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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

KRISTIN K. MAYES, Chairman
GARY PIERCE
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP

IN THE MATTER OF THE APPLICATION OF JOHNSON UTILITIES, LLC, DBA JOHNSON UTILITIES COMPANY FOR AN INCREASE IN ITS WATER AND WASTEWATER RATES FOR CUSTOMERS WITHIN PINAL COUNTY, ARIZONA.	DOCKET NO. WS-02987A-08-0180 **JOHNSON UTILITIES, LLC'S NOTICE OF FILING WITNESS SUMMARIES**

Johnson Utilities, LLC, dba Johnson Utilities, through counsel undersigned, hereby files witness summaries for the following witnesses in the above-captioned matter:

Thomas J. Bourassa

Brian Tompsett

RESPECTFULLY SUBMITTED this 21st day of April, 2009.

SNELL & WILMER L.L.P.

By [signature]
Jeffrey W. Crockett
Robert J. Metli
One Arizona Center
400 E. Van Buren
Phoenix, AZ 85004-2202
Attorneys for Johnson Utilities, LLC

Arizona Corporation Commission
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APR 21 2009
DOCKETED BY [initials]

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ARIZONA CORPORATION COMMISSION
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Phoenix, Arizona 85004

COPIES of the foregoing hand-delivered this
21st day of April, 2009, to:

Teena Wolfe, Administrative Law Judge
Hearing Division
ARIZONA CORPORATION COMMISSION
1200 W. Washington Street
Phoenix, Arizona 85007

Ayesha Vohra, Staff Attorney
Legal Division
ARIZONA CORPORATION COMMISSION
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Utilities Division
ARIZONA CORPORATION COMMISSION
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Phoenix, Arizona 85007

COPIES of the foregoing sent via e-mail and
U.S. mail this 21st day of April, 2009, to:

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SUMMARY OF TESTIMONY OF THOMAS J. BOURASSA
ON BEHALF OF
JOHNSON UTILITIES L.L.C., DBA JOHNSON UTILITIES COMPANY

April 20, 2009

Mr. Bourassa's testimonies were submitted in three separate volumes, one addressing the wastewater rate base, income statement and rate design, one addressing the water rate base, income statement and rate design addressing, and the third addressing cost of capital, filed as part of his direct, rebuttal and rejoinder testimonies.

I. REVENUE REQUIREMENT

A. Water Division.

The Company is requesting a decrease in revenues of $2,879,022, a decrease of 21.86 percent for a total revenue requirement of $10,293,877.

The proposed revenue requirements and proposed rate increases are as follows:

	Revenue Requirement	Revenue Incr.	% Increase
Staff Surrebuttal	$10,104,599	$(3,068,899)	-23.29%
RUCO Surrebuttal	$11,690,840	$(1,482,059)	-11.25%
Company Rejoinder	$10,293,877	$(2,879,022)	-21.86%

In addition, the Company is proposing a rate of return on equity of 11.89% based on its weighted average cost of capital.

B. Wastewater Division.

The Company is requesting an increase in revenues of $2,326,532, an increase of 20.49 percent for a total revenue requirement of $13,680,546.

The proposed revenue requirements and proposed rate increases are as follows:

	Revenue Requirement	Revenue Incr.	% Increase
Staff Surrebuttal	$10,104,599	$(3,068,899)	-23.29%
RUCO Surrebuttal	$10,268,514	$(1,085,500)	- 9.56%
Company Rejoinder	$13,680,546	$ 2,326,532	20.49%

II. RATE BASE

A. Water Division.

The Company is proposing a rate base of $3,553,562. Rate bases proposed by all parties in the case are as follows:

	OCRB	FVRB
Staff Surrrebutal	$(15,633,302)	$(15,633,302)
RUCO Surrebuttal	$(5,556,766)	$(5,556,766)
Company Rejoinder	$ 3,553,562	$ 3,539,562

Not Used and Useful: With respect to plant that Staff and RUCO alleged is not "used and useful," the Company agrees to remove $3,394,895. Both Staff and RUCO propose an adjustment to remove plant not "used and useful" in the amount of $4,127,079.

Excess Capacity: Staff and RUCO also allege that $1,027,065 of plant is excess capacity and has proposed a corresponding reduction to rate base. The Company disputes this contention and is not proposing any reduction to rate base for excess capacity.

Plant Reclassification: Both RUCO and the Company plant reclassification amounts match the amounts set forth in Table 12 of Staff Exhibit MSJ. Staff's adjustment does not match the amounts in Table 12.

Unexpended Hook-up Fees (CIAC): Both Staff and RUCO propose to include unexpended hook-up fees (CIAC) of $6,931,078 in rate base. The Company disagrees and its rate base excludes the unexpended hook-up fees (CIAC).

Affiliate Profit: The Company proposes an adjustment to remove $469,832 of affiliate profit using a profit percentage of 1.75 percent on plant constructed by affiliates totaling 26,847,516. Staff proposes an adjustment to remove $5,696,336 of affiliate profit using a profit percentage of 7.5 percent on all of the Company's water plant-in-service costs of $79,591,151. RUCO has not proposed an adjustment for affiliate profit.

Unsupported Plant Costs: The Company believes it has adequately supported its plant costs and has not proposed any adjustments to its plant-in-service costs. RUCO does not propose an adjustment for unsupported plant-in-service costs while Staff proposes to remove $7,959,115 of plant-in-service costs using an arbitrary 10 percent rate of all the Company plant-in-service costs of $79,591,151.

Accumulated Depreciation: The Company proposes an increase in rate base for accumulated depreciation in the amount of $5,662,795. Staff proposes a decrease in rate base of ($1,314,871), RUCO proposes an increase in rate base of $436,975.

Deferred Assets: Company accepts Staff's reduction of ($633,537).

Materials and Supplies: All parties agree.

Working Capital: All the parties are now in agreement on $0 working capital.

B. Wastewater Division.

The rate bases proposed by all parties in the case are as follows:

	OCRB	FVRB
Staff Surrrebutal	$(2,835,084)	$(2,835,084)
RUCO Surrebuttal	$ 11,252,776	$ 11,252,776
Company Rebuttal	$ 3,553,562	$ 3,539,562

Used and Useful: With respect to plant that Staff and RUCO alleged is not "used and useful," the Company agrees to remove $2,209,026. Both Staff and RUCO propose an adjustment to remove plant not "used and useful" in the amount of $4,595,298.

Excess Capacity: Staff and RUCO also allege that $5,443,062 of plant is excess capacity and has proposed a corresponding reduction to rate base. The Company disputes this contention and is not proposing any reduction to rate base for excess capacity.

Unexpended Hook-up Fees (CIAC): Both Staff and RUCO propose to include unexpended hook-up fees (CIAC) of $16,505 in rate base. The Company disagrees and its rate base excludes the unexpended hook-up fees (CIAC).

Affiliate Profit: With respect to affiliate profit, the Company proposes an adjustment to remove $800,179 of affiliate profit using a profit percentage of 1.75 percent on plant constructed by affiliates totaling 45,724,058. Staff proposes an adjustment to remove $8,992,170 of affiliate profit using a profit percentage of 7.5 percent on nearly of all the Company's wastewater plant-in-service costs. Staff applies a 7.5 percent rate to $118,962,268 of the Company total plant costs of $123,849,703. RUCO has not proposed an adjustment for affiliate profit.

Unsupported Plant Costs: The Company believes it has adequately supported its plant costs and has not proposed any adjustments to its plant-in-service costs. RUCO does not propose an adjustment for unsupported plant-in-service costs while Staff proposes to remove $11,896,227 of plant-in-service costs using an arbitrary 10 percent rate of nearly all the Company plant-in-service costs. Staff applies a 10 percent rate to $118,962,268 of the Company total plant costs of $123,849,703.

Post Test Year Plant-in-Service: Staff proposes to exclude post test year plant of $2,684,888. The Company proposes post test year plant totaling $1,021,108 plus an adjustment to reclassify $2,202,386 of post test year plant to test year plant-in-service. RUCO appears to be in agreement with the Company.

Working Capital: All the parties are now in agreement on $0 working capital.

Accumulated Depreciation: The Company proposes an increase in rate base for accumulated depreciation in the amount of $7,560,886. Staff proposes a decrease in rate base of ($1,674,032), RUCO proposes an increase in rate base of $609,288.

Deferred Assets: Company accepts Staff's reduction of ($986,826.

III. INCOME STATEMENTS

A. Water Division.

CAGRD Fees: Staff and the Company are in agreement on the treatment of CAGRD fees as a pass-through like sales tax. RUCO continues to include the CAGRD fees in operating expenses and has not provided any additional testimony on this subject in its surrebuttal testimony.

Income Taxes: Both Staff and RUCO exclude income taxes from operating expenses and the revenue requirement while the Company continues to propose income taxes. The Company's position is that income taxes are required to be paid by members of an LLC on a utility's income and are an inescapable business expense that is directly attributed to the utility and is directly comparable with similar taxes paid by C corporations.

Rate Case Expense: All parties agree to $100,000. While Staff and the Company agree to the use of a 3 year amortization period, RUCO proposes a 5 year amortization period.

B. Wastewater Division.

Income Taxes: Both Staff and RUCO exclude income taxes from operating expenses and the revenue requirement while the Company continues to propose income taxes. The Company's position is that income taxes are required to be paid by members of an LLC on a utility's income and are an inescapable business expense that is directly attributed to the utility and is directly comparable with similar taxes paid by C corporations.

Rate Case Expense: All parties agree to $100,000. While Staff and the Company agree to the use of a 3 year amortization period, RUCO proposes a 5 year amortization period.

IV. COST OF CAPITAL

The Company's recommended capital structure consists of 2.8 percent debt and 97.2 percent common. Based on Mr. Bourassa's updated cost of capital analysis, the Company is recommending a cost of equity of 12.0 percent and a cost of debt is 8.0 percent. Based on the 12.0 percent recommended cost of equity, the Company's weighted average cost of capital ("WACC") is 11.89 percent. The Company also recommends that the WACC be used as the rate of return and applied to the Company's fair value rate base ("FVRB") to compute the Company's required operating income.

Because Staff is recommending negative rate bases for both the water and wastewater divisions, Staff has not provided a cost of capital analysis and is recommending an operating margin of 10 percent.

RUCO has recommended a cost of equity of 8.31 percent and a cost of debt of 8.0 percent, based on the Company's existing debt cost. RUCO is proposing a hypothetical capital structure of 40 percent debt and 60 percent equity. Based on a hypothetical capital structure, RUCO computed a WACC of 8.18 percent, which is RUCO's recommended rate of return on FVRB.

V. SWING FIRST GOLF'S ISSUES

Johnson Utilities is Over-Earning: SFG's bases claim that Johnson Utilities is "over-earning" on the Company's initial application using a 2007 test year. However, in the initial application, Johnson Utilities requested a decrease in water revenues of approximately $2.23 million and an increase in wastewater revenues of approximately $2.24 million, for a net increase in combined revenues of approximately $10,000 ($2.24 million increase for wastewater division minus $2.23 million decrease for water division. Based on the Company's initial filing and considering the proposed CAGRD tax pass-through, Johnson Utilities was under-earning (not over-earning) by over $1.29 million ($2.39 million increase for wastewater division less $1 million net decrease for water division). Based on its rebuttal filing Johnson Utilities was under-earning by approximately $750,000. In addition, SFG's recommendation constitutes retroactive ratemaking.

Johnson Utilities should refund Superfund Tax: The Superfund Tax is a transaction privilege sales tax and its recovery and treatment is covered under Arizona Administrative Code R14-2-209(D)(5). This rule allows a utility to collect from its customers a proportionate share of <u>any</u> privilege, sales or use tax.

Pecan WWTP should not be included in rate base: The basis for SFG's recommendation is that Johnson Utilities has a NOV from ADEQ pertaining to the Pecan WWTP, not excess capacity. This is not the standard for exclusion or inclusion of plant in rate base. The standard is whether the plant is "used and useful." In this case, Utilities Division Staff has clearly found the Pecan WWTP to be used and useful. In some cases, outstanding NOV's have resulted in delays in implementing new rates, but have never been used as the basis for excluding plant from rate base, particularly when the plant was found to be used and useful.

Johnson Utilities should be "penalized" with a reduced return on equity: Lowering a utility's return on equity as a penalty would violate the longstanding standards set forth in *Bluefield Water Works* and *Hope Natural Gas*. Those landmark Supreme Court rulings established the basic criteria applicable to determining a fair and reasonable rate of return. A utility's authorized rate of return should satisfy the following: (1)The rate of return should be commensurate with returns on investments in other enterprises having corresponding risk; (2) The return should be sufficient to ensure confidence in the financial integrity of the utility and to maintain and support the utility's credit; and (3) The return should enable the utility to attract capital necessary for the proper discharge of its duties.

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BEFORE THE ARIZONA CORPORATION COMMISSION

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IN THE MATTER OF THE APPLICATION OF JOHNSON UTILITIES, L.L.C., DBA JOHNSON UTILITIES COMPANY FOR AN INCREASE IN ITS WATER AND WASTEWATER RATES FOR CUSTOMERS WITHIN PINAL COUNTY, ARIZONA.	DOCKET NO. WS-02987A-08-0180

SUMMARY OF TESTIMONY OF BRIAN TOMPSETT

ON BEHALF OF

JOHNSON UTILITIES L.L.C., DBA JOHNSON UTILITIES COMPANY

April 20, 2009

Mr. Tompsett filed direct, rebuttal and rejoinder testimonies.

I. RATE BASE

A. Water Division.

Not Used and Useful: Staff has proposed a disallowance of the $731,125 cost of the four-mile 12-inch water main constructed to serve Silverado Ranch pursuant to a Master Utility Agreement with the developer and was constructed and installed to provide water service to a new subdivision planned for approximately 1,834 residential units. While the initial site preparation and grading work was performed by the developer, construction of homes has not yet proceeded due to the current lack of demand for new residential housing. The Company received a *bona fide* request for water service from the developer, which obligated Johnson Utilities to serve under its CC&N. Johnson Utilities entered into the Master Utility Agreement in good faith which contractually obligated the Company to construct the water main.

Excess Capacity: Staff has proposed a disallowance of $1,127,065 for a well and storage in the company's anthem water system. The Anthem water system requires that water be delivered from two sources. The Anthem well and storage tank provides potable water to the eastern portion of the Anthem development. It is Company's position that Staff has grossly underestimated growth through 2012 at Anthem at Merrill Ranch. The Company estimates a customer count of 2,687 at the end of 2012. The removal of Rancho Sendero Well #1 and .5 million gallon storage tank would leave Anthem at Merrill Ranch short on capacity and storage. In addition, both Rancho Sendero Well # 1 and Rancho Sendero Well #2 pump directly into the 0.5 million gallon storage tank, as opposed to the distribution system. To modify the water system to directly connect Rancho Sendero Well #2 to the distribution system would be expensive, and more importantly, would remove important redundancy and water production capability.

Unsupported Plant Costs: Johnson Utilities provided voluminous information to Staff documenting plant construction costs including main extension agreements, contracts, invoices, cancelled checks, and other documentation. Staff's arbitrary 10% reduction of the Company's equity in the amount of ($7,959,115) in the absence of specific identification of inadequately supported plant costs constitutes an unlawful "taking" of the Company's property.

Affiliate Profit: The Company has provided evidence via responses to Staff Data Requests JMM 9-2 dated December 4, 2008, and JMM 1.43 dated September 22, 2008, that affiliate-constructed water plant comprises only $26,847,516 of the total test-year water plant of $79,591,151. Thus, $52,743,635 was constructed by developers, their contractors and other entities which are not affiliates of Johnson Utilities. Yet, Staff applies a 7.5% disallowance for affiliate profit and overhead to <u>all</u> wastewater plant, whether or not constructed by an affiliate.

B. Wastewater Division.

Post Test Year Plant-in-Service: Staff proposes to exclude post test year plant of $2,684,888. The Company proposes post test year plant totaling $1,021,108 plus an adjustment to reclassify $2,202,386 of post test year plant to test year plant-in-service. RUCO appears to be in agreement with the Company.

Not Used and Useful:

Four-mile Sewer Force Main: Staff is proposing a disallowance of the $690,186 cost of the four-mile sewer force main to serve Silverado Ranch pursuant to a Master Utility Agreement with the developer. While the initial site preparation and grading work was performed by the developer, construction of homes has not yet proceeded due to the current lack of demand for new residential housing. The Company received a *bona fide* request for sewer service from the developer, which obligated Johnson Utilities to serve under its CC&N. Johnson Utilities entered into the Master Utility Agreement in good faith which contractually obligated the Company to construct the sewer main.

Precision Wastewater Treatment Plant ("Precision WWTP"): Staff has recommended the disallowance of the $1,696,086 in costs of constructing the Precision WWTP which is located in Johnson Ranch. The Precision WWTP was considered necessary and required by the Arizona Department of Environmental Quality ("ADEQ") when it was constructed. In 2002, ADEQ implemented new policies requiring that wastewater treatment capacity be fully constructed and operational prior to subdivision approvals. As a result of this new policy, ADEQ ceased issuing approvals to construct sanitary facilities for subdivisions to developers within Johnson Ranch and other developments unless and until Johnson Utilities constructed the Precision WWTP. Thus, when the Company receives a *bona fide* request for sewer service from a developer, the Company is obligated to serve under its CC&N. Because ADEQ made the construction of the Precision WWTP a prerequisite to the approval of additional residential home construction in Johnson Ranch, Johnson Utilities had no choice but to build the Precision WWTP.

Excess Capacity: Staff has removed the $5,443,062 original cost of constructing the 1.0 million gallon per day ("MGD") Phase II ("Phase II") of the Santan Wastewater Treatment Plant ("Santan WWTP"). The Phase II capacity is actually needed now, and will be put to use by late 2009 to treat wastewater flows that will be redirected from Johnson Utilities' Pecan wastewater treatment plant ("Pecan WWTP") which is currently nearing full capacity. The Santan WWTP was constructed in two phases with a current treatment capacity of 2.0 million gallons per day. Johnson Utilities will redirect approximately 0.53 MGD of existing flow from the Pecan WWTP to the Santan WWTP, which will increase in time to the full 2.0 MGD permitted capacity of the Santan WWTP as growth comes on line. The existing capacity at the Santan WWTP will, therefore, be required and useful and will also delay the cost of constructing phase 3 of the Pecan WWTP.

Unsupported Plant Costs: Johnson Utilities provided voluminous information to Staff documenting plant construction costs including main extension agreements, contracts, invoices, cancelled checks, and other documentation. Staff's arbitrary 10% reduction of the Company's equity in the amount of ($11,896,227) in the absence of specific identification of inadequately supported plant costs constitutes an unlawful "taking" of the Company's property.

Affiliate Profit: Staff has been provided documentation via responses to Staff Data Requests JMM 9-2 dated December 4, 2008, and JMM 1.44 dated September 22, 2008, to support that out of the total test-year wastewater plant of $123,849,703, only $45,724,508 was constructed by affiliates, and that the remaining $78,125,195 was constructed by developers and their contractors pursuant to main extension agreements and other entities which are not affiliates of Johnson Utilities. Johnson Utilities provided voluminous information to Staff documenting plant construction costs including main extension agreements, contracts, invoices, cancelled checks, and other documentation. Yet, Staff applies a 7.5% disallowance for affiliate profit and overhead to <u>all</u> wastewater plant, whether or not constructed by an affiliate.

II. <u>OPERATING INCOME</u>

A. Water Division.

Central Arizona Groundwater Replenishment District ("CAGRD") Fee:

Staff proposes 10 conditions with regard to the recommended pass-through of the CAGRD fee. As a general statement, it appears that Staff is imposing additional reporting requirements that are duplicative with regard to what is already required by the CAGRD, and therefore unnecessary.

Income Tax: Both Staff and RUCO exclude income taxes from operating expenses and the revenue requirement while the Company continues to propose income taxes. The Company's position is that income taxes are required to be paid by members of an LLC on a utility's income and are an inescapable business expense that is directly attributed to the utility and is directly comparable with similar taxes paid by C corporations.

Discontinuance of Hook-up Fees: The Company does not agree with Staff's proposal to discontinue HUFs. The current HUF only covers from 40-45% of the costs of the subdivision. The remaining 55-60% of the cost of the subdivision is funded by equity. The water HUF account still has a balance of $6,931,078 at the end of 2007; however these fees have been collected on developments where construction has stopped due to current market conditions. In the coming years, Johnson Utilities has ongoing obligations to build plant capacities for the development that were started during the real estate boom, and with the HUFs already used for the initial plant capacities, the remaining plant will be funded by equity. Staff asserts "due to the company's inadequate accounting records, staff is recommending that a certified public accounting firm attest to the company's membership equity level of 40 percent in order for the company to reapply for HUFs. Johnson Utilities provides an annual report to the Commission detailing its collection and disbursement of HUFs. In 2006, Staff conducted a thorough audit of the

Company's HUF accounts and found nothing improper or amiss. Johnson Utilities opposes Staff's recommendation that the HUFs be eliminated.

Water Loss: The water use data sheet for the Johnson Ranch system that was used by Staff did not include construction water sales and irrigation water sales from the Company's construction billing cycle. Johnson Utilities has addressed this issue in the 2008 water use data sheet for the Johnson Ranch system which was recently submitted with its 2008 annual report. This report shows lost and unaccounted water for the Johnson Ranch system of only approximately 2%, which is well below the Commission's limit of 10%. It is not 19.4% as proposed by Staff. Thus, there is no need for the monitoring exercise recommended by Staff.

B. Wastewater Division.

Income Tax: Both Staff and RUCO exclude income taxes from operating expenses and the revenue requirement while the Company continues to propose income taxes. The Company's position is that income taxes are required to be paid by members of an LLC on a utility's income and are an inescapable business expense that is directly attributed to the utility and is directly comparable with similar taxes paid by C corporations.

Discontinuance of Hook-up Fees: The Company does not agree with Staff's proposal to discontinue HUFs. Currently, all of the wastewater HUFs have been used and the Company has a considerable amount of wastewater facilities needed to meet its current needs. Staff asserts "due to the company's inadequate accounting records, staff is recommending that a certified public accounting firm attest to the company's membership equity level of 40 percent in order for the company to reapply for HUFs. Johnson Utilities provides an annual report to the Commission detailing its collection and disbursement of HUFs. In 2006, Staff conducted a thorough audit of the Company's

HUF accounts and found nothing improper or amiss. Johnson Utilities opposes Staff's recommendation that the HUFs be eliminated.

C. Water and Wastewater Division

Henry Horne Report: Identified $168,974,434 in consolidated (water and wastewater) plant-in-service whereas Johnson Utilities reported $184,571,154. The Henry & Horne report was prepared on behalf of the Town of Florence in connection with the Town's attempt to purchase the water and wastewater systems from Johnson Utilities. Thus, Henry & Horne had a financial motive to produce a report that would advocate the lowest possible dollar value for plant-in service, which in turn, would result in a lower purchase price to be paid by the firm's client, the Town of Florence. The report is not an "independent auditors report" but rather a tool that was used in the negotiation of the purchase price by the Town.

III. <u>SWING FIRST GOLF'S ISSUES</u>

Johnson Utilities withheld effluent from Swing First Golf: Johnson Utilities has provided effluent and Central Arizona Project ("CAP") water to Swing First Golf under the Company's effluent and CAP tariffs, and the Company denies that it has acted contrary to its tariffs.

Johnson Utilities did not obtain permission to delay filing its rate case and use a 2007 test year: On March 30, 2007, the Company filed an Application with the Commission requesting authority to sell all of its water and wastewater assets to the Town of Florence and further requesting the cancellation of the Company's CC&Ns. In connection with this filing, and in the event that the sale to the Town was not ultimately completed, counsel for Johnson Utilities filed a motion in Docket WS-02987A-04-0889 that same day requesting that the deadline for filing the rate case be extended to June 1, 2008, and that the company be permitted to use a 2007 test year. On April 13, 2007, Utilities Division Staff filed a staff report recommending that the deadline for filing the rate case be extended to December 31, 2007, utilizing a June 30, 2007, test year. Thereafter, in a letter from the Commission's Chief Counsel to Johnson Utilities' legal counsel dated September 18, 2007, Staff agreed to support a 2007 test year but required that the company file a rate case by March 31, 2008. In accordance with its agreement with Staff, Johnson Utilities filed a rate application for its water and wastewater divisions on March 31, 2008, using a 2007 test year. Staff accepted Johnson Utilities' rate case filing and found the filing sufficient, including the 2007 test year, in a sufficiency letter dated August 1, 2008.

December 2007 news release from the ADEQ: The referenced lawsuit and settlement did not involve Johnson Utilities, nor did it have any negative impact on the Company or its customers.

February 2008 article from Phoenix Magazine: The February 2008 article from Phoenix Magazine discussed activities which allegedly occurred on the La Osa Ranch. These activities did not involve Johnson Utilities, nor did they impact Johnson Utilities or its customers in any way.

Lawsuit by the Environmental Protection Agency ("EPA"): The lawsuit involved an alleged Clean Water Act violation associated with development activities along the Santa Cruz River. Johnson Utilities was neither a party to the EPA lawsuit nor was the Company responsible for paying any portion of the monetary settlement that resolved the lawsuit.

Discharge in a neighborhood and into Queen Creek Wash in the Spring of 2008: What occurred in May 2008 was a sewer system overflow ("SSO") in the Pecan North subdivision adjacent to Queen Creek Wash. The SSO was not the result of any negligence or malfeasance by Johnson Utilities, but of the clogging of lift station pumps with construction debris and household products, including mop heads. The SSO was contained in a concrete spillway adjacent to Queen Creek Wash, and Johnson Utilities does not believe that any sewage made its way into the wash. Notwithstanding, as a public service Johnson Utilities disinfected the standing storm water in Queen Creek Wash pursuant to a Consent Order with ADEQ.

Storage of sewage sludge: Johnson Utilities has and will continue to vigorously contest this allegation by ADEQ. Johnson Utilities contends that documents that have been provided to ADEQ will support the Company's position that the allegations are without merit.

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