



BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

BOB STUMP, CHAIRMAN
GARY PIERCE
BRENDA BURNS
BOB BURNS
SUSAN BITTER SMITH

FILED
AZ CORP COMMISSION
DOCKET CONTROL

2014 APR 24 PM 10 15

ORIGINAL

IN THE MATTER OF THE APPLICATION OF FARMERS WATER COMPANY FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES FOR UTILITY SERVICE.

DOCKET NO. W-01654A-13-0267

**NOTICE OF FILING
STAFF'S SURREBUTTAL TESTIMONY**

Staff of the Arizona Corporation Commission ("Staff") hereby files the Surrebuttal Testimony of Crystal S. Brown, in the above-referenced matter.

RESPECTFULLY SUBMITTED this 25th day of April, 2014.

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Original and thirteen (13) copies of the foregoing filed this 25th day of April, 2014, with:

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Phoenix, Arizona 85007

Arizona Corporation Commission
DOCKETED

APR 25 2014

DOCKETED BY

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BEFORE THE ARIZONA CORPORATION COMMISSION

BOB STUMP
Chairman
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Commissioner
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Commissioner

IN THE MATTER OF THE APPLICATION OF) DOCKET NO. W-01654A-13-0267
FARMERS WATER CO., AN ARIZONA)
CORPORATION, FOR A DETERMINATION)
OF THE CURRENT FAIR VALUE OF ITS)
UTILITY PLANT AND PROPERTY AND FOR)
INCREASES IN ITS RATES AND CHARGES)
FOR UTILITY SERVICE.)
_____)

SURREBUTTAL
TESTIMONY
OF
CRYSTAL S. BROWN
PUBLIC UTILITIES ANALYST V
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

APRIL 25, 2014

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**EXECUTIVE SUMMARY
FARMERS WATER COMPANY
DOCKET NO. W-01654A-13-0267**

Staff recommends a revenue increase of \$150,829 or 18.26 percent increase over test year revenue of \$825,929. The total annual revenue of \$976,757 produces an operating income of \$97,700 for a 10.00 percent operating margin.

Staff's surrebuttal testimony responds to Farmers Water Company's ("Farmers Water" or "Company") rebuttal testimony on the following issues:

1. Operating Income
 - a. Salaries and Wages Expense
 - b. Miscellaneous Expense, Web Based Banking Fees
2. Notes Receivable
3. Equity Improvement Plan
4. Rate Design

1 **INTRODUCTION**

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

3 A. My name is Crystal S. Brown. I am a Public Utilities Analyst V 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 Crystal S. Brown who filed direct testimony in this case?**

8 A. Yes.
9

10 **PURPOSE OF SURREBUTTAL TESTIMONY**

11 **Q. What is the purpose of your surrebuttal testimony in this proceeding?**

12 A. The purpose of my surrebuttal testimony in this proceeding is to respond, on behalf of Staff,
13 to the rebuttal testimony of Ms. Heather Triana and Mr. Thomas Bourassa, witnesses for
14 (“Farmers Water” or “Company”).

15
16 **Q. What issues will you address?**

17 A. I will address the following issues:

- 18 1. Operating Income
19 a. Salaries and Wages Expense
20 b. Miscellaneous Expense, Web Based Banking Fees
21 2. Notes Receivable
22 3. Equity Improvement Plan
23 4. Rate Design
24

1 **Q. Does your silence on any particular issue raised in the Company's rebuttal testimony**
2 **indicate that Staff agrees with the Company's stated rebuttal position?**

3 A. No. Rather, where I do not respond, I rely on my direct testimony.
4

5 **SUMMARY OF PROPOSED REVENUES**

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

7 A. Staff recommends a revenue increase of \$150,829 or 18.26 percent increase over test year
8 revenue of \$825,929. The total annual revenue of \$976,757 produces an operating income of
9 \$97,700 for a 10.00 percent operating margin.
10

11 **Q. How does Staff's recommended revenue compare to the recommended revenue in**
12 **Staff's direct testimony?**

13 A. Staff's recommended revenue is the same as the recommendation made in its direct
14 testimony.
15

16 **RATE BASE**

17 **Q. What is Staff's recommended rate base?**

18 A. Staff's recommended rate base is a negative \$15,143 as shown on Surrebuttal Schedule CSB-
19 3.
20

21 **Q. How does Staff's recommended rate base compare to the recommended rate base in**
22 **Staff's direct testimony?**

23 A. Staff's recommended rate base rate is the same as the recommendation made in its direct
24 testimony.
25

1 **OPERATING INCOME**

2 *Operating Income Adjustment No. 2 – Salaries and Wages Expense*

3 **Q. In addition to the actual test year salaries and wages, did Staff allow salaries and wage**
4 **increases that were incurred after the test year?**

5 A. Yes. Staff increased actual test year salaries and wages expense by \$24,679, from \$223,212 in
6 the test year to \$247,891. Staff's adjustment reflects (1) a merit increase for an employee that
7 took effect two months after the test year, (2) the salary of a full-time employee who was
8 hired approximately one month after the test year, (3) the removal of cost for a part-time
9 employee who was replaced by a full-time employee and, (4) the removal of cost for two
10 workers who are not employed on a permanent basis.

11
12 **Q. Has Staff reviewed the Company's rebuttal testimony?**

13 A. Yes. The Company has increased its proposed salaries and wage expense by \$642, from
14 \$255,887 in its direct testimony to \$256,529 in its rebuttal testimony.

15
16 **Q. Why is the Company's proposed salaries and wages expense higher than Staff's**
17 **recommended?**

18 A. The Company has proposed salaries and wages expense of \$256,529 and Staff has
19 recommended \$247,891, a difference of \$8,638. The difference is due to the Company
20 including \$6,566 in employee bonuses and approximately \$2,072 for workers who are not
21 permanent employees ($\$6,566 + \$2,072 = \$8,638$). See Attachment A for the Company's
22 responses to Staff's data request CSB 2-13 and 2-14.

23
24 **Q. Why did Staff remove the bonuses?**

25 A. Farmers Water pays its employees a competitive salary, wage and benefits packages with
26 regular annual wage increases. These costs are designed to compensate the employees to

1 perform work that will enable the Company to provide safe and reliable service. Therefore,
2 the cost of the employees' base salaries and wages is a required cost. The bonus pay¹ is an
3 optional cost and, therefore, should be not be recovered through rates.
4

5 **Q. Is Staff recommending that the Company cease from paying annual bonuses to its**
6 **employees?**

7 A. No. Staff is recommending that, if the Company chooses to pay such bonuses, these
8 expenses be paid from the approximately \$353,598 in internally generated cash flow as shown
9 on Surrebuttal Schedule CSB-1.
10

11 **Q. Why did Staff remove the \$2,072 for two temporary part-time employees?**

12 A. Staff removed the \$2,072 because, as compared to permanent employees, the labor expense
13 of the temporary workers is not anticipated to recur each and every year.
14

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

16 A. Staff recommends salary and wages expense of \$247,891.
17

18 **Q. How does Staff's recommendation for salary and wages expense compare to the**
19 **recommendation for salary and wages expense in Staff's direct testimony?**

20 A. Staff's recommended salary and wages expense is the same as the recommendation made in
21 its direct testimony.
22

¹ According to the Company's response to CSB 2.13, "Full Time employees annual bonus is 1/24 of the employees annual pay."

1 *Operating Income Adjustment No. 5 – Miscellaneous Expense, Web Based Banking Fees*

2 **Q. In addition to the actual test year web based banking fees, did Staff allow increases**
3 **that were incurred after the test year?**

4 A. Yes. Staff increased actual test year web based banking fees by \$3,586, from \$0 in the test
5 year to \$3,586 to reflect the costs related to the Company's website that did not become
6 operational until after the test year.

7
8 **Q. Has Staff reviewed the Company's rebuttal testimony?**

9 A. Yes. The Company is proposing \$5,111 for web based banking fees. Staff has recommended
10 \$3,586, for a difference of \$1,525.

11
12 **Q. When did the Company incur the additional \$1,525?**

13 A. The additional cost was incurred within the Company's 2014 fiscal year (October 1, 2013 to
14 September 30, 2014). This is *more than* one year after the Company's 2012 test year. The
15 Commission generally limits post-test year expenses to one year after the test year unless the
16 expense is significant and/or has the potential of creating a financial hardship for the
17 Company.

18
19 **Q. What guidance does the Administrative Code provide concerning pro forma**
20 **adjustments?**

21 A. The Administrative Code states that pro forma adjustments are "adjustments to actual test
22 year results to obtain a normal or more realistic relationship between revenues, expenses and
23 rate base."

24

1 **Q. Does the Company's pro forma adjustment to include costs within the Company's**
2 **2014 fiscal year create a more realistic relationship between revenues, expenses, and**
3 **rate base?**

4 A. No, it does not. Recognizing this additional expense creates data synchronization problems
5 and does not result in an accurate comparison of revenues and expenses because this isolated
6 cost change was incurred during the Company's 2014 fiscal year, more than one year after the
7 test year, 2012. Further, Staff notes that the Company received approximately \$54,000² more
8 in revenues in 2013 than it did in the test year, 2012. However, the Company did not choose
9 to acknowledge these additional revenues in its rate filing. This additional revenue will likely
10 be ongoing in 2014 and will serve to offset the \$1,525 in additional web expense incurred
11 more than one year after the test year.

12
13 **Q. What is Staff's recommendation?**

14 A. Staff recommends miscellaneous expense, web based banking fees of \$3,586 as shown on
15 Surrebuttal Schedule CSB-11, line 2.

16
17 **Q. How does Staff's recommendation for miscellaneous expense, web based banking**
18 **fees compare to the recommendation for miscellaneous expense, web based banking**
19 **fees in Staff's direct testimony?**

20 A. Staff's recommendation for miscellaneous expense, web based banking fees is the same as the
21 recommendation made in its direct.

22

² \$880,674 (2013 Revenue) - \$825,929 (2012 Staff Adjusted Revenue) = \$54,745.

1 *Notes Receivable From Parent Company*

2 **Q. Has Staff reviewed the Company's rebuttal testimony concerning the notes**
3 **receivable?**

4 A. Yes. The Company disagreed with Staff's recommendation to discontinue the practice of
5 recording notes receivables from Farmers Investment Company ("FICO") and that FICO
6 repay the notes receivable within two years.

7
8 **Q. Do notes receivables arise from making loans to other entities including affiliates?**

9 A. Yes.

10
11 **Q. Are Farmers Water and FICO two separate legal entities?**

12 A. Yes.

13
14 **Q. As such, should FICO pay the loan back?**

15 A. Yes. The Company chose to record the transaction as a notes receivable from FICO. A
16 notes receivable, by definition is a written promise to receive a sum of money from another
17 party (in this case, from FICO) on one or more future dates. Therefore, FICO should adhere
18 to the commitment of the notes receivable and pay the \$95,000 back to Farmers Water.

19
20 **Q. Is the practice of recording notes receivable from FICO and co-mingling Farmers**
21 **Water's cash with that of FICO's cash in the public interest?**

22 A. No, it is not. Staff has recommended cash flow in the amount of \$353,598 annually for
23 Farmers Water. When Farmers Waters cash is deposited in FICO's bank account, it is not
24 protected from FICO's creditors which could cause legal and financial problems for Farmers
25 Water.

1 **Q. Can Staff cite an example where a water company and its owner's cash were not**
2 **legally separated and it caused problems for the water company?**

3 A. Yes, Consolidated Water Utilities, Ltd. On page 6, beginning at line 1 of Decision No. 58260,
4 it states, "The Company concurred that the funds garnished from its bank account were
5 awarded to a creditor for a non-utility debt. However, the Company is continuing to contest
6 the judgment and garnishment and expects the funds to be returned to the utility."

7
8 It is also possible that regulated utility funds could be used for non-utility purposes by an
9 affiliate. While Staff does not have specific evidence showing this has happened, Staff did
10 note with considerable interest the reference to "hedging gains and losses" shown on the
11 September 30, 2013 income statement that Farmers Water submitted in response to Staff data
12 request No. CSB 3-6. This response is included in Attachment B to my testimony. Regulated
13 water utility funds should not be used for hedging. While the September 30, 2013 income
14 statement does not show any hedging gains or losses for the period, the presence of this line
15 item implies that such gains and losses are contemplated or may have occurred at one or
16 more points in the past. Co-mingling of cash should cease in order to avoid actual, or
17 perceived, inappropriate uses of regulated utility-generated funds.

18
19 **Q. What is Staff's recommendation?**

20 A. Staff recommends that the Company discontinue the practice of recording notes receivables
21 from FICO and that FICO repay the notes receivable within two years.

22
23 **Q. How does Staff's recommendation compare to its direct testimony?**

24 A. Staff's recommendation is the same as its direct testimony except that Staff is also
25 recommending that there be no co-mingling of funds between Farmers Water and any
26 affiliate.

1 *Equity Improvement Plan*

2 **Q. Has Staff reviewed the Company's rebuttal testimony concerning the Equity**
3 **Improvement Plan?**

4 A. Yes. The Company disagrees with Staff's conclusion that the implementation of the
5 Company's existing Equity Improvement Plan has failed to meet the Commission's
6 objectives. Further, the Company disagrees with Staff's recommendation to modify the
7 Equity Improvement Plan to include paid in capital and to include equity improvement
8 targets.

9
10 **Q. How does the Company support its argument that its equity improvement plan has**
11 **worked and that its efforts have complied with the Commission's previous equity**
12 **improvement directive?**

13 A. Farmer's introduces a rather long and somewhat confusing discussion regarding the
14 Company's cash flows and suggests that the utilization of depreciation-driven cash flows to
15 fund a substantial portion of the Company's recent plant additions has somehow improved
16 the Company's equity position.

17
18 First of all, the recovery of depreciation expense does not improve equity. Second, the
19 Company's equity position has continued to deteriorate since the Commission issued its
20 equity improvement directive so it is not possible that a significant amount of equity has been
21 used to fund plant additions.

22
23 The Company's entire discussion regarding cash flows and how successful its equity
24 improvement plan has been should be given very little weight. To gauge how much success
25 Farmers Water has had in improving its equity position, the Commission only needs to look

1 at how the Company's equity position has changed since the Commission issued its equity
2 improvement directive.

3
4 **Q. Ms. Brown, please first explain why the use of cash that is recovered for depreciation
5 expense through rates and is used to fund plant additions does not increase equity?**

6 **A.** Since depreciation expense is recovered on a dollar for dollar basis, any revenues received
7 related to the recovery of depreciation expense has a zero effect on net income. A zero effect
8 on net income means no resulting increase in equity. Additionally, the recovery of
9 depreciation expense represents the conversion of one asset (i.e., plant) into another asset
10 (i.e., cash). Since there is no net change to assets, then there is no net change to equity.

11
12 **Q. Can you provide an example?**

13 **A.** Yes, from most accounting texts, equity can be defined as:

14
15 **ASSETS – LIABILITIES = EQUITY**

16 The following example illustrates that the cash received from the depreciation of a plant asset
17 represents the conversion of that plant asset into cash through the process of depreciation.
18 Since there is no net change to *total* assets or liabilities from year to year, there is no change to
19 equity:

20
21 **Year 1**

| <i>Total Assets</i> | | | | - | <i>Liabilities</i> | = | <i>Equity</i> |
|--------------------------|-----------------|--------------------|----------------|---|--------------------|---|-----------------|
| <u>Plant</u> | | <u>Cash</u> | | | | | |
| Beginning of Year | \$15,000 | Beginning of Year | \$ 0 | | | | \$15,000 |
| Accumulated Depreciation | <5,000> | Cash from Depr Exp | + \$5,000 | | \$ 0 | | |
| End of Year | \$10,000 | End of Year | \$5,000 | - | \$ 0 | = | \$15,000 |

Year 2

| <i>Total Assets</i> | | | | - | <i>Liabilities</i> | = | <i>Equity</i> |
|--------------------------|-----------------|--------------------|-----------------|---|--------------------|---|-----------------|
| <u>Plant</u> | | <u>Cash</u> | | | | | |
| Beginning of Year | \$ 15,000 | Beginning of Year | \$5,000 | | | | \$15,000 |
| Accumulated Depreciation | <\$10,000> | Cash from Depr Exp | +\$5,000 | | \$ 0 | | |
| End of Year | \$ 5,000 | End of Year | \$10,000 | - | \$ 0 | = | \$15,000 |

Year 3

| <i>Total Assets</i> | | | | - | <i>Liabilities</i> | = | <i>Equity</i> |
|--------------------------|-------------|--------------------|-----------------|---|--------------------|---|-----------------|
| <u>Plant</u> | | <u>Cash</u> | | | | | |
| Beginning of Year | \$ 15,000 | Beginning of Year | \$10,000 | | | | \$15,000 |
| Accumulated Depreciation | <\$15,000> | Cash from Depr Exp | +\$ 5,000 | | \$ 0 | | |
| End of Year | \$ 0 | End of Year | \$15,000 | - | \$ 0 | = | \$15,000 |

Q. Ms. Brown, before addressing the Company's equity improvement discussion, please turn to the filing made by Farmers Water on March 4, 2011, in response to the directive from the Commission that an equity improvement plan be filed by March 31, 2011. This document is included as Attachment F to your surrebuttal testimony. What does the Company state concerning its equity improvement?

A. On page 1, paragraph three of the Company's Equity Improvement Plan (see Attachment F), it states:

The Company's equity balance has improved by \$438,871 since the end of the test year in the Company recent rate case. While this improvement was primarily the result of adjustments adopted by the Commission in the recent rate case, continued improvement in the equity balance of the Company will occur only if the Company experiences positive operating income prospectively.

1 **Q. Ms. Brown, should the referenced “adjustments adopted by the Commission” be**
2 **considered as a part of the Company’s equity improvement?**

3 A. No, it should not, for several reasons. First, these adjustments were already given
4 consideration by the Commission before deciding that an equity improvement plan was
5 needed. A second financial statement adjustment in the amount of \$153,545 was apparently
6 also made after this filing (see rebuttal testimony of Company witness Ms. Triana, page 6,
7 lines 15 – 19). The Company’s ongoing need to record what appears to be an extremely large
8 and complex adjustment (see Attachment D) to its previously reported balance sheets and
9 income statements is troubling since it draws the overall accuracy of these financial
10 statements into question.

11
12 **Q. Let’s address in more detail your statement that the starting point of the Company’s**
13 **equity improvement discussion is inaccurate. Turn to the Company’s presentation of**
14 **its equity balances shown on page 7 of Ms. Triana’s rebuttal testimony. Does Staff**
15 **consider this presentation to be appropriate and truly representative of the change in**
16 **Farmers Water equity since the Commission last evaluated this issue and then issued**
17 **its directive to improve the Company’s equity level?**

18 A. No, Staff does not because this presentation could lead some readers to conclude that the
19 Company’s equity has increased since its last rate case. The Company begins, as the starting
20 point of its analysis, with a negative \$440,202 in equity and compares this amount to a
21 positive \$125,427 in equity; making it appear that equity has increased since the last rate case
22 when actually the Company’s equity has decreased since the last rate case.

23
24 Mr. Bourassa repeats this erroneous claim on page 11, line 1 of his rebuttal testimony. He
25 states, “Further, the Company’s equity balance has improved from a negative \$440,202 in the
26 last rate case to a positive \$125,427 in the instant case.”

1 **Q. What is the correct starting point?**

2 A. The correct starting point is the adjusted 2007 equity balance of \$260,590 as this is the
3 amount reported in the original application of the last rate case (See Attachment E), and thus
4 represents the equity position considered when the Commission reached its conclusion that
5 an equity improvement plan was needed. Using the \$260,590 as the starting point clearly
6 shows that the equity has decreased from \$260,590 to \$125,427.

7

| | |
|------------------------------------|----------------|
| Adjusted Equity 9/30/2007 | 260,590 |
| Inc.(Loss) Fiscal Years 2008-2009 | (367,557) |
| Inc. (Loss) Fiscal years 2010-2012 | <u>232,393</u> |
| Equity 9/30/2012 | 125,427 |

8
9 **Q. Does Staff continue to maintain that the implementation of the Company's Equity
10 Improvement Plan has failed to meet the Commission's objectives?**

11 A. Yes. The implementation of the Company's existing Equity Improvement Plan has clearly
12 not succeeded. This is evidenced by the fact that the Company has consistently maintained
13 negative retained earnings balances. Moreover, using the Company's own numbers, as
14 discussed above, its equity has decreased by \$135,163 (or 51.87 percent) since the last rate
15 case, from a \$260,590 in 2007 to \$125,427 in 2012.

16
17 Staff would note that the results from its analysis of the information contained in the
18 Company's Annual Reports to the Commission suggests that Farmers Water's \$125,427
19 equity position as of September 30, 2012 is overstated, but Staff's point can be made by just
20 using the figures supported by the Company.

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

23 A. Staff continues to recommend the following:
24

- 1 1. That the Commission direct the Company to include the following specific equity
2 level improvement targets.
- 3 • The Company's rate base should have 20 percent equity within five years
 - 4 • The Company's rate base should have 30 percent equity within seven years
 - 5 • The Company's rate base should have 40 percent equity within ten years
- 6
- 7 2. That the Commission direct the Company to specifically include paid-in-capital, in
8 addition to the internally generated retained earnings, as part of its future plan to build
9 equity and fund plant additions.
- 10
- 11 3. That the Equity Improvement Plan be modified such that it includes a plan to
12 improve rate base. The Company should file the plan within 90 days of the date of
13 the Decision resulting from this rate proceeding.
- 14
- 15 4. That if the Company has a negative or zero rate base in its next rate case, that the
16 Company's revenue requirement should be set to break-even, i.e., zero percent
17 operating margin. If the Company has a small rate base, the revenue requirement
18 should be based on operating margin or rate-of-return, whichever is less. The
19 Company's revenue requirement should be based on rate-of-return if the Company
20 has sufficient rate base.
- 21

22 **Q. How does Staff's recommendations compare to its direct testimony?**

23 **A. Staff's recommendations are the same as its direct testimony.**

24

1 **RATE DESIGN**

2 **Q.** Did Staff review the Company's rebuttal testimony concerning errors in Staff's rate
3 design schedule?

4 **A.** Yes.

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

7 **A.** Yes and Staff has corrected its rate design schedule accordingly.

8
9 **Q.** Does this conclude Staff's surrebuttal testimony?

10 **A.** Yes, it does.

REVENUE REQUIREMENT

| <u>LINE NO.</u> | <u>DESCRIPTION</u> | <u>[A] COMPANY ORIGINAL COST</u> | <u>[B] STAFF ORIGINAL COST</u> |
|-----------------|---|--|--|
| 1 | Adjusted Rate Base | \$ (15,143) | \$ (15,143) |
| 2 | Adjusted Operating Income (Loss) | \$ (60,295) | \$ (32,829) |
| 3 | Current Rate of Return (L2 / L1) | Not Meaningful | Not Meaningful |
| 4 | Current Operating Rate of Return Percentage | Not Meaningful | Not Meaningful |
| 5 | Operating Income | \$ 100,697 | \$ 97,700 |
| 6 | Operating Income Deficiency/(Excess) (L5 - L2) | \$ 160,992 | \$ 130,529 |
| 7 | Gross Revenue Conversion Factor | 1.15632 | 1.15552 |
| 8 | Increase (Decrease) In Gross Revenue (L7 * L6) | \$ 186,158 | \$ 150,829 |
| 9 | Adjusted Test Year Revenue | \$ 820,815 | \$ 825,929 |
| 10 | Proposed Annual Revenue (L8 + L9) | \$ 1,006,973 | \$ 976,757 |
| 11 | Required Increase/(Decrease in Revenue) (%) (L8/L9) | 22.68% | 18.26% |
| 12 | Proposed Operating Margin | 10.00% | 10.00% |
| 13 | Depreciation Expense | \$ 255,898 | \$ 255,898 |
| 14 | Cash Flow (L5 + L13) | \$ 356,595 | \$ 353,598 |

References:

Column [A]: Company Schedule A-1
Column [B]: Staff Schedules

GROSS REVENUE CONVERSION FACTOR

| LINE NO. | DESCRIPTION | (A) | (B) | (C) | (D) |
|--|--|-----------------|-------------------|------------|-----|
| <u>Calculation of Gross Revenue Conversion Factor:</u> | | | | | |
| 1 | Revenue | 100.0000% | | | |
| 2 | Uncollectible Factor (Line 11) | 0.0000% | | | |
| 3 | Revenues (L1 - L2) | 100.0000% | | | |
| 4 | Combined Federal and State Income Tax and Property Tax Rate (Line 23) | 13.4590% | | | |
| 5 | Subtotal (L3 - L4) | 86.5410% | | | |
| 6 | Revenue Conversion Factor (L1 / L5) | 1.155521 | | | |
| <u>Calculation of Uncollectible Factor:</u> | | | | | |
| 7 | Unity | 100.0000% | | | |
| 8 | Combined Federal and State Tax Rate (Line 17) | 12.3310% | | | |
| 9 | One Minus Combined Income Tax Rate (L7 - L8) | 87.6690% | | | |
| 10 | Uncollectible Rate | 0.0000% | | | |
| 11 | Uncollectible Factor (L9 * L10) | 0.0000% | | | |
| <u>Calculation of Effective Tax Rate:</u> | | | | | |
| 12 | Operating Income Before Taxes (Arizona Taxable Income) | 100.0000% | | | |
| 13 | Arizona State Income Tax Rate | 2.5900% | | | |
| 14 | Federal Taxable Income (L12 - L13) | 97.4100% | | | |
| 15 | Applicable Federal Income Tax Rate (Line 53) | 10.0000% | | | |
| 16 | Effective Federal Income Tax Rate (L14 x L15) | 9.7410% | | | |
| 17 | Combined Federal and State Income Tax Rate (L13 +L16) | | 12.3310% | | |
| <u>Calculation of Effective Property Tax Factor</u> | | | | | |
| 18 | Unity | 100.0000% | | | |
| 19 | Combined Federal and State Income Tax Rate (L17) | 12.3310% | | | |
| 20 | One Minus Combined Income Tax Rate (L18-L19) | 87.6690% | | | |
| 21 | Property Tax Factor | 1.2866% | | | |
| 22 | Effective Property Tax Factor (L20*L21) | | 1.1280% | | |
| 23 | Combined Federal and State Income Tax and Property Tax Rate (L17+L22) | | | 13.4590% | |
| 24 | Required Operating Income | \$ 97,700 | | | |
| 25 | Adjusted Test Year Operating Income (Loss) | (32,829) | | | |
| 26 | Required Increase in Operating Income (L24 - L25) | | \$ 130,529 | | |
| 27 | Income Taxes on Recommended Revenue (Col. [C], L52) | \$ 13,742 | | | |
| 28 | Income Taxes on Test Year Revenue (Col. [A], L52) | (4,617) | | | |
| 29 | Required Increase in Revenue to Provide for Income Taxes (L27 - L28) | | 18,359 | | |
| 30 | Recommended Revenue Requirement | \$ 976,757 | | | |
| 31 | Uncollectible Rate (Line 10) | 0.0000% | | | |
| 32 | Uncollectible Expense on Recommended Revenue (L30*L31) | \$ - | | | |
| 33 | Adjusted Test Year Uncollectible Expense | \$ - | | | |
| 34 | Required Increase in Revenue to Provide for Uncollectible Exp. (L32-L33) | | - | | |
| 35 | Property Tax with Recommended Revenue | \$ 33,617 | | | |
| 36 | Property Tax on Test Year Revenue | 31,677 | | | |
| 37 | Increase in Property Tax Due to Increase in Revenue (L35-L36) | | 1,941 | | |
| 38 | Total Required Increase in Revenue (L26 + L29 + L34 + L37) | | \$ 150,829 | | |
| <u>Calculation of Income Tax:</u> | | | | | |
| 39 | Revenue | \$ 825,929 | \$ 150,829 | \$ 976,757 | |
| 40 | Operating Expenses Excluding Income Taxes | \$ 863,374 | \$ 1,941 | \$ 865,315 | |
| 41 | Synchronized Interest (L56) | \$ - | | \$ - | |
| 42 | Arizona Taxable Income (L39 - L40 - L41) | \$ (37,445) | | \$ 111,443 | |
| 43 | Arizona State Income Tax Rate | 2.5900% | | 2.5900% | |
| 44 | Arizona Income Tax (L42 x L43) | \$ (970) | | \$ 2,886 | |
| 45 | Federal Taxable Income (L42 - L44) | \$ (36,476) | | \$ 108,556 | |
| 46 | Federal Tax on First on all Income @ 10% | \$ (3,648) | | \$ 10,856 | |
| 47 | | \$ - | | \$ - | |
| 48 | | \$ - | | \$ - | |
| 49 | | \$ - | | \$ - | |
| 50 | | \$ - | | \$ - | |
| 51 | Total Federal Income Tax | \$ (3,648) | | \$ 10,856 | |
| 52 | Combined Federal and State Income Tax (L44 + L51) | \$ (4,617) | | \$ 13,742 | |
| 53 | Applicable Federal Income Tax Rate [Col. [C], L51 - Col. [A], L51] / [Col. [C], L45 - Col. [A], L45] | | | 10.0000% | |
| <u>Calculation of Interest Synchronization:</u> | | | | | |
| 54 | Rate Base | \$ (15,143) | | | |
| 55 | Weighted Average Cost of Debt | 0.0000% | | | |
| 56 | Synchronized Interest (L45 X L46) | \$ - | | | |

RATE BASE - ORIGINAL COST

| LINE NO. | (A) | (B) | (C) |
|--------------|------------------------|------------------------------------|-------------------------|
| | COMPANY AS FILED | STAFF ADJUSTMENTS ADJ NO. | STAFF AS ADJUSTED |
| 1 | \$ 11,992,012 | \$ - | \$ 11,992,012 |
| 2 | 3,246,181 | - | 3,246,181 |
| 3 | <u>\$ 8,745,831</u> | <u>\$ -</u> | <u>\$ 8,745,831</u> |
| <u>LESS:</u> | | | |
| 4 | \$ 5,650,367 | \$ - | \$ 5,650,367 |
| 5 | \$ 420,294 | \$ - | \$ 420,294 |
| 6 | <u>\$ 6,070,661</u> | <u>\$ -</u> | <u>\$ 6,070,661</u> |
| 7 | \$ 3,012,974 | \$ - | \$ 3,012,974 |
| 8 | 322,660 | - | 322,660 |
| 9 | <u>\$ 2,690,314</u> | <u>-</u> | <u>\$ 2,690,314</u> |
| 10 | \$ 8,760,975 | \$ - | \$ 8,760,975 |
| 11 | \$ - | \$ - | \$ - |
| 12 | \$ - | \$ - | \$ - |
| <u>ADD:</u> | | | |
| 13 | \$ - | \$ - | \$ - |
| 14 | \$ - | \$ - | \$ - |
| 15 | \$ 1 | \$ - | \$ 1 |
| 16 | <u>\$ (15,143)</u> | <u>\$ -</u> | <u>\$ (15,143)</u> |

References:

Column [A]: Company Schedule B
Column [B]: Schedule CSB-4
Column [C]: Column [A] + Column [B]

SUMMARY OF RATE BASE ADJUSTMENTS

| LINE NO. | | [A] | [B] | [C] | [D] |
|----------|--|------------------|------|------|-------------------|
| | <u>PLANT IN SERVICE</u> | | | | |
| | Acct. No. - I Plant Description | COMPANY AS FILED | | | STAFF AS ADJUSTED |
| 1 | 301 Organization | \$ 6,893 | \$ - | \$ - | \$ 6,893 |
| 2 | 303 Land and Land Rights | - | - | - | - |
| 3 | 304 Structures and Improvements | 173,667 | - | - | 173,667 |
| 4 | 305 Collecting and Impound Reservoirs | - | - | - | - |
| 5 | 307 Wells and Springs | 695,019 | - | - | 695,019 |
| 6 | 309 Supply Mains | - | - | - | - |
| 7 | 311 Pumping Equipment | 578,087 | - | - | 578,087 |
| 8 | 320.1 Water Treatment Plants | - | - | - | - |
| 9 | 320.2 Water Treatment, Solution Chemical Feeders | 1,060 | - | - | 1,060 |
| 10 | 330.1 Distr Reserv & Stndpipes - Storage Tanks | 892,565 | - | - | 892,565 |
| 11 | 330.2 Distr Reserv & Stndpipes - Pressure Tanks | 51,164 | - | - | 51,164 |
| 12 | 331 Transmission and Distribution Mains | 7,563,919 | - | - | 7,563,919 |
| 13 | 333 Services | 912,023 | - | - | 912,023 |
| 14 | 334 Meters and Meter Installations | 639,567 | - | - | 639,567 |
| 15 | 335 Hydrants | 318,441 | - | - | 318,441 |
| 16 | 336 Backflow Prevention Devices | - | - | - | - |
| 17 | 339 Other Plant and Miscellaneous Equipment | - | - | - | - |
| 18 | 340 Office Furniture and Equipment | 1,170 | - | - | 1,170 |
| 19 | 340.1 Computers and Software | 108,718 | - | - | 108,718 |
| 20 | 341 Transportation Equipment | 49,719 | - | - | 49,719 |
| 21 | 343 Tools, Shop, and Garage Equipment | - | - | - | - |
| 22 | 345 Power Operated Equipment | - | - | - | - |
| 23 | 346 Communication Equipment | - | - | - | - |
| 24 | 347 Miscellaneous Equipment | - | - | - | - |
| 25 | Rounding | - | - | - | - |
| 26 | Total Plant in Service | \$ 11,992,012 | \$ - | \$ - | \$ 11,992,012 |
| 27 | Less: Accumulated Depreciation | \$ 3,246,181 | \$ - | \$ - | \$ 3,246,181 |
| 28 | Net Plant in Service | \$ 8,745,831 | \$ - | \$ - | \$ 8,745,831 |
| 29 | | | | | |
| 30 | <u>LESS:</u> | | | | |
| 31 | Advances in Aid of Construction (AIAC) | \$ 5,650,367 | \$ - | \$ - | \$ 5,650,367 |
| 32 | Meter Deposits - Service Line & Meter Advances | \$ 420,294 | - | - | 420,294 |
| 33 | Total AIAC | \$ 6,070,661 | \$ - | \$ - | \$ 6,070,661 |
| 34 | | | | | |
| 35 | Contributions in Aid of Construction (CIAC) | \$ 3,012,974 | - | - | \$ 3,012,974 |
| 36 | Less: Accumulated Amortization of CIAC | \$ 322,660 | - | - | 322,660 |
| 37 | Net CIAC | \$ 2,690,314 | \$ - | \$ - | \$ 2,690,314 |
| 38 | | | | | |
| 39 | Total Advances and Net Contributions | \$ 8,760,975 | \$ - | \$ - | \$ 8,760,975 |
| 40 | | | | | |
| 41 | Customer Deposits | \$ - | - | - | \$ - |
| 42 | Accumulated Deferred Taxes | \$ - | - | - | \$ - |
| 43 | | | | | |
| 44 | <u>ADD:</u> | | | | |
| 45 | Cash Working Capital Allowance | \$ - | - | - | \$ - |
| 46 | Materials and Supplies Inventories | \$ - | - | - | \$ - |
| 47 | Rounding | \$ 1 | - | - | \$ 1 |
| 48 | Total Rate Base | \$ (15,143) | \$ - | \$ - | \$ (15,143) |

OPERATING INCOME - TEST YEAR AND STAFF RECOMMENDED

| Line No. | Acct. No. | DESCRIPTION | [A] COMPANY TEST YEAR AS FILED | [B] STAFF TEST YEAR ADJUSTMENTS | [C] STAFF TEST YEAR AS ADJUSTED | [D] STAFF PROPOSED CHANGES | [E] STAFF ADJUSTED |
|----------|-----------|--|---|--|---|-------------------------------------|--------------------------|
| 1 | | REVENUES: | | | | | |
| 2 | 461 | Metered Water Revenue | \$ 810,840 | \$ - | \$ 810,840 | \$ 150,829 | \$ 961,669 |
| 3 | 460 | Unmetered Water Revenue | - | - | - | - | - |
| 4 | 474 | Other Water Revenues | 9,975 | 5,114 | 15,089 | - | 15,089 |
| 5 | | Total Revenues | <u>\$ 820,815</u> | <u>\$ 5,114</u> | <u>\$ 825,929</u> | <u>\$ 150,829</u> | <u>\$ 976,757</u> |
| 6 | | | | | | | |
| 7 | | EXPENSES: | | | | | |
| 8 | 601 | Salaries and Wages | \$ 255,887 | \$ (7,996) | \$ 247,891 | \$ - | \$ 247,891 |
| 9 | 610 | Purchased Water | - | - | - | - | - |
| 10 | 615 | Purchased Power | 80,882 | - | 80,882 | - | 80,882 |
| 11 | 618 | Chemicals | - | - | - | - | - |
| 12 | 620 | Repairs & Maint | 8,836 | - | 8,836 | - | 8,836 |
| 13 | 621 | Office Supplies & Expenses | 8,007 | - | 8,007 | - | 8,007 |
| 14 | 630 | Outside Services | 83,317 | - | 83,317 | - | 83,317 |
| 15 | 635 | Water Testing | 5,432 | 6,070 | 11,502 | - | 11,502 |
| 16 | 641 | Rents | - | - | - | - | - |
| 17 | 650 | Transportation Expenses | 28,707 | (5,991) | 22,716 | - | 22,716 |
| 18 | 657 | Insurance - General Liability | 5,848 | - | 5,848 | - | 5,848 |
| 19 | 659 | Insurance - Health and Life | 30,261 | - | 30,261 | - | 30,261 |
| 20 | 666 | Reg. Comm. Exp. - Rate Case | 12,500 | - | 12,500 | - | 12,500 |
| 21 | 670 | Bad Debt Expense | - | - | - | - | - |
| 22 | 675 | Miscellaneous Expense | 61,385 | (16,841) | 44,544 | - | 44,544 |
| 23 | 403 | Depreciation | 255,898 | - | 255,898 | - | 255,898 |
| 24 | 408 | Taxes Other Than Income | 19,495 | - | 19,495 | - | 19,495 |
| 25 | 408.1 | Property Taxes | 33,136 | (1,459) | 31,677 | 1,941 | 33,617 |
| 26 | 409 | Income Taxes | (8,481) | 3,864 | (4,617) | 18,359 | 13,742 |
| 27 | 427.4 | Interest on Customer Security Deposits | - | 1 | 1 | - | 1 |
| 28 | | Total Operating Expenses | <u>881,110</u> | <u>(22,353)</u> | <u>858,757</u> | <u>20,300</u> | <u>879,057</u> |
| 29 | | | | | | | |
| 30 | | Operating Income (Loss) | <u>\$ (60,295)</u> | <u>\$ 27,467</u> | <u>\$ (32,829)</u> | <u>\$ 130,529</u> | <u>\$ 97,700</u> |

References:

- Column (A): Company Schedule C-1
- Column (B): Schedule CSB-6
- Column (C): Column (A) + Column (B)
- Column (D): Schedules CSB-1 and CSB-2
- Column (E): Column (C) + Column (D)

SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR

| Line No. | Acct. No. | DESCRIPTION | [A] | [B] | [C] | [D] | [E] | [F] | [G] | [H] | [I] | [J] |
|----------------------------|-----------|---------------------------------|------------------|-----------------------|---------------------------|------------------------------|-------------------------------|--|-------------------------------------|-----------------------|---------------------|----------------|
| | | | COMPANY AS FILED | ADJ #1 Other Revenues | ADJ #2 Salaries and Wages | ADJ #3 Water Testing Expense | ADJ #4 Transportation Expense | ADJ #5 Miscellaneous Expense, Banking Fees | ADJ #6 Miscellaneous Expense, Other | ADJ #7 Property Taxes | ADJ #8 Income Taxes | STAFF ADJUSTED |
| | | | Ref. Sch CSB-7 | Ref. Sch CSB-8 | Ref. Sch CSB-9 | Ref. Sch CSB-10 | Ref. Sch CSB-11 | Ref. Sch CSB-12 | Ref. Sch CSB-13 | Ref. Sch CSB-14 | | |
| REVENUES: | | | | | | | | | | | | |
| 1 | 461 | Metered Water Revenue | \$ 810,840 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 810,840 |
| 2 | 460 | Unmetered Water Revenue | - | - | - | - | - | - | - | - | - | - |
| 3 | 474 | Other Water Revenues | 9,975 | 5,114 | - | - | - | - | - | - | - | - |
| 4 | | Total Revenues | \$ 820,815 | \$ 5,114 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 825,929 |
| OPERATING EXPENSES: | | | | | | | | | | | | |
| 5 | 601 | Salaries and Wages | \$ 255,887 | - | (7,996) | - | - | - | - | - | - | \$ 247,891 |
| 6 | 610 | Purchased Water | - | - | - | - | - | - | - | - | - | - |
| 7 | 615 | Purchased Power | 80,882 | - | - | - | - | - | - | - | - | 80,882 |
| 8 | 618 | Chemicals | - | - | - | - | - | - | - | - | - | - |
| 9 | 620 | Repairs & Maint | 8,836 | - | - | - | - | - | - | - | - | 8,836 |
| 10 | 621 | Office Supplies & Expenses | 8,007 | - | - | - | - | - | - | - | - | 8,007 |
| 11 | 630 | Outside Services | 83,317 | - | - | - | - | - | - | - | - | 83,317 |
| 12 | 635 | Water Testing | 5,432 | - | - | 6,070 | - | - | - | - | - | 11,502 |
| 13 | 641 | Rents | - | - | - | - | - | - | - | - | - | - |
| 14 | 650 | Transportation Expenses | 28,707 | - | - | - | (5,991) | - | - | - | - | 22,716 |
| 15 | 657 | Insurance - General Liability | 5,848 | - | - | - | - | - | - | - | - | 5,848 |
| 16 | 659 | Insurance - Health and Life | 30,261 | - | - | - | - | - | - | - | - | 30,261 |
| 17 | 666 | Reg. Comm. Exp. - Rate Case | 12,500 | - | - | - | - | - | - | - | - | 12,500 |
| 18 | 670 | Bad Debt Expense | - | - | - | - | - | - | - | - | - | - |
| 19 | 675 | Miscellaneous Expense | 61,385 | - | - | - | (8,530) | (8,311) | - | - | - | 44,544 |
| 20 | 403 | Depreciation | 255,898 | - | - | - | - | - | - | - | - | 255,898 |
| 21 | 408 | Taxes Other Than Income | 19,495 | - | - | - | - | - | - | - | - | 19,495 |
| 22 | 408.1 | Property Taxes | 33,136 | - | - | - | - | - | (1,459) | - | - | 31,677 |
| 23 | 409 | Income Taxes | (8,481) | - | - | - | - | - | - | 3,864 | - | (4,617) |
| 24 | | Rounding | - | - | - | - | - | - | - | - | - | 1 |
| 25 | | Total Operating Expenses | \$ 881,110 | \$ - | (7,996) | 6,070 | (5,991) | (8,530) | (8,311) | (1,459) | 3,864 | \$ 858,757 |
| 26 | | Operating Income (Loss) | \$ (60,295) | \$ 5,114 | \$ 7,996 | (6,070) | \$ 5,991 | \$ 8,530 | \$ 8,311 | \$ 1,459 | (3,864) | \$ (32,829) |

Farmers Water Company, Inc.
 Docket No. W-01654A-13-0267
 Test Year Ended September 30, 2012

Surrebuttal Schedule CSB-7

OPERATING INCOME ADJUSTMENT NO. 1 - OTHER OPERATING REVENUE

| LINE NO. | DESCRIPTION | [A] | [B] | [C] |
|----------|---|------------------|-----------------------------------|-------------------|
| | | COMPANY AS FILED | STAFF ADJUSTMENTS (Col A + Col B) | STAFF AS ADJUSTED |
| 1 | Other Revenue | \$ 9,975 | \$ - | \$ 9,975 |
| 2 | Providing Sewer Consumption Data to Pima County | \$ - | \$ 4,316 | \$ 4,316 |
| 3 | Providing Turn On & Off Data to Pima County | \$ - | \$ 797 | \$ 797 |
| | | \$ 9,975 | \$ 5,114 | \$ 15,089 |

References:

- Column A: Company Schedule C-2
- Column B: Testimony, CSB; Data Request CSB 3.10
- Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 2 - SALARIES AND WAGES

| LINE NO. | DESCRIPTION | [A] | [B] | [C] |
|----------|----------------------------------|---|-----------------------------------|---|
| | | COMPANY AS FILED | STAFF ADJUSTMENTS (Col C - Col A) | STAFF AS ADJUSTED |
| 1 | 2012 Actual Salaries and Wages | \$ 223,212 | \$ - | \$ 223,212 |
| 2 | 2013 Salaries and Wages Increase | \$ 24,679 | \$ - | \$ 24,679 |
| 3 | 2014 Salaries and Wages Increase | \$ 7,996 | \$ (7,996) | \$ - |
| 4 | | \$ 255,887 | \$ (7,996) | \$ 247,891 |
| 5 | | | | |
| 6 | | | | |
| 7 | | | | |
| 8 | | Salaries and Wages as of 9/30/2014 CSB 2.13 (b) | Difference | Salaries and Wages as of 9/30/2013 CSB 2.13 (b) |
| 9 | | | | |
| 10 | | | | |
| 11 | Executive VP | \$ 65,000 | \$ - | \$ 65,000 |
| 12 | Operator | \$ 41,612 | \$ (1,198) | \$ 40,414 |
| 13 | Operator | \$ 33,578 | \$ (991) | \$ 32,587 |
| 14 | Executive Office Manager | \$ 41,200 | \$ (1,200) | \$ 40,000 |
| 15 | Operations Manager | \$ 71,997 | \$ (2,107) | \$ 69,890 |
| 16 | Part Time | \$ 2,500 | \$ (2,500) | \$ - |
| 17 | Total | \$ 255,887 | \$ (7,996) | \$ 247,891 |

References:

- Column A: Company Schedule C-1
- Column B: Testimony, CSB;
- Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 3 - WATER TESTING EXPENSE

| LINE NO. | DESCRIPTION | [A] | [B] | [C] |
|----------|---|------------------|-------------------|-------------------|
| | | COMPANY AS FILED | STAFF ADJUSTMENTS | STAFF AS ADJUSTED |
| 1 | Water Testing Expense | \$ 5,432 | \$ - | \$ 5,432 |
| 2 | To reclassify MAP Fees from the Misc. Exp Acct. | \$ - | \$ 7,687 | \$ 7,687 |
| 3 | To reconcile to Staff's recommended water testing exp | \$ - | \$ (1,617) | \$ (1,617) |
| 4 | | \$ 5,432 | \$ 6,070 | \$ 11,502 |

References:

- Column A: Company Schedule C-1
- Column B: Testimony, CSB; Data Request Response CSB 2.26
- Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 4 - TRANSPORTATION EXPENSE

| LINE NO. | DESCRIPTION | [A] | [B] | [C] | | | |
|----------|---|------------------------|------------------------|---------------------------|---------------------------|------------------|--------------|
| | | COMPANY AS FILED | STAFF ADJUSTMENTS | STAFF AS ADJUSTED | | | |
| 1 | Transportation Expense | \$ 22,716 | \$ 0 | \$ 22,716 | From Line 18 | | |
| 2 | To Remove Commute & Personal Mileage Cost | 5,991 | (5,991) | - | | | |
| 3 | | \$ 28,707 | \$ (5,991) | \$ 22,716 | | | |
| 4 | | | | | | | |
| 5 | | | | | | | |
| 6 | | | | | | | |
| 7 | Calculation of \$22,716 Transportation Expense | | | | | | |
| 8 | | Milage for Jack Miller | Milage for Juan Martin | Milage for Gonzalo Ibarra | Milage for Matthew Bailey | Total Miles | |
| 9 | | | | | | | |
| 10 | 7/1/12 to 9/30/12 | 4,688 | 6,299 | 4,865 | 3,190 | 19,042 | CSB 2.10 b |
| 11 | 4/1/12 to 6/30/12 | 5,247 | 7,851 | 5,049 | 3,965 | 22,112 | CSB 2.10 b |
| 12 | 1/1/12 to 3/31/12 | 4,514 | 5,977 | 5,208 | 3,319 | 19,018 | CSB 2.10 b |
| 13 | 10/1/12 to 12/31/12 | 5,137 | 6,351 | 4,830 | - | 16,318 | CSB 2.10 b |
| 14 | | 19,586 | 26,478 | 19,952 | 10,474 | 76,490 | CSB 2.10 b |
| 15 | Less: Commute & Personal Miles | 240 | 3,600 | 240 | 4,600 | | From Line 26 |
| 16 | | 19,346 | 22,878 | 19,712 | 5,874 | | |
| 17 | Multiplied by Reimbursement Rate | \$ 0.335 | \$ 0.335 | \$ 0.335 | \$ 0.335 | | CSB 2.10 b |
| 18 | Total Travel Expense | \$ 6,481 | \$ 7,664 | \$ 6,604 | \$ 1,968 | \$ 22,716 | |
| 19 | | | | | | | |
| 20 | Daily Commute Miles | 1 | 15 | 1 | 15 | | CSB 2.23 f |
| 21 | Multiplied by No. of Work Days in Month | 20 | 20 | 20 | 20 | | |
| 22 | | 20 | 300 | 20 | 300 | | |
| 23 | Multiplied by 12 Months | 12 | 12 | 12 | 12 | | |
| 24 | Total Annual Commute Miles | 240 | 3,600 | 240 | 3,600 | | |
| 25 | Personal Miles | - | - | - | 1,000 | | CSB 3.3 e |
| 26 | Personal & Commute Miles | 240 | 3,600 | 240 | 4,600 | | |

References:

- Column A: Company Schedule C-1
- Column B: Testimony, CSB;
- Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 5 - MISCELLANEOUS EXPENSE, BANKING FEES

| | | [A] | | [B] | | [C] |
|----------|------------------------------|------------------|----|-------------------|-----------|-------------------|
| LINE NO. | DESCRIPTION | COMPANY AS FILED | | STAFF ADJUSTMENTS | | STAFF AS ADJUSTED |
| 1 | Miscellaneous Expense | \$ 38,503 | \$ | - | \$ | 38,503 |
| 2 | Banking Fees - Web Based | \$ 18,208 | \$ | (14,622) | \$ | 3,586 |
| 3 | Banking Fees - Non Web Based | \$ 4,674 | \$ | 6,092 | \$ | 10,766 |
| 4 | Total Miscellaneous Expense | \$ 61,385 | \$ | (8,530) | \$ | 52,855 |
| 5 | | | | | | |
| 6 | | | | | | |
| 7 | | Per Company | | | Per Staff | |
| 8 | | | | | | Banking Fees |
| 9 | | | | | | as of |
| 10 | | | | | | 9/30/2013 |
| 11 | Banking Fees - Web Based | \$ 18,208 | \$ | (14,622) | \$ | 3,586 |
| 12 | Banking Fees - Non Web Based | \$ 4,674 | \$ | 6,092 | \$ | 10,766 |
| 13 | Total | \$ 22,882 | \$ | (8,530) | \$ | 14,352 |

References:

- Column A: Company Schedule C-2
- Column B: Testimony, CSB; Data Request CSB 2.16 (b) and CSB 2.26 (e)
- Column C: Column [A] + Column [B]

Farmers Water Company, Inc.
 Docket No. W-01654A-13-0267
 Test Year Ended September 30, 2012

Surrebuttal Schedule CSB-12

OPERATING INCOME ADJUSTMENT NO. 6 - MISCELLANEOUS EXPENSE, OTHER

| LINE NO. | DESCRIPTION | [A] | [B] | [C] |
|-------------|--|---------------------|----------------------|---------------------|
| | | COMPANY AS FILED | STAFF ADJUSTMENTS | STAFF S ADJUSTED |
| 1 | Miscellaneous Expense | \$ 53,074 | \$ - | \$ 53,074 |
| 2 | To reclassify MAP Fees to the water testing acct | \$ 7,687 | \$ (7,687) | \$ - |
| 3 | To remove meals & entertainment (CSB 2.26) | \$ 624 | \$ (624) | \$ - |
| 4 | Total Miscellaneous Expense | \$ 61,385 | \$ (8,311) | \$ 53,074 |

| MAP Fees CSB 2.26 | |
|----------------------|----------|
| \$ | 458.17 |
| \$ | 3,159.24 |
| \$ | 3,719.50 |
| \$ | 350.23 |
| \$ | 7,687 |

References:

- Column A: Company Schedule C-2
- Column B: Testimony, CSB; Data Request CSB 2.26
- Column C: Column [A] + Column [B]

Farmers Water Company, Inc.
Docket No. W-01654A-13-0267
Test Year Ended September 30, 2012

Surrebuttal Schedule CSB-13

OPERATING INCOME ADJUSTMENT NO. 7 - PROPERTY TAX EXPENSE

| LINE NO. | Property Tax Calculation | [A] STAFF AS ADJUSTED | [B] STAFF ADJUSTED TO DECREASE |
|----------|--|--------------------------|-----------------------------------|
| 1 | Staff Adjusted Test Year Revenues | \$ 825,929 | \$ 825,929 |
| 2 | Weight Factor | 2 | 2 |
| 3 | Subtotal (Line 1 * Line 2) | 1,651,858 | \$ 1,651,858 |
| 4 | Staff Recommended Revenue, Per Schedule CSB-1 | 825,929 | \$ 976,757 |
| 5 | Subtotal (Line 3 + Line 4) | 2,477,786 | 2,628,615 |
| 6 | Number of Years | 3 | 3 |
| 7 | Three Year Average (Line 5 / Line 6) | 825,929 | \$ 876,205 |
| 8 | Department of Revenue Mutilplier | 2 | 2 |
| 9 | Revenue Base Value (Line 7 * Line 8) | 1,651,858 | \$ 1,752,410 |
| 10 | Plus: 10% of CWIP - | - | - |
| 11 | Less: Net Book Value of Licensed Vehicles | 10,493 | \$ 10,493 |
| 12 | Full Cash Value (Line 9 + Line 10 - Line 11) | 1,641,365 | \$ 1,741,917 |
| 13 | Assessment Ratio | 19.0% | 19.0% |
| 14 | Assessment Value (Line 12 * Line 13) | 311,859 | \$ 330,964 |
| 15 | Composite Property Tax Rate | 10.1574% | 10.1574% |
| 16 | Staff Test Year Adjusted Property Tax (Line 14 * Line 15) | \$ 31,677 | \$ - |
| 17 | Company Proposed Property Tax | 33,136 | |
| 18 | Staff Test Year Adjustment (Line 16-Line 17) | \$ (1,459) | |
| 19 | Property Tax - Staff Recommended Revenue (Line 14 * Line 15) | | \$ 33,617 |
| 20 | Staff Test Year Adjusted Property Tax Expense (Line 16) | | \$ 31,677 |
| 21 | Increase in Property Tax Expense Due to Increase in Revenue Requirement | | \$ 1,941 |
| 22 | Increase to Property Tax Expense | | \$ 1,941 |
| 23 | Increase in Revenue Requirement | | 150,829 |
| 24 | Increase to Property Tax per Dollar Increase in Revenue (Line19/Line 20) | | 1.286604% |
| 25 | | | |

OPERATING INCOME ADJUSTMENT NO. 8 - TEST YEAR INCOME TAXES

| LINE NO. | DESCRIPTION | (A) | (B) |
|-------------|---|-------------------------------------|-------------------|
| | <u>Calculation of Income Tax:</u> | | |
| | | <u>Test Year</u> | |
| 1 | Revenue | \$ 825,929 | |
| 2 | Less: Operating Expenses - Excluding Income Taxes | \$ 863,374 | |
| 3 | Less: Synchronized Interest (L17) | \$ - | |
| 4 | Arizona Taxable Income (L1- L2 - L3) | \$ (37,445) | |
| 5 | Arizona State Income Tax Rate | 2.590% | |
| 6 | Arizona Income Tax (L4 x L5) | | \$ (970) |
| 7 | Federal Taxable Income (L4 - L6) | \$ (36,476) | |
| 8 | Federal Tax on First on all Income @ 10% | \$ (3,648) | |
| 9 | | \$ - | |
| 10 | | \$ - | |
| 11 | | \$ - | |
| 12 | | \$ - | |
| 13 | Total Federal Income Tax | | \$ (3,648) |
| 14 | Combined Federal and State Income Tax (L6 + L13) | | <u>\$ (4,617)</u> |
| | <u>Calculation of Interest Synchronization:</u> | | |
| 15 | Rate Base | \$ (15,143) | |
| 16 | Weighted Average Cost of Debt | 0.00% | |
| 17 | Synchronized Interest (L16 x L17) | <u>\$ -</u> | |
| 18 | | Income Tax - Per Staff \$ (4,617) | |
| 19 | | Income Tax - Per Company \$ (8,481) | |
| 20 | | Staff Adjustment \$ 3,864 | |

| Monthly Minimum Charge | Present | Company Proposed Rates | Staff Recommended Rates |
|--|-----------|------------------------|-------------------------|
| Meter Size (All Classes): | | | |
| 5/8 x 3/4 Inch | \$ 8.25 | \$ 10.07 | \$ 9.00 |
| 3/4 Inch | 9.28 | 11.32 | 13.50 |
| 1 Inch | 10.32 | 12.59 | 22.50 |
| 1 1/2 Inch | 20.64 | 25.18 | 45.00 |
| 2 Inch | 33.02 | 40.28 | 72.00 |
| 3 Inch | 66.04 | 80.57 | 144.00 |
| 4 Inch | 103.19 | 125.89 | 225.00 |
| 6 Inch | 206.38 | 251.78 | 450.00 |
| 2 Inch Construction/Standpipe (Assigned) | 33.02 | 40.28 | 72.00 |
| 3 Inch Construction/Standpipe (Assigned) | NT | 80.57 | 144.00 |
| 6 Inch Construction/Standpipe (Assigned) | 206.38 | 251.78 | 450.00 |
| Gallons Included in Monthly Minimum Charge | 0 | 0 | 0 |
| Commodity Charge - Per 1,000 Gallons | | | |
| <u>5/8" x 3/4" Meter Residential</u> | | | |
| First 4,000 gallons | \$ 1.3500 | \$ 1.4900 | N/A |
| 4,001 to 10,000 gallons | 1.9000 | 2.3400 | N/A |
| Over 10,000 gallons | 2.4500 | 3.1900 | N/A |
| First 3,000 gallons | N/A | N/A | \$ 1.3500 |
| 3,001 to 10,000 gallons | N/A | N/A | 2.0000 |
| Over 10,000 gallons | N/A | N/A | 2.7600 |
| <u>5/8" x 3/4" Meter Commercial & Industrial</u> | | | |
| First 10,000 gallons | N/A | N/A | N/A |
| Over 10,000 gallons | N/A | N/A | N/A |
| <u>5/8" x 3/4" Meter Commercial, Industrial, Irrigation</u> | | | |
| First 10,000 gallons | N/A | 2.3400 | 2.0000 |
| Over 10,000 gallons | N/A | 3.1900 | 2.7600 |
| <u>3/4" Meter Residential</u> | | | |
| First 4,000 gallons | N/A | N/A | \$ 1.3500 |
| 4,001 to 10,000 gallons | N/A | N/A | 2.0000 |
| Over 10,000 gallons | N/A | N/A | 2.7600 |
| <u>3/4" Meter Commercial, Industrial, Irrigation</u> | | | |
| First 10,000 gallons | N/A | N/A | \$ 2.0000 |
| Over 10,000 gallons | N/A | N/A | 2.7600 |
| <u>1" Meter (all classes, except construction/standpipe)</u> | | | |
| First 12,500 gallons | N/A | N/A | \$ 2.0000 |
| Over 12,500 gallons | N/A | N/A | 2.7600 |
| <u>1 1/2" Meter (all classes, except construction/standpipe)</u> | | | |
| First 25,000 gallons | N/A | N/A | \$ 2.0000 |
| Over 25,000 gallons | N/A | N/A | 2.7600 |
| <u>2" Meter (all classes, except construction/standpipe)</u> | | | |
| First 40,000 gallons | N/A | N/A | \$ 2.0000 |
| Over 40,000 gallons | N/A | N/A | 2.7600 |

| | | | |
|--|----------------|----------------|----------------|
| <u>3" Meter (all classes, except construction/standpipe)</u> | | | |
| First 80,000 gallons | N/A | N/A | \$ 2.0000 |
| Over 80,000 gallons | N/A | N/A | 2.7600 |
| <u>4" Meter (all classes, except construction/standpipe)</u> | | | |
| First 126,000 gallons | N/A | N/A | \$ 2.0000 |
| Over 126,000 gallons | N/A | N/A | 2.7600 |
| <u>6" Meter (all classes, except construction/standpipe)</u> | | | |
| First 250,000 gallons | N/A | N/A | \$ 2.0000 |
| Over 250,000 gallons | N/A | N/A | 2.7600 |
| <u>2" Inch Construction or Standpipe (Individually Assigned Customer)</u> | | | |
| First 40,000 gallons | N/A | N/A | \$ 2.0000 |
| Over 40,000 gallons | N/A | N/A | 2.7600 |
| <u>2" Inch Construction or Standpipe (No Assigned Customer)</u> | | | |
| All gallons | | N/A | 2.7600 |
| <u>3" Inch Construction or Standpipe (Individually Assigned Customer)</u> | | | |
| First 80,000 gallons | N/A | N/A | \$ 2.0000 |
| Over 80,000 gallons | N/A | N/A | 2.7600 |
| <u>3" Inch Construction or Standpipe (No Individually Assigned Customer)</u> | | | |
| All gallons | N/A | N/A | \$ 2.7600 |
| <u>6" Inch Construction or Standpipe (Individually Assigned Customer)</u> | | | |
| First 250,000 gallons | N/A | N/A | \$ 2.0000 |
| Over 250,000 gallons | N/A | N/A | 2.7600 |
| <u>6" Inch Construction or Standpipe (No Individually Assigned Customer)</u> | | | |
| All gallons | N/A | N/A | \$ 2.7600 |
| Other Service Charges | | | |
| Establishment | \$ 35.00 | \$ 35.00 | \$ 35.00 |
| Reestablishment (After Hours) | \$ 50.00 | Remove*** | Remove*** |
| Reestablishment within 12 months | * | * | * |
| Reconnection (Delinquent) | \$ 40.00 | \$ 40.00 | \$ 40.00 |
| Reconnection (Delinquent - After Hours) | \$ 55.00 | Remove*** | Remove*** |
| Meter Test (If Correct) | \$ 25.00 | \$ 40.00 | \$ 40.00 |
| Meter Re-read (if correct) | \$ 20.00 | \$ 20.00 | \$ 20.00 |
| Deposit | ** | ** | ** |
| Deposit Interest | 6%** | 6%** | 6%** |
| NSF Check | \$ 20.00 | \$ 20.00 | \$ 20.00 |
| Deferred Payment | 1.5% per month | 1.5% per month | 1.5% per month |
| Late Payment Fee (per month) | 1.5% per month | 1.5% per month | 1.5% per month |
| After Hours Service Charge (at customer request) | Cost | \$ 35.00 | \$ 35.00 |
| Meter Tampering Charge | Cost | Cost | Cost |
| Meter Box "Cut Lock" Charge | Cost | Cost | Cost |

* Per Commission Rule A.A.C. R-14-2-403(D) - Number of months off the system times the monthly minimum.

** Per Commission Rule A.A.C. R-14-2-403(B)

*** See After Hours Service Charge

In addition to the collection of regular rates, the utility will collect from its customers a proportionate share of any privilege, sales, use, and franchise tax. Per commission rule 14-2-409D(5).

Typical Bill Analysis
General Service 5/8 x 3/4-Inch Meter

| Company Proposed | Gallons | Present Rates | Proposed Rates | Dollar Increase | Percent Increase |
|--------------------------|---------|---------------|----------------|-----------------|------------------|
| Average Usage | 5,336 | \$ 16.19 | \$ 19.16 | \$ 2.97 | 18.33% |
| Median Usage | 3,500 | 12.98 | 15.29 | \$ 2.31 | 17.80% |
| Staff Recommended | | | | | |
| Average Usage | 5,336 | \$ 16.19 | 17.72 | \$ 1.53 | 9.47% |
| Median Usage | 3,500 | 12.98 | 14.05 | \$ 1.08 | 8.29% |

Present & Proposed Rates (Without Taxes)
General Service 5/8 x 3/4-Inch Meter

| Gallons | Present Rates | Company Proposed Rates | % Increase | Staff Recommended Rates | % Increase |
|---------|---------------|------------------------|------------|-------------------------|------------|
| - | \$ 8.25 | \$ 10.07 | 22.06% | \$ 9.00 | 9.09% |
| 1,000 | 9.60 | 11.56 | 20.42% | 10.35 | 7.81% |
| 2,000 | 10.95 | 13.05 | 19.18% | 11.70 | 6.85% |
| 3,000 | 12.30 | 14.54 | 18.21% | 13.05 | 6.10% |
| 4,000 | 13.65 | 16.03 | 17.44% | 15.05 | 10.26% |
| 5,000 | 15.55 | 18.37 | 18.14% | 17.05 | 9.65% |
| 6,000 | 17.45 | 20.71 | 18.68% | 19.05 | 9.17% |
| 7,000 | 19.35 | 23.05 | 19.12% | 21.05 | 8.79% |
| 8,000 | 21.25 | 25.39 | 19.48% | 23.05 | 8.47% |
| 9,000 | 23.15 | 27.73 | 19.78% | 25.05 | 8.21% |
| 10,000 | 25.05 | 30.07 | 20.04% | 27.05 | 7.98% |
| 11,000 | 27.50 | 33.26 | 20.95% | 29.81 | 8.40% |
| 12,000 | 29.95 | 36.45 | 21.70% | 32.57 | 8.75% |
| 13,000 | 32.40 | 39.64 | 22.35% | 35.33 | 9.04% |
| 14,000 | 34.85 | 42.83 | 22.90% | 38.09 | 9.30% |
| 15,000 | 37.30 | 46.02 | 23.38% | 40.85 | 9.52% |
| 16,000 | 39.75 | 49.21 | 23.80% | 43.61 | 9.71% |
| 17,000 | 42.20 | 52.40 | 24.17% | 46.37 | 9.88% |
| 18,000 | 44.65 | 55.59 | 24.50% | 49.13 | 10.03% |
| 19,000 | 47.10 | 58.78 | 24.80% | 51.89 | 10.17% |
| 20,000 | 49.55 | 61.97 | 25.07% | 54.65 | 10.29% |
| 25,000 | 61.80 | 77.92 | 26.08% | 68.45 | 10.76% |
| 30,000 | 74.05 | 93.87 | 26.77% | 82.25 | 11.07% |
| 35,000 | 86.30 | 109.82 | 27.25% | 96.05 | 11.30% |
| 40,000 | 98.55 | 125.77 | 27.62% | 109.85 | 11.47% |
| 45,000 | 110.80 | 141.72 | 27.91% | 123.65 | 11.60% |
| 50,000 | 123.05 | 157.67 | 28.13% | 137.45 | 11.70% |
| 75,000 | 184.30 | 237.42 | 28.82% | 206.45 | 12.02% |
| 100,000 | 245.55 | 317.17 | 29.17% | 275.45 | 12.18% |

Attachment A

COMPANY'S RESPONSE TO DATA REQUESTS

CSB 2-13 & CSB 2-14

REGARDING SALARIES AND WAGES

686 2.13b

Farmers Water co
Schedule of Annual Pay
Actual Results

| Name | Title | Fiscal Yr 2012 | Bonus Dec-11 | Total 2012 | Pay Rate as of 9/30/12 | Fiscal Yr 2013 | Bonus Dec-11 | Total 2013 | Pay Rate as of 9/30/13 |
|-------------------------------------|----------------------|-------------------|-----------------|---------------|------------------------------|-------------------|-----------------|---------------|------------------------------|
| [REDACTED] | Executive VP | 65,000 | - | 65,000 | 65,000 | 65,000 | - | 65,000 | 65,000 |
| [REDACTED] | Operator | 39,424 | 1,649 | 41,073 | 39,591 | 40,271 | 1,684 | 41,955 | 40,414 |
| [REDACTED] | Operator | 30,620 | 1,281 | 31,901 | 30,750 | 32,269 | 1,358 | 33,627 | 32,587 |
| [REDACTED] | Executive Office Mgr | | | | | 34,923 | 192 | 35,115 | 40,000 |
| [REDACTED] | PT Office Assistant | 10,957 | 408 | 11,365 | \$17/hr | 5,239 | 420 | 5,659 | - |
| [REDACTED] | PT Labor | 1,870 | - | 1,870 | \$10/hr | 1,440 | - | 1,440 | - |
| [REDACTED] | PT Labor | 1,970 | - | 1,970 | \$10/hr | 1,180 | - | 1,180 | - |
| [REDACTED] | PT Labor | 140 | - | 140 | \$10/hr | - | - | - | - |
| [REDACTED] | Operations Mgr | 68,161 | 2,852 | 71,013 | 68,449 | 69,641 | 2,912 | 72,553 | 69,890 |
| | | 218,141 | 6,190 | 224,331 | | 249,963 | 6,566 | 256,529 | |
| Vacation Holiday Accrual Adjustment | | | | (1,119) | | | | | |
| | | | | 223,212 | | | | | |

Notes:

[REDACTED] annual salary is \$130,000. He splits his time evenly between FICO and FWC, therefore half of his salary is allocated to FWC. On December 2011 [REDACTED], and [REDACTED] each received a pay raise of 2.5%. On December 2012 [REDACTED] and [REDACTED] each received 2% pay raises will [REDACTED] received 6%. Full Time employees annual bonus is 1/24 of the employees annual pay. [REDACTED] was hired in November of 2012. [REDACTED] no longer works for FWC effect April 2013

Farmers Water co
 Schedule of Annual Pay
 Calculations used for Rate Case

| | FY 2013 | FY 14 |
|---|----------------|------------------|
| | <u>Current</u> | <u>Estimated</u> |
| Employee | 65,000 | 65,000 |
|  | 40,400 | 41,612 |
|  | 32,600 | 33,578 |
|  | 40,000 | 41,200 |
|  | 69,900 | 71,997 |
| PT | <u>4,610</u> | <u>2,500</u> |
| | 252,510 | 255,887 |

Tes Year Salaries and Wages
 Increase(decrease)

| | |
|---------|---------|
| 223,212 | 223,212 |
| 29,298 | 32,675 |

Employer Taxes (Fica & Med) 7.65%
 Test Year Employer Taxes (Fica & Med.)
 Increase(decrease)

| | |
|--------|--------|
| 18,812 | 19,064 |
| 15,993 | 15,993 |
| 2,819 | 3,071 |

FARMERS WATER CO.
2013 RATE CASE
DOCKET NO. W-01654A-13-0267
RESPONSE TO STAFF'S SECOND SET OF DATA REQUESTS

Response provided by: Mathew Bailey
Title: Executive Vice President
Company Name: Farmers Water Co.
Address: 1525 E. Sahuarita Road
Sahuarita, Arizona 85629

Company Response Number: CSB 2.14

- Q. \$32,675 Annualized Salaries and Wages (Schedule C-2, Page 8) – On page 11, line 14 ½, Mr. Bourassa states, “Adjustment 7 increases wages and salaries and related increases to employer payroll taxes to reflect the expected level of these expenses going forward.” (Emphasis added). Regarding this statement, please answer or provide the following:
- a. Please state whether the \$32,675 relates to raises, overtime, bonuses, etc. that occurred during or after the test year. Please describe the type of increase (i.e., raise, overtime, bonus, etc.), how it was calculated, and the date it went into effect.
 - b. Please state whether the \$32,675 relates to a new employee(s) who was employed for less than 12 months during or who was hired after the test year. If so, provide the name, job duties, and salary of the employee(s), employment status (i.e, full time or part time), the date hired, and provide supporting documentation.
- A.
- a. The difference related to merit-rate increases and full-time employee replacing part-time employee. See attached schedule.
 - b. Please see the file “CSB 2.13b.pdf” included on the enclosed CD.
-

Attachment B

COMPANY'S RESPONSE TO DATA REQUEST CSB 3-6

REGARDING FARMER WATERS 2013

FINANCIAL STATEMENTS

Farmers Investment Co. and Subsidiaries
September 30, 2013

Farmers Water
9/30/2013

CURRENT ASSETS

| | |
|---|---------------|
| Cash and cash equivalents | (\$1,949) |
| Trade Accounts Receivable | 73,117 |
| Crop Advances | - |
| Inventories, net | - |
| Investment in growing crops | - |
| Prepaid expenses and other current assets | (893) |
| Income tax receivable | |
| Total Current Assets | <u>70,275</u> |

NOTES RECEIVABLE

| | |
|------------------------|-----------------|
| Division Control | <u>(65,805)</u> |
| Total Notes Receivable | <u>(65,805)</u> |

PROPERTY, PLANT AND EQUIPMENT

| | |
|-------------------------------------|--------------------|
| Land | - |
| Land improvements | - |
| Buildings | - |
| Machinery and equipment | 153,125 |
| Wells, Pump and irrigation systems | 11,985,579 |
| Orchards | |
| | <u>12,138,704</u> |
| Less accumulated depreciation | <u>(3,557,847)</u> |
| | 8,580,856 |
| Developing pecan orchard | |
| Construction in progress | 219,646 |
| Total property, plant and equipment | <u>8,800,502</u> |

OTHER ASSETS

| | |
|--|---------------------|
| | <u>6,893</u> |
| | <u>\$ 8,811,865</u> |

Farmers Investment Co. and Subsidiaries
September 30, 2013

Farmers Water
9/30/2013

CURRENT LIABILITIES

| | |
|--|---------------|
| Accounts Payable | \$25,785 |
| Accrued expenses | 59,614 |
| Dividend Payable | - |
| Current portion of long-term debt | - |
| Demand notes payable to stockholders and related parties | - |
| Total Current liabilities | <u>85,398</u> |

NONCURRENT LIABILITIES

| | |
|---|------------------|
| Long-term borrowings under credit facilities | - |
| Long-term debt, less current portion | - |
| Contributions and advances in aid of construction | 8,652,053 |
| Interest rate swap agreements | - |
| Deferred income taxes | - |
| Total noncurrent liabilities | <u>8,652,053</u> |

STOCKHOLDERS' EQUITY

| | |
|---|---------------|
| Common stock, \$10 par value; authorized 6,000,0000 shares; 40,000 shares issued and outstanding | 2,500 |
| Capital in excess of par value | 497,500 |
| Retained earnings | (425,586) |
| Accumulated other comprehensive income (loss) | - |
| | <u>74,414</u> |
| Less cost of 3,835 shares of treasury stock | - |
| Total stockholders' equity | <u>74,414</u> |

\$ 8,811,865

Farmers Investment Co. and Subsidiaries
September 30, 2013

Farmers Water
9/30/2013

Farmers Water
9/30/2013

Revenues:

| | |
|--------------|----------------|
| Sales | \$874,295 |
| Other income | 6,379 |
| | <u>880,674</u> |

Cost and expenses:

| | |
|---|----------------|
| Cost of sales and operations | 931,687 |
| General and administrative | |
| Interest expense, net of capitalized interest | |
| | <u>931,687</u> |

Income before income taxes (51,013)

| | |
|--------------------|-----------------|
| Income tax benefit | - |
| | <u>(51,013)</u> |

Other comprehensive income:

| | |
|-----------------------------------|--------------------|
| Gain (loss) on hedging activities | - |
| Comprehensive income | <u>\$ (51,013)</u> |

Attachment C

COMPANY'S RESPONSE TO DATA REQUEST CSB 4-3
REGARDING FARMER WATERS RETAINED EARNINGS
BALANCES

**ARIZONA CORPORATION COMMISSION
 RESPONSES TO STAFF'S FOURTH SET OF DATA REQUESTS TO
 FARMER'S WATER COMPANY
 DOCKET NO. W-01654A-13-0267
 MARCH 6, 2014**

Subject: All information responses should **ONLY** be provided in searchable PDF, DOC or EXCEL files via email or electronic media.

CSB 4-2 Funding for Plant Additions – Regarding the \$1.9 million plant equity investment discussed in CSB 4-1 above, please provide the source of funding for the \$1.9 million by year as indicated in the table below:

| Source of Funding for \$1.9 Million in Plant by Year | | | | | | |
|---|------|------|------|------|------|--------------------|
| | 2008 | 2009 | 2010 | 2011 | 2012 | Total |
| Operating Income | | | | | | |
| Depr. Expense | | | | | | |
| Paid in Capital | | | | | | |
| AIAC | | | | | | |
| CIAC | | | | | | |
| Other (Identify) | | | | | | |
| | | | | | | \$1,900,000 |

Response: Please refer to the cash flow statements on Schedule E-3. Please also see the response to 4.1.

CSB 4-3 Retained Earnings – For each year since the end of the test year of your last rate case to the end of the test year of the instant rate case, please provide the following information:

- a. A schedule showing the following calculation for each year since the end of your last test year:
 - i. beginning balance of retained earnings
 - ii. \pm net income or loss
 - iii. \pm prior period adjustments, e.g., error corrections (identify)
 - iv. minus dividends paid
 - v. \pm specific changes to retained earnings, e.g., identify
 - vi. ending balance

**ARIZONA CORPORATION COMMISSION
 RESPONSES TO STAFF'S FOURTH SET OF DATA REQUESTS TO
 FARMER'S WATER COMPANY
 DOCKET NO. W-01654A-13-0267
 MARCH 6, 2014**

Subject: All information responses should ONLY be provided in searchable PDF, DOC or EXCEL files via email or electronic media.

Response:

Retained Earnings

| | | |
|-----------|---|---------------------|
| | Beginning Balance | 815,173.76 |
| 9/30/2007 | Net Loss | 125,027.94 |
| 9/30/2007 | Ending Balance | <u>940,201.70</u> |
| | Beginning Balance | 940,201.70 |
| 9/30/2008 | Net Loss | 128,096.97 |
| 9/30/2008 | Ending Balance | <u>1,068,298.67</u> |
| | Beginning Balance | 1,068,298.67 |
| 9/30/2009 | Net Loss | 239,459.60 |
| 9/30/2009 | Ending Balance | <u>1,307,758.27</u> |
| | Beginning Balance | 1,307,758.27 |
| 3/31/2010 | Prior Period Adjustment Per Case 71510 - 031710 | -854,342.57 |
| 9/30/2010 | Reclass Prior Period Adjustment to Misc. Income | 854,343.00 |
| 9/30/2010 | Net Gain | -806,428.05 |
| 9/30/2010 | Ending Balance | <u>501,330.65</u> |
| | Beginning Balance | 501,330.65 |
| 9/30/2011 | Net Gain | -154,778.84 |
| 9/30/2011 | Ending Balance | <u>346,551.81</u> |
| | Beginning Balance | 346,551.81 |
| 9/30/2012 | Net Loss | 28,021.29 |
| 9/30/2012 | Ending Balance | <u>374,573.10</u> |
| | Beginning Balance | 374,573.10 |
| 9/30/2013 | Net Loss | 51,013.30 |
| 9/30/2013 | Ending Balance | <u>425,586.40</u> |

Attachment D

COMPANY'S RESPONSE TO

DATA REQUESTS CSB 3-12 & CSB 4-6

REGARDING FARMER WATERS ADJUSTMENT TO EQUITY

CSB 3.11 Web Fees – This is a follow-up to CSB 2.16. Please provide the total amount of web fees incurred as of 12/31.13. For any additional cost above the amount reported in response to CSB 2.16, please provide supporting documentation.

Response – Please see the attached schedule of Web fees as well as copies of the supporting documentation. (**Attachments CSB 3.11, CSB 3.11 Backup**)

CSB 3.12 2010 Other Income Amount – Schedule E-2 reports \$861,695 for 2010 Other Income. Regarding this amount please provide or answer the following:

- a. What transactions led to the \$861,695 other income amount?
- b. Please provide the accounts and amounts debited and credited to record that amount.
- c. Please state what happened to the \$861,695 amount.

Response –

- a. The \$861,695 is made up of 4 types of transactions.
 1. \$854,343 is a one-time transaction to record aggregate financial adjustment resulting from the March 2010 Rate Case decision.
 2. \$4,926 is an annual receipt from Pima County for the reporting of Customer Water Consumption
 3. \$1,026 is the aggregate of receipts from Pima County for the reporting of customer hook-ups and disconnects.
 4. \$1,400 is a scrap metal receipt from scrapped old meters.
- b. Item 1, the Aggregate Adjustment from the March 2010 Rate Case decision was a Debit to Retained Earnings of \$854,343 and a Credit to Other Income of \$854,343. Items 2-3 were Debits to Cash and Credits to Other Income.
- c. Please see the answer to a.

**Attachment to CSB 4-6 Additional Schedule
Correction Relating to Farmers Water Co. Rate Case 71510 Mar 31, 2010**

Correction Relating to Farmers Water Co. Rate Case 71510 Mar 31, 2010

| | | Actual at End of Test Year | Adjustments Amounts | Adjusted at end of Test Year | |
|-------------------------------------|-------|----------------------------------|------------------------|------------------------------------|------------|
| Plant in Service (fixed Assets) | | | | | |
| Office Equipment | 15100 | 42,114.48 | (42,114.48) | - | |
| Computers and Software | 15140 | | 54,488.48 | 54,488.48 | |
| Machanical Equipment | 15200 | 52,058.59 | | 52,058.59 | |
| Tools & Equipment | 15300 | 200,477.00 | (200,477.00) | - | |
| Wells and Pumps | 15500 | 7,729,861.36 | (7,729,861.36) | - | |
| Structures and Improvemer | 15504 | | 14,565.21 | 14,565.21 | |
| Wells and Springs | 15507 | | 694,072.15 | 694,072.15 | |
| Electrical Pump Equipment | 15511 | | 269,908.87 | 269,908.87 | |
| Chemical Solution Feeders | 15520 | | 10,482.25 | 10,482.25 | |
| Storage Tanks | 15530 | | 467,977.67 | 467,977.67 | |
| Transmission and Distr Main | 15531 | | 5,821,758.76 | 5,821,758.76 | |
| Services | 15533 | | 806,566.00 | 806,566.00 | |
| Meters | 15534 | | 198,942.00 | 198,942.00 | |
| Hydrants | 15535 | | 233,265.00 | 233,265.00 | |
| | | | | - | |
| Franchise | 18005 | 6,893.05 | | 6,893.05 | |
| | | 8,031,404.48 | 599,573.55 | 8,630,978.03 | B-2 Page 2 |
| AD - Office Equipment | 17100 | (30,392.69) | (30,392.69) | - | |
| AD - Computers and Softwa | 17140 | | (41,805.00) | (41,805.00) | |
| AD - Machanical Equipment | 17200 | (22,435.03) | 6,311.15 | (16,123.88) | |
| AD - Tools & Equipment | 17300 | (104,544.87) | 104,544.87 | - | |
| AD - Wells and Pumps | 17500 | (2,169,717.86) | 2,169,717.86 | - | |
| AD - Structures and Improv | 17504 | | (6,312.00) | (6,312.00) | |
| AD - Wells and Springs | 17507 | | (323,736.00) | (323,736.00) | |
| AD - Electrical Pump Equipn | 17511 | | (269,908.87) | (269,908.87) | |
| AD - Chemical Solution Fee | 17520 | | (10,482.25) | (10,482.25) | |
| AD - Storage Tanks | 17530 | | (180,443.00) | (180,443.00) | |
| AD - Transmission and Distr | 17531 | | (873,694.00) | (873,694.00) | |
| AD - Services | 17533 | | (166,418.00) | (166,418.00) | |
| AD - Meters | 17534 | | (89,401.00) | (89,401.00) | |
| AD - Hydrants | 17535 | - | (61,271.00) | (61,271.00) | |
| | | (2,327,090.45) | 2,874,957.45 | (2,039,595.00) | B-2 Page 2 |
| | | | | - | |
| AIAC | 27500 | (6,845,038.69) | 2,833,400.00 | (6,566,199.29) | B-2 Page 3 |
| AIAC-Meter Installs | 27600 | (308,716.00) | | (308,716.00) | |
| | | | | - | |
| CIAC | 27100 | - | (576,492.00) | (576,492.00) | B-2 Page 4 |
| AA-CIAC | 27200 | - | 111,381.00 | 111,381.00 | B-2 Page 4 |
| | | | | - | |
| Amortization | | | 185,271.60 | | |
| Depreciation | | | (837,069.00) | | |
| Net Adjustment to Retained Earnings | | (1,449,440.66) | (700,797.40) | (748,643.26) | |
| | | | (700,797.40) | | |

Correction Relating to Farmers Water Co. Rate Case 71510 Mar 31, 2010

| | | 2008 | | |
|-------------------------------------|------------------|--------------------|--------------|----------------|
| | Correct Activity | Incorrect Activity | Correction | |
| Plant in Service (fixed Assets) | | | | - |
| Office Equipment 15100 | | | | - |
| Computers and Software 15140 | - | | (16,946.38) | 71,434.86 |
| Mechanical Equipment 15200 | | | (16,946.38) | 52,058.59 |
| Tools & Equipment 15300 | | 72,205.82 | (72,205.82) | - |
| Wells and Pumps 15500 | | | | - |
| Structures and Improvemer 15504 | | | | 14,565.21 |
| Wells and Springs 15507 | | | | 694,072.15 |
| Electrical Pump Equipment 15511 | | | | 269,908.87 |
| Chemical Solution Feeders 15520 | | | | 10,482.25 |
| Storage Tanks 15530 | | | | 467,977.67 |
| Transmission and Distr Main 15531 | | | | 5,821,758.76 |
| Services 15533 | | | | 806,566.00 |
| Meters 15534 | - | | (72,205.82) | 271,147.82 |
| Hydrants 15535 | | | | 233,265.00 |
| | | | | - |
| Franchise 18005 | | | | 6,893.05 |
| | - | 89,152.20 | | 8,720,130.23 |
| AD - Office Equipment 17100 | | (5,718.08) | (5,718.08) | - |
| AD - Computers and Softwa 17140 | | - | (12,592.00) | (54,397.00) |
| AD - Machanical Equipment 17200 | | (12,635.30) | (12,223.30) | (26,535.88) |
| AD - Tools & Equipment 17300 | | (15,556.53) | (15,556.53) | - |
| AD - Wells and Pumps 17500 | | (309,214.12) | (309,214.12) | - |
| AD - Structures and Improv 17504 | - | | (1485.00) | (6,797.00) |
| AD - Wells and Springs 17507 | - | | (23,113.00) | (346,849.00) |
| AD - Electrical Pump Equipn 17511 | - | | | (269,908.87) |
| AD - Chemical Solution Fee 17520 | - | | | (10,482.25) |
| AD - Storage Tanks 17530 | - | | (10,389.00) | (190,832.00) |
| AD - Transmission and Distr 17531 | - | | (116,435.00) | (990,129.00) |
| AD - Services 17533 | - | | (26,859.00) | (193,277.00) |
| AD - Meters 17534 | - | | (19,579.00) | (108,980.00) |
| AD - Hydrants 17535 | - | | (4,665.00) | (65,936.00) |
| | - | (343,124.03) | (118,595.03) | (2,264,124.00) |
| | | | | - |
| AIAC 27500 | 21,541.46 | 54,570.24 | (29,992.05) | (6,520,079.64) |
| AIAC-Meter Installs 27600 | (84,875.00) | | | (393,591.00) |
| CIAC 27100 | | | (24,573.19) | (601,070.19) |
| AA-CIAC 27200 | | | (15,160.00) | 126,541.00 |
| Amortization | | (54,570.24) | (39,740.24) | (15,160.00) |
| Depreciation | | | (118,595.03) | |
| Net Adjustment to Retained Earnings | (63,333.54) | (253,971.83) | (79,184.79) | (947,353.60) |

Correction Relating to Farmers Water Co. Rate Case 71510 Mar 31, 2010

| | | | | 2009 | |
|-------------------------------------|-------|---------------------|-----------------------|----------------|----------------|
| | | Correct Activity | Incorrect Activity | Corrections | |
| Plant in Service (fixed Assets) | | | | | - |
| Office Equipment | 15100 | | 30,268.00 | (30,268.00) | - |
| Computers and Software | 15140 | | | (31,767.00) | 103,201.86 |
| Machanical Equipment | 15200 | | 1,498.18 | (1,498.18) | 52,058.59 |
| Tools & Equipment | 15300 | | 57,324.93 | (57,324.93) | - |
| Wells and Pumps | 15500 | | 1,221,214.51 | (1,221,214.51) | - |
| Structures and Improvemer | 15504 | | | | 14,565.21 |
| Wells and Springs | 15507 | | | | 694,072.15 |
| Electrical Pump Equipment | 15511 | | | | 269,908.87 |
| Chemical Solution Feeders | 15520 | | | | 10,482.25 |
| Storage Tanks | 15530 | | | (12,446.06) | 480,423.73 |
| Transmission and Distr Mail | 15531 | | | (1,030,534.45) | 6,852,293.21 |
| Services | 15533 | | | (95,554.00) | 902,120.00 |
| Meters | 15534 | | | (57,324.93) | 328,472.75 |
| Hydrants | 15535 | | | (82,680.00) | 315,945.00 |
| | | | | | - |
| Franchise | 18005 | | | | 6,893.05 |
| | | | 1,310,305.62 | (1,310,305.62) | 10,030,436.67 |
| AD - Office Equipment | 17100 | | (8,592.18) | (8,592.18) | - |
| AD - Computers and Softwa | 17140 | | | (17,464.00) | (71,861.00) |
| AD - Machanical Equipment | 17200 | | (16,066.25) | (16,066.25) | (36,946.88) |
| AD - Tools & Equipment | 17300 | | (21,405.45) | (21,405.45) | - |
| AD - Wells and Pumps | 17500 | | (312,004.49) | (312,004.49) | - |
| AD - Structures and Improv | 17504 | | | (7,485.00) | (7,282.00) |
| AD - Wells and Springs | 17507 | | | (23,112.00) | (369,961.00) |
| AD - Electrical Pump Equipn | 17511 | | | | (269,908.87) |
| AD - Chemical Solution Fee | 17520 | | | | (10,482.25) |
| AD - Storage Tanks | 17530 | | | (10,527.00) | (201,359.00) |
| AD - Transmission and Distr | 17531 | | | (126,741.00) | (1,116,870.00) |
| AD - Services | 17533 | | | (28,450.00) | (221,727.00) |
| AD - Meters | 17534 | | | (24,974.00) | (133,954.00) |
| AD - Hydrants | 17535 | | | (5,493.00) | (71,429.00) |
| | | | (358,068.37) | (358,068.37) | (2,511,781.00) |
| | | | | | - |
| AIAC | 27500 | (622,526.31) | 54,679.24 | (54,679.24) | (7,142,605.95) |
| AIAC-Meter Installs | 27600 | (39,759.50) | | | (433,350.50) |
| CIAC | 27100 | (564,524.25) | | | (1,165,594.44) |
| AA-CIAC | 27200 | | 3,182.57 | (3,182.57) | 148,351.00 |
| Amortization | | | (57,861.81) | (57,861.81) | (36,970.00) |
| Depreciation | | | | (110,412.19) | |
| Net Adjustment to Retained Earnings | | | | (74,360.38) | |
| | | (1,226,810.06) | 952,237.25 | (274,572.81) | (1,111,514.22) |

Correction Relating to Farmers Water Co. Rate Case 71510 Mar 31, 2010

| | | Prior Years Activity |
|-------------------------------------|-------|-------------------------|
| Plant in Service (fixed Assets) | | |
| Office Equipment | 15100 | (72,382.48) |
| Computers and Software | 15140 | 103,201.86 |
| Machanical Equipment | 15200 | (18,444.56) |
| Tools & Equipment | 15300 | (330,007.75) |
| Wells and Pumps | 15500 | (8,951,075.87) |
| Structures and Improvemer | 15504 | 14,565.21 |
| Wells and Springs | 15507 | 694,072.15 |
| Electrical Pump Equipment | 15511 | 269,908.87 |
| Chemical Solution Feeders | 15520 | 10,482.25 |
| Storage Tanks | 15530 | 480,423.73 |
| Transmission and Distr Mai | 15531 | 6,852,293.21 |
| Services | 15533 | 902,120.00 |
| Meters | 15534 | 328,472.75 |
| Hydrants | 15535 | 315,945.00 |
| Franchise | 18005 | |
| | | 599,574.37 |
| AD - Office Equipment | 17100 | 44,702.95 |
| AD - Computers and Softwa | 17140 | (71,861.00) |
| AD - Machanical Equipment | 17200 | 14,189.70 |
| AD - Tools & Equipment | 17300 | 141,506.85 |
| AD - Wells and Pumps | 17500 | 2,790,936.47 |
| AD - Structures and Improv | 17504 | (7,282.00) |
| AD - Wells and Springs | 17507 | (369,961.00) |
| AD - Electrical Pump Equipn | 17511 | (269,908.87) |
| AD - Chemical Solution Fee | 17520 | (10,482.25) |
| AD - Storage Tanks | 17530 | (201,359.00) |
| AD - Transmission and Distr | 17531 | (1,116,870.00) |
| AD - Services | 17533 | (221,727.00) |
| AD - Meters | 17534 | (133,954.00) |
| AD - Hydrants | 17535 | (71,429.00) |
| | | 516,501.85 |
| AIAC | 27500 | 194,168.11 |
| AIAC-Meter Installs | 27600 | |
| CIAC | 27100 | (601,070.19) |
| AA-CIAC | 27200 | 145,168.43 |
| Amortization | | 261,733.65 |
| Depreciation | | (1,116,076.22) |
| Net Adjustment to Retained Earnings | | (854,342.57) |

Correction Relating to Farmers Water Co. Rate Case 71510 Mar 31, 2010

| | | | | 2010 |
|-------------------------------------|-------|--------------|--------------|--------------|
| | | Correct | Incorrect | Corrections |
| | | Activity | Activity | |
| Plant in Service (fixed Assets) | | | | |
| Office Equipment | 15100 | | | |
| Computers and Software | 15140 | | | |
| Machanical Equipment | 15200 | | | |
| Tools & Equipment | 15300 | | | |
| Wells and Pumps | 15500 | | | |
| Structures and Improvemer | 15504 | | | |
| Wells and Springs | 15507 | | | |
| Electrical Pump Equipment | 15511 | | | |
| Chemical Solution Feeders | 15520 | | | |
| Storage Tanks | 15530 | | | |
| Transmission and Distr Mai | 15531 | | | |
| Services | 15533 | | | |
| Meters | 15534 | | | |
| Hydrants | 15535 | | | |
| Franchise | 18005 | | | |
| AD - Office Equipment | 17100 | | (3,465.13) | (3,465.13) |
| AD - Computers and Softwa | 17140 | | | (10,320.00) |
| AD - Machanical Equipment | 17200 | | (4,814.08) | (391.97) |
| AD - Tools & Equipment | 17300 | | (12,951.13) | (12,951.13) |
| AD - Wells and Pumps | 17500 | | (163,359.41) | (163,359.41) |
| AD - Structures and Improv | 17504 | | | (213.00) |
| AD - Wells and Springs | 17507 | | | (11,556.00) |
| AD - Electrical Pump Equipn | 17511 | | | |
| AD - Chemical Solution Fee | 17520 | | | |
| AD - Storage Tanks | 17530 | | | (5,333.00) |
| AD - Transmission and Distr | 17531 | | | (68,523.00) |
| AD - Services | 17533 | | | (15,020.00) |
| AD - Meters | 17534 | | | (13,681.00) |
| AD - Hydrants | 17535 | | | (3,159.00) |
| | | | (184,589.75) | (51,548.70) |
| AIAC | 27500 | - | 24,798.62 | (24,798.62) |
| AIAC-Meter Installs | 27600 | - | 21,666.50 | |
| | | - | | |
| CIAC | 27100 | - | | |
| AA-CIAC | 27200 | - | 3,807.94 | (11,652.06) |
| | | - | | |
| Amortization | | 574,990.90 | (29,924.56) | (13,146.56) |
| Depreciation | | (574,990.90) | | (51,548.70) |
| Net Adjustment to Retained Earnings | | - | | (38,402.14) |
| | | 21,666.50 | (185,907.75) | |

Correction Relating to Farmers Water Co. Rate Case 71510 Mar 31, 2010

| | | | Total Corrections | |
|-------------------------------------|-------|-----------------------|----------------------|---|
| Plant in Service (fixed Assets) | - | | | |
| Office Equipment | 15100 | - | (72,382.48) | - |
| Computers and Software | 15140 | 103,201.86 | 103,201.86 | - |
| Mechanical Equipment | 15200 | 52,058.59 | (18,444.56) | - |
| Tools & Equipment | 15300 | - | (330,007.75) | - |
| Wells and Pumps | 15500 | - | (895,075.87) | - |
| Structures and Improvemer | 15504 | 14,565.21 | 14,565.21 | - |
| Wells and Springs | 15507 | 694,072.15 | 694,072.15 | - |
| Electrical Pump Equipment | 15511 | 269,908.87 | 269,908.87 | - |
| Chemical Solution Feeders | 15520 | 10,482.25 | 10,482.25 | - |
| Storage Tanks | 15530 | 480,423.73 | 480,423.73 | - |
| Transmission and Distr Mail | 15531 | 6,852,293.21 | 6,852,293.21 | - |
| Services | 15533 | 902,120.00 | 902,120.00 | - |
| Meters | 15534 | 328,472.75 | 328,472.75 | - |
| Hydrants | 15535 | 315,945.00 | 315,945.00 | - |
| | | - | - | - |
| Franchise | 18005 | 6,893.05 | - | - |
| | | <u>10,030,436.67</u> | <u>599,574.37</u> | - |
| | | | | - |
| AD - Office Equipment | 17100 | - | 48,168.08 | - |
| AD - Computers and Softwa | 17140 | (82,181.00) | (82,181.00) | - |
| AD - Machanical Equipment | 17200 | (42,152.93) | 13,797.73 | - |
| AD - Tools & Equipment | 17300 | - | 154,457.98 | - |
| AD - Wells and Pumps | 17500 | - | 295,295.88 | - |
| AD - Structures and Improvi | 17504 | (7,525.00) | (7,525.00) | - |
| AD - Wells and Springs | 17507 | (381,517.00) | (381,517.00) | - |
| AD - Electrical Pump Equipn | 17511 | (269,908.87) | (269,908.87) | - |
| AD - Chemical Solution Feee | 17520 | (10,482.25) | (10,482.25) | - |
| AD - Storage Tanks | 17530 | (206,692.00) | (206,692.00) | - |
| AD - Transmission and Distr | 17531 | (1,185,393.00) | (1,185,393.00) | - |
| AD - Services | 17533 | (236,747.00) | (236,747.00) | - |
| AD - Meters | 17534 | (147,635.00) | (147,635.00) | - |
| AD - Hydrants | 17535 | (74,588.00) | (74,588.00) | - |
| | | <u>(2,644,822.05)</u> | <u>568,050.55</u> | - |
| | | | | - |
| | | | | - |
| AIAC | 27500 | (7,142,605.95) | 169,369.49 | - |
| AIAC-Meter Installs | 27600 | (411,684.00) | - | X |
| | | | | - |
| CIAC | 27100 | (1,165,594.44) | (601,070.19) | X |
| AA-CIAC | 27200 | 163,811.00 | 156,820.49 | X |
| | | | | - |
| Amortization | | (53,748.00) | 274,880.21 | - |
| Depreciation | | | (1,167,624.92) | - |
| Net Adjustment to Retained Earnings | | | (892,744.71) | - |
| | | <u>(1,224,206.77)</u> | | - |

Attachment E

SCHEDULE D-1, "SUMMARY OF COST OF CAPITAL"

OF ORIGINAL APPLICATION IN

DOCKET NO. W-01654A-08-0502

ORIGINAL



0000089205

BEFORE THE ARIZONA CORPORATION C

RECEIVED

Arizona Corporation Commission
DOCKETED

2008 SEP 29 P 1:19

SEP 29 2008

AZ CORP COMMISSION
DOCKET CONTROL

DOCKETED BY
ne

COMMISSIONERS

- MIKE GLEASON – Chairman
- WILLIAM A. MUNDELL
- JEFF HATCH-MILLER
- KRISTIN K. MAYES
- GARY PIERCE

W-01654A-08-0502

IN THE MATTER OF THE APPLICATION
OF FARMERS WATER CO., AN ARIZONA
CORPORATION, FOR A
DETERMINATION OF THE CURRENT
FAIR VALUE OF ITS UTILITY PLANT
AND PROPERTY AND FOR INCREASES
IN ITS RATES AND CHARGES FOR
UTILITY SERVICE.

DOCKET NO. W-01654A-

APPLICATION

Farmers Water Co. ("Company"), an Arizona corporation, submits this Application for an order establishing the fair value of its plant and property for the provision of public utility service and, based on such fair value, approving permanent rates and charges for utility service provided by the Company designed to produce a fair return thereon. In support of its request, the Company states as follows:

I. INTRODUCTION

1. The Company is a public service corporation engaged in providing water service in portions of Pima County, Arizona, pursuant to a Certificate of Convenience and Necessity ("CC&N") initially granted by the Arizona Corporation Commission ("Commission") in Decision No. 32055 (January 28, 1960). The Company's present rates and charges were approved in Decision No. 63749 (June 6, 2001).

2. The Company applied for and was granted an extension to its CC&N in Decision No. 68920 (August 29, 2006). In Decision No. 68920, the Company was ordered to file a rate case by June 30, 2008, using a 2007 Test Year. On June 16, 2008, the Company applied for a 90-day extension to file its rate case through and including September 29, 2008. In Decision No. 70473 (September 3, 2008), the Commission

Docket No. W-01654A-08-0502

Exhibit
Schedule D-1
Page 1
Witness: Bourassa

Farmers Water Co.
Test Year Ended September 30, 2007
Summary of Cost of Capital

| Line No. | Item of Capital | End of Test Year | | | End of Projected Year | | | | |
|----------|-----------------------------------|------------------|------------------|---------------|-----------------------|---------------|------------------|---------------|---------------|
| | | Dollar Amount | Percent of Total | (e) Cost Rate | Weighted Cost | Dollar Amount | Percent of Total | (e) Cost Rate | Weighted Cost |
| 1 | Short-Term Debt | \$ - | 0.00% | 0.00% | 0.00% | \$ - | 0.00% | 0.00% | 0.00% |
| 2 | | | | | | | | | |
| 3 | Long-Term Debt | - | 0.00% | 0.00% | 0.00% | - | 0.00% | 0.00% | 0.00% |
| 4 | | | | | | | | | |
| 5 | Stockholder's Equity ¹ | 260,593 | 100.00% | NM | 0.00% | 130,112 | 100.00% | NM | 0.00% |
| 6 | | | | | | | | | |
| 7 | Totals | \$ 260,593 | 100.00% | | 0.00% | \$ 130,112 | 100.00% | | 0.00% |

| | | | | | | | | | |
|----|---|----|-----------|--|--|--------------|--|--|--|
| 8 | | | | | | | | | |
| 9 | ¹ Equity Adjustments | | | | | | | | |
| 10 | Equity per Schedule E-1 | \$ | | | | \$ (440,202) | | | |
| 11 | Adjustments | | | | | | | | |
| 12 | Plant-in-service adjustment | \$ | 599,572 | | | | | | |
| 13 | Accumulated Depreciation adjustment | \$ | 287,495 | | | | | | |
| 14 | Advances-in-aid of construction adjustment | \$ | 54,433 | | | | | | |
| 15 | Contributions-in-aid of construction adjustment | \$ | (297,653) | | | | | | |
| 16 | A.A. CIAC adjustment | \$ | 56,949 | | | | | | |
| 17 | Adjusted Equity Balance | \$ | 260,593 | | | | | | |

* Not meaningful, rate base is negative. An operating margin approach used.

SUPPORTING SCHEDULES:

- D-1
- D-3
- D-4
- E-1
- B-2

RECAP SCHEDULES:

A-3

Line No. 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39 40 41

Attachment F

EQUITY IMPROVEMENT PLAN

FILED ON MARCH 4, 2011

DOCKET NO. W-01654A-08-0502

ORIGINAL



0000123524

BEFORE THE ARIZONA CORPORATION

RECEIVED

COMMISSIONERS

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

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AZ CORP COMMISSION
DOCKET CONTROL

IN THE MATTER OF THE
APPLICATION OF FARMERS WATER
CO., AN ARIZONA CORPORATION,
FOR A DETERMINATION OF THE
CURRENT FAIR VALUE OF ITS
UTILITY PLANT AND PROPERTY
AND FOR INCREASES IN ITS RATES
AND CHARGES FOR UTILITY
SERVICE.

DOCKET NO. W-01654A-08-0502

FARMERS WATER CO.'S
NOTICE OF FILING EQUITY
IMPROVEMENT PLAN
PURSUANT TO DECISION 71510

Farmers Water Co., through undersigned counsel hereby files its Equity Improvement Plan as required by Decision 71510. Decision 71510 states as follows: IT IS FURTHER ORDERED that Farmers Water Co. shall develop and file with Docket Control, as a compliance item in this docket, an Equity Improvement Plan by March 31, 2011. The Equity Improvement Plan, attached hereto is filed in compliance with the above ordering paragraph.

RESPECTFULLY SUBMITTED this 4th day of March, 2011.

SNELL & WILMER L.L.P.

Arizona Corporation Commission

DOCKETED

MAR 4 2011

DOCKETED BY

By
Robert J. Metli
One Arizona Center
400 E. Van Buren
Phoenix, AZ 85004-2202
Attorneys for Farmers Water Co.

1 ORIGINAL and thirteen (13) copies
filed this 4th day of March, 2011, with:

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

5 COPY of the foregoing hand-delivered on
this 4th day of March, 2011, to:

6 Steve Olea, Director
7 Utilities Division
Arizona Corporation Commission
8 1200 West Washington
Phoenix, Arizona 85007

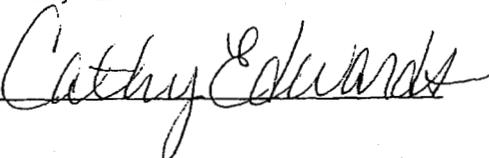
9 Janice Alward
10 Chief Legal Counsel
Legal Department
11 Arizona Corporation Commission
1200 West Washington Street
12 Phoenix, Arizona 85007

13 Lyn Farmer, Hearing Division
Arizona Corporation Commission
14 1200 West Washington
Phoenix, Arizona 85007

15 Brian Bozzo
16 Utilities Division
Arizona Corporation Commission
17 1200 West Washington
Phoenix, Arizona 85007

18 COPY of the foregoing mailed on
19 this 4th day of March, 2011, to:

20 Jane Rodda, Administrative Law Judge
Arizona Corporation Commission
21 400 West Congress Street
Tucson, Arizona 85701

22
23 By 

24
25
26
27
28

FARMERS WATER COMPANY, INC.
EQUITY IMPROVEMENT PLAN
Docket No. W-01654A-08-0502
Decision No. 71510
March 17, 2010

The Subject Decision stated as follows, "IT IS FURTHER ORDERED that Farmers Water Co, Inc. shall develop and file with Docket Control, as a compliance item in this Docket, an equity improvement plan by March 31, 2011."

Adjustments to plant-in-service, accumulated depreciation, contributions-in-aid of construction, and accumulated amortization adopted by the Commission in the Decision have contributed significantly to the improvement in the Company's equity despite the Company suffering operating losses of \$(128,099) and \$(239,460) in fiscal years 2008, 2009, respectively¹, as well an operating loss for fiscal year 2010 (exclusive of rate case adjustments) of approximately \$(48,000).² The Company's capital structure as of September 30, 2010 is as follows:

| | | |
|----------------|------------|------|
| Common Equity | \$ (1,331) | 100% |
| Long Term Debt | \$ 0.00 | 0% |
| Total | \$ (1,331) | 100% |

The Company's equity balance has improved by \$438,871 since the end of the test year in the Company recent rate case.³ While this improvement was primarily the result of adjustments adopted by the Commission in the recent rate case, continued improvement in the equity balance of the Company will occur only if the Company experiences positive operating income prospectively. The Decision authorized an Operating Income before taxes of \$72,689. That Decision denied the Company's request to recover income taxes because the Company is a tax pass-through entity. After reimbursing shareholders approximately \$25,441 for income taxes (assuming a 35% marginal tax rate), the Company is expected have additional annual retained earnings of approximately \$47,248 annually (\$72,689 minus \$25,441). At this rate of additions to retained earnings and assuming no additional equity through the issuance of common stock or paid-in-capital, the Company is expected to achieve a positive equity balance by the end of its current fiscal year ended September 30, 2011.

¹ See ACC Annual Reports for 2008 and 2009 (Years Ended September 30)

² Please note that new rates from Decision 71510 (March 17, 2010) were effective April 1, 2010. Therefore, fiscal year ended September 30, 2010 reflects only 6 months of new rates.

³ See Schedule E-1, Docket W-01654A-08-0502. The unadjusted equity balance at September 30, 2007 was \$(440,202).

Given the above, the Company's Equity Improvement Plan is as follows:

1. Because all equity growth will come from internally generated Retained Earnings derived from Operating Income, the Company will attempt to maintain the operating margin authorized by the Commission by filing new rate applications as often as practical and necessary.
2. File emergency rate applications as necessary when the Company incurs significant, prudent and necessary expenses but does not have the ability to pay, while maintaining the authorized operating margin.
3. Reinvest available Operating Income in new plant and equipment. This has the equally important benefit of increasing Rate Base.
4. The Company will limit reliance on developer funded plant (contributions and advances) and invest its own capital where feasible.
5. Apply for Accounting Order(s) as necessary, to defer prudent and necessary expenses for consideration of recovery in subsequent rate cases.
6. While the Company has typically not paid cash dividends above the amount necessary to reimburse shareholders for income taxes on the distributive share of the income from the Company, the Company will continue to suspend cash dividends beyond that amount.