

Transcript Exhi



Docket #(s): WS-03478A-12-0307

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Exhibit #: Gilkey 1 thru 16, Gilkey 18+19 Part 1+2  
Gilkey - Part 1 thru 3, 5 Parton 1 thru 4, 5-1 thru 5-5  
Part 2 of 4, Part 1 0000144974, Part 3 0000144996  
Part 4 0000144977

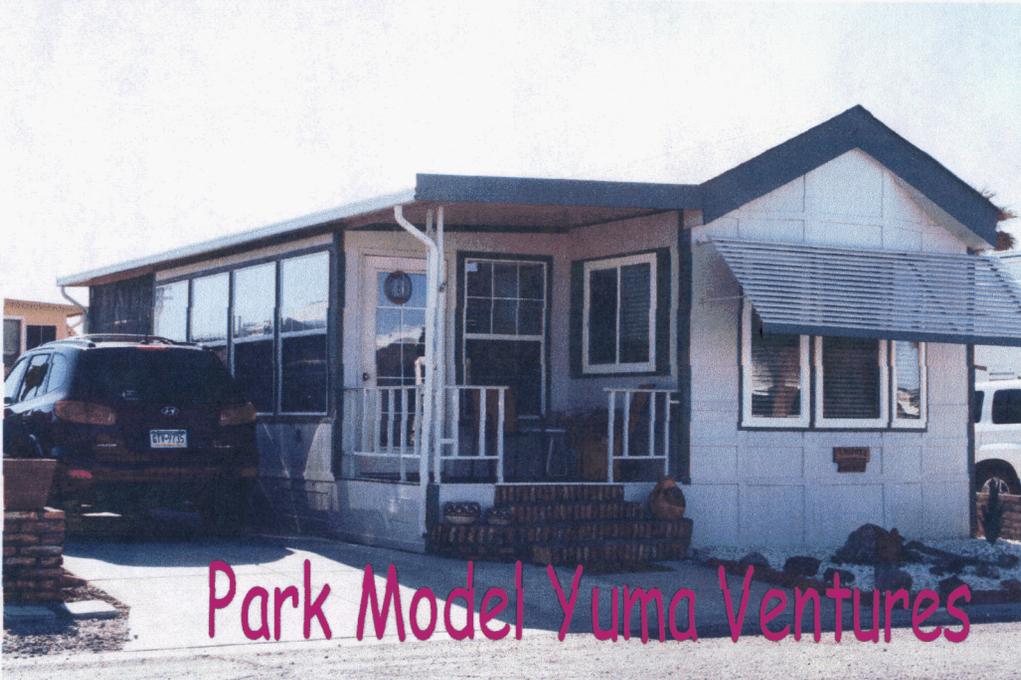
Arizona Corporation Commission  
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MAY 17 2013

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AZ CORP COMMISSION  
DOCKET CONTROL

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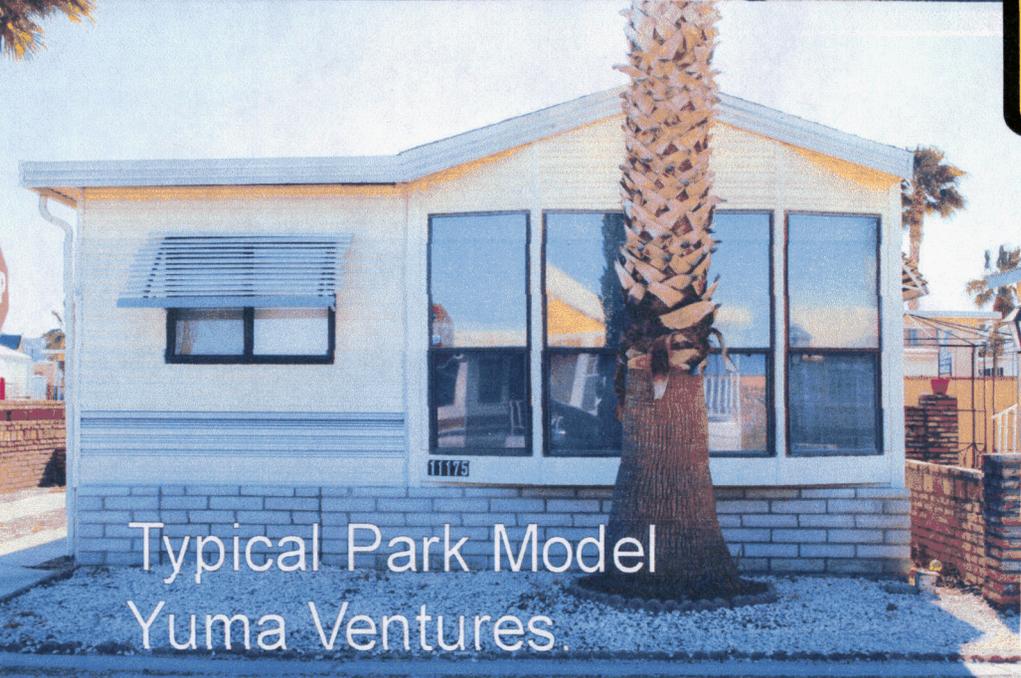
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Park Model Yuma Ventures

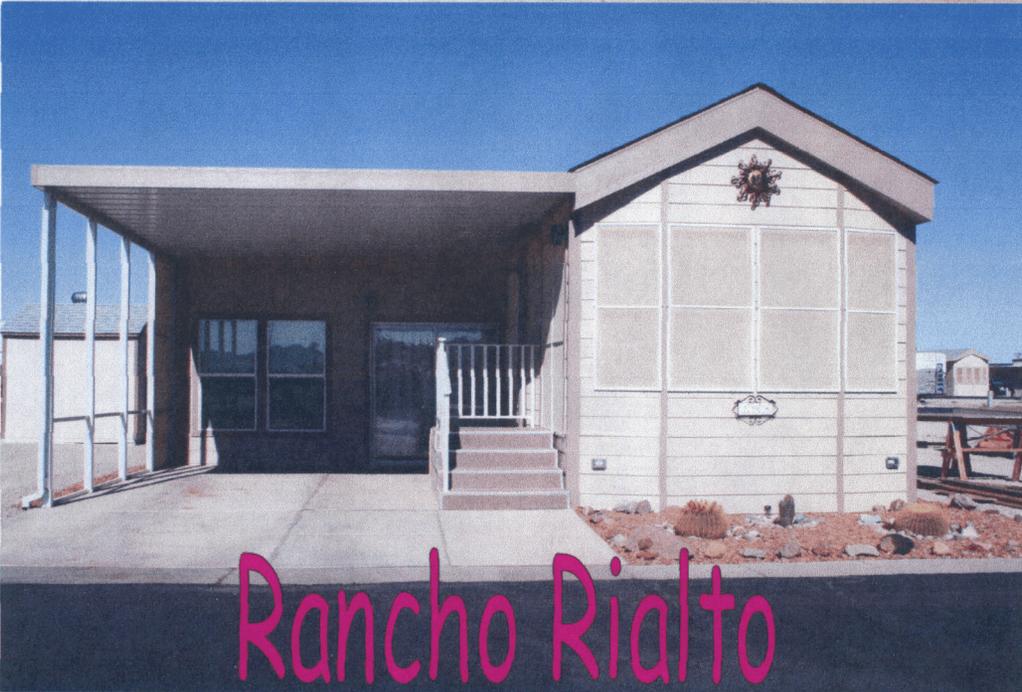
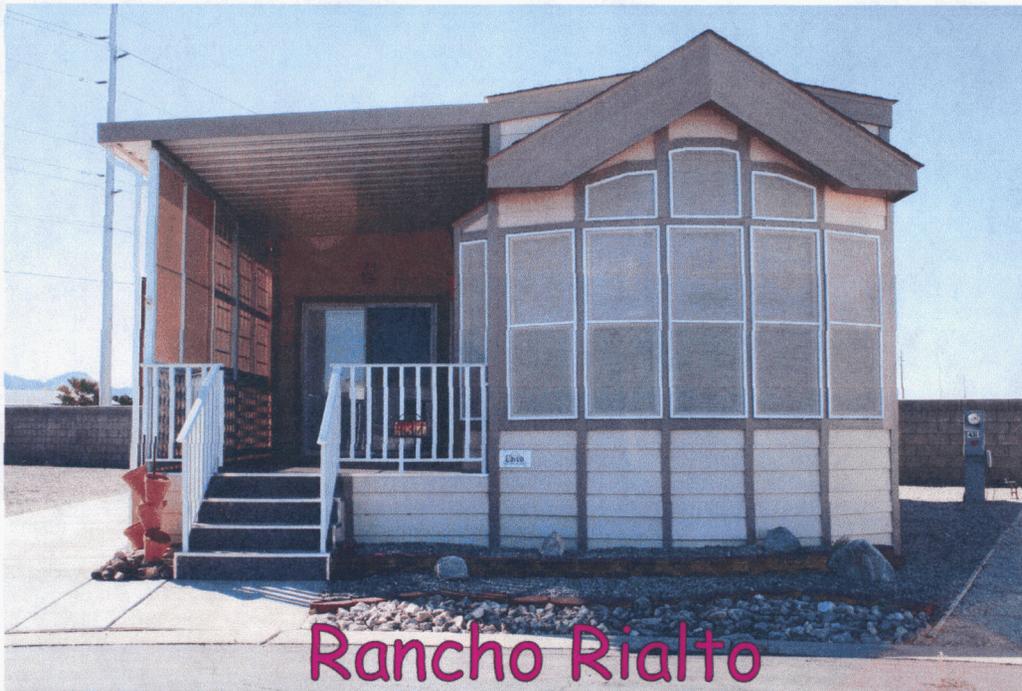


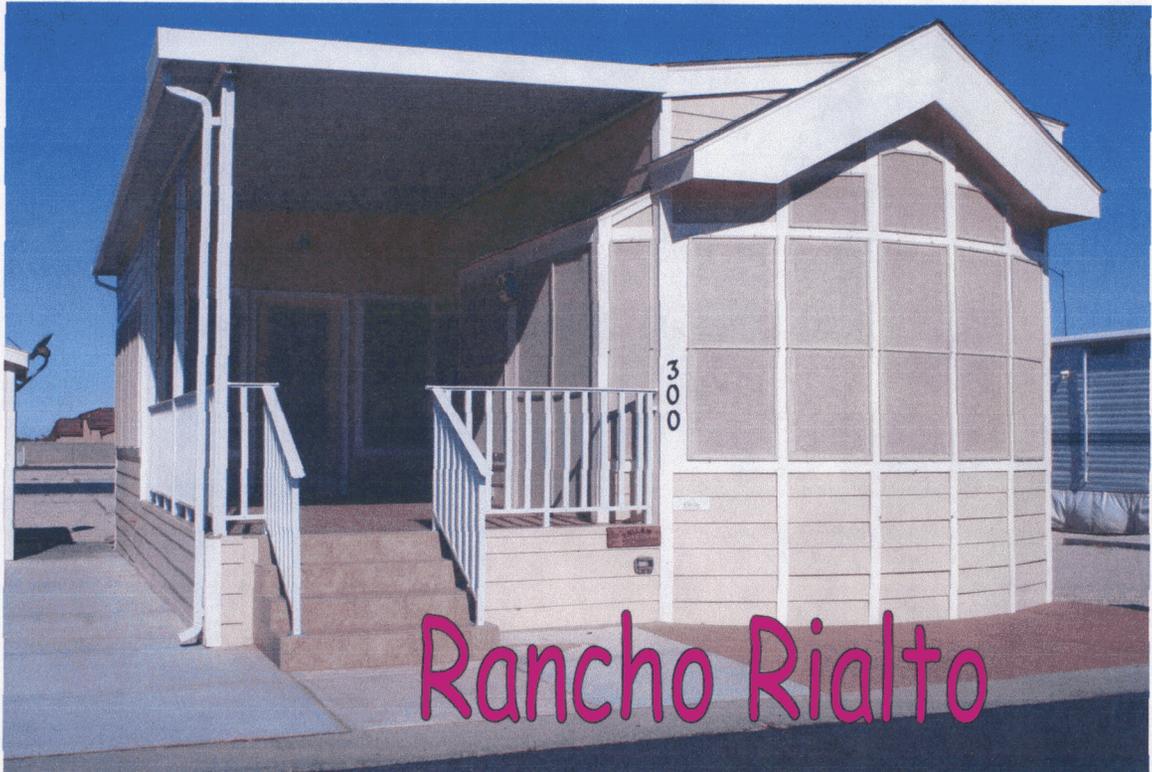
Yuma Ventures



Typical Park Model  
Yuma Ventures

EXHIBIT  
tablets  
Gillkey  
ADMITTED







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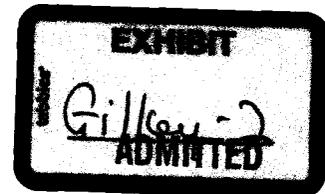
**Before the  
Arizona Corporation Commission**

**In The Rate Case of  
Far West Water & Sewer, Inc.**

**Docket # WS-03478A-12-0307**

**Direct Testimony of  
Robert Gilkey, Intervenor  
and  
Barbara Gilkey, Intervenor**

February 8, 2013



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## EXPERIENCE & QUALIFICATIONS

1  
2  
3 **Q. Please state your experience and qualifications which would give you the ability to**  
4 **testify in this Rate Case.**

5 **Robert Gilkey**

6 A. Current property owner in the Far West Water & Sewer, Inc. district directly affected by  
7 any rate increase

8 B. Licensed, National Association of Securities Dealers, License #W747, 1969-1972

9 C Budget Committee Member, Rogue River, Oregon School District, 1977-1978

10 D. Planning Commissioner in Central Point, Oregon, from 1996-1998

11 E. City Councilor in Central Point, Oregon, from 1998 through 2000

12  
13 **Barbara Gilkey**

14 A. Current property owner in the Far West Water & Sewer, Inc. district directly affected by  
15 any rate increase

16 B. California licensed Real Estate Salesperson and Broker – actively worked from 1972 to  
17 1982 in San Diego County; have maintained license and kept up with continuing education  
18 requirements

19 C Licensed Income Tax Practitioner in California

20 D. Small business owner of Transportation Brokerage in Medford, Oregon, from 1982 to 1996  
21 when business was sold

## SEWER PLANT TOUR

1  
2 Q. You went on a sewer plant tour January 11, 2013. Who was in attendance? What did you  
3 learn during the tour?

4 A. Far West was represented by Paula Capestro, Isaac Yocupicio, the Treatment/Collections  
5 Supervisor responsible for overseeing the operation of all wastewater treatment plants and Mike (didn't get  
6 his last name) who said he was in charge of maintenance. Intervenors in attendance were Bob and  
7 Barbara Gilkey, Bob Rist and Rod Taylor

8 During the tour of the Section 14 plant, we were told that the effluent discharge from that plant  
9 meets Type A+ standards. There were no detectable odors. Del Oro also meets A+ standards. We  
10 would assume that when Seasons is fully converted to a Zenon plant, it will also meet A+ standards,  
11 however at this time, it is not completed. We were unable to visit Villa Del Rey and Villa Royale as  
12 we were told it was unsafe because of the location so close to the golf course and the threat of golf  
13 balls hitting us on the head. We were, however, informed that there was no work done to meet the  
14 requirements of the Consent Order. The reason these two plants have not been completed is that the  
15 issue of the easements had not been resolved. We also went to Palm Shadows. The in ground  
16 facilities there have not been removed; the decommissioning has not been completed. Two 100 HP  
17 pumps have been added to pressurize the force main. We were told that with the pumps off, there is  
18 86 psi static pressure in the force main at Palm Shadows.

## PALM SHADOWS

19  
20 Q. Mr. Gilkey, what was the major issue at the Palm Shadows plant?

21 A. The Palm Shadows plant failed due to clay beds under the percolation ponds. The plant  
22 was certified by an engineering firm even though that firm had direct financial interest in what is now  
23 known as Far West Water & Sewer, Inc. and/or H&S Developers.

### ***Viab***le Options

24  
25 Q. Mr. Gilkey, in your opinion other than decommissioning, were viable options considered  
26 when Palm Shadows failed?

27 A. It appears that viable options were not considered. First of all, when I asked if Far West

1 Water & Sewer, Inc. or any of its representatives had formal or informal contact with the City of  
2 Yuma regarding that portion of the Far West Sewer service area located within the city of Yuma, the  
3 answer from the Office of the City Clerk in Yuma was:

4  
5 Mr. Gilkey,  
6 Regarding your attached Request for Public Records, there are no public documents to fill this request. At this  
7 time I will consider your request closed.  
8 Please don't hesitate to contact me should you have any additional questions or concerns.  
9 Thank you, Jasmine Small

10  
11 Had there been contact with the city of Yuma, there should have been a record.

12 The City of Yuma has a sewer main at approximately 30 feet lower ground elevation than the  
13 ground elevation at the Palm Shadows plant and is less than a mile away. It would require a  
14 minimum of pumping to transfer the sewage from the Palm Shadows plant to the City of Yuma's main  
15 sewer line. With proper engineering, it may even be done by gravity flow. The Palm Shadows plant  
16 serves an area which is largely in the city of Yuma. Diverting flows from Palm Shadows to the city of  
17 Yuma was not explored.

18 Another option could have been upgrading Palm Shadows to a Zenon Plant. Zenon plants  
19 produce A+ grade effluent which can be used for many purposes. Within the same Vista del Sol  
20 development which Palm Shadows was created to serve, there are a series of large runoff detention  
21 ponds, two of which have proven to percolate rapidly after storm events. These are an example that  
22 other locations existed and were not explored for the percolation ponds associated with Palm  
23 Shadows. Irrigation on adjoining property also could have been considered. Any of these options  
24 would have allowed discharge of the effluent from Palm Shadows.

## 25 **FORCE MAIN**

26 Q. Was the Force Main/Section 14 upgrade a reasonable solution to the Palm Shadows failure?

27 A. No. The Section 14 Zenon upgrade should have been applied at Palm Shadows. Force  
28 Main pumps effluent uphill to the Section 14 Plant from Palm Shadows, a difference in elevation of  
29 nearly 200 feet requiring two 100 HP pumps. Each pump, if running at capacity, would consume in  
30 excess of \$50,000. per year in electricity not to mention maintenance and repair to the Force Main.  
31 By contrast, had Far West management explored and utilized connection to the city of Yuma, the flow

1 would be downhill requiring little, if any, pumping.

## 2 **CAPACITY FEES**

3 Q. Does Far West Water & Sewer, Inc. charge Capacity Fees? Are these fees adequate to  
4 cover the cost of plant-in-service?

5 A. No, Far West does not have a set fee schedule for Capacity Fees. The question to them  
6 was: Does Far West charge for sewer capacity fees? Explain methodology. If no formula, why not?  
7 In their Response to Gilkey's Third Set of Data Requests, 3.5, they state:

8 Since 2006, Far West has required all developments to enter into agreements for the payment  
9 of their proportionate share of the cost of off-site wastewater infrastructure. Each agreement is  
10 **individually negotiated** based on the capacity requirements of the development.

11 One example would be: In response to Yuma Venture R.V. Park's request for sewer connection  
12 because their septic system is failing, on March 18, 2011, Far West offered to allow them to connect  
13 for a capacity fee of \$484,661.44, which is approximately \$1,954.28 per space. This was at a time  
14 when there was no capacity to serve the additional 248 spaces. According to the Yuma Venture  
15 manager, Todd Jensen, they were also quoted \$21.75 per month per space for sewer service fees,  
16 which is the current standard residential rate – not the current R.V. park rate.

17 According to the number of lots shown on the Assessor's map the capacity fee for Rancho  
18 Encantado Phase I was \$1,998.20 per lot, not making any allowance for commercial lots. The  
19 capacity fees for Las Barancas 1, were \$1685.61, and for Arroyo De Fortuna were \$1540.00 per  
20 residential lot.

21 In the Direct Testimony of Ray L. Jones on behalf of Far West Water & Sewer, Inc., July 6,  
22 2012, he stated (at line 2, page 7):

23 Far West's plant-in-service balance has increased from from \$13,420,251 (2004 test year) to  
24 \$37,751,132 in this filing.

25 Based on the 8,262 total connections at the December, 2011 test year, it would have required  
26 \$4,569.25 in capacity fees per connection to have covered the plant-in-service balance.

27

1 Based on the numbers given us, the capacity fees which have been charged in the past and are  
2 continuing to be negotiated, are inadequate. We should not be paying exorbitant attorney's fees to  
3 negotiate something that should be set on a standard fee schedule. By the consistent pattern of  
4 negotiating capacity fees of less than \$2000.00 per connection, since the company constructed the  
5 plants, they know the capacity of the plants, they know the cost of the plants, they know the cost per  
6 connection to provide the capacity, their negotiations tell us that at a maximum of \$2,000.00 per  
7 connection times the 8,262 connections, the total plant facilities are worth no more than  
8 \$16,524,000.00, not the \$37,751,132.00 that came from Ray Jones' testimony.

9 The city of Yuma has a set sewer capacity fee of which the lowest amount listed is \$6,577.00  
10 per connection and does not include the direct sewer connection fee. There is no expensive and  
11 unnecessary negotiation.

## 12 **R.V. PARKS**

13 Q. Is Far West billing all of the R.V. parks/spaces within the sewer district?

14 A. We have verified the spaces in the four R.V. parks listed in response to our data request  
15 2.7, and they total 713, however there are other R.V. parks within the sewer service district which may  
16 or may not be connected.

## 18 **COMMERCIAL**

19 Q. Do you feel that all commercial customers are being billed equitably for sewer services?

20 A. No. One example, Texas Tango AZ, LLC, an undisclosed affiliate (not included in the  
21 answer to Staff's Second Set of Data Requests GB 2-1), owned by Sandra Braden, CEO of Far West  
22 Water & Sewer, Inc., owns land known as Assessor Parcels # 70136194 (11286 S. Foothills Blvd.),  
23 70136195, (11264 S. Foothills Blvd.), and 70136196, (11242 S. Foothills Blvd.). There is a strip mall  
24 on these parcels containing 20 separate businesses having one commercial connection billed at \$43.50  
25 per month for the entire strip mall (as is listed in Gilkey's 4<sup>th</sup> set of Data Requests, 4.4) . All of these  
26 businesses are significant contributors to the sewer system and if each business was on it's own piece  
27 of property, there would be a charge of \$43.50 for each business.

1 Another example would be Parcel #70153090, (11611 S. Foothills Blvd.) also owned by Texas  
2 Tango AZ, LLC, shown as having one commercial sewer connection, and the building contains a  
3 medical clinic, an insurance office and a title company.  
4

## 5 **RATE INEQUITY**

6 Q. Do you feel that charging 25% of the residential sewer rate for RV parks and double the  
7 rate of the residential sewer rate for commercial hookups is equitable?

8 A. No. Two people living in an RV and two people living in a single family residence will  
9 normally generate the same amount of wastewater and the rate for an RV space should be equal to the  
10 rate for a residential lot.

11 Two examples of commercial usage is described above; however the fees for different types of  
12 commercial businesses should be assigned different sewer rates, as different types of business  
13 generate vastly different quantities and strengths of sewage. Having one sewer connection for a  
14 building with many units is also inequitable.

## 15 **REAL ESTATE VALUES**

16 Q. Mrs. Gilkey, what is a probable effect of an increase of 188.05% in the sewer rates ?

17 A. If this rate increase is approved, it will result in more people not being able to afford to  
18 come to Yuma, more properties will be on the market and market values will be further depressed.  
19 As a further result, businesses in the Foothills relying on winter visitors will suffer as well harming  
20 the overall economy of Yuma. This opinion is also reflected in the numerous rate payer comments  
21 posted on the Commission's docket for this rate case.

## 22 **LEGAL FEES**

23 Q. What were the legal fees and/or management fees charged by Andrew Capestro in the year  
24 2011?

25 A. According to the answer to Staff's Data Request GB 2-1.3, Mr. Capestro was paid by Far  
26 West Water & Sewer, Inc., \$120,000.00 in legal and management fees included in the rate base and

1 \$47,000.00 in legal fees included in the test year case, totaling \$167,000. According to the 1099  
2 which was issued in response to Gilkey's Data Request 3.9, Mr. Capestro received \$154,500.00 in  
3 column 14 labeled "Gross proceeds paid to an attorney". The 1099 was issued by Far West Water &  
4 Sewer, Inc., but the entire expense was charged exclusively to the sewer division.

## 6 CONCLUSION

8 Q. What do you have to say in conclusion?.

9 A. First of all, we find it difficult to understand how an annual tax bill of \$723.40 for a lot  
10 (with an outbuilding valued at \$3700.) in the Foothills Mobile Estates, developed by H&S Developers  
11 and sold originally in 2003, can possibly be less than what a sewer bill of \$751.80 per annum would  
12 be if this rate increase is approved. The tax bill includes fees for schools, library, flood control and  
13 county services.

14 Not having considered and utilizing alternatives to the Force Main/Section 14 solution to the  
15 Palm Shadows failure is just another example of poor choice and management failure.

16 Capacity fees, not rate increases, should have covered and should continue to cover,  
17 infrastructure costs. This is another example of poor management decision making.

18 Inconsistency prevails with Far West Water & Sewer, Inc. On the one hand, four R.V. parks  
19 are currently being charged a per space rate of 25% of the residential rate, and not paying their fair  
20 share of the monthly sewer fees. On the other hand, Far West is trying to assess a residential rate to a  
21 distressed R.V. park

22 Far West shouldn't be able to make income adjustments for the amounts paid for attorney fees,  
23 rents, and the unverifiable and "no bid" charges from their affiliates. The cost to construct, maintain  
24 and operate the Force Main from Palm Shadows should not be allowed to be included in the rate base.

25 The Far West Water & Sewer, Inc. district needs to be a public, not a private utility company.  
26 There should be a Board of Directors which oversees the hiring of a qualified manager, proper  
27 budgeting, and plans for growth and preventative maintenance. Regular board meetings, open to the

1 public with complete transparency, would be a requirement.

2 Q. Does this conclude your testimony?

3 A. Yes it does, however, we reserve the right to add, amend, or delete testimony based on  
4 further discovery.

5

6

7 Copies of the foregoing mailed and/or emailed this 8th day of February 2013 to:

8

9 Craig A. Marks  
10 CRAIG A. MARKS, PLC  
11 16045 N. Tatum Blvd., Suite 200-676  
12 Phoenix, AZ 85028

13

14 Daniel Pozefsky  
15 Residential Utility Consumer Office  
16 1110 West Washington Street, Suite 220  
17 Phoenix, AZ 85007

18

19 Jeffery W. Crockett  
20 BROWNSTEIN HYATT FARBER SCHRECK LLP  
21 One East Washington Street, Suite 2400  
22 Phoenix, AZ 85004

23

24

25 Robert Rist  
26 9593 E, 34<sup>th</sup> Place  
27 Yuma, AZ 85365

28

29 Rodney & Kim Taylor  
30 11440 East 26<sup>th</sup> Lane  
31 Yuma, AZ 85367

32

33 Seth & Barbara Davis  
34 2006 South Arboleda Drive  
35 Merced, CA 95341

36

37 Jerry S. Durden  
38 12789 East 46<sup>th</sup> Street  
39 Yuma, AZ 85367

40

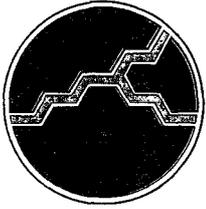
1 Lyn Farmer  
2 Chief Administrative Law Judge  
3 Hearing Division  
4 Arizona Corporation Commission  
5 1200 West Washington  
6 Phoenix, Arizona 85007  
7  
8 Janice Alward, Chief Counsel  
9 Legal Division  
10 Arizona Corporation Commission  
11 1200 West Washington Street  
12 Phoenix, AZ 85007  
13  
14 Steven M. Olea, Director  
15 Utilities Division  
16 Arizona Corporation Commission  
17 1200 West Washington Street  
18 Phoenix, AZ 85007  
19  
20 Arizona Reporting Service INC.  
21 2200 North Central Avenue, Suite 502  
22 Phoenix, AZ 85004-1481  
23  
24  
25  
26  
27  
28 Robert Gilkey, Intervenor  
29 14784 E. 49<sup>th</sup> Street  
30 Yuma AZ 85367  
31 (928) 345-2468

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Barbara Gilkey, Intervenor

33  
34

SPARTAN 6

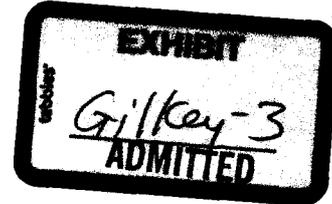


City of YUMA

CITY ADMINISTRATION

One City Plaza  
P.O. Box 13014  
Yuma, AZ 85366-3014  
928-373-5011 (phone)  
928-373-5012 (fax)

March 23, 2010



Mr. Brian Householden  
11858 Via Loma Vista  
Yuma, AZ 85367

Dear Mr. Householden,

Thank you for your recent inquiry about discussions between the City of Yuma and the Far West Water & Sewer Company in 2005. You have requested that we examine our records for any references to the meetings. The only physical confirmation of an internal staff meeting with Utilities Director Hank Baer is May 24, 2005. Unfortunately, city calendars have been eliminated for that time due to software change.

To my recollection, this meeting was held after an earlier meeting in the month of late April. This meeting was an approach by the Far West Water & Sewer Company to ask the City to consider an option accepting Far West Sewage into the City of Yuma system. I recall that owners of the Far West system and local attorney Wayne Benesch were present at the meeting.

I hope this clarifies your issue as it pertains to the City of Yuma.

Sincerely,

Mark S. Watson  
City Administrator

cc: Hank Baer  
Steve Moore

Encls

MSW/ml

## Farwest Sewer and Water Snapshot 24 May 05

Randy Smith and Greg Berkey toured the Foothill area seeking to locate the major pieces of the water and sewer infrastructure. Below is a listing of Sanitary sewer facilities and Water facilities. We applied our own numbering system and included location descriptions.

### Sanitary Sewer South of Freeway:

	Location
1. Lift Station 1	33 St at Puesta del Sol near Mesa Ave ("Palm Lift")
2. Treatment Plant 1	Palm Shadows TP at 40 <sup>th</sup> St and Salida del Sol
3. Lift Station 2	Hunter at 44 St -Pumps to 45 Dr Lift Sta.
4. Lift Station 3	45 Dr. at Foothills Blvd. -Pumps to Co. 14 St.
5. Treatment Plant 2	County 14St at County 14 E W. side Fortuna Wash.
NOTE: Reclaimed water used to irrigate golf courses and is ponded for water hazards	
6. Treatment plant 3	Los Barrancas N. of 48 St ¼ Mile E. side of Fortuna Wash. Note: Reclaimed water is used to irrigate golf course and is ponded for water hazards.
7. Lift Station 4	38 <sup>th</sup> St at Foothills Blvd. E. Side -Pumps to 45 Dr
8. Lift Station 5	49 <sup>th</sup> Ln at Driftwood pumps to Co. 14 St.
9. Lift Station 6	Ocotillo L.S. at 39 <sup>th</sup> Pl at Foothills Blvd.
10. Lift Station 7	Foothills Hardware N. Front Bldg Corner
11. Lift Station 8	The Grocery Store W. Rear of Store
12. Lift Station 9	Domino's Pizza Front N. of lot
13. Lift Station 10	Foothills Restaurant S. of Bldg (elect meter Address 12871B South Frontage Rd.)

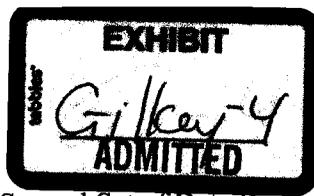
### Sanitary Sewer North of Freeway:

	Location
1. Lift Station 11	East of Fortuna Rd 1/8 Mi. Co. 10 ½ St. (Pole Line Rd)
2. Lift Station 12	25 <sup>th</sup> St at Cony Ave.
3. Treatment Plant 4	Del Oro Plant at Alpha Way x Omega Ln. Note: Reclaimed water is used to irrigate golf course and is ponded
4. Treatment Plant 5	(Del Ray) In Mesa del Sol Golf Course W. of Del Ray Condos. Note: Reclaimed water is used to irrigate golf course and is ponded.
5. Treatment Plant 6	(Royale) In Mesa del Sol Golf Course W. of Del Ray Condos Note: Reclaimed water is used to irrigate golf course and is ponded
6. Treatment Plant 7	Northwest end Seasons Subdiv. Fall Ave at Co. 10 <sup>th</sup> St.

## Farwest Sewer and Water Snapshot 24 May 05

Water Facilities North of Freeway:	Location
1. Canal Water Pickup	County 9 ½ St at Gila Main Canal
2. Well Site 4	Camino del Sol at Calle Chica (Wells, Pump, Tank)
3. Re-pressure Pump	28 <sup>th</sup> St at 14 ¼ E. (pump and tank)
4. Well Site 1	Foothills Blvd at Co. 10 ½ St. (Wells, Pump, Tank)
5. Canal output to WTP	Co. 9 ½ E to 44 <sup>th</sup> St ROW East to WTP at 44 <sup>th</sup> St at Foothills Blvd. NOTE: 7 Air Relief Valves found from 9 ½ E to Hunter Ave. 1 Valve.
6. Water Treatment Plant	44 <sup>th</sup> St at Foothills Blvd.
7. Well Site 2	36 <sup>th</sup> St at Farwest Blvd. (Wells, Pump, Tank)
8. Well Site 3	40 <sup>th</sup> St at Co. 12 E (Wells, Pump, and Tank)

Far West Water & Sewer, Inc.  
Docket No. WS-03478A-12-0307  
Response to Robert and Barbara Gilkey's Second Set of Data Requests



**Response provided by:** Debbie Smith  
**Title:** Controller  
**Address:** 12486 S Foothills Blvd, Yuma, AZ 85367  
**Data Request Number:** 2.4

---

- Q. Copies of all Notes Payable showing original balances and interest rates
- A. Please see the following attached files:  
Gilkey 2.4 Attachment - Note Payable, Gallagher & Kennedy, P.A..pdf  
Gilkey 2.4 Attachment - Note Payable, Hardknocks Limited Partnership.pdf  
Gilkey 2.4 Attachment - Note Payable, Scott Spencer.pdf

**PROMISSORY NOTE**

U.S. \$73,674.89

DATE: January 1, 2012

FOR VALUE RECEIVED, Far West Water & Sewer, Inc. ("collectively Maker"), hereby promises to pay to the order of Gallagher & Kennedy, P.A., an Arizona professional association ("Payee"), the amount of \$73,674.89 as set forth below. The foregoing indebtedness, including principal, interest, and any other charges and fees provided under this Promissory Note is hereinafter referred to as the "Obligation".

All payments of this Promissory Note (the "Note") are payable in lawful money of the United States of America at 2575 E. Camelback Road, 11<sup>th</sup> Floor, Phoenix, Arizona 85016-9225, or such other place as the holder hereof may designate in writing.

The Obligation incurred by the Maker and represented by this Promissory Note arises from the rendering of legal services to Maker by Payee. Maker hereby expressly acknowledges that such services were rendered by Payee, were of value to Maker and that Maker knows of no defense, offset or other basis to challenge Payee's claim to such fees. Maker understands the Principal amount represents fees for legal service performed through December 31, 2011 and the signing of this note will not waive responsibility for payment of additional services not accounted for in this note.

Payments. Maker shall make monthly payments on account of the Obligation in an amount not less than \$7,500.00 per month, on the 15th calendar day of each month, commencing on March 15, 2012, and continuing until the Obligation is paid in full. Upon failure to make any payment as herein provided on or before its due date, the Maker shall pay to the Payee a late charge, to cover the administrative and other costs of Payee and not as a penalty, equal to one percent (1%) of the outstanding principal sum. Additionally, upon failure to make any payment as herein provided on or before its due date, the unpaid principal sum hereof shall bear interest at the rate of twelve percent (12%) per annum. At such time as judgment is obtained for any amounts owing under this Note, interest shall continue to accrue on the amount of the judgment at the rate of twelve percent (12%) per annum.

Application and Place of Payments. Unless Payee otherwise elects, payments received by Payee shall be applied first to accrued and unpaid interest, next to the principal balance then outstanding hereunder, and the remainder to other costs or added charges provided for in this Promissory Note or any other document or instrument in any way pertaining to this Promissory Note or the services provided in connection herewith. Payments hereunder shall be made at the address for Payee first set forth above, or at such other address as Payee may specify to Maker in writing.

Prepayments. Payments of principal hereof may be made at any time, or from time to time, in whole or in part, without penalty or premium.

A handwritten signature in black ink, appearing to be the initials 'Jc' followed by a stylized flourish.

Waiver. To the extent permitted by applicable law, Maker waives and agrees not to assert or demand, diligence, grace, presentment for payment, protest, notice of nonpayment, nonperformance, extension, dishonor, maturity, protest and default.

Costs of Collection. Maker agrees to pay all costs of collection, including, without limitation, attorneys' fees in the event any payment of principal, interest or other amount is not paid when due. In the event of any court proceeding, court costs and attorneys' fees shall be set by the court and not by the jury and shall be included in any judgment obtained by Payee.

No Waiver by Payee. No delay or failure of Payee in exercising any right hereunder shall affect such right, nor shall any single or partial exercise of any right preclude further exercise thereof.

Governing Law. This Promissory Note shall be construed in accordance with and governed by the laws of the State of Arizona, without regard to the choice of law rules of the State of Arizona. In any suit brought to enforce this Note, or otherwise related to or arising out of this Note, Maker consents to the jurisdiction of the Maricopa County, Arizona Superior Court, and further consents to venue in Maricopa County, Arizona. The provisions of this Note are severable at Payee's option. If any provision herein is declared illegal or void, then Payee shall have the option to: 1) declare this entire Promissory Note void, and of no further force or effect, and in such event no party shall be bound by any of the terms hereof; or, 2) waive the right to exercise the foregoing option. Upon a written waiver of the option by Payee, the remaining provisions of this Agreement shall continue to be binding and in full force and effect.

Amendments. No amendment, modification, change, waiver, release or discharge hereof and hereunder shall be effective unless evidenced by an instrument in writing and signed by the party against whom enforcement is sought.

Binding Nature. The provisions of this Promissory Note shall be binding upon and inure to the benefit of Maker and Payee and their respective successors and assigns, as applicable.

Notices. All notices, requests, demands and other communications required or permitted under this Promissory Note shall be in writing and shall be deemed to have been duly given, made and received when delivered against receipt or upon actual receipt of registered or certified mail, postage prepaid, return receipt requested, addressed as set forth below:

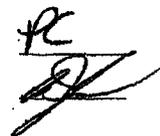
If to Maker:

Paula Capestro, President  
Far West Water & Sewer, Inc.  
12486 Foothills Boulevard  
Yuma, Arizona 85367

If to Payee:

Gallagher & Kennedy, P.A.  
2575 East Camelback Road  
Phoenix, Arizona 85016-9225  
Attn: David P. Kimball III, Esq.

Any party may alter the address to which communications or copies are to be sent by giving notice of such change of address in conformity with the provisions of this paragraph for the giving of notice.



Construction. The language of this Promissory Note shall be construed as a whole according to its fair meaning. No inference in favor of, or against, Maker or Payee shall be drawn from the fact that one party has drafted any portion hereof.

IN WITNESS WHEREOF, Maker has executed this Promissory Note as of the date first set forth above.

By:   
Paula Capestro, President  
Far West Water & Sewer, Inc.

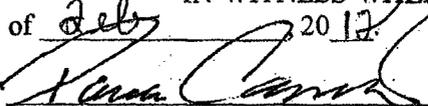
### PERSONAL GUARANTEE

We, Paula Capestro and Andrew J. Capestro, residing in Yuma, Arizona (hereinafter Guarantors) do hereby personally guarantee the performance of Far West Water & Sewer, Inc. with regard to the Promissory Note agreement by and between Far West Water & Sewer, Inc. and Gallagher & Kennedy, P.A. (as set forth hereinabove).

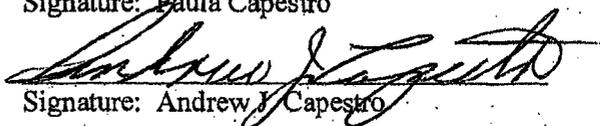
In the event that Far West Water & Sewer, Inc. fails to make any payments to Gallagher & Kennedy, P.A., or fails to perform in any manner with regard to said Agreement between the two entities, the Guarantors do hereby promise to make all payments to Gallagher & Kennedy, P.A. in the same manner as if they were the principals of said Agreement.

And furthermore, the Guarantors do hereby authorize and empower any attorney of any court of record of the State of Arizona or elsewhere to appear for and to enter judgment against us, or any of us, in favor of Gallagher & Kennedy, P.A. for any sums due under the Agreement plus interest with costs of suit, release of errors, without stay of execution, and with thirty-three and one-third percent (33 1/3%) as a reasonable attorney's fee, and the Guarantors hereby waive and release all benefit and relief from any and all appraisement, stay or exemption laws of any state now in force or hereafter to be passed.

IN WITNESS WHEREOF, this personal guaranty is entered into this 21<sup>st</sup> day of Feb 20 12.

  
Signature: Paula Capestro

Date: 2/21/12

  
Signature: Andrew J. Capestro

Date: 2/21/12



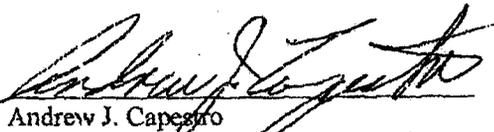
PROMISSORY NOTE

This note concerns a certain account created by Scott Spencer for the benefit of Far West Water and Sewer, Inc. Scott Spencer placed the sum of \$200,000 into an account to cover the requirement imposed upon Far West Water and Sewer, Inc. to have a "suspended civil penalty account" to cover twenty compliance requirements imposed upon Far West Water and Sewer, Inc. by agreement with the State of Arizona. That sum was deposited into that account on September 29, 2010. Pursuant to the terms of the agreement with Scott Spencer, interest has accrued at the rate of 12% per annum and there is now due and owing the sum of \$24,000 for interest through September 28, 2011. Scott Spencer has agreed to release and convey said the principal deposited to Far West Water and Sewer, Inc., upon the request of Far West Water and Sewer, Inc., and Far West Water and Sewer, Inc. has made such a request.

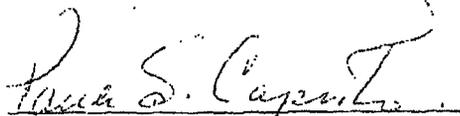
Interest has accrued at the rate of 12% per annum on the sum of \$224,000, combining principal and interest due on September 28, 2011. Since that date, an additional \$4,639.56 has accrued. The accrued interest totaling \$28,639.56 shall be paid no later than December Friday, December 9, 2011, bringing the principal down to \$200,000. Thereafter, principal payments shall be paid weekly in equal amounts of \$25,000, until the entire principal and interest has been paid in full.

This note is the joint and several obligation of Far West Water and Sewer, Inc., Andrew J. Capestro and Paula S. Capestro. For value received, Andrew J. Capestro and Paula S. Capestro do hereby guaranty the payment of this note pursuant to the terms hereof.

Signed the 1<sup>st</sup> day of December, 2011

  
Andrew J. Capestro

  
Paula S. Capestro

  
Paula S. Capestro, President  
Far West Water and Sewer, Inc.

**PROMISSORY NOTE SECURED BY DEED OF TRUST**

Escrow No. 02245395  
Branch Unit # 100

 **COPY**

\$75,000.00

Yuma, Arizona

Date: April 26, 2011

For value received, FAR WEST WATER & SEWER INC., an Arizona corporation maker, promises to pay to HARDKNOCKS LIMITED PARTNERSHIP, an Arizona limited partnership, holder or order, the sum of Seventy-Five Thousand And 00/100 DOLLARS payable as follows:

**Payments:**

All due and payable December 15, 2012, bearing NO interest.

Maker reserves the right to pre-pay at any time without penalty.

**Default Rate:**

If payment(s) is/are at least 30 days past due, then the principal balance shall bear interest at a default rate of (10%) over the interest rate as stated above. Said default rate shall begin on the 31<sup>st</sup> day following the due date of the payment(s) until payment(s) is/are brought current. Payment(s) is/are first applied to accrued interest and penalties, then to principal. It shall be the Payees responsibility to notify servicing agent with the Default Commencement date.

**Due on Sale:**

It is understood and agreed by the parties hereto that the maker shall not assign or otherwise transfer any right, title or interest in or to these premises or this encumbrance during the life of this encumbrance, without the written consent of the holder to such assignment or transfer. In the event of such assignment or transfer without written consent, the entire unpaid principal balance, accrued late penalties and all accrued interest shall, at the option of the holder, become all due and payable.

Should default be made in payment of any payment when due, the whole sum of the principal and interest shall become immediately due at the option of the holder of this note.

Principal and interest payable in lawful money of the United States.

The makers and endorsers hereof waive presentment, demand, notice of dishonor and protest.

If suit be brought to recover on this note, the Maker (Payor) agrees to pay such sum as the Court may fix as attorney's fees.

This Note is secured by a Deed of Trust, of even date herewith, upon real property.

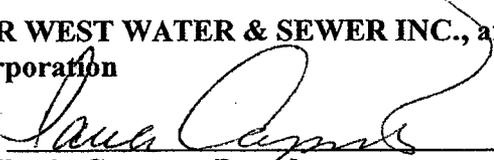
Having reviewed, accepted, and approved this Note with all its terms and conditions, this Note shall supercede any and all other agreements, and is hereby accepted in its final form.

**THIS PROMISSORY NOTE MAY BE EXECUTED IN COUNTERPARTS.**

**ACCEPTED AND APPROVED:**

**MAKER (PAYOR)**

**FAR WEST WATER & SEWER INC., an Arizona Corporation**

By: 

**Paula Capestro, President**

**HOLDER (PAYEE)**

**HARDKNOCKS LIMITED PARTNERSHIP, an Arizona limited partnership**

By: **Allspen, Inc., an Arizona corporation,  
General Partner**

By: \_\_\_\_\_

**L. Scott Spencer, President**

**DO NOT DESTROY THIS NOTE**

**Do Not Destroy this original Note: When paid, this original note, together with the Deed of Trust securing same must be surrendered to Trustee for Cancellation and retention before reconveyance will be**

**made**

Having reviewed, accepted, and approved this Note with all its terms and conditions, this Note shall supercede any and all other agreements, and is hereby accepted in its final form.

**THIS PROMISSORY NOTE MAY BE EXECUTED IN COUNTERPARTS.**

**ACCEPTED AND APPROVED:**

**MAKER (PAYOR)**

**FAR WEST WATER & SEWER INC., an Arizona Corporation**

By: \_\_\_\_\_  
Paula Capestro, President

**HOLDER (PAYEE)**

**HARDKNOCKS LIMITED PARTNERSHIP, an Arizona limited partnership**

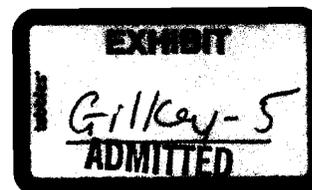
By: Allspen, Inc., an Arizona corporation,  
General Partner

By: \_\_\_\_\_  
L. Scott Spencer, President

**DO NOT DESTROY THIS NOTE**

**Do Not Destroy this original Note: When paid, this original note, together with the Deed of Trust securing same must be surrendered to Trustee for Cancellation and retention before reconveyance will be made**

Far West Water & Sewer, Inc.  
Docket No. WS-03478A-12-0307  
Response to Robert and Barbara Gilkey's Second Set of Data Requests

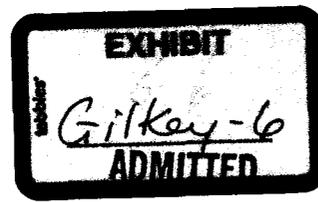


**Response provided by:** Roxanne Fiddes  
**Title:** Office Manager  
**Address:** 13157 E 44th Street, Yuma, AZ 85367  
**Data Request Number:** 2.7

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- Q. A list of all R.V. parks served by Far West Sewer division
- A. Far West serves the Rancho Rialto, Adobe Village, Sun Ridge and Sunset Palm RV parks.

Far West Water & Sewer, Inc.  
Docket No. WS-03478A-12-0307  
Response to Gilkey's Fifth Set of Data Requests



**Response provided by:** Sheryl Ferro  
**Title:** Accounting Analyst  
**Address:** 12486 S Foothills Blvd, Yuma, AZ 85367  
**Data Request Number:** 5.1

---

- Q: The Schechert Family Aquatics & Fitness Center RV Park at 11737. Foothills Blvd. has 49 spaces. When was the park constructed? Is it connected to the sewer system? If not, explain why not? Please demonstrate that it is not. An accepted method of demonstration would be to introduce dye at an RV connection and verify that it appears in a septic tank and then discharges to a local drain field.
- A. There are only 48 usable spaces, number 18 has no access. County records show that the RV lots were placed into service in 1991. It is connected to the Far West sewer system.

Far West Water & Sewer, Inc.  
Docket No. WS-03478A-12-0307  
Response to Gilkey's Fifth Set of Data Requests

**Response provided by:** Sheryl Ferro

**Title:** Accounting Analyst

**Address:** 12486 S Foothills Blvd, Yuma, AZ 85367

**Data Request Number:** 5.17

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**Q:** In the Far West Water & Sewer Inc., Sewer Division, Cash Disbursements journal there is an entry July 22, 2009, for \$25,000.00 for "Employee Expense". Please explain the reason for this expense.

**A.** The "Employee Expense" was for the transfer of funds to the employees' insurance fund for the payment of medical claims incurred by Far West employees.

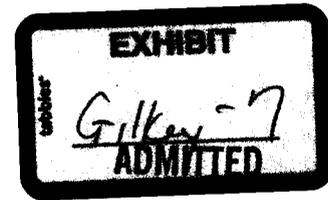
Far West Water & Sewer, Inc.  
Docket No. WS-03478A-12-0307  
Response to Gilkey's Fourth Set of Data Requests

**Response provided by:** Counsel

**Title:**

**Address:**

**Data Request Number:** 4.1



- 
- Q:** There have been numerous payments made to both H&S Developers and the Schechert Family Trust labeled "Loan Repayment". When we asked for copies of all Notes Payable showing original balances and interest rates (our data request 2.4, January 7, 2013) we were not given copies of any notes to either H&S Developers or the Schechert Family Trust. Please provide copies of those notes showing original balances and interest rates.
- A.** A copy of the Schechert Trust Note is attached. There is no note associated with H&S Developers, and, as set forth in Far West's response to Gilkey 4.1, there is no balance on that note.

## DEMAND NOTE

Lender: The Henry and Dorothy Schechert Trust

Borrower: Far West Water and Sewer, Inc.

Principal Amount: Variable, not to exceed Two Million Dollars

Interest Rate: Ten percent (10%) per annum, accruing from the date funds are deposited to an account of or on behalf of Far West Water and Sewer, Inc.

Commencement Date: On or after March 15, 2011, or whenever funds become available, whichever is later

Due Date: This note shall be due, in whole or in part, upon demand

The trustees of the Henry and Dorothy Schechert Trust agree to loan to Far West Water and Sewer, Inc. a sum not to exceed two million dollars as such funds become available to the Trust.

Far West Water and Sewer, Inc. promises to pay to the Henry and Dorothy Schechert Trust at least the minimum of the interest accrued on the principal of the funds that have been provided to Far West Water and Sewer, Inc., and said interest shall be paid on the first day of each and every month from the date the funds are provided to Far West Water and Sewer, Inc.

Principal payments shall be made as such funds become available to Far West Water and Sewer, Inc. or after the lender has made demand for repayment of funds advanced. Such demand may be for a partial payment of principal, or for payment in full of all funds advanced. Multiple demands are allowed.

Far West Water and Sewer, Inc. has been advised and acknowledges that the Henry and Dorothy Schechert Trust will be borrowing the funds provided to Far West Water and Sewer, Inc. from a third party and will be required to make payments to that third party. Therefore, timely monthly payments of at least the monthly accrued interest will be required.

Throughout the term of this Note, interest shall be calculated on a 365-day year with respect to the unpaid balance of the Principal Amount and, in all cases, shall be computed for the actual number of days in the period for which interest is charged.

Far West Water and Sewer, Inc. shall have the right to prepay the Loan, in whole or in part, at any time without premium or penalty.

Any payments received by the holder pursuant to the terms of this note shall be applied first to the payment of all interest accrued to the date of such payment, next to the payment of principal.

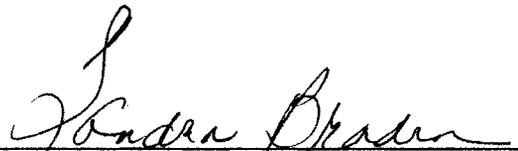
Upon the occurrence of an Event of Default, then at the option of the holder hereof, the entire balance of principal together with all accrued interest thereon, shall, without demand or notice, immediately become due and payable. Upon the occurrence of an event of Default (and so long

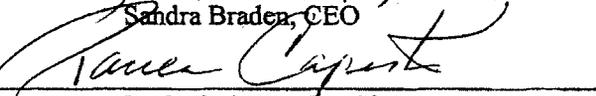
as such event of Default shall continue), the entire balance of principal hereof, together with all accrued interest thereon, and any judgment for such principal, interest, and other amounts shall bear interest at the Interest Rate. No delay or omission on the part of the holder hereof in exercising any right under this Note or under any of the other Loan Documents hereof shall operate as a waiver of such right. A default occurs when the payment of interest is not made when due. A default also occurs upon the borrower's failure to pay the principal owed, or the portion of the principal requested following a demand by the lender for such payment.

If this Note is not paid upon demand, or if any Event of Default occurs, Borrower promises to pay all costs of enforcement and collection and preparation therefore, including but not limited to, reasonable attorneys' fees, whether or not any action or proceeding is brought to enforce the provisions hereof (including, without limitation, all such costs incurred in connection with any bankruptcy, receivership, or other court proceedings (whether at the trial or appellate level).

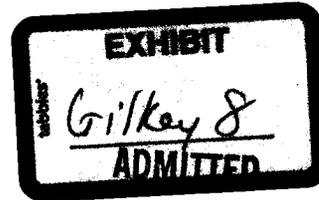
If any provision of this Note is unenforceable, the enforceability of the other provisions shall not be affected and they shall remain in full force and effect.

Far West Water and Sewer, Inc.

By:   
Sandra Braden, CEO

  
Paula Capestro, President

Far West Water & Sewer, Inc.  
Docket No. WS-03478A-12-0307  
Response to Gilkey's Fourth Set of Data Requests



**Response provided by:** Sheryl Ferro

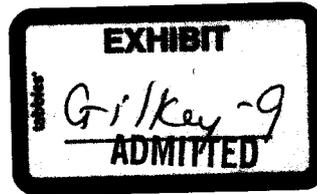
**Title:** Accounting Analyst

**Address:** 12486 S Foothills Blvd, Yuma, AZ 85367

**Data Request Number:** 4.2

- 
- Q: Please provide a list of all current balances for the Notes Payable to both H&S Developers and the Schechert Family Trust.
- A. There is no current balance due for Notes Payable to H&S Developers. The balance due to the Schechert Trust is \$1,035,126.12.

Far West Water & Sewer, Inc.  
Docket No. WS-03478A-12-0307  
Response to Gilkey's Fourth Set of Data Requests



**Response provided by:** Counsel

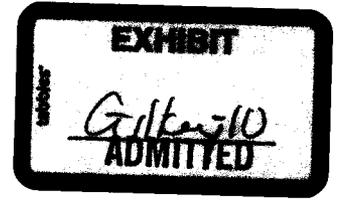
**Title:**

**Address:**

**Data Request Number:** 4.3

- 
- Q: We asked for copies of all 1099's showing amounts paid to Andrew Capestro for Legal Fees and/or Management Fees for tax years 2008, 2009, 2010, 2011, 2012. Counsel objected stating "The request does not seek information that is relevant to this rate case". Since the Legal Fees are included in the test year case in 2011, and the Legal and Management Fees are included in the rate base for 2008, 2009, 2010 and 2011, please provide the 1099's showing amounts paid to Andrew Capestro for those years.
- A. Far West renews its objection. The information requested does not seek information that is relevant to this rate case. The amounts paid for legal fees to Mr. Capestro in the test year have previously been provided. However, without waiving its objection, please see the attached (Capestro 2011 2099.pdf) 1099 for the test year of 2011.

Far West Water & Sewer, Inc.  
Docket No. WS-03478A-12-0307  
Response to Gilkey's Fourth Set of Data Requests



**Response provided by:** Roxanne Fiddes  
**Title:** Office Manager  
**Address:** 13157 E. 44<sup>th</sup> St, Yuma, AZ 85367  
**Data Request Number:** 4.4

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**Q:** Please provide the number of accounts *billed* by rate class which are included in the test year case for each of the following addresses:

- 11322 S. Avenue 12E
- 12855 E. Highway 80
- 12781 E. South Frontage Rd.
- 11220 S. Foothills Blvd.
- 11242 S. Foothills Blvd.
- 11264 S. Foothills Blvd.
- 11286 S. Foothills Blvd.
- 11611 S. Foothills Blvd.
- 11737 S. Foothills Blvd.
- 11748 S. Foothills Blvd.
- 11762 S. Foothills Blvd.
- 11776 S. Foothills Blvd.
- 11814 S. Foothills Blvd.
- 11862 S. Foothills Blvd.
- 11890 S. Foothills Blvd.
- 12835 E. 38<sup>th</sup> Street

**A.** 11322 S. Avenue 12E  
(1) Commercial Sewer Service  
(1) RV Service @ 197 RV spaces  
(240) Residential Sewer Services  
Total= 242

12855 E. Highway 80  
No service provided

12781 E. South Frontage Rd.  
(2) Commercial Sewer Services

11220 S. Foothills Blvd.  
No Service provided

Far West Water & Sewer, Inc.  
Docket No. WS-03478A-12-0307  
Response to Gilkey's Fourth Set of Data Requests

11242 S. Foothills Blvd

No service provided

11264 S. Foothills Blvd.

No service provided

11286 S. Foothills Blvd.

No service provided

11611 S. Foothills Blvd.

(1) Commercial Sewer Service

11737 S. Foothills Blvd.

(1) Commercial Sewer Service

11748 S. Foothills Blvd.

(1) Commercial Sewer Service

11762 S. Foothills Blvd.

No Active Service

11776 S. Foothills Blvd.

No service provided

11814 S. Foothills Blvd.

(1) Commercial Sewer Service

11862 S. Foothills Blvd.

No sewer service provided, water only

11890 S. Foothills Blvd.

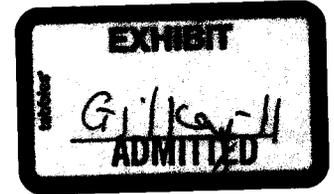
No service provided

12835 E. 38<sup>th</sup> Street

No sewer service provided, water only

Far West Water & Sewer, Inc.  
Docket No. WS-03478A-12-0307  
Response to Gilkey's Fourth Set of Data Requests

**Response provided by:** Roxanne Fiddes  
**Title:** Office Manager  
**Address:** 13157 E. 44<sup>th</sup> St, Yuma, AZ 85367  
**Data Request Number:** 4.5



---

**Q:** Please provide the amounts *paid* for each account which are included in the test year case for each of the following addresses:

- 11322 S. Avenue 12E
- 12855 E. Highway 80
- 12781 E. South Frontage Rd.
- 11220 S. Foothills Blvd.
- 11242 S. Foothills Blvd.
- 11264 S. Foothills Blvd.
- 11286 S. Foothills Blvd.
- 11611 S. Foothills Blvd.
- 11737 S. Foothills Blvd.
- 11748 S. Foothills Blvd.
- 11762 S. Foothills Blvd.
- 11776 S. Foothills Blvd.
- 11814 S. Foothills Blvd.
- 11862 S. Foothills Blvd.
- 11890 S. Foothills Blvd.
- 12835 E. 38<sup>th</sup> Street

A. 11322 S. Avenue 12E = 197 RV spaces @ \$5.44/space, \$43.50/mo commercial, 240 Individual Residential Sewer Services @ \$21.75/mo, all fees paid in full in the test year case

12855 E. Highway 80 = 0

12781 E. South Frontage Rd. = \$43.50/mo Commercial, all fees paid in full in the test year case

11220 S. Foothills Blvd. = 0

11242 S. Foothills Blvd. = 0

11264 S. Foothills Blvd. = 0

Far West Water & Sewer, Inc.  
Docket No. WS-03478A-12-0307  
Response to Gilkey's Fourth Set of Data Requests

11286 S. Foothills Blvd. = 0

11611 S. Foothills Blvd. = \$43.50/mo Commercial, all fees paid in full in the test year case

11737 S. Foothills Blvd. = \$43.50/mo Commercial, all fees paid in full in the test year case

11748 S. Foothills Blvd. = \$43.50/mo Commercial, all fees paid in full in the test year case

11762 S. Foothills Blvd. = 0

11776 S. Foothills Blvd. = 0

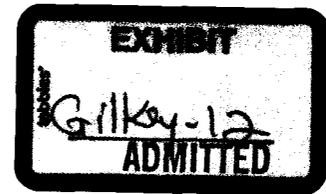
11814 S. Foothills Blvd. = \$43.50/mo Commercial, all fees paid in full in the test year case

11862 S. Foothills Blvd. = 0

11890 S. Foothills Blvd. = 0

12835 E. 38<sup>th</sup> Street = 0

Far West Water & Sewer, Inc.  
Docket No. WS-03478A-12-0307  
Response to Gilkey's Fourth Set of Data Requests



**Response provided by:** Sheryl Ferro  
**Title:** Accounting Analyst  
**Address:** 12486 S. Foothills Blvd, Yuma, AZ 85367  
**Data Request Number:** 4.7

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**Q:** Please provide capacity fees charged for the developments listed in Gilkey data request #3.6.

**A.**

<u>Residential</u>	<u>Offsite Sewer Infrastructure Fees</u>
Arroyo De Fortuna	\$189,420.00
El Rancho Encantado Phase 1	\$177,839.48
Estrella 3	\$225,240.00
Mesa Del Sol Mesquite Phase II	\$124,740.00
Las Barrancas 1	\$352,292.00
<u>Commercial</u>	
Comfort Suites	\$ 59,290.00
Mesa Del Sol Commercial	\$186,606.59

Far West Water & Sewer, Inc.  
Docket No. WS-03478A-12-0307  
Response to Gilkey's Fourth Set of Data Requests



**Response provided by:** Sheryl Ferro  
**Title:** Accounting Analyst  
**Address:** 12486 S. Foothills Blvd, Yuma, AZ 85367  
**Data Request Number:** 4.8

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- Q: What was the development fee charged for the Fry's Center (listed as Smith's Foods and Pharmacy on the title)?
- A. The development in question is not a customer of the sewer division of Far West Water & Sewer, Inc.

Far West Water & Sewer, Inc.  
Docket No. WS-03478A-12-0307  
Response to Gilkey's Fifth Set of Data Requests

**Response provided by:** Debbie Smith  
**Title:** Controller  
**Address:** 12486 S Foothills Blvd, Yuma, AZ 85367  
**Data Request Number:** 5.9 [Supplemental Response 3-21-13]



**Q:** Please explain the \$12,500.00 discrepancy between the amount shown in the Far West Water & Sewer, Inc. Sewer Division, Cash Disbursements, 01/01/08 to 12/31/11 showing Andrew Capestro received \$167,000.00 in Legal and/or Legal and Management fees in 2011, and the copy of the 1099 issued for the tax year 2011 showing \$154,500.00 in column 14 labeled "Gross proceeds paid to an attorney".

**A. Supplemental Response – 3/21/13**

The Company has continued to research this issue and was able to fully reconcile the difference between the cash disbursement to Mr. Capestro of \$167,000.00 and the Form 1099 issued to Mr. Capestro in the amount of \$154,500.00 for the year 2011. The Company's research and reconciliation shows that, although \$167,000.00 was disbursed to Mr. Capestro, only \$154,500.00 was properly reportable on the Form 1099 issued to Mr. Capestro. The reported cash disbursements and the Form 1099 issued to Mr. Capestro are both correct and there is no unreconciled difference between the two.

The difference occurs because a cash disbursement was made to Mr. Capestro that is not reportable on the Form 1099 issued to Mr. Capestro. This is because \$12,500 in payments to Mr. Capestro were for repayment of a previous payment returned to the Company by Mr. Capestro.

More specifically, on October 17, 2011 the Company issued check number 38698 to Mr. Capestro in the amount of \$12,500 for services rendered. On October 18, 2011 the Company realized that it was short of funds to make payments to other vendors. Mr. Capestro wrote a personal check, number 0093, to the Company in the amount of \$12,500, effectively returning the October 17, 2011 payment (See Gilkey 5.9 Capestro Ck 0093.pdf). The Company issued check number 38754 on October 19, 2011 repaying Mr. Capestro for the \$12,500 in legal fees returned on October 18, 2011. This payment of \$12,500, repaying the previously returned payment, is not reportable on Form 1099.

Note: Check number 38754 was for \$15,000 repaying the returned \$12,500 payment and providing an additional \$2,500 toward outstanding invoices.

A reconciliation of the payments to Mr. Capestro is as follows:

Far West Water & Sewer, Inc.  
Docket No. WS-03478A-12-0307  
Response to Gilkey's Fifth Set of Data Requests

Reconciliation of Payments to Mr. Capestro with 1099 issued to Mr. Capestro

	All Payments to Mr. Capestro	Payments Reportable on Form 1099	Transactions Not Reportable on Form 1099
<u>Payments for Services Made to Mr. Capestro in 2011</u>			
A/P Balance Forward from December 31, 2010	2,500.10		
2011 Construction Management Fees	120,000.00		
2011 Non-Recuring Expense Fees	32,913.40		
Less credit applied to 2010 A/P Balance Forward	(913.50)		
Total Payments to Mr. Capestro in 2011 - (Reportable on Form 1099)		<u>154,500.00</u>	
<u>Return of October 17, 2011 Payment by Mr. Capestro</u>			
October 18, 2011 Capestro Check No. 0093 (Not Reportable on Form 1099)			(12,500.00)
<u>Repayment of Payment Returned by Mr. Capestro</u>			
October 19, 2011 Far West Check No. 38754 (Not Reportable on Form 1099)	<u>12,500.00</u>		<u>12,500.00</u>
Total Payments to Mr. Capestro	<u>167,000.00</u>	<u>154,500.00</u>	<u>-</u>
<u>Payments Reported on 1099</u>			
Payments - Fees		(154,500.00)	
Reconciling Difference		<u>-</u>	

AEA Federal Credit Union

322173217

### Share Draft - Viewing Image

Sequence	Capture Date	Member No.	Draft No.	Draft Amt.
58300829	10192011	9009771567	93	12500.00

0093  
91-7321/3221  
00

Date 10/19/11

Pay to the Order of Far West Water & Sewer \$ 12,500.00  
Twelve Thousand Five Hundred Dollars

**AEA** A.E.A. Federal Credit Union  
 Yuma | Somerton | Parker  
 1780 S. First Avenue - Yuma, AZ 85304

For loan *[Signature]*

ENDORSE HERE

718

PAY TO THE ORDER OF  
 AEA FEDERAL CREDIT UNION  
 YUMA, AZ 85304  
 322173217  
 FOR DEPOSIT ONLY  
 FAR WEST WATER & SEWER, INC  
 9009771567  
 3/19/2013

Close

9595

VOID  CORRECTED

PAYER'S name, street address, city, state, ZIP code, and telephone no.  <b>Far West Water &amp; Sewer, Inc</b> <b>13157 E 44th St</b> <b>Yuma, AZ 85367</b>		1 Rents \$	OMB No. 1545-0115  <b>2011</b> Form 1099-MISC	<b>Miscellaneous Income</b>
		2 Royalties \$	3 Other income \$	
PAYER'S federal identification number 	RECIPIENT'S identification number 	5 Fishing boat proceeds \$	4 Federal income tax withheld \$	<b>Copy A</b> <b>For Internal Revenue Service Center</b> <b>File with Form 1099.</b>
RECIPIENT'S name  <b>Andrew J. Capestro</b>		7 Nonemployee compensation \$	6 Medical and health care payments \$	
Street address (including apt. no.) <b>11744 Ironwood Dr</b>		9 Payer made direct sales of \$5,000 or more of consumer products to a buyer (recipient) for resale <input type="checkbox"/>	8 Substitute payments in lieu of dividends or interest \$	<b>For Privacy Act and Paperwork Reduction Act Notice, see the 2011 General Instructions for Certain Information Returns.</b>
City, state, and ZIP code <b>Yuma, AZ 85367</b>		10 Crop insurance proceeds \$	11	
Account number (see instructions)	2nd TIN not <input type="checkbox"/>	13 Excess golden parachute payments \$	12	
14 Gross proceeds paid to an attorney <b>154,500.00</b>		15 State tax withheld \$	16 State/Payer's state no.	17 State income \$
15a Section 409A deferrals \$	15b Section 409A income \$	18 State income \$		

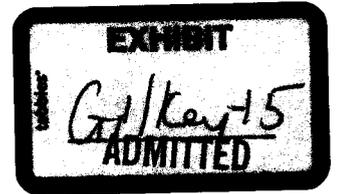
Form 1099-MISC

16-0331690

Department of the Treasury - Internal Revenue Service

**Do Not Cut or Separate Forms on This Page — Do Not Cut or Separate Forms on This Page**

Far West Water & Sewer, Inc.  
Docket No. WS-03478A-12-0307  
Response to Gilkey's Seventh Set of Data Requests



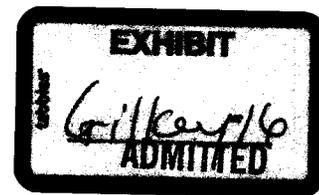
**Response provided by:** Isaac Yocupicio  
**Title:** Treatment/Collections Supervisor  
**Address:** 12486 S Foothills Blvd, Yuma, AZ 85367

---

Re: Force Main from Palm Shadows to Section 14

- 7.1 Q. Was it engineered?  
A. Yes.
- 7.2 Q. If it was engineered, by whom was it engineered?  
A. The force main was engineered by Jacobson Engineering under the direction of Raul Garcia Molina, P.E.
- 7.3 Q. Did the design of the Palm Shadows to Section 14 Force Main include stress or thrust blocks? Were any measures included in the installation to prevent blowout? If not, why not?  
A. The design includes thrust blocks.
- 7.4 Q. Who constructed the Force Main?  
A. H&S Developers.
- 7.5 Q. Who supervised the construction of the Force Main?  
A. Tim Latham, Harold Mathes and Paula Capestro supervised construction activities on behalf of H&S/Far West. Raul Garcia Molina, P.E., the design engineer, provided construction inspection and ADEQ certification.
- 7.6 Q. Please provide all data relating to the failure/de-coupling/blowout(s) of the Force Main including, but not limited to, reason(s), for failure(s), date(s) and location(s). Was sewage spilled? If so, how much? What kind of mitigating action was taken?  
A. There have been no failures of the force main. See the Company's response to Gilkey Data Request 3.4 for information on failures, other than the force main, that caused a sewage backup or spills and the Company's response to those incidents.
- 7.7 Q. Please provide the engineering report(s) or if not available, the reason(s) for the failure(s) of the Force Main.  
A. See response to 7.6.
- 7.8 Q. Were reports filed with ADEQ and ACC regarding any failures of the Force Main? If not, why not?  
A. See response to 7.6.

Far West Water & Sewer, Inc.  
Docket No. WS-03478A-12-0307  
Response to Gilkey's Eighth Set of Data Requests



**Response provided by:** Debbie Smith  
**Title:** Controller  
**Address:** 12486 S Foothills Blvd, Yuma, AZ 85367  
**Data Request Number:** 8.1

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- Q. The response to our DR 5.17 describing a \$25,000.00 disbursement for “Employee Expense” was “for the transfer of funds to the employee’s fund for the payment of medical claims incurred by Far West Employees“. Please provide all backup documentation covering the disbursement of the entire \$25,000.00 expenditure that H&S Developers received.
- A. The Company’s has further researched this payment to H&S Developers and concluded that its earlier response was in error.

The payment was transferred and deposited into the H & S Developers, Inc. Employee Benefits bank account. This led the analyst to determine that the payment was for Far West Employee expenses. In reality, the payment was not for Far West employee expenses. Rather, the payment was instead a payment toward H&S Developers’ vendor account with Far West.

The payment was applied to the H&S open invoices shown on the schedule attached as Gilkey 8.1 H&S Payment Schedule.pdf. The schedule, titled “Check History” was printed directly from Far West’s Quickbooks accounting records and is the transaction history for the 7/22/2009 ACH transfer of \$25,000 to H&S Developers, showing the H&S Developers invoices that this payment was applied against. The backup documentation for each of the invoices is attached as a pdf file with the invoice number as the filename.

Also attached as Gilkey 8.1 H&S Payment Detail.pdf is a schedule describing the expenditure and indicating the rate making impact of the expenditure. As noted on the attached payment detail schedule and the Company’s original response to Staff DR GB 2-1(3), this \$25,000 payment to H&S Developers made on 7/22/2009 has no ratemaking impact on the current case.

Type	Date	Num	Description	Amount Paid/ Applied	Rate Making Impact
Bill	08/31/2009	09-03154	Non Recurring Expense - PS Road Grading	1,958.10	None - Below the Line and Not in Test Year
Bill	09/30/2009	09-03509	Pond Maintenance Expense - Seasons WWTP	13.00	None - Not in Test Year
Bill	09/30/2009	09-03573	A/C Repair Expense - Palm Shadows WWTP	105.00	None - Not in Test Year
Bill	09/30/2009	09-03583	Sludge Hauling Expense - Palm Shadows	8,695.66	None - Not in Test Year
Bill	09/30/2009	09-03626	Maintenance Expense - Del Oro WWTP	2,234.27	None - Not in Test Year
Bill	09/30/2009	09-03629	Maintenance Expense - Seasons WWTP	165.17	None - Not in Test Year
Bill	09/30/2009	09-03603	Maintenance Expense - Del Oro WWTP	523.24	None - Not in Test Year
Bill	09/30/2009	09-03672	A/C Repair Expense - Del Oro WWTP	198.00	None - Not in Test Year
Bill	09/30/2009	08-03316	Landsacaping Expense	182.00	None - Not in Test Year
Bill	09/30/2009	08-03377	Non Recurring Expense - PS Sludge Pump	2,212.50	None - Below the Line and Not in Test Year
Bill	09/30/2009	09-03425	Non Recurring Expense - PS Sludge Pump	104.00	None - Below the Line and Not in Test Year
Bill	09/30/2009	09-03503	Vac Con Hydraulic Repair Expense	32.50	None - Not in Test Year
Bill	09/30/2009	09-03606	Pump Maintenance Expense	338.00	None - Not in Test Year
Bill	09/30/2009	09-03611	Gate Repair Expense - Section 14 WWTP	186.00	None - Not in Test Year
Bill	09/30/2009	09-03623	Electrical Maintenance - Section 14 WWTP	122.50	None - Not in Test Year
Bill	09/30/2009	09-03661	Maintenance Expense	130.00	None - Not in Test Year
Bill	09/30/2009	09-03154	Non Recurring Expense - PS Road Grading	5,360.40	None - Below the Line and Not in Test Year
Bill	09/30/2009	09-03154	Non Recurring Expense - PS Road Grading	2,439.66	None - Below the Line and Not in Test Year

Total 2 H & S Developers (Sewer Other)

25,000.00



~~SPACED 5~~

EXHIBIT  
Gilkey-18  
ADMITTED

# Memorandum

①

② **Date:** January 26, 2005  
**To:** file  
**From:** Donald Bell, acting Unit Manager  
**Subject:** Treatment Plants Operated by Far West Utilities and their permitting needs.

③ I met today, January 26, 2005, with Mark Kaveney, the General Superintendent of Far West Utilities, and with Cliff Devilig, inspector of Water Quality Compliance Unit, here in Phoenix offices Conference Room #5515B from 8:30 to 10:00 am. We discussed the following needs for their permits:

Far West Sewer Plant (Marwood) -APP No. P-102829 permitted for a flow of .34 from an activated sludge Standard Santec plant and they want to construct a clear Solutions modified SBR type WWTP for a designed flow of .5 MGD. The facility received an APP modification on \*/15/02 for the original plant with Class B Reclaimed water classified in that permit. The Type 2 Reclaimed Water Permit No R-102829 was also issued to Far West Water Co. for this site for Class B water, which would have required a water balance for the .34 volume. Nitrogen is reserved in the discharge monitoring requirements, and the fecal coliform requirements and turbidity appear to be for Class A Reclaimed water (electronic copy reviewed)? There is no GW monitoring required , however a site for a Point of Compliance (POC) was chosen.

ADEQ would need a significant Amendment application for this change. That application should include, among the normal items and fees, the following information:

- \$1000 fee for initial handling;
- Hydrology information indicating the depth to groundwater , direction of flow, and the formation composition below the WWTP and the Reclaimed water sites.;
- Engineering design report for the new treatment system;
- Contingency plans and O&M manuals.
- Two plan maps showing the location of the WWTP, the direction of groundwater flow, the discharge to the reclaimed water system, the sampling points, north arrow, other pertinent landscape items, reclaimed water site.
- Reclaimed water permit application will be required, after the permit is completed, to provide the water balance for the extra volume of effluent.

Section 14 WWTP APP No P-105014 permitted for a designed flow of >150 MGD ( now about .070MGD) and has a 208 plan approval for .450 MGD. Plant has been constructed with one .150 MGD unit and they originally planned to just add units as needed. However, the company now prefers to build a new WWTP with an increased designed flow. They also plan to reduce the treatment to provide for a Class B reclaimed water for the golf courses.

For this purpose they could provide all the changes with one application. However, that application may need to be for a new permit to provide for the new treatment, and to provide for the change to Class B, which is a lower classification than B+ which this plant has presently received. This could be an amendment but we are currently not allowing a reduced reclaimed water Quality? The new permit would show an increased designed flow and a Class B treatment capability.

Del Oro WWTP APP No. P-101816 has a permitted flow of .070 MGD for an extended aeration type standard Stantec plant. They have an emergency waiver to construct the new SBR Plant up to .150 MGD and they currently have a flow of approximately .160 MGD. Coming to a plant designed for .450 MGD.

They have applied for a significant amendment (May 19, 2003) to change the treatment, increase the flow, re-classify the reclaimed water down to class B. Reclaimed water is currently permitted through the Royal WWTP Reuse permit and is delivered to a common storage pond. That WWTP will be closed and flows directed to this plant. A new Reclaimed Water permit for Class B will be required for this permitted flow after the permit is issued, and that application will require a water balance.

Del Rey WWTP Inventory No. 101814 [there is no APP] is an extended aeration standard Stantec plant with a design flow of .375 MGD. The plan is to take the treatment flow to the Del Rey Plant and to close the Royal Plant (currently flowing about .04 MGD), change the treatment to a CLEAR Solutions SBR type WWTP with enough flow to handle both current flows plus additions. They also plan to change the Reclaimed classification to B instead of B+. There presently is no APP listed under 101814.

They will need to apply for a new WWTP Individual Permit for the change of treatment, for the change of classification, and for the inclusion of flows from both plants. They will need a General APP for the Sewer lines and the lift stations involved. They will need to get a reclaimed water permit and that could be applied for by the Del Oro Golf Course since they are the users of the reclaimed water.

Royal WWTP APP No P-100221 for the extended aeration standard Stantec type plant for a flow of .20 and it currently flows about .004 MGD. They desire to transfer this flow to the Del Rey plant [see above]. They need the general permit for the sewer lines and lift stations to carry the sewage and they need a closure permit for this facility immediately after the transfer.

There is supposedly a reuse permit, but I can find no electronic copy? There is no APP or application for one.

Seasons WWTP APP No. P-103618 operates a secondary WWTP with a permitted capacity of .050 MGD. The Sludge is hauled offsite to their sludge drying beds location. Discharge is to a percolation pond which is divided into three parts and is cleaned and scarified as needed.

The facility desires to convert to a .150 MGD Clear Solutions SBR type facility. Old permit was written in 1998. No Reuse. Will wish to classify to reuse. Inflow .050 in winter and .012 in the summer.

4  
Palm Shadows WWTP APP No 103608 is an Extended aeration standard Stantec plant with a permitted flow of .200 MGD. Actual flows are approx .150 Mgd. percolation ponds are not percolating (drilling tests indicate they are located over a clay deposit) and they are having trouble in the winter time with Nitrogen and overflow exceedances.

Facility desires to close this facility and connect with a ½ mile pipeline to the City of Yuma. They are proposing to maintain control and maintenance of the sewer lines and to meter this to Yuma. They maintain that the plant was originally built to be a temporary facility for these purposes and now is the time to connect to Yuma. They would need to get a General permit for collection systems and lift stations for these purposes.

5

**From:** Donald Bell  
**To:** Kaveney, Mark  
**Subject:** Re: Palm Shadows

Mark,  
Thanks for the update. I will file this. when you know which direction you will be taking for sure, I will send forms and you can get started.

Thanks,  
Don Bell

5

>>> "Mark Kaveney" <mkaveney@thefoothillsonline.com> 2/10/2005 1:12:41 PM >>>  
Hi Don,

FYI. I just got approval from our company to approach the City of Yuma regarding taking our wastewater from the Palm Shadows WWTP service area. I have notified our liason for the City and he said he would start negotiations. He hopefully will have something in a week or so. He, along with the rest of us realize the importance of sending this flow to the City by this Summer. Hopefully, all will go as smooth as possible. If this does fall into place, we will be looking at a Closure at Palm Shadows.

Sincerely,  
Mark Kaveney

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FAR WEST WATER & SEWER, INC.  
MEMORANDUM

---

TO: DUSTY THOMAS  
FROM: MARK KAVENEY  
SUBJECT: SIERRA RIDGE -- TENTATIVE  
DATE: JULY 2, 2004  
CC: FILE

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(7)  
Dusty,

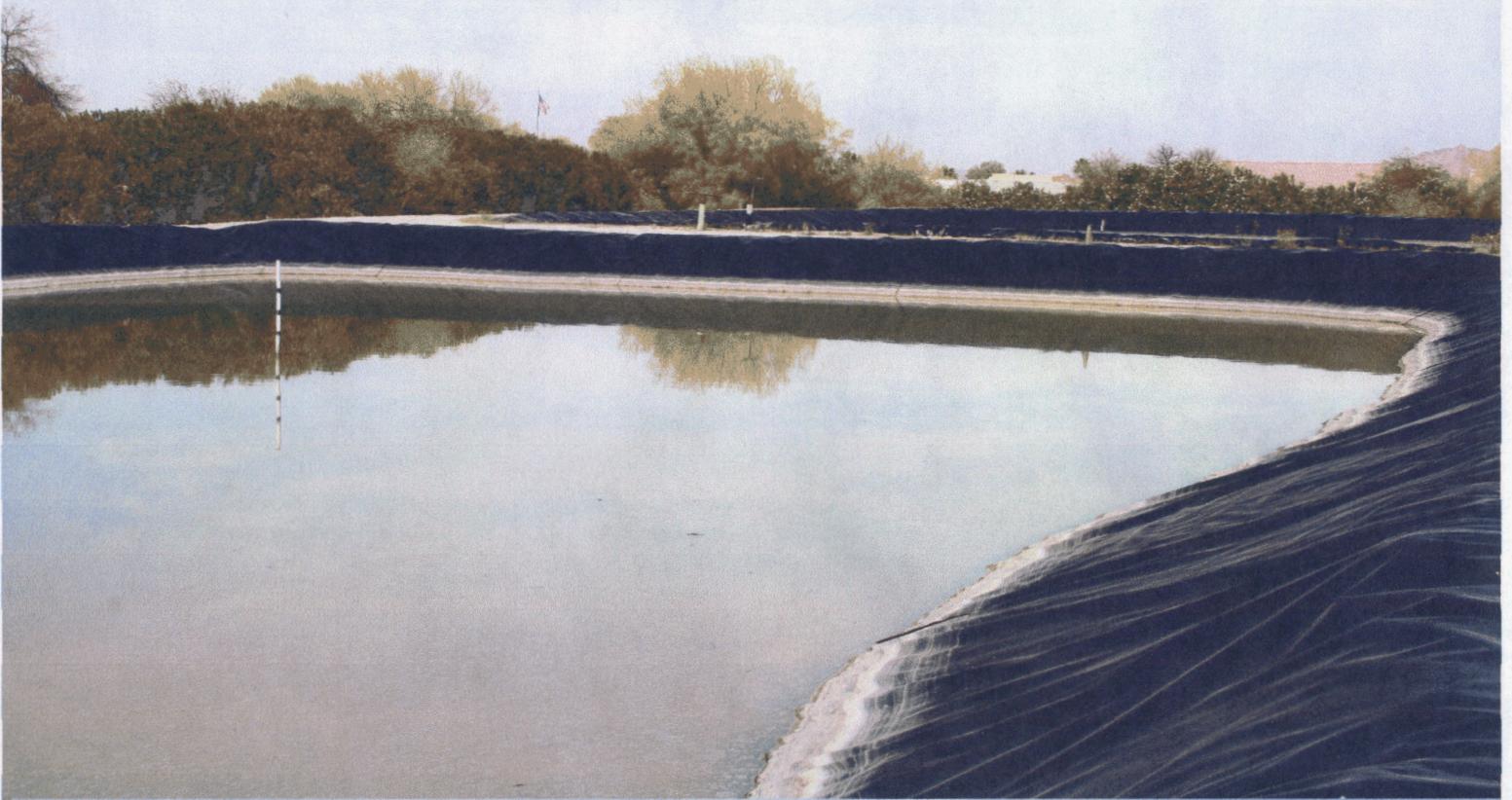
The attached tentative plat is unsatisfactory due to the available sewage capacity that remains at the Palm Shadows WWTP. Along with the already committed sewage capacity, we are having serious issues with the effluent disposal capabilities. Last winter we experienced, on two occasions, effluent pond overflow. This condition will only be worse this coming season. We are currently looking into a temporary fix to our effluent disposal needs for the upcoming season, and hope to find a permanent resolve in the near future. If you have any questions, please contact me.

Thank You,

Mark Kaveney



Marwood holding pond inside plant



Marwood effluent receiving pond in golf course



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**Before The  
Arizona Corporation Commission**

**In The Rate Case of  
Far West Water & Sewer Company  
Docket # WS-03478A-12-0307**

**Direct Testimony of  
Robert Rist, Intervenor**



February 5, 2013

1  
2

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3

## Experience & qualifications

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3 **Q. Please describe your experience and qualifications that would give you the ability to**  
4 **testify in this Rate case.**

5 A. My career started at age 19 when I entered the US Navy. I served 9 years on active duty, as  
6 a boilerman. I then left active duty and went into the Navy Reserve where I completed 27 years. As a  
7 boilerman I gained experience on all types of pumps, compressors, blowers, and controls. I was also a  
8 certified boiler-water tester, in which many of the tests used are directly related to use in wastewater  
9 treatment.

10 After leaving active duty in the Navy my search for employment in civilian life lead to a  
11 maintenance job in a wastewater plant. Over the years I worked in 5 different wastewater plants,  
12 mostly responsible for maintenance, however there were times when I was responsible for doing daily  
13 lab analysis, also when needed I drove a sludge truck, applying digested sludge to farm land.

14  
15 **Q. Please list the plants you worked at and your responsibility at each plant.**

16 A. I started at the Metzger Sanitary District in Washington County Oregon. I was hired to do  
17 maintenance. Washington county was going thru tremendous growth in the 1970's and many of the  
18 wastewater plants were overloaded and not meeting standards. Oregon DEQ put Washington county  
19 under a building moratorium, till a master plan was developed. The first thing that was done, was put  
20 almost all treatment plants under one management. That new management was known as Unified  
21 Sewerage Agency (USA). One of the first actions taken was form a maintenance team that would do  
22 maintenance for all of the plants under the operation of USA. A man who had worked there for a  
23 number of years was put in charge, and I was selected as the other team member. I was moved from  
24 Metzger to the Aloha Oregon plant, which is between Beaverton and Hillsboro Oregon. This area has  
25 become the Silicone Valley of Oregon. Intel and Hewlett Packard, as well as others are located there.  
26 The new Agency had a voter approved bond sale for \$36,000,000.00. A plan was put together and new  
27 20 MGD Advanced wastewater plant was built at a small area known as Durham. I was put in charge  
28 of maintenance at Durham, as well as all other plants and lift stations. After 7.5 years at USA I left  
29 and decided to go in business for myself. I bought a service station in Central Oregon.

1 That venture wasn't working, as it was feast or famine, so I started another venture doing Predictive  
2 Maintenance using vibration analysis. I developed accounts at sawmills, plywood plants and  
3 wastewater plants. One account was City of Newberg Oregon. At that plant whenever I found a  
4 problem they contracted me to do the repairs, eventually asking me to take a full time job. After 4  
5 years I was offered a position at Oak Lodge Sanitary District, near Portland. At this plant, at first I had  
6 responsibility for maintenance of plant equipment and lift stations. I worked at Oak Lodge for 14  
7 years. The last 5 years I was asked to also take on the additional responsibility of the collection  
8 system. This included a crew of three people who maintained about 125 miles of mainline sewer, and  
9 did all connections of new homes. I was responsible for all sewer inspections on new houses. We  
10 operated 2 hydro-cleaning trucks one of which was a Vaccon truck exactly like the one Far West  
11 owns. We also operated a TV truck which allowed us to internally inspect the sewer line. With this  
12 system every joint could be pressure tested with air. If it did not pass or we could visually see ground  
13 water coming in, we could then inject a 2 part grout into the leak and stop the leak on the spot. If we  
14 found damaged pipe, its location was recorded and scheduled for dig-up and repair in the summer.

15 **Q. Did you have any certifications in Wastewater or related fields?**

16 A. Yes I did, they are listed below.

17 Wastewater operator grade 1, Oregon

18 Wastewater Collection system grade 4, Oregon

19 Wastewater maintenance grade 4, Oregon. Many states do not have this certification, in  
20 Oregon it a voluntary certification but many employers ask for it. At the time I retired it  
21 had not been recognized by DEQ.

22 Oregon State Plumbing Inspector (sewer) license.

23 **Q. Have attended any educational classes which have helped in wastewater field?**

24 A. Yes several classes.

25 Machine shop class (lathe & milling machine) Portland Community 3 terms

26 National Electrical Code, Portland Community College.

27 Motor Controls, Portland Community College.

28 Vibration analysis school, ( IRD Mechanalysis ).

1 Water testing school, ( US Navy ) 3 times.

2 PLC programming class, put on by Mitsubishi.

3 **Q. Why did you ask to be an Intervenor on this rate case?**

4 A. Well several reasons, I do have a lot of experience working in wastewater. I have seen first  
5 hand what can be accomplished with properly planned and managed plants. I am a customer of Far  
6 West Sewer and this rate case has a direct impact on me and thousands of my neighbors. I live in Vista  
7 Del Sol, which was served by Palm Shadows treatment plant, and we put up with the over whelming  
8 odors and sewage spills for years. I know it doesn't need to be that way and does not need to cost an  
9 exorbitant fee to get good treatment.

## Tour of the Plants

1  
2  
3 **Q. You were recently taken on a tour of the WWTP's by Far West Management. Please**  
4 **tell us your impressions of that tour.**

5 **A. We were escorted by Paula Capestro, Issac, the head operator, and Mike, the maintenance**  
6 **man on a tour of most of the plants but not all. I would like to have seen all of the plants and more of**  
7 **the pumps stations but we only got to one lift station. Let me take each plant individually.**

### *Section 14 WWTP*

8  
9 This is an existing plant that has undergone a major upgrade. The major feature at this plant is the  
10 new Zenon system. This is a membrane devise very much like reverse osmosis. It is the first  
11 installation of one of these I have seen in a treatment plant. I have heard of complaints of odors on the  
12 nearby golf course, but I was unable to detect any unreasonable odors inside the plant. The solids and  
13 grit are removed near the head-works, dewatered and discharged in a dumpster for disposal in solid a  
14 waste landfill. In summer months this might be a source of odor. The disinfection is now UV light  
15 instead of chlorine. UV systems are not very tolerant of any solids or turbidity in the water as the light  
16 will foul and not do its job. So it is imperative that the water be very low in turbidity. I did ask for a  
17 sample of effluent down stream of the UV, and I have to say it was crystal clear with no detectable  
18 odor. I asked about fecal coliform test results, which they said were zero. If that is true the water is  
19 drinkable, however I did not try it. We have asked for lab results in a Data Request but that been said  
20 to be to burdensome. They said I would need to view them in the office.

### *Del Oro WWTP*

21  
22 This is an existing plant that serves Mesa Del Sol. It has been upgraded to increase capacity and  
23 improve effluent standards. This plant is basically the same design as Section 14 except where Section  
24 14 has two identical trains, Del Oro has only one. Here again we were pleased to find there were no  
25 detectable odors and the effluent again was clear as drinking water. Solids and grit are removed at the  
26 headworks, dewatered and put into a dumpster for disposal at a solid waste dump site. This could be a  
27 source of odor in summer months.

1 *Villa Royale & Vista Del Rey*

2 These two plants serve Mesa Del Sol. They are very small in terms of MGD, and under the terms of  
3 the Consent order of ADEQ, were scheduled to be decommissioned at this time. It was suggested we  
4 not to go to these two plants. The reason given was that they are on the edge of golf course, and there  
5 was a danger of being hit with a golf ball. We were advised that operators always wear hard hats at  
6 those plants. We were told that nothing has been done toward decommissioning. So I assume both of  
7 these plants still stink as they have for years.

8 *Seasons WWTP*

9 This plant serves the Seasons sub-division. On the tour this was the only plant where we immediately  
10 smelled a sewage odor when we stepped out of the car. The upgrading of this plant is not yet  
11 completed. During the upgrading period at Del Oro, they used a Zenon membrane filter mounted on a  
12 movable skid. Now that Del Oro has had a permanent Zenon installed, the skid mounted system has  
13 been moved to Seasons. That system and the UV disinfection are not yet completed. We were told  
14 APS needs to complete wiring. At this time the original system is still in operation.

15 *Palm Shadows Lift Station (force main to Section 14)*

16 Palm Shadows WWTP plant has been decommissioned by order of ADEQ. The plant never worked  
17 from the first day it was put on line. This was because the design of the plant called for ponds that  
18 allow the treated sewage to percolate into the ground and evaporate into the air. The percolation part  
19 did not work because the ponds were built on top of a clay bed. Since the plant needed to be  
20 decommissioned it was decided by Far West Management, and their engineers to pump the sewage all  
21 the way to Section 14 plant. A new pump station has been installed at the site of the existing plant  
22 head-works. This plant was probably the worst problem in the whole system and could be smelled at  
23 times up to 2 miles away. It appears most of this has been resolved, although when walking along the  
24 street where the gravity line runs into the lift station, there is odor at the manholes. The new lift  
25 station uses two 100 HP submersible pumps. The station has not been without problems. It failed soon  
26 after going on line and resulted in diverting sewage back into the plant. Again in summer of 2012 it  
27 failed and resulted in a sewage spill. While on the tour, we inquired about lift station 25 on 44<sup>th</sup> Street.  
28 We have seen tank trucks being loading sewage on a regular basis. The response was that it was not  
29 keeping up. We replied, so its undersized? The answer was no it just started having problems in

1 November, when many winter residents showed up. This just is not acceptable as this is normal flow  
2 in the winter.

### 3 *Marwood WWTP*

4 We were not taken to this Treatment plant.

### 5 *El Rancho Encantado*

6 We did not visit this area, but I want to mention my concerns. This is a new sub-division with phase 1  
7 having 91 lots. The sewer system is not standard, with gravity sewers flowing to a low area and then  
8 picked by a lift station, if need be. This system uses a low pressure force main for all lots. So as it is  
9 built, there is a small lift station situated at every two lots. The piping uses standard 2" PVC pipe and  
10 doesn't need to be buried deep like normal gravity sewers. This made the system cheap to install when  
11 compared to gravity sewer. The lift station wet wells can be installed at the lots with no pumps or  
12 controls till the lot is sold. Once all the lots are sold, we have 45 new submersible lift stations added  
13 to the system. I doubt that these are checked daily as the other lift stations are, it would take a lot of  
14 time. So operators don't know of problems till an alarm is set off. As I have stated elsewhere in my  
15 testimony, submersible pumps are a maintenance problem. These pumps also incorporate a grinder in  
16 the impeller, which is suppose to handle the solids that get flushed. I fear there has been a  
17 maintenance problem added to the system.

## 18 **Confined Spaces**

19 **Q. On your tour of plants and lift stations do you see any safety problems?**

20 **A.** Yes I do and I brought it up during the last rate case. Far West Water and Sewer has already had a  
21 loss of two lives from working in confined spaces without properly trained personnel, or proper safety  
22 equipment for confined spaces, and should be doing everything in its power to remove the need to  
23 work in unsafe confined spaces. Section 14, Del Oro, and Palm Shadows all have brand new  
24 submersible pump stations, that should have had their design changed to have a Wet side and a Dry  
25 side. Submersible pump stations do have an initial cost that is lower, but in the long run they will cost  
26 more. A dry side pump station has all piping, valves, and controls available without needing to test the  
27 atmosphere for dangerous gas, or rigging a retrieval system. The dry side can be continuously  
28 ventilated. Submersible pumps defy logic. Electric motors that run under water must be specially  
29 designed to keep water out of the motor. This requires delicate seals, which can be destroyed by grit

1 and stringy rags. These motors must be explosion proof, which requires special certifications to work  
2 on them; they can't be repaired in house. **Far West has missed a golden opportunity** to do away with  
3 several of these problem areas. Millions of dollars have been spent on the upgrades and asking for  
4 these changes in design would not have been a significant increase in the cost of the plant upgrade.  
5 The pump station on 44<sup>th</sup> Street that I mentioned earlier would be relatively easy to put in larger  
6 pumps if it was a dry side pump station.

### 7 Fairness of Rates

8 **Q. Far West has stated in data requests that the Rate for RV spaces is set at 25% of residential,**  
9 **and that commercial accounts are at 200% of residential. Do you see this as a fair and equitable**  
10 **method to calculate rates?**

11 **A.** No I do not. First lets take at the RV spaces. Far West claims there between 713 and 740 RV spaces  
12 located in 4 RV parks. I have looked at these parks and find that a very high percentage is occupied by  
13 Park Model RV's, these are an alternative to a regular RV, however they are not designed to be moved  
14 on a regular basis. The plumbing in these park models is no different than the plumbing in a standard  
15 stick built house, except it may or may not have a washing machine. One might think that the regular  
16 RV's in these parks contribute less sewage. That is true, however the sewage is much more  
17 concentrated and causes just as much BOD loading or more on the receiving sewage treatment plant.  
18 The valve on the blackwater tank is normally kept closed until it near full at which time it is emptied.  
19 This allows the solids to be flushed out more efficiently. Because these solids are held in the tank for  
20 several days, it is general practice to use holding tank chemicals. These chemicals stop all biological  
21 action, which raises BOD. So we have high strength sewage that is discharged in slugs to the  
22 treatment plant. The Park Model RV that I live in, should not be charged more that a Park Model in a  
23 RV Park.

24 Now I will look at the rate for Commercial connections. Far West so far has chosen to object to giving  
25 us a itemized list of business accounts, citing privacy rights of the business, however there was not a  
26 problem listing the RV parks. Far West is Charging double the residential rate for businesses but it  
27 can't be said that all businesses are equal. For example we may have a bank where the only sewage  
28 contributed comes from restrooms for employees, and maybe a lunch room with a sink. This is far  
29 different than the full service Mexican restaurant next door. This business is using garbage disposers  
30 and dishwashers cleaning thousands of dishes and pots and pans. It may have a grease trap which may  
31 or may not, but should be inspected regularly by wastewater personnel. This restaurant also is not

1 comparable to another restaurant down the street that serves fast food. Fast food places serve their  
2 food on paper products and plastic eating utensils which are thrown away. This business will  
3 contribute more load than the bank but less than the full service restaurant. Other businesses such a  
4 beauty salon, or an automobile oil change business all have the potential to contribute detrimental  
5 discharges to the plant. The point is the type of business and their potential contributions to the load  
6 on the plant needs to be looked at and an equitable method of setting fees adopted. Right now the  
7 residential customers are paying an inequitable share.

8 **Q. There are numerous comment letters from consumers filed on this ACC Docket which**  
9 **object to this increase and paying for service they don't get. By that, they mean they don't**  
10 **occupy their homes year around. Do you agree with this objection?**

11 A. No, while I certainly understand their objection, as I only occupy my home for 5 months a  
12 year and I pay 12 months. However other things must be considered. The plant had to be designed and  
13 built to a certain size to accommodate the peak flow when all residents are here. Personnel had to be  
14 hired to correctly operate and maintain the plant and collection system. They can't be layed off when  
15 we leave for our northern homes. There may be a reduction in some utilities, like electricity, however  
16 the cost probably doesn't go down, because electric rates are higher in summer months.

17  
18 **Q. So you think the rates being requested are justified?**

19 A. Absolutely not, it is totally out of line. I am not a CPA, but when I look at the numerous  
20 documents provided in the data requests I am amazed at the spending. The Legal fees, Late fees,  
21 interest rates, are just shameful. Project management fees of \$10,000 per month to Mr. Capestro is not  
22 in any way justified. Spending is uncontrolled everywhere, and there seems to be no end. In the last  
23 rate case we brought up the mapping and maintenance software. I don't recall the exact cost but I  
24 believe it to be over \$150,000. In what way has that improved maintenance? It appears every time a  
25 problem arrives, they call in an outside company.

26 When compared to other wastewater plants in the area or around the country, Far West is way  
27 out of line. The City of Yuma charges \$32.00 and they have a beautiful new plant located on 5E. Far  
28 West wants to say Yuma charges \$42.00 per month, but that is outside their area. We are not outside of  
29 Far West's CCN.

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## Hook-up Fee

**Q. In the Sparten data request 1-22, Far West says they do not intend to implement a connection fee. Do you think a connection fee should be implemented?**

A. Yes most definitely. Every new connection to the system moves closer to the point where the plant has reached it designed flow, and must be expanded or upgraded. Current users on the system should not be responsible for paying for expansion needed because of growth. Upgrades required because of equipment coming to the end of its useful life, or because of requirements of new environmental regulations should fall on all users. A hook-up fee must be put into a special account and kept till the time it is needed. This will reduce the need for expensive loans, which Far West has a very hard time securing.

## Related Party Charges

**Q. In a data request to Staff 2-1, Far West states “Far West employees occasionally provide services to H&S. When provided, those services are billed at cost to H&S. H&S owns and operates Hank’s Market & Butcher Shop, Foothills Mini Mart, and Foothills Sand & Gravel. Far West purchases certain materials and supplies from those entities at retail prices.” Is this practice appropriate?**

A. NO. What they are saying is, H&S can charge full retail for products purchased from H&S related parties. But when Far West employees do work for H&S, they do it at cost. This means that the rate payers, who pay the wages of Far West employees, are subsidizing H&S by doing work at cost. If Far West does work for an outside company it should make a profit. However it should not be doing work for other companies at all. It is evident to me that there is enough work doing **operation and maintenance** at the plants and pump stations. In the Gilkey 3<sup>rd</sup> DR titled “spillreportsfor2012.pdf” I am sure several of these spills are a result of needed maintenance. If these employees don't have enough to do in the Wastewater plants and pump stations, then we have to many employees.

## Conflict of Related Parties

1  
2 **Q. Do you see any conflict of Far West being owned by the same owners of H&S Developers?**

3 A. Yes very much so. They are suppose the be operated at arms length, but it impossible for me to  
4 look at the data they have submitted and tell if that is the case. I already showed where Far West  
5 performs work at cost for H&S. There are thousands of dollars of charges from Andrew Capestro for  
6 legal fees, which I have no idea for what, when there is another attorney also retained by the company.  
7 Through out my career I have never seen it work out, where someone else was able to get to the  
8 money collected from sewer fees. At City of Newberg the water and sewer departments were a cash  
9 cow for parks and library's. It was easy to funnel money off to where it might not get support from  
10 voters, then when upgrades were required in that stepchild Wastewater plant, it wasn't there. So then  
11 they would go to the voters for more taxes or higher rates. The voters are stuck because have to have  
12 adequate sewers. When I worked at Oak Lodge Sanitary District, it was totally different. It was an  
13 independent utility district. It had one General Manager, and a five member board of directors, elected  
14 by the residents. Monthly board meetings were open to the public, and it was encouraged for the  
15 public to attend. When that District was first formed, it was financed by sale of bonds. After those  
16 bonds were paid off, all further expansions and upgrades were mostly paid for in cash. That District  
17 and as matter of fact all plants that I was involved with had a connection fee. That money was not  
18 used for operation and maintenance, but put in a special account for use in expansions. That fee did  
19 not hamper developers from building new homes, as all developers had the same fee. However when  
20 the owner of the Wastewater utility also owns the major developing company in the area, it is easy to  
21 see why it is desirable to have the existing rate payers fund the expansions.

22 **Q. Do you think there should be a total separation of Far West and H&S development?**

23 A. Yes most definitely, and I don't see how that can be done as long as they retain ownership. I think it  
24 should be explored forming a "Local Improvement District" (LID), or a Co-op owned by customers of  
25 the system. I do not know the steps to do this, but I know it can be done. Becoming publicly owned  
26 and non profit would have a number of advantages, like being tax exempt, and the ability to sell bonds  
27 if needed, or acquire low interest loans. A Co-op or LID would have a salaried General Manager,  
28 hired by a board of directors. The board of directors would be elected by the users. A General  
29 Manager can be hired who has full qualifications in Water and wastewater.

30 Transparency would be a requirement with all board meetings open to the public. A Co-op would not

1 need to produce a profit for owners to take, profits would be kept for future expansions and upgrades.  
2 It would operate with an annual Operation & Maintenance budget, and a five year budget. The  
3 General Manager would be responsible for producing these budgets, and it would then be approved by  
4 a budget committee.

5 Preventive maintenance would be a very important part of Operation, with a maintenance person  
6 equal in responsibility to the head operator. The goal would be to perform most maintenance by in  
7 house personnel, and reduce unexpected breakdowns to near zero.

8 We will never have control under the current conditions. The public needs to have ownership of the  
9 system.

### Final Comments

11  
12 **Q. Mr. Rist, as a conclusion to your testimony, do you think that Far West Water and Sewer has**  
13 **served their customers well?**

14 A. No I do not. When you look at all that has occurred over the years, it has been a pathetic  
15 demonstration of inept management. We have had loss of two lives, many many violations of their  
16 Aquifer Protection Permit, and hundreds of complaints of odor and sewage spills from customers.  
17 And now as a requirement of a ADEQ consent order, they are upgrading plants and decommissioning  
18 others. Far West will say this is all settled issues, but I do not think they can run from their history, the  
19 facts are the facts. They are squandering money everywhere, and much of it going to related parties.  
20 On work done by H&S developers, I have not seen any competitive bids. Sealed competitive bids are  
21 the only way we can be assured we are getting the best price. Far West has been very secretive.  
22 Requests made locally, outside of a rate case are often ignored. All of the plants are behind locked  
23 gates, and operators inside have ignored requests to come inside. I come from wastewater operations  
24 that welcomed people to become involved and learn how sewage is treated. If we did not have time at  
25 the moment to take people on a tour, we scheduled one at a later time. School teachers often  
26 scheduled children to take tours of the plants. The teachers and students always said they learned a lot.  
27 With newly upgraded plants on line now, we are still seeing numerous spill reports being filed with  
28 ADEQ. This is shown in the Gilkey 3<sup>rd</sup> DR spillreportsfor2012.pdf

1 Q. Mr. Rist, does that conclude your testimony?

2 A. Yes it does, however the fact that I may have omitted any important points does not mean that I  
3 agree or disagree with that point.

4 Copies of the foregoing mailed this 5<sup>th</sup> day  
5 of February 2013 to:

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Robert Rist

*Robert Rist*  
Intervenor

### Calculations of flows

Plant	Date analyzed	Average Flow	Design Flow	Percent Excess
Del Rey	12/15/2011 12/31/2011	49235	40000 *	23% over cap.
Villa Royale	12/15/2011 12/31/2011	3588	10000 *	65% Excess Cap.
Del Oro	11/15/2011 11/30/2011	159875	300000	47% Excess Cap.
Del Oro With Del Rey & Villa Royale combined		212698	300000	30% Excess Cap.
Seasons	12/15/2011 12/31/2011	71000	150000	53% Excess Cap.
Marwood	12/15/2011 12/31/2011	270588	340000	20.5% Excess Cap.
Section 14	12/17/2011 12/31/2011	415000	681000	39% Excess Cap.
Adding excess cap. Of each plant to get system wide cap.				Average Excess Cap. 33.58
Combining Villa Royale, Del Rey into Del Oro to calculate system wide excess cap.		969286	1,471,000  * design flow for Del Rey & Villa Royale not included	Average with combined flows to Del Oro 34.11 % Excess Cap.

These calculations were made using plant flow reporting data provided in a data request. In most cases I used numbers reported from December 15, 2011 to December 31, 2011. The Del Oro plant had no data for December so I used November.

Adding the flows on each day and dividing by the number of days yielded the average daily flow.

I used the design flow reported in data requests, and calculated the percentage of excess capacity above the average daily flow. The excess capacity can be seen for each plant. Adding the excess capacity of each plant together and dividing by the number of plants yields average excess capacity system wide. I do not agree that the capacity of section 14 is 681,000 GPD. I believe that essentially the plant has been out to 1.3 MGD with the exception 3 membrane cassettes.

Calculated by Robert Rist



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**Before the  
Arizona Corporation Commission  
in the Sewer rate case of  
Far West Water & Sewer Inc.**

**Joint Rate Design Testimony  
of  
Robert Rist Intervenor  
Robert Gilkey Intervenor  
Barbara Gilkey Intervenor**



**February 15<sup>th</sup> 2013**

1

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2

## 1 **Adjust Rates for R.V. Spaces**

2 **Q. Why do you feel R.V. Park spaces need a rate adjustment?**

3 A. There are 713 RV spaces reported in data requests by the company, of which they are charging  
4 a rate of 25% of the residential rate. Most of the area in Far West's CC&N are known as Mobile  
5 Estates, which allow R.V.'s or standard homes. No differentiation is made in what type of home they  
6 are, they are all charged the residential rate. Most homes in the Foothills area are occupied by retired  
7 senior citizens, and have only two people per dwelling. The R.V. Parks are highly populated by "Park  
8 Model R.V.'s" These are small RV's which are designed to be parked and left for long periods. They  
9 are limited to 400 square feet, but otherwise are the same as a larger manufactured home. Two people  
10 living in a Park Model produce just as much sewage as two people in a manufactured home. The Park  
11 Model may not have a washing machine, but there is laundry facilities in each park, which produce  
12 just as much sewage.

13 A regular R.V. May use less water, because of the type of plumbing, designed to travel and  
14 conserve water. A typical toilet flush in an R.V. Will use less than a pint of water, compared to 1.6  
15 gallons in a regular toilet. However because of this they can't efficiently move the solids out of the  
16 R.V. And down the pipe. Therefore the valve on the blackwater tank is normally left closed, till a  
17 sufficient quantity is available to adequately empty the tank. Chemicals and deodorants are often  
18 added to the tanks to stop biological growth and cover odors. This practice causes a rise in the BOD  
19 level of the sewage, and when it is dumped it comes to the treatment plant in large slugs, rather than  
20 one flush at a time. Therefore we maintain that R.V.'s have just as much impact on the treatment  
21 facility as a standard house. The Park Model that I live in does not produce any more sewage than the  
22 Park Model in a RV Park. This is an inequitable disparity in the two rates, with the residential  
23 customer carrying an unfair burden of the rates. This can also be seen by the that R.V. Parks charge to  
24 use a dump station when traveling through this area. They have charges from \$9.00 to \$15.00.

25 **Q. What do you recommend for the R.V. Space sewer rate?**

26 A. We recommend and ask the commission that a rate equal to the residential be adopted.  
27

## **Adjust Rates for Commercial business**

**Q. Are the commercial rates being applied fairly?**

A. In the process of our discovery, we have found that the commercial rates are not being applied equally. We have found for example that some account addresses contain multiple businesses, but only pay for one commercial business. All businesses must be charged equally, or adopt a rate structure that takes into account the type of business and its impact on the sewer system. The current system is being used to benefit the owners, which are also the owners of Far West Water and Sewer.

## **Appropriateness of the proposed rates**

**Q. Do you believe the rates proposed by Far West are justified?**

A. No we do not, while some rate increase may be appropriate, an increase of 188.05 percent is way out of line. The major problem with this company is its management, or lack of management. They do not have a budget. There has never been any planning for the future, and they have always made sure that their affiliates get paid before any one else.

**Q. Do you agree with the rates proposed by RUCO and Staff?**

A. No. While we do agree with the dis-allowances that staff has included in their testimony, we feel both RUCO and Staff expect management to be OK in the future. Staff has recommended certain conditions which must be met before a rate increase takes effect, and we support that also. We believe an interim manager is needed. This was considered in the last rate case, but was never acted on, it must be acted on, and we appeal to the commission to do this.

1 Copies of the foregoing mailed this 5<sup>th</sup> day  
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**Before the  
Arizona Corporation Commission  
In the Rate case of  
Far West Waster & Sewer  
Docket # WS-03478A-12-0307**

**Joint Surrebuttal of  
Robert Rist  
Robert Gilkey  
Barbara Gilkey**



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1

1 **Robert Rist, Surrebuttal**

2  
3 ***Palm Shadows***

4  
5 **Q. Robert the company has stated that Robert Gilkey was way off on his statement that the**  
6 **pressure main from Palm Shadows has 86 PSI static pressure on it. Do you have any comments**  
7 **about this?**

8 **A.** Yes I do, first and foremost, the 86 PSI number came from Far West's head operator, Isaac. But  
9 even with that it is not clear what point they are making except to make a statement that he is wrong.  
10 We have checked the numbers ourselves, using Google Earth elevation readings with the following  
11 findings. The elevation at Palm Shadows at the location of the lift station is 251 ft.. The elevation at  
12 Section 14 at about the location of headworks, is 373 ft.. The difference between these is 122 feet of  
13 head. One hundred twenty two feet of head converts to approximately 54 PSI at ground level where a  
14 gauge would be installed. However if a gauge were installed down at the pump level which is about  
15 25 feet below ground level, the PSI would be around 63. Then when you add in 5 miles of pipe and  
16 numerous fittings, you add more feet of head in friction loss, so the dynamic head at the pump is  
17 probably near 100 PSI in order to move the sewage out the pipe at Section 14.

18 **Q. So, Robert what is the point you are making?**

19 **A.** Robert Gilkey was making a point that installing a pump station at Palm Shadows may not have  
20 been the best option, or the only option. As I pointed out in my testimony, it will cost around \$4000.00  
21 per month just to pump the sewage to Section 14. A recent data request indicates that the power bills  
22 are lower, around \$2500.00 per month, which indicates that the pumps are not running fully loaded,  
23 and do not run 24 hours per day, probably shutting down late at night. Robert Gilkey pointed out the  
24 Company made no contact with the City of Yuma about taking the sewage from Palm Shadows. Far  
25 West has now said in response to Gilkey/Rist data request 9.7, they did have a meeting with the city  
26 administrator and several other people, but discussed taking sewage on a temporary basis. This was to  
27 cover the time until Palm Shadows was decommissioned. We were talking about approaching the City  
28 to take it on a permanent basis. This is entirely possible and is recommended by the "YUMA 208  
29 **PLAN**". The Plan clearly provides for Inter-governmental Agreements, and that should have been

1 explored. Far West is a signator to the Yuma 208 plan but has not used it to the best advantage of the  
2 residents. I don't believe that ADEQ engineers came up with the plan to construct the Force main.  
3 ADEQ is not in a position to do this as it makes them liable for problems in the design. Rather Far  
4 West and Coriolis developed that plan and it was accepted by ADEQ. Spending in excess of  
5 \$2,000,000.00 to construct the force main was money wasted when it should have been possible to  
6 negotiate an option. I have met with the City Administrator, Greg Wilkinson, and he has assured me  
7 there were no talks to take the sewage on a permanent basis. See Attachment 1.

8 **Q. In response to the Gilkey/Rist DR 9.8, Far West denies that Palm Shadows ever had a design**  
9 **flaw. How do you respond to this?**

10 A. I totally find this a false and ridiculous claim. The design of this plant completely depended on  
11 the ground being able to percolate the treated effluent. This would have required a certified  
12 percolation test of the area where the ponds were to be constructed. ADEQ requirements for installing  
13 an on site septic tank requires a certified percolation test, surely a wastewater treatment plant would  
14 need even a more stringent percolation test. I don't believe Far West can produce documentation of a  
15 percolation test, nor can ADEQ. ADEQ did no more than accept Far West's engineering report, which  
16 was bogus. Test drilling after the problem became evident, showed that the plant is built on top of an  
17 impervious clay bed. Evidence of that can also be clearly seen by looking at the storm water detention  
18 basins inside of Vista Del Sol subdivision. The 2 basins closest to the plant take a couple of weeks to  
19 percolate the water, while the basins further to the north percolate usually in 24 hours.

20 The following statement is taken from RUCO Closing Brief in Docket # WS-03478A-08-0608

21 *"Cynthia Campbell, ADEQ's Water Quality Compliance Manager, testified and The Company*  
22 *witnesses confirmed that the Company originally obtained a permit to operate*  
23 *Palm Shadows with two evaporation and percolation ponds. However, the ponds were constructed on*  
24 *non-percolating clay soils and did not percolate effluent as designed. Instead of addressing the design*  
25 *flaw, the Company built five more unpermitted evaporation/percolation ponds at Palm Shadows.*  
26 *Upon inspection, ADEQ mandated that the effluent be removed from Palm shadows because it was*  
27 *stored in unpermitted ponds, and exceeded acceptable volume and nitrate levels."*  
28

## 29 **Plant Tours**

30

31 **Q. Robert, Far West was glad that you complemented them on Section 14 and two of the other**  
32 **sites, how do you feel about this?**

1 A. Well, while I was being honest about what I found at those sites, it appears I was somewhat  
2 fooled. On February 20<sup>th</sup> ACC commissioners came to Yuma for a public comment meeting, and it  
3 became very evident from the heated comments there is still a serious odor problem at the Marwood  
4 WWTP. This is a plant we were not offered to visit, along with 2 other plants that are scheduled for  
5 decommissioning. On February 21<sup>st</sup> I requested from Craig Marks to tour these plants. We were not  
6 taken on the tour till March 20<sup>th</sup> . In the meantime 2 locally sponsored Foothills public meetings were  
7 held to discuss issues in the Foothills, and again the odors from the Marwood area was the main topic,  
8 and people were extremely irate about nothing being done and their complaints not being heard. At  
9 the time of our tour at Marwood, the odor was not real strong but it was noticeable. It is reported by  
10 residents in the area that the problem is worst at night. The Gilkey's and I drove around the area after  
11 dark and found if the breeze is coming towards you, and past the plant it is very noticeable. On some  
12 occasions the odors are reported to be nearly nauseating. Andrew Capestro admitted on the tour that  
13 Marwood has been a problem for 20 years. This is a problem that should have been addressed by  
14 ADEQ, Far West, and Coriolis. One plant that I had experience with when I was working had aerobic  
15 digesters similar to what is at Marwood. Odor was an ongoing problem in that system, particularly in  
16 hot weather. I offered some operational suggestions which I felt were not well received. I suggested  
17 that they might try shortening the decant cycle a little at a time. The 2 hour decant period stresses the  
18 bacteria and some die off, causing an odor. This might not work, but doing nothing doesn't work  
19 either.

20 **Do you think as many residents do, that application of sewage effluent on the golf course is**  
21 **contributing to the odor at Marwood?**

22 A. If this effluent is not completely broken down, and digestion activity is still taking place it  
23 definitely can be a source of smell. If any of the sludge is applied there will strong odors for a long  
24 time. On the tour it was evident that there was standing water in low spots of the course. They looked  
25 black and brackish.

26

1 **Confined spaces/submersible pump stations**

2 **Q. Far West has taken exception to your claim that they should be doing everything they can to**  
3 **reduce the number of submersible pump stations. They claim your suggestion of “Wet side/Dry**  
4 **side” pump station is flawed because the dry side is still a confined space. How do you respond?**

5 A. Technically that is correct, however they are much different. One definition of a confined space,  
6 is a space which has only one entrance and exit, so the dry side is still a confined space. The  
7 difference is that this space is completely dry, with no direct contact with the sewage. The space  
8 would have installed ventilation which meets the requirements for complete change of air in the  
9 space. Some may require climbing down a ladder, but in the case of Section 14 where I made the  
10 argument that they missed a golden opportunity, they easily could have had a stairway with handrails.  
11 Also this type of confined space does not require issuing an entry permit each day. A general permit  
12 can be issued each month listing who is authorized to enter. All persons who enter must be trained in  
13 confined spaces, and at least one person must be trained as a “Competent Person”. The fact that the  
14 pumps are mounted on guide rails, does not preclude the need to still enter the Wet Well to service the  
15 pumps. That is easily shown with the brand new pump station at Palm Shadows. Very shortly after it  
16 was put into commission, it failed and sheared the bolts on a discharge flange, which required a  
17 shutdown of the station, and entry of the wet well. Mr. Ray Jones makes a point that “Far West has the  
18 most developed and rigorous employee safety program he has seen at a wastewater utility.” If that is  
19 the case, I maintain Mr. Jones should check some well run wastewater utilities. Far West did not  
20 improve their safety program until two people were killed in 2001, and should ask themselves why  
21 two H&S employees recently quit their jobs working at one of the golf courses because of many  
22 safety concerns. Also there was a recent death of an employee on a backhoe, on the golf course. Mr.  
23 Jones states that “submersible pumps require no maintenance and are on a rail system allowing  
24 removal and replacement from ground level.” My question would be, why do you need a rail system  
25 if no maintenance is required, and why do we need to replace the submersible pump? Clearly  
26 maintenance is required, there is no piece of equipment that doesn't need maintenance. I will point  
27 out, as I did in my direct testimony, when maintenance is needed on a submersible motor, Far West  
28 employees are not qualified to do it. These are special explosion proof motors and must be worked on  
29 by specially certified workers. In contrast to what Mr. Jones says, a dry well system does allow easy  
30 entry to inspect and maintain the pumps and motors.

1 **Palm Shadows/ Force Main failures**

2 **Q. In Gilkey/Rist DR 7.6 claims there have been no failures of Palm Shadows pump station or**  
3 **force main. Do you agree with that statement?**

4 A. Absolutely not. As I mentioned above there was a failure shortly after commissioning of the  
5 station as reported by Craig Marks on 12/23/2011 Docket # WS-03478A-08-0454

6 *“November 25,2011: The pumps for Palm Shadows force main jumped their railings, forcing shut*  
7 *down of force main and reuse of WWTP for two days, filling tanks again, but not the ponds. The pump*  
8 *specifications called for ½ inch bolts. Far West replaced the failed bolts with ¾ inch bolts.”*

9 A second failure occurred on May 17, 2012 when a “discharge pipe came off of an elbow” as reported  
10 in Gilkey 3<sup>rd</sup> data request “spillreportsfor2012.pdf”.

11 **Q. How do you respond to the explanation of hauling sewage from lift station 25?**

12 A. Well, I have to accept the explanation given, however this is an unacceptable way to run a  
13 collection system. It should have already been addressed, and ADEQ should be requiring a solution  
14 immediately. This is one more situation that points to poor management.

15 **Customer Service**

16  
17 **Q. In staff's direct testimony, Gerald Becker provided a list of complaints from 2010 through**  
18 **2013. The list shows almost no complaints, and a few opposed to rate increases. It also shows all**  
19 **complaints are resolved and are closed. What is your reaction to that.**

20 A. Well my reaction is that those reports are dead wrong. All Mr. Becker needs to do is come to a  
21 public meeting here in Yuma and he will get an ear full from the irate customers. A quick check of the  
22 Docket today will show numerous complaints, and they are not just about the rate increase. I submit  
23 there are several reasons that ACC doesn't have complaints documented. First people don't know how  
24 to complain to ACC. Second, calls to Far West get no action, people have complained about odors for  
25 so long with no results so they have given up. I can tell you, there have been some improvements in  
26 areas where money has been spent, but other areas are still very stinky. Calls about sewage spills do  
27 seem to get some action, however there are far too many spills for an area this size. This can be seen  
28 by looking at the answer to Gilkey/Rist Data Request 3.4 “spillreportsfor2012-far west.pdf”.

1 **Appointment of an Interim Manager**

2  
3 **Q. On page 28 of staff direct testimony, Gerald Becker was asked if staff investigated and**  
4 **made a recommendation whether it is in the public interest to appoint an Interim Manager. Did**  
5 **they do this?**

6 A. Yes they did the investigation. Staff recommended that no Interim Manager be appointed at this  
7 time. I disagree with this decision, and feel a Manager needs to be appointed as soon as possible, and  
8 before any decision is made on this rate case. Staff and intervenors do not have a true picture of the  
9 management of finances and never will until this is done. An example of keeping us in the dark, was  
10 the Scheckert Aquatic Center & RV park. The Center and park were not listed as an affiliate, when  
11 first asked for a list of affiliates. They then listed the Aquatic Center as being on the sewer, but no  
12 mention of the RV Park. A call to Yuma County showed that the RV Park was on a septic tank. A  
13 further data request asking to do a dye test to prove the connection to a septic tank, which resulted in  
14 the admission that the RV Park is connected to the sewer. However there has never been a sewer  
15 charge for these RV spaces. They claim they were confused about the zoning, and didn't understand  
16 that it was an RV Park. The same situation was present when we started investigating the commercial  
17 business accounts. Here again not all customers were being charged. We have also found the same  
18 thing true among residents in mobile home parks such as Rancho Rialto, where all resident are not  
19 being billed. This was brought out at the last rate case, and we still find it is still true.

20 **Gilkey, Surrebuttal**

21 **Management**

22  
23 **Q. Robert Gilkey, what do you have to say about Mr. Jones' contention that Andrew Capestro is**  
24 **a full-time contractor to Far West?**  
25

26  
27 A. I doubt that is true. There are many related companies in which Mr. Capestro is involved. In the  
28 Gilkey/Rist DR 6.3 we asked about the legal notice filings reported in the Yuma Sun newspaper  
29 February 18, 19 and 20, 2013, showing Andrew Capestro as a 20% or greater owner in the following  
30 related companies:

1 Las Barrancas Golf Course Management

2 LLC Hank's Market and Butcher Shop Management, LLC

3 Foothills Mini Mart Management, LLC

4 Part of the answer was the "LLC's were created to facilitate internal accounting for H&S Developers  
5 and are not related parties to Far West". That tells us Mr. Capestro is involved in management of not  
6 only Far West Water & Sewer, Inc., but H&S Developers and the aforementioned Management  
7 LLC's. His involvement in additional projects such as the development of El Rancho Encantado,  
8 which is owned by Paula Capestro, and other affiliated related entities, also leaves room to speculate  
9 as to the amount of time spent on these other projects and not on Far West issues.

10 **Q. So, what does this have to do with anything?**

11 A. It tells us, that Mr. Capestro is not a full time manager of the sewer division of Far West and  
12 because of all of the inherent problems discussed above by Mr. Rist, a full time, qualified and  
13 knowledgeable water/wastewater manager is needed. Another issue is Far West's disregard for and  
14 ignoring of statutes, rules, regulations, decisions and consent orders. The legal fees, court costs, travel  
15 costs, fines, penalties, lost employee productivity and other consequences of non-compliance have a  
16 direct financial effect on the stability of the company and are attributable to the poor management  
17 decisions made by Far West.

18 **Q. Mr. Jones has stated that "Far West has been struggling to meet its financial obligations for  
19 many years and it continues today to struggle to meet its financial obligations." What do you  
20 have to say about that statement?**

21 A. The company has been struggling to meet its financial obligations because of poor planning, poor  
22 management and the use of related companies for labor and supply sources (examples being no bid  
23 construction and maintenance contracts being awarded to H&S and purchasing chemicals, parts and  
24 tools from the Foothills Hardware & Lumber Store at full retail prices which is often considerably  
25 more expensive than competitors in the area). Poor planning and poor management go hand in hand  
26 and include, but are not limited to, the lack of foresight involved in the charging of capacity/impact  
27 fees.

1 **Accounting Irregularities**

2 **Q. What do you have to say about the \$25,000.00 check dated July 22, 2009, written to H&S**  
3 **Developers labeled “Employee Expense” in the Cash Disbursements journal?**

4 A. The first answer given to the Gilkey/Rist DR 5.17 question asking for an explanation of the  
5 expense as written was *“The 'Employee Expense' was for the transfer of funds to the employees'*  
6 *insurance fund for the payment of medical claims incurred by Far West employees”*. At a later date,  
7 that answer was changed to say *“The Company’s has further researched this payment to H&S*  
8 *Developers and concluded that its earlier response was in error. The payment was transferred and*  
9 *deposited into the H & S Developers, Inc. Employee Benefits bank account. This led the analyst to*  
10 *determine that the payment was for Far West Employee expenses. In reality, the payment was not for*  
11 *Far West employee expenses. Rather, the payment was instead a payment toward H&S Developers’*  
12 *vendor account with Far West.*

13 *The payment was applied to the H&S open invoices shown on the schedule attached as Gilkey 8.1*  
14 *H&S Payment Schedule.pdf. The schedule, titled “Check History” was printed directly from Far*  
15 *West’s Quickbooks accounting records and is the transaction history for the 7/22/2009 ACH transfer*  
16 *of \$25,000 to H&S Developers, showing the H&S Developers invoices that this payment was applied*  
17 *against. The backup documentation for each of the invoices is attached as a pdf file with the invoice*  
18 *number as the filename.*

19 *Also attached as Gilkey 8.1 H&S Payment Detail.pdf is a schedule describing the expenditure and*  
20 *indicating the rate making impact of the expenditure. As noted on the attached payment detail*  
21 *schedule and the Company’s original response to Staff DR GB 2-1(3), this \$25,000 payment to H&S*  
22 *Developers made on 7/22/2009 has no ratemaking impact on the current case.”*

23 The information furnished may have no ratemaking impact on the current case, but it shows how  
24 confusing and inconsistent the accounting methods used by Far West are.

25 **Q. In your Data Request 5.9 you asked about the \$12,500.00 discrepancy between the amount**  
26 **shown in Far West Water & Sewer, Inc. Sewer Division Cash Disbursements journal showing**  
27 **Andrew Capestro received \$167,000.00 and the 1099 reflecting \$154,500.00. What are your**  
28 **thoughts on this?**

29 A. Again, we were given two different answers. First we were told Mr. Capestro was paid  
30 \$167,000.00 for the year 2011 and the 1099 reflected \$154,500.00 because of the way Quickbooks

1 compiles 1099's based upon what was paid and what was applied, adding "There were bills that had  
2 been paid, but payments were not applied to those bills until 2012, after the 1099's had been  
3 distributed". At a later date, we were given another answer saying "

4 *"The Company has continued to research this issue and was able to fully reconcile the difference between  
5 the cash disbursement to Mr. Capestro of \$167,000.00 and the Form 1099 issued to Mr. Capestro in the  
6 amount of \$154,500.00 for the year 2011. The Company's research and reconciliation shows that,  
7 although \$167,000.00 was disbursed to Mr. Capestro, only \$154,500.00 was properly reportable on the  
8 Form 1099 issued to Mr. Capestro. The reported cash disbursements and the Form 1099 issued to Mr.  
9 Capestro are both correct and there is no unreconciled difference between the two.  
10 The difference occurs because a cash disbursement was made to Mr. Capestro that is not reportable on the  
11 Form 1099 issued to Mr. Capestro. This is because \$12,500 in payments to Mr. Capestro were for  
12 repayment of a previous payment returned to the Company by Mr. Capestro.  
13 More specifically, on October 17, 2011 the Company issued check number 38698 to Mr. Capestro in the  
14 amount of \$12,500 for services rendered. On October 18, 2011 the Company realized that it was short of  
15 funds to make payments to other vendors. Mr. Capestro wrote a personal check, number 0093, to the  
16 Company in the amount of \$12,500, effectively returning the October 17, 2011 payment (See Gilkey 5.9  
17 Capestro Ck 0093.pdf). The Company issued check number 38754 on October 19, 2011 repaying Mr.  
18 Capestro for the \$12,500 in legal fees returned on October 18, 2011. This payment of \$12,500, repaying  
19 the previously returned payment, is not reportable on Form 1099.  
20 Note: Check number 38754 was for \$15,000 repaying the returned \$12,500 payment and providing an  
21 additional \$2,500 toward outstanding invoices".*

22  
23 A copy of the check Mr. Capestro wrote was also included with the above explanation. It was clearly  
24 stated on the check that it was a loan. In that case, the \$15,000.00 repayment check written the very  
25 next day should have reflected that it included a repayment of a loan and not been expensed as  
26 another "Legal and Management Fee" item. I might add that the first \$12,500.00 check was written  
27 by Far West October 17, 2011, Mr. Capestro's check for the "loan" was written October 18, 2011, and  
28 the \$15,000.00 check repaying the loan and an additional \$2,500.00 toward outstanding invoices was  
29 written October 19, 2011.

### 30 **Denial of Service**

31  
32 **Q. At the February 20, 2013 public comment meeting held by the ACC Mr. Todd Jensen, the**  
33 **manager of Yuma Ventures RV Park, spoke about their failing septic system and the need to**  
34 **connect to the Far West sewer system. What was the result of the discussion with Far West?**

35 A. Yuma Ventures offered to pay Far West a capacity fee of \$395, 000.00 plus constructing their own  
36 sewer extension lines and paying for engineering. They were also quoted a sewer fee of \$21.75 per

1 space for monthly fees for Park Models. To date, that service has been denied.

2 **Q. Aren't park models charged \$5.44 per month in other R.V. parks?**

3 A. Yes, they are. This is more proof of the inconsistency of the management decisions being made. It  
4 looks like once again, they are confused about what constitutes an RV park.

5 ***Fiduciary Needed***

6  
7 Q. Do you agree with Mr Jones rebuttal of our discussion regarding capacity fees?

8 A. No, The capacity fees were determined based on Far West's own plant in service claims (past  
9 cost). The city of Yuma wastewater rate for county customers was quoted., so it would be fair to use  
10 City of Yuma capacity fees which are \$6,577 for residential connections. There does not appear to be  
11 a special lower rate for RV connections. The City is not a private corporation and does not have an  
12 investor equity component, and must adequately fund for future growth. Capacity fees recommended  
13 in Gilkey direct testimony are approximately 70% of City of Yuma projected future costs. This  
14 capacity fee would result in Far West having an equity component of approximately 30% in future  
15 expansion. This is far in excess of the 13.98% equity proposed by Mr. Jones page 15 of his direct  
16 testimony. A lower capacity fee would result in an even higher equity component. My proposed  
17 capacity fee structure supports commission expectations for a reasonable balance between developer  
18 contributions and utility investment. Previous Commission decision 69950 resulted in no capital  
19 contribution from Far West. There has been no accounting of capacity fees alleged to have been  
20 received by Far West. Capacity fees and main line extension agreement accounts should have been  
21 administered by a fiduciary. This would have prevented Far West from paying themselves at the  
22 expense of other contractors. See "Schedule of Activity for Far West Water & Sewer Main Line  
23 Extension Agreement (MXA)" replying to Staff data request GB 2-2 showing payments made and  
24 delinquencies. It is evident that most payments are going to Far West affiliates, hence the need for a  
25 fiduciary.

26  
27 We recommend that:

28 a. all capacity fees alleged to have been collected be accounted for and turned over to a

1 fiduciary under direct supervision of the Commission.

2 b. all financial transactions with regard to main line extension agreements to be administered  
3 by the aforementioned fiduciary.

4 c. NO connections be allowed or capacity fees be allowed to be paid without prior written  
5 approval of the above fiduciary.

6  
7 ***Palm Shadows / Force Main***

8  
9 **Q. What is your direct response to Ray Jones' rebuttal of your discussion on Palm Shadows and the  
10 associated force main?**

11 A. Mr. Jones is wrong. My position that Palm Shadows was a failure from the start is supported by  
12 the testimony of Coriolis's engineer Mr. Gary Lee, and Mr. Andrew Capestro in the previous rate case  
13 WS-03478A-08-0608. Mr Capestro acknowledged Palm Shadows is the responsibility of Far West.  
14 Palm Shadows was engineered by and built by Far West and/or it's affiliates. Moreover, the Palm  
15 Shadows plant was constructed to serve the Vista Del Sol development, a related company. Palm  
16 Shadows construction and the community it was constructed to support were choices made by the  
17 affiliated companies for their sole gain. (1) See RUCO Reply Brief of Docket # WS-03478A-08-0608  
18 for a full discussion with citations attached.

19  
20 **Q. Mr. Jones claimed we speculated Far West did not have contact with the city of Yuma  
21 regarding obtaining treatment services. Do you agree?**

22 A. No, Mr. Jones offers no evidence to support his thesis. We have previously provided testimony  
23 that Far West did not have formal or informal contact regarding Palm Shadows service area. See  
24 both Attachment 1 and Attachment 2 with responses from the City of Yuma requesting records.

25 **Q. Does this complete the surrebuttal of Robert Rist and Robert Gilkey**

26 A. Yes.

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/s/ Robert C. Gilkey  
Robert C. Gilkey

/s/ Robert Rist  
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/s/ Barbara S. Gilkey  
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**Original** and 13 copies mailed on March 27, 2013, to

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# Attachment 1

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## **Attachment 2**

# REQUEST FOR PUBLIC RECORDS



City of Yuma

I Robert Gilkey (print name) hereby request the following City of Yuma public record(s), for:

- Review
- Copies

Has Far West Water and Sewer or any of its representatives had formal or informal contact with the city of Yuma regarding that portion of Far West SEWER service area located within the city of Yuma? If yes, when? If yes, what was the city's response[s]?

### STATEMENT OF PURPOSE

In accordance with the provision of Arizona Revised Statutes, Section 39-121.03, I state:

That copies, printouts, or photographs of City records which have been requested will **not** be used for **commercial purpose(s)**; or

That copies, printouts, or photographs of City records which have been requested will be used for **commercial purpose(s)**:

[Signature] 1-29-2013  
Signature and Date

928-345-2468

Phone Number  
bobchester2000@aol.com

E-mail Address (optional)

The following public records were supplied per this request:

---



---



---



---



Robert Rist &lt;bobandjoanrist@gmail.com&gt;

---

**Request for Public Records**

1 message

---

**BOBnBARB325@aol.com** <BOBnBARB325@aol.com>  
To: bobandjoanrist@gmail.com

Sun, Mar 24, 2013 at 9:23 PM

-----Original Message-----

From: Small, Jasmine - Administrative Assistant <Jasmine.Small@YumaAz.gov>  
To: bobchester2000 <bobchester2000@aol.com>  
Sent: Wed, Jan 30, 2013 5:20 pm  
Subject: Request for Public Records

Mr. Gilkey,

Regarding your attached Request for Public Records, there are no public documents to fill this request. At this time I will consider your request closed.

Please don't hesitate to contact me should you have any additional questions or concerns.

Thank you,

&lt;&lt;1\_29\_13\_Gilkey.pdf&gt;&gt;

**Jasmine Small**

Administrative Assistant  
City of Yuma Clerk's Office  
(928) 373-5035  
jasmine.small@yumaaz.gov

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 **1\_29\_13\_Gilkey.pdf**  
85K

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**Before the  
Arizona Corporation Commission  
In the Rate case of  
Far West Water & Sewer  
Docket # WS-03478A-12-0307**

**Joint Surrebuttal of Rate Design  
of  
Robert Rist  
Robert Gilkey  
Barbara Gilkey**



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1

1 **INTRODUCTION**

2

3 **Q. Are you the same Robert Gilkey and Barbara Gilkey and Robert Rist that filed the previous**  
4 **rate design in this rate case?**

5

6 A. Yes.

7

8 **Q. Are Robert Gilkey and Barbara Gilkey and Robert Rist all in agreement with the answers to**  
9 **the following questions?**

10

11 A. Yes

12 **CONDITIONS OF RATE INCREASE**

13

14 **Q. In your rate design, do you propose any conditions be made mandatory?**

15 A. Yes. We recommend acceptance of all the items listed in Staff's Direct Testimony, pages 26  
16 through 28, however contrary to Staff, we feel it is absolutely necessary to appoint an Interim  
17 Manager and to do a forensic audit and an operational audit.

18 **RESIDENTIAL**

19 **Q. Do you agree with Ray Jones' statement that all parties are in agreement with residential**  
20 **rate design?**

21 A. No. We feel that the rate proposed by Far West, Staff, and RUCO are all out of line. We don't  
22 have confidence in the numbers reported and believe they will not be resolved until a forensic audit is  
23 done. There are many inconsistencies in accounting, co-mingling of funds between Company and  
24 affiliates, and poor management. Awarding an increase at this time would be rewarding poor  
25 management.

1 As an example, we don't agree that the Company didn't understand that the Schechert Family Aquatics  
2 & Fitness RV Park was not a "traditional" RV park because of the zoning. This was just a convenient  
3 way to explain away not charging sewer fees for the RV spaces in this business. Proof that  
4 management knew it was an RV park is the company's own literature that is available describing it as  
5 such (see Attachment 1).

6 Another example is the way in which the repayment of the Main Line Extension agreements has been  
7 handled. Affiliates are being paid while other developers are not being paid.

8 Far West didn't negotiate in good faith with Yuma Ventures who was willing to pay a capacity fee of  
9 \$395,000.00, plus providing all infrastructure to be connected with the sewer system. Yuma Ventures  
10 was also told that the monthly fee would be \$21.75 per RV space, which is 100% of the current  
11 residential rate. This is in direct conflict with what the other parks are currently paying and what the  
12 Company is proposing in this rate case which is 33.33% of the residential rate.

## 13 **COMMERCIAL**

14 **Q. Do you agree with the proposed rates for commercial accounts?**

15 A. No. We like the idea of billing simplicity in a commercial rate structure. It is not equitable,  
16 however, that a stand alone business with a 2" water meter pays the same rate as a 20 business strip  
17 mall with a 2" water meter. As an example, the commercial strip mall located at 12871 S. Frontage  
18 Rd., has a 2" water meter and is now generating \$43.50 per month for all 20 units. Under the  
19 proposed rates, the charge would go to \$346.62 per month based on the meter size. For 20 units, that  
20 equates to \$17.33 per unit per month. This does not sound reasonable as a residential customer in the  
21 Company's proposed rate increase would be paying \$57.77 or a stand alone business with the  
22 minimum sized 5/8" meter would be paying \$86.66. We believe that there is no fair and equitable  
23 way to arrive at a commercial fee without using volumetric water consumption factoring in the type of  
24 effluent created and the load it would place on the sewer plant.

## 25 **RV PARKS**

26 **Q. Do you have any disagreement with the proposed charge of \$19.25 or 33.33% of the**  
27 **residential rate?**

28 A. Yes. The Foothills area is comprised of many subdivisions known as "mobile estates", most of

1 them developed by H&S Developers. Most of these “mobile estates” lots, in addition to modular or  
2 site built homes, allow park models or standard RV's. These park models or RV's are then charged the  
3 residential rate. The same park model or RV moved to an RV park would then be charged only  
4 33.33% of the residential rate.

5 Staff indicated that they conferred with ADEQ and came up with the 33.33% number. Staff made no  
6 mention of how ADEQ might have arrived at that figure. We maintain that it was just an arbitrary  
7 number no common sense used. The 2010 census numbers indicate 1.7 persons per household in the  
8 Foothills area. We maintain most RV's and park models, whether located on it's own lot or inside an  
9 RV park, are occupied by two people. Those two people produce the same amount of sewage whether  
10 they are in an RV park or on an individual lot.

11 **Q. You don't see any difference between an RV located in a park and one located on it's own**  
12 **lot?**

13 A. Yes, we do in some cases. Many of the so called “mobile estates” lots where there are RV's have  
14 sheds or support buildings with a washing machine inside. The RV park user, most often, must go to a  
15 laundromat, which is usually located inside the RV park.

16 **Q. So, is it fair to charge a full residential rate to the RV park resident?**

17 A. We believe it is, however as a compromise, a rate of 70% of the residential rate is much more  
18 likely to be closer to equal in terms of contributed sewage since laundromats are usually used outside  
19 the RV and will be paying for that share of the sewage.

## 20 **EFFLUENT RATES**

21 **Q. Do you have a position on the effluent rates?**

22 A. Yes, we support Staff's recommendation.  
23

## 24 **MISCELLANEOUS SERVICE CHARGES**

25 **Q. Do you agree with the miscellaneous service charges?**

26 A. We have no disagreement with after hours service charges, however we want the Company to  
27 adopt a well defined list of services and their dollar charges. The Company needs to define both

1 “physical disconnection and reconnection” and “at cost” for disconnect and reconnect charges for  
2 sewer customers that are not Far West Water customers. Our understanding of this disconnection  
3 charge is due to Far West's not having the ability to disconnect water service to sewer customers who  
4 are not Far West water customers. We believe Staff and Far West should investigate the legality of  
5 disconnecting sanitary sewer service. There are other methods of accomplishing the same goal which  
6 include applying a lien to the property or having an intergovernmental agreement with the city of  
7 Yuma to have the water turned off. A physical disconnection of the sewer would require a dig up in  
8 the street or on private property and extreme expense that is not necessary.

## 9 **CONCLUSIONS**

10 **Q. The rate design you are proposing for commercial and RV Parks will result in significant**  
11 **increase of revenue. Do you think that should just be allowed to be added to their bottom line?**

12 A. No. All increased revenue from those two areas need to be used to reduce the residential rate.  
13 The residential customer has been carrying an unfair burden compared to RV Parks and commercial  
14 users.

15 **Q. What do you have to say in conclusion?**

16 A. The rate base needs to be calculated on the current total number of connections **plus** those where  
17 capacity fees have already been paid and accepted. There needs to be an annual recalculation of the  
18 rates necessary to fund the adopted rate design based on current connections at the end of each  
19 calendar year. An option would be to deposit into a fiduciary account the monies collected over and  
20 above the approved rate base pending the next rate case.

21 We feel the residential rate cannot be justified to be any higher than the current rate for the City of  
22 Yuma which is \$32.48 per month according to Ray Jones' answer to Spartan Homes DR 1-5. We  
23 would accept this as a temporary rate to cover the cost of the Interim Manager, forensic and  
24 operational audits.

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/s/ Robert C. Gilkey  
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# Attachment 1



**Schechert Family Aquatics & Fitness RV Park**  
11737 S. Foothills Blvd.  
Yuma, AZ 85367

For reservations or information, please call the front desk at **(928) 345-0321**.

The use of Schechert Family Aquatics & Fitness Center is available, free of charge, for all who reside in the park.

Phone service available from independent supplier.

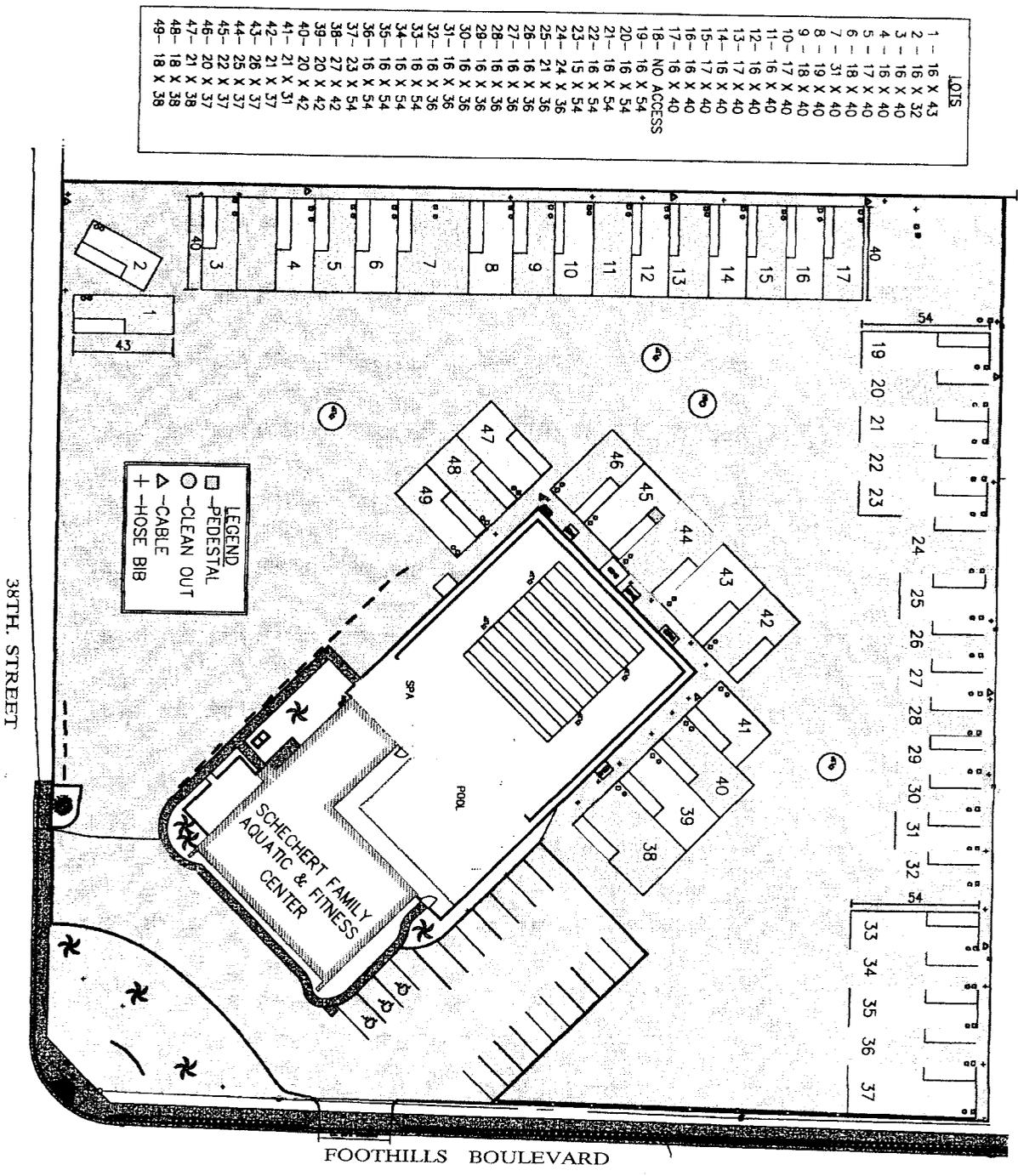
<b>ANNUAL RATE</b>	\$2850 + electricity
<b>MONTHLY RATE</b>	\$350.00 + electricity
<b>WEEKLY RATE</b>	
Apr. – Oct.	\$195 (includes full hook-ups)
Nov. – Mar.	\$235 (includes full hook-ups)
<b>DAILY RATE</b>	
Apr. – Oct.	\$30.00 (includes full hook-ups)
Nov. – Mar.	\$35.50 (includes full hook-ups)

**Monthly reservations require one month's payment in advance.**

**All rates subject to change prior to receipt of deposit.**

***"El Rancho Encantado"***

For more information about Seasonal Rentals and Lot Sales, contact  
Nikki Watson at **(928) 342-3281**  
Rent to own, and special financing available.



LOT	Dimensions
1	16 X 43
2	16 X 32
3	16 X 40
4	16 X 40
5	17 X 40
6	18 X 40
7	31 X 40
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9	18 X 40
10	17 X 40
11	16 X 40
12	16 X 40
13	17 X 40
14	16 X 40
15	17 X 40
16	16 X 40
17	16 X 40
18	NO ACCESS
19	16 X 54
20	16 X 54
21	16 X 54
22	18 X 54
23	15 X 54
24	24 X 36
25	21 X 36
26	16 X 36
27	16 X 36
28	18 X 36
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**Brownstein Hyatt Farber Schreck, LLP**  
One East Washington Street, Suite 2400  
Phoenix, AZ 85004

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**BEFORE THE ARIZONA CORPORATION COMMISSION**

COMMISSIONERS

GARY PIERCE, Chairman  
BOB STUMP  
SANDRA D. KENNEDY  
PAUL NEWMAN  
BRENDA BURNS



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**

**PRE-FILED DIRECT TESTIMONY OF BRIAN HOUSEHOLDER ON BEHALF OF  
INTERVENOR SPARTAN HOMES AND CONSTRUCTION, INC.**

**FEBRUARY 13, 2013**

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**EXECUTIVE SUMMARY**

Brian Householder will testify regarding: (i) the poor level of service provided by Far WestWater & Sewer, Inc., ("Far West") to Spartan Homes and Construction, Inc., and to its customers generally; (ii) Far West's self-serving dealings with affiliated companies such as H & S Developers, Inc., and the impact of such dealings on sewer rates; (iii) Far West's failure to comply with the rules, regulations, decisions and consent orders of the Arizona Corporation Commission and the Arizona Department of Environmental Quality; (iv) whether Far West has excess capacity in the recently expanded Section 14 wastewater treatment plant which should be excluded from rate base; and (v) whether Far West has appropriately accounted for and refunded advances in aid of construction. Mr. Householder also makes recommendations to be adopted by the Commission if the Commission approves a rate increase for Far West.

- 1 Q. Please state your name, business address and occupation.
- 2 A. My name is Brian Householder. My business address is 11858 Via Loma Vista, Yuma,  
3 Arizona 85367. I am a developer and general contractor in Yuma County, Arizona.
- 4 Q. Are you a native of Yuma County?
- 5 A. I am not a native of Yuma County but I have lived in Yuma County for approximately 35  
6 years.
- 7 Q. Do you currently have a business in Yuma County?
- 8 A. Yes. Spartan Homes and Construction, Inc., ("Spartan") is an Arizona corporation which  
9 develops real property and constructs homes in Yuma County. I am the Vice  
10 President/Secretary and a shareholder of Spartan. My wife Susan Householder is the  
11 President of Spartan.
- 12 Q. Does Spartan have an existing development project in Yuma County?
- 13 A. Yes. Spartan is the developer of a residential and commercial development in Yuma  
14 County known as Sierra Ridge. Sierra Ridge is located outside but adjacent to the city  
15 limits of the City of Yuma in a portion of the west ½ of the northwest ¼ of Section 9,  
16 Township 9 South, Range 21 West, Gila and Salt River Base and Meridian. Sierra Ridge  
17 includes a residential subdivision (the "Residential Property") covering approximately  
18 45.83 acres and a commercial parcel (the "Commercial Property") covering  
19 approximately 12.12 acres.
- 20 Q. Please describe your Residential Property.
- 21 A. The Residential Property is being developed in two phases. Sierra Ridge Unit 1 includes  
22 113 single-family lots and Sierra Ridge Unit 2 includes 60 single-family lots. The final  
23 plat for Sierra Ridge Unit 1 was recorded March 11, 2005 as Fee No. 2005-10314,  
24 Official Records of Yuma County Recorder. The final plat for Sierra Ridge Unit 2 has  
25 been prepared and approved by Yuma County but has not yet been recorded.
- 26 Q. Please describe your Commercial Property.
- 27
- 28

1 A. The Commercial Property is located immediately adjacent to the South Frontage Road  
2 for Interstate 8 which runs through the City of Yuma. Planning for the Commercial  
3 Property has commenced but has not been completed.

4 Q. Who provides water and wastewater services to Sierra Ridge?

5 A. Far West is the water and wastewater provider for Sierra Ridge. Far West is currently  
6 providing water and sewer service to approximately 63 occupied homes in Sierra Ridge  
7 Unit 1, all of which were constructed and sold by Spartan. Spartan owns the remaining  
8 50 lots in Sierra Ridge Unit 1. Spartan has completed a spec home on lot 90, and is  
9 constructing spec homes on lots 54, 72, 91 and 101 within Sierra Ridge Unit 1.

10 Q. Is Spartan a current customer of Far West?

11 A. Yes. Each of Spartan's lots 54, 72, 90, 91 and 101 is receiving water and sewer service  
12 from Far West.

13 Q. Is Sierra Ridge included in the certificates of convenience and necessity ("CC&Ns") of  
14 Far West for water and sewer service?

15 A. Sierra Ridge is included in Far West's CC&N for water, but it is outside of Far West's  
16 CC&N for sewer. However, in Decision 72594 (September 15, 2011) in Docket WS-  
17 03478A-08-0256, the Arizona Corporation Commission ("Commission") ordered that  
18 "Far West Water and Sewer, Inc., must provide sewer service to the remaining 51 lots in  
19 [Spartan's] Sierra Ridge Unit 1 ... on a nondiscriminatory basis, and charge its approved  
20 rates."<sup>1</sup> Decision 72594 further ordered Far West to "file with the Commission a sewer  
21 CC&N extension application encompassing the entire Spartan Property" within 90 days  
22 of the decision, or by December 14, 2011.<sup>2</sup>

23 Q. Has Far West filed an application to extend its sewer CC&N to include the Sierra Ridge  
24 property as ordered in Decision 72594?

25 A. No.

26

27

28 <sup>1</sup> Decision 72594 (Docket WS-03478A-08-0256) at 79, lines 23-25.

<sup>2</sup> *Id.* at 79-80.

1 Q. Do you know why Far West has not filed for the sewer CC&N extension to include the  
2 Sierra Ridge property?

3 A. No. Spartan has provided everything that Far West requested in connection with the  
4 application.

5 Q. Has Spartan executed a main extension agreement for sewer service for Sierra Ridge  
6 Unit 1 with Far West?

7 A. Yes. On November 20, 2011, Far West and Spartan executed a Sewer Main Extension  
8 Agreement for Sierra Ridge Unit 1 as required by Decision 72594. The Sewer Main  
9 Extension Agreement acknowledged that Spartan previously paid Far West \$119,092.47  
10 in the form of constructed infrastructure as a refundable advance in aid of construction.

11 Q. Do you believe that Far West should be required to file an application to extend its sewer  
12 CC&N to include the Sierra Ridge property before any rate increase approved by the  
13 Commission in this case be allowed to go into effect?

14 A. Yes. As a customer, I believe that Far West should be required to comply with prior  
15 Commission decisions before any rate increase may be implemented. The failure of a  
16 utility to comply with Commission decisions may very well lead to higher rates for  
17 customers. Beyond that, it is simply not good business practice to disregard or ignore  
18 orders of regulators. Where there is disregard or disdain for the orders of the  
19 Commission, that same attitude shows up in poor customer service.

20 Q. Regarding customer service, has your experience working with Far West as the utility  
21 serviced provider for Sierra Ridge been a positive one?

22 A. No, it has not. Unfortunately, I have found that Far West has continually failed to honor  
23 agreements it made with Spartan regarding providing utility services for Sierra Ridge.  
24 Further, Far West has failed to comply with Commission statutes and rules. As a result, I  
25 was forced to file a formal complaint against Far West in Docket WS-03478A-08-0256.

26 Q. Did the Commission issue a decision in Docket WS-03478A-08-0256?

27 A. Yes. The Commission issued Decision 72594 which found that Far West: (i) violated  
28 A.A.C. R14-2-406(C)(2) because it failed to provide a copy of the executed water main

1 extension agreement for Sierra Ridge Unit 1 to Spartan; (ii) violated A.A.C. R14-2-  
2 406(M) because it failed to submit the water main extension agreement to Utilities  
3 Division Staff for approval; (iii) violated A.A.C. R14-2-606(B)(2) because it failed to  
4 provide a copy of an executed sewer main collection agreement for Sierra Ridge Unit 1  
5 to Spartan; and (iv) violated the terms of its sewer main collection agreement with  
6 Spartan because it failed to make required refunds of advances in aid of construction paid  
7 by Spartan under the agreement. As I explain above, Decision 72594 also ordered Far  
8 West to provide sewer service to all lots in Sierra Ridge Unit 1 and to file a sewer CC&N  
9 extension application encompassing the entire Spartan Property by December 14, 2011.  
10 In addition, Decision 72594 ordered Far West to pay refunds to Spartan of advances in  
11 aid of construction that had been illegally withheld from Spartan under its sewer main  
12 extension agreement. Further, Decision 72594 ordered Far West to immediately refund  
13 \$154,180 to Spartan for the costs of the water infrastructure constructed by Spartan for  
14 Sierra Ridge Unit 1 and conveyed to Far West.

15 Q. Has Far West complied with these requirements of Decision 72594?

16 A. For the most part, no. Far West has allowed Spartan to connect lots to the sewer system,  
17 but it still refuses to file an application to extend its sewer CC&N to include the Sierra  
18 Ridge property nearly 18 months after Decision 72594. Further, Far West has refunded  
19 only a portion of the \$154,180 that it was ordered to refund. While Far West did make  
20 an initial refund payment to Spartan under the sewer main extension agreement for  
21 amounts owed from August 31, 2005, through August 31, 2011, it has failed to make the  
22 refund payment due for gross revenues received through August 31, 2012.

23 Q. Has Far West contacted you regarding the missed refund payment for 2012?

24 A. No.

25 Q. Based upon your experience, do you believe that there may be problems with refunds  
26 due other developers under Far West main extension agreements?

27 A. Yes. I question whether Far West is properly accounting for and refunding advances in  
28 aid of construction to other developers in its service territory. I am aware, for example,

1 that significant fees were advanced by developers to H & S Developers, Inc. ("H & S  
2 Developers") an affiliate of Far West, as opposed to Far West itself. I question whether  
3 amounts advanced to H & S Developers are being refunded to developers pursuant to the  
4 Commission's rules. I also question how such amounts are treated on the books of Far  
5 West.

6 Q. Do you believe that Far West should be required to fully comply with Decision 72594  
7 before any rate increase may be implemented?

8 A. Yes. I believe that is the only way Far West will ever fulfill the requirements of  
9 Decision 72594.

10 Q. Have the failures on the part of Far West negatively impacted you as a customer?

11 A. Absolutely. Far West's failure to comply with Commission rules and the requirements of  
12 the Arizona Department of Environmental Quality ("ADEQ") forced Spartan to stop  
13 selling homes right in the middle of the project and at the top of the real estate market.  
14 This caused large financial losses to Spartan, myself and my wife. What's worse,  
15 Spartan was forced to hire an attorney and incur large legal bills to force Far West to  
16 follow the Commission's rules and decisions—something that Far West should have been  
17 doing anyway. I am still incurring legal expenses in an effort to force Far West to  
18 comply with Decision 72594.

19 Q. Beyond the negative effects experienced by Spartan, do you believe that Far West's  
20 failure to follow the rules and decisions of the Commission and other regulatory bodies  
21 negatively impacts all customers of Far West?

22 A. Clearly. Far West has a track record of disregarding and ignoring statutes, rules,  
23 regulations, decisions, consent orders and the like. The legal fees, court costs, travel  
24 costs, fines, penalties, lost employee productivity and other natural consequences of non-  
25 compliance have a direct negative effect on the financial stability and operations of Far  
26 West and, therefore, upon the rate payers. I would urge the Commission to ensure that  
27 Far West complies with all applicable statutes, rules, regulations, decisions, consent  
28 orders or other regulatory mandates as a precondition of implementing any rate increase.

1 Q. What has your experience taught you about the value that Far West places on customer  
2 service?

3 A. I don't see that Far West values customer service at all. It has been extremely difficult  
4 dealing with Far West in the development of Sierra Ridge. I frequently received mis-  
5 information. My phone calls were often not returned. I was repeatedly asked to  
6 resubmit the same documents because they had been lost by Far West. Customer service  
7 is simply abysmal.

8 Q. You mentioned that you received mis-information. Can you give me an example?

9 A. Yes. As I was performing my pre-purchase due diligence on the Sierra Ridge property in  
10 2003, I contacted Far West and was told that the property was within both the water and  
11 sewer CC&Ns for Far West. As it turned out, the property was located adjacent to but  
12 outside of the sewer CC&N. This became a serious problem for me. After I had  
13 constructed and conveyed the sewer infrastructure to Far West, and after Far West had  
14 commenced providing sewer service to customers within the development, Far West  
15 argued that it was not obligated to provide sewer service to the remaining lots in Sierra  
16 Ridge Unit 1 because the subdivision is outside of its CC&N. Fortunately, Far West was  
17 ordered to provide sewer service to the remaining lots in Sierra Ridge Unit 1 in Decision  
18 72594.

19 Q. In addition to the severe deficiencies in customer service, do you have other concerns  
20 about Far West's application to increase its sewer rates by almost 175%?

21 A. Yes. I have serious concerns about the transparency, reasonableness and propriety of the  
22 many business transactions between Far West and its non-regulated affiliates, including  
23 H & S Developers. For example, during the mid 2000's, at the same time that Far West  
24 was seeking interim and permanent rate increases in two separate dockets, affiliate H & S  
25 Developers—and not Far West—received more than \$500,000 in impact fees from  
26 developers. The misdirection of these impact fees through an affiliate obscures the true  
27 financial condition of Far West and will result in rates that are not just and reasonable if  
28 it is not addressed. In the July 8, 2009, Reply Brief of the Residential Utility Consumer

1 Office ("RUCO") filed in Docket No. WS-03478A-08-0608,<sup>3</sup> a copy of which is attached  
2 hereto as Attachment 1, RUCO identified other instances of self-serving transactions  
3 between Far West and its affiliates, including H & S Developers, which led to this harsh  
4 conclusion:

5 The Company's witness, Mr. Capestro testified that Far West needs \$1.2  
6 million to complete the ADEQ projects and has \$3.4 million in accounts  
7 payable to its ADEQ project vendors. At the same time Far West claims  
8 to have capital budget deficiencies preventing payment of ADEQ project  
9 vendors, it has made large payments to H & S and its shareholders.  
10 During 2007, one year prior to filing the request for interim rates, Far  
11 West paid shareholder affiliates \$1,462,684 dollars. Moreover, in 2008,  
12 Far West paid shareholder affiliates \$920,651 for accounts payable and  
13 repaid, in full, a long-term loan of \$571,244 owed to shareholders. In  
14 total, between December 31, 2007 and December 31, 2008, Far West paid  
15 its affiliates approximately \$1.4 million. The amount of the payments  
16 raises the issue of why shareholders prioritized payments to themselves  
before payments to third party vendors. RUCO believes the answer is  
greed.

17 The shareholders placed their interests above the interests of the  
18 ratepayers. The result is a capital budget shortfall. The Commission  
19 should not reward the shareholders with revenue from ratepayers to  
20 compensate the capital budget drained by the selfish interest of its share  
21 holders.<sup>4</sup>

22 Q. Do you agree with RUCO that Far West places the interests of its shareholders above the  
23 interests of rate payers?

24 A. Yes. That has certainly been my experience.

25 Q. Do you have concerns regarding the ability of the owners of Far West to properly and  
26 honestly manage utility operations?

27 A. Yes. Unfortunately, I have come to question whether the owners of Far West have the  
28 capability and honesty to properly manage the daily, weekly, monthly and annual  
finances and operations of the utility. As one example, it appears clear that Far West  
grossly over-expanded its Section 14 wastewater treatment plant for the benefit of its

<sup>3</sup> *In the Matter of the Application of Far West Water & Sewer Company, an Arizona Corporation, for Approval of Interim Rates and Charges* (Docket WS-03478A-08-0608).

<sup>4</sup> RUCO's Reply Brief dated July 8, 2009 (Docket WS-03478A-08-0608) at p. 18, lines 4-14 (emphasis added, citations omitted).

1 affiliates, to the detriment of rate payers. RUCO addressed this issue in its July 8, 2009,  
2 Reply Brief in Docket No. WS-03478A-08-0608, explaining as follows:

3 Clearly, current ratepayers at Palm Shadows and Section 14 do not need a  
4 1.3 to 2.0 mgd plant to meet current combined peak flows of 274,000 gpd.  
5 This begs the question of why the Company [Far West] would need 1.0 to  
6 1.7 mgd more in capacity at Section 14. The answer is greed. In fact, the  
7 Company designed the plant to 2.0 mgd and built the plant to 1.3 mgd to  
8 accommodate future development. Notably, Far West affiliates own many  
9 of the future real estate developments in the area. These developments  
10 include Schechert Estates, the Ravines 1, 2 and 3, [and] Las Barrancas 2  
11 and 3 comprising a total of 940 proposed residential lots. Moreover, some  
12 of the future developments are on land previously owned by Far West  
13 such as Las Barrancas 1 and Arroyo de Fortuna 1-5. Although the  
14 Company's witness, Mr. Capestro, initially denied any connection with  
15 Las Barrancas or Arroyo de Fortuna, he ultimately acknowledged that Far  
16 West affiliates own or previously owned the land, which includes an  
17 additional 505 lots. RUCO believes the affiliation is important because to  
18 sell raw land with subdivision capacity, the affiliates needed capacity  
19 assurances from Far West. Far West could not give capacity assurances  
20 without permitted capacity. ADEQ permitted Section 14 for 150,000 gpd.  
21 To meet the demands of Section 14 and Palm Shadows at their combined  
22 peak flows, the Company needed 350,000 gpd. To garner the best price  
23 for land they wished to sell and to develop subdivisions on land they  
24 wished to retain, the affiliates needed additional capacity at Section 14.  
25 Without the over sizing of the Section 14 plant, the affiliates would not be  
26 able to sell the raw land with subdivision development capacity or develop  
27 their own subdivisions. Dictated by greed, Far West shareholders and  
28 managers designed Section 14 for 2.0 mgd to meet the needs of their  
affiliates. The Company spent at least \$420,000 to engineer the expansion  
of Section 14 from 1.3 mgd to 2.0 mgd. Mr. Capestro asserts Far West  
paid the engineering costs before it knew of the capital budget shortfalls.  
His statement is false. According to the Company's report on IDA  
construction distributions, the engineering expenses associated with the  
expansion of Section 14 occurred between August 19, 2008 and  
September 8, 2008, after the Company admittedly knew of the capital  
budget shortfalls for the ADEQ mandated projects. Moreover, to expand  
the plant from 671 gpd to 2.0 mgd, the Company spent \$200,000 of IDA  
funds to purchase land from Schechert Trust, an affiliate, to build three  
vadose recharge wells. Notably, they spent the IDA funds on this non-  
ADEQ project on October 14, 2008 well after they were aware of the  
capital budget shortfalls. The Company built the plant to 1.3 mgd having  
spent \$4,146,672 to date and owing an additional \$2,416,002.65. The  
shareholders are motivated by self-interest and greed. The Commission  
should not compel the ratepayers to fund the shareholders' personal gain.<sup>5</sup>

<sup>5</sup> *Id.* at pp. 14-16 (emphasis added, citations omitted).

1 Q. Should the Commission exclude any excess capacity found to exist in the Section 14  
2 wastewater treatment plant?

3 A. Yes. It would be unfair to require rate payers to pay for excess capacity at the Section 14  
4 wastewater treatment plant—excess capacity that was constructed to benefit the  
5 developer affiliates of Far West.

6 Q. Is there anything else about the Section 14 wastewater treatment plant expansion that  
7 troubles you?

8 A. Yes. While constructing the Section 14 wastewater treatment plant expansion, Far West  
9 fell seriously behind in payments to vendors and suppliers on the project. However, Far  
10 West and its affiliates made sure that they were paid first. RUCO explained as follows in  
11 its July 8, 2009, Reply Brief in Docket No. WS-03478A-08-0608:

12 Far West affiliates are profiting from the capital improvement project.  
13 The Company [Far West] admits that its affiliates received \$2.5 million  
14 dollars in construction contracts. The Company further admits that H & S  
affiliates received approximately \$244,424 for effluent removal.<sup>6</sup>

15 Far West's constant policy of placing the interests of its owners and affiliates far ahead of  
16 those of the rate payer has led to a downward spiral in the financial strength and stability  
17 of the utility, to the harm of the rate payers. Now, Far West is seeking a very painful  
18 175% rate increase to try to climb out of a hole that it dug itself by self-serving affiliate  
19 transactions and the failure to follow the rules, decisions and consent orders of the  
20 Commission and ADEQ.

21 Q. What actions would you recommend that the Commission take in this rate case docket?

22 A. First, I would recommend that the Commission order Far West to demonstrate  
23 compliance with all Commission statutes, rules and decisions before the company is  
24 permitted to implement any rate increase approved in this docket. This includes full  
25 compliance with Decision 72594 in Docket WS-03478A-08-0256. In addition, Far West  
26 should be required to demonstrate compliance with the statutes, rules and consent orders  
27 of ADEQ before the company is permitted to implement a rate increase.

28 <sup>6</sup> *Id.* at p. 9, lines 1-4 (emphasis added, citations omitted).

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Second, I would recommend that the Commission require Far West to demonstrate and certify that it is current on all refunds of advances in aid of construction for its water and wastewater divisions.

Third, I would recommend that the Commission prohibit any transactions between Far West and any of its affiliates until such time as Far West prepares and implements a code of conduct, approved by the Commission, establishing protocols for how transactions will be handled between Far West and any of its affiliates and how such affiliate transactions will be recorded on the books of the companies. The code of conduct would be designed to ensure transparency in affiliate transactions and full compliance with the Commission's rules on Public Utility Holding Companies and Affiliated Interests as set forth in A.A.C. R14-2-801 *et seq.*

Q. Does this conclude your testimony?

A. Yes.

# **ATTACHMENT 1**

ORIGINAL

BEFORE THE ARIZONA CORPORATION COMMISSION

RECEIVED  
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AZ CORP COMMISSION  
DOCKET CONTROL

- 2 KRISTIN K. MAYES  
CHAIRMAN
- 3 GARY PIERCE  
COMMISSIONER
- 4 SANDRA D. KENNEDY  
COMMISSIONER
- 5 PAUL NEWMAN  
COMMISSIONER
- 6 BOB STUMP  
COMMISSIONER

8 IN THE MATTER OF THE APPLICATION OF      Docket No. WS-03478A-08-0608  
 9 FAR WEST WATER & SEWER COMPANY,  
 10 AN ARIZONA CORPORATION, FOR  
 APPROVAL OF INTERIM RATES AND  
 CHARGES.

11  
 12 **RUCO'S REPLY BRIEF**  
 13 **INTRODUCTION**

14 Far West Water and Sewer ("Far West" of the "Company") seeks interim rates  
 15 arguing that the Sewer Division is unable to meet its obligations. The Company asserts  
 16 that it has a shortfall in both its operational and capital budgets. The Commission  
 17 should deny the request for interim rates because, on a total company basis, the  
 18 Company has sufficient funds to meet its operational expenses and debt service.  
 19 Shortfalls in the Company's capital budget for construction work in progress are not a  
 20 ratepayer obligation and therefore the Commission should not consider capital budget  
 21 shortfalls as a basis for awarding interim rates.

Arizona Corporation Commission  
**DOCKETED**  
 JUL - 8 2009  
 DOCKETED BY *MW*

1       **A. THE COMMISSION SHOULD DETERMINE INTERIM RATES BASED ON**  
2       **WHETHER THE COMPANY HAS SUFFICIENT CASH FLOW IN ITS**  
3       **OPERATIONAL BUDGET**

4       **1. On a total company basis, Far West has sufficient cash flow to cover its**  
5       **operating expenses and debt service.**

6       The Company seeks \$2,161,788 or a **101 percent** increase to its revenues for the  
7       Sewer Division. The Company claims that the increase is necessary to keep the Sewer  
8       Division solvent and operating at a \$0 operating margin. Closing Brief at 18. The Company's  
9       analysis of the revenue necessary to meet debt service and operating expenses is flawed.  
10      The Company based its analysis on the financial statements of the Sewer Division, alone. The  
11      Company chose to pursue financing and the Commission approved the Company's application  
12      on a total company basis.<sup>1</sup> As such, the Commission should evaluate the need of interim rates  
13      on a total company basis and find that the Company is able to meet its bond obligations and  
14      that there is no emergency or imminent emergency.

15      **2. The Commission should not consider extraordinary expenses resulting from the**  
16      **Company's mismanagement.**

17      The Company's witness, Thomas Bourassa claims that on a total company basis the  
18      Company lost \$972,000 and had a positive cash flow of only \$13,058.<sup>2</sup> RUCO's witness,  
19      William Rigsby testified that the Company had free cash flow of \$674,756 in 2007 and  
20      \$939,066 in 2008, after annual interest and principal payments were satisfied.<sup>3</sup> The major  
21      difference between the calculations of Mr. Bourassa and Mr. Rigsby stems from their treatment  
22      of extraordinary expenses. Extraordinary expenses are non-reoccurring expenses, typically

23      <sup>1</sup> See R-1 Financing Application and Decision No. 69950, Docket No. WS-03478A-07-0442.  
24      <sup>2</sup> A-3 Rebuttal Testimony of Thomas Bourassa  
       <sup>3</sup> R-3, Testimony of William Rigsby at 15. See also Schedule. WAR-1. Staff's witness, Gerald Becker,  
       estimated the Company's free cash flow for 2009 as \$781,702.

1 considered below the line expenses, meaning expenses not paid by ratepayers.<sup>4</sup> Mr.  
2 Bourassa included the extraordinary expenses in his cash flow analysis and Mr. Rigsby did  
3 not.

4 The bulk of extraordinary expenses were for the removal of effluent from the Palm  
5 Shadows Wastewater Treatment Plant ("Palm Shadows"). After completion of Section 14  
6 Wastewater Treatment Plant ("Section 14") and the Palm Shadows Force Main, the Company  
7 will convert Palm Shadows to a lift station and send its wastewater flows to Section 14 for  
8 processing. In the meantime, the Company has been removing effluent from the Palm  
9 Shadows because the plant does not operate properly. In 2007, the Company spent  
10 \$347,446.72 to collect and haul the effluent.<sup>5</sup> In 2008, the Company spent \$501,363 to  
11 remove effluent from Palm Shadows and haul it to the City of Yuma's wastewater treatment  
12 system.<sup>6</sup>

13 The Company claims the Commission should consider the extraordinary expense it  
14 pays to collect and haul wastewater from Palm Shadows to the City of Yuma. RUCO asserts  
15 that the Commission should disregard these expenses because they are below the line non-  
16 operational expenses for which the ratepayers are not responsible.<sup>7</sup> The Company's  
17 accountant, Lloyd H. Sunderman, supports RUCO's position because he also classified these  
18 expenditures non-reoccurring and non-operational, below the line deductions in his  
19 compilations of the Company's financial statements for 2007 and 2008.<sup>8</sup>

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22 <sup>4</sup> T: 1089

<sup>5</sup> R-18, Response to Staff's DR 1.1

23 <sup>6</sup> R-19 Response to Staff's DR 1.2

<sup>7</sup> T: 1089

24 <sup>8</sup> R-18 and R-19, 2007 and 2008 Financial Statements provided in response to Staff DR 1.1 and 1.2,  
respectively.

1 RUCO believes these expenses result from the mismanagement and negligence of the  
2 Far West management and therefore should be borne by the shareholders.<sup>9</sup> Palm Shadows  
3 was designed with two evaporation/percolation ponds. Pursuant to the approved design flow,  
4 effluent produced from the treatment process should have evaporated into the air or percolated  
5 into the soil. As the Company's witnesses, Andrew Capestro and Gary Lee acknowledged,  
6 Palm Shadows does not percolate because it was built on clay soils, which do not percolate  
7 when saturated.<sup>10</sup> According to Mr. Lee, the Company's engineer:

8 Palm Shadows could not handle either existing or the projected effluent due to  
9 clay soils....testing confirmed that clay began approximately ten feet below  
10 grade, and continued for another thirty to thirty five feet, to approximately forty  
11 to forty-five feet below grade...the clay was of a type that would not allow any  
12 percolation after it became saturated. The thickness of the clay also prohibited  
13 the use of a vadose recharge well.<sup>11</sup>

14 Mr. Capestro initially testified that the Company did not construct Palm Shadows and  
15 was not responsible for its poor construction.<sup>12</sup> He claimed that a developer with whom Far  
16 West had no past or current relationship built Palm Shadows. Id. He testified that Mr. Bruce  
17 Jacobson, a licensed engineer, certified the design and construction for the builder and that  
18 Far West took over operations of Palm Shadows post-construction. Id.

19 Contrary to Mr. Capestro's testimony, Far West submitted the original application to  
20 build and operate Palm Shadow in June 1998.<sup>13</sup> Far West's president, Brent H. Weidman  
21 signed the application stating the plant would be completed and in service in September 1998.  
22 The application confirmed that Far West retained Norman Bruce Jacobson as the engineer on

23 <sup>9</sup> The Shareholders are also the managers of the closely held private company. As such they are ultimately  
24 responsible for the Company's capital outlays and any below the line expenses.

<sup>10</sup> T: 589.

<sup>11</sup> R-25 Company's Response to RUCO's DR5.14

<sup>12</sup> T: 109

<sup>13</sup> R-23 Aquifer Application Permit dated June, 1998.

1 the project.<sup>14</sup> According to public comment, the homeowners purchased their lots from Palm  
2 Shadows Partnership, a partnership made up of Brent H. Weidman, Donald Jacobson and  
3 Norman Bruce Jacobson.<sup>15</sup> Notably, Mr. Weidman was also President/CEO and a Director of  
4 Far West and President/Vice President and a Director of H & S, at the time.<sup>16</sup> Contrary to Mr.  
5 Capestro's assertion that the companies were unrelated, at the time Palm Shadows was  
6 constructed, Mr. Weidman was President of Far West, H & S Developers and a partner in the  
7 development company, Palm Shadows Partnership. Id. In addition, Mr. Jacobson, the engineer  
8 who certified the design of Palm Shadows was a partner with Mr. Weidman in Palm Shadows  
9 Partnership. Id. The documents of Arizona Department of Environmental Quality ("ADEQ")  
10 reflect a clouding of interests. It is clear, that the companies were related parties, but the fact  
11 that ADEQ documents reflect Far West was the original permitting party, the parties were not  
12 only related, their interests were merged.

13 Although Mr. Capestro initially disputed Far West's responsibility for constructing Palm  
14 Shadows on non-percolating soils, he ultimately acknowledged the wastewater treatment plant  
15 does not work, and the Company is responsible for the nonfunctioning plant.<sup>17</sup> RUCO believes  
16 the management and shareholders, not the ratepayers, should pay for extraordinary expenses  
17 associated with effluent removal from Palm Shadows. <sup>18</sup> As such, the Commission should not  
18 consider the effluent removal expenses to determine cash flow in this interim rate case.

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21 <sup>14</sup> See Exhibit R-23 and 24. T: 590

22 <sup>15</sup> See Attachment A- Excerpt from public comment of Mr. Gary Frye docketed March 17, 2009, which  
includes a copy of the ratepayers purchase agreement Palm Shadows Partnership and a copy of a  
Development Agreement signed by City of Yuma and the partners of Palm Shadow Partnership: Bruce  
and Donald Jacobson and Brent Weidman dated October 28, 1998.

23 <sup>16</sup> See Attachment B, Annual Report of H & S Developers dated September 18, 2008. See also  
Attachment C, Annual Report of Far West dated September 18, 1998.

24 <sup>17</sup> T: 589.

<sup>18</sup> T: 1089

1 The Company asserts that Staff agrees with its position. The Company misstates the  
2 evidence. The Staff's witness, Gerald Becker, testified that even considering the extraordinary  
3 expenses, the Company had sufficient cash flow to cover its operational expenses and debt  
4 service.<sup>19</sup> Mr. Becker further testified that the Company did not have an emergency  
5 necessitating interim relief. Id. Mr. Becker testified that if the Company's action or inaction  
6 resulted in shortfalls in its capital budget, management needs to raise capital or pay for those  
7 expenditures through means other than seeking it from ratepayers through financing or equity  
8 mechanisms<sup>20</sup>

9 **3. The Company is not insolvent.**

10 The Company claims it is unable to meet its obligations in the ordinary course and  
11 therefore is insolvent. Company's Closing Brief at 16-17. More specifically, the Company  
12 claims that it is unable to pay property taxes of \$300,000 due as of May 1, 2009.<sup>21</sup> The  
13 Company also implies in its brief that it may be unable to pay its debt service. Id. at 19.

14 Mr. Rigsby calculated the Company's free cash flow of \$674,756 in 2007 and free cash  
15 flow \$939,066 in 2008. By Mr. Rigsby's analysis, the Company's financial position improved  
16 between 2007 and 2008. Mr. Rigby's calculations assumed payment of \$326,702 in property  
17 tax expense as well as \$1,925,000 in principal and interest payments.<sup>22</sup> Likewise, when Mr.  
18 Becker calculated free cash flow of \$781,702 for 2009, his estimate of free cash flow  
19 presumed payment of ordinary businesses expenses including taxes and debt service.<sup>23</sup>

20

21 <sup>19</sup> T: 1184-85.

22 <sup>20</sup> T: 1186-1187, 1193-95, The Staff Report included an alternative recommendation of a 43 percent  
increase in revenues. Mr. Becker testified unequivocally that there is no emergency and Staff is not  
recommending interim rates. He testified: "the recommendation is not to grant interim rates." T: 1194.

23 <sup>21</sup> A-11

<sup>22</sup> R-3, Testimony of William Rigsby at 15. See also Schedule. WAR-1.

24 <sup>23</sup> S-1 Staff Report. Staff's witness, Gerald Becker, estimated the Company's free cash flow for 2009 as  
\$781,702 after deducting annual interest and principal payments and below the line interest income of \$162, 379.

1           The Company has sufficient cash flow to pay its debt service and operational expenses.  
2 If the Company has encountered shortfalls, it is because its management failed to prioritize  
3 operational expenses and debt service. As both Mr. Rigsby and Mr. Becker indicated, the  
4 principals of Far West have failed to manage and prioritize its obligations.<sup>24</sup> From RUCO's  
5 perspective, poor planning on the part of Far West's management team does not constitute an  
6 emergency necessitating approval of the Company's request for a 101 percent increase in  
7 rates from ratepayers.

8           The Company also asserts it is unable to pay \$100,000 to the Yuma Mesa Irrigation  
9 District ("Yuma Irrigation") for 2,500-acre feet of additional water.<sup>25</sup> By the Company's  
10 admission the additional 2,500 acre-feet of water is unused. Id. The Company is asking  
11 current ratepayers to pay a 101 percent increase so the Company can pay for water that  
12 current ratepayers do not need. RUCO asserts that the additional water is not used and  
13 useful and therefore the Commission should not consider the unpaid Yuma Irrigation bill when  
14 determining the Company's free cash flow or need for interim rates.

15           If the Company is facing such cash flow shortfalls, the Commission should question why  
16 the shareholders' affiliates have not paid the Far West amounts owed to relieve some of the  
17 purported cash flow difficulties. More specifically, why have the shareholders' affiliated golf  
18 courses failed to pay outstanding irrigation bills to Far West. H & S an affiliate owned by the  
19 shareholders owns three golf courses, Las Barrancas, Foothills Executive and Foothills Par  
20 3.<sup>26</sup> As of February 2009, Mr. Capestro acknowledged that the golf courses owed Far West in  
21

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22 Recalculating Mr. Becker's figures to include interest income reflects a 2009 cash flow of \$944,081. See also T:  
1201-1203.

23 <sup>24</sup> T:1210

<sup>25</sup> T: 486, Although Mr. Capestro originally testified that the entire balance was due and owing, he subsequently  
revealed he had worked out a payment plan with Yuma Irrigation for partial payments.

24 <sup>26</sup> R-5, Accounts receivable for golf course.

1 excess of \$253,172.<sup>27</sup> Mr. Capestro claims that the unpaid golf course bills are setoff by work  
2 H & S does for Far West. Id. The Company's financial statements refute his position. The  
3 financial statements compiled by Far West's accountant list H & S's unpaid golf bills as an  
4 account receivable owed to Far West.<sup>28</sup> If Far West had applied a set off as suggested by Mr.  
5 Capestro, H & S's unpaid golf bills would not be recorded as a Far West account receivable.

6 **4. There is no precedent compelling approval of interim rates.**

7 The Company claims that it is entitled to interim rates based on a precedent established  
8 by the Commission in July 1999 when it granted Far West's water division interim rates in  
9 Decision No. 61833 ("FWWS 1").<sup>29</sup> Far West's argument suggests that the Commission may  
10 not decide each rate case on its own merits and that the Commission is bound by the rate  
11 orders issued in the prior Far West dockets. The Company's position is contrary to  
12 established law.<sup>30</sup> The issues presented in a rate proceeding, the positions advanced by the  
13 parties during the proceeding, and any other factors that the Commission deems relevant may  
14 all contribute to different treatment at different times, if warranted.<sup>31</sup> For example, in FWWS 1,  
15 the Company spent or committed to spend \$4.0 million toward repairs. The current project is  
16 funded by IDA bonds, which will be repaid entirely by the ratepayers. The Commission's order  
17 approving the IDA funding allowed the Company to repay its shareholders 100% of the short-  
18 term bond anticipation notes they secured, leaving them with no current investment in the

19  
20 <sup>27</sup> T: 164-171.

<sup>28</sup> R-18 and R-19, Response to Staff DR 1.1. ad 1.2.

21 <sup>29</sup> *In the matter of Far West Water and Sewer*, Docket No. WS-03478A-99-  
0144, Decision No. 61833 dated July 20, 1999.

22 <sup>30</sup> *Morris v. Ariz. Corp. Comm'n*, 24 Ariz. App. 454, 457, 539 P.2d 928, 931 (1975) (The ratemaking process  
does not lend itself to rule formulation because the relevant factors may be given different weight in the discretion  
of the Commission at the time of the inquiry.)

23 <sup>31</sup> In *Scates v. Ariz. Corp. Comm'n*, 118 Ariz. 531, 534, 578 P.2d 612, 615, (1978) and *Simms*, 80 Ariz. at 150,  
294 P.2d at 382, the appellate courts indicated that the Commission should consider all relevant factors when  
24 setting rates. In both cases, reviewing courts criticized the Commission for mechanical, formula-based rate setting  
that failed to consider all available information.

1 capital project. Moreover, Far West affiliates are profiting from the capital improvement project.  
2 The Company admits that its affiliates received \$2.5 million dollars in construction contracts.<sup>32</sup>  
3 The Company further admits that H & S affiliates received approximately \$244,424 for effluent  
4 removal.<sup>33</sup>

5 In FWWS 1, the Company sought interim rates to qualify for low-cost, long-term funding  
6 from WIFA. In this case, Mr. Capestro claims he is unable to procure lower interest rate loans  
7 or stimulus funds.<sup>34</sup> In FWWS 1, RUCO recommended interim rates to bring the Company to a  
8 DSC ratio of 1.5.<sup>35</sup> In this case, the Company's DSC ratio in 2008 was already 1.49%.

9 The Commission decides each case on the record before it. The Company has not  
10 demonstrated that the Commission's decision in FWWS 1 binds the Commission to certain  
11 determinations in the current case. RUCO submits that FWWS 1 is not precedent and the  
12 Commission should judge each case on its own merits.<sup>36</sup>

13 The Company also asserts that Decision No. 70667 that provided interim rate relief to  
14 APS binds the Commission to approve interim rates in the instant case.<sup>37</sup> Again, the  
15 Company's position is contrary to established law.<sup>38</sup> Moreover, the two rate cases are factually  
16 distinguishable. APS is a publicly traded company, which sought interim rates to avoid a  
17 reduction in its bond rating or a downgrading of stock, which would inhibit its ability to raise  
18 equity funds and develop renewable energy sources as required by the Commission. In its  
19 ruling, the Commission specifically stated APS needed interim rates to ensure its access to

20  
21 <sup>32</sup> A-15, H & Developers, Payments for Construction

<sup>33</sup> T: 917

<sup>34</sup> T: 637

<sup>35</sup> *In the matter of Far West Water and Sewer*, Docket No. WS-03478A-99-0144, Decision No. 61833  
dated July 20, 1999 at 6.

<sup>36</sup> T:1159.

<sup>37</sup> *In the matter of Arizona Public Service*, Docket No. E-01345A-08-0172,  
Decision No. 70667 dated Dec. 24, 2008.

<sup>38</sup> *Morris v. Ariz. Corp. Comm'n*, 24 Ariz. App. 454, 457, 539 P.2d 928, 931(1975).

1 capital funds to provide service, via renewable energy expansion as ordered by the  
2 Commission.

3 Here, Far West is not a publicly traded company seeking an equity infusion from the  
4 issuance of bonds or shares. Far West is a privately held utility owned by two shareholders  
5 who seek interim rates to avoid making an equity infusion. The Commission decides each  
6 case on the record before it. The Company has not demonstrated that the Commission's  
7 decision in APS binds the Commission to certain determinations in the current case. RUCO  
8 submits that the APS order is not precedent and the Commission should judge each case on  
9 its own merits.<sup>39</sup>

10 **B. THE COMMISSION SHOULD NOT CONSIDER THE COMPANY'S**  
11 **CAPITAL BUDGET SHORT FALLS.**

12 **1. The management and/ or shareholders are responsible for the capital budget.**

13 According to the Company, it owes past due balances of \$3,350,933 to its vendors and  
14 needs \$1,272,663 to complete the ADEQ compliance projects. In total, the Company claims it  
15 needs \$4,623,566.<sup>40</sup> Mr. Capestro testified that without payment of the past due balances,  
16 with few exceptions, vendors would not complete remaining construction projects. Id. RUCO  
17 strongly objects to the imposition of interim rates to complete the Company's capital projects.  
18 The Company spent \$3,739,247 on non-ADEQ Sewer and Water projects, which is roughly  
19 equal to the amount the Company owes in accounts payable.<sup>41</sup> If the Company had not  
20 misspent the IDA funds on non-ADEQ projects, the Company would have sufficient funds  
21 available to manage the remaining work. Id.

22  
23 <sup>39</sup> T: 1159.

<sup>40</sup> A-11 Summary of Amounts Owed and Necessary to Complete.

24 <sup>41</sup> R-31 Non-ADEQ Expenditures, T: 1074-1076

1           The Company claims that the shortfall in its capital funds constitutes an emergency  
2 requiring approval of interim rates. RUCO disagrees for two reasons. First, RUCO asserts  
3 and Staff concurs that the Company's capital budget is the responsibility of shareholders.<sup>42</sup>  
4 Gerald Becker, Staff's witness, testified that capital budgets are the responsibility of  
5 shareholders and should not be used as a basis for determining interim rates.<sup>43</sup> As Mr. Becker  
6 explained, operating budgets are the responsibility of ratepayers as they reflect the cost of  
7 service. *Id.* RUCO agrees with Mr. Becker and asserts that capital expenditures should not be  
8 funded at the expense of captive consumers.

9           RUCO also believes the Commission should disregard the Company's purported capital  
10 shortfalls because the shortfalls are a direct result of the shareholders' mismanagement and  
11 greed. In Decision No. 69950, the Commission approved the Company's \$25.2 million IDA  
12 bond issuance.<sup>44</sup> The Commission authorized the indebtedness for three specific purposes:  
13 1.) sewer system improvements necessary to comply with ADEQ Consent Orders; 2.) retire a  
14 1999 WIFA loan; and 3.) retire other short term debt incurred in December 2006 to undertake  
15 emergency sewer plant upgrades and improvements necessary to comply with the  
16 requirements imposed by ADEQ.<sup>45</sup> The shareholders admittedly spent funds intended for the  
17 ADEQ projects on other non-ADEQ related projects. RUCO believes the Commission should  
18 deny the Company's request for interim rates to supplement the misspent capital funds. In no  
19 event should captive ratepayers be required to pay a 101 percent increase in interim rates to  
20 subsidize the shareholders' poor decision-making. Granting interim rates to backfill the  
21

22 <sup>42</sup> Typically, the capital budget and capital expenditures are the responsibility of management, but in this  
23 case the Far West management and its shareholders are the same because Far West is a closely held,  
24 developer owned utility.

<sup>43</sup> T: 1187-1195

<sup>44</sup> R-1, Application (Financing), Docket No. WS-03478A-07-0442, Decision No. 69950 at 2.

<sup>45</sup> *Id.*

1 misused funds would only serve to reward Far West for its circumvention of Decision No.  
2 69950.

3 The Company asserts that the Commission should ignore the shareholders' misdeeds  
4 in determining the emergency. RUCO disagrees. If the Commission is going to consider the  
5 Company's capital budget shortfalls, it should also consider the manner in which shareholder  
6 mismanagement, negligence and greed contributed to the shortfalls.<sup>46</sup> RUCO believes and the  
7 record reflects that the capital budget shortfalls arose from the Company's repeated errors  
8 motivated by greed, a failure to prioritize and mismanagement.

9 **a. Mismanagement and Poor Prioritization**

10 The Company asserts that during the summer of 2008, it became aware of cost  
11 overruns and the need for additional funding.<sup>47</sup> The Company's characterization of "cost  
12 overruns" implies that its capital budget shortfalls arose from increased construction costs. *Id.*  
13 The implication is false. In fact, the Company's initial difficulties arose from its failure to abide  
14 by Decision No. 69950. The Company used \$1,883,593 of the IDA proceeds to fund water  
15 related projects (including Design & Construction of the 44th Street Water Main Project) which  
16 were not priorities authorized by the Commission's order.<sup>48</sup> In addition, the Company spent  
17 \$357,059 on software programs for asset management and mapping, billing and fuel  
18 dispensing.<sup>49</sup> The Company also spent \$379,487.51 on a Fortuna Road improvement project.  
19 *Id.* As the Company's engineer admits, the Fortuna Road project was not an ADEQ project.<sup>50</sup>  
20 The Company made the expenditures despite the clear language of the Commission's order

21

22 <sup>46</sup> T: 1118

<sup>47</sup> T: 489

<sup>48</sup> A-8 at 7

23 <sup>49</sup> *Id.* Note: Asset Management, Mapping, Billing and Fuel Dispensing software expenses related to  
water excluded.

24 <sup>50</sup> T: 773-74.

1 directing the Company to spend the IDA funds on ADEQ compliance. If the Company had not  
2 spent \$2,620,139 on the non-priority projects, the Company would have more than sufficient  
3 funds to cover the \$1,200,000 needed to complete the ADEQ related sewer projects. Id. The  
4 Commission should not reward the Company with interim rates to pay for capital budget  
5 shortfall created by mismanagement.

6 **b. Greed**

7 Many of the Company's difficulties arise from the shareholders' greed. For example,  
8 the Company misdirected the ADEQ compliance funds to design larger plants at Section 14  
9 Wastewater Treatment Plant, ("Section 14"). According to the Company's witness, prior to  
10 entry of the ADEQ Consent Order, Section 14 was designed as 150,000 gallon per day ("gpd")  
11 plant and Palm Shadows was designed as a 200,000-gpd plant.<sup>51</sup> As part of the ADEQ  
12 compliance order, the Company was required to expand Section 14 to take the wastewater  
13 from Palm Shadows. According to the Company, the peak flows of Palm Shadow and Section  
14 14 occurs in the winter months between November and February of each year.<sup>52</sup> The  
15 combined peak flows of Palm Shadows and Section 14 was 209,000 gpd in 2004/2005 and  
16 274,000 in 2005/2006. Id. Nonetheless, the Company redesigned Section 14 for 2.0 million  
17 gallons per day ("mgd") and built it to 1.3 mgd. The Company claimed it built the plant to 1.3  
18 mgd at the behest of ADEQ. However, ADEQ's compliance director, Cynthia Campbell  
19 testified that she negotiated the consent order and the Company offered to build the plant to  
20 1.3 mgd and ADEQ accepted.<sup>53</sup> She indicated that ADEQ did not demand 1.3 mgd design  
21 flow for Section 14. Id. She further testified that the compliance department seeks design flow  
22

23 <sup>51</sup> R-9 Direct Testimony of Gary Lee.

24 <sup>52</sup> R-17 Individual Aquifer Protection Permit Application for Section 14 dated December 31, 2008 seeking an increase from 1.3 mgd to 2.0 mgd.

<sup>53</sup> T: 446-447.

1 sufficient to cover current flows and any previously granted "capacity assurances." "Capacity  
2 assurances" are letters provided to property owners by utilities agreeing to provide services for  
3 water, sewer or refuse disposal to the property owner seeking to subdivide property.<sup>54</sup> In  
4 Arizona, a property owner cannot legally sell subdivided land unless the owner can  
5 demonstrate capacity assurances for water, sewer and refuse disposal services.<sup>55</sup>

6 The Company asserts it needed 1.3 mgd design flow and ultimately 2.0 mgd design flow  
7 to provide for previously granted capacity assurances. Ms. Campbell indicated that under  
8 ADEQ rule, a utility could not grant additional capacity assurances until it has ADEQ approval  
9 for permitted facilities.<sup>56</sup> In this instance, the Company's permitted capacity at Section 14 was  
10 150,000 gpd until October 2008. Accordingly, the Company should not have granted capacity  
11 assurances beyond 150,000 gpd until ADEQ approved the Section 14 permits.

12 Clearly, current ratepayers at Palm Shadows and Section 14 do not need a 1.3 to 2.0  
13 mgd plant to meet current combined peak flows of 274,000 gpd. This begs the question of  
14 why the Company would need 1.0 to 1.7 mgd more in capacity at Section 14. The answer is  
15 greed. In fact, the Company designed the plant to 2.0 mgd and built the plant to 1.3 mgd to  
16 accommodate future development. Notably, Far West affiliates own many of the future real  
17 estate developments in the area. These developments include Schechert Estates, the  
18 Ravines 1, 2 and 3, Las Barrancas 2 and 3 comprising a total of 940 proposed residential lots.  
19 Moreover, some of the future developments are on land previously owned by Far West such at  
20 Las Barrancas 1 and Arroyo de Fortuna 1-5. Although the Company's witness, Mr. Capestro,  
21 initially denied any connection with Las Barrancas or Arroyo de Fortuna, he ultimately  
22 acknowledged that Far West affiliates own or previously owned the land, which includes an

23 <sup>54</sup> Arizona Administrative Code R18-9-E301(C) (1)

<sup>55</sup> A.R.S. §§32-2181, 48-6411.

24 <sup>56</sup> T: 440. See also A.A.C. R18-9-E301

1 additional 505 lots.<sup>57</sup> RUCO believes the affiliation is important because to sell raw land with  
2 subdivision capacity, the affiliates needed capacity assurances from Far West. Far West could  
3 not give capacity assurances without permitted capacity.<sup>58</sup> ADEQ permitted Section 14 for  
4 150,000 gpd. To meet the demands of Section 14 and Palm Shadows at their combined peak  
5 flows, the Company needed 350,000 gpd.<sup>59</sup> To garner the best price for land they wished to  
6 sell and to develop subdivisions on land they wished to retain, the affiliates needed additional  
7 capacity at Section 14. Without the over sizing of the Section 14 plant, the affiliates would not  
8 be able to sell the raw land with subdivision development capacity or develop their own  
9 subdivisions. Dictated by greed, Far West shareholders and managers designed Section 14  
10 for 2.0 mgd to meet the needs of their affiliates.<sup>60</sup> The Company spent at least \$420,000 to  
11 engineer the expansion of Section 14 from 1.3 mgd to 2.0 mgd.<sup>61</sup> Mr. Capestro asserts Far  
12 West paid the engineering costs before it knew of the capital budget shortfalls. Id. His  
13 statement is false. According to the Company's report on IDA construction distributions, the  
14 engineering expenses associated with the expansion of Section 14 occurred between August  
15 19, 2008 and September 8, 2008, after the Company admittedly knew of the capital budget  
16 shortfalls for the ADEQ mandated projects.<sup>62</sup> Moreover, to expand the plant from 671 gpd to  
17 2.0 mgd, the Company spent \$200,000 of IDA funds to purchase land from Schechert Trust,  
18 an affiliate to build three vadose recharge wells.<sup>63</sup> Notably, they spent the IDA funds on this

19  
20 <sup>57</sup> T: 161-162, 520-22.  
<sup>58</sup> Arizona Administrative Code, R18-9-E301(C) (1).  
21 <sup>59</sup> Include 280,000 gpd existing peak flow plus 20% engineering margin as recommended in ADEQ Bulletin 11=  
approximately 350,000 gpd.  
<sup>60</sup> T: 522.  
22 <sup>61</sup> T: 513-514.  
<sup>62</sup> A-8 Request for Disbursement at  
23 <sup>63</sup> According to the Company's engineer, Gary Lee, ADEQ permitted Section 14 for 1.3mgd in phases. In  
Phase 1, ADEQ permitted a design flow of 671,000 gpd due to inadequate land or wells in which to place excess  
24 effluent. ADEQ required additional recharge wells because the affiliate's golf course ponds were too saturated to  
accept additional effluent.

1 non-ADEQ project on October 14, 2008 well after they were aware of the capital budget  
2 shortfalls.<sup>64</sup> The Company built the plant to 1.3 mgd having spent \$4,146,672 to date and  
3 owing an additional \$2,416,002.<sup>65</sup> The shareholders are motivated by self-interest and greed.  
4 The Commission should not compel the ratepayers to fund the shareholders' personal gain.

5 The ADEQ order requires nominal changes to the Marwood plant.<sup>66</sup> Far West  
6 made significant expenditures to redirect Marwood flow to Section 14. The question is  
7 why. The answer is shareholders' self-interest and greed. Far West shareholder, Paula  
8 Capestro, is developing 460 residential homes at El Rancho Encantado with her  
9 husband, Andrew Capestro.<sup>67</sup> In order to develop the El Rancho Encantado, the  
10 Capestros needed capacity. Their property is located in the Marwood plant service  
11 area.<sup>68</sup> There was no capacity at Marwood to accommodate the additional development.  
12 To ensure they could develop El Rancho Encantado, the shareholders overbuilt Section  
13 14 to accommodate redirected flow from Marwood. The shareholders used  
14 \$607,381.75 of the IDA funds to develop the infrastructure (Paula Street Lift Station) to  
15 redirect flows from Marwood to Section 14.<sup>69</sup> In 2007, Far West misspent \$200,000 on  
16 this non-ADEQ project to purchase land from an affiliate.<sup>70</sup> Far West spent an  
17 additional \$400,000 of IDA funds on this non-ADEQ project between August and  
18 September 2008, after it was aware of capital budget shortfalls impeding completion of  
19 the ADEQ mandated improvements. Id at 5-6.

21 <sup>64</sup> A-8 Disbursement Requests at 6.

22 <sup>65</sup> A-8 Disbursement Requests and A-11 Summary of Amounts Owed and Necessary to Complete.

23 <sup>66</sup> R-1, Financing Application, attachment 3.

24 <sup>67</sup> T: 520 and R-10 Company's response to RUCO DR 5.07

<sup>68</sup> A-20, Service Area map. Note: Although the Company lists El Rancho Encantado in the Marwood Service area, as of October, 2007, El Rancho Encantado was not listed in the Marwood CC&N. See R-29.

<sup>69</sup> A-8 Disbursement Requests.

<sup>70</sup> A-8 Disbursement Requests at 7.

1 In addition to these expenditures, Far West also paid Gary Lee to engineer a low-  
2 pressure system for El Rancho Encantado. Gary Lee, the Company's engineer  
3 submitted testimony in support of the Company's request for permanent rates.<sup>71</sup> In his  
4 testimony, he admits designing the low-pressure sewage systems at two subdivisions  
5 for Far West. Although Mr. Capestro testified, that Far West did not pay the engineer to  
6 design low-pressure systems in private subdivisions, the summary of Request for  
7 Disbursements include a disbursement of \$257,000 on November 6, 2006 to Coriolis for  
8 engineering the "El Rancho Encantado LPS."<sup>72</sup> Mr. Capestro acknowledges the  
9 disbursement was an error and testified that the funds were returned, but there is no  
10 subsequent entry reflecting the reimbursement of the funds. Id. The Commission  
11 should not reward the Company for spending financing available for ADEQ compliance  
12 on non-ADEQ related projects. Granting interim rates in these circumstances is  
13 offensive to the principles of fairness and equity.

14 Prior to the ADEQ order, Del Oro had a design flow of 300,000 gpd. Pursuant to the  
15 ADEQ order, the Del Oro plant had to absorb 40,000 gpd redirected flows from Del Rey and  
16 Del Royal.<sup>73</sup> According to the Company, the total average monthly flow at Del Oro under its  
17 new permit is 127,500 gpd.<sup>74</sup> Yet, the Company redesigned Del Oro for a flow of 495,000 gpd.  
18 Id. Mr. Capestro admitted the additional flow would permit the addition of 1,780 new  
19 residences.<sup>75</sup> It is inequitable to expect ratepayers to pay a 101 percent rate increase to  
20 backfill the capital shortfalls created by the shareholders' mismanagement and greed. The

21

22 <sup>71</sup> R-9 Direct Testimony of Gary Lee

<sup>72</sup> A-13 Requests for Disbursement No. 8B dated November 6, 2006.

23 <sup>73</sup> R-1 Financing Application, attachment 3.

<sup>74</sup> R-21 at 16.

24 <sup>75</sup> R-12 Minutes of Mesa del Sol Property Owners' Association of Annual Membership Meeting on  
February 19, 2008

1 costs for future development should fall upon the subdivision developers, (i.e. Far West  
2 affiliates) and future ratepayers.

3 **2. Shareholders' have placed their interests above the needs of the ratepayers.**

4 The Company's witness, Mr. Capestro testified that Far West needs \$1.2 million to  
5 complete the ADEQ projects and has \$3.4 million in accounts payable to its ADEQ project  
6 vendors. At the same time Far West claims to have capital budget deficiencies preventing  
7 payment of ADEQ project vendors, it has made large payments to H & S and its shareholders.  
8 During 2007, one year prior to filing the request for interim rates, Far West paid shareholder  
9 affiliates \$1,462,684 million dollars.<sup>76</sup> Moreover, in 2008, Far West paid shareholders affiliates  
10 \$920,651 for accounts payable and repaid, in full, a long-term loan of \$571,244 owed to  
11 shareholders. In total, between December 31, 2007 and December 31, 2008, Far West paid  
12 its affiliates approximately \$1.4 million.<sup>77</sup> The amount of the payments raises the issue of why  
13 shareholders prioritized payments to themselves before payments to third party vendors.  
14 RUCO believes the answer is greed. As Mr. Rigsby concisely stated:

15 If these [shareholders] thought they could solve the problem with other people's money,  
16 I think probably they would if they thought [an interim rate case] was a way they could  
do this without having to invest their own funds...<sup>78</sup>

17 The shareholders placed their interests above the interests of the ratepayers. The result  
18 is a capital budget shortfall. The Commission should not reward the shareholders with  
19 revenue from ratepayers to compensate the capital budget drained by the selfish interest of its  
20 shareholders.

21

22

23 <sup>76</sup> R-18, Response to Staff DR 1.1 at 5.

24 <sup>77</sup> T: 1189

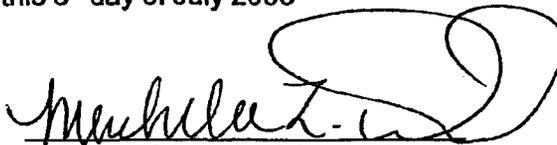
<sup>78</sup> T: 1107

1 **CONCLUSION**

2 The Commission should deny the request for interim rates because on a total company  
3 basis the Company has sufficient cash flow to pay its operational expenses and debt service.  
4 In making this determination, the Commission should not consider extraordinary expenses  
5 such as the cost of effluent hauling or accounts payable to Yuma Irrigation for water the  
6 ratepayers do not use. The Company is solvent and there is no emergency necessitating  
7 approval of interim rates. Likewise, there is no legal precedent compelling a 101 percent  
8 increase in rates.

9 Capital budgets are the responsibility of management and/or shareholders. As such, the  
10 Commission should not grant interim rates to backfill the shareholders' capital budget shortfall,  
11 particularly when the shortfall results primarily from the shareholders' mismanagement, greed,  
12 non-compliance with a Commission order and a failure to prioritize. Accordingly, RUCO  
13 hereby requests the Commission deny the request for interim rates.

14 **RESPECTFULLY SUBMITTED** this 8<sup>th</sup> day of July 2009

15   
16 Dan Pozefsky, Chief Counsel  
17 Michelle L. Wood, Counsel

18  
19 **AN ORIGINAL AND THIRTEEN COPIES**  
20 of the foregoing filed this 8th day  
21 of July, 2009 with:

22 Docket Control  
23 Arizona Corporation Commission  
24 1200 West Washington  
Phoenix, Arizona 85007

1 COPIES of the foregoing hand delivered/  
2 mailed this 8<sup>th</sup> day of July, 2009 to:

3 Jane L. Rodda  
4 Administrative Law Judge  
5 Arizona Corporation Commission  
6 400 West Congress  
7 Tucson, Arizona 85701

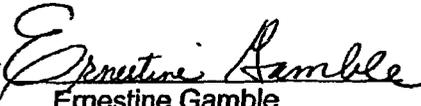
8 Lyn Farmer  
9 Chief Administrative Law Judge  
10 Hearing Division  
11 Arizona Corporation Commission  
12 1200 West Washington  
13 Phoenix, Arizona 85007

14 Janice Alward, Chief Counsel  
15 Legal Division  
16 Arizona Corporation Commission  
17 1200 West Washington  
18 Phoenix, Arizona 85007

19 Ernest Johnson, Director  
20 Utilities Division  
21 Arizona Corporation Commission  
22 1200 West Washington  
23 Phoenix, Arizona 85007

24 Robin R. Mitchell, Attorney  
Legal Division  
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1200 West Washington  
Phoenix, Arizona 85007

Norman James  
Jay Shapiro  
Fennemore Craig, P.C.  
3003 North Central Avenue, Suite 2600  
Phoenix, Arizona 85012-2913

22 By   
23 Ernestine Gamble

**ATTACHMENT A**

-03478A-08-0608

ORIGINAL

March 16, 2009

RECEIVED

2009 MAR 17 P 12:20

AZ CORP COMMISSION  
DOCKET CONTROL

RECEIVED  
MAR 17 2009

To: Arizona Corporation Commission  
Attn: Commissioners  
1200 W. Washington Street  
Phoenix, AZ 85007

From: Gerald R. Frye

Subject: My letter dated March 12, 2009 concerning Palm Shadows Wastewater Treatment Plant, Far West Water & Sewer Company - Yuma, AZ

Dear Chairman Mayes:

Due to my ongoing review of the Palm Shadows Plant, as it relates to the Vista Del Sol subdivision, I want to inform you of my current findings and related information.

The information on Item A. 1. of my March 12, 2009 letter, needs more history added. Along with ADEQ's authorization of the Palm Shadows Wastewater Treatment Plant, Yuma County also authorized the Plant by a "Special Use Permit". And, the city of Yuma rezoned the land for "the operation of a wastewater treatment plant" (see attached Development Agreement). So, it appears those agencies, as well as ADEQ, are responsible for the doomed Plant being constructed at that site and, they should be referenced in Item A. 10. of that letter. Therefore, in my opinion, those agencies are responsible for the \$500,000 +/- Palm Shadows Wastewater Treatment Plant failure (paid for by subdivision property owners) and, they should be responsible of correcting the problem. Like connecting the cities West Dunes facility, etc.

The following is another prime example of Far West's classic property development approach. The subdivision developer, who was the President of Far West Water & Sewer Company, was also the "licensed real estate broker" for the Vista Del Sol subdivision (see attached Purchase Contract & Receipt). So, (1) subdivision lots completely sold, very good planning on their part. (2) Palm Shadows Wastewater Treatment Plant failed, no planning at all. (3) Customers complain about odors and still 5 lot owners cannot build due to building moratorium. Plus, Far West wants to increase sewer fees by 214% to correct these and other problems. Buyers Beware. What's wrong with this picture?

Arizona Corporation Commission  
DOCKETED

MAR 17 2009

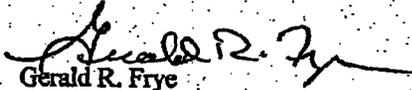
DOCKETED BY *[Signature]*

A

I've taken time to look through news paper articles and other information available on the ongoing Far West sewer disaster. If you look at them "one by one" as they developed, they don't seem too outrageous. But, if you look at them in total as "the big picture" it is very depressing that something like this could continue for so long. The right hand didn't know what the left hand was doing. Some of my attachments are statements made by various agencies concerning Far West Water & Sewer Companies state of affairs.

Finally, my assessment of Far West's problems is becoming more clear there is something along the lines of the "Good Old Boy" syndrome that has been taking place in the Foothill Area for some time. All in the name of development and tax revenues.

Sincerely,



Gerald R. Frye  
9565 E. 33<sup>rd</sup> Street  
Yuma, AZ 85365

cc: U.S. Senator John McCain  
Arizona Governor, Jan Brewer  
Arizona Department of Environmental Quality, Director  
Arizona Residential Utility Consumer Office, Director  
City of Yuma, Mayor  
County of Yuma, Administrator

Purchase Contract  
and Receipt



Palm Shadows Partnership  
1334 South 5th Avenue  
Yuma, Arizona 85364  
(928) 782-1801

Yuma, Arizona DATE 16-Mar-2002

RECEIVED FROM: [REDACTED], husband and wife, CPWROS

The Sum of Five hundred dollars DOLLARS (\$ 500.00 ) in the form of: personal check

As earnest money and part purchase price of the following described property, situated in the County of Yuma, State of Arizona, to wit:

Lot 419, Vista Del Sol Unit #4, for the full purchase price of  
Twenty eight Thousand Five Hundred Fifty DOLLARS (\$ 28,550.00 )

JACOBSON COMPANIES BY Ruth Wiseman

The balance of the purchase price to be paid as follows, to wit:

\$ 28,550.00 by above deposit with YUMA TITLE & TRUST

\$ 500.00 Earnest deposit

\$ 28,050.00 Cash at close of escrow from loan with Bank of America

Interest on deferred payments at the rate of \_\_\_\_\_ percent per annum, from \_\_\_\_\_, payable

IT IS HEREBY AGREED: First, that in the event said purchaser shall fail to pay the balance of said purchase price, or complete said purchase as herein provided, the seller may demand specific performance of this contract, or may retain the amount paid herein as liquidated and agreed damages, as he may elect.

Second: The purchaser and seller agree that if the title to the above property be defective, ninety days from this time will be given the seller, or his agent, to perfect same. If said title can not be perfected within said time limit earnest money receipt for herein shall, upon demand of the purchaser, be returned to the purchaser and this contract canceled.

Third: That the evidence of title is to be a Title Insurance Policy issued by YUMA TITLE & TRUST insuring the purchaser in the full amount of the purchase price shown herein, and to be issued and paid for by the seller; said title insurance policy to show title to said premises to be subject to the usual exceptions contained in the regular form of owner's policy of title insurance in use by YUMA TITLE & TRUST and subject to building and other restrictive covenants of record pertaining to the use of said premises and encumbrances, taxes and assessments or other matters affecting said property as follows: None

Closing shall be no later than 1-Jun-2002, subject to extensions set forth in escrow instructions and the cancellation provision thereof.

Fourth: It is understood and agreed that the purchaser is of legal age and that said property has been inspected by the purchaser or the purchaser's duly authorized agent; that the same is, and has been, purchased by the purchaser as the result of said inspection and not upon any representation made by the seller, or any selling agent, or other agent of the seller, and the purchaser hereby expressly waives any and all claims for damages because of any representation made by any person whomsoever other than as contained in this agreement, and the seller or his agent shall not be responsible or liable for any inducement, promise, representation, agreement, condition or stipulation not specifically set forth herein.

Fifth: That the taxes, insurance, rents, etc. affecting said premises shall be prorated to the close of escrow.

Sixth: This contract shall become binding only when executed by the purchaser and by the seller, and shall be in force and effect from the date of such execution.

Seventh: Time is declared to be the essence of this contract.

Eighth: This earnest money is to be deposited with YUMA TITLE & TRUST and all other funds to be paid by the parties hereto are to be paid in escrow to YUMA TITLE & TRUST and the parties hereto agree to pay, in equal portions, the fee for escrow services in connection with this transaction; and the purchaser agrees to pay the costs of recording any instruments which directly convey title to the purchaser which evidence the rights of the purchaser in these premises, or which evidence any deferred balance due upon this purchase.

Ninth: The parties hereto agree also (within 10 days from the date of acceptance hereof by seller) to execute escrow instructions to YUMA TITLE & TRUST upon its ordinary form for the guidance of said company in the handling of this transaction; providing the terms of said escrow instructions do not conflict with the terms and conditions hereof.

Tenth: The seller agrees to deliver or cause to be delivered to YUMA TITLE & TRUST all instruments which are required to carry out this contract and to cause said Title Company to issue the insurance policy herein provided for, and the conveyance of these premises by the seller to the purchaser shall be by warranty deed, subject to the conditions of this agreement.

Eleventh: This deposit is accepted subject to prior sale and subject to approval of seller.

**THE PURCHASER MUST BE GIVEN A COPY OF THE PUBLIC REPORT OF THE ARIZONA DEPARTMENT OF REAL ESTATE PRIOR TO THE SIGNING OF THIS DOCUMENT.**

**IT IS UNDERSTOOD THAT DONALD E. JACOBSON AND BRENT H. WEIDMAN ARE LICENSED REAL ESTATE BROKERS DEALING AS PRINCIPLES HEREIN.**

**THE PURCHASER OR LESSEE HEREUNDER HAS THE LEGAL RIGHT TO RESCIND (CANCEL) THIS AGREEMENT WITHOUT CAUSE OR REASON OF ANY KIND AND TO THE RETURN OF ANY MONEY OR OTHER CONSIDERATION UNTIL MIDNIGHT OF THE SEVENTH CALENDAR DAY FOLLOWING THE DAY THE PURCHASER OR LESSEE EXECUTED SUCH AGREEMENT BY SENDING OR DELIVERING WRITTEN NOTICE OF RESCISSION TO THE SELLER. FURTHER, IF THE PURCHASER OR LESSEE DOES NOT INSPECT THE LOT OR PARCEL PRIOR TO THE EXECUTION OF THE AGREEMENT, THE PURCHASER OR LESSEE SHALL HAVE A SIX-MONTH PERIOD TO INSPECT THE LOT OR PARCEL, AND AT THE TIME OF INSPECTION SHALL HAVE THE RIGHT TO UNILATERALLY RESCIND THE AGREEMENT.**

We (I) the undersigned certify that we have inspected the lot(s) to be purchased before signing this contract.

We (I) agree to purchase the above described property on the terms and conditions herein stated, provided acceptance of this agreement by seller, or his authorized agent is made on or before 16-Mar-2002

Seller - Palm Shadows Partnership

Date

Purchaser

Date

By:

Agent

Purchaser

Date

61280 Blakely Road, Bend, OR. 97702.

Purchaser's Address

(541) 382-6035 home

Purchaser's Phone Number

BASE PRICE	\$	22,500.00
FENCE		1,500.00
SEPTIC PACK		
GRADE AND GRAVEL		4,550.00
OTHER		
TOTAL	\$	28,550.00

*City of Yuma*

YUMA COUNTY RECORDER  
SUSAN MARLER

EXHIBIT A

**FEE #: 1998 - 293**

**DEVELOPMENT AGREEMENT**

11/04/1998 11:39 PAGES: 000

FEES: 4.00 4.00 .00 .00

REQ BY: CITY OF YUMA

REC BY: ELIZABETH POST

Vista del Sol Recreational Vehicle Subdivision  
West of Avenue 10E, Highway 80

THIS AGREEMENT, made and entered into, pursuant to Arizona Revised Statutes (A.R.S.) § 9-500.05, by and between Palm Shadows Partnership ("OWNER"), and the CITY OF YUMA ("CITY"), a municipal corporation of the State of Arizona.

### RECITALS

The CITY adopted its General Plan in 1983, and the use and development of the property is consistent with the goals and objectives of the City of Yuma General Plan, as amended, and

The OWNER is owner of real property, Assessor's Parcel No. 112-20-040, ("PROPERTY") located in unincorporated lands which is territory that is desired by the CITY to be annexed into the boundaries of the CITY, and

The CITY acknowledges that Jacobson Companies has been planning, for several years, the design and construction of the Vista del Sol subdivision in accordance with Yuma County zoning, subdivision, and construction standards and that annexation may adversely impact the financial feasibility of the project by the requirement of imposing City standards for development, and

The OWNER desires certain assurances and/or commitments from the CITY upon annexation.

THEREFORE, in consideration of the above recitals, the parties agree as follows:

- I. The OWNER agrees to consent to annexation of PROPERTY into the City of Yuma pursuant to A.R.S. 9-471, and to utilize City of Yuma water to serve the project, and not promote the expansion of the Far West Water Company's water service area into the City of Yuma's water service area.
- II. The OWNER agrees to provide to the CITY, at no cost, a fifteen foot utility easement along the Stetson Avenue alignment, extending across the entire width of the property.
- III. Upon annexation the CITY agrees to rezone the PROPERTY, at no cost to the OWNER, the County C-2 zoned property to the City's B-2 zoning district as set forth in Section 111 in the CITY's Zoning Code, and the remainder of the PROPERTY to CITY's RVS zoning district as set forth in Section 075 in the CITY's Zoning Code. The CITY also agrees that once the PROPERTY is rezoned to the City's RVS zoning district, one single-family residence per parcel, limited to either a recreational vehicle, manufactured home, or site built home is permitted. However, if a parcel has an area of at least six thousand square feet one additional recreational vehicle may occupy the parcel, in accordance with the County's RVS zoning

district regulations.

Additionally, the CITY agrees to rezone the south six hundred and sixty feet of the PROPERTY to the CITY's C-2 zoning district for the operation of a wastewater treatment plant, as authorized by a Special Use Permit granted by Yuma County.

IV. Upon annexation the CITY agrees that the following development standards on the planned Vista del Sol subdivision plat are to be considered grandfathered and acceptable to the CITY, subject to requirements to comply with all other applicable City, County, State or Federal laws, regulations or rules

a. Street Widths. The existing County standards of fifty-foot width right-of-way and thirty-eight foot pavement width for local streets will prevail. The existing County eighty-foot right-of-way width for mid-section line roads will prevail and no median will be required.

b. Curb, Gutter, and Sidewalks. The existing County standards of rolled curb and gutter exclusive of any sidewalk requirement will prevail.

c. Retention Basin Slope. The existing County standard of a 3:1 retention basin slope will prevail.

d. Future Pro Rata Fees. In the event the City establishes a Pro Rata plan for the East Mesa area, the Vista del Sol subdivision will be exempt from any Pro Rata fees or credits, with the exception of fire Pro Rata fees at a fee of \$1,044/ac (same as Cielo Verde and The Lakes of Yuma).

V. The CITY agrees that the plat layout and design for Vista del Sol Recreational Vehicle Subdivision as presented to the CITY on the date of this Agreement (Exhibit 1) is acceptable as prepared in conformance with Yuma County subdivision regulations. Additionally, the CITY agrees to recognize the Special Use Permit issued by Yuma County for the wastewater treatment plant to be located on the PROPERTY.

VI. This Agreement will commence upon the date of its execution, and will terminate when the obligations of the parties with respect to the improvements and use of the property contained in this Agreement are fully complied with and the parties mutually provide for termination.

VII. All notices, demands or other communications must be in writing and are deemed to duly delivered upon personal delivery, or as of the second business day after mailing by United States mail, postage prepaid, registered or certified, return receipt requested, addressed as follows:

CITY: City Administrator  
City of Yuma  
180 West First Street  
Yuma, Arizona 85364

AGENT: Bruce Jacobson  
Jacobson Companies  
1334 S. 5th Avenue  
Yuma, Arizona 85364

If either party changes address they must give written notice to the other party. Notice of

change of address is deemed effective five (5) days after mailing by the party changing address.

- VIII. This agreement is not assignable unless both parties mutually consent otherwise in writing. The requirements of this Agreement are binding upon the heirs, executors, administrators, successors, and assigns of both parties.
- IX. If either party fails to require the other party to perform any provision of this Agreement, that failure does not prevent the other party from later enforcing that provision. Neither party is released from any responsibilities or obligations imposed by law or this Agreement if the other party fails to exercise a right or remedy.
- X. The laws of the State of Arizona govern this Agreement as to validity, interpretation, and performance. The parties must institute and maintain any legal actions or other judicial proceeding arising from this Agreement in a court of competent jurisdiction in the Yuma County, Arizona.
- XI. If either party brings an action or proceeding for failure to observe any of the terms, or provisions of this Agreement, the prevailing party may recover, as part of the action or proceeding, all litigation, arbitration, and collection expenses, including, but not limited to, witness fees, court costs and reasonable attorney fees.
- XII. This Agreement contains the entire agreement between the parties, and no oral or written statement, promises or inducements made by either party or its agents not contained or specifically referred to in this Agreement is valid or binding. All modifications to this Agreement must be in writing, signed, and endorsed by the parties.

WITNESSED, the parties executed this Agreement through their authorized representatives on 28th day of October, 1998.

APPROVED:  
CITY OF YUMA

By Joyce A. Wilson  
Joyce A. Wilson  
City Administrator

ATTEST:

for By Brigitta K. Stanz  
Brigitta K. Stanz  
City Clerk

BRUCE JACOBSON  
DONALD JACOBSON  
BRENT WEIDMAN

By Bruce Jacobson  
Bruce Jacobson  
Donald Jacobson  
Donald Jacobson  
Brent A. Weidman  
Brent Weidman

APPROVED AS TO FORM:

By Steven W. Moore  
Steven W. Moore  
City Attorney

**ATTACHMENT B**



Form 2

**4. CORPORATION: Shares Outstanding and Dividend Payouts** (to complete this section) Shareholders must indicate the number of transferable certificates held by trustees evidencing their beneficial interest in the trust estate.

Number of Shares/Certificates Authorized	Class	Series/Voting Class (if any)
100,000	Common	
Number of Shares/Certificates Issued	Class	Series/Voting Class (if any)
100,000	Common	

**5. SHAREHOLDERS: Beneficial Ownership and Address** (to complete this section) List shareholders holding more than 1% of any class of shares issued by the corporation, or having more than a 20% beneficial interest in the corporation.

Name: H & B DEVELOPERS, INC.      Master

ROSE       Name: \_\_\_\_\_      Master

7. OFFICERS (If no changes since last report, check here and go on to Section 8.) See Attached List.

Name: WRENT WEIDMAN      Name: \_\_\_\_\_

Title: PRESIDENT/CEO      Title: \_\_\_\_\_

Address: \_\_\_\_\_      Address: \_\_\_\_\_

Date taking office: 10-09-97      Date taking office: \_\_\_\_\_

Name: LYNN WAGNER      Name: \_\_\_\_\_

Title: SECRETARY      Title: \_\_\_\_\_

Address: \_\_\_\_\_      Address: \_\_\_\_\_

Date taking office: 10-09-97      Date taking office: \_\_\_\_\_

8. DIRECTORS (If no changes since last report, check here and go on to Section 9.)

Name: SANDRA GARCIA      Name: \_\_\_\_\_

Address: PO BOX 65      Address: \_\_\_\_\_

TERRERONGE, OR, 97160      Address: \_\_\_\_\_

Date taking office: 10-09-97      Date taking office: \_\_\_\_\_

Name: \_\_\_\_\_      Name: \_\_\_\_\_

Address: \_\_\_\_\_      Address: \_\_\_\_\_

Date taking office: \_\_\_\_\_      Date taking office: \_\_\_\_\_

**Van West Water & Sewer, Inc.**  
Corporate Officers & Directors

**OFFICERS:**

**Chairman of the Board: Dorothy Schubert**  
4908 N. 77<sup>th</sup> Pl.  
Scottsdale, AZ 85251

**Date of Taking Office: 01/01/98**

**Vice President: Randie Bunker**  
P. O. Box 63  
Tombson, OR 97760

**Date of Taking Office: 01/01/98**

**Secretary/Treasurer: Lynn Wagner**  
11429 E. 37<sup>th</sup> Lane  
Yuma, AZ 85367

**Date of Taking Office: 01/01/98**

**President: Stuart Waldman**  
1123 Tanswick Ave.  
Yuma, AZ 85364

**Date of Taking Office: 01/01/98**

**Vice President: Paula Capistrano**  
P. O. Box 221081  
Carroll, CA 95922

**Date of Taking Office: 01/01/98**

**Directors:**

**Stuart H. Waldman**  
1123 Tanswick Ave.  
Yuma, AZ 85364  
01/01/98

**Dorothy Schubert**  
4908 N. 77<sup>th</sup> Pl.  
Scottsdale, AZ 85251  
01/01/98

**Lynn Wagner**  
11429 E. 37<sup>th</sup> Ln.  
Yuma, AZ 85367  
01/01/98

**Randie Bunker**  
P. O. Box 63  
Tombson, OR 97760  
01/01/98

**Paula Capistrano**  
P. O. Box 221081  
Carroll, CA 95922  
01/01/98

Form Eater Corporation Name: Far West Labor & Emerg, Inc. /

Page 3

8. FINANCIAL STATEMENTS (A.R.S. §15-1022.D & 15-2011.A.1)

Only nonprofit organizations must attach a financial statement (balance sheet, income statement, and equity). All other forms of corporations are exempt from filing a financial statement.

10. CERTIFICATE OF GOOD WILL (A.R.S. §§ 15-1022.A.2 & 15-2022.A)

Has ANY person during either by election or appointment as an officer, director, trustee, incorporator and person controlling or holding more than 10% of the issued and outstanding securities or stock of any other proprietary, beneficial or membership interest in the corporate bond:

- 1. Committed or a felony involving a transaction in securities, consumer fraud or related in any state or federal jurisdiction within the seven year period immediately preceding the execution of this certificate?
- 2. Committed or a felony, the essential elements of which consisted of fraud, misrepresentation, theft by false pretenses or violation of trade or copyright in any state or federal jurisdiction within the seven year period immediately preceding execution of this certificate?
- 3. Or are subject to an injunction, judgment, decree or permanent order of any state or federal court entered within the seven year period immediately preceding execution of this certificate where such injunction, judgment, decree or permanent order involved the violation of:
  - (a) fraud or deceptive practices of the securities laws of that jurisdiction, or
  - (b) the consumer fraud laws of that jurisdiction, or
  - (c) the contract or contract of trade laws of that jurisdiction?

NO  YES  NO

If YES, list below information that is required as an attachment to this report for each person subject to one or more of the entries stated in items 1. through 3. above.

- |   |   |
|---|---|
| 1. Full name and previous name.                               | 6. Date and location of birth.  |
| 2. Full birth date.   | 6. Social Security Number.  |
| 3. Present home address.                                      | 7. Title and description of each corporation or judicial entry, the date and location, the court and public agency involved, and the file or case number of the case. |
| 4. Prior addresses (for information preceding 7 year period). |   |

11. STATEMENT OF BANKRUPTCY (A.R.S. §10-3912.2)

Has ANY person acting either by election or appointment as an officer, director, trustee, incorporator and person controlling or holding more than 20% of the issued and outstanding securities or stock of any other proprietary, beneficial or membership interest in the corporation served in such capacity or held a 20% interest in any other corporation during the bankruptcy, receivership, or similar receivership of the other corporation?

NO  YES  NO

Chapter \_\_\_\_\_ Date Filed \_\_\_\_\_ Case Number \_\_\_\_\_

12. SIGNATURES

I DECLARE, UNDER PENALTY OF LAW, THAT ALL CORPORATE INCOME TAX RETURNS REQUIRED BY TITLE 43 OF THE ARIZONA REVENUE STATUTES HAVE BEEN FILED WITH THE ARIZONA DEPARTMENT OF REVENUE.

I declare under penalty of law that I (we) have examined this report and the certificate, including any attachments, and to the best of my (our) knowledge and belief they are true, correct and complete.

Name: ERIC H. WALDEN Date: 1/11/08

Signature: [Handwritten Signature] Title: President

(Signature(s) must be fully authorized corporate officer(s) listed in section 7 of this report.)

**ATTACHMENT C**



STATE OF ARIZONA  
CORPORATION COMMISSION  
CORPORATION ANNUAL REPORT  
& CERTIFICATE OF DISCLOSURE



DUE OR ON BEFORE 11/05/1998

FILING FEE \$45.00

The following information is required by A.R.S. §10-1022 & §10-1021 for all corporations organized pursuant to Arizona Revised Statutes, Title 10. The Corporation is required to provide this form to A.R.S. §10-121A & §10-306A. THIS REPORT MUST BE SUBMITTED TO THE COMMISSION, along with payment of fees, on or before the date specified. Information for this report should reflect the current status of the corporation. See instructions for preparation. REFER TO THE INSTRUCTIONS ON PAGE 4.

1. **H & S DEVELOPERS, INC.**  
12488 FOOTHILLS BLVD  
YUMA, AZ 85368

RECEIVED

SEP 18 1998

State of Arizona  
State of Origin ARIZONA

Corporation File Number: 0080448-0

0080448-0

Type of Corporation: PROFIT

2. Arizona Statutory Agent: **HENRY SCHECHERT** - Ernest H. Weidman  
Street Address: 12488 FOOTHILLS BLVD - 1153 Tamarack Drive  
P.O. BOX  
City, State, Zip: YUMA, AZ 85368- 85364

Notarization stamp with date 9/18/98 and signature of Ernest H. Weidman.

Use this box only if appointing a new Statutory Agent.  
I, Ernest H. Weidman, Secretary of the State of Arizona, do hereby certify that the above named person is the new Statutory Agent of the corporation or limited liability company having been designated by the new Statutory Agent, do hereby consent to his appointment and my removal or resignation pursuant to law.  
*Ernest H. Weidman*  
Secretary of new Statutory Agent

3. Secretary Address:  
12488 FOOTHILLS BLVD  
YUMA, ARIZONA 85368

4. Check the one category below which best describes the CHARACTER OF BUSINESS of your corporation.

- |                              |                                 |                                |
|------------------------------|---------------------------------|--------------------------------|
| <b>BUSINESS CORPORATIONS</b> |                                 | <b>NON-PROFIT CORPORATIONS</b> |
| 1. Agriculture               | 21. Manufacturing               | 1. Charitable                  |
| 2. Advertising               | 22. Mining                      | 2. Educational                 |
| 3. Amusement                 | 23. Paper Mills                 | 3. Fraternal                   |
| 4. Apparel                   | 24. Printing and Publishing     | 4. Civic                       |
| 5. Automobile                | 25. Retail Trade                | 5. Political                   |
| 6. Business Services         | 26. Transportation              | 6. Religious                   |
| 7. Chemicals                 | 27. Wholesale Trade             | 7. Social                      |
| 8. Construction              | 28. Real Estate                 | 8. Utility                     |
| 9. Consumer Goods            | 29. Hotels, Motels, and Lodging | 9. Cultural                    |
| 10. Credit                   | 30. Other                       | 10. Other                      |
| 11. Data Processing          |                                 |                                |
| 12. Electronics              |                                 |                                |
| 13. Engineering              |                                 |                                |
| 14. Entertainment            |                                 |                                |
| 15. Food and Beverage        |                                 |                                |
| 16. Health Care              |                                 |                                |
| 17. Insurance                |                                 |                                |
| 18. Legal Services           |                                 |                                |
| 19. Life Sciences            |                                 |                                |
| 20. Other                    |                                 |                                |

C

**3. CERTIFICATION:** ~~Shareholders and~~ ~~holders~~ ~~trusts~~ ~~are~~ ~~required~~ ~~to~~ ~~complete~~ ~~this~~ ~~section.~~  
 Shareholders must indicate the number of transferable certificates held by them and among their beneficial interest in the listed shares.

Number of Shares/Certificates Authorized	Class	Shares Within Class (if any)
4,000,000	Common	
Number of Shares/Certificates Issued	Class	Shares Within Class (if any)
2850	Common	

**4. BENEFICIAL OWNERS:** ~~Shareholders and~~ ~~holders~~ ~~trusts~~ ~~are~~ ~~required~~ ~~to~~ ~~complete~~ ~~this~~ ~~section.~~  
 List shareholders holding more than 20% of any class of shares issued by the corporation, or having more than a 20% beneficial interest in the corporation.

Name: Henry E. Dorothy Rebochart Trust Name: \_\_\_\_\_  
 NONE  Name: \_\_\_\_\_ Name: \_\_\_\_\_

**7. OFFICERS:** (If no change since last report, check here and go on to Section 8.) *See Attached List* →

Name: Burt Weidman Name: GENE BRADEN  
 Title: President → Title: VICE-PRESIDENT  
 Address: \_\_\_\_\_ Address: P O BOX 69  
TERREBONE, OR 97760

Date taking office: 8-1-94 Date taking office: 05-16-97  
 Name: LYNN MACHEN Name: LYNN MACHEN  
 Title: SECRETARY - Treasurer Title: SECRETARY VP  
 Address: 11420 E 37TH LN Address: 11420 E 37TH LN  
YUMA, AZ 85367 YUMA, AZ 85367

Date taking office: 08-15-90 Date taking office: 08-15-90 - 1-1-97

**8. DIRECTORS:** (If no change since last report, check here and go on to Section 9.)

Name: PAULA CAPESTRANO Name: SANDRA BAUMAN  
 Address: P O BOX 223081 Address: P O BOX 65  
YUMA, AZ 85322 TERREBONE, OR 97760

Date taking office: 05-17-97 Date taking office: 05-17-97  
 Name: BRENT H. WEIDMAN Name: HENRY SCHUCHERT  
 Address: 1153 TAMMACK AVE Address: 12488 S FOOTHILLS BLVD  
YUMA, AZ 85361 YUMA, AZ 85367

Date taking office: 08-01-94 Date taking office: 08-01-94

0060443-9

**H & S Developers, Inc.  
Corporate Officers & Directors**

**OFFICERS:**

**Chairman of the Board: Dorothy Schindler**  
4506 N. 77<sup>th</sup> Pl  
Mesa, AZ 85251

**Date of Taking Office: 09/13/98**

**Vice President: Randle Swanson**  
P. O. Box 65  
Tombstone, AZ 85740

**Date of Taking Office: 03/14/97**

**Secretary/Treasurer: Lynn Wagner**  
11420 E. 37<sup>th</sup> Lane  
Yuma, AZ 85367

**Date of Taking Office: 09/13/98**

**President: Steve Waldman**  
1151 Thunderb. Ave.  
Yuma, AZ 85364

**Date of Taking Office: 09/01/94**

**Vice President: Paula Caputo**  
P. O. Box 222081  
Carmel, CA 95021

**Date of Taking Office: 03/14/97**

**Directors:**

**Steve H. Waldman**  
1151 Thunderb. Ave.  
Yuma, AZ 85364  
09/01/94

**Dorothy Schindler**  
4506 N. 77<sup>th</sup> Pl  
Mesa, AZ 85251  
03/14/97

**Lynn Wagner**  
11420 E. 37<sup>th</sup> Lane  
Yuma, AZ 85367  
09/13/98

**Randle Swanson**  
P. O. Box 65  
Tombstone, AZ 85740  
03/14/97

**Paula Caputo**  
P. O. Box 222081  
Carmel, CA 95021  
03/14/97

Public Entity Corporation Name: R & S Developers, Inc.

Page 3

**9. FINANCIAL DISCLOSURE (A.R.A. §§11-1022A & 11-1022B)**

Only persons responsible for filing a financial statement (reference should include assets, liabilities and equity). All other forms of corporations are exempt from filing a financial statement.

**10. CERTIFICATE OF DISCLOSURE (A.R.A. §§11-1022A & 11-1022B)**

Has ANY person serving either by election or appointment as an officer, director, trustee, incorporator and person exercising or holding more than 10% of the total outstanding common shares or 10% of any other proprietary, beneficial or membership interest in the corporation been:

- 1. Convicted of a felony involving a transaction involving the consumer fraud or unfair trade in any state or federal jurisdiction within the seven-year period immediately preceding the execution of this certificate?
- 2. Convicted of a felony, the essential elements of which consisted of fraud, misrepresentation, theft by false pretenses or receipt of stolen or monies in any state or federal jurisdiction within the seven-year period immediately preceding the execution of this certificate?
- 3. Convicted of an intentional, judgment, decision or permanent order of any state or federal court ordered within the seven-year period immediately preceding execution of this certificate when such conviction, judgment, decision or permanent order involved the violation of:
  - (a) fraud or negligent provision of the essential facts of that jurisdiction, or
  - (b) the consumer fraud laws of that jurisdiction, or
  - (c) the unfair or deceptive trade laws of that jurisdiction?

YES  NO

Provide the following information with handwritten dates attached to this report for each person subject to one or more of the actions stated in items 1 through 3, above:

- |   |  |
|---|--|
| 1. Full name and full birth date and                        | 6. Date and location of birth.   |
| 2. Full birth date.   | 8. Social Security Number  |
| 3. Present home address.                                    | 7. The nature and jurisdiction of each conviction of judicial order, the                         |
| 4. Full address(es) for immediate (including 7 year period) | disorder, fraud, forgery and public agency violation, and the fine or credit number of the case. |

**11. STATEMENT OF BANKRUPTCY (A.R.A. §§10-302D, E)**

Has ANY person serving either by election or appointment as an officer, director, trustee, incorporator and person exercising or holding more than 10% of the total outstanding common shares or 10% of any other proprietary, beneficial or membership interest in the corporation served in such capacity or held a 10% interest in any other corporation during the bankruptcy, reorganization, or orderly liquidation of the other corporation?

YES  NO

EXPOSURE TO DEBTS: Debtor \_\_\_\_\_ Date Filed \_\_\_\_\_ Case Number \_\_\_\_\_

**12. SIGNATURE**

*[Redacted Signature]*

I DECLARE, UNDER PENALTY OF LAW, THAT ALL CORPORATE INCOME TAX RETURNS REQUIRED BY TITLE 43 OF THE ARIZONA REVISED STATUTES HAVE BEEN FILED WITH THE ARIZONA DEPARTMENT OF REVENUE.

I further declare under penalty of law that I have read and understand this report and the certificate, including any attachments, and in the best of my best knowledge and belief they are true, accurate and complete.

Name: R. S. Developers Date: 4/15/09 Name \_\_\_\_\_ Date \_\_\_\_\_  
Signature: [Handwritten Signature] Signature \_\_\_\_\_  
Title: President Title \_\_\_\_\_

(Signature(s) must be duly notarized corporate official listed in section 7 of this report.)

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**BEFORE THE ARIZONA CORPORATION COMMISSION**

**COMMISSIONERS**

GARY PIERCE, Chairman  
BOB STUMP  
SANDRA D. KENNEDY  
PAUL NEWMAN  
BRENDA BURNS



**DOCKET NO. WS-03478A-12-0307**

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

**PRE-FILED SURREBUTTAL TESTIMONY OF BRIAN HOUSEHOLDER ON BEHALF  
OF INTERVENOR SPARTAN HOMES AND CONSTRUCTION, INC.**

**MARCH 29, 2013**

**Brownstein Hyatt Farber Schreck, LLP**  
One East Washington Street, Suite 2400  
Phoenix, AZ 85004

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EXECUTIVE SUMMARY

Brian Householder responds to the Rebuttal Testimony of Ray L. Jones dated March 8, 2013, and makes an additional recommendation that any funds of Far West that were improperly diverted to personally benefit the owners and/or affiliates of Far West should be paid back as a condition of implementing any approved rate increase.

1 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.**

2 A. My name is Brian Householder. My business address is 11858 Via Loma Vista, Yuma,  
3 Arizona 85367. I am a developer and general contractor in Yuma County, Arizona, and  
4 an owner of Intervenor Spartan Homes and Construction, Inc. (“Spartan”).

5 **Q. HAVE YOU PREVIOUSLY PROVIDED TESTIMONY IN THIS DOCKET?**

6 A. Yes. On February 13, 2013, my Pre-Filed Direct Testimony on Behalf of Intervenor  
7 Spartan Homes and Construction, Inc. (the “Direct Testimony”) was filed in this docket.

8 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

9 A. I have reviewed the Rebuttal Testimony of Ray L. Jones on Behalf of Far West Water &  
10 Sewer, Inc., dated March 8, 2013 (the “Rebuttal Testimony”). At page 30 of his Rebuttal  
11 Testimony, Mr. Jones provides comments on my Direct Testimony. I would like to  
12 respond to Mr. Jones’ comments.

13 **Q. WHAT COMMENTS DO YOU HAVE REGARDING THE JONES REBUTTAL**  
14 **TESTIMONY?**

15 A. Mr. Jones asserts that I am reiterating matters addressed in the formal complaint in  
16 Docket WS-03478A-08-0256. However, this comment is simply a subterfuge intended  
17 to distract the Arizona Corporation Commission from the legitimate issues raised in my  
18 Direct Testimony and to minimize my participation in this case. For some time now and  
19 certainly throughout the course of this rate case, Far West Water & Sewer, Inc., (“Far  
20 West”) has claimed that the company is in dire financial circumstances, literally on the  
21 verge of bankruptcy. In his Rebuttal Testimony, Mr. Jones states that “Far West has  
22 been struggling to meet its financial obligations for many years, and it continues today to  
23 struggle to meet its financial obligations.”<sup>1</sup> In response to a recommended set of  
24 conditions by Utilities Division Staff that must be satisfied by Far West before any  
25 increase in rates may be implemented, Mr. Jones states that “[t]he Company would like  
26 nothing more than to be able to report that they have all been resolved.”<sup>2</sup> He continues:

27 <sup>1</sup> Rebuttal Testimony of Ray L. Jones at 25, lines 18-19.

28 <sup>2</sup> *Id.* at p. 25, lines 15-16.

1 In response to these proposed conditions, the Company has initiated  
2 contact and meetings with its creditors in an effort to arrange payment  
3 plans that could be implemented once rates are in effect. The Company  
4 hopes to complete these meetings with the goal of offering some specific  
5 post-rate implementation alternatives in its Rejoinder Testimony.<sup>3</sup>

6 However, Spartan is a creditor of Far West as a result of Decision 72594 issued in  
7 Docket WS-03478A-08-0256, and Far West has made no recent effort to contact me to  
8 arrange a payment plan. In fact, my past efforts to negotiate a mutually acceptable  
9 payment plan with Far West were almost entirely ignored. Thus, I question the sincerity  
10 of Far West when its witness states that the "Company would like nothing more than to  
11 be able to report that [the issues] have all been resolved." Spartan is still waiting.

12 **Q. DO YOU BELIEVE THAT FAR WEST HAS THE FINANCIAL ABILITY TO  
13 PAY ITS OUTSTANDING OBLIGATIONS?**

14 **A.** It certainly appears based upon the evidence that Far West has been able to pay the  
15 obligations owed to its affiliates and owners over the years. Data requests and other  
16 documents reviewed in this case substantiate my position. The owners of Far West have  
17 a lengthy track record of paying themselves first while ignoring payments to other parties  
18 and contractors which have performed work for Far West. Evidence of this is discussed  
19 in RUCO's July 8, 2009, Reply Brief in Docket WS-03478A-08-0608 that was attached  
20 as Attachment 1 to my Direct Testimony. I also have personal experience which  
21 supports my position.

22 **Q. CAN YOU PROVIDE SPECIFIC EXAMPLE EXAMPLES?**

23 **A.** Yes. Spartan presented evidence in Docket WS-03478A-08-0256 (Spartan's formal  
24 complaint case against Far West) which showed that in the mid-2000s, developers in  
25 Yuma County paid water and sewer infrastructure fees totaling more than \$500,000 to  
26 H & S Developers instead of paying those fees to Far West. H & S Developers is an  
27 affiliate of Far West, and H & S Developers should never have received those payments.  
28 Mr. Capestro testified in the complaint case that there were written agreements between

---

<sup>3</sup> *Id.* at p. 26, lines 13-16.

1 the developers, H & S Developers and Far West which permitted the payments to bi-pass  
2 Far West. However, notwithstanding a specific request to produce those agreements  
3 from the administrative law judge in the complaint case, Far West never produced any  
4 agreements.

5 **Q. DO YOU HAVE ANOTHER EXAMPLE?**

6 A. In 2008-2009, Far West was seeking a rate increase and documents and evidence show  
7 that its affiliate, H & S Developers, and Andy Capestro were each paid substantial  
8 amounts of money. It is my understanding that Mr. Capestro is not licensed to practice  
9 law in the State of Arizona, yet Far West has paid him nearly \$1 million dollars in Legal  
10 Expense & Management Fees. These payments to an affiliate and to Mr. Capestro are  
11 quite concerning. With little explanation around the expenditures, I have concerns that  
12 Far West may have overpaid for the services that were provided by its affiliate and by  
13 Mr. Capestro.

14 **Q. ARE THERE OTHER EXAMPLES OF SELF DEALING?**

15 A. Yes. I have reviewed Far West's responses to various data requests in this case and I  
16 have found financial indiscretions in every one of them. They support my contention  
17 that the owners of Far West have had the ability to pay company obligations but have  
18 elected to pay themselves ahead of others. The following examples illustrate my point:

- 19 1. Far West Unpaid Liabilities – Payables & Receivables to Related Parties lists a  
20 2011 loan payable to Schechert Trust of \$1,144,257.00. From 7/11/2011 to  
21 12/3/11, the Schechert Trust was paid \$1,279,500. How were these payments  
22 made at the very time that Far West was in its self-described dire financial  
23 circumstances? And why did the owners apparently pay their trust \$135,243  
24 more than the loan amount? Far West has indicated that it does not have written  
25 loan agreements. Is this one of the unwritten loan agreements? If there is no  
26 record of a loan agreement and no proof that Far West owes the debt, then the  
27 entire \$1,279,500 has a huge effect on the rate base.  
28

- 1           2.       Additionally, from 12/29/10 to 12/20/11 the owners paid H & S Developers  
2                       \$480,500 in operating funds. Where is the evidence that Far West owes H & S  
3                       developers this money? Absent such proof, If there is no proof then this has a  
4                       huge effect on the rate hearing.
- 5           3.       The Schechert Trust received \$97,527.00 in main extension agreement refunds in  
6                       2010 and 2011. Far West has not made the most recent main extension refund  
7                       payment owed by Spartan in August last year.
- 8           4.       Also, from 2/7/11 to 3/2/11, Mr. Capestro received fuel expense reimbursement  
9                       of \$3,600. The size of this reimbursement is questionable. Assuming gasoline at  
10                      \$4 per gallon and mileage of 10 miles per gallons, that represents 9,000 miles in a  
11                      30-day period. Far West should explain this reimbursement.
- 12          5.       Data Request FWS DR 2 GB 2-1 3 Cash Receipts and Disbursements shows  
13                      large amounts being paid out to the owners' affiliates in 2011. From 1/1/11 to  
14                      8/24/11 the amounts totaled \$341,674 and from 8/25/11 to 12/23/11 the amounts  
15                      totaled \$1,603,000, for a grand total of \$1,944,674. This is a significant amount  
16                      of cash flowing out of Far West to its affiliates.
- 17          6.       RUCO's July 8, 2009, Reply Brief in Docket WS-03478A-08-0608 discusses the  
18                      owners of Far West spending over \$3,700,000 on non-approved projects.  
19                      Further, the RUCO brief discusses how the funds were used for improvements  
20                      that benefitted the owners' personal projects. One of the projects is a subdivision  
21                      called El Rancho Encantado. While many other individual property owners  
22                      including myself could not develop, build upon or improve our properties until  
23                      September 2012, the owners enjoyed the luxury of selling their lots at El Rancho  
24                      Encantado because they misused IDA loan funds. This also afforded the owners  
25                      of Far West a virtual monopoly in the market. Further, the owners could have  
26                      paid back to Far West the monies they used upon the sale of these properties,  
27                      which would have given Far West working capital to pay its obligations.
- 28

1                   however, Far West had to later take out another substantial loan for some of the  
2                   improvements that should have been performed with the IDA loan funds. Far  
3                   West pays interest on that loan.

4   **Q.   DO THESE DEALINGS INVOLVING FAR WEST, ITS OWNERS AND**  
5   **AFFILIATES CONCERN YOU?**

6   A.   Yes. When I formed Spartan Homes and Construction, Inc., one of the first things I  
7       learned is that my business and personal finances are to be kept completely separate, and  
8       each and every transaction must stand on its own two feet. I have loaned money to  
9       Spartan in the past from my personal account but every penny that was transferred has a  
10      paper trail and I can account for every penny of that money today on the books of  
11      Spartan. Given the public trust that is placed in a public utility such as Far West, it is  
12      even more important that there be transparency, clarity, accountability and a complete  
13      absence of self-dealing. Far West has failed badly in each of these obligations.

14   **Q.   DO YOU BELIEVE THAT FAR WEST DOES IN FACT HAVE THE ABILITY**  
15   **TO PAY ITS OBLIGATIONS?**

16   A.   Yes. I believe Far West has always had the ability to pay its obligations, including the  
17      amount owed to Spartan under Decision 72594.

18   **Q.   WHAT WOULD YOU ASK THE COMMISSION TO DO IN THIS RATE CASE?**

19   A.   I have included recommendations to the Commission in my Direct Testimony. In  
20      addition, I would recommend that any funds of Far West that were improperly diverted  
21      to personally benefit the owners and/or affiliates of Far West should be paid back as a  
22      condition of implementing any approved rate increase.

23   **Q.   Does this conclude your testimony?**

24   A.   Yes.

25

26

014680\0001\10149515.1

27

28

**Crockett, Jeffrey W.**

---

**From:** Crockett, Jeffrey W.  
**Sent:** Monday, August 20, 2012 4:07 PM  
**To:** Dean Miller  
**Subject:** Term Sheet for Payment Plan  
**Attachments:** 20120820155823311.pdf; BHFSDOCS-#1721194-v2-Term\_Sheet\_Between\_Far\_West\_and\_Spartan.DOC



Dean:

Attached is a revised draft of the Term Sheet for Payment Plan. We have attempted to simplify the mechanics, and we have worked off of the first draft of the term sheet that you presented. I have attached both a red-lined draft which shows our edits to the first draft as well as a clean copy of the term sheet in Word.

If you would like an explanation regarding any of the provisions, please call me at your convenience.

Best regards,

Jeff

Jeffrey W. Crockett, Esq.  
Brownstein Hyatt Farber Schreck LLP  
One East Washington Street, Suite 2400  
Phoenix, Arizona 85004  
e-mail: [jcrockett@bhfs.com](mailto:jcrockett@bhfs.com)  
direct: (602) 382-4062  
fax: (480) 428-6076  
mobile: (602) 999-4188

To ensure compliance with requirements imposed by the IRS, we inform you that any federal tax advice contained in this communication (including any attachments) is not intended or written to be used, and cannot be used, for purposes of (i) avoiding penalties under the Internal Revenue Code, or (ii) promoting, marketing or recommending to another party any transaction or tax-related matter addressed herein.

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## **TERM SHEET for PAYMENT PLAN**

Between Far West Water & Sewer, Inc., El Rancho Encantado, LLC, and Spartan Homes & Construction, Inc.

This agreement between Far West Water & Sewer, Inc. ("Far West"), El Rancho Encantado, LLC, ("El Ranch Encantado") and Spartan Homes & Construction, Inc. ("Spartan") shall constitute compliance with the required payment of \$154,180 by Far West to Spartan as ordered by the Arizona Corporation Commission ("Commission") in Decision No. 72594. This Decision allows for Far West and Spartan to reach an agreement on a later payment date.

### **TERMS**

1. Far West shall pay a cash down payment of \$33,688 to be applied to the outstanding principal balance of \$154,180 by August 31, 2012.

2. Far West shall pay \$5,000 toward attorney fees incurred by Spartan to collect the outstanding principal balance. This amount shall be paid by August 31, 2012.

3. Far West shall pay accrued interest for seven months (7) on the original principal balance of \$154,180. A simple interest rate of 10% per year shall be applied to the original principal balance. Accrued interest shall be calculated as follows:  $\$154,180 \times 10\% \div 12 \text{ months} \times 7 \text{ months} = \$8,994$ .

4. Far West shall pay off the remaining principal balance of \$120,492 (the "Remaining Principal Balance") by March 1, 2013. Simple interest shall accrue on the Remaining Principal Balance, calculated at 5% per year, until the balance is fully paid. Far West shall make monthly payments of interest only to Spartan on the Remaining Principal Balance with the first payment due on September 1, 2012. Monthly interest shall be calculated as follows:  $\$120,492 \times 5\% \div 12 \text{ months} = \$502.05$  per month (the "Monthly Interest Payment"). In the event that Far West pays down a portion of the Remaining Principal Balance prior to March 1, 2013, then the Monthly Interest Payment shall be adjusted accordingly to reflect the new lower principal balance. The Monthly Interest Payment is due on the first day of each month, and a late charge of \$25 per day shall apply beginning on the sixth day of the month and continuing until the late Monthly Interest Payment is paid in full.

5. The Remaining Principal Balance shall be paid off from one or a combination of the following sources: (i) the proceeds of the sale of lots owned by El Rancho Encantado in the El Rancho Encantado subdivision; and (ii) funds received by Far West from the developer(s) of the Fortuna Commons shopping center located on the South Interstate 8 frontage road just east of the South Fortuna Road/Interstate 8 interchange.

(a) Pursuant to Section 6.1 of the Sewer Facilities Line Extension Agreement dated November 29, 2010, between Fortuna Commons Investments, L.L.C.

("FCI"), and Smith's Food & Drug Centers, Inc. ("Smith's"), Far West will receive approximately \$106,468 in fees (the "Fortuna Commons Fees") from FCI and/or Smith's in connection with the extension of sewer service to the Fortuna Commons shopping center once the Commission approves an extension of Far West's certificate of convenience and necessity to include the Fortuna Commons shopping center. Within three business days after Far West's receipt of the Fortuna Commons Fees, Far West shall remit the Fortuna Commons Fees to Spartan as payment of the Remaining Principal Balance, or if the Remaining Principal Balance has been reduced by payments under Section 5(b) below, that portion of the Fortuna Commons Fees which equals the reduced Remaining Principal Balance.

(b) Each time that El Rancho Encantado sells a lot in the El Rancho Encantado subdivision, Spartan shall receive the net proceeds of the sale of such lot until the Remaining Principal Balance has been paid in full. El Rancho Encantado shall provide escrow instructions, in a form reasonably satisfactory to Spartan, directing the escrow agent for the El Rancho Encantado subdivision to remit to Spartan, directly out of escrow, and within three business days after the close of escrow, the net proceeds from the sale of such lots as is necessary to fully pay the Remaining Principal Balance. The escrow instructions shall also authorize the escrow agent to provide such information to Spartan as may be reasonably requested by Spartan to verify compliance with this provision. In the event that the escrow agent fails to remit to Spartan the net proceeds from the sale of a lot within three days after closing, then Spartan shall be entitled to a late charge of \$200 per day beginning on the fourth day after the close of escrow and continuing until the sale proceeds are remitted. Any escrow fees or costs associated with performing this provision shall be paid by El Rancho Encantado. If the Remaining Principal Balance has been reduced by payment of the Fortuna Commons Fees under Section 5(a) above, then the escrow agent shall remit net proceeds from sales equal to the reduced Remaining Principal Balance.

6. Far West shall remit all payments to Spartan via its legal counsel, Jeff Crockett of Brownstein Hyatt Farber Schreck LLP.

7. In the event that any term of this agreement fails to be performed on or before March 1, 2013, Far West shall be responsible for the payment of all appropriate and reasonable attorneys fees and costs incurred by Spartan in collection of the Remaining Principal Balance, accrued interest and applicable late charges.

8. Paula Capestro represents and warrants to Spartan that she is authorized to sign this Term Sheet for Payment Plan on behalf of Far West.

9. Paula Capestro and Andy Capestro represent and warrant to Spartan that each is authorized to execute this Term Sheet for Payment Plan on behalf of El Rancho Encantado.

Signed and dated:

**FAR WEST WATER & SEWER, INC.**

---

Paula S. Capestro, President

**EL RANCHO ENCANTADO, LLC**

---

Paula S. Capestro, Member

---

Andrew J. Capestro, Member

**SPARTAN HOMES & CONSTRUCTION, INC.**

---

Brian Householder, Vice President

**DRAFT TERM SHEET for PAYMENT PLAN**

Between Far West Water and Sewer, Inc., El Rancho Encantado, LLC, and Spartan Homes and Construction, Inc.

This agreement between Far West Water and Sewer, Inc. ("Far West"), El Rancho Encantado, LLC, ("El Rancho Encantado") and Spartan Homes and Construction, Inc. ("Spartan") shall constitute compliance with the required payment of \$154,180 by Far West to Spartan as ordered by Arizona Corporation Commission ("Commission") in Decision No. 72594. This Decision allows for Far West and Spartan to reach an agreement on a later payment date.

**TERMS**

1. Far West shall pay a cash down payment of ~~\$33,688~~ to be applied to the outstanding principal balance of \$154,180 by August 31, 2012.
2. Far West shall pay \$5,000 toward attorney fees incurred by Spartan to collect the outstanding principal balance. This amount shall be paid by August 31, 2012.
3. Far West shall pay accrued interest for seven months (7) on the original principal balance of \$154,180. A simple interest rate of 10% per year shall be applied to the original principal balance. Accrued interest shall be calculated as follows:  $\$154,180 \times 10\% \div 12 \text{ months} \times 7 \text{ months} = \$8,994.$
4. Far West shall pay off the remaining principal balance of \$120,492 (the "Remaining Principal Balance") by March 1, 2013. Simple interest shall accrue on the Remaining Principal Balance, calculated at 5% per year, until the balance is fully paid. Far West shall make monthly payments of interest only to Spartan on the Remaining Principal Balance with the first payment due on September 1, 2012. Monthly interest shall be calculated as follows:  $\$120,492 \times 5\% \div 12 \text{ months} = \$502.05$  per month (the "Monthly Interest Payment"). In the event that Far West pays down a portion of the Remaining Principal Balance prior to March 1, 2013, then the Monthly Interest Payment shall be adjusted accordingly to reflect the new lower principal balance. The Monthly Interest Payment is due on the first day of each month, and a late charge of \$25 per day shall apply beginning on the sixth day of the month and continuing until the late Monthly Interest Payment is paid in full.
5. The Remaining Principal Balance shall be paid off from one or a combination of the following sources: (i) the proceeds of the sale of lots owned by El Rancho Encantado in the El Rancho Encantado subdivision; and (ii) funds received by Far West from the developer(s) of the Fortuna Commons shopping center located on the South Interstate 8 frontage road just east of the South Fortuna Road/Interstate 8 interchange.

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Deleted: Accrued interest shall be paid in two installments: The first payment of \$2,248.46 within 30 days of the payment of attorney fees, and the second payment of \$2,248.46 within 60 days of the payment of attorney fees. The accrued interest on the original principal balance of \$154,180 shall not be included in the calculation of any outstanding principal balance.
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Deleted: 106,498
Deleted: and accrued interest
Deleted: 10
Deleted: by December 15, 2012.
Deleted: A simple interest rate of 10% per year shall be applied to outstanding principal balance, and the calculation of such interest shall commence on August 1, 2012.
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a. Pursuant to Section 6.1 of the Sewer Facilities Line Extension Agreement dated November 29, 2010, between Fortuna Commons Investments, L.L.C. ("FCI"), and Smith's Food & Drug Centers, Inc. ("Smith's"), Far West will receive approximately \$106,468 in fees (the "Fortuna Commons Fees") from FCI and/or Smith's in connection with the extension of sewer service to the Fortuna Commons shopping center once the Commission approves an extension of Far West's certificate of convenience and necessity to include the Fortuna Commons shopping center. Within three business days after Far West's receipt of the Fortuna Commons Fees, Far West shall remit the Fortuna Commons Fees to Spartan as payment of the Remaining Principal Balance, or if the Remaining Principal Balance has been reduced by payments under Section 5(b) below, that portion of the Fortuna Commons Fees which equals the reduced Remaining Principal Balance.

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b. Each time that El Rancho Encantado sells a lot in the El Rancho Encantado subdivision, Spartan shall receive the net proceeds of the sale of such lot until the Remaining Principal Balance has been paid in full. El Rancho Encantado shall provide escrow instructions, in a form reasonably satisfactory to Spartan, directing the escrow agent for the El Rancho Encantado subdivision to remit to Spartan, directly out of escrow, and within three business days after the close of escrow, the net proceeds from the sale of such lots as is necessary to fully pay the Remaining Principal Balance. The escrow instructions shall also authorize the escrow agent to provide such information to Spartan as may be reasonably requested by Spartan to verify compliance with this provision. In the event that the escrow agent fails to remit to Spartan the net proceeds from the sale of a lot within three days after closing, then Spartan shall be entitled to a late charge of \$200 per day beginning on the fourth day after the close of escrow and continuing until the sale proceeds are remitted. Any escrow fees or costs associated with performing this provision shall be paid by El Rancho Encantado. If the Remaining Principal Balance has been reduced by payment of the Fortuna Commons Fees under Section 5(a) above, then the escrow agent shall remit net proceeds from sales equal to the reduced Remaining Principal Balance.

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6. Far West shall remit all payments to Spartan via its legal counsel, Jeff Crockett of Brownstein Hyatt Farber Schreck LLP.

7. In the event that any term of this agreement fails to be performed on or before March 1, 2013, Far West shall be responsible for the payment of all appropriate and reasonable attorneys fees and costs incurred by Spartan in collection of the Remaining Principal Balance, accrued interest and applicable late charges.

8. Paula Capestro represents and warrants to Spartan that she is authorized to sign this Term Sheet for Payment Plan on behalf of Far West.

**Deleted:** As security for the outstanding principal balance and accrued interest charges, Spartan shall be entitled to select two available vacant lots in the El Rancho Encantado Phase 1 development that are controlled or owned by the Capestros. Spartan shall make its selection of the two available lots by August 31, 2012. In the event that Far West does not pay off the outstanding principal balance of \$106,498 and accrued interest by December 15, 2012, Spartan shall be conveyed the two lots if selected as soon as legally possible. These lots shall be conveyed free of all liens, and the Capestros shall pay related costs, including sales commissions and escrow fees, due on the sale of the lots.

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9. Paula Capestro and Andy Capestro represent and warrant to Spartan that each is authorized to execute this Term Sheet for Payment Plan on behalf of El Rancho Encantado.

Signed and dated

\_\_\_\_\_  
Paula S. Capestro  
President  
Far West Water and Sewer, Inc.

Deleted: Sewer and

El Rancho Encantado, LLC

By: \_\_\_\_\_  
Paula S. Capestro  
Its: Member

By: \_\_\_\_\_  
Andrew J. Capestro  
Its: Member

\_\_\_\_\_  
Brian Householder  
Vice President  
Spartan Homes and Construction, Inc.  
014680\0001\1721194.1

## Crockett, Jeffrey W.

---

**From:** Crockett, Jeffrey W.  
**Sent:** Thursday, September 27, 2012 3:20 PM  
**To:** Dean Miller  
**Subject:** RE: Payment Proposal



Dean,

- ④ Thanks for the response. I would note that the deal points have not changed significantly, and the revisions actually simplify the mechanics.

Jeff

---

**From:** Dean Miller [<mailto:dean@luxconsultingllc.com>]  
**Sent:** Thursday, September 27, 2012 3:15 PM  
**To:** Crockett, Jeffrey W.  
**Cc:** Dean Miller  
**Subject:** Re: Payment Proposal

- ③ Your revisions are substantially different from our version as it appears that nearly every term was changed. As such, Andy is still mulling over your revisions.  
On Sep 27, 2012, at 2:53 PM, Crockett, Jeffrey W. wrote:

- ② Dean, is there going to be any response?

Jeff

---

**From:** Dean Miller [<mailto:dean@luxconsultingllc.com>]  
**Sent:** Monday, September 10, 2012 3:27 PM  
**To:** Crockett, Jeffrey W.  
**Cc:** Dean Miller  
**Subject:** Payment Proposal

Jeff,

- ① I am still waiting for final comments from Andy on your revisions. He's pretty busy this week, dealing with the power outages at his water treatment plants and pumping stations. I hope to hear from after the power is restored.

Regards, Dean

Dean Miller  
Lux Consulting, LLC  
[dean@luxconsultingllc.com](mailto:dean@luxconsultingllc.com)  
602-451-2729



**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

DIRECT  
TESTIMONY  
OF  
JIAN W. LIU  
UTILITIES ENGINEER  
UTILITIES DIVISION  
ARIZONA CORPORATION COMMISSION

FEBRUARY 13, 2013

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RECOMMENDATIONS AND CONCLUSIONS .....	3

**EXHIBITS**

Engineering Report for Far West Water & Sewer, Inc.....	JWL
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1 **INTRODUCTION**

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

3 A. My name is Jian W. Liu. My business address is 1200 West Washington Street, Phoenix,  
4 Arizona 85007.

5  
6 **Q. By whom and in what position are you employed?**

7 A. I am employed by the Arizona Corporation Commission ("Commission" or "ACC") as a  
8 Utilities Engineer - Water/Wastewater in the Utilities Division.

9  
10 **Q. How long have you been employed by the Commission?**

11 A. I have been employed by the Commission since October 2005.

12  
13 **Q. What are your responsibilities as a Utilities Engineer - Water/Wastewater?**

14 A. My main responsibilities are to inspect, investigate and evaluate water and wastewater  
15 systems. This includes obtaining data, preparing reconstruction cost new and/or original  
16 cost studies, investigative reports, interpreting rules and regulations, and to suggest  
17 corrective action and provide technical recommendations on water and wastewater system  
18 deficiencies. I also provide written and oral testimony in rate cases and other cases before  
19 the Commission.

20  
21 **Q. How many companies have you analyzed for the Utilities Division?**

22 A. I have analyzed more than 40 companies fulfilling these various responsibilities for  
23 Utilities Division Staff ("Staff").

24  
25 **Q. Have you previously testified before this Commission?**

26 A. Yes, I have testified on numerous occasions before this Commission.

1 **Q. What is your educational background?**

2 A. I am a Ph.D. Candidate in Geotechnical Engineering from Arizona State University  
3 ("ASU"). I have a Master of Science Degree in Natural Science from ASU and a Master  
4 of Science Degree in Civil Engineering from Institute of Rock & Soil Mechanics  
5 ("IRSM"), Academy of Sciences, China.

6  
7 **Q. Briefly describe your pertinent work experience.**

8 A. From 1982 to 2000, I was employed by IRSM, SCS Engineers, and URS Corporation as a  
9 Civil and Environmental Engineer. In 2000, I joined the Arizona Department of  
10 Environmental Quality ("ADEQ"). My responsibilities with ADEQ included review and  
11 approval of water distribution systems, sewer distribution systems, and on-site wastewater  
12 treatment facilities. I remained with ADEQ until transferring to the Commission in  
13 October 2005.

14  
15 **Q. Please state your professional membership, registrations, and licenses.**

16 A. I am a licensed professional civil engineer in the State of Arizona.  
17

18 **PURPOSE OF TESTIMONY**

19 **Q. What was your assignment in this rate proceeding?**

20 A. My assignment was to provide Staff's engineering evaluation of the Far West Water &  
21 Sewer, Inc. ("Far West" or "Company") application to increase its rates for wastewater  
22 service. I reviewed the Company's application and responses to data requests, and I  
23 inspected the wastewater systems. This testimony and its attachments present Staff's  
24 engineering evaluation. The findings of my engineering evaluation are contained in the  
25 Engineering Report that I have prepared for this proceeding. The report is included as  
26 Exhibit JWL in this pre-filed testimony.

1     **ENGINEERING REPORT**

2     **Q.     Please describe the information contained in your Engineering Report.**

3     A.     The Report is divided into three general sections: 1) *Executive Summary*; 2) *Engineering*  
4           *Report Discussion*, and 3) *Engineering Report Exhibit*. The *Discussion* section can be  
5           further divided into eight subsections: A) Location of Company; B) Description of the  
6           Wastewater System; C) Wastewater Flow; D) Growth; E) ADEQ Compliance; F) Arizona  
7           Corporation Commission (“Commission” or “ACC”) Compliance; G) Depreciation Rates;  
8           H) Other Issues.

9  
10    **RECOMMENDATIONS AND CONCLUSIONS**

11    **Q.     What are Staff’s conclusions and recommendations regarding the Company’s**  
12           **operations?**

13    A.     Staff’s conclusions and recommendations regarding the Company’s operations are listed  
14           below.

15  
16    **CONCLUSIONS:**

- 17  
18           1. The Company’s wastewater treatment plants (“WWTPs”) are not in compliance with  
19           Arizona Department of Environmental Quality (“ADEQ”) regulations. On June 22,  
20           2010, ADEQ issued a Consent Judgment against Far West.  
21  
22           2. A check with the Utilities Division Compliance Section indicates that there is one  
23           delinquent item for Far West (ACC Compliance Section Email dated 1/18/2013).  
24  
25           3. Staff inspected the Seasons WWTP on January 9th, 2013. The portable Membrane Bio  
26           Reactor (“MBR”) wastewater treatment module was not in service and therefore not  
27           used and useful during Staff’s field inspection.  
28  
29           4. Staff concludes that Far West has adequate treatment capacity to serve the existing  
30           customer base and reasonable growth.  
31  
32           5. Staff recommends that the portable MBR wastewater treatment module located in  
33           Seasons WWTP be removed from rate base in this proceeding because it was not in  
34           service by end of the test year , and not in service during Staff’s field inspection. The  
35           cost is \$1,060,096.

1 **RECOMMENDATIONS:**

- 2
- 3 1. Staff recommends that Far West be required to provide separate wastewater
- 4 descriptions (Lift Stations, Force Mains, Manholes, Cleanouts, Collection Mains, and
- 5 Service Laterals) for each of its Wastewater Treatment Plants in future Commission
- 6 Annual Reports, beginning with the 2013 Annual Report filed in 2014.
- 7
- 8 2. Staff recommends that any increase in rates and charges approved in this proceeding
- 9 shall not become effective until the Company files documentation from ADEQ that
- 10 the Far West's WWTPs are in compliance with ADEQ's Consent Judgment as it may
- 11 be amended.
- 12
- 13 3. In the prior rate case, the Company adopted Staff's typical and customary
- 14 depreciation rates for wastewater system plant. These rates are presented in Table G-
- 15 1 and it is recommended that the Company continue to use these depreciation rates by
- 16 individual National Association of Regulatory Utility Commissioners category.
- 17
- 18 4. Staff has reviewed the information provided by the Company and recommends the
- 19 Company's reported annual testing expense of \$147,025 be used for purposes of this
- 20 application.
- 21
- 22 5. Staff recommends that the portable MBR wastewater treatment module located in
- 23 Seasons WWTP be removed from rate base in this proceeding because it was not in
- 24 service by end of the test year , and not in service during Staff's field inspection. The
- 25 cost is \$1,060,096.
- 26

27 **Q. Does this conclude your Direct Testimony?**

28 **A. Yes, it does.**

**EXHIBIT JW**

**ENGINEERING REPORT FOR**

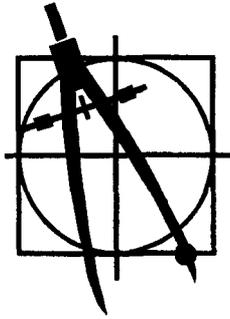
**FAR WEST WATER & SEWER, INC.**

**DOCKET NO. WS-03478A-12-0307**

**(RATES FOR WASTEWATER SERVICE)**

**JIAN W LIU**

**FEBRUARY 8, 2013**



**Engineering Report  
For Far West Water & Sewer, Inc.  
Docket No. WS-03478A-12-0307  
(Rates for Wastewater Service)**

By Jian W Liu

February 8, 2013

**EXECUTIVE SUMMARY**

**CONCLUSIONS:**

1. 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.
2. 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).
3. 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.
4. 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.

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**A. LOCATION OF COMPANY**

Far West Water & Sewer, Inc. (“Far West” or “Company”) is an Arizona public service corporation authorized to provide water and wastewater service within portions of Yuma County, Arizona. On July 6, 2012, the Company filed an application with the Arizona Corporation Commission (“Commission” or “ACC”) to increase its rates for wastewater service. The Company’s existing Certificate of Convenience and Necessity (“CC&N”) for wastewater service covers an area totaling approximately 4,335 acres or roughly seven square miles. Far West had over 7,400 residential wastewater customers, 45 commercial wastewater customers and 4 recreational vehicle parks containing over 700 spaces in December 2011. Figure A-1 shows the location of the Company within Yuma County and Figure A-2 shows the certificated area.

**B. DESCRIPTION OF THE WASTEWATER SYSTEM**

The Far West wastewater system consists of a collection system with 16 lift stations. There are six wastewater treatment plants (“WWTPs”). The plant facilities were visited on January 9th, 2013, by Jian Liu, Commission Utilities Division Staff (“Staff”) Engineer, in the accompaniment of Michael Crowe, President of Priority Well Service, Inc., representatives from the Company included Isaac Yocupicio, Wastewater Supervisor, Andrew Capestro, Operations Manager, and Paula Capestro, President.

Table 1. Wastewater Treatment Plants

Name or Description	Plant Items	Location
Marwood	340,000 gallon per day (“GPD”) sequencing batch reactor (“SBR”)	14000 E. 56th Street
Section 14	1,300,000 GPD Membrane Bio Reactor (“MBR”)	12651 S. Avenue 14E
Villa Royale	10,000 GPD Santec extended aeration	12342 E. Del Rico
Del Oro	495,000 GPD MBR	11717 Omega Lane
Del Rey	40,000 GPD Santec extended aeration	12342 E. Del Rico
Seasons	150,000 GPD SBR	10301 E. County 10th Street

Table 2. Lift Stations

Lift Station	Location	Quantity of Pumps	Horsepower per Pump	Capacity per Pump (GPM)	Wet Well Capacity (gals.)
Desert Foothills Estates #7	13110 38th St.	2	7.5	150	3,000
Foothills Mobile Estates(FME) #15	14191 E. 49th Lane	2	30	360	8,000
FME #16	12587 S. Foothills Blvd.	1	30	360	4,000
FME #25	12500 44th St.	2	11	220	4,000
FME #27	14599 52nd St.	2	7	140	4,000
FH Grocery Store	11720 S. Foothills Blvd.	1	2	40	2,000
Ocatillo Plaza	11792 S. Foothills Blvd.	1	3	60	2,000
Domino's Pizza	11361 S. Foothills Blvd.	2	1.5	30	2,000
Foothills Hardware	11748 S. Foothills Blvd.	1	3	60	2,000
Vista Del Sol	3352 Puesta Del Sol	2	15	300	4,000
Mesa del Sol #11	10208 Cony Avenue	2	15	300	4,000
Mesa del Sol #12	10535B 28th St.	2	15	300	4,000
Foothills Restaurant	12871B S. Frontage Rd	1	2	60	2,000
Palm Shadows	9700 E. 40th St.	2	100	1200	6,000
Arroyo de Fortuna	13712 44th St.	2	1.5	60	4,000
Las Barrancas	12344 Avenue 14 1/2 E	2	3	60	4,000

Notes: GPM = gallons per minute and gals = gallons.

Table 3. Force Mains

Size	Material	Length (Feet)
4-inch	PVC	11,020
4-inch	Ductile Iron	450
6-inch	PVC	24,085
12-inch	PVC	26,700
	Total:	62,255

Table 4. Manholes

Type	Quantity
Standard	1,171
Drop	32

Table 5. Cleanouts

Quantity
120

Table 6. Collection Mains

Diameter	Material	Length (Feet)
2-inch	HDPE Low Pressure	1,018
3-inch	HDPE Low Pressure	1,621
4-inch	HDPE Low Pressure	795
6-inch	HDPE Low Pressure	1,697
6-inch	PVC	5,704
8-inch	PVC	344,774
10-inch	PVC	15,084
12-inch	PVC	37,329
15-inch	PVC	3,966
18-inch	PVC	3,285
	Total:	415,273

Table 7. Service Laterals

Size	Quantity
4-inch	10,262
6-inch	
8-inch	1
1.5-inch	92
Total:	10,355

The detailed plant facility descriptions for each wastewater treatment plant (“WWTP”) is as follows:

Marwood WWTP

The WWTP consists of a 340,000 GPD continual flow Sequential Batch Reactor (“SBR”). Actual flow is between 150,000-267,000 GPD. There are four SBR reactors and a chlorine contact basin where liquid chlorine is utilized for disinfection. The facility has a hydro sieve<sup>1</sup> that is utilized at the headworks. Effluent is discharged into lined basins at the WWTP. Effluent is used for irrigation of two golf courses.

<sup>1</sup> Hydro Sieve is designed for solid/liquid separation.

#### Section 14 WWTP

Currently, the Section 14 WWTP has capacity to treat 0.8125 Million Gallons per Day (“MGD”) of raw sewage, and is permitted to treat 0.681 MGD. Actual flow is between 76,000-511,000 GPD. Far West has completed the Section 14 WWTP Phase I Expansion, and began operating the Palm Shadows Collection System on October 1, 2011. The future Phase II and Phase III Expansions, once completed, will bring the final capacity to 1.30 MGD. Effluent is used for irrigation of the Las Barrancas Golf Course.

#### Villa Royale WWTP

The WWTP is a 10,000 GPD Santec extended aeration wastewater treatment facility. The facility has an influent wetwell liftstation and a headworks with a micro screen. Actual flow is between 2,000-4,000 GPD. Effluent is used for irrigation of the Mesa Del Sol Golf Course.

Villa Royale WWTP is scheduled for decommissioning after Del Oro WWTP Phase I 0.30 MGD Expansion is completed, and the current Villa Royale pump station will be upgraded to a lift station and integrated into the Villa Royale collection system force main.

#### Del Oro WWTP

Del Oro WWTP has the capacity to treat 0.30 MGD of raw sewage. Future Phase II Expansions will be constructed to a final capacity of 0.495 MGD. Actual flow is between 116,000-213,000 GPD. Effluent is used for irrigation of the Mesa Del Sol Golf Course.

#### Del Rey WWTP

The WWTP is a 40,000 MGD Santec extended aeration wastewater treatment facility with an influent pump station, aeration tanks, one clarifier and a chlorine contact chamber. Actual flow is between 13,000-18,000 GPD. Effluent is being pumped to the Mesa Del Sol Golf Course. Del Rey WWTP is scheduled for decommissioning after Del Oro WWTP Phase I 0.30 MGD Expansion is completed, but installation of the future Del Rey raw sewage pump station, including the infrastructure required to connect the future Del Rey raw sewage pump station to the collection system force main, has not begun, as Far West has not been able to obtain the sewer utility easement rights to install the force main. The decommissioning of the Del Rey WWTP will not commence until the easement is obtained.

#### Seasons WWTP

Far West has moved a portable Membrane Bio Reactor (“MBR”) wastewater treatment module from Del Oro WWTP to the Seasons WWTP in December 2011. The MBR module was not in service by the end of the test year, nor as of the date of Staff’s inspections on January 9, 2013.

The Company is completing the Seasons WWTP 0.15 MGD upgrades. The current WWTP is designed to treat approximately 75,000 GPD. Actual flow is between 50,000-71,000 GPD. Effluent is discharged to unlined percolation ponds.

#### Palm Shadows WWTP

The WWTP was closed<sup>2</sup> on October 1, 2011.

Staff concludes that Far West has adequate treatment capacity to serve the existing customer base and reasonable growth.

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.

#### **C. WASTEWATER FLOW**

Based on the information provided by the Company, wastewater flow for the test year 2011 is presented in Figure 3. Customers experienced a high monthly average wastewater flow of approximately 128 GPD per connection and a low monthly average wastewater flow of approximately 70 GPD per connection.

#### **D. GROWTH**

In December 2004, Far West had approximately 7,200 active customers. In December 2011, the Company had 7,463 active customers. The Company estimates that the customer base will grow at approximately 100 to 400 new customers per year for next five years.

#### **E. ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY (“ADEQ”) COMPLIANCE**

The Company’s WWTPs are not in compliance with ADEQ regulations. On June 22, 2010, ADEQ issued a Consent Judgment against Far West.

In October 2012, ADEQ issued Compliance Status Reports regarding Far West’s WWTPs. ADEQ reported that while not in compliance with the Consent Judgment, ADEQ is encouraged by the progress that Far West has made. ADEQ anticipates amending its Consent Judgment with Far West to reflect dates that will align with the progress Far West has made to date.

---

<sup>2</sup> No longer treating sewage at this site.

Staff recommends that any increase in rates and charges approved in this proceeding shall not become effective until the Company submits documentation from ADEQ that the Far West's WWTPs are in compliance with ADEQ's Consent Judgment as it may be amended.

**F. ACC COMPLIANCE**

A check with the Utilities Division Compliance Section indicates that there is one delinquent item for Far West (ACC Compliance Section Email dated January 18, 2013).

In Decision No. 72594, the Commission ordered Far West to pay the amount of \$154,180 to Spartan Homes & Construction, Inc. within 90 days after the effective date of this Decision unless the parties reach an agreement as to a later payment.

Far West has made a partial payment of \$47,682, as docketed with the Commission on July 31, 2012, however, the remaining amount is still unpaid at this time.

**G. DEPRECIATION RATES**

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.

**Table G-1. Wastewater Depreciation Rates**

NARUC Acct. No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
354	Structures & Improvements	30	3.33
355	Power Generation Equipment	20	5.00
360	Collection Sewers – Force	50	2.0
361	Collection Sewers- Gravity	50	2.0
362	Special Collecting Structures	50	2.0
363	Services to Customers	50	2.0
364	Flow Measuring Devices	10	10.0
365	Flow Measuring Installations	10	10.00
366	Reuse Services	50	2.00
367	Reuse Meters & Meter Installations	12	8.33
370	Receiving Wells	30	3.33
371	Pumping Equipment	8	12.50
374	Reuse Distribution Reservoirs	40	2.50
375	Reuse Transmission & Distribution System	40	2.50
380	Treatment & Disposal Equipment	20	5.0
381	Plant Sewers	20	5.0
382	Outfall Sewer Lines	30	3.33
389	Other Plant & Miscellaneous Equipment	15	6.67
390	Office Furniture & Equipment	15	6.67
390.1	Computers & Software	5	20.0
391	Transportation Equipment	5	20.0
392	Stores Equipment	25	4.0
393	Tools, Shop & Garage Equipment	20	5.0
394	Laboratory Equipment	10	10.0
395	Power Operated Equipment	20	5.0
396	Communication Equipment	10	10.0
397	Miscellaneous Equipment	10	10.0
398	Other Tangible Plant	----	----

NOTE: Acct. 398, Other Tangible Plant may vary from 5% to 50%. The depreciation rate would be set in accordance with the specific capital items in this account.

**H. Company Testing Expenses**

The Company reported a total testing expense of \$147,025 during the test year, the Company provided invoices and other documents to support this amount. 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.

**Table A. Testing Cost**

**2011 Monthly Testing Expense**

<b>Month</b>	<b>Monthly Testing Expense</b>
Jan 2011	11,996.25
Feb 2011	10,181.90
Mar 2011	9,865.12
Apr 2011	13,151.30
May 2011	11,467.00
Jun 2011	11,218.77
Jul 2011	14,304.20
Aug 2011	14,213.00
Sept 2011	13,422.12
Oct 2011	12,012.40
Nov 2011	13,202.00
Oct 2011	11,991.15
<b>Total Testing Expense</b>	<b>\$147,025.21</b>

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

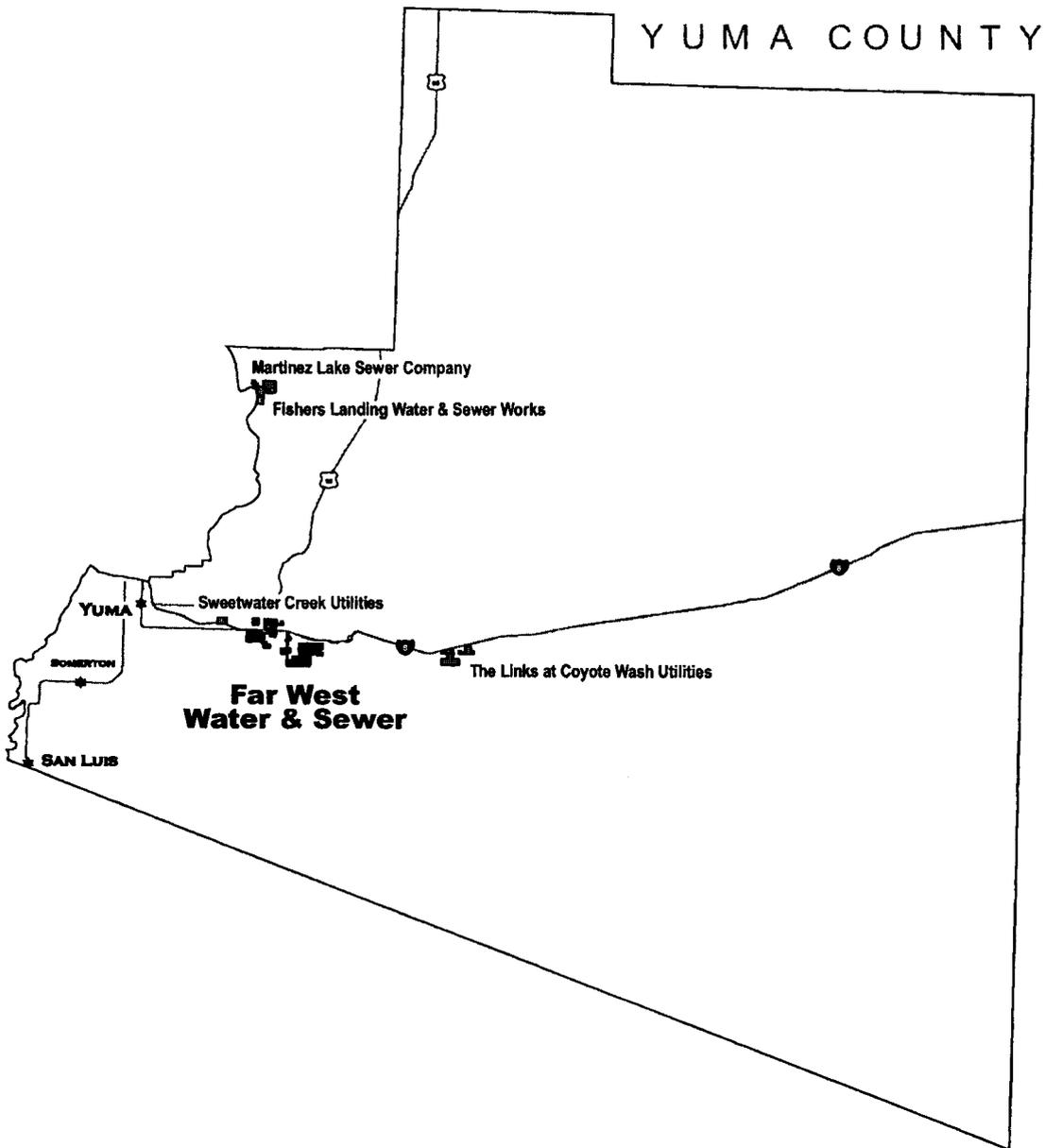


Figure 1. County Map

**FIGURE 1  
COUNTY MAP**

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

# Y U M A C O U N T Y

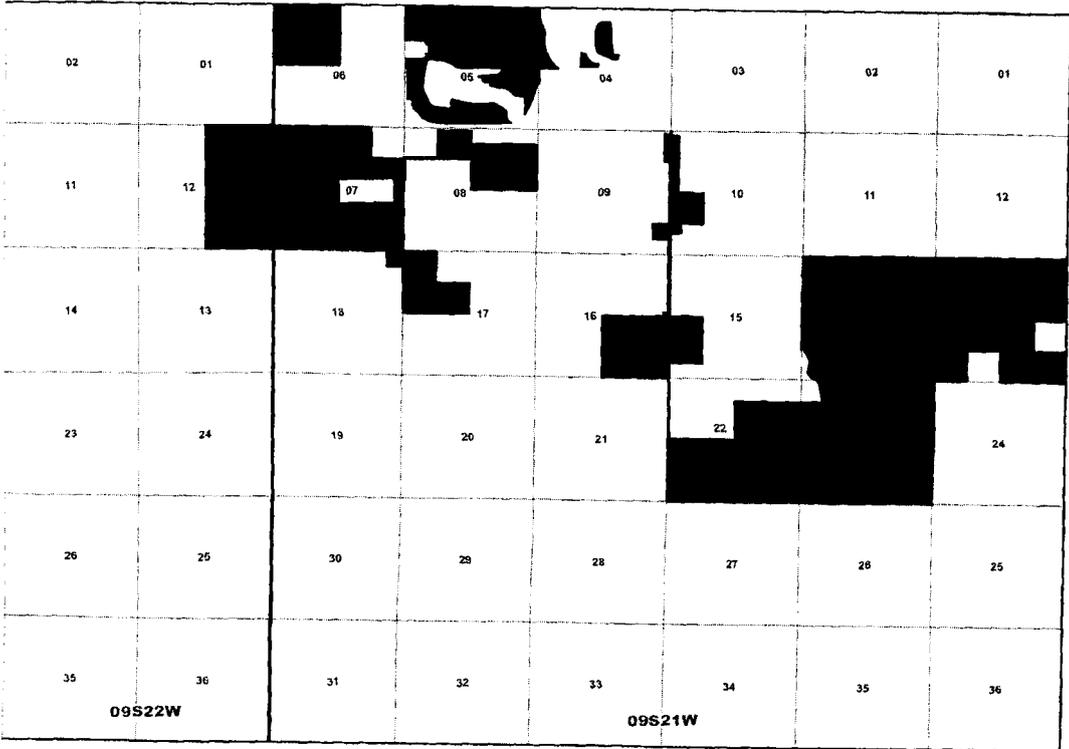


Figure 2. Certificated Area

**Figure 2**  
**CERTIFICATED AREA**

FROM	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	TOTAL
Marwood	9,172	4,593	4,937	4,555	4,187	2,154	3,441	1,771	4,691	1,792	1,252	8,933	72,980
Section 14	2,846	1,469	4,261	3,191	2,189	1,733	1,381	1,841	4,443	13,237	3,132	11,614	36,003
Del Oro	5,637	3,323	5,546	5,172	4,202	4,417	4,710	4,537	4,207	5,916	4,447	5,803	56,746
Del Rey	6,465	4,477	4,811	4,121	4,174	4,331	4,314	4,107	4,270	4,295	1,717	1,641	6,025
Royale	8,131	6,127	6,127	6,112	6,063	6,071	6,067	6,076	6,063	6,062	6,079	6,108	3,156
Seasons	3,177	1,946	2,292	1,823	1,272	1,604	1,397	1,688	1,633	1,781	2,073	1,211	21,517
Palm Shadows	7,997	2,344	7,532	6,093	5,600	4,131	5,001	5,304	5,194	4,600	4,000	6	31,979
TOTAL	38,641	26,211	28,188	23,220	14,008	16,240	15,798	16,121	31,351	23,713	27,236	24,847	

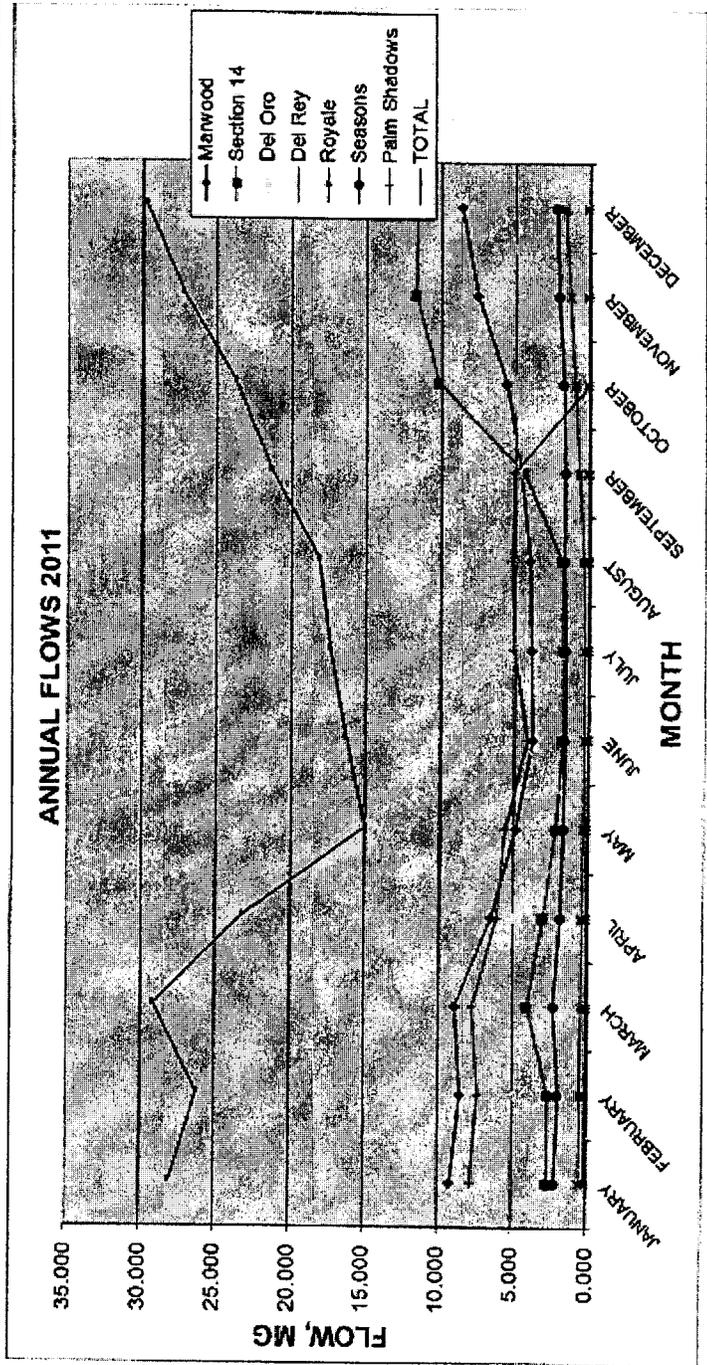


FIGURE 3 WASTEWATER FLOW

FIGURE 3  
 WASTEWATER FLOW



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 9<sup>th</sup>, 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 & 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.\_\_\_\_)

DIRECT  
TESTIMONY  
OF

JOHN A. CASSIDY

PUBLIC UTILITIES ANALYST  
UTILITIES DIVISION  
ARIZONA CORPORATION COMMISSION

FEBRUARY 13, 2013

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

The Direct 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, Inc. (“Company”) for this proceeding consisting of 72.3 percent debt and 27.7 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 8.8 percent for the DCF and 8.5 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 70 basis points.

Cost of Debt – Staff recommends that the Commission adopt a 6.4 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 7.4 percent overall rate of return based on a capital structure composed of 79.55 percent long-term debt, 6.46 percent short-term debt and 13.98 percent equity, and long-term debt cost of 6.9 percent, short-term debt cost of 8.073 percent and cost of equity of 10.0 percent. While Staff’s cost of equity and overall rate of return are the same as the Company’s, different methodologies were used to derive those recommendations. The Company’s cost of equity estimate is based on the average of six recent Commission decisions for water utilities and that method is less useful than Staff’s market based cost of equity methodology.

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. Briefly describe your responsibilities as a Public Utilities Analyst.**

8 A. I am responsible for the examination of financial and statistical information included in  
9 utility rate applications and other financial matters, including studies to estimate the cost  
10 of capital component in rate filings used to determine the overall revenue requirement, and  
11 for preparing written reports, testimonies and schedules to present Staff's  
12 recommendations to the Commission on these matters.

13  
14 **Q. Please describe your educational background and professional experience.**

15 A. I hold a Bachelor of Arts degree in History from Arizona State University, a Master of  
16 Library Science degree from the University of Arizona, and an MBA degree with an  
17 emphasis in Finance from Arizona State University. While pursuing my MBA degree, I  
18 was inducted into Beta Gamma Sigma, the National Business Honor Society. I have  
19 passed the CPA exam, but opted not to pursue certification. I have worked professionally  
20 as a librarian, financial consultant and tax auditor, and, as a former Commission  
21 employee, served as Staff's cost of capital witness in rate case evidentiary proceedings.

22  
23 **Q. What is the scope of your testimony in this case?**

24 A. My testimony provides Staff's recommended capital structure, return on equity ("ROE")  
25 and overall rate of return ("ROR") for establishing the revenue requirements for Far West  
26 ("Far West" or "Company") pending water and wastewater applications.

1 **Q. Please provide a brief description of Far West.**

2 A. Far West is a public service corporation engaged in providing water and wastewater utility  
3 services in certain unincorporated portions of Yuma County, Arizona pursuant to  
4 certificates of convenience and necessity granted by the Arizona Corporation  
5 Commission. During the Test Year, Far West served approximately 7,067 residential  
6 wastewater service connections, 44 commercial wastewater customers and 4 recreational  
7 vehicle parks containing 713 spaces. Far West also served approximately 15,500 metered  
8 water customers in the test year. In this docket, the Company is seeking an increase only  
9 in the rates to be charged its wastewater customers.

10

11 *Summary of Testimony and Recommendations*

12 **Q. Briefly summarize how Staff's Cost of Capital Testimony is organized.**

13 A. Staff's Cost of Capital Testimony is presented in eleven sections. Section I is this  
14 introduction. Section II discusses the concept of weighted average cost of capital  
15 ("WACC"). Section III presents the concept of capital structure and presents Staff's  
16 recommended capital structure for Far West in this proceeding. Section IV presents  
17 Staff's cost of debt for Far West. Section V discusses the concepts of ROE and risk.  
18 Section VI presents the methods employed by Staff to estimate Far West's ROE. Section  
19 VII presents the findings of Staff's ROE analysis. Section VIII presents Staff's final cost  
20 of equity estimates for Far West. Section IX presents Staff's ROR recommendation.  
21 Section X presents Staff's comments on the Direct Testimony of the Company's witness,  
22 Mr. Ray L. Jones. Finally, section XI presents the conclusions.

23

24 **Q. Have you prepared any exhibits to accompany your testimony?**

25 A. Yes. I prepared ten schedules (JAC-1 to JAC-10) that support Staff's cost of capital  
26 analysis.

1 **Q. What is Staff's recommended rate of return for Far West?**

2 A. Staff recommends a 7.4 percent overall ROR, as shown in Schedule JAC-1. Staff's ROR  
3 recommendation is based on cost of equity estimates for the sample companies of 8.8  
4 percent from the discounted cash flow method ("DCF") and 8.5 percent from the capital  
5 asset pricing method ("CAPM"). Staff recommends adoption of a 60 basis point upward  
6 economic assessment adjustment and a 70 basis point upward financial risk adjustment,  
7 resulting in a 7.4 percent overall ROR.  
8

9 *Far West's Proposed Overall Rate of Return*

10 **Q. Briefly summarize Far West's proposed capital structure, cost of debt, ROE and**  
11 **overall ROR for this proceeding.**

12 A. Table 1 summarizes the Company's proposed capital structure, cost of debt, ROE and  
13 overall ROR in this proceeding:  
14

15 **Table 1**

	<b>Weight</b>	<b>Cost</b>	<b>Weighted Cost</b>
Long-term Debt	79.55%	6.90%	5.489%
Short-term Debt	6.46%	8.073%	0.522%
Common Equity	13.98%	10.00%	1.398%
<b>Cost of Capital/ROR</b>			<b>7.409%</b>

16  
17 Far West is proposing an overall rate of return of 7.4 percent.  
18

19 **II. THE WEIGHTED AVERAGE COST OF CAPITAL**

20 **Q. Briefly explain the cost of capital concept.**

21 A. The cost of capital is the opportunity cost of choosing one investment over others with  
22 equivalent risk. In other words, the cost of capital is the return that stakeholders expect

1 for investing their financial resources in a determined business venture over another  
2 business venture.

3  
4 **Q. What is the overall cost of capital?**

5 A. The cost of capital to a company issuing a variety of securities (i.e., stock and  
6 indebtedness) is an average of the cost rates on all issued securities adjusted to reflect the  
7 relative amounts for each security in the company's entire capital structure. Thus, the  
8 overall cost of capital is the WACC.

9  
10 **Q. How is the WACC calculated?**

11 A. The WACC is calculated by adding the weighted expected returns of a firm's securities.  
12 The WACC formula is:

13 Equation 1.

14  
15 
$$\text{WACC} = \sum_{i=1}^n W_i * r_i$$
  
16

17 In this equation,  $W_i$  is the weight given to the  $i^{\text{th}}$  security (the proportion of the  $i^{\text{th}}$  security  
18 relative to the portfolio) and  $r_i$  is the expected return on the  $i^{\text{th}}$  security.

19  
20 **Q. Can you provide an example demonstrating application of Equation 1?**

21 A. Yes. For this example, assume that an entity has a capital structure composed of 60  
22 percent debt and 40 percent equity. Also, assume that the embedded cost of debt is 6.0  
23 percent and the expected return on equity, i.e., the cost of equity, is 10.5 percent.  
24 Calculation of the WACC is as follows:

25 
$$\text{WACC} = (60\% * 6.0\%) + (40\% * 10.5\%)$$

26 
$$\text{WACC} = 3.60\% + 4.20\%$$

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WACC = 7.80%

The weighted average cost of capital in this example is 7.80 percent. The entity in this example would need to earn an overall rate of return of 7.80 percent to cover its cost of capital.

### III. CAPITAL STRUCTURE

#### *Background*

**Q. Please explain the capital structure concept.**

A. The capital structure of a firm is the relative proportions of each type of security--short-term debt, long-term debt (including capital leases), preferred stock and common stock--that are used to finance the firm's assets.

**Q. How is the capital structure expressed?**

A. The capital structure of a company is expressed as the percentage of each component of the capital structure (capital leases, short-term debt, long-term debt, preferred stock and common stock) relative to the entire capital structure.

As an example, the capital structure for an entity that is financed by \$20,000 of short-term debt, \$85,000 of long-term debt (including capital leases), \$15,000 of preferred stock and \$80,000 of common stock is shown in Table 2.

Table 2

Component			%
Short-Term Debt	\$20,000	(\$20,000/\$200,000)	10.0%
Long-Term Debt	\$85,000	(\$85,000/\$200,000)	42.5%
Preferred Stock	\$15,000	(\$15,000/\$200,000)	7.5%
Common Stock	\$80,000	(\$80,000/\$200,000)	40.0%
Total	\$200,000		100%

The capital structure in this example is composed of 10.0 percent short-term debt, 42.5 percent long-term debt, 7.5 percent preferred stock and 40.0 percent common stock.

#### *Far West's Capital Structure*

**Q. What capital structure does Far West propose?**

A. The Company proposes an adjusted test-year end capital structure composed of 79.55 percent long-term debt, 6.46 percent short-term debt and 13.98 percent common equity.

**Q. What adjustments were made by the Company in its proposed adjusted test-year end capital structure?**

A. For purposes of its proposed capital structure, Far West made several adjustments to common equity, the detail of which appears on lines 11-20 of the Company's Schedule D-1. As shown in the equity adjustment detail of Schedule D-1, Far West's beginning equity balance is shown to be \$6,136,135, with the ending adjusted common equity figure proposed by the Company being \$3,748,573.<sup>1</sup>

<sup>1</sup> The adjustments made to the beginning common equity balance shown in Schedule D-1 include adjustments for Plant in Service (negative \$3,229,531), Accumulated Depreciation (\$522,158), CIAC (\$713,313), and accumulated amortization of CIAC (negative \$393,502).

1 **Q. Does the beginning common equity balance of \$6,136,135 presented in Schedule D-1**  
2 **reflect the Company's overall consolidated equity position, inclusive of both Far**  
3 **West's Water and Sewer Divisions?**

4 A. No. The \$6,136,135 beginning common equity figure purportedly represents total  
5 stockholders' equity attributable only to Far West's Sewer Division, and is not reflective  
6 of the Company's overall consolidated equity position.<sup>2</sup>

7  
8 **Q. For purposes of this proceeding, does Staff feel that it is appropriate to utilize equity**  
9 **attributable only to Far West's Sewer Division in the Company's capital structure?**

10 A. No. While it is true that the Company is seeking a rate increase only for its Sewer  
11 Division in this docket, the appropriate common equity balance to be used when setting  
12 rates is the Company's overall consolidated stockholders' equity position, inclusive of  
13 both its Water and Sewer Divisions. As noted in the Company's filing, most of Far  
14 West's wastewater customers are also Far West water customers,<sup>3</sup> which means that  
15 equity capital used to fund the Company's water plant has also been used to fund its  
16 wastewater plant, and vice versa. Thus, as a starting point from which to make  
17 adjustments to the Company's equity, it is appropriate to use Far West's test-year end  
18 consolidated stockholders' equity.

---

<sup>2</sup> Support for this number is found in the Comparative Balance Sheet for the Company's Sewer Division, presented in Schedule E-1, Page 1.

<sup>3</sup> Direct Testimony of Ray L. Jones, p. 3, lines 19-20.

1 **Q. On a consolidated basis, what was Far West's total Stockholders' Equity as of the**  
2 **December 31, 2011 test-year end?**

3 A. As shown in the consolidated Comparative Balance Sheet presented in the Company's  
4 Schedule E-1, Page 3, as of December 31, 2011 Far West had total Stockholders' Equity  
5 of \$7,565,963.<sup>4</sup>

6  
7 **Q. You mentioned earlier that the Company had made equity adjustments to Far**  
8 **West's Sewer Division Stockholders' Equity. Does Staff agree with the equity**  
9 **adjustments made by the Company?**

10 A. In part, yes, but the Company's adjustments to equity require two reversing adjustments.  
11 First, included in the Company's \$3,229,531 Plant in Service adjustment reducing equity  
12 is a \$2,165,201 adjustment relating to costs associated with Section 14, Phase II plant  
13 excluded from rate base.<sup>5</sup> Although Far West's Section 14, Phase II plant is not currently  
14 used and useful, the Company's adjustment to equity (Adjustment 1.7) is unwarranted, as  
15 it effectively serves as a permanent write-off of Far West's investment in that plant.  
16 Accordingly, a reversing adjustment is necessary to increase equity by that \$2,165,201  
17 amount. Second, included in the Company's \$522,158 Accumulated Depreciation  
18 adjustment increasing equity is a \$57,690 adjustment relating to accumulated depreciation  
19 with this same Section 14, Phase II plant excluded from rate base.<sup>6</sup> Because the Section  
20 14, Phase II plant is not currently used and useful, this cost is not recoverable in the future,  
21 thereby rendering the Company's adjustment to equity (Company Adjustment 2.5) to be  
22 inappropriate. Accordingly, a reversing adjustment is necessary to reduce equity by  
23 \$57,690.

---

<sup>4</sup> As presented in Schedule E-1, Page 3, Far West's consolidated Stockholders' Equity is comprised of \$900,000 in Common Stock Issued, \$9,430,633 of Paid in Capital, and Retained Earnings (Accumulated Deficit) of negative \$2,764,670.

<sup>5</sup> See Company Schedule B-2, Page 2, Plant in Service Adjustment 1.7.

<sup>6</sup> See Company Schedule B-2, Page 3, Accumulated Depreciation Adjustment 2.5.

1 **Q. How does Far West's proposed capital structure compare to capital structures of**  
2 **publicly-traded water utilities?**

3 A. Schedule JAC-4 shows the capital structures of six publicly-traded water companies  
4 ("sample water companies" or "sample water utilities") as of December 2011. The  
5 average capital structure for the sample water utilities is comprised of approximately 51.6  
6 percent debt and 48.4 percent equity.

7  
8 *Staff's Capital Structure*

9 **Q. What is Staff's recommended capital structure for Far West?**

10 A. Staff recommends a capital structure composed of 72.3 percent debt and 27.7 percent  
11 equity.

12  
13 **Q. Why does Staff's recommended capital structure differ significantly from that**  
14 **proposed by the Company?**

15 A. As noted earlier, the Company proposed an adjusted test-year end capital structure, with  
16 all adjustments being made to common equity. However, there were problems associated  
17 with the Company's determination of its actual test-year end equity position, and Staff's  
18 recommended capital structure serves to rectify those problems. The common equity  
19 component of Staff's recommended capital is reflective of Far West's consolidated  
20 Stockholders' Equity position as of the December 31, 2011 test year end, inclusive of both  
21 the adjustments to equity made by the Company as well as the necessary reversing  
22 adjustments noted above. Additionally, Staff has converted the Company's \$1,942,448  
23 Zenon / Liberation Capital ("Zenon") long-term debt to paid in capital, resulting in an  
24 increase to the common equity component of Staff's recommended capital structure in that  
25 amount. The details of Staff's adjustments to Far West's common equity are presented in  
26 Schedule JAC-10.

1 **Q. Why did Staff convert the Company's proposed Zenon debt to paid in capital?**

2 A. Staff made this adjustment for several reasons. First, the Zenon debt was never formally  
3 approved by the Commission. Although the Company did file a Request for Declaratory  
4 Ruling with the Commission,<sup>7</sup> seeking either a declaratory ruling that the execution of a  
5 promissory note to secure payment of a preexisting obligation did not require financing  
6 approval, or in the alternative, financing approval of the note, no action was taken in  
7 regard to the Company's filing. Second, the promissory note included with the  
8 Company's filing is dated March 31, 2011, approximately one year prior to the filing of  
9 the Company's application for a declaratory ruling. This suggests that the Company  
10 formally incurred the Zenon obligation prior to seeking authorization for the associated  
11 financing. Lastly, the Company never provided notice to its customers of the debt  
12 obligation incurred. For these reasons, Staff considers the debt to be paid in capital.

13  
14 **Q. Does Staff's recommended capital structure include the short-term debt included in**  
15 **the Company's proposed capital structure?**

16 A. No, it does not. Staff has provisionally excluded short-term debt from its recommended  
17 capital structure, pending additional discovery. Staff regrets the need to do so, but will  
18 send out data requests to the Company relating to the issue of short-term debt in order to  
19 address the issue in Surrebuttal testimony.

---

<sup>7</sup> Docket No. WS-03478A-12-0085, filed March 5, 2012.

1 **IV. COST OF DEBT**

2 **Q. What is the overall cost of debt proposed by the Company?**

3 A. As shown in Schedule D-2, the Company proposes an overall weighted cost of debt of  
4 6.988 percent. This weighted cost of debt includes the Company's proposed long-term  
5 debt, having a cost of 6.90 percent, and the Company's proposed short-term debt, having a  
6 cost of 8.073 percent. As noted, Staff has questions concerning Far West's short-term  
7 debt, and will address the issue in Surrebuttal pending additional discovery.

8  
9 **V. RETURN ON EQUITY**

10 *Background*

11 **Q. Please define the term "cost of equity capital."**

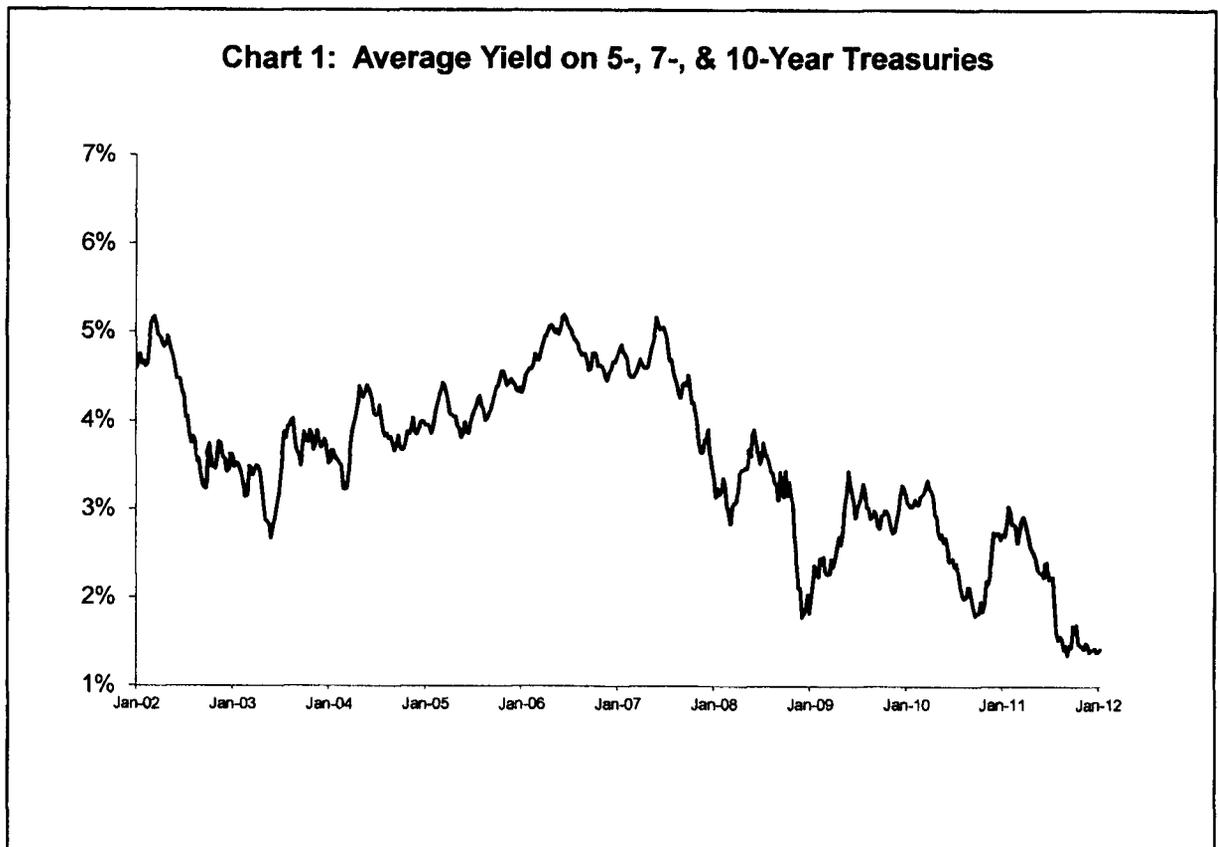
12 A. The cost of equity is the rate of return that investors expect to earn on their investment in a  
13 business entity given its risk. In other words, the cost of equity to the entity is the  
14 investors' expected rate of return on other investments of similar risk. As investors have a  
15 wide selection of stocks to choose from, they will choose stocks with similar risks but  
16 higher returns. Therefore, the market determines the entity's cost of equity.

17  
18 **Q. Is there a correlation between interest rates and the cost of equity?**

19 A. Yes, there is a positive correlation between interest rates and the cost of equity, as the two  
20 tend to move in the same direction. This relationship is reflected in the CAPM formula.  
21 The CAPM is a market-based model employed by Staff for estimating the cost of equity.  
22 The CAPM is further discussed in Section VI of this testimony.

1 **Q. What has been the general trend of interest rates in recent years?**

2 A. A chronological chart of interest rates is a good tool to show interest rate history and  
3 identify trends. Chart 1 graphs intermediate U.S. treasury rates from January 18, 2002, to  
4 January 27, 2012.



20 Chart 1 shows that intermediate-term interest rates trended downward from 2002 to mid-  
21 2003, trended upward through early-2008, trended downward through early-2009, trended  
22 upward through mid-2010, trended downward through late 2010, trended upward to mid-  
23 2011, and are currently trending down from the existing, relatively low rates.

1 **Q. What has been the general trend in interest rates longer term?**

2 A. U.S. Treasury rates from December 1961 - December 2011 are shown in Chart 2. The  
3 chart shows that interest rates trended upward through the mid-1980s and have trended  
4 downward over the last 25 years.



18 Source: Federal Reserve

19  
20 **Q. Do these trends suggest anything in terms of cost of equity?**

21 A. Yes. As previously noted, interest rates and cost of equity tend to move in the same  
22 direction; therefore, the cost of equity has declined in the past 25 years.

23  
24 **Q. Do actual returns represent the cost of equity?**

25 A. No. The cost of equity represents investors' *expected* returns and not realized returns.

1 **Q. Is there any information available that leads to an understanding of the relationship**  
2 **between the equity returns required for a regulated water utility and those required**  
3 **in the market as a whole?**

4 A. Yes. A comparison of betas, a component of the CAPM discussed in Section VI, for the  
5 water utility industry and the market, provide insight into this relationship. In theory, the  
6 market has a beta value of 1.0, with stocks bearing greater risk (less risk) than the market  
7 having beta values higher than (lower than) 1.0, respectively. Furthermore, in accordance  
8 with the CAPM, the cost of equity capital moves in the same direction as beta. Therefore,  
9 because the average beta value (0.71)<sup>8</sup> for a water utility is less than 1.0, the required  
10 return on equity for a regulated water utility is below that of the market as a whole.

11  
12 *Risk*

13 **Q. Please define risk in relation to cost of capital.**

14 A. Risk, as it relates to an investment, is the variability or uncertainty of the returns on a  
15 particular security. Investors are risk averse and require a greater potential return to invest  
16 in relatively greater risk opportunities, i.e., investors require compensation for taking on  
17 additional risk. Risk is generally separated into two components. Those components are  
18 market risk (systematic risk) and non-market risk (diversifiable risk or firm-specific risk).

19  
20 **Q. What is market risk?**

21 A. Market risk or systematic risk is the risk of an investment that cannot be reduced through  
22 diversification. Market risk stems from factors that affect all securities, such as  
23 recessions, war, inflation and high interest rates. Since these factors affect the entire  
24 market they cannot be eliminated through diversification. Market risk does not impact  
25 each security to the same degree. The degree to which a given security's return is affected

---

<sup>8</sup> See Schedule JAC-7.

1 by market fluctuations can be measured using Beta. Beta reflects the business risk and the  
2 financial risk of a security.

3  
4 **Q. Please define business risk.**

5 A. Business risk is the fluctuation of earnings inherent in a firm's operations and  
6 environment, such as competition and adverse economic conditions that may impair its  
7 ability to provide returns on investment. Companies in the same or similar line of  
8 business tend to experience the same fluctuations in business cycles.

9  
10 **Q. Please define financial risk.**

11 A. Financial risk is the fluctuation of earnings, inherent in the use of debt financing, that may  
12 impair a firm's ability to provide adequate return; the higher the percentage of debt in a  
13 company's capital structure, the greater its exposure to financial risk.

14  
15 **Q. Do business risk and financial risk affect the cost of equity?**

16 A. Yes.

17  
18 **Q. Is a firm subject to any other risk?**

19 A. Yes. Firms are also subject to unsystematic or firm-specific risk. Examples of  
20 unsystematic risk include losses caused by labor problems, nationalization of assets, loss  
21 of a big client or weather conditions. Investors can eliminate firm-specific risk by holding  
22 a diverse portfolio; thus, it is not of concern to diversified investors.

1 **Q. How does Far West's financial risk exposure compare to that of Staff's sample group**  
2 **of water companies?**

3 A. JAC-4 shows the capital structures of the six sample water companies as of December 31,  
4 2011, and Far West's adjusted capital structure as of that same test-year end date. As  
5 shown, the sample water utilities were capitalized with approximately 51.6 percent debt  
6 and 48.4 percent equity, while Far West's capital structure consists of 72.3 percent debt  
7 and 27.7 percent equity. Thus, relative to Staff's sample group of companies, Far West's  
8 capital structure is more highly leveraged than the average sample water utility;  
9 accordingly, it has greater exposure to financial risk.

10

11 **Q. Is firm-specific risk measured by beta?**

12 A. No. Firm-specific risk is not measured by beta.

13

14 **Q. Is the cost of equity affected by firm-specific risk?**

15 A. No. Since firm-specific risk can be eliminated through diversification, it does not affect  
16 the cost of equity.

17

18 **Q. Can investors expect additional returns for firm-specific risk?**

19 A. No. Investors who hold diversified portfolios can eliminate firm-specific risk and,  
20 consequently, do not require any additional return. Since investors who choose to be less  
21 than fully-diversified must compete in the market with fully-diversified investors, the  
22 former cannot expect to be compensated for unique risk.

1 **VI. ESTIMATING THE COST OF EQUITY**

2 *Introduction*

3 **Q. Did Staff directly estimate the cost of equity for Far West?**

4 A. No. Since Far West is not a publicly-traded company, Staff is unable to directly estimate  
5 its cost of equity due to the lack of firm-specific market data. Instead, Staff estimated the  
6 Company's cost of equity indirectly, using a representative sample group of publicly  
7 traded water utilities as a proxy, taking the average of the sample group to reduce the  
8 sample error resulting from random fluctuations in the market at the time the information  
9 is gathered.

10  
11 **Q. What companies did Staff select as proxies or comparables for Far West?**

12 A. Staff's sample consists of the following six publicly-traded water utilities: American  
13 States Water, California Water, Connecticut Water Services, Middlesex Water, Aqua  
14 America and SJW Corp. Staff chose these companies because they are publicly-traded  
15 and receive the majority of their earnings from regulated operations.

16  
17 **Q. What models did Staff implement to estimate Far West's cost of equity?**

18 A. Staff used two market-based models to estimate the cost of equity for Far West: the DCF  
19 model and the CAPM.

20  
21 **Q. Please explain why Staff chose the DCF and CAPM models.**

22 A. Staff chose to use the DCF and CAPM models because they are widely-recognized  
23 market-based models and have been used extensively to estimate the cost of equity. An  
24 explanation of the DCF and CAPM models follows.

1 *Discounted Cash Flow Model Analysis*

2 **Q. Please provide a brief summary of the theory upon which the DCF method of**  
3 **estimating the cost of equity is based.**

4 A. The DCF method of stock valuation is based on the theory that the value of an investment  
5 is equal to the sum of the future cash flows generated from the aforementioned investment  
6 discounted to the present time. This method uses expected dividends, market price and  
7 dividend growth rate to calculate the cost of capital. Professor Myron Gordon pioneered  
8 the DCF method in the 1960s. The DCF method has become widely used to estimate the  
9 cost of equity for public utilities due to its theoretical merit and its simplicity. Staff used  
10 the financial information for the relevant six sample companies in the DCF model and  
11 averaged the results to determine an estimated cost of equity for the sample companies.

12  
13 **Q. Does Staff use more than one version of the DCF?**

14 A. Yes. Staff uses two versions of the DCF model: the constant-growth DCF and the multi-  
15 stage or non-constant growth DCF. The constant-growth DCF assumes that an entity's  
16 dividends will grow indefinitely at the same rate. The multi-stage growth DCF model  
17 assumes the dividend growth rate will change at some point in the future.

18  
19 *The Constant-Growth DCF*

20 **Q. What is the mathematical formula used in Staff's constant-growth DCF analysis?**

21 A. The constant-growth DCF formula used in Staff's analysis is:  
22

Equation 2 :

$$K = \frac{D_1}{P_0} + g$$

where :      $K$     = the cost of equity  
               $D_1$    = the expected annual dividend  
               $P_0$    = the current stock price  
               $g$      = the expected infinite annual growth rate of dividends

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Equation 2 assumes that the entity has a constant earnings retention rate and that its earnings are expected to grow at a constant rate. According to Equation 2, a stock with a current market price of \$10 per share, an expected annual dividend of \$0.45 per share and an expected dividend growth rate of 3.0 percent per year has a cost of equity to the entity of 7.5 percent reflected by the sum of the dividend yield ( $\$0.45 / \$10 = 4.5$  percent) and the 3.0 percent annual dividend growth rate.

**Q. How did Staff calculate the expected dividend yield ( $D_1/P_0$ ) component of the constant-growth DCF formula?**

A. Staff calculated the expected yield component of the DCF formula by dividing the expected annual dividend ( $D_1$ ) by the spot stock price ( $P_0$ ) after the close of market on December 26, 2012, as reported by *MSN Money*.

**Q. Why did Staff use the December 26, 2012, spot price rather than a historical average stock price to calculate the dividend yield component of the DCF formula?**

A. The current, rather than historic, market price is used in order to be consistent with financial theory. In accordance with the Efficient Market Hypothesis, the current stock price is reflective of all available information on a stock, and as such reveals investors' expectations of future returns. Use of historical average stock prices illogically discounts

1 the most recent information in favor of less recent information. The latter is stale and is  
2 representative of underlying conditions that may have changed.

3  
4 **Q. How did Staff estimate the dividend growth (g) component of the constant-growth**  
5 **DCF model represented by Equation 2?**

6 A. The dividend growth component used by Staff is determined by the average of six  
7 different estimation methods, as shown in Schedule JAC-8. Staff calculated historical and  
8 projected growth estimates on dividend-per-share ("DPS"),<sup>9</sup> earnings-per-share ("EPS")<sup>10</sup>  
9 and sustainable growth bases.

10  
11 **Q. Why did Staff examine EPS growth to estimate the dividend growth component of**  
12 **the constant-growth DCF model?**

13 A. Historic and projected EPS growth are used because dividends are related to earnings.  
14 Dividend distributions may exceed earnings in the short run, but cannot continue  
15 indefinitely. In the long term, dividend distributions are dependent on earnings.

16  
17 **Q. How did Staff estimate historical DPS growth?**

18 A. Staff estimated historical DPS growth by calculating a compound annual DPS growth rate  
19 for each of its sample companies over the 10-year period, 2003-2012.<sup>11</sup> As shown in  
20 Schedule JAC-5, the average historical DPS growth rate for the sample was 3.4 percent.

21  

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<sup>9</sup> Derived from information provided by *Value Line*.

<sup>10</sup> Derived from information provided by *Value Line*.

<sup>11</sup> Staff updated its 10-year historical dividend growth calculation to cover the period, 2003-2012, as the annual dividend paid by each sample company in 2012 is known and measureable.

1 **Q. How did Staff estimate projected DPS growth?**

2 A. Staff calculated an average of the projected DPS growth rates for the sample water utilities  
3 from *Value Line* through the period, 2015-2017. The average projected DPS growth rate  
4 is 3.8 percent, as shown in Schedule JAC-5.

5  
6 **Q. How did Staff estimate historical EPS growth rate?**

7 Staff estimated historical EPS growth by calculating a compound annual EPS growth rate  
8 for each of its sample companies over the 10-year period, 2002-2011.<sup>12</sup> As shown in  
9 Schedule JAC-5, the average historical EPS growth rate for the sample was 4.2 percent.

10

11 **Q. How did Staff estimate projected EPS growth?**

12 A. Staff calculated an average of the projected EPS growth rates for the sample water utilities  
13 from *Value Line* through the period, 2015-2017. The average projected EPS growth rate  
14 is 6.2 percent, as shown in Schedule JAC-5.

15

16 **Q. How does Staff calculate its historical and projected sustainable growth rates?**

17 A. Historical and projected sustainable growth rates are calculated by adding their respective  
18 retention growth rate terms (br) to their respective stock financing growth rate terms (vs),  
19 as shown in Schedule JAC-6.

20

21 **Q. What is retention growth?**

22 A. Retention growth is the growth in dividends due to the retention of earnings. The  
23 retention growth concept is based on the theory that dividend growth cannot be achieved  
24 unless the company retains and reinvests some of its earnings. The retention growth is  
25 used in Staff's calculation of sustainable growth shown in Schedule JAC-6.

---

<sup>12</sup> The 10-year historical EPS growth calculation covers the period, 2002-2011, as the 2012 annual EPS number for each sample company has yet to be announced.

1 **Q. What is the formula for the retention growth rate?**

2 A. The retention growth rate is the product of the retention ratio and the book/accounting  
3 return on equity. The retention growth rate formula is:

4

Equation 3 :

$$\text{Retention Growth Rate} = br$$

where :  $b$  = the retention ratio (1 – dividend payout ratio)  
 $r$  = the accounting/book return on common equity

5

6 **Q. How did Staff calculate the average historical retention growth rate (br) for the**  
7 **sample water utilities?**

8 A. Staff calculated the mean of the 10-year average historical retention rate for each sample  
9 company over the period, 2002-2011. As shown in Schedule JAC-6, the historical  
10 average retention (br) growth rate for the sample is 2.9 percent.

11

12 **Q. How did Staff estimate its projected retention growth rate (br) for the sample water**  
13 **utilities?**

14 A. Staff used the retention growth projections for the sample water utilities for the period,  
15 2015-2017, from *Value Line*. As shown in Schedule JAC-6, the projected average  
16 retention growth rate for the sample companies is 4.3 percent.

17

18 **Q. When can retention growth provide a reasonable estimate of future dividend**  
19 **growth?**

20 A. The retention growth rate is a reasonable estimate of future dividend growth when the  
21 retention ratio is reasonably constant and the entity's market price to book value ("market-  
22 to-book ratio") is expected to be 1.0. The average retention ratio has been reasonably

1 constant in recent years. However, the market-to-book ratio for the sample water utilities  
2 is 2.0, notably higher than 1.0, as shown in Schedule JAC-7.  
3

4 **Q. Is there any financial implication of a market-to-book ratio greater than 1.0?**

5 A. Yes. A market-to-book ratio greater than 1.0 implies that investors expect an entity to  
6 earn an accounting/book return on its equity that exceeds its cost of equity. The  
7 relationship between required returns and expected cash flows is readily observed in the  
8 fixed securities market. For example, assume an entity contemplating issuance of bonds  
9 with a face value of \$10 million at either 6 percent or 8 percent and, thus, paying annual  
10 interest of \$600,000 or \$800,000, respectively. Regardless of investors' required return on  
11 similar bonds, investors will be willing to pay more for the bonds if issued at 8 percent  
12 than if the bonds are issued at 6 percent. For example, if the current interest rate required  
13 by investors is 6 percent, then they would bid \$10 million for the 6 percent bonds and  
14 more than \$10 million for the 8 percent bonds. Similarly, if equity investors require a 9  
15 percent return and expect an entity to earn accounting/book returns of 13 percent, the  
16 market will bid up the price of the entity's stock to provide the required return of 9  
17 percent.  
18

19 **Q. How has Staff generally recognized a market-to-book ratio exceeding 1.0 in its cost of  
20 equity analyses in recent years?**

21 A. Staff has assumed that investors expect the market-to-book ratio to remain greater than  
22 1.0. Given that assumption, Staff has added a stock financing growth rate (vs) term to the  
23 retention ratio (br) term to calculate its historical and projected sustainable growth rates.  
24

1 **Q. Do the historical and projected sustainable growth rates Staff uses to develop its**  
2 **DCF cost of equity in this case continue to include a stock financing growth rate**  
3 **term?**

4 A. Yes.

5  
6 **Q. What is stock financing growth?**

7 A. Stock financing growth is the growth in an entity's dividends due to the sale of stock by  
8 that entity. Stock financing growth is a concept derived by Myron Gordon and discussed  
9 in his book *The Cost of Capital to a Public Utility*.<sup>13</sup> Stock financing growth is the  
10 product of the fraction of the funds raised from the sale of stock that accrues to existing  
11 shareholders (v) and the fraction resulting from dividing the funds raised from the sale of  
12 stock by the existing common equity (s).

13  
14 **Q. What is the mathematical formula for the stock financing growth rate?**

15 A. The mathematical formula for stock financing growth is:

16  
17 Equation 4:

$$\text{Stock Financing Growth} = vs$$

where:  $v$  = Fraction of the funds raised from the sale of stock that accrues  
to existing shareholders  
 $s$  = Funds raised from the sale of stock as a fraction of the existing  
common equity

---

<sup>13</sup> Gordon, Myron J. *The Cost of Capital to a Public Utility*. MSU Public Utilities Studies, Michigan, 1974. pp 31-35.

1 **Q. How is the variable  $v$  presented above calculated?**

2 A. Variable  $v$  is calculated as follows:

Equation 5:

$$v = 1 - \left( \frac{\text{book value}}{\text{market value}} \right)$$

3

4 For example, assume that a share of stock has a \$30 book value and is selling for \$45.

5 Then, to find the value of  $v$ , the formula is applied:

$$v = 1 - \left( \frac{30}{45} \right)$$

6

In this example,  $v$  is equal to 0.33.

7

8 **Q. How is the variable  $s$  presented above calculated?**

9 A. Variable  $s$  is calculated as follows:

10

Equation 6:

11

$$s = \frac{\text{Funds raised from the issuance of stock}}{\text{Total existing common equity before the issuance}}$$

12

13

14

For example, assume that an entity has \$150 in existing equity, and it sells \$30 of stock.

15

Then, to find the value of  $s$ , the formula is applied:

$$s = \left( \frac{30}{150} \right)$$

16

In this example,  $s$  is equal to 20.0 percent.

1 **Q. What is the  $vs$  term when the market-to-book ratio is equal to 1.0?**

2 A. A market-to-book ratio of 1.0 reflects that investors expect an entity to earn a  
3 book/accounting return on their equity investment equal to the cost of equity. When the  
4 market-to-book ratio is equal to 1.0, none of the funds raised from the sale of stock by the  
5 entity accrues to the benefit of existing shareholders, i.e., the term  $v$  is equal to zero (0.0).  
6 Consequently, the  $vs$  term is also equal to zero (0.0). When stock financing growth is  
7 zero, dividend growth depends solely on the  $br$  term.

8  
9 **Q. What is the effect of the  $vs$  term when the market-to-book ratio is greater than 1.0?**

10 A. A market-to-book ratio greater than 1.0 reflects that investors expect an entity to earn a  
11 book/accounting return on their equity investment greater than the cost of equity.  
12 Equation 5 shows that, when the market-to-book ratio is greater than 1.0, the  $v$  term is also  
13 greater than zero. The excess by which new shares are issued and sold over book value  
14 per share of outstanding stock is a contribution that accrues to existing stockholders in the  
15 form of a higher book value. The resulting higher book value leads to higher expected  
16 earnings and dividends. Continued growth from the  $vs$  term is dependent upon the  
17 continued issuance and sale of additional shares at a price that exceeds book value per  
18 share.

19

1 **Q. What *vs* estimate did Staff calculate from its analysis of the sample water utilities?**

2 A. Staff estimated an average stock financing growth of 1.9 percent for the sample water  
3 utilities, as shown in Schedule JAC-6.

4

5 **Q. What would occur if an entity had a market-to-book ratio greater than 1.0 as a result  
6 of investors expecting earnings to exceed its cost of equity, and subsequently  
7 experienced newly-authorized rates equal only to its cost of equity?**

8 A. *Ceteris paribus*, holding all other factors constant, one would expect market forces to  
9 move the company's stock price lower, closer to a market-to-book ratio of 1.0, to reflect  
10 investor expectations of reduced expected future cash flows.

11

12 **Q. If the average market-to-book ratio of Staff's sample water utilities were to fall to 1.0  
13 due to authorized ROEs equaling their cost of equity, would inclusion of the *vs* term  
14 be necessary to Staff's constant-growth DCF analysis?**

15 A. No. As discussed above, when the market-to-book ratio is equal to 1.0, none of the funds  
16 raised from the sale of stock by the entity accrues to the benefit of existing shareholders  
17 because the *v* term equals to zero and, consequently, the *vs* term also equals zero. When  
18 the market-to-book ratio equals 1.0, dividend growth depends solely on the *br* term.  
19 Staff's inclusion of the *vs* term assumes that the market-to-book ratio continues to exceed  
20 1.0 and that the water utilities will continue to issue and sell stock at prices above book  
21 value with the effect of benefitting existing shareholders.

22

23 **Q. What are Staff's historical and projected sustainable growth rates?**

24 A. Staff's estimated historical sustainable growth rate is 4.8 percent based on an analysis of  
25 earnings retention for the sample water companies. Staff's projected sustainable growth

1 rate is 6.4 percent based on retention growth projected by *Value Line*. Schedule JAC-6  
2 presents Staff's estimates of the sustainable growth rate.

3  
4 **Q. What is Staff's expected infinite annual growth rate in dividends?**

5 A. Staff's expected dividend growth rate (g) is 4.8 percent, which is the average of historical  
6 and projected DPS, EPS, and sustainable growth estimates. Staff's calculation of the  
7 expected infinite annual growth rate in dividends is shown in Schedule JAC-8.

8  
9 **Q. What is Staff's constant-growth DCF estimate for the sample utilities?**

10 A. Staff's constant-growth DCF estimate is 8.0 percent, as shown in Schedule JAC-3.

11  
12 *The Multi-Stage DCF*

13 **Q. Why did Staff implement the multi-stage DCF model to estimate Far West's cost of**  
14 **equity?**

15 A. Staff generally uses the multi-stage DCF model to consider the assumption that dividends  
16 may not grow at a constant rate. The multi-stage DCF uses two stages of growth, the first  
17 stage (near-term) having a four-year duration, followed by the second stage (long-term) of  
18 constant growth.

19

1 Q. What is the mathematical formula for the multi-stage DCF?

2 A. The multi-stage DCF formula is shown in the following equation:  
3

Equation 7 :

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

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

4

5 Q. What steps did Staff take to implement its multi-stage DCF cost of equity model?

6 A. First, Staff projected future dividends for each of the sample water utilities using near-  
7 term and long-term growth rates. Second, Staff calculated the rate (cost of equity) which  
8 equates the present value of the forecasted dividends to the current stock price for each of  
9 the sample water utilities. Lastly, Staff calculated an overall sample average cost of  
10 equity estimate.

11

12 Q. How did Staff calculate near-term (stage-1) growth?

13 A. The stage-1 growth rate is based on *Value Lines*'s projected dividends for the next twelve  
14 months, when available, and on the average dividend growth (g) rate of 4.8 percent,  
15 calculated in Staff's constant DCF analysis for the remainder of the stage.

1 **Q. How did Staff estimate long-term (stage-2) growth?**

2 A. Staff calculated the stage-2 growth rate using the arithmetic mean rate of growth in Gross  
3 Domestic Product ("GDP") from 1929 to 2011.<sup>14</sup> Using the GDP growth rate assumes  
4 that the water utility industry is expected to grow at the same rate as the overall economy.

5  
6 **Q. What is the historical GDP growth rate that Staff used to estimate stage-2 growth?**

7 A. Staff used 6.5 percent to estimate the stage-2 growth rate.  
8

9 **Q. What is Staff's multi-stage DCF estimate for the sample utilities?**

10 A. Staff's multi-stage DCF estimate is 9.6 percent, as shown in Schedule JAC-3.  
11

12 **Q. What is Staff's overall DCF estimate for the sample utilities?**

13 A. Staff's overall DCF estimate is 8.8 percent. Staff calculated the overall DCF estimate by  
14 averaging the constant growth DCF (8.0%) and multi-stage DCF (9.6%) estimates, as  
15 shown in Schedule JAC-3.  
16

17 *Capital Asset Pricing Model*

18 **Q. Please describe the CAPM.**

19 A. The CAPM is used to determine the prices of securities in a competitive market. The  
20 CAPM model describes the relationship between a security's investment risk and its  
21 market rate of return. Under the CAPM, an investor requires the expected return of a  
22 security to equal the rate on a risk-free security plus a risk premium. If the investor's  
23 expected return does not meet or beat the required return, the investment is not  
24 economically justified. The model also assumes that investors will sufficiently diversify

---

<sup>14</sup> [www.bea.doc.gov](http://www.bea.doc.gov).

1 their investments to eliminate any non-systematic or unique risk.<sup>15</sup> In 1990, Professors  
2 Harry Markowitz, William Sharpe, and Merton Miller earned the Nobel Prize in  
3 Economic Sciences for their contribution to the development of the CAPM.

4  
5 **Q. Did Staff use the same sample water utilities in its CAPM and DCF cost of equity**  
6 **estimation analyses?**

7 A. Yes. Staff's CAPM cost of equity estimation analysis uses the same sample water  
8 companies as its DCF cost of equity estimation analysis.

9  
10 **Q. What is the mathematical formula for the CAPM?**

11 A. The mathematical formula for the CAPM is:

12

Equation 8:

$$K = R_f + \beta (R_m - R_f)$$

where:  $R_f$  = risk free rate  
 $R_m$  = return on market  
 $\beta$  = beta  
 $R_m - R_f$  = market risk premium  
 $K$  = expected return

13

14 The equation shows that the expected return (K) on a risky asset is equal to the risk-free  
15 interest rate ( $R_f$ ) plus the product of the market risk premium ( $R_m - R_f$ ) multiplied by beta  
16 ( $\beta$ ) where beta represents the riskiness of the investment relative to the market.

17

---

<sup>15</sup> The CAPM makes the following assumptions: 1) single holding period; 2) perfect and competitive securities market; 3) no transaction costs; 4) no restrictions on short selling or borrowing; 5) the existence of a risk-free rate; and 6) homogeneous expectations.

1 **Q. What is the risk-free rate?**

2 A. The risk-free rate is the rate of return of an investment free of default risk.  
3

4 **Q. What does Staff use as surrogates to represent estimations of the risk-free rates of  
5 interest in its historical and current market risk premium CAPM methods?**

6 A. Staff uses separate parameters as surrogates for the estimations of the risk-free rates of  
7 interest for the historical market risk premium CAPM cost of equity estimation and the  
8 current market risk premium CAPM cost of equity estimation. Staff uses the average of  
9 three (5-, 7-, and 10-year) intermediate-term U.S. Treasury securities' spot rates in its  
10 historical market risk premium CAPM cost of equity estimation, and the 30-year U.S.  
11 Treasury bond spot rate in its current market risk premium CAPM cost of equity  
12 estimation. Rates on U.S. Treasuries are largely verifiable and readily available.  
13

14 **Q. What does beta measure?**

15 A. Beta is a measure of a security's price volatility, or systematic risk, relative to the market  
16 as a whole. Since systematic risk cannot be diversified away, it is the only risk that is  
17 relevant when estimating a security's required return. Using a baseline market beta  
18 coefficient of 1.0, a security having a beta value less than 1.0 will be less volatile (i.e., less  
19 risky) than the market. A security with a beta value greater than 1.0 will be more volatile  
20 (i.e., more risky) than the market.  
21

22 **Q. How did Staff estimate Far West's beta?**

23 A. Staff used the average of the *Value Line* betas for the sample water utilities as a proxy for  
24 the Company's beta. Schedule JAC-7 shows the *Value Line* betas for each of the sample  
25 water utilities. The 0.71 average beta coefficient for the sample water utilities is Staff's

1 estimated beta value for Far West. A security with a beta value of 0.71 has less volatility  
2 than the market.

3  
4 **Q. What is the market risk premium ( $R_m - R_f$ )?**

5 **A.** The market risk premium is the expected return on the market, minus the risk-free rate.  
6 Simplified, it is the return an investor expects as compensation for market risk.

7  
8 **Q. What did Staff use for the market risk premium?**

9 **A.** Staff uses separate calculations for the market risk premium in its historical and current  
10 market risk premium CAPM methods.

11  
12 **Q. How did Staff calculate an estimate for the market risk premium in its historical  
13 market risk premium CAPM method?**

14 **A.** Staff uses the intermediate-term government bond income returns published in the  
15 Ibbotson Associates' *Stocks, Bonds, Bills, and Inflation 2012 Yearbook* to calculate the  
16 historical market risk premium. Ibbotson Associates calculates the historical risk  
17 premium by averaging the historical arithmetic differences between the S&P 500 and the  
18 intermediate-term government bond income returns for the period 1926-2011. Staff's  
19 historical market risk premium estimate is 7.1 percent, as shown in Schedule JAC-3.

20  
21 **Q. How did Staff calculate an estimate for the market risk premium in its current  
22 market risk premium CAPM method?**

23 **A.** Staff solves equation 8 above to arrive at a market risk premium using a DCF-derived  
24 expected return (K) of 13.88 ( $2.3 + 11.58^{16}$ ) percent using the expected dividend yield (2.3  
25 percent over the next twelve months) and the annual per share growth rate (11.58 percent)

---

<sup>16</sup> The three to five year price appreciation is 55%.  $1.55^{0.25} - 1 = 11.58\%$ .

1 that *Value Line* projects for all dividend-paying stocks under its review<sup>17</sup> along with the  
2 current long-term risk-free rate (30-year Treasury note at 2.94 percent) and the market's  
3 average beta of 1.0. Staff calculated the current market risk premium as 10.94 percent,<sup>18</sup>  
4 as shown in Schedule JAC-3.

5  
6 **Q. What is the result of Staff's historical market risk premium CAPM and current**  
7 **market risk premium CAPM cost of equity estimations for the sample utilities?**

8 A. Staff's cost of equity estimates are 6.3 percent using the historical market risk premium  
9 CAPM and 10.7 percent using the current market risk premium CAPM.

10  
11 **Q. What is Staff's overall CAPM estimate for the sample utilities?**

12 A. Staff's overall CAPM cost of equity estimate is 8.5 percent which is the average of the  
13 historical market risk premium CAPM (6.3 percent) and the current market risk premium  
14 CAPM (10.7 percent) estimates, as shown in Schedule JAC-3.

15  
16 **VII. SUMMARY OF STAFF'S COST OF EQUITY ANALYSIS**

17 **Q. What is the result of Staff's constant-growth DCF analysis to estimate the cost of**  
18 **equity for the sample water utilities?**

19 A. Schedule JAC-3 shows the result of Staff's constant-growth DCF analysis. The result of  
20 Staff's constant-growth DCF analysis is as follows:

21  
22 
$$k = 3.2\% + 4.8\%$$

23  
24 
$$k = 8.0\%$$

25  

---

<sup>17</sup> December 28, 2012 issue date.

<sup>18</sup> 13.88% = 2.94% + (1) (10.94%).

1 Staff's constant-growth DCF estimate of the cost of equity for the sample water utilities is  
2 8.0 percent.

3  
4 **Q. What is the result of Staff's multi-stage DCF analysis to estimate of the cost of equity**  
5 **for the sample utilities?**

6 A. Schedule JAC-9 shows the result of Staff's multi-stage DCF analysis. The result of  
7 Staff's multi-stage DCF analysis is:

8	<b>Company</b>	<b>Equity Cost</b>
9		<b>Estimate (k)</b>
10		
11	American States Water	9.1%
12	California Water	10.0%
13	Aqua America	9.2%
14	Connecticut Water	9.7%
15	Middlesex Water	10.3%
16	SJW Corp	<u>9.2%</u>
17		
18	<b>Average</b>	<b>9.6%</b>

19  
20 Staff's multi-stage DCF estimate of the cost of equity for the sample water utilities is 9.6  
21 percent.

22  
23 **Q. What is Staff's overall DCF estimate of the cost of equity for the sample utilities?**

24 A. Staff's overall DCF estimate of the cost of equity for the sample utilities is 8.8 percent.  
25 Staff calculated an overall DCF cost of equity estimate by averaging Staff's constant  
26 growth DCF (8.0 percent) and Staff's multi-stage DCF (9.6 percent) estimates, as shown  
27 in Schedule JAC-3.

28

1 **Q. What is the result of Staff's historical market risk premium CAPM analysis to**  
2 **estimate of the cost of equity for the sample utilities?**

3 A. Schedule JAC-3 shows the result of Staff's CAPM analysis using the historical risk  
4 premium estimate. The result is as follows:

5  
6 
$$k = 1.2\% + 0.71 * 7.1\%$$

7 
$$k = 6.3\%$$
  
8

9 Staff's CAPM estimate (using the historical market risk premium) of the cost of equity to  
10 the sample water utilities is 6.3 percent.  
11

12 **Q. What is the result of Staff's current market risk premium CAPM analysis to**  
13 **estimate the cost of equity for the sample utilities?**

14 A. Schedule JAC-3 shows the result of Staff's CAPM analysis using the current market risk  
15 premium estimate. The result is:

16 
$$k = 2.9\% + 0.71 * 10.9\%$$

17 
$$k = 10.7\%$$
  
18

19 Staff's CAPM estimate (using the current market risk premium) of the cost of equity to the  
20 sample water utilities is 10.7 percent.  
21

22 **Q. What is Staff's overall CAPM estimate of the cost of equity for the sample utilities?**

23 A. Staff's overall CAPM estimate for the sample utilities is 8.5 percent. Staff's overall  
24 CAPM estimate is the average of the historical market risk premium CAPM (6.3 percent)  
25 and the current market risk premium CAPM (10.7 percent) estimates, as shown in  
26 Schedule JAC-3.

1 **Q. Please summarize the results of Staff's cost of equity analysis for the sample utilities.**

2 A. The following table shows the results of Staff's cost of equity analysis:

3  
4 **Table 2**

<b>Method</b>	<b>Estimate</b>
Average DCF Estimate	8.8%
Average CAPM Estimate	8.5%
<b>Overall Average</b>	<b>8.7%</b>

5

6 Staff's average estimate of the cost of equity to the sample water utilities is 8.7 percent.

7

8 **VIII. FINAL COST OF EQUITY ESTIMATES FOR FAR WEST**

9 **Q. Please compare Far West's capital structure to that of the six sample water**  
10 **companies.**

11 A. The average capital structure for the sample water utilities is composed of 48.4 percent  
12 common equity and 51.6 percent debt, as shown in Schedule JAC-4. Far West's capital  
13 structure is composed of 27.7 percent common equity and 72.3 percent debt. In this case,  
14 since Rio Rico's capital structure is more highly leveraged than that of the average sample  
15 water utility, its stockholders bear more financial risk than do common stock shareholders  
16 of the sample water utility companies.

17

18 **Q. Is Staff recommending a financial risk adjustment to recognize the relatively higher**  
19 **financial risk for Far West compared to the sample companies?**

20 A. Yes. Staff recommends an upward financial risk adjustment for Far West of 70 basis  
21 points.

22

1 **Q. Does Staff have established criteria for determining when to apply a downward**  
2 **financial risk adjustment?**

3 A. Yes. Staff normally applies two criteria in assessing whether application of a downward  
4 financial risk adjustment is appropriate. The first consideration is whether the utility has a  
5 reasonably economical capital structure. Staff considers a capital structure composed of  
6 no more than 60 percent equity to meet this condition. If equity exceeds 60 percent, as it  
7 does for Far West, Staff considers application of a downward financial risk adjustment to  
8 be appropriate if the utility meets the second criteria. The second condition is whether the  
9 utility has access to equity capital markets. Because Far West does not have access to the  
10 equity capital markets; accordingly, Staff recommends an upward financial risk  
11 adjustment to Far West's cost of equity.

12  
13 **Q. Did Staff consider factors other than the results of its technical models in its cost of**  
14 **equity analysis?**

15 A. Yes. In consideration of the relatively uncertain status of the economy and the market that  
16 currently exists, Staff is proposing an Economic Assessment Adjustment to the cost of  
17 equity. In this case, Staff recommends a 60 basis point (0.6 percent) upward Economic  
18 Assessment Adjustment, as shown in Schedule JAC-3.

19  
20 **Q. What is Staff's ROE estimate for Far West?**

21 A. Staff determined an ROE estimate of 8.7 percent for Far West based on cost of equity  
22 estimates for the sample companies of 8.8 percent from the DCF and 8.5 percent from the  
23 CAPM. Staff recommends adoption of a 70 basis point upward financial risk adjustment  
24 and a 60 basis point upward Economic Assessment Adjustment resulting in a 10.0 percent  
25 Staff-recommended ROE, as shown in Schedule JAC-3.

26

1 **IX. RATE OF RETURN RECOMMENDATION**

2 **Q. What overall rate of return did Staff determine for Far West?**

3 A. Staff determined a 7.4 percent ROR for the Company, as shown in Schedule JAC-1 and  
4 the following table:

5  
6 **Table 3**

7

	<b>Weight</b>	<b>Cost</b>	<b>Weighted Cost</b>
Long-term Debt	72.3%	6.4%	4.6%
Common Equity	27.7%	10.0%	<u>2.8%</u>
<b>Overall ROR</b>			<b><u>7.4%</u></b>

8  
9 **X. STAFF RESPONSE TO COMPANY'S COST OF CAPITAL WITNESS MR. RAY  
10 L. JONES**

11 **Q. Does Mr. Jones provide market based support for his recommended 10.0 percent  
12 cost of equity?**

13 A. No. Mr. Jones' testimony was not supported by any market based analysis of the cost of  
14 equity. Instead, his proposed 10.0 percent cost of equity is the average of the returns  
15 authorized by the Commission in six recent water utility rate cases.<sup>19</sup> Since the cost of  
16 equity varies over time, a current market based cost of equity methodology is preferable to  
17 the Company's method. Thus, while the Company's propose cost of equity is the same as  
18 Staff's, the method used by Staff is preferable.

19  
<sup>19</sup> Direct Testimony of Ray L. Jones, pp. 16-17.

1 **XI. CONCLUSION**

2 **Q. Please summarize Staff's recommendations.**

3 A. Staff recommends that the Commission adopt a 7.4 percent overall rate of return for the  
4 Company based on a capital structure composed of 72.3 percent debt and 27.7 percent  
5 equity, Staff's 8.7 percent cost of equity estimate, Staff's 60 basis point (0.6 percent)  
6 upward economic assessment adjustment and Staff's 70 basis point (0.7 percent) upward  
7 financial risk adjustment.

8

9 **Q. Does this conclude your Direct Testimony?**

10 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>
<b>Staff Recommended Structure</b>			
Debt	72.3%	6.4%	4.6%
Common Equity	27.7%	10.0%	<u>2.8%</u>
Weighted Average Cost of Capital			<b>7.4%</b>
<b>Company Proposed Structure</b>			
Debt	86.0%	7.0%	6.0%
Common Equity	14.0%	10.0%	<u>1.4%</u>
Weighted Average Cost of Capital			<b>7.4%</b>

[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]			
<b>DCF Method</b>							
		<u>D/P<sub>0</sub></u> <sup>1</sup>	+	<u>g</u> <sup>2</sup>	=	<u>k</u>	
Constant Growth DCF Estimate		3.2%	+	4.8%	=	8.0%	
Multi-Stage DCF Estimate					=	<u>9.6%</u>	
Average DCF Estimate						<b>8.8%</b>	
 <b>CAPM Method</b>							
	<u>Rf</u>	+	<u>β</u> <sup>5</sup>	x	<u>(Rp)</u>	=	<u>k</u>
Historical Market Risk Premium <sup>3</sup>	1.2%	+	0.71	x	7.1% <sup>6</sup>	=	6.3%
Current Market Risk Premium <sup>4</sup>	2.9%	+	0.71	x	10.9% <sup>7</sup>	=	<u>10.7%</u>
Average CAPM Estimate							<b>8.5%</b>
Average of Overall Estimates						<b>8.7%</b>	
Economic Assessment Adjustment						<u>0.6%</u>	
Sub-Total						<b>9.3%</b>	
Financial risk adjustment						<u>0.7%</u>	
<b>Total</b>						<b>10.0%</b>	

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](http://www.ustreas.gov)

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

5 Value Line

6 Historical Market Risk Premium (Rp) calculated from Ibbotson Associates S&P 500 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	 <b>51.6%</b>	 <b>48.4%</b>	 <b>100.0%</b>
 Far West - Actual Capital Structure	 <b>72.3%</b>	 <b>27.7%</b>	 <b>100.0%</b>

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 <u>DPS<sup>1,2</sup></u>	Dividends Per Share Projected <u>DPS<sup>1,3</sup></u>	Earnings Per Share 2002 to 2011 <u>EPS<sup>1</sup></u>	Earnings Per Share Projected <u>EPS<sup>1</sup></u>
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%	No Projection	0.4%	No Projection
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>
<b>Average Sample Water Utilities</b>	<b>3.4%</b>	<b>3.8%</b>	<b>4.2%</b>	<b>6.2%</b>

<sup>1</sup> Value Line

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

<sup>3</sup> 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%	2.4%	6.0%	7.7%
California Water	2.2%	4.8%	2.0%	4.3%	6.8%
Aqua America	4.4%	5.2%	2.2%	6.7%	7.5%
Connecticut Water	2.2%	No Projection	1.0%	3.2%	No Projection
Middlesex Water	1.3%	3.3%	3.6%	4.9%	6.9%
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	<b>2.9%</b>	<b>4.3%</b>	<b>1.9%</b>	<b>4.8%</b>	<b>6.4%</b>

[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 12/26/2012	Book Value	Mkt To Book	Value Line Beta $\beta$	Raw Beta $\beta_{raw}$
American States Water	AWR	47.43	22.19	2.1	0.70	0.52
California Water	CWT	18.26	11.36	1.6	0.65	0.45
Aqua America	WTR	25.17	9.46	2.7	0.60	0.37
Connecticut Water	CTWS	29.94	13.64	2.2	0.75	0.60
Middlesex Water	MSEX	19.22	11.94	1.6	0.70	0.52
SJW Corp	SJW	26.30	15.31	1.7	0.85	0.75
Average				2.0	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 <sup>1</sup>	3.4%
DPS Growth - Projected <sup>1</sup>	3.8%
EPS Growth - Historical <sup>1</sup>	4.2%
EPS Growth - Projected <sup>1</sup>	6.2%
Sustainable Growth - Historical <sup>2</sup>	4.8%
<u>Sustainable Growth - Projected<sup>2</sup></u>	<u>6.4%</u>
 Average	 <b>4.8%</b>

<sup>1</sup> Schedule JAC-5

<sup>2</sup> Schedule JAC-6

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

[A]	[B]	[C]	[D]	[E]	[F]	[H]	[I]
<u>Company</u>	Current Mkt. Price ( $P_0$ ) <sup>1</sup> 12/26/2012	Projected Dividends <sup>2</sup> (Stage 1 growth) ( $D_t$ )				Stage 2 growth <sup>3</sup> ( $g_n$ )	Equity Cost Estimate ( $K$ ) <sup>4</sup>
		$d_1$	$d_2$	$d_3$	$d_4$		
American States Water	47.4	1.30	1.36	1.42	1.49	6.5%	9.1%
California Water	18.3	0.66	0.69	0.73	0.76	6.5%	10.0%
Aqua America	25.2	0.69	0.73	0.76	0.80	6.5%	9.2%
Connecticut Water	29.9	0.98	1.03	1.08	1.13	6.5%	9.7%
Middlesex Water	19.2	0.75	0.79	0.83	0.86	6.5%	10.3%
SJW Corp				0.82	0.86	6.5%	9.2%
$P_0 = \sum_{t=1}^n \frac{D_t}{(1+K)^t} + \frac{D_n(1+g_n)}{K-g_n} \left[ \frac{1}{(1+K)} \right]^n$							<b>Average      9.6%</b>

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

<b>Far West Water &amp; Sewer, Inc. Cost of Capital Calculation Capitalization</b>				
	<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	
<b>Long-Term Debt</b>		<b>\$ 1,535,600</b>	<b>\$ 24,035,000</b>	<b>72.26%</b>
<b>Short-Term Debt</b>		-	-	<b>0.00%</b>
<b>Total Debt</b>	<b>6.39%</b>	<b>\$ 1,535,600</b>	<b>\$ 24,035,000</b>	<b>72.26%</b>
Common Equity				
Common Shares Outstanding				
Paid in Capital				
Retained Earnings				
<b>Total Common Equity</b>			<b>\$ 9,228,360</b>	<b>27.74%</b>
<b>Total Capitalization</b>			<b>\$ 33,263,360</b>	<b>100.00%</b>

## 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)	
<b>Total Stockholders' Equity -- Consolidated</b>		<b>\$ 7,565,963</b>

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)	
<b>Company Equity Adjustments</b>		<b>\$ (2,387,562)</b>

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)	
<b>Net Staff Reversing Adjustments</b>		<b>\$ 2,107,511</b>

Staff Debt Conversion Adjustment

Add: Zenon/Liberation Capital Debt Converted to Equity	\$ 1,942,448	
--	--------------	--

<b>Total Common Equity, as Adjusted by Staff</b>	<b>\$ 9,228,360</b>
--	---------------------

## 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).  
Staff Debt Conversion Adjustment: RLJ Schedule D-2 (Long-Term Debt, as shown on lines 7-8).



**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 Company<sup>1</sup>, 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  

---

<sup>1</sup> 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>
<b>Staff Recommended Structure</b>			
Debt	79.2%	6.7%	5.3%
Common Equity	20.8%	10.0%	<u>2.1%</u>
<b>Weighted Average Cost of Capital</b>			<b>7.4%</b>
<b>Company Proposed Structure</b>			
Debt	79.18%	6.8%	5.4%
Common Equity	20.82%	10.0%	<u>2.1%</u>
<b>Weighted Average Cost of Capital</b>			<b>7.5%</b>

[D] : [B] x [C]

Supporting Schedules: JAC-3 and JAC-4.

Intentionally left blank

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

[A]	[B]	[C]	[D]	[E]			
<b>DCF Method</b>							
		<u>D/P</u> <sup>1</sup>	+	<u>g</u> <sup>2</sup>	=	<u>k</u>	
Constant Growth DCF Estimate		3.0%	+	4.9%	=	7.9%	
Multi-Stage DCF Estimate					=	<u>9.4%</u>	
Average DCF Estimate						<b>8.7%</b>	
 <b>CAPM Method</b>							
	<u>Rf</u>	+	<u>β</u> <sup>5</sup>	x	<u>(Rp)</u>	=	<u>k</u>
Historical Market Risk Premium <sup>3</sup>	1.4%	+	0.71	x	7.1% <sup>6</sup>	=	6.5%
Current Market Risk Premium <sup>4</sup>	3.2%	+	0.71	x	9.7% <sup>7</sup>	=	<u>10.0%</u>
Average CAPM Estimate							<b>8.3%</b>
Average of Overall Estimates						<b>8.5%</b>	
Economic Assessment Adjustment						<u>0.6%</u>	
Sub-Total						<b>9.1%</b>	
Financial risk adjustment						<u>0.9%</u>	
<b>Total</b>						<b>10.0%</b>	

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](http://www.ustreas.gov)

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

5 Value Line

6 Historical Market Risk Premium (Rp) calculated from Ibbotson Associates S&P 500 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	<b>51.6%</b>	<b>48.4%</b>	<b>100.0%</b>
Far West - Actual Capital Structure	<b>79.0%</b>	<b>21.0%</b>	<b>100.0%</b>

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 <u>DPS<sup>1,2</sup></u>	Dividends Per Share Projected <u>DPS<sup>1,3</sup></u>	Earnings Per Share 2002 to 2011 <u>EPS<sup>1</sup></u>	Earnings Per Share Projected <u>EPS<sup>1</sup></u>
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>
<b>Average Sample Water Utilities</b>	<b>3.4%</b>	<b>3.7%</b>	<b>4.2%</b>	<b>6.7%</b>

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 <b>2002 to 2011</b> <u>br</u>	Retention Growth Projected <u>br</u>	Stock Financing Growth <u>vs</u>	Sustainable Growth <b>2002 to 2011</b> <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>
<b>Average Sample Water Utilities</b>	<b>2.9%</b>	<b>4.2%</b>	<b>2.0%</b>	<b>4.9%</b>	<b>6.2%</b>

[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 $\beta$	Raw Beta $\beta_{raw}$
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 <sup>1</sup>	3.4%
DPS Growth - Projected <sup>1</sup>	3.7%
EPS Growth - Historical <sup>1</sup>	4.2%
EPS Growth - Projected <sup>1</sup>	6.7%
Sustainable Growth - Historical <sup>2</sup>	4.9%
<u>Sustainable Growth - Projected<sup>2</sup></u>	<u>6.2%</u>
Average	<b>4.9%</b>

<sup>1</sup> Schedule JAC-5

<sup>2</sup> Schedule JAC-6

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

[A]	[B]	[C]	[D]	[E]	[F]	[H]	[I]
<u>Company</u>	Current Mkt. Price ( $P_0$ ) <sup>1</sup> 2/20/2013	Projected Dividends <sup>2</sup> (Stage 1 growth) ( $D_t$ )				Stage 2 growth <sup>3</sup> ( $g_n$ )	Equity Cost Estimate ( $K$ ) <sup>4</sup>
		$d_1$	$d_2$	$d_3$	$d_4$		
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

<b>Far West Water &amp; Sewer, Inc. Cost of Capital Calculation</b>				
<b>Capitalization</b>				
	<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	
<b>Long-Term Debt</b>	<b>6.66%</b>	<b>\$ 1,729,845</b>	<b>\$ 25,977,448</b>	<b>74.23%</b>
Short-Term Debt	7.5%	114,426	1,520,505	
	7.40%	15,669	211,837	
<b>Short-Term Debt</b>	<b>7.51%</b>	<b>130,095</b>	<b>1,732,342</b>	<b>4.95%</b>
<b>Total Debt</b>	<b>6.71%</b>	<b>\$ 1,859,939</b>	<b>\$ 27,709,790</b>	<b>79.18%</b>
Common Equity				
Common Shares Outstanding				
Paid in Capital				
Retained Earnings				
<b>Total Common Equity</b>			<b>\$ 7,285,912</b>	<b>20.82%</b>
<b>Total Capitalization</b>			<b>\$ 34,995,702</b>	<b>100.00%</b>

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).



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 )  
\_\_\_\_\_ )

DIRECT  
TESTIMONY  
OF  
GERALD BECKER  
EXECUTIVE CONSULTANT  
UTILITIES DIVISION  
ARIZONA CORPORATION COMMISSION

FEBRUARY 13, 2013

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

Far West Water & Sewer Company, Inc. ("Far West" or "Company") is an Arizona public service corporation authorized to provide water and wastewater service within portions of Yuma County, Arizona. On July 6, 2012, the Company filed an application with the Arizona Corporation Commission ("Commission" or "ACC") to increase its rates for wastewater service. The Company's existing Certificate of Convenience and Necessity ("CC&N") for wastewater service covers an area totaling approximately 4,335 acres. Far West had over 7,400 residential wastewater customers, 45 commercial wastewater customers and 4 recreational vehicle parks over 700. This rate case filing includes only the wastewater division.

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 \$3,351,423 or 150.42 percent over the test year revenues of \$2,227,982 to \$5,579,404. The Staff recommended revenue increase would produce an operating income of \$1,405,880 for a 7.40 percent rate of return on a Staff adjusted OCRB of \$18,998,380. The Company proposes to use OCRB as its fair value rate base.

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. Briefly describe your responsibilities as an Executive Consultant III.**

8 A. I am responsible for the examination and verification of financial and statistical  
9 information included in utility rate applications. In addition, I develop revenue  
10 requirements, and prepare written reports, testimonies, and schedules that include Staff  
11 recommendations to the Commission. I am also responsible for testifying at formal  
12 hearings on these matters.

13

14 **Q. Please describe your educational background and professional experience.**

15 A. I received a Masters of Business Administration with an emphasis in Accounting from  
16 Pace University. I am a Certified Public Accountant and a Certified Internal Auditor.

17

18 I have participated in multiple rate, financing and other regulatory proceedings. I attended  
19 the National Association of Regulatory Utility Commissioners ("NARUC") Utilities Rate  
20 School.

21

22 I began employment with the Commission as a utilities regulatory analyst in April 2006.  
23 Prior to joining the Commission, I worked as an Auditor at the Department of Economic  
24 Security and Department of Revenue in the Taxpayer Assistance Section. Prior to those  
25 jobs, I worked for 15 years as an Auditor, Analyst, Financial Analyst, and Budget  
26 Manager at United Illuminating, an investor-owned electric company in New Haven, CT.

1 **Q. What is the scope of your testimony in this case?**

2 A. I am presenting Staff's analysis and recommendations in the areas of rate base, operating  
3 revenues and expenses, revenue requirement, and rate design recommendations regarding  
4 the wastewater district included in the application of Far West Water and Sewer  
5 Company, Inc. ("Far West" or "Company") for a permanent rate increase. Staff witness  
6 John Cassidy is presenting Staff's cost of capital recommendations. Staff witness Jian Liu  
7 is presenting Staff's engineering analysis and recommendations.

8  
9 **Q. What is the basis of your recommendations?**

10 A. I performed a regulatory audit of the Company's application to determine whether  
11 sufficient, relevant, and reliable evidence exists to support the Company's requested rate  
12 increase. The regulatory audit consisted of examining and testing the financial  
13 information, accounting records, and other supporting documentation and verifying that  
14 the accounting principles applied were in accordance with the Commission-adopted  
15 NARUC Uniform System of Accounts ("USOA").

16  
17 **BACKGROUND**

18 **Q. Please describe the Company's operations.**

19 A. With two shareholders, Far West is a very closely held corporation that provides water and  
20 wastewater services in portions of Yuma County Arizona. Far West has approximately  
21 7,400 wastewater customers and approximately 15,000 water customers. The instant  
22 filing only addresses wastewater rates.

23  
24 Far West's current rates were approved in Decision No. 69335 dated February 20, 2007.

1 **Q. What are the primary reasons for the Company's requested permanent rate**  
2 **increase?**

3 A. Far West states that its rate base has increased from \$1,549,650 in its prior rate case which  
4 used a 2004 test year, to \$22,800,578 using a 2011 test year in this proceeding. In its  
5 application, the Company indicates that it incurred an adjusted test year operating loss of  
6 \$1,187,812 resulting in a negative rate of return.

7  
8 **CONSUMER SERVICE**

9 **Q. Please provide a brief history of customer complaints received by the Commission**  
10 **regarding Far West.**

11 A. A search of the Consumer Services database reveals that the following customer  
12 Complaints and Opinions were filed against Far West from January 1, 2010 through the  
13 current date:

14  
15 **2013 – Zero Complaints**  
16 **35 Opinions – All opposed plus 37 Petitions with 396 signatures opposed**

17  
18 **2012 – One Complaint – Billing**  
19 **Zero opinions**

20  
21 **2011 – One Complaint – Disconnect Non-Pay**

22  
23 **2010 – Five Complaints – One - New Service, Four – Billing**

24  
25 **All complaints have been resolved and are closed.**

26  
27 **SUMMARY OF PROPOSED REVENUES**

28 **Q. Please summarize the Company's filing.**

29 A. The Company proposes a revenue increase of \$3,866,046, or 173.52 percent increase from  
30 \$2,227,982 to \$6,094,028 for wastewater customers. The Company's proposed rates

1 would increase the flat rate residential bill by \$40.90, or 188.05 percent, from \$21.75 to  
2 \$62.65.

3

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

5 A. Staff recommends a \$3,351,423 or 150.42 percent, revenue increase from \$2,227,982 to  
6 \$5,579,404. Staff's proposed revenue increase would produce an operating income of  
7 \$1,405,880 for a 7.40 percent rate of return on an original cost rate base of \$18,898,380.  
8 The impact of Staff's recommended rates on the typical residential bill will be discussed  
9 in subsequent rate design testimony.

10

11 **Q. Please compare Staff's recommended revenue requirement with the Company's  
12 proposal.**

13 A. Staff's recommended revenue of \$5,579,404 is \$514,623 or 8.44 percent less than the  
14 Company's proposed revenue of \$6,094,028.

15

16 **Q. What test year did the Company utilize for this filing?**

17 A. Far West's rate filing is based on the twelve months ended December 31, 2011 ("test  
18 year").

19

20 **Q. Please summarize the rate base and operating income recommendations and  
21 adjustments addressed in your testimony for Far West.**

22 A. A summary of my testimony on rate base and operating income follows:

23

1           **Staff-Recommended Rate Base Adjustments:**

2           Plant in Service – These adjustments decrease plant by \$4,782,944.

3           Accumulated Depreciation – These adjustments decrease accumulated depreciation by  
4           \$358,000.

5           Advances in Aid of Construction (“AIAC”) – These adjustments decrease AIAC by  
6           \$983,459.

7           Working Capital – This adjustment decreases the cash working capital component of  
8           Working Capital by \$360,713.

9           **Staff-Recommended Operating Income Adjustments:**

10          Salaries and Wages – Officers and Directors – This adjustment decreases test year  
11          expenses by \$60,247 to reflect the limited involvement of one of the owners who receives  
12          a salary.

13          Legal Expense – This adjustment decreases Legal Expense by \$32,975 from \$43,865 to  
14          \$10,890 to reflect a normalized amount of Legal Expense.

15          Bad Debt Expense – This adjustment decreases Bad Debt Expense by \$20,450 from  
16          \$33,490 to \$13,040 to reflect a normalized amount of Bad Debt Expense.

17          Depreciation Expense – This adjustment decreases Depreciation Expense by \$205,622  
18          from \$1,497,193 to \$1,291,571 to reflect application of Staff’s recommended depreciation  
19          rates to Staff’s recommended plant balances in this proceeding.

20          Income Tax Expense – This adjustment decreases income taxes by \$256,937 from a  
21          negative \$676,904 to negative \$933,842 to reflect the application of statutory state and  
22          federal income tax rates to Staff’s test year taxable income.

1 **RATE BASE**

2 **Q. Did the Company prepare a schedule showing the elements of Reconstruction Cost**  
3 **New Rate Base?**

4 A. No, the Company did not. The Company requested that its OCRB be treated as its fair  
5 value rate base.

6  
7 **RATE BASE ADJUSTMENTS**

8 **Q. Is Staff proposing any adjustments to the Company's rate base?**

9 A. Yes.

10

11 **Q. Please summarize Staff's adjustments to the Company's rate base shown on**  
12 **Schedules GWB-3, GWB-4, GWB-5, GWB-6, GWB-7, GWB-8A, GWB-8B, and**  
13 **GWB-8C.**

14 A. Staff's adjustments to the Company's rate base resulted in a net decrease of \$3,802,198,  
15 from \$22,800,578 to \$18,998,380. This decrease was due to removing plant items that  
16 were not used and useful, updating values of certain plant items, and recalculating cash  
17 working capital.

18

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

20 **Q. What did the Company propose in Account 380 Treatment and Disposal**  
21 **Equipment?**

22 A. The Company proposes a balance of \$17,865,412 for account 380.

23

24 **Q. What is the nature of Staff's adjustment to this plant account?**

25 A. During its review, Staff determined that the Company had purchased mobile equipment  
26 from Zenon for temporary use at its Del Oro location and later moved this mobile

1 equipment to its Seasons location. Per the Company's response to Residential Utility  
2 Consumer Office ("RUCO") data request 2.11, which requested a list of lift stations,  
3 treatment plants, and pressurized mains placed in service January 1, 2006, Phase 1 of the  
4 Del Oro WWTP was placed in service on December 22, 2011. Per the Company's  
5 response to Staff data request 5.9 included as Attachment 1, the Company stated:

6  
7 "The Zenon plant is being relocated to Seasons to allow that facility to be increased in  
8 capacity from 70,000 gallons per day to 150,000 gallons per day and to improve nitrate  
9 treatment capability of the Seasons facility."

10  
11 In effect, the Company confirmed that the temporary plant was taken out of service and  
12 relocated to the Seasons location. Further, during its engineering review, Staff confirmed  
13 that this plant item is not used and useful and should be removed from Utility Plant in  
14 Service.

15  
16 **Q. What is Staff's recommendation?**

17 A. Staff recommends the removal of \$1,060,096 for account 380, Treatment and Disposal  
18 Equipment, as shown in Schedules GWB-4 and GWB-5. On Schedule GWB-5, Staff also  
19 estimates that the accumulated depreciation recorded on this item since being placed in  
20 service on September 30, 2006, is \$291,526. The adjustment to decrease accumulated  
21 depreciation is shown in Col [B], line 34, of Schedule GWB-4.

22  
23 **Rate Base Adjustment No. 2 – Removal of Plant at Las Barrancas #1**

24 **Q. What did the Company propose in Account 360 Collections Sewers – Force and**  
25 **associated AIAC?**

26 A. The Company proposes to include a balance of \$983,459 for account 360, Collections  
27 Sewers - Force and AIAC.

1 **Q. What is the nature of Staff's adjustment to this plant account?**

2 A. During its review, Staff determined that the costs of a sewer line at Las Barrancas #1 had  
3 been capitalized since the prior test year but has never been put into service. In response  
4 to data request GB 2.2 (not attached as it is large) which asked for information regarding  
5 activity associated with Main Extension Agreements ("MXA's"), the Company's  
6 indicated that its AIAC balance includes \$983,459 of plant provided to the Company  
7 under an MXA.

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

10 A. Staff recommends the removal of \$983,459 for account 360, Collections Sewers - Force  
11 and AIAC, as shown in Schedules GWB-4 and GWB-5.

12  
13 **Rate Base Adjustment No. 3 –Disallowance of Allowance for Funds Used During**  
14 **Construction ("AFUDC") Included In Utility Plant in Service ("UPIS")**

15 **Q. Please provide some background.**

16 A. On March 13, 2006 and October 31, 2006, Consent Orders were made between the  
17 Arizona Department of Environmental Quality ("ADEQ") and Far West. These Consent  
18 Orders ordered the Company to make certain improvements to its wastewater system by  
19 certain dates.

20  
21 On July 26, 2007, Far West submitted an application in Docket No. WS-03478A-07-0442,  
22 for authority to incur indebtedness not to exceed \$25,215,000 and to encumber its real  
23 property and utility plant as security for such indebtedness. The Commission approved  
24 the Company's request in Decision No. 69950, dated October 30, 2007.

25

1 During the course of making the required improvements, Far West became unable to  
2 complete all projects with the funds available from the financing approved in Decision  
3 No. 69950. Bills were not paid on time and the Company incurred significant late fees  
4 along with legal expenses and debt restructuring costs in ultimately retiring these  
5 obligations. Far West proposes to include these late fees and legal costs in the cost of its  
6 wastewater improvements.

7  
8 **Q. Did Staff determine the nature of the unpaid bills?**

9 A. Yes. In response to Staff data request GB 1.4 (also not attached due to being voluminous),  
10 the Company provided detailed cost records for numerous plant additions including four  
11 major capital additions: Section 14 Wastewater Treatment Plant ("WWTP"), Del Oro  
12 WWTP, the Palm Shadows Force Main, and the Palm Shadows Lift Station. In reviewing  
13 the cost records supporting the Company's additions to UPIS, Staff determined that  
14 significant sums had been owed to Zenon Environmental Corporation ("Zenon"), Waste-  
15 Tech-Kusters Zima Corporation, JCI Industries, and Essco Wholesale.

16  
17 **Q. What was impact of these unpaid bills on the Company's ability to complete its  
18 capital improvements?**

19 A. As is more fully discussed in Docket No. WS-03478A-08-0454 and WS-03478A-08-0608,  
20 the failure to pay Zenon resulted in Zenon's refusal to allow Far West to exercise  
21 operational control of the Section 14 and Del Oro WWTP's until payment arrangements  
22 had been made.

1 **Q. Please describe the nature of the unpaid bills with Zenon and their ultimate**  
2 **resolution.**

3 A. Based on information in response to Staff data request GB 7.2.1 (not attached as it is  
4 voluminous), Staff determined that the unpaid bills with Zenon were in the amounts of  
5 \$541,879.50 and \$1,101,811.09 dated September 11, 2008 and September 30, 2008.  
6 These invoices remained unpaid until March 31, 2011, when the Company reached a  
7 payment agreement with Zenon.<sup>i</sup>

8  
9 **Q. How long did it take the Company to complete its construction once payment**  
10 **arrangements were made with Zenon?**

11 A. Based on information in response to RUCO data request 2.11, Section 14 WWTP was  
12 placed in service on August 24, 2011, Palm Shadows Lift Station and Palm Shadows  
13 Force Main were placed in service on October 1, 2011, and Del Oro WWTP was placed in  
14 service on December 22, 2011.

15  
16 **Q. Did Far West record AFUDC during the period when it was attempting to resolve its**  
17 **unpaid debts?**

18 A. Yes. Far West recorded AFUDC for its plant items through the respective dates when  
19 they were placed in service.

20  
21 **Q. Does Staff agree with the inclusion of these costs in UPIS?**

22 A. No and for numerous reasons.

23 First, the Company bears the responsibility of providing service, and this includes proper  
24 estimation of construction costs for needed improvements. Far West failed to determine  
25 reasonable accurate costs of the needed improvements and to borrow accordingly. In  
26 response to Staff data request JA 3.47 (Attachment 3), the Company indicates the net

1 proceeds available for construction to be approximately \$17.7 million. However, in  
2 response to RUCO 2.11 which asked the Company to identify and value major  
3 improvement wastewater systems implemented since January 1, 2006, the Company  
4 provided a schedule indicating completed projects of approximately \$21.6 million at its  
5 Del Oro, Palm Shadows and Section 14 locations. This does not include significant  
6 amounts spent on other locations such as Marwood, Del Rey and Seasons. Of the \$21.6  
7 million of plant improvements per RUCO 2.11, approximately \$1.6 million predated the  
8 loan, leaving \$20 million to be funded from the loan proceeds of only \$17.7 million. This  
9 means that the Company underestimated the costs by at least 13% despite the existence of  
10 significant contingencies in the cost estimates filed with the Company's application in  
11 Docket No. WS-03478A-07-0442.

12  
13 The deficiency described above was further exacerbated by the Company's decision to use  
14 approximately \$1.9 million of loan proceeds for its Water Division, as shown in the  
15 Company response to Staff data request JA 3.47. In addition to the funding problem  
16 created by this action, the Company violated A.R.S. 40-302.C. which states that the  
17 proceeds of loans authorized by the Commission may only be used for the intended  
18 purposes.

19  
20 Third, Staff notes that the Company is a poorly capitalized entity. In response to DR  
21 GTM 1.13 in Docket No. WS-03478A-07-0442, the Company represented that it would  
22 make steady steps to increase its equity percentage. An infusion of equity into the  
23 Company could have provided much needed cash in order to avoid interest and other  
24 penalties.

1 Fourth, in response to Staff data request GB 2.1 (part of which is included at attachment 4)  
2 which sought information regarding related parties/entities and the owners of those other  
3 parties/entities, the Company indicated ownership interest in numerous ventures such as  
4 H&S Developers which includes Hank's Market and Butcher Shop, Foothills Mini Mart,  
5 and Foothills Sand & Gravel, the Schechert Trust which owns Foothills Golf Courses and  
6 Las Barrancas Golf Courses, Southwest Land, LLC, El Ranch Encantado LLC, and partial  
7 ownership of Q-Mountain Water. In response to Staff data request 6.3(included as  
8 attachment 5), the Company indicates that Sandra Braden is associated with businesses  
9 unrelated to Far West involved in renting property (Texas Tango) and ranching (Braden  
10 Ranches). In addition, Sandra Braden holds a broker's license and is involved in land  
11 sales as a broker. Based on this information, Staff believes that the owners of Far West  
12 are very capable of infusing capital that could have been used to avoid bills from  
13 becoming delinquent. This would have resulted in the Company's plant being in service  
14 much sooner.

15  
16 **Q. Does the Company offer any support?**

17 A. Yes, in response to a Staff data request, the Company cites NARUC accounting rule 19  
18 which provides for the inclusion of financing costs directly attributable to plant.  
19

20 **Q. Does Staff agree with the Company's justification?**

21 A. Staff recognizes the applicability of this rule under more normal conditions. However,  
22 Staff believes that the construction period was excessive and resulted in excessive  
23 amounts of AFUDC being included in the UPIS balances.

1 **Q. Please describe Staff's view of a reasonable construction period and its impact on**  
2 **AFUDC.**

3 A. Staff believes that an 18 month construction period would have been adequate to complete  
4 these major improvements and that AFUDC amounts are excessive. Since the Company  
5 obtained Commission approval to borrow over \$25 million dollars on October 30, 2007,  
6 and 18 months thereafter would put the plant in service date at April 30, 2009. Staff's  
7 view is that the ratepayers should be held harmless from the excessive delays caused by  
8 the Company's poor management decisions.

9  
10 Coincidentally, the date of April 30, 2009, is 6 months after the Zenon bills first became  
11 overdue in October 2008, and this 6 month period closely approximates the time period  
12 between the date when the Zenon obligation was resolved (March 31, 2011) and the date  
13 when the plant items were placed in service between August 24, 2011 and December 22,  
14 2011. Staff believes that this is further evidence that the Company could have had its  
15 plant in service by April 30, 2009.

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

18 A. Staff recommends the disallowance of AFUDC recorded after April 30, 2009. In response  
19 to Staff's data request 5.1, the Company indicates that it had recorded cumulative AFUDC  
20 of \$1,439,423 as of April 30, 2009, and that its UPIS balances reflect total AFUDC of  
21 \$2,912,595, for a net reduction to UPIS of \$1,473,172. The total AFUDC consisted of  
22 \$1,757,533, \$689,039, \$64,905, and \$401,118 for its Section 14 WWTP, Del Oro WWTP,  
23 Palm Shadows Lift Station, and Palm Shadows Force Main, respectively.

24  
25 Since the excessive AFUDC amounts were included in UPIS closed during 2011 and  
26 subject to depreciation using a half year convention, Staff also recommends a decrease of

1           \$34,426 to Accumulated Depreciation for the depreciation expense recorded on the excess  
2           AFUDC amounts, as shown in Schedules GWB-4 and GWB-7.

3  
4           **Rate Base Adjustment No. 4 –Disallowance of Late Fees Included In UPIS**

5           **Q.     Please provide some background.**

6           A.     As discussed above, the construction period for the needed improvements was excessive.  
7           In addition to excessive AFUDC, Far West incurred late fees ranging from 12 to 18  
8           percent during this protracted construction period when bills went unpaid.

9  
10          **Q.     What is Far West proposing?**

11          A.     Far West proposes to include \$896,462 of capitalized late fees in its UPIS balances, as  
12          shown in Company response to Staff data request 7.2 which is included as Attachment 13.

13  
14          **Q.     Does Staff agree with the Company's proposal?**

15          A.     No. Staff believes that the construction period was unnecessarily lengthened by the poor  
16          management decisions of the Company and that ratepayers should be held harmless.

17  
18          **Q.     What is Staff's recommendation?**

19          A.     Staff recommends the disallowance of \$896,462 of capitalized late fees in the Company's  
20          UPIS balances, as shown in Schedules GWB-4 and GWB-8A.

21  
22          Since the capitalized late fee amounts were included in UPIS closed during 2011 and  
23          subject to depreciation using a half year convention, Staff also recommends a decrease of  
24          \$22,789 to Accumulated Depreciation for the depreciation expense recorded on the  
25          capitalized late fees, as shown in Schedules GWB-4 and GWB-8A.

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

2 **Q. Please provide some background.**

3 A. As discussed above, the construction period for the needed improvements was excessive.  
4 In addition to excessive AFUDC and late fees, Far West incurred significant legal and  
5 other fees related to the Company's failure to pay its bills on a timely basis. These  
6 amounts are not considered to be prudently incurred since they were clearly avoidable.  
7

8 **Q. What is Far West proposing?**

9 A. Far West proposes to include \$168,193 of capitalized legal and other expenses in its UPIS  
10 balances, as shown in Company response to Staff data request 7.2 which is included as  
11 Attachment 14.  
12

13 **Q. Does Staff agree with the Company's proposal?**

14 A. No. These fees were caused by the Company's decisions to not pay its bills on a timely  
15 basis and the ratepayers should be held harmless.  
16

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

18 A. Staff recommends the disallowance of \$168,193 of capitalized legal and other expenses in  
19 the Company's UPIS balances, as shown in Schedules GWB-4 and GWB-8B.  
20

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

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

3 **Q. Please provide some background.**

4 A. As discussed above, the construction period for the needed improvements was excessive.  
5 Mostly during the latter part of the construction period, the Company paid \$210,000 to  
6 Andy Capestro, the husband of one of the owners, for construction management services.  
7 Of the \$210,000, \$201,562 was capitalized by the Company and reflected in its UPIS  
8 balances.

9  
10 **Q. What is Far West proposing?**

11 A. Far West proposes to include \$201,562 of capitalized construction management fees in its  
12 UPIS balances, as shown in Company response to Staff data request 7.1 which is included  
13 as Attachment 15.

14  
15 **Q. Does Staff agree with the Company's proposal?**

16 A. No. First, these fees were incurred mostly during 2010 and 2011 long after the date when  
17 the plant could have been in service if the Company has paid its bills on time. Second,  
18 these costs are in addition to project management fees in excess of \$1.4 million already  
19 paid to Coriolis, the company that was originally retained for these and other services.

20  
21 **Q. What is Staff's recommendation?**

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

24  
25 Since the capitalized construction management fee amounts were included in UPIS closed  
26 during 2011 and subject to depreciation using a half year convention, Staff also

1 recommends a decrease of \$4,989 to Accumulated Depreciation for the depreciation  
2 expense recorded on the capitalized construction management fees, as shown in Schedules  
3 GWB-4 and GWB-8C.  
4

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

6 **Q. Please describe the working capital adjustment to rate base.**

7 A. Working Capital is a collective term that typically includes amounts for prepaid expenses,  
8 materials and supplies inventory, and cash working capital. Staff's adjustment only  
9 relates to the cash working capital component of Working Capital.  
10

11 The purpose of calculating cash working capital is to quantify the amount of cash that a  
12 utility needs to operate by analyzing the timing differentials between the period required  
13 for revenues to be realized and collected and the periods between the date that an expense  
14 is incurred and the date paid. A lead/lag study summarizes the differences between the  
15 collection of revenues and the payment of expenses and creates a cash working capital  
16 amount which is added to or subtracted from the Company's rate base.  
17

18 **Q. Did the Company perform a lead/lag study and a computation of cash working  
19 capital in this case?**

20 A. Yes. The Company applies those factors to the test year data, as shown in its application.  
21

22 **Q. Does Staff agree with the Company's lead/lag days?**

23 A. With the exception of lead/lag days proposed for Revenues and Other Operating  
24 Expenses, Staff agrees with the number of lead/lag days proposed by the Company for its  
25 cash working capital computation.

1 **Q. Does Staff have other concerns regarding the Company's proposal for cash working**  
2 **capital?**

3 A. Yes. Staff disagrees with the Company's inclusion of Depreciation Expense and the  
4 exclusion of Interest Expense from its computation.

5

6 **Revenue Lag Days**

7 **Q. What does the Company propose for its revenue lag days?**

8 A. The Company proposes revenue lag days of 48.4768 days which include a 9 day billing  
9 lag.

10

11 **Q. Did Staff request an explanation from the Company for its 9 day billing lag?**

12 A. Yes. Staff issued data request GB 1.7 (included as attachment 6) which sought the reasons  
13 that the billing lag could not be shortened. The Company responded,

14

15 "The nine day lag is based on a four-cycle per month billing schedule where a cycle of  
16 water meters is read on Monday through Friday of one week and the associated water and  
17 sewer billing is done on Friday of the following week. Far West believes that this schedule  
18 works well and is appropriate for the customer service and staffing levels currently  
19 maintained by Far West

20

21 Current staffing consists of two meter readers and a single billing clerk that manually  
22 reviews 3,500 – 4,500 meter reads when they are returned from the field. The reads are  
23 checked for reading errors, high and low usage along with mailing courtesy letters to  
24 customers that possibly have property issues affecting meter reading. In order to shorten  
25 billing lag to five days or less, Far West would need additional personnel including a  
26 minimum of a second billing clerk and one additional meter reader. Far West would also  
27 need to invest in updated meter reading equipment, and other billing practices would need  
28 to be modified, including how the processing of late payment penalties and customer shut  
29 off procedures. For these reasons, Far West does not believe that shortening the billing lag  
30 is practical at this time.<sup>1</sup>

31

---

<sup>1</sup> Per Company response to Staff data request GB 1.7

1 **Q. Please explain Staff's concerns with the Company's proposed number of lag days for**  
2 **its revenue?**

3 A. First, the Company states that there are 4 billing cycles per month and that each cycle  
4 requires 9 days (each) to complete. Multiplying 4 billing cycles by 9 days each means that  
5 each month would have to be 36 days long.

6  
7 Second, Staff disagrees with the Company's statement that extra personnel are needed to  
8 shorten the billing lag. The Company indicates that water use readings are collected  
9 during a Monday through Friday period. There is no reason given to preclude the  
10 Company from making any needed corrections during the first week when readings are  
11 collected. Then, the integrity of the data could be finalized by the end of the first week  
12 with the bills rendered on Monday of the following week. While Far West contends that  
13 there is only one billing clerk, this staffing level is adequate to process one billing cycle at  
14 a time, as indicated in the Company's response to Staff's data request.

15  
16 Using this practice, the billing lag could be reduced to 5 days. This is based on the  
17 difference between the midpoint day of Wednesday of the first week when the meters are  
18 read and Monday of the second week when bills are rendered.

19  
20 **Q. What is Staff's recommendation for the number of lag days for its revenue?**

21 A. Staff recommends revenue lag days of 45.4768 days to reflect a shortening of a 9 day  
22 billing lag to a more reasonable 5 day billing lag. See Schedule GWB-9.

1 **Other Operating Expenses**

2 **Q. What does the Company propose for its expense lag days for Other Operating**  
3 **Expenses?**

4 A. The Company proposes expense lag days of 15.5 days for Other Operating Expenses. The  
5 basis of this is that Other Operating Expenses are assumed to be paid by the 15th of the  
6 month following the receipt of goods and services.

7  
8 **Q. Does Staff agree with the use of 15.5 days lag for Other Operating Expenses?**

9 A. No. The Company's proposal reflects the payment lag only, from the end of any given  
10 month through the date of payment but does not consider the average service lag of 15  
11 days from the midpoint of the month until the end of the month. The service lag is  
12 considered in this calculation because it represents the average time period between the  
13 date the services are received and the date the bill is received.

14  
15 **Q. What is Staff's recommendation for the number of lag days for Other Operating**  
16 **Expenses?**

17 A. Staff recommends lag days of 30 days to reflect an average service lag of 15 days and an  
18 average payment lag of 15 days, as shown on Schedule GWB-9.

19  
20 **Cash Working Capital – Depreciation Expense**

21 **Q. Does Staff agree with the inclusion of Depreciation Expense in the Company's**  
22 **computation of cash working capital?**

23 A. No. The Company's calculation erroneously includes Depreciation Expense which is a  
24 non-cash expense. Since the purpose of a lead lag study is to measure the timing of cash  
25 receipts and disbursements, the inclusion of non-cash expenses is inappropriate.

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

2 A. Staff recommends the exclusion of depreciation expense from the computation of cash  
3 working capital. See Schedule GWB-9.  
4

5 **Cash Working Capital – Interest Expense**

6 **Q. Does Staff agree with the exclusion of Interest Expense in the Company's**  
7 **computation of cash working capital?**

8 A. No. Interest expense is a cash expense supported by the Company's ongoing revenues.  
9 Since the Company collects and has use of this cash prior to the interest due date, it is  
10 appropriate to include interest expense in the computation of cash working capital.  
11

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

13 A. Staff recommends the inclusion of interest expense in the computation of cash working  
14 capital. Staff also recommends the use of 91.25 lag days for interest expense, based on the  
15 Company's response to Staff data request 1.6 in which the Company states that interest is  
16 paid on the first day of the month following the end of the period. See Schedule GWB-9.  
17

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

19 A. The above recommendations are compiled and reflected on Schedule GWB-9 which  
20 provides the calculations of Staff's recommended cash working capital. Staff  
21 recommends a reduction to working capital of \$390,014 from \$1,653,938 to \$1,293,225 as  
22 shown on Schedules GWB-4 and GWB-9.  
23

24 **OPERATING INCOME ADJUSTMENTS**

25 **Q. Is Staff recommending any adjustments to operating income in this case?**

26 A. Yes. Staff recommends the following adjustments.

1 **Operating Income Adjustment No. 1 – Salaries and Wages Officers and Directors**

2 **Q. What is the Company proposing for a Salaries and Wages – Officers and Directors?**

3 A. The Company proposes \$137,000 of salaries paid to the two owners of the Company.  
4 Each owner is paid \$137,000 per year by Far West Water and Sewer Company (both  
5 divisions). The proposed amount represents half of total salaries of \$274,000 with a one  
6 half allocation to Sewer Division.

7  
8 **Q. Does Staff agree with the Company's proposal?**

9 A. No. In response to Staff data request GWB 6.3.1 (included at Attachment 5) which sought  
10 information regarding the approximate annual hours spent on Far West Water and Far  
11 West Sewer. The Company responded that one owner estimates that she spends 2,075  
12 hours per year working on the two companies while the other owner estimated spending  
13 250 hours per year. Staff recommends disallowing a proportionate share of executive  
14 salaries. As shown on Schedule GWB-13, one owner works approximately 12 percent as  
15 many hours as the other, thus Staff calculates a disallowance of approximately 88 percent  
16 of one executive salary of \$68,500, or \$60,247.

17  
18 **Q. What is Staff's recommendation for Salaries and Wages – Officers and Directors?**

19 A. Staff recommends a reduction of \$60,247 from \$137,000 to \$76,753 for Salaries and  
20 Wages – Officers and Directors, as reflected on Schedules GWB-11 and GWB-12.

21  
22 **Operating Income Adjustment No. 2 – Bad Debt Expense**

23 **Q. What is the Company proposing for Bad Debt Expense?**

24 A. For the test year, the Company proposes \$33,490 for Bad Debt Expense.

1 **Q. Does Staff agree with the Company's proposed amount?**

2 A. No. In response to Staff data request GWB 5.8 (included as Attachment 9) the Company  
3 indicates that its proposed amount of \$33,490 represents two year of charge offs and  
4 further indicates that a 3-year average of \$13,040 for its Bad Debt Expense. Staff  
5 recommends the use of a 3 year average as it represents a normalized level of expenses to  
6 be borne by the ratepayers.

7  
8 **Q. What is Staff's recommendation for Bad Debt Expense?**

9 A. Staff recommends a decrease to Bad Debt Expense of \$20,450, from \$33,490 to \$13,040,  
10 as shown in Schedules GWB-11 and GWB-13.

11  
12 **Operating Income Adjustment No. 3 – Legal Expense**

13 **Q. What is the Company proposing for Legal Expense?**

14 A. For the test year, the Company proposes \$43,865 for Legal Expense.

15  
16 **Q. Does Staff agree with the Company's proposed amount?**

17 A. No. In response to some formal and informal Staff data requests, the Company has  
18 provided Staff with a report with general descriptions of the services provided. In many  
19 instances, the Company included legal expense for items such as resolving its dispute with  
20 Spartan Homes and for resolving its overdue bills. Staff has removed those and calculated  
21 a normalized legal expense of \$10,890 based on 3 years of activity. Staff removed the  
22 activity with Spartan Homes and to resolve its overdue bills because the expenses were  
23 necessitated by poor management decisions and should not be borne by the ratepayers.

1 **Q. What is Staff's recommendation for Legal Expense?**

2 A. Staff is recommending a decrease to Legal Expense of \$32,975, from \$43,865 to \$10,890,  
3 as shown in Schedules GWB-11 and GWB-14.

4  
5 **Operating Income Adjustment No. 4 – Depreciation Expense**

6 **Q. What amount of depreciation expense is the Company proposing?**

7 A. The Company is proposing depreciation expense of \$1,497,193.

8  
9 **Q. Does Staff agree with the Company's proposed amount?**

10 A. No. While Staff agrees with the proposed depreciation rates, along with the Company's  
11 proposed rate for amortization of CIAC, Staff has disallowed certain plant items and this  
12 decreases Staff's recommended Depreciation Expense.

13  
14 **Q. What is Staff's recommendation for Depreciation Expense?**

15 A. Staff is recommending a decrease to Depreciation Expense of \$205,622, from \$1,497,193  
16 to \$1,291,571, as shown in Schedules GWB-11 and GWB-16.

17  
18 **Operating Income Adjustment No. 5 – Income Taxes**

19 **Q. What is the Company proposing for test year Income Tax Expense?**

20 A. The Company is proposing a negative \$676,904 for test year Income Tax Expense.

21  
22 **Q. How did Staff calculate test year income tax expense?**

23 A. Staff calculated test year income tax expense by applying the statutory state and federal  
24 income tax rates to Staff's adjusted test year taxable income, as shown on Schedule  
25 GWB-2. Since the Company files a consolidated tax return with another system and the  
26 average and marginal tax rates are 34 percent when federal taxable income is over

1           \$335,000, Staff has assigned a 34 percent federal tax rate to the test year income, as  
2           compared with the Company's use of a 15 percent tax rate.

3  
4           **Q. Did Staff prepare a schedule showing the computation of test year income taxes?**

5           A. Yes. Staff's computation of income taxes is shown in Schedule GWB-2.

6  
7           **Q. Did Staff make any adjustments to test year income tax expense?**

8           A. Yes. Staff's adjustment reflects Staff's calculation of the income tax expense based upon  
9           Staff's adjusted test year taxable income, as shown in Schedule GWB-2.

10  
11          **Q. What is Staff's recommendation?**

12          A. Staff recommends decreasing test year Income Tax Expense by \$256,937, from negative  
13          \$676,904 to negative \$933,842, as shown in Schedules GWB-11 and GWB-2. Staff  
14          further recommends adoption of its Gross Revenue Conversion Factor ("GRCF") that  
15          includes a factor for Income Tax Expense, Property Tax Expense, and Bad Debt Expense,  
16          as shown in Schedule GWB-2.

17  
18          **SERVICE TO CONTIGUOUS AREAS**

19          **Q. Did the Commission direct Staff to investigate whether FWWS is providing service**  
20          **outside of its service territory?**

21          A. Yes. In response to Staff data request GB 2.3 (included as Attachment 8), the Company  
22          indicates that it provides service to four contiguous service areas. A copy of the  
23          Company's response is attached.

24

1 **UNPAID PROPERTY TAXES**

2 **Q. Is the Company current on paying its property taxes?**

3 A. No. In response to Staff data request JA 3.2 (part of which is shown as Attachment 12, the  
4 Company indicates unpaid property taxes of \$371,245 for the years 2008 through 2011.

5  
6 **Q. What is Staff's recommendation?**

7 A. Staff recommends that the rates approved in this proceeding not be implemented until the  
8 Company is current on all of its property tax obligations.

9  
10 **UNPAID AMOUNTS DUE UNDER MAIN EXTENSION AGREEMENTS ("MXA'S")**

11 **Q. Is the Company current on paying amounts due under its MXA's?**

12 A. No. In response to Staff data request GB 2.2 (Revised), the Company indicates  
13 approximately \$190,134 is due to various parties.

14  
15 **Q. What is Staff's recommendation?**

16 A. Staff recommends that the rates approved in this proceeding not be implemented until the  
17 Company is current on all of its MXA's.

18  
19 **UNPAID AMOUNTS DUE TO SPARTAN HOMES**

20 **Q. Is the Company current on paying amounts due to Spartan Homes?**

21 A. No. In response to Staff data request JA 3.48 (included at Attachment 10), the Company  
22 indicates that it has not paid the total amounts due to Spartan Homes. Decision No. 72594  
23 ordered that \$154,180 was immediately due and payable to Spartan Homes, and further  
24 ordered to pay within 90 days. To date, the Company has tendered payment of \$47,682.  
25 In response to Staff data request JA 3.48, the Company also states that the "Company is  
26 continuing its efforts to secure needed funds to pay the balance."

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

2 A. Staff recommends that the rates approved in this proceeding not be implemented until the  
3 Company is in compliance with Decision No. 72594 and has paid all amounts due to  
4 Spartan Homes.

5

6 **ADEQ COMPLIANCE ISSUES**

7 **Q. Is the Company in compliance with Arizona Department of Environmental Quality**  
8 **("ADEQ") regulations?**

9 A. No. As indicated in the Staff's Engineering Report, ADEQ issued a Consent Judgment  
10 against Far West on June 22, 2010. In October 2012, ADEQ issued Compliance Status  
11 Reports regarding Far West's Wastewater Treatment Plants.

12

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

14 A. Staff recommends that any increase in rates and charges approved in this proceeding shall  
15 not become effective until the Company files documentation from ADEQ that the Far  
16 West's WWTPs are in compliance with ADEQ's Consent Judgment as it may be  
17 amended.

18

19 **MONIES DUE FROM RELATED PARTIES**

20 **Q. Is the Company owed significant amounts of money from related parties?**

21 A. Yes. In response to Staff data request GB 2.1.4 (included as Attachment 11), the  
22 Company indicates unpaid accounts receivables from related parties of approximately  
23 \$402,000 mostly for effluent sold to affiliated golf courses. Past due amounts were also  
24 indicated in prior periods for the year ending December 31, 2008 through December 31,  
25 2010.

1 **Q. Please explain Staff's concerns with amounts owed from affiliated parties.**

2 A. First, Staff is concerned that providing uncompensated service is inequitable to the other  
3 ratepayers who are required to pay for service and who may indirectly bear the cost of the  
4 uncompensated service. Second, Staff is aware that the Company has unpaid payables  
5 such as its property taxes, the payment of which would be a good use of the funds  
6 collected for past due bills from affiliated parties.

7  
8 **Q. What is Staff's recommendation?**

9 A. Staff recommends that the rates approved in this proceeding not be implemented until the  
10 Company has collected all monies due from related parties.

11

12 **APPOINTMENT OF AN INTERIM MANAGER**

13 **Q. In Decision No. 71447, did the Commission order that Staff investigate and formulate**  
14 **a recommendation whether it is in the public interest to appoint an interim**  
15 **manager?**

16 A. Yes. At this time, Staff recommends that no interim manager be appointed. However,  
17 Staff requests that this opportunity be reserved for future consideration.

18

19 **Q. Does this conclude your direct testimony?**

20 A. Yes, it does.

---

<sup>i</sup> See Company application in Docket No. WS-03478A-12-0085 in which the Company seeks retroactive approval of this financing.

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

**DIRECT TESTIMONY OF GERALD BECKER**

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GWB- 5	RATE BASE ADJUSTMENT #1 ZENON TEMPORARY PLANT
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GWB- 17	OPERATING INCOME ADJUSTMENT #5 - INCOME TAXES
GWB- 18	OPERATING INCOME ADJUSTMENT #6 - PROPERTY TAX EXPENSE GRFC COMPONENT

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	\$ 18,998,380	\$ 18,998,380
2	Adjusted Operating Income (Loss)	\$ (1,187,812)	\$ (1,187,812)	\$ (611,582)	\$ (611,582)
3	Current Rate of Return (L2 / L1)	-5.21%	-5.21%	-3.22%	-3.22%
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	\$ 1,405,880	\$ 1,405,880
6	Operating Income Deficiency (L5 - L2)	\$ 2,877,202	\$ 2,877,202	\$ 2,017,462	\$ 2,017,462
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	<b>\$ 3,351,423</b>	<b>\$ 3,351,423</b>
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	\$ 5,579,404	\$ 5,579,404
11	Required Increase in Revenue (%)	173.52%	173.52%	150.42%	150.42%
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)	\$ 1,405,880		
25	Adjusted Test Year Operating Income (Loss) (Schedule GWB-10, Line 42)	\$ (611,582)		
26	Required Increase in Operating Income (L24 - L25)		\$ 2,017,462	
27	Income Taxes on Recommended Revenue (Col. (F), L52)	\$ 334,405		
28	Income Taxes on Test Year Revenue (Col. (C), L52)	\$ (933,842)		
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		\$ 1,268,247	
30	Required Revenue Increase (Schedule GWB-1, Line 8)	\$ 3,351,423		
31	Uncollectible Rate (Line 10)	0.5800%		
32	Uncollectible Expense on Recommended Revenue (L30 * L31)	\$ 19,438		
33	Adjusted Test Year Uncollectible Expense	\$ -		
34	Required Increase in Revenue to Provide for Uncollectible Exp.		\$ 19,438	
35	Property Tax with Recommended Revenue (GWB-18, Line 20)	\$ 142,004		
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)		\$ 46,276	
38	Total Required Increase in Revenue (L26 + L29 + L34+ L37)		\$ 3,351,423	

	(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	\$ 5,579,404
40	Operating Expenses Excluding Income Taxes	\$ 3,773,405	\$ 3,839,119
41	Synchronized Interest (L52)	\$ 873,925	\$ 873,925
42	Arizona Taxable Income (L39 - L40 - L41)	\$ (2,419,349)	\$ 866,360
43	Arizona State Income Tax Rate	6.9680%	6.9680%
44	Arizona Income Tax (L42 x L43)	\$ (168,580)	\$ 60,368
45	Federal Taxable Income (L42 - L44)	\$ (2,250,769)	\$ 805,992
46	Federal Tax	\$ (765,261)	\$ 274,037
47	Total Federal Income Tax	\$ (765,261)	\$ 274,037
48	Combined Federal and State Income Tax (L43 + L47)	\$ (933,842)	\$ 334,405

50 Effective Tax Rate

Calculation of Interest Synchronization:

51	Rate Base (Schedule GWB-3, Col. (C), Line 18)	\$ 18,998,380
52	Weighted Average Cost of Debt	4.6000%
53	Synchronized Interest (L50 X L51)	\$ 873,925

**RATE BASE - ORIGINAL COST**

LINE NO.	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	(C) STAFF AS ADJUSTED
1	Plant in Service	\$ 37,751,132	\$ 32,968,188
2	Less: Accumulated Depreciation	4,945,733	4,587,733
3	Net Plant in Service	<u>\$ 32,805,399</u>	<u>\$ 28,380,455</u>
<b><u>LESS:</u></b>			
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	9,831,511
8	Imputed Reg AIAC	-	-
9	Imputed Reg CIAC	-	-
10	Accumulated Deferred Income Tax Credits	-	-
	Customer Meter Deposits	26,359	26,359
<b><u>ADD:</u></b>			
11	Accumulated Deferred Income Tax Debits	-	-
12	Cash Working Capital	1,653,938	1,293,225
13	Prepayments	-	-
14	Supplies Inventory	-	-
15	Projected Capital Expenditures	-	-
16	Deferred Debits	-	-
17	Purchase Wastewater Treatment Charges	-	-
18	<b>Original Cost Rate Base</b>	<u>\$ 22,800,578</u>	<u>\$ 18,998,380</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-6	(C) Lea Batteries #1 ADJ #2 GWB-8	(D) AFUDC Disallowance ADJ #3 GWB-7	(E) Interest Disallowance ADJ #4 GWB-8A	(F) Legal/Other Disallowance ADJ #5 GWB-8B	(G) Capex Mgt Fee ADJ #6 GWB-8C	(H) Working Capital ADJ #7 GWB-9	(I) ADJ #5	(J) ADJ #6	(K) ADJ #7	(L) ADJ #8	(M) STAFF ADJUSTED
<b>PLANT IN SERVICE</b>															
1	351	Dignification Cost	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	352	Franchise Cost	3,078	-	-	-	-	-	-	-	-	-	-	-	3.0
3	353	Land and Land Rights	1,413,437	-	-	-	-	-	-	-	-	-	-	-	1,413.4
4	354	Structures & Improvements	2,477,462	-	-	(157,878)	(114,449)	(21,911)	(20,846)	-	-	-	-	-	2,162.3
5	355	Power Generating Equipment	68,993	-	-	(3,654)	(775)	(14)	(2,282)	-	-	-	-	-	62.2
6	360	Collection Sewers - Force	3,504,328	-	(983,458)	(223,711)	(5,243)	(321)	(24,848)	-	-	-	-	-	2,286.7
7	361	Collection Sewers - Gravity	8,727,577	-	-	-	-	-	-	-	-	-	-	-	8,727.5
8	362	Special Collecting Structures	-	-	-	-	-	-	-	-	-	-	-	-	-
9	363	Services to Customers	173,821	-	-	-	-	-	-	-	-	-	-	-	173.8
10	364	Flow Measuring Devices	32,468	-	-	-	-	-	-	-	-	-	-	-	32.4
11	365	Flow Measuring Installations	16,883	-	-	-	-	-	-	-	-	-	-	-	16.9
12	366	Reuse Services	-	-	-	-	-	-	-	-	-	-	-	-	-
13	367	Reuse Meters and Meter Installations	2,310	-	-	(108)	(75)	(14)	(16)	-	-	-	-	-	2.0
14	370	Receiving Wells	74,227	-	-	(8,565)	(4,571)	(821)	(985)	-	-	-	-	-	61.2
15	371	Pumping Equipment	1,386,638	-	-	(56,002)	(34,982)	(6,178)	(12,883)	-	-	-	-	-	1,285.6
16	374	Reuse Distribution Reservoirs	-	-	-	-	-	-	-	-	-	-	-	-	-
17	375	Reuse Transmission and Dist. Sys.	-	-	-	-	-	-	-	-	-	-	-	-	-
18	380	Treatment and Disposal Equipment	17,886,412	(1,060,096)	-	(950,169)	(682,892)	(129,028)	(129,306)	-	-	-	-	-	14,733.8
19	381	Plant Sewers	623,871	-	-	(51,514)	(36,934)	(6,949)	(7,074)	-	-	-	-	-	521.2
20	382	Outfall Sewer Lines	1,905	-	-	(199)	(111)	(20)	(24)	-	-	-	-	-	1.4
21	385	Other Plant and Misc. Equipment	394,141	-	-	(22,881)	(15,983)	(2,867)	(3,439)	-	-	-	-	-	349.9
22	390	Office Furniture & Equipment	254,572	-	-	-	(285)	(53)	(56)	-	-	-	-	-	254.2
23	390	Computers & Software	11,358	-	-	(368)	-	-	-	-	-	-	-	-	10.9
24	391	Transportation Equipment	271,810	-	-	-	-	-	-	-	-	-	-	-	271.8
25	392	Stores Equipment	-	-	-	-	-	-	-	-	-	-	-	-	-
26	393	Tools, Shop & Garage Equipment	27,089	-	-	-	-	-	-	-	-	-	-	-	27.0
27	394	Laboratory Equipment	17,419	-	-	-	-	-	-	-	-	-	-	-	17.4
28	395	Power Operated Equipment	181,867	-	-	-	-	-	-	-	-	-	-	-	181.9
29	398	Communications Equipment	17,191	-	-	(154)	(108)	(19)	(23)	-	-	-	-	-	16.8
30	397	Miscellaneous Equipment	136,351	-	-	-	-	-	-	-	-	-	-	-	136.3
31	398	Other Tangible Plant	238,828	-	-	-	-	-	-	-	-	-	-	-	238.8
32		<b>Total Plant In Service</b>	<b>37,751,132</b>	<b>(1,060,096)</b>	<b>(983,459)</b>	<b>(1,473,172)</b>	<b>(896,462)</b>	<b>(158,183)</b>	<b>(201,562)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>32,966.1</b>
33		Accumulated Depreciation	4,945,733	(291,528)	-	(34,426)	(22,789)	(4,270)	(4,989)	-	-	-	-	-	4,587.7
34		Net Plant In Service	\$ 32,805,399	\$ (788,570)	\$ (983,459)	\$ (1,438,746)	\$ (873,673)	\$ (163,823)	\$ (196,573)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 28,300.4
35															
36															
37		<b>LESS:</b>													
38		Contributions in Aid of Construction (CIAC)	\$ 1,726,854	-	\$ -	\$ -	-	-	-	-	\$ -	\$ -	\$ -	\$ -	\$ 1,726.8
39		Less: Accumulated Amortization	809,423	-	-	-	-	-	-	-	-	-	-	-	809.4
40		Net CIAC (L83 - L84)	817,431	-	-	-	-	-	-	-	-	-	-	-	817.4
41		Advances in Aid of Construction (AAIC)	10,814,970	-	(983,459)	-	-	-	-	-	-	-	-	-	9,831.5
42		Imputed Reg Advances	-	-	-	-	-	-	-	-	-	-	-	-	-
43		Imputed Reg CIAC	-	-	-	-	-	-	-	-	-	-	-	-	-
44		Accumulated Deferred Income Tax Credits	-	-	-	-	-	-	-	-	-	-	-	-	-
45		Customer Meter Deposits	26,359	-	-	-	-	-	-	-	-	-	-	-	26.3
46		<b>ADD:</b>													
47		Accumulated Deferred Income Tax Debits	-	-	-	-	-	-	-	-	-	-	-	-	-
48		Working Capital Allowance	1,850,938	-	-	-	-	-	-	(360,713)	-	-	-	-	1,293.2
49		Pumping Power	-	-	-	-	-	-	-	-	-	-	-	-	-
50		Purchase Wastewater Treatment Charges	-	-	-	-	-	-	-	-	-	-	-	-	-
51		Material and Supplies Inventory	-	-	-	-	-	-	-	-	-	-	-	-	-
52		Prepayments	-	-	-	-	-	-	-	-	-	-	-	-	-
53		Projected Capital Expenditures	-	-	-	-	-	-	-	-	-	-	-	-	-
54		Deferred Debits	-	-	-	-	-	-	-	-	-	-	-	-	-
55		<b>Original Cost Rate Base</b>	<b>\$ 22,800,578</b>	<b>\$ (788,570)</b>	<b>\$ -</b>	<b>\$ (1,438,746)</b>	<b>\$ (873,673)</b>	<b>\$ (163,823)</b>	<b>\$ (196,573)</b>	<b>\$ (360,713)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 18,998.3</b>

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

Schedule GWB-5

**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-03476A-12-0307  
 Test Year Ended December 31, 2011

Schedule GWB-6

**RATE BASE ADJUSTMENT #2 LAS BARRANCAS #1**

LINE NO.	ACCT NO.	Description	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	380		983,459	(983,459)	-
2	AIAC		983,459	(983,459)	-

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							
354	\$	1,425,696	\$	100,716	\$	737,402	\$	57,161					\$	2,163,098	\$	157,878
355	\$	23,849	\$	1,685	\$	156	\$	12					\$	68,993	\$	3,654
360	\$	92,784	\$	6,555									\$	2,639,310	\$	223,711
370	\$	505,333	\$	35,699									\$	92,784	\$	6,555
371	\$	9,660,274	\$	682,437									\$	827,308	\$	56,002
380	\$	541,509	\$	38,254									\$	13,113,974	\$	950,159
381	\$	2,256	\$	159									\$	712,563	\$	51,514
382	\$	323,894	\$	22,881									\$	2,256	\$	159
389	\$	4,253	\$	300									\$	323,894	\$	22,881
390	\$	1,532	\$	108									\$	5,506	\$	398
367	\$	2,185	\$	154									\$	1,532	\$	108
396	\$	12,583,566	\$	888,949									\$	2,185	\$	154
	\$	1,757,533											\$	19,953,404	\$	1,473,172
AFUDC Total													\$	2,912,595		
AFUDC APR 2009													\$	1,439,423		
Excess													\$	1,473,172		
AFUDC Disallowance													\$	202,883		

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	Late Fees NARUC		
	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	\$	2,639,310	\$	5,243
370	\$	92,784	\$	4,571	\$	132,358	\$	7,935	\$	189,617	\$	2,130	\$	92,784	\$	4,571
371	\$	505,333	\$	24,897	\$	3,453,701	\$	207,052	\$		\$		\$	827,308	\$	34,962
380	\$	9,660,274	\$	475,940	\$	171,054	\$	10,255	\$		\$		\$	13,113,974	\$	682,992
381	\$	541,509	\$	26,679	\$		\$		\$		\$		\$	712,563	\$	36,934
382	\$	2,256	\$	111	\$		\$		\$		\$		\$	2,256	\$	111
389	\$	323,894	\$	15,958	\$		\$		\$		\$		\$	323,894	\$	15,958
390	\$	4,253	\$	210	\$	1,252	\$	75	\$		\$		\$	5,506	\$	285
367	\$	1,532	\$	75	\$		\$		\$		\$		\$	1,532	\$	75
396	\$	2,185	\$	108	\$		\$		\$		\$		\$	2,185	\$	108
	\$	12,583,566	\$	619,964	\$	4,495,923	\$	269,534	\$	619,813	\$	6,964	\$	19,953,404	\$	896,462
Late Fees, Per Co.	\$	619,964			\$	269,534			\$	6,964			\$	896,462		
Disallowance	\$	619,964			\$	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		Legal/Other NARUC		
	UPIS		UPIS		UPIS		UPIS		UPIS		UPIS		UPIS		UPIS		UPIS				
354	\$	1,425,696	\$	12,620	\$	737,402	\$	9,291	\$	68,993	\$	14	\$	2,254,102	\$	37	\$	2,163,098	\$	21,911	
355	\$	23,849	\$	211	\$	156	\$	2	\$	361,203	\$	71	\$	2,254,102	\$	37	\$	68,993	\$	14	
360	\$	92,784	\$	821	\$	132,358	\$	1,668	\$	189,617	\$	37	\$	2,254,102	\$	37	\$	92,784	\$	821	
370	\$	505,333	\$	4,473	\$	3,453,701	\$	43,515	\$	189,617	\$	37	\$	2,254,102	\$	37	\$	827,308	\$	6,178	
380	\$	9,660,274	\$	85,511	\$	171,054	\$	2,155	\$	189,617	\$	37	\$	2,254,102	\$	37	\$	13,113,974	\$	129,026	
381	\$	541,509	\$	4,793	\$	171,054	\$	2,155	\$	189,617	\$	37	\$	2,254,102	\$	37	\$	712,563	\$	6,949	
382	\$	2,256	\$	20	\$	1,252	\$	16	\$	189,617	\$	37	\$	2,254,102	\$	37	\$	2,256	\$	20	
389	\$	323,894	\$	2,867	\$	1,252	\$	16	\$	189,617	\$	37	\$	2,254,102	\$	37	\$	323,894	\$	2,867	
390	\$	4,253	\$	38	\$	1,252	\$	16	\$	189,617	\$	37	\$	2,254,102	\$	37	\$	5,506	\$	53	
367	\$	1,532	\$	14	\$	1,252	\$	16	\$	189,617	\$	37	\$	2,254,102	\$	37	\$	1,532	\$	14	
396	\$	2,185	\$	19	\$	1,252	\$	16	\$	189,617	\$	37	\$	2,254,102	\$	37	\$	2,185	\$	19	
	\$	12,583,566	\$	111,387	\$	4,495,923	\$	56,647	\$	619,813	\$	122	\$	2,254,102	\$	37	\$	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	\$	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	\$ 878,824	45.5768	12.0000	33.5768	0.0920	\$ 80,844
3	27,421	45.5768	(2.3334)	47.9102	0.1313	\$ 3,599
4	55,247	45.5768	239.8508	(194.2740)	(0.5323)	\$ (29,406)
5	342,364	45.5768	59.8970	(14.3202)	(0.0392)	\$ (13,432)
6	219,910	45.5768	63.9648	(18.3880)	(0.0504)	\$ (11,079)
7	181,981	45.5768	66.6282	(21.0514)	(0.0577)	\$ (10,496)
8	225,961	45.5768	67.2163	(21.6395)	(0.0593)	\$ (13,396)
9	20,669	45.5768	(18.5294)	64.1062	0.1756	\$ 3,630
10	45,758	45.5768	25.4922	20.0846	0.0550	\$ 2,518
11	129,723	45.5768	(11.7634)	57.3402	0.1571	\$ 20,379
12	62,877	45.5768	20.6635	24.9133	0.0683	\$ 4,292
13	-	45.5768	-	45.5768	0.1249	\$ -
14	63,457	45.5768	30.0000	15.5768	0.0427	\$ 2,708
15	TAXES					
16	76,451	45.5768	15.9481	29.6287	0.0812	\$ 6,206
17	142,004	45.5768	729.6032	(684.0264)	(1.8740)	\$ (266,122)
18	334,405	45.5768		45.5768	0.1249	\$ 41,756
19	873,925	45.5768	91.2500	(45.6732)	(0.1251)	\$ (109,356)
20						
21						
22						
23	WORKING CASH REQUIREMENT					
						<u>\$ (287,354)</u>
28						
29		Per FWWS		Per Staff		
30						
31	Cash Working Capital, per Above	\$ 73,359		\$ (287,354)		\$ (360,713)
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	<u>\$ 1,653,938</u>		<u>\$ 1,293,225</u>		<u>\$ (360,713)</u>

**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	\$ -	\$ -	\$ -	\$ 3,351,423	\$ 3,351,423
2	Other Sewer Revenues	2,053,159	-	2,053,159	-	2,053,159
3	Metered Reuse Revenue	43,064	-	43,064	-	-
4	Total Operating Revenues	131,759	-	131,759	-	131,759
		<u>\$ 2,227,982</u>	<u>\$ -</u>	<u>\$ 2,227,982</u>	<u>\$ 3,351,423</u>	<u>\$ 5,579,404</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	19,438	32,478
30	Miscellaneous Expense	30,503	-	30,503	-	30,503
31	Depreciation Expense	1,497,193	(205,622)	1,291,571	-	1,291,571
32	Taxes Other Than Income	76,451	-	76,451	-	76,451
33	Property Taxes	95,728	-	95,728	46,276	142,004
34	Income Tax	\$ (676,904)	\$ (256,937)	\$ (933,842)	\$ 1,268,247	\$ 334,405
35	Total Operating Expenses	<u>3,415,794</u>	<u>(576,230)</u>	<u>2,839,563</u>	<u>1,333,961</u>	<u>4,173,524</u>
36	Operating Income (Loss)	<u>\$ (1,187,812)</u>	<u>\$ 576,230</u>	<u>\$ (611,582)</u>	<u>\$ 2,017,462</u>	<u>\$ 1,405,880</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)

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	Flat 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
<b>Operating Expenses</b>								
5	Salaries and Wages	\$ 802,071	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 802,071
6	Salaries and Wages - Officers and Director:	137,000	(60,247)	-	-	-	-	76,753
7	Employee Pension and Benefits	27,421	-	-	-	-	-	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 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	-	-	-	(205,622)	-	1,291,571
32	Taxes Other Than Income	76,451	-	-	-	-	-	76,451
33	Property Taxes	95,728	-	-	-	-	-	95,728
34	Income Tax	(676,904)	-	-	-	-	-	(676,904)
35	Total Operating Expenses	\$ 3,415,794	\$ (60,247)	\$ (20,450)	\$ (32,975)	\$ (205,622)	\$ (256,937)	\$ (933,842)
36	Operating Income	\$ (1,187,812)	\$ 60,247	\$ 20,450	\$ 32,975	\$ 205,622	\$ 256,937	\$ (611,582)

**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

**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

**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	2,266,746	2.00%	45,335
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			32,968,188		1,377,305
34		Less:			
35		Amortization of CIAC at Company's Rate	\$ 1,726,854	4.9648%	\$ 85,734
36		Staff Recommended Depreciation Expense			\$ 1,291,571
37		Company Proposed Depreciation Expense			\$ 1,497,193
38		Staff Adjustment			\$ (205,622)

<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

**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>\$ (256,937)</u>	<u>\$ (933,842)</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 GRFC 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		5,579,404
6	Subtotal (Line 4 + Line 5)	6,683,945	10,035,368
7	Number of Years	3	3
8	Three Year Average (Line 5 / Line 6)	2,227,982	3,345,123
9	Department of Revenue Multiplier	2	2
10	Revenue Base Value (Line 7 * Line 8)	4,455,963	6,690,245
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	6,856,197
14	Assessment Ratio	20.0%	20.0%
15	Assessment Value (Line 12 * Line 13)	924,383	1,371,239
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)		\$ 142,004
21	Staff Test Year Adjusted Property Tax Expense (Line 16)		\$ 95,728
22	Increase in Property Tax Due to Increase in Revenue Requirement		\$ 46,276
23	Increase in Property Tax Due to Increase in Revenue Requirement (Line 21)		\$ 46,276
24	Increase in Revenue Requirement		\$ 3,351,423
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

# **ATTACHMENT**

**1**

Far West Water & Sewer, Inc.  
Docket No. WS-03478A-12-0307  
Response to Staff's Fifth Set of Data Requests

**Response provided by:** Ray L. Jones  
**Title:** Consultant  
**Address:** 25213 N. 49<sup>th</sup> Drive  
Phoenix, AZ 85083  
**Data Request Number:** GWB 5.9

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- Q. Plant from Zenon – Please describe the plant that had been used temporarily at the DelOro site and later moved to the Seasons location. Please describe the operational necessity of this plant while at Del Oro and how these operational problems have been resolved permanently. Please provide a copy of the agreement(s) governing the temporary as well as permanent use of the equipment. Please provide a schedule of all payments made to Zenon for this equipment including payment dates and accounts charges, segregate payments as they would apply to each location, and provide a brief description of the payments. Also, please describe the operational problems that this equipment has resolved at Seasons.
- A. The Zenon plant is a mobile package membrane bioreactor wastewater treatment facility. The facility consists of an epoxy-painted carbon steel membrane tank, Zee Weed Membrane Cassettes, an air-conditioned and heated process equipment building housing required equipment including blowers, pumps, instrumentation, back pulse tanks, cleaning tanks, cleaning feed systems and air compressor.

During winter months flows at the Del Oro WWTP occasionally exceed the 150,000 gpd capacity of the facility. The high flow rates caused operational issues and resulted in complaints to ADEQ. In early 2006 ADEQ inspections were conducted and meeting were held between Far West and ADEQ. The Zenon facility was installed to reduce loading on the existing facility until such time as a planned permanent expansion of the Del Oro facility occurred. Phase I of the permanent expansion of the Del Oro facility is now in service, eliminating the need for the Zenon plant.

The Zenon plant is being relocated to Seasons to allow that facility to be increased in capacity from 70,000 gallons per day to 150,000 gallons per day and to improve nitrate treatment capability of the Seasons facility.

Requested Agreements and Schedule attached:  
[GWB 5.9 Zenon MBR Temporary Plant Rental Agreements.pdf](#)  
[GWB 5.9 Zenon MBR Temporary Plant Purchase PO Signed.pdf](#)  
[GWB 5.9 Zenon MBR Plant Payment Schedule.pdf](#)

# **ATTACHMENT**

**2**

Far West Water & Sewer, Inc.  
Docket No. WS-03478A-12-0307  
Response to RUCO's Second Set of Data Requests

**Response provided by:** Ray Jones  
**Title:** Consultant  
**Address:** 25213 N. 49<sup>th</sup> Drive  
Phoenix, Arizona 85083  
**Data Request Number:** 2.11

---

Q. In-Service Dates & Capital Costs – Beginning as of 1/1/06, for all FWWS sewage system lift stations, treatment plants, and pressurized mains, please provide the in-service date and capital cost.

A. Since 2006 the following sewer system lift station, force main and treatment plant projects have been completed and placed into service.

<u>Project</u>	<u>In Service</u>	<u>Cost</u>	<u>Notes</u>
Del Oro WWTP (Temp)	6/30/2011	\$ 623,763	
Del Oro WWTP (Temp) -Zenon Module	6/30/2011	\$ 1,060,096	booked 6/29/07
Section 14 WWTP	8/24/2011	\$ 12,583,565	
Palm Shadows LS and FM	10/1/2011	\$ 619,813	
Del Oro WWTP (Ph I)	12/22/2011	\$ 4,495,923	

For detail of all completed projects see response to Staff DR GB – 1.4.

# **ATTACHMENT**

**3**

Far West IDA Bonds  
 Series 2007A and 2007B  
 Closing Date: December 13, 2007

Construction Disbursements

<u>Project Description</u>	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
Section 14 MBR WWTP Improvements	4,219,692.11	-	4,219,692.11
Palm Shadows Lift Station and Force Main (Decommission WWTP)	1,236,404.85	-	1,236,404.85
Zenon Temporary Treatment at Del Oro	1,700,939.40	-	1,700,939.40
Del Oro MBR WWTP Improvements	2,068,992.13	-	2,068,992.13
Seasons MBR WWTP Improvements	153,251.74	-	153,251.74
Force Mains to Del Oro (Decommission Del Rey and Royale WWTPs)	307,304.00	-	307,304.00
Paula Avenue Lift Station	607,381.75	-	607,381.75
Odor Control at WWTPs	11,886.81	-	11,886.81
Planning, Engineering, Hydrology, CM, Permitting, Legal for wastewater projects	4,879,568.17		4,879,568.17
Planning and Engineering for Water Treatment Plant		546,981.45	546,981.45
Implement GIS Mapping of Water and Sewer System	246,328.00	464,157.00	710,485.00
Purchase and install Frey Cubics customer billing system	104,800.00	419,200.00	524,000.00
Research and implement automated meter reading	-	278,370.12	278,370.12
Water Treatment Tech Review & Membrane Pilot	-	45,594.06	45,594.06
44th Street Water Main	-	19,517.98	19,517.98
Fortuna Road Water and Sewer Mains	<u>269,714.88</u>	<u>109,772.63</u>	<u>379,487.51</u>
Total Construction Disbursements	15,806,263.84	1,883,593.24	17,689,857.08

# **ATTACHMENT**

**4**

Far West Water & Sewer, Inc.  
Docket No. WS-03478A-12-0307  
Response to Staff's Second Set of Data Requests

**Response provided by:** Sheryl Ferro  
**Title:** Accounting Analyst  
**Address:** 12486 S Foothills Blvd, Yuma, AZ 85367  
**Data Request Number:** GB 2-1

---

- Q. Related to Decision No. 72594, Finding of Facts 305 and 306 (related parties)—
1. Please identify all related parties.
  2. Please provide a narrative description of the relationship between Far West and its related parties.
  3. For each year since the last test year, including the test year in this proceeding, please provide a schedule by year showing the cash receipts and cash disbursements between Far West and its related parties, including H&S Developers. Please provide any written agreements covering those transactions and the rate making impact of those transactions.
  4. For each year since the last test year, including the test year in this proceeding, please provide a schedule by year showing any unpaid liability and unpaid receivable between Far West and its related parties, including H&S Developers. Please provide any written agreements covering those transactions and the rate making impact of those transactions.
  5. Please identify all resources shared with any related party, including H&S Developers. Please provide any written agreements covering those transactions and the rate making impact of those transactions.

- A.
1. The following are related parties to Far West Water & Sewer, Inc.

Paula Capestro  
Sandra Braden  
Andrew J. Capestro  
H&S Developers, Inc.  
DBAs:  
Hank's Market & Butcher Shop  
Foothills Mini Mart  
Foothills Sand & Gravel  
Foothills Hardware & Lumber  
Schechert Trust  
Foothills Golf Courses  
Las Barrancas Golf Course  
Southwest Land, LLC  
El Rancho Encantado, LLC  
Q Mountain Water, Inc.

2. Paula Capestro is the President of Far West, owns 50% of the stock of Far West and is on the Far West Board of Directors. Paula Capestro is the sister of Sandra Braden and the wife of Andrew Capestro. Paula Capestro receives and pays a water bill for her home receiving water service from Far West.

Sandra Braden is the Chief Executive Officer of Far West, owns 50% of the stock of Far West and is on the Far West Board of Directors. Sandra Braden is the sister of Paula Capestro. Sandra Braden receives and pays a water bill for her home receiving water service from Far West.

Andrew J. Capestro is the husband of Paula Capestro. Andrew J. Capestro provides legal and management services to Far West.

H&S Developers, Inc. is owned by Paula Capestro and Sandra Braden. H&S was the original developer of the Foothills area. H&S has main extension agreements with Far West. H&S originally held the certificates of convenience now held by Far West. The water and sewer certificates of convenience and necessity were transferred to Far West pursuant to Decision No. 60799 on April 8, 1998. Prior to Far West directly assuming all construction obligations during 2010, H&S provided construction services to Far West. H&S provides short term cash advances to Far West to meet short term operating cash needs. Far West employees occasionally provide services to H&S. When provided, those services are billed at cost to H&S. H&S owns and operates Hank's Market & Butcher Shop, Foothills Mini Mart, and Foothills Sand & Gravel. Far West purchases certain materials and supplies from those entities at retail prices. H&S receives and pays water and sewer bills for its properties receiving water or sewer service from Far West.

Foothills Hardware and Lumber is a partnership between Paula Capestro & Sandra Braden. Far West purchases certain materials and supplies from Foothills Hardware and Lumber at retail prices. Foothills Hardware and Lumber receives and pays water and sewer bills for its property receiving water or sewer service from Far West.

The Schechert Trust is a trust with Paula Capestro and Sandra Braden as the beneficiaries. The Schechert Trust has provided short term financing to Far West. The Schechert Trust has sold land to Far West.

The Foothills Golf Courses are owned by the Schechert Trust and operated by H&S Developers. The Foothills Golf Courses receive and pay water, sewer and effluent bills for their property.

The Las Barrancas Golf course is owned by the Schechert Trust and operated by H&S Developers. The Las Barrancas Golf Course receives and pays water, sewer and effluent bills for their property.

Southwest Land, LLC is owned by Paula Capestro and Andrew Capestro. Southwest land, LLC rents office space to Far West.

El Rancho Encantado, LLC is a residential development owned by Paula Capestro. El Rancho Encantado, LLC has main extension agreements with Far West. El Rancho Encantado has provided short term cash advances to Far West to meet short term operating cash needs. El Rancho Encantado receives and pays water and sewer bills for their properties.

Q-Mountain Water, Inc. is a small water company partially owned by Paula Capestro, Sandra Braden and the Schechert Trust. Far West's water division provides administrative services to Q-Mountain Water, Inc.

3. See attached file FWS DR2 GB 2-1 3 Cash Receipts and Disbursements.xlsx for the requested schedule. Note: Cash receipts for payment of water and sewer billings by related parties are not provided because these cash receipts are not tracked separately from other customer cash receipts. Other than main extension agreements, and the lease agreements noted in number 5 below, there are not written agreements. Note: Main Extension Agreements are voluminous and will be made available at the Company's offices.
4. See attached file FWS GB 2-1 4 Payables and Receivables to Related Party.xlsx for the requested schedule. There are no written agreements supporting these balances. The ratemaking impact of the accounts payable and accounts receivable balances is to the computation of working capital. The loan from the Schechert Trust affects the Company's capital structure.
5. Far West administrative personnel share an office building with H&S Developers. H&S Developers charge Far West for Far West's share of the operating expenses such as electricity, telephone and postage. Far West's rent for the administrative building is paid to Southwest Land, LLC. Far West Water & Sewer, Inc. customer service building is rented from Southwest Land, LLC. See attached files Southwest Land Lease 12486 S Foothills Blvd Acctg Ofc.PDF and Southwest Land Lease 13157 E 44th St Admin Ofc.PDF for lease agreements.

Certain Far West employee's also provide services to H&S Developers. The following positions, Payroll Manager, Safety Coordinator, Assistant Controller, and IT Manager split time between Far West and H&S. Far West wastewater is allocated 1/3 of these positions cost which is the only portion of the cost included in the requested salary expense in this case. Four employees, James Stone, Gary Foreman, Gerry Valle and Enrique Quevedo, work for both Far West and H&S. These employees charge each company for the actual time expended for each company and are paid separately by each company for their time. The amount included in the requested salary expense in this case is based on the actual test year charges to Far West. Four employees that work in the five acres vehicle repair shop service both Far West and H&S vehicles. They are paid by Far West. However, when they work on H&S vehicles, their time is tracked by work order with the actual cost of the service provided paid to Far West by H&S. See previously

Fair West Water & Sewer, Inc.  
Docket No. WS-03478A-12-0307  
Response to Staff's Second Set of Data Requests

provided workpaper FW Rate Case Data.xlsx, Tab: Payroll for detailed salary information.

# **ATTACHMENT**

**5**

Far West Water & Sewer, Inc.  
Docket No. WS-03478A-12-0307  
Response to Staff's Sixth Set of Data Requests

**Response provided by:** Paula Capestro  
**Title:** President  
**Address:** 12486 S Foothills Blvd, Yuma, AZ 85367  
**Data Request Number:** **GWB 6.3**

---

**Q. Executive/Officer Salaries**

1. Please describe the approximate annual hours spent working on Far West Water and Far West Sewer.
2. Please describe the all other business pursuits undertaken by the owners of Far West and provide the approximate annual hours spent working on other business pursuits.
3. Please indicate the approximate distance between the principal residences of each the owners of Far West and the Company's principal place of business.

A. 1. Paula Capestro and Sandra Braden are the only executives and officers of Far West. Paula Capestro estimates that she works 2,075 hours per year performing Far West executive duties. Sandra Braden estimates that she works 250 hours per year performing Far West executive duties.

2. As more fully described in the Company's response to Staff DR GB 2-1, Paula Capestro and/or Sandra Braden are owners in the following business interests that are related parties to Far West.

H&S Developers, Inc.  
DBAs:  
Hank's Market & Butcher Shop  
Foothills Mini Mart  
Foothills Sand & Gravel  
Foothills Hardware & Lumber  
Schechert Trust  
Foothills Golf Courses  
Las Barrancas Golf Course  
Southwest Land, LLC  
El Rancho Encantado, LLC  
Q Mountain Water, Inc.

In addition, Sandra Braden is associated with business unrelated the Far West involved in renting property (Texas Tango) and ranching (Braden Ranches). In addition, Sandra Braden holds a broker's license and is involved in land sales as a broker.

Far West Water & Sewer, Inc.  
Docket No. WS-03478A-12-0307  
Response to Staff's Sixth Set of Data Requests

Paula Capestro estimates that she spends 925 hours per year performing duties for the related parties to Far West. Sandra Braden estimates that she spends 400 hours per year performing duties for the related parties and her unrelated business interests.

3. Paula Capestro's principal residence is 11744 South Ironwood Drive, Yuma, Arizona 85367. Sandra Braden's principal residence is 11587 South Ironwood Drive, Yuma, Arizona 85367. Both are located less than one mile from the Far West administrative office.

# **ATTACHMENT**

**6**

Far West Water & Sewer, Inc.  
Docket No. WS-03478A-12-0307  
Response to Staff's First Set of Data Requests

**Response provided by:** Ray L. Jones

**Title:** Consultant

**Address:** 25213 N. 49<sup>th</sup> Drive  
Phoenix, Arizona 85083

**Data Request Number:** GB – 1.7

---

Q: Schedule B-5, page 2 - Computation of Cash Working Capital. In the workpapers provided Staff, the revenue lag days of 48.4768 days include 9 days of billing lag. Please provide any operational or other reasons that the billing lag could not be shortened to 5 days or less.

- A. The nine day lag is based on a four-cycle per month billing schedule where a cycle of water meters is read on Monday through Friday of one week and the associated water and sewer billing is done on Friday of the following week. Far West believes that this schedule works well and is appropriate for the customer service and staffing levels currently maintained by Far West.

Current staffing consists of two meter readers and a single billing clerk that manually reviews 3,500 – 4,500 meter reads when they are returned from the field. The reads are checked for reading errors, high and low usage along with mailing courtesy letters to customers that possibly have property issues affecting meter reading. In order to shorten billing lag to five days or less, Far West would need additional personnel including a minimum of a second billing clerk and one additional meter reader. Far West would also need to invest in updated meter reading equipment, and other billing practices would need to be modified, including how the processing of late payment penalties and customer shut off procedures. For these reasons, Far West does not believe that shortening the billing lag is practical at this time.

# **ATTACHMENT**

**7**

Far West Water & Sewer, Inc.  
Docket No. WS-03478A-12-0307  
Response to Staff's Sixth Set of Data Requests

**Response provided by:** Paula Capestro

**Title:** President

**Address:** 12486 S Foothills Blvd, Yuma, AZ 85367

**Data Request Number:** GWB 6.3

---

**Q.** Executive/Officer Salaries

1. Please describe the approximate annual hours spent working on Far West Water and Far West Sewer.
2. Please describe the all other business pursuits undertaken by the owners of Far West and provide the approximate annual hours spent working on other business pursuits.
3. Please indicate the approximate distance between the principal residences of each the owners of Far West and the Company's principal place of business.

**A.** 1. Paula Capestro and Sandra Braden are the only executives and officers of Far West. Paula Capestro estimates that she works 2,075 hours per year performing Far West executive duties. Sandra Braden estimates that she works 250 hours per year performing Far West executive duties.

2. As more fully described in the Company's response to Staff DR GB 2-1, Paula Capestro and/or Sandra Braden are owners in the following business interests that are related parties to Far West.

H&S Developers, Inc.

DBAs:

Hank's Market & Butcher Shop

Foothills Mini Mart

Foothills Sand & Gravel

Foothills Hardware & Lumber

Schechert Trust

Foothills Golf Courses

Las Barrancas Golf Course

Southwest Land, LLC

El Rancho Encantado, LLC

Q Mountain Water, Inc.

In addition, Sandra Braden is associated with business unrelated the Far West involved in renting property (Texas Tango) and ranching (Braden Ranches). In addition, Sandra Braden holds a broker's license and is involved in land sales as a broker.

Far West Water & Sewer, Inc.  
Docket No. WS-03478A-12-0307  
Response to Staff's Sixth Set of Data Requests

Paula Capestro estimates that she spends 925 hours per year performing duties for the related parties to Far West. Sandra Braden estimates that she spends 400 hours per year performing duties for the related parties and her unrelated business interests.

3. Paula Capestro's principal residence is 11744 South Ironwood Drive, Yuma, Arizona 85367. Sandra Braden's principal residence is 11587 South Ironwood Drive, Yuma, Arizona 85367. Both are located less than one mile from the Far West administrative office.

# **ATTACHMENT**

**8**

Far West Water & Sewer, Inc.  
Docket No. WS-03478A-12-0307  
Response to Staff's Second Set of Data Requests

**Response provided by:** Ray Jones

**Title:** Consultant

**Address:** 25213 N. 49<sup>th</sup> Drive  
Phoenix, AZ 85083

**Data Request Number:** GB 2-3

---

Q. Related to Decision No. 72594, Finding of Facts 308 and 309 - Please provide a description of any area served by FWWS that is not within its CC&N and whether any such areas are considered to be contiguous. If any area is not considered to be contiguous, please describe the authority under which service is provided.

A. There are four small areas contiguous to the Far West Sewer CC&N that are served by Far West. A description of each follows:

Sierra Ridge – Sierra Ridge is a 113 unit residential subdivision located just south of I-8 and east of Avenue 12E. In addition to being conThe Commission authorized

Arroyo 1 – Arroyo 1 is a 123 unit residential subdivision located south of 44<sup>th</sup> Street and east of Ironwood Drive.

El Rancho Encantado 1 – El Rancho Encantado 1 is a 91 unit residential subdivision located south of 48<sup>th</sup> Street and west of Foothills Blvd.

Shell Gas Plaza – This small commercial development contains a gas station and a fast food restaurant. It is located on the southeast corner of I-8 and Fortuna Road.

# **ATTACHMENT**

**9**

Far West Water & Sewer, Inc.  
Docket No. WS-03478A-12-0307  
Response to Staff's Fifth Set of Data Requests

**Response provided by:** Ray L. Jones  
**Title:** Consultant  
**Address:** 25213 N. 49<sup>th</sup> Drive  
Phoenix, AZ 85083  
**Data Request Number:** GWB 5.8

- Q. Refer to FW Original Filing.xlsx, Bad Debt Expense, \$33,490
1. Please explain the methodology used by the Company to record Bad Debt Expense.
  2. Please provide a 3 year trend for each of the 3 years ending with the test year.
  3. Please explain significant fluctuations.

A.

1.

Period	Bad Debt Expense	Methodology Used
2009	5,630.00	Disconnected (Final) customers with balances as of December 31, 2008 written off.
2010	0.00	Bad debt schedules not compiled due to software conversion during 2010.
2011	33,489.65	Customer accounts with no payment received on account for one year written off.
	<u>39,119.65</u>	

2 -3.

Period	Bad Debt Expense	Significant Fluctuations
2009	5,630.00	
2010	0.00	No bad debts schedules compiled.
2011	33,489.65	Change in methodology. Customer accounts with no payment received on account for one year written off. Represents two years of bad debt.
Total	<u>39,119.65</u>	
Annual Average	13,039.88	
2011 Sales	2,239,713.00	
Percent of Sales	0.58%	

# **ATTACHMENT**

**10**

Far West Water & Sewer, Inc.  
Docket No. WS-03478A-12-0307  
Response to Staff's Third Set of Data Requests

**Response provided by:**      **Ray L. Jones**

**Title:**                              **Consultant**

**Address:**                         **25213 N. 49<sup>th</sup> Drive**  
   **Phoenix, AZ 85083**

**Data Request Number:**      **JA – 3.48**

---

- Q.    Regarding the refunds due to Spartan Homes from Far West/H&S Development, per Decision No. 72594, Staff notes documentation supporting a payment of \$47,682 paid to Spartan on or about July 31, 2012. Please provide a status report regarding the balance of the refunds due to Spartan.
- A.    The balance of funds has not been paid. The Company is continuing its efforts to secure needed funds to pay the balance.

# **ATTACHMENT**

**11**

**Far West Water & Sewer, Inc**  
**Sewer Division**  
**Unpaid Receivables - Related Party**

Year	Description	Related Party	Balance	Comments
2008	Accounts Receivable, Assoc Co-Util Bills	Various	192,271.20	
			<u>192,271.20</u>	
2009	Accounts Receivable, Las Barrancas Effluent	Las Barrancas Golf Course	83,574.60	
2009	Accounts Receivable, Par 3 & Executive Effluent	Foothills Golf Courses	213,233.60	
			<u>296,808.20</u>	
2010	Accounts Receivable, Assoc Co-Util Bills	Various	1,696.50	
2010	Accounts Receivable, Par 3 & Executive Effluent	Foothills Golf Courses	280,002.60	
2010	Accounts Receivable, Foothills Golf Courses, Lease	Foothills Golf Courses	11,962.56	
2010	Accounts Receivable, Las Barrancas Effluent	Las Barrancas Golf Course	77,852.00	
			<u>371,513.66</u>	
2011	Accounts Receivable, Assoc Co-Util Bills	Various	69.46	
2011	Accounts Receivable, Par 3 & Executive Effluent	Foothills Golf Courses	302,082.00	
2011	Accounts Receivable, Las Barrancas Effluent	Las Barrancas Golf Course	74,107.00	
2011	Accounts Receivable, Work Orders Associated Co	Various	25,701.74	
			<u>401,960.20</u>	

# **ATTACHMENT**

**12**

**Far West Water & Sewer, Inc.**  
**Sewer Division**  
**Schedule of Accrued Property Taxes**  
**December 31, 2011**

<b>Account Number</b>	<b>Tax Year</b>	<b>Amount</b>
U0000005	2008	77,310.98
U0000005	2009	78,499.36
U0000005	2010	92,160.84
U0000005	2011	120,542.44
R0084260	2011	10.76
R0094957	2011	345.88
R0094958	2011	350.28
R0094959	2011	350.28
R0094960	2011	350.28
R0094961	2011	<u>1,324.00</u>
	<b>Total</b>	<u><u>371,245.10</u></u>

# **ATTACHMENT**

**13**

Far West Water & Sewer, Inc.  
Docket No. WS-03478A-12-0307  
Response to Staff's Seventh Set of Data Requests

**Response provided by:** Ray L. Jones  
**Title:** Consultant  
**Address:** 25213 N. 49th Drive  
Phoenix, AZ 85083  
**Data Request Number:** GWB 7.2

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**Q. Vendor Interest Recorded in Utility Plant and CWIP --**

1. In response the Staff data request GB 5.5, the Company indicates that \$904,992 was charged for vendor interest. Please provide a schedule showing the support for each item by amount/invoice overdue, interest rate, late charges calculated, date that each invoice became due and the date that the invoice was satisfied either by payment or by executing a promissory note.
2. Please provide a schedule by plant description showing if there were any legal or other fees incurred to resolved unpaid bills. Please indicate the dates and accounts where those costs are reflected.
3. Explain the role played by Mr. Capestro, as project manager, on behalf of Far West, when the company started encountering late payment interest and charges from vendors?

**A.**

1. Please see attached files:  
GWB 7.2(1) Summary Vendor Interest Recorded in Utility Plant.pdf  
GWB 7.2(1) Supporting Docs Vendor Interest Invoices.pdf  
GWB 7.2(1) Vendor Interest Recorded in Utility Plant.xlsx
2. Please see attached files:  
GWB 7.2(2) Summary Plant Legal Other Fees Incurred to Resolve Unpaid Bills.pdf  
GWB 7.2(2) Plant Legal Other Fees Incurred to Resolve Unpaid Bills.xls
3. Mr. Capestro, as project manager, on behalf of Far West, negotiated contracts, entered into payment arrangements, looked for additional financing, extended payments with creditors, negotiated finance charges, renegotiated contracts to exclude finance charges, and/or to lower finance charges. Mr. Capestro also refinanced higher interest finance charges with lower interest finance charges.

Far West Water & Sewer, Inc.  
 Summary of Vendor Interest  
 Recorded in Utility Plant and Construction Work in Progress  
 Thru December 31, 2011

<u>Plant Description</u>	<u>NARUC 105</u>	<u>NARUC 371</u>	<u>NARUC 380</u>	<u>Total</u>
Section 14 WWTP	-	-	619,964.07	619,964.07
Del Oro WWTP	-	-	269,534.10	269,534.10
Palm Shadows Lift Station	-	6,963.66	-	6,963.66
CWIP-Seasons WWTP	2,798.54	-	-	2,798.54
CWIP-Miscellaneous	5,732.04	-	-	5,732.04
	-	-	-	-
Total	<u>8,530.58</u>	<u>6,963.66</u>	<u>889,498.17</u>	<u>904,992.41</u>

<u>Plant Description</u>	<u>JCI INDUSTRIES</u>	<u>ZENON</u>	<u>WASTE TECH - KUSTERS ZIMA CORPORATION</u>	<u>Essco Wholesale</u>	<u>Total</u>
Section 14 WWTP	9,795.87	565,233.54	26,487.50	18,447.16	619,964.07
Del Oro WWTP	2,229.68	267,304.42	-	-	269,534.10
Palm Shadows Lift Station	6,963.66	-	-	-	6,963.66
CWIP-Seasons WWTP	2,798.54	-	-	-	2,798.54
CWIP-Miscellaneous	5,732.04	-	-	-	5,732.04
	-	-	-	-	-
Total	<u>27,519.79</u>	<u>832,537.96</u>	<u>26,487.50</u>	<u>18,447.16</u>	<u>904,992.41</u>

# **ATTACHMENT**

**14**

Far West Water & Sewer, Inc.  
 Summary of Costs Incurred to Resolve Unpaid Bills  
 By Project & NARUC Account

Project	Date In Service	Total In Service	354 Structure Imprvmts	355 Power Gen Eq	360 Lift Strn	360 Force Main	367 Effluent Flow Metering	370 Wet Well	371 Pumping Eq	380 Trtmt Eq	381 Plant Sewers	382 Outfall Swr Lines Effluent	389 Vadose Well	390 Ofc Furn, Eq	396 Commun Eq	105 CWIP
el Oro WWTP	2011	56,647.49	1,601.65			0.34			287.48	54,383.76	371.53	-	-	2.72		1,580.65
im Shdws Force Main	2011	121.53				121.53										
im Shdws Lift Strn ther Projects	2011	36.69		4.08	21.38				11.23							
total		168,193.20	2,681.34	4.08	36.24	125.07	1.16	70.27	681.40	163,557.42	781.62	1.71	245.29	5.94	1.66	1,848.87

# **ATTACHMENT**

**15**

Far West Water & Sewer, Inc.  
Docket No. WS-03478A-12-0307  
Response to Staff's Seventh Set of Data Requests

**Response provided by:** Sheryl Ferro  
**Title:** Accounting Analyst  
**Address:** 12486 S Foothills Blvd, Yuma, AZ 85367  
**Data Request Number:** GWB 7.1

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**Q:** Project Management Fees-Regarding the fees charged by Mr. Capestro to capital projects since the last rate case.

1. Please provide a schedule showing all payments, dates, and the projects charged.
2. Please provide copies all written reports provided by Mr. Capestro to Company management regarding the status or other concerns with the projects.
3. Please indicate if there were any logs kept of time spent or exact tasks performed on projects and provide copies of those reports.
4. Provide a copy of all expense reports paid on behalf of Mr. Capestro related to this project management effort.
5. In Company response 5.3(8), the Company indicates that \$1,432,376 was paid to Coriolis for "Construction Management". Please explain the reasons that it was necessary to supplement the construction management services provided by Coriolis with the services of Mr. Capestro. Please also indicate if there were any construction management fees paid to parties other than Coriolis and Mr. Capestro.
6. Who approved this fee arrangement with Mr. Capestro?
7. Who reviewed and approved invoices received from Mr. Capestro related to these management fees services?
8. Identify and discuss all instances where Mr. Capestro, serving in this capacity, identified and brought significant project problems to the attention of management.

**A.**

1. Please see attached file GWB 7.1 (1) Construction Mgmt Fees Andrew J Capestro.pdf.
2. Please see attached reports:  
ADEQ compliance Oct 13 2011.pdf  
ADEQLetterreProcurementNov302010.pdf

Fair West Water & Sewer, Inc.  
Docket No. WS-03478A-12-0307  
Response to Staff's Seventh Set of Data Requests

ADEQLtrJan312011b.pdf  
AmendedSEP.pdf  
Compliance report stabilization of operations.pdf  
Compliance letter re Section 14 sub 2 and 3.pdf  
Compliance letter Oct 15 2012.pdf  
CompliancereportSept82010 (2).pdf  
First Quarter 2012 compliance report.pdf  
Fourth Quarter 2010 Progress report of Far West.pdf  
Fourth quarter 2012 compliance report Jan 15 2013.pdf  
January 15 2013 compliance letter.pdf  
LetterremodifiedSEP.pdf  
LetterremodifiedSEP1.pdf  
MarciaColquittWaterQualityEnforcement quarterly.pdf  
Supplementalreportonprocrementb.pdf

3. The project management fees were a standard monthly fee based upon the standard rate. No logs or tasks were necessary.
4. There were no expense reports submitted by or paid to Mr. Capestro.
5. Coriolis, LLC did not complete their contract with Far West Water & Sewer, Inc., discontinuing services in March 2009 before the wastewater treatment plant projects were finished. Their contract (see [GWB 7.1\(5\) CoriolisAgreement\[1\].pdf](#) and [GWB 7.1\(5\) FWW Coriolis Agreement.pdf](#)) was for \$2.2 million dollars of which \$1,432,376 was paid for services provided through March 2009. In March 2009, Andrew Capestro and Paula Capestro began directly managing the projects. Of note, Mr. Capestro did not start billing or receiving construction management fees until January 2010, nine months after the contract for Coriolis, LLC was terminated. Since, Paula Capestro is a salaried employee of Far West, she has not charged nor has she received any construction management fees.
6. The Board of Directors approved the fee arrangement for Mr. Capestro.
7. The project management fees were a standard monthly fee based upon the standard rate. No reviewing and approval of the invoices were necessary.
8. Please refer to progress reports provided in response to GWB 7.1 (2).

Far West Water & Sewer, Inc.  
 Schedule of Construction Management Fees  
 Paid to Andrew J. Capestro

Type	Date	Num	Name	Memo	Total Amount	Project Allocation:														
						Fraction 14		Del Oro		Palm		Palm		CWIP		CWIP		44th St		
						WWTP	WWTP	Del Oro	Del Oro	Shadows	Shadows	Shadows	Shadows	Season	Season	Shadows	Shadows	Water	Lines	
Bill	01/31/2010		2 CAPESTRO, ANDREW J	CONSTRUCTION MGE: DAILY INSPECTION OF PLANTS & ETC	10,000.00	7,323.55	1,572.71	1,572.71	849.79	219.97	33.98	33.98								
Bill	02/28/2010		2 CAPESTRO, ANDREW J	CONSTRUCTION MGE: DAILY INSPECTION OF PLANTS & ETC	10,000.00	7,323.55	1,572.71	1,572.71	849.79	219.97	33.98	33.98								
Bill	03/31/2010		2 CAPESTRO, ANDREW J	CONSTRUCTION MGE: DAILY INSPECTION OF PLANTS & ETC	10,000.00	7,323.55	1,572.71	1,572.71	849.79	219.97	33.98	33.98								
Bill	04/30/2010		2 CAPESTRO, ANDREW J	CONSTRUCTION MGE: DAILY INSPECTION OF PLANTS & ETC	10,000.00	7,323.55	1,572.71	1,572.71	849.79	219.97	33.98	33.98								
Bill	05/31/2010		2 CAPESTRO, ANDREW J	CONSTRUCTION MGE: DAILY INSPECTION OF PLANTS & ETC	10,000.00	7,323.55	1,572.71	1,572.71	849.79	219.97	33.98	33.98								
Bill	06/30/2010		2 CAPESTRO, ANDREW J	CONSTRUCTION MGE: DAILY INSPECTION OF PLANTS & ETC	10,000.00	7,323.55	1,572.71	1,572.71	849.79	219.97	33.98	33.98								
Bill	07/30/2010		2 CAPESTRO, ANDREW J	CONSTRUCTION MGE: DAILY INSPECTION OF PLANTS & ETC	10,000.00	7,323.55	1,572.71	1,572.71	849.79	219.97	33.98	33.98								
Bill	08/30/2010		2 CAPESTRO, ANDREW J	CONSTRUCTION MGE: DAILY INSPECTION OF PLANTS & ETC	10,000.00	7,323.55	1,572.71	1,572.71	849.79	219.97	33.98	33.98								
Bill	09/30/2010		2 CAPESTRO, ANDREW J	CONSTRUCTION MGE: DAILY INSPECTION OF PLANTS & ETC	10,000.00	7,323.55	1,572.71	1,572.71	849.79	219.97	33.98	33.98								
Bill	01/01/2011	2011-01	2 CAPESTRO, ANDREW J	CONSTRUCTION MGE: JAN FEB 2011	10,000.00	5,641.90	1,720.34	1,720.34	416.31	1,543.78	370.93	370.93								
Bill	02/01/2011	2011-02	2 CAPESTRO, ANDREW J	CONSTRUCTION MGE: FEB 2011	10,000.00	5,641.90	1,720.34	1,720.34	416.31	1,543.78	370.93	370.93								
Bill	03/01/2011	2011-03	2 CAPESTRO, ANDREW J	CONSTRUCTION MGE: MAR 2011	10,000.00	5,641.90	1,720.34	1,720.34	416.31	1,543.78	370.93	370.93								
Bill	04/01/2011	2011-04	2 CAPESTRO, ANDREW J	CONSTRUCTION MGE: APR 2011	10,000.00	5,641.90	1,720.34	1,720.34	416.31	1,543.78	370.93	370.93								
Bill	05/01/2011	2011-05	2 CAPESTRO, ANDREW J	CONSTRUCTION MGE: MAY 2011	10,000.00	5,641.90	1,720.34	1,720.34	416.31	1,543.78	370.93	370.93								
Bill	06/01/2011	2011-06	2 CAPESTRO, ANDREW J	CONSTRUCTION MGE: JUNE 2011	10,000.00	5,641.90	1,720.34	1,720.34	416.31	1,543.78	370.93	370.93								
Bill	07/01/2011	2011-07	2 CAPESTRO, ANDREW J	CONSTRUCTION MGE: JULY 2011	10,000.00	5,641.90	1,720.34	1,720.34	416.31	1,543.78	370.93	370.93								
Bill	08/01/2011	2011-08	2 CAPESTRO, ANDREW J	CONSTRUCTION MGE: AUG 2011	10,000.00	5,641.90	1,720.34	1,720.34	416.31	1,543.78	370.93	370.93								
Bill	09/01/2011	2011-09	2 CAPESTRO, ANDREW J	CONSTRUCTION MGE: SEPT 2011	10,000.00	5,641.90	1,720.34	1,720.34	416.31	1,543.78	370.93	370.93								
Bill	10/31/2011	2011-10	2 CAPESTRO, ANDREW J	CONSTRUCTION MGE: OCT 2011	10,000.00	5,641.90	1,720.34	1,720.34	416.31	1,543.78	370.93	370.93								
Bill	11/30/2011	2011-11	2 CAPESTRO, ANDREW J	CONSTRUCTION MGE: NOV 2011	10,000.00	5,641.90	1,720.34	1,720.34	416.31	1,543.78	370.93	370.93								
Bill	12/31/2011	2011-12	2 CAPESTRO, ANDREW J	CONSTRUCTION MGE: DEC 2011	10,000.00	5,641.90	1,720.34	1,720.34	416.31	1,543.78	370.93	370.93								
					<b>210,000.00</b>	<b>133,614.75</b>	<b>94,798.47</b>	<b>94,798.47</b>	<b>12,643.83</b>	<b>20,505.09</b>	<b>4,756.98</b>	<b>4,756.98</b>					<b>1,558.68</b>		<b>2,122.20</b>	