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2006 JUL 24 PM 4:48

Arizona Corporation Commission

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July ~~24, 2006~~ 2006

Docket Control
Arizona Corporation Commission
1200 W. Washington
Phoenix, AZ 85007

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Re: Johnson Utilities, LLC; Docket Nos. WS-02987A-05-0088; Decision Nos. 68235, respectively; Request to Extend Compliance Date

Docket Control:

Johnson Utilities, LLC (the "Company") hereby requests that the Commission revise the Test Year and extend the Compliance Date for the filing of a Rate Application as set forth in Decision Nos. 68235, 68236, and 68237 (collectively the "Decisions"). All of the Decisions require the Company to file a Rate Application by May 1, 2007, based on the Test Year 2006. The Company is of the opinion that it is in the public interest to utilize a Test Year of 2007, not 2006.

The Commission may recall that the Company was formed in 1997, and that its first customer was served in 1998. The Company has enjoyed growth in that relatively short time period, and as of year-end 2005 had in excess of 13,700 customers and \$77 million in Plant in Service. The Company continues to grow, although the Company has already experienced a reduction in new customers and rate of growth, and anticipates that the new customer count will remain depressed for quite awhile. To properly serve new developments it is anticipated that during 2006 the Company will add approximately \$4.6 million in water wells, tanks and pumps, and \$20 million in wastewater treatment plants, lift stations and force mains. It does not appear that all of the expenditures will be "used and useful" by the end of calendar year 2006. The reason for the delay in construction projects is a direct result of delays in the issuance of the Arizona Department of Environmental Quality permits. The Company anticipates placing an additional \$20 million in new Backbone Plant in service during 2007.

Prior to 2006, this Backbone Plant has been funded primarily by use of the Commission authorized Hook-Up Fees ("HUF's). The service area has developed primarily as Master Plan Communities which are typically comprised of several thousand residential units each. The Developers request that the Company commit to serve those entire communities, not just the first small subdivision. Because of that request and obligation, the Company has prudently constructed large Backbone Facilities for both the water and wastewater service. Due to the uncertainty of such large projects, and the Developers' requiring a firm commitment of utility capacity, the risk associated with those large increments of plant should properly be borne by the Developers, not the Company or its existing customers. Therefore, extraordinarily large portions of those plants were funded using Developer provided HUF's. As the Commission is aware,

when Plant in Service is funded with HUF's which are Contributions in Aid of Construction ("CIAC"), the Rate Base is artificially reduced in relation to the total plant. This could result in a temporary "bubble" and what may appear to be an inappropriate rate.

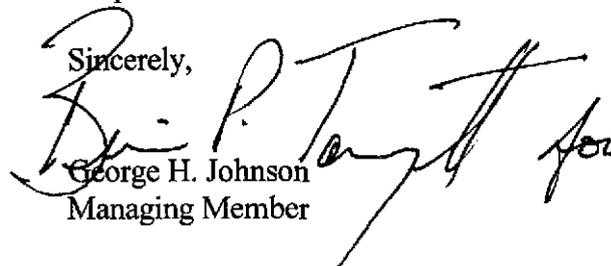
However, with the success of the referenced Master Planned Communities, the Company has financed during 2006, and will finance for 2007, Backbone Plant additions with not only HUF's, but also with owner's equity. This plan is consistent with both the Company's and Commission's intent and desire, at the formation of the Company, and the establishment of the initial rates of the Company. At inception, the Commission authorized a HUF level that recovered approximately 60% of the cost of the Backbone Plant, with the remainder to be funded by owner's equity. The Company believes this is still an appropriate capital structure in the long-term, but a "snapshot" of the Company's capital structure at year-end 2006 will show a much higher ratio of plant funded by Advances and Contributions.

The Company estimates that equity funding during 2006 will be about \$16 million, with the 2007 equity infusion of the same approximate magnitude. Substantial additional equity funding will be needed for the foreseeable future, although at a lesser annual percentage of the capital structure. HUF's will still be needed for future plant additions to keep equity investment and the resultant rate levels appropriate.

To assure the availability of those additional equity investments, and to maintain rate stability for its customers, the Company believes utilizing a 2007 Test Year will provide a better representation of the Company's Plant in Service, capital structure, rate base and customer levels, all resulting in rates that can remain in effect longer than a volatile rate driven by the phenomena of Advances and Contributions.

Therefore, the Company is requesting that the Commission issue a Procedural Order revising the Test Year to December 31, 2007, and extending the filing date to March 1, 2008.

The Company appreciates the Commissions consideration in this matter and would like the opportunity to meet with staff and present our position.

Sincerely,

George H. Johnson
Managing Member

cc: Brian McNeil
Judge Dwight Nodes
Utilities Division
Legal Division