
APRIL 18, 2013

The 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 79.0 percent debt and 21.0 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 10.0 percent.