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BEFORE THE ARIZONA CORPORATION COMMISSION

BOB STUMP  
CHAIRMAN  
GARY PIERCE  
COMMISSIONER  
BRENDA BURNS  
COMMISSIONER  
ROBERT BURNS  
COMMISSIONER  
SUSAN BITTER SMITH  
COMMISSIONER

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2013 APR 18 PM 3 17

IN THE MATTER OF THE APPLICATION OF  
FAR WEST WATER & 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

NOTICE OF FILING

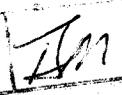
The Residential Utility Consumer Office ("RUCO") hereby provides notice of filing the Testimony Summaries of Thomas H. Fish, Royce A. Duffett, William A. Rigsby and Timothy J. Coley, in the above-referenced matter.

RESPECTFULLY SUBMITTED this 18th day of April, 2013.

  
Michelle L. Wood  
Counsel

Arizona Corporation Commission  
DOCKETED

APR 18 2013

DOCKETED BY 

1 AN ORIGINAL AND THIRTEEN COPIES  
2 of the foregoing filed this 18th day  
3 of April, 2013 with:

3 Docket Control  
4 Arizona Corporation Commission  
5 1200 West Washington  
6 Phoenix, Arizona 85007

6 COPIES of the foregoing hand delivered/  
7 mailed this 18th day of April, 2013 to:

8 Lyn Farmer  
9 Chief Administrative Law Judge  
10 Hearing Division  
11 Arizona Corporation Commission  
12 1200 West Washington  
13 Phoenix, Arizona 85007

Robert Rist  
9593 E. 34<sup>th</sup> Place  
Yuma, AZ 85365

11 Janice Alward, Chief Counsel  
12 Legal Division  
13 Arizona Corporation Commission  
14 1200 West Washington  
15 Phoenix, Arizona 85007

Rodney Taylor  
Kim Taylor  
11440 E. 26<sup>th</sup> Lane  
Yuma, AZ 85367

14 Steven Olea, Director  
15 Utilities Division  
16 Arizona Corporation Commission  
17 1200 West Washington  
18 Phoenix, Arizona 85007

Seth Davis  
Barbara Davis  
2006 S. Arboleda Dr.  
Merced, CA 95341

17 Jeffrey W. Crockett  
18 Brownstein Hyatt Farber Schreck LLP  
19 One E. Washington St., Suite 2400  
20 Phoenix, Arizona 85004

Jerry S. Durden  
12789 E. 46<sup>th</sup> St.  
Yuma, AZ 85367

19 Craig A. Marks  
20 Craig A. Marks, PLC  
21 10645 N. Tatum Blvd., Suite 200-676  
22 Phoenix, Arizona 85028

By Cheryl Fraulob  
Cheryl Fraulob

22 Robert C. Gilkey  
23 Barbara S. Gilkey  
24 14784 E. 49<sup>th</sup> Street  
Yuma, AZ 85367

Far West Water & Sewer, Inc.  
Docket No. WS-03478A-12-0307  
Rate Case

SUMMARY OF THE TESTIMONY OF ROYCE A. DUFFETT, P.E.  
ON BEHALF OF THE RESIDENTIAL UTILITY CONSUMER OFFICE

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The following is a summary of the significant issues set forth in both the direct and the surrebuttal testimony of Residential Utility Consumer Office (“RUCO”) witness Royce A. Duffett, P.E., on Far West Water & Sewer, Inc.’s (“Far West” or “Company”) application for a permanent rate increase (“Application”) which was filed with the Arizona Corporation Commission (“ACC” or “Commission”) on July 6, 2012 using a test year ended December 31, 2011. Far West elected to use the Company’s original cost rate base (“OCRB”) as its fair value rate base (“FVRB”). Mr. Duffett is providing testimony on the required revenue and rate design issues associated with Far West’s Application. The underlying theory and rationales for Mr. Duffett’s recommendations on these issues are contained in the above referenced documents. The significant issues associated with the case are as follows:

**Excess Capacity** – As a result of his review and evaluation of the information available in this proceeding, Mr. Duffett believes that 30.1 percent of the Company’s plant in service is not used and useful. Mr. Duffett’s analysis was the basis for the recommendations presented by RUCO witnesses Thomas H. Fish, Ph.D., and Timothy J. Coley.

Far West Water & Sewer, Inc.  
Docket No. WS-03478A-12-0307  
Rate Case

SUMMARY OF THE TESTIMONY OF WILLIAM A. RIGSBY  
ON BEHALF OF THE RESIDENTIAL UTILITY CONSUMER OFFICE

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The following is a summary of the significant issues set forth in both the direct and the surrebuttal testimony of Residential Utility Consumer Office (“RUCO”) witness William A. Rigsby on Far West Water & Sewer, Inc.’s (“Far West” or “Company”) application for a permanent rate increase (“Application”) which was filed with the Arizona Corporation Commission (“ACC” or “Commission”) on July 6, 2012 using a test year ended December 31, 2011. Far West elected to use the Company’s original cost rate base (“OCRB”) as its fair value rate base (“FVRB”). Mr. Rigsby is providing testimony on the required revenue and rate design issues associated with Far West’s Application. The underlying theory and rationales for Mr. Rigsby’s recommendations on these issues are contained in the above referenced documents. The significant issues associated with the case are as follows:

**Cost of Common Equity** – Mr. Rigsby is recommending that the Commission adopt a 9.25 percent cost of common equity. Mr. Rigsby’s 9.25 percent figure is 51 basis points more than the high side of the range of results obtained in his cost of equity analysis, and is 75 basis points lower than the 10.00 percent cost of equity capital proposed by Far West.

SUMMARY OF THE TESTIMONY OF WILLIAM A. RIGSBY (Cont.)

**Capital Structure** – Mr. Rigsby is recommending that the Commission adopt Far West's end of test year adjusted capital structure comprised of 79.55 percent long-term debt, 6.46 percent short-term debt and 13.98 percent common equity.

**Cost of Debt** – Mr. Rigsby recommends that the Commission adopt a 6.90 percent cost of long-term debt and an 8.07 percent cost of short-term debt.

**Weighted Average Cost of Capital** – Mr. Rigsby is recommending that the Commission adopt a 7.30 percent weighted average cost of capital ("WACC") for Far West, which is the weighted cost of his recommended costs of long-term and short-term debt, and common equity which is 20 basis points lower than the 7.50 percent WACC being proposed by the Company.

Far West Water & Sewer, Inc.  
Docket No. WS-03478A-12-0307  
Rate Case

SUMMARY OF THE TESTIMONY OF THOMAS H. FISH, Ph.D.  
ON BEHALF OF THE RESIDENTIAL UTILITY CONSUMER OFFICE

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The following is a summary of the significant issues set forth in both the direct and the surrebuttal testimony of Residential Utility Consumer Office (“RUCO”) witness Thomas H. Fish, Ph.D. on Far West Water & Sewer, Inc.’s (“Far West” or “Company”) application for a permanent rate increase (“Application”) which was filed with the Arizona Corporation Commission (“ACC” or “Commission”) on July 6, 2012 using a test year ended December 31, 2011. Far West elected to use the Company’s original cost rate base (“OCRB”) as its fair value rate base (“FVRB”). Dr. Fish is providing testimony on the required revenue and rate design issues associated with Far West’s Application. The underlying theory and rationales for Dr. Fish’s recommendations on these issues are contained in the above referenced documents. The significant issues associated with the case are as follows:

**Background** – According to Dr. Fish, Far West claimed that the Company’s rate base had increased significantly. Far West also claimed that in 2009 (Decision No. 71447) the Commission found its wastewater division to be insolvent. Furthermore the Company claims that its financial condition has not improved since then.

## SUMMARY OF THE TESTIMONY OF THOMAS H. FISH, Ph.D. (Cont.)

In the Company's Application, Far West requests a rate increase of \$3,866,046, or 173.52% in order for it to earn a rate of return on its original cost rate base of 7.40%. A residential customer's monthly bill would increase by \$40.90 to \$62.65 per month, an increase of 188.05%.

**Analysis** – Dr. Fish's testimony describes and presents evaluations, observations and recommendations regarding whether the Company's wastewater treatment plant investment is used and useful. His analysis is geared towards determining whether FWWS's request to place the original cost of its treatment plant upgrade in rate base is in the ratepayer's best interest.

**Excess Capacity** – As a result of his review and evaluation of the information available in this proceeding, Dr. Fish determined that no more than 69.9% of the investment in wastewater treatment should be considered to be beneficial to current Far West customers and the balance could be beneficial to future Far West wastewater customers.

As a result of his analysis Dr. Fish determined that Far West overstated its depreciable utility plant in service by \$10,936,720 which results in an overstatement of the revenue requirement by \$1,329,304.

Far West Water & Sewer, Inc.  
Docket No. WS-03478A-12-0307  
Rate Case

SUMMARY OF THE TESTIMONY OF TIMOTHY J. COLEY  
ON BEHALF OF THE RESIDENTIAL UTILITY CONSUMER OFFICE

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The following is a summary of the significant issues set forth in both the direct and the surrebuttal testimony of Residential Utility Consumer Office (“RUCO”) witness Timothy J. Coley on Far West Water & Sewer, Inc.’s (“Far West” or “Company”) application for a permanent rate increase (“Application”) which was filed with the Arizona Corporation Commission (“ACC” or “Commission”) on July 6, 2012 using a test year ended December 31, 2011. Far West elected to use the Company’s original cost rate base (“OCRB”) as its fair value rate base (“FVRB”). Mr. Coley is providing testimony on the required revenue and rate design issues associated with Far West’s Application. The underlying theory and rationales for Mr. Coley’s recommendations on these issues are contained in the above referenced documents. The significant issues associated with the case are as follows:

**Rate Base Issues** – Mr. Coley is recommending that the Commission adopt a FVRB of \$16,679,237 which is \$6,121,341 lower than the \$22,800,578 FVRB proposed by Far West in the Company’s direct testimony. Mr. Coley’s lower rate base figure reflects the following adjustments: a \$10,936,720 reduction to Far West’s gross utility plant in service; a \$1,488,666 reduction to accumulated

## SUMMARY OF THE TESTIMONY OF TIMOTHY J. COLEY (Cont.)

depreciation; a \$3,255,306 reduction to advances in aid of construction; a \$519,783 reduction to contributions in aid of construction; and, a \$273,736 decrease to accumulated amortization of contributions in aid of construction. The aforementioned adjustments were based on the recommendations of RUCO consultants Thomas H. Fish, Ph.D. and Royce A. Duffet, P.E. who determined an excess capacity figure of 30.1 percent. Mr. Coley is also recommending a \$174,639 reduction to the Company-proposed Allowance for Working Capital which takes into account the lead/lag days associated with such items as meter reading, interest payments and non-cash charges.

**Operating Income Issues** – Mr. Coley is recommending that the Commission adopt his recommended increase of \$3,133 to operating revenues which represents lost revenues attributed to forty-seven recreational park lots that were not captured in the Company's test year billing determinants. Mr. Coley is also recommending that the Commission adopt his seven operating expense adjustments which include the following: a \$61,609 reduction to Salaries and Wages – Officers and Directors; a \$32,975 reduction to Contractual Services – Management Fees; a \$4,698 net reduction to the Company-proposed level of Bad Debt Expense; a \$451,872 reduction to Depreciation Expense which was based on the excess capacity findings of Dr. Fish and Mr. Duffett; a \$4,609

SUMMARY OF THE TESTIMONY OF TIMOTHY J. COLEY (Cont.)

decrease to Taxes Other Than Income; a \$37,345 increase to Property Tax Expense; and, an \$811,370 net pro forma adjustment to Income Tax Expense.

**Rate Design** – For the residential customer classification, RUCO recommends a flat monthly rate design for all residential customers regardless of water meter size with no commodity charges assessed. Under RUCO's recommended rate design a typical monthly residential bill would be \$48.93, which is an increase of \$27.18 or 124.97 percent increase over the present monthly rate of \$21.75.

Under the commercial customer classification Mr. Coley is recommending that the monthly flat rates for each meter size be based on the Company-proposed meter multiplier presented in Far West's rebuttal testimony.

Under the RV customer lot classification, Mr. Coley is recommending a flat monthly rate that is one third of the residential rate which is advocated by the Arizona Department of Environmental Quality.

Mr. Coley is also recommending that the metered reuse customer classification, which presently includes two golf courses, remain at the present rate of \$1.00 per 1,000 gallons of effluent.