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BEFORE THE ARIZONA CORPORATION

COMMISSIONERS

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KRISTIN K. MAYES, Chairman
GARY PIERCE
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2009 FEB -4 P 4: 50

AZ CORP COMMISSION
DOCKET CONTROL

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

STAFF'S NOTICE OF FILING DIRECT
TESTIMONY

Staff of the Arizona Corporation Commission ("Staff") hereby files the Direct Testimony of
Jeffrey M. Michlik and Marlin Scott, Jr. of the Utilities Division in the above-referenced docket.

RESPECTFULLY SUBMITTED this 4th day of February, 2009.

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Original and thirteen (13) copies
of the foregoing filed this
4th day of February, 2009 with:

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Arizona Corporation Commission

DOCKETED

FEB 04 2009

DOCKETED BY

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**DIRECT
TESTIMONY**

OF

JEFFREY M. MICHLIK

MARLIN SCOTT JR

DOCKET NO. WS-0298A-08-0180

**IN THE MATTER OF THE APPLICATION OF
JOHNSON UTILITIES, L.L.C., FOR AN INCREASE
IN ITS WATER AND WASTEWATER RATES FOR
CUSTOMERS WITHIN PINAL COUNTY, ARIZONA**

FEBRUARY 04, 2009

BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES

Chairman

GARY PIERCE

Commissioner

PAUL NEWMAN

Commissioner

SANDRA D. KENNEDY

Commissioner

BOB STUMP

Commissioner

IN THE MATTER OF THE APPLICATION OF)
JOHNSON UTILITIES, L.L.C., FOR AN)
INCREASE IN ITS WATER AND)
WASTEWATER RATES FOR CUSTOMERS)
WITHIN PINAL COUNTY, ARIZONA)
_____)

DOCKET NO. WS-02987A-08-0180

DIRECT

TESTIMONY

OF

JEFFREY M. MICHLIK

PUBLIC UTILITIES ANALYST V

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

FEBRUARY 4, 2009

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**EXECUTIVE SUMMARY
JOHNSON UTILITIES, LLC
WATER DIVISION
DOCKET NO. WS-02987A-08-0180**

Johnson Utilities, LLC – Water Division (“Company”) is an Arizona limited liability company. Its principal place of business is 5230 East Shea Blvd, Suite 200, Scottsdale, Arizona. The Company is engaged in the business of providing water and wastewater utility services in its certificated areas in portions of Pinal County, Arizona. The Company served approximately 17,541 water customers during the test year ended December 31, 2007. The Company has never filed a rate case since its original certificate of convenience and necessity was approved in Decision No. 60223, dated May 27, 1997.

Rate Application:

The Company proposes rates that would decrease operating revenue by \$2,232,070 to produce operating revenue of \$10,940,829 resulting in operating income of \$689,198, or a 16.94 percent decrease over test year revenue of \$13,172,899. The Company also proposes a fair value rate base (“FVRB”) of \$6,607,841, which is its original cost rate base, and a 10.43 percent rate of return on the FVRB.

Staff recommends rates that would decrease operating revenue by \$2,135,500 to produce operating revenue of \$11,037,399 resulting in operating income of \$1,103,846, or a 16.21 percent decrease over adjusted test year revenue of \$13,172,899. As Staff’s recommended rate base is negative, Staff recommends an operating margin of 10.00 percent. Staff’s lower recommended decrease is the result of including Central Arizona groundwater replenishment district expense, not using a gross revenue conversion factor, and not using a rate of return.

Rate Design:

The Company proposes an inverted three-tier rate design for 5/8” and 3/4” residential meter size customers, and a two-tier rate design for all commercial, industrial, and irrigation meter sizes and a flat commodity rate for construction meter and standpipe customers. Non-potable Central Arizona Project (“CAP”) Water would be in accordance with the Company’s current tariff. The typical 3/4-inch meter residential bill with a median usage of 6,000 gallons would decrease by \$8.22, or 20.30 percent, from \$40.50 to \$32.28.

Staff recommends an inverted three-tier rate design for 5/8-inch meters and 3/4-inch meters customers, and an inverted two-tier rate structure for all commercial, industrial, and irrigation meter sizes and a flat commodity rate for construction meter and standpipe customers. Non-potable Central Arizona Project (“CAP”) Water would be in accordance with the Company’s current tariff. The recommended rate structure conforms to those regularly adopted by the Commission in recent years. The typical 3/4-inch meter residential bill with median usage of 6,000 gallons would decrease by \$9.50, or 23.46 percent, from \$40.50 to \$31.00. Staff’s rate design produces more of a decrease than the Company’s rate design on the typical bill analysis, based on Staff’s usage of a lower monthly minimum charge and higher commodity charges.

1 **INTRODUCTION**

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

3 A. My name is Jeffrey M. Michlik. I am a Public Utilities Analyst V employed by the
4 Arizona Corporation Commission (“ACC” or “Commission”) in the Utilities Division
5 (“Staff”). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

6
7 **Q. Briefly describe your responsibilities as a Public Utilities Analyst V.**

8 A. In my capacity as a Public Utilities Analyst V, I analyze and examine accounting,
9 financial, statistical and other information and prepare reports based on my analyses that
10 present Staff’s recommendations to the Commission on utility revenue requirements, rate
11 design and other matters. I also provide expert testimony on these same issues.

12
13 **Q. Please describe your educational background and professional experience.**

14 A. In 2000, I graduated from Idaho State University, receiving a Bachelor of Business
15 Administration Degree in Accounting and Finance, and I am a Certified Public
16 Accountant with the Arizona State Board of Accountancy. I have attended the National
17 Association of Regulatory Utility Commissioners’ (“NARUC”) Utility Rate School,
18 which presents general regulatory and business issues.

19
20 I joined the Commission as a Public Utilities Analyst in May of 2006. Prior to
21 employment with the Commission, I worked four years for the Arizona Office of the
22 Auditor General as a Staff Auditor, and one year in public accounting as a Senior Auditor.

1 **Q. What is the scope of your testimony in this case?**

2 A. I am presenting Staff's analysis and recommendations regarding Johnson Utilities, LLC's
3 ("Johnson Water" or "Company") application for a permanent decrease in its rates and
4 charges for water utility service within Pinal, Arizona. I am presenting testimony and
5 schedules addressing rate base, operating revenues and expenses, revenue requirement,
6 and rate design. Mr. Marlin Scott Jr. is presenting Staff's engineering analysis and related
7 recommendations.

8
9 **Q. What is the basis of your testimony in this case?**

10 A. I performed a regulatory audit of the Company's application and records. The regulatory
11 audit consisted of examining and testing financial information, accounting records, and
12 other supporting documentation and verifying that the accounting principles applied were
13 in accordance with the Commission adopted NARUC Uniform System of Accounts
14 ("USOA").

15
16 **BACKGROUND**

17 **Q. Please review the background of this application.**

18 A. The Company is an Arizona Limited Liability Company. Its principal place of business is
19 5230 East Shea Blvd, Suite 200, Scottsdale, Arizona. The Company is engaged in the
20 business of providing water and wastewater utility services in its certificated areas in
21 portions of Pinal County, Arizona. The Company served approximately 17,541 water
22 customers during the test year ended December 31, 2007. The Company has never filed a
23 rate case since its original certificate of convenience and necessity was approved in
24 Decision No. 60223, dated May 27, 1997.

25

1 **CONSUMER SERVICES**

2 **Q. Please provide a brief history of customer complaints received by the Commission**
3 **regarding the Company. Additionally, please discuss customer responses to the**
4 **Company's proposed rate decrease.**

5 **A.** A research of the Consumer Service database from January 1, 2006 to current revealed:

6
7 2006 – 12 Complaints - four billing, three deposits, one new service, one service, two
8 quality of service, one disconnect/termination

9 8 Inquiries - three billing, one service, one rates & tariffs, three other (admin.
10 questions)

11
12 2007 – 69 Complaints – forty-one billing, five deposits, two new service, three service,
13 twelve quality of service, five disconnect/termination, one rates & tariffs

14 35 Inquiries - fourteen billing, one new service, three quality of service, one
15 disconnect/termination, nine rates & tariffs, one construction, six other (four
16 admin. questions, one non-jurisdictional, one other)

17
18 In 2007, Consumer Services received one complaint regarding sewage in the street.

19
20 2008 – 30 Complaints - ten billing, two deposits, eleven quality of service, four
21 disconnect/termination, one rates & tariffs, two other (ADEQ)

22 14 Inquiries - two billing, one new service, three quality of service, one
23 disconnect/termination, one repair issue, five rates & tariffs, one other (one
24 Company policy)

1 **29 Opinions - ***26 individual opinions opposed to rate case item and three**
2 **petitions including 98 signatures of customers opposed to the rate case**
3 **item*****

4
5 In 2008, Consumer Service received four complaints and one inquiry regarding
6 sewage in the streets resulting in concerns of health hazards and water
7 contamination.

8
9 2009 – One Complaint – one quality of service

10 Zero Opinions

11
12 All complaints and inquiries have been resolved and closed.

13
14 **SUMMARY OF FILING, RECOMMENDATIONS, AND ADJUSTMENTS.**

15 **Q. Please summarize the Company's proposals in this filing.**

16 A. The Company proposes rates that would decrease operating revenues by \$2,232,070 to
17 produce operating revenue of \$10,940,829 resulting in operating income of \$689,198, or a
18 16.94 percent decrease over test year revenue of \$13,172,899. The Company also
19 proposes a fair value rate base ("FVRB") of \$6,607,841 which is its original cost rate base
20 ("OCRB"), and a 10.43 percent rate of return on the FVRB.

21
22 **Q. Please summarize Staff's recommendations.**

23 A. Staff recommends rates that would decrease operating revenue by \$2,135,500 to produce
24 operating revenue of \$11,037,399 resulting in operating income of \$1,103,846, or a 16.21

1 percent decrease over adjusted test year revenue of \$13,172,899. As the Company's rate
2 base is negative, Staff recommends an operating margin of 10.00 percent.

3
4 **Q. Please summarize the rate base adjustments addressed in your testimony.**

5 **A. My testimony addresses the following issues:**

6 Not Used and Useful Plant – This adjustment decreases Plant in Service by \$4,127,019 to
7 remove plant that was not serving customers during the test year.

8 Excess Capacity – This adjustment decreases Plant in Service by \$1,127,065 to remove
9 excess plant capacity.

10 Reclassification of Plant – This adjustment removes \$7,259,834 of plant costs incorrectly
11 included in accounts numbers 304, "Structures and Improvements" and 331,
12 "Transmission and Distribution Mains" and reclassifies it to account number 307,
13 "Distribution Reservoirs and Standpipes".

14 Inadequately Supported Plant Costs – This adjustment decreases Plant in Service by
15 \$7,959,115 to remove recorded plant costs that were not adequately supported by invoices
16 or other types of source documentation.

17 Capitalized Affiliate Profit – This adjustment decreases Plant in Service by \$5,969,336 to
18 remove affiliate profit.

19 Accumulated Depreciation – This adjustment decreases accumulated depreciation by
20 \$1,314,871 based upon the adjustments Staff made to plant in service.

21 Service Line Reclassification – This adjustment reclassifies \$6,779,771 from customer
22 deposits to service line and meter advances.

23 Unexpended Contributions in Aid of Construction ("CIAC") – This adjustment increases
24 the CIAC balance by \$6,931,078 to properly reflect all CIAC paid by customers at the end
25 of the test year.

1 Amortization of CIAC – This adjustment increases the amortization of CIAC balance by
2 \$310,570 to reflect actual year end CIAC balances and to match the amortization rate used
3 for CIAC with the 2.5 percent Commission approved depreciation rate.

4 Customer Deposits – This net adjustment of \$6,401,633 consists of reclassifying
5 \$6,779,771 in costs to service line and meter advances and adding \$378,138 to reflect the
6 test year-end customer security deposits balance.

7 Materials and Supplies – This adjustment removes \$348,852 to eliminate the Company's
8 selective recognition of working capital components that only increase rate base.

9 Deferred Assets – This adjustment decreases rate base by \$633,537 to eliminate expenses
10 that were deferred without a Commission accounting order and only serve to increase rate
11 base.

12
13 **Q. Please summarize the operating revenue and expense adjustments addressed in your**
14 **testimony.**

15 A. My testimony addresses the following issues:

16 Central Arizona Groundwater Replenishment District Expense – This adjustment
17 increases expenses by \$883,842 based on Staff's legal position.

18 Purchased Power Expense – This adjustment decreases expenses by \$10,620 to reflect
19 ongoing purchased power expense.

20 Outside Services Expense – This adjustment decreases expenses by \$5,799 to adjust for
21 deferred expenses in the test year.

22 Miscellaneous Expense – This adjustment decreases expenses by \$31,192 to reflect the
23 disallowance of expenses not needed in the provision of service.

24 Depreciation Expense – This adjustment decreases expenses by \$773,826 to adjust
25 depreciation based on Staff's plant in service numbers.

1 Property Tax Expense – This adjustment increases expenses by \$47,694 to adjust property
2 taxes to Staff's adjusted test year amount.

3 Income Tax Expense – This adjustment decreases expenses by \$1,185,679 to reflect the
4 fact that the Company is classified as a limited liability corporation and therefore incurs
5 no taxes at the corporate level.

6
7 **Q. Did Staff make any other adjustments?**

8 A. Yes to other expenses.

9
10 **Q. Please briefly describe this adjustment.**

11 A. Synchronized Interest Expense – This adjustment increases interest expense by \$28,196 to
12 reflect the fact that the Company is classified as a limited liability corporation and
13 therefore incurs no taxes at the corporate level.

14
15 **RATE BASE – WATER DIVISION**

16 **Fair Value Rate Base**

17 **Q. Did the Company prepare a schedule showing the elements of Reconstruction Cost**
18 **New Rate Base?**

19 A. No, the Company did not. The Company's filing treats the OCRB the same as the FVRB.

20
21 **Rate Base Summary**

22 **Q. Please summarize Staff's adjustments to Johnson Water's rate base shown on**
23 **Schedules JMM-W2 and JMM-W3.**

24 A. Staff's adjustments to Johnson Water's rate base resulted in a net decrease of \$25,848,700,
25 from \$6,607,841 to a negative \$19,240,859. This decrease was primarily due to Staff

1 removing: (1) plant that was not serving customers during the test year, (2) excess
2 capacity (3) recorded plant costs that were not adequately supported by invoices or other
3 types of source documentation, (4) affiliate profit, and (5) certain expenses that the
4 Company deferred without a Commission approved accounting order.

5
6 ***Rate Base Adjustment No. 1 – Water Division, Plant Not Used and Useful***

7 **Q. Did Staff make an adjustment to plant or plant items that were not used and useful?**

8 A. Yes.

9
10 **Q. What adjustment did Staff make?**

11 A. Staff identified \$4,127,019 in plant that was not used and useful as shown on Schedule
12 JMM-W4.

13
14 **Q. Why did Staff make this adjustment?**

15 A. Marlin Scott, Jr., Staff's Engineer, inspected the entire system and identified certain
16 individual plant items that were not serving customers during the test year.

17
18 **Q. What is Staff's recommendation?**

19 A. Staff recommends decreasing plant in service by \$4,127,019 to remove all plant from rate
20 base that was not used and useful as shown on Schedules JMM-W2 and JMM-W3.

21
22 ***Rate Base Adjustment No. 2 – Water Division, Excess Capacity***

23 **Q. Did Staff make an adjustment to plant for excess capacity?**

24 A. Yes.

25

1 **Q. What adjustment did Staff make?**

2 A. Staff identified \$1,127,065 in excess capacity plant costs.

3

4 **Q. Why did Staff make this adjustment?**

5 A. Marlin Scott, Jr., Staff's Engineer, inspected the entire system and identified two
6 individual plant items with excess capacity during the test year.

7

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

9 A. Staff recommends decreasing plant in service by \$1,127,065 to remove excess capacity
10 plant costs as shown on Schedules JMM-W3 and JMM-W5.

11

12 ***Rate Base Adjustment No. 3 – Water Division, Reclassification of Plant in Service***

13 **Q. Did Staff make an adjustment to reclassify plant?**

14 A. Yes.

15

16 **Q. What adjustment did Staff make?**

17 A. The Company incorrectly included plant costs incurred for distribution and reservoirs in
18 accounts numbers 304, "Structures and Improvements" and 331, "Transmission and
19 Distribution Mains".

20

21 **Q. Why did Staff make this adjustment?**

22 A. Marlin Scott, Jr., Staff's Engineer, inspected the entire system and identified plant in
23 service that needed to be reclassified.

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

2 A. Staff recommends reclassifying \$6,388,222 from account 304 structures and
3 improvements and \$871,612 from account 331 transmission and distribution mains to
4 account 330 distribution reservoirs and standpipe as shown on Schedules JMM-W3 and
5 JMM-W6.

6

7 ***Rate Base Adjustment No. 4 – Water Division, Inadequately Supported Plant Costs***

8 **Q. Did Staff make an adjustment to plant for inadequately supported plant costs?**

9 A. Yes.

10

11 **Q. What amount has plant increased since the Company's prior rate case?**

12 A. The Company has not had a rate proceeding since its original CC&N. Therefore, all
13 \$79,591,151 in actual year-end plant in service reflect plant additions.

14

15 **Q. What adjustment did Staff make?**

16 A. Staff removed plant costs for inadequately supported documentation.

17

18 **Q. Are plant costs required to be adequately supported?**

19 A. Yes. The Arizona Administrative Code R14-2-610 D.1 states that "Each utility shall keep
20 general and auxiliary accounting records reflecting the cost of its properties . . . and all
21 other accounting and statistical data necessary to give complete and authentic information
22 as to its properties . . ." (emphasis added).

1 **Q. What constitutes “complete and authentic” information?**

2 A. For independent third party transactions, complete and authentic information is source
3 documentation that includes but is not limited to vendor invoices for materials, supplies,
4 and labor, contracts, canceled checks, time sheets, and reliable accounting records. This
5 information would allow Staff to identify what was purchased and whether the item is
6 allowable. Further, this documentation would allow Staff to identify the amount of the
7 purchase and to determine whether the amount was reasonable.

8
9 In the case of transactions with affiliates, Staff would request source document in addition
10 to fair competitive bids. The competitive bids should be such that the public perceives the
11 bidding process as fair and therefore is willing to go through the cost of putting in a bid.
12 Further, for Class A companies, the Commission affiliate interest rules require that the
13 affiliate provide all source documentation.

14
15 **Q. Did the Company provide “complete and authentic” information pertaining to its
16 plant as required by Commission Rules?**

17 A. No, the Company did not provide complete and authentic information as required by
18 Commission Rules.

19
20 **Q. What type of information did the Company provide?**

21 A. The Company provided advances in aid of construction (“AIAC”)¹ agreements and
22 canceled checks. The canceled checks showed the amount that Johnson Water paid to its
23 affiliate as opposed to the actual cost of the asset.

¹ Arizona Administrative Code R-14-2-401.1 defines advances in aid of construction as “Funds provided to the utility by the applicant under the terms of a main extension agreement the value of which may be refundable.”

1 **Q. Are AIAC agreements the same thing as main extension agreements?**

2 A. Yes.

3

4 **Q. Do AIAC agreements require Commission approval?**

5 A. Yes, pursuant to ARS R14-2-406(M), which requires all agreements under this rule shall
6 be filed with and approved by the Utilities Division of the Commission.

7

8 **Q. Were these AIAC agreements timely filed with the Commission?**

9 A. No, most of the agreements were filed in 2008 and pertained to the years 2000 to 2007.

10

11 **Q. Did the Company enter in the AIAC agreements to construct plant with affiliates?**

12 A. Yes. Approximately all of the plant was constructed by affiliates.

13

14 **Q. Did the Company provide any evidence that costs charged by the affiliates were
15 supported by competitive bids?**

16 A. No, the Company indicated it does not maintain competitive bids as part of its records.
17 Fair competitive bids protect rate payers from being charged too much for plant.

18

19 **Q. Are affiliates required to provide invoices?**

20 A. The Commission's affiliated interest rules require that the affiliate of Class A regulated
21 utilities provide access to source documentation. Johnson Water became a Class A utility
22 in 2005. Arizona Administrative Code R14-2-804 entitled "Commission Review of
23 Transaction Between Public Utilities and Affiliates", section A, states that:

24

1 A utility will not transact business with an affiliate unless the
2 affiliate agrees to provide the Commission access to the books and
3 records of the affiliate to the degree required to fully audit, examine
4 or otherwise investigate transactions between the public utility and
5 the affiliate. In connection therewith, the Commission may require
6 production of books, records, accounts, memoranda and other
7 documents related to these transactions. (emphasis added).

8

9 **Q. Is the Company's plant documentation complete and authentic as required by**
10 **Commission rule?**

11 A. No, it is not. Based on Staff's review, the plant documents and records were not
12 maintained according to Commission Standards.

13

14 **Q. Did the Company respond to Staff's request for source plant documentation in a**
15 **timely manner?**

16 A. No, it did not. Staff asked the Company, on numerous occasions, to provide the source
17 plant documentation. Most of the underlying plant documentation was never provided.

18

19 **Q. Has Staff previously recommended disallowance of unsubstantiated plant?**

20 A. Yes. In the Gold Canyon Sewer Rate Case Docket Nos. SW-025191-00-0638 and SW-
21 02519A-06-0015. In both cases Staff recommended 100 percent disallowance of
22 unsubstantiated plant.

23

24 **Q. Is Staff recommending disallowance of all unsubstantiated plant?**

25 A. No, rather than disallowing the entire plant cost, Staff decreased plant costs by ten percent.

1 **Q. How did Staff arrive at the ten percent disallowance?**

2 A. Staff's typical range of disallowance for unsubstantiated plant ranges from 10 to 100
3 percent. Staff determined that only a minimal 10 percent disallowance is warranted in this
4 case.

5
6 **Q. What is Staff's recommendation?**

7 A. Staff recommends decreasing Plant in Service by \$7,959,115 as shown on Schedules
8 JMM-W3 and JMM-W7.

9
10 ***Rate Base Adjustment No. 5 – Water Division, Capitalized Affiliate Profit***

11 **Q. Did Staff make an adjustment to plant for capitalized affiliate profit?**

12 A. Yes.

13
14 **Q. Does Johnson water have affiliates?**

15 A. Yes.

16
17 **Q. Did Johnson water use its affiliates to perform plant construction for the Company?**

18 A. Yes.

19
20 **Q. Did the affiliates charge a profit on activities performed for Johnson Water?**

21 A. Yes, in response to Staff data requests JMM 1.44 and 4.1, Staff found that the affiliate
22 profit included in the AIAC agreements ranged from five to ten percent.

23

1 **Q. Was the affiliate profit included in plant costs?**

2 A. Yes. In response to data request JMM 4.1, the Company indicated that the entire billing,
3 including the profit, is capitalized when the costs pertain to a capital project. The
4 Company has included the profit component of the affiliate billings in plant in service.
5 Consequently, by doing so, it has included the affiliate profit in rate base.

6
7 **Q. What costs should be included in plant and subsequently in rate base values?**

8 A. Only the actual cost of materials, labor and overhead of the affiliate (exclusive of any
9 profit) should be recognized in rate base. Johnson Water should be required to provide
10 invoices as evidence to support the actual costs of the affiliate. The Arizona
11 Administrative Code R14-2-610 (D)(1) states that "Each utility shall keep general and
12 auxiliary accounting records reflecting the cost of its properties . . . and all other
13 accounting and statistical data necessary to give complete and authentic information as to
14 its properties . . ." (emphasis added).

15
16 **Q. Does the Commission recognize affiliate profit?**

17 A. No, it does not. The Commission disallowed affiliate profit for Far West Water and Sewer,
18 Inc. (Decision No. 69335); Gold Canyon Sewer Company (Decision No. 69664); and
19 Black Mountain Sewer Corporation (Decision No. 69164).

20
21 **Q. What is Staff's recommendation?**

22 A. Staff recommends decreasing plant in service by \$5,969,336 to remove capitalized
23 affiliate profit as shown on Schedules JMM-W3 and JMM-W8.

1 **Q. Does Staff have any other recommendations concerning the affiliate profit?**

2 A. Yes. On a going forward basis, Staff recommends that no affiliate profits be allowed.

3

4 ***Rate Base Adjustment No. 6 – Water Division, Accumulated Depreciation***

5 **Q. Did Staff make an adjustment to Accumulated Depreciation?**

6 A. Yes.

7

8 **Q. What adjustment did Staff make?**

9 A. Staff adjusted accumulated depreciation based on its aforementioned plant adjustments.

10

11 **Q. Why did Staff make this adjustment?**

12 A. Staff adjusted accumulated depreciation to reflect the Staff recommended plant balances
13 adjusted to remove not used and useful plant, excess capacity, inadequately supported
14 plant, and capitalized affiliate profit.

15

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

17 A. Staff recommends decreasing accumulated depreciation by \$1,314,871 as shown on
18 Schedules JMM-W3, and JMM-W9.

19

20 ***Rate Base Adjustment No. 7 – Water Division, Service Line Reclassification***

21 **Q. Did Staff make an adjustment to service line and meter costs?**

22 A. Yes.

1 **Q. What adjustments did Staff make to service line and meter advances?**

2 A. The Company incorrectly reported \$6,779,771 in costs incurred for service line and meter
3 advances costs as customer deposits. Staff removed the cost from customer deposits and
4 reclassified it to service line and meter advances.

5
6 **Q. What is Staff's recommendation?**

7 A. Staff recommends adding \$6,779.771 to service line and meter advances as shown on
8 Schedules JMM-W3 and JMM-W10.

9
10 ***Rate Base Adjustment No. 8 – Water Division, Unexpended Contributions in Aid of***
11 ***Construction (“CIAC”)²***

12 **Q. Did Staff make an adjustment to CIAC?**

13 A. Yes.

14
15 **Q. What was the Company's actual test year-end CIAC?**

16 A. The Company's actual test year-end balance was \$31,935,899.

17
18 **Q. What amount did Johnson Water remove from the actual test year-end balance?**

19 A. The Company removed \$6,931,078 because it was unexpended.

20
21 **Q. Should CIAC be excluded from rate base?**

22 A. No. The Commission recognizes CIAC in its entirety. Recognizing all CIAC and related
23 accumulated amortizations is appropriate because the Company has the use of these funds

²Arizona Administrative Code R-14-2-401.8 defines contributions in aid of construction as
“Funds provided to the utility by the applicant under the terms of a main extension agreement
and/or service connection tariff the value of which are not refundable.”

1 regardless of whether it has expended the funds for plant. Recognition of CIAC in CWIP
2 is also necessary since the NARUC USOA provides for the Company to apply an
3 allowance for funds used during construction (“AFUDC”) to CWIP balances. Excluding
4 either the unexpended or CWIP portion of CIAC from rate base effectively allows a utility
5 to earn a return twice on CIAC funds.

6
7 **Q. Is removing unexpended CIAC from the CIAC account consistent with the NARUC**
8 **USOA?**

9 A. No, it is not. The NARUC USOA definition of CIAC does not hinge upon whether or not
10 the CIAC is expended or unexpended but whether or not (1) it was provided by someone
11 other than the owner, (2) it is non-refundable, and (3) the purpose of the CIAC is to fund
12 plant. The NARUC USOA states the following:

13
14 271. Contributions In Aid of Construction

15 A. *This account shall include:*

- 16 1. *Any amount or item of money, services or property received*
17 *by a utility, from any person or governmental agency, any*
18 *portion of which is provided at no cost to the utility, which*
19 *represents an addition or transfer to the capital of the*
20 *utility, and which is utilized to offset the acquisition,*
21 *improvement to offset the utility’s property, facilities, or*
22 *equipment used to provide utility services to the public.*

23
24 **Q. What is Staff’s recommendation?**

25 A. Staff recommends increasing CIAC by \$6,931,078 to reflect the actual test year-end
26 balance of CIAC as shown on Schedules JMM-W3 and JMM-W11.

27

1 ***Rate Base Adjustment No. 9 – Amortization of CIAC***

2 **Q. Did Staff make an adjustment to the amortization of CIAC?**

3 A. Yes.

4
5 **Q. What adjustments did Staff make to Accumulated Amortization of CIAC, and why**
6 **did Staff make this adjustment?**

7 A. Staff adjusted accumulated amortization of CIAC to reflect the actual year-end CIAC
8 balances and to match the amortization rate used for CIAC with the 2.5 percent
9 Commission approved composite depreciation rate.

10
11 **Q. What is Staff's recommendation?**

12 A. Staff recommends increasing Amortization of CIAC by \$310,570 as shown on Schedules
13 JMM-W3, and JMM-W12.

14
15 ***Rate Base Adjustment No. 10 – Water Division, Customer Security Deposits***

16 **Q. Did Staff make an adjustment to customer security deposits?**

17 A. Yes.

18
19 **Q. What Customer Deposits did the Company include in rate base?**

20 A. The Company included \$6,779,771.

21
22 **Q. Does this amount represent customer security deposits?**

23 A. No, it does not. It represents the meter and service line advances which are sometimes
24 referred to as "meter deposits".

25

1 **Q. What adjustments did Staff make?**

2 A. Staff reclassified \$6,779,771 in costs to service line and meter advances and added
3 \$378,138 to reflect the test year-end customer security deposits balance. These
4 adjustments resulted in a net decrease of \$6,401,633, as shown on Schedule JMM-W3 and
5 JMM-W13.

6
7 **Q. Why did Staff make this adjustment?**

8 A. Staff utilized the 2006 audited financial statement balance of \$378,138 as of December 31,
9 2006. The December 31st ending balance is the same as the January 1, 2007, beginning
10 balance. Staff began with the beginning balance and added no additions or subtractions
11 (as the Company reported none). Therefore, Staff's ending balance is the same as its
12 beginning balance.

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

15 A. Staff recommends decreasing customer deposits by \$6,401,633 to \$378,138 to reflect the
16 audited financial statement numbers.

17
18 ***Rate Base Adjustment No. 11 – Water Division, Materials and Supplies***

19 **Q. Did Staff make an adjustment to materials and supplies?**

20 A. Yes.

21
22 **Q. What are the components of working capital?**

23 A. The components of working capital as prescribed by the Arizona Administrative Code are
24 cash working capital, materials and supplies, and prepaid expenses.

25

1 **Q. What is cash working capital?**

2 A. Cash working capital is a component of rate base that provides funds to pay operating
3 expenses in advance of the collection from customers for utility service.

4
5 **Q. Did the Company perform a cash working capital analysis?**

6 A. No.

7
8 **Q. Was a lead lag study conducted by the Company?**

9 A. No.

10
11 **Q. Did Staff perform a cash working capital analysis?**

12 A. No.

13
14 **Q. What has been Staff's experience when a lead lag study has been performed
15 correctly on a class A utility?**

16 A. The result usually produces a negative cash working capital component which may be
17 larger than the sum of the materials, supplies, and prepayments.

18
19 **Q. Does the Company's proposal to include materials, supplies, and prepayments in
20 working capital represent an inequitable adjustment to increase rate base?**

21 A. Yes. The Company chose not to conduct a lead-lag study, and accordingly, failed to
22 reflect any customer-provided capital in its working capital requirement. It is inequitable
23 for a company the size of Johnson Water to calculate working capital by using a method
24 that ignores customer-provided capital while guaranteeing a positive working capital

1 result for Johnson Water. Had a lead-lag study been conducted, it might have shown that
2 working capital is a negative component of rate base.

3

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

5 A. Staff recommends decreasing rate base by \$348,852 as shown on Schedules JMM-3 and
6 JMM-W14.

7

8 ***Rate Base Adjustment No. 12 – Water Division, Deferred Assets***

9 **Q. Did Staff make an adjustment to deferred assets?**

10 A. Yes.

11

12 **Q. Is Johnson Water proposing to include Deferred Assets in the rate base?**

13 A. Yes.

14

15 **Q. Are the Company proposed deferrals included in rate base?**

16 A. No, they are not. The deferred assets represent certain costs that normally would be
17 expensed in the accounting period in which they were incurred. They could be included
18 only if previously authorized by this Commission.

19

20 **Q. Do deferred costs such as those proposed by the Company require an accounting
21 order to be recognized for ratemaking purposes?**

22 A. Yes.

1 **Q. Did the Company obtain prior authorization or an accounting order from this**
2 **Commission to defer these items?**

3 A. No.
4

5 **Q. What is the NARUC USOA definition of regulatory assets and liabilities?**

6 A. The NARUC USOA states that:

7
8 *“Regulatory Assets and Liabilities are assets and liabilities that result from rate*
9 *actions of regulatory agencies. Regulatory assets and liabilities arise from*
10 *specific revenues, expenses, gains or losses that would have been included in*
11 *determination of net income in one period under the general requirements of the*
12 *Uniform Systems of Accounts but for it being probable that; 1) such items will be*
13 *included in a different period(s) for purposes of developing the rates the utility is*
14 *authorized to charge for its utility services or 2) in the case of regulatory*
15 *liabilities, that refunds to customers, not provided for in other accounts, will be*
16 *required. Regulatory assets and liabilities can also be created in reconciling*
17 *differences between the requirements of generally accepted accounting principles,*
18 *regulatory practice and tax laws.”*
19

20 **Q. Does NARUC address deferred asset recognition?**

21 A. According to the NARUC USOA, the Commission would have to create a deferred asset
22 through an accounting order in order for the Company to recover this expense in a future
23 rate case.
24

25 **Q. What is Staff’s recommendation?**

26 A. Staff recommends decreasing rate base by \$633,537 as shown on Schedules JMM-3 and
27 JMM-W15.

1 **OPERATING INCOME – WATER DIVISION**

2 **Operating Income Summary**

3 **Q. What are the results of Staff's analysis of test year revenues, expenses, and operating**
4 **income?**

5 A. Staff's analysis resulted in adjusted test year operating revenues of \$13,172,899, operating
6 expenses of \$9,979,157 and operating income of \$3,193,742 as shown on Schedules
7 JMM-W16 and JMM-W17. Staff made seven adjustments to operating expenses.

8
9 ***Operating Income Adjustment No. 1 – Water Division, Central Arizona Groundwater***
10 ***Replenishment ("CAGR") Expense***

11 **Q. Did Staff make an adjustment CAGR expense?**

12 A. Yes.

13
14 **Q. What adjustment did Staff make?**

15 A. Staff's adjustment increased purchased water expenses by \$883,842 from \$334,948 to
16 \$1,218,790.

17
18 **Q. Did the Company previously request authorization to pass-thru this expense?**

19 A. Yes.

20
21 **Q. What was the outcome of the Company's request?**

22 A. In Decision No. 64598, dated March 4, 2002, the Commission **denied** the Company's
23 request to pass-through the CAGR tax through to its water and effluent customers.

1 **Q. Has Staff changed its position in the context of this rate case?**

2 A. No.

3

4 **Q. What is the Company's proposal on this issue in this instant case?**

5 A. The Company proposed this expense be treated as a pass-through tax and removed from
6 purchased water expense.

7

8 **Q. How does Staff believe this CAGR expense be treated?**

9 A. Staff believes this CAGR tax be treated as a cost of doing business and be included in
10 purchased water expense.

11

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

13 A. Staff recommends adding \$883,842 back to purchased water expense, as shown on
14 Schedules JMM-W17 and JMM-W18.

15

16 ***Operating Income Adjustment No. 2 – Water Division, Purchased Power***

17 **Q. Did Staff make an adjustment to purchased power?**

18 A. Yes.

19

20 **Q. Why did Staff make this adjustment?**

21 A. In response to Staff data request JMM 10.2 the Company stated it was paying the bill for
22 Oasis Golf Course a Company affiliate. The Golf Course should have been paying the
23 electricity cost on that account.

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

2 A. Staff recommends decreasing purchased power expense by \$10,620 from \$828,900 to
3 \$818,280, to better reflect the Company's ongoing level of purchased power. Please see
4 Schedules JMM-W17 and JMM-W19.

5

6 ***Operating Income Adjustment No. 3 – Water Division, Contractual Services Expense***

7 **Q. Did Staff make an adjustment to contractual services expense?**

8 A. Yes.

9

10 **Q. What adjustment did Staff make?**

11 A. Staff's adjustment decreased contractual services by \$5,799, from \$5,877,591 to
12 \$5,871,792, as shown on Schedules JMM-W17 and JMM-W20.

13

14 **Q. Did Staff make two adjustments to contractual services expenses?**

15 A. Yes. Staff first reclassified \$18,341 of deferred expenses to current miscellaneous
16 expenses. Second Staff removed the amortization of the Company's deferred expenses.

17

18 **Q. Did Staff allocate the \$18,341 between the water and wastewater division?**

19 A. Yes.

20

21 **Q. What amount was allocated to the water division?**

22 A. \$13,436.

1 **Q. What adjustment did Staff make to amortized deferred expenses?**

2 A. Consistent with removing deferred assets, Staff removed the amortization expense of
3 \$19,234 relating to previous engineering, legal, accounting, and administrative costs that
4 were deferred without an accounting order.

5
6 **Q. What is the net effect of all these adjustments, and Staff's recommendation?**

7 A. A net decrease of \$5,799 (i.e. \$19,234 - \$13,436) to outside services, as depicted in
8 Schedules JMM-W17 and JMM-W20.

9
10 ***Operating Income Adjustment No. 4 – Water Division, miscellaneous expense items***

11 **Q. Did Staff make an adjustment to miscellaneous expense items?**

12 A. Yes.

13
14 **Q. What adjustment did Staff make?**

15 A. Staff's adjustment decreased miscellaneous expense by \$31,192 from \$286,747 to
16 \$255,555, as shown on Schedules JMM-W17 and JMM-W21.

17
18 **Q. Why did Staff make this adjustment?**

19 A. Expenses such as lobbying, food and entertainment, and sponsorship expenses have been
20 disallowed by this Commission on a consistent basis.

21
22 **Q. Did Staff allocate these costs between the water and wastewater division?**

23 A. Yes, for those items that were not classified as either water and wastewater items. Staff
24 used the Company's revenue split of 53.88 percent water and 46.12 percent wastewater to
25 allocate the costs.

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

2 A. Staff recommends disallowance of miscellaneous expenses in the amount of \$31,192.

3

4 ***Operating Income Adjustment No. 5 – Water Division, Depreciation Expense***

5 **Q. Did Staff make an adjustment to depreciation expense?**

6 A. Yes.

7

8 **Q. What adjustment did Staff make?**

9 A. As a result of the numerous adjustments made to plant in service, Staff also adjusted the
10 associated depreciation expense.

11

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

13 A. Staff's adjustment decreases depreciation expense by \$773,826 from \$1,548,515 to
14 \$774,689. Please see Schedule JMM-W17 and JMM-W22 for Staff's calculation.

15

16 ***Operating Income Adjustment No. 6 – Water Division, Property Tax***

17 **Q. Did Staff make an adjustment to property tax?**

18 A. Yes.

19

20 **Q. What adjustment does Staff recommend for test year property tax expense?**

21 A. Staff's adjustment increased property tax expense by \$47,694, from \$797,368 to
22 \$845,062, for test year expenses based upon Staff's adjusted test year revenues. Please see
23 Schedule JMM-W17 and Column A on Schedule JMM-W23.

1 **Q. What does Staff recommend for property tax expense on a going-forward basis?**

2 A. Staff recommends decreasing property tax expense by \$45,604, from \$845,062 to
3 \$799,458, based upon Staff's recommended revenues. Please see Schedule JMM-W17
4 and Column B on Schedule JMM-W23.

5

6 ***Operating Income Adjustment No .7 – Water Division, Income Tax***

7 **Q. Did Staff make an adjustment to Income Tax?**

8 A. Yes.

9

10 **Q. What adjustment did Staff make and why?**

11 A. Staff's adjustment decreased income tax expense by \$1,185,679 from \$1,185,679 to \$0.
12 Staff, as will be further explained in the revenue requirement section, removed income
13 taxes as the Company is classified as a limited liability company, and therefore, does not
14 report income taxes at the corporate level, but passes this income through to its
15 shareholders. Staff's adjustment is shown on Schedules JMM-W17 and JMM-W24.

16

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

18 A. Staff recommends the removal of any income tax expense.

19

20 **Q. Did Staff make any other adjustments?**

21 A. Yes, to other expenses.

1 **OTHER EXPENSES**

2 *Other Expenses Adjustment No. 8 – Water Division, Synchronized Interest Expense*

3 **Q. Did Staff make an adjustment to synchronized interest expense?**

4 A. Yes.

5
6 **Q. What is synchronized interest?**

7 A. It represents an adjustment to interest expense for utilities to better balance interest
8 expense to its rate base. This adjustment is only made to alter interest expense for use in
9 calculating income tax. If there is no income tax, this adjustment is not necessary.

10
11 **Q. What adjustment did Staff make and why?**

12 A. Staff's adjustment increased interest expense by \$28,196, from \$14,738 to \$42,934. Staff,
13 as will be further explained in the revenue requirement section, removed income taxes as
14 the Company is classified as a limited liability company, and therefore, does not report
15 income taxes at the corporate level, but passes this income through to its shareholders.
16 Therefore, there is no adjustment for synchronized interest expense. Staff's adjustment is
17 shown on Schedules JMM-W17 and JMM-W25.

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

20 A. Staff recommends disallowance of any synchronized interest expense.

1 **REVENUE REQUIREMENT**

2 **Q. What does the Company propose for a decrease in operating revenue?**

3 A. The Company proposes decreasing operating revenues by \$2,232,070, from \$13,172,899
4 to \$10,940,829, or an approximate decrease of 16.94 percent compared to the Company's
5 annualized test year revenues.

6
7 **Q. What does Staff recommend for a decrease in operating revenues?**

8 A. Staff recommends a \$2,135,500 decrease in operating revenues, from \$13,172,899 to
9 \$11,037,399, or an approximate decrease of 16.21 percent compared to Staff's adjusted
10 test year revenue.

11
12 **Q. How did Staff determine its recommended operating revenue?**

13 A. Staff utilized an operating margin instead of a rate of return on rate base to determine the
14 revenue requirement. Based on Staff's numerous adjustments to plant in service and
15 CIAC mentioned above, the Company's rate base is negative, and therefore a rate of
16 return on rate base cannot be used. Therefore, Staff utilized operating margin to
17 determine the revenue requirement.

18
19 **Q. Did Staff utilize a gross revenue conversion factor?**

20 A. No, the Company is classified as a limited liability Company, and therefore, does not pay
21 taxes at the corporate level. These taxes are passed through to the owners of the
22 Company, and accounted for when the individual owners file their tax returns.

1 **Q. Has the Company ever presented income tax on its annual reports filed with the**
2 **Commission?**

3 A. No, going back through the annual reports for both the water and wastewater divisions of
4 the Company since its inception, the Company has never presented income tax on its
5 annual reports filed with the ACC.

6
7 **Q. Did Staff review the Independent auditor's report?**

8 A. Yes.

9
10 **Q. What did the independent auditor's report say about income taxes?**

11 A. Note 1 Nature of Operations and Summary of Significant Accounting Policies, page 9
12 States:

13
14 "Income Taxes - The Company files a partnership tax return and does not incur income
15 taxes; instead, its earnings are included in the members' personal income tax returns and
16 taxed depending on their personal tax situations. The financial statements, therefore, do
17 not include a provision for income taxes."

18
19 **Q. What does NARUC USOA state?**

20 A. "409.10 Federal Income Taxes, Utility Operating Income - This account shall include the
21 amount of those federal income taxes reflected in account 408 - Income Taxes, which
22 relate to utility operating income after interest charges and other tax adjustments. This
23 account shall be maintained so as to allow ready identification of tax effects (both positive
24 and negative) relating to Utility Operating Income (by department/division), Utility Plant
25 Leased to Others and Other Utility Operating Income."

1 **Q. What about State and Local income taxes?**

2 A. These are found in NARUC USOA numbers 409.11 and 409.12, which mirrors statement
3 409.10.

4
5 **Q. Did the Company report income taxes in those accounts?**

6 A. No. As the Company did not file as a "C" corporation it did not incur any income taxes,
7 and therefore did not report income in those accounts.

8
9 **RATE DESIGN**

10 **Q. Have you prepared a schedule summarizing the present, Company proposed, and**
11 **Staff recommended rates and service charges?**

12 A. Yes. A summary of the present, Company proposed, and Staff recommended rates and
13 service charges are provided on Schedule JMM-W26.

14
15 **Q. Would you please summarize the present monthly minimum rate design?**

16 A. The present monthly minimum charges by meter size are as follows: 5/8-inch \$18.00; 3/4-
17 inch \$27.00; 1-inch \$45.00; 1 1/2-inch \$90.00; 2-inch \$144.00; 3-inch \$270.00; 4-inch
18 \$450.00; and 6-inch \$900.00. The charge for construction water per 1,000 gallons is
19 \$3.75.

20
21 **Q. Would you please summarize the Company's proposed rate design?**

22 A. The Company's proposed monthly minimum charges by meter size are as follows: 5/8-
23 inch \$14.98; 3/4-inch \$22.47; 1-inch \$37.45; 1 1/2-inch \$74.90; 2-inch \$119.84; 3-inch
24 \$239.68; 4-inch \$374.50; 6-inch \$749.00; 8-inch \$1,198.40; and 10-inch \$1,772.70. The
25 charge for construction water per 1,000 gallons will be \$2.485.

1 **Q. Would you please summarize Staff's recommended rate design?**

2 A. Staff's recommended monthly minimum charges for all zones and customer classes are as
3 follows: 5/8-inch \$13.20; 3/4-inch \$19.80; 1-inch \$33.00; 1 1/2-inch \$66.00; 2-inch
4 \$105.60; 3-inch \$211.20; 4-inch \$330.00; 6-inch \$660.00; 8-inch \$1,056.00; and 10-inch
5 \$1,518.00. The charge for construction water per 1,000 gallons will be \$2.88.

6
7 **Q. What is the rate impact on a typical 3/4-inch meter residential customer?**

8 A. The typical 3/4-inch meter residential customer with a median usage of 6,000 gallons
9 would experience a \$8.22 or a 20.30 percent decrease in their monthly bill from \$40.50 to
10 \$32.28 under the Company's proposed rates and a \$9.50 or a 23.46 percent decrease in
11 their monthly bill from \$40.50 to \$31.00 under Staff's recommended rates. A typical bill
12 analysis is provided on Schedule JMM-W27.

13
14 **Q. What water system service lines, meter installation charges, and service charges does
15 Staff recommend?**

16 A. A comparison of the current charges for water system service lines, metered installation
17 charges, and service charges; the Company's proposed changes, and Staff's recommended
18 changes are presented on Schedules JMM-W26. These charges are within Staff's
19 experience of what are reasonable and customary charges.

20
21 **OTHER MATTERS**

22 **Q. Are there any other recommendations that Staff would like to make?**

23 A. Yes, Staff recommends that the Commission discontinue the Company's Hook-up fees.
24

1 **Q. According to the independent auditors report in 2006, what was the Company's**
2 **equity in the Company?**

3 A. Members' capital at the end of 2006 was \$19,583,538 and total members' capital and
4 liabilities was \$202,763,250, making the percentage of members' capital 9.65 percent.

5
6 **Q. What does Staff believe the balanced equity and debt range for this size Company**
7 **should be?**

8 A. For this size Company, Staff recommends an equity range of between 40 to 60 percent and
9 debt of between 40 to 60 percent. In addition no more than 30 percent of equity should be
10 from AIAC and CIAC contributions.

11
12 **Q. Does Staff support the use of hook-up fees?**

13 A. Yes. However, there should be a balance between the amount of equity the Company is
14 investing in plant and what customers are investing in plant through hook-up fees. Absent
15 this balance, Staff recommends discontinuance.

16
17 **Q. Should growth be paid through the use of hook-up fees as a means to accomplish this**
18 **goal?**

19 A. Usually for mature Companies, but hook-up fees are not a good plan for new Companies,
20 as in this case.

1 **Q. When would it be appropriate for the Company to apply for a new hook-up fee**
2 **tariff?**

3 A. Once the Company has a capital structure in which member's capital to total members'
4 capital and liabilities consists of at least 40 percent equity (not including advances and
5 contributions).

6
7 **Q. Does this conclude your direct testimony?**

8 A. Yes, it does.

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY ORIGINAL COST	(B) COMPANY FAIR VALUE	(C) STAFF ORIGINAL COST	(D) STAFF FAIR VALUE
1					
2	Adjusted Rate Base	\$ 6,607,841	\$ 6,607,841	\$ (19,240,859)	\$ (19,240,859)
3					
4	Adjusted Operating Income (Loss)	\$ 2,118,161	\$ 2,118,161	\$ 3,193,742	\$ 3,193,742
5					
6	Staff Recommended Operating Income	N/A	N/A	\$ 1,103,846	\$ 1,103,846
7					
8	Current Rate of Return (L2 / L1)	32.06%	32.06%	N/A	N/A
9					
10	Required Rate of Return	10.43%	10.43%	N/A	N/A
11					
12	Required Operating Income (L1 * L4)	\$ 689,198	\$ 689,198	N/A	N/A
13					
14	Operating Income Deficiency (L5 - L2)	\$ (1,428,963)	\$ (1,428,963)	N/A	N/A
15					
16	Gross Revenue Conversion Factor	1.5620	1.5620	N/A	N/A
17					
18	Required Revenue Increase/Decrease	\$ (2,232,070)	\$ (2,232,070)	\$ (2,135,500)	\$ (2,135,500)
19					
20	Adjusted Test Year Revenue	\$ 13,172,899	\$ 13,172,899	\$ 13,172,899	\$ 13,172,899
21					
22	Proposed Annual Revenue (L8 + L9)	\$ 10,940,829	\$ 10,940,829	\$ 11,037,399	\$ 11,037,399
23					
24	Required Increase/Decrease in Revenue (%)	-16.94%	-16.94%	-16.21%	-16.21%
25					
26	Required Operating Margin	N/A	N/A	10.00%	10.00%

References:

Columns [A] and [B]: Company Schedules A-1, A-2, & D-1
Columns [C] and [D]: STAFF Schedules JMM-W2, JMM-W3 and JMM-W16

RATE BASE - ORIGINAL COST

LINE NO.	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	(C) STAFF AS ADJUSTED
1	Plant in Service	\$ 79,591,151	\$ 60,408,616
2	Less: Accumulated Depreciation	6,199,124	4,884,253
3	Net Plant in Service	<u>\$ 73,392,027</u>	<u>\$ 55,524,362</u>
4			
5	<u>LESS:</u>		
6			
7	Advances in Aid of Construction (AIAC)	\$ 37,840,520	\$ 37,840,520
8			
9	Service Line and Meter Advances	\$ 6,779,771	\$ 6,779,771
10			
11	Contributions in Aid of Construction (CIAC)	\$ 25,004,821	\$ 31,935,899
12	Less: Accumulated Amortization	1,858,537	2,169,107
13	Net CIAC	<u>23,146,284</u>	<u>29,766,792</u>
14			
15	Total Advances and Contributions	60,986,804	74,387,083
16			
17	Customer Meter Deposits	6,779,771	378,138
18		(6,401,633)	
19	<u>ADD:</u>		
20			
21	Materials and Supplies	348,852	-
22		(348,852)	
23	Deferred Assets	633,537	-
24		(633,537)	
25	Original Cost Rate Base	<u>\$ 6,607,841</u>	<u>\$ (19,240,859)</u>

References:

Column [A]: Company Application
Column [B]: Testimony JMM
Column [C]: Column [A] + Column [B]

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.	DESCRIPTION	[A] COMPANY AS FILED B-2	[B] ADJ #1 Used and Useful Schedule JMM-W4	[C] ADJ #2 Excess Capacity Schedule JMM-W5	[D] ADJ #3 Plant Reclass Schedule JMM-W6	[E] ADJ #4 Inadequate Support Schedule JMM-W7	[F] ADJ #5 Affiliate Profit Schedule JMM-W8	[G] ADJ #6 Accum Deprec Schedule JMM-W9	[H] ADJ #7 Service Line Reclass Schedule JMM-W10
<u>PLANT IN SERVICE:</u>										
1	301.00	Organization Cost	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	302.00	Franchise Cost	-	-	-	-	-	-	-	-
3	303.00	Land and Land Rights	272,438	-	-	-	(27,244)	(20,433)	-	-
4	304.00	Structures and Improvements	9,482,185	(6,388,222)	-	-	(948,217)	(711,162)	-	-
5	305.00	Collecting and Impounding Res.	-	-	-	-	-	-	-	-
6	306.00	Lake River and Other Intakes	-	-	-	-	(522,603)	(391,952)	-	-
7	307.00	Wells and Springs	5,228,030	(2,052,584)	(433,238)	-	-	-	-	-
8	308.00	Infiltration Galleries and Tunnels	-	-	-	-	-	-	-	-
9	309.00	Supply Mains	-	-	-	-	-	-	-	-
10	310.00	Power Generation Equipment	-	-	-	-	-	-	-	-
11	311.00	Electric Pumping Equipment	764,111	-	-	-	(76,411)	(57,308)	-	-
12	320.00	Water Treatment Equipment	21,858	-	-	-	(2,186)	(1,639)	-	-
13	330.00	Distribution Reservoirs & Standpipe	248,272	7,259,834	(693,827)	-	(24,827)	(18,620)	-	-
14	331.00	Transmission and Distribution Mains	53,432,585	(2,074,455)	-	(871,612)	(5,343,259)	(4,007,444)	-	-
15	333.00	Services	527,473	-	-	-	(52,747)	(39,560)	-	-
16	334.00	Meters	6,068,503	-	-	-	(606,850)	(455,138)	-	-
17	335.00	Hydrants	3,547,718	-	-	-	(354,772)	(286,079)	-	-
18	336.00	Backflow Prevention Devices	-	-	-	-	-	-	-	-
19	339.00	Other Plant and Miscellaneous Equipment	-	-	-	-	-	-	-	-
20	340.00	Office Furniture and Fixtures	-	-	-	-	-	-	-	-
21	341.00	Transportation Equipment	-	-	-	-	-	-	-	-
22	342.00	Stores Equipment	-	-	-	-	-	-	-	-
23	343.00	Tools and Work Equipment	-	-	-	-	-	-	-	-
24	344.00	Laboratory Equipment	-	-	-	-	-	-	-	-
25	345.00	Power Operated Equipment	-	-	-	-	-	-	-	-
26	346.00	Communications Equipment	-	-	-	-	-	-	-	-
27	347.00	Miscellaneous Equipment	-	-	-	-	-	-	-	-
28	348.00	Other Tangible Plant	-	-	-	-	-	-	-	-
29		Plant Held for Future Use	-	-	-	-	-	-	-	-
30		Subtotal Water Plant	\$ 79,591,151	\$ (4,127,019)	\$ (1,127,065)	\$ -	\$ (7,959,115)	\$ (5,969,336)	\$ -	\$ -
31										
32		Less: Accumulated Depreciation - Actual	\$ 6,065,910	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,314,871)	\$ -
33		Less: Accumulated Depreciation - Pro Forma	133,214	-	-	-	-	-	-	-
34		Total Accumulated Depreciation - Adjusted	\$ 6,199,124	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,314,871)	\$ -
35										
36		Net Plant in Service (L32 - L33)	\$ 73,392,027	\$ (4,127,019)	\$ (1,127,065)	\$ -	\$ (7,959,115)	\$ (5,969,336)	\$ 1,314,871	\$ -
37		<u>LESS:</u>								
38		Advances in Aid of Construction (AIAC)	\$ 37,840,520	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
39										
40		Service Line and Meter Advances	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,779,771
41										
42		Contributions in Aid of Construction (CIAC)	\$ 31,935,899	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
43		Less: CIAC - Pro Forma	(6,931,078)	-	-	-	-	-	-	-
44		Total CIAC - Adjusted	\$ 25,004,821	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
45										
46		Less: Accumulated Amortization	\$ 1,858,537	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
47		Less: Accumulated Amort - Pro Forma	-	-	-	-	-	-	-	-
48			\$ 1,858,537	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
49										
50		Net CIAC	23,146,284	-	-	-	-	-	-	-
51										
52		Total Advances and Net Contributions	60,986,804	-	-	-	-	-	-	6,779,771
53										
54		Customer Security Deposits	6,779,771	-	-	-	-	-	-	-
55										
56		<u>ADD:</u>								
57		Materials and Supplies	\$ 348,852	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
58		Deferred Assets	\$ 633,537	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
59										
60		Original Cost Rate Base	\$ 6,607,841	\$ (4,127,019)	\$ (1,127,065)	\$ -	\$ (7,959,115)	\$ (5,969,336)	\$ 1,314,871	\$ (6,779,771)

References:
Column [A]: Company Application
Column [B]: Testimony JMM
Column [C]: Column [A] + Column [B]

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.	DESCRIPTION	[I] ADJ #8 Unexpended CIAC	[J] ADJ #9 Amort of CIAC	[K] ADJ #10 Customer Deposits	[L] ADJ #11 Materials and Supplies	[M] ADJ #12 Deferred Assets	[N] STAFF ADJUSTED Total
			Schedule JMM-W11	Schedule JMM-W12	Schedule JMM-W13	Schedule JMM-W14	Schedule JMM-W15	
PLANT IN SERVICE:								
1	301.00	Organization Cost	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	302.00	Franchise Cost	-	-	-	-	-	224,761
3	303.00	Land and Land Rights	-	-	-	-	-	1,434,564
4	304.00	Structures and Improvements	-	-	-	-	-	-
5	305.00	Collecting and Impounding Res.	-	-	-	-	-	-
6	306.00	Lake River and Other Intakes	-	-	-	-	-	1,825,673
7	307.00	Wells and Springs	-	-	-	-	-	-
8	308.00	Infiltration Galleries and Tunnels	-	-	-	-	-	-
9	309.00	Supply Mains	-	-	-	-	-	-
10	310.00	Power Generation Equipment	-	-	-	-	-	630,392
11	311.00	Electric Pumping Equipment	-	-	-	-	-	18,031
12	320.00	Water Treatment Equipment	-	-	-	-	-	6,770,831
13	330.00	Distribution Reservoirs & Standpipe	-	-	-	-	-	41,135,816
14	331.00	Transmission and Distribution Mains	-	-	-	-	-	435,165
15	333.00	Services	-	-	-	-	-	5,006,515
16	334.00	Meters	-	-	-	-	-	2,926,867
17	335.00	Hydrants	-	-	-	-	-	-
18	336.00	Backflow Prevention Devices	-	-	-	-	-	-
19	339.00	Other Plant and Miscellaneous Equipment	-	-	-	-	-	-
20	340.00	Office Furniture and Fixtures	-	-	-	-	-	-
21	341.00	Transportation Equipment	-	-	-	-	-	-
22	342.00	Stores Equipment	-	-	-	-	-	-
23	343.00	Tools and Work Equipment	-	-	-	-	-	-
24	344.00	Laboratory Equipment	-	-	-	-	-	-
25	345.00	Power Operated Equipment	-	-	-	-	-	-
26	346.00	Communications Equipment	-	-	-	-	-	-
27	347.00	Miscellaneous Equipment	-	-	-	-	-	-
28	348.00	Other Tangible Plant	-	-	-	-	-	-
29		Plant Held for Future Use	-	-	-	-	-	-
30		Subtotal Water Plant	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 60,408,616
31		Less: Accumulated Depreciation - Actual	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,751,039
32		Less: Accumulated Depreciation - Pro Forma	-	-	-	-	-	133,214
33		Total Accumulated Depreciation - Adjusted	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,884,253
34		Net Plant in Service (L32 - L33)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 55,524,362
35		LESS:						
37		Advances in Aid of Construction (AIAC)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 37,840,520
38		Service Line and Meter Advances	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,779,771
39		Contributions in Aid of Construction (CIAC)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 31,935,899
40		Less: CIAC - Pro Forma	6,931,078	-	-	-	-	31,935,899
41		Total CIAC - Adjusted	6,931,078	-	-	-	-	-
42		Less: Accumulated Amortization	\$ -	\$ 310,570	\$ -	\$ -	\$ -	\$ 2,169,107
43		Less: Accumulated Amort - Pro Forma	-	310,570	-	-	-	2,169,107
44		Net CIAC	6,931,078	(310,570)	-	-	-	29,766,792
45		Total Advances and Net Contributions	6,931,078	(310,570)	-	-	-	74,387,083
46		Customer Security Deposits	-	-	(6,401,633)	-	-	378,138
47		ADD:						
48		Materials and Supplies	\$ -	\$ -	\$ -	(348,852)	\$ -	\$ -
49		Deferred Assets	\$ -	\$ -	\$ -	-	(633,537)	\$ -
50		Original Cost Rate Base	\$ (6,931,078)	\$ 310,570	\$ 6,401,633	\$ (348,852)	\$ (633,537)	\$ (19,240,859)

References:
Column [A]: Company Application
Column [B]: Testimony JMM
Column [C]: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 1 - NOT USED AND USEFUL PLANT

LINE NO.	ACCT NO.	DESCRIPTION	[A]	[B]	[C]
			PLANT In SERVICE Per Company	PLANT NOT USED AND USEFUL	PLANT In SERVICE Per Staff (Col A + Col B)
1	301	Organization	\$ -	\$ -	\$ -
2	302	Franchise Cost	\$ -	\$ -	\$ -
3	303	Land and Land Rights	\$ 272,438	\$ -	\$ 272,438
4	304	Structures and Improvements	\$ 9,482,165	\$ -	\$ 9,482,165
5	307	Wells and Springs	\$ 5,226,030	\$ (2,052,564)	\$ 3,173,466
6	311	Electric Pumping Equipment	\$ 764,111	\$ -	\$ 764,111
7	320	Water Treatment Equipment	\$ 21,856	\$ -	\$ 21,856
8	330	Distribution Reservoirs & Standpipes	\$ 248,272	\$ -	\$ 248,272
9	331	Transmission and Distribution Mains	\$ 53,432,585	\$ (2,074,455)	\$ 51,358,130
10	333	Services	\$ 527,473	\$ -	\$ 527,473
11	334	Meters	\$ 6,068,503	\$ -	\$ 6,068,503
12	335	Hydrants	\$ 3,547,718	\$ -	\$ 3,547,718
13	336	Backflow Prevention Devices	\$ -	\$ -	\$ -
14	340	Office Furniture and Equipment	\$ -	\$ -	\$ -
15	341	Transportation Equipment	\$ -	\$ -	\$ -
16	347	Miscellaneous Equipment	\$ -	\$ -	\$ -
17					
18		Total Plant	\$ 79,591,151	\$ (4,127,019)	\$ 75,464,132

References:

- Column [A]: Company Application
- Column [B]: Testimony JMM
- Column [C]: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 2 - EXCESS CAPACITY

LINE NO.	ACCT NO.	DESCRIPTION	[A]	[B]	[C]
			PLANT In SERVICE Per Company	EXCESS CAPACITY	PLANT In SERVICE Per Staff (Col A + Col B)
1	301	Organization	\$ -	\$ -	\$ -
2	302	Franchise Cost	\$ -	\$ -	\$ -
3	303	Land and Land Rights	\$ 272,438	\$ -	\$ 272,438
4	304	Structures and Improvements	\$ 9,482,165	\$ -	\$ 9,482,165
5	307	Wells and Springs	\$ 5,226,030	\$ (433,238)	\$ 4,792,792
6	311	Electric Pumping Equipment	\$ 764,111	\$ -	\$ 764,111
7	320	Water Treatment Equipment	\$ 21,856	\$ -	\$ 21,856
8	330	Distribution Reservoirs & Standpipes	\$ 248,272	\$ (693,827)	\$ (445,555)
9	331	Transmission and Distribution Mains	\$ 53,432,585	\$ -	\$ 53,432,585
10	333	Services	\$ 527,473	\$ -	\$ 527,473
11	334	Meters	\$ 6,068,503	\$ -	\$ 6,068,503
12	335	Hydrants	\$ 3,547,718	\$ -	\$ 3,547,718
13	336	Backflow Prevention Devices	\$ -	\$ -	\$ -
14	340	Office Furniture and Equipment	\$ -	\$ -	\$ -
15	341	Transportation Equipment	\$ -	\$ -	\$ -
16	347	Miscellaneous Equipment	\$ -	\$ -	\$ -
17					
18		Total Plant	\$ 79,591,151	\$ (1,127,065)	\$ 78,464,086

References:

Column [A]: Company Application

Column [B]: Testimony JMM

Column [C]: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 3 - PLANT RECLASSIFICATION

LINE NO.	ACCT NO.	DESCRIPTION	[A]	[B]	[C]
			PLANT In SERVICE Per Company	PLANT RECLASSIFICATION	PLANT In SERVICE Per Staff (Col A + Col B)
1	301	Organization	\$ -	\$ -	\$ -
2	302	Franchise Cost	\$ -	\$ -	\$ -
3	303	Land and Land Rights	\$ 272,438	\$ -	\$ 272,438
4	304	Structures and Improvements	\$ 9,482,165	\$ (6,388,222)	\$ 3,093,943
5	307	Wells and Springs	\$ 5,226,030	\$ -	\$ 5,226,030
6	311	Electric Pumping Equipment	\$ 764,111	\$ -	\$ 764,111
7	320	Water Treatment Equipment	\$ 21,856	\$ -	\$ 21,856
8	330	Distribution Reservoirs & Standpipes	\$ 248,272	\$ 7,259,834	\$ 7,508,106
9	331	Transmission and Distribution Mains	\$ 53,432,585	\$ (871,612)	\$ 52,560,973
10	333	Services	\$ 527,473	\$ -	\$ 527,473
11	334	Meters	\$ 6,068,503	\$ -	\$ 6,068,503
12	335	Hydrants	\$ 3,547,718	\$ -	\$ 3,547,718
13	336	Backflow Prevention Devices	\$ -	\$ -	\$ -
14	340	Office Furniture and Equipment	\$ -	\$ -	\$ -
15	341	Transportation Equipment	\$ -	\$ -	\$ -
16	347	Miscellaneous Equipment	\$ -	\$ -	\$ -
17					
18		Total Plant	\$ 79,591,151	\$ -	\$ 79,591,151

References:

- Column [A]: Company Application
- Column [B]: Testimony JMM
- Column [C]: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 4 - INADEQUATELY SUPPORTED PLANT COSTS

LINE NO.	ACCT NO.	DESCRIPTION	[A]	[B]	[C]
			PLANT In SERVICE Per Staff	RATE	AMOUNT REMOVED DUE TO INADEQUATE SUPPORT (Col A x Col B)
1	301	Organization	\$ -	10.00%	\$ -
2	302	Franchise Cost	\$ -	10.00%	\$ -
3	303	Land and Land Rights	\$ 272,438	10.00%	\$ (27,244)
4	304	Structures and Improvements	\$ 9,482,165	10.00%	\$ (948,217)
5	307	Wells and Springs	\$ 5,226,030	10.00%	\$ (522,603)
6	311	Electric Pumping Equipment	\$ 764,111	10.00%	\$ (76,411)
7	320	Water Treatment Equipment	\$ 21,856	10.00%	\$ (2,186)
8	330	Distribution Reservoirs & Standpipes	\$ 248,272	10.00%	\$ (24,827)
9	331	Transmission and Distribution Mains	\$ 53,432,585	10.00%	\$ (5,343,259)
10	333	Services	\$ 527,473	10.00%	\$ (52,747)
11	334	Meters	\$ 6,068,503	10.00%	\$ (606,850)
12	335	Hydrants	\$ 3,547,718	10.00%	\$ (354,772)
13	336	Backflow Prevention Devices	\$ -	10.00%	\$ -
14	340	Office Furniture and Equipment	\$ -	10.00%	\$ -
15	341	Transportation Equipment	\$ -	10.00%	\$ -
16	347	Miscellaneous Equipment	\$ -	10.00%	\$ -
17					
18		Total Plant	\$ 79,591,151		\$ (7,959,115)

References:

Column [A]: Company Schedule B-2, Page 2.10

Column [B]: Testimony JMM

Column [C]: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 5 - CAPITALIZED AFFILIATE PROFIT

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		PLANT In SERVICE Per Staff	RATE	AMOUNT OF AFFILIATE PROFIT REMOVED (Col A x Col B)
1	301 Organization	\$ -	7.50%	\$ -
2	302 Franchise Cost	\$ -	7.50%	\$ -
3	303 Land and Land Rights	\$ 272,438	7.50%	\$ (20,433)
4	304 Structures and Improvements	\$ 9,482,165	7.50%	\$ (711,162)
5	307 Wells and Springs	\$ 5,226,030	7.50%	\$ (391,952)
6	311 Electric Pumping Equipment	\$ 764,111	7.50%	\$ (57,308)
7	320 Water Treatment Equipment	\$ 21,856	7.50%	\$ (1,639)
8	330 Distribution Reservoirs & Standpipes	\$ 248,272	7.50%	\$ (18,620)
9	331 Transmission and Distribution Mains	\$ 53,432,585	7.50%	\$ (4,007,444)
10	333 Services	\$ 527,473	7.50%	\$ (39,560)
11	334 Meters	\$ 6,068,503	7.50%	\$ (455,138)
12	335 Hydrants	\$ 3,547,718	7.50%	\$ (266,079)
13	336 Backflow Prevention Devices	\$ -	7.50%	\$ -
14	340 Office Furniture and Equipment	\$ -	7.50%	\$ -
15	341 Transportation Equipment	\$ -	7.50%	\$ -
16	347 Miscellaneous Equipment	\$ -	7.50%	\$ -
17				
18	Total Plant	\$ 79,591,151		\$ (5,969,336)

References:

Column [A]: Company Schedule B-2, Page 2.10

Column [B]: Testimony JMM

Column [C]: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 6 - ACCUMULATED DEPRECIATION

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Accumulated Depreciation	\$ 6,199,124	\$ (1,314,871)	\$4,884,253

References:

Column [A]: Company Application

Column [B]: Testimony JMM

Column [C]: Column [A] + Column [B]

PLANT AND ACCUMULATED DEPRECIATION SCHEDULE
 ADJUSTED TO REMOVE NOT USED AND USEFUL, EXCESS CAPACITY, AFFILIATE PROFIT AND INADEQUATLEY SUPPORTED PLANT COSTS

	Plant		31-Dec-98		1998		1998		1998	
	Original Cost	Accumulated Depreciation	Depreciation Rates	Additions	Cost Removal	Depr. Expense	Total Cost	Accumulated Depreciation		
301 Organization	\$0	\$0	0.00%	\$0	\$0	\$0	\$0	\$0	\$0	\$0
302 Franchise Cost	0	0	0.00%	0	0	0	0	0	0	0
303 Land and Land Rights	0	0	0.00%	0	0	0	0	0	0	0
304 Structures and Improvements	0	0	2.50%	0	0	0	0	0	0	0
307 Wells and Springs	0	0	2.50%	115,000	20,125	1,186	94,875	1,186	1,186	
311 Electric Pumping Equipment	0	0	2.50%	43,750	7,656	451	36,094	451	451	
320 Water Treatment Equipment	0	0	2.50%	0	0	0	0	0	0	
330 Distribution Reservoirs & Standpipe	0	0	2.50%	282,692	49,471	2,915	233,221	2,915	2,915	
333 Services	0	0	2.50%	0	0	0	0	0	0	
334 Meters	0	0	2.50%	0	0	0	0	0	0	
335 Hydrants	0	0	2.50%	0	0	0	0	0	0	
336 Backflow Prevention Devices	0	0	2.50%	0	0	0	0	0	0	
340 Office Furniture and Equipment	0	0	2.50%	0	0	0	0	0	0	
341 Transportation Equipment	0	0	2.50%	0	0	0	0	0	0	
343 Tools and Work Equipment	0	0	2.50%	0	0	0	0	0	0	
1998 Totals	\$0	\$0		\$441,442	\$77,252	\$4,552	\$364,190	\$4,552	\$4,552	\$4,552

PLANT AND ACCUMULATED DEPRECIATION SCHEDULE
ADJUSTED TO REMOVE NOT USED AND USEFUL, EXCESS CAPACITY, AFFILIATE PROFIT AND INADEQUATELY SUPPORTED PLANT COSTS

	1999 Additions Cost	1999 Adjustments		Fully Depreciated	1999		1999 Total Cost	1999 Accumulated Depreciation	1999 Net Book Value
		Cost Removal	Depreciation		Depr. Expense	Depreciation			
301 Organization	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
302 Franchise Cost	0	0	0	0	0	0	0	0	0
303 Land and Land Rights	244,400	42,770	0	0	0	201,630	0	201,630	0
304 Structures and Improvements	102,374	17,915	0	0	1,056	84,459	1,056	83,403	83,403
307 Wells and Springs	209,355	36,637	0	0	4,531	267,593	5,717	261,876	261,876
311 Electric Pumping Equipment	331,299	57,977	0	0	4,319	309,415	4,770	304,645	304,645
320 Water Treatment Equipment	0	0	0	0	0	0	0	0	0
330 Distribution Reservoirs & Standpipe	101,837	0	0	0	1,273	101,837	1,273	100,564	100,564
331 Transmission and Distribution Main	2,537,047	545,820	0	0	30,721	2,224,448	33,636	2,190,812	2,190,812
333 Services	155,100	27,143	0	0	1,599	127,958	1,599	126,358	126,358
334 Meters	32,941	5,765	0	0	340	27,176	340	26,837	26,837
335 Hydrants	60,225	10,539	0	0	621	49,686	621	49,065	49,065
336 Backflow Prevention Devices	0	0	0	0	0	0	0	0	0
340 Office Furniture and Equipment	0	0	0	0	0	0	0	0	0
341 Transportation Equipment	0	0	0	0	0	0	0	0	0
343 Tools and Work Equipment	16,230	2,840	0	0	167	13,390	167	13,222	13,222
1999 Totals	\$3,790,808	\$747,407	\$0	\$0	\$44,627	\$3,407,591	\$49,179	\$3,358,411	

PLANT AND ACCUMULATED DEPRECIATION SCHEDULE

ADJUSTED TO REMOVE NOT USED AND USEFUL, EXCESS CAPACITY, AFFILIATE PROFIT AND INADEQUATELY SUPPORTED PLANT COSTS

	2000 Additions		2000 Adjustments		Fully Depreciated	2000 Depr. Expense	2000 Total Cost	2000 Accumulated Depreciation	2000 Net Book Value
	Cost	Cost	Cost Removal	Depreciation					
301 Organization	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
302 Franchise Cost	0	0	0	0	0	0	0	0	0
303 Land and Land Rights	27,137	4,749	0	0	0	0	224,018	0	224,018
304 Structures and Improvements	53,356	9,337	0	0	0	2,662	128,477	3,717	124,760
307 Wells and Springs	32,979	5,771	0	0	0	7,030	294,801	12,747	282,054
311 Electric Pumping Equipment	(74,250)	(12,994)	0	0	0	6,970	248,159	11,740	236,419
320 Water Treatment Equipment	0	0	0	0	0	0	0	0	0
330 Distribution Reservoirs & Standpipe	0	0	0	0	0	2,546	101,837	3,819	98,018
331 Transmission and Distribution Main	1,396,832	244,446	0	0	0	70,016	3,376,834	103,652	3,273,182
333 Services	317,900	55,633	0	0	0	6,477	390,225	8,077	382,148
334 Meters	16,046	2,808	0	0	0	845	40,414	1,185	39,230
335 Hydrants	221,462	38,756	0	0	0	3,526	232,392	4,147	228,245
336 Backflow Prevention Devices	0	0	0	0	0	0	0	0	0
340 Office Furniture and Equipment	1,355	237	0	0	0	14	1,118	14	1,104
341 Transportation Equipment	36,142	6,325	0	0	0	373	29,817	373	29,444
343 Tools and Work Equipment	0	0	0	0	0	335	13,390	502	12,888
2000 Totals	\$2,028,959	\$355,068	\$0	\$0	\$0	\$100,793	\$5,081,482	\$149,972	\$4,931,510

PLANT AND ACCUMULATED DEPRECIATION SCHEDULE

ADJUSTED TO REMOVE NOT USED AND USEFUL, EXCESS CAPACITY, AFFILIATE PROFIT AND INADEQUATELY SUPPORTED PLANT COSTS

	2001 Additions Cost	2001 Adjustments		Fully Depreciated	2001 Depr. Expense	2001 Total Cost	2001 Accumulated Depreciation	2001 Net Book Value
		Cost Removal	Depreciation					
301 Organization	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
302 Franchise Cost	0	0	0	0	0	0	0	0
303 Land and Land Rights	0	0	0	0	0	224,018	0	224,018
304 Structures and Improvements	15,461	2,706	0	0	3,371	141,233	7,089	134,144
307 Wells and Springs	116,174	60,330	0	0	8,068	350,644	20,815	329,829
311 Electric Pumping Equipment	102,124	17,872	0	0	7,257	332,411	18,997	313,415
320 Water Treatment Equipment	0	0	0	0	0	0	0	0
330 Distribution Reservoirs & Standpipe	248,272	43,448	0	0	5,106	306,661	8,925	297,736
331 Transmission and Distribution Main	240,418	42,073	0	0	86,900	3,575,179	190,552	3,384,627
333 Services	0	0	0	0	9,756	390,225	17,832	372,393
334 Meters	21,024	3,679	0	0	1,227	57,759	2,412	55,347
335 Hydrants	0	0	0	0	5,810	232,392	9,957	222,435
336 Backflow Prevention Devices	0	0	0	0	0	0	0	0
340 Office Furniture and Equipment	(1,355)	(237)	0	0	(14)	0	0	0
341 Transportation Equipment	(36,142)	(6,325)	0	0	(373)	0	0	0
343 Tools and Work Equipment	(16,230)	(2,840)	0	0	(573)	0	(71)	71
2001 Totals	\$689,746	\$160,706	\$0	\$0	\$126,535	\$5,610,522	\$276,508	\$5,334,015

Johnson Utilities L.L.C. - Water Division
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PLANT AND ACCUMULATED DEPRECIATION SCHEDULE

ADJUSTED TO REMOVE NOT USED AND USEFUL, EXCESS CAPACITY, AFFILIATE PROFIT AND INADEQUATELY SUPPORTED PLANT COSTS

	2002 Additions Cost	2002 Adjustments		Fully Depreciated	2002 Depr. Expense	2002 Total Cost	2002 Accumulated Depreciation	2002 Net Book Value
		Cost Removal	Depreciation					
301 Organization	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
302 Franchise Cost	0	0	0	0	0	0	0	0
303 Land and Land Rights	0	0	0	0	0	224,018	0	224,018
304 Structures and Improvements	0	0	0	0	3,531	141,233	10,620	130,613
307 Wells and Springs	0	0	0	0	8,766	350,644	29,581	321,063
311 Electric Pumping Equipment	22,050	3,859	0	0	8,538	350,603	27,535	323,068
320 Water Treatment Equipment	0	0	0	0	0	0	0	0
330 Distribution Reservoirs & Standpipe	390,770	0	0	0	12,551	697,431	21,476	675,955
331 Transmission and Distribution Main	6,222,693	1,501,599	0	0	148,393	8,296,273	338,945	7,957,327
333 Services	0	0	0	0	9,756	390,225	27,588	362,637
334 Meters	178,075	31,163	0	0	3,280	204,671	5,692	198,979
335 Hydrants	157,282	27,524	0	0	7,432	362,149	17,389	344,761
336 Backflow Prevention Devices	0	0	0	0	0	0	0	0
340 Office Furniture and Equipment	0	0	0	0	0	0	0	0
341 Transportation Equipment	0	0	0	0	0	0	0	0
343 Tools and Work Equipment	0	0	0	0	0	0	(71)	71
2002 Totals	\$6,970,870	\$1,564,146	\$0	\$0	\$202,247	\$11,017,247	\$478,754	\$10,538,493

PLANT AND ACCUMULATED DEPRECIATION SCHEDULE
ADJUSTED TO REMOVE NOT USED AND USEFUL, EXCESS CAPACITY, AFFILIATE PROFIT AND INADEQUATELY SUPPORTED PLANT COSTS

	2003 Additions		2003 Adjustments		Fully Depreciated	2003		2003 Total Cost	2003 Accumulated Depreciation	2003 Net Book Value
	Cost	Cost	Removal	Depreciation		Depr. Expense	Depreciation			
301 Organization	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
302 Franchise Cost	0	0	0	0	0	0	0	0	0	0
303 Land and Land Rights	0	0	0	0	0	0	224,018	0	0	224,018
304 Structures and Improvements	0	141,233	0	0	0	1,765	(0)	12,385	12,385	(12,385)
307 Wells and Springs	319,090	55,841	0	0	0	12,057	613,893	41,638	41,638	572,256
311 Electric Pumping Equipment	0	0	0	0	0	8,765	350,603	36,300	36,300	314,303
320 Water Treatment Equipment	5,455	955	0	0	0	56	4,500	56	56	4,444
330 Distribution Reservoirs & Standpipe	520,238	0	0	0	0	23,939	1,217,669	45,415	45,415	1,172,254
331 Transmission and Distribution Main	8,122,807	1,800,496	0	0	0	286,436	14,618,583	625,381	625,381	13,993,202
333 Services	0	0	0	0	0	9,756	390,225	37,344	37,344	352,881
334 Meters	1,173,247	205,318	0	0	0	17,216	1,172,600	22,908	22,908	1,149,692
335 Hydrants	459,546	80,421	0	0	0	13,793	741,275	31,181	31,181	710,093
336 Backflow Prevention Devices	0	0	0	0	0	0	0	0	0	0
340 Office Furniture and Equipment	0	0	0	0	0	0	0	0	0	0
341 Transportation Equipment	34,226	5,990	0	0	0	353	28,236	353	353	27,883
343 Tools and Work Equipment	0	0	0	0	0	0	0	(71)	(71)	71
2003 Totals	\$10,634,609	\$2,290,253	\$0	\$0	\$0	\$374,135	\$19,361,603	\$852,889	\$18,508,714	

PLANT AND ACCUMULATED DEPRECIATION SCHEDULE
ADJUSTED TO REMOVE NOT USED AND USEFUL, EXCESS CAPACITY, AFFILIATE PROFIT AND INADEQUATELY SUPPORTED PLANT COSTS

	2004 Additions		2004 Adjustments		Fully Depreciated	2004 Depr. Expense	2004 Total Cost	2004 Accumulated Depreciation	2004 Net Book Value
	Cost	Cost	Cost Removal	Depreciation					
301 Organization	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
302 Franchise Cost	0	0	0	0	0	0	0	0	0
303 Land and Land Rights	901	158	0	0	0	0	224,761	0	224,761
304 Structures and Improvements	458,157	80,177	0	0	0	4,725	377,979	17,110	360,869
307 Wells and Springs	80,000	14,000	0	0	0	16,172	679,893	57,810	622,083
311 Electric Pumping Equipment	0	0	0	0	0	8,765	350,603	45,065	305,538
320 Water Treatment Equipment	16,401	2,870	0	0	0	282	18,031	338	17,693
330 Distribution Reservoirs & Standpipe	0	0	0	0	0	30,442	1,217,669	75,857	1,141,813
331 Transmission and Distribution Main	8,900,756	1,557,632	0	0	0	457,254	21,961,707	1,082,635	20,879,072
333 Services	0	0	0	0	0	9,756	390,225	47,099	343,126
334 Meters	1,108,316	193,955	0	0	0	40,745	2,086,960	63,653	2,023,308
335 Hydrants	0	0	0	0	0	18,532	741,275	49,713	691,562
336 Backflow Prevention Devices	0	0	0	0	0	0	0	0	0
340 Office Furniture and Equipment	0	0	0	0	0	0	0	0	0
341 Transportation Equipment	44,945	7,865	0	0	0	1,169	65,316	1,522	63,794
343 Tools and Work Equipment	0	0	0	0	0	0	0	(71)	71
2004 Totals	\$10,609,476	\$1,856,658	\$0	\$0	\$0	\$587,841	\$28,114,421	\$1,440,730	\$26,673,691

PLANT AND ACCUMULATED DEPRECIATION SCHEDULE
 ADJUSTED TO REMOVE NOT USED AND USEFUL, EXCESS CAPACITY, AFFILIATE PROFIT AND INADEQUATELY SUPPORTED PLANT COSTS

	2005 Additions Cost	2005 Adjustments		Fully Depreciated	2005 Depr. Expense	2005 Total Cost	2005 Accumulated Depreciation	2005 Net Book Value
		Cost Removal	Depreciation					
301 Organization	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
302 Franchise Cost	0	0	0	0	0	0	0	0
303 Land and Land Rights	0	0	0	0	0	224,761	0	224,761
304 Structures and Improvements	0	0	0	0	9,449	377,979	26,559	351,420
307 Wells and Springs	907,116	591,983	0	0	20,936	995,026	78,746	916,280
311 Electric Pumping Equipment	0	0	0	0	8,765	350,603	53,830	296,773
320 Water Treatment Equipment	0	0	0	0	451	18,031	789	17,243
330 Distribution Reservoirs & Standpipe	0	0	0	0	30,442	1,217,669	106,299	1,111,371
331 Transmission and Distribution Main	10,361,247	3,134,690	0	0	639,375	29,188,264	1,722,009	27,466,254
333 Services	0	0	0	0	9,756	390,225	56,855	333,370
334 Meters	1,602,159	280,378	0	0	68,696	3,408,742	132,349	3,276,393
335 Hydrants	969,120	169,596	0	0	28,526	1,540,799	78,239	1,462,560
336 Backflow Prevention Devices	0	0	0	0	0	0	0	0
340 Office Furniture and Equipment	0	0	0	0	0	0	0	0
341 Transportation Equipment	(79,171)	(13,855)	0	0	(1,671)	0	(149)	149
343 Tools and Work Equipment	0	0	0	0	0	0	(71)	71
2005 Totals	\$13,760,471	\$4,162,792	\$0	\$0	\$814,725	\$37,712,099	\$2,255,454	\$35,456,645

PLANT AND ACCUMULATED DEPRECIATION SCHEDULE

ADJUSTED TO REMOVE NOT USED AND USEFUL, EXCESS CAPACITY, AFFILIATE PROFIT AND INADEQUATELY SUPPORTED PLANT COSTS

	2006 Additions Cost	2006 Adjustments		Fully Depreciated	2006 Depr. Expense	2006 Total Cost	2006 Accumulated Depreciation	2006 Net Book Value
		Cost Removal	Depreciation					
301 Organization	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
302 Franchise Cost	0	0	0	0	0	0	0	0
303 Land and Land Rights	0	0	0	0	0	224,761	0	224,761
304 Structures and Improvements	6,649,654	5,590,038	0	0	22,695	1,437,595	49,254	1,388,341
307 Wells and Springs	3,182,894	2,569,570	0	0	32,542	1,608,350	111,289	1,497,061
311 Electric Pumping Equipment	86,801	15,190	0	0	9,660	422,214	63,490	358,724
320 Water Treatment Equipment	0	0	0	0	451	18,031	1,239	16,792
330 Distribution Reservoirs & Standpipe	4,426,349	693,827	0	0	77,098	4,950,191	183,397	4,766,795
331 Transmission and Distribution Main	13,562,689	2,373,471	0	0	869,572	40,377,482	2,591,581	37,785,901
333 Services	0	0	0	0	9,756	390,225	66,611	323,615
334 Meters	1,074,809	188,092	0	0	96,303	4,295,459	228,651	4,066,808
335 Hydrants	1,546,683	270,670	0	0	54,470	2,816,812	132,709	2,684,103
336 Backflow Prevention Devices	0	0	0	0	0	0	0	0
340 Office Furniture and Equipment	0	0	0	0	0	0	0	0
341 Transportation Equipment	0	0	0	0	0	0	(149)	149
343 Tools and Work Equipment	0	0	0	0	0	0	(71)	71
2006 Totals	\$30,529,879	#####	\$0	\$0	\$1,172,546	\$56,541,120	\$3,428,001	\$53,113,120

PLANT AND ACCUMULATED DEPRECIATION SCHEDULE
 ADJUSTED TO REMOVE NOT USED AND USEFUL, EXCESS CAPACITY, AFFILIATE PROFIT AND INADEQUATELY SUPPORTED PLANT COSTS

	2007 Additions Cost	2007 Adjustments		Fully Depreciated	2007 Depr. Expense	2007 Total Cost	2007 Accumulated Depreciation	2007 Net Book Value
		Cost Removal	Depreciation					
301 Organization	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
302 Franchise Cost	0	0	0	0	0	0	0	0
303 Land and Land Rights	0	0	0	0	0	224,761	0	224,761
304 Structures and Improvements	2,203,163	2,206,194	0	0	35,902	1,434,564	85,156	1,349,408
307 Wells and Springs	263,423	46,099	0	0	42,925	1,825,674	154,214	1,671,460
311 Electric Pumping Equipment	252,338	44,159	0	0	13,158	630,392	76,648	553,745
320 Water Treatment Equipment	0	0	0	0	451	18,031	1,690	16,341
330 Distribution Reservoirs & Standpipe	1,820,640	0	0	0	146,513	6,770,831	329,910	6,440,922
331 Transmission and Distribution Main	1,805,404	1,047,071	0	0	1,018,916	41,135,816	3,610,497	37,525,318
333 Services	54,473	9,533	0	0	10,317	435,165	76,928	358,237
334 Meters	861,887	150,830	0	0	116,275	5,006,516	344,926	4,661,590
335 Hydrants	133,400	23,345	0	0	71,796	2,926,867	204,505	2,722,362
336 Backflow Prevention Devices	0	0	0	0	0	0	0	0
340 Office Furniture and Equipment	0	0	0	0	0	0	0	0
341 Transportation Equipment	0	0	0	0	0	0	(149)	149
343 Tools and Work Equipment	0	0	0	0	0	0	(71)	71
2007 Totals	\$7,394,728	\$3,527,230	\$0	\$0	\$1,456,253	\$60,408,618	\$4,884,253	\$55,524,365

Johnson Utilities L.L.C. - Water Division
Docket No. WS-02987A-08-0180
Test Year Ended December 31, 2007

Schedule JMM-W10

RATE BASE ADJUSTMENT NO. 7 - SERVICE LINE AND METER ADVANCE RECLASSIFICATION

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Service Line and Meter Advances	\$ -	\$ 6,779,771	\$ 6,779,771

References:

Column [A]: Company Application
Column [B]: Testimony JMM
Column [C]: Column [A] + Column [B]

RATE BASE ADJ. NO. 8 - UNEXPENDED CONTRIBUTIONS IN AID OF CONSTRUCTION ("CIAC")

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Balance at 12/31/2007	\$ 31,935,899	-	\$ 31,935,899
2	Unexpended CIAC	(6,931,078)	6,931,078	-
3	Total CIAC	\$ 25,004,821	\$ 6,931,078	\$ 31,935,899

References:

Column [A]: Company Application

Column [B]: Testimony JMM

Column [C]: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 9 - AMORTIZATION OF CONTRIBUTIONS IN AID OF CONSTRUCTION ("CIAC")

Line No.	Accumulated Amortization (A.A.)	Amount Recorded	Unexpended Cash	Amortizable Balance	Amortization Rate	Year	Total Amortization	Accumulated Amortization
1	Computation of CIAC Balances							
2	Balance at 12/31/1997	\$ -	\$ -	\$ -		1998	3,438	3,438
3	Additions 1998	\$ 137,525	\$ -	\$ 137,525	2.50%	1999	23,579	27,017
4	Balance at 12/31/1998	\$ 137,525	\$ -	\$ 137,525		2000	41,981	68,998
5	Additions 1999	\$ 805,625	\$ -	\$ 943,150	2.50%	2001	59,205	128,203
6	Balance at 12/31/1999	\$ 943,150	\$ -	\$ 943,150		2002	113,312	241,515
7	Additions 2000	\$ 736,101	\$ -	\$ 1,679,251	2.50%	2003	230,754	472,269
8	Balance at 12/31/2000	\$ 1,679,251	\$ -	\$ 1,679,251		2004	302,290	774,559
9	Additions 2001	\$ 688,950	\$ -	\$ 2,368,201	2.50%	2005	352,934	1,127,493
10	Balance at 12/31/2001	\$ 2,368,201	\$ -	\$ 2,368,201		2006	416,493	1,543,986
11	Additions 2002	\$ 2,441,380	\$ 277,115	\$ 4,532,466	2.50%	2007	625,121	2,169,107
12	Balance at 12/31/2002	\$ 4,809,581	\$ -	\$ 4,532,466				
13	Additions 2003	\$ 4,420,596	\$ -	\$ 9,230,177	2.50%	2008	302,290	774,559
14	Balance at 12/31/2003	\$ 9,230,177	\$ -	\$ 9,230,177		2009	352,934	1,127,493
15	Additions 2004	\$ 6,597,450	\$ 3,736,025	\$ 12,091,602	2.50%	2010	416,493	1,543,986
16	Balance at 12/31/2004	\$ 15,827,627	\$ -	\$ 12,091,602		2011	625,121	2,169,107
17	Additions 2005	\$ 6,293,450	\$ 8,003,719	\$ 14,117,358	2.50%	2012	625,121	2,169,107
18	Balance at 12/31/2005	\$ 22,121,077	\$ -	\$ 14,117,358				
19	Additions 2006	\$ 8,814,372	\$ 14,275,725	\$ 16,659,724	2.50%	2013	625,121	2,169,107
20	Balance at 12/31/2006	\$ 30,935,449	\$ -	\$ 16,659,724		2014	625,121	2,169,107
21	Additions 2007	\$ 1,000,450	\$ 6,931,078	\$ 25,004,821	2.50%	2015	625,121	2,169,107
22	Balance at 12/31/2007	\$ 31,935,899	\$ -	\$ 25,004,821				
23								
24								
25								
26								
27								
28								
29								
30								

Per Staff: 2,169,107
 Per Company: 1,858,537
 Staff's Adjustment: 310,570

References:
 Column [A]: Company Schedule B-2, Page 4
 Column [B]: Testimony, JMM
 Column [C]: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 10 - CUSTOMER DEPOSITS

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Customer Deposits	\$ 6,779,771	\$ (6,779,771)	\$ -
2	Customer Deposits - Security Deposits		378,138	378,138
3		<u>\$ 6,779,771</u>	<u>\$ (6,401,633)</u>	<u>\$ 378,138</u>

References:

- Column [A]: Company Schedule B-2
- Column [B]: Testimony, JMM
- Column [C]: Column [A] + Column [B]

Johnson Utilities L.L.C. - Water Division
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Test Year Ended December 31, 2007

Schedule JMM-W14

RATE BASE ADJUSTMENT NO. 11 - MATERIALS AND SUPPLIES

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Materials and Supplies	\$ 348,852	\$ (348,852)	\$ -

References:

Column [A]: Company Schedule B-2

Column [B]: Testimony, JMM

Column [C]: Column [A] + Column [B]

Johnson Utilities L.L.C. - Water Division
Docket No. WS-02987A-08-0180
Test Year Ended December 31, 2007

Schedule JMM-W15

RATE BASE ADJUSTMENT NO. 12 - DEFERRED ASSET

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Deferred Asset	\$ 633,537	\$ (633,537)	\$ -

References:

Column [A]: Company Schedule B-2

Column [B]: Testimony, JMM

Column [C]: Column [A] + Column [B]

OPERATING INCOME STATEMENT - TEST YEAR AND STAFF PROPOSED

LINE 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 RECOMMENDED
REVENUES:						
1	461.00 Metered Water Revenues	\$ 12,843,604	\$ -	\$ 12,843,604	\$ (2,135,500)	\$ 10,708,104
2	460.00 Unmetered Water Revenues	-	-	-	-	-
3	471.00 Other Operating Revenues	329,295	-	329,295	-	329,295
4	Total Operating Revenues	<u>\$ 13,172,899</u>	<u>\$ -</u>	<u>\$ 13,172,899</u>	<u>\$ (2,135,500)</u>	<u>\$ 11,037,399</u>
5						
OPERATING EXPENSES:						
7	601.00 Salaries and Wages	\$ -	\$ -	\$ -	\$ -	\$ -
8	610.00 Purchased Water	334,948	883,842	1,218,790	-	1,218,790
9	615.00 Purchased Power	828,900	(10,620)	818,280	-	818,280
10	618.00 Chemicals	16,189	-	16,189	-	16,189
11	611.00 Repairs and Maintenance	14,333	-	14,333	-	14,333
12	634.00 Office Supplies and Expense	1,119	-	1,119	-	1,119
13	618.01 Outside Services	5,877,591	(5,799)	5,871,792	-	5,871,792
14	604.00 Water Testing	55,007	-	55,007	-	55,007
15	666.00 Rents	53,444	-	53,444	-	53,444
16	632.00 Transportation Expenses	-	-	-	-	-
17	636.00 Insurance - General Liability	21,565	-	21,565	-	21,565
18	640.00 Insurance - Health and Life	-	-	-	-	-
19	650.00 Regulatory Commission Expense - Rate Case	33,333	-	33,333	-	33,333
20	657.00 Miscellaneous Expense	286,747	(31,192)	255,555	-	255,555
22	675.00 Depreciation Expense	1,548,515	(773,826)	774,689	-	774,689
23	403.00 Amortization of CIAC	-	-	-	-	-
24	408.00 Taxes Other than Income	-	-	-	-	-
25	408.00 Property Taxes	797,368	47,694	845,062	(45,604)	799,458
26	409.00 Income Taxes	1,185,679	(1,185,679)	-	-	-
27	Total Operating Expenses	<u>11,054,738</u>	<u>(1,075,581)</u>	<u>9,979,157</u>	<u>(45,604)</u>	<u>9,933,553</u>
28	Operating Income (Loss)	<u>\$ 2,118,161</u>	<u>\$ 1,075,581</u>	<u>\$ 3,193,742</u>	<u>\$ (2,089,896)</u>	<u>\$ 1,103,846</u>
29						
Other Income (Expense):						
31	427.00 Interest Expense	\$ 14,738	\$ 28,196	\$ 42,934	\$ -	\$ 42,934
32	Net Profit (Loss)	<u>\$ 2,103,423</u>	<u>\$ 1,047,385</u>	<u>\$ 3,150,808</u>	<u>\$ -</u>	<u>\$ 1,060,912</u>

References:

- Column (A): Company Schedule C-1
- Column (B): Schedule JMM-W17
- Column (C): Column (A) + Column (B)
- Column (D): Schedules JMM-W1
- Column (E): Column (C) + Column (D)

SUMMARY OF OPERATING INCOME STATEMENT ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJ #1 CAGRD	[C] ADJ #2 Purchased Power	[D] ADJ #3 Outside Service	[E] ADJ #4 Miscellaneous Exp	[F] ADJ #5 Dep Exp
		Schedule JMM-W18	Schedule JMM-W19	Schedule JMM-W20	Schedule JMM-W21	Schedule JMM-W22	
REVENUES:							
1	461.00 Metered Water Revenues	\$ 12,843,604	\$ -	\$ -	\$ -	\$ -	\$ -
2	460.00 Unmetered Water Revenues	-	-	-	-	-	-
3	471.00 Other Operating Revenues	329,295	-	-	-	-	-
4	Total Operating Revenues	\$ 13,172,899	\$ -	\$ -	\$ -	\$ -	\$ -
5							
OPERATING EXPENSES:							
6	601.00 Salaries and Wages	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
7	610.00 Purchased Water	334,948	883,842	-	-	-	-
8	615.00 Purchased Power	828,900	(10,620)	-	-	-	-
9	618.00 Chemicals	16,189	-	-	-	-	-
10	618.00 Repairs and Maintenance	14,333	-	-	-	-	-
11	634.00 Office Supplies and Expense	1,119	-	-	-	-	-
12	618.01 Outside Services	5,877,591	-	(5,799)	-	-	-
13	604.00 Water Testing	55,007	-	-	-	-	-
14	666.00 Rents	53,444	-	-	-	-	-
15	632.00 Transportation Expenses	-	-	-	-	-	-
16	636.00 Insurance - General Liability	21,565	-	-	-	-	-
17	640.00 Insurance - Health and Life	-	-	-	-	-	-
18	650.00 Regulatory Commission Expense - Rate Case	33,333	-	-	-	-	-
19	657.00 Miscellaneous Expense	286,747	-	-	(31,192)	-	-
20	675.00 Depreciation Expense	1,548,515	-	-	-	-	(773,826)
21	403.00 Amortization of CIAC	-	-	-	-	-	-
22	408.00 Taxes Other than Income	-	-	-	-	-	-
23	408.00 Property Taxes	797,368	-	-	-	-	-
24	409.00 Income Taxes	1,185,679	-	-	-	-	-
25	Total Operating Expenses	\$ 11,054,738	\$ 883,842	\$ (10,620)	\$ (5,799)	\$ (31,192)	\$ (773,826)
26	Operating Income (Loss)	\$ 2,118,161	\$ (883,842)	\$ 10,620	\$ 5,799	\$ 31,192	\$ 773,826
27							
28							
29							
Other Income (Expense):							
30	427.00 Interest Expense	\$ 14,738	\$ -	\$ -	\$ -	\$ -	\$ -
31	Net Profit (Loss)	\$ 2,103,423	\$ (883,842)	\$ 10,620	\$ 5,799	\$ 31,192	\$ 773,826
32							
33							
34							
35							
36							
37							

SUMMARY OF OPERATING INCOME STATEMENT ADJUSTMEI

LINE NO.	DESCRIPTION	[G] ADJ #6 Prop Tax	[H] ADJ #7 Income Tax	[I] ADJ #8 Int Synchronro	[J] STAFF ADJUSTED
		Schedule JMM-W23	Schedule JMM-W24	Schedule JMM-W25	
REVENUES:					
1	461.00 Metered Water Revenues	\$ -	\$ -	\$ -	\$ 12,843,604
2	460.00 Unmetered Water Revenues	-	-	-	-
3	471.00 Other Operating Revenues	-	-	-	329,295
4	Total Operating Revenues	\$ -	\$ -	\$ -	\$ 13,172,899
5					
OPERATING EXPENSES:					
7	601.00 Salaries and Wages	\$ -	\$ -	\$ -	\$ -
8	610.00 Purchased Water	-	-	-	1,218,790
9	615.00 Purchased Power	-	-	-	818,280
10	618.00 Chemicals	-	-	-	16,189
11	611.00 Repairs and Maintenance	-	-	-	14,333
12	634.00 Office Supplies and Expense	-	-	-	1,119
13	618.01 Outside Services	-	-	-	5,871,792
14	604.00 Water Testing	-	-	-	55,007
15	666.00 Rents	-	-	-	53,444
16	632.00 Transportation Expenses	-	-	-	-
17	636.00 Insurance - General Liability	-	-	-	21,565
18	640.00 Insurance - Health and Life	-	-	-	-
19	650.00 Regulatory Commission Expense - Rate Case	-	-	-	33,333
20	657.00 Miscellaneous Expense	-	-	-	255,555
22	675.00 Depreciation Expense	-	-	-	774,689
23	403.00 Amortization of CIAC	-	-	-	-
24	408.00 Taxes Other than Income	-	-	-	-
25	408.00 Property Taxes	47,694	-	-	845,062
26	409.00 Income Taxes	-	(1,185,679)	-	-
27	Total Operating Expenses	\$ 47,694	\$ (1,185,679)	\$ -	\$ 9,979,157
28	Operating Income (Loss)	\$ (47,694)	\$ 1,185,679	\$ -	\$ 3,193,742
29					
30	Other Income (Expense):				
31	427.00 Interest Expense	-	-	28,196	42,934
35	Net Profit (Loss)	\$ (47,694)	\$ 1,185,679	\$ (28,196)	\$ 3,150,808
36					
37					



OPERATING EXPENSE ADJUSTMENT # 1 - CENTRAL ARIZONA GROUNDWATER REPLENISHMENT DISTRICT ("CAGR") EXPENSE

LINE NO.	ACCT NO.	DESCRIPTION	[A]	[B]	[C]
			COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1	Purchased Water	Central Arizona Groundwater Replenishment District Expense	\$ 334,948	\$ 883,842	\$ 1,218,790
2					
3		Staff's Calculation of CAGR Expense:			
4					
5	<u>Account ID</u>	<u>Trans Description</u>	<u>Debit Amt</u>		
6	608.20	CAGR - Phx AMA: Total Excess Groundwater	\$ 858,000		
7	608.20	CAGR - Pinal AMA: Total excess groundwater	25,842		
8			<u>\$ 883,842</u>		
9					

References:

- Column [A]: Company Application
- Column [B]: Testimony JMM
- Column [C]: Column [A] + Column [B]

OPERATING ADJUSTMENT # 2 - DECREASE PURCHASED POWER

Line No.	ACCT NO.	Description	[A]	[B]	[C]
			COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1	615.00	Purchased Power	\$ 828,900	\$ (10,620)	\$ 818,280

2
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4
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Remove Purchased Power Invoices related to APS Account 259672288, Oasis Golf Course.

Account ID	Trans Description	Debit Amt
615.00	APS - #2 OASIS GOLF CLUB PRO SHOP	733
615.00	APS - OGC Pro Shop	1,072
615.00	APS - Main Yard	913
615.00	APS - OGC Pro Shop	795
615.00	APS - Water- OGC Pro shop	716
615.00	APS - OGC Pro Shop	864
615.00	APS - OGC Pro Shop	813
615.00	APS - OGC pro Shop	871
615.00	APS - OGC Pro Shop	844
615.00	APS - OGC Pro Shop	993
615.00	APS - OGC Pro Shop	1,028
615.00	APS - OGC Proshop	978
Total		10,620

References:

- Column [A]: Company Application
- Column [B]: Testimony JMM
- Column [C]: Column [A] + Column [B]

OPERATING ADJUSTMENT # 3 - OUTSIDE SERVICE

Line No.	ACCT NO.	DESCRIPTION	[A]	[B]	[C]
			COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1	Outside Services	Outside Services	\$ 5,877,591	\$ (5,799)	\$ 5,871,792
2					
3					
4		2007 expenses for Legal and Accounting Fees included in deferred assets:	Invoice totals		
5		Legal Fees for Capital Issues	\$ 5,967		
6		Legal Fees for Town of Florence	83,043		
7		Legal Fees for Rate Case Expense	25,755		
8		Utility Contracting Services LLC for Main Extension Agreements	90,000		
9		Accounting Fees	15,514		
10		Total Deferred Expenses	\$ 220,279		
11					
12		Deferred Expenses that can not be reclassified as current year expenses:	Invoice totals		
13		Legal Fees for Town of Florence	\$ 83,043		
14		Accounting Fees Town of Florence	\$ 3,140		
15		Utility Contracting Services LLC for Main Extension Agreements	90,000		
16		Legal Fees for Rate Case Expense	25,755		
17		Total	\$ 201,938		
18					
19					
20					
21		Deferred Expenses that have been reclassified as current year expenses:	Invoice totals		
22		Accounting Fees:		0.5388	0.4612
23	Account ID	Trans Description	Debit Amt	Water Division	Wastewater Division
24	632.80	THOMAS J. BOURASSA, CPA - OUTSIDE ACCOUNTING	\$ 748	\$ 748	\$ -
25	632.80	THOMAS J. BOURASSA, CPA - OUTSIDE ACCOUNTING	748.32	748	-
26	632.80	THOMAS J. BOURASSA, CPA - Revise Cash Flow Analysis	4,002.60	4,003	-
27	632.80	THOMAS J. BOURASSA, CPA - Meetings w/ Town of Florence	2,205.00	2,205	-
28	832.80	THOMAS J. BOURASSA, CPA - Rate case mtng w/G-B-D	422.10	227	195
29	832.80	THOMAS J. BOURASSA, CPA - Mtg @ JUC/ year-end 2006 financials	1,831.20	987	845
30	832.80	THOMAS J. BOURASSA, CPA - Rate Case/Issues on unexpended HUF	2,417.10	1,302	1,115
31	832.80	Salquist - Capital Issues	5,966.90	3,215	2,752
32		Total Deferred Expenses reclassified to Outside Service	\$ 18,342	\$ 13,436	\$ 4,906
33					
34		Remove Amortization Expense from Outside Services			
35	Account ID	Trans Description	Debit Amt	Water Division	Wastewater Division
36	632.80	amortize eng/legal/acctg/adm costs for 07		\$ 765	
37	732.80	amortize eng/legal/acctg/adm costs for 07			\$ 554
38	633.00	amortize eng/legal/acctg/adm costs for 07		18,470	
39	733.00	amortize eng/legal/acctg/adm costs for 07			13,374
40		Total Adjustment		\$ 19,234	\$ 13,928
41					
42		Adjustment Totals for Water and Wastewater Division		\$ (5,799)	\$ (9,022)

References:

Column [A]: Company Application
Column [B]: Testimony JMM
Column [C]: Column [A] + Column [B]

OPERATING ADJUSTMENT # 4 - MISCELLANEOUS EXPENSE

Line No.	ACCT NO.	DESCRIPTION	[A]	[B]	[C]
			COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1	657.00	Miscellaneous Expense	\$ 286,747	\$ (31,192)	\$ 255,555
2					
3					
4	Sponsorships:			0.5388	0.4612
5	<u>Account ID</u>	<u>Trans Description</u>	<u>Debit Amt</u>	<u>Water Division</u>	<u>Wastewater Division</u>
6	857.00	VAQUERO FOUNDATION - Drawing of \$10,000 Savings bond	150.00		
7	857.00	ART CARDS BY LYNN - The Davis Cheney Art Gallery	200.00	188.58	161.42
8	860.00	Oasis Golf Club Scramble Tourn - Oasis Golf Club Scramble Tournament	200.00		
9	860.00	ACYFL - Per Brian Contribution	1,000.00		
10	860.00	FLORENCE CHAMBER OF - Casino Night Donation	300.00	808.20	691.80
11	820.20	FLORENCE CHAMBER OF - Annual Membership Dues	150.00	80.82	69.18
12	Subtotal		2,000.00	1,077.60	922.40
13					
14	Lobbying Expenses:				
15	<u>Account ID</u>	<u>Trans Description</u>	<u>Debit Amt</u>	<u>Water Division</u>	
16	636.00	R&R PARTNERS - GPA RETAINER	2,503.19	2,503.19	
17	636.00	R&R PARTNERS - Retainer- GPA Feb 07	2,500.00	2,500.00	
18	636.00	R&R PARTNERS - Government Affairs Consulting March	2,501.18	2,501.18	
19	636.00	R&R PARTNERS - GPA Retainer	2,500.00	2,500.00	
20	636.00	R&R PARTNERS - GPA Retainer May 2007	2,500.00	2,500.00	
21	636.00	R&R PARTNERS - GPA Retainer June	2,522.56	2,522.56	
22	636.00	R&R PARTNERS - Government Affairs Consulting	2,500.00	2,500.00	
23	636.00	R&R PARTNERS - GPA Retainer Aug 2007	2,500.00	2,500.00	
24	636.00	R&R PARTNERS - GPA Retainer Sept 07	2,505.17	2,505.17	
25	636.00	R&R PARTNERS - Oct 07 Government Affairs Consulting	2,500.00	2,500.00	
26	636.00	R&R PARTNERS - GPA Retainer	2,500.00	2,500.00	
27	636.00	R&R PARTNERS - Government Affairs Consulting	2,500.00	2,500.00	
28	Subtotal		30,032.10	30,032.10	
29					
30	Food & Entertainment:				
31	<u>Account ID</u>	<u>Trans Description</u>	<u>Debit Amt</u>	<u>Water Division</u>	<u>Wastewater Division</u>
32	896.00	NATIONAL BANK OF ARIZONA - Great Alaskan Broasted	70.45		
33	896.00	NATIONAL BANK OF ARIZONA - Meals/Entertainment	82.96		
34	Subtotal		153.41	82.66	70.75
35					
36	Total Column B (Lines12+28+34)			<u>31,192.36</u>	

References:

- Column [A]: Company Application
- Column [B]: Testimony JMM
- Column [C]: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 5 - DEPRECIATION EXPENSE

Line No.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1				
2	Depreciation Expense	\$ 1,548,515	\$ (773,826)	\$ 774,689
3				
4	Staff's Calculation of Depreciation Expense:			
5				
6				
7	Acct. Description	Staff Adjusted Original Cost	Proposed Rate	Depreciation Expense
8	No.			
9	301.00 Organization Cost	\$ -	0.00%	\$ -
10	302.00 Franchise Cost	-	0.00%	-
11	303.00 Land and Land Rights	224,761	0.00%	-
12	304.00 Structures and Improvements	1,434,564	3.33%	47,771
13	305.00 Collecting and Impounding Res.	-	2.50%	-
14	306.00 Lake River and Other Intakes	-	2.50%	-
15	307.00 Wells and Springs	1,825,673	3.30%	60,247
16	308.00 Infiltration Galleries and Tunnels	-	6.67%	-
17	309.00 Supply Mains	-	2.00%	-
18	310.00 Power Generation Equipment	-	5.00%	-
19	311.00 Electric Pumping Equipment	630,392	12.50%	78,799
20	320.00 Water Treatment Equipment	18,031	3.33%	600
21	330.00 Distribution Reservoirs & Standpipe	6,770,831	2.22%	150,312
22	331.00 Transmission and Distribution Mains	41,135,816	2.00%	822,716
23	333.00 Services	435,165	3.33%	14,491
24	334.00 Meters	5,006,515	8.33%	417,043
25	335.00 Hydrants	2,926,867	2.00%	58,537
26	336.00 Backflow Prevention Devices	-	6.67%	-
27	339.00 Other Plant and Miscellaneous Equipment	-	6.67%	-
28	340.00 Office Furniture and Fixtures	-	6.67%	-
29	341.00 Transportation Equipment	-	20.00%	-
30	342.00 Stores Equipment	-	4.00%	-
31	343.00 Tools and Work Equipment	-	5.00%	-
32	344.00 Laboratory Equipment	-	10.00%	-
33	345.00 Power Operated Equipment	-	5.00%	-
34	346.00 Communications Equipment	-	10.00%	-
35	347.00 Miscellaneous Equipment	-	10.00%	-
36	348.00 Other Tangible Plant	-	-	-
37	Total	\$ 60,408,616		\$ 1,650,517
38				
39	Depreciable Plant	60,183,854		
40				
41	Composite CIAC Amortization Rate	2.74%		
42				
43	Less: Amortization of Contributions	\$ 31,935,899	2.7425%	\$ 875,829
44				
45	Staff Recommended Total Depreciation Expense			\$ 774,689
46				
47	Company Proposed Test Year Depreciation Expense			\$ 1,548,515
48				
49	Staff Recommended Adjustment to increase Depreciation Expense			\$ (773,826)

References:

Column [A]: Company Application
Column [B]: Testimony JMM
Column [C]: Column [A] + Column [B]

OPERATING ADJUSTMENT # 6 - PROPERTY TAX EXPENSE

LINE NO.	DESCRIPTION	[A]	[B]
		STAFF AS ADJUSTED	STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues - 2005	\$ 13,172,899	\$ 13,172,899
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	\$ 26,345,798	\$ 26,345,798
4	Staff Recommended Revenue	13,172,899	\$ 11,037,399
5	Subtotal (Line 4 + Line 5)	\$ 39,518,697	\$ 37,383,197
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	\$ 13,172,899	\$ 12,461,066
8	Department of Revenue Mutilplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	\$ 26,345,798	\$ 24,922,131
10	Plus: 10% of CWIP	-	-
11	Less: Net Book Value of Licensed Vehicles	-	-
12	Full Cash Value (Line 9 + Line 10 - Line 11)	\$ 26,345,798	\$ 24,922,131
13	Assessment Ratio	23%	23%
14	Assessment Value (Line 12 * Line 13)	\$ 6,059,534	\$ 5,732,090
15	Composite Property Tax Rate - Obtained from Company	13.9264%	13.9264%
16	Staff Recommended Property Tax Expense (Line 14 * Line 15)	\$ 843,878	\$ 798,274
17	Tax on Parcel	1,184	1,184
18	Staff Test Year Adjusted Propety Tax Expense	\$ 845,062	\$ 799,458
19	Company Property Tax Expense	797,368	
20	Staff Recommended Adjustments	\$ 47,694	
21	Property Tax - Staff Recommended Revenue		\$ 799,458
22	Staff Test Year Adjusted Property Tax Expense		845,062
23	Decrease in Property Tax Due to decrease in Revenue Requirement		\$ (45,604)

REFERENCES:

- Line 15: Actual Tax Rate obtained from Company
- Line 19: Company Schedule C-1
- Line 20: Line 19 - Line 18
- Line 23: Line 22 - Line 21

Johnson Utilities L.L.C. - Water Division
Docket No. WS-02987A-08-0180
Test Year Ended December 31, 2007

Schedule JMM-W24

OPERATING ADJUSTMENT NO. 7 - INCOME TAX

Line No.	ACCT NO.	DESCRIPTION	[A]	[B]	[C]
			COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1	409.00	Income Taxes	\$ 1,185,679	\$ (1,185,679)	\$ -

2

3 Remove Company Income Taxes as they are classified as a Limited Liability Corporation and not a C Corporation.

References:

Column [A]: Company Application

Column [B]: Testimony JMM

Column [C]: Column [A] + Column [B]

Johnson Utilities L.L.C. - Water Division
Docket No. WS-02987A-08-0180
Test Year Ended December 31, 2007

Schedule JMM-W25

OPERATING ADJUSTMENT NO. 8 - REMOVE INTEREST SYNCHRONIZATION

Line No.	ACCT NO.	DESCRIPTION	[A]	[B]	[C]
			COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1	427.00	Interest Expense	\$ 14,738	\$ 28,196	\$ 42,934
2					
3		Remove Company Income Taxes as they are classified as a Limited Liability Corporation and not a C Corporation.			

References:

- Column [A]: Company Application
- Column [B]: Testimony JMM
- Column [C]: Column [A] + Column [B]

Monthly Usage Charge	Present Rates	Company Proposed Rates	Staff Recommended Rates
5/8x3/4" Meter	\$ 18.00	\$ 14.98	13.20
3/4" Meter	27.00	22.47	19.80
1" Meter	45.00	37.45	33.00
1 1/2" Meter	90.00	74.90	66.00
2" Meter	144.00	119.84	105.60
3" Meter	270.00	239.68	211.20
4" Meter	450.00	374.50	330.00
6" Meter	900.00	749.00	660.00
8" Meter	N/A	1,198.40	1,056.00
10" Meter	N/A	1,722.70	1,518.00
Commodity Rates (Residential, Commercial, Industrial)			
All Meter Sizes	\$ -	\$ -	\$ -
Gallons Included in Minimum			
0 gallons to 7,000 Gallons	2.25	N/A	N/A
over 7,000 Gallons	2.50	N/A	N/A
5/8 Inch and 3/4 Inch Meter Residential			
0 gallons to 4,000 gallons	N/A	\$ 1.485	\$ 1.60
4,001 gallons to 10,000 gallons	N/A	1.935	2.40
over 10,000 gallons	N/A	2.485	2.88
5/8 inch 3/4 Inch Meter Commercial, Industrial, Irrigation, and Public Authority			
0 gallons to 10,000 gallons	N/A	\$ 1.935	\$ 2.40
over 10,000 gallons	N/A	2.485	2.88
1 Inch Meter			
0 gallons to 25,000 gallons	N/A	\$ 1.935	N/A
over 25,000 gallons	N/A	2.485	N/A
From 1 to 36,000 Gallons	N/A	N/A	\$ 2.40
Over 36,000 Gallons	N/A	N/A	2.88
1.5 Inch Meter			
0 gallons to 50,000 gallons	N/A	\$ 1.935	N/A
over 50,000 gallons	N/A	2.485	N/A
From 1 to 103,000 Gallons	N/A	N/A	\$ 2.40
Over 103,000 Gallons	N/A	N/A	2.88
2 Inch Meter			
0 gallons to 80,000 gallons	N/A	\$ 1.935	N/A
over 80,000 gallons	N/A	2.485	N/A
From 1 to 183,000 Gallons	N/A	N/A	\$ 2.40
Over 183,000 Gallons	N/A	N/A	2.88
3 Inch Meter			
0 gallons to 160,000 gallons	N/A	\$ 1.935	N/A
over 160,000 gallons	N/A	2.485	N/A
From 1 to 402,000 Gallons	N/A	N/A	\$ 2.40
Over 402,000 Gallons	N/A	N/A	2.88
4 Inch Meter			
0 gallons to 250,000 gallons	N/A	\$ 1.935	N/A
over 250,000 gallons	N/A	2.485	N/A
From 1 to 648,000 Gallons	N/A	N/A	\$ 2.40
Over 648,000 Gallons	N/A	N/A	2.88
6 Inch Meter			
0 gallons to 500,000 gallons	N/A	\$ 1.935	N/A
over 500,000 gallons	N/A	2.485	N/A
From 1 to 1,334,000 Gallons	N/A	N/A	\$ 2.40
Over 1,334,000 Gallons	N/A	N/A	2.88
8 Inch Meter			
0 gallons to 800,000 gallons	N/A	\$ 1.935	N/A
over 800,000 gallons	N/A	2.485	N/A
From 1 to 2,158,000 Gallons	N/A	N/A	\$ 2.40
Over 2,158,000 Gallons	N/A	N/A	2.88

	Present Rates	Company Proposed Rates	Staff Recommended Rates
	10 Inch Meter		
0 gallons to 1,125,000 gallons	N/A	\$ 1.935	N/A
over 1,125,000 gallons	N/A	2.485	N/A
From 1 to 3,119,000 Gallons	N/A	N/A	\$ 2.40
Over 3,119,000 Gallons	N/A	N/A	2.88
Construction Water	\$ 3.75	\$ 2.485	\$ 2.88
Central Arizona Water	See Tariff	See Tariff	See Tariff

Service Line and Meter Installation Charges	Present Rates	Proposed Service Line Charge	Proposed Meter Installation Charge	(a) Total Proposed Charge	Staff Service Line Charge	Staff Meter Installation Charge	Total Staff Charge
5/8" x 3/4" Meter	\$ 365.00	\$ 385.00	\$ 135.00	\$ 520.00	\$ 385.00	\$ 135.00	\$ 520.00
3/4" Meter	405.00	385.00	215.00	600.00	385.00	215.00	600.00
1" Meter	665.00	435.00	255.00	690.00	435.00	255.00	690.00
1 1/2" Meter	1,080.00	470.00	465.00	935.00	470.00	465.00	935.00
2" Meter	1,525.00	N/A	N/A	N/A	N/A	N/A	N/A
2" Turbine Meter	N/A	630.00	965.00	1,595.00	630.00	965.00	1,595.00
2" Compound Meter	N/A	630.00	1,690.00	2,320.00	630.00	1,690.00	2,320.00
3" Meter	2,190.00	N/A	N/A	N/A	N/A	N/A	N/A
3" Turbine Meter	N/A	805.00	1,470.00	2,275.00	805.00	1,470.00	2,275.00
3" Compound Meter	N/A	845.00	2,265.00	3,110.00	845.00	2,265.00	3,110.00
4" Turbine Meter	N/A	1,170.00	2,350.00	3,520.00	1,170.00	2,350.00	3,520.00
4" Compound Meter	2,985.00	1,230.00	3,245.00	4,475.00	1,230.00	3,245.00	4,475.00
6" Turbine Meter	N/A	1,730.00	4,545.00	6,275.00	1,730.00	4,545.00	6,275.00
6" Compound Meter	5,780.00	1,770.00	6,280.00	8,050.00	1,770.00	6,280.00	8,050.00
8 Inch & Larger	Cost	Cost	Cost	Cost	Cost	Cost	Cost

(a) As meters and service lines are now taxable income for income purposes, The Company shall collect income taxes on the meter and service line charges. Any tax collected will be refunded each year as the meter deposit is refunded.

Service Charges	Present Rates	Company Proposed Rates	Staff Recommended Rates
Establishment	\$ 25.00	\$ 25.00	\$ 25.00
Establishment (After Hours)	40.00	40.00	40.00
Reconnection (Delinquent)	50.00	50.00	50.00
Reconnection (Delinquent and After Hours)	N/A	N/A	N/A
Meter Test	25.00	25.00	25.00
Deposit Requirement (Residential)	(a)	(a)	(a)
Deposit Requirement (None Residential Meter)	(b)	(b)	(b)
Deposit Interest (b)	6.00%	6.00%	6.00%
Re-Establishment (With-in 12 Months)	(c)	(c)	(c)
Re-Establishment (After Hours)	(c)	(c)	(c)
NSF Check	15.00	15.00	15.00
Deferred Payment, Per Month	1.50%	1.50%	1.50%
Meter Re-Read	5.00	5.00	5.00
Charge of Moving Customer Meter - Customer Requested per Rule R14-2-405B	Cost	Cost	Cost
After hours service charge, per Rule R14-2-403D	Refer to Above Charges	Refer to Above Charges	Refer to Above Charges
Late Charge per month	1.50%	1.50%	1.50%
Off-site Facilities Hook-up Fee (See H-3, page 5)	(d)	(d)	(d)
CAP Hook-up Fee (See H-3, page 5)	(e)	(e)	(e)

- (a) Residential - two times the average bill. Non-residential - two and one-half times the maximum monthly bill.
- (b) Interest per Rule R14-2-403(B).
- (c) Minimum charge times number months off the system. per Rule R14-2-403(D).
- (d) New water installations. May be assessed only once per parcel, service connection, or lot within a sub-division. Purpose is to equitably apportion the costs of constructing additional off-site facilities to provide water production, delivery, storage, and pressure among all new service connections.
- (e) New water installations. May be assessed only once per parcel, service connection, or lot within a sub-division.

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). ALL ADVANCES AND/OR CONTRIBUTIONS ARE TO INCLUDE LABOR, MATERIALS, OVERHEADS,

Typical Bill Analysis
General Service 3/4-Inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	6,931	\$ 42.59	\$ 34.08	\$ (8.51)	-19.99%
Median Usage	6,000	40.50	32.28	\$ (8.22)	-20.30%
Staff Recommended					
Average Usage	6,931	\$ 42.59	\$ 33.23	\$ (9.36)	-21.98%
Median Usage	6,000	40.50	31.00	\$ (9.50)	-23.46%

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

Gallons Consumption	Present Rates	Company Proposed Rates	% Increase	Staff Recommended Rates	% Increase
-	\$ 27.00	\$ 22.47	-16.78%	\$ 19.80	-26.67%
1,000	29.25	23.96	-18.10%	21.40	-26.84%
2,000	31.50	25.44	-19.24%	23.00	-26.98%
3,000	33.75	26.93	-20.22%	24.60	-27.11%
4,000	36.00	28.41	-21.08%	26.20	-27.22%
5,000	38.25	30.35	-20.67%	28.60	-25.23%
6,000	40.50	32.28	-20.30%	31.00	-23.46%
7,000	42.75	34.22	-19.96%	33.40	-21.87%
8,000	45.25	36.15	-20.11%	35.80	-20.88%
9,000	47.75	38.09	-20.24%	38.20	-20.00%
10,000	50.25	40.02	-20.36%	40.60	-19.20%
11,000	52.75	42.51	-19.42%	43.48	-17.57%
12,000	55.25	44.99	-18.57%	46.36	-16.09%
13,000	57.75	47.48	-17.79%	49.24	-14.74%
14,000	60.25	49.96	-17.08%	52.12	-13.49%
15,000	62.75	52.45	-16.42%	55.00	-12.35%
16,000	65.25	54.93	-15.82%	57.88	-11.30%
17,000	67.75	57.42	-15.25%	60.76	-10.32%
18,000	70.25	59.90	-14.73%	63.64	-9.41%
19,000	72.75	62.39	-14.25%	66.52	-8.56%
20,000	75.25	64.87	-13.79%	69.40	-7.77%
25,000	87.75	77.30	-11.91%	83.80	-4.50%
30,000	100.25	89.72	-10.50%	98.20	-2.04%
35,000	112.75	102.15	-9.41%	112.60	-0.13%
40,000	125.25	114.57	-8.53%	127.00	1.40%
45,000	137.75	127.00	-7.81%	141.40	2.65%
50,000	150.25	139.42	-7.21%	155.80	3.69%
75,000	212.75	201.55	-5.27%	227.80	7.07%
100,000	275.25	263.67	-4.21%	299.80	8.92%

BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES

Chairman

GARY PIERCE

Commissioner

PAUL NEWMAN

Commissioner

SANDRA D. KENNEDY

Commissioner

BOB STUMP

Commissioner

IN THE MATTER OF THE APPLICATION OF)
JOHNSON UTILITIES, L.L.C., FOR AN)
INCREASE IN ITS WATER AND)
WASTEWATER RATES FOR CUSTOMERS)
WITHIN PINAL COUNTY, ARIZONA)
_____)

DOCKET NO. WS-02987A-08-0180

DIRECT

TESTIMONY

OF

JEFFREY M. MICHLIK

PUBLIC UTILITIES ANALYST V

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

FEBRUARY 4, 2009

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EXECUTIVE SUMMARY
JOHNSON UTILITIES, LLC
WASTEWATER DIVISION
DOCKET NO. WS-02987A-08-0180

Johnson Utilities, LLC – Wastewater Division (“Company”) is an Arizona limited liability company. Its principal place of business is 5230 East Shea Blvd, Suite 200, Scottsdale, Arizona. The Company is engaged in the business of providing water and wastewater utility services in its certificated areas in portions of Pinal County, Arizona. The Company served approximately 21,525 wastewater customers during the test year ended December 31, 2007. The Company has never filed a rate case since its original certificate of convenience and necessity was approved in Decision No. 60223, dated May 27, 1997.

Rate Application:

The Company proposes rates that would increase operating revenue by \$2,239,804 to produce operating revenue of \$13,528,467 resulting in operating income of \$1,997,259, or a 19.84 percent increase over test year revenue of \$11,288,663. The Company also proposes a fair value rate base (“FVRB”) of \$19,149,173, which is its original cost rate base, and a 10.43 percent rate of return on the FVRB.

Staff recommends rates that would decrease operating revenue by \$1,468,000 to produce operating revenue of \$9,886,014 resulting in operating income of \$988,614, or a 12.93 percent decrease over adjusted test year revenue of \$11,354,014. As Staff’s recommended rate base is negative, Staff recommends an operating margin of 10.00 percent.

Rate Design:

The Company proposes monthly minimum charges for all wastewater meter sizes, and an effluent rate unchanged from its current tariff. The 3/4-inch meter residential customer would experience a \$8.02 or a 20.83 percent increase in his monthly bill from \$38.50 to \$46.52 under the Company’s proposed rates.

Staff recommends monthly minimum charges for all wastewater meter sizes, and an effluent rate consistent with the revenue requirement. The 3/4-inch meter residential customer would experience a \$5.00 or a 12.99 percent decrease in his monthly bill from \$38.50 to \$33.50 under Staff’s recommended rates.

1 **INTRODUCTION**

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

3 A. My name is Jeffrey M. Michlik. I am a Public Utilities Analyst V employed by the
4 Arizona Corporation Commission (“ACC” or “Commission”) in the Utilities Division
5 (“Staff”). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.
6

7 **Q. Briefly describe your responsibilities as a Public Utilities Analyst V.**

8 A. In my capacity as a Public Utilities Analyst V, I analyze and examine accounting,
9 financial, statistical and other information and prepare reports based on my analyses that
10 present Staff’s recommendations to the Commission on utility revenue requirements, rate
11 design and other matters. I also provide expert testimony on these same issues.
12

13 **Q. Please describe your educational background and professional experience.**

14 A. In 2000, I graduated from Idaho State University, receiving a Bachelor of Business
15 Administration Degree in Accounting and Finance, and I am a Certified Public
16 Accountant with the Arizona State Board of Accountancy. I have attended the National
17 Association of Regulatory Utility Commissioners’ (“NARUC”) Utility Rate School,
18 which presents general regulatory and business issues.
19

20 I joined the Commission as a Public Utilities Analyst in May of 2006. Prior to
21 employment with the Commission, I worked four years for the Arizona Office of the
22 Auditor General as a Staff Auditor, and one year in public accounting as a Senior Auditor.

1 **Q. What is the scope of your testimony in this case?**

2 A. I am presenting Staff's analysis and recommendations regarding Johnson Utilities, LLC's
3 ("Johnson Wastewater" or "Company") application for a permanent increase in its rates
4 and charges for wastewater utility service within Pinal, Arizona. I am presenting
5 testimony and schedules addressing rate base, operating revenues and expenses, revenue
6 requirement, and rate design. Mr. Marlin Scott Jr. is presenting Staff's engineering
7 analysis and related recommendations.

8
9 **Q. What is the basis of your testimony in this case?**

10 A. I performed a regulatory audit of the Company's application and records. The regulatory
11 audit consisted of examining and testing financial information, accounting records, and
12 other supporting documentation and verifying that the accounting principles applied were
13 in accordance with the Commission-adopted NARUC Uniform System of Accounts
14 ("USOA").

15
16 **BACKGROUND**

17 **Q. Please review the background of this application.**

18 A. The Company is an Arizona Limited Liability Company. Its principal place of business is
19 5230 East Shea Blvd, Suite 200, Scottsdale, Arizona. The Company is engaged in the
20 business of providing water and wastewater utility services in its certificated areas in
21 portions of Pinal County, Arizona. The Company served approximately 21,525
22 wastewater customers during the test year ended December 31, 2007. The Company has
23 never filed a rate case since its original certificate of convenience and necessity was
24 approved in Decision No. 60223, dated May 27, 1997.

1 **CONSUMER SERVICES**

2 **Q. Please provide a brief history of customer complaints received by the Commission**
3 **regarding the Company. Additionally, please discuss customer responses to the**
4 **Company's proposed rate increase.**

5 **A.** A review of the Commission's Consumer Services Section database for the Company
6 from January 1, 2005, through October 24, 2008, revealed the following:

7
8 2006 – 12 Complaints - four billing, three deposits, one new service, one service, two
9 quality of service, one disconnect/termination

10 8 Inquiries - three billing, one service, one rates & tariffs, three other (admin.
11 questions)

12
13 2007 – 69 Complaints – forty-one billing, five deposits, two new service, three service,
14 twelve quality of service, five disconnect/termination, one rates & tariffs

15 35 Inquiries - fourteen billing, one new service, three quality of service, one
16 disconnect/termination, nine rates & tariffs, one construction, six other (four
17 admin. questions, one non-jurisdictional, one other)

18
19 In 2007, Consumer Services received one complaint regarding sewage
20 in the street.

21
22 2008 – 30 Complaints - ten billing, two deposits, eleven quality of service, four
23 disconnect/termination, one rates & tariffs, two other Arizona Department of
24 Environmental Quality (“ADEQ”)

1 14 Inquiries - two billing, one new service, three quality of service, one
2 disconnect/termination, one repair issue, five rates & tariffs, one other
3 (one company policy)

4
5 **29 Opinions - ***26 individual opinions opposed to rate case item and three**
6 **petitions including 98 signatures of customers opposed to the rate case**
7 **item*****

8
9 In 2008, Consumer Service received four complaints and one inquiry
10 regarding sewage in the streets resulting in concerns of health hazards and
11 water contamination.

12
13 2009 – One Complaint – one quality of service
14 Zero Opinions

15
16 All complaints and inquiries have been resolved and closed.

17
18 **SUMMARY OF FILING, RECOMMENDATIONS, AND ADJUSTMENTS.**

19 **Q. Please summarize the Company's proposals in this filing.**

20 A. The Company proposes rates that would increase operating revenues by \$2,239,804 to
21 produce operating revenue of \$13,528,467 resulting in operating income of \$1,997,259, or
22 a 19.84 percent increase over test year revenue of \$11,288,663. The Company also
23 proposes a fair value rate base ("FVRB") of \$19,149,173 which is its original cost rate
24 base ("OCRB"), and a 10.43 percent rate of return on the FVRB.

25

1 **Q. Please summarize Staff's recommendations.**

2 A. Staff recommends rates that would decrease operating revenue by \$1,468,000 to produce
3 operating revenue of \$9,886,014 resulting in operating income of \$988,614, or a 12.93
4 percent decrease over adjusted test year revenue of \$11,354,014. As Staff's adjusted rate
5 base is negative, Staff recommends an operating margin of 10.00 percent.

6
7 **Q. Please summarize the rate base adjustments addressed in your testimony.**

8 A. My testimony addresses the following issues:

9 Post-Test Year ("PTY") Plant – This adjustment decreases Plant in Service by \$2,684,888
10 to remove PTY plant.

11 Not Used and Useful Plant – This adjustment decreases Plant in Service by \$4,595,298 to
12 remove plant that was not serving customers during the test year.

13 Excess Capacity – This adjustment decreases Plant in Service by \$5,443,062 to remove
14 excess plant capacity.

15 Inadequately Supported Plant Costs – This adjustment decreases Plant in Service by
16 \$11,896,227 to remove recorded plant costs that were not adequately supported by
17 invoices or other types of source documentation.

18 Capitalized Affiliate Profit – This adjustment decreases Plant in Service by \$8,922,170 to
19 remove affiliate profit.

20 Accumulated Depreciation – This adjustment decreases accumulated depreciation by
21 \$1,674,032 based upon the adjustments Staff made to plant in service.

22 Unexpended Contributions in Aid of Construction ("CIAC") – This adjustment increases
23 the CIAC balance by \$16,505 to properly reflect all CIAC paid by customers at the end of
24 the test year.

1 Amortization of CIAC – This adjustment increases the amortization of CIAC balance by
2 \$1,058,281 to reflect actual year end CIAC balances and to match the amortization rate
3 used for CIAC with the 2.5 percent Commission approved depreciation rate.

4 Deferred Assets – This adjustment decreases rate base by \$986,826 to eliminate expenses
5 that were deferred without a Commission accounting order and only serve to increase rate
6 base.

7
8 **Q. Please summarize the operating revenue and expense adjustments addressed in your**
9 **testimony.**

10 A. My testimony addresses the following issues:

11 Effluent Revenues – This adjustment increases revenues by \$65,351 to reflect effluent
12 revenue that was never recorded.

13 Sludge Removal Expense – This adjustment decreases expenses by \$7,688 to disallow
14 invoices that were incurred outside the test year.

15 Purchased Power Expense – This adjustment increases expenses by \$26,003 to adjust for
16 Company meter deposit returns.

17 Contractual Services Expense – This adjustment decreases expenses by \$9,022 for
18 deferred expenses in the test year.

19 Miscellaneous Expense – This adjustment decreases expenses by \$993 to reflect the
20 disallowance of expenses not needed in the provision of service.

21 Depreciation Expense – This adjustment decreases expenses by \$1,400,959 to adjust
22 depreciation based on Staff's plant in service numbers.

23 Property Tax Expense – This adjustment decreases expenses by \$43,990 to adjust to
24 Staff's adjusted test year amount.

1 Income Tax Expense – This adjustment decreases expenses by \$330,522 to reflect the fact
2 that the Company is classified as a limited liability corporation and therefore incurs no
3 taxes at the corporate level.

4
5 **Q. Did Staff make any other adjustments?**

6 A. Yes to other expenses.

7
8 **Q. Please briefly describe this adjustment.**

9 A. Synchronized Interest Expense – This adjustment decreases interest expense by \$5,960 to
10 reflect the fact that the Company is classified as a limited liability corporation and
11 therefore incurs no taxes at the corporate level.

12
13 **RATE BASE – WASTEWATER DIVISION**

14 **Fair Value Rate Base**

15 **Q. Did the Company prepare a schedule showing the elements of Reconstruction Cost**
16 **New Rate Base?**

17 A. No, the Company did not. The Company's filing treats the OCRB the same as the FVRB.

18
19 **Rate Base Summary**

20 **Q. Please summarize Staff's adjustments to Johnson Wastewater's rate base shown on**
21 **Schedules JMM-WW2 and JMM-WW3.**

22 A. Staff's adjustments to Johnson Wastewater's rate base resulted in a net decrease of
23 \$31,812,662, from \$19,149,173 to a negative \$12,663,489. This decrease was primarily
24 due to Staff removing: (1) PTY plant, (2) plant that was not serving customers during the
25 test year, (3) recorded plant costs that were not adequately supported by invoices or other

1 types of source documentation, (4) affiliate profit, and (5) certain expenses that the
2 Company deferred without a Commission approved accounting order.

3
4 ***Rate Base Adjustment No. 1 – Wastewater Division, Utility Plant In Service, PTY Plant***

5 **Q. Did Staff make an adjustment to PTY Plant?**

6 A. Yes.

7
8 **Q. What is Johnson Wastewater proposing for Utility Plant In Service and PTY Plant?**

9 A. Johnson Wastewater is proposing \$126,534,591 for Utility Plant In Service. The amount
10 is composed of \$123,849,703 that was recorded in the Company's plant accounts and in
11 service during the test year and \$2,684,888 in PTY plant as shown on Schedule JMM-
12 WW4.

13
14 **Q. Please describe the PTY Plant.**

15 A. The \$2,684,888 in PTY plant was incurred for the Hunt Highway South Force Main
16 project (Staff data request JMM 4-6).

17
18 **Q. In general, when is recognition of PTY plant in rate base appropriate?**

19 A. PTY, by definition, plant is mismatched with the revenues, expenses and rate base
20 components of the test year. Matching is one of the most fundamental principles of
21 accounting and rate-making. The absence of matching distorts the meaning of and
22 reduces the usefulness of operating income and rate of return for measuring the fairness
23 and reasonableness of rates. Accordingly, recognizing PTY plant in rate base should be
24 granted only in special and unusual cases where failure to do so would create an inequity.
25

1 **Q. What are the general guidelines Staff uses to recognize PTY plant?**

2 A. Pro-forma adjustments to test year plant balances must maintain a realistic relationship
3 between revenues, expenses, and rate base in accordance with A.A.C. R14-2-103 (A)(3)
4 (i). Therefore, Staff uses the following general guidelines for recognition of PTY plant:
5

6 1. When the magnitude of the investment relative to the utility's total investment is
7 such that not including the PTY plant in the cost of service would jeopardize the
8 utility's financial health; and

9 2. When all of the following conditions exist:

10 a.) the cost of the PTY plant is significant and substantial,

11 b.) the net impact on revenue and expenses for the PTY plant is known and
12 insignificant,

13 c.) the PTY plant is prudent and necessary for the provision of service and
14 reflects appropriate, efficient, effective, and timely decision-making,
15

16 **Q. What is Staff's recommended treatment for the PTY plant?**

17 A. Staff recommends excluding the PTY plant and the related PTY operating expense (i.e.,
18 depreciation expense) from rates. Staff has concluded that the PTY plant is an expansion
19 of plant rather than a replacement of plant as no lift stations or mains were retired.
20 Further, the Company did not report any problems with providing inadequate levels of
21 service for its test-year customers.
22

23 **Q. In the absence of underlying reliable cost documentation, is the cost of the PTY plant
24 known and measurable?**

25 A. No, it is not.
26

1 **Q. What is Staff's recommended treatment for the PTY plant?**

2 A. Staff recommends excluding the PTY plant and the related PTY operating expense (i.e.,
3 depreciation expense) from rates.

4
5 **Q. What is Staff's recommendation?**

6 A. Staff recommends decreasing plant in service by \$2,684,888 to remove all PTY plant from
7 rate base as shown on Schedules JMM-WW3 and JMM-WW4.

8
9 ***Rate Base Adjustment No. 2 – Wastewater Division, Plant Not Used and Useful***

10 **Q. Did Staff make an adjustment to plant that was not used and useful?**

11 A. Yes.

12
13 **Q. What adjustment did Staff make?**

14 A. Yes, Staff identified \$4,595,298 in plant that was not used and useful as shown on
15 Schedule JMM-WW5.

16
17 **Q. Why did Staff make this adjustment?**

18 A. Marlin Scott, Jr., Staff's Engineer, inspected the entire system and identified certain
19 individual plant items that were not serving customers during the test year.

20
21 **Q. What is Staff's recommendation?**

22 A. Staff recommends decreasing plant in service by \$4,595,298 to remove all plant from rate
23 base that was not used and useful as shown on Schedules JMM-WW3 and JMM-WW5.

24

1 ***Rate Base Adjustment No. 3 – Wastewater Division, Excess Capacity***

2 **Q. Did Staff make an adjustment to plant for excess capacity?**

3 A. Yes.

4
5 **Q. What adjustment did Staff make?**

6 A. Staff identified \$5,443,062 in excess capacity plant costs.

7
8 **Q. Why did Staff make this adjustment?**

9 A. Marlin Scott, Jr., Staff's Engineer, inspected the entire system and identified two
10 individual plant items with excess capacity during the test year.

11
12 **Q. What is Staff's recommendation?**

13 A. Staff recommends decreasing plant in service by \$5,443,062 to remove excess capacity
14 plant costs as shown on Schedules JMM-WW3 and JMM-WW6.

15
16 ***Rate Base Adjustment No. 4 – Wastewater Division, Inadequately Supported Plant Costs***

17 **Q. Did Staff make an adjustment to plant for inadequately supported plant costs?**

18 A. Yes.

19
20 **Q. What amount has plant increased since the Company's prior rate case?**

21 A. The Company has not had a rate proceeding since its original CC&N. Therefore, all
22 \$123,849,703 in actual year-end plant in service reflect plant additions.

23
24 **Q. What adjustment did Staff make?**

25 A. Staff removed plant costs for inadequately supported documentation.

1 **Q. Are plant costs required to be adequately supported?**

2 A. Yes. The Arizona Administrative Code R14-2-610 (D)(1) states that “Each utility shall
3 keep general and auxiliary accounting records reflecting the cost of its properties . . . and
4 all other accounting and statistical data necessary to give complete and authentic
5 information as to its properties . . .” (emphasis added).

6
7 **Q. What constitutes “complete and authentic” information?**

8 A. For independent third party transactions, complete and authentic information is source
9 documentation that includes but is not limited to vendor invoices for materials, supplies,
10 and labor, contracts, canceled checks, time sheets, and reliable accounting records. This
11 information would allow Staff to identify what was purchased and whether the item is
12 allowable. Further, this documentation would allow Staff to identify the amount of the
13 purchase and to determine whether the amount was reasonable.

14
15 In the case of transactions with affiliates, Staff would request source documents in
16 addition to fair competitive bids. The competitive bids should be such that the public
17 perceives the bidding process as fair and therefore is willing to go through the cost of
18 putting in a bid. Further, for Class A companies, the Commission affiliated interest rules
19 require that the affiliate provide all source documentation.

20
21 **Q. Did the Company provide “complete and authentic” information pertaining to its**
22 **plant as required by Commission Rules?**

23 A. No, the Company did not provide complete and authentic information as required by
24 Commission Rules.

25

1 **Q. What type of information did the Company provide?**

2 A. The Company provided advances in aid of construction (“AIAC”)¹ agreements and
3 canceled checks. The canceled checks showed the amount that Johnson Water paid to its
4 affiliate as opposed to the actual cost of the asset.

5
6 **Q. Are AIAC agreements the same thing as main extension agreements?**

7 A. Yes.

8
9 **Q. Do AIAC agreements require Commission approval?**

10 A. Yes, pursuant to ARS R14-2-406M, which requires all agreements under this rule shall be
11 filed with and approved by the Utilities Division of the Commission.

12
13 **Q. Were these AIAC agreements timely filed with the Commission?**

14 A. No, most of the agreements were filed in 2008 and pertained to the years 2000 to 2007.

15
16 **Q. Did the Company enter into the AIAC agreements with affiliates to construct plant?**

17 A. Yes. With the exception of the 1999 plant additions, approximately all of the plant was
18 constructed by affiliates.

19
20 **Q. Did the Company provide any evidence that costs charged by the affiliates were
21 supported by competitive bids?**

22 A. No, the Company indicated it does not maintain competitive bids as part of its records.
23 Fair competitive bids protect rate payers from being charged too much for plant.

¹ Arizona Administrative Code R-14-2-601.1 defines advances in aid of construction as “Funds provided to the utility by the applicant under the terms of a collection main extension agreement the value of which may be refundable.”

1 **Q. Are affiliates required to provide invoices?**

2 A. The Commission's affiliated interest rules require that the affiliates of Class A regulated
3 utilities provide access to source documentation. Johnson Water became a Class A utility
4 in 2005. Arizona Administrative Code R14-2-804 A entitled "Commission Review of
5 Transaction Between Public Utilities and Affiliates" states that:

6
7 A utility will not transact business with an affiliate unless the
8 affiliate agrees to provide the Commission access to the books and
9 records of the affiliate to the degree required to fully audit, examine
10 or otherwise investigate transactions between the public utility and
11 the affiliate. In connection therewith, the Commission may require
12 production of books, records, accounts, memoranda and other
13 documents related to these transactions. (emphasis added).

14
15 **Q. Is the Company's plant documentation complete and authentic as required by**
16 **Commission rule?**

17 A. No, it is not. Based on Staff's review, the plant documents and records were not
18 maintained according to Commission standards.

19
20 **Q. Did the Company respond to Staff's request for source plant documentation in a**
21 **timely manner?**

22 A. No, it did not. Staff asked the Company, on numerous occasions, to provide the source
23 plant documentation. Most of the underlying plant documentation was never provided.

1 **Q. Has Staff previously recommended disallowance of unsubstantiated plant?**

2 A. Yes. In the Gold Canyon Sewer Rate Case Docket Nos. SW-025191-00-0638 and SW-
3 02519A-06-0015. In both cases Staff recommended 100 percent disallowance of
4 unsubstantiated plant.

5
6 **Q. Is Staff recommending disallowance of all unsubstantiated plant?**

7 A. No, rather than disallowing the entire plant cost, Staff decreased plant costs by ten percent.

8
9 **Q. How did Staff arrive at the ten percent disallowance?**

10 A. Staff's typical range of disallowance for unsubstantiated plant ranges from 10 to 100
11 percent. Staff determined that only a minimal 10 percent disallowance is warranted in this
12 case.

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

15 A. Staff recommends decreasing Plant in Service by \$11,896,227 as shown on Schedules
16 JMM-WW3 and JMM-WW7.

17
18 ***Rate Base Adjustment No. 5 – Wastewater Division, Capitalized Affiliate Profit***

19 **Q. Did Staff make an adjustment to plant for capitalized affiliate profit?**

20 A. Yes.

21
22 **Q. Does Johnson wastewater have affiliates?**

23 A. Yes.

24

1 **Q. Did Johnson Utilities wastewater use its affiliates to perform plant construction for**
2 **the Company?**

3 A. Yes.
4

5 **Q. Did the affiliates charge a profit on activities performed for Johnson Wastewater?**

6 A. Yes, in response to Staff data requests JMM 1.44 and 4.1, Staff found that the affiliate
7 profit included in the AIAC agreements ranged from five to ten percent.
8

9 **Q. Was the affiliate profit included in plant costs?**

10 A. Yes. In response to data request JMM 4.1, the Company indicated that the entire billing,
11 including the profit, is capitalized when the costs pertain to a capital project. The
12 Company has included the profit component of the affiliate billings in plant in service.
13 Consequently, by doing so, it has included the affiliate profit in rate base.
14

15 **Q. What costs should be included in plant and subsequently in rate base values?**

16 A. Only the actual cost of materials, labor and overhead of the affiliate (exclusive of any
17 profit) should be recognized in rate base. Johnson wastewater be required to provide
18 invoices as evidence to support the actual costs of the affiliate. The Arizona
19 Administrative Code R14-2-610 (D)(1) states that "Each utility shall keep general and
20 auxiliary accounting records reflecting the cost of its properties . . . and all other
21 accounting and statistical data necessary to give complete and authentic information as to
22 its properties . . ." (emphasis added).

1 **Q. Does the Commission recognize affiliate profit?**

2 A. No, it does not. The Commission disallowed affiliate profit for Far West Water and Sewer,
3 Inc. (Decision No. 69335); Gold Canyon Sewer Company (Decision No. 69664); and
4 Black Mountain Sewer Corporation (Decision No. 69164).

5
6 **Q. Does Johnson Wastewater capitalize (i.e. record in its plant accounts) profit included
7 in billings from affiliates?**

8 A. Yes. The Company indicated that the entire billing, including the profit, is capitalized
9 when the costs pertain to a capital project. The Company has included the profit
10 component of the affiliate billings in plant in service. Consequently, by doing so, it has
11 included the affiliate profit in rate base.

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

14 A. Consistent with previous Commission decisions, Staff recommends decreasing plant in
15 service by \$8,922,170 to remove capitalized affiliate profit as shown on Schedules JMM-
16 WW3 and JMM-WW8.

17
18 **Q. Does Staff have any other recommendations concerning the affiliate profit?**

19 A. Yes. On a going-forward basis, Staff recommends that no affiliate profits be allowed.
20

21 ***Rate Base Adjustment No. 6 – Wastewater Division, Accumulated Depreciation***

22 **Q. Did Staff make an adjustment to Accumulated Depreciation?**

23 A. Yes.

1 **Q. What adjustment did Staff make?**

2 A. Staff adjusted accumulated depreciation based on its aforementioned plant adjustments.

3

4 **Q. Why did Staff make this adjustment?**

5 A. Staff adjusted accumulated depreciation to reflect the Staff recommended plant balances
6 adjusted to remove not used and useful plant, excess capacity, inadequately supported
7 plant, and capitalized affiliate profit.

8

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

10 A. Staff recommends decreasing accumulated depreciation by \$1,674,032 as shown on
11 Schedules JMM-WW3, and JMM-WW9.

12

13 ***Rate Base Adjustment No. 7 – Wastewater Division, Unexpended Contributions in Aid of***
14 ***Construction (“CIAC”)²***

15 **Q. Did Staff make an adjustment to CIAC?**

16 A. Yes.

17

18 **Q. What was the Company actual test year-end CIAC?**

19 A. The Company's actual test year-end balance was \$48,931,590.

20

21 **Q. What amount did Johnson Wastewater remove from the actual test year-end**
22 **balance?**

23 A. The Company removed \$16,505 because it was unexpended.

² Arizona Administrative Code R-14-2-601.9 defines contributions in aid of construction as “Funds provided to the utility by the applicant under the terms of a collection main extension agreement and/or service connection tariff the value of which are not refundable.”

1 **Q. Should CIAC be excluded from rate base?**

2 A. No. The Commission usually recognizes CIAC in its entirety. Recognizing all CIAC and
3 related accumulated amortizations is appropriate because the Company has the use of
4 these funds regardless of whether it has expended the funds for plant. Recognition of
5 CIAC in CWIP is also necessary since the NARUC USOA provides for the Company to
6 apply an allowance for funds used during construction ("AFUDC") to CWIP balances.
7 Excluding either the unexpended or CWIP portion of CIAC from rate base effectively
8 allows a utility to earn a return twice on CIAC funds.

9
10 **Q. Is removing unexpended CIAC from the CIAC account consistent with the NARUC**
11 **USOA?**

12 A. No, it is not. The NARUC USOA definition of CIAC does not hinge upon whether or not
13 the CIAC is expended or unexpended but whether or not (1) it was provided by someone
14 other than the owner, (2) it is non-refundable, and (3) the purpose of the CIAC is to fund
15 plant. The NARUC USOA states the following:

16
17 271. Contributions In Aid of Construction

18 *A. This account shall include:*

- 19 *1. Any amount or item of money, services or property received*
20 *by a utility, from any person or governmental agency, any*
21 *portion of which is provided at no cost to the utility, which*
22 *represents an addition or transfer to the capital of the*
23 *utility, and which is utilized to offset the acquisition,*
24 *improvement or construction costs of the utility's property,*

1 **Q. Is Johnson Wastewater proposing to include Deferred Assets in the rate base?**

2 A. Yes.

3

4 **Q. Are the Company proposed deferrals included in rate base?**

5 A. No, they are not. The deferred assets represent certain costs that normally would be
6 expensed in the accounting period in which they were incurred. They could be included
7 only if previously authorized by this Commission.

8

9 **Q. Do deferred costs such as those proposed by the Company require an accounting**
10 **order to be recognized for ratemaking purposes?**

11 A. Yes.

12

13 **Q. Did the Company obtain prior authorization or an accounting order from this**
14 **Commission to defer these items?**

15 A. No.

16

17 **Q. What is the NARUC USOA definition of regulatory assets and liabilities.**

18 A. The NARUC USOA states that:

19

20 *“Regulatory Assets and Liabilities are assets and liabilities that result from rate*
21 *actions of regulatory agencies. Regulatory assets and liabilities arise from*
22 *specific revenues, expenses, gains or losses that would have been included in*
23 *determination of net income in one period under the general requirements of the*
24 *Uniform Systems of Accounts but for it being probable that; 1) such items will be*
25 *included in a different period(s) for purposes of developing the rates the utility is*
26 *authorized to charge for its utility services or 2) in the case of regulatory*
27 *liabilities, that refunds to customers, not provided for in other accounts, will be*
28 *required. Regulatory assets and liabilities can also be created in reconciling*
29 *differences between the requirements of generally accepted accounting principles,*
30 *regulatory practice and tax laws.”*

31

1 **Q. Does NARUC address deferred asset recognition?**

2 A. According to the NARUC USOA, the Commission would have to create a deferred asset
3 through an accounting order in order for the Company to recover this expense in a future
4 rate case.

5
6 **Q. What is Staff recommendation?**

7 A. Staff recommends decreasing rate base by \$986,826 as shown on Schedules JMM-WW3
8 and JMM-WW12.

9
10 **OPERATING INCOME – WASTEWATER DIVISION**

11 **Operating Summary**

12 **Q. What are the results of Staff's analysis of test year revenues, expenses, and operating**
13 **income?**

14 A. Staff's analysis resulted in adjusted test year operating revenues of \$11,354,014, operating
15 expenses of \$8,928,998 and operating income of \$2,425,016 as shown on Schedules
16 JMM-WW13 and JMM-WW14. Staff made eight adjustments to operating expenses.

17
18 ***Operating Income Adjustment No. 1 – Wastewater Division, Flat Rate Revenues***

19 **Q. Did Staff make an adjustment to flat rate revenues?**

20 A. Yes.

21
22 **Q. What adjustment did Staff make and why?**

23 A. Staff's adjustment increased flat rate revenues by \$65,351 from \$10,786,457 to
24 \$10,851,808, as shown on Schedules JMM-WW14 and JMM-WW15. In response to Staff
25 data request JMM 10-2, the Company stated it was not charging the Oasis Golf Course, an

1 affiliate Company, for the effluent the golf course was receiving. The Company stated that
2 the golf course should have been charged a minimum for the effluent delivered, and
3 submitted to Staff the necessary documentation for the calculation of this adjustment.

4
5 **Q. What is Staff's recommendation?**

6 A. Increase flat rate revenue by \$65,351.

7

8 ***Operating Income Adjustment No. 2 – Wastewater Division, Sludge Removal Expense***

9 **Q. Did Staff make an adjustment to sludge removal expense?**

10 A. Yes.

11

12 **Q. What adjustment did Staff make?**

13 A. Staff's adjustment decreased sludge removal expense by \$7,688, from \$286,429 to
14 \$278,741, as shown on Schedules JMM-WW14 and JMM-WW16.

15

16 **Q. Why did Staff make this adjustment?**

17 A. To remove invoices pertaining to sludge removal expense, that occurred in 2008, outside
18 of the test year.

19

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

21 A. Decrease sludge removal expense by \$7,688.

22

23 ***Operating Income Adjustment No. 3 – Wastewater Division, Purchased Power Expense***

24 **Q. Did Staff make an adjustment to purchased power?**

25 A. Yes.

1 **Q. What adjustment did Staff make and why?**

2 A. In response to a Staff data request JMM-8.6, the Company was able to provide Staff with
3 five invoices to support Salt River Project ("SRP") refunds of meter deposits in the
4 amount of \$26,003.

5
6 **Q. How did the Company account for these refunds?**

7 A. The Company offset these refunds against purchased power expense.

8
9 **Q. What is Staff's recommendation?**

10 A. Staff recommends increasing purchased power expense by \$26,003 from \$688,557 to
11 \$714,560, as shown on Schedules JMM-WW14 and JMM-WW17, to better reflect the
12 Company's actual ongoing level of purchased power.

13
14 ***Operating Income Adjustment No. 4 – Wastewater Division, Contractual Services Expense***

15 **Q. Did Staff make an adjustment to Contractual Services Expense?**

16 A. Yes.

17
18 **Q. What adjustment did Staff make?**

19 A. Staff's adjustment decreased contractual services by \$9,022, from \$4,826,240 to
20 \$4,817,218, as shown on Schedules JMM-WW14 and JMM-WW18.

21
22 **Q. Did Staff make two adjustments to contractual services expenses?**

23 A. Yes. Staff first reclassified \$18,341 of deferred expenses to current miscellaneous
24 expenses. Second Staff removed the amortization of the Company's deferred expenses.

25

1 **Q. Did Staff allocate the \$18,341 between the water and wastewater division?**

2 A. Yes.

3

4 **Q. What amount was allocated to the wastewater division?**

5 A. \$4,906.

6

7 **Q. Did Staff make any other adjustments?**

8 A. Yes. Consistent with removing deferred assets, Staff removed the amortization expense of
9 \$13,928 relating to previous engineering, legal, accounting, and administrative costs.

10

11 **Q. What is the net effect of all these adjustments, and Staff's recommendation?**

12 A. A net decrease of \$9,022 (i.e. \$13,928 - \$4,906) to outside services, as depicted in
13 Schedules JMM-W17 and JMM-W20.

14

15 *Operating Income Adjustment No. 5 – Wastewater Division, miscellaneous expense items*

16 **Q. Did Staff make an adjustment to miscellaneous expense items?**

17 A. Yes.

18

19 **Q. What adjustment did Staff make?**

20 A. Staff's adjustment decreased miscellaneous expense by \$993, from \$231,593 to \$230,600,
21 as shown on Schedules JMM-WW14 and JMM-WW19.

22

23 **Q. Why did Staff make this adjustment?**

24 A. Expenses such as lobbying, food and entertainment, and sponsorship expenses have been
25 disallowed by this Commission on a consistent basis.

1 **Q. Did Staff allocate these costs between the water and wastewater division?**

2 A. Yes, for those items that were not classified as either water and wastewater items. Staff
3 used the Company's revenue split of 53.88 percent water and 46.12 percent wastewater to
4 allocate the costs.

5
6 **Q. What is Staff's recommendation?**

7 A. Staff recommends disallowance of miscellaneous expenses in the amount of \$993.
8

9 *Operating Income Adjustment No. 6 – Wastewater Division, Depreciation Expense*

10 **Q. Did Staff make an adjustment to depreciation expense?**

11 A. Yes.
12

13 **Q. What adjustment did Staff make?**

14 A. As a result of the numerous adjustments made to plant in service, Staff also adjusted the
15 associated depreciation expense.
16

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

18 A. Staff's adjustment decreases depreciation expense by \$1,400,959 from \$3,142,068 to
19 \$1,741,109, as shown on Schedule JMM-WW14 and JMM-WW20.
20

21 *Operating Income Adjustment No. 7 – Wastewater Division, Property Tax*

22 **Q. Did Staff make an adjustment to property tax.**

23 A. Yes.

1 **Q. What adjustment does Staff recommend for test year property tax expense?**

2 A. Staff's adjustment decreased property tax expense by \$43,990 from \$785,281 to \$741,291,
3 for test year expenses based upon Staff's adjusted test year revenues. Please see Schedule
4 JMM-WW14 and Column A on Schedule JMM-WW21.

5
6 **Q. What does Staff recommend for property tax expense on a going-forward basis?**

7 A. Staff recommends decreasing property tax expense by \$31,599 from \$741,291 to
8 \$709,693 based upon Staff's recommended revenues. Please see Schedule JMM-WW14
9 and Column B on Schedule JMM-WW21.

10

11 ***Operating Income Adjustment No. 8 – Wastewater Division, Income Tax***

12 **Q. Did Staff make an adjustment to Income Tax?**

13 A. Yes.

14

15 **Q. What adjustment did Staff make and why?**

16 A. Staff's adjustment decreased income tax expense by \$330,522 from \$330,522 to \$0. Staff,
17 as will be further explained in the revenue requirement section, removed income taxes as
18 the Company is classified as a limited liability company, and therefore, does not report
19 income taxes at the corporate level, but passes this income through to its shareholders.
20 Staff's adjustment is shown on Schedules JMM-WW14 and JMM-WW22.

21

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

23 A. Staff recommends the removal of any income tax expense.

1 **Q. Did Staff make any other adjustments?**

2 A. Yes, to other expenses.
3

4 **OTHER EXPENSES**

5 *Other Expenses Adjustment No. 9 – Wastewater Division, Interest Synchronization*

6 **Q. Did Staff make an adjustment to synchronized interest expense?**

7 A. Yes.
8

9 **Q. What is synchronized interest?**

10 A. It represents an adjustment to interest expense for utilities to better balance interest
11 expense to its rate base. This adjustment is only made to alter interest expense in the use
12 of calculating income tax. If there is no income tax, this adjustment is not necessary.
13

14 **Q. What adjustment did Staff make and why?**

15 A. Staff's adjustment decreased interest expense by \$5,960 from \$42,710 to \$36,750. Staff,
16 as will be further explained in the revenue requirement section, removed income taxes as
17 the Company is classified as a limited liability company, and therefore, does not report
18 income taxes at the corporate level, but passes this income through to its shareholders.
19 Staff's adjustment is shown on Schedules JMM-WW14 and JMM-WW23.
20

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

22 A. Staff recommends disallowance of any synchronized interest expense.
23

1 **REVENUE REQUIREMENT**

2 **Q. What does the Company propose for an increase in operating revenue?**

3 A. The Company proposes increasing operating revenues by \$2,239,804 from \$11,288,663 to
4 \$13,528,467, or an approximate increase of 19.84 percent compared to the Company's
5 annualized test year revenues.

6
7 **Q. What does Staff recommend for an increase in operating revenues?**

8 A. Staff does not recommend an increase but recommends a \$1,468,000 decrease in operating
9 revenues, from \$11,354,014 to \$9,886,014, or an approximate decrease of 12.93 percent
10 compared to Staff's adjusted test year revenues.

11
12 **Q. How did Staff determine its recommended operating revenue?**

13 A. Staff utilized an operating margin instead of a rate of return on rate base to determine the
14 revenue requirement. Based on Staff's adjustment to CIAC mentioned above, the
15 Company's rate base is negative, and therefore a rate of return on rate base cannot be
16 used. Therefore, Staff utilized operating margin to determine the revenue requirement.

17
18 **Q. Did Staff utilize a gross revenue conversion factor?**

19 A. No, the Company is classified as a limited liability company, and therefore, does not pay
20 taxes at the corporate level. These taxes are passed through to the owners of the
21 Company, and accounted for when the individual owners file their tax returns.

1 **Q. Has the Company ever presented income tax on its annual reports filed with the**
2 **Commission?**

3 A. No, going back through the annual reports for both the water and wastewater divisions of
4 the Company since its inception, the Company has never presented income tax on its
5 annual reports filed with the ACC.

6
7 **Q. Did Staff review the independent auditor's report?**

8 A. Yes.

9
10 **Q. What did the independent auditor's report say about income taxes?**

11 A. Note 1 Nature of Operations and Summary of Significant Accounting Policies, page 9
12 States:

13
14 "Income Taxes - The Company files a partnership tax return and does not incur income
15 taxes; instead, its earnings are included in the members' personal income tax returns and
16 taxed depending on their personal tax situations. The financial statements, therefore, do
17 not include a provision for income taxes."

18
19 **Q. What does NARUC USOA state?**

20 A. "409.10 Federal Income Taxes, Utility Operating Income - This account shall include the
21 amount of those federal income taxes reflected in account 408 – Income Taxes, which
22 relate to utility operating income after interest charges and other tax adjustments. This
23 account shall be maintained so as to allow ready identification of tax effects (both positive
24 and negative) relating to Utility Operating Income (by department/division), Utility Plant
25 Leased to Others and Other Utility Operating Income."

1 **Q. What about State and Local income taxes?**

2 A. These are found in NARUC USOA number 409.11 and 409.12, which mirrors statement
3 409.10.

4
5 **Q. Did the Company report income taxes in those accounts?**

6 A. No. As the Company did not file as a "C" corporation it did not incur any income taxes,
7 and therefore did not report income in those accounts.

8
9 **RATE DESIGN**

10 **Q. Have you prepared a schedule summarizing the present, Company proposed, and**
11 **Staff recommended rates and service charges?**

12 A. Yes. A summary of the present, Company proposed, and Staff recommended rates and
13 service charges are provided on Schedule JMM-WW24.

14
15 **Q. Would you please summarize the present monthly minimum rate design?**

16 A. The present monthly minimum charges by meter size are as follows: 5/8-inch \$35.00; 3/4-
17 inch \$38.50; 1-inch \$49.00; 1 1/2-inch \$63.00; 2-inch \$101.50; 3-inch \$385.00; 4-inch
18 \$735.00; and 6-inch \$1,015.00. Effluent per 1,000 gallons is \$0.62 or per acre foot is
19 \$200.00.

20
21 **Q. Would you please summarize the Company's proposed rate design?**

22 A. The Company's proposed monthly minimum charges by meter size are as follows: 5/8-
23 inch \$42.30; 3/4-inch \$46.52; 1-inch \$59.21; 1 1/2-inch \$76.13; 2-inch \$122.66; 3-inch
24 \$465.25; 4-inch \$888.20; 6-inch \$1,226.57; 8-inch \$1,550.67; and 10-inch \$2,481.07.
25 Effluent per 1,000 gallons is \$0.62 or per acre foot is \$200.00.

1 **Q. Would you please summarize Staff's recommended rate design?**

2 A. Staff's recommended monthly minimum charges for all zones and customer classes are as
3 follows: 5/8-inch \$30.45; 3/4-inch \$33.50; 1-inch \$42.63; 1 1/2-inch \$54.80; 2-inch \$88.31;
4 3-inch \$334.95; 4-inch \$639.45; 6-inch \$883.05; 8-inch \$1,116.21; and 10-inch \$1,786.11.
5 Effluent per 1,000 gallons is \$0.5393 or per acre foot is \$173.98.

6
7 **Q. What is the rate impact on a 3/4-inch meter residential customer?**

8 A. The 3/4-inch meter residential customer would experience a \$8.02 or an 20.83 percent
9 increase in their monthly bill from \$38.50 to \$46.52 under the Company's proposed rates
10 and a \$5.00 or an 12.99 percent decrease in his monthly bill from \$38.50 to \$33.50 under
11 Staff's recommended rates.

12
13 **Q. What wastewater system service lines, meter installation charges, and service
14 charges does Staff recommend?**

15 A. A comparison of the current charges for wastewater system service lines, metered
16 installation charges, and service charges; the Company's proposed changes, and Staff's
17 recommended changes are presented on Schedules JMM-WW24.

18
19 **OTHER MATTERS**

20 **Q. Are there any other recommendations that Staff would like to make?**

21 A. Yes, Staff recommends that the Commission discontinue the Company's Hook-up fees.

1 **Q. According to the independent auditors report in 2006, what was the Company's**
2 **equity in the Company?**

3 A. Members' capital at the end of 2006 was \$19,583,538 and total members' capital and
4 liabilities was \$202,763,250, making the percentage of members' capital 9.65 percent.

5
6 **Q. What does Staff believe the balanced equity and debt range for this size Company**
7 **should be?**

8 A. For this size Company, Staff recommends an equity range of between 40 to 60 percent and
9 debt of between 40 to 60 percent. In addition no more than 30 percent of equity should be
10 from AIAC and CIAC.

11
12 **Q. If Staff's recommended discontinuance of hook-up fees is adopted, then the**
13 **Company would have to invest its own money to build plant and increase rate base?**

14 A. Yes, in the long run it would actually help the Company to build up its rate base.

15
16 **Q. Does Staff support the use of hook-up fees?**

17 A. Yes. However, there should be a balance between the amount of equity the Company is
18 investing in plant and what customers are investing in plant through hook-up fees. Absent
19 this balance Staff recommends discontinuance.

20
21 **Q. Should growth be paid through the use of hook-up fees as a means to accomplish this**
22 **goal?**

23 A. Usually for mature Companies, but hook-up fees are not a good plan for new Companies,
24 as in this case.

25

- 1 **Q. When would it be appropriate for the Company to apply for a new hook-up fee**
2 **tariff?**
- 3 A. Once the Company has a capital structure in which member's capital to total members'
4 capital and liabilities consists of at least 40 percent equity (not including advances and
5 contributions).
- 6
- 7 **Q. Does this conclude your direct testimony?**
- 8 A. Yes, it does.

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY ORIGINAL COST	(B) COMPANY FAIR VALUE	(C) STAFF ORIGINAL COST	(D) STAFF FAIR VALUE
1	Adjusted Rate Base	\$ 19,149,173	\$ 19,149,173	\$ (12,663,489)	\$ (12,663,489)
2					
3	Adjusted Operating Income (Loss)	\$ 592,491	\$ 592,491	\$ 2,425,014	\$ 2,425,014
4					
5	Staff Recommended Operating Income	N/A	N/A	\$ 988,614	\$ 988,614
6					
7	Current Rate of Return (L2 / L1)	3.09%	3.09%	N/A	N/A
8					
9	Required Rate of Return	10.43%	10.43%	N/A	N/A
10					
11	Required Operating Income (L1 * L9)	\$ 1,997,259	\$ 1,997,259	N/A	N/A
12					
13	Operating Income Deficiency (L11 - L5)	\$ 1,404,768	\$ 1,404,768	N/A	N/A
14					
15	Gross Revenue Conversion Factor	1.5944	1.5944	1.00000	1.0000
16					
17	Required Revenue Increase/Decrease	\$ 2,239,804	\$ 2,239,804	\$ (1,468,000)	\$ (1,468,000)
18					
19	Adjusted Test Year Revenue	\$ 11,288,663	\$ 11,288,663	\$ 11,354,014	\$ 11,354,014
20					
21	Proposed/Recommended Annual Revenue	\$ 13,528,467	\$ 13,528,467	\$ 9,886,014	\$ 9,886,014
22					
23	Required Increase/Decrease in Revenue (%)	19.84%	19.84%	-12.93%	-12.93%
24					
25	Current Operating Margin (L3/L19)	5.25%	5.25%	21.36%	21.36%
26					
27	Required Operating Margin	N/A	N/A	10.00%	10.00%

References:

Columns [A] and [B]: Company Schedules A-1, A-2, & D-1
Columns [C] and [D]: STAFF Schedules JMM-2, JMM-13

RATE BASE - ORIGINAL COST

LINE NO.	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	(C) STAFF AS ADJUSTED
1			
2	\$ 126,534,591	\$ (33,541,645)	\$ 92,992,946
3	7,923,683	(1,674,032)	6,249,651
4	<u>\$ 118,610,908</u>	<u>\$ (31,867,613)</u>	<u>\$ 86,743,295</u>
5			
6	<u>LESS:</u>		
7			
8	Advances in Aid of Construction (AIAC)	54,440,657	54,440,657
9			
10	\$ 48,931,590	\$ -	\$ 48,931,590
11	Less: Accumulated Amortization	2,907,181	3,965,462
12	<u>Net CIAC</u>	<u>(1,041,776)</u>	<u>44,966,128</u>
13			
14	Customer Meter Deposits	-	-
15			
16	<u>ADD:</u>		
17			
18	Materials and Supplies	-	-
19			
20	Deferred Assets	986,826	-
21			
22	<u>Original Cost Rate Base</u>	<u>\$ (31,812,662)</u>	<u>\$ (12,663,489)</u>

References:

Column [A]: Company as Filed

Column [B]: Schedule JMM-WW3

Column (C): Column (A) + Column (B)

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.	DESCRIPTION	(A) COMPANY AS FILED B-2	(B) ADJ #1 Post Test Year Plant	(C) ADJ #2 Used and Useful	(D) ADJ #3 Excess Capacity	(E) ADJ #4 Inadequately Supported Plant	(F) ADJ #5 Affiliated Profit	(G) ADJ #6 Accumulated Depreciation
PLANT IN SERVICE:									
3	351.00	Organization Cost	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
4	352.00	Franchise Cost	-	-	-	-	-	-	-
5	353.00	Land and Land Rights	4,122,800	-	-	-	(324,780)	(243,585)	-
6	354.00	Structures and Improvements	453,663	-	(14,491)	-	(25,712)	(19,284)	-
7	355.00	Power Generation Equipment	-	-	-	-	-	-	-
8	360.00	Collection Sewers - Force	20,136,241	-	(1,579,593)	-	(2,013,624)	(1,510,218)	-
9	361.00	Collection Sewers - Gravity	24,287,592	-	-	-	(2,051,613)	(1,538,709)	-
10	362.00	Special Collecting Structures	-	-	-	-	-	-	-
11	363.00	Services to Customers	-	-	-	-	2,575	1,931	-
12	364.00	Flow Measuring Devices	-	-	-	-	701	526	-
13	365.00	Flow Measuring Installations	-	-	-	-	-	-	-
14	370.00	Receiving Walls	-	-	-	-	-	-	-
15	371.00	Pumping Equipment	7,613,723	-	-	-	(760,206)	(570,155)	-
16	375.00	Reuse T&D	958,646	-	-	-	(95,885)	(71,888)	-
17	381.00	Treatment and Disposal Equipment	-	-	(3,001,214)	-	(6,627,704)	(4,970,778)	-
18	382.00	Outfall Sewer Lines	66,277,038	-	-	-	-	-	-
19	389.00	Other Plant and Misc. Equipment	-	-	-	-	-	-	-
20	390.00	Office Furniture and Equipment	-	-	-	-	-	-	-
21	391.00	Transportation Equipment	-	-	-	-	-	-	-
22	393.00	Tools, Shop and Garage Equipment	-	-	-	-	-	-	-
23	394.00	Laboratory Equipment	-	-	-	-	-	-	-
24	395.00	Power Operated Equipment	-	-	-	-	-	-	-
25	398.00	Other Tangible Plant	-	-	-	-	-	-	-
26	398.00	Other Tangible Plant	-	-	-	-	-	-	-
27	398.00	Other Tangible Plant	-	-	-	-	-	-	-
28	398.00	Other Tangible Plant	-	-	-	-	-	-	-
29	398.00	Other Tangible Plant	-	-	-	-	-	-	-
30	398.00	Other Tangible Plant	-	-	-	-	-	-	-
31	398.00	Other Tangible Plant	-	-	-	-	-	-	-
32	398.00	Other Tangible Plant	-	-	-	-	-	-	-
33	398.00	Other Tangible Plant	-	-	-	-	-	-	-
34	398.00	Other Tangible Plant	-	-	-	-	-	-	-
35	398.00	Other Tangible Plant	-	-	-	-	-	-	-
36	398.00	Other Tangible Plant	-	-	-	-	-	-	-
37	398.00	Other Tangible Plant	-	-	-	-	-	-	-
38	398.00	Other Tangible Plant	-	-	-	-	-	-	-
39	398.00	Other Tangible Plant	-	-	-	-	-	-	-
40	398.00	Other Tangible Plant	-	-	-	-	-	-	-
41	398.00	Other Tangible Plant	-	-	-	-	-	-	-
42	398.00	Other Tangible Plant	-	-	-	-	-	-	-
43	398.00	Other Tangible Plant	-	-	-	-	-	-	-
44	398.00	Other Tangible Plant	-	-	-	-	-	-	-
45	398.00	Other Tangible Plant	-	-	-	-	-	-	-
46	398.00	Other Tangible Plant	-	-	-	-	-	-	-
47	398.00	Other Tangible Plant	-	-	-	-	-	-	-
48	398.00	Other Tangible Plant	-	-	-	-	-	-	-
49	398.00	Other Tangible Plant	-	-	-	-	-	-	-
50	398.00	Other Tangible Plant	-	-	-	-	-	-	-
51	398.00	Other Tangible Plant	-	-	-	-	-	-	-
52	398.00	Other Tangible Plant	-	-	-	-	-	-	-
53	398.00	Other Tangible Plant	-	-	-	-	-	-	-
54	398.00	Other Tangible Plant	-	-	-	-	-	-	-
55	398.00	Other Tangible Plant	-	-	-	-	-	-	-
56	398.00	Other Tangible Plant	-	-	-	-	-	-	-
57	398.00	Other Tangible Plant	-	-	-	-	-	-	-
58	398.00	Other Tangible Plant	-	-	-	-	-	-	-
59	398.00	Other Tangible Plant	-	-	-	-	-	-	-
60	398.00	Other Tangible Plant	-	-	-	-	-	-	-
61	398.00	Other Tangible Plant	-	-	-	-	-	-	-
62	398.00	Other Tangible Plant	-	-	-	-	-	-	-
63	398.00	Other Tangible Plant	-	-	-	-	-	-	-
64	398.00	Other Tangible Plant	-	-	-	-	-	-	-
LESS:									
39	54.440.657	Advances in Aid of Construction (AIAC)	\$ 54,440,657	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
40	48.931.580	Contributions in Aid of Construction (CIAC)	\$ 48,931,580	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
41	(16.305)	Plus: CIAC - Pro Forma	\$ (16,305)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
42	48,915,085	Total CIAC - Adjusted	\$ 48,915,085	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
43	3,304.571	Less: Accumulated Amortization	\$ 3,304,571	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
44	(397.390)	Plus: Accumulated Amortization - Pro Forma	\$ (397,390)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
45	2,907.181	Total Accumulated Amortization	\$ 2,907,181	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
46	46,007.904	Net CIAC	\$ 46,007,904	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
47	100,448.561	Total Advances and Net Contributions	\$ 100,448,561	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
48	986.826	ADJ: Deferred Assets	\$ 986,826	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
49	-	Allowance for Working Capital	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
50	-	Intentionally left blank	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
51	19,149.173	Original Cost Rate Base	\$ 19,149,173	\$ (2,684,888)	\$ (4,595,298)	\$ (5,443,062)	\$ (11,896,227)	\$ (8,922,170)	\$ 1,674,032

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.	DESCRIPTION	(H) ADJ #7 CIAC	(I) ADJ #8 Amort CIAC	(J) ADJ #9 Deferred Assets	(K) STAFF ADJUSTED Total
3		<u>PLANT IN SERVICE:</u>	Schedule JMM-WW10	Schedule JMM-WW11	Schedule JMM-WW12	
4	351.00	Organization Cost	-	-	-	\$ -
5	352.00	Franchise Cost	-	-	-	-
6	353.00	Land and Land Rights	-	-	-	3,554,435
7	354.00	Structures and Improvements	-	-	-	394,177
8	355.00	Power Generation Equipment	-	-	-	-
9	360.00	Collection Sewers - Force	-	-	-	15,032,806
10	361.00	Collection Sewers - Gravity	-	-	-	20,697,270
11	362.00	Special Collecting Structures	-	-	-	-
12	363.00	Services to Customers	-	-	-	4,507
13	364.00	Flow Measuring Devices	-	-	-	1,227
14	365.00	Flow Measuring Installations	-	-	-	-
15	370.00	Receiving Wells	-	-	-	6,283,362
16	371.00	Pumping Equipment	-	-	-	790,883
17	375.00	Reuse T&D	-	-	-	-
18	380.00	Treatment and Disposal Equipment	-	-	-	46,234,280
19	381.00	Plant Sewers	-	-	-	-
20	382.00	Outfall Sewer Lines	-	-	-	-
21	389.00	Other Plant and Misc. Equipment	-	-	-	-
22	390.00	Office Furniture and Equipment	-	-	-	-
23	391.00	Transportation Equipment	-	-	-	-
24	393.00	Tools, Shop and Garage Equipment	-	-	-	-
25	394.00	Laboratory Equipment	-	-	-	-
26	395.00	Power Operated Equipment	-	-	-	-
27	398.00	Other Tangible Plant	-	-	-	-
28		Total Plant in Service - Actual	-	-	-	\$ 92,992,946
29		Post Test-Year Plant	-	-	-	92,992,946
30		Total Plant in Service	-	-	-	-
31			-	-	-	-
32			-	-	-	-
33		Less: Accumulated Depreciation - Actual	-	-	-	\$ 6,249,651
34		Less: Accumulated Depreciation - Pro Forma	-	-	-	-
35		Total Accumulated Depreciation - Adjusted	-	-	-	\$ 6,249,651
36			-	-	-	-
37		Net Plant in Service	-	-	-	\$ 86,743,295
38			-	-	-	-
39			-	-	-	-
40		<u>LESS:</u>				
41		Advances in Aid of Construction (AMC)	-	-	-	\$ 54,440,657
42			-	-	-	-
43		Contributions in Aid of Construction (CIAC)	-	-	-	\$ 48,931,580
44		Plus: CIAC - Pro Forma	16,505	-	-	-
45		Total CIAC - Adjusted	16,505	-	-	\$ 48,931,580
46			-	-	-	-
47			-	-	-	-
48		Less: Accumulated Amortization	-	1,058,281	-	\$ 4,362,852
49		Plus: Accumulated Amortization - Pro Forma	-	(1,058,281)	-	(397,390)
50		Total Accumulated Amortization	-	1,058,281	-	\$ 3,965,462
51			-	-	-	-
52		Net CIAC	16,505	(1,058,281)	-	\$ 44,966,128
53			-	-	-	-
54		Total Advances and Net Contributions	16,505	(1,058,281)	-	\$ 99,406,785
55			-	-	-	-
56		<u>ADD:</u>				
57		Deferred Assets	-	-	(986,826)	\$ -
58		Allowance for Working Capital	-	-	-	-
59		Intentionally left blank	-	-	-	-
60			-	-	-	-
61			-	-	-	-
62			-	-	-	-
63			-	-	-	-
64		Original Cost Rate Base	(16,505)	1,058,281	(986,826)	\$ (12,653,490)

Johnson Utilities L.L.C. - Wastewater Division
 Docket No. W-02987A-08-0180
 Test Year Ended December 31, 2007

Schedule JMM-WW4

ORIGINAL COST RATE BASE ADJUSTMENT #1 - POST TEST YEAR PLANT

LINE NO.	ACCT NO.	DESCRIPTION	[A]	[B]	[C]
			COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1		Post Test Year Plant	\$ 2,684,888	\$ (2,684,888)	\$ -

REFERENCES:

Column [A]: Company Filing
 Column [B]: Staff Testimony
 Column [C]: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 2 - PLANT NOT USED AND USEFUL

LINE NO.	Acct. No.	DESCRIPTION	[A]	[B]	[C]
			PLANT IN SERVICE Per Company	PLANT NOT USED AND USEFUL	PLANT IN SERVICE Per Staff
1	351	Organization	\$ -	\$ -	\$ -
2	352	Franchise Cost	\$ -	\$ -	\$ -
3	353	Land and Land Rights	\$ 4,122,800	\$ -	\$ 4,122,800
4	354	Structures and Improvements	\$ 453,663	\$ (14,491)	\$ 439,172
5	360	Collection Sewers - Force	\$ 20,136,241	\$ (1,579,593)	\$ 18,556,648
6	361	Collection Sewers - Gravity	\$ 24,287,592	\$ -	\$ 24,287,592
7	362	Special Collecting Structures	\$ -	\$ -	\$ -
8	363	Services to Customers	\$ -	\$ -	\$ -
9	364	Flow Measuring Devices	\$ -	\$ -	\$ -
10	371	Effluent Pumping Equipment	\$ 7,613,723	\$ -	\$ 7,613,723
11	375	Effluent T & D	\$ 958,646	\$ -	\$ 958,646
12	380	Treatment Plant	\$ -	\$ -	\$ -
13	381	Plant Sewers	\$ 66,277,038	\$ (3,001,214)	\$ 63,275,824
14	389	Other Plant Structures & Improvmnts	\$ -	\$ -	\$ -
15	390	Office Furniture and Equipment	\$ -	\$ -	\$ -
16	391	Transportation Equipment	\$ -	\$ -	\$ -
17	394	Laboratory Equipment	\$ -	\$ -	\$ -
18		Total Plant	\$ 123,849,703	\$ (4,595,298)	\$ 119,254,405

References:

- Column [A]: Per Company Application
- Column [B]: Staff Testimony
- Column [C]: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 3 - EXCESS CAPACITY PLANT

LINE NO.	ACCT NO.	DESCRIPTION	[A]	[B]	[C]
			PLANT IN SERVICE Per Company	EXCESS CAPACITY PLANT	PLANT IN SERVICE Per Staff
1	351	Organization	\$ -	\$ -	\$ -
2	352	Franchise Cost	\$ -	\$ -	\$ -
3	353	Land and Land Rights	\$ 4,122,800	\$ -	\$ 4,122,800
4	354	Structures and Improvements	\$ 453,663	\$ -	\$ 453,663
5	360	Collection Sewers - Force	\$ 20,136,241	\$ -	\$ 20,136,241
6	361	Collection Sewers - Gravity	\$ 24,287,592	\$ -	\$ 24,287,592
7	362	Special Collecting Structures	\$ -	\$ -	\$ -
8	363	Services to Customers	\$ -	\$ -	\$ -
9	364	Flow Measuring Devices	\$ -	\$ -	\$ -
10	371	Effluent Pumping Equipment	\$ 7,613,723	\$ -	\$ 7,613,723
11	375	Effluent T & D	\$ 958,646	\$ -	\$ 958,646
12	380	Treatment Plant	\$ -	\$ -	\$ -
13	381	Plant Sewers	\$ 66,277,038	\$ (5,443,062)	\$ 60,833,976
14	389	Other Plant Structures & Improvmnts	\$ -	\$ -	\$ -
15	390	Office Furniture and Equipment	\$ -	\$ -	\$ -
16	391	Transportation Equipment	\$ -	\$ -	\$ -
17	394	Laboratory Equipment	\$ -	\$ -	\$ -
18		Total Plant	\$ 123,849,703	\$ (5,443,062)	\$ 118,406,641

References:

Column [A]: Company Schedule B-2, Page 2.10

Column [B]: Testimony JMM

Column [C]: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 4 - INADEQUATELY SUPPORTED PLANT COSTS

LINE NO.	DESCRIPTION	[A]	[B]	[C]	[D]	[E]
		PLANT In SERVICE Per Staff	1999 PLANT Additions	INADEQUATELY SUPPORTED PLANT BALANCES (Col A - Col B)	RATE	AMOUNT REMOVED DUE TO INADEQUATE SUPPORT (Col C x Col D)
1	351 Organization	\$ -	\$ -	\$ -	10.00%	\$ -
2	352 Franchise Cost	\$ -	\$ -	\$ -	10.00%	\$ -
3	353 Land and Land Rights	\$ 4,122,800	\$ 875,000	\$ 3,247,800	10.00%	\$ 324,780
4	354 Structures and Improvements	\$ 453,663	\$ 196,548	\$ 257,115	10.00%	\$ 25,712
5	360 Collection Sewers - Force	\$ 20,136,241	\$ -	\$ 20,136,241	10.00%	\$ 2,013,624
6	361 Collection Sewers - Gravity	\$ 24,287,592	\$ 3,771,466	\$ 20,516,126	10.00%	\$ 2,051,613
7	362 Special Collecting Structures	\$ -	\$ 25,752	\$ (25,752)	10.00%	\$ (2,575)
8	363 Services to Customers	\$ -	\$ 7,009	\$ (7,009)	10.00%	\$ (701)
9	364 Flow Measuring Devices	\$ -	\$ -	\$ -	10.00%	\$ -
10	371 Effluent Pumping Equipment	\$ 7,613,723	\$ 11,660	\$ 7,602,063	10.00%	\$ 760,206
11	375 Effluent T & D	\$ 958,646	\$ -	\$ 958,646	10.00%	\$ 95,865
12	380 Treatment Plant	\$ -	\$ -	\$ -	10.00%	\$ -
13	381 Plant Sewers	\$ 66,277,038	\$ -	\$ 66,277,038	10.00%	\$ 6,627,704
14	389 Other Plant Structures & Improvmts	\$ -	\$ -	\$ -	10.00%	\$ -
15	390 Office Furniture and Equipment	\$ -	\$ -	\$ -	10.00%	\$ -
16	391 Transportation Equipment	\$ -	\$ -	\$ -	10.00%	\$ -
17	394 Laboratory Equipment	\$ -	\$ -	\$ -	10.00%	\$ -
18	Total Plant	\$ 123,849,703	\$ 4,887,435	\$ 118,962,268		\$ 11,896,227

References:

- Column [A]: Schedule JMM-3
- Column [B]: From Column [A]
- Column [C]: Column [A] - Column [B]
- Column [D]: Testimony JMM
- Column [E]: Column [C] x Column [D]

OPERATING INCOME ADJUSTMENT NO. 5 - CAPITALIZED AFFILIATE PROFIT IN PLANT

LINE NO.	DESCRIPTION	[A]	[B]	[C]	[D]	[E]
		PLANT In SERVICE Per Staff	1999 PLANT Additions	PLANT BALANCES CONSTRUCTED VIA AFFILIATES (Col A - Col B)	RATE	AMOUNT OF AFFILIATE PROFIT REMOVED (Col C x Col D)
1	351 Organization	\$ -	\$ -	\$ -	7.50%	\$ -
2	352 Franchise Cost	\$ -	\$ -	\$ -	7.50%	\$ -
3	353 Land and Land Rights	\$ 4,122,800	\$ 875,000	\$ 3,247,800	7.50%	\$ 243,585
4	354 Structures and Improvements	\$ 453,663	\$ 196,548	\$ 257,115	7.50%	\$ 19,284
5	360 Collection Sewers - Force	\$ 20,136,241	\$ -	\$ 20,136,241	7.50%	\$ 1,510,218
6	361 Collection Sewers - Gravity	\$ 24,287,592	\$ 3,771,466	\$ 20,516,126	7.50%	\$ 1,538,709
7	362 Special Collecting Structures	\$ -	\$ 25,752	\$ (25,752)	7.50%	\$ (1,931)
8	363 Services to Customers	\$ -	\$ 7,009	\$ (7,009)	7.50%	\$ (526)
9	364 Flow Measuring Devices	\$ -	\$ -	\$ -	7.50%	\$ -
10	371 Effluent Pumping Equipment	\$ 7,613,723	\$ 11,660	\$ 7,602,063	7.50%	\$ 570,155
11	375 Effluent T & D	\$ 958,646	\$ -	\$ 958,646	7.50%	\$ 71,898
12	380 Treatment Plant	\$ -	\$ -	\$ -	7.50%	\$ -
13	381 Plant Sewers	\$ 66,277,038	\$ -	\$ 66,277,038	7.50%	\$ 4,970,778
14	389 Other Plant Structures & Improvments	\$ -	\$ -	\$ -	7.50%	\$ -
15	390 Office Furniture and Equipment	\$ -	\$ -	\$ -	7.50%	\$ -
16	391 Transportation Equipment	\$ -	\$ -	\$ -	7.50%	\$ -
17	394 Laboratory Equipment	\$ -	\$ -	\$ -	7.50%	\$ -
18	Total Plant	\$ 123,849,703	\$ 4,887,435	\$ 118,962,268	\$	\$ 8,922,170

References:

- Column [A]: Schedule JMM-3
- Column [B]: From Column [A]
- Column [C]: Column [A] - Column [B]
- Column [D]: Testimony JMM
- Column [E]: Column [C] x Column [D]

RATE BASE ADJUSTMENT NO. 6 - ACCUMULATED DEPRECIATION

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Accumulated Depreciation - Actual	\$ 7,667,856	\$ (1,418,205)	\$6,249,651
2	Accumulated Depreciation - Pro Forma	255,827	(255,827)	-
3	Total Accumulated Depreciation - Adjusted	<u>\$ 7,923,683</u>	<u>\$ (1,674,032)</u>	<u>\$ 6,249,651</u>

References:

- Column A: Company Schedule B-2, Page 1
- Column B: Column [C] - Column [A]
- Column C: Schedule JMM-6, Pages 2 though 11

PLANT AND ACCUMULATED DEPRECIATION SCHEDULE
ADJUSTED TO REMOVE NOT USED & USEFUL, AFFILIATE PROFIT AND INADEQUATELY SUPPORTED PLANT COSTS

	Plant		Depreciation Rates	1998			1998	1998
	31-Dec-98 Original Cost	31-Dec-98 Accumulated Depreciation		1998 Additions	1998 Retirements	1998 Depr. Expense	Total Cost	Accumulated Depreciation
351 Organization Cost	\$0	\$0	0.00%	\$0	\$0	\$0	\$0	\$0
352 Franchise Cost	0	0	0.00%	0	0	\$0	0	0
353 Land & Land Rights	0	0	0.00%	0	0	\$0	0	0
354 Structures & Improvements	0	0	2.50%	0	0	\$0	0	0
360 Collection Sewers, Force	0	0	2.50%	0	0	\$0	0	0
361 Collection Sewers, Gravity	0	0	2.50%	0	0	\$0	0	0
363 Services	0	0	2.50%	0	0	\$0	0	0
364 Flow Measuring Devices	0	0	2.50%	0	0	\$0	0	0
365 Flow Measuring Installations	0	0	2.50%	0	0	\$0	0	0
371 Effluent Pumping Equipment	0	0	2.50%	0	0	\$0	0	0
375 Reuse Trans & Distribution	0	0	2.50%	0	0	\$0	0	0
380 Treatment & Disposal Equip	0	0	2.50%	0	0	\$0	0	0
381 Plant Sewers	0	0	2.50%	0	0	\$0	0	0
382 Outfall Sewer Lines	0	0	2.50%	0	0	\$0	0	0
389 Other Plant Structures & Impro	0	0	2.50%	0	0	\$0	0	0
390 Office Furniture & Fixt	0	0	2.50%	0	0	\$0	0	0
391 Transportation Equip	0	0	2.50%	0	0	\$0	0	0
393 Tools, Shop, & Garage Equip	0	0	2.50%	0	0	\$0	0	0
394 Laboratory Equipment	0	0	2.50%	0	0	\$0	0	0
395 Power Operated Equip	0	0	2.50%	0	0	\$0	0	0
396 Communications Equipment	0	0	2.50%	0	0	\$0	0	0
397 Miscellaneous Equipment	0	0	2.50%	0	0	\$0	0	0
398 Other Tangible Plant	0	0	2.50%	0	0	\$0	0	0
1998 Totals	\$0	\$0		\$0	\$0	\$0	\$0	\$0

PLANT AND ACCUMULATED DEPRECIATION SCHEDULE
ADJUSTED TO REMOVE NOT USED & USEFUL, AFFILIATE PROFIT AND INADEQUATELY SUPPORTED PLANT COSTS

	1999							
	Additions Cost	1999 Adjustments		Fully Depreciated	1999 Depr. Expense	1999 Total Cost	1999 Accumulated Depreciation	1999 Net Book Value
		Cost Removal	Depreciation					
351 Organization Cost	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
352 Franchise Cost	0	0	0	0	0	0	0	0
353 Land & Land Rights	875,000	0	0	0	875,000	0	875,000	0
354 Structures & Improvements	196,548	0	0	2,457	196,548	2,457	194,091	0
360 Collection Sewers, Force	0	0	0	0	0	0	0	0
361 Collection Sewers, Gravity	3,771,466	0	0	47,143	3,771,466	47,143	3,724,323	0
363 Services	25,752	0	0	322	25,752	322	25,430	0
364 Flow Measuring Devices	7,009	0	0	88	7,009	88	6,921	0
365 Flow Measuring Installations	0	0	0	0	0	0	0	0
371 Effluent Pumping Equipment	11,660	0	0	146	11,660	146	11,514	0
375 Reuse Trans & Distribution	0	0	0	0	0	0	0	0
380 Treatment & Disposal Equip	0	0	0	0	0	0	0	0
381 Plant Sewers	0	0	0	0	0	0	0	0
382 Outfall Sewer Lines	0	0	0	0	0	0	0	0
389 Other Plant Structures & Impro	0	0	0	0	0	0	0	0
390 Office Furniture & Fixt	0	0	0	0	0	0	0	0
391 Transportation Equip	0	0	0	0	0	0	0	0
393 Tools, Shop, & Garage Equip	0	0	0	0	0	0	0	0
394 Laboratory Equipment	0	0	0	0	0	0	0	0
395 Power Operated Equip	0	0	0	0	0	0	0	0
396 Communications Equipment	0	0	0	0	0	0	0	0
397 Miscellaneous Equipment	0	0	0	0	0	0	0	0
398 Other Tangible Plant	0	0	0	0	0	0	0	0
1999 Totals	\$4,887,435	\$0	\$0	\$0	\$50,155	\$4,887,435	\$50,155	\$4,837,280

PLANT AND ACCUMULATED DEPRECIATION SCHEDULE
ADJUSTED TO REMOVE NOT USED & USEFUL, AFFILIATE PROFIT AND INADEQUATELY SUPPORTED PLANT COSTS

	2000	2000 Adjustments		Fully	2000	2000	2000 Accumulated	2000 Net
	Additions Cost	Cost Removal	Depreciation	Depreciated	Depr. Expense	Total Cost	Depreciation	Book Value
351 Organization Cost	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
352 Franchise Cost	0	0	0	0	0	0	0	0
353 Land & Land Rights	35,000	6,125	0	0	0	903,875	0	903,875
354 Structures & Improvements	0	0	0	0	4,914	196,548	7,371	189,177
360 Collection Sewers, Force	0	0	0	0	0	0	0	0
361 Collection Sewers, Gravity	1,676,637	293,411	0	0	111,577	5,154,692	158,720	4,995,971
363 Services	223,421	39,099	0	0	2,948	210,074	3,270	206,805
364 Flow Measuring Devices	0	0	0	0	175	7,009	263	6,746
365 Flow Measuring Installations	0	0	0	0	0	0	0	0
371 Effluent Pumping Equipment	61,500	10,763	0	0	926	62,398	1,071	61,326
375 Reuse Trans & Distribution	0	0	0	0	0	0	0	0
380 Treatment & Disposal Equip	0	0	0	0	0	0	0	0
381 Plant Sewers	0	0	0	0	0	0	0	0
382 Outfall Sewer Lines	0	0	0	0	0	0	0	0
389 Other Plant Structures & Impro	0	0	0	0	0	0	0	0
390 Office Furniture & Fixt	0	0	0	0	0	0	0	0
391 Transportation Equip	0	0	0	0	0	0	0	0
393 Tools, Shop, & Garage Equip	0	0	0	0	0	0	0	0
394 Laboratory Equipment	0	0	0	0	0	0	0	0
395 Power Operated Equip	0	0	0	0	0	0	0	0
396 Communications Equipment	0	0	0	0	0	0	0	0
397 Miscellaneous Equipment	0	0	0	0	0	0	0	0
398 Other Tangible Plant	0	0	0	0	0	0	0	0
2000 Totals	\$1,996,558	\$349,398	\$0	\$0	\$120,539	\$6,534,595	\$170,695	\$6,363,900

PLANT AND ACCUMULATED DEPRECIATION SCHEDULE
ADJUSTED TO REMOVE NOT USED & USEFUL, AFFILIATE PROFIT AND INADEQUATELY SUPPORTED PLANT COSTS

	2001	2001 Adjustments		Fully	2001	2001	2001 Accumulated	2001 Net
	Additions Cost	Cost Removal	Depreciation	Depreciated	Depr. Expense	Total Cost	Depreciation	Book Value
351 Organization Cost	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
352 Franchise Cost	0	0	0	0	0	0	0	0
353 Land & Land Rights	0	0	0	0	0	903,875	0	903,875
354 Structures & Improvements	257,115	59,486	0	0	7,384	394,177	14,755	379,422
360 Collection Sewers, Force	0	0	0	0	0	0	0	0
361 Collection Sewers, Gravity	(5,448,103)	(953,418)	0	0	72,684	660,007	231,404	428,603
363 Services	(249,173)	(43,605)	0	0	2,682	4,507	5,952	(1,445)
364 Flow Measuring Devices	(7,009)	(1,227)	0	0	103	1,227	366	861
365 Flow Measuring Installations	0	0	0	0	0	0	0	0
371 Effluent Pumping Equipment	(73,160)	(12,803)	0	0	805	2,041	1,877	164
375 Reuse Trans & Distribution	0	0	0	0	0	0	0	0
380 Treatment & Disposal Equip	0	0	0	0	0	0	0	0
381 Plant Sewers	9,903,493	1,738,860	0	0	102,058	8,164,633	102,058	8,062,575
382 Outfall Sewer Lines	0	0	0	0	0	0	0	0
389 Other Plant Structures & Impro	0	0	0	0	0	0	0	0
390 Office Furniture & Fixt	0	0	0	0	0	0	0	0
391 Transportation Equip	0	0	0	0	0	0	0	0
393 Tools, Shop, & Garage Equip	0	0	0	0	0	0	0	0
394 Laboratory Equipment	0	0	0	0	0	0	0	0
395 Power Operated Equip	0	0	0	0	0	0	0	0
396 Communications Equipment	0	0	0	0	0	0	0	0
397 Miscellaneous Equipment	0	0	0	0	0	0	0	0
398 Other Tangible Plant	0	0	0	0	0	0	0	0
2001 Totals	\$4,383,163	\$787,294	\$0	\$0	\$185,716	\$10,130,465	\$356,411	\$9,774,054

PLANT AND ACCUMULATED DEPRECIATION SCHEDULE
ADJUSTED TO REMOVE NOT USED & USEFUL, AFFILIATE PROFIT AND INADEQUATELY SUPPORTED PLANT COSTS

	2002	2002 Adjustments		Fully	2002	2002	2002 Accumulated	2002 Net
	Additions	Cost Removal	Depreciation	Depreciated	Depr. Expense	Total Cost	Depreciation	Book Value
	Cost							
351 Organization Cost	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
352 Franchise Cost	0	0	0	0	0	0	0	0
353 Land & Land Rights	0	0	0	0	0	903,875	0	903,875
354 Structures & Improvements	0	0	0	0	9,854	394,177	24,609	369,568
360 Collection Sewers, Force	0	0	0	0	0	0	0	0
361 Collection Sewers, Gravity	1,919,454	335,904	0	0	36,295	2,243,556	267,699	1,975,858
363 Services	0	0	0	0	113	4,507	6,065	(1,558)
364 Flow Measuring Devices	0	0	0	0	31	1,227	396	830
365 Flow Measuring Installations	0	0	0	0	0	0	0	0
371 Effluent Pumping Equipment	0	0	0	0	51	2,041	1,928	113
375 Reuse Trans & Distribution	0	0	0	0	0	0	0	0
380 Treatment & Disposal Equip	0	0	0	0	0	0	0	0
381 Plant Sewers	2,177,178	381,006	0	0	226,568	9,960,805	328,626	9,632,179
382 Outfall Sewer Lines	0	0	0	0	0	0	0	0
389 Other Plant Structures & Impro	0	0	0	0	0	0	0	0
390 Office Furniture & Fixt	0	0	0	0	0	0	0	0
391 Transportation Equip	0	0	0	0	0	0	0	0
393 Tools, Shop, & Garage Equip	0	0	0	0	0	0	0	0
394 Laboratory Equipment	0	0	0	0	0	0	0	0
395 Power Operated Equip	0	0	0	0	0	0	0	0
396 Communications Equipment	0	0	0	0	0	0	0	0
397 Miscellaneous Equipment	0	0	0	0	0	0	0	0
398 Other Tangible Plant	0	0	0	0	0	0	0	0
2002 Totals	\$4,096,632	\$716,911	\$0	\$0	\$272,911	\$13,510,186	\$629,323	\$12,880,864

PLANT AND ACCUMULATED DEPRECIATION SCHEDULE
ADJUSTED TO REMOVE NOT USED & USEFUL, AFFILIATE PROFIT AND INADEQUATELY SUPPORTED PLANT COSTS

	2003		Fully Depreciated	2003 Depr. Expense	2003 Total Cost	2003 Accumulated Depreciation	2003 Net Book Value	
	Additions Cost	2003 Adjustments Cost Removal Depreciation						
351 Organization Cost	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
352 Franchise Cost	0	0	0	0	0	0	0	
353 Land & Land Rights	0	0	0	0	903,875	0	903,875	
354 Structures & Improvements	0	0	0	9,854	394,177	34,463	359,713	
360 Collection Sewers, Force	0	0	0	0	0	0	0	
361 Collection Sewers, Gravity	1,387,558	242,823	0	70,398	3,388,291	338,097	3,050,195	
363 Services	0	0	0	113	4,507	6,177	(1,671)	
364 Flow Measuring Devices	0	0	0	31	1,227	427	799	
365 Flow Measuring Installations	0	0	0	0	0	0	0	
371 Effluent Pumping Equipment	0	0	0	51	2,041	1,979	62	
375 Reuse Trans & Distribution	0	0	0	0	0	0	0	
380 Treatment & Disposal Equip	0	0	0	0	0	0	0	
381 Plant Sewers	5,351,569	936,525	0	304,208	14,375,849	632,834	13,743,015	
382 Outfall Sewer Lines	0	0	0	0	0	0	0	
389 Other Plant Structures & Impro	0	0	0	0	0	0	0	
390 Office Furniture & Fixt	0	0	0	0	0	0	0	
391 Transportation Equip	0	0	0	0	0	0	0	
393 Tools, Shop, & Garage Equip	0	0	0	0	0	0	0	
394 Laboratory Equipment	0	0	0	0	0	0	0	
395 Power Operated Equip	0	0	0	0	0	0	0	
396 Communications Equipment	0	0	0	0	0	0	0	
397 Miscellaneous Equipment	0	0	0	0	0	0	0	
398 Other Tangible Plant	0	0	0	0	0	0	0	
2003 Totals	\$6,739,127	\$1,179,347	\$0	\$0	\$384,655	\$19,069,966	\$1,013,978	\$18,055,988

PLANT AND ACCUMULATED DEPRECIATION SCHEDULE
ADJUSTED TO REMOVE NOT USED & USEFUL, AFFILIATE PROFIT AND INADEQUATELY SUPPORTED PLANT COSTS

	2004	2004 Adjustments		Fully	2004	2004	2004 Accumulated	2004 Net
	Additions Cost	Cost Removal	Depreciation	Depreciated	Depr. Expense	Total Cost	Depreciation	Book Value
351 Organization Cost	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
352 Franchise Cost	0	0	0	0	0	0	0	0
353 Land & Land Rights	412,800	72,240	0	0	0	1,244,435	0	1,244,435
354 Structures & Improvements	0	0	0	0	9,854	394,177	44,318	349,859
360 Collection Sewers, Force	0	0	0	0	0	0	0	0
361 Collection Sewers, Gravity	11,999,101	2,099,843	0	0	208,448	13,287,550	546,545	12,741,005
363 Services	0	0	0	0	113	4,507	6,290	(1,783)
364 Flow Measuring Devices	0	0	0	0	31	1,227	458	769
365 Flow Measuring Installations	0	0	0	0	0	0	0	0
371 Effluent Pumping Equipment	760,640	133,112	0	0	7,895	629,569	9,874	619,694
375 Reuse Trans & Distribution	0	0	0	0	0	0	0	0
380 Treatment & Disposal Equip	0	0	0	0	0	0	0	0
381 Plant Sewers	0	0	0	0	359,396	14,375,849	992,230	13,383,619
382 Outfall Sewer Lines	0	0	0	0	0	0	0	0
389 Other Plant Structures & Impro	0	0	0	0	0	0	0	0
390 Office Furniture & Fixt	0	0	0	0	0	0	0	0
391 Transportation Equip	0	0	0	0	0	0	0	0
393 Tools, Shop, & Garage Equip	0	0	0	0	0	0	0	0
394 Laboratory Equipment	0	0	0	0	0	0	0	0
395 Power Operated Equip	0	0	0	0	0	0	0	0
396 Communications Equipment	0	0	0	0	0	0	0	0
397 Miscellaneous Equipment	0	0	0	0	0	0	0	0
398 Other Tangible Plant	0	0	0	0	0	0	0	0
2004 Totals	\$13,172,541	\$2,305,195	\$0	\$0	\$585,737	\$29,937,312	\$1,599,715	\$28,337,598

PLANT AND ACCUMULATED DEPRECIATION SCHEDULE
ADJUSTED TO REMOVE NOT USED & USEFUL, AFFILIATE PROFIT AND INADEQUATELY SUPPORTED PLANT COSTS

	2005	2005 Adjustments		Fully	2005	2005	2005 Accumulated	2005 Net
	Additions	Cost Removal	Depreciation	Depreciated	Depr. Expense	Total Cost	Depreciation	Book Value
	Cost							
351 Organization Cost	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
352 Franchise Cost	0	0	0	0	0	0	0	0
353 Land & Land Rights	2,800,000	490,000	0	0	0	3,554,435	0	3,554,435
354 Structures & Improvements	0	0	0	0	9,854	394,177	54,172	340,005
360 Collection Sewers, Force	173,809	30,417	0	0	1,792	143,392	1,792	141,600
361 Collection Sewers, Gravity	1,517,976	265,646	0	0	347,843	14,539,880	894,388	13,645,492
363 Services	0	0	0	0	113	4,507	6,403	(1,896)
364 Flow Measuring Devices	0	0	0	0	31	1,227	488	738
365 Flow Measuring Installations	0	0	0	0	0	0	0	0
371 Effluent Pumping Equipment	11,666	2,042	0	0	15,860	639,193	25,734	613,459
375 Reuse Trans & Distribution	150,039	26,257	0	0	1,547	123,782	1,547	122,235
380 Treatment & Disposal Equip	0	0	0	0	0	0	0	0
381 Plant Sewers	24,903,518	7,353,581	0	0	578,770	31,925,786	1,571,001	30,354,786
382 Outfall Sewer Lines	0	0	0	0	0	0	0	0
389 Other Plant Structures & Impro	0	0	0	0	0	0	0	0
390 Office Furniture & Fixt	0	0	0	0	0	0	0	0
391 Transportation Equip	0	0	0	0	0	0	0	0
393 Tools, Shop, & Garage Equip	0	0	0	0	0	0	0	0
394 Laboratory Equipment	0	0	0	0	0	0	0	0
395 Power Operated Equip	0	0	0	0	0	0	0	0
396 Communications Equipment	0	0	0	0	0	0	0	0
397 Miscellaneous Equipment	0	0	0	0	0	0	0	0
398 Other Tangible Plant	0	0	0	0	0	0	0	0
2005 Totals	\$29,557,008	\$8,167,941	\$0	\$0	\$955,810	\$51,326,379	\$2,555,525	\$48,770,854

PLANT AND ACCUMULATED DEPRECIATION SCHEDULE
ADJUSTED TO REMOVE NOT USED & USEFUL, AFFILIATE PROFIT AND INADEQUATELY SUPPORTED PLANT COSTS

	2006	2006 Adjustments		Fully	2006	2006	2006 Accumulated	2006 Net
	Additions Cost	Cost Removal	Depreciation	Depreciated	Depr. Expense	Total Cost	Depreciation	Book Value
351 Organization Cost	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
352 Franchise Cost	0	0	0	0	0	0	0	0
353 Land & Land Rights	0	0	0	0	0	3,554,435	0	3,554,435
354 Structures & Improvements	0	0	0	0	9,854	394,177	64,027	330,150
360 Collection Sewers, Force	18,096,052	4,056,216	0	0	179,083	14,183,228	180,875	14,002,353
361 Collection Sewers, Gravity	7,263,542	1,271,120	0	0	438,402	20,532,302	1,332,790	19,199,512
363 Services	0	0	0	0	113	4,507	6,515	(2,009)
364 Flow Measuring Devices	0	0	0	0	31	1,227	519	707
365 Flow Measuring Installations	0	0	0	0	0	0	0	0
371 Effluent Pumping Equipment	6,314,918	1,105,111	0	0	81,102	5,849,000	106,836	5,742,164
375 Reuse Trans & Distribution	516,167	90,329	0	0	8,418	549,620	9,965	539,655
380 Treatment & Disposal Equip	0	0	0	0	0	0	0	0
381 Plant Sewers	13,530,947	7,810,978	0	0	869,644	37,645,756	2,440,645	35,205,111
382 Outfall Sewer Lines	0	0	0	0	0	0	0	0
389 Other Plant Structures & Impro	0	0	0	0	0	0	0	0
390 Office Furniture & Fixt	0	0	0	0	0	0	0	0
391 Transportation Equip	0	0	0	0	0	0	0	0
393 Tools, Shop, & Garage Equip	0	0	0	0	0	0	0	0
394 Laboratory Equipment	0	0	0	0	0	0	0	0
395 Power Operated Equip	0	0	0	0	0	0	0	0
396 Communications Equipment	0	0	0	0	0	0	0	0
397 Miscellaneous Equipment	0	0	0	0	0	0	0	0
398 Other Tangible Plant	0	0	0	0	0	0	0	0
2006 Totals	\$45,721,626	\$14,333,754	\$0	\$0	\$1,586,647	\$82,714,251	\$4,142,172	\$78,572,079

PLANT AND ACCUMULATED DEPRECIATION SCHEDULE
ADJUSTED TO REMOVE NOT USED & USEFUL, AFFILIATE PROFIT AND INADEQUATELY SUPPORTED PLANT COSTS

	2007	2007 Adjustments		Fully	2007	2007	2007 Accumulated	2007 Net
	Additions Cost	Cost Removal	Depreciation	Depreciated	Depr. Expense	Total Cost	Depreciation	Book Value
351 Organization Cost	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
352 Franchise Cost	0	0	0	0	0	0	0	0
353 Land & Land Rights	0	0	0	0	0	3,554,435	0	3,554,435
354 Structures & Improvements	0	0	0	0	9,854	394,177	73,881	320,296
360 Collection Sewers, Force	1,866,380	1,016,803	0	0	365,200	15,032,806	546,076	14,486,730
361 Collection Sewers, Gravity	199,961	34,993	0	0	515,370	20,697,270	1,848,159	18,849,110
363 Services	0	0	0	0	113	4,507	6,628	(2,121)
364 Flow Measuring Devices	0	0	0	0	31	1,227	550	677
365 Flow Measuring Installations	0	0	0	0	0	0	0	0
371 Effluent Pumping Equipment	526,499	92,137	0	0	151,655	6,283,362	258,491	6,024,871
375 Reuse Trans & Distribution	292,440	51,177	0	0	16,756	790,883	26,721	764,162
380 Treatment & Disposal Equip	0	0	0	0	0	0	0	0
381 Plant Sewers	10,410,332	1,821,808	0	0	1,048,500	46,234,280	3,489,145	42,745,134
382 Outfall Sewer Lines	0	0	0	0	0	0	0	0
389 Other Plant Structures & Impro	0	0	0	0	0	0	0	0
390 Office Furniture & Fixt	0	0	0	0	0	0	0	0
391 Transportation Equip	0	0	0	0	0	0	0	0
393 Tools, Shop, & Garage Equip	0	0	0	0	0	0	0	0
394 Laboratory Equipment	0	0	0	0	0	0	0	0
395 Power Operated Equip	0	0	0	0	0	0	0	0
396 Communications Equipment	0	0	0	0	0	0	0	0
397 Miscellaneous Equipment	0	0	0	0	0	0	0	0
398 Other Tangible Plant	0	0	0	0	0	0	0	0
2007 Totals	\$13,295,612	\$3,016,918	\$0	\$0	\$2,107,479	\$92,992,945	\$6,249,651	\$86,743,294

Johnson Utilities L.L.C. - Wastewater Division
Docket No. W-02987A-08-0180
Test Year Ended December 31, 2007

Schedule JMM-WW10

RATE BASE ADJUSTMENT NO. 7 - CONTRIBUTIONS IN AID OF CONSTRUCTION ("CIAC")

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Unexpended CIAC	\$ (16,505)	\$ 16,505	\$ -

References:

Column [A]: Company Schedule B-2, Page 4

Column [B]: Testimony, CSB;

Column [C]: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 8 - AMORTIZATION OF CONTRIBUTIONS IN AID OF CONSTRUCTION ("CIAC")

No.	Computation of CIAC Balances	Amount Recorded	Unexpended Cash	Amortizable Balance	Amortization Rate	Year	Amortization	Total Amortization	Accumulated Amortization
1	Balance at 12/31/1997	\$ 35,000	\$ -	\$ -					
2	Additions 1998	\$ 35,000	\$ -	\$ 35,000	2.50%	1998	875	875	875
3	Balance at 12/31/1998	\$ 303,000	\$ -	\$ 338,000	2.50%	1999	8,450	8,450	9,325
4	Additions 1999	\$ 1,067,352	\$ -	\$ 1,405,352	2.50%	2000	35,134	35,134	44,459
5	Balance at 12/31/1999	\$ 893,800	\$ -	\$ 2,299,152	2.50%	2001	57,479	57,479	101,938
6	Additions 2000	\$ 2,299,152	\$ -	\$ 5,208,322	2.50%	2002	130,208	130,208	232,146
7	Balance at 12/31/2000	\$ 6,455,300	\$ -	\$ 11,663,622	2.50%	2003	291,591	291,591	523,736
8	Additions 2001	\$ 8,679,970	\$ -	\$ 20,343,592	2.50%	2004	508,590	508,590	1,032,326
9	Balance at 12/31/2001	\$ 20,343,592	\$ -	\$ 28,462,942	2.50%	2005	711,574	711,574	1,743,900
10	Additions 2002	\$ 8,119,350	\$ -	\$ 39,930,891	2.50%	2006	998,272	998,272	2,742,172
11	Balance at 12/31/2002	\$ 11,467,949	\$ -	\$ 48,931,590	2.50%	2007	1,223,290	1,223,290	3,965,462
12	Additions 2003	\$ 39,930,891	\$ -						
13	Balance at 12/31/2003	\$ 9,000,699	\$ -						
14	Additions 2004	\$ 48,931,590	\$ -						
15	Balance at 12/31/2004								
16	Additions 2005								
17	Balance at 12/31/2005								
18	Additions 2006								
19	Balance at 12/31/2006								
20	Additions 2007								
21	Balance at 12/31/2007								
22									
23									
24									
25									
26									
27									
28									
29									
30									

Per Staff: 3,965,462
Per Company: 2,907,181
Staffs Adjustment: 1,058,281

References:
Column [A]: Company Schedule B-2, Page 4
Column [B]: Testimony, JMM
Column [C]: Column [A] + Column [B]

Johnson Utilities L.L.C. - Wastewater Division
Docket No. W-02987A-08-0180
Test Year Ended December 31, 2007

Schedule JMM-WW12

RATE BASE ADJUSTMENT NO. 9 - DEFERRED ASSETS

		[A]	[B]	[C]
LINE NO.	DESCRIPTION	COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Deferred Assets	\$ 986,826	\$ (986,826)	\$ -

References:

Column [A]: Company Schedule B-2, Page 4

Column [B]: Testimony, CSB;

Column [C]: Column [A] + Column [B]

OPERATING INCOME STATEMENT - TEST YEAR AND STAFF PROPOSED

LINE 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 RECOMMENDED
REVENUES:						
1	521.00 Metered Water Sales	\$ 10,786,457	\$ 65,351	\$ 10,851,808	\$ (1,468,000)	\$ 9,383,808
2	522.00 Water Sales - Unmetered	-	-	-	-	-
3	536.00 Other Operating Revenue	502,206	-	502,206	-	502,206
4	Total Operating Revenues	<u>\$ 11,288,663</u>	<u>\$ 65,351</u>	<u>\$ 11,354,014</u>	<u>\$ (1,468,000)</u>	<u>\$ 9,886,014</u>
OPERATING EXPENSES:						
5	701.00 Salaries and Wages	\$ -	\$ -	\$ -	\$ -	\$ -
6	710.00 Purchased Wastewater Treatment	-	-	-	-	-
7	711.00 Sludge Removal Expense	286,429	(7,688)	278,741	-	278,741
8	715.00 Purchased Power	688,557	26,003	714,560	-	714,560
9	716.00 Fuel for Power Production	-	-	-	-	-
10	718.00 Chemicals	147,196	-	147,196	-	147,196
11	720.00 Materials and Supplies	32,762	-	32,762	-	32,762
12	731.00 Contractual Services	4,826,240	(9,022)	4,817,218	-	4,817,218
13	Repairs and Maintenance	116,474	-	116,474	-	116,474
14	740.00 Rents	48,151	-	48,151	-	48,151
15	750.00 Transportation Expenses	-	-	-	-	-
16	755.00 Insurance	21,039	-	21,039	-	21,039
17	765.00 Regulatory Commission Expense - Rate Case	33,333	-	33,333	-	33,333
18	775.00 Miscellaneous Expense	231,593	(993)	230,600	-	230,600
19	403.00 Depreciation Expense	3,142,068	(1,400,959)	1,741,109	-	1,741,109
20	408.00 Taxes Other Than Income	6,525	-	6,525	-	6,525
21	408.11 Property Taxes	785,281	(43,990)	741,291	(31,599)	709,693
22	409.00 Income Taxes	330,522	(330,522)	-	-	-
25	Total Operating Expenses	<u>10,696,170</u>	<u>(1,767,172)</u>	<u>8,928,998</u>	<u>(31,599)</u>	<u>8,897,400</u>
26	Operating Income (Loss)	<u>\$ 592,491</u>	<u>\$ 1,832,523</u>	<u>\$ 2,425,016</u>	<u>\$ (1,436,401)</u>	<u>\$ 988,614</u>
27						
28	Other Income (Expense):					
29	427.00 Interest Expense	\$ 42,710	\$ (5,960)	\$ 36,750	\$ -	\$ 36,750
30	Net Profit (Loss)	<u>\$ 549,781</u>	<u>\$ 1,838,483</u>	<u>\$ 2,388,264</u>	<u>\$ -</u>	<u>\$ 951,864</u>

References:

Column (A): Company Schedule C-1
Column (B): Schedule JMM-13
Column (C): Column (A) + Column (B)
Column (D): Schedules JMM-1
Column (E): Column (C) + Column (D)

SUMMARY OF OPERATING INCOME STATEMENT ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) ADJ #1	(C) ADJ #2	(D) ADJ #3	(E) ADJ #4	(F) ADJ #5	(G) ADJ #6	(H) ADJ #7	(I) ADJ #8	(J) ADJ #9	(K) ADJUSTED
REVENUES:												
1	Flat Rate Revenues	\$ 10,786,457	\$ 65,351	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,851,808
2	Measured Revenues	502,206	-	-	-	-	-	-	-	-	-	502,206
3	Other Operating Revenue	536,000	-	-	-	-	-	-	-	-	-	536,000
4	Total Operating Revenues	\$ 11,288,663	\$ 65,351	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,354,014
OPERATING EXPENSES:												
7	Salaries and Wages	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
8	Purchased Wastewater Treatment	286,429	-	-	-	-	-	-	-	-	-	286,429
9	Sludge Removal Expense	698,557	-	(7,688)	-	-	-	-	-	-	-	690,869
10	Fuel for Power Production	-	-	-	26,003	-	-	-	-	-	-	26,003
11	Chemicals	147,196	-	-	-	-	-	-	-	-	-	147,196
12	Materials and Supplies	32,762	-	-	-	-	-	-	-	-	-	32,762
13	Contractual Services	4,826,240	-	-	-	(9,022)	-	-	-	-	-	4,817,218
14	Repairs and Maintenance	116,474	-	-	-	-	-	-	-	-	-	116,474
15	Rents	48,151	-	-	-	-	-	-	-	-	-	48,151
16	Transportation Expenses	-	-	-	-	-	-	-	-	-	-	-
17	Insurance	21,039	-	-	-	-	-	-	-	-	-	21,039
18	Regulatory Commission Expense - Rate Cas	33,333	-	-	-	-	-	-	-	-	-	33,333
19	Miscellaneous Expense	231,993	-	-	-	-	(993)	-	-	-	-	230,600
20	Depreciation Expense	3,142,068	-	-	-	-	-	(1,400,959)	-	-	-	1,741,109
21	Taxes Other Than Income	783,281	-	-	-	-	-	-	-	-	-	783,281
22	Income Taxes	330,522	-	(7,688)	-	(9,022)	(993)	(1,400,959)	(43,990)	(330,522)	-	8,928,998
23	Property Taxes	409,000	-	-	-	-	-	-	-	-	-	409,000
24	Operating Income (Loss)	\$ 592,491	\$ 65,351	\$ (7,688)	\$ (26,003)	\$ (9,022)	\$ (993)	\$ (1,400,959)	\$ (43,990)	\$ (330,522)	\$ -	\$ 2,425,014
25	Total Operating Expenses	\$ 5,928,998	\$ -	\$ (7,688)	\$ (26,003)	\$ (9,022)	\$ (993)	\$ (1,400,959)	\$ (43,990)	\$ (330,522)	\$ -	\$ 5,928,998
26	Operating Income (Loss)	\$ 5,365,672	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,365,672
Other Income (Expenses):												
27	Interest Expense	\$ 42,710	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 42,710
28	Net Profit (Loss)	\$ 549,781	\$ 65,351	\$ 7,688	\$ (26,003)	\$ 9,022	\$ 993	\$ 1,400,959	\$ 43,990	\$ 330,522	\$ (5,960)	\$ 2,388,264

Johnson Utilities L.L.C. - Wastewater Division
Docket No. WS-02987A-08-0180
Test Year Ended December 31, 2007

Schedule JMM-WW15

OPERATING INCOME ADJUSTMENT NO. 1 - INCREASE METERED WATER REVENUES

LINE NO.	ACCT NO.	DESCRIPTION	[A]	[B]	[C]
			COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1	461.00	Metered Water Revenues	\$ 10,786,457	\$ 65,351	\$ 10,851,808

References:

- Column (A), Company Schedule C-1
- Column (B): Testimony JMM
- Column (C): Column (A) + Column (B)

OPERATING INCOME ADJUSTMENT NO. 2 - DECREASE SLUDGE REMOVAL EXPENSE FOR INVOICES OUTSIDE TEST YEAR

LINE NO.	ACCT NO.	DESCRIPTION	[A]	[B]	[C]
			COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1	711.00	Sludge Removal Expense	\$ 286,429	\$ (7,688)	\$ 278,741
2					
3		Invoices out of Test Year			
4					
5					
	<u>Account ID</u>	<u>Trans Description</u>			<u>Debit Amt</u>
6	717.00	CT ENVIRONMENTAL SERVICES - Bin service 1/1/08-1/31/08	\$ 248.00		
7	717.00	CT ENVIRONMENTAL SERVICES - Bin service 1/1/08-1/31/08	248.00		
8	717.00	CT ENVIRONMENTAL SERVICES - bin Service 1/1/08-1/31/08	248.00		
9	717.00	CT ENVIRONMENTAL SERVICES - Bin Service 1/3/08-1/31/08	654.60		
10	717.00	CT ENVIRONMENTAL SERVICES - Bin spotting 1/2/08	499.56		
11	717.00	CT ENVIRONMENTAL SERVICES - Bin Spotting 1/22/08	447.70		
12	717.00	CT ENVIRONMENTAL SERVICES - Bin spotting 1/25/08	288.00		
13	717.00	CT ENVIRONMENTAL SERVICES - Bin spotting 1/29/08	459.91		
14	717.00	CT ENVIRONMENTAL SERVICES - Bin spotting 1/3/08	702.53		
15	717.00	CT ENVIRONMENTAL SERVICES - bin spotting 1/30/08	300.72		
16	717.00	CT ENVIRONMENTAL SERVICES - Bin spotting 1/31/08	285.57		
17	717.00	CT ENVIRONMENTAL SERVICES - Onsite shuttling of bin 1/22/08	509.54		
18	717.00	CT ENVIRONMENTAL SERVICES - Onsite shuttling of bin 1/3/08	436.23		
19	717.00	CT ENVIRONMENTAL SERVICES - Transport of bin 1/29/08	733.68		
20	717.00	CT ENVIRONMENTAL SERVICES - Transport of bin 1/29/08	999.80		
21	717.00	CT ENVIRONMENTAL SERVICES - Transport of bin 1/3/08	451.07		
22	717.00	CT ENVIRONMENTAL SERVICES - Transport to site	175.43		
23	Total		<u>\$ 7,688.34</u>		

References:

- Column (A), Company Schedule C-1
- Column (B): Testimony JMM
- Column (C): Column (A) + Column (B)

OPERATING INCOME ADJUSTMENT NO. 3 - INCREASE PURCHASED POWER

LINE NO.	ACCT NO.	DESCRIPTION	[A]	[B]	[C]
			COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1	715.00	Purchased Power	\$ 688,557	\$ 26,003	\$ 714,560

2
3
4

Staff Calculation of SRP - Customer Deposits:

Account ID	Trans	Description	Debit Amt
715.00		SALT RIVER PROJECT - 801-041-002 28704 N Main Street	\$ 507.84
715.00		SALT RIVER PROJECT - 008-042-003 939 E Clubhouse Lane	2,200.00
715.00		SALT RIVER PROJECT - 787-171-003 1995 E Bella Vista Road	9,659.14
715.00		SALT RIVER PROJECT - 433-941-000 1913 W Hash Knife Drive	9,360.00
715.00		SALT RIVER PROJECT - 940-871-009 9776 E Judd Road	4,275.76
11	Total		<u>\$ 26,002.74</u>

References:

- Column (A), Company Schedule C-1
- Column (B): Testimony JMM
- Column (C): Column (A) + Column (B)

OPERATING ADJUSTMENT NO. 4 -CURRENT YEAR DEFERRED EXPENSES

Line No.	ACCT NO.	Description	[A]	[B]	[C]
			COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1	Outside Services	Outside Services	\$ 4,826,240	\$ (9,022)	\$ 4,817,218
2					
3					
4		2007 expenses for Legal and Accounting Fees included in deferred assets:	Invoice totals		
5		Legal Fees for Capital Issues	\$ 5,967		
6		Legal Fees for Town of Florence	83,043		
7		Legal Fees for Rate Case Expense	25,755		
8		Utility Contracting Services LLC for Main Extension Agreements	90,000		
9		Accounting Fees	15,514		
10		Total Deferred Expenses	\$ 220,279		
11					
12		Deferred Expenses that can not be reclassified as current year expenses:	Invoice totals		
13		Legal Fees for Town of Florence	\$ 83,043		
14		Utility Contracting Services LLC for Main Extension Agreements	90,000		
15		Accounting Fees	3,140		
16		Total	\$ 176,182		
17					
18					
19		Deferred Expenses that have been reclassified as current year expenses:	Invoice totals	Allocation Percentage	Allocation Percentage
20		Accounting Fees:		Water Division	Wastewater Division
21				0.5388	0.4612
21	Account ID	Trans Description	Debit Amt	Water Division	Wastewater Division
22	632.80	THOMAS J. BOURASSA, CPA - OUTSIDE ACCOUNTING	\$ 748	\$ 748	\$ -
23	632.80	THOMAS J. BOURASSA, CPA - OUTSIDE ACCOUNTING	748.32	748	-
24	632.80	THOMAS J. BOURASSA, CPA - Revise Cash Flow Analysis	4,002.60	4,003	-
25	632.80	THOMAS J. BOURASSA, CPA - Meetings w/ Town of Florence	2,205.00	2,205	-
26	832.80	THOMAS J. BOURASSA, CPA - Rate case mtng w/G-B-D	422.10	227	195
27	832.80	THOMAS J. BOURASSA, CPA - Mtg @ JUC/ year-end 2006 finar	1,831.20	987	845
28	832.80	THOMAS J. BOURASSA, CPA - Rate Case/Issues on unexpende	2,417.10	1,302	1,115
29	832.80	Salquist - Capital Issues	5,966.90	3,215	2,752
30		Total Deferred Expenses reclassified to Outside Service	\$ 18,342	\$ 13,436	\$ 4,906
31					
32		Remove Amortization Expense from Outside Services			
33	Account ID	Trans Description	Debit Amt	Water Division	Wastewater Division
34	632.80	amortize eng/legal/acctg/adm costs for 07		\$ 765	
35	732.80	amortize eng/legal/acctg/adm costs for 07			\$ 554
36	633.00	amortize eng/legal/acctg/adm costs for 07		18,470	
37	733.00	amortize eng/legal/acctg/adm costs for 07			13,374
38		Total Adjustment		\$ 19,234	\$ 13,928
39					
40		Adjustment Totals for Water and Wastewater Division		\$	(9,022)

References:

Column (A), Company Schedule C-1
Column (B): Testimony JMM
Column (C): Column (A) + Column (B)

OPERATING ADJUSTMENT NO. 5 - MISCELLANEOUS EXPENSE

Line No.	ACCT NO.	Description	[A]	[B]	[C]
			COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1	657.00	Miscellaneous Expense	\$ 231,593	\$ (993)	\$ 230,600
2					
3		Staff Calculation:			
4				Allocation Percentage	Allocation Percentage
5				Water Division	Wastewater Division
6				0.5388	0.4612
7	Sponsorships:				
8	Account ID	Trans Description	Debit Amt	Water Division	Wastewater Division
8	857.00	VAQUERO FOUNDATION - Drawing of \$10,000 Savings bor	150.00		
9	857.00	ART CARDS BY LYNN - The Davis Cheney Art Gallery	200.00	188.58	161.42
10	860.00	Oasis Golf Club Scramble Tourn - Oasis Golf Club Scramble	200.00		
11	860.00	ACYFL - Per Brian Contribution	1,000.00		
12	860.00	FLORENCE CHAMBER OF - Casino Night Donation	300.00	808.20	691.80
13	820.20	FLORENCE CHAMBER OF - Annual Membership Dues	150.00	80.82	69.18
14	Subtotal		2,000.00	1,077.60	922.40
15					
16	Lobbying Expenses:				
17	Account ID	Trans Description	Debit Amt	Water Division	
18	636.00	R&R PARTNERS - GPA RETAINER	2,503.19	2,503.19	
19	636.00	R&R PARTNERS - Retainer- GPA Feb 07	2,500.00	2,500.00	
20	636.00	R&R PARTNERS - Government Affairs Consulting March	2,501.18	2,501.18	
21	636.00	R&R PARTNERS - GPA Retainer	2,500.00	2,500.00	
22	636.00	R&R PARTNERS - GPA Retainer May 2007	2,500.00	2,500.00	
23	636.00	R&R PARTNERS - GPA Retainer June	2,522.56	2,522.56	
24	636.00	R&R PARTNERS - Government Affairs Consulting	2,500.00	2,500.00	
25	636.00	R&R PARTNERS - GPA Retainer Aug 2007	2,500.00	2,500.00	
26	636.00	R&R PARTNERS - GPA Retainer Sept 07	2,505.17	2,505.17	
27	636.00	R&R PARTNERS - Oct 07 Government Affairs Consulting	2,500.00	2,500.00	
28	636.00	R&R PARTNERS - GPA Retainer	2,500.00	2,500.00	
29	636.00	R&R PARTNERS - Government Affairs Consulting	2,500.00	2,500.00	
30	Subtotal		30,032.10	30,032.10	
31					
32	Food & Entertainment:				
33	Account ID	Trans Description	Debit Amt	Water Division	Wastewater Division
34	896.00	NATIONAL BANK OF ARIZONA - Great Alaskan Broasted	70.45		
35	896.00	NATIONAL BANK OF ARIZONA - Meals/Entertainment	82.96		
36	Subtotal		153.41	82.66	70.75
37					
38	Total Column B (Lines12+28+34)				<u>993.15</u>

References:

Column (A), Company Schedule C-1
Column (B): Testimony JMM
Column (C): Column (A) + Column (B)

OPERATING INCOME ADJUSTMENT NO. 6 - DEPRECIATION EXPENSE

Line No.	Description	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Depreciation Expense	\$ 3,142,068	\$ (1,400,959)	\$ 1,741,109
2				
3	Staff Calculation of Depreciation Expense:			
4				
5		Staff Adjusted	Proposed	Depreciation
6	Acct.	Original Cost	Rate	Expense
7	No. Description			
8	351 Organization Cost	\$ -	0.00%	\$ -
9	352 Franchise Cost	-	0.00%	-
10	353 Land & Land Rights	3,554,435	0.00%	-
11	354 Structures & Improvements	394,177	3.33%	13,126
12	360 Collection Sewers, Force	15,032,806	2.00%	300,656
13	361 Collection Sewers, Gravity	20,697,270	2.00%	413,945
14	363 Services	-	2.00%	-
15	364 Flow Measuring Devices	-	10.00%	-
16	365 Flow Measuring Installations	-	10.00%	-
17	371 Effluent Pumping Equipment	6,283,362	12.50%	785,420
18	375 Reuse Trans & Distribution	790,883	2.50%	19,772
19	380 Treatment & Disposal Equip	-	5.00%	-
20	381 Plant Sewers	46,234,280	5.00%	2,311,714
21	382 Outfall Sewer Lines	-	3.33%	-
22	389 Other Plant Structures & Improv	-	6.67%	-
23	390 Office Furniture & Fixt	-	6.67%	-
24	391 Transportation Equip	-	20.00%	-
25	393 Tools, Shop, & Garage Equip	-	5.00%	-
26	394 Laboratory Equipment	-	10.00%	-
27	395 Power Operated Equip	-	5.00%	-
28	396 Communications Equipment	-	10.00%	-
29	397 Miscellaneous Equipment	-	10.00%	-
30	398 Other Tangible Plant	-	-	-
31	Total	\$ 92,987,213		\$ 3,844,634
32				
33	Depreciable Plant	89,432,778		
34				
35	Composite CIAC Amortization Rate	4.30%		
36				
37	Less: Amortization of Contributions	\$ 48,931,590	4.2989%	\$ 2,103,525
38				
39	Staff Recommended Total Depreciation Expense			\$ 1,741,109
40				
41	Company Proposed Test Year Depreciation Expense			\$ 3,142,068
42				
43	Staff Recommended Adjustment to increase Depreciation Expense			\$ (1,400,959)

References:

Column (A), Company Schedule C-1
Column (B): Testimony JMM
Column (C): Column (A) + Column (B)

OPERATING ADJUSTMENT NO. 7 - PROPERTY TAX EXPENSE

LINE NO.	DESCRIPTION	[A]	[B]
		STAFF AS ADJUSTED	STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues - 2005	\$ 11,354,014	\$ 11,354,014
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	\$ 22,708,028	\$ 22,708,028
4	Staff Recommended Revenue	11,354,014	\$ 9,886,014
5	Subtotal (Line 4 + Line 5)	\$ 34,062,042	\$ 32,594,042
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	\$ 11,354,014	\$ 10,864,681
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	\$ 22,708,028	\$ 21,729,361
10	Plus: 10% of CWIP	-	-
11	Less: Net Book Value of Licensed Vehicles	-	-
12	Full Cash Value (Line 9 + Line 10 - Line 11)	\$ 22,708,028	\$ 21,729,361
13	Assessment Ratio	23%	23%
14	Assessment Value (Line 12 * Line 13)	\$ 5,222,846	\$ 4,997,753
15	Composite Property Tax Rate - Obtained from Company	14.0380%	14.0380%
16	Staff Recommended Property Tax Expense (Line 14 * Line 15)	\$ 733,183	\$ 701,585
17	Tax on Parcel	8,108	8,108
18	Staff Test Year Adjusted Property Tax Expense	\$ 741,291	\$ 709,693
19	Company Property Tax Expense	785,281	
20	Staff Recommended Adjustments	\$ (43,990)	
21	Property Tax - Staff Recommended Revenue		\$ 709,693
22	Staff Test Year Adjusted Property Tax Expense		741,291
23	Decrease in Property Tax Due to decrease in Revenue Requirement		\$ (31,599)

REFERENCES:

- Line 15: Actual Tax Rate obtained from Company
- Line 19: Company Schedule C-1
- Line 20: Line 19 - Line 18
- Line 23: Line 22 - Line 21

Johnson Utilities L.L.C. - Wastewater Division
Docket No. WS-02987A-08-0180
Test Year Ended December 31, 2007

Schedule JMM-WW22

OPERATING ADJUSTMENT NO. 8 - INCOME TAX

Line No.	ACCT NO.	Description	[A]	[B]	[C]
			COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1	409.00	Income Taxes	\$ 330,522	\$ (330,522)	\$ -

References:

Column (A), Company Schedule C-1

Column (B): Testimony JMM

Column (C): Column (A) + Column (B)

Johnson Utilities L.L.C. - Wastewater Division
Docket No. WS-02987A-08-0180
Test Year Ended December 31, 2007

Schedule JMM-WW23

OPERATING ADJUSTMENT NO. 9 - REMOVE INTEREST SYNCHRONIZATION

Line No.	ACCT NO.	Description	[A]	[B]	[C]
			COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1	427.00	Interest Expense	\$ 42,710	\$ (5,960)	\$ 36,750

References:

Column (A), Company Schedule C-1

Column (B): Testimony JMM

Column (C): Column (A) + Column (B)

RATE DESIGN

Monthly Minimum Charge	Present Rates	Company Proposed Rates	Staff Recommended Rates
Meter Sizes (All Zones and Classes)			
5/8 Inch	\$ 35.00	\$ 42.30	30.45
3/4 Inch	38.50	46.52	33.50
1 Inch	49.00	59.21	42.63
1 1/2 Inch	63.00	76.13	54.80
2 Inch	101.50	122.66	88.31
3 Inch	385.00	465.25	334.95
4 Inch	735.00	888.20	639.45
6 Inch	1,015.00	1,226.57	883.05
8 Inch	N/A	1,550.67	1,116.21
10 inch	N/A	2,481.07	1,786.11
Effluent per 1,000 gallons	\$ 0.62	\$ 0.62	0.5393
per acre foot	\$ 200.00	\$ 200.00	173.98
Service Charges			
Establishment	\$ 25.00	\$ 25.00	\$ 20.00
Establishment (After hours)	40.00	40.00	40.00
Deposit Requirement (Residential)	(a)	(a)	(a)
Deposit Requirement (Non Residential Meter)	(a)	(a)	(a)
Deposit Interest	(b)	(b)	(b)
Re-Establishment (With-in 12 months)	(c)	(c)	(c)
Re-Establishment (After Hours)	(c)	(c)	(c)
NSF Check	15.00	15.00	15.00
Deffred Payment, Per Month	1.50%	1.50%	1.50%
After Hours service charge, per Rule R14-2-403D	Refer to Above Charges	Refer to Above Charges	Refer to Above Charges
Late Charge per month	40.00	40.00	40.00
Service Line Connection Charge			
Main Extension Tariff, per Rule R14-2-606B	500.00	500.00	500.00
exceptet refunds shall be based upon five percent (5%) of gross revenues from bonafide customers,	Cost	Cost	Cost
until all advances are fully refunded to Developer.	Cost	Cost	Cost

(a) Residential - two times the average bill. Non-residential - two and one-half times the average bill

(b) Interest per Rule R14-2-403(B).

(c) Minimum charge times number of full months off the system, per Rule R14-2-403(D).

(d) New water installations. May be assessed only once per parcel, service connection, or lot within a sub-division. Purpose is to equitably apportion the costs of constructing additional off-site facilities to provide water production, delivery, storage, and pressure among all new service connections.

(e) New wastewater installations. May be assessed only once per parcel, service connection, or lot within a sub-division.

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

All advances and/or contributions are to include labor, materials, overheads, and all applicable taxes.

BEFORE THE ARIZONA CORPORATION COMMISSION

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

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

DIRECT
TESTIMONY
OF
MARLIN SCOTT, JR
UTILITIES ENGINEER
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

FEBRUARY 4, 2009

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**EXECUTIVE SUMMARY
JOHNSON UTILITIES COMPANY
DOCKET NO. WS-02987A-08-0180**

WATER DIVISION

Conclusions

- A. The Johnson Utilities Company's ("Company") Anthem water system has a water loss of 7.1% and is within the acceptable limit of 10%. (For the Johnson Ranch water system, see Recommendation #1 below.)
- B. The Company's Johnson Ranch system's current source and storage capacity are adequate to serve the present customer base and reasonable growth. (For the Anthem water system's source and storage capacity recommendation, Staff determined that this system had excess capacity. See Recommendation #3 below.)
- C. For the Company's two water systems, the Arizona Department of Environmental Quality ("ADEQ") has reported no major deficiencies and has determined that both systems, PWS #11-128 and #11-136, are currently delivering water that meets water quality standards required by the Arizona Administrative Code, Title 18, Chapter 4.
- D. The Company is located in both of the Arizona Department of Water Resources' ("ADWR") Phoenix and Pinal Active Management Areas. The ADWR has reported that both of the Company's systems are in compliance with its requirements governing water providers and/or community water systems.
- E. The Company has no delinquent Arizona Corporation Commission compliance issues.
- F. The Company has an approved curtailment tariff that became effective on July 9, 2005.
- G. The Company has an approved backflow prevention tariff that became effective on June 30, 1997.
- H. The Company has an approved water hook-up fee tariff that became effective on May 27, 1997.

Recommendations

- 1. The Company's Johnson Ranch water system has a water loss of 19.4%. For this Johnson Ranch system, Staff recommends that the Company begin a 12-month monitoring exercise of its water system. Staff further recommends that the Company docket the results of the system monitoring as a compliance item in this case by November 1, 2010. If the reported water loss for the period from October 1, 2009 through October 1, 2010, is greater than 10%, the Company shall prepare a report containing a detailed analysis and plan to reduce water loss to 10% or less. If the Company believes it is not cost effective to reduce water loss to less than 10%, it should submit a detailed cost benefit analysis to support its opinion. This report shall be docketed as a compliance item in this proceeding for review and certification by Staff.

The above report or cost benefit analysis, if required, shall be docketed by December 31, 2010. In no case shall water loss be greater than 15 percent. If water loss is not reduced to less than 15 percent by 2010, Staff may initiate an Order to Show Cause against the Company.

2. Staff recommends that the Company's reported annual water testing expense of \$55,007 be adopted for this proceeding.
3. Staff recommends its adjusted water plant-in-service of \$74,337,067 be used as a guideline for purposes of setting rates in this proceeding.
4. Staff recommends approval of its water depreciation rates by individual National Association of Regulatory Utility Commissioners ("NARUC") category as shown in Table I-1.
5. Staff recommends approval of the proposed charges as shown in Table J-1, with separate installation charges for the service line and meter installations.

WASTEWATER DIVISION

Conclusions

- I. The Company's Section 11, Pecan, and Anthem Water Reclamation Plants ("WRPs") have adequate treatment capacity to serve the present customer base and reasonable growth. (For the San Tan WRP, Staff determined that this WRP had excess capacity. See Recommendation #7 below.)
- J. The ADEQ has reported the Anthem WRP as having no deficiencies and in compliance with ADEQ regulations.
- K. The Company has an approved wastewater hook-up fee tariff that became effective on May 27, 1997.

Recommendations

6. ADEQ has reported the Section 11, San Tan, and Pecan WRPs as having deficiencies and not in compliance with ADEQ regulations. However, according to the Company, all the reported deficiencies have been addressed and/or corrected. Therefore, Staff recommends that the Company file with Docket Control, as a compliance item in this docket, copies of updated ADEQ Compliance Status Reports for the Pecan, San Tan and Section 11 wastewater systems indicating that the noted deficiencies have been resolved and all are in compliance. Staff further recommends that any increase in rates and charges approved in this proceeding not become effective until the first day of the month following the Company's filing of the updated ADEQ Compliance Status Reports indicating that the Pecan, San Tan and Section 11 wastewater systems have resolved the noted deficiencies and all are in compliance.

7. Staff recommends its adjusted wastewater plant-in-service of \$113,811,343 be used as a guideline for purposes of setting rates in this proceeding.
8. Staff recommends approval of its wastewater depreciation rates by individual NARUC category as shown in Table H-1.

1 **INTRODUCTION**

2 **Q. Please state your name, place of employment and job title.**

3 A. My name is Marlin Scott, Jr. My place of employment is the Arizona Corporation
4 Commission ("Commission"), Utilities Division, 1200 West Washington Street, Phoenix,
5 Arizona 85007. My job title is Utilities Engineer.

6
7 **Q. How long have you been employed by the Commission?**

8 A. I have been employed by the Commission since November 1987.

9
10 **Q. Please list your duties and responsibilities.**

11 A. As a Utilities Engineer, specializing in water and wastewater engineering, my
12 responsibilities include: the inspection, investigation, and evaluation of water and
13 wastewater systems; preparing reconstruction cost new and/or original cost studies, cost of
14 service studies and investigative reports; providing technical recommendations and
15 suggesting corrective action for water and wastewater systems; and providing written and
16 oral testimony on rate applications and other cases before the Commission.

17
18 **Q. How many cases have you analyzed for the Utilities Division?**

19 A. I have analyzed approximately 520 cases covering various responsibilities for the Utilities
20 Division.

21
22 **Q. Have you previously testified before this Commission?**

23 A. Yes, I have testified in 73 proceedings before this Commission.

1 **Q. What is your educational background?**

2 A. I graduated from Northern Arizona University in 1984 with a Bachelor of Science degree
3 in Civil Engineering Technology.
4

5 **Q. Briefly describe your pertinent work experience.**

6 A. Prior to my employment with the Commission, I was Assistant Engineer for the City of
7 Winslow, Arizona, for about two years. Prior to that, I was a Civil Engineering
8 Technician with the U.S. Public Health Service in Winslow for approximately six years.
9

10 **Q. Please state your professional membership, registrations, and licenses.**

11 A. I am a member of the National Association of Regulatory Utility Commissioners' Staff
12 Subcommittee on Water.
13

14 **PURPOSE OF TESTIMONY**

15 **Q. Were you assigned to provide the Utilities Division Staff ("Staff") engineering**
16 **analysis and recommendation for the Johnson Utilities Company ("Company") in**
17 **this proceeding?**

18 A. Yes. I reviewed the Company's application, reviewed responses to data requests, and
19 inspected the water and wastewater systems on November 5, 11 and 21, 2008. This
20 testimony and its attachment present Staff's engineering evaluation.
21

22 **ENGINEERING REPORT**

23 **Q. Please describe the attached Engineering Report, Exhibit MSJ.**

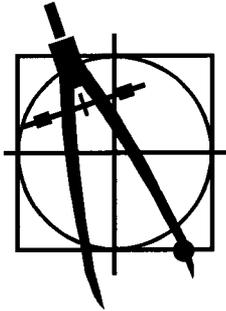
24 A. Exhibit MSJ presents the details and analyses of Staff's findings for the water and
25 wastewater divisions, and is attached to this direct testimony. Exhibit MSJ contains the
26 following water division major topics: (1) a description of the water systems and the

1 processes, (2) water use, (3) growth, (4) compliance with the rules of the Arizona
2 Department of Environmental Quality (“ADEQ”), Arizona Department of Water
3 Resources, and the Arizona Corporation Commission (“ACC”), (5) plant-in-service, (6)
4 depreciation rates, (7) service line and meter installation charges, and (8) approved tariff
5 filings. Exhibit MSJ also contains the following wastewater division major topics: (1) a
6 description of the wastewater systems and the processes, (2) wastewater flows, (3) growth,
7 (4) compliance with the rules of the ADEQ and the ACC, (5) plant-in-service, (6)
8 depreciation rates, and (7) approved tariff filings.

9
10 My conclusions and recommendations from the Engineering Report are contained in the
11 “EXECUTIVE SUMMARY”, above.

12
13 **Q. Does this conclude your direct testimony?**

14 **A. Yes, it does.**



**Engineering Report for
Johnson Utilities Company
Docket No. WS-02987A-08-0180 (Rates)**

WATER DIVISION

February 4, 2009

A. LOCATION OF JOHNSON UTILITIES COMPANY (“COMPANY”)

The Company provides water service to a community between Queen Creek and Florence in Pinal County. Figure A-1 shows the location of the Company within Pinal County and Figure A-2 shows the approximate 70.2 square-miles of water certificated area.

B. DESCRIPTION OF WATER SYSTEMS

The Company operates two potable water systems; the Johnson Ranch and Anthem at Merrill Ranch Systems, and one non-potable water system; a construction/irrigation system. These systems were field inspected on November 5, 2008, by Arizona Corporation Commission (“ACC” or “Commission”) Staff member Marlin Scott, Jr., in the accompaniment of Brian Tompsett, representing the Company.

Johnson Ranch System

The operation of this water system consists of 15 wells, one Reverse Osmosis treatment system, 12 storage tanks, seven booster systems and a distribution system serving over 18,000 customers during the test year ending December 31, 2007. A Johnson Ranch system schematic is shown in Figure B-1 with detailed plant facility descriptions as follows:

Table JR-1. Well Data

Well Name	ADWR ID No.	Submersible Pump	Pump GPM	Casing Size & Depth	Meter Size
Johnson Ranch #4	55-558445	100-Hp	500	8" x 760'	6"
Johnson Ranch #5	55-559843	100-Hp	500	10" x 665'	6"
Oasis #1	55-582085	30-Hp	110	10" x 460'	3"
Oasis #2	55-585088	30-Hp	110	6" x 460'	3"
Oasis #3	55-582087	30-Hp	110	10" x 520'	3"
Ricke #1	55-570372	50-Hp	360	10" x 1,125'	3"
Ricke #3	55-594071	75-Hp	450	9" x 920'	6"
Wild Horse #1	55-571198	60-Hp	360	10" x 175'	4"
Skyline #1	55-621462	125-Hp	1,000	16" x 995'	6"
Circle Cross #2	55-599026	200-HP	1,000	11" x 980'	6"
Edwards Road #1	55-586189	40-Hp	35	6" x 680'	2"
San Tan #2	55-598836	100-Hp	750	13" x 800'	6"
Morning Sun Farms #1	55-201429	200-Hp	1,100	10" x 800'	6"
Morning Sun Farms #2	55-211012	200-Hp	1,100	13" x 700'	6"
Hardison #1	55-209384	200-Hp	1,000	11" x 780'	6"
San Tan #1	55-626147	(well no longer exist)			
Magma #1	55-215458	(Co. report well, but no well)			
Magma #2	55-212850	(not-in-service - drilled/capped)			
		TOTAL:	8,485 GPM		

Table JR-2. Treatment Facilities

Location	Type of Treatment
Johnson Ranch Main Plant	Reverse Osmosis (100,000 gallon storage tank, 30-Hp booster pump, and 500 GPM RO treatment unit)
Wells at Skyline #1, San Tan #2, Morning Sun Farms #1, Morning Sun Farms #2, Circle Cross #2, Edward Road #1, Wild Horse #1, Ricke #1, Hardison #1 and plants at Oasis Water Plant #1 & Johnson Ranch Main	Chlorination units

Table JR-3. Storage Tanks

Capacity Million Gallons (MG)	Quantity (Each)	Location
1.0	5	@ Johnson Ranch Main Plant, Gary Road, Circle Cross #1, two at Morning Sun Farm #2
0.5	3	@ Johnson Ranch Main Plant, Oasis #1, Ricke #1
0.1	1	@ Johnson Ranch Main Plant
0.05	3	@ Wild Horse #1, Edward Road #1, Ricke #1
Total: 6.75 MG	12	

Table JR-4. Booster Systems

Location	Plant Facilities	Storage Tanks (From in Tables 2 & 3)
Johnson Ranch Main Plant	50-Hp & two 75-Hp booster pumps w/ 5,000 gal. pressure tank	1.0 MG, 0.5 MG & 0.1 MG storage tanks
Oasis Water Plant #1	40-Hp & two 75-Hp booster pumps w/ 5,000 gal. pressure tank	0.5 MG storage tank
Wild Horse #1	Two 10-Hp & 30-Hp booster pumps w/ 5,000 gal. pressure tank	0.05 MG storage tank
Edward Road #1	Three 75-Hp booster pumps w/ 5,000 gal. pressure tank	0.05 MG storage tank
Ricke #1	Two 50-Hp & 75-Hp booster pumps w/ 5,000 gal. pressure tank	0.5 MG & 0.05 MG storage tanks
Circle Cross #2	Two 50-Hp & 75-Hp booster pumps w/ 5,000 gal. pressure tank	1.0 MG storage tank
Morning Sun Farms #2	Two 50-Hp & two 75-Hp booster pumps w/ 10,000 gal. pressure tank	Two 1.0 MG storage tanks

Table JR-5. Water Mains

Diameter	Material	Length (ft.)
2-inch	PVC/HDPE/DIP	126
4-inch	PVC/HDPE/DIP	4,596
6-inch	PVC/HDPE/DIP	285,166
8-inch	PVC/HDPE/DIP	749,490
10-inch	PVC/HDPE/DIP	38,904
12-inch	PVC/HDPE/DIP	207,286
14-inch	PVC/HDPE/DIP	0
16-inch	PVC/HDPE/DIP	4,290
18-inch	PVC/HDPE/DIP	0
	Total:	1,289,858 ft. or 244.3 miles

Table JR-6. Customer Meters

Size	Quantity
5/8 x 3/4-inch	-
3/4-inch	-
1- inch (dual taps)	10,220
1-1/2-inch	-
2-inch	52
3-inch	1
4-inch	-
6-inch	-
Total:	10,273

Table JR-7. Fire Hydrants

Size	Quantity
Standard	1,659

Anthem at Merrill Ranch System

The operation of this water system consists of three wells, two storage tanks, two booster systems and a distribution system serving over 850 customers during the test year ending December 31, 2007. An Anthem system schematic is shown in Figure B-2 with detailed plant facility descriptions as follows:

Table A-1. Well Data

Well Name	ADWR ID No.	Submersible Pump	Pump GPM	Casing Size & Depth	Chlorine Unit	Meter Size
Rancho Sendero #1	55-569177	50-Hp	600	10" x 280'	-	4"
Rancho Sendero #2	55-583151	50-Hp	300	8" x 380'	Liquid	4"
Anthem #1	55-211602	200-Hp	600	16" x 740' 12" x 950'	Liquid	6"
Anthem #2	55-216839	(Co. report well, but no well)				
Anthem #3	55-212514	(not-in-service: Drilled/capped)				
Anthem #4	55-212512	(not-in-service: Drilled/capped)				
		TOTAL:	1,500 GPM			

Table A-2. Storage Tanks

Capacity Million Gallons (MG)	Quantity (Each)	Location
0.5	1	@ Rancho Sendero #2
1.0	1	@ Anthem #1
Total: 1.5 MG	2	

Table A-3. Booster Systems

Location	Plant Facilities	Storage Tanks (From Table A-2)
@ Rancho Sendero #2	Two 50-Hp & one 75-Hp booster pumps w/ 5,000 gal. Pressure tank. This site is solar powered.	0.5 MG storage tank
@ Anthem #1	Five 50-Hp booster pumps w/ 10,000 gal. pressure tank	1.0 MG storage tank

Table A-4. Water Mains

Diameter	Material	Length (ft.)
6-inch	PVC/HDPE/DIP	326
8-inch	PVC/HDPE/DIP	61,545
10-inch	PVC/HDPE/DIP	24,000
12-inch	PVC/HDPE/DIP	29,414
14-inch	PVC/HDPE/DIP	867
16-inch	PVC/HDPE/DIP	5,049
18-inch	PVC/HDPE/DIP	73
SLVE		6,595
	Total:	127,869 ft. or 24.2 miles

Table A-5. Customer Meters

Size	Quantity
5/8 x 3/4-inch	-
3/4-inch	467
1- inch (dual taps)	284
1-1/2-inch	-
2-inch	-
Total:	751

Table A-6. Fire Hydrants

Size	Quantity
Standard	122

Non-Potable System

The operation of this non-potable water system consists of three wells that pump water into the Magma Irrigation District canal which transports water to construction and irrigation customers.

Table NP-1. Well Data

Well #	ADWR ID No.	Pump HP	Pump GPM	Casing Size & Depth	Meter Size
#2	55-615284	60-Hp submersible	260	20" x 411'	3"
#7	55-615286	200-Hp turbine	900	16" x 1,000'	8"
#3	55-627105	100-Hp submersible	500	20" x 715'	6"
		TOTAL:	1,660 GPM		

C. WATER USE

Water Sold

Based on the information provided by the Company, water use for the year 2007 is presented in Figures C-1 and C-2. For the Johnson Ranch System, the customer consumption experienced a high monthly average water use of 401 gallons per day ("GPD") per connection and a low monthly average water use of 194 GPD per connection for an average annual use of 313 GPD per connection.

For the Anthem System, the customer consumption experienced a high monthly average water use of 867 gallons per day ("GPD") per connection and a low monthly average water use of 349 GPD per connection for an average annual use of 634 GPD per connection. According to the Company, the Anthem System usage was high due to flushing of mains for testing and inspection of this new water system.

Non-Account Water

Non-account water should be 10% or less. For the Johnson Ranch System, the Company reported 2,438,732,000 gallons pumped and 1,965,312,000 gallons sold, resulting in a water loss of 19.4%. For the Anthem System, the Company reported 161,370,000 gallons pumped and 149,893,000 gallons sold, resulting in a water loss of 7.1%. This 7.1% is within the acceptable limit of 10%.

For the Johnson Ranch System, Staff recommends that the Company begin a 12-month monitoring exercise of this water system. Staff further recommends that the Company docket the results of the system monitoring as a compliance item in this case by November 1, 2010. If the reported water loss for the period from October 1, 2009 through October 1, 2010, is greater than 10%, the Company shall prepare a report containing a detailed analysis and plan to reduce water loss to 10% or less. If the Company believes it is not cost effective to reduce water loss to less than 10%, it should submit a detailed cost benefit analysis to support its opinion. This report shall be docketed as a compliance item for this proceeding for review and certification by Staff. The report or cost benefit analysis, if required, shall be docketed by December 31, 2010. Water

loss shall not be greater than 15%. If water loss is not reduced to less than 15 percent by 2010, Staff may initiate an Order to Show Cause against the Company.

System Analysis

The Johnson Ranch water system's current source capacity of 8,485 GPM and storage capacity of 6.75 million gallons is adequate to serve the present customer base and reasonable growth.

For the Anthem System, the water system's current source capacity of 1,500 GPM (two 600 GPM and one 300 GPM wells) and storage capacity of 1.5 million gallons (1.0 MG and 0.5 MG) includes excess capacity for the present customer base of 857. Since the Anthem System's water use does not resemble normal usage, Staff adopted the Johnson Ranch System's peak water use factors. Using these peak factors of 400 GPD/service connection for storage capacity and 500 GPD/service connection (or 0.35 GPM/service connection) for well capacity, this system could serve up to approximately 5,050 service connections.

Figure D-2 shows a growth projection of approximately 1,780 total service connections by year ending 2012. For storage capacity, using the peak factor of 400 GPD per service connection and multiplying by 1,780 service connections, this would calculate to 712,000 GPD. Then, adding 120,000 GPD for fire flow would equate to 832,000 GPD. For well capacity, using the peak factor of 0.35 GPM per service connection and multiplying by 1,780 service connections, this would calculate to 623 GPM. Therefore, the 1.0 MG storage tank and two wells (a 600 GPM and 300 GPM) would be sufficient for this system within a five year period.

As a result, one 600 GPM well and the 0.5 MG storage tank are not needed at this time. Staff concludes these two plant items are excess capacity and recommends their disallowance for the amounts shown in Staff's Adjustment #3 in Section H.

D. GROWTH

Figures D-1 and D-2 depict the customer growth using linear regression analysis. The number of service connections was obtained from annual reports submitted to the Commission. At the end of the test year 2007, the Johnson Ranch System had 18,039 customers and it is projected that this system could have over 28,000 customers by December 2012 as shown in Figure D-1.

At the end of the test year 2007, the Anthem System had 857 customers and it is projected that this system could have over 1,750 customers by December 2012 as shown in Figure D-2.

E. ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY (“ADEQ”) COMPLIANCE

Compliance

On November 20, 2008, ADEQ reported the Johnson Ranch System, PWS #11-128, had no major deficiencies and based on data submitted to ADEQ; ADEQ has determined that this system is currently delivering water that meets water quality standards required by the Arizona Administrative Code, Title 18, Chapter 4.

On January 23, 2009, ADEQ reported the Anthem System, PWS #11-136, had no major deficiencies and based on data submitted to ADEQ; ADEQ has determined that this system is currently delivering water that meets water quality standards required by the Arizona Administrative Code, Title 18, Chapter 4.

Water Testing Expense

The Company reported its water testing expense at \$55,007 for the 2007 test year. Staff has reviewed the Company’s reported expense amount and recommends that the Company’s water testing expense of \$55,007 be adopted for this proceeding.

F. ARIZONA DEPARTMENT OF WATER RESOURCES (“ADWR”) COMPLIANCE

The Johnson Ranch System is located in the Phoenix Active Management Area (“AMA”). ADWR has reported that this system is in compliance with its requirements governing water providers and/or community water systems.

The Anthem System is located in the Pinal AMA. ADWR has reported that this system is in compliance with its requirements governing water providers and/or community water systems.

G. ARIZONA CORPORATION COMMISSION (“ACC”) COMPLIANCE

According to the Utilities Division Compliance Section, the Company had no delinquent ACC compliance issues.

H. PLANT-IN-SERVICE

The Company submitted an Original Cost (“OC”) amount for plant-in-service of \$79,591,151. Staff has reviewed the Company’s OC and recommends that it be accepted with the following adjustments:

Staff's Adjustment #1 – Used and Useful Plant

Through the field inspection and data requests, Staff considered nine plant items not used and useful. Staff removed the following plant items:

Table H-1. Plant Not Used and Useful

Acct. No.	Plant item	Year	OC
307	Land – Ellsworth Wells 1, 2, & 3	2001	\$40,000
307	Anthem Well #3	2006	740,536
307	Anthem Well #4	2006	745,755
307	Crestfield Manor Well #1	2006	526,273
331	Mains – San Tan Well #1 (Company incorrectly recording this well into this Mains account.)	2002	21,858
331	Mains – 4 miles of 12-inch main north of Ricke Water Plant	2007	731,125
331	Mains – Magma 2 subdivision, approximately 1/3 built out.	2005	405,322
331	Mains – Quail Run Estates Subdivision	2005	824,322
331	Mains – Circle Cross – Parcel 12	2005	91,828
Total:			\$4,127,019

Staff's Adjustment #2 – Reclassification of Plant

Through the field inspection and data requests, Staff reclassified plant from two accounts as follows:

Table H-2. Plant Reclassification

Acct. No.	Plant item	Year	OC
330	From Acct. 304 to:		
	Distribution Reservoirs & Standpipes		
	JR Main Site – 1.0 MG	2007	905,348
	Ricke Water Plant – 0.5 MG	2006	1,116,650
	Circle Cross – 1.0 MG	2003	410,848
	Morning Farms #1 – 1.0 MG	2006	1,305,450
	Morning Farms #1 – 1.0 MG	2007	915,292
	Ranchero Sendero WP – 0.5 MG	2006	693,827
Anthem WP #1 – 1.0 MG	2006	1,310,422	
	Subtotal:		\$6,657,837
330	From Acct. 331 to:		
	Distribution Reservoirs & Standpipes		
	JR Main Site – 0.5 MG	1999	101,837
	JR Main Site – 0.1 MG	2002	59,508
	Ricke WP – 0.5 MG	2003	61,751
	Oasis Water Plant – 0.5 MG	2002	267,788
	Edwards Road – 50,000 gallon	2002	63,474
	San Tan (Gary Rd.) – 1.0 MG	2003	317,254
	Subtotal:		\$871,612
	Total:		\$7,529,449

Staff's Adjustment #3 – Excess Capacity Plant

Through data requests and system evaluation, Staff considered two plant items as having excess capacity as follows:

Table H-3. Excess Capacity Plant

Acct. No.	Plant item	Year	OC
307	Wells & Springs Anthem – Rancho Sendero #1 - Well	2005	433,238
330	Distribution Reservoirs & Standpipes Anthem – Rancho Sendero WP – 0.5 MG	2006	693,827
	Total:		\$1,127,065

Staff's Adjustment to the Plant-in-Service

Based on Staff's adjustments to the Company's OC plant-in-service, Staff recommends the following plant-in-service cost be used as a guideline for purposes of setting rates in this proceeding:

Table H-4. Staff's Adjustment to Plant-in-Service

Acct. No.	Descriptions	Company OC	Staff OC
303	Land & Land Rights	272,438	272,438
304	Structures & Improvements	9,482,165	2,824,328
307	Wells & Springs	5,226,030	2,740,228
311	Electrical Pumping Equipment	764,111	764,111
320	Water Treatment Equipment	21,856	21,856
330	Distribution Reservoirs	248,272	7,083,894
331	Trans. & Distribution Mains	53,432,585	50,486,518
333	Services	527,473	527,473
334	Meters	6,068,503	6,068,503
335	Hydrants	3,547,718	3,547,718
339	Other Plant & Misc. Equip.	-	-
340	Office Furniture & Equip.	-	-
341	Transportation Equipment	-	-
343	Tools, Shop & Garage Equip.	-	-
346	Communication Equipment	-	-
348	Other Tangible Plant	-	-
	Totals:	\$79,591,151	\$74,337,067

I. DEPRECIATION RATES

The Company has been using a water depreciation rate of 2.50% in every National Association of Regulatory Utility Commissioners ("NARUC") plant category. In prior orders, the Commission has been shifting away from the use of a composite rate in favor of individual depreciation rates by NARUC category. (For example, a uniform 2.50% composite rate would not really be appropriate for either vehicles or transmission mains and instead, different specific depreciation rates should be used.)

In this proceeding, the Company has adopted the majority of Staff's typical Water Depreciation Rates. The Company rates differ from Staff's depreciation rates for the following plant items;

Account 320.1 – Water Treatment Plants at 20.0%
Account 320.2 – Solution Chemical Feeders (none given)
Account 330.2 – Pressure tanks (none given)
Account 340.1 – Computers & Software (none given)
Account 348 - Other Tangible Plant at 10.0%.

Staff recommends that the Company adopt Staff's depreciation rates for the above plant items as follows:

Account 320.1 – Water Treatment Plants at 3.33%
Account 320.2 – Solution Chemical Feeders 20.0%
Account 330.2 – Pressure tanks at 5.0%
Account 340.1 – Computers & Software at 20.0%
Account 348 - Other Tangible Plant (may vary from 5% to 50%)

Account 348 – Other Tangible Plant should have no rate at this time. Since the Company's proposed plant-in-service has no plant facilities or plant cost for Account 348 – Other Tangible Plant, Staff suggest that this account's depreciation rate be set in accordance with the specific capital item when known. Therefore, Staff recommends approval of its typical water depreciation rates as presented in Table I-1 by individual NARUC category.

J. SERVICE LINE AND METER INSTALLATION CHARGES

The Company proposed changes to its service line and meter installation charges. The Company's proposed charges are similar to Staff's updated customary installation charges. Since the Company may at times install meters on existing service lines, it would be appropriate for some customers to only be charged for the meter installation. Therefore, Staff recommends approval of the proposed charges as shown in Table J-1, with separate installation charges for the service line and meter installations.

K. CURTAILMENT TARIFF

The Company has an approved curtailment tariff that became effective on July 9, 2005.

L. BACKFLOW PREVENTION TARIFF

The Company has an approved backflow prevention tariff that became effective on June 30, 1997.

M. OFF-SITE FACILITIES HOOK-UP FEE TARIFF - WATER

The Company has an approved water hook-up fee tariff that became effective on May 27, 1997.

FIGURES

Pinal County Map Figure A-1

Certificated Areas Figure A-2

Johnson Ranch System Schematic..... Figure B-1

Anthem System Schematic Figure B-2

Johnson Ranch System Water Use Figure C-1

Anthem System Water Use..... Figure C-2

Johnson Ranch System Growth Figure D-1

Anthem System Growth..... Figure D-2

TABLES

Water Depreciation Rates Table I-1

Service Line and Meter Installation Charges..... Table J-1

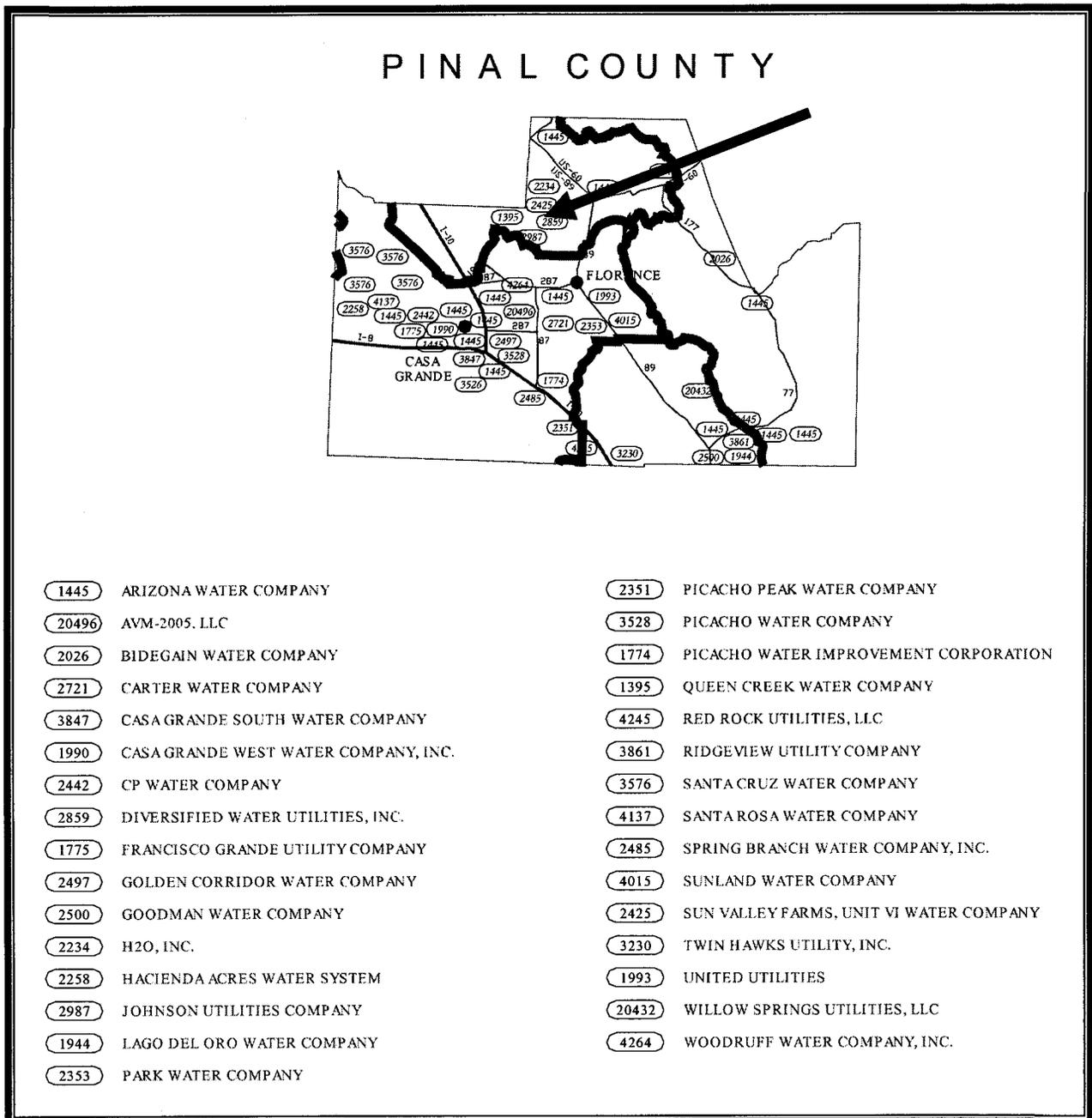


Figure A-1. Pinal County Map

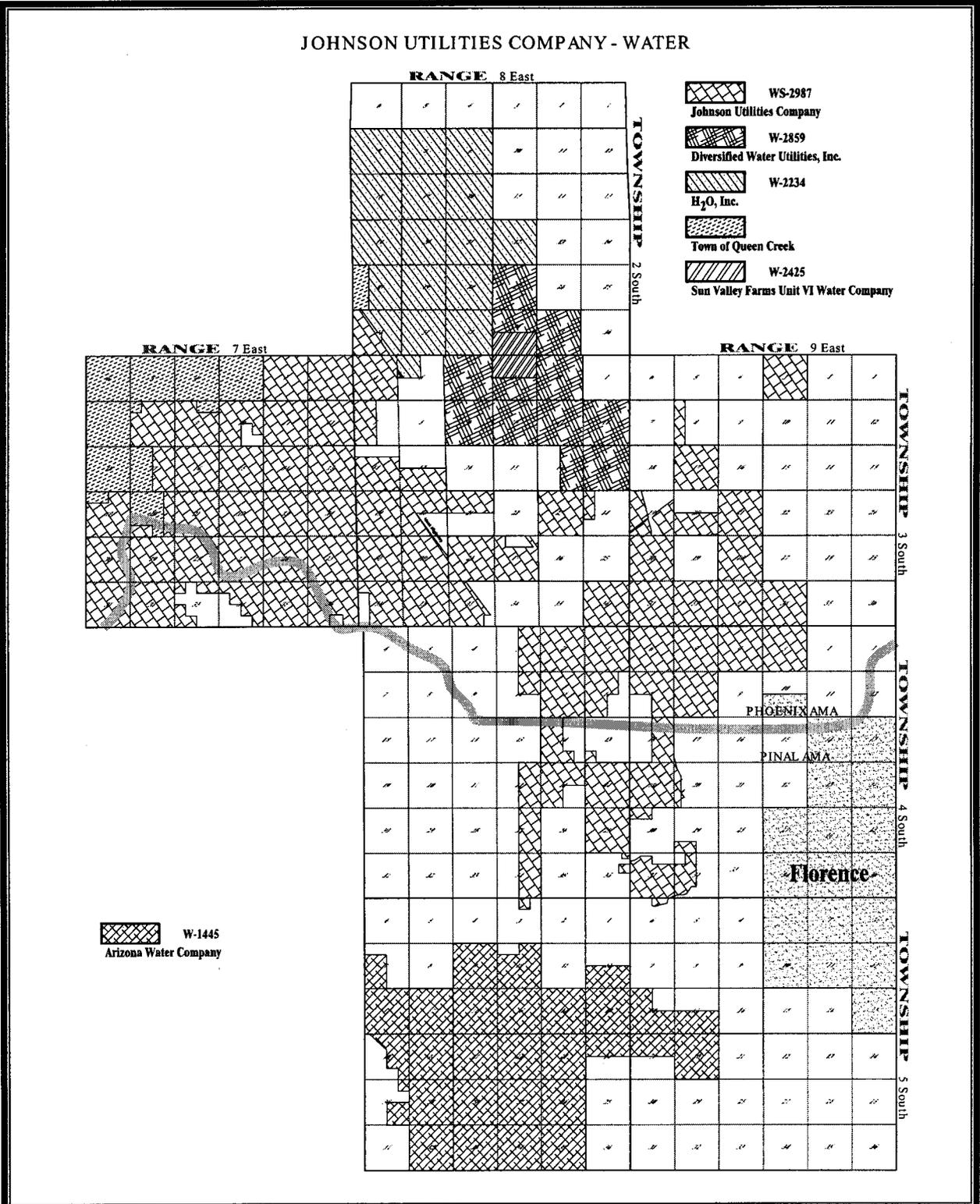


Figure A-2. Certificated Area

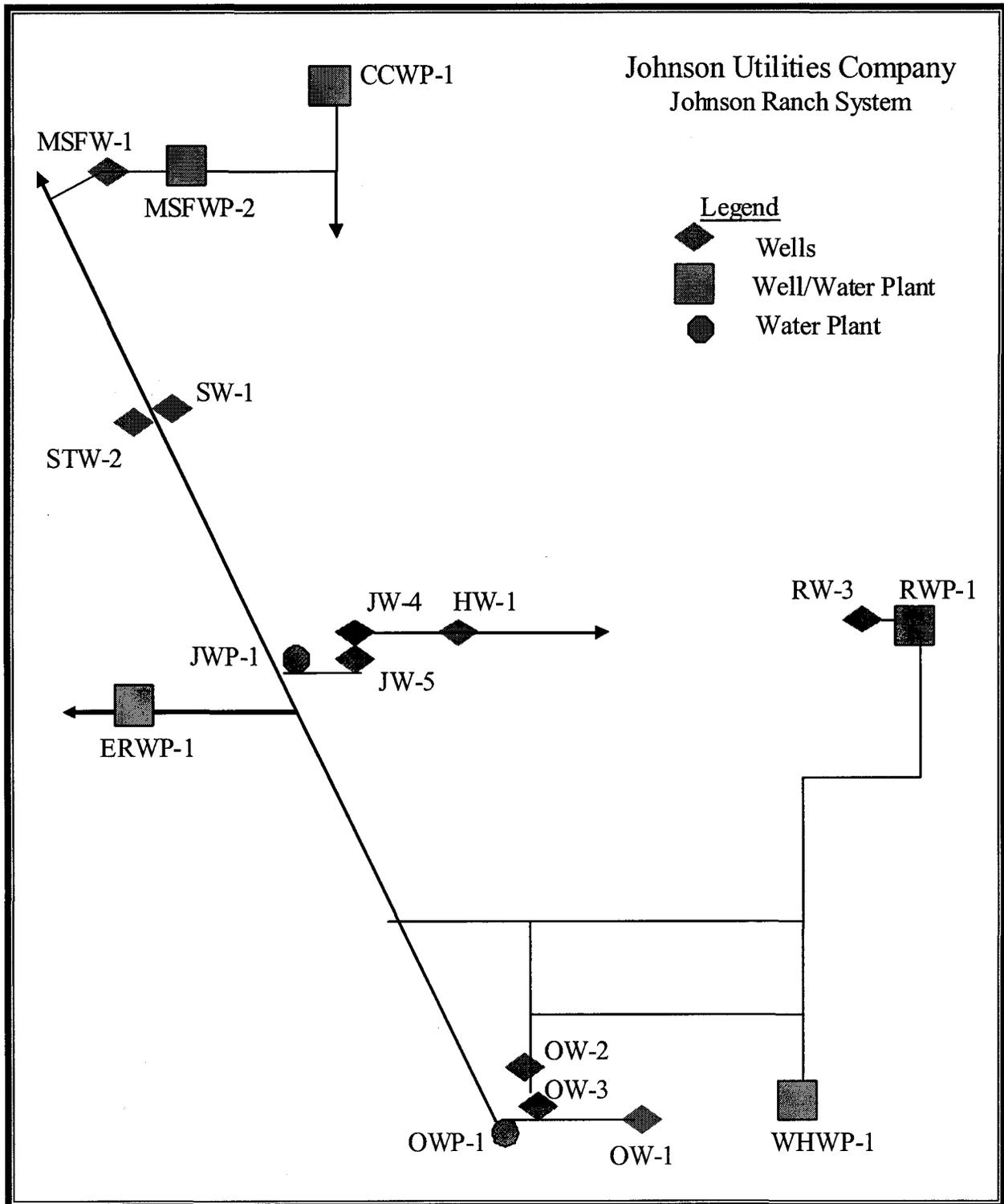


Figure B-1. Johnson Ranch System Schematic

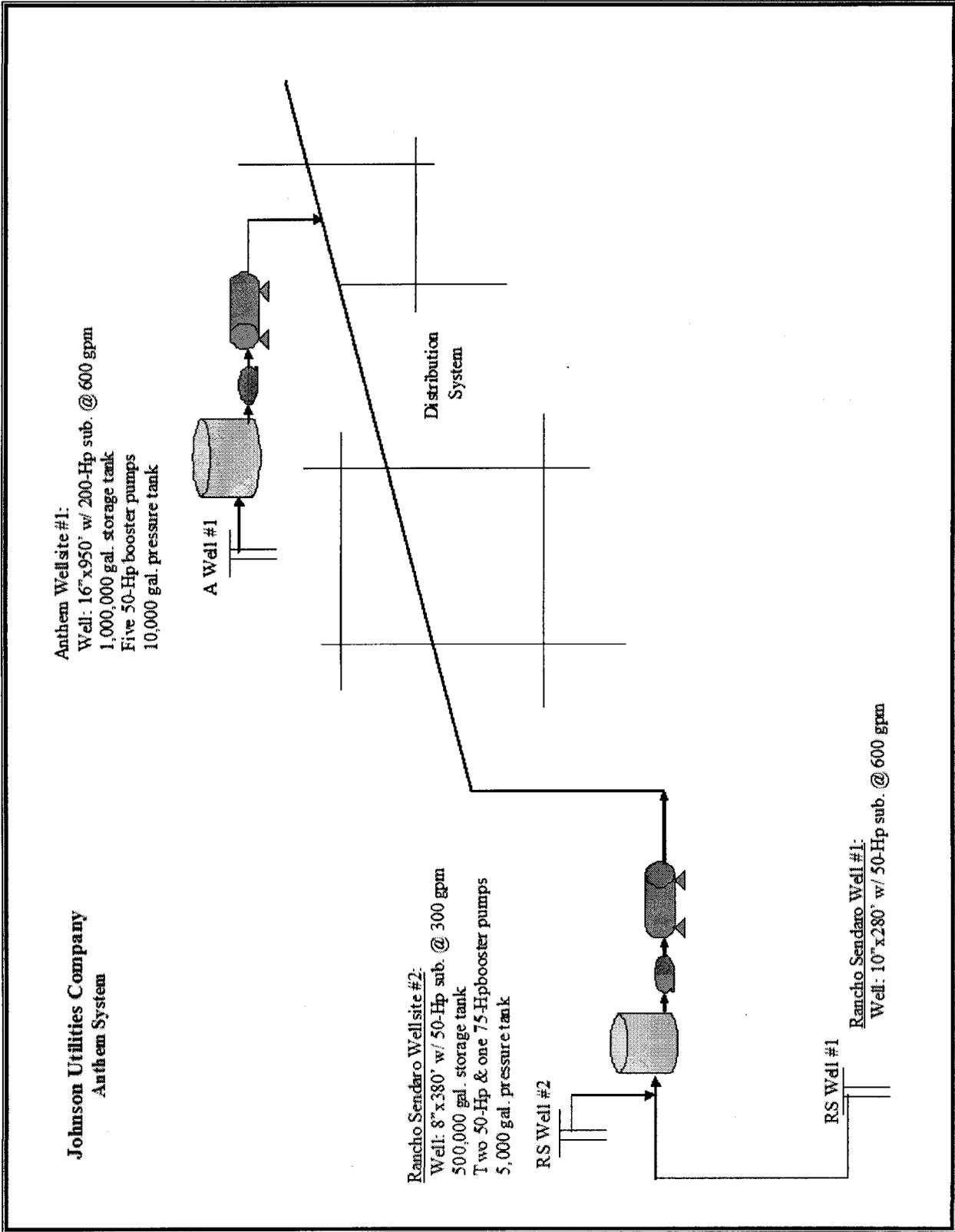


Figure B-2. Anthem System Schematic

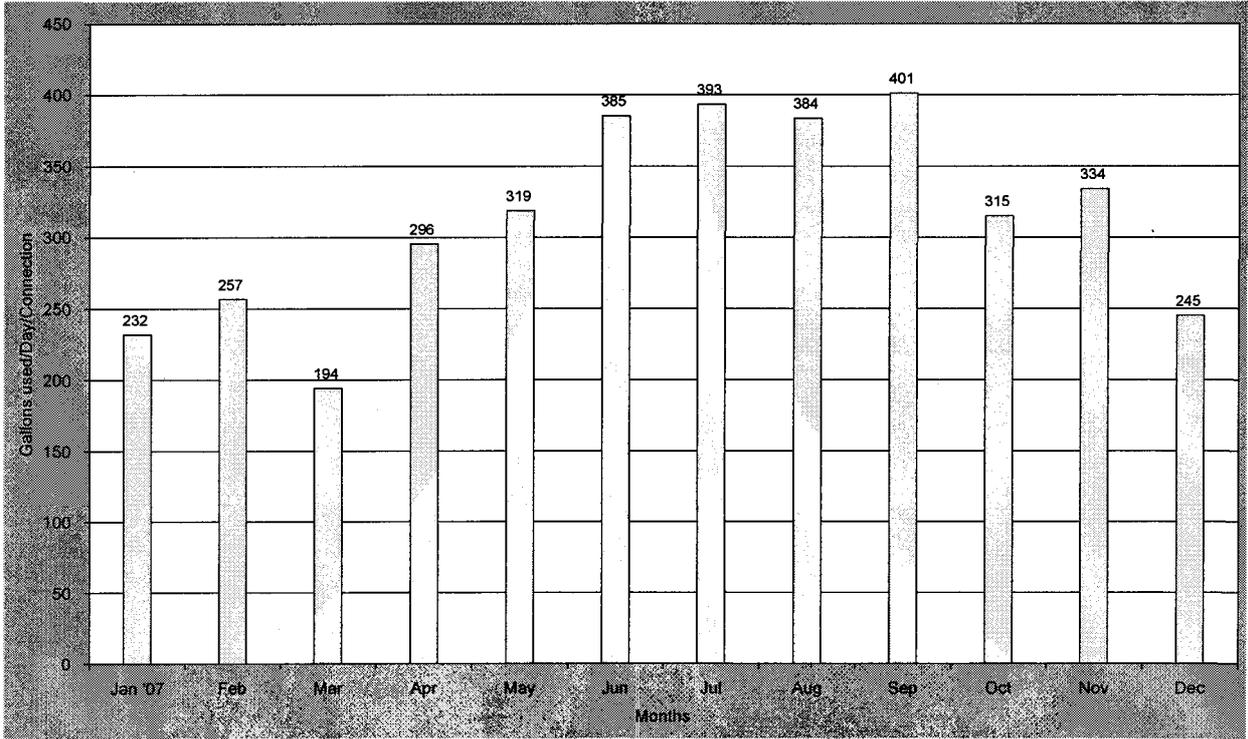


Figure C-1. Johnson Ranch System Water Use

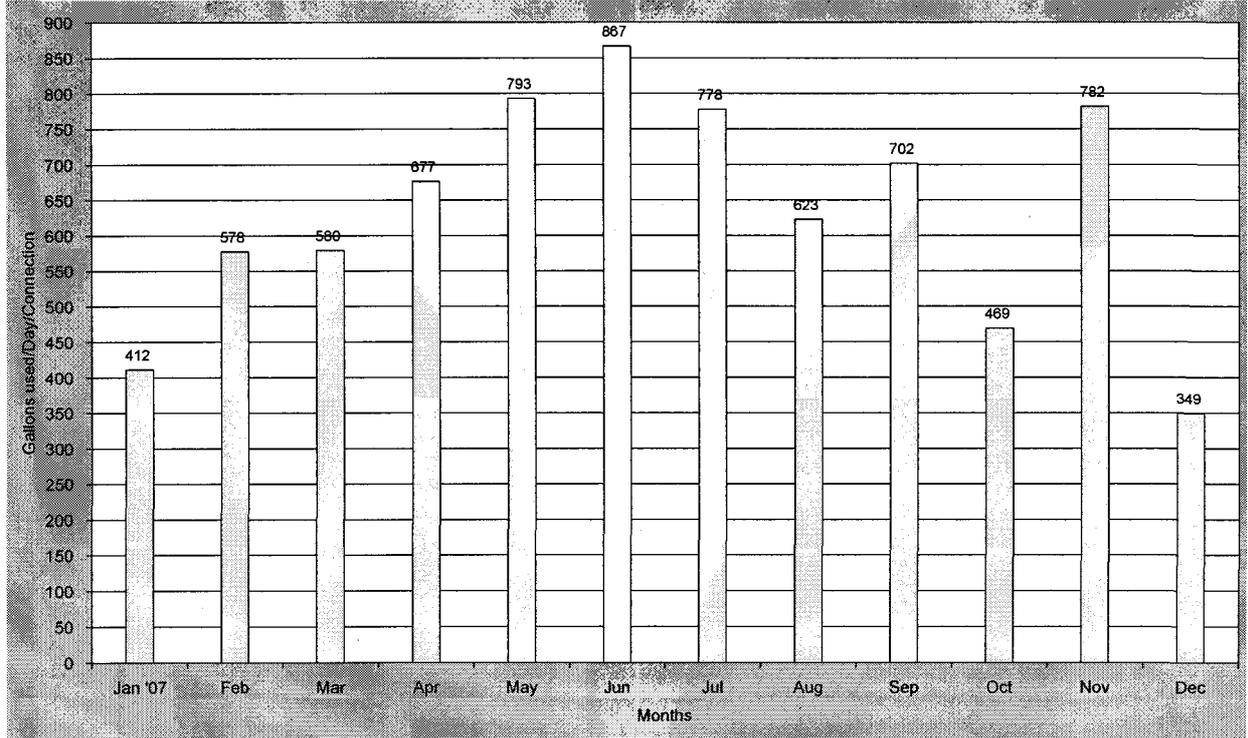


Figure C-2. Anthem System Water Use

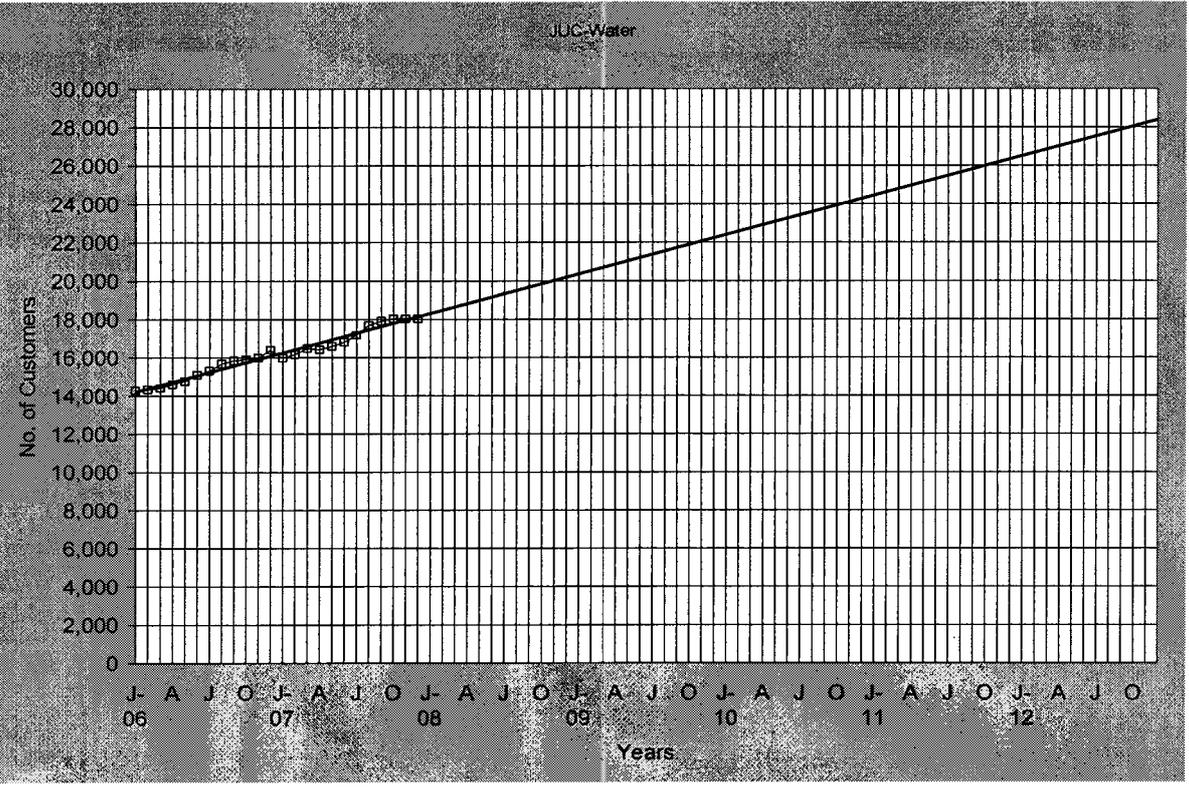


Figure D-1. Johnson Ranch System Growth Projection

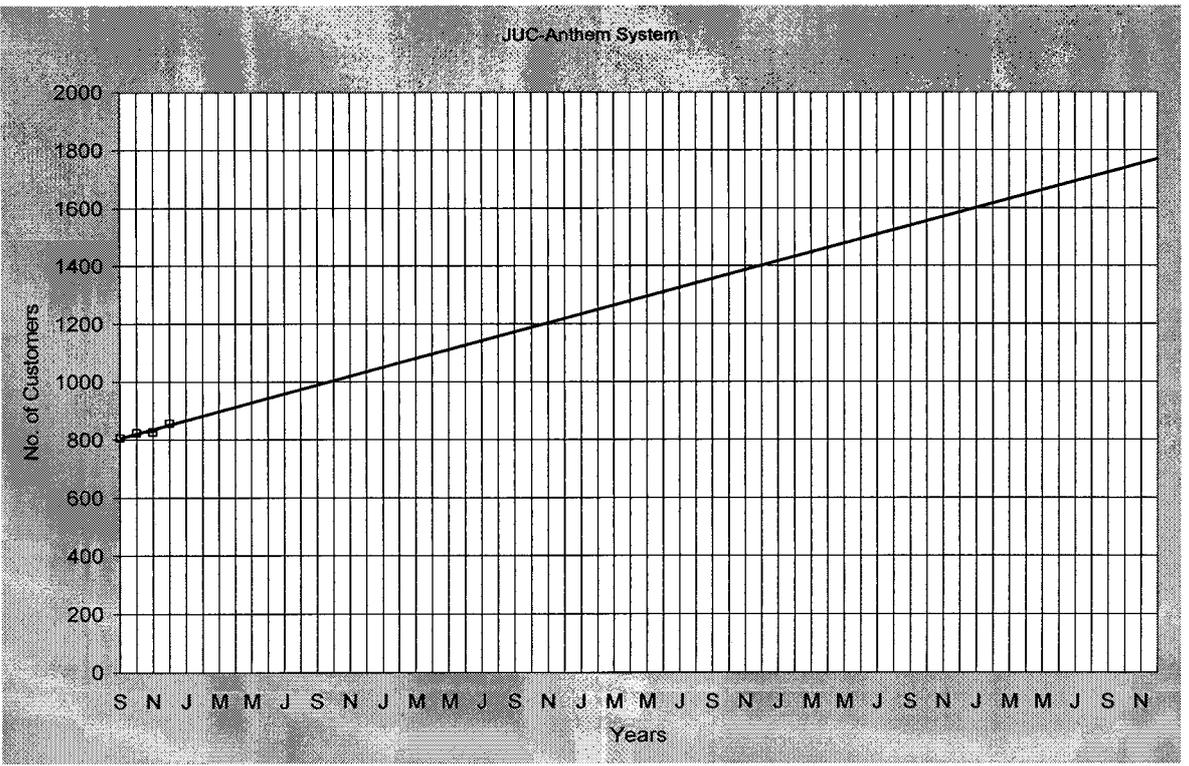


Figure D-2. Anthem System Growth Projection

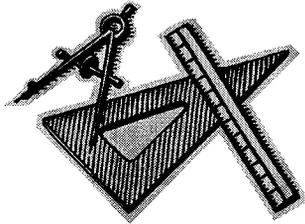
Table I-1. Water Depreciation Rates

NARUC Acct. No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
304	Structures & Improvements	30	3.33
305	Collecting & Impounding Reservoirs	40	2.50
306	Lake, River, Canal Intakes	40	2.50
307	Wells & Springs	30	3.33
308	Infiltration Galleries	15	6.67
309	Raw Water Supply Mains	50	2.00
310	Power Generation Equipment	20	5.00
311	Pumping Equipment	8	12.5
320	Water Treatment Equipment		
320.1	Water Treatment Plants	30	3.33
320.2	Solution Chemical Feeders	5	20.0
330	Distribution Reservoirs & Standpipes		
330.1	Storage Tanks	45	2.22
330.2	Pressure Tanks	20	5.00
331	Transmission & Distribution Mains	50	2.00
333	Services	30	3.33
334	Meters	12	8.33
335	Hydrants	50	2.00
336	Backflow Prevention Devices	15	6.67
339	Other Plant & Misc Equipment	15	6.67
340	Office Furniture & Equipment	15	6.67
340.1	Computers & Software	5	20.00
341	Transportation Equipment	5	20.00
342	Stores Equipment	25	4.00
343	Tools, Shop & Garage Equipment	20	5.00
344	Laboratory Equipment	10	10.00
345	Power Operated Equipment	20	5.00
346	Communication Equipment	10	10.00
347	Miscellaneous Equipment	10	10.00
348	Other Tangible Plant	10	---

Table J-1. Service Line and Meter Installation Charges

Meter Size	Current Total Charges	Proposed Service Line Charges	Proposed Meter Charges	Proposed Total Charges
5/8 x3/4-inch	\$365	\$385	\$135	\$520
3/4-inch	\$405	\$385	\$215	\$600
1-inch	\$455	\$435	\$255	\$690
1-1/2-inch	\$665	\$470	\$465	\$935
2-inch Turbine	\$1,080	\$630	\$965	\$1,595
2-inch Compound	N/T	\$630	\$1,690	\$2,320
3-inch Turbine	\$2,190	\$805	\$1,470	\$2,275
3-inch Compound	N/T	\$845	\$2,265	\$3,110
4-inch Turbine	\$2,985	\$1,170	\$2,350	\$3,520
4-inch Compound	N/T	\$1,230	\$3,245	\$4,475
6-inch Turbine	\$5,780	\$1,730	\$4,545	\$6,275
6-inch Compound	N/T	\$1,770	\$6,280	\$8,050
8-inch & Larger	At Cost	At Cost	At Cost	At Cost

Note: N/T = No tariff.



**Engineering Report for
Johnson Utilities Company
Docket No. WS-02987A-08-0180 (Rates)**

WASTEWATER DIVISION

February 2, 2009

A. LOCATION OF JOHNSON UTILITIES COMPANY (“COMPANY”)

The Company provides wastewater service to a community between Queen Creek and Florence in Pinal County. Figure A-1 shows the location of the Company within Pinal County and Figure A-2 shows the approximate 85.0 square-miles of wastewater certificated area.

B. DESCRIPTION OF WASTEWATER SYSTEMS

The Company operates four water reclamation plants (“WRP”); the Section 11, San Tan, Pecan and Anthem at Merrill Ranch systems. These plants and their systems were field inspected on November 5 and 11, 2008, by Arizona Corporation Commission (“ACC” or “Commission”) Staff member Marlin Scott, Jr., in the accompaniment of Brian Tompsett, representing the Company.

Section 11/San Tan/Pecan Systems

The operation of the Section 11/San Tan/Pecan WRPs and their wastewater systems total 5.6 million gallon per day (“MGD”) using extended aeration treatment plants, 25 collection lift stations, and 264.6 miles of wastewater mains serving over 22,750 service laterals during the test year ending December 31, 2007. The effluent from each of the WRPs is pumped to on-site basins for recharge and to golf courses for reuse. These three WRPs are interconnected by force mains and Company submitted plant data combining these three systems. The wastewater system schematics are shown in Figures B-1, B-2, and B-3 with detailed plant facility descriptions as follows:

Table S-1. Water Reclamation Plants

Name	Plant Capacity	Location
Section 11 WRP	1.6 MGD extended aeration	5632 E. Hunt Highway
San Tan WRP	2.0 MGD extended aeration	2601 W. Hunt Highway
Pecan WRP	2.0 MGD extended aeration	38539 N. Gantzel Road
Precision (Marwood)	0.3 MGD (not-in-service)	

Table S-2. Lift Stations

Location & Lift Station No.	No. of Pumps	Horsepower per Pump	Capacity per Pump (GPM)	Wet Well Capacity (gals.)
Section 11 System:				
1-JR Main Station	2	88	750	7,500
2-JR Station 4A	2	18	156	380
3-JR Station 6	2	7.5	100	440
4-JR 4D/4F #1 (see #5 below)	-	-	-	-
5-JR 4D/4F #2 (upgrade)	2	60	710	2,937
6- JR 14-52B	2	30	235	1,457
7-JR Unit 29	2	88	500	1,879
8-Rancho Bella Vista North I	2	5	47	561
9-Rancho Bella Vista North II	2	7.5	302	4,226
10-Superstition Views	2	7.5	90	440
11-Oasis Magic Ranch I	2	88	480	1,167
12-Oasis Sunrise	2	18	500	1,879
13-Crestfield Manor	2	10	350	1,880
17-Copper Basin 1	2	30	380	1,688
18-Copper Basin 2	2	47	380	3,750
25-Mitchell Trail	(under	construction)		
26-Magic Ranch III	2	15	469	2,349
San Tan System:				
14-Circle Cross 1	2	35	500	1,879
15-Circle Cross 2	2	130	1,600	2,600
16-Morning Sun Farms	2	47	800	3,050
30-San Tan Station	2	35	1,600	7,500
Pecan System:				
19-Pecan Station	2	100	1,800	1,879
21-Joy Drive	2	25	770	1,861
22-Cambria	2	35	750	3,200
23-Larendo Ranch	2	18	660	1,879
24-Meadow Vista	(not-in	-service)	500	760
27-Parks	2	23	840	2,644
28-Johnson Farms	2	100	1,720	3,231
32-Ironwood Cross	2	160	957	4,112
33-Coolidge H.S.	2	10	275	1,192

Table S-3. Reuse Pump Stations

Location	Quantity of Pumps	Horsepower per Pump	Capacity per Pump (GPM)	Wet Well Capacity (gals.)
Section 11 WRP	2	30	420	1,879
San Tan WRP	2	130	720	2,937
Pecan WRP	4	60	1,500	22,440

Table S-4. Backbone Mains

Diameter	Material	Length (ft.)
18-inch gravity main	SDR/DIP	1,988
15-inch	SDR/DIP	5,484
12-inch	SDR/DIP	29,899
10-inch	SDR/DIP	5,070
8-inch	SDR/DIP	36,928
6-inch	SDR/DIP	4,058
4-inch	SDR/DIP	4,152
18-inch force main	PVC/HDPE/DIP	3,962
16-inch	PVC/HDPE/DIP	5,623
14-inch	PVC/HDPE/DIP	0
12-inch	PVC/HDPE/DIP	11,020
10-inch	PVC/HDPE/DIP	34,966
8-inch	PVC/HDPE/DIP	174,927
6-inch	PVC/HDPE/DIP	6,935
4-inch	PVC/HDPE/DIP	4,890
	Total:	329,920 ft. or 62.5 miles

Table S-5. Backbone Manholes

Size	Quantity
Standard - Gravity	231
Drop	-

Table S-6. Backbone Cleanouts

Quantity
85 each on Gravity

Table S-7. Subdivision Collection Mains

Diameter	Material	Length (ft.)
18-inch	SDR/DIP	5,460
15-inch	SDR/DIP	8,841
12-inch	SDR/DIP	70,111
10-inch	SDR/DIP	25,673
8-inch	SDR/DIP	932,073
6-inch	SDR/DIP	24,101
4-inch	SDR/DIP	543
Total:		1,066,802 ft. or 202.1 miles

Table S-8. Subdivision Manholes

Size	Quantity
Standard	4,172
Drop	-

Table S-9. Service Laterals

Size	Quantity
4-inch	22,763
6-inch	-
Total:	22,763

Anthem at Merrill Ranch System

The operation of this wastewater system consists of a 1.5 MGD extended aeration treatment plant, one lift station, and a collection system serving over 850 customers during the test year ending December 31, 2007. The effluent is pumped to on-site ponds for recharge, or when requested, the effluent is pumped to a golf course for reuse. This WRP is interconnected with the Section 11 WRP by a force main. An overall wastewater system schematic is shown in Figure B-4 with detailed plant facility descriptions as follows:

Table A-1. Water Reclamation Plant

Name	Plant	Location
Anthem WRP	1.5 MGD extended aeration	8465 W. Ocotillo Drive, Florence

Table A-2. Lift Stations

Location & Lift Station No.	No. of Pumps	Horsepower per Pump	Capacity per Pump (GPM)	Wet Well Capacity (gals.)
@ Anthem WRP:				
31- Anthem	2	35	1,100	3,240

Table A-3. Reclaim/Reuse System

Location	Quantity of Pumps	Horsepower per Pump	Capacity per Pump (GPM)	Wet Well Capacity (gals.)	Force Main
@ Anthem WRP	2	50-Hp turbine	800	1,560	8" @ 21,205 ft.

Table A-4. Backbone Mains

Diameter	Material	Length (ft.)
30-inch	PVC/HDPE/DIP	2,140
24-inch	PVC/HDPE/DIP	1,853
18-inch	PVC/HDPE/DIP	4,085
15-inch	PVC/HDPE/DIP	5,948
12-inch	PVC/HDPE/DIP	1,937
10-inch	PVC/HDPE/DIP	10,143
8-inch	PVC/HDPE/DIP	14,139
8-inch force main	PVC/HDPE/DIP	8,546
	Total:	48,791 ft. or 9.2 miles

Table A-5. Backbone Manholes

Size	Quantity
Standard	128
Drop	-

Table A-6. Backbone Cleanouts

Quantity
29

Table A-7. Subdivision Collection Mains

Diameter	Material	Length (ft.)
10-inch		2,045
8-inch		46,090
	Total:	48,135 ft. or 9.1 miles

Table A-8. Backbone Manholes

Size	Quantity
Standard	231
Drop	-

Table A-9. Service Laterals

Size	Quantity
4-inch	857
6-inch	-
Total:	857

C. WASTEWATER FLOWS

Wastewater Flows

Based on the information provided by the Company, wastewater flows for the test year 2007 are presented in Figures C-1, C-2, C-3 and C-4. Below is a table summary of each wastewater system and its peaking flows:

Table C-1. Wastewater Flows

WRP	Highest Average Daily Flow (Gal.)	Peak Day Flow (Gal.)
Section 11	1,611,333	2,020,000
San Tan	554,194	720,000
Pecan	1,342,581	1,670,000
Anthem	814,000	1,190,000

During the first half of the test year 2007, the Anthem flows were sent to the Section 11 WRP until the Anthem WRP was ready for operation. During the second half of the test year, and when the Anthem WRP was ready for operation, the Anthem flows and a portion of the Section 11 flows were sent to the Anthem WRP. Based on these flow operations, Staff contacted ADEQ to confirm if there were any flow restrictions between the WRPs. According to ADEQ,

there were no flow restrictions, as long as the flows did not exceed the permitted capacities and their related Discharge Limits for the various parameters.

System Analysis

Pecan System

Using peak day flow of 1,460,000 gallons, or 207 GPD per service lateral due to the irregular flow of the actual peak day flow, the Pecan WRP's capacity of 2.0 MGD could serve up to 9,960 service laterals. Staff concludes that the 2.0 MGD WRP capacity is adequate to serve the present customer base of 8,703 service laterals. Although the existing WRP has adequate capacity to serve the present customer base, this WRP will need additional capacity within a five year period. The Company has an approved Aquifer Protection Permit ("APP") that is permitted up to 4.0 MGD. Construction of an additional new 2.0 MGD plant has commenced.

Section 11 System

Using peak day flow of 1,960,000 gallons, or 207 GPD per service lateral due to irregular flow data, the Section 11 WRP's capacity of 1.6 MGD could serve up to 7,730 service laterals. Staff concludes that the 1.6 MGD WRP capacity is not adequate to serve the present customer base of 10,397 service laterals. For this reason, the Company is sending flows to the Anthem WRP for treatment. Although the existing wetland treatment facility is permitted at 1.6 MGD, the Company has an approved APP that will replace the 1.6 MGD plant with a 2.0 MGD new extended aeration plant. Construction of this new 2.0 MGD plant has commenced.

San Tan System

Using peak day flow of 690,000 gallons, or 188 GPD per service lateral due to the irregular flow of the actual peak day flow, the San Tan WRP's capacity of 2.0 MGD could serve up to approximately 10,640 service laterals. Within a 5 year period, this system could grow up to approximately 5,860 service laterals. Staff concludes that the 2.0 MGD WRP capacity includes excess treatment capacity since this plant is serving a present customer base of 3,663 service laterals. As a result, Staff considers half of the 2.0 MGD plant is excess capacity and recommends the disallowance for the amount shown in Staff's Adjustment #2 in Section G.

Anthem System

Since this system reported irregular flows (due to flushing of mains for testing and inspection of this new wastewater system) during the test year 2007, Staff used a peak day flow of 224 GPD per service lateral, which is the average of the three other systems. Using this 224 GPD per service lateral, the Anthem WRP's capacity of 1.5 MGD could serve up to approximately 6,700 service laterals. Staff concludes that the 1.5 MGD WRP capacity is adequate to serve the present customer base of 3,563 service laterals (857 service laterals from the Anthem System and 2,706 service laterals from the Section 11 System) and growth within a 5 year period. The Company has an approved APP permitted up to 3.0 MGD.

D. GROWTH

The Company has been reporting its entire wastewater division's customer base as a whole. Using these combined service laterals and recent depicted customer growth using linear regression analysis, Staff has calculated a 12% per year growth rate for these systems¹. As a result, below is a table summary of each system's projected 12% growth within a five year period:

Table D-1. Growth Projections

System	Customers During TY 2007	Customers within 5 Years
Section 11	10,397	18,323
San Tan	3,663	6,455
Pecan	8,703	15,338
Anthem	857	1,510
Total:	23,620	41,626

E. ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY ("ADEQ") COMPLIANCECompliance*Pecan System*

On January 28, 2009, ADEQ reported the Pecan WRP, Inventory #P-105324, was not in compliance with ADEQ regulations. This non-compliance status was due to; 1) an open Notice of Violation ("NOV") issued on March 4, 2008, for an addition of a pollutant to navigable waters from a point source without a permit, and 2) an open NOV issued on June 5, 2008, for discharging without an Aquifer Protection Permit and violating of the numeric surface water quality standard for E. coli.

¹ Due to the current real estate and economic conditions, Staff used the most recent service lateral data to depict its growth projection. Although a 12% per year growth rate was determined, Staff still considers this percentage on the high side.

San Tan System

On January 26, 2009, ADEQ reported the San Tan WRP, Inventory #P-105325, was not in compliance with ADEQ regulations. This non-compliance status was due to; 1) Aquifer Quality Level exceedance for hexachloro benzene on 6/6/2007 and 9/12/2007, 2) Aquifer Quality Level exceedance for para-dichloronbenzene on 9/12/2007, and 3) Aquifer Quality Level exceedance for hexachloro benzene on 1/4/2008 and 1/9/2008.

Section 11 System

On January 26, 2009, ADEQ reported the Section 11 WRP, Inventory #P-103081, was not in compliance with ADEQ regulations. This non-compliance status was due to; 1) an open NOV issued on October 20, 2008, for discharging without an Aquifer Protection Permit ("APP") and disposal of sludge in a manner not prescribed in the APP, 2) Aquifer Quality Level exceedance for total fluoride on 10/3/07, and 3) exceedance of vinyl chloride on 7/3/2008 and 7/7/2008.

Anthem System

On January 28, 2009, ADEQ reported the Anthem WRP, Inventory #P-105646, was in compliance with ADEQ regulations.

According to the Company, all the above deficiencies have been addressed and/or corrected. Staff recommends that the Company file with Docket Control, as a compliance item in this docket, copies of updated ADEQ Compliance Status Reports for the Pecan, San Tan and Section 11 wastewater systems indicating that the noted deficiencies have been resolved and all are in compliance. Staff further recommends that any increase in rates and charges approved in this proceeding not become effective until the first day of the month following the Company's filing of the updated ADEQ Compliance Status Reports indicating that the Pecan, San Tan and Section 11 wastewater systems have resolved the noted deficiencies and all are in compliance.

F. ARIZONA CORPORATION COMMISSION ("ACC") COMPLIANCE

According to the Utilities Division Compliance Section, the Company had no delinquent ACC compliance issues.

G. PLANT-IN-SERVICE

The Company submitted an Original Cost ("OC") amount for plant-in-service of \$123,849,703. Staff has reviewed the Company's OC and recommends that it be accepted with the following adjustments:

Staff's Adjustment #1 – Used and Useful Plant

Through the field inspection and data requests, Staff considered eight plant items not used and useful. Staff removed the following plant items:

Table G-1. Plant Not Used and Useful

Acct. No.	Plant item	Year	OC
354	Structures & Improvements Precision WRP – Marwood plant	2001	14,491
381	Plant Sewers Precision WRP – Marwood plant	2001	5,749
381	Plant Sewers Precision WRP – Marwood plant	2005	1,675,846
360	Collection Sewers – Force in Magma Approximately 4 miles of 8-inch	2007	690,186
381	Plant Sewers – Magma 2 Subdivision Approximately 1/3 built out.	2005	473,527
381	Plant Sewers – Quail Run Estates Sub.	2005	846,092
360	Collection Sewers – Ironwood Crossing #2	2006	889,407
	Total:		\$4,595,298

Staff's Adjustment #2 – Excess Capacity Plant

Through data requests and system evaluation, Staff considered one plant item as having excess capacity as follows:

Table G-2. Excess Capacity Plant

Acct. No.	Plant item	Year	OC
381	Plant Sewers San Tan WRP – Phase II (Half of the 2.0 MGD WRP is not needed at this time.)	2006	5,443,062
	Total:		\$5,443,062

Staff's Adjustment to the Plant-in-Service

Based on Staff's adjustments to the Company's plant-in-service cost, Staff recommends the following plant-in-service cost be used as a guideline for purposes of setting rates in this proceeding:

Table G-3. Staff's Adjustment to Plant-in-Service

Acct. No.	Descriptions	Company OC	Staff OC
353	Land & Land Rights	4,122,800	4,122,800
354	Structures & Improvements	453,663	439,172
355	Power Generation Equipment	-	-
360	Collection Sewer - Force	20,136,241	18,556,648
361	Collection Sewer - Gravity	24,287,592	24,287,592
362	Special Collecting Structures	-	-
363	Services to Customers	-	-
364	Flow Measuring Devices	-	-
365	Flow Measuring Installations	-	-
370	Receiving Wells	-	-
371	Pumping Equipment	7,613,723	7,613,723
375	Reuse Transm. & Dist. System	958,646	958,646
380	Treatment & Disposal Equipment	-	-
381	Plant Sewers	66,277,038	57,832,762
382	Outfall Sewer Lines	-	-
389	Other Plant & Misc. Equip.	-	-
390	Office Furniture & Equip.	-	-
391	Transportation Equipment	-	-
393	Tools, Shop & Garage Equip.	-	-
394	Laboratory Equipment	-	-
395	Power Operated Equipment	-	-
398	Other Tangible Plant	-	-
Totals:		\$123,849,703	\$113,811,343

H. DEPRECIATION RATES

The Company has been using a wastewater depreciation rate of 2.50% in every NARUC plant category. Staff has developed typical and customary wastewater depreciation rates within a range of anticipated equipment life. In this proceeding, the Company has adopted the majority of Staff's typical Wastewater Depreciation Rates. The Company rates differ from Staff's depreciation rates for the following plant items:

Account 366 – Reuse Services (no rate given)
Account 367 – Reuse Meters & Meter Installations (no rate given)
Account 374 – Reuse Distribution Reservoirs (no rate given)
Account 390 – Office Furniture & Equipment at 20.0%
Account 390.1 – Computers & Software (no rate given)
Account 392 – Stores Equipment (no rate given)
Account 396 – Communication Equipment (no rate given)
Account 397 – Miscellaneous Equipment (no rate given)
Account 398 - Other Tangible Plant at 10.0%.

Staff recommends that the Company adopt Staff's depreciation rates for the above plant items as follows:

Account 366 – Reuse Services at 2.0%
Account 367 – Reuse Meters & Meter Installations at 8.33%
Account 374 – Reuse Distribution Reservoirs at 2.5%
Account 390 – Office Furniture & Equipment at 6.67%
Account 390.1 – Computers & Software at 20.0%
Account 392 – Stores Equipment at 4.0%
Account 396 – Communication Equipment at 10.0%
Account 397 – Miscellaneous Equipment at 10.0%
Account 398 - Other Tangible Plant (may vary from 5% to 50%)

Account 398 – Other Tangible Plant should have no rate at this time. Since the Company's proposed plant-in-service has no plant facilities or plant cost for Account 398 – Other Tangible Plant, Staff suggest that this account's depreciation rate be set in accordance with the specific capital item when known. Therefore, Staff recommends approval of its typical wastewater depreciation rates as presented in Table H-1 by individual NARUC category.

I. OFF-SITE FACILITIES HOOK-UP FEE TARIFF - WASTEWATER

The Company has an approved wastewater hook-up fee tariff that became effective on May 27, 1997.

FIGURES

Pinal County Map Figure A-1

Certificated Areas Figure A-2

Section 11 System Schematic Figure B-1

San Tan System Schematic Figure B-2

Pecan System Schematic..... Figure B-3

Anthem System Schematic Figure B-4

Section 11 System Flows Figure C-1

San Tan System Flows..... Figure C-2

Pecan System Flows Figure C-3

Anthem System Flows Figure C-4

TABLE

Wastewater Depreciation Rates Table H-1

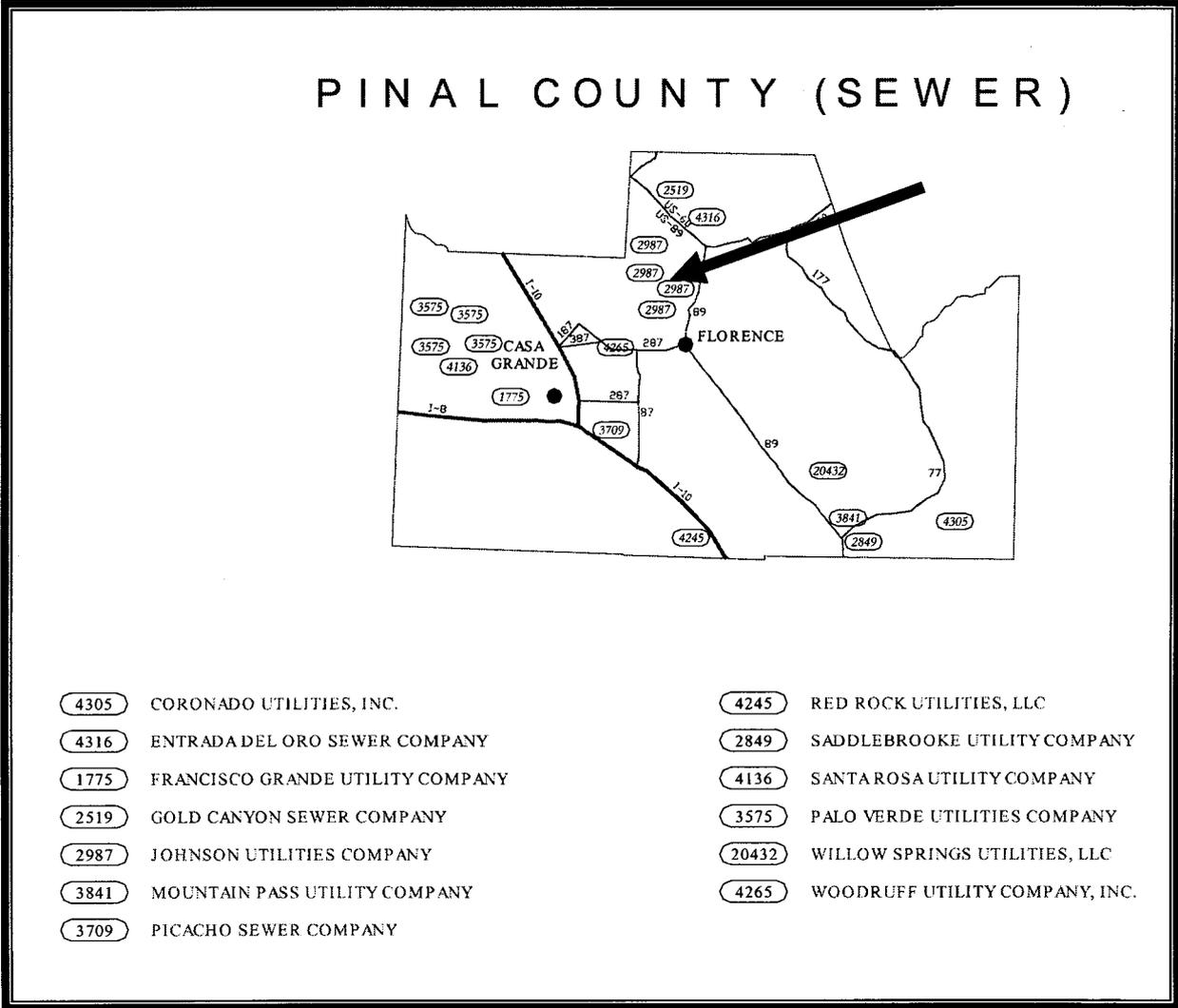


Figure A-1. Pinal County Map

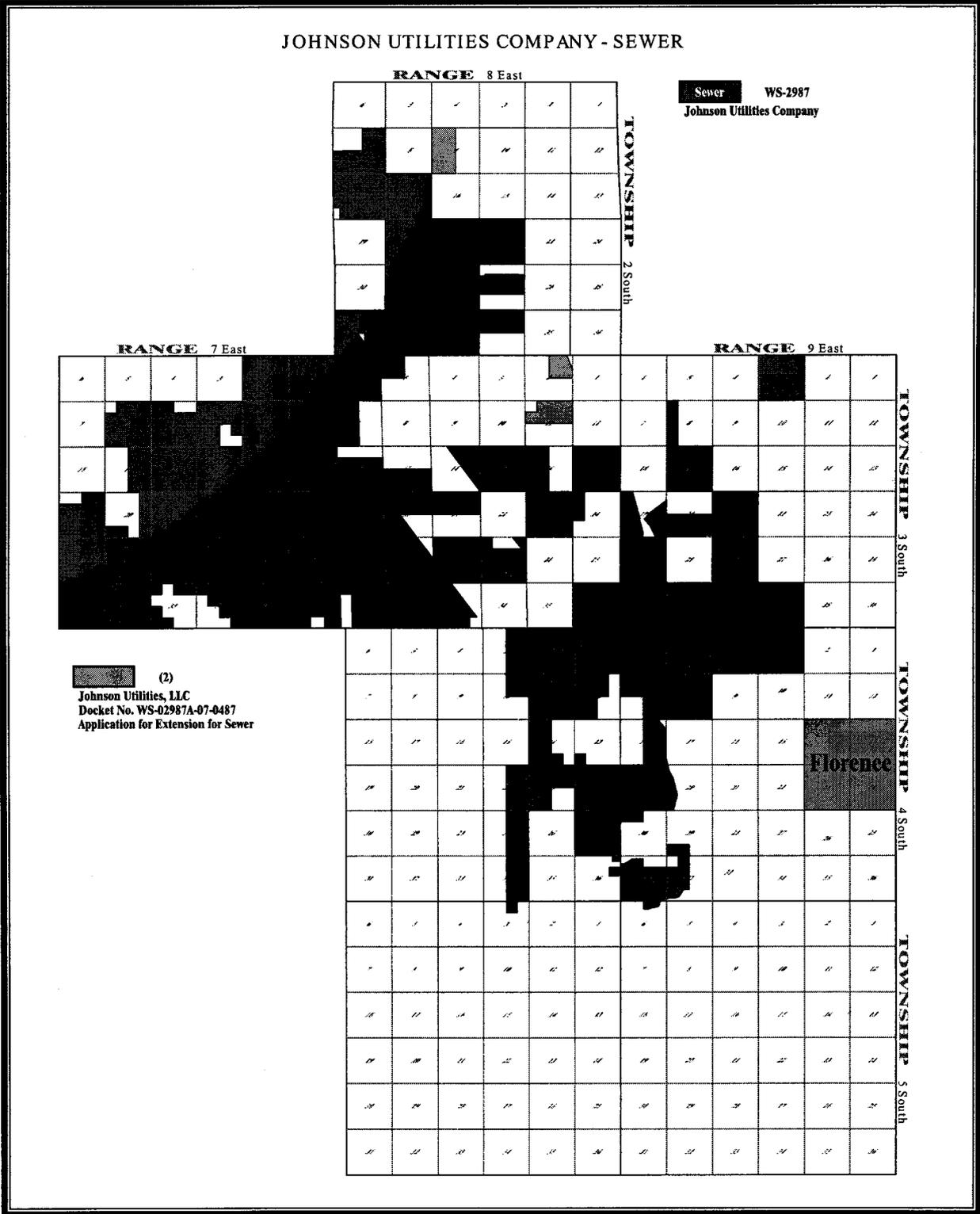


Figure A-2. Certificated Area

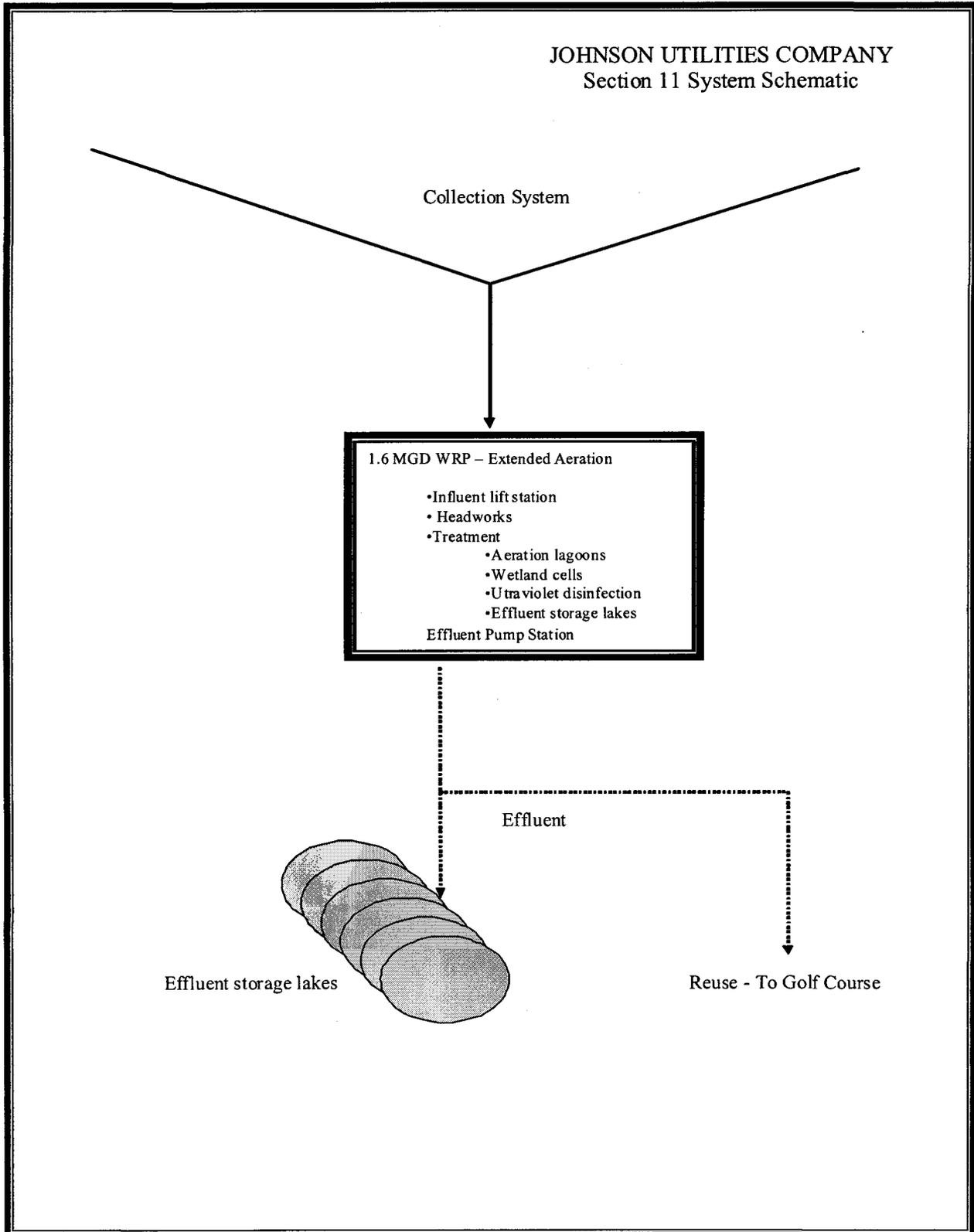


Figure B-1. Section 11 System Schematic

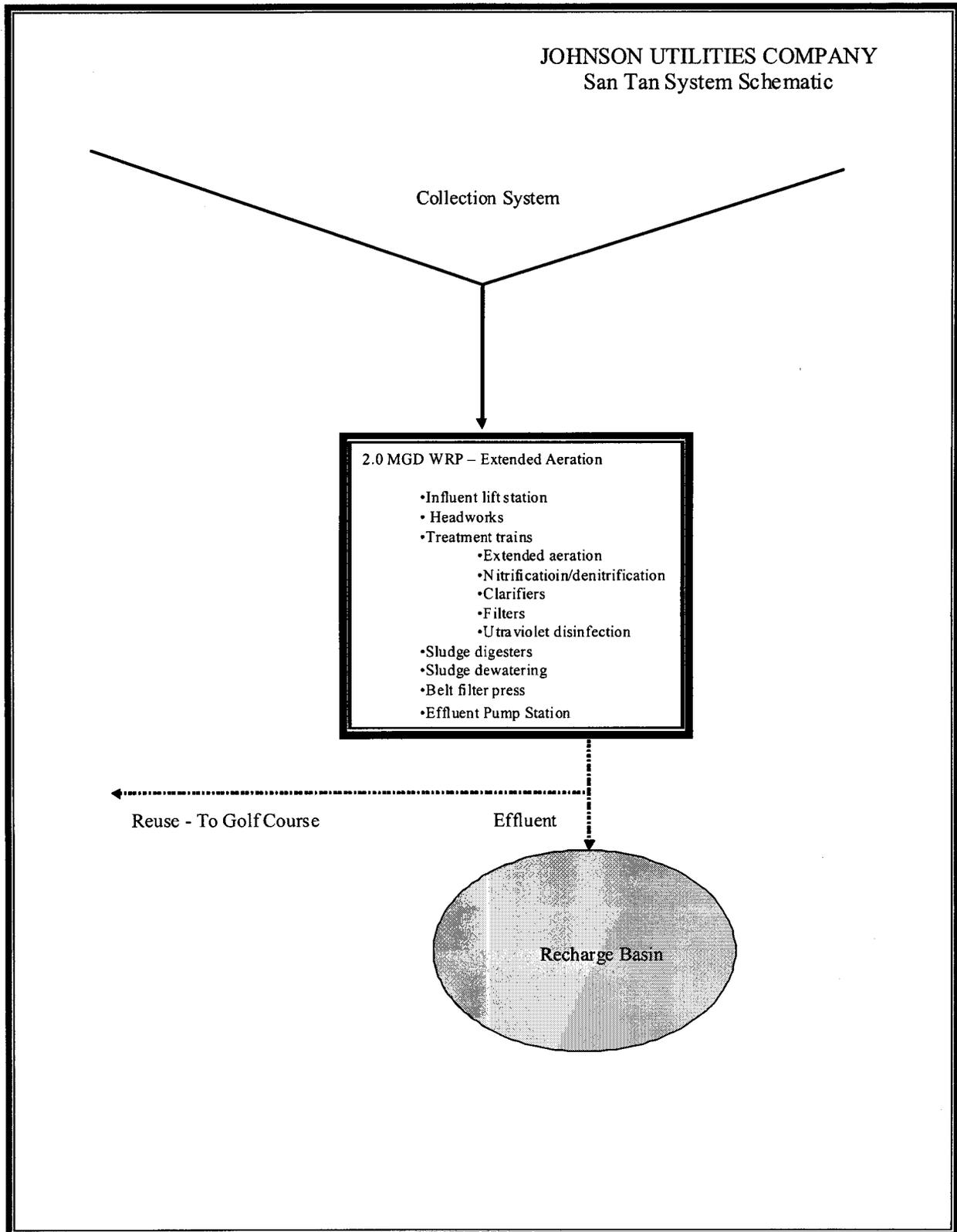


Figure B-2. San Tan System Schematic

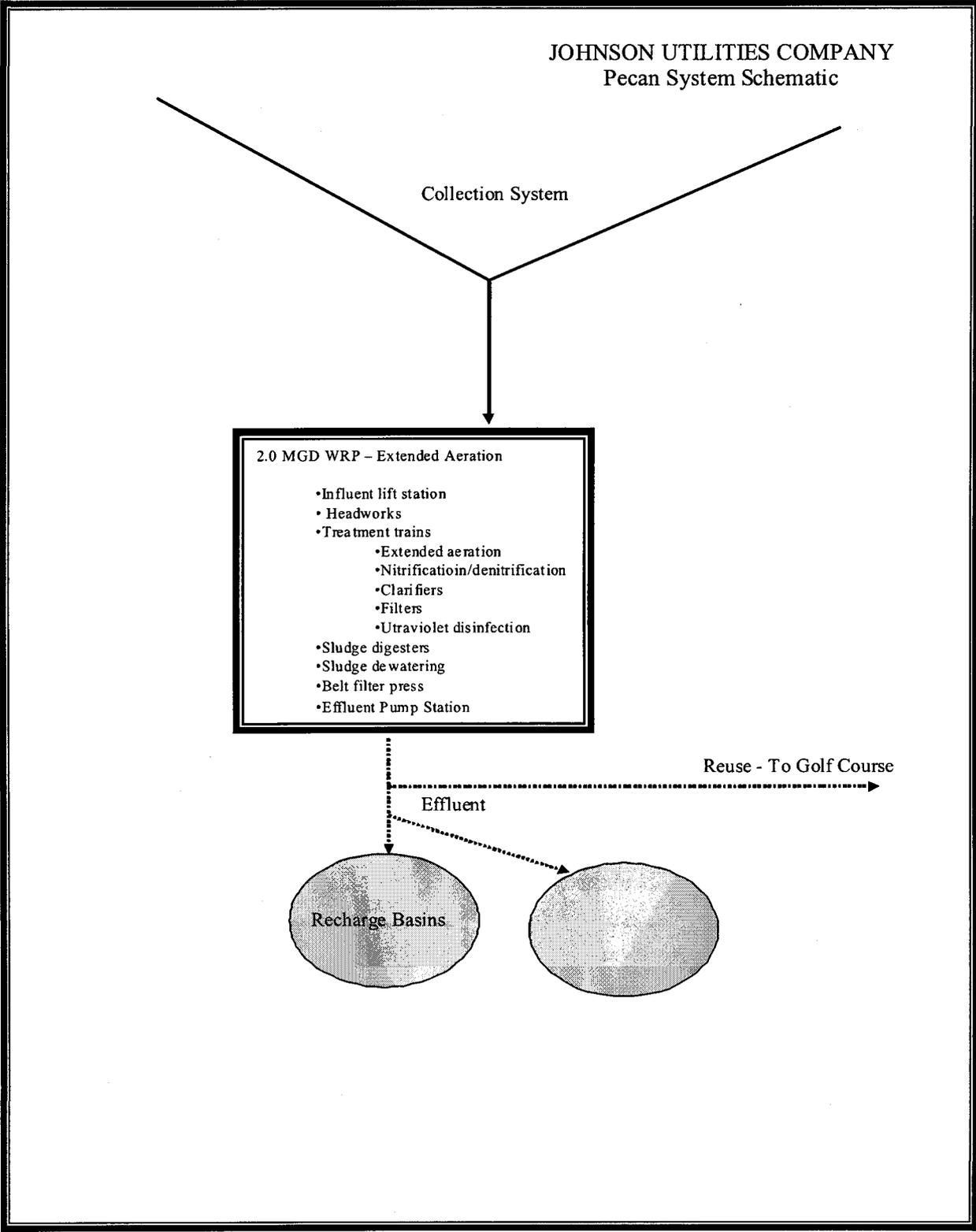


Figure B-3. Pecan System Schematic

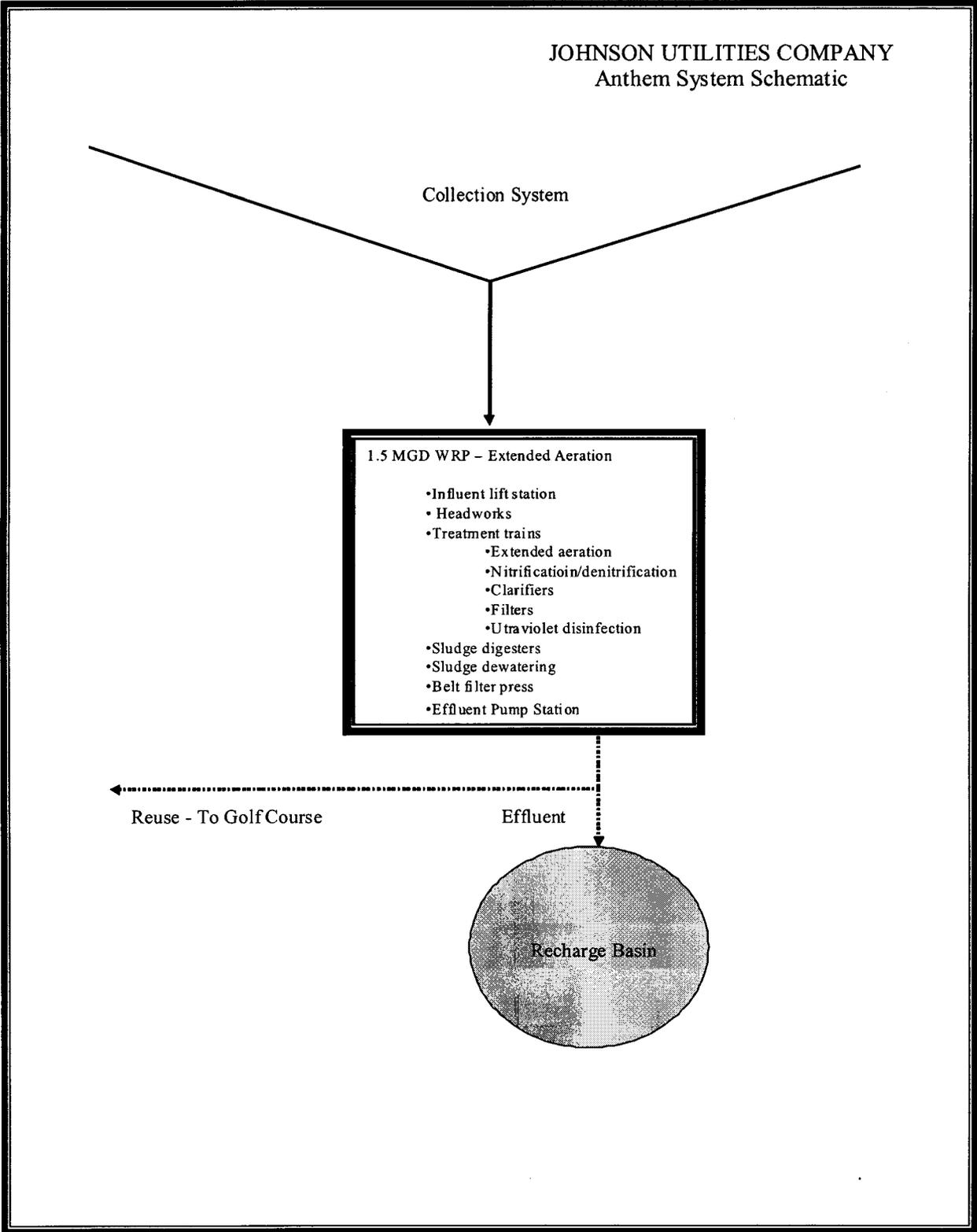


Figure B-4. Anthem System Schematic

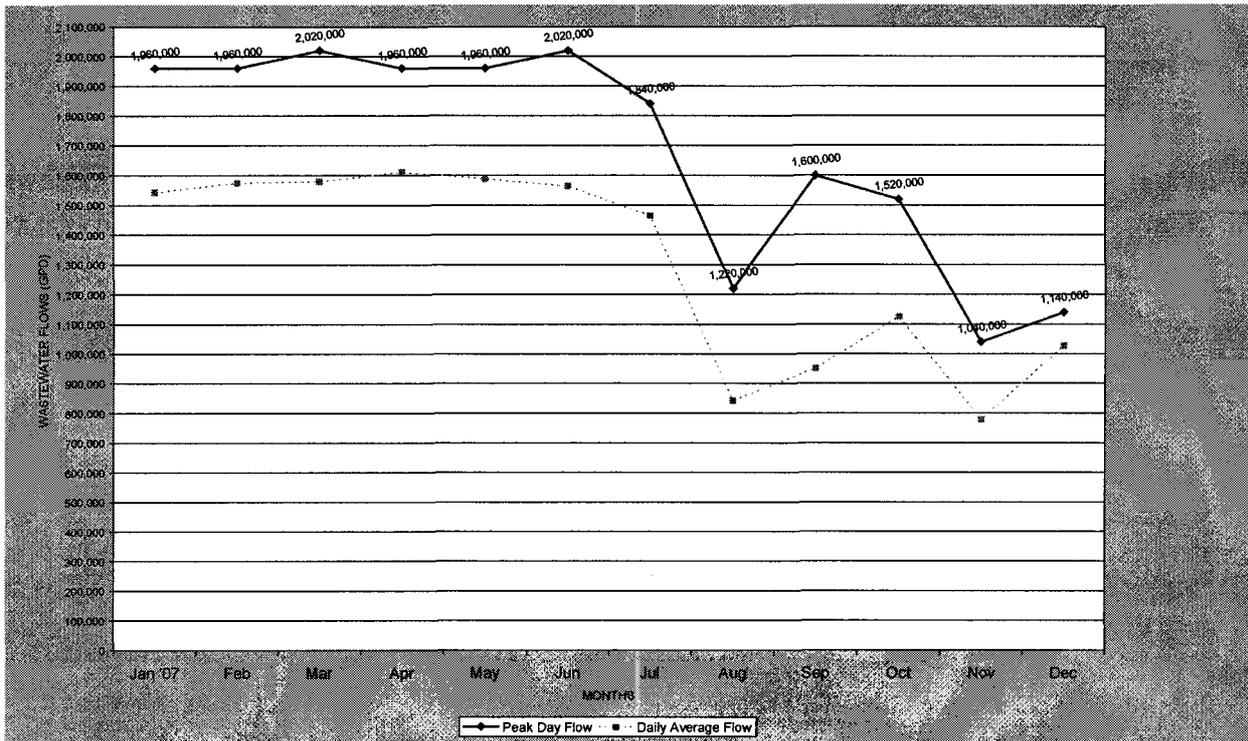


Figure C-1. Section 11 Flows

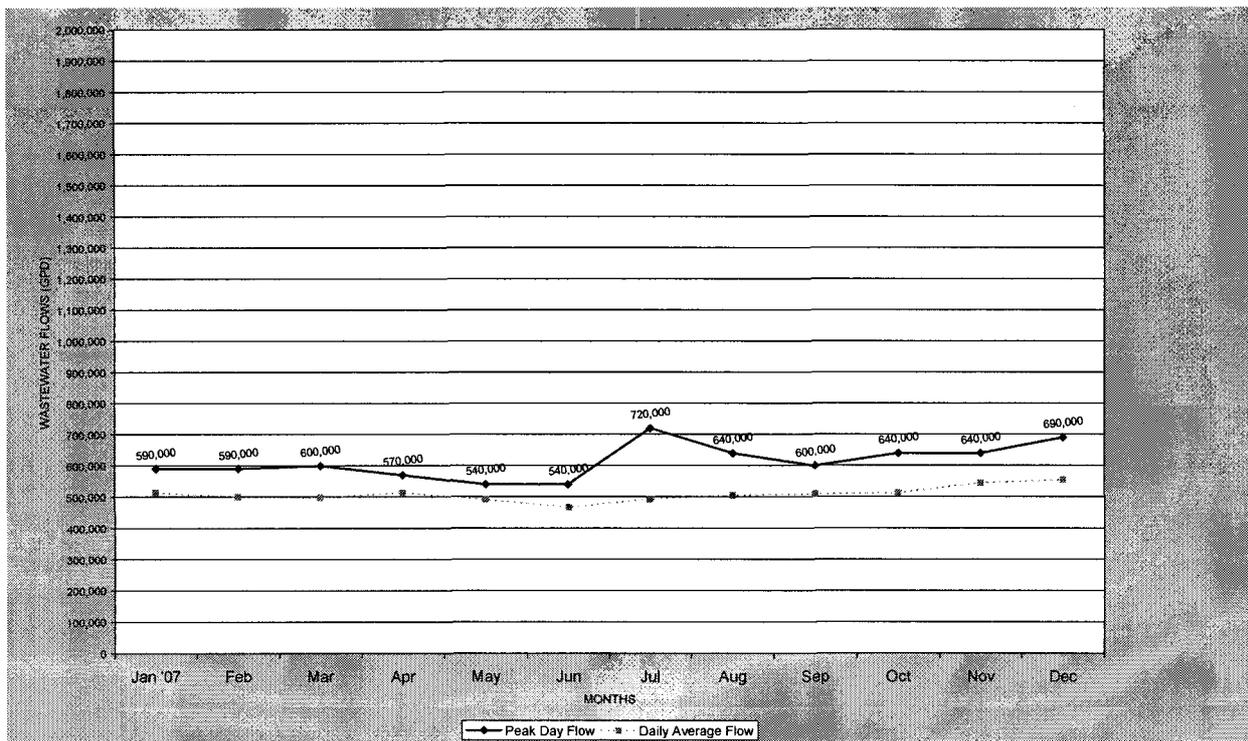


Figure C-2. San Tan Flows

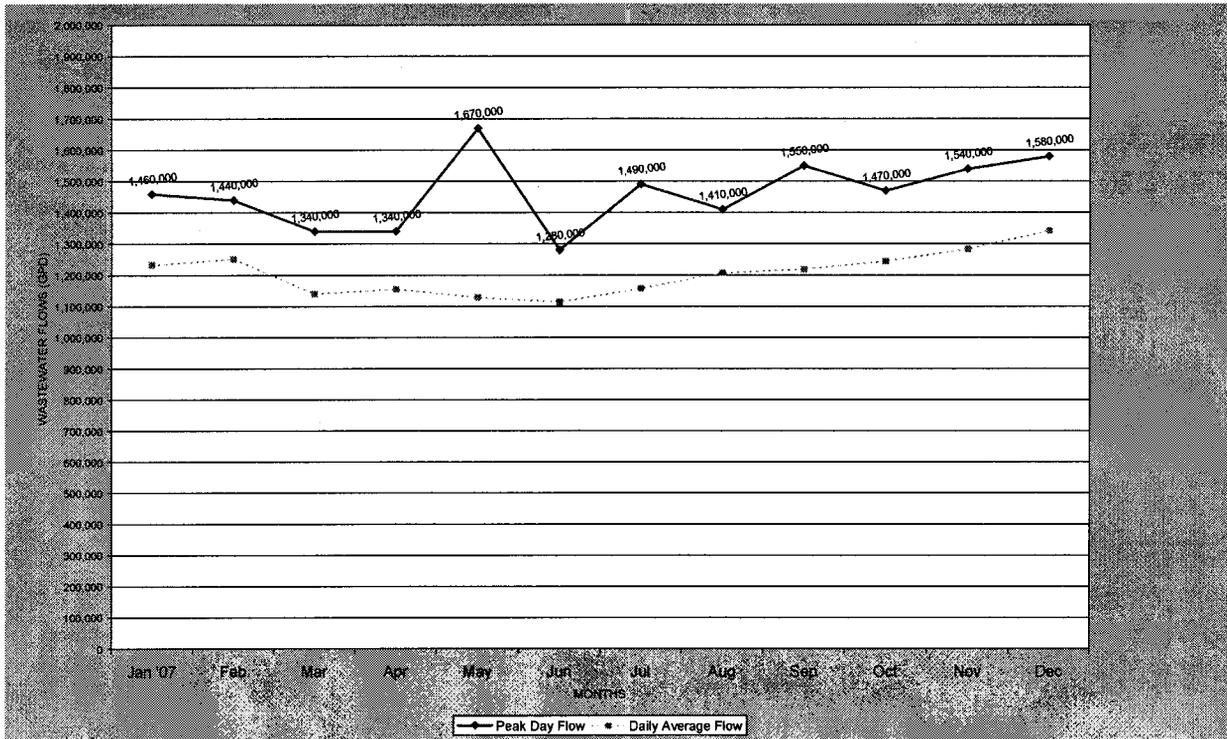


Figure C-3. Pecan Flows

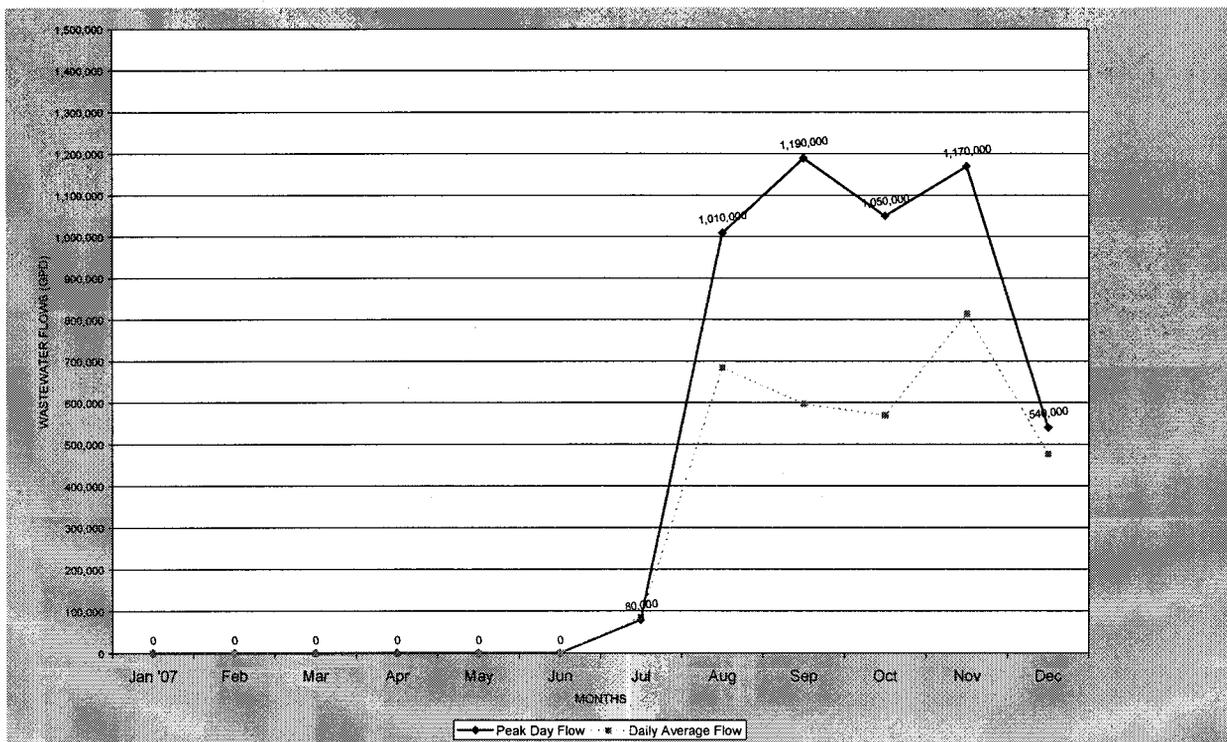


Figure C-4. Anthem Flows

Table H-1. Wastewater Depreciation Rates

NARUC Acct. No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
354	Structures & Improvements	30	3.33
355	Power Generation Equipment	20	5.00
360	Collection Sewers – Force	50	2.0
361	Collection Sewers- Gravity	50	2.0
362	Special Collecting Structures	50	2.0
363	Services to Customers	50	2.0
364	Flow Measuring Devices	10	10.00
365	Flow Measuring Installations	10	10.00
366	Reuse Services	50	2.00
367	Reuse Meters & Meter Installations	12	8.33
370	Receiving Wells	30	3.33
371	Pumping Equipment	8	12.50
374	Reuse Distribution Reservoirs	40	2.50
375	Reuse Transmission & Distribution System	40	2.50
380	Treatment & Disposal Equipment	20	5.0
381	Plant Sewers	20	5.0
382	Outfall Sewer Lines	30	3.33
389	Other Plant & Miscellaneous Equipment	15	6.67
390	Office Furniture & Equipment	15	6.67
390.1	Computers & Software	5	20.0
391	Transportation Equipment	5	20.0
392	Stores Equipment	25	4.0
393	Tools, Shop & Garage Equipment	20	5.0
394	Laboratory Equipment	10	10.0
395	Power Operated Equipment	20	5.0
396	Communication Equipment	10	10.0
397	Miscellaneous Equipment	10	10.0
398	Other Tangible Plant	----	----