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

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

- Thomas J. Bourassa (Volumes I, II and III)
- Brian Tompsett

RESPECTFULLY SUBMITTED this 10th day of March, 2009.

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By [signature] For
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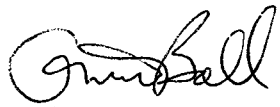

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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

KRISTIN K. MAYES–Chairman
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PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP

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

PRE-FILED REBUTTAL TESTIMONY OF THOMAS J. BOURASSA

ON BEHALF OF

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

(VOLUME I – COST OF CAPITAL)

March 9, 2000

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I. INTRODUCTION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME AND ADDRESS.

A. My name is Thomas J. Bourassa. My business address is 139 W. Wood Drive, Phoenix, Arizona 85029.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS CASE?

A. On behalf of the applicant, Johnson Utilities L.L.C., dba Johnson Utilities Company ("Johnson Utilities" or the "Company").

Q. ARE YOU THE SAME THOMAS J. BOURASSA THAT PRE-FILED DIRECT TESTIMONY ON THE COST OF CAPITAL, INCLUDING THE COST OF EQUITY, ON BEHALF OF THE COMPANY IN THIS CASE?

A. Yes, I am.

Q. DID YOU ALSO PRE-FILED DIRECT TESTIMONY ON THE WATER AND WASTEWATER DIVISION RATE BASES, INCOME STATEMENTS, REVENUE REQUIREMENTS AND RATE DESIGNS IN THIS CASE?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY SET FORTH IN THIS VOLUME I.?

A. The purpose of this rebuttal testimony is to respond as appropriate to the direct testimony of Mr. Jeffery M. Michlik on behalf of the Utilities Division ("Staff") of the Arizona Corporation Commission ("Commission"), and the direct testimony of Mr. William A. Rigsby on behalf of the Residential Utility Consumer Office

("RUCO"). I will also update my cost of capital analysis and recommended rate of return set forth in my direct testimony using recent financial data.[1]

II. SUMMARY OF REBUTTAL TESTIMONY AND THE COMPANY'S REVISED REQUESTED COST OF CAPITAL

Q. PLEASE SUMMARIZE YOUR UPDATED COST OF CAPITAL ANALYSIS.

A. Since the filing of the Company's direct testimony, the cost of equity has increased substantially, as indicated by the Discounted Cash Flow ("DCF") model and the Capital Asset Pricing Model ("CAPM"). The table below summarizes the results of my updated analysis using those models:

	Range	Midpoint
DCF Constant Growth (earnings growth)	10.6% - 15.6%	13.1%
DCF Constant Growth (sustainable growth)	8.3% - 11.9%	10.1%
Two-Stage Growth Model	10.3% - 13.6%	12.0%
DCF Average Results	**9.7% - 13.7%**	**11.7%**
CAPM Historical Market Risk Premium		9.7%
CAPM Current Market Risk Premium		23.5%
Average CAPM Results	**9.3% - 23.5%**	**16.4%**
Average Overall Results	**9.5% - 18.6%**	**14.1%**

[1] My rebuttal testimony relating to the Company's water and wastewater Division rate bases, income statements (revenue and operating expenses), required increases in revenue, and rate designs and proposed rates and charges for services are set forth in Volumes II and II, respectively.

The schedules containing my updated cost of capital analysis are attached as Exhibit D-1.

Q. PLEASE SUMMARIZE YOUR RECOMMENDED COST OF DEBT AND EQUITY, AND YOUR RECOMMENDED RATE OF RETURN ON RATE BASE AT THIS STAGE OF THE PROCEEDINGS.

A. The Company's recommended capital structure consists of 2.8 percent debt and 97.2 percent common equity as shown on Rebuttal Schedule D-1. Based on my updated cost of capital analysis, I am recommending a cost of equity of 12.0 percent for the Company. The Company's recommended cost of debt is 8.0 percent.

Based on my 12.0 percent recommended cost of equity, the Company's weighted average cost of capital ("WACC") is 11.89 percent, as shown on Rebuttal Schedule D-1. I recommend that the WACC be used as the rate of return and applied to the Company's fair value rate base ("FVRB") to compute the Company's required operating income.

Q. IS YOUR REBUTTAL COST OF EQUITY RECOMMENDATION HIGHER THAN WHAT WAS SET FORTH IN YOUR DIRECT TESTIMONY?

A. Yes. In my direct testimony relating to the cost of capital which was filed almost one year ago, I recommended a cost of equity of 10.5 percent based on financial information from February 2008. My current recommendation, 12.0 percent, is based on current financial information. The methodologies that I have used are the same. However, key inputs into the DCF and CAPM models have changed over

the past year. For example, the current market risk premium has increased substantially reflecting the current economic environment under which all business must raise capital.

Q. WHY ARE YOU RECOMMENDING A COST OF EQUITY OF ONLY 12.0 PERCENT, WHEN YOUR FINANCIAL MODELS INDICATE THAT A HIGHER EQUITY RETURN IS APPROPRIATE?

A. The midpoint of the range of cost of equity estimates is 14.1 percent, as shown above. Given Johnson Utilities' relatively small size, the regulatory methods and policies used in this jurisdiction (which increase investment risk), and other firm-specific factors, it is my opinion that at the present time, a cost of equity of 14.1 percent is warranted and could be easily supported by the available data. Even so, I am recommending only 12.0 percent to reflect Johnson Utilities' lower financial risk compared to the publicly traded water utilities in my sample group.

Q. PLEASE SUMMARIZE THE COST OF DEBT AND EQUITY RECOMMENDED BY STAFF AND RUCO, AND THEIR RESPECTIVE RECOMMENDATIONS FOR THE RATE OF RETURN ON FAIR VALUE RATE BASE.

A. Staff is recommended an operating margin approach. This is because Staff is recommending negative rate bases for both the water and wastewater divisions. Consequently, Staff has not provided a cost of capital analysis nor has it directly responded to my direct testimony on cost of capital. Accordingly, Staff is recommending an operating margin of 10 percent.[2]

[2] *See* Direct Testimony of Jeffrey M. Michlik at 29 and 31 for Wastewater and Water Division, respectively.

On the other hand, RUCO has recommended a cost of equity of 8.31 percent, based on the average cost of equity of its DCF and CAPM results.[3] RUCO's recommended cost of debt is 8.0 percent, based on the Company's existing debt cost.[4] RUCO is proposing a hypothetical capital structure of 40 percent debt and 60 percent equity. Based on a hypothetical capital structure of 40 percent debt and 60 percent equity, RUCO computed a WACC of 8.18 percent, which is RUCO's recommended rate of return on FVRB.[5]

III. THE COMPANY'S DISAGREEMENTS WITH RUCO'S COST OF CAPITAL ANALYSIS

A. Use of Gas Utilities to Develop Cost of Equity

Q. HOW DOES THE SAMPLE OF WATER UTILITIES MR. RIGSBY USED TO ESTIMATE THE COST OF EQUITY COMPARE TO THE UTILITIES USED BY THE COMPANY AND STAFF?

A. Mr. Rigsby used three publicly traded water utilities. He used the three largest water utilities out of the six water utilities that I have used and Staff typical uses when performing its cost of capital analysis.

Q. DOES MR. RIGSBY ALSO USE SAMPLE GAS COMPANIES TO DEVELOP HIS ESTIMATE OF THE COST OF EQUITY?

A. Yes.

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[3] *See* Direct Testimony of William A. Rigsby ("Rigsby Direct") at 7.
[4] *Id.* at 5.
[5] *Id.*

Q. HOW DO THESE COMPANIES COMPARE TO THE SAMPLE WATER COMPANIES?

A. Mr. Rigsby has chosen to use ten natural gas companies. However, the sample gas utilities are less risky and therefore are not comparable to water utilities. His sample water companies, for example, have an average beta of .97, while his sample gas companies have an average beta of just 0.70.[6] That means that the equity cost for the water utility should be substantially greater than the gas companies, based on their relative riskiness.

The water utility sample has significantly more systematic risk than the gas utility sample. Mr. Rigsby erroneously assumes that the gas utilities and water utility have the same systematic risk and are directly comparable, when they are not.

Q. CAN THE GAS UTILITIES BE USED TO ESTIMATE JOHNSON UTILITIES' COST OF EQUITY?

A. Yes, if the results produced by the DCF and CAPM models are adjusted upward to reflect the water utilities' additional risk. Mr. Rigsby, however, has made no adjustment to account for the water utilities' additional risk.

Q. HAS THIS ISSUE EVER COME UP BEFORE IN COMMISSION CASES?

A. Yes it has. In several prior cases, water utilities presented evidence of the cost of equity using financial data for a similar group of publicly traded gas companies, which at that time had a higher average beta than the water utility sample. In rejecting this approach, the Commission adopted Staff's argument that because the

[6] *See* RUCO Schedule WAR-7, 1 of 2.

water utility sample had a lower average beta than the gas utility sample, the cost of equity for the water utility should be lower. For example, in Arizona Water Company's Eastern Group rate case, the water utility sample had an average beta of 0.59, while the gas utility sample had an average beta of 0.69. Staff estimated that based on the difference in the two groups' betas, the sample gas companies has an equity cost that is 100 basis points higher than the water utilities.[7]

Q. WHAT IS THE IMPACT OF RUCO'S USE OF THE GAS UTILITIES TO ESTIMATE THE COST OF EQUITY IN THIS CASE?

A. By averaging the results of his equity cost estimate for the water utility sample with his equity cost estimate for the gas utility sample, Mr. Rigsby has depressed the cost of equity estimates. For example, the average of Mr. Rigsby's CAPM estimates for the water companies and gas companies are 7.35 percent and 5.76 percent, respectively. This is a 159 basis point difference.

Q. HOW WOULD AN APPROPRIATE RISK ADJUSTMENT BE CALCULATED?

A. By using the CAPM. As I explained above, the difference between the results produced by Mr. Rigsby's CAPM model is 159 basis points. Because of the method used by Mr. Rigsby to implement the CAPM, however, 159 basis points understates the required adjustment to properly reflect the gas utilities' lower investment risk. If my method and inputs are used instead, similar to the method used in the aforementioned Arizona Water Eastern Group case, the result is 334 basis points, calculated as follows:

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[7] *See* Decision No. 66849 (March 19, 2004) at 21. *See* also *Arizona-American Water Company*, Decision No. 67093 (June 30, 2004) at 27.

	Rf		Beta		Rp		K
Historic MRP	2.3%	+	0.70	X	7.5%	=	7.55%
Current MRP	3.7%	+	0.70	X	21.3%	=	18.61%
Average Gas Utility Sample							13.06%
Average Water Utility Sample[8]							16.4%
Difference/Risk Adjustment							**3.34%**

Given this difference, it is clearly inappropriate to simply average the gas utilities' equity cost with the water utilities' equity cost, as Mr. Rigsby has done. This error assumes that a typical gas utility has the same investment risk as a typical water utility, which is not the case at the present time. As a result, Mr. Rigsby's use of gas utilities depresses the cost of equity for Johnson Utilities.

B. Disagreements with RUCO's Implementation of the CAPM

Q. WHAT OTHER CONCERNS DO YOU HAVE WITH RESPECT TO MR. RIGBY'S CAPM ANALYSIS?

A. I have four other concerns with Respect to Mr. Rigsby's CAPM analysis. First, Mr. Rigsby employs a geometric average in calculating the market risk premium in his CAPM. His choice to use geometric average depresses his cost of equity estimate downward. An arithmetic average is the correct approach to use in estimating the cost of capital, as various experts have explained.[9] In fact, the CAPM was developed on the premise of expected returns being averages and risk being measured with the standard deviation. As Dr. Morin states:

> Since the latter **[standard deviation]** is estimated around the arithmetic average, and not the geometric average, it is logical

[8] *See* Exhibit D-4.13.

[9] Richard A. Brealey and Stewart C. Myers, *Principles of Corporate Finance* 156-157 (7th ed. 2003); Roger A. Morin, *New Regulatory Finance* 156-157 (Public Utility Reports, Inc. 2006) ("*Morin*"); Ibbotson SBBI 2008 Valuation Yearbook 77-78.

> to stay with arithmetic averages to estimate the market risk premium. In fact, annual returns are uncorrelated over time, and the objective is to estimate the market risk premium for the next year, the arithmetic average is the best unbiased estimate of the premium.[10]

Attached as Exhibit D-2 is an excerpt from Dr. Roger Morin's textbook on regulatory finance, which provides a detailed discussion of this issue.[11]

Second, Mr. Rigsby uses the U. S. Treasury total returns in his computation when his should have used U.S. Treasury income returns. As I explained in my direct testimony, the market risk premium is calculated by subtracting the risk-free rate from the market return.[12] Mr. Rigsby erroneously used the average total return on a Treasury security rather than the average income return. As shown on Schedule WAR-7, at page 2, attached to Mr. Rigsby's direct testimony, the total return used to calculate the market risk premium was 5.5 percent. This was the average total return on an intermediate-term Treasury (1926-2007) ass published in the *2008 Ibbotson SBBI Valuation Edition Yearbook* (Morningstar 2008) ("*Ibbotson*").[13] By contrast, the average income return for an intermediate-term Treasury security was 4.7 percent.[14]

The reason that an average income return must be used, rather than the average total return, is quite straightforward. As I explained in my direct testimony, the CAPM is a risk premium methodology that is based on the premise that an investor expects to earn a return equal to the return on a risk-free investment plus a

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[10] *Morin, supra*, at 157-157.
[11] *Morin* at 133-43.
[12] *See* Direct Testimony of Thomas J. Bourassa (Cost of Capital) ("Bourassa Direct") at 34-36.
[13] *Ibbotson* at 28.
[14] *Id.*

premium for assuming additional risk that is proportional to the security's market risk (*i.e.*, its beta).[15] U.S. Treasuries are commonly used as a proxy for the risk-free rate because they are backed by the United States government, effectively eliminating default risk. The income return is the portion of the total return that results from the bond's periodic cash flow, *i.e.*, the interest payments. The income return provides an unbiased estimate of the riskless rate of return because an investor can hold the Treasury security to maturity and receive fixed interest payments with no capital loss or capital gain. If the total return on a Treasury security is used instead, additional risk is injected into the CAPM estimate, which is inconsistent with treating the security as a riskless asset. As explained by *Ibbotson*:

> Another point to keep in mind when calculating the equity risk premium is that the income return on the appropriate-horizon Treasury security, rather than the total return, is used in the calculation. The total return is comprised of three return components: the income return, the capital appreciation return, and the reinvestment return. The income return is defined as the portion of the total return that results from a periodic cash flow or, in this case, the bond coupon payment. The capital appreciation return results from the price change of a bond over a specific period. Bond prices generally change in reaction to unexpected fluctuations in yields. Reinvestment return is the return on a given month's investment income when reinvested into the same asset class in the subsequent months of the year. The income return is thus used in the estimation of the equity risk premium because it represents the truly riskless portion of the return.[16]

As a consequence of incorrectly using U.S. Treasury total returns and well as geometric means, RUCO's CAPM estimate dramatically understates the cost of equity for the water utility sample. If an intermediate-term Treasury security is

[15] Bourassa Direct at 34-36.
[16] *Ibbotson* at 75-76.

used as the proxy for the risk-free rate of return, the market risk premium would increase to 7.5 percent using the conceptually correct arithmetic averages. If that market risk premium is substituted for the 6.8 percent market risk premium used by Mr. Rigsby, the cost of equity for his water utility sample would increase from 8.17 percent to 8.88 percent – an increase of 71 basis points.

Third, Mr. Rigsby has ignored current market risk. This Commission has consistently approved the use of a current market risk premium in implementing the CAPM in water and wastewater utility rate cases. In the Chaparral City case[17], for example, the Commission adopted cost of capital used an historic market risk premium and a current market risk premium in its CAPM estimates.[18] RUCO, however, has ignored current market risk in its CAPM estimates and has relied instead on incorrectly calculated historic market risk premiums.

Changes in the current market risk premium have been a significant factor in the cost of equity authorized by the Commission for water and wastewater utilities. In Arizona Water Company's Eastern Group case filed in 2002, Staff computed a current market risk premium of 13.1 percent in its CAPM estimate, and relied on that market risk premium in estimating a cost of equity of 9.2 percent, using the same six sample water utilities.[19] At that time, the country was in the midst of a recession, and, according to Staff, interest rates had fallen to the lowest levels since the 1950s.[20] Moreover, the average beta of Staff's water utility sample group was

[17] Commission Decision No. 68176, September 30, 2005).
[18] *See* Direct Testimony of Alejandro Ramirez, Docket No. W-02113A-04-0616 (March 22, 2005); Surrebuttal Testimony of Alejandro Ramirez, Docket No. W-02113A-04-0616 (May 5, 2005).
[19] Direct Testimony of Joel M. Reiker, Docket No. W-01445A-02-0619, 24, 25 (July 8, 2003) at 25.
[20] *Id.* at 5.

only 0.59 at that time, indicating that investment risk for the water utility industry was low relative to the market.[21]

Two years later, Arizona Water Company filed a rate case for its Western Group systems. Interest rates had increased from the levels in 2003, and the average beta of the Staff's sample utilities had increased as well, indicating greater investment risk.[22] However, Staff's cost of equity estimate was virtually identical to the Eastern Group case, 9.1 percent.[23] The primary reason was that Staff's current market risk premium had dropped from 13.1 percent to 7.8 percent. The Commission, in adopting Staff's CAPM estimate, relied on this change, explaining that "while interest rates have gone up, the cost of equity for the market as a whole as decreased, while the cost of equity for utilities has remained relatively stable."[24]

Even more recently, in Black Mountain Sewer Corporation's rate case, the Commission relied on a further decline in the current market risk premium to support Staff's recommended 9.6 percent cost of equity.[25] In that case, interest rates and the average beta of the sample group were even higher than 2003 levels, and while the result produced by Staff's models was higher, the increase was not as large as would be expected.[26] The reason was that the current market risk premium had decreased to only 5.7 percent, reducing the result produced by the CAPM.

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[21] *Id.* at 23.
[22] Surrebuttal Testimony of Alejandro Ramirez, Docket No. W-01445A-04-0650, Sch. AXR-8 (May 25, 2005).
[23] *Id.*
[24] *Arizona Water Co. (Western Group)*, Decision No. 68302 at 38 (Nov. 14, 2005).
[25] *Black Mountain Sewer Corp.*, Decision No. 69164 at 26 (Dec. 5, 2006).
[26] In the *Black Mountain* case, the intermediate-term Treasury used by Staff in its CAPM was 4.8 percent, while the average beta of Staff's sample group was 0.74. Surrebuttal Testimony of Pedro M. Chaves, Docket No. SW-022361A-05-0657, Sch. PMC-2 (May 4, 2006). In *Arizona Water's Eastern Group* case, in contrast, the intermediate-term Treasury used by Staff in its CAPM was 3.3 percent, while the average beta of Staff's sample group was 0.59. Direct Testimony of Joel M. Reiker, Docket No. W-01445A-02-0619, Sch. JMR-7 (July 8, 2003).

Thus, while interest rates increased and the investment risk of the water utility sample had increased, Staff explained that those increases were offset by a further decline in the current market risk premium, indicating that the overall risk of the market had declined.[27]

As these decisions show, not only has the Commission consistently considered the current market risk premium, but changes in the current market risk premium have had a major impact on the cost of equity, offsetting changes in interest rates and water utility betas in recent cases. Further, RUCO's witness has acknowledged the importance of considering current market conditions in determining the cost of equity:

> Consideration of the economic environment is necessary because trends in interest rates, present and projected levels of inflation, and the overall state of the U.S. economy determine the rate of return that investors earn on their invested funds. Each of these factors represent potential risks that must be weighed when estimating the cost of equity capital for a regulated utility and are, most often, the same factors considered by individuals who are also investing in non-regulated entities.[28]

In light of the current volatility in the financial markets, the failure to consider current market risk would grossly distort the CAPM result. Consequently, RUCO's use of two <u>historic</u> market risk premiums (one of which is conceptually wrong for the reasons given previously) without considering the impact of current market risk on investor expectations invalidates RUCO's cost of equity estimate.

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[27] *Black Mountain Sewer Corp.*, Decision No. 69164 at 25-26 (Dec. 5, 2006).
[28] Rigsby Direct at 36.

Finally, and perhaps most importantly of all, Mr. Rigsby's CAPM estimates for both the water and the gas utilities as well as his overall CAPM result are below the current cost of Baa investment grade bonds.[29] The current cost of investment grade bonds in over 8.3 percent. The following are the results of Mr. Rigsby's CAPM As shown on WAR-1:

Geometric mean CAPM estimate - water companies	6.53%
Arithmetic mean CAPM estimate - water companies	8.17%
Geometric mean CAPM estimate - gas companies	5.17%
Arithmetic mean CAPM estimate - gas companies	6.36%
Average Overall CAPM results	6.56%

A simple reality check should have caused Mr. Rigsby to question his inputs to the CAPM. This clearly demonstrates that RUCO's methods are not only biased downward, but should not be used.

C. Disagreements with RUCO's Implementation of the DCF

Q. DO YOU HAVE ANY CONCERNS REGARDLING MR. RISGSBY'S DCF ESTIMATES?

A. Yes. RUCO's method of estimating his growth rates is subjective and cannot be verified or replicated, in contrast to the methods that I use. In his DCF model, Mr. Rigsby relies on projected sustainable growth in order to estimate the dividend growth rate. I also use the sustainable growth method.[30] The difference, however, is that the key inputs necessary to estimate the internal or retention growth rate are not disclosed by Mr. Rigsby.

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[29] *See* RUCO Schedule WAR-1.
[30] Bourassa Direct at 33.

Q. WHAT ARE THOSE INPUTS?

A. Internal or retention growth, I have explained, is the expected growth in dividends due to the retention of earnings. *Id.* Retention growth is dependent on the percentage of earnings retained (the retention ratio) and the expected return on common equity that is applied to the retained earnings. Thus, the internal growth rate formula is:

Retention growth rate = br

Where: b = the retention ratio (1-dividend payout ratio)

r = the expected return on common equity

The problem with Mr. Rigsby's implementation of this formula is that he does not disclose the retention ratio or the expected return on common equity used to calculate the retention growth rate. As a result, it is impossible to verify the accuracy of his calculation of internal growth (br).

Mr. Rigsby lists various sources of data, and also attaches various materials to his direct testimony.[31] But there is no explanation of how any of these materials were actually used. This approach effectively allows Mr. Rigsby to simply select a growth rate that falls somewhere within a broad range and cannot be verified.

D. <u>Disagreements with RUCO's Use of Hypothetical Capital Structure</u>

[31] *See* Rigsby Direct at 26-28.

Q. WHY DOES MR. RIGSBY PROPOSE THE USE OF A HYPOTHETICAL CAPITAL STRUCTURE?

A. According to Mr. Rigsby, his hypothetical capital structure is to account for the lower financial risk of Johnson Utilities when compared to his sample of publicly traded water companies.[32] His sample publicly traded water utilities had approximately 46 percent debt and 54 percent equity.[33] His advocates a use of a 40 percent debt and 60 percent equity rather than a 46 percent debt and 54 percent equity because he believes that the higher level of equity in his hypothetical capital structure will compensate the Company's shareholder for any perceived higher levels of company specific risk.[34]

Q. HOW MUCH ADDITIONAL RETURN FOR COMPANY SPECIFIC RISK IS PROVIDED BY USING A 40 PERCENT DEBT AND 60 PERCENT EQUITY AS OPPOSED TO A 46 PERCENT DEBT AND 54 PERCENT EQUITY USING RUCO'S MODELS?

A. Less than 5 basis points.

Q. IS THIS ADEQUATE IN YOUR VIEW OF THE ADDITIONAL RISKS JOHNSON FACES COMPARED TO THE LARGE PUBLICLY TRADED UTILITIES?

A. No. In my direct testimony I testified to why I believe Johnson is not directly the large publicly traded utilities.[35] A risk premium above the estimated cost of equity is warranted, although I have not formally quantified the risk premium. Empirical

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[32] *Id.* at 57.
[33] *Id.* at 56.
[34] *Id.* at 57-58.
[35] Bourassa Direct at 16-20.

financial data and financial literature suggest that smaller companies are more risky than larger companies. *Ibbotson* devotes an entire chapter on firm size and return alone.[36] In fact, the size premium for the market comparing larger company stock to micro-cap stocks (1926-2007) as suggested by *Ibbotson* is 365 basis points (3.65 percent).[37] Johnson Utilities would be considered a very small micro-cap. Dr. Thomas M. Zepp has found studies by others supporting a conclusion that water utility stocks are more risky than larger ones.[38] In fact, according to Dr. Zepp, the California Public Utilities Commission has found that the smaller water utilities in its study had a cost of equity ("COE") that, on average, was 99 basis points higher than the costs of equity for larger utilities.[39] The bottom line is that a risk premium as suggested by Mr. Rigsby by use of a 40 percent debt and 60 percent equity as opposed to a 46 percent debt and 54 percent equity is negligible and hardly compensates Johnson for the additional risks it faces.

Q. HOW HAS FINANCIAL RISK TYPICALLY BEEN ACCOUNTED FOR IN PRIOR WATER AND WASTEWATER RATE CASES?

A. By a direct financial risk adjustment to the cost of equity. Downward financial risk adjustments adopted by the Commission have typically been based upon the Hamada method.

Q. PLEASE BRIEFLY EXPLAIN THE HAMADA ADJUSTMENT METHOD.

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[36] *Ibbotson*, Chapter 7.
[37] *Id.* at 139.
[38] Zepp, Thomas M. (2002, August). Utility Stocks and the size effect – revisited. *The Quarterly Review of Economics and Finance*, 578-582.
[39] *Id.*

A. The methodology was developed by Professor Hamada of the University of Chicago, which incorporates the beta of a levered firm to that of its unlevered counterpart. The equation is:

$$\beta_L = \beta_U[1 + (1 - T)\varphi]$$

where β_L and β_U are the levered and unlevered betas, respectively, T is the tax rate, and φ the leverage, defined as the ratio of market value of debt and equity of the firm. In simple terms, the average beta of the utility sample is unlevered using a ratio of market values of debt and equity contained their respective capital structures. Once the unlevered beta is determined, the beta is relevered using the market value capital structure of the subject utility. The relevered beta is then used in the CAPM model, and the new CAPM result is compared to original CAPM result. The computed difference is the basis of the financial risk adjustment.

Q. ARE DOWNWARD ADJUSTMENTS TO THE COST OF EQUITY FOR FINANCIAL RISK BY THIS COMMISSION COMMON?

A. No. Downward adjustments to the cost of equity for financial risk are not adopted as often as one would think. The downward adjustment often depends on whether a reasonable return on equity is afforded to the utility based on consideration of all of the evidence in the case. In some cases, even though the Hamada indicates a higher downward adjustment, the cost of equity is adjusted downward less than what may be indicated by the Hamada adjustment. In the Bella Vista Water Company case,[40] for example, the Hamada adjustment indicated an 89 basis point reduction to the cost of equity which would have resulted in an 8.4 percent return

[40] Commission Decision No. 65350 (November 1, 2002).

on equity. However, Staff did not recommend an 8.4 percent cost of equity, but rather recommended the low end of its cost of equity range of 9.1 percent to 9.5 percent.[41] The Commission ultimately adopted Staff's recommended 9.1 percent.[42] In the Black Mountain Sewer Case[43], Staff's cost of equity analysis produced an indicated cost of equity of 9.60 percent (before adjusting for financial risk). Staff's calculated financial risk adjustment using the Hamada methodology was 50 basis points but Staff did not recommend a downward adjustment in that case.[44] Ultimately, the Commission, based on the evidence in that case, adopted a 9.6 percent return on equity.[45]

The bottom line is that downward adjustments for financial risk must be used cautiously. Final consideration must always be given to whether the result is fair and reasonable under the circumstances. One reason for this is that basis for the cost of capital analyses are often based on large publicly traded water companies which are not directly comparable to the relatively small water and sewer utilities in Arizona. There are also considerations as to the requirements set forth in the *Hope* and *Bluefield* cases.

Q. HAVE YOU PREPARED A HAMADA COMPUTATION TO QUANTIFY THE DIFFERENCE IN FINANCIAL RISK?

A. Yes. At Exhibit D-3 I prepared a financial risk computation using the Hamada methodology. While there is no beta for Johnson I have assumed the average beta of the larger publicly traded water utilities when unlevering beta. I should note that

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[41] *See* Direct Testimony of William S. Reiker, Docket No. W-02465A-01-0776 at 26-27.
[42] Commission Decision No. 65350 at 23.
[43] Commission Decision No. 69164 (December 5, 2006).
[44] *See* Staff Surrebuttal Schedule PMC-2 in Docket SW-02361A-05-0657.
[45] Commission Decision No. 69164 at 27.

I believe the beta for Johnson, if publicly traded, would be much higher than the average beta of the large publicly traded water utilities. Putting this aside, the financial risk adjustment based on my cost of equity analysis is no more than 190 basis points. So, taking my overall estimate of the cost of equity of 14.1 percent and subtracting the 190 basis points (1.9 percent) would put my adjusted cost of equity at 12.2 percent – 20 basis points more than my recommended cost of equity of 12 percent. Again, I would suggest that the financial risk adjustment would be far less than 190 basis points because Johnson's beta would be higher.

Q. IF MR. RIGSBY HAD COMPUTED A FINANCIAL RISK ADJUSTMENT USING THE HAMADA METHOD WHAT WOULD IT HAVE BEEN?

A. If Mr. Rigsby had preformed a Hamada type financial risk adjustment, his financial risk adjustment would have been about 30 basis points. Subtracting this from his overall cost of equity result of 8.31 percent would have put his final estimate at 8.01 percent. Mr. Rigsby's cost of equity estimate of 8.31 percent is about the current cost of investment grade bonds – which is absurd. Mr. Rigsby's recommendation would be even more ridiculous at 8.01 percent. In fact, it would be the same as his cost of debt of 8.0% used in computing his weighted cost of capital.

Q. WOULD THE USE A HYPOTHETICAL CAPITAL STRUCTURE HAVE MADE ANY DIFFERNCE USING A COST OF EQUITY OF 8.01 PERCENT?

A. No. Mr. Rigsby's cost of equity would be essentially the same as the Company's cost of debt of 8.0 percent.

Q. IF YOUR COST OF EQUITY ESTIMATE OF 14.1 PERCENT WAS USED IN RUCO'S PROPOSED HYPOTHERICAL CAPITAL STRCUTURE, WHAT WOULD THE WEIGHTED COST OF CAPITAL BE?

A. It would be 11.66 percent. Computed as follows:

	Percentage	Cost	Weighted Cost
Debt	40%	8.0%	3.20%
Equity	60%	14.1%	8.46%
			11.66%

E. Disagreements with RUCO's Overall Result

Q. ISN'T MR. RIGSBY'S OVERALL ESTIMATE OF THE COST OF EQUITY USING BOTH THE DCF AND CAPM AT OR BELOW THE CURRENT COST OF BAA INVESTMENT GRADE BONDS?

A. Yes. Mr. Rigsby's proposed cost of equity of 8.31 is astonishing given that current yields on investment grade bonds is over 8.3 percent.[46] In fact during the 8 week time period (12/5/2008 to 1/23/2009), Baa investment grade bond yields averaged 8.25 percent. What is further astounding is that RUCO's cost of equity is only 31 basis points above his recommended cost of debt. Clearly, Mr. Rigsby's cost of equity recommendation is unrealistic and should be rejected.

IV. SUMMARY OF THE COMPANY'S REBUTTAL CONCLUSIONS

Q. WITH RESPECT TO THE COMPANY'S COST OF CAPITAL, PLEASE SUMMARIZE THE COMPANY'S REQUEST.

[46] Baa Investment grade bond yield was at 8.34% on March 4, 2009 (www.federalreserve.gov).

A. It is clear from the discussion above, that the RUCO position for a reduced WACC is not supportable by the data and should not be adopted by the Commission. Moreover, as more fully discussed in Volumes II and III of my rebuttal testimony, Johnson Utilities can demonstrate a positive rate base sufficient to justify a WACC of 11.89 percent. Accordingly, Staff's recommendation of utilizing a 10 percent operating margin should likewise be rejected.

Q. DOES THAT CONCLUDE YOUR TESTIMONY?

A. Yes.

9631824.1

V. EXHIBITS

EXHIBIT

D-1

Johnson Utilities, LLC
Test Year Ended December 31, 2007
Summary of Cost of Capital

Exhibit D-1
Rebuttal Schedule D-1
Page 1
Witness: Bourassa

Line No.	Item of Capital	End of Test Year Dollar Amount	Percent of Total	(e) Cost Rate	Weighted Cost	End of Projected Year Dollar Amount	Percent of Total	(e) Cost Rate	Weighted Cost
1	Short-Term Debt		0.00%	0.00%	0.00%	$ -	0.00%	0.00%	0.00%
2									
3	Long-Term Debt	722,000	2.79%	8.00%	0.22%	$ 722,000	2.58%	8.00%	0.21%
4									
5	Stockholder's Equity	25,175,122	97.21%	12.00%	11.67%	27,214,476	97.42%	12.00%	11.69%
6									
7	Totals	$ 25,897,122	100.00%		11.89%	$ 27,936,476	100.00%		11.90%
8									
9									
10									
11									
12									
13									
14									
15	SUPPORTING SCHEDULES:								
16	Rebuttal D-2								
17	Rebuttal D-3								
18	Rebuttal D-4								
19									
20									
21									
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29									
30									
31									
32									
33									
34									
35									

RECAP SCHEDULES:

Johnson Utilities, LLC
Test Year Ended December 31, 2007
Cost of Long Term Debt

Exhibit D-1
Rebuttal Schedule D-2
Page 1
Witness: Bourassa

Line No.	Description of Debt	End of Test Year Amount Outstanding	End of Test Year Annual Interest	End of Test Year Interest Rate	End of Test Year Weighted Cost	End of Projected Year Amount Outstanding	End of Projected Year Annual Interest	End of Projected Year Interest Rate	End of Projected Year Weighted Cost
1									
2	Loan	722,000	57,760	8.00%	8.00%	722,000	57,760	8.00%	8.00%
3									
4									
5									
6									
7									
8									
9									
10									
11									
12									
13	Totals	$ 722,000	57,760		8.00%	$ 722,000	57,760		8.00%
14									
15	Supporting Schedules:								
16									
17									
18									
19									
20									
21									

Johnson Utilities, LLC
Test Year Ended December 31, 2007
Cost of Preferred Stock

Exhibit D-1
Rebuttal Schedule D-3
Page 1
Witness: Bourassa

Line No.	Description of Issue	End of Test Year Shares Outstanding	End of Test Year Amount	End of Test Year Dividend Requirement	End of Projected Year Shares Outstanding	End of Projected Year Amount	End of Projected Year Dividend Requirement
1							
2							
3	NOT APPLICABLE						
4							
5							
6							
7							
8							
9							
10							
11							
12							
13							
14							
15							
16							
17	SUPPORTING SCHEDULES:				RECAP SCHEDULES:		
18					Rebuttal D-1		
19							
20							

Johnson Utilities, LLC
Test Year Ended December 31, 2007
Cost of Common Equity

Exhibit D-1
Rebuttal Schedule D-4
Page 1
Witness: Bourassa

Line No.		
1		
2	The Company is proposing a cost of member's equity of	12.00% .
3		
4		
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6		
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15		
16		
17	SUPPORTING SCHEDULES:	RECAP SCHEDULES:
18		Rebuttal D-1
19		
20		

Johnson Utilities, LLC
Summary of Results

Exhibit D-1
Rebuttal Schedule D-4.0
Witness: Bourassa

Line No.	Method	Low	High	Midpoint
1				
2				
3				
4	Method	Low	High	Midpoint
5	DCF Constant Growth	10.6%	15.6%	13.1%
6	DCF Sustainable Growth	8.3%	11.9%	10.1%
7	DCF Two-Stage	10.3%	13.6%	12.0%
8				
9	Average DCF Results	9.7%	13.7%	11.7%
10				
11	CAPM	9.3%	23.5%	16.4%
12				
13	Average DCF and CAPM Results	9.5%	18.6%	14.1%
14				
15				
16				
17				
18				
19				
20				
21				
22				
23				
24				
25				
26				
27				
28				

Johnson Utilities, LLC
Selected Characteristics of Water Utilities

Exhibit D-1
Rebuttal Schedule D-4.1
Witness: Bourassa

Line No.	Company	% Water Revenues	Operating Revenues (millions)	Net Plant (millions)	S&P Bond Rating	Moody's Bond Rating
1						
2						
3	Company					
4	1. American States	80%	$ 308.5	$ 714.6	NR	A2
5	2. Aqua America	85%	$ 616.2	$ 2,507.4	AA-	NR
6	3. California Water	97%	$ 396.1	$ 970.2	NR	NR
7	4. Connecticut Water	85%	$ 61.4	$ 243.7	AAA	NR
8	5. Middlesex	90%	$ 90.8	$ 312.4	A	NR
9	6. SJW Corp.	95%	$ 218.4	$ 483.7	NR	NR
10						
11	Average	89%	$ 281.9	$ 872.0		
12						
13	Johnson Utilities, LLC	100%	$ 24.5	$ 192.0	NR	NR
14						
15	Source: AUS Utility Reports (February 2009)					
16						
17						
18						
19						
20						
21						
22						
23						
24						
25						
26						
27						
28						

Johnson Utilities, LLC
Capital Structures of Water Utilities

Exhibit D-1
Rebuttal Schedule D-4.2
Witness: Bourassa

No.	Company	Book Value Long-Term Debt	Book Value Common Equity	Market Value Long-Term Debt	Market Value Common Equity
1	American States	47.0%	53.0%	31.4%	68.6%
2	Aqua America	55.4%	44.6%	32.6%	67.4%
3	California Water	43.0%	57.0%	25.7%	74.3%
4	Connecticut Water	47.9%	52.1%	33.3%	66.7%
5	Middlesex	49.8%	50.2%	40.8%	59.2%
6	SJW Corp.	47.7%	52.3%	31.6%	68.4%
7					
8	Average	48.5%	51.5%	32.6%	67.4%
9					
10	Johnson Utilities, LLC	2.8%	97.2%	N/A	N/A

Source: Value Line Analyzer Data (February 20, 2009)

Johnson Utilities, LLC
Comparisons of Past and Future Estimates of Growth

Exhibit D-1
Rebuttal Schedule D-4.3
Page 1
Witness: Bourassa

Line No.	Company	Five-year historical compound annual changes: Price	Book Value	DPS	EPS	Average Future Growth[1]
1	1. American States	8.84%	5.66%	2.82%	13.51%	8.25%
2	2. Aqua America	6.73%	7.31%	7.82%	6.20%	7.75%
3	3. California Water	14.51%	5.53%	0.88%	10.46%	8.50%
4	4. Connecticut Water	0.29%	3.38%	1.19%	1.41%	9.05%
5	5. Middlesex	-0.05%	6.96%	1.52%	7.60%	8.00%
6	6. SJW Corp.	17.82%	8.91%	7.02%	7.39%	12.75%
7	GROUP AVERAGE	8.02%	6.29%	3.54%	7.76%	9.05%
8	GROUP MEDIAN	7.79%	6.31%	2.17%	7.50%	8.38%

[1] See Rebuttal Schedule D-4.5

Sources:
Value Line Data
Yahoo Finance

Johnson Utilities, LLC
Comparisons of Past and Future Estimates of Growth

Exhibit D-1
Rebuttal Schedule D-4.4
Page 1
Witness: Bourassa

Line No.	Company	Ten-year historical compound annual changes: Price	Book Value	DPS	EPS	Average Future Growth[1]
7	1. American States	9.72%	4.83%	1.76%	3.13%	8.25%
8	2. Aqua America	9.75%	9.00%	6.97%	6.77%	7.75%
9	3. California Water	8.42%	3.51%	0.90%	3.22%	8.50%
10	4. Connecticut Water	6.28%	3.78%	1.22%	1.93%	9.05%
11	5. Middlesex	7.37%	4.35%	1.91%	2.17%	8.00%
12	6. SJW Corp.	14.89%	5.89%	6.11%	5.58%	12.75%
15	GROUP AVERAGE	9.40%	5.23%	3.15%	3.80%	9.05%
16	GROUP MEDIAN	9.07%	4.59%	1.84%	3.17%	8.38%

[1] See Rebuttal Schedule D-4.5

Sources:
Value Line Data
Yahoo Finance

Johnson Utilities, LLC
Analysts Forecasts of Earnings Per Share Growth

Exhibit D-1
Rebuttal Schedule D-4.5
Witness: Bourassa

Line No.	Company	(1) Zacks	(2) Morningstar	(3) Yahoo	(3) Value Line	(4) Average Growth (G) (Cols 1-3)
		EPS GROWTH				
7	1. American States	11.00%	7.00%	4.00%	11.00%	8.25%
8	2. Aqua America	8.00%	7.50%	7.50%	8.00%	7.75%
9	3. California Water	8.00%	8.00%	10.00%	8.00%	8.50%
10	4. Connecticut Water					9.05%
11	5. Middlesex	8.00%		8.00%	8.00%	8.00%
12	6. SJW Corp.	13.00%	15.00%	10.00%	13.00%	12.75%
15	GROUP AVERAGE	9.60%	9.38%	7.90%	9.60%	9.05%
16	GROUP MEDIAN					8.38%

Sources:
Value Line Investment Analyzer Data February 20, 2009
Zacks Investment Research Website February 20, 2009
Morningstar Website February 20, 2009
Yahoo Finance Website February 20, 2009

Johnson Utilities, LLC
Estimates of Sustainable Growth

Exhibit D-1
Rebuttal Schedule D-4.6
Witness: Bourassa

Line No.	Company	(1) Retention Ratio	(2) Rate of Return	(3) br Growth	(4) sv Growth	(5) Average Sustainable Growth (Cols 3+4)
7	1. American States	0.50	12.50%	6.30%	2.23%	8.53%
8	2. Aqua America	0.40	12.00%	4.80%	0.63%	5.43%
9	3. California Water	0.51	11.00%	5.60%	1.46%	7.07%
10	4. Connecticut Water					
11	5. Middlesex					
12	6. SJW Corp.					
15	GROUP AVERAGE	0.47	11.83%	5.57%	1.44%	7.01%
16	GROUP MEDIAN	0.50	12.00%	5.60%	1.46%	7.07%

Sources:
Value Line Data

Johnson Utilities, LLC
Estimates of sv Growth

Exhibit D-1
Rebuttal Schedule D-4.7
Witness: Bourassa

Line No.		(1)	(2)	(3)	(4)
1					
2					
3					
4		Stock	Current		
5		Financing	Market to Book		sv
6	Company	Rate	Ratio	v	Growth
7	1. American States	4.62%	1.93	0.48	2.23%
8	2. Aqua America	1.03%	2.57	0.61	0.63%
9	3. California Water	2.71%	2.18	0.54	1.46%
10	4. Connecticut Water				na
11	5. Middlesex				na
12	6. SJW Corp.				na
13					
14					
15	GROUP AVERAGE	2.79%	2.23	0.54	1.44%
16	GROUP MEDIAN	2.71%	2.18	0.54	1.46%
17					
18	Sources:				
19	Value Line Data				
20					
21					

Johnson Utilities, LLC
Discounted Cash Flow Analysis (Water)
Constant Growth DCF Model
Using Projected EPS Growth

Exhibit D-1
Rebuttal Schedule D-4.8
Witness: Bourassa

Line No.		(1)	(2)	(3)	(4)	(5)
	Company	Spot Price (Po)	Next Year's Div (D1)	Dividend Yield	Growth (g)[1]	Indicated Cost of Equity k=Div Yld + g (Cols 3+4)
7	1. American States	33.91	1.08	3.18%	8.25%	11.4%
8	2. Aqua America	18.79	0.54	2.87%	7.75%	10.6%
9	3. California Water	40.30	1.18	2.93%	8.50%	11.4%
10	4. Connecticut Water	22.01	0.89	4.05%	9.05%	13.1%
11	5. Middlesex	14.48	0.71	4.92%	8.00%	12.9%
12	6. SJW Corp.	25.41	0.73	2.86%	12.75%	15.6%
15	GROUP AVERAGE			3.47%	9.05%	12.5%
16	GROUP MEDIAN					12.2%

[1] See Rebuttal Schedules D-4.5

Sources:
Value Line Investment Analyzer Data February 20, 2009
Yahoo Finance Website February 20, 2009

Johnson Utilities, LLC
Discounted Cash Flow Analysis (Water)
Constant Growth DCF Model - Sustainable Growth

Exhibit D-1
Rebuttal Schedule D-4.9
Witness: Bourassa

Line No.		(1)	(2)	(3)	(4)	(5)	(6)	(7)
1								Indicated
2								Cost of
3			Next		Sustainable Growth[1]			Equity
4		Spot	Year's	Dividend			br+sv	k=Div Yld + g
5	Company	Price (Po)	Div (D1)	Yield	br	vs	Growth (g)	(Cols 3+6)
6	1. American States	33.91	1.08	3.18%	6.30%	2.23%	8.53%	11.7%
7	2. Aqua America	18.79	0.54	2.87%	4.80%	0.63%	5.43%	8.3%
8	3. California Water	40.30	1.18	2.93%	5.60%	1.46%	7.07%	10.0%
9	4. Connecticut Water	22.01	0.89	4.05%			7.01%	11.1%
10	5. Middlesex	14.48	0.71	4.92%			7.01%	11.9%
11	6. SJW Corp.	25.41	0.73	2.86%			7.01%	9.9%
12								
13								
14	GROUP AVERAGE			3.47%			7.01%	10.5%
15	GROUP MEDIAN							10.5%
16								
17								
18	[1] See Schedule D-4.6 and D-4.7							
19								
20								
21	Sources:							
22	Value Line Investment Analyzer Data February 20, 2009							
23	Yahoo Finance Website February 20, 2009							
24								

Johnson Utilities, LLC
Discounted Cash Flow Analysis (Water)
Two-Stage Growth - Projected

Exhibit D-1
Rebuttal Schedule D-4.10
Witness: Bourassa

Line No.		(1)	(2)	(3)	(4)	(5)	(6)	(7)
					Projected Growth Rates			
	Company	Spot Price(P_0)	Next Year's Div (D_1)	Yield (D_1/P_0)	Near Term[1]	Long Term (GDP)	Average[2]	Indicated Cost of Equity
7	1. American States	33.91	1.08	3.18%	8.25%	6.80%	7.77%	11.0%
8	2. Aqua America	18.79	0.54	2.87%	7.75%	6.80%	7.44%	10.3%
9	3. California Water	40.30	1.18	2.93%	8.50%	6.80%	7.94%	10.9%
10	4. Connecticut Water	22.01	0.89	4.05%	9.05%	6.80%	8.31%	12.4%
11	5. Middlesex	14.48	0.71	4.92%	8.00%	6.80%	7.60%	12.5%
12	6. SJW Corp.	25.41	0.73	2.86%	12.75%	6.80%	10.79%	13.6%
15	GROUP AVERAGE			3.47%			8.31%	11.8%
16	GROUP MEDIAN							11.7%

[1] See Rebuttal Schedule D-4.5
[2] Near term growth given weighting of .67

Johnson Utilities, LLC
Market Betas

Exhibit D-1
Rebuttal Schedule D-4.11
Witness: Bourassa

Line No.		Company	
1		Company	
2	1.	American States	0.95
3	2.	Aqua America	0.90
4	3.	California Water	1.05
5	4.	Connecticut Water	0.80
6	5.	Middlesex	0.80
7	6.	SJW Corp.	1.05
8		Average	**0.93**
9			
10	Source:		
11	Value Line Investment Analyzer Data February 20, 2009		
12			
13			
14			
15			
16			

Johnson Utilities, LLC
Computation of Current Market Risk Premium

Exhibit D-1
Rebuttal Schedule D-4.12
Witness: Bourassa

Line No.	Month	Dividend Yield	+	Growth	=	Expected Market Return	-	Monthly Average 30 Year Treasury Rate	=	Market Risk Premium
1										
2										
3	**Month**	Yield	+	Growth	=	Return	-	Treasury Rate	=	Premium
4	Dec 2007	2.61%	+	13.51%	=	16.12%	-	4.52%	=	11.60%
5	Jan 2008	2.67%	+	15.19%	=	17.86%	-	4.33%	=	13.53%
6	Feb	2.74%	+	16.47%	=	19.21%	-	4.52%	=	14.69%
7	March	2.85%	+	17.64%	=	20.49%	-	4.39%	=	16.10%
8	April	2.69%	+	15.73%	=	18.42%	-	4.44%	=	13.98%
9	May	2.73%	+	15.51%	=	18.24%	-	4.60%	=	13.64%
10	Jun	3.13%	+	18.51%	=	21.64%	-	4.69%	=	16.95%
11	Jul	3.15%	+	18.61%	=	21.76%	-	4.57%	=	17.19%
12	Aug	3.06%	+	17.08%	=	20.14%	-	4.50%	=	15.64%
13	Sept	3.07%	+	19.30%	=	22.37%	-	4.27%	=	18.10%
14	Oct	4.31%	+	30.53%	=	34.84%	-	4.17%	=	30.67%
15	Nov	4.97%	+	35.02%	=	39.99%	-	4.00%	=	35.99%
16	Dec 2008	4.44%	+	29.62%	=	34.06%	-	2.87%	=	31.19%
17	Jan 2009	4.86%	+	30.02%	=	34.88%	-	3.13%	=	31.75%
18										
19	Recent 12 Mon Avg	3.50%	+	22.00%	=	25.50%	-	4.18%	=	21.32%
23										
24	Short-term Trends									
25	Recent Nine Months Avg	3.75%	+	23.80%	=	27.55%	-	4.09%	=	23.46%
26	Recent Six Months Avg	4.12%	+	26.93%	=	31.05%	-	3.82%	=	27.22%
27	Recent Three Months Avg	4.76%	+	31.55%	=	36.31%	-	3.33%	=	32.98%
28										
29	Sources									
30	Value Line Investment Analyzer Software Data - Value Line 1700 Stocks									
31	Federal Reserve									

Johnson Utilities, LLC
Test Year Ended December 31, 2007
Capital Asset Pricing Model (CAPM)

Exhibit D-1
Rebuttal Schedule D-4.13
Witness: Bourassa

Line No.		Rf	+	beta[3]	x	Rp	=	k
1								
2								
3	Historical Market Risk Premium CAPM[1]	2.3%	+	0.93	x	7.5% [4]	=	9.3%
4								
5	Current Market Risk Premium CAPM[2]	3.7%	+	0.93	x	21.3% [5]	=	23.5%
6								
7								
8	Average							16.4%
9								
10								
11								

12 [1] Federal Reserve February 19, 2009 average of 5, 7 and 10 year Treasury rates (Rf)
13 [2] Federal Reserve February 19, 2009 30 year Treasury rate (Rf)
14 [3] Value Line Investment Analyzer data. See Sched. D-4.11
15 [4] Historical Market Risk Premium from (Rp) MorningStar SBBI 2008 Yearbook Table A-2 Intermediate-Horizon ERP 1926-2007
16 [5] Computed using DCF constant growth method to determine current market return on Value Line 1700 stocks
17 and CAPM with beta of 1.0 to compute Current Market Risk Premium (Rp). See Sched. D-4.12.
18
19
20

EXHIBIT

D-2

NEW
REGULATORY
FINANCE

Roger A. Morin, PhD

2006
PUBLIC UTILITIES REPORTS, INC.
Vienna, Virginia

Appendix 4-A
Arithmetic versus Geometric Means in Estimating the Cost of Capital

The use of the arithmetic mean appears counter-intuitive at first glance, because we commonly use the geometric mean return to measure the average annual achieved return over some time period. For example, the long-term performance of a portfolio is frequently assessed using the geometric mean return.

But performance appraisal is one thing, and cost of capital estimation is another matter entirely. In estimating the cost of capital, the goal is to obtain the rate of return that investors expect, that is, a target rate of return. On average, investors expect to achieve their target return. This target expected return is in effect an arithmetic average. The achieved or retrospective return is the geometric average. In statistical parlance, the arithmetic average is the unbiased measure of the expected value of repeated observations of a random variable, not the geometric mean. This appendix formally illustrates that only arithmetic averages can be used as estimates of cost of capital, and that the geometric mean is not an appropriate measure of cost of capital.

The geometric mean answers the question of what constant return you would have had to achieve in each year to have your investment growth match the return achieved by the stock market. The arithmetic mean answers the question of what growth rate is the best estimate of the future amount of money that will be produced by continually reinvesting in the stock market. It is the rate of return which, compounded over multiple periods, gives the mean of the probability distribution of ending wealth.

While the geometric mean is the best estimate of performance over a long period of time, this does not contradict the statement that the arithmetic mean compounded over the number of years that an investment is held provides the best estimate of the ending wealth value of the investment. The reason is that an investment with uncertain returns will have a higher ending wealth value than an investment which simply earns (with certainty) its compound or geometric rate of return every year. In other words, more money, or terminal wealth, is gained by the occurrence of higher than expected returns than is lost by lower than expected returns.

In capital markets, where returns are a probability distribution, the answer that takes account of uncertainty, the arithmetic mean, is the correct one for estimating discount rates and the cost of capital.

While the geometric mean is appropriate when measuring performance over a long time period, it is incorrect when estimating a risk premium to compute the cost of capital.

TABLE 4A-1
GEOMETRIC VS. ARITHMETIC RETURNS

	Stock A	Stock B
1996	50.0%	11.61%
1997	−54.7%	11.61%
1998	98.5%	11.61%
1999	42.2%	11.61%
2000	−32.3%	11.61%
2001	−39.2%	11.61%
2002	153.2%	11.61%
2003	−10.0%	11.61%
2004	38.9%	11.61%
2005	20.0%	11.61%
Standard Deviation	64.9%	0.0%
Arithmetic Mean	26.7%	11.6%
Geometric Mean	11.6%	11.6%

Theory

The geometric mean measures the magnitude of the returns, as the investor starts with one portfolio and ends with another. It does not measure the variability of the journey, as does the arithmetic mean. The geometric mean is backward looking. There is no difference in the geometric mean of two stocks or portfolios, one of which is highly volatile and the other of which is absolutely stable. The arithmetic mean, on the other hand, is forward-looking in that it does impound the volatility of the stocks.

To illustrate, Table 4A-1 shows the historical returns of two stocks, the first one is highly volatile with a standard deviation of returns of 65% while the second one has a zero standard deviation. It makes no sense intuitively that the geometric mean is the correct measure of return, one that implies that both stocks are equally risky since they have the same geometric mean. No rational investor would consider the first stock equally as risky as the second stock. Every financial model to calculate the cost of capital recognizes that investors are risk-averse and avoid risk unless they are adequately compensated for undertaking it. It is more consistent to use the mean that fully impounds risk (arithmetic mean) than the one from which risk has been removed (geometric mean). In short, the arithmetic mean recognizes the uncertainty in the stock market while the geometric mean removes the uncertainty by smoothing over annual differences.

Empirical Evidence

If both the geometric and arithmetic mean returns over the 1926–2004 data are regressed against the standard deviation of returns for the firms in the

deciles, the arithmetic mean outperforms the geometric mean in this statistical regression. Moreover, the constant of arithmetic mean regression matches the average Treasury bond rate and therefore makes economic sense while the constant for the geometric mean matches nothing in particular. This is simply because the geometric mean is stripped of volatility information and, as a result, does a poor job of forecasting returns based on volatility.

The following illustration is frequently invoked in defense of the geometric mean. Suppose that a stock's performance over a two-year period is representative of the probability distribution, doubling in one year ($r_1 = 100\%$) and halving in the next ($r_2 = -50\%$). The stock's price ends up exactly where it started, and the geometric average annual return over the two-year period, r_g, is zero:

$$
\begin{aligned}
1 + r_g &= [(1 + r_1)(1 + r_2)]^{1/2} \\
&= [(1 + 1)(1 - .50)]^{1/2} = 1 \\
r_g &= 0
\end{aligned}
$$

confirming that a zero year-by-year return would have replicated the total return earned on the stock. The expected annual future rate of return on the stock is not zero, however. It is the arithmetic average of 100% and -50%, $(100 - 50)/2 = 25\%$. There are two equally likely outcomes per dollar invested: either a gain of \$1 when $r = 100\%$ or a loss of \$0.50 when $r = -50\%$. The expected profit is $(\$1 - \$.50)/2 = \$.25$ for a 25% expected rate of return. The profit in the good year more than offsets the loss in the bad year, despite the fact that the geometric return is zero. The arithmetic average return thus provides the best guide to expected future returns.

What Academics Have to Say

Bodie, Kane, and Marcus (2005) cite:

> Which is the superior measure of investment performance, the arithmetic average or the geometric average? The geometric average has considerable appeal because it represents the constant rate of return we would have needed to earn in each year to match actual performance over some past investment period. It is an excellent measure of *past* performance. However, if our focus is on future performance, then the arithmetic average is the statistic of interest because it is an unbiased estimate of the portfolio's expected future return (assuming, of course, that the expected return does not change over time). In contrast, because the geometric return over a sample period is always less than the arithmetic mean,

> it constitutes a downward-biased estimator of the stock's expected return in any future year.
>
> Again, the arithmetic average is the better guide to future performance.

Another way of stating the Bodie, Kane, Marcus argument in favor of the arithmetic mean is that it is the best estimate of the future value of the return distribution because it represents the expected value of the distribution. It is most useful for determining the central tendency of a distribution at a particular time, that is, for cross-sectional analysis. The geometric mean, on the other hand, is best suited for measuring an investment's compound rate of return over time, that is, for time-series analysis. This is the same argument made by Ibbotson Associates (2005) where it is shown, using probability theory, that future terminal wealth is given by compounding the arithmetic mean, and not the geometric mean. In other words, if we accept the past as prologue, the best estimate of a future year's return based on a random distribution of the prior years' returns is the arithmetic average. Statistically, it is our best guess for the holding-period return in a given year.

Brigham and Ehrhardt (2005) in their widely used corporate finance text point out that the arithmetic average is more consistent with CAPM theory, as one of its key underpinning assumptions is that investors are supposed to focus, in their portfolio decisions, upon returns in the next period and the standard deviation of this return. To the extent that this next period is one year, the preference for the arithmetic mean, which derives from a set of single one year period returns, follows. It is also noteworthy that one of the crucial assumptions inherent in the CAPM is that investors are single-period expected utility of terminal wealth maximizers who choose among alternative portfolios on the basis of each portfolio's expected return and standard deviation.

Brealey, Myers, and Allen (2006) in their leading graduate textbook in corporate finance opt strongly for the arithmetic mean. The authors illustrate the distinction between arithmetic and geometric averages and conclude that arithmetic averages are appropriate when estimating the cost of capital:

> The proper uses of arithmetic and compound rates of return from past investments are often misunderstood. Therefore, we call a brief time-out for a clarifying example.
>
> Suppose that the price of Big Oil's common stock is \$100. There is an equal chance that at the end of the year the stock will be worth \$90, \$110, or \$130. Therefore, the return could be -10 percent, $+10$ percent or $+30$ percent (we assume that Big Oil does not pay a dividend). The expected return is $1/3(-10+10+30) = +10$ percent.

If we run the process in reverse and discount the expected cash flow by the expected rate of return, we obtain the value of Big Oil's stock:

$$PV = \frac{110}{1.10} = \$100$$

The expected return of 10 percent is therefore the correct rate at which to discount the expected cash flow from Big Oil's stock. It is also the opportunity cost of capital for investments which have the same degree of risk as Big Oil.

Now suppose that we observe the returns on Big Oil stock over a large number of years. If the odds are unchanged, the return will be -10 percent in a third of the years, $+10$ percent in a further third, and $+30$ percent in the remaining years. The arithmetic average of these yearly returns is

$$\frac{-10 + 10 + 30}{3} = +10\%$$

Thus the arithmetic average of the returns correctly measures the opportunity cost of capital for investments of similar risk to Big Oil stock.

The average compound annual return on Big Oil stock would be

$$(.9 \times 1.1 \times 1.3)^{1/3} - 1 = .088, \text{ or } 8.8\%$$

less than the opportunity cost of capital. Investors would not be willing to invest in a project that offered an 8.8 percent expected return if they could get an expected return of 10 percent in the capital markets. The net present value of such a project would be

$$NPV = -100 + \frac{108.8}{1.1} = -1.1$$

Moral: If the cost of capital is estimated from historical returns or risk premiums, use arithmetic averages, not compound annual rates of return (geometric averages).

(Richard A. Brealey, Stewart C. Myers, and Paul Allen, *Principles of Corporate Finance*, 8th Edition, Irwin McGraw-Hill, 2006, page 156–7.)

The widely cited Ibbotson Associates publication also contains a detailed and rigorous discussion of the impropriety of using geometric averages in estimating the cost of capital.[12]

[12] Ibbotson Associates, *Stocks, Bonds, Bills, and Inflation, 2005 Yearbook, Valuation Edition*, page 75.

> The arithmetic average equity risk premium can be demonstrated to be most appropriate when discounting future cash flows. For use as the expected equity risk premium in either the CAPM or the building block approach, the arithmetic mean or the simple difference of the arithmetic means of stock market returns and riskless rates is the relevant number. This is because both the CAPM and the building block approach are additive models, in which the cost of capital is the sum of its parts. The geometric average is more appropriate for reporting past performance, since it represents the compound average return.
>
> The argument for using the arithmetic average is quite straightforward. In looking at projected cash flows, the equity risk premium that should be employed is the equity risk premium that is expected to actually be incurred over the future time periods.
>
> The best estimate of the expected value of a variable that has behaved randomly in the past is the average (or arithmetic mean) of its past values.

In their widely publicized research on the market risk premium, Dimson, Marsh and Staunton (2002) state

> The arithmetic mean of a sequence of different returns is always larger than the geometric mean. To see this, consider equally likely returns of +25 and −20 percent. Their arithmetic mean is 2½ percent, since (25 − 20)/2 = 2½. Their geometric mean is zero, since (1 + 25/100) × (1 − 20/100) − 1 = 0. But which mean is the right one for discounting risky expected future cash flows? For forward-looking decisions, the arithmetic mean is the appropriate measure.
>
> To verify that the arithmetic mean is the correct choice, we can use the 2½ percent required return to value the investment we just described. A $1 stake would offer equal probabilities of receiving back $1.25 or $0.80. To value this, we discount the cash flows at the arithmetic mean rate of 2½ percent. The present values are respectively $1.25/1.015 = $1.22 and $0.80/1.025 = $0.78, each with equal probability, so the value is $1.22 × ½ + $0.80 × ½ = $1.00. If there were a sequence of equally likely returns of +25 and −20 percent, the geometric mean return will eventually converge on zero. The 2½ percent forward-looking arithmetic mean is required to compensate for the year-to-year volatility of returns.

Lastly, on the practical side, Bruner, Eades, Harris, and Higgins (1998) found that 71% of the texts and tradebooks in their extensive survey of practice supported use of an arithmetic mean for estimation of the cost of equity.

Mean Reversion Argument

Some academics have argued that if stock returns were expected to revert to a trend, this would suggest the use of a geometric mean since the geometric mean is, by definition, an estimate of a smoothed long-run trend increment. These same academics have argued that the historical estimate of the market risk premium (''MRP'') is upward-biased by the buoyant performance of the stock market prior to 2002, and because of the extraordinary and unusually high realized MRPs in those years, investors expect a return to lower MRPs in the future, bringing the average MPR to a more ''normal'' level.

The presence or absence of mean reversion is an empirical issue. The empirical findings are weak and highly contradictory; the empirical evidence is inconclusive and unconvincing, certainly not enough to support the ''mean reversion'' hypothesis. The weight of the empirical evidence on this issue is that the more sophisticated tests of mean reversion in the MRP demonstrate that the realized MRP over the last 75 years or so was almost perfectly free of mean reversion, and had no statistically identifiable time trend. It is also noteworthy that most of these studies were performed prior to the stock market's debacle in 2000–2002, years of extraordinary and unusually low realized MRPs. The stock market's dismal performance of 2000–2002 has certainly taken the wind out of the mean reversion school's sails.

An examination of historical MRPs reveals that the MRP is random with no observable pattern. To the extent that the estimated historical equity risk premium follows what is known in statistics as a random walk, one should expect the equity risk premium to remain at its historical mean. Therefore, the best estimate of the future risk premium is the historical mean.

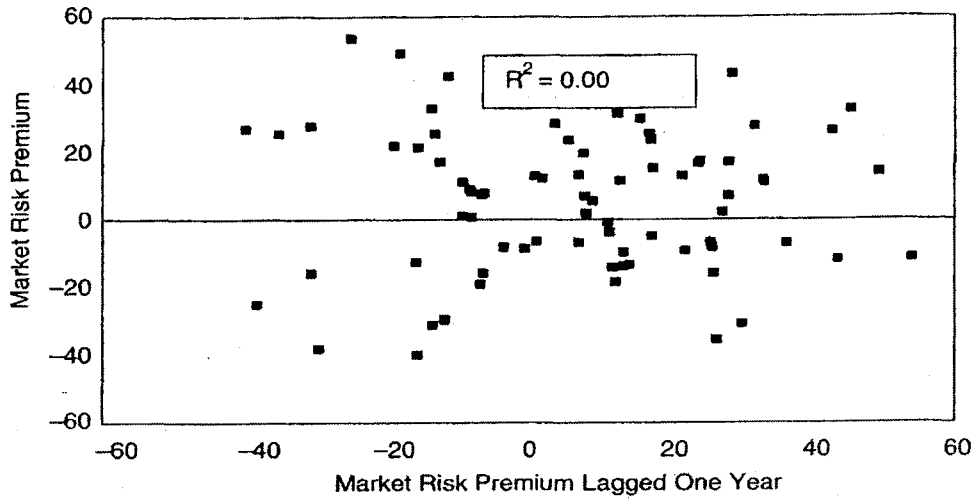
Ibbotson Associates (2005) find no evidence that the market price of risk or the amount of risk in common stocks has changed over time:

> Our own empirical evidence suggests that the yearly difference between the stock market total return and the U.S. Treasury bond income return in any particular year is random . . . there is no discernable pattern in the realized equity risk premium. (Ibbotson Associates, *Stocks, Bonds, Bills, and Inflation, 2005 Yearbook, Valuation Edition,* pages 74–75)

In statistical parlance, there is no significant serial correlation in successive annual market risk premiums, that is, no trend. Ibbotson Associates go on to state that it is reasonable to assume that these quantities will remain stable in the future (*Id.*):

> The best estimate of the expected value of a variable that has behaved randomly in the past is the average (or arithmetic mean)

FIGURE 4A-1
MARKET RISK PREMIUM 1926–2004
Year-to-Year Correlation



of its past values. (Ibbotson Associates, *Stocks, Bonds, Bills, and Inflation, 2004 Yearbook, Valuation Edition*, page 75)

Nowhere is it suggested by Ibbotson Associates that the market risk premium has declined over time.

Because there is little evidence that the MRP has changed over time, it is reasonable to assume that these quantities will remain stable in the future. Figure 4A-1 shows the relationship, or the lack of relationship, between year-to-year MRPs reported in the Ibbotson Associates Valuation Yearbook, 2005 edition, for the 1926–2004 period. The relationship is virtually absent, as indicated by the low R^2 of zero between successive MRPs. In other words, there is no history in successive MRPs as indicated by the zero serial correlation coefficient.

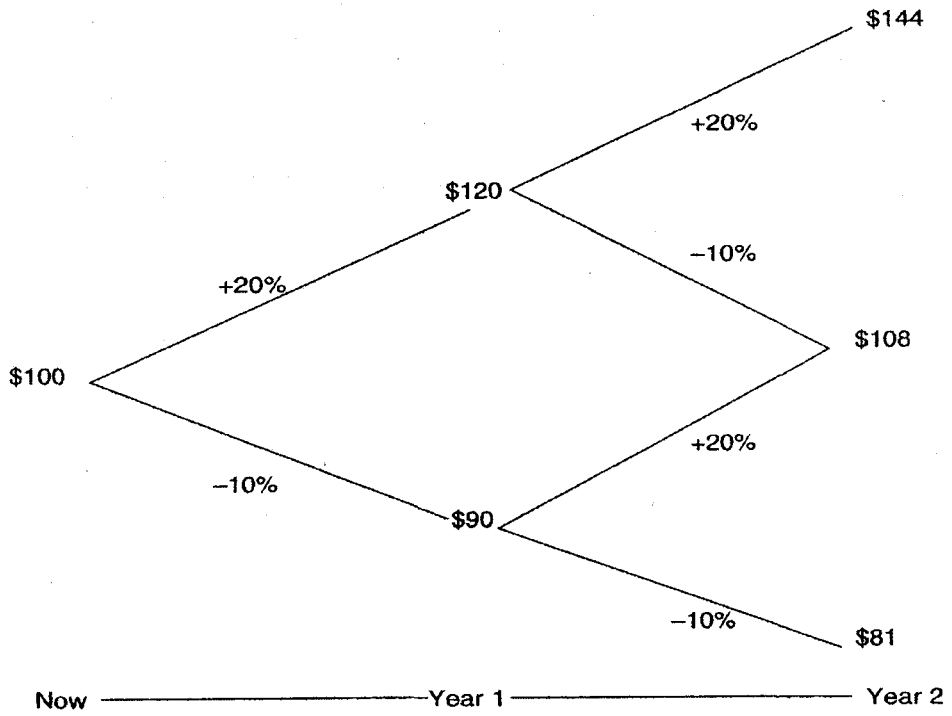
In short, the determination of the cost of capital with the CAPM requires an unbiased estimate of the expected annual return. The expected arithmetic return provides the appropriate measure for this purpose.

Formal Demonstration

This section shows why arithmetic rather than geometric means should be used for forecasting, discounting, and estimating the cost of capital.[13] By

[13] This section is adapted from a similar treatments and demonstration in Brealey, Myers, and Allen (2006) and Ibbotson Associates (2005).

FIGURE 4A-2
POSSIBLE STOCK PRICES



definition, the cost of equity capital is the annual discount rate that equates the discounted value of expected future cash flows (from dividends and the sale of the stock at the end of the investor's investment horizon) to the current market price of a share in the firm. The discount rate that equates the discounted value of future expected dividends and the end of period expected stock price to the current stock price is a prospective arithmetic, rather than a prospective geometric, mean rate of return. Since future dividends and stock prices cannot be predicted with certainty, the "expected" annual rate of return that investors require is an average "target" percentage rate around which the actual, year-by-year returns will vary. This target rate is, in effect, an arithmetic average.

A numerical illustration will clarify this important point. Consider a non-dividend paying stock trading for $100 which has, in every year, an equal chance of appreciating by 20% or declining by 10%. Thus, after one year, there is an equal chance that the stock's price will be $120 and an equal chance the price will be $90. Figure 4A-2 presents all possible eventualities after two periods have elapsed (the rates of return are presented at the end of the lines in the diagram).

The possible stock prices are shown in the following table.

TABLE 4A-2
STOCK PRICES AFTER TWO PERIODS

Price	Chance
$144	1 chance in 4
$108	2 chances in 4
$ 81	1 chance in 4

The expected future stock price after two periods is then:

$$1/4\ (\$144) + 2/4\ (\$108) + 1/4\ (\$81) = \$110.25$$

The cost of equity capital is calculated as the discount rate that equates the present value of the future expected cash flows to the current stock price. In the present simple example, the only cash flow is the gain from selling the stock after two periods have elapsed. Thus, using the expected stock price of $110.25 calculated above, the expected rate of return is that r, which solves the following equation:

$$\text{Current Stock Price} = \frac{\text{Expected Stock Price}}{(1 + r)^2}$$

The factor $(1 + r)^2$ discounts the expected stock price to the present. Substituting the numerical values, we have:

$$\$100 = \frac{\$110.25}{(1+r)^2}$$

$$r = 5\%$$

Thus, the cost of equity capital is 5%. This 5% cost of equity capital is equal to the prospective arithmetic mean rate of return, which is the probability-weighted average single period rate of return on equity. Since in every period there is an equal chance that the stock's return will be 20% or −10%, the probability-weighted average is:

$$1/2\ (20\%) + 1/2\ (-10\%) = 5\%$$

However, the 5% cost of equity capital is not equal to the prospective geometric mean rate of return, which is a probability-weighted average of the possible compounded rates of return over the two periods. Now consider the prospective geometric mean rate of return. Table 4A-3 shows the possible compounded rates of return over two periods, and the probability of each.

Thus, the prospective geometric mean rate of return is:

$$1/4\ (20\%) + 2/4\ (3.92\%) + 1/4\ (-10\%) = 4.46\%$$

TABLE 4A-3
STOCK PRICES AND RETURNS AFTER TWO PERIODS

Price	Chance	Compounded Return
$144	1 chance in 4	20.00%
$108	2 chances in 4	3.92%
$ 81	1 chance in 4	−10.00%

This return is not equal to the 5% cost of equity capital.

The example can easily be extended to include the case of a dividend-paying company and will reach the same conclusion: the implied discount rate calculated in the DCF model is an expected arithmetic rather than an expected geometric mean rate of return.

The foregoing analysis shows that it is erroneous to use a prospective multi-year geometric mean rate of return as a "target" rate of return for each year of the period. If, for example, investors currently require an expected future rate of return on an investment of 13% each year, then 13% is the appropriate annual rate of return on equity for ratemaking purposes. Consequently, in using a risk premium approach for the purposes of rate of return regulation, the single-year annual required rate of return should be estimated using arithmetic mean risk premiums.

It should be pointed out that the use of the arithmetic mean does not imply an investment holding period of one year. Rather, it is premised on the uncertainty with respect to each year's return during the holding period, however many years that may be. When computing the arithmetic average of historic annual returns in order to calculate the average return (expected value of the return), every achieved return outcome is one possible future outcome for each year the security will be held. Each historic return has an equal probability of occurring during each year of the holding period. The resulting expected value of the risk premium is the arithmetic average of all of the past premiums considered, regardless of the length of the expected holding period.

EXHIBIT

D-3

Johnson Utilities, LLC
Financial Risk Computation

Line No.								
1	**CAPM**							
2		**Rf**	+	β	x	**(Rp)**		**k**
3	Historical Market Risk Premium	2.3% [1]	+	0.93 [3]	x	7.5% [4]	=	9.3%
4	Current Market Risk Premium	3.7% [2]	+	0.93 [3]	x	21.3% [5]	=	23.5%
5								
6	Average							16.4%
7								
8								
9	**CAPM Relevered Beta**							
10		**Rf**	+	β	x	**(Rp)**		**k**
11	Historical Market Risk Premium	2.3% [1]	+	0.80 [6]	x	7.5% [4]	=	8.3%
12	Current Market Risk Premium	3.7% [2]	+	0.80 [6]	x	21.3% [5]	=	20.6%
13								
14	Average							14.5%
15								
16	Financial Risk Adjustment							**-1.9%**
17								

18 [1] Risk-free rate (Rf) - Federal Reserve February 19, 2009 average of 5, 7 and 10 year Treasury rates (Rf)
19 [2] Risk-free rate (Rf) - Federal Reserve February 19, 2009 30 year Treasury rate (Rf)
20 [3] Value Line Investment Analyzer data. See Sched. D-4.11
21 [4] Historical Market Risk Premium from (Rp) MorningStar SBBI 2008 Yearbook Table A-2 Intermediate-Horizon ERP 1926-2007
22 [5] Computed using DCF constant growth method to determine current market return on Value Line 1700 stocks
23 and CAPM with beta of 1.0 to compute Current Market Risk Premium (Rp). See Sched. D-4.12.
24 [6] Relevered beta see page 3.
25

Johnson Utilities, LLC
Financial Risk Computation
Unlevered Beta

Line No.	Company	VL Adjusted Beta B_L[1]	Raw Beta Raw B_L	Tax Rate t	MV Debt D	MV Equity E	Unlevered Raw Beta B_U	Adjusted Relevered Beta .35 + .67(Raw Beta)
5	1. American States	0.95	0.90	42.6%	31.4	68.6	0.71	0.83
6	2. Aqua America	0.90	0.82	38.9%	32.6	67.4	0.63	0.77
7	3. California Water	1.05	1.04	37.4%	25.7	74.3	0.86	0.93
8	4. Connecticut Water	0.80	0.67	32.3%	33.3	66.7	0.50	0.69
9	5. Middlesex	0.80	0.67	32.6%	40.8	59.2	0.46	0.66
10	6. SJW Corp.	1.05	1.04	39.3%	31.6	68.4	0.82	0.90
13	Sample Water Utilities	0.93	0.86	37.2%	32.6	67.4	0.66	0.79
15	Company	0.93	0.86	39.3%	32.6	67.4	0.66	0.79

[1] Value Line Investment Analyzer data. See Sched. D-4.11

Johnson Utilities, LLC
Financial Risk Computation
Relevered Beta

Line No.		Unlevered Beta B_U[1]	MV Book Debt BD	MV Equity Capital EC	Tax Rate t	Relevered Raw Beta $B_{RL}=B_U(1+(1-t)BD/EC))$ B_{RL}	Adjusted Relevered Beta .35 + .67(Raw Beta) B_{RL}
5	Company	0.66	1.4%	98.6%	38.60%	0.66	0.80

[1] Unlevered Beta from page 2 of 3.

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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

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

PRE-FILED REBUTTAL TESTIMONY OF THOMAS J. BOURASSA ON BEHALF OF JOHNSON UTILITIES L.L.C., DBA JOHNSON UTILITIES COMPANY

VOLUME II – WATER DIVISION RATE BASE, INCOME STATEMENT, REVENUE REQUIREMENT, RATE DESIGN

March 9, 2009

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I. INTRODUCTION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME AND ADDRESS.

A. My name is Thomas J. Bourassa. My business address is 139 W. Wood Drive, Phoenix, Arizona 85029.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS CASE?

A. On behalf of the applicant, Johnson Utilities L.L.C., dba Jonson Utilities Company ("Johnson Utilities" or the "Company").

Q. HAVE YOU PREVIOUSLY SUBMITTED DIRECT TESTIMONY IN THE INSTANT CASE?

A. Yes. My direct testimony was submitted in support of the initial application filed in this matter. There were three volumes, one addressing the wastewater rate base, income statement and rate design, one addressing the water rate base, income statement and rate design addressing, and the third addressing cost of capital.

Q. WHAT IS THE PURPOSE OF THIS REBUTTAL TESTIMONY?

A. I will provide rebuttal testimony in response to the direct filings by Arizona Corporation Commission Utilities Division Staff ("Staff") and by the Residential Utilities Consumer Office ("RUCO") for the Water Division. More specifically, this Volume II of my rebuttal testimony relates to water rate base, income statement and rate design for Johnson Utilities, LLC ("Company" or "Johnson"). In Volume I of my rebuttal testimony, I also present an update to the Company's

requested cost of capital as well as provide responses on Staff and RUCO's testimonies related to cost of capital and rate of return as applied to the fair value rate base, and the determination of operating income.

Q. WHAT IS THE REVENUE REQUIREMENT ADJUSTMENT THAT THE COMPANY IS PROPOSING IN ITS REBUTTAL FILING?

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

Q. HOW DOES THIS COMPARE WITH THE REVENUE REQUIREMENT PROPOSED BY THE COMPANY IN ITS DIRECT TESTIMONY?

A. In the direct filing, the Company requested a decrease in revenues of $2,232,069, a decrease of 16.94% for a total revenue requirement of $10,939,420.

Q. WHY IS THE REVENUE REQUIREMENT IN THIS REBUTTAL TESTIMONY HIGHER THAN IN THE DIRECT TESTIMONY

A. While the Company has adopted a number of adjustments recommended by Staff and RUCO, as well as proposed a number of adjustments of its own, the Company's proposed rebuttal rate of return is higher primarily due to my updated cost of capital analysis. Specifically, the Company's rebuttal filing reflects a decrease in proposed operating expenses of $183,843 to a total of $10,870,895. Similarly, due to various adjustments, Johnson's rebuttal Original Cost Rate Base ("OCRB") and Fair Value Rate Base ("FVRB") have decreased. The OCRB decreased by $3,064,280 from the direct filing of $6,607,842 to $3,539,562. The

Company continues to request that its OCRB be treated as its FVRB. So, the FVRB decreased by $3,068,280 to $3,539,562.

II. REVENUE REQUIREMENT

Q. WHAT ARE THE REVENUE REQUIREMENTS AND RATE INCREASES FOR THE COMPANY, STAFF, AND RUCO?

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

	Revenue Requirement	Revenue Incr.	% Increase
Company-Direct	$10,939,420	$(2,232,069)	-16.94%
Staff	$11,037,399	$(2,135,500)	-16.21%
RUCO	$11,219,234	$(1,953,664)	-14.83%
Company Rebuttal	$10,293,877	$(2,879,022)	-21.86%

Q. WHAT IS THE COMPANY'S PROPOSED RATE OF RETURN?

A. The Company is proposing a rate of return on equity of 11.89%. This is based on the weighted average cost of capital. I discuss the Company's proposed rate of return and my cost of capital analysis in Volume I of my rebuttal testimony.

III. RATE BASE

Q. WOULD YOU PLEASE IDENTIFY THE PARTIES' RESPECTIVE RATE BASE RECOMMENDATIONS AT THIS STAGE OF THE PROCEEDING?

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

	OCRB	FVRB
Company-Direct	$ 6,607,842	$ 6,607,842
Staff	$(19,240,859)	$(19,240,859)
RUCO	$ 285,272	$ 285,272
Company Rebuttal	$ 3,553,562	$ 3,539,562

A. Plant-in-Service.

Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED OCRB, AND IDENTIFY ANY ADJUSTMENTS THAT YOU HAVE ACCEPTED FROM STAFF AND RUCO?

A. Yes. The Company's rebuttal rate base adjustments to OCRB are shown on rebuttal schedules B-2, pages 2 through 7. Rebuttal schedule B-2, page 1, shows the rebuttal OCRB. Schedule B-2, page 2, summarizes the adjustments made to the OCRB. Rebuttal B-2 adjustment number 1, as shown on B-2, page 3, adjusts plant-in-service and reflects adoption of several recommendations by both Staff and RUCO. There are 5 proposed adjustments to plant-in-service that are reflected in columns labeled as "A", "B", "C", and "D". The first adjustment (column A) on B-2, page 3, removes affiliate profit from plant-in-service.

1. Affiliate Profit.

Q. WHAT WAS THE TOTAL AMOUNT OF AFFILIATE PROFIT INCLUDED IN TEST YEAR PLANT COSTS?

A. The Company recorded $469,832 of affiliate profit on affiliate constructed water plant totaling $26,847,516. The profit percentage is 1.75 percent of the actual

affiliate constructed plant. Staff proposes a similar adjustment. However, the Company and Staff disagree on the amount of affiliate profit included in plant-in-service.

Q. PLEASE COMMENT ON STAFF'S ADJUSTMENT FOR AFFILIATE PROFIT.

A. Staff removes $5,969,336 of affiliate profit based on affiliate constructed water plant of $79,591,151 – the entire cost of the Water Division's plant-in-service cost. Staff's profit percentage is 7.50 percent of Staff's affiliate constructed wastewater plant cost. Staff's proposed adjustment is over stated for two reasons. First, Staff assumed that all plant recorded on the Company's books was in fact constructed by affiliates.[1] This is simply not true. Affiliate constructed water plant costs totaled $26,847,516, not $79,591,151. The Company provided to Staff in response to Staff data request JMM 9.2 a complete listing of all the plant that was constructed by affiliates. This is information is consistent with the plant information (contracts, invoices, cancelled checks, line extension agreements, etc.) provided in response to Staff data request JMM 1.43. Surprisingly, Staff ignored this response and made the incorrect conclusion that all plant was constructed by affiliates.

Second, the profit percentage of 7.5 percent is grossly overstated. Staff asserts that it found that the affiliate profit included in the affiliate contracts ranged from 5 to 10 percent.[2] Presumably this is why Staff used 7.5 percent (average of 5 percent and 10 percent) in its analysis. However, the affiliate contracts and the

[1] Direct Testimony of Jeffery M. Michlik - Water Division ("Michlik Direct") at 14.
[2] *Id.*

responses provided to Staff by the Company in its data responses (Staff data requests JMM 1-43 and JMM 4-2) reveal that the affiliate contracts provided to Staff included a mark-up of 5 to 10 percent which included both profit and overhead, not just profit. Further, as explained by the Company in response to Staff data request JMM 9-2, the Company's affiliate added 10 percent to the base contract cost to cover overhead and profit. Profit was only estimated to be 2 percent of the base contract cost. Moreover, the Company pointed out that the total contract costs that Staff received (and ultimately used in its analysis) included not only the base contract costs, but taxes, overhead, and profit. As the Company explained, in order to calculate a 2 percent profit on the base contract, the total contract price should be multiplied by 1.75 percent.

The 1.75 percent makes sense. This is the percentage required when trying to back into the 2 percent profit amount on the base contract cost when starting from a total contract cost. Take for example, a base contract price of $100. Profit and overhead on the $100 base contract would be $10 (10 percent times $100) - profit of $2 and overhead of $8. Taxes on the base contract would be $4 (4 percent[3] times $100). The total contract cost would be $114 ($100 base contract cost plus $2 of profit plus $8 of overhead plus $4 of taxes). The profit percentage on the total contract cost is 1.75 percent ($2 divided by $114). Turning this around, if a total contract cost is $114, to calculate a profit of $2, you would have to multiply the total contract cost ($114) by 1.75 percent.

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[3] Taxes on construction contracts as shown in response to JMM 1-44 were 4.29 percent.

Even if it were to be found that there was profit of 7.5 percent, it would only apply to the base contract costs. Following a similar analysis as above, the correct percentage to apply to the total contract cost would be only 6.7%.

2. **Unsupported Plant.**

Q. PLEASE CONTINUE WITH YOUR DISCUSSION OF THE COMPANY'S REBUTTAL B-2 ADJUSTMENTS.

A. The second adjustment (column B) on B-2, page 3, removes plant costs from plant-in-service for which the Company was unable to provide supporting documentation. Staff proposes a similar adjustment, however, as I will discuss below, Staff's proposed adjustment is unjustifiably higher and is significantly overstated.

Q. HOW MUCH PLANT COST DID THE COMPANY REMOVE FROM PLANT IS SERVICE BECAUSE IT WAS UNABLE TO PROVIDE ADEQUATE DOCUMENTATION OR BACK-UP?

A. The Company removed $885,064. This amount represents the plant costs for which, in Staff's opinion, the Company was unable to provide adequate information or back-up.

Q. FOR THE PLANT COSTS THAT JOHNSON UTILITIES BELIEVES IT DID PROVIDE SUFFICIENT DOCUMENTATION, WHAT TYPES OF DOCUMENTS WERE PROVIDED?

A. The Company provided contracts, invoices, cancelled checks, and/or line extension agreements (JMM 1-44 and JMM 9-1). In addition, the Company provided its accounting records, bank statements, plant schedules, reconciliations,

and other information surrounding plant (JMM 4-1, JMM 4-2, JMM 4-3, JMM 7-1, JMM 7-2, JMM 9-1, JMM 9-2, JMM 12-1). Despite Staff's position, the use of invoices alone to determine plant-in-service costs should not be the exclusive form of verification for plant costs. Other records, such as ledgers, reports, correspondence, memoranda, contracts and agreements, bank statements, cancelled checks, etc. are all legitimate indicators of plant costs and should be considered when analyzing the facts regarding a transaction and determination of cost. In my opinion, the Company has met its burden in this case and has provided sufficient documentation to support its plant in service costs.

Q. DID STAFF REQUEST UNDERLYING PLANT DOCUMENTATION FOR ADVANCES-IN-AID OF CONSTRUCTION ("AIAC") AGREEMENTS WITH AFFILIATED PARTIES PURSUANT TO THE AFFILIATE RULES UNDER A.A.C. R14-2-804.A?

A. Yes. However, Johnson Utilities did not become a Class A utility until 2005. In addition, Johnson Utilities did not enter into any AIAC agreements with an affiliated party from 2005 forward.

Q. HOW DID STAFF DETERMINE THE AMOUNT OF PLANT COSTS IT REMOVED FROM PLANT-IN-SERVICE AS BEING UNSUPPORTED BY SUFFICIENT DOCUMENTATION?

A. I'm not sure. Rather than identifying specific plant costs which Staff considered unsupported, Staff determined that "only a minimal 10 percent disallowance is warranted" for <u>all</u> plant-in-service.[4]

[4] Michlik Direct at 14.

Q. DO YOU AGREE WITH THIS APPROACH?

A. No. First, it is entirely subjective. Staff has given no supportable basis for its percentage other than Staff's assertion that it typically recommends disallowance in the range of 10 to 100 percent.[5] Second, because the disallowance is non-specific in nature, the Company does not have sufficient information in order to challenge the disallowance or raise a reasonable defense for the costs being disallowed. And, even though there may be some plant which Staff may have determined was fully supported, 10 percent of those costs would also be disallowed by Staff based upon this one-size fits all approach.

Q. ARE THERE ANY OTHER ISSUES YOU HAVE WITH STAFF'S PLANT ADJUSTMENT FOR UNSUPPORTED COSTS?

A. Yes. Staff's unsupported plant adjustments are one sided and fail to consider corresponding adjustments associated with AIAC and contributions-in-aid of construction ("CIAC") related to this plant. To ignore these corresponding adjustments creates a mismatch and results in an understatement of rate base.

Q. PLEASE EXPLAIN.

A. According to the Company's initial filing, AIAC funded approximately 61 percent of the net plant-in-service and CIAC funded approximately 32 percent of net plant-in-service. Yet, although Staff reduced plant, Staff did not propose an adjustment to either AIAC or CIAC associated with that plant. To properly match Staff's plant in service adjustment for unsupported plant costs totaling $7,959,115

[5] *Id.*

based on its one-size fits all approach. Accordingly, Staff should have reduced AIAC by $4,855,060 ($7,959,115 times 61 percent) and reduced CIAC by $2,546,916 ($7,959,115 times 32 percent). So, instead of a reduction to rate base of $7,959,115 as proposed by Staff, the reduction to rate base should be no more than $557,139[6] ($7,959,115 minus $4,855,060 minus $2,546,916). Similar problems exist for Staff's adjustment associated with plant determined not to be "used and useful" as well as with Staff's excess capacity adjustment. I will discuss each below.

Q. IS THE COMPANY PROPOSING AN AIAC OR CIAC ADJUSTMENT FOR THE $885,064 OF UNSUPPORTED PLANT IT PROPOSES TO REMOVE FROM PLANT-IN-SERVICE?

A. No. The Company cannot find evidence that this unsupported plant cost was funded with either AIAC or CIAC and, consequently, is not proposing an adjustment to either AIAC or CIAC. The Company's proposal results in a net reduction to rate base of $777,010 ($885,064 less the depreciation impact of $108,054).

3. Plant Not Used and Useful.

Q. PLEASE CONTINUE WITH YOUR DISCUSSION OF THE COMPANY'S REBUTTAL B-2 ADJUSTMENTS.

A. The third adjustment (column C) on B-2, page 3, removes plant from plant-in-service determined not to be "used and useful". Staff proposes a similar

[6] Net rate base reduction will be far less if impact on accumulated depreciation is considered.

adjustment. However, the Company disagrees with the amount of Staff's proposed disallowance.

Q. PLEASE EXPLAIN.

A. The Company proposes to remove $3,395,894 of plant not used and useful from plant-in-service. The detail of the Company adjustment is shown on Schedule b-2, page 3.3. Staff proposes to remove $4,127,019 of plant not used and useful from plant-in-service.[7]

The Company agrees with Staff on the removal of $40,000 for 303- Land (Ellsworth Wells 1,2 &3), $740,536 for 307 – Wells and Springs (Anthem Well #3), $745,755 for 307 – Wells and Springs (Anthem Well #4), $526,273 for 307- Wells and Springs (Crestfield Manor Well #1), $21,858 for 331- Transmission and Distribution Mains (San Tan Well #1), $405,322 for 331- Transmission and Distribution Mains (Magma 2 subdivision), $824,322 for 331- Transmission and Distribution Mains (Quail Run Estates), and $91,828 for 331- Transmission and Distribution Mains (Circle Cross parcel 12).

The Company disagrees with the removal of $731,125 for 331- Transmission and Distribution Mains (Rickee Water plant 4 miles of 12 inch mains). The Company believes that while this plant is not serving customers it was required to build this plant in order to serve a development. The developer has since had financial trouble and the development was placed on hold. But the Company was obligated

[7] *See* Table H-1 of Exhibit MSJ to Direct Testimony of Marlin Scott ("Scott Direct") at page 11.

to construct this plant and acted prudently in order to provide service. Mr. Tompsett explains the Company's position further in his testimony.

Q. BESIDES A DISAGREEMENT AS TO THE TOTAL COSTS TO BE REMOVED FROM PLANT-IN-SERVICE, DO YOU HAVE ANY ADDITIONAL COMMENTS REGARDING STAFF'S ADJUSTMENT?

A. Yes. All of the plant costs for which the Company and Staff are in agreement were funded with either CIAC or AIAC. I will discuss the detail of the Company's proposed adjustments to AIAC and CIAC later in my testimony. For now, I wish to comment that Staff did not make any corresponding adjustments to either CIAC or AIAC for the plant disallowances as not being "used and useful" and therefore Staff's plant adjustments are one-sided and results in a rate base mismatch.

Q. PLEASE EXPLAIN.

A. First, let me address the cost reduction of the plant determined not to be "used and useful" plant for which Staff and the Company agree. Out of the $3,395,834 that the Company has agreed to remove from plant-in-service, $486,513 was funded with CIAC and $1,321,472 was funded with AIAC. As a result, a corresponding reduction to the CIAC and AIAC balances must be made in order to properly match the adjustment to plant-in-service.

Secondly, let me address the cost reduction of the plant determined not to be "used and useful" plant for which Staff and the Company disagree. Of the $731,125 of additional cost Staff proposes to remove from plant-in-service, all of this plant was

funded with CIAC and therefore a corresponding reduction of $731,125 to CIAC is necessary if the Commission were to determine that this plant should be deemed not used and useful.

Q. WHAT WOULD BE THE RATE BASE IMPACT IF STAFF'S ADJUSTMENT OF $4,127,019 WERE PROPERLY ACCOUNTED FOR?

A. Excluding the impact of depreciation and amortization, if the corresponding adjustments for AIAC and CIAC were made, the net rate base adjustment would be no more than $1,587,909 ($4,127,019 less $486,513 less $1,321,472 less 731,125) – far less than the $4,127,019 (less the depreciation impact) proposed by Staff.

4. <u>Plant Reclassification</u>.

Q. PLEASE CONTINUE WITH YOUR DISCUSSION OF THE COMPANY'S REBUTTAL B-2 ADJUSTMENTS.

A. The fourth adjustment (column D) on B-2, page 3, adopts Staff's plant reclassification.[8] I should note that the reclassification shown in Table H-2 and reflected in the Company's schedule is different than the reclassification made by Staff witness Jeffery Michlik on his schedule JMM-W6. While the net adjustment is zero on schedule JMM-W6, as with that in the Company's schedule, Mr. Michlik appears to use figures which do not match those in Table H-2 upon which Mr. Michlik relied.[9]

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[8] *See* Table H-2 of Exhibit MSJ of Scott Direct at page 12.
[9] Michlik Direct at 9.

B. **Excess Capacity.**

Q. HAS THE COMPANY ADOPTED STAFF'S EXCESS CAPACITY ADJUSTMENTS?

A. No. Staff proposes an excess capacity adjustment of $433,238 for the 307- Wells and Springs (Anthem – Rancho Sandero Well #1) and $693,827 for the 330- Distribution Reservoirs and Standpipe (Anthem – Rancho Sandero WP -0.5 MG).[10] The Company disagrees with Staff's adjustment. Mr. Tompsett addresses the reasons why the Company disagrees in his testimony.

Putting aside the disagreement on whether there is excess capacity or not, Staff's adjustment is once again one-sided. If it is adopted, a corresponding adjustment to CIAC must be made or a mismatch will occur and an understatement of rate base.

Q. PLEASE EXPLAIN.

A. Both projects for Anthem – Rancho Sandero were fully with CIAC. The total of CIAC funds used to construct this plant was $1,127,065. A corresponding reduction of $1,127,065 must be made to CIAC in order to properly match Staff's plant-in-service adjustment. The net decrease in rate base should be zero ($433,238 plus $693,827 minus $1,127,065), not $1,127,065 as set forth in Staff's schedules.

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[10] *Id.* at 9; Scott Direct, Exhibit MSJ at 12.

C. **Accumulated Depreciation**

Q. HAS THE COMPANY PROPOSED AN ADJUSTMENT TO ACCUMULATED DEPRECIATION?

A. Yes. Rebuttal OCRB adjustment number 2, as shown on B-2, page 4, reflects changes to accumulated depreciation from the plant-in-service adjustments adopted in rebuttal OCRB adjustment number 1. There is only one proposed adjustment to accumulated depreciation that is reflected in the columns labeled as "A". The first adjustment (column A), adjusts accumulated depreciation to the recomputed amounts based on the adjustments adopted in OCRB adjustment number 1. The detail of the re-computation of accumulated depreciation is shown on Rebuttal schedule B-2, pages 4.1 to 4.12.

D. **Unexpended Hook-up Fees (CIAC)**

Q. DOES THE COMPANY AGREE WITH STAFF AND RUCO TO INCLUDE $6,931,078 OF UNEXPENDED HOOK-UP FEES (CIAC) IN RATE BASE?

A. No. The Company does not agree. Simply put, the Company collects hook-up fees ('HUF") well in advance of providing service to the customer(s) for whom the HUF is credited. The period of time between collecting the HUF, making the necessary capital improvements to have capacity to serve, and the customer connecting to the system can be a year or more. Consequently, not only is the customer who is credited with the HUF not present on the system, but the plant required to serve the future customer is also not constructed and recorded in plant. By including the unexpended HUFs in rate base not only creates a mismatch in rate base, but existing ratepayers receive a windfall. This occurs because existing rate payers get credit for HUF's paid for by or on behalf of future customers who

have not yet connected to the system. The capacity to serve those future customers has not been constructed, nor has cost of capacity been reflected in rate base. This is why the Company believes that the unexpended CIAC should not be included in rate base for purposes of setting the revenue requirement.

Q. WHY DOES THE COMPANY COLLECT HUF IN ADVANCE OF THE DEVELOPERS' PROJECT COMING ON LINE?

A. To provide funds as needed to help it pay for new capacity – just as the HUF is intended. Growth pays for growth. The alternative is to build the capacity first and then collect the HUF's as new customers connect. However, the Company approach provides the funds when it obligates itself to build new capacity thereby providing funds sufficiently in advance of the need for new capacity so that the funds are available to pay for new capacity when construction begins, not after-the-fact.

Q. SO THE ISSUE ARISES BECAUSE OF THE TIMING BETWEEN WHEN THE COLLECTION OF HUFS OCCURS AND WHEN THE ACTUAL CONSTRUCTION OF NEW CAPACITY IS MADE IN ORDER TO SERVE FUTURE GROWTH (CUSTOMERS)?

A. Yes.

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Q. DO YOU AGREE WITH STAFF THAT THE COMPANY IS ALLOWED TO EARN TWICE ON CIAC FUNDS IF UNEXPENDED CIAC IS EXCLUDED FROM RATE BASE?

A. No. The Company does not benefit from, nor are existing rate payers harmed, by excluding unexpended CIAC from rate base. To the contrary, existing ratepayers receive an unjustified windfall when the unexpended HUF's are included in rate base. This is because the Company's rate base is understated resulting in lower rates that are not justified.

Remember the Company has entered into agreements with developers and is committed to constructing the backbone facilities necessary to serve the future customers in those developments. These funds are restricted and can only be spent on new capacity for those developments. The HUFs should be credited to those future customers and their respective future capacity rather than providing existing ratepayers with the above-mentioned windfall.

Q. WHEN A NEW CUSTOMER CONNECTS TO THE COMPANY'S SYSTEM WITHIN A DEVELOPMENT THAT THE DEVELOPER HAS PAID A HUF FOR THE CONNECTION, IS THE NEW CUSTOMER ALSO RESPONSIBLE FOR AN ADDITIONAL HUF?

A. No. That customer lot is covered regardless when the customer connects. That could be one to two year out into the future depending on the collection schedule of HUFs made by agreement between the Company and the developer(s).

The Company's procedure for collecting HUF's is not typical. Under a typical approach, a utility builds capacity in advance and then collects HUF's individually upon each new connection. Under the typical approach, I would agree that if the customer pays for capacity through a HUF and connects to the system, that customer should get credit for his/her payment by recognition in rate base and rates regardless of whether the HUF has been expended for new plant. However, again this is not the case here. Mr. Tompsett more thoroughly explains the Company's policy on collecting HUFs in his testimony.

E. <u>Contributions-in-aid of Construction ("CIAC")</u>

Q. PLEASE EXPLAIN THE COMPANY'S REBUTTAL PROPOSED ADJUSTMENTS TO CIAC.

A. Rebuttal B-2 adjustment number 3, as shown on Schedule B-2, page 2, reflects the Company's proposed adjustment to CIAC. As explained earlier in my testimony, the Company has accepted plant certain adjustments from Staff for plant considered not used and useful. Some of this plant was funded with CIAC. Accordingly, the Company is proposing to adjust CIAC in order to avoid a mismatch in rate base.

F. <u>Amortization of CIAC</u>

Q. HAS THE COMPANY PROPOSED AN ADJUSTMENT TO ACCUMULATED AMORTIZATION OF CIAC?

A. Yes. Rebuttal B-2 adjustment number 4 increases accumulated amortization of CIAC based on a composite rate of 2.5 percent. The Company is in agreement

with Staff on the use of a 2.5 percent composite rate for computing past amortization of CIAC.[11]

G. Advances-in-aid of Construction ("AIAC")

Q. PLEASE EXPLAIN THE COMPANY'S REBUTTAL PROPOSED ADJUSTMENTS TO AIAC.

A. Rebuttal B-2 adjustment number 5, as shown on Schedule B-2, page 2, reflects the Company's proposed adjustment to AIAC. As explained earlier in my testimony, the Company has accepted certain adjustments from Staff for plant considered not used and useful. Some of this plant was funded with AIAC. Accordingly, the Company is proposing to adjust AIAC in order to avoid a mismatch in rate base.

H. Deferred Assets

Q. PLEASE EXPLAIN THE COMPANY'S REBUTTAL PROPOSED ADJUSTMENT TO DEFERRED ASSETS?

A. In order to help minimize disputes between the parties, the Company has accepted Staff's proposed adjustment to remove deferred assets from rate base.[12] Rebuttal B-2 adjustment number 5, as shown on Rebuttal Schedule B-2, page 2, reduces the deferred regulatory assets to zero.

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[11] Michlik Direct at 19.
[12] *Id.* at 22.

I. Materials and Supplies

Q. PLEASE EXPLAIN THE COMPANY'S REBUTTAL PROPOSED ADJUSTMENT TO DEFERRED ASSETS?

A. In order to help minimize disputes between the parties, the Company has accepted Staff's proposed adjustment to remove materials and supplies from rate base.[13] Rebuttal B-2 adjustment number 6, as shown on Rebuttal Schedule B-2, page 2, reduces the materials and supplies to zero.

IV. INCOME STATEMENTS

Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED ADJUSTMENTS TO REVENUES AND EXPENSES AND IDENTIFY ANY ADJUSTMENTS YOU HAVE ACCEPTED FROM STAFF AND/OR RUCO?

A. The Company rebuttal adjustments are detailed on rebuttal schedule C-2, pages 1-13. The rebuttal income statement with adjustments is shown on rebuttal schedule C-1.

In rebuttal C-2 adjustment number one, the depreciation expense is annualized, reflecting the plant-in-service adjustments discussed above. Depreciation expense has decreased from the Company's direct filing due to the plant-in-service adjustments I discussed above.

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[13] *Id.* at 20.

Q. DO ALL PARTIES RECOMMEND THE SAME DEPRECIATION RATES?

A. Yes.

Q. PLEASE CONTINUE.

A. Rebuttal C-2 adjustment number 2 reflects the adjustment using the Company's rebuttal proposed revenues. The Company, Staff, and RUCO are all in agreement on the method of computing property taxes.[14] This is the same method that the Commission has consistently used in past cases.[15] This method includes two years of adjusted revenues plus one year of proposed revenues. Using this methodology, I computed the property taxes based on the Company's proposed revenues, and then used the property tax rate that was used in my direct testimony.

Rebuttal C-2 adjustment number 3 adjusts purchased power to reflect the Company's adoption of Staff's proposed adjustment to reduce purchased power expense by $10,620 for purchased power of an affiliate included in expense[16] and adoption of RUCO's adjustment to increase purchased power to reflect a known and measurable contractual agreement between the Company and Pinal County for purchased power.[17]

Rebuttal C-2 adjustment number 4 reduces contractual services expense by $5,799 to reflect the Company's adoption of Staff's proposed adjustment.[18]

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[14] Direct Testimony of Rodney L. Moore ("Moore Direct") at 13; *See* also Staff Schedule JMM-W23.
[15] Bourassa Direct at 8-9.
[16] Michlik Direct at 26.
[17] Moore Direct at 18.
[18] Michlik Direct 26.

Rebuttal C-2 adjustment number 5 reduces miscellaneous expense by $31,192 to reflect the adoption of Staff's proposed adjustment for lobbying, food, entertainment, and sponsorship expenses.[19] RUCO proposes a similar adjustment except it is a reduction of $1,080 to miscellaneous expense and 30,032 to contractual services for a total expense reduction of 31,112.[20]

Rebuttal C-2 adjustment 6 reflects the Company interest synchronization based upon the Company's rebuttal proposed rate base.

Rebuttal C-2 adjustment number 7 reflects income taxes calculated at the Company's proposed revenue and expense levels.

A. <u>Central Arizona Ground Water Replenishment District ("CAGRD") Tax</u>

Q. PLEASE COMMENT ON STAFF AND RUCO'S PROPOSAL TO INCLUDE CAGRD TAX IN OPERATING EXPENSES.

A. The Company does not agree with either Staff or RUCO. The Company believes that this is like a sales tax and should be passed through like sales taxes rather than included in the revenue requirement and base rates. Mr. Tompsett addresses the merits of a pass-through of CAGRD taxes in his testimony.

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[19] *Id.* at 27.
[20] Moore Direct at 17.

B. **Rate Case Expense**

Q. **PLEASE COMMENT ON STAFF AND RUCO'S PROPOSED RATE CASE EXPENSE.**

A. All the parties agree on the amount of the rate case expense requested by the Company at this stage of the proceeding for the Wastewater Division totaling $100,000. Both Staff and the Company agree on the amortization period. However, RUCO proposes an amortization period of 5 years. The Company disagrees with RUCO. While it took the Company several years to file its first rate case, it intends to file more often.

C. **Income Taxes**

Q. **PLEASE COMMENT ON THE PROPOSAL OF STAFF AND RUCO TO EXCLUDE INCOME TAXES IN THE DETERMINATION OF THE REVENUE REQUIREMENT.**

A. Both Staff and RUCO propose to exclude income taxes from the determination of the revenue requirement because Johnson is a limited liability company and is a pass-though entity for income tax purposes.[21] Both Staff's and RUCO's argument rests on the fact that Johnson itself does not pay income taxes at the company level, rather the taxable income and tax liability passes through to its member owners who must pay the tax. While it may be true that the Company itself does not pay taxes, Staff and RUCO's argument is without merit.

Let me further explain. First, the income tax liability arises from the taxable income of Johnson and it is directly attributable to Johnson. And while the tax

[21] Michlik Direct at 29; Moore Direct at 18-19.

liability flows through to the member owners, the Company still pays the tax by reimbursing the members for the tax that must be paid. In fact, there exists an agreement between Johnson and its member owners that all tax liabilities attributed and arising from Johnson must be paid by Johnson. Third, the required operating income for a tax pass-through entity such as an S-Corp or an LLC is not the same as that for a C-Corp under Staff and RUCO approach resulting in LLC's or S-Corp's being treated differently when there is no sound justification to do so. An S-Corp or LLC receives a lower revenue requirement and operating income than a C-Corp resulting in inequities because payment for the tax must come from somewhere. Ultimately the tax payment comes from the LLC or S-Corp itself because members insure their taxes are paid by the entities that generate them. In fact, the situation is analogous to a subsidiary C-Corp utility of a parent holding company whose tax return is consolidated with the parent. The individual C-Corp utility does not file a separate tax return, yet this Commission has traditionally allowed income taxes of the utility to be computed on a stand-alone basis and included in the revenue requirement. Fourth, rate payers receive an unjustified windfall from the lower revenue requirement and operating income when income taxes are excluded.

Q. ARE INCOME TAXES YOU PROPOSE HIGHER THAN IF THE COMPANY WERE NOT A PASS-THROUGH ENTITY?

A. No. In the instant case the computed taxes are lower.

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Q. WHAT THEN IS THE ADVANTAGE OF A TAX PASS-THROUGH ENTITY VERSUS A NON-TAX PASS THROUGH ENTITY?

A. Members of an LLC or shareholders in an S-Corp. avoid double taxation. A C-Corp is taxed on income and its shareholders must pay tax on the dividends received. However, the distinction does not disadvantage rate payers. To the extent member owners of LLC's or shareholders of S-Corp's avoid taxation on dividends, rate payers are not harmed. After all, it's the shareholders who pay the tax on dividends from C-Corps, not the rate payers. Taxes on dividends are not considered as part of the revenue requirement.

A second advantage of a tax pass-though entity is that losses as well as income pass-through to the owners. A tax pass though entity is a particularly attractive form for start-up companies (*e.g.*. utilities with new CC&N's) because the tax losses can be taken advantage of immediately by the owners who typically have to subsidize the company is the early years with income from other sources. This can improve the ability to raise capital from the owners for start-ups as they can then take advantage of the tax losses immediately. But, regardless, the ratepayer is not disadvantaged in anyway. Rather there is a more likely chance of a healthier "start-up" utility as a result.

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V. RATE DESIGN (H SCHEDULES)

Q. WHAT ARE THE COMPANY'S REBUTTAL PROPOSED RATES?

A. The monthly charges at proposed rates are listed below.

All Classes Meter Size	Monthly Minimum	Gallons included in Monthly Minimum
5/8	$ 14.14	0
3/4	$ 21.21	0
1	$ 35.35	0
1 1 /2	$ 70.70	0
2	$ 113.12	0
3	$ 226.24	0
4	$ 353.50	0
6	$ 707.00	0
8	$1,131.20	0
10	$1,626.10	0

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The commodity charges and tiers by meter size are:

Residential, Commercial, Industrial and Irrigation Class

Meter Size	Tier (gallons)	Charge per 1,000 gallons
5/8 and 3/4 Residential	1 to 4,000	$1.35
	4,001 to 10,000	$1.80
	Over 10,000	$2.35
5/8 and 3/4 Commercial, Industrial and Irrigation		
	1 to 10,000	$1.80
	Over 10,000	$2.35
1	1 to 25,000	$1.80
	Over 25,000	$2.35
1 1/2	1 to 50,000	$1.80
	Over 50,000	$2.35
2	1 to 80,000	$1.80
	Over 80,000	$2.35
3	1 to 160,000	$1.80
	Over 160,000	$2.35
4	1 to 250,000	$1.80
	Over 250,000	$2.35
6	1 to 500,000	$1.80
	Over 500,000	$2.35
8	1 to 800,000	$1.80
	Over 800,000	$2.35

10	1 to 1,125,000	$1.80
	Over 1,125,000	$2.35
Standpipe		
All Meter Sizes	All gallons	$2.35
Construction		
All Meter Sizes	All gallons	$2.35
Non-potable Central Arizona Project Water		
All Meter Sizes	All gallons	See Tariff

Q. HOW DOES THE COMPANY PROPOSED RATE DESIGN COMPARE TO STAFF AND/OR RUCO?

A. All of the parties propose similar rate designs. The 5/8 inch and ¾ residential meters have an inverted three tier rate design. The 5/8 inch and ¾ inch commercial and irrigation meters have an inverted two tier design. The 1 inch and larger meters (residential, commercial, and irrigation) have a two tier rate design.

Q. DOES THE COMPANY DISAGREE WITH STAFF'S PROPOSAL TO ELIMINATE THE HUF TARIFF?

A. Yes. For the reasons discussed in the rebuttal testimony of Mr. Tompsett, the Company disagrees with Staff's proposal to eliminate the HUF.

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Q. DO YOU AGREE WITH STAFF'S STATEMENT THAT NO MORE THAN 30 PERCENT OF EQUITY COME FROM AIAC OR CIAC?

A. Frankly, I am a bit perplexed by this statement.[22] The capitalization of a utility consists of debt, equity, CIAC and AIAC. Debt and equity are typically represented in the capital structure and used in determining the cost of capital. AIAC and CIAC are not equity as implied by Mr. Michlik. AIAC and CIAC are forms of zero cost capital and are called "deferred credits". They are components of total capitalization, just as are debt and equity. While I will leave it to Mr. Michlik to clarify his testimony, I believe Mr. Michlik means that no more that 30 percent of total capitalization should come from AIAC or CIAC.

Q. DO YOU AGREE THE NO MORE THAN 30 PERCENT OF CAPITALIZATION SHOULD COM FROM AIAC OR CIAC?

A. No. Typically half or more of the plant costs for a utility are attributed to on-site infrastructure or developer subdivision plant. This is plant within the developer's development such as distribution mains, meters, services, pump stations, etc. By setting a limit of 30 percent of AIAC or CIAC in the mix of total capitalization, the utility is forced to fund a significant portion what is traditionally developer funded plant. Consequently, the utility is forced to accept the risk of development which has traditionally been placed on the developer – where it should be. The utility is already taking risk by funding (with debt and/or equity) the construction backbone facilities to serve development. HUF's help fund backbone infrastructure and accomplishes two goals. First, it helps keep rates in check by having growth pay for growth. Second, it helps provide the utility with no-cost

[22] Michlik Direct Wastewater Division at 33.

capital to build capacity to serve growth.

Q. IF JOHNSON HAD NO MORE THAN 30 PERCENT AIAC AND CIAC IN ITS TOTAL CAPITALIZATION IN THE INSTANT CASE, WOULD THE RATE INCREASE REQUEST BE MUCH HIGHER?

A. Yes. Perhaps as high as 80-100 percent or more depending on the cost of capital. I suspect this Commission would then have an issue of the rate increase being too high and blaming the Company for not having enough zero cost capital in its rate base.

Q. DOES MR. MICHLIK SUPPORT THE 30 PERCENT WITH ANY AUTHORITATIVE REFERENCE OR ANALYSIS?

A. No.

Q. IS THE COMPANY'S PROPORTION OF ZERO COST CAPITAL TOO HIGH?

A. Not necessarily. I believe that the high capitalization from zero cost capital in the instant case is more due to timing than anything else. I do not believe the level of AIAC is too high. It is in the range of 60 percent of the net plant in service which is in the range I would expect. As I testified earlier, on-site infrastructure can be 50 percent or more of the plant costs. For water utilities it is typically well above 50 percent. As far as the level of CIAC, first, I believe it is higher than it should be but this is the result of the Company collecting a good portion of the HUF's for future customers up-front. Secondly Johnson Utilities has incurred lower costs of backbone facilities by having affiliates construct the plant for far less cost than

could have otherwise been. The HUF was originally designed to cover no more than about 50 percent of the projected backbone facility costs. The cost savings pushed the proportion of plant costs to a higher level than was originally anticipated.

Q. WILL THIS PROBLEM OF TOO MUCH CIAC FROM TOO HIGH A HUF OCCUR IN THE FUTURE?

A. Mr. Tompsett addresses this issue in his testimony. I would only add that the Company no longer has an affiliate to construct plant so the savings it achieved by having affiliates construct plant (despite any affiliate profits) will not materialize in the future. Secondly, the Company is obligated to serve developments that it has yet to construct backbone facilities for but has already used up the HUFs to construct existing plant. So, in the future the Company will have to construct those facilities with either debt or equity.

Q. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.

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REBUTTAL SCHEDULES

(WATER)

Johnson Utilities - Water Division
Test Year Ended December 31, 2007
Computation of Increase in Gross Revenue
Requirements As Adjusted

Exhibit
Rebuttal Schedule A-1
Page 1
Witness: Bourassa

Line No.		
1	Fair Value Rate Base	$ 3,539,562
2		
3	Adjusted Operating Income	2,302,004
4		
5	Current Rate of Return	65.04%
6		
7	Required Operating Income	$ 420,854
8		
9	Required Rate of Return on Fair Value Rate Base	11.89%
10		
11	Operating Income Deficiency	$ (1,881,150)
12		
13	Gross Revenue Conversion Factor	1.5305
14		
15	Increase in Gross Revenue	
16	Requirement	$ (2,879,022)
17		
18	Test Year Adjusted Revenues	$ 13,172,899
19	Increase in Revenue Requirement	$ (2,879,022)
20	Prposed Revenue Requirement	$ 10,293,877
21	% Increase	-21.86%
22		

	Customer Classification	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
23					
24					
25	**Residential, Commerical, Industrial, Public Authority**				
26	3/4 Inch	$ 8,725,843	$ 6,668,434	$ (2,057,410)	-23.58%
27	1 Inch	262,671	208,599	(54,072)	-20.59%
28	1.5 Inch	38,900	31,426	(7,474)	-19.21%
29	2 Inch	206,034	173,714	(32,320)	-15.69%
30	3 Inch	29,294	25,864	(3,430)	-11.71%
31	4 Inch	29,997	24,019	(5,978)	-19.93%
32	**Irrigation**				
33	3/4 Inch	40,856	34,698	(6,158)	-15.07%
34	1 Inch	133,349	115,784	(17,565)	-13.17%
35	1.5 Inch	512,159	443,088	(69,071)	-13.49%
36	2 Inch	1,151,460	1,018,405	(133,055)	-11.56%
37	3 Inch	810	678	(132)	
38	4 Inch	35,848	29,810	(6,037)	-16.84%
39	6 Inch	14,915	11,457	(3,458)	-23.19%
40	**Construction**				
41	3 Inch	192,936	130,087	(62,849)	-32.57%
42	6 Inch	714,180	469,237	(244,943)	-34.30%
43	6 Inch CAP	34,603	32,861	(1,742)	-5.03%
44					
45					
46	**Reconciliation Amount (Tolerance)**	3,331	(709)	(4,040)	-121.28%
47	**Subtotal**	$ 12,127,186	$ 9,417,451	$ (2,709,735)	-22.34%
48	**Revenue Annualization**	716,418	547,131	(169,287)	-23.63%
49	Miscellaneous Revenues	329,295	329,295	-	0.00%
50	**Total of Water Revenues (a)**	$ 13,172,899	$ 10,293,877	$ (2,879,022)	-21.86%
51					
52	SUPPORTING SCHEDULES:				
53	Rebuttal B-1				
54	Rebuttal C-1				
55	Rebuttal C-3				
56	Rebuttal H-1				
57					
58					

Johnson Utilities - Water Division
Test Year Ended December 31, 2007
Summary of Rate Base

Exhibit
Rebuttal Schedule B-1
Page 1
Witness: Bourassa

Line No.		Original Cost Rate base	Fair Value Rate Base
1			
2	Gross Utility Plant in Service	$ 74,840,362	$ 74,840,362
3	Less: Accumulated Depreciation	5,662,795	5,662,795
4			
5	Net Utility Plant in Service	$ 69,177,566	$ 69,177,566
6			
7	Less:		
8	Advances in Aid of		
9	Construction	36,519,048	36,519,048
10	Contributions in Aid of		
11	Construction - Net of amortization	22,339,185	22,339,185
12	Meter and Service Line Advances	6,779,771	6,779,771
13	Deferred Income Taxes & Credits	-	-
14	Investment tax Credits	-	-
15	Shared Gain on Well	-	-
16			
17	Plus:		
18	Prepayments	-	-
19	Materials and Supplies	-	-
20	Deferred Assets	0	0
21	Allowance for Working Capital	-	-
22			
23			
24	Total Rate Base	$ 3,539,562	$ 3,539,562
25			
26			
27			
28	SUPPORTING SCHEDULES:		
29	Rebuttal B-2		
30	Rebuttal B-3		
31	Rebuttal B-5		
32			
33			

Johnson Utilities - Water Division
Test Year Ended December 31, 2007
Original Cost Rate Base Proforma Adjustments

Exhibit
Rebuttal Schedule B-2
Page 1
Witness: Bourassa

Line No.		Direct Adjusted End of Test Year	Adjustments	Rebuttal Adjusted End of Test Year
1	Gross Utility			
2	Plant in Service	$ 79,591,151	(4,750,790)	$ 74,840,362
3				
4	**Less:**			
5	Accumulated			
6	Depreciation	6,199,124	(536,328)	5,662,795
7				
8				
9	Net Utility Plant			
10	in Service	$ 73,392,027	$ (4,214,461)	$ 69,177,566
11				
12	**Less:**			
13	Advances in Aid of			
14	Construction	37,840,520	(1,321,472)	36,519,048
15				
16	Contributions in Aid of			
17	Construction - Net	25,004,821	(486,513)	24,518,308
18				
19	Accumulated Amortization of CIAC	(1,858,537)	(320,586)	(2,179,123)
20				
21	Meter and Service Line Advances	6,779,771	-	6,779,771
22	Deferred Income Taxes	-	-	-
23	Investment Tax Credits	-	-	-
24	Shared Gain on Well			-
25				
26	**Plus:**			
27	Prepayments	-	-	-
28	Materials and Supplies	348,852	(348,852)	-
29	Deferred Assets	633,537	(633,537)	0
30	Working capital	-	-	-
31				
32				
33	Total	$ 6,607,842	$ (3,068,280)	$ 3,539,562
34				
35				
36				
37	SUPPORTING SCHEDULES:			RECAP SCHEDULES:
38	Rebuttal B-2, page 2			Rebuttal B-1
39				
40				
41				
42				
43				
44				
45				
46				

Johnson Utilities - Water Division
Test Year Ended December 31, 2007
Original Cost Rate Base Proforma Adjustments

Exhibit
Rebuttal Schedule B-2
Page 2
Witness: Bourassa

Line No.		Adjusted at End of Test Year	Proforma Adjustments 1 Plant-in-Service	2 Accumulated Depreciation	3 CIAC	4 Accum. Amort. of CIAC	5 AIAC	6 Deferred Reg. Assets	7 Materials & Supplies	Rebuttal Adjusted at end of Test Year
1	Gross Utility									
2	Plant in Service	$ 79,591,151	$ (4,750,790)							$ 74,840,362
3										
4	**Less:**									
5	Accumulated									
6	Depreciation	6,199,124		(536,328)						5,662,795
7										
8										
9	Net Utility Plant									
10	in Service	$ 73,392,027	$ (4,750,790)	$ 536,328						$ 69,177,566
11										
12	**Less:**									
13	Advances in Aid of									
14	Construction	37,840,520					(1,321,472)			36,519,048
15										
16	Contributions in Aid of									
17	Construction	25,004,821			(486,513)					24,518,308
18										
19	Accumulated Amortization of CIAC	(1,858,537)				(320,586)				(2,179,123)
20										
21	Meter and Service Line Advances	6,779,771								6,779,771
22	Deferred Income Taxes	-								-
23	Investment Tax Credits	-								-
24	Shared Gain on Well	-								-
25										
26	**Plus:**									
27	Prepayments	-								-
28	Materials and Supplies	348,852							(348,852)	-
29	Deferred Assets	633,537						(633,537)		0
30	Working capital	-								-
31										
32										
33	Total	$ 6,607,842	$ (4,750,790)	$ 536,328	$ 486,513	$ 320,586	$ 1,321,472	$ (633,537)	$ (348,852)	$ 3,539,562
34										
35										
36										
37	SUPPORTING SCHEDULES:									RECAP SCHEDULES:
38	Rebuttal B-2, pages 1-7									
39	Adjustment 1 - Rebuttal B-2, page 3			Adjustment 4 - Rebuttal B-2, page 6			Adjustment 7 - Testimony			
40	Adjustment 2 - Rebuttal B-2, page 4			Adjustment 5 - Rebuttal B-2, Page 7						
41	Adjustment 3 - Rebuttal B-2, page 5			Adjustment 6 - Testimony						
42										

Johnson Utilities - Water Division
Test Year Ended December 31, 2007
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1

Exhibit
Rebuttal Schedule B-2
Page 3
Witness: Bourassa

Line No.	Account No.	Description	Direct Adjusted Original Cost	A Remove Affiliate Profit	B Unsupported Plant Costs	C Not Used and Useful	D Plant Reclass	E Intentionally Blank	Rebuttal Adjusted Original Cost
1	Plant-in-Service								
5	301	Organization Cost	-	-	-	-			-
6	302	Franchise Cost	-	-	-	-			-
7	303	Land and Land Rights	272,438	-	-	(40,000)			232,438
8	304	Structures and Improvements	9,482,165	(124,377)	(16,640)	-	(6,657,837)		2,683,311
9	305	Collecting and Impounding Res.	-	-	-	-			-
10	306	Lake River and Other Intakes	-	-	-	-			-
11	307	Wells and Springs	5,226,030	(76,357)	-	(2,012,564)			3,137,109
12	308	Infiltration Galleries and Tunnels	-	-	-	-			-
13	309	Supply Mains	-	-	-	-			-
14	310	Power Generation Equipment	-	-	-	-			-
15	311	Electric Pumping Equipment	764,111	(772)	-	-			763,339
16	320	Water Treatment Equipment	21,856	-	-	-			21,856
17	330	Dist. Reservoirs & Standpipe	248,272	(1,610)	-	-	7,529,449		7,776,111
18	331	Trans. and Dist. Mains	53,432,585	(265,576)	(230,848)	(1,343,330)	(871,612)		50,721,220
19	333	Services	527,473	-	-	-			527,473
20	334	Meters	6,068,503	-	0	-			6,068,503
21	335	Hydrants	3,547,718	(1,140)	(637,576)	-			2,909,002
22	336	Backflow Prevention Devices	-	-	-	-			-
23	339	Other Plant and Misc Equip.	-	-	-	-			-
24	340	Office Furniture and Fixtures	-	-	-	-			-
25	341	Transportation Equipment	-	-	-	-			-
26	342	Stores Equipment	-	-	-	-			-
27	343	Tools and Work Equipment	-	-	-	-			-
28	344	Laboratory Equipment	-	-	-	-			-
29	345	Power Operated Equipment	-	-	-	-			-
30	346	Communications Equipment	-	-	-	-			-
31	347	Miscellaneous Equipment	-	-	-	-			-
32	348	Other Tangible Plant	-	-	-	-			-
33		TOTALS	$ 79,591,151	$ (469,832)	$ (885,064)	$ (3,395,894)	$ -	$ -	$ 74,840,362

36	Plant-in-Service per Direct Filing	$ 79,591,151
38	Increase (decrease) in Plant-in-Service	$ (4,750,790)
40	Adjustment to Plant-in-Service	$ (4,750,790)

SUPPORTING SCHEDULES

Adjustment A - See Rebuttal B-2, page 3.1
Adjustment B - See Rebuttal B-2, page 3.2
Adjustment C - See Rebuttal B-2, page 3.3

Adjustment D - See Staff Table H-2 on page 12 of Direct Testimony of Marlin Scott Jr.
Adjustment E - Blank

Johnson Utilities - Water Division
Test Year Ended December 31, 2007
Original Cost Rate Base Proforma Adjustments
Adjustment A

Exhibit
Rebuttal Schedule B-2
Page 3.1
Witness: Bourassa

Line No. 1 Affiliate Profit

Account No.	Description	Plant Constructed by Affiliates	Rate	Amount to be Removed from Plant-in-service
301	Organization Cost	$ -	1.75%	$ -
302	Franchise Cost	-	1.75%	-
303	Land and Land Rights	-	1.75%	-
304	Structures and Improvements	7,107,267	1.75%	(124,377)
305	Collecting and Impounding Res.	-	1.75%	-
306	Lake River and Other Intakes	-	1.75%	-
307	Wells and Springs	4,363,284	1.75%	(76,357)
308	Infiltration Galleries and Tunnels	-	1.75%	-
309	Supply Mains	-	1.75%	-
310	Power Generation Equipment	-	1.75%	-
311	Electric Pumping Equipment	44,127	1.75%	(772)
320	Water Treatment Equipment	-	1.75%	-
330	Dist. Reservoirs & Standpipe	91,973	1.75%	(1,610)
331	Trans. and Dist. Mains	15,175,749	1.75%	(265,576)
333	Services	-	1.75%	-
334	Meters	-	1.75%	-
335	Hydrants	65,116	1.75%	(1,140)
336	Backflow Prevention Devices	-	1.75%	-
339	Other Plant and Misc Equip.	-	1.75%	-
340	Office Furniture and Fixtures	-	1.75%	-
341	Transportation Equipment	-	1.75%	-
342	Stores Equipment	-	1.75%	-
343	Tools and Work Equipment	-	1.75%	-
344	Laboratory Equipment	-	1.75%	-
345	Power Operated Equipment	-	1.75%	-
346	Communications Equipment	-	1.75%	-
347	Miscellaneous Equipment	-	1.75%	-
348	Other Tangible Plant	-	1.75%	-
	TOTALS	$ 26,847,516		$ (469,832)

Increase (decrease) in Plant-in-Service $ (469,832)

Adjustment to Plant-in-Service $ (469,832)

SUPPORTING SCHEDULES

Johnson Utilities - Water Division
Test Year Ended December 31, 2007
Original Cost Rate Base Proforma Adjustments
Adjustment B

Exhibit
Rebuttal Schedule B-2
Page 3.2
Witness: Bourassa

Line No.

1 Unsupported Plant Costs

Line No.	Account No.	Description	[1] Staff Audit Request	Supported Plant-in-Service By Document Type: Line Extension Agmnt	Invoices	Const. Contract/Check	GL Adjustments	[2] Total Supported	[3] = [2] - [1] Unsupported Plant-in-service
7	301	Organization Cost	$ -	$ -	$ -	$ -	$ -	$ -	$ -
8	302	Franchise Cost	-	-	-	-	-	-	-
9	303	Land and Land Rights	271,537	-	271,537	-	-	271,537	-
10	304	Structures and Improvements	9,326,476	-	(594)	9,310,430	-	9,309,836	(16,640)
11	305	Collecting and Impounding Res.	-	-	-	-	-	-	-
12	306	Lake River and Other Intakes	-	-	-	-	-	-	-
13	307	Wells and Springs	4,205,410	100,000	-	4,105,410	-	4,205,410	-
14	308	Infiltration Galleries and Tunnels	-	-	-	-	-	-	-
15	309	Supply Mains	-	-	-	-	-	-	-
16	310	Power Generation Equipment	-	-	-	-	-	-	-
17	311	Electric Pumping Equipment	-	-	-	-	-	-	-
18	320	Water Treatment Equipment	-	-	-	-	-	-	-
19	330	Dist. Reservoirs & Standpipe	248,272	-	156,299	91,973	-	248,272	-
20	331	Trans. and Dist. Mains	52,909,475	36,531,113	340,292	15,715,030	92,193	52,678,627	(230,848)
21	333	Services	317,900	317,900	-	-	-	317,900	-
22	334	Meters	4,712,102	-	4,925,925	-	(213,823)	4,712,102	0
23	335	Hydrants	2,227,691	1,580,004	10,111	-	-	1,590,115	(637,576)
24	336	Backflow Prevention Devices	-	-	-	-	-	-	-
25	339	Other Plant and Misc Equip.	-	-	-	-	-	-	-
26	340	Office Furniture and Fixtures	-	-	-	-	-	-	-
27	341	Transportation Equipment	81,087	-	-	-	81,087	81,087	-
28	342	Stores Equipment	-	-	-	-	-	-	-
29	343	Tools and Work Equipment	-	-	-	-	-	-	-
30	344	Laboratory Equipment	-	-	-	-	-	-	-
31	345	Power Operated Equipment	-	-	-	-	-	-	-
32	346	Communications Equipment	-	-	-	-	-	-	-
33	347	Miscellaneous Equipment	-	-	-	-	-	-	-
34	348	Other Tangible Plant	-	-	-	-	-	-	-
35		TOTALS	$ 74,299,950	$ 38,529,017	$ 5,703,569	$ 29,222,843	$ (40,543)	$ 73,414,886	$ (885,064)

38 Increase (decrease) in Plant-in-Service $ (885,064)

40 Adjustment to Plant-in-Service $ (885,064)

43 SUPPORTING SCHEDULES

Johnson Utilities - Water Division
Test Year Ended December 31, 2007
Original Cost Rate Base Proforma Adjustments
Adjustment C

Exhibit
Rebuttal Schedule B-2
Page 3.3
Witness: Bourassa

Plant Not Used and Useful

Account No.	Description	2001 Land Ellsworth Wells 1,2, &3	2006 Anthem Well #3	2006 Anthem Well #4	2006 Crestfield Manor Well #4	2002 Mains San Tan Well #1	2005 Mains Magma 2 Subdivision	2005 Mains Quail Run Estates	2005 Mains Circle Cross	Total
301	Organization Cost									$ -
302	Franchise Cost									-
303	Land and Land Rights	(40,000)								(40,000)
304	Structures and Improvements									-
305	Collecting and Impounding Res.									-
306	Lake River and Other Intakes									-
307	Wells and Springs		(740,536)	(745,755)	(526,273)					(2,012,564)
308	Infiltration Galleries and Tunnels									-
309	Supply Mains									-
310	Power Generation Equipment									-
311	Electric Pumping Equipment									-
320	Water Treatment Equipment									-
330	Dist. Reservoirs & Standpipe									-
331	Trans. and Dist. Mains					(21,858)	(405,322)	(824,322)	(91,828)	(1,343,330)
333	Services									-
334	Meters									-
335	Hydrants									-
336	Backflow Prevention Devices									-
339	Other Plant and Misc Equip.									-
340	Office Furniture and Fixtures									-
341	Transportation Equipment									-
342	Stores Equipment									-
343	Tools and Work Equipment									-
344	Laboratory Equipment									-
345	Power Operated Equipment									-
346	Communications Equipment									-
347	Miscellaneous Equipment									-
348	Other Tangible Plant									-
	TOTALS	$ (40,000)	$ (740,536)	$ (745,755)	$ (526,273)	$ (21,858)	$ (405,322)	$ (824,322)	$ (91,828)	$ (3,395,894)

Increase (decrease) in Plant-in-Service $ (3,395,894)

Adjustment to Plant-in-Service $ (3,395,894)

SUPPORTING SCHEDULES

Johnson Utilities - Water Division
Test Year Ended December 31, 2007
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2

Exhibit
Rebuttal Schedule B-2
Page 4
Witness: Bourassa

Accumulated Depreciation

Line No.	Account No.	Description	Direct Adjusted Accum. Depr.	A Difference to Computed A/D	B Left Blank	C Left Blank	D Left Blank	Rebuttal Adjusted Accum. Depr.
5	301	Organization Cost	-	-				-
6	302	Franchise Cost	-	-				-
7	303	Land and Land Rights	-	-				-
8	304	Structures and Improvements	351,262	(562,100)				(210,839)
9	305	Collecting and Impounding Res	-	-				-
10	306	Lake River and Other Intakes	-	-				-
11	307	Wells and Springs	319,106	(10,358)				308,748
12	308	Infiltration Galleries and Tunnel:	-	-				-
13	309	Supply Mains	-	-				-
14	310	Power Generation Equipment	-	-				-
15	311	Electric Pumping Equipment	92,906	(125)				92,781
16	320	Water Treatment Equipment	2,049	-				2,049
17	330	Dist. Reservoirs & Standpipe	40,344	731,719				772,063
18	331	Trans. and Dist. Mains	4,634,234	(637,046)				3,997,189
19	333	Services	93,246	-				93,246
20	334	Meters	418,092	-				418,092
21	335	Hydrants	247,885	(58,418)				189,467
22	336	Backflow Prevention Devices	-	-				-
23	339	Other Plant and Misc Equip.	-	-				-
24	340	Office Furniture and Fixtures	-	-				-
25	341	Transportation Equipment	-	-				-
26	342	Stores Equipment	-	-				-
27	343	Tools and Work Equipment	-	-				-
28	344	Laboratory Equipment	-	-				-
29	345	Power Operated Equipment	-	-				-
30	346	Communications Equipment	-	-				-
31	347	Miscellaneous Equipment	-	-				-
32	348	Other Tangible Plant	-	-				-
33		TOTALS	$ 6,199,124	$ (536,328)	$ -	$ -	$ -	$ 5,662,795

36	Accumulated Depreciation per Direct Filing	$ 6,199,124
38	Increase (decrease) in Accumulated Depreciation	$ (536,328)
40	Adjustment to Accumulate Depreciation	$ (536,328)

42 SUPPORTING SCHEDULES
43 Rebuttal B-2, pages 4.1 to 4.12

Johnson Utilities - Water Division
Plant Additions and Retirements

Exhibit
Rebuttal Schedule B-2
Page 4.1
Witness: Bourassa

Account No.	Description	Deprec. Rate	1998 Plant Additions	1998 Plant Adjustments	1998 Plant Adjustments[1]	1998 Plant Adjustments[2]	1998 Plant Adjustments[3]	1998 Plant Adjustments[4]	1998 Adjusted Plant Additions	1998 Plant Retirements	1998 Plant Balance	1998 Depr.
301	Organization Cost	0.00%			-	-			-		-	-
302	Franchise Cost	0.00%			-	-			-		-	-
303	Land and Land Rights	0.00%			-	-			-		-	-
304	Structures and Improvements	2.50%			-	-			-		-	-
305	Collecting and Impounding Res.	2.50%			-	-			-		-	-
306	Lake River and Other Intakes	2.50%			-	-			-		-	-
307	Wells and Springs	2.50%	115,000		-	-			115,000		115,000	1,438
308	Infiltration Galleries and Tunnels	2.50%			-	-			-		-	-
309	Supply Mains	2.50%			-	-			-		-	-
310	Power Generation Equipment	2.50%			-	-			-		-	-
311	Electric Pumping Equipment	2.50%	43,750		-	-			43,750		43,750	547
320	Water Treatment Equipment	2.50%			-	-			-		-	-
330	Distribution Reservoirs & Standpipe	2.50%			-	-			-		-	-
331	Transmission and Distribution Mains	2.50%	282,692		-	-			282,692		282,692	3,534
333	Services	2.50%			-	-			-		-	-
334	Meters	2.50%			-	-			-		-	-
335	Hydrants	2.50%			-	-			-		-	-
336	Backflow Prevention Devices	2.50%			-	-			-		-	-
339	Other Plant and Miscellaneous Equipment	2.50%			-	-			-		-	-
340	Office Furniture and Fixtures	2.50%			-	-			-		-	-
341	Transportation Equipment	2.50%			-	-			-		-	-
342	Stores Equipment	2.50%			-	-			-		-	-
343	Tools and Work Equipment	2.50%			-	-			-		-	-
344	Laboratory Equipment	2.50%			-	-			-		-	-
345	Power Operated Equipment	2.50%			-	-			-		-	-
346	Communications Equipment	2.50%			-	-			-		-	-
347	Miscellaneous Equipment	2.50%			-	-			-		-	-
348	Other Tangible Plant	2.50%			-	-			-		-	-
	TOTAL WATER PLANT		441,442	-	-	-	-	-	441,442	-	441,442	5,518

[1] Affiliate Profit
[2] Unsupported plant
[3] Plant Not Used and Useful
[4] Plant Reclassified

Johnson Utilities - Water Division
Plant Additions and Retirements

Exhibit
Rebuttal Schedule B-2
Page 4.2
Witness: Bourassa

Account No.	Description	Deprec. Rate	1999 Plant Additions	2000 Plant Adjustments	1999 Plant Adjustments[1]	1999 Plant Adjustments[2]	1999 Plant Adjustments[3]	1999 Plant Adjustments[4]	1999 Adjusted Plant Additions	1999 Plant Retirements	1999 Plant Balance	1999 Deprec.
301	Organization Cost	0.00%			-	-			-		-	-
302	Franchise Cost	0.00%			-	-			-		-	-
303	Land and Land Rights	0.00%	244,400		-	-			244,400		244,400	-
304	Structures and Improvements	2.50%	102,374		-	-			102,374		102,374	1,280
305	Collecting and Impounding Res.	2.50%			-	-			-		-	-
306	Lake River and Other Intakes	2.50%			-	-			-		-	-
307	Wells and Springs	2.50%	209,355		-	-			209,355		324,355	5,492
308	Infiltration Galleries and Tunnels	2.50%			-	-			-		-	-
309	Supply Mains	2.50%			-	-			-		-	-
310	Power Generation Equipment	2.50%			-	-			-		-	-
311	Electric Pumping Equipment	2.50%	331,299		-	-			331,299		375,049	5,235
320	Water Treatment Equipment	2.50%			-	-			-		-	-
330	Distribution Reservoirs & Standpipe	2.50%			-	-		101,837	101,837		101,837	1,273
331	Transmission and Distribution Mains	2.50%	2,537,047		(17,508)	(230,848)		(101,837)	2,186,854		2,469,546	34,403
333	Services	2.50%	155,100		-	-			155,100		155,100	1,939
334	Meters	2.50%	32,941		-	-			32,941		32,941	412
335	Hydrants	2.50%	60,225		-	-			60,225		60,225	753
336	Backflow Prevention Devices	2.50%			-	-			-		-	-
339	Other Plant and Miscellaneous Equipment	2.50%			-	-			-		-	-
340	Office Furniture and Fixtures	2.50%			-	-			-		-	-
341	Transportation Equipment	2.50%			-	-			-		-	-
342	Stores Equipment	2.50%			-	-			-		-	-
343	Tools and Work Equipment	2.50%	16,230		-	-			16,230		16,230	203
344	Laboratory Equipment	2.50%			-	-			-		-	-
345	Power Operated Equipment	2.50%			-	-			-		-	-
346	Communications Equipment	2.50%			-	-			-		-	-
347	Miscellaneous Equipment	2.50%			-	-			-		-	-
348	Other Tangible Plant	2.50%			-	-			-		-	-
	TOTAL WATER PLANT		3,688,971	-	(17,508)	(230,848)	-	-	3,440,616	-	3,882,058	50,989

[1] Affiliate Profit
[2] Unsupported plant
[3] Plant Not Used and Useful
[4] Plant Reclassified

Johnson Utilities - Water Division
Plant Additions and Retirements

Exhibit
Rebuttal Schedule B-2
Page 4.3
Witness: Bourassa

Account No.	Description	Deprec. Rate	2000 Plant Additions	2000 Plant Adjustments	2000 Plant Adjustments[1]	2000 Plant Adjustments[2]	2000 Plant Adjustments[3]	2000 Plant Adjustments[4]	2000 Adjusted Plant Additions	2000 Plant Retirements	2000 Plant Balance	2000 Deprec.
301	Organization Cost	0.00%			-	-			-		-	-
302	Franchise Cost	0.00%			-	-			-		-	-
303	Land and Land Rights	0.00%	27,137		-	-			27,137		271,537	-
304	Structures and Improvements	2.50%	53,356		-	-			53,356		155,731	3,226
305	Collecting and Impounding Res.	2.50%			-	-			-		-	-
306	Lake River and Other Intakes	2.50%			-	-			-		-	-
307	Wells and Springs	2.50%	32,979		-	-			32,979		357,334	8,521
308	Infiltration Galleries and Tunnels	2.50%			-	-			-		-	-
309	Supply Mains	2.50%			-	-			-		-	-
310	Power Generation Equipment	2.50%			-	-			-		-	-
311	Electric Pumping Equipment	2.50%		(74,250)	-	-			(74,250)		300,799	8,448
320	Water Treatment Equipment	2.50%			-	-			-		-	-
330	Distribution Reservoirs & Standpipe	2.50%			-	-			-		101,837	2,546
331	Transmission and Distribution Mains	2.50%	1,396,832		-	-			1,396,832		3,866,379	79,199
333	Services	2.50%	317,900		-	-			317,900		473,000	7,851
334	Meters	2.50%	16,046		-	-			16,046		48,987	1,024
335	Hydrants	2.50%	221,462		-	-			221,462		281,687	4,274
336	Backflow Prevention Devices	2.50%			-	-			-		-	-
339	Other Plant and Miscellaneous Equipment	2.50%			-	-			-		-	-
340	Office Furniture and Fixtures	2.50%	1,355		-	-			1,355		1,355	17
341	Transportation Equipment	2.50%	36,142		-	-			36,142		36,142	452
342	Stores Equipment	2.50%			-	-			-		-	-
343	Tools and Work Equipment	2.50%			-	-			-		16,230	406
344	Laboratory Equipment	2.50%			-	-			-		-	-
345	Power Operated Equipment	2.50%			-	-			-		-	-
346	Communications Equipment	2.50%			-	-			-		-	-
347	Miscellaneous Equipment	2.50%			-	-			-		-	-
348	Other Tangible Plant	2.50%			-	-			-		-	-
	TOTAL WATER PLANT		2,103,209	(74,250)	-	-	-	-	2,028,959	-	5,911,016	115,964

[1] Affiliate Profit
[2] Unsupported plant
[3] Plant Not Used and Useful
[4] Plant Reclassified

Johnson Utilities - Water Division
Plant Additions and Retirements

Exhibit
Rebuttal Schedule B-2
Page 4.4
Witness: Bourassa

Account No.	Description	Deprec. Rate	2001 Plant Additions	2001 Plant Adjustments	2001 Plant Adjustments[1]	2001 Plant Adjustments[2]	2001 Plant Adjustments[3]	Adjustments[4]	2001 Adjusted Plant Additions	2001 Plant Retirements	2001 Plant Balance	2001 Deprec.
301	Organization Cost	0.00%			-	-			-		-	-
302	Franchise Cost	0.00%			-	-			-		-	-
303	Land and Land Rights	0.00%			-	-			-		271,537	-
304	Structures and Improvements	2.50%	15,461		(282)	-			15,179		170,910	4,083
305	Collecting and Impounding Res.	2.50%			-	-			-		-	-
306	Lake River and Other Intakes	2.50%			-	-			-		-	-
307	Wells and Springs	2.50%	273,474	(157,300)	(4,782)	-	(40,000)		71,392		428,725	9,826
308	Infiltration Galleries and Tunnels	2.50%			-	-			-		-	-
309	Supply Mains	2.50%			-	-			-		-	-
310	Power Generation Equipment	2.50%			-	-			-		-	-
311	Electric Pumping Equipment	2.50%	102,124		(772)	-			101,352		402,151	8,787
320	Water Treatment Equipment	2.50%			-	-			-		-	-
330	Distribution Reservoirs & Standpipe	2.50%	90,972	157,300	(1,610)	-			246,662		348,499	5,629
331	Transmission and Distribution Mains	2.50%	240,418		(4,207)	-			236,211		4,102,589	99,612
333	Services	2.50%			-	-			-		473,000	11,825
334	Meters	2.50%	21,024		-	-			21,024		70,011	1,487
335	Hydrants	2.50%			-	-			-		281,687	7,042
336	Backflow Prevention Devices	2.50%			-	-			-		-	-
339	Other Plant and Miscellaneous Equipment	2.50%			-	-			-		-	-
340	Office Furniture and Fixtures	2.50%		(1,355)	-	-			(1,355)		-	(17)
341	Transportation Equipment	2.50%		(36,142)	-	-			(36,142)		-	(452)
342	Stores Equipment	2.50%			-	-			-		-	-
343	Tools and Work Equipment	2.50%		(16,230)	-	-			(16,230)		-	(609)
344	Laboratory Equipment	2.50%			-	-			-		-	-
345	Power Operated Equipment	2.50%			-	-			-		-	-
346	Communications Equipment	2.50%			-	-			-		-	-
347	Miscellaneous Equipment	2.50%			-	-			-		-	-
348	Other Tangible Plant	2.50%			-	-			-		-	-
	TOTAL WATER PLANT		743,473	(53,727)	(11,653)	-	(40,000)	-	638,093	-	6,549,110	147,214

[1] Affiliate Profit
[2] Unsupported plant
[3] Plant Not Used and Useful
[4] Plant Reclassified

Johnson Utilities - Water Division
Plant Additions and Retirements

Exhibit
Rebuttal Schedule B-2
Page 4.5
Witness: Bourassa

Account No.	Description	Deprec. Rate	2002 Plant Additions	2002 Plant Adjustments	2002 Plant Adjustments[1]	2002 Plant Adjustments[2]	2002 Plant Adjustments[3]	2002 Plant Adjustments[4]	2002 Adjusted Plant Additions	2002 Plant Retirements	2002 Plant Balance	2002 Deprec.
301	Organization Cost	0.00%			-	-			-		-	-
302	Franchise Cost	0.00%			-	-			-		-	-
303	Land and Land Rights	0.00%			-	-			-		271,537	-
304	Structures and Improvements	2.50%			-	-			-		170,910	4,273
305	Collecting and Impounding Res.	2.50%			-	-			-		-	-
306	Lake River and Other Intakes	2.50%			-	-			-		-	-
307	Wells and Springs	2.50%			-	-			-		428,725	10,718
308	Infiltration Galleries and Tunnels	2.50%			-	-			-		-	-
309	Supply Mains	2.50%			-	-			-		-	-
310	Power Generation Equipment	2.50%			-	-			-		-	-
311	Electric Pumping Equipment	2.50%	22,050		-	-			22,050		424,200	10,329
320	Water Treatment Equipment	2.50%			-	-			-		-	-
330	Distribution Reservoirs & Standpipe	2.50%			-	-		390,770	390,770		739,269	13,597
331	Transmission and Distribution Mains	2.50%	5,764,948	457,745	(57,975)	-	(21,858)	(390,770)	5,752,089		9,854,678	174,466
333	Services	2.50%			-	-			-		473,000	11,825
334	Meters	2.50%	178,075		-	-			178,075		248,086	3,976
335	Hydrants	2.50%	157,282		-	-			157,282		438,969	9,008
336	Backflow Prevention Devices	2.50%			-	-			-		-	-
339	Other Plant and Miscellaneous Equipment	2.50%			-	-			-		-	-
340	Office Furniture and Fixtures	2.50%			-	-			-		-	-
341	Transportation Equipment	2.50%			-	-			-		-	-
342	Stores Equipment	2.50%			-	-			-		-	-
343	Tools and Work Equipment	2.50%			-	-			-		-	-
344	Laboratory Equipment	2.50%			-	-			-		-	-
345	Power Operated Equipment	2.50%			-	-			-		-	-
346	Communications Equipment	2.50%			-	-			-		-	-
347	Miscellaneous Equipment	2.50%			-	-			-		-	-
348	Other Tangible Plant	2.50%			-	-			-		-	-
	TOTAL WATER PLANT		6,122,354	457,745	(57,975)	-	(21,858)	-	6,500,266	-	13,049,376	238,193

[1] Affiliate Profit
[2] Unsupported plant
[3] Plant Not Used and Useful
[4] Plant Reclassified

Johnson Utilities - Water Division
Plant Additions and Retirements

Exhibit
Rebuttal Schedule B-2
Page 4.6
Witness: Bourassa

Account No.	Description	Deprec. Rate	2003 Plant Additions	2003 Plant Adjustments	2003 Plant Adjustments[1]	2003 Plant Adjustments[2]	2003 Plant Adjustments[3]	2003 Plant Adjustments[4]	2003 Adjusted Plant Additions	2003 Plant Retirements	2003 Plant Balance	2003 Deprec.
301	Organization Cost	0.00%			-	-			-		-	-
302	Franchise Cost	0.00%			-	-			-		-	-
303	Land and Land Rights	0.00%			-	-			-		271,537	-
304	Structures and Improvements	2.50%			-	-		(410,848)	(410,848)		(239,938)	(252,800)
305	Collecting and Impounding Res.	2.50%			-	-			-		-	-
306	Lake River and Other Intakes	2.50%			-	-			-		-	-
307	Wells and Springs	2.50%	319,090		-	-			319,090		747,816	14,707
308	Infiltration Galleries and Tunnels	2.50%			-	-			-		-	-
309	Supply Mains	2.50%			-	-			-		-	-
310	Power Generation Equipment	2.50%			-	-			-		-	-
311	Electric Pumping Equipment	2.50%			-	-			-		424,200	10,605
320	Water Treatment Equipment	2.50%	5,455		-	-			5,455		5,455	68
330	Distribution Reservoirs & Standpipe	2.50%			-	-		410,848	410,848	379,005	1,529,122	28,355
331	Transmission and Distribution Mains	2.50%	6,623,922	1,498,885	(68,458)	-			8,054,349	(379,005)	17,530,022	342,309
333	Services	2.50%			-	-			-		473,000	11,825
334	Meters	2.50%	1,173,247		-	-			1,173,247		1,421,333	20,868
335	Hydrants	2.50%	459,546		-	(459,546)			-		438,969	10,974
336	Backflow Prevention Devices	2.50%			-	-			-		-	-
339	Other Plant and Miscellaneous Equipment	2.50%			-	-			-		-	-
340	Office Furniture and Fixtures	2.50%			-	-			-		-	-
341	Transportation Equipment	2.50%	34,226		-	-			34,226		34,226	428
342	Stores Equipment	2.50%			-	-			-		-	-
343	Tools and Work Equipment	2.50%			-	-			-		-	-
344	Laboratory Equipment	2.50%			-	-			-		-	-
345	Power Operated Equipment	2.50%			-	-			-		-	-
346	Communications Equipment	2.50%			-	-			-		-	-
347	Miscellaneous Equipment	2.50%			-	-			-		-	-
348	Other Tangible Plant	2.50%			-	-			-		-	-
	TOTAL WATER PLANT		8,615,485	1,498,885	(68,458)	(459,546)	-	-	9,586,366	-	22,635,741	187,338

[1] Affiliate Profit
[2] Unsupported plant
[3] Plant Not Used and Useful
[4] Plant Reclassified

Johnson Utilities - Water Division
Plant Additions and Retirements

Exhibit
Rebuttal Schedule B-2
Page 4.7
Witness: Bourassa

Account No.	Description	Deprec. Rate	2004 Plant Additions	2004 Plant Adjustments	2004 Plant Adjustments[1]	2004 Plant Adjustments[2]	2004 Plant Adjustments[3]	2004 Plant Adjustments[4]	2004 Adjusted Plant Additions	2004 Plant Retirements	2004 Plant Balance	2004 Deprec.
301	Organization Cost	0.00%			-	-			-		-	-
302	Franchise Cost	0.00%			-	-			-		-	-
303	Land and Land Rights	0.00%	901		-	-			901		272,438	-
304	Structures and Improvements	2.50%	458,157		(8,018)	-			450,139		210,201	5,627
305	Collecting and Impounding Res.	2.50%			-	-			-		-	-
306	Lake River and Other Intakes	2.50%			-	-			-		-	-
307	Wells and Springs	2.50%	80,000		-	-			80,000		827,816	19,695
308	Infiltration Galleries and Tunnels	2.50%			-	-			-		-	-
309	Supply Mains	2.50%			-	-			-		-	-
310	Power Generation Equipment	2.50%			-	-			-		-	-
311	Electric Pumping Equipment	2.50%			-	-			-		424,200	10,605
320	Water Treatment Equipment	2.50%	16,401		-	-			16,401		21,856	341
330	Distribution Reservoirs & Standpipe	2.50%			-	-			-		1,529,122	38,228
331	Transmission and Distribution Mains	2.50%	136,085	8,764,671	(2,381)	-			8,898,375		26,428,397	549,480
333	Services	2.50%			-	-			-		473,000	11,825
334	Meters	2.50%	1,108,316		-	-			1,108,316		2,529,648	49,387
335	Hydrants	2.50%			-	-			-		438,969	10,974
336	Backflow Prevention Devices	2.50%			-	-			-		-	-
339	Other Plant and Miscellaneous Equipment	2.50%			-	-			-		-	-
340	Office Furniture and Fixtures	2.50%			-	-			-		-	-
341	Transportation Equipment	2.50%	44,945		-	-			44,945		79,171	1,417
342	Stores Equipment	2.50%			-	-			-		-	-
343	Tools and Work Equipment	2.50%			-	-			-		-	-
344	Laboratory Equipment	2.50%			-	-			-		-	-
345	Power Operated Equipment	2.50%			-	-			-		-	-
346	Communications Equipment	2.50%			-	-			-		-	-
347	Miscellaneous Equipment	2.50%			-	-			-		-	-
348	Other Tangible Plant	2.50%			-	-			-		-	-
	TOTAL WATER PLANT		1,844,804	8,764,671	(10,399)	-	-	-	10,599,076	-	33,234,817	697,581

[1] Affiliate Profit
[2] Unsupported plant
[3] Plant Not Used and Useful
[4] Plant Reclassified

Johnson Utilities - Water Division
Plant Additions and Retirements

Exhibit
Rebuttal Schedule B-2
Page 4.8
Witness: Bourassa

Account No.	Description	Deprec. Rate	2005 Plant Additions	2005 Plant Adjustments	2005 Plant Adjustments[1]	2005 Plant Adjustments[2]	2005 Plant Adjustments[3]	2005 Plant Adjustments[4]	2005 Adjusted Plant Additions	2005 Plant Retirements	2005 Plant Balance	2005 Deprec.
301	Organization Cost	0.00%			-	-			-		-	-
302	Franchise Cost	0.00%			-	-			-		-	-
303	Land and Land Rights	0.00%			-	-			-		272,438	-
304	Structures and Improvements	2.50%			-	-			-		210,201	5,255
305	Collecting and Impounding Res.	2.50%			-	-			-		-	-
306	Lake River and Other Intakes	2.50%			-	-			-		-	-
307	Wells and Springs	2.50%	452,618	454,498	(15,875)	-			891,242		1,719,057	31,836
308	Infiltration Galleries and Tunnels	2.50%			-	-			-		-	-
309	Supply Mains	2.50%			-	-			-		-	-
310	Power Generation Equipment	2.50%			-	-			-		-	-
311	Electric Pumping Equipment	2.50%			-	-			-		424,200	10,605
320	Water Treatment Equipment	2.50%			-	-			-		21,856	546
330	Distribution Reservoirs & Standpipe	2.50%			-	-			-		1,529,122	38,228
331	Transmission and Distribution Mains	2.50%	8,337,862	2,023,385	(41,803)	-	(916,150)		9,403,294		35,831,690	778,251
333	Services	2.50%			-	-			-		473,000	11,825
334	Meters	2.50%	1,602,159		-	-			1,602,159		4,131,807	83,268
335	Hydrants	2.50%	969,120		-	-			969,120		1,408,089	23,088
336	Backflow Prevention Devices	2.50%			-	-			-		-	-
339	Other Plant and Miscellaneous Equipment	2.50%			-	-			-		-	-
340	Office Furniture and Fixtures	2.50%			-	-			-		-	-
341	Transportation Equipment	2.50%		(79,171)	-	-			(79,171)		-	(1,845)
342	Stores Equipment	2.50%			-	-			-		-	-
343	Tools and Work Equipment	2.50%			-	-			-		-	-
344	Laboratory Equipment	2.50%			-	-			-		-	-
345	Power Operated Equipment	2.50%			-	-			-		-	-
346	Communications Equipment	2.50%			-	-			-		-	-
347	Miscellaneous Equipment	2.50%			-	-			-		-	-
348	Other Tangible Plant	2.50%			-	-			-		-	-
	TOTAL WATER PLANT		11,361,759	2,398,713	(57,678)	-	(916,150)		12,786,643	-	46,021,460	981,058

[1] Affiliate Profit
[2] Unsupported plant
[3] Plant Not Used and Useful
[4] Plant Reclassified

Johnson Utilities - Water Division
Plant Additions and Retirements

Exhibit
Rebuttal Schedule B-2
Page 4.9
Witness: Bourassa

Account No.	Description	Deprec. Rate	2006 Plant Additions	2006 Plant Adjustments	2006 Plant Adjustments[1]	2006 Plant Adjustments[2]	2006 Plant Adjustments[3]	2006 Plant Adjustments[4]	2006 Adjusted Plant Additions	2006 Plant Retirements	2006 Plant Balance	2006 Deprec.
301	Organization Cost	0.00%			-	-			-		-	-
302	Franchise Cost	0.00%			-	-			-		-	-
303	Land and Land Rights	0.00%			-	-			-		272,438	-
304	Structures and Improvements	2.50%	4,258,830	2,390,824	(116,078)	(16,640)	(2,012,564)	(4,426,349)	78,023		288,224	6,230
305	Collecting and Impounding Res.	2.50%			-	-			-		-	-
306	Lake River and Other Intakes	2.50%			-	-			-		-	-
307	Wells and Springs	2.50%	2,554,632	628,261	(55,701)	-			3,127,193		4,846,250	82,066
308	Infiltration Galleries and Tunnels	2.50%			-	-			-		-	-
309	Supply Mains	2.50%			-	-			-		-	-
310	Power Generation Equipment	2.50%			-	-			-		-	-
311	Electric Pumping Equipment	2.50%	86,801		-	-			86,801		511,001	11,690
320	Water Treatment Equipment	2.50%			-	-			-		21,856	546
330	Distribution Reservoirs & Standpipe	2.50%			-	-		4,426,349	4,426,349		5,955,471	93,557
331	Transmission and Distribution Mains	2.50%	12,220,856	1,341,833	(73,242)	-			13,489,447		49,321,138	1,064,410
333	Services	2.50%			-	-			-		473,000	11,825
334	Meters	2.50%	1,074,809		-	-			1,074,809		5,206,616	116,730
335	Hydrants	2.50%	1,546,683		(1,140)	(178,030)			1,367,514		2,775,603	52,296
336	Backflow Prevention Devices	2.50%			-	-			-		-	-
339	Other Plant and Miscellaneous Equipment	2.50%			-	-			-		-	-
340	Office Furniture and Fixtures	2.50%			-	-			-		-	-
341	Transportation Equipment	2.50%			-	-			-		-	-
342	Stores Equipment	2.50%			-	-			-		-	-
343	Tools and Work Equipment	2.50%			-	-			-		-	-
344	Laboratory Equipment	2.50%			-	-			-		-	-
345	Power Operated Equipment	2.50%			-	-			-		-	-
346	Communications Equipment	2.50%			-	-			-		-	-
347	Miscellaneous Equipment	2.50%			-	-			-		-	-
348	Other Tangible Plant	2.50%			-	-			-		-	-
	TOTAL WATER PLANT		21,742,611	4,360,918	(246,159)	(194,670)	(2,012,564)	-	23,650,136	-	69,671,596	1,439,352

[1] Affiliate Profit
[2] Unsupported plant
[3] Plant Not Used and Useful
[4] Plant Reclassified

Johnson Utilities - Water Division
Plant Additions and Retirements

Exhibit
Rebuttal Schedule B-2
Page 4.10
Witness: Bourassa

Account No.	Description	Deprec. Rate	2007 Plant Additions	2007 Plant Adjustments	2007 Plant Adjustments[1]	2007 Plant Adjustments[2]	2007 Plant Adjustments[3]	2007 Plant Adjustments[4]	2007 Adjusted Plant Additions	2007 Plant Retirements	2007 Plant Balance	2007 Deprec.
301	Organization Cost	0.00%			-	-			-		-	-
302	Franchise Cost	0.00%			-	-			-		-	-
303	Land and Land Rights	0.00%			-	-			-		272,438	-
304	Structures and Improvements	2.50%	2,203,163		-	-		(1,820,640)	382,523		670,747	11,987
305	Collecting and Impounding Res.	2.50%			-	-			-		-	-
306	Lake River and Other Intakes	2.50%			-	-			-		-	-
307	Wells and Springs	2.50%	263,423		-	-			263,423		5,109,673	124,449
308	Infiltration Galleries and Tunnels	2.50%			-	-			-		-	-
309	Supply Mains	2.50%			-	-			-		-	-
310	Power Generation Equipment	2.50%			-	-			-		-	-
311	Electric Pumping Equipment	2.50%	268,357	(16,019)	-	-			252,338		763,339	15,929
320	Water Treatment Equipment	2.50%			-	-			-		21,856	546
330	Distribution Reservoirs & Standpipe	2.50%			-	-		1,820,640	1,820,640		7,776,111	171,645
331	Transmission and Distribution Mains	2.50%	1,805,404		-	-	(405,322)		1,400,082		50,721,220	1,250,529
333	Services	2.50%	54,473		-	-			54,473		527,473	12,506
334	Meters	2.50%	861,887		-	-			861,887		6,068,503	140,939
335	Hydrants	2.50%	133,400		-	-			133,400		2,909,003	71,058
336	Backflow Prevention Devices	2.50%			-	-			-		-	-
339	Other Plant and Miscellaneous Equipment	2.50%			-	-			-		-	-
340	Office Furniture and Fixtures	2.50%			-	-			-		-	-
341	Transportation Equipment	2.50%			-	-			-		-	-
342	Stores Equipment	2.50%			-	-			-		-	-
343	Tools and Work Equipment	2.50%			-	-			-		-	-
344	Laboratory Equipment	2.50%			-	-			-		-	-
345	Power Operated Equipment	2.50%			-	-			-		-	-
346	Communications Equipment	2.50%			-	-			-		-	-
347	Miscellaneous Equipment	2.50%			-	-			-		-	-
348	Other Tangible Plant	2.50%			-	-			-		-	-
	TOTAL WATER PLANT		5,590,107	(16,019)	-	-	(405,322)	-	5,168,766	-	74,840,362	1,799,589

[1] Affiliate Profit
[2] Unsupported plant
[3] Plant Not Used and Useful
[4] Plant Reclassified

Johnson Utilities - Water Division
Plant Additions and Retirements

Exhibit
Rebuttal Schedule B-2
Page 4.11
Witness: Bourassa

Account No.	Description	Deprec. Rate	Year End Accumulated Depreciation by Account 1997	1998	1999	2000	2001	2002	2003
301	Organization Cost	0.00%	-	-	-	-	-	-	-
302	Franchise Cost	0.00%	-	-	-	-	-	-	-
303	Land and Land Rights	0.00%	-	-	-	-	-	-	-
304	Structures and Improvements	2.50%	-	-	1,280	4,506	8,589	12,862	(239,938)
305	Collecting and Impounding Res.	2.50%	-	-	-	-	-	-	-
306	Lake River and Other Intakes	2.50%	-	-	-	-	-	-	-
307	Wells and Springs	2.50%	-	1,438	6,929	15,451	25,276	35,994	50,701
308	Infiltration Galleries and Tunnels	2.50%	-	-	-	-	-	-	-
309	Supply Mains	2.50%	-	-	-	-	-	-	-
310	Power Generation Equipment	2.50%	-	-	-	-	-	-	-
311	Electric Pumping Equipment	2.50%	-	547	5,782	14,230	23,017	33,346	43,951
320	Water Treatment Equipment	2.50%	-	-	-	-	-	-	68
330	Distribution Reservoirs & Standpipe	2.50%	-	-	1,273	3,819	9,448	23,045	430,405
331	Transmission and Distribution Mains	2.50%	-	3,534	37,937	117,136	216,748	391,214	354,517
333	Services	2.50%	-	-	1,939	9,790	21,615	33,440	45,265
334	Meters	2.50%	-	-	412	1,436	2,923	6,900	27,767
335	Hydrants	2.50%	-	-	753	5,027	12,069	21,077	32,051
336	Backflow Prevention Devices	2.50%	-	-	-	-	-	-	-
339	Other Plant and Miscellaneous Equipment	2.50%	-	-	-	-	-	-	-
340	Office Furniture and Fixtures	2.50%	-	-	-	17	-	-	-
341	Transportation Equipment	2.50%	-	-	-	452	-	-	428
342	Stores Equipment	2.50%	-	-	-	-	-	-	-
343	Tools and Work Equipment	2.50%	-	-	203	609	-	-	-
344	Laboratory Equipment	2.50%	-	-	-	-	-	-	-
345	Power Operated Equipment	2.50%	-	-	-	-	-	-	-
346	Communications Equipment	2.50%	-	-	-	-	-	-	-
347	Miscellaneous Equipment	2.50%	-	-	-	-	-	-	-
348	Other Tangible Plant	2.50%	-	-	-	-	-	-	-
	TOTAL WATER PLANT		-	5,518	56,507	172,471	319,685	557,878	745,216

Johnson Utilities - Water Division
Plant Additions and Retirements

Exhibit
Rebuttal Schedule B-2
Page 4.12
Witness: Bourassa

Account No.	Description	Deprec. Rate	2004	2005	2006	2007
301	Organization Cost	0.00%	-	-	-	-
302	Franchise Cost	0.00%	-	-	-	-
303	Land and Land Rights	0.00%	-	-	-	-
304	Structures and Improvements	2.50%	(234,311)	(229,056)	(222,826)	(210,839)
305	Collecting and Impounding Res.	2.50%	-	-	-	-
306	Lake River and Other Intakes	2.50%	-	-	-	-
307	Wells and Springs	2.50%	70,397	102,232	184,299	308,748
308	Infiltration Galleries and Tunnels	2.50%	-	-	-	-
309	Supply Mains	2.50%	-	-	-	-
310	Power Generation Equipment	2.50%	-	-	-	-
311	Electric Pumping Equipment	2.50%	54,556	65,161	76,851	92,781
320	Water Treatment Equipment	2.50%	410	956	1,502	2,049
330	Distribution Reservoirs & Standpipe	2.50%	468,633	506,861	600,419	772,063
331	Transmission and Distribution Mains	2.50%	903,998	1,682,249	2,746,659	3,997,189
333	Services	2.50%	57,090	68,915	80,740	93,246
334	Meters	2.50%	77,155	160,423	277,153	418,092
335	Hydrants	2.50%	43,026	66,114	118,410	189,467
336	Backflow Prevention Devices	2.50%	-	-	-	-
339	Other Plant and Miscellaneous Equipment	2.50%	-	-	-	-
340	Office Furniture and Fixtures	2.50%	-	-	-	-
341	Transportation Equipment	2.50%	1,845	-	-	-
342	Stores Equipment	2.50%	-	-	-	-
343	Tools and Work Equipment	2.50%	-	-	-	-
344	Laboratory Equipment	2.50%	-	-	-	-
345	Power Operated Equipment	2.50%	-	-	-	-
346	Communications Equipment	2.50%	-	-	-	-
347	Miscellaneous Equipment	2.50%	-	-	-	-
348	Other Tangible Plant	2.50%	-	-	-	-
	TOTAL WATER PLANT		1,442,797	2,423,855	3,863,207	5,662,795

Johnson Utilities - Water Division
Test Year Ended December 31, 2007
Original Cost Rate Base Proforma Adjustments
Adjustment 3

Exhibit
Rebuttal Schedule B-2
Page 5
Witness: Bourassa

CIAC Adjustment (Plant indentified as not used and useful funded with CIAC)

Account No.	Description	2001 Land Ellsworth Wells 1,2, &3	2006 Anthem Well #3	2006 Anthem Well #4	2002 Mains San Tan Well #1	Intentionally Left Blank	Intentionally Left Blank	Total
301	Organization Cost							$ -
302	Franchise Cost							-
303	Land and Land Rights	(40,000)						(40,000)
304	Structures and Improvements							-
305	Collecting and Impounding Res.							-
306	Lake River and Other Intakes							-
307	Wells and Springs		(211,582)	(213,073)				(424,655)
308	Infiltration Galleries and Tunnels							-
309	Supply Mains							-
310	Power Generation Equipment							-
311	Electric Pumping Equipment							-
320	Water Treatment Equipment							-
330	Dist. Reservoirs & Standpipe							-
331	Trans. and Dist. Mains				(21,858)			(21,858)
333	Services							-
334	Meters							-
335	Hydrants							-
336	Backflow Prevention Devices							-
339	Other Plant and Misc Equip.							-
340	Office Furniture and Fixtures							-
341	Transportation Equipment							-
342	Stores Equipment							-
343	Tools and Work Equipment							-
344	Laboratory Equipment							-
345	Power Operated Equipment							-
346	Communications Equipment							-
347	Miscellaneous Equipment							-
348	Other Tangible Plant							-
	TOTALS	$ (40,000)	$ (211,582)	$ (213,073)	$ (21,858)	$ -	$ -	$ (486,513)

Increase (decrease) in Gross Contributions-in-aid of Construction $ (486,513)

Adjustment to Contributions-in-aid of Construction $ (486,513)

SUPPORTING SCHEDULES

Johnson Utilities - Water Division
Test Year Ended December 31, 2007
Original Cost Rate Base Proforma Adjustments
Adjustment 2

Exhibit
Rebuttal Schedule B-2
Page 6
Witness: Bourassa

Line No.

1 Accumulated Amortization (A.A.)

Line No.	Computation of CIAC Balances	Amount Recorded	Unexpended Cash	CIAC Adjustments[1]	Amortizable Balance	Amortization Rate	Amortization[2]	Year	Total Amortization	Accumulated Amortization
5	Balance at 12/31/1997	$ -			$ -				-	-
6	Additions 1998	137,525								
7	Balance at 12/31/1998	$ 137,525	$ -		$ 137,525	2.50%	1,719	1998	1,719	1,719
8	Additions 1999	805,625								
9	Balance at 12/31/1999	$ 943,150	$ -		$ 943,150	2.50%	13,508	1999	13,508	15,228
10	Additions 2000	736,101								
11	Balance at 12/31/2000	$ 1,679,251	$ -		$ 1,679,251	2.50%	32,780	2000	32,780	48,008
12	Additions 2001	688,950								
13	Balance at 12/31/2001	$ 2,368,201	$ -	$ (40,000)	$ 2,368,201	2.50%	50,093	2001	50,093	98,101
14	Additions 2002	2,441,380								
15	Balance at 12/31/2002	$ 4,809,581	$ 277,115	$ (21,858)	$ 4,532,466	2.50%	85,985	2002	85,985	184,086
16	Additions 2003	4,420,596								
17	Balance at 12/31/2003	$ 9,230,177	$ -		$ 9,230,177	2.50%	175,497	2003	175,497	359,583
18	Additions 2004	6,597,450								
19	Balance at 12/31/2004	$ 15,827,627	$ 3,736,025		$ 12,091,602	2.50%	266,522	2004	266,522	626,105
20	Additions 2005	6,293,450								
21	Balance at 12/31/2005	$ 22,121,077	$ 8,003,719	$ -	$ 14,117,358	2.50%	374,312	2005	374,312	1,000,417
22	Additions 2006	8,814,372								
23	Balance at 12/31/2006	$ 30,935,449	$ 14,275,725	$ (424,655)	$ 16,659,724	2.50%	479,452	2006	479,452	1,479,869
24	Additions 2007	1,000,450								
25	Balance at 12/31/2007	$ 31,935,899	$ 6,931,078	$ -	$ 25,004,821	2.50%	699,253	2007	699,253	2,179,123

28	Computed A. A. Balance	$ 2,179,123
29	Balance Per Direct Filing	1,858,537
30	Increase (Decrease) in A.A. Balance	$ 320,586
32	Adjustment to A.A.	$ (320,586)

[1]See Rebuttal B-2, page 5
[2]Half-year Convention

Johnson Utilities - Water Division
Test Year Ended December 31, 2007
Original Cost Rate Base Proforma Adjustments
Adjustment 5

Exhibit
Rebuttal Schedule B-2
Page 7
Witness: Bourassa

Line No.

1 AIAC Adjustment (Plant indentified as not used and useful funded with AIAC)

Account No.	Description	2005 Mains Magma 2 Subdivision	2005 Mains Quail Run Estates	2005 Mains Circle Cross	Intentionally Left Blank	Intentionally Left Blank	Intentionally Left Blank	Total
301	Organization Cost							$ -
302	Franchise Cost							-
303	Land and Land Rights							-
304	Structures and Improvements							-
305	Collecting and Impounding Res.							-
306	Lake River and Other Intakes							-
307	Wells and Springs							-
308	Infiltration Galleries and Tunnels							-
309	Supply Mains							-
310	Power Generation Equipment							-
311	Electric Pumping Equipment							-
320	Water Treatment Equipment							-
330	Dist. Reservoirs & Standpipe							-
331	Trans. and Dist. Mains	(405,322)	(824,322)	(91,828)				(1,321,472)
333	Services							-
334	Meters							-
335	Hydrants							-
336	Backflow Prevention Devices							-
339	Other Plant and Misc Equip.							-
340	Office Furniture and Fixtures							-
341	Transportation Equipment							-
342	Stores Equipment							-
343	Tools and Work Equipment							-
344	Laboratory Equipment							-
345	Power Operated Equipment							-
346	Communications Equipment							-
347	Miscellaneous Equipment							-
348	Other Tangible Plant							-
	TOTALS	$ (405,322)	$ (824,322)	$ (91,828)	$ -	$ -	$ -	$ (1,321,472)

Increase (decrease) in Advances-in-aid of Construction $ (1,321,472)

Adjustment to Advances-in-aid of Construction $ (1,321,472)

SUPPORTING SCHEDULES

Johnson Utilities - Water Division
Test Year Ended December 31, 2007
Computation of Working Capital

Exhibit
Rebuttal Schedule B-5
Page 1
Witness: Bourassa

Line No.			
1	Cash Working Capital (1/8 of Allowance		
2	Operation and Maintenance Expense)	$	790,292
3	Pumping Power (1/24 of Pumping Power)		34,647
4	Purchased Water (1/24 of Purchased Water)		13,956
5			
6			
7			
8			
9	Total Working Capital Allowance	$	838,895
10			
11			
12	Working Capital Requested	$	-
13			
14			
15	SUPPORTING SCHEDULES:	RECAP SCHEDULES:	
16	E-1	B-1	
17			

Johnson Utilities - Water Division
Test Year Ended December 31, 2007
Income Statement

Exhibit
Rebuttal Schedule C-1
Page 1
Witness: Bourassa

Line No.		Adjusted Test Year Book Results	Adjustment	Rebuttal Adjusted Results	Proposed Rate Increase	Rebuttal Adjusted with Rate Increase
1	**Revenues**					
2	Metered Water Revenues	$ 12,843,604	$ -	$ 12,843,604	$ (2,879,022)	$ 9,964,582
3	Unmetered Water Revenues	-	-	-		-
4	Other Water Revenues	329,295	-	329,295		329,295
5		$ 13,172,899	$ -	$ 13,172,899	$ (2,879,022)	$ 10,293,877
6	**Operating Expenses**					
7	Salaries and Wages	$ -	-	$ -		$ -
8	Purchased Water	334,948	-	334,948		334,948
9	Purchased Power	828,900	2,631	831,531		831,531
10	Chemicals	16,189	-	16,189		16,189
11	Repairs and Maintenance	14,333	-	14,333		14,333
12	Office Supplies and Expense	1,119	-	1,119		1,119
13	Outside Services	5,877,591	(5,799)	5,871,792		5,871,792
14	Water Testing	55,007	-	55,007		55,007
15	Rents	53,444	-	53,444		53,444
16	Transportation Expenses	-	-	-		-
17	Insurance - General Liability	21,565	-	21,565		21,565
18	Insurance - health and Life	-	-	-		-
19	Reg. Commission Exp. - Rate Case	33,333	-	33,333		33,333
20	Miscellaneous Expense	286,747	(31,192)	255,555		255,555
21	Depreciation Expense	1,548,515	(164,551)	1,383,964		1,383,964
22	Taxes Other Than Income	-	-	-		-
23	Property Taxes	797,368	(13,785)	783,583		783,583
24	Income Tax	1,185,679	28,853	1,214,532	(994,814)	219,718
25	**Total Operating Expenses**	$ 11,054,738	$ (183,843)	$ 10,870,895	$ (994,814)	$ 9,876,081
26	**Operating Income**	$ 2,118,161	$ 183,843	$ 2,302,004	$ (1,884,207)	$ 417,796
27	**Other Income (Expense)**					
28	Interest Income	-	-	-		-
29	Other income (loss)	-	-	-		-
30	Interest Expense	(14,738)	6,843	(7,895)		(7,895)
31	Other Expense	-	-	-		-
32				-		-
33	**Total Other Income (Expense)**	$ (14,738)	$ 6,843	$ (7,895)	$ -	$ (7,895)
34	**Net Profit (Loss)**	$ 2,103,423	$ 190,686	$ 2,294,109	$ (1,884,207)	$ 409,902
35						
36	SUPPORTING SCHEDULES:				RECAP SCHEDULES:	
37	Rebuttal C-1, page 2				Rebuttal A-1	
38						

Johnson Utilities - Water Division
Test Year Ended December 31, 2007
Income Statement

Exhibit
Rebuttal Schedule C-1
Page 2
Witness: Bourassa

Line No.		Adjusted Test Year Book Results	1 Depreciation	2 Property Taxes	3 Purchased Power	4 Outside Services	5 Misc. Expense	6 Interest Sync.	7 Income Tax	Rebuttal Adjusted Results	Proposed Rate Increase	Rebuttal Adjusted with Rate Increase
1	**Revenues**											
2	Metered Water Revenues	$ 12,843,604	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 12,843,604	$ (2,879,022)	$ 9,964,582
3	Unmetered Water Revenues	-								-		-
4	Other Water Revenues	329,295								329,295		329,295
5		$ 13,172,899	$ -	$ -						$ 13,172,899	$ (2,879,022)	$ 10,293,877
6	**Operating Expenses**											
7	Salaries and Wages	$ -								$ -		$ -
8	Purchased Water	334,948								334,948		334,948
9	Purchased Power	828,900			2,631					831,531		831,531
10	Chemicals	16,189								16,189		16,189
11	Repairs and Maintenance	14,333								14,333		14,333
12	Office Supplies and Expense	1,119								1,119		1,119
13	Outside Services	5,877,591				(5,799)				5,871,792		5,871,792
14	Water Testing	55,007								55,007		55,007
15	Rents	53,444								53,444		53,444
16	Transportation Expenses	-								-		-
17	Insurance - General Liability	21,565								21,565		21,565
18	Insurance - health and Life	-								-		-
19	Reg. Commission Exp. - Rate Case	33,333								33,333		33,333
20	Miscellaneous Expense	286,747					(31,192)			255,555		255,555
21	Depreciation Expense	1,548,515	(164,551)							1,383,964		1,383,964
22	Taxes Other Than Income	-								-		-
23	Property Taxes	797,368		(13,785)						783,583		783,583
24	Income Tax	1,185,679							28,853	1,214,532	(994,814)	219,718
25	**Total Operating Expenses**	$ 11,054,738	$ (164,551)	$ (13,785)	$ 2,631	$ (5,799)	$ (31,192)	$ -	$ 28,853	$ 10,870,895	$ (994,814)	$ 9,876,081
26	**Operating Income**	$ 2,118,161	$ 164,551	$ 13,785	$ (2,631)	$ 5,799	$ 31,192	$ -	$ (28,853)	$ 2,302,004	$ (1,884,207)	$ 417,796
27	**Other Income (Expense)**											
28	Interest Income	$ -								$ -		$ -
29	Other income (loss)	-								-		-
30	Interest Expense	(14,738)						6,843		(7,895)		(7,895)
31	Other Expense	-								-		-
32		-										-
33	**Total Other Income (Expense)**	$ (14,738)	$ -	$ -	$ -	$ -	$ -	$ 6,843	$ -	$ (7,895)	$ -	$ (7,895)
34	**Net Profit (Loss)**	$ 2,103,423	$ 164,551	$ 13,785	$ (2,631)	$ 5,799	$ 31,192	$ 6,843	$ (28,853)	$ 2,294,109	$ (1,884,207)	$ 409,902
35												
36	SUPPORTING SCHEDULES:										RECAP SCHEDULES:	
37	Rebuttal C-2											
38												

Johnson Utilities - Water Division
Test Year Ended December 31, 2007
Adjustments to Revenues and Expenses

Exhibit
Rebuttal Schedule C-2
Page 1
Witness: Bourassa

Line No.		Adjustments to Revenues and Expenses						
		1 Depreciation Expense	2 Property Taxes	3 Purchased Power	4 Outside Services	5 Misc. Expense	6 Interest Sync.	Subtotal
1								
2								
3	Revenues							-
4								
5	Expenses	(164,551)	(13,785)	2,631	(5,799)	(31,192)		(212,696)
6								
7	Operating							
8	Income	164,551	13,785	(2,631)	5,799	31,192	-	212,696
9								
10	Interest							
11	Expense						6,843	6,843
12	Other							
13	Income /							-
14	Expense							
15								
16	Net Income	164,551	13,785	(2,631)	5,799	31,192	6,843	219,539
17								
18		Adjustments to Revenues and Expenses						
19		7 Income Tax	8 Intentionally Left Blank	9 Intentionally Left Blank	10 Intentionally Left Blank	11 Intentionally Left Blank	12 Intentionally Left Blank	Subtotal
20								
21								
22	Revenues							-
23								
24	Expenses	28,853						(183,843)
25								
26	Operating							
27	Income	(28,853)	-	-	-	-	-	183,843
28								
29	Interest							
30	Expense							6,843
31	Other							
32	Income /							-
33	Expense							
34								
35	Net Income	(28,853)	-	-	-	-	-	190,686
36								

Johnson Utilities - Water Division
Test Year Ended December 31, 2007
Adjustments to Revenues and Expenses
Adjustment Number 1

Exhibit
Rebuttal Schedule C-2
Page 2
Witness: Bourassa

Line No.					
1	Depreciation Expense				
2					
3	Account		Rebuttal Adjusted	Proposed	Rebuttal Depreciation
4	No.	Description	Original Cost	Rate	Expense
5	301	Organization Cost	$ -	0.00%	-
6	302	Franchise Cost	-	0.00%	-
7	303	Land and Land Rights	232,438	0.00%	-
8	304	Structures and Improvements	2,683,311	3.33%	89,354
9	305	Collecting and Impounding Res.	-	2.50%	-
10	306	Lake River and Other Intakes	-	2.50%	-
11	307	Wells and Springs	3,137,109	3.33%	104,466
12	308	Infiltration Galleries and Tunnels	-	6.67%	-
13	309	Supply Mains	-	2.00%	-
14	310	Power Generation Equipment	-	5.00%	-
15	311	Electric Pumping Equipment	763,339	12.50%	95,417
16	320	Water Treatment Equipment	21,856	3.33%	728
17	330	Dist. Reservoirs & Standpipe	7,776,111	2.22%	172,630
18	331	Trans. and Dist. Mains	50,721,220	2.00%	1,014,424
19	333	Services	527,473	3.33%	17,565
20	334	Meters	6,068,503	8.33%	505,506
21	335	Hydrants	2,909,002	2.00%	58,180
22	336	Backflow Prevention Devices	-	6.67%	-
23	339	Other Plant and Misc Equip.	-	6.67%	-
24	340	Office Furniture and Fixtures	-	6.67%	-
25	341	Transportation Equipment	-	20.00%	-
26	342	Stores Equipment	-	4.00%	-
27	343	Tools and Work Equipment	-	5.00%	-
28	344	Laboratory Equipment	-	10.00%	-
29	345	Power Operated Equipment	-	5.00%	-
30	346	Communications Equipment	-	10.00%	-
31	347	Miscellaneous Equipment	-	10.00%	-
32	348	Other Tangible Plant	-	10.00%	-
33		TOTALS	$ 74,840,362		$ 2,058,270
34					
35	Less: Amort. of CIAC		$ 24,518,308	2.7502%	$ (674,306)
36					
37	Total Depreciation Expense				$ 1,383,964
38					
39	Test Year Depreciation Expense				$ 1,548,515
40					
41	Increase (decrease) in Depreciation Expense				(164,551)
42					
43	Adjustment to Revenues and/or Expenses				$ (164,551)
44					
45	SUPPORTING SCHEDULE				
46	Rebuttal B-2, page 3				

Johnson Utilities - Water Division
Test Year Ended December 31, 2007
Adjustment to Revenues and Expenses
Adjustment Number 2

Exhibit
Rebuttal Schedule C-2
Page 3
Witness: Bourassa

Line No.			
1	Property Taxes:		
2			
3	Adjusted Revenues in year ended 12/31/07	$	13,172,899
4	Adjusted Revenues in year ended 12/31/07		13,172,899
5	Proposed Revenues		10,293,877
6	Average of three year's of revenue	$	12,213,225
7	Average of three year's of revenue, times 2	$	24,426,450
8	Add:		
9	Construction Work in Progess at 10%	$	-
10	Deduct:		
11	Book Value of Transportation Equipment		-
12			
13	Full Cash Value	$	24,426,450
14	Assessment Ratio		23.0%
15	Assessed Value		5,618,083
16	Property Tax Rate		13.9264%
17			
18	Property Tax		782,399
19	Tax on Parcels		1,184
20			
21	Total Property Tax at Proposed Rates	$	783,583
22	Property Taxes in the test year		797,368
23	Change in Property Taxes	$	(13,785)
24			
25			
26	Adjustment to Revenues and/or Expenses	$	(13,785)
27			
28			

Johnson Utilities - Water Division
Test Year Ended December 31, 2007
Adjustment to Revenues and Expenses
Adjustment Number 3

Exhibit
Rebuttal Schedule C-2
Page 4
Witness: Bourassa

Line No.			
1	Purchased Power		
2			
3			
4	Remove Purchased Power for Oasis Golf	$	(10,620)
5	Annualize Purchased Power		13,251
6			
7	Increase (decrease) in Purchased Power	$	2,631
8			
9			
10			
11			
12	Adjustment to Revenues and/or Expenses	$	2,631
13			
14			
15			
16	REFERENCES		
17	Staff Adj. #2 Schedule JMM W-19		
18	RUCO Adj. # 7		
19			
20			

Johnson Utilities - Water Division
Test Year Ended December 31, 2007
ADJUSTMENTS TO REVENUES AND/OR EXPENSES
Adjustment Number 4

Exhibit
Rebuttal Schedule C-2
Page 5
Witness: Bourassa

Line No.		
1	Outside Services	
2		
3		
4	Remove amortization of deferred expenses	$ (5,799)
5		
6		
7	Increase (decrease) in Purchased Power	$ (5,799)
8		
9		
10		
11		
12	Adjustment to Revenues and/or Expenses	$ (5,799)
13		
14		
15		
16	REFERENCES	
17	Staff Adj. #3 Schedule JMM W-20	
18		
19		
20		
21		
22		
23		
24		

Johnson Utilities - Water Division
Test Year Ended December 31, 2007
Adjustment to Revenues and Expenses
Adjustment Number 5

Exhibit
Rebuttal Schedule C-2
Page 6
Witness: Bourassa

Line No.		
1	Miscellaneous Expense	
2		
3		
4	Remove unnecessary expenses	$ (31,192)
5		
6		
7	Increase (decrease) in Miscellaneous Expense	$ (31,192)
8		
9		
10		
11		
12	Adjustment to Revenues and/or Expenses	$ (31,192)
13		
14		
15		
16	REFERENCES	
17	Staff Adj. #4 Schedule JMM W-21	
18		
19		
20		

Johnson Utilities - Water Division
Test Year Ended December 31, 2007
Adjustment to Revenues and Expenses
Adjustment Number 6

Exhibit
Schedule C-2
Page 7
Witness: Bourassa

Line No.				
1	Interest Synchronization			
2				
3				
4	Fair Value Rate Base	$ 3,539,562		
5	Weighted Cost of Debt (from D-1)	0.22%		
6	Interest Expense		$	7,895
7				
8	Interest Expense Per Direct Filing		$	14,738
9				
10	Increase (decrease) in Interest Expense			(6,843)
11				
12				
13				
14	Adjustment to Revenue and/or Expense		$	6,843
15				
16				
17				
18				
19				
20				
21				
22				
23				
24				

Johnson Utilities - Water Division
Test Year Ended December 31, 2007
Adjustment to Revenues and Expenses
Adjustment Number 6

Exhibit
Schedule C-2
Page 7
Witness: Bourassa

Line No.			Adjusted Test year		Adjusted With Rate Increase	
5	Taxable Income		$ 3,514,891		$ 635,869	
9	Income Before Taxes		$ 3,514,891		$ 635,869	
11	Arizona Income Before Taxes		$ 3,514,891		$ 635,869	
14	1	**Less Than 10,000**	-		-	
15	2	**Less Than 25,000**	-		-	
16	3	**Less Than $50,000**	-		-	
17	4	**Less Than $150,000**	-		-	
18	5	**Over $150,000**	158,537		28,868	
19	Less Arizona Income Tax		$ 158,537		$ 28,868	
20	Effective Arizona Tax Rate		4.5%		4.5%	
22	Arizona Taxable Income		3,356,354		607,001	
23	Arizona Income Taxes		158,537		28,868	
25	Federal Income Before Taxes		3,514,891		635,869	
27	Less Arizona Income Taxes		158,537		28,868	
29	Federal Taxable Income		3,356,354		607,001	
33	FEDERAL INCOME TAXES:					
34	10% BRACKET		783		783	
35	15% BRACKET		3,604		3,604	
36	25% BRACKET		11,313		11,313	
37	28% BRACKET		23,450	Federal	23,450	Federal
38	33% BRACKET		62,321	Effective	62,321	Effective
39	35% BRACKET		1,052,329	Tax	90,055	Tax
40				Rate		Rate
41	Federal Income Taxes		$ 1,153,798	32.83%	$ 191,525	30.12%
44	Total Income Tax		$ 1,312,335		$ 220,393	
46	Overall Tax Rate		37.34%		34.66%	
48	Income Tax at Proposed Rates Effective Rate		$ 1,218,265			

Johnson Utilities - Water Division
Test Year Ended December 31, 2007
Computation of Gross Revenue Conversion Factor

Exhibit
Rebuttal Schedule C-3
Page 1
Witness: Bourassa

Line No.	Description	Percentage of Incremental Gross Revenues
1	Federal Income Taxes	30.12%
2		
3	State Income Taxes	4.54%
4		
5	Other Taxes and Expenses	0.00%
6		
7		
8	Total Tax Percentage	34.66%
9		
10	Operating Income % = 100% - Tax Percentage	65.34%
11		
12		
13		
14		
15	1 = Gross Revenue Conversion Factor	
16	Operating Income %	1.5305
17		
18	SUPPORTING SCHEDULES:	RECAP SCHEDULES:
19		A-1
20		

Johnson Utilities - Water Division
Test Year Ended December 31, 2007
Revenue Summary
With Annualized Revenues to Year End Number of Customers

Exhibit
Rebuttal Schedule H-1
Page 1
Witness: Bourassa

Line No.	Meter Size	Class	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues
1	3/4 Inch	Residential	$ 8,722,597	$ 6,665,721	$ (2,056,876)	-23.58%	71.95%	70.78%
2	1 Inch	Residential	252,377	200,196	(52,180)	-20.68%	2.08%	2.13%
3	1.5 Inch	Residential	-	-	-	0.00%	0.00%	0.00%
4	2 Inch	Residential	11,454	9,977	(1,477)	-12.90%	0.09%	0.11%
5	3 Inch	Residential	270	226	(44)	-16.27%	0.00%	0.00%
6								
7		Subtotal	8,986,698	6,876,120	(2,110,578)	-23.49%	74.12%	73.01%
8								
9	3/4 Inch	Commercial	$ 3,246	$ 2,713	(533)	-16.43%	0.03%	0.03%
10	1 Inch	Commercial	10,295	8,402	(1,892)	-18.38%	0.08%	0.09%
11	1.5 Inch	Commercial	38,900	31,426	(7,474)	-19.21%	0.32%	0.33%
12	2 Inch	Commercial	171,561	145,482	(26,080)	-15.20%	1.42%	1.54%
13	3 Inch	Commercial	22,831	20,367	(2,464)	-10.79%	0.19%	0.22%
14	4 Inch	Commercial	18,291	14,806	(3,485)	-19.05%	0.15%	0.16%
15								
16		Subtotal	$ 265,124	$ 223,196	$ (41,928)	-15.81%	2.19%	2.37%
17								
18	3/4 Inch	Public Authority	$ -	$ -	$ -	0.00%	0.00%	0.00%
19	1 Inch	Public Authority	-	-	-	0.00%	0.00%	0.00%
20	1.5 Inch	Public Authority	-	-	-	0.00%	0.00%	0.00%
21	2 Inch	Public Authority	23,018	18,255	(4,763)	-20.69%	0.19%	0.19%
22	3 Inch	Public Authority	6,194	5,271	(922)	-14.89%	0.05%	0.06%
23	4 Inch	Public Authority	11,706	9,213	(2,492)	-21.29%	0.10%	0.10%
24								
25		Subtotal	$ 40,917	$ 32,740	(8,178)	-19.99%	0.34%	0.35%
26								
27	3/4 Inch	Irrigation	$ 40,856	$ 34,698	(6,158)	-15.07%	0.34%	0.37%
28	1 Inch	Irrigation	133,349	115,784	(17,565)	-13.17%	1.10%	1.23%
29	1.5 Inch	Irrigation	512,159	443,088	(69,071)	-13.49%	4.22%	4.70%
30	2 Inch	Irrigation	1,151,460	1,018,405	(133,055)	-11.56%	9.50%	10.81%
31	3 Inch	Irrigation	810	678	(132)	-16.27%	0.01%	0.01%
32	4 Inch	Irrigation	35,848	29,810	(6,037)	-16.84%	0.30%	0.32%
33	6 Inch	Irrigation	14,915	11,457	(3,458)	-23.19%	0.12%	0.12%
34								
35		Subtotal	1,889,397	1,653,920	(235,477)	-12.46%	15.58%	17.56%
36								
37	3/4 Inch	Construction	$ -	$ -	-	0.00%	0.00%	0.00%
38	1 Inch	Construction	-	-	-	0.00%	0.00%	0.00%
39	2 Inch	Construction	-	-	-	0.00%	0.00%	0.00%
40	3 Inch	Construction	192,936	130,087	(62,849)	-32.57%	1.59%	1.38%
41	4 Inch	Construction	-	-	-	0.00%	0.00%	0.00%
42	6 Inch	Construction	714,180	469,237	$ (244,943)	-34.30%	5.89%	4.98%
43								
44		Subtotal	$ 907,116	$ 599,324	$ (307,792)	-33.93%	7.48%	6.36%
45								
46	6 Inch	CAP	$ 34,603	$ 32,861	(1,742)	-5.03%	0.29%	0.35%
47								
48								
49		Subtotal	$ 34,603	$ 32,861	(1,742)	-5.03%	0.29%	0.35%
50								
51								
52								
53								
54								
55		Subtotal	$ -	$ -	-	0.00%	0.00%	0.00%
56								
56	Total Revenues Before Annualization		$ 12,123,854	$ 9,418,160	$ (2,705,694)	-22.32%	100.00%	100.00%
57								

Johnson Utilities - Water Division
Test Year Ended December 31, 2007
Revenue Summary
With Annualized Revenues to Year End Number of Customers

Exhibit
Rebuttal Schedule H-1
Page 2
Witness: Bourassa

Line No.	Meter Size	Class	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Additional Bills to be Issued	Additional Gallons to be Pumped (In 1,000's)	Schedule Number
			Revenue Annualization						
5	3/4 Inch	Residential	$ 570,220	$ 425,590	(144,630)	-25.36%	13,578	90,036	C-2, P7.1
6	1 Inch	Residential	4,478	3,498	(980)	-21.90%	65	667	C-2, P7.2
7	1.5 Inch	Residential	-	-	-	0.00%	-	-	
8	2 Inch	Residential	(1,158)	(1,024)	133	0.00%	(1)	(406)	C-2, P7.3
9	3 Inch	Residential	(270)	(226)	44	0.00%	(1)	-	C-2, P7.4
11		Subtotal	$ 573,270	$ 427,837	(145,433)	-25.37%	13,641	90,296	
13	3/4 Inch	Commercial	$ (94)	$ (80)	13	0.00%	2	(74)	C-2, P7.5
14	1 Inch	Commercial	1,080	849	(231)	-21.38%	9	276	C-2, P7.6
15	1.5 Inch	Commercial	(3,179)	(2,725)	453	0.00%	(9)	(492)	C-2, P7.7
16	2 Inch	Commercial	26,267	20,827	(5,440)	-20.71%	60	7,093	C-2, P7.8
17	3 Inch	Commercial	-	-	-	0.00%	-	-	
18	4 Inch	Commercial	-	-	-	0.00%	-	-	
20		Subtotal	$ 24,075	$ 18,871	$ (5,205)	-21.62%	62	6,804	
22	3/4 Inch	Public Authority	$ -	$ -	-	0.00%	-	-	
23	1 Inch	Public Authority	-	-	-	0.00%	-	-	
24	1.5 Inch	Public Authority	-	-	-	0.00%	-	-	
25	2 Inch	Public Authority	1,640	1,266	(374)	-22.79%	8	201	C-2, P7.9
26	3 Inch	Public Authority	-	-	-	0.00%	-	-	
27	4 Inch	Public Authority	-	-	-	0.00%	-	-	
29		Subtotal	$ 1,640	$ 1,266	(374)	-22.79%	8	201	
31	3/4 Inch	Irrigation	$ (12)	$ (85)	(73)	0.00%	9	(96)	C-2, P7.10
32	1 Inch	Irrigation	4,048	3,166	(882)	-21.78%	38	962	C-2, P7.11
33	1.5 Inch	Irrigation	34,021	27,741	(6,280)	-18.46%	112	9,655	C-2, P7.12
34	2 Inch	Irrigation	76,947	66,301	(10,645)	-13.83%	94	25,430	C-2, P7.13
35	3 Inch	Irrigation	2,430	2,035	(395)	-16.27%	9	-	C-2, P7.14
36	4 Inch	Irrigation	-	-	-	0.00%	-	-	C-2, P7.15
37	6 Inch	Irrigation	-	-	-	0.00%	-	-	
39		Subtotal	$ 117,434	$ 99,158	$ (18,275)	-15.56%	262	35,951	
41	3/4 Inch	Construction	$ -	$ -	$ -	0.00%	-	-	
42	1 Inch	Construction	-	-	-	0.00%	-	-	
43	2 Inch	Construction	-	-	-	0.00%	-	-	
44	3 Inch	Construction	-	-	-	0.00%	-	-	
45	6 Inch	Construction	-	-	-	0.00%	-	-	
47		Subtotal	$ -	$ -	$ -	0.00%	-	-	
49	6 Inch	CAP	$ -	$ -	$ -	0.00%	-	-	
50			-	-	-	0.00%	-	-	
52		Subtotal	$ -	$ -	$ -	0.00%	-	-	
58		Subtotal	$ -	$ -		0.00%	-	-	
60	Total Revenue Annualization		$ 716,418	$ 547,131	$ (169,287)	-23.63%	13,973	133,251	

Johnson Utilities - Water Division
Test Year Ended December 31, 2007
Revenue Summary
With Annualized Revenues to Year End Number of Customers

Exhibit
Rebuttal Schedule H-1
Page 3
Witness: Bourassa

Line No.		Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues
1							
2							
3	Subtotal Metered Revenues	$ 12,123,854	$ 9,418,160	$ (2,705,694)	-22.32%	100.00%	100.00%
4	Subtotal Revenue Annualization	716,418	547,131	(169,286.77)	-23.63%	5.91%	5.81%
5	Total Metered Revenues	$ 12,840,273	$ 9,965,292	$ (2,874,981)	-22.39%		
6							
7	Misc. Revenues	$ 329,295	$ 329,295	-	0.00%	2.72%	3.50%
8	Reconciliation of Revenues (Tolerance)	3,331	(709)	(4,040)	-121.28%	0.03%	-0.01%
9	Total Water Revenues	$ 13,172,899	$ 10,293,877	$ (2,879,022)	-21.86%	0.00%	0.00%
10							
11							
12	Revenue Reconciliation						
13							
14	Revenue per bill count before revenue annualization		$ 12,123,854				
15	Revenue per GL (metered water revenues)		12,127,186				
16	Difference		$ (3,331)				
17	Difference %		-0.03%				
18	Tolerance %		0.50%				
19	Tolerance Amount + or -		$ 60,636				
20							
21	Acceptable?		YES				
22							
23							
24							
25							
26							
27							
28							
29							
30							
31							
32							
33							
34							
35							
36							
37							
38							
39							
40							
41							
42							
43							
44							
45							
46							
47							
48							
49							
50							

Johnson Utilities - Water Division
Test Year Ended December 31, 2007
Customer Summary

Exhibit
Rebuttal Schedule H-2
Page 1
Witness: Bourassa

Line No.		Meter Size, Class	(a) Average Number of Customers at 12/31/2007	Average Consumption	Average Bill Present Rates	Average Bill Proposed Rates	Proposed Increase Dollar Amount	Proposed Increase Percent Amount
1	3/4 Inch	Residential	16,848	6,931	42.60	31.89	(10.71)	-25.14%
2	1 Inch	Residential	275	13,130	76.08	58.99	(17.09)	-22.46%
3	1.5 Inch	Residential	-	-	-	-	-	0.00%
4	2 Inch	Residential	1	295,489	880.97	764.03	(116.94)	-13.27%
5	3 Inch	Residential	0	-	270.00	226.08	(43.92)	-16.27%
6		Subtotal	17,123					
7								
8	3/4 Inch	Commercial	5	11,948	$ 55.12	$ 43.80	(11.32)	-20.54%
9	1 Inch	Commercial	7	29,897	117.99	91.89	(26.10)	-22.12%
10	1.5 Inch	Commercial	20	30,044	163.36	124.79	(38.57)	-23.61%
11	2 Inch	Commercial	32	121,628	446.32	355.11	(91.21)	-20.44%
12	3 Inch	Commercial	1	653,550	1,902.13	1,675.23	(226.90)	-11.93%
13	4 Inch	Commercial	2	125,354	761.64	579.14	(182.50)	-23.96%
14		Subtotal	67					
15								
16	3/4 Inch	Public Authority	-	-	$ -	$ -	-	0.00%
17	1 Inch	Public Authority	-	-	$ -	$ -	-	0.00%
18	1.5 Inch	Public Authority	-	-	$ -	$ -	-	0.00%
19	2 Inch	Public Authority	-	35,048	$ 229.87	$ 176.20	(53.67)	-23.35%
20	3 Inch	Public Authority	1	98,917	$ 515.54	$ 404.33	(111.21)	-21.57%
21	4 Inch	Public Authority	1	210,833	$ 975.33	$ 733.17	(242.16)	-24.83%
22		Subtotal	2					
23								
24	3/4 Inch	Irrigation	46	18,981	$ 72.70	$ 58.54	(14.16)	-19.48%
25	1 Inch	Irrigation	64	52,090	$ 173.47	$ 144.09	(29.38)	-16.94%
26	1.5 Inch	Irrigation	106	126,125	$ 403.56	$ 339.80	(63.77)	-15.80%
27	2 Inch	Irrigation	103	315,028	$ 929.82	$ 809.99	(119.83)	-12.89%
28	3 Inch	Irrigation	0	-	$ 270.00	$ 226.08	(43.92)	-16.27%
29	4 Inch	Irrigation	2	417,983	$ 1,493.21	$ 1,198.85	(294.36)	-19.71%
30	6 Inch	Irrigation	1	137,750	$ 1,242.63	$ 954.73	(287.90)	-23.17%
31		Subtotal	322					
32								
33	3/4 Inch	Construction	-	-	$ 27.00	$ 21.20	(5.81)	-21.50%
34	1 Inch	Construction	-	-	$ -	$ -	-	0.00%
35	2 Inch	Construction	-	-	$ -	$ -	-	0.00%
36	3 Inch	Construction	13	249,559	$ 1,205.85	$ 813.04	(392.80)	-32.57%
37	4 Inch	Construction	-	-	$ 450.00	$ 353.25	(96.75)	-21.50%
38	6 Inch	Construction	13	1,029,653	$ 4,761.20	$ 3,128.24	(1,632.96)	-34.30%
39		Subtotal	26					
40								
41	6 Inch	CAP	1	3,557,346	$ 3,844.77	$ 3,651.27	(193.50)	-5.03%
42								
43		Subtotal	1					
44								
45								
46								
47								
48								
49								
50								
51		Total	17,541					

52 **(a)** Average number of customers of less than one (1), indicates that less than 12 bills were issued during the year.

Johnson Utilities - Water Division
Test Year Ended December 31, 2007
Present and Proposed Rates

Exhibit
Rebuttal Schedule H-3
Page 1
Witness: Bourassa

Line No.	Monthly Usage Charge for:	Present Rates	Proposed Rates	Change	Percent Change
1	Meter Size (All Classes):				
2	5/8 Inch	$ 18.00	$ 14.13	$ (3.87)	-21.50%
3	3/4 Inch	$ 27.00	$ 21.20	$ (5.81)	-21.50%
4	1 Inch	45.00	35.33	(9.68)	-21.50%
5	1 1/2 Inch	90.00	70.65	(19.35)	-21.50%
6	2 Inch	144.00	113.04	(30.96)	-21.50%
7	3 Inch	270.00	226.08	(43.92)	-16.27%
8	4 Inch	450.00	353.25	(96.75)	-21.50%
9	6 Inch	900.00	706.50	(193.50)	-21.50%
10	8 Inch	NA	1,130.40		
11	10 Inch	NA	1,624.95		
12					
13		Present Rates	Proposed Rates		
14					
15	Gallons In Minimum (All Zones and Classes)	-	-		
16					
17			(Per 1,000 gallons)		
18	**Commodity Rates**		Present	Proposed	
19	**(Residential, Commercial, Industrial)**	**Block**	**Rate**	**Rate**	
20					
21	All Meter Sizes	0 gallons to 7,000 gallons	$ 2.25	See Page 2	
22		over 7,000 gallons	$ 2.50	See Page 2	
23					
24					
25					
26					
27					
28					
29					
30					
31					
32					

Johnson Utilities - Water Division
Test Year Ended December 31, 2007
Present and Proposed Rates

Exhibit
Rebuttal Schedule H-3
Page 2
Witness: Bourassa

Line No.				(Per 1,000 gallons) Present Rate	Proposed Rate
1					
2	**Commodity Rates**				
3	**(Residential, Commercial, Industrial)**	**Block**			
4	5/8 Inch and 3/4 Inch Meter Residential	0 gallons to 4,000 gallons		See Page1	$ 1.35
5		4,001 gallons to 10,000 gallons		See Page1	$ 1.80
6		over 10,000 gallons		See Page1	$ 2.35
7					
8	5/8 inch 3/4 Inch Meter Commercial, Industrial,	0 gallons to 10,000 gallons		See Page1	$ 1.80
9	Irrigation, and Public Authority	over 10,000 gallons		See Page1	$ 2.35
10					
11	1 Inch Meter	0 gallons to 25,000 gallons		See Page1	$ 1.80
12		over 25,000 gallons		See Page1	$ 2.35
13					
14	1.5 Inch Meter	0 gallons to 50,000 gallons		See Page1	$ 1.80
15		over 50,000 gallons		See Page1	$ 2.35
16					
17	2 Inch Meter	0 gallons to 80,000 gallons		See Page1	$ 1.80
18		over 80,000 gallons		See Page1	$ 2.35
19					
20	3 Inch Meter	0 gallons to 160,000 gallons		See Page1	$ 1.80
21		over 160,000 gallons		See Page1	$ 2.35
22					
23	4 Inch Meter	0 gallons to 250,000 gallons		See Page1	$ 1.80
24		over 250,000 gallons		See Page1	$ 2.35
25					
26	6 Inch Meter	0 gallons to 500,000 gallons		See Page1	$ 1.80
27		over 500,000 gallons		See Page1	$ 2.35
28					
29	8 Inch Meter	0 gallons to 800,000 gallons		See Page1	$ 1.80
30		over 800,000 gallons		See Page1	$ 2.35
31					
32	10 Inch Meter	0 gallons to 1,125,000 gallons		See Page1	$ 1.80
33		over 1,125,000 gallons		See Page1	$ 2.35
34					
35	**Construction/Standpipe**	All gallons		$ 3.75	$ 2.35
36					
37					
38	**Central Arizona Project Water**	All gallons		See Current Tarrif on Computation	
39		See Tariff	Currently	$ 0.8278	$ 0.8278
40					

Johnson Utilities - Water Division
Changes in Representative Rate Schedules
Test Year Ended December 31, 2007

Exhibit
Rebuttal Schedule H-3
Page 3
Witness: Bourassa

Line No.	Other Service Charges	Present Rates	Proposed Rates
1	Establishment	$ 25.00	$ 25.00
2	Establishment (After Hours)	$ 40.00	$ 40.00
3	Reconnection (Deliquent)	$ 50.00	$ 50.00
4	Reconnection (Deliquent and After Hours)	N/T	$ 75.00
5	Meter Test	$ 25.00	$ 25.00
6	Deposit Requirement (Residential)	(a)	(a)
7	Deposit Requirement (None Residential Meter)	(a)	(a)
8	Deposit Interest (b)	6%	6%
9	Re-Establishment (With-in 12 Months)	(c)	(c)
10	Re-Establishment (After Hours)	(c)	(c)
11	NSF Check	$ 15.00	$ 15.00
12	Deferred Payment, Per Month	1.5%	1.5%
13	Meter Re-Read	$ 5.00	$ 5.00
14	Charge of Moving Customer Meter -		
15	Customer Requested per Rule R14-2-405B	Cost	Cost
16	After hours service charge, per Rule R14-2-403D	Refer to	Refer to
17		Above	Above
18		Charges	Charges
19	Late Charge per month	1.5%	1.5%
20	Off-site Facilities Hook-up Fee (See H-3, page 5)	(d)	(d)
21	CAP Hook-up Fee (See H-3, page 5)	(e)	(e)
22			
23	(a) Residential - two times the average bill. Non-residential - two and one-half times the maximum monthly bill.		
24	(b) Interest per Rule R14-2-403(B).		
25	(c) Minimum charge times number months off the system. per Rule R14-2-403(D).		
26	(d) New water installations. May be assessed only once per parcel, service connection, or lot within a sub-		
27	division. Purpose is to equitably apportion the costs of constructing additional off-site facilities to provide		
28	water production, delivery, storage, and presssure among all new service connections.		
29	(e) New water installations. May be assessed only once per parcel, service connection, or lot within a sub-		
30	division.		
31			
32			
33	IN ADDITION TO THE COLLECTION OF REGULAR RATES, THE UTILITY WILL COLLECT FROM		
34	ITS CUSTOMERS A PROPORTIONATE SHARE OF ANY PRIVILEGE, SALES, USE, AND FRANCHISE		
35	TAX. PER COMMISSION RULE 14-2-409D(5).		
36	ALL ADVANCES AND/OR CONTRIBUTIONS ARE TO INCLUDE LABOR, MATERIALS, OVERHEADS,		
37	AND ALL APPLICABLE TAXES, INCLUDING ALL GROSS-UP TAXES FOR INCOME TAXES, IF APPLICABLE.		
38			
39	All advances and/or contributions are to include labor, materials and parts, overheads and all applicable taxes.		
40	including all gross-up taxes, if applicable.		

Johnson Utilities - Water Division
Test Year Ended December 31, 2007
Meter and Service Line Charges

Exhibit
Rebuttal Schedule H-3
Page 4
Witness: Bourassa

Meter and Service Line Charges

	Total Present Charge	Proposed Service Line Charge	Proposed Meter Install-ation Charge	(a) Total Proposed Charge
5/8 x 3/4 Inch	$ 365.00	$ 385.00	$ 135.00	$ 520.00
3/4 Inch	405.00	385.00	215.00	600.00
1 Inch	455.00	435.00	255.00	690.00
1 1/2 Inch	665.00	470.00	465.00	935.00
2 Inch	1,080.00	N/A	N/A	N/A
2 Inch / Turbine	N/T	630.00	965.00	1,595.00
2 Inch / Compound	N/T	630.00	1,690.00	2,320.00
3 Inch	2,190.00	N/A	N/A	N/A
3 Inch / Turbine	N/T	805.00	1,470.00	2,275.00
3 Inch / Compound	N/T	845.00	2,265.00	3,110.00
4 Inch / Turbine	N/T	1,170.00	2,350.00	3,520.00
4 Inch / Compound	2,985.00	1,230.00	3,245.00	4,475.00
6 Inch / Turbine	N/T	1,730.00	4,545.00	6,275.00
6 Inch / Compound	5,780.00	1,770.00	6,280.00	8,050.00
8 Inch & Larger	At Cost	At Cost	At Cost	At Cost

N/T = No Tariff

(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.

Johnson Utilities - Water Division
Test Year Ended December 31, 2007
Hook-Up Fees

Exhibit
Rebuttal Schedule H-3
Page 5
Witness: Bourassa

Line No.			Present Charge		Proposed Charge
1					
2	**Off-site Facilities Hook-up Fee**				
3					
4					
5					
6	5/8 x 3/4 Inch	$	750	$	750
7	3/4 Inch		900		900
8	1 Inch		1,500		1,500
9	1 1/2 Inch		3,000		3,000
10	2 Inch		4,800		4,800
11	3 Inch		9,000		9,000
12	4 Inch		15,000		15,000
13	6 Inch or larger		30,000		30,000
14					
15					
16					
17					
18					
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34					
35					
36					

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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

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

PRE-FILED REBUTTAL TESTIMONY OF THOMAS J. BOURASSA ON BEHALF OF JOHNSON UTILITIES L.L.C., DBA JOHNSON UTILITIES COMPANY

VOLUME III – WASTEWATER DIVISION RATE BASE, INCOME STATEMENT, REVENUE REQUIREMENT, RATE DESIGN

March 9, 2009

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I. INTRODUCTION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME AND ADDRESS.

A. My name is Thomas J. Bourassa. My business address is 139 W. Wood Drive, Phoenix, Arizona 85029.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS CASE?

A. On behalf of the applicant, Johnson Utilities L.L.C., dba Jonson Utilities Company ("Johnson Utilities" or the "Company").

Q. HAVE YOU PREVIOUSLY SUBMITTED DIRECT TESTIMONY IN THE INSTANT CASE?

A. Yes, my direct testimony was submitted in support of the initial application filed in this matter. There were three volumes, one addressing the wastewater rate base, income statement and rate design, one addressing the water rate base, income statement and rate design addressing, and the third addressing cost of capital.

Q. WHAT IS THE PURPOSE OF THIS REBUTTAL TESTIMONY?

A. I will provide rebuttal testimony in response to the direct filings by Arizona Corporation Commission Utilities Division Staff ("Staff") and by the Residential Utilities Consumer Office ("RUCO") for the Wastewater Division. More specifically, this Volume III of my rebuttal testimony relates to rate base, income statement, revenue requirement and rate design for Johnson Utilities. In Volume I of my rebuttal testimony, I also present an update to the Company's requested cost

of capital as well as provide responses on Staff and RUCO's testimonies related to cost of capital and rate of return as applied to the fair value rate base, and the determination of operating income.

Q. WHAT IS THE REVENUE REQUIREMENT ADJUSTMENT THAT THE COMPANY IS PROPOSING IN THIS REBUTTAL TESTIMONY?

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

Q. HOW DOES THIS COMPARE WITH THE REVENUE REQUIREMENT IN THE COMPANY'S DIRECT FILING?

A. In the direct filing, the Company requested an increase in revenues of $2,035,039, an increase of 19.84% for a total revenue requirement of $13,528,467.

Q. WHY IS THE REVENUE REQUIREMENT IN THIS REBUTTAL FILING HIGHER THAN IN THE DIRECT FILING?

A. While the Company has adopted a number of adjustments recommended by Staff and RUCO, as well as proposed a number of adjustments of its own, the Company's proposed rebuttal rate of return is higher primarily due to my updated cost of capital analysis. Specifically, the Company's rebuttal filing reflects an increase in proposed operating expenses of $38,010 to a total of $10,734,183. Similarly, due to various adjustments, Johnson's rebuttal Original Cost Rate Base ("OCRB") and Fair Value Rate Base ("FVRB") have decreased. The OCRB decreased by $1,669,438 from the direct filing of $19,149,173 to $17,479,735.

The Company continues to request that its OCRB be treated as its FVRB. So, the FVRB decreased by $1,669,438 to $17,479,735.

II. REVENUE REQUIREMENT

Q. WHAT ARE THE REVENUE REQUIREMENTS AND RATE INCREASES FOR THE COMPANY, STAFF, AND RUCO?

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

	Revenue Requirement	Revenue Incr.	% Increase
Company-Direct	$13,528,467	$ 2,239,804	19.84%
Staff	$ 9,886,014	$(1,468,000)	-12.93%
RUCO	$ 11,962,300	$ 608,286	5.36%
Company Rebuttal	$13,680,546	$ 2,326,532	20.49%

Q. WHAT IS THE COMPANY'S PROPOSED RATE OF RETURN?

A. The Company is proposing a rate of return on equity of 11.89%. This is based on the weighted average cost of capital. I discuss the Company's proposed rate of return and my cost of capital analysis in Volume I of my rebuttal testimony.

III. RATE BASE

Q. WOULD YOU PLEASE IDENTIFY THE PARTIES' RESPECTIVE RATE BASE RECOMMENDATIONS AT THIS STAGE OF THE PROCEEDING?

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

	OCRB	FVRB
Company-Direct	$19,149,173	$19,149,406
Staff	$(12,663,489)	$(12,663,489)
RUCO	$19,457,670	$19,457,670
Company Rebuttal	$17,479,735	$17,479,735

A. Plant-in-Service.

Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED OCRB, AND IDENTIFY ANY ADJUSTMENTS YOU HAVE ACCEPTED FROM STAFF AND RUCO?

A. The Company's rebuttal rate base adjustments to OCRB are shown on rebuttal schedules B-2, pages 2 through 6. Rebuttal schedule B-2, page 1, shows the rebuttal OCRB. Schedule B-2, page 2, summarizes the adjustments made to the OCRB.

Rebuttal B-2 adjustment number 1, as shown on B-2, page 3, adjusts plant-in-service and reflects adoption of several recommendations by both Staff and RUCO. There are 5 proposed adjustments to plant-in-service that are reflected in columns labeled as "A", "B", "C", and "D". The first adjustment (column A) on B-2, page 3, removes affiliate profit from plant-in-service.

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1. **Affiliate Profit.**

Q. WHAT WAS THE TOTAL AMOUNT OF AFFILIATE PROFIT INCLUDED IN TEST YEAR PLANT COSTS?

A. The Company recorded $800,179 of affiliate profit on affiliate constructed plant totaling $45,724,508. The profit percentage is 1.75 percent of the actual affiliate constructed plant. Staff proposes a similar adjustment. However, the Company and Staff disagree on the amount of affiliate profit included in plant-in-service.

Q. PLEASE COMMENT ON STAFF'S ADJUSTMENT FOR AFFILIATE PROFIT.

A. Staff removes $8,922,170 of affiliate profit based on affiliate constructed wastewater plant of $118,962,268 – nearly the entire cost of the Wastewater Division's plant-in-service cost of $123,849,703. Staff's profit percentage is 7.50 percent of Staff's affiliate constructed wastewater plant cost.

Staff's proposed adjustment is over stated for two reasons. First, Staff assumed that all plant recorded on the Company's books was in fact constructed by affiliates.[1] This is simply not true. Affiliate constructed wastewater plant costs totaled $45,724,508, not $118,962,268. The Company provided to Staff in response to Staff data request JMM 9.2 a complete listing of all the plant that was constructed by affiliates. This is information is consistent with the plant information (contracts, invoices, cancelled checks, line extension agreements, etc) provided in response to Staff data request JMM 1.44. Surprisingly, Staff ignored

[1] Direct Testimony of Jeffrey Michlik-Wastewater Division ("Michlik Direct") at 13.

this response and made the incorrect conclusion that all plant was constructed by affiliates.

Second, the profit percentage of 7.5 percent is grossly overstated. Staff asserts that it found that the affiliate profit included in the affiliate contracts ranged from 5 to 10 percent.[2] Presumably this is why Staff used 7.5 percent (average of 5 percent and 10 percent) in its analysis. However, the affiliate contracts and the responses provided to Staff by the Company in its data responses (Staff data requests JMM 1-44 and JMM 4-2) reveal that the affiliate contracts provided to Staff included a mark-up of 5 to 10 percent which included both profit and overhead, not just profit. Further, as explained by the Company in response to Staff data request JMM 9-2, the Company's affiliate added 10 percent to the base contract cost to cover overhead and profit. Profit was only estimated to be 2 percent of the base contract cost. Moreover, the Company pointed out that the total contract costs that Staff received (and ultimately used in its analysis) included not only the base contract costs, but taxes, overhead, and profit. As the Company explained, in order to calculate a 2 percent profit on the base contract, the total contract price should be multiplied by 1.75 percent.

The 1.75 percent makes sense. This is the percentage required when trying to back into the 2 percent profit amount on the base contract cost when starting from a total contract cost. Take for example, a base contract price of $100. Profit and overhead on the $100 base contract would be $10 (10 percent times $100) -profit of $2 and overhead of $8. Taxes on the base contract would be $4 (4 percent[3]

[2] *Id.* at 16.
[3] Taxes on construction contracts as shown in response to JMM-44 were 4.29 percent.

times $100). The total contract cost would be $114 ($100 base contract cost plus $2 of profit plus $8 of overhead plus $4 of taxes). The profit percentage on the total contract cost is 1.75 percent ($2 divided by $114). Turning this around, if a total contract cost is $114, to calculate a profit of $2, you would have to multiply the total contract cost ($114) by 1.75 percent.

Even if the Commission ruled that a profit of 7.5% is to be used, it would only apply to the base contract costs. Following a similar analysis as above, the correct percentage to apply to the total contract cost would be only 6.7%.

2. **Unsupported Plant.**

Q. PLEASE CONTINUE WITH YOUR DISCUSSION OF THE COMPANY'S REBUTTAL B-2 ADJUSTMENTS.

A. The second adjustment (column B) on B-2, page 3, removes plant costs from plant-in-service for which the Company was unable to provide supporting documentation. Staff proposes a similar adjustment, however, as I will discuss below, Staff's proposed adjustment is unjustifiably higher and is significantly overstated.

Q. HOW MUCH PLANT COST DID THE COMPANY REMOVE FROM PLANT IS SERVICE BECAUSE IT WAS UNABLE TO PROVIDE ADEQUATE DOCUMENTATION OR BACK-UP?

A. The Company removed $1,047,941. This amount represents the plant costs for which in Staff's opinion the Company was unable to provide adequate information or back-up.

Q. FOR THE PLANT COSTS THAT JOHNSON UTILITIES BELIEVES IT DID PROVIDE SUFFICIENT DOCUMENTATION, WHAT TYPES OF DOCUMENTS WERE PROVIDED?

A. The Company provided contracts, invoices, cancelled checks, and/or line extension agreements (JMM 1-44 and JMM 9-1). In addition, the Company provided its accounting records, bank statements, plant schedules, reconciliations, and other information surrounding plant (JMM 1-43, JMM 1-44, JMM 4-1, JMM 4-2, JMM 4-3, JMM 7-1, JMM 7-2, JMM 9-1, JMM 9-2, JMM 12-1) Despite Staff's position, the use of invoices alone to determine plant-in-service costs should not be the exclusive form of verification for plant costs. Other records, such as ledgers, reports, correspondence, memoranda, contracts and agreements, bank statements, cancelled checks, etc. are all legitimate indicators of plant costs and should be considered when analyzing the facts regarding a transaction and determination of cost. In my opinion, the Company has met its burden in this case and has provided sufficient documentation to support its plant in service costs.

Q. DID STAFF REQUEST UNDERLYING PLANT DOCUMENTATION FOR ADVANCES-IN-AID OF CONSTRUCTION ("AIAC") AGREEMENTS WITH AFFILIATED PARTIES PURSUANT TO THE AFFILIATE RULES UNDER A.A.C. R14-2-804.A?

A. Yes. However, Johnson Utilities did not become a Class A utility until 2005. In addition, Johnson Utilities did not enter into any AIAC agreements with an affiliated party from 2005 forward.

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Q. HOW DID STAFF DETERMINE THE AMOUNT OF PLANT COSTS IT REMOVED FROM PLANT-IN-SERVICE AS BEING UNSUPPORTED BY SUFFICIENT DOCUMENTATION?

A. I'm not sure. Rather than identifying specific plant costs which Staff considered unsupported, Staff determined that "only a minimal 10 percent disallowance is warranted" for all plant-in-service.[4]

Q. DO YOU AGREE WITH THIS APPROACH?

A. No. First, it is entirely subjective and unsupported by the facts. Staff has given no supportable basis for its percentage other than Staff's assertion that it typically recommends disallowance in the range of 10 to 100 percent.[5] Second, because the disallowance is non-specific in nature, the Company does not have sufficient information in order to challenge the disallowance or raise a reasonable defense for the costs being disallowed. And, even though there may be some plant which Staff may have determined was fully supported, 10 percent of those costs would also be disallowed by Staff based upon this one-size fits all approach.

Q. ARE THERE ANY OTHER ISSUES YOU HAVE WITH STAFF'S PLANT ADJUSTMENT FOR UNSUPPORTED COSTS?

A. Yes. Staff's unsupported plant adjustments are one sided and fail to consider corresponding adjustments associated with AIAC and contributions-in-aid of construction ("CIAC") related to this plant. To ignore these corresponding adjustments creates a mismatch and results in an understatement of rate base.

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[4] Michlik Direct at 15.
[5] *Id.* at 15.

Q. PLEASE EXPLAIN.

A. According to the Company's initial filing, AIAC funded approximately 46 percent of the net plant-in-service and CIAC funded approximately 39 percent of net plant-in-service. Yet, although Staff reduced plant, Staff did not propose an adjustment to either AIAC or CIAC associated with that plant. To properly match Staff's plant in service adjustment for unsupported plant costs totaling $11,896,227 based on its one-size fits all approach. Accordingly, Staff should have reduced AIAC by $5,472,264 ($11,896,227 times 46 percent) and reduced CIAC by $4,674,628 ($11,896,227 times 39 percent). Staff's reduction to rate base for unsupported plant costs is $11,896,889 before considering the related accumulated depreciation impact. However, the reduction to rate base should be no more than $1,749,335[6] ($11,896,227 minus $5,472,264 minus $4,674,628). Similar problems exist for Staff's adjustment associated with plant determined not to be "used and useful" as well as with Staff's excess capacity adjustment. I will discuss each later in my testimony.

Q. IS THE COMPANY PROPOSING AN AIAC OR CIAC ADJUSTMENT FOR THE $1,047,941 OF UNSUPPORTED PLANT IT PROPOSES TO REMOVE FROM PLANT-IN-SERVICE?

A. No. The Company cannot find evidence that this unsupported plant cost was funded with either AIAC or CIAC and, consequently, is not proposing an adjustment to either AIAC or CIAC. The Company's proposal results in a net

[6] Reduction to rate base is far less when accumulated depreciation impact is considered.

reduction to rate base of $869,791 ($1,047,941 less the depreciation impact of $178,150).

3. Plant Not Used and Useful.

Q. PLEASE CONTINUE WITH YOUR DISCUSSION OF THE COMPANY'S REBUTTAL B-2 ADJUSTMENTS.

A. The third adjustment (column C) on B-2, page 3, removes plant from plant-in-service determined not to be "used and useful". Staff proposes a similar adjustment. However, the Company disagrees with the amount of Staff's proposed disallowance.

Q. PLEASE EXPLAIN.

A. The Company proposes to remove $2,209,026 of plant not used and useful from plant-in-service. The detail of the Company adjustment is shown on Schedule b-2, page 3.3. Staff proposes to remove $4,595,298 of plant not used and useful from plant-in-service.[7]

The Company agrees with Staff on the removal of $473,527 for 381- Plant Sewers (Magma 2 Subdivision), $846,092 for 381 – Plant Sewers (Quail Run Estates), and $889,407 for 360 – Collection Sewers (Ironwood Crossing #2).

The Company disagrees with the removal of $690,186 for 360 - Collections Sewer Force (Magma approx. 4 miles of 8 inch). The Company believes that while this plant is not serving customers it was required to build this plant in order to serve a

[7] *See* Table G-1 of Exhibit MSJ of Direct Testimony of Marlin Scott ("Scott Direct") at 35.

development. The developer has since had financial trouble and the development was placed on hold. But the Company was obligated to construct this plant and acted prudently in order to provide service. Mr. Tompsett explains the Company's position further in his testimony.

The Company disagrees with the removal of $1,695,816 for the cost of the Precision WRP – Marwood plant consisting of 354 – Structures and Improvements for $14,491,381 – Plant Sewers for $5,749, and 381 – Plant Sewers for $1,675,846. The Company believes that since construction of this plant was required by ADEQ it should be considered used and useful. Mr. Tompsett explains the Company's position further in his testimony.

Q. BESIDES A DISAGREEMENT AS TO THE TOTAL COSTS TO BE REMOVED FROM PLANT-IN-SERVICE, DO YOU HAVE ANY ADDITIONAL COMMENTS REGARDING STAFF'S ADJUSTMENT?

A. Yes. All of the plant costs for which the Company and Staff are in agreement were funded with either CIAC or AIAC. I will discuss the detail of the Company's proposed adjustments to AIAC and CIAC later in my testimony. For now, I wish to comment that Staff did not make any corresponding adjustments to either CIAC or AIAC for the plant disallowances as not being "used and useful" and therefore Staff's plant adjustments are one-sided and results in a rate base mismatch.

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Q. PLEASE EXPLAIN.

A. First, let me address the cost reduction of the plant determined not to be "used and useful" plant for which Staff and the Company agree. Out of the $2,026,026 that the Company has agreed to remove from plant-in-service, $2,209,026 was funded with AIAC. As a result, a corresponding reduction to the AIAC account must be made in order to properly match the adjustment to plant-in-service.

Secondly, let me address the cost reduction of the plant determined not to be "used and useful" plant for which Staff and the Company disagree. Of the $690,186 of additional cost Staff proposes to remove from plant-in-service, all of this plant was funded with equity and therefore requires no corresponding adjustment to either AIAC or CIAC. However, of the $1,695,816 of additional cost Staff's proposes to remove from plant-in-service, $1,433,032 was funded with CIAC. As a result, a corresponding reduction to CIAC of $1,433,032 must be made in order to properly match the adjustment to plant-in-service.

Q. WHAT WOULD BE THE NET RATE BASE IMPACT IF STAFF'S ADJUSTMENT WERE PROPERLY ACCOUNTED FOR?

A. Excluding the impact of depreciation, if the corresponding adjustments for AIAC and CIAC were made, the net rate base adjustment would be no more than $952,772 ($690,186 plus $1,695,618 less $1,433,032) – far less than the $4,595,298 (less the depreciation impact) proposed by Staff.

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4. **Post test Year Plant.**

Q. PLEASE CONTINUE WITH YOUR DISCUSSION OF THE COMPANY'S REBUTTAL B-2 ADJUSTMENTS.

A. The fourth adjustment (column D) on B-2, page 3, corrects the Company's plant-in-service balances for plant which was proposed as post-test year plant in its direct filing but was plant that was placed into service in 2007. This plant was recorded in construction work-in-progress at the end of the test year and had not been transferred to plant-in-service. The adjustment also adjusts the final post test year plant costs to their actual costs. Thus, plant-in-service balance for the end of the test year increases by $2,201,386, and the proposed post test year plant amount is now $1,021,108. In other words, the Company's original proposed post test year plant has decreased by $1,663,780 from $2,684,888 to $1,021,108, but plant-in-service at the end of the test year has increased by $2,201,386. As proposed, the Company's rebuttal plant balance included in rate base has increased by $537,607.

Q. DID THE COMPANY PROVIDE STAFF WITH THE INVOICES AND OTHER DOCUMENTATION ON THE PLANT COSTS OF $2,201,386 AND $1,021,108?

A. Yes. The Company provided this information in response to Staff data request JMM 12.1.

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Q. WHAT DOES THE $1,021,108 OF POST TEST YEAR PLANT CONSIST OF?

A. Two projects: 1) Parks Lift Station project at a cost of $486,714, and; 2) Queen Creek Leach Field project at a cost of $534,394. The Company believes that these two projects are revenue neutral and are necessary for reliability purposes, to serve the test year-end level of customers.[8] Just as important is that these two projects have been funded with CIAC. If the Commission were to decide to exclude these two projects, a corresponding amount of CIAC should also be removed. Ultimately, there will be a net zero impact on rate base.

Q. WHAT IS STAFF'S POSITION REGARDING POST TEST YEAR PLANT?

A. Staff states that "post test year plant in rate base should be granted in special and unusual circumstances where failure to do so would create an inequity."[9]

Q. HAS THE COMMISSION ADOPTED A POLICY THAT POST TEST YEAR PLANT SHOULD ONLY BE GRANTED IN SPECIAL AND UNUSUAL CIRCUMSTANCES?

A. No, in fact Staff has advanced this position on prior occasions and the Commission has failed to adopt it.[10] Although we can agree that the Commission utilizes the historic test year as a starting point, the rules expressly permit, and the Commission has repeatedly allowed, pro forma adjustments, including post test year plant, in order ensure a proper matching of plant to test year customers and to more accurately reflect reality during the period the rates will be in effect.

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[8] *See* Rebuttal Testimony of Brian Tompsett.

[9] *See* Michlik at 8.

[10] *See, e.g., Rio Rico Utilities, Inc.*, Commission Decision No. 67279 (October 5, 2004); *Bella Vista Water Company*, Commission Decision No. 65350 (Nov. 1, 2002); *Chaparral City Water Company*, Commission Decision No. 68176 (September 30, 2005).

Q. PLEASE CONTINUE.

A. Staff attempts to further justify its position by stating that it recognizes post test year plant in two cases. The first situation is where the magnitude of the investment relative to the utility's total investment is such that not including the post test year plant in the cost of service would jeopardize the utility's financial health.[11]

Q. DO YOU AGREE WITH THIS CRITERION?

A. No, there are definite problems in the application of such a requirement. Investment of the magnitude of the two projects totaling over $1 million is never undertaken lightly and such investment will always have an impact on the utility's financial health. When recovery through rates on and of investments in plant is denied or delayed, regardless of size, it affects the utility's ability to attract capital. To what degree should we affect a company's financial health and its ability to attract capital before we can say we are jeopardizing its financial health? This is far too subjective a standard and will have the effect of chilling timely investment.

Q. DID STAFF PROVIDE ANY AUTHORITATIVE REFERENCE TO PRIOR COMMISSION DECISIONS SUPPORTING ITS POSITION?

A. No.

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[11] Michlik Direct at 9.

Q. IF POST TEST YEAR PLANT IS DISALLOWED IN THIS CASE, COULDN'T THE COMPANY PROPOSE RATE BASE TREATMENT IN ITS NEXT RATE CASE?

A. Sure, and it will have to. But even if the Company began preparing a case today, it would take at least 13-18 months or more to get a new decision. So, by my estimation, the plant in the instant case would have been in service for two to three years without any return on or of the Company's investment. In addition, preparing and litigating a rate case is very costly. Application of this policy is hardly equitable and would surely discourage other utilities from proactively addressing system reliability needs for fear that they will not be able to timely recover investment on plant that is necessary to serve its customers, based upon the timing that the asset goes into service.

Q. WHAT IS THE OTHER SITUATION IN WHICH STAFF BELIEVES POST TEST YEAR PLANT CAN BE INCLUDED IN RATE BASE?

A. Staff also claims that post test year plant can be included in rate base under the following conditions:

a. The cost of the post test year pant is significant and substantial;

b. The net impact on revenues and expenses for the post test year plant is known and insignificant, or is revenue neutral;

c. The post test year plant is prudent and necessary for the provision of services and reflects efficient, effective, and timely decision-making.[12]

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[12] *Id.*

Q. DO YOU AGREE WITH THESE CRITERIA?

A. To some extent. As discussed above, I do not agree that the size of the investment has any bearing on whether post test year plant is included in rate base, and if it did, it is certainly significant in this case. I do agree that the impact on revenues and expenses should be nominal, *i.e.,* revenue neutral. As supported herein, both of the post test year projects that the Company is seeking recovery for in this case meet these criteria.

I agree that the plant investment should also be prudent and necessary. As Mr. Tompsett explains in detail in his rebuttal, the Parks Lift Station provides Staff engineering witness, Marlin Scott even includes the Parks Lift Station in his used and useful determination in analyzing the Pecan system.[13]

Q. WHAT CRITERIA CAN BE FOUND, IF ANY, IN RECENT COMMISSION DECISIONS?

A. There have been several recent decisions in which post test year plant was allowed. In each of these decisions, the Commission approved the inclusion of post test year plant in rate base because the plant was revenue neutral (*i.e.,* necessary for the provision of service to customers at end of test year) and completed and placed in service a reasonable time before the hearing so that it can be inspected and audited.[14]

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[13] *See* Scott Direct Exhibit MSJ at 26.

[14] *See, e.g., Rio Rico Utilities, Inc.*, Commission Decision No. 67279 (October 5, 2004); *Arizona Water Company—Eastern Group*, Commission decision No. 66489 March 19, 2004); *Bella Vista Water Company*, Commission Decision No. 65350 (Nov. 1, 2002); *Arizona Water Company—Northern Group*, Commission Decision No. 64282 December 28, 2001); *Paradise Valley Water Company*, Commission Decision No. 61831 (July 20, 1999); *Far West Water Company*, Commission Decision No. 60437 (September 29, 1997); *Chaparral City Water Company*, Commission Decision No. 68176 (September 30, 2005).

Q. IS THE COMPANY'S POSITION ON POST TEST YEAR PLANT CONSISTENT WITH THESE RECENT DECISIONS?

A. Yes. Both the Parks Lift Station and the Queen Creek Leach Field are revenue neutral (providing service to test year customers) and were completed and placed in service a reasonable time before the hearing, allowing for audit and inspection.[15]

Q. WHAT IS RUCO'S POSITION REGARDING POST TEST YEAR PLANT?

A. RUCO has accepted the Company's post test year plant. In fact, RUCO recommended an increase to post test year plant of $689,382.[16] Thus, RUCO recommends post test year plant of $3,374,270, consisting of $2,684,888 from the Company's direct filing and an additional $689,382 based on the Company's response to Staff data request JMM 4-6.

Q. HOW DOES THE $3,374,270 RUCO RECOMMENDS COMPARE TO THE COMPANY'S REBUTTAL RECOMMENDATION?

A. As I explained earlier the $2,201,386 of plant costs recommended by the Company in its direct filing as post test year plant should have been classified as plant-in-service within the test year and not classified as post test year plant. RUCO's figure includes this amount. The difference of $1,172,884 ($3,374,270 minus $2,201,386) consists of the two post test year projects (Parks Lift Station and the Queen Creek Leach Field) totaling $1,021,108 and $151,776, which represents other plant costs that were included in the Company's response to Staff JMM 4-6

[15] *See* Tompsett Rebuttal.
[16] See Direct Testimony of Rodney L. Moore ("Moore Direct") at 9.

which the Company has subsequently determined were not revenue neutral plant costs.

B. <u>Excess Capacity</u>

Q. HAS THE COMPANY ADOPTED STAFF'S EXCESS CAPACITY ADJUSTMENTS?

A. No. Staff proposes an excess capacity adjustment for the San Tan plant totaling $5,443,062. The Company disagrees with Staff's adjustment. Mr. Tompsett addresses the reasons why the Company disagrees in his testimony.[17]

Putting aside the disagreement on whether there is excess capacity or not, Staff's adjustment is once again one-sided. If it is adopted without a corresponding adjustment to AIAC or CIAC, the adjustment will result in a mismatch and understatement of rate base.

Q. PLEASE EXPLAIN.

A. The San Tan plant was funded partially with CIAC. The total of CIAC funds used to construct this plant was $3,697,251. A corresponding reduction of $3,697,251 must be made to CIAC in order to properly match Staff's plant-in-service adjustment. The net decrease in rate base, excluding any depreciation impact, is $1,745,811 (5,443,062 minus $3,697,251), not $5,443,062 as set forth in Staff's schedules.

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[17] *See* Tompsett Rebuttal.

C. **Accumulated Depreciation**

Q. HAS THE COMPANY PROPOSED AN ADJUSTMENT TO ACCUMULATED DEPRECIATION?

A. Yes. Rebuttal OCRB adjustment number 2, as shown on B-2, page 4, reflects changes to accumulated depreciation from the plant-in-service adjustments adopted in rebuttal OCRB adjustment number 1. There is only one proposed adjustment to accumulated depreciation that is reflected in the columns labeled as "A".

The first adjustment (column A), adjusts accumulated depreciation to the recomputed amounts based on the adjustments adopted in OCRB adjustment number 1. The detail of the re-computation of accumulated depreciation is shown on Rebuttal schedule B-2, pages 4.1 to 4.12.

D. **Unexpended Hook-up Fees (CIAC)**

Q. DOES THE COMPANY AGREE WITH STAFF AND RUCO TO INCLUDE $16,505 OF UNEXPENDED HOOK-UP FEES (CIAC) IN RATE BASE?

A. No. The Company does not agree. Simply put, the Company collects hook-up fees ('HUF") well in advance of providing service to the customer(s) for whom the HUF is credited. The period of time between collecting the HUF, making the necessary capital improvements to have capacity to serve, and the customer connecting to the system can be a year or more. Consequently, not only is the customer who is credited with the HUF not present on the system, but the plant required to serve the future customer is also not constructed and recorded in plant. By including the unexpended HUFs in rate base not only creates a mismatch in

rate base, but existing ratepayers receive a windfall. This occurs because existing rate payers get credit for HUF's paid for by or on behalf of future customers who have not yet connected to the system. The capacity to serve those future customers has not been constructed, nor has cost of the capacity been reflected in rate base. This is why the Company believes that the unexpended CIAC should not be included in rate base for purposes of setting the revenue requirement.

Q. WHY DOES THE COMPANY COLLECT HUF IN ADVANCE OF THE DEVELOPER'S PROJECT COMING ON LINE?

A. To provide funds as needed to help it pay for new capacity – just as the HUF is intended. Growth pays for growth. The alternative is to build the capacity first and then collect the HUF's as new customers connect. However, the Company approach provides the funds when it obligates itself to build new capacity thereby providing funds sufficiently in advance of the need for new capacity so that the funds are available to pay for new capacity when construction begins, not after-the-fact.

Q. SO THIS ISSUE ARISES BECAUSE OF THE TIMING BETWEEN WHEN THE COLLECTION OF HUFS OCCURS AND WHEN THE ACTUAL CONSTRUCTION OF NEW CAPACITY IS MADE IN ORDER TO SERVE FUTURE GROWTH (CUSTOMERS)?

A. Yes.

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Q. DO YOU AGREE WITH STAFF THAT THE COMPANY IS ALLOWED TO EARN TWICE ON CIAC FUNDS IF UNEXPECTED CIAC IS EXCLUDED FROM RATE BASE?

A. No. The Company does not benefit from, nor are existing rate payer harmed by, excluding unexpended CIAC from rate base. To the contrary, existing ratepayers receive an unjustified windfall when the unexpended HUF's are included in rate base. This is because the Company's rate base is understated resulting in lower rates that are not justified.

Remember, the Company has entered into agreements with developers and is committed to constructing the backbone facilities necessary to serve the future customers in those developments. These funds are restricted and can only be spent on new capacity for those developments. The HUFs should be credited to those future customers and their respective future capacity rather than providing existing ratepayers with the above-mentioned windfall.

Q. WHEN A NEW CUSTOMER CONNECTS TO THE COMPANY'S SYSTEM WITHIN A DEVELOPMENT THAT THE DEVELOPER HAS PAID THE HUF FOR THE CONNECTION, IS THE NEW CUSTOMER ALSO RESPONSIBLE FOR THE HUF?

A. No. That customer lot is covered regardless when the customer connects. That could be one to two year out into the future depending on the collection schedule of HUFs made by agreement between the Company and the developer(s).

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The Company's procedure for collecting HUF's is not typical. Under a typical approach, a utility builds capacity in advance and then collects HUF's individually upon each new connection. Under the typical approach, I would agree that if the customer pays for capacity through a HUF and connects to the system, that customer should get credit for his/her payment by recognition in rate base and rates regardless of whether the HUF has been expended for new plant. However, again this is not the case here. Mr. Tompsett more thoroughly explains the Company's policy on collecting HUFs in his testimony.[18]

E. <u>Amortization of CIAC</u>

Q. HAS THE COMPANY PROPOSED AN ADJUSTMENT TO ACCUMULATED AMORTIZATION OF CIAC?

A. Yes. Rebuttal B-2 adjustment number 3 increases accumulated amortization of CIAC based on a composite rate of 2.5 percent. The Company is in agreement with Staff on the use of a 2.5 percent composite rate for computing past amortization of CIAC.[19]

F. <u>Advances-in-aid of Construction ("AIAC")</u>

Q. PLEASE EXPLAIN THE COMPANY'S REBUTTAL PROPOSED ADJUSTMENTS TO AIAC.

A. As explained earlier in my testimony, the Company has accepted plant certain adjustments from Staff for plant considered not used and useful. Some of this plant was funded with AIAC. Accordingly, the Company is proposing to adjust AIAC in order to avoid a mismatch in rate base.

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[18] *See* Tompsett Rebuttal.
[19] Michlik Direct at 20.

G. **Deferred Assets**

Q. PLEASE EXPLAIN THE COMPANY'S REBUTTAL PROPOSED ADJUSTMENT TO DEFERRED ASSETS?

A. In order to help minimize disputes between the parties, the Company has accepted Staff's proposed adjustment to remove deferred assets from rate base.[20] Rebuttal B-2 adjustment number 5, as shown on Rebuttal Schedule B-2, page 2, reduces the deferred regulatory assets to zero.

IV. INCOME STATEMENT.

Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED ADJUSTMENTS TO REVENUES AND EXPENSES AND IDENTIFY ANY ADJUSTMENTS YOU HAVE ACCEPTED FROM STAFF AND/OR RUCO?

A. The Company rebuttal adjustments are detailed on rebuttal schedule C-2, pages 1-13. The rebuttal income statement with adjustments is shown on rebuttal schedule C-1.

In rebuttal C-2 adjustment number one, the depreciation expense is annualized, reflecting the plant-in-service adjustments discussed above. Depreciation expense has decreased from the Company's direct filing due to the plant-in-service adjustments I discussed above.

Q. DO ALL PARTIES RECOMMEND THE SAME DEPRECIATION RATES?

A. Yes.

[20] Michlik Direct at 21.

Q. PLEASE CONTINUE.

A. Rebuttal C-2 adjustment number 2 reflects the adjustment using the Company's rebuttal proposed revenues. The Company, Staff, and RUCO are all in agreement on the method of computing property taxes.[21] This is the same method that the Commission has consistently used in past cases.[22] This method includes two years of adjusted revenues plus one year of proposed revenues. Using this methodology, I computed the property taxes based on the Company's proposed revenues, and then used the property tax rate that was used in the direct filing.

Rebuttal adjustment number 3 increases revenues for unrecorded revenues during the test year. All of the parties are in agreement on an adjustment for unrecorded revenues.[23]

Rebuttal adjustment number 4 increases sludge removal expenses to reflect the Company' adoption of Staff proposal to remove of $7,688 of costs pertaining to 2008,[24] as well as the Company's rebuttal increase in sludge removal costs of $31,488 for December 2007 sludge removal invoices erroneously posted in January 2008.

Rebuttal C-2 adjustment number 5 increases purchased power to reflect the Company's adoption of Staff's proposed adjustment to increase purchased power expense by $26,003.[25]

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[21] Moore Direct at 13; Staff Schedule JMM-WW at 21.
[22] Bourassa Direct at 8-9.
[23] Michlik Direct at 22; Moore Direct at 15.
[24] Id. at 23.
[25] Id. at 24.

Rebuttal C-2 adjustment number 6 reduces contractual services expense by $9,022 to reflect the Company's adoption of Staff's proposed adjustment.[26]

Rebuttal C-2 adjustment number 7 reduces miscellaneous expense by $993 to reflect the adoption of Staff's proposed adjustment.[27] RUCO proposes a similar adjustment except it is a reduction of $924.[28]

Rebuttal C-2 adjustment 8 reflects the Company interest synchronization based upon the Company's rebuttal proposed rate base.

Rebuttal C-2 adjustment number 9 reflects income taxes calculated at the Company's proposed revenue and expense levels.

A. <u>Rate Case Expense</u>

Q. PLEASE COMMENT ON STAFF AND RUCO'S PROPOSED RATE CASE EXPENSE.

A. All the parties agree on the amount of the rate case expense requested by the Company at this stage of the proceeding for the Wastewater Division totaling $100,000. Both Staff and the Company agree on the amortization period. However, RUCO proposes an amortization period of 5 years. The Company disagrees with RUCO. While it took the Company several years to file its first rate case, it intends to file more often.

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[26] *Id.* at 25.
[27] *Id.*
[28] Moore Direct at 17.

B. **Income Taxes**

Q. **PLEASE COMMENT ON THE PROPOSAL OF STAFF AND RUCO TO EXCLUDE INCOME TAXES IN THE DETERMINATION OF THE REVENUE REQUIREMENT.**

A. Both Staff and RUCO propose to exclude income taxes from the determination of the revenue requirement because Johnson is a limited liability company and is a pass-though entity for income tax purposes.[29] Both Staff's and RUCO's argument rests on the fact that Johnson itself does not pay income taxes at the company level, rather the taxable income and tax liability passes through to its member owners who must pay the tax. While it may be true that the Company itself does not pay taxes, Staff and RUCO's argument is without merit.

Let me explain. First, the income tax liability arises from the taxable income of Johnson and it is directly attributable to Johnson. And while the tax liability flows through to the member owners, the Company still pays the tax by reimbursing the members for the tax that must be paid. In fact, there exists an agreement between Johnson and its member owners that all tax liabilities attributed and arising from Johnson must be paid by Johnson. Third, the required operating income for a tax pass-through entity such as an S-Corp or an LLC is not the same as that for a C-Corp under the Staff and RUCO approach resulting in LLC's or S-Corp's being treated differently when there is no sound justification to do so. An S-Corp or LLC receives a lower revenue requirement and operating income than a C-Corp resulting in inequities because payment for the tax must come from somewhere. Ultimately the tax payment comes from the LLC or S-Corp itself because

[29] Michlik Direct at 31; Moore Direct at 18-19.

members insure their taxes are paid by the entities that generate them. In fact, the situation is analogous to a subsidiary C-Corp utility of a parent holding company whose tax return is consolidated with the parent. The individual C-Corp utility does not file a separate tax return, yet this Commission has traditionally allowed income taxes of the utility to be computed on a stand-alone basis and included in the revenue requirement. Fourth, rate payers receive an unjustified windfall from the lower revenue requirement and operating income when income taxes are excluded.

Q. ARE INCOME TAXES YOU PROPOSE HIGHER THAN IF THE COMPANY WERE NOT A PASS-THROUGH ENTITY?

A. No in the instant case the computed income taxes are lower.

Q. WHAT THEN IS THE ADVANTAGE OF A TAX PASS-THROUGH ENTITY VERSUS A NON-TAX PASS THROUGH ENTITY?

A. Members of an LLC or shareholders in an S-Corp. avoid double taxation. A C-Corp is taxed on income and its shareholders must pay tax on the dividends received. However, the distinction does not disadvantage rate payers. To the extent member owners of LLC's or shareholders of S-Corp's avoid taxation on dividends, rate payers are not harmed. After all, it's the shareholders who pay the tax on dividends, not the ratepayers. Taxes on dividends are no considered as part of the revenue requirements.

A second advantage of a tax pass-though entity is that losses, as well as income, pass-through to the owners. A tax pass though entity is a particularly attractive

form for start-up companies (*e.g.* utilities with new CC&N's) because the tax losses can be taken advantage of immediately by the owners who typically have to subsidize the company is the early years with income from other sources. This can improve the ability to raise capital from the owners for start-ups as they can then take advantage of the tax losses immediately. But, regardless, the rate payer is not disadvantaged in anyway. Rather there is a more likely chance of a healthier "start-up" utility as a result.

V. RATE DESIGN (H SCHEDULES)

Q. WHAT ARE THE COMPANY'S REBUTTAL PROPOSED RATES?

A. The monthly charges at proposed rates are listed below:

All Classes Meter Size	Monthly Minimum
5/8	$ 42.57
3/4	$ 46.83
1	$ 59.60
1 1 /2	$ 76.63
2	$ 123.46
3	$ 468.31
4	$ 894.05
6	$1,234.65
8	$1,561.00
10	$2,497.60

The proposed effluent rate is $0.62 per 1,000 gallons or $200 per acre foot.

Q. DOES THE COMPANY AGREE WITH STAFF'S PROPOSAL TO ELIMINATE THE HUF TARIFF?

A. No. For the reasons discussed in the rebuttal testimony of Mr. Tompsett, the Company disagrees with Staff's proposal to eliminate the HUF.

Q. DO YOU AGREE WITH STAFF'S STATEMENT THAT NO MORE THAN 30 PERCENT OF EQUITY COME FROM AIAC OR CIAC?

A. Frankly, I am a bit perplexed by this statement.[30] The capitalization of a utility consists of debt, equity, CIAC and AIAC. Debt and equity are typically represented in the capital structure and used in determining the cost of capital. AIAC and CIAC are not equity as implied by Mr. Michlik. AIAC and CIAC are a form of zero cost capital and are called "deferred credits." They are components of total capitalization, just as are debt and equity. While I will leave it to Mr. Michlik to clarify his testimony, I believe Mr. Michlik mean that no more that 30 percent of total capitalization should come from AIAC or CIAC.

Q. DO YOU AGREE THE NO MORE THAN 30 PERCENT OF CAPITALIZATION SHOULD COM FROM AIAC OR CIAC?

A. No. Typically half or more of the plant costs for a utility are attributed to on-site infrastructure or developer subdivision plant. This is plant within the developer's development such as collection mains, services, manholes, lift stations, etc. By setting a limit of 30 percent of AIAC or CIAC in the mix of total capitalization,

[30] Michlik Direct at 33.

the utility is forced to fund a significant portion what is traditionally developer funded plant. Consequently, the utility is forced to accept the risk of the development which has traditionally been placed on the developer – where it should be. The utility is already taking risk by funding (debt and/or equity) the construction backbone facilities (at least in part) to serve development. HUF's help fund backbone infrastructure and accomplishes two goals. First, it helps keep rates in check by having growth pay for growth. Second, it helps provide the utility with no-cost capital to build capacity to serve growth.

Q. IF JOHNSON HAD NO MORE THAN 30 PERCENT AIAC AND CIAC IN ITS TOTAL CAPITALIZATION IN THE INSTANT CASE, WOULD THE RATE INCREASE REQUEST BE MUCH HIGHER?

A. Yes. Perhaps as high as 80-100 percent or more depending on the cost of capital. I suspect this Commission would then have an issue of the rate increase being too high and blaming the Company for not having enough zero cost capital in its rate base.

Q. DOES MR. MICHLIK SUPPORT THE 30 PERCENT WITH ANY AUTHORITATIVE REFERENCE OR ANALYSIS?

A. No.

Q. IS THE COMPANY'S PROPORTION OF ZERO COST CAPITAL TOO HIGH?

A. Not necessarily. I believe that the high capitalization from zero cost capital in the instant case is more due to timing than anything else. I do not believe the level of

AIAC is too high. It is in the range of 40-50 percent of the net plant in service which is in the range I would expect. As I testified earlier, on-site infrastructure can be 50 percent or more of the plant costs. As far as the level of CIAC, first, I believe it is higher than it should be as this is the result of the Company collecting a good portion of the HUF's for future customers up-front. Secondly, Johnson Utilities has incurred lower costs of backbone facilities by having affiliates construct plant for far less cost than could have otherwise been. The HUF was originally designed to cover no more than about 50 percent of the projected backbone facility costs. The cost savings pushed the proportion of plant costs to a higher level than was originally anticipated.

Q. WILL THIS PROBLEM OF TOO MUCH CIAC FROM TOO HIGH A HUF OCCUR IN THE FUTURE?

A. Mr. Tompsett addresses this issue in his testimony. I would only add that the Company no longer has an affiliate to construct plant so the savings it achieved by having affiliates construct plant (despite any affiliate profits) will not materialize in the future. Secondly, the Company is obligated to serve developments that it has yet to construct backbone facilities for but has already used up the HUFs to construct existing plant. So, in the future the Company will have to construct those facilities with either debt or equity.

Q. DOES THAT CONCLUDE YOUR TESTIMONY?

A. Yes.

REBUTTAL SCHEDULES

(WASTEWATER)

Johnson Utilities - Wastewater Division
Test Year Ended December 31, 2007
Computation of Increase in Gross Revenue
Requirements As Adjusted

Exhibit
Rebuttal Schedule A-1
Page 1
Witness: Bourassa

Line No.		
1	Fair Value Rate Base	$ 17,479,735
2		
3	Adjusted Operating Income	619,831
4		
5	Current Rate of Return	3.55%
6		
7	Required Operating Income	$ 2,078,341
8		
9	Required Rate of Return on Fair Value Rate Base	11.89%
10		
11	Operating Income Deficiency	$ 1,458,510
12		
13	Gross Revenue Conversion Factor	1.5951
14		
15	Increase in Gross Revenue	
16	Requirement	$ 2,326,532
17		
18	Test Year Adjusted Revenues	$ 11,354,014
19	Increase in Revenue Requirement	$ 2,326,532
20	Prposed Revenue Requirement	$ 13,680,546
21	% Increase	20.49%
22		
23		
24		

25	Customer	Present	Proposed	Dollar	Percent
26	**Classification**	**Rates**	**Rates**	**Increase**	**Increase**
27	**Residential, Commerical, Industrial, Public Authority**				
28	3/4 Inch	$ 9,911,440	$ 12,055,915	$ 2,144,475	21.64%
29	1 Inch	48,461	58,944	10,483	21.63%
30	1.5 Inch	22,428	27,280	4,852	21.63%
31	2 Inch	39,788	48,396	8,608	21.64%
32	3 Inch	10,780	13,113	2,333	21.64%
33	4 Inch	26,460	32,186	5,726	21.64%
34					
35	Effluent	33,163	33,163	-	0.00%
36					
37					
38	**Reconciliation Amount (Tolerance)**	1,854	1,991	137	7.40%
39	**Subtotal**	$ 10,094,374	$ 12,270,989	$ 2,176,615	21.56%
40	**Revenue Annualization**	758,246	908,163	149,917	19.77%
41	Miscellaneous Revenues	502,206	502,206	-	0.00%
42	**Total of Water Revenues (a)**	$ 11,354,826	$ 13,681,358	$ 2,326,532	20.49%
43					
44	SUPPORTING SCHEDULES:				
45	Rebuttal B-1				
46	Rebuttal C-1				
47	Rebuttal C-3				
48	Rebuttal H-1				
49					
50					

Johnson Utilities - Wastewater Division
Test Year Ended December 31, 2007
Summary of Rate Base

Exhibit
Rebuttal Schedule B-1
Page 1
Witness: Bourassa

Line No.		Original Cost Rate base	Fair Value Rate Base
1			
2	Gross Utility Plant in Service	$ 123,015,052	$ 123,015,052
3	Less: Accumulated Depreciation	7,560,886	7,560,886
4			
5	Net Utility Plant in Service	$ 115,454,166	$ 115,454,166
6			
7	Less:		
8	Advances in Aid of		
9	Construction	52,231,631	52,231,631
10	Contributions in Aid of		
11	Construction - Net of amortization	45,742,800	45,742,800
12			
13	Deferred Income Taxes & Credits	-	-
14			
15			
16			
17	Plus:		
18	Prepayments	-	-
19	Materials and Supplies	-	-
20	Deferred Assets	0	0
21	Allowance for Working Capital	-	-
22			
23			
24	Total Rate Base	$ 17,479,735	$ 17,479,735
25			
26			
27			
28	SUPPORTING SCHEDULES:		
29	Rebuttal B-2		
30	Rebuttal B-3		
31	Rebuttal B-5		
32			
33			

Johnson Utilities - Wastewater Division
Test Year Ended December 31, 2007
Original Cost Rate Base Proforma Adjustments

Exhibit
Rebuttal Schedule B-2
Page 1
Witness: Bourassa

Line No.		Direct Adjusted End of Test Year	Proforma Adjustments	Rebuttal Adjusted of Test Year
1	Gross Utility			
2	Plant in Service	$ 126,534,592	(3,519,539)	$ 123,015,052
3				
4	**Less:**			
5	Accumulated			
6	Depreciation	7,923,684	(362,797)	7,560,886
7				
8				
9	Net Utility Plant			
10	in Service	$ 118,610,908	$ (3,156,742)	$ 115,454,166
11				
12	**Less:**			
13	Advances in Aid of			
14	Construction	54,440,657	(2,209,026)	52,231,631
15				
16	Contributions in Aid of			
17	Construction - Net	48,915,085	(0)	48,915,085
18				
19	Accumulated Amort. of CIAC	(2,907,181)	(265,104)	(3,172,285)
20				
21				
22	Deferred Income Taxes	-	-	-
23				
24				
25				
26	**Plus:**			
27	Prepayments	-	-	-
28	Materials and Supplies	-	-	-
29	Deferred Assets	986,826	(986,826)	0
30	Working capital	-	-	-
31				
32				
33	Total	$ 19,149,173	$ (1,669,438)	$ 17,479,735
34				
35				
36				
37	SUPPORTING SCHEDULES:			RECAP SCHEDULES:
38	Rebuttal B-2, pages 2			Rebuttal B-1
39				
40				
41				
42				
43				
44				
45				
46				

Johnson Utilities - Wastewater Division
Test Year Ended December 31, 2007
Original Cost Rate Base Proforma Adjustments

Exhibit
Rebuttal Schedule B-2
Page 2
Witness: Bourassa

Line No.		Direct Adjusted End of Test Year	1 Plant-in-Service	2 Accumulated Depreciation	3 CIAC	4 AIAC	5 Deferred Reg. Assets	6 Intentionally Left Blank	Rebuttal Adjusted of Test Year
1	Gross Utility								
2	Plant in Service	$ 126,534,592	$ (3,519,539)						$ 123,015,052
3									
4	**Less:**								
5	Accumulated								
6	Depreciation	7,923,684		(362,797)					7,560,886
7									
8									
9	Net Utility Plant								
10	in Service	$ 118,610,908	$ (3,519,539)	$ 362,797	$ -	$ -	$ -	$ -	$ 115,454,166
11									
12	**Less:**								
13	Advances in Aid of								
14	Construction	54,440,657				(2,209,026)			52,231,631
15									
16	Contributions in Aid of								
17	Construction - Net	48,915,085			(0)				48,915,085
18									
19	Accumulated Amort. of CIAC	(2,907,181)			(265,104)				(3,172,285)
20									
21									
22	Customer Meter Deposits	-							-
23	Deferred Income Taxes	-							-
24									
25									
26									
27	**Plus:**								
28	Prepayments	-							-
29	Materials and Supplies	-							-
30	Deferred Assets	986,826					(986,826)		0
31	Working capital	-							-
32									
33									
34	Total	$ 19,149,173	$ (3,519,539)	$ 362,797	$ 265,104	$ 2,209,026	$ (986,826)	$ -	$ 17,479,735
35									
36									
37									
38	SUPPORTING SCHEDULES:								RECAP SCHEDULES:
39	Rebuttal B-2, pages 2-6								
40	Adjustment 1 - Rebuttal B-2, page 3			Adjustment 4 - Rebuttal B-2, page 6					
41	Adjustment 2 - Rebuttal B-2, page 4			Adjustment 5 - Testimony					
42	Adjustment 3 - Rebuttal B-2, page 5			Adjustment 6 - Testimony					

Johnson Utilities - Wastewater Division
Test Year Ended December 31, 2007
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1

Exhibit
Rebuttal Schedule B-2
Page 3
Witness: Bourassa

Line No.	Depreciation Expense			A	B	C	D	E	
1									
2			Direct	Remove	Unsupported	Not	Post	Intentionally	Rebuttal
3	Account		Adjusted	Affiliate	Plant	Used and	Test Year	Left	Adjusted
4	No.	Description	Original Cost	Profit	Costs	Useful	Plant	Blank	Original Cost
5	351	Organization	-	-	-	-			-
6	352	Franchises	-	-	-	-			-
7	353	Land and Land Rights	4,122,800	-	-	-			4,122,800
8	354	Structures and Improvements	453,663	-	-	-			453,663
9	355	Power Generation Equipment	-	-	-	-			-
10	360	Collection Sewers - Force	20,136,241	(21,780)	-	(889,407)	1,171,939		20,396,993
11	361	Collection Sewers - Gravity	24,287,592	(22,163)	(1,047,941)	-			23,217,488
12	362	Special Collecting Structures	-	-	-	-			-
13	363	Services to Customers	-	-	-	-			-
14	364	Flow Measuring Devices	-	-	-	-			-
15	365	Flow Measuring Installations	-	-	-	-			-
16	370	Receiving Wells	-	-	-	-			-
17	371	Pumping Equipment	7,613,723	(123,822)	-	-			7,489,901
18	375	Reuse T&D	958,646	-	-	-			958,646
19	380	Treatment and Disposal Equip.	-	-	-	-	871,194		871,194
20	381	Plant Sewers	66,277,038	(632,414)	-	(1,319,619)	158,254		64,483,259
21	382	Outfall Sewer Lines	-	-	-	-			-
22	389	Other Plant and Misc. Equipment	-	-	-	-			-
23	390	Office Furniture and Equipment	-	-	-	-			-
24	391	Transportation Equipment	-	-	-	-			-
25	393	Tools, Shop and Garage Equip.	-	-	-	-			-
26	394	Laboratory Equipment	-	-	-	-			-
27	395	Power Operated Equipment	-	-	-	-			-
28	398	Other TangiblePlant	-	-	-	-			-
29		Subtotal	$ 123,849,703	$ (800,179)	$ (1,047,941)	$ (2,209,026)	$ 2,201,386	$ -	$ 121,993,943
30									
31		Post Test Year Plant	2,684,888				(2,684,888)		0
32	360	Collection Sewers - Force					-		-
33	380	Treatment and Disposal Equip.					-		-
34	381	Plant Sewers					1,021,108		1,021,108
35		TOTALS	$ 126,534,592	$ (800,179)	$ (1,047,941)	$ (2,209,026)	$ 537,607	$ -	$ 123,015,052
36									
37									
38	Plant-in-Service per Direct Filing								$ 126,534,592
39									
40	Increase (decrease) in Plant-in-Service								$ (3,519,539)
41									
42	Adjustment to Plant-in-Service								$ (3,519,539)
43									
44	SUPPORTING SCHEDULES								
45	Adjustment A - See Rebuttal B-2, page 3.1				Adjustment D - See Rebuttal B-2, page 3.4				
46	Adjustment B - See Rebuttal B-2, page 3.2				Adjustment E - Blank				
47	Adjustment C - See Rebuttal B-2, page 3.3								
48									

Johnson Utilities - Wastewater Division
Test Year Ended December 31, 2007
Original Cost Rate Base Proforma Adjustments
Adjustment A

Exhibit
Rebuttal Schedule B-2
Page 3.1
Witness: Bourassa

Line No.

1 Affiliate Profit

Account No.	Description	Plant Constructed by Affiliates	Rate	Amount to be Removed from Plant-in-service
351	Organization	$ -	1.75%	$ -
352	Franchises	-	1.75%	-
353	Land and Land Rights	-	1.75%	-
354	Structures and Improvements	-	1.75%	-
355	Power Generation Equipment	-	1.75%	-
360	Collection Sewers - Force	1,244,576	1.75%	(21,780)
361	Collection Sewers - Gravity	1,266,429	1.75%	(22,163)
362	Special Collecting Structures	-	1.75%	-
363	Services to Customers	-	1.75%	-
364	Flow Measuring Devices	-	1.75%	-
365	Flow Measuring Installations	-	1.75%	-
370	Receiving Wells	-	1.75%	-
371	Pumping Equipment	7,075,558	1.75%	(123,822)
375	Reuse T&D	-	1.75%	-
380	Treatment and Disposal Equipment	-	1.75%	-
381	Plant Sewers	36,137,945	1.75%	(632,414)
382	Outfall Sewer Lines	-	1.75%	-
389	Other Plant and Misc. Equipment	-	1.75%	-
390	Office Furniture and Equipment	-	1.75%	-
391	Transportation Equipment	-	1.75%	-
393	Tools, Shop and Garage Equipment.	-	1.75%	-
394	Laboratory Equipment	-	1.75%	-
395	Power Operated Equipment	-	1.75%	-
398	Other TangiblePlant	-	1.75%	-
	TOTALS	$ 45,724,508		$ (800,179)

Increase (decrease) in Plant-in-Service $ (800,179)

Adjustment to Plant-in-Service $ (800,179)

SUPPORTING SCHEDULES

Johnson Utilities - Wastewater Division
Test Year Ended December 31, 2007
Original Cost Rate Base Proforma Adjustments
Adjustment B

Exhibit
Rebuttal Schedule B-2
Page 3.2
Witness: Bourassa

Line No.

1 Unsupported Plant Costs

Account No.	Description	[1] Staff Audit Request	Supported Plant-in-Service By Document Type: Line Extension Agmnt	Invoices	Const. Contract/Check	AUSS Plant	[2] Total Supported	[3] = [2] - [1] Unsupported Plant-in-service
351	Organization	$ -	$ -	$ -	$ -	$ -	$ -	$ -
352	Franchises	-	-	-	-	-	-	-
353	Land and Land Rights	3,710,000	-	910,000	2,800,000	-	3,710,000	-
354	Structures and Improvements	257,115	-	-	257,115	-	257,115	-
355	Power Generation Equipment	-	-	-	-	-	-	-
360	Collection Sewers - Force	19,962,432	17,806,638	-	2,155,794	-	19,962,432	-
361	Collection Sewers - Gravity	29,527,923	19,704,105	1,510,019	1,236,307	6,029,551	28,479,982	(1,047,941)
362	Special Collecting Structures	-	-	-	-	-	-	-
363	Services to Customers	-	-	-	-	-	-	-
364	Flow Measuring Devices	-	-	-	-	-	-	-
365	Flow Measuring Installations	-	-	-	-	-	-	-
370	Receiving Wells	-	-	-	-	-	-	-
371	Pumping Equipment	7,075,558	-	-	7,075,558	-	7,075,558	-
375	Reuse T&D	-	-	-	-	-	-	-
380	Treatment and Disposal Equipment	-	-	-	-	-	-	-
381	Plant Sewers	66,277,037	14,217,788	5,777,445	46,281,804	-	66,277,038	-
382	Outfall Sewer Lines	-	-	-	-	-	-	-
389	Other Plant and Misc. Equipment	-	-	-	-	-	-	-
390	Office Furniture and Equipment	-	-	-	-	-	-	-
391	Transportation Equipment	-	-	-	-	-	-	-
393	Tools, Shop and Garage Equipment.	-	-	-	-	-	-	-
394	Laboratory Equipment	-	-	-	-	-	-	-
395	Power Operated Equipment	-	-	-	-	-	-	-
398	Other TangiblePlant	-	-	-	-	-	-	-
	TOTALS	$ 126,810,065	$ 51,728,531	$ 8,197,464	$ 59,806,578	$ 6,029,551	$ 125,762,124	$ (1,047,941)

Increase (decrease) in Plant-in-Service $ (1,047,941)

Adjustment to Plant-in-Service $ (1,047,941)

SUPPORTING SCHEDULES

Johnson Utilities - Wastewater Division
Test Year Ended December 31, 2007
Original Cost Rate Base Proforma Adjustments
Adjustment C

Exhibit
Rebuttal Schedule B-2
Page 3.3
Witness: Bourassa

Line No.

1 Plant Not Used and Useful

Account No.	Description	2005 Plant Sewers Magma 2	2005 Plant Sewers Quail Run	2006 Collection Swrs Sewers Ironwood	Intentionally Left Blank	Intentionally Left Blank	Total
351	Organization						$ -
352	Franchises						-
353	Land and Land Rights						-
354	Structures and Improvements						-
355	Power Generation Equipment						-
360	Collection Sewers - Force			(889,407)			(889,407)
361	Collection Sewers - Gravity						-
362	Special Collecting Structures						-
363	Services to Customers						-
364	Flow Measuring Devices						-
365	Flow Measuring Installations						-
370	Receiving Wells						-
371	Pumping Equipment						-
375	Reuse T&D						-
380	Treatment and Disposal Equip.						-
381	Plant Sewers	(473,527)	(846,092)				(1,319,619)
382	Outfall Sewer Lines						-
389	Other Plant and Misc. Equip.						-
390	Office Furniture and Equipment						-
391	Transportation Equipment						-
393	Tools, Shop and Garage Equip.						-
394	Laboratory Equipment						-
395	Power Operated Equipment						-
398	Other TangiblePlant						-
	TOTALS	$ (473,527)	$ (846,092)	$ (889,407)	$ -	$ -	$ (2,209,026)

Increase (decrease) in Plant-in-Service $ (2,209,026)

Adjustment to Plant-in-Service $ (2,209,026)

SUPPORTING SCHEDULES

Johnson Utilities - Wastewater Division
Test Year Ended December 31, 2007
Original Cost Rate Base Proforma Adjustments
Adjustment D

Exhibit
Rebuttal Schedule B-2
Page 3.4
Witness: Bourassa

Line No.		Details of Post Test Year Plant					
1							
2			360				
3	Project		Collection	380	381	Year	
4	No.	Sewer Plant Improvements Projects	Sewers- Force	WWTP	Plant Sewers	in Service	Comment
5							
6	65-0321r	mn sun fms-ls/fm	$ 161,080			2007	Should have been booked in 2007, Completed and placed into service in 2007
7	65-0326r	circle crs lift sta			107,005	2007	Should have been booked in 2007, Completed and placed into service in 2007
8	75-0374r	pecan wwtp phs2		258,098		2007	Should have been booked in 2007, Completed and placed into service in 2007
9	65-0335r	s/tan 1.0mgd wwtp		127,646		2007	Should have been booked in 2007, Completed and placed into service in 2007
10	65-0346r	sec 11 mn wwtp rep/upgrade		447,182		2007	Should have been booked in 2007, Completed and placed into service in 2007
11	65-0348r	pec wwtp ls rep		38,267		2007	Should have been booked in 2007, Completed and placed into service in 2007
12	65-0354r	laredo ranch ls			4,910	2007	Should have been booked in 2007, Completed and placed into service in 2007
13	76-0439r	combs rd e f/m	423,945			2007	Should have been booked in 2007, Completed and placed into service in 2007
14	26-0426r	anthem l/s-f/m	190,224			2007	Should have been booked in 2007, Completed and placed into service in 2007
15	065-0342r	hunt hwy fm repair	5,787			2007	Should have been booked in 2007, Completed and placed into service in 2007
16	065-0345r	main ls repair	6,561			2007	Should have been booked in 2007, Completed and placed into service in 2007
17	065-0321r	mn sun frms ls/fm	1,189			2007	Should have been booked in 2007, Completed and placed into service in 2007
18	028-0476r	Oasis Liftstation repair			46,340	2007	Should have been booked in 2007, Completed and placed into service in 2007
19	85-0401	hunt hiway so f/mn	383,154			2007	Forcemain connects Section 11 & Anthem WRP as described on pg25 & 32 of Staff's Report
20		Subtotal	$ 1,171,939	$ 871,194	$ 158,254		
21							
22	65-0366	parks lift station			486,714	2008	Listed as plant in service on Marlin's Report Pg 26 under Pecan system
23	46-0429	q/creek leach field			534,394	2008	Effluent for Pecan was being sent to Trilogy Encanterra in 2007 temporarily until
24		Subtotal	-	-	1,021,108		Both projects funded with contributions-in-aid of construction
25							
26		Total	$ 1,171,939	$ 871,194	$ 1,179,363		
27							
28		Summary	2007	Post Test Year			
29	360	Collection Sewers - Force	$ 1,171,939	-			
30	380	Treatment and Disposal Equip.	871,194	-			
31	381	Plant Sewers	158,254	1,021,108			
32		Total	$ 2,201,386	$ 1,021,108			
33							

Johnson Utilities - Wastewater Division
Test Year Ended December 31, 2007
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2

Exhibit
Rebuttal Schedule B-2
Page 4
Witness: Bourassa

Accumulated Depreciation

Line No.	Account No.	Description	Direct Adjusted Accum. Depr.	A Difference to Computed A/D	B Left Blank	C Left Blank	D Left Blank	Rebuttal Adjusted Accum. Depr.
5	351	Organization	-	-				-
6	352	Franchises	-	-				-
7	353	Land and Land Rights	-	-				-
8	354	Structures and Improvements	83,548	-				83,548
9	355	Power Generation Equipment	-	-				-
10	360	Collection Sewers - Force	712,795	(19,520)				693,274
11	361	Collection Sewers - Gravity	2,070,192	(226,856)				1,843,336
12	362	Special Collecting Structures	-	-				-
13	363	Services to Customers	6,873	-				6,873
14	364	Flow Measuring Devices	350	-				350
15	365	Flow Measuring Installations	-	-				-
16	370	Receiving Wells	-	-				-
17	371	Pumping Equipment	312,796	(5,309)				307,487
18	375	Reuse T&D	32,389	-				32,389
19	380	Treatment and Disposal Equip.	-	10,890				10,890
20	381	Plant Sewers	4,704,741	(122,002)				4,582,738
21	382	Outfall Sewer Lines	-	-				-
22	389	Other Plant and Misc. Equip.	-	-				-
23	390	Office Furniture and Equipment	-	-				-
24	391	Transportation Equipment	-	-				-
25	393	Tools, Shop and Garage Equip.	-	-				-
26	394	Laboratory Equipment	-	-				-
27	395	Power Operated Equipment	-	-				-
28	398	Other TangiblePlant	-	-				-
29		Subtotal	$ 7,923,684	$ (362,797)	$ -	$ -	$ -	$ 7,560,886
31		Post Test Year Plant	-					-
33		TOTALS	$ 7,923,684	$ (362,797)	$ -	$ -	$ -	$ 7,560,886

Accumulated Depreciation per Direct Filing	$ 7,923,684
Increase (decrease) in Accumulated Depreciation	$ (362,797)
Adjustment to Accumulated Depreciation	$ (362,797)

SUPPORTING SCHEDULES
Rebuttal B-2, pages 4.1 to 4.12

Johnson Utilities - Wastewater Division
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 4.1
Witness: Bourassa

Account No.	Description	Deprec. Rate	1998 Plant Additions	1998 Plant Adjustments	1998 Plant Adjustments[1]	1998 Plant Adjustments[2]	1998 Plant Adjustments[3]	1998 Adjusted Plant Additions	1998 Plant Retirements	1998 Plant Balance	Apr-Dec 1998 Depr.
351	Organization	0.00%						-		-	-
352	Franchises	0.00%						-		-	-
353	Land and Land Rights	0.00%						-		-	-
354	Structures and Improvements	2.50%						-		-	-
355	Power Generation Equipment	2.50%						-		-	-
360	Collection Sewers - Force	2.50%						-		-	-
361	Collection Sewers - Gravity	2.50%						-		-	-
362	Special Collecting Structures	2.50%						-		-	-
363	Services to Customers	2.50%						-		-	-
364	Flow Measuring Devices	2.50%						-		-	-
365	Flow Measuring Installations	2.50%						-		-	-
370	Receiving Wells	2.50%						-		-	-
371	Pumping Equipment	2.50%						-		-	-
375	Reuse T&D	2.50%						-		-	-
380	Treatment and Disposal Equipment	2.50%						-		-	-
381	Plant Sewers	2.50%						-		-	-
382	Outfall Sewer Lines	2.50%						-		-	-
389	Other Plant and Misc. Equipment	2.50%						-		-	-
390	Office Furniture and Equipment	2.50%						-		-	-
391	Transportation Equipment	2.50%						-		-	-
393	Tools, Shop and Garage Equipment.	2.50%						-		-	-
394	Laboratory Equipment	2.50%						-		-	-
395	Power Operated Equipment	2.50%						-		-	-
398	Other TangiblePlant	2.50%						-		-	-
	Plant Held for Future Use										
	TOTAL WATER PLANT		-	-	-	-	-	-	-	-	-

[1] Affiliate Profit
[2] Unsupported Plant
[3] Plant Not Used and Useful

Johnson Utilities - Wastewater Division
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 4.2
Witness: Bourassa

Account No.	Description	1999 Plant Additions	1999 Plant Adjustments	1999 Plant Adjustments[1]	1999 Plant Adjustments[2]	1999 Plant Adjustments[3]	1999 Adjusted Plant Additions	1999 Plant Retirements	1999 Plant Balance	1999 Deprec.
351	Organization			-	-		-		-	-
352	Franchises			-	-		-		-	-
353	Land and Land Rights	875,000		-	-		875,000		875,000	-
354	Structures and Improvements	196,548		-	-		196,548		196,548	2,457
355	Power Generation Equipment			-	-		-		-	-
360	Collection Sewers - Force			-	-		-		-	-
361	Collection Sewers - Gravity	3,771,466		(520)	(1,047,941)		2,723,005		2,723,005	34,038
362	Special Collecting Structures			-	-		-		-	-
363	Services to Customers	25,752		-	-		25,752		25,752	322
364	Flow Measuring Devices	7,009		-	-		7,009		7,009	88
365	Flow Measuring Installations			-	-		-		-	-
370	Receiving Wells			-	-		-		-	-
371	Pumping Equipment	11,660		-	-		11,660		11,660	146
375	Reuse T&D			-	-		-		-	-
380	Treatment and Disposal Equipment			-	-		-		-	-
381	Plant Sewers			-	-		-		-	-
382	Outfall Sewer Lines			-	-		-		-	-
389	Other Plant and Misc. Equipment			-	-		-		-	-
390	Office Furniture and Equipment			-	-		-		-	-
391	Transportation Equipment			-	-		-		-	-
393	Tools, Shop and Garage Equipment.			-	-		-		-	-
394	Laboratory Equipment			-	-		-		-	-
395	Power Operated Equipment			-	-		-		-	-
398	Other TangiblePlant			-	-		-		-	-
	Plant Held for Future Use									
	TOTAL WATER PLANT	4,887,435	-	(520)	(1,047,941)	-	3,838,974	-	3,838,974	37,050

[1] Affiliate Profit
[2] Unsupported Plant
[3] Plant Not Used and Useful

Johnson Utilities - Wastewater Division
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 4.3
Witness: Bourassa

Account No.	Description	2000 Plant Additions	2000 Plant Adjustments	2000 Plant Adjustments[1]	2000 Plant Adjustments[2]	2000 Plant Adjustments[3]	2000 Adjusted Plant Additions	2000 Plant Retirements	2000 Plant Balance	2000 Deprec.
351	Organization			-	-		-		-	-
352	Franchises			-	-		-		-	-
353	Land and Land Rights	35,000		-	-		35,000		910,000	-
354	Structures and Improvements			-	-		-		196,548	4,914
355	Power Generation Equipment			-	-		-		-	-
360	Collection Sewers - Force			-	-		-		-	-
361	Collection Sewers - Gravity	1,676,637		(21,643)	-		1,654,994		4,377,999	88,763
362	Special Collecting Structures			-	-		-		-	-
363	Services to Customers	223,421		-	-		223,421		249,173	3,437
364	Flow Measuring Devices			-	-		-		7,009	175
365	Flow Measuring Installations			-	-		-		-	-
370	Receiving Wells			-	-		-		-	-
371	Pumping Equipment	61,500		-	-		61,500		73,160	1,060
375	Reuse T&D			-	-		-		-	-
380	Treatment and Disposal Equipment			-	-		-		-	-
381	Plant Sewers			-	-		-		-	-
382	Outfall Sewer Lines			-	-		-		-	-
389	Other Plant and Misc. Equipment			-	-		-		-	-
390	Office Furniture and Equipment			-	-		-		-	-
391	Transportation Equipment			-	-		-		-	-
393	Tools, Shop and Garage Equipment.			-	-		-		-	-
394	Laboratory Equipment			-	-		-		-	-
395	Power Operated Equipment			-	-		-		-	-
398	Other TangiblePlant			-	-		-		-	-
	Plant Held for Future Use									
	TOTAL WATER PLANT	1,996,558	-	(21,643)	-	-	1,974,915	-	5,813,890	98,348

[1] Affiliate Profit
[2] Unsupported Plant
[3] Plant Not Used and Useful

Johnson Utilities - Wastewater Division
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 4.4
Witness: Bourassa

Account No.	Description	2001 Plant Additions	2001 Plant Adjustments	2001 Plant Adjustments[1]	2001 Plant Adjustments[2]	2001 Plant Adjustments[3]	2001 Adjusted Plant Additions	2001 Plant Retirements	2001 Plant Balance	2001 Deprec.
351	Organization			-	-		-		-	-
352	Franchises			-	-		-		-	-
353	Land and Land Rights			-	-		-		910,000	-
354	Structures and Improvements	257,115		-	-		257,115		453,663	8,128
355	Power Generation Equipment			-	-		-		-	-
360	Collection Sewers - Force			-	-		-		-	-
361	Collection Sewers - Gravity		(5,448,103)	-	-		(5,448,103)		(1,070,104)	41,349
362	Special Collecting Structures			-	-		-		-	-
363	Services to Customers		(249,173)	-	-		(249,173)		-	3,115
364	Flow Measuring Devices		(7,009)	-	-		(7,009)		-	88
365	Flow Measuring Installations			-	-		-		-	-
370	Receiving Wells			-	-		-		-	-
371	Pumping Equipment		(73,160)	-	-		(73,160)		-	915
375	Reuse T&D			-	-		-		-	-
380	Treatment and Disposal Equipment			-	-		-		-	-
381	Plant Sewers	4,126,048	5,777,445	(58,528)	-		9,844,966		9,844,966	123,062
382	Outfall Sewer Lines			-	-		-		-	-
389	Other Plant and Misc. Equipment			-	-		-		-	-
390	Office Furniture and Equipment			-	-		-		-	-
391	Transportation Equipment			-	-		-		-	-
393	Tools, Shop and Garage Equipment.			-	-		-		-	-
394	Laboratory Equipment			-	-		-		-	-
395	Power Operated Equipment			-	-		-		-	-
398	Other TangiblePlant			-	-		-		-	-
	Plant Held for Future Use									
	TOTAL WATER PLANT	4,383,163	-	(58,528)	-	-	4,324,635	-	10,138,525	176,655

[1] Affiliate Profit
[2] Unsupported Plant
[3] Plant Not Used and Useful

Johnson Utilities - Wastewater Division
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 4.5
Witness: Bourassa

Account No.	Description	2002 Plant Additions	2002 Plant Adjustments	2002 Plant Adjustments[1]	2002 Plant Adjustments[2]	2002 Plant Adjustments[3]	2002 Adjusted Plant Additions	2002 Plant Retirements	2002 Plant Balance	2002 Deprec.
351	Organization			-	-		-		-	-
352	Franchises			-	-		-		-	-
353	Land and Land Rights			-	-		-		910,000	-
354	Structures and Improvements			-	-		-		453,663	11,342
355	Power Generation Equipment			-	-		-		-	-
360	Collection Sewers - Force			-	-		-		-	-
361	Collection Sewers - Gravity	1,919,454		-	-		1,919,454		849,350	(2,759)
362	Special Collecting Structures			-	-		-		-	-
363	Services to Customers			-	-		-		-	-
364	Flow Measuring Devices			-	-		-		-	-
365	Flow Measuring Installations			-	-		-		-	-
370	Receiving Wells			-	-		-		-	-
371	Pumping Equipment			-	-		-		-	-
375	Reuse T&D			-	-		-		-	-
380	Treatment and Disposal Equipment			-	-		-		-	-
381	Plant Sewers	2,177,178		(16,203)	-		2,160,975		12,005,940	273,136
382	Outfall Sewer Lines			-	-		-		-	-
389	Other Plant and Misc. Equipment			-	-		-		-	-
390	Office Furniture and Equipment			-	-		-		-	-
391	Transportation Equipment			-	-		-		-	-
393	Tools, Shop and Garage Equipment.			-	-		-		-	-
394	Laboratory Equipment			-	-		-		-	-
395	Power Operated Equipment			-	-		-		-	-
398	Other TangiblePlant			-	-		-		-	-
	Plant Held for Future Use									
	TOTAL WATER PLANT	4,096,632	-	(16,203)	-	-	4,080,429	-	14,218,954	281,718

[1] Affiliate Profit
[2] Unsupported Plant
[3] Plant Not Used and Useful

Johnson Utilities - Wastewater Division
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 4.6
Witness: Bourassa

Account No.	Description	2003 Plant Additions	2003 Plant Adjustments	2003 Plant Adjustments[1]	2003 Plant Adjustments[2]	2003 Plant Adjustments[3]	2003 Adjusted Plant Additions	2003 Plant Retirements	2003 Plant Balance	2003 Deprec.
351	Organization			-	-		-		-	-
352	Franchises			-	-		-		-	-
353	Land and Land Rights			-	-		-		910,000	-
354	Structures and Improvements			-	-		-		453,663	11,342
355	Power Generation Equipment			-	-		-		-	-
360	Collection Sewers - Force			-	-		-		-	-
361	Collection Sewers - Gravity		1,387,558	-	-		1,387,558		2,236,908	38,578
362	Special Collecting Structures			-	-		-		-	-
363	Services to Customers			-	-		-		-	-
364	Flow Measuring Devices			-	-		-		-	-
365	Flow Measuring Installations			-	-		-		-	-
370	Receiving Wells			-	-		-		-	-
371	Pumping Equipment			-	-		-		-	-
375	Reuse T&D			-	-		-		-	-
380	Treatment and Disposal Equipment			-	-		-		-	-
381	Plant Sewers	5,351,569		(16,604)	-		5,334,965		17,340,905	366,836
382	Outfall Sewer Lines			-	-		-		-	-
389	Other Plant and Misc. Equipment			-	-		-		-	-
390	Office Furniture and Equipment			-	-		-		-	-
391	Transportation Equipment			-	-		-		-	-
393	Tools, Shop and Garage Equipment.			-	-		-		-	-
394	Laboratory Equipment			-	-		-		-	-
395	Power Operated Equipment			-	-		-		-	-
398	Other TangiblePlant			-	-		-		-	-
	Plant Held for Future Use									
	TOTAL WATER PLANT	5,351,569	1,387,558	(16,604)	-	-	6,722,523	-	20,941,477	416,755

[1] Affiliate Profit
[2] Unsupported Plant
[3] Plant Not Used and Useful

Johnson Utilities - Wastewater Division
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 4.7
Witness: Bourassa

Account No.	Description	2004 Plant Additions	2004 Plant Adjustments	2004 Plant Adjustments[1]	2004 Plant Adjustments[2]	2004 Plant Adjustments[3]	2004 Adjusted Plant Additions	2004 Plant Retirements	2004 Plant Balance	2004 Deprec.
351	Organization			-	-		-		-	-
352	Franchises			-	-		-		-	-
353	Land and Land Rights	412,800		-	-		412,800		1,322,800	-
354	Structures and Improvements			-	-		-		453,663	11,342
355	Power Generation Equipment			-	-		-		-	-
360	Collection Sewers - Force			-	-		-		-	-
361	Collection Sewers - Gravity		11,999,101	-	-		11,999,101		14,236,009	205,911
362	Special Collecting Structures			-	-		-		-	-
363	Services to Customers			-	-		-		-	-
364	Flow Measuring Devices			-	-		-		-	-
365	Flow Measuring Installations			-	-		-		-	-
370	Receiving Wells			-	-		-		-	-
371	Pumping Equipment	760,640		(13,311)	-		747,329		747,329	9,342
375	Reuse T&D			-	-		-		-	-
380	Treatment and Disposal Equipment			-	-		-		-	-
381	Plant Sewers			-	-		-		17,340,905	433,523
382	Outfall Sewer Lines			-	-		-		-	-
389	Other Plant and Misc. Equipment			-	-		-		-	-
390	Office Furniture and Equipment			-	-		-		-	-
391	Transportation Equipment			-	-		-		-	-
393	Tools, Shop and Garage Equipment.			-	-		-		-	-
394	Laboratory Equipment			-	-		-		-	-
395	Power Operated Equipment			-	-		-		-	-
398	Other TangiblePlant			-	-		-		-	-
	Plant Held for Future Use									
	TOTAL WATER PLANT	1,173,440	11,999,101	(13,311)	-	-	13,159,230	-	34,100,706	660,117

[1] Affiliate Profit
[2] Unsupported Plant
[3] Plant Not Used and Useful

Johnson Utilities - Wastewater Division
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 4.8
Witness: Bourassa

Account No.	Description	2005 Plant Additions	2005 Plant Adjustments	2005 Plant Adjustments[1]	2005 Plant Adjustments[2]	2005 Plant Adjustments[3]	2005 Adjusted Plant Additions	2005 Plant Retirements	2005 Plant Balance	2005 Deprec.
351	Organization			-	-		-		-	-
352	Franchises			-	-		-		-	-
353	Land and Land Rights	2,800,000		-	-		2,800,000		4,122,800	-
354	Structures and Improvements			-	-		-		453,663	11,342
355	Power Generation Equipment			-	-		-		-	-
360	Collection Sewers - Force		173,809	-	-		173,809		173,809	2,173
361	Collection Sewers - Gravity		1,517,976	-	-		1,517,976		15,753,985	374,875
362	Special Collecting Structures			-	-		-		-	-
363	Services to Customers			-	-		-		-	-
364	Flow Measuring Devices			-	-		-		-	-
365	Flow Measuring Installations			-	-		-		-	-
370	Receiving Wells			-	-		-		-	-
371	Pumping Equipment		11,666	-	-		11,666		758,995	18,829
375	Reuse T&D		150,039	-	-		150,039		150,039	1,875
380	Treatment and Disposal Equipment			-	-		-		-	-
381	Plant Sewers	19,921,359	4,982,159	(304,288)	-	(1,319,619)	23,279,611		40,620,517	724,518
382	Outfall Sewer Lines			-	-		-		-	-
389	Other Plant and Misc. Equipment			-	-		-		-	-
390	Office Furniture and Equipment			-	-		-		-	-
391	Transportation Equipment			-	-		-		-	-
393	Tools, Shop and Garage Equipment.			-	-		-		-	-
394	Laboratory Equipment			-	-		-		-	-
395	Power Operated Equipment			-	-		-		-	-
398	Other TangiblePlant			-	-		-		-	-
	Plant Held for Future Use									
	TOTAL WATER PLANT	22,721,359	6,835,650	(304,288)	-	(1,319,619)	27,933,102	-	62,033,809	1,133,611

[1] Affiliate Profit
[2] Unsupported Plant
[3] Plant Not Used and Useful

Johnson Utilities - Wastewater Division
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 4.9
Witness: Bourassa

Account No.	Description	2006 Plant Additions	2006 Plant Adjustments	2006 Plant Adjustments[1]	2006 Plant Adjustments[2]	2006 Plant Adjustments[3]	2006 Adjusted Plant Additions	2006 Plant Retirements	2006 Plant Balance	2006 Deprec.
351	Organization			-	-		-		-	-
352	Franchises			-	-		-		-	-
353	Land and Land Rights			-	-		-		4,122,800	-
354	Structures and Improvements			-	-		-		453,663	11,342
355	Power Generation Equipment			-	-		-		-	-
360	Collection Sewers - Force	17,449,098	646,954	(21,780)	-	(889,407)	17,184,864		17,358,674	219,156
361	Collection Sewers - Gravity		7,263,542	-	-		7,263,542		23,017,527	484,644
362	Special Collecting Structures			-	-		-		-	-
363	Services to Customers			-	-		-		-	-
364	Flow Measuring Devices			-	-		-		-	-
365	Flow Measuring Installations			-	-		-		-	-
370	Receiving Wells			-	-		-		-	-
371	Pumping Equipment	4,956,826	1,358,093	(110,511)	-		6,204,407		6,963,402	96,530
375	Reuse T&D	368,690	147,476	-	-		516,167		666,206	10,203
380	Treatment and Disposal Equipment			-	-		-		-	-
381	Plant Sewers	9,859,952	3,670,995	(236,792)	-		13,294,155		53,914,672	1,181,690
382	Outfall Sewer Lines			-	-		-		-	-
389	Other Plant and Misc. Equipment			-	-		-		-	-
390	Office Furniture and Equipment			-	-		-		-	-
391	Transportation Equipment			-	-		-		-	-
393	Tools, Shop and Garage Equipment.			-	-		-		-	-
394	Laboratory Equipment			-	-		-		-	-
395	Power Operated Equipment			-	-		-		-	-
398	Other TangiblePlant			-	-		-		-	-
	Plant Held for Future Use									
	TOTAL WATER PLANT	32,634,566	13,087,060	(369,083)	-	(889,407)	44,463,136	-	106,496,945	2,003,564

[1] Affiliate Profit
[2] Unsupported Plant
[3] Plant Not Used and Useful

Johnson Utilities - Wastewater Division
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 4.10
Witness: Bourassa

Account No.	Description	2007 Plant Additions	2007 Plant Adjustments	2007 Plant Adjustments[1]	2007 Plant Adjustments[2]	2007 Plant Adjustments[3]	2007 Adjusted Plant Additions	2007 Plant Retirements	2007 Plant Balance	2007 Deprec.
351	Organization			-	-		-		-	-
352	Franchises			-	-		-		-	-
353	Land and Land Rights			-	-		-		4,122,800	-
354	Structures and Improvements			-	-		-		453,663	11,342
355	Power Generation Equipment			-	-		-		-	-
360	Collection Sewers - Force	1,866,380	1,171,939	-	-	-	3,038,319		20,396,993	471,946
361	Collection Sewers - Gravity	199,961		-	-		199,961		23,217,489	577,938
362	Special Collecting Structures			-	-		-		-	-
363	Services to Customers			-	-		-		-	-
364	Flow Measuring Devices			-	-		-		-	-
365	Flow Measuring Installations			-	-		-		-	-
370	Receiving Wells			-	-		-		-	-
371	Pumping Equipment	526,499		-	-		526,499		7,489,901	180,666
375	Reuse T&D	292,440		-	-		292,440		958,646	20,311
380	Treatment and Disposal Equipment		871,194	-	-		871,194		871,194	10,890
381	Plant Sewers	10,410,332	158,254	-	-		10,568,586		64,483,259	1,479,974
382	Outfall Sewer Lines			-	-		-		-	-
389	Other Plant and Misc. Equipment			-	-		-		-	-
390	Office Furniture and Equipment			-	-		-		-	-
391	Transportation Equipment			-	-		-		-	-
393	Tools, Shop and Garage Equipment.			-	-		-		-	-
394	Laboratory Equipment			-	-		-		-	-
395	Power Operated Equipment			-	-		-		-	-
398	Other TangiblePlant			-	-		-		-	-
	Plant Held for Future Use									
	TOTAL WATER PLANT	13,295,612	2,201,386	-	-	-	15,496,999	-	121,993,944	2,753,066

[1] Affiliate Profit
[2] Unsupported Plant
[3] Plant Not Used and Useful

Johnson Utilities - Wastewater Division
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 4.11
Witness: Bourassa

Year End Accumulated
Depreciation by Account

Account No.	Description	1997	1998	1999	2000	2001	2002
351	Organization	-	-	-	-	-	-
352	Franchises	-	-	-	-	-	-
353	Land and Land Rights	-	-	-	-	-	-
354	Structures and Improvements	-	-	2,457	7,371	15,498	26,840
355	Power Generation Equipment	-	-	-	-	-	-
360	Collection Sewers - Force	-	-	-	-	-	-
361	Collection Sewers - Gravity	-	-	34,038	122,800	164,149	161,389
362	Special Collecting Structures	-	-	-	-	-	-
363	Services to Customers	-	-	322	3,758	6,873	6,873
364	Flow Measuring Devices	-	-	88	263	350	350
365	Flow Measuring Installations	-	-	-	-	-	-
370	Receiving Wells	-	-	-	-	-	-
371	Pumping Equipment	-	-	146	1,206	2,121	2,121
375	Reuse T&D	-	-	-	-	-	-
380	Treatment and Disposal Equipment	-	-	-	-	-	-
381	Plant Sewers	-	-	-	-	123,062	396,198
382	Outfall Sewer Lines	-	-	-	-	-	-
389	Other Plant and Misc. Equipment	-	-	-	-	-	-
390	Office Furniture and Equipment	-	-	-	-	-	-
391	Transportation Equipment	-	-	-	-	-	-
393	Tools, Shop and Garage Equipment.	-	-	-	-	-	-
394	Laboratory Equipment	-	-	-	-	-	-
395	Power Operated Equipment	-	-	-	-	-	-
398	Other TangiblePlant	-	-	-	-	-	-
	Plant Held for Future Use						
	TOTAL WATER PLANT	-	-	37,050	135,398	312,053	593,772

Johnson Utilities - Wastewater Division
Plant Additions and Retirements

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Schedule B-2
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Witness: Bourassa

Account No.	Description	2003	2004	2005	2006	2007
351	Organization	-	-	-	-	-
352	Franchises	-	-	-	-	-
353	Land and Land Rights	-	-	-	-	-
354	Structures and Improvements	38,181	49,523	60,864	72,206	83,548
355	Power Generation Equipment	-	-	-	-	-
360	Collection Sewers - Force	-	-	2,173	221,329	693,274
361	Collection Sewers - Gravity	199,968	405,879	780,754	1,265,398	1,843,336
362	Special Collecting Structures	-	-	-	-	-
363	Services to Customers	6,873	6,873	6,873	6,873	6,873
364	Flow Measuring Devices	350	350	350	350	350
365	Flow Measuring Installations	-	-	-	-	-
370	Receiving Wells	-	-	-	-	-
371	Pumping Equipment	2,121	11,462	30,291	126,821	307,487
375	Reuse T&D	-	-	1,875	12,079	32,389
380	Treatment and Disposal Equipment	-	-	-	-	10,890
381	Plant Sewers	763,034	1,196,557	1,921,074	3,102,764	4,582,738
382	Outfall Sewer Lines	-	-	-	-	-
389	Other Plant and Misc. Equipment	-	-	-	-	-
390	Office Furniture and Equipment	-	-	-	-	-
391	Transportation Equipment	-	-	-	-	-
393	Tools, Shop and Garage Equipment.	-	-	-	-	-
394	Laboratory Equipment	-	-	-	-	-
395	Power Operated Equipment	-	-	-	-	-
398	Other TangiblePlant	-	-	-	-	-
	Plant Held for Future Use					
	TOTAL WATER PLANT	1,010,527	1,670,644	2,804,256	4,807,820	7,560,886

Johnson Utilities - Wastewater Division
Test Year Ended December 31, 2007
Original Cost Rate Base Proforma Adjustments
Adjustment 3

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Rebuttal Schedule B-2
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Line No.

1 Accumulated Amortization (A.A.)

2

3 Computation of CIAC Balances

Line No.		Amount Recorded	Unexpended Cash	CIAC Adjustments[1]	Amortizable Balance	Amortization Rate	Amortization[2]	Year	Total Amortization	Accumulated Amortization
6	Balance at 12/31/1997	$ -	$ -		$ -				-	-
7	Additions 1998	35,000								
8	Balance at 12/31/1998	$ 35,000	$ -		$ 35,000	2.50%	438	1998	438	438
9	Additions 1999	303,000								
10	Balance at 12/31/1999	$ 338,000	$ -		$ 338,000	2.50%	4,663	1999	4,663	5,100
11	Additions 2000	1,067,352								
12	Balance at 12/31/2000	$ 1,405,352	$ -		$ 1,405,352	2.50%	21,792	2000	21,792	26,892
13	Additions 2001	893,800								
14	Balance at 12/31/2001	$ 2,299,152	$ -		$ 2,299,152	2.50%	46,306	2001	46,306	73,198
15	Additions 2002	2,909,170								
16	Balance at 12/31/2002	$ 5,208,322	$ (1,565,914)		$ 3,642,408	2.50%	74,270	2002	74,270	147,468
17	Additions 2003	6,455,300								
18	Balance at 12/31/2003	$ 11,663,622	$ (1,957,166)		$ 9,706,456	2.50%	186,435	2003	186,435	333,902
19	Additions 2004	8,679,970								
20	Balance at 12/31/2004	$ 20,343,592	$ (5,054,436)		$ 15,289,156	2.50%	336,910	2004	336,910	670,812
21	Additions 2005	8,119,350								
22	Balance at 12/31/2005	$ 28,462,942	$ (3,479,372)		$ 24,983,570	2.50%	566,590	2005	566,590	1,237,402
23	Additions 2006	11,467,949								
24	Balance at 12/31/2006	$ 39,930,891	$ (2,449,164)		$ 37,481,727	2.50%	824,308	2006	824,308	2,061,710
25	Additions 2007	9,000,699								
26	Balance at 12/31/2007	$ 48,931,590	$ (16,505)		$ 48,915,085	2.50%	1,110,575	2007	1,110,575	3,172,285
27										
28										
29	Computed Balances				$ 48,915,085					$ 3,172,285
30	Balance per Direct Filing				48,915,085					2,907,181
31	Increase (Decrease) in Balance				$ (0)					$ 265,104
32										
33	Adjustment to Balances				$ (0)					$ (265,104)
34					3a					3b

35 [1] None
36 [2] Half-year Convention
37

Johnson Utilities - Wastewater Division
Test Year Ended December 31, 2007
Original Cost Rate Base Proforma Adjustments
Adjustment 4

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Rebuttal Schedule B-2
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Witness: Bourassa

AIAC Adjustment (Plant indentified as not used and useful funded with AIAC)

Line No.	Account No.	Description	2005 Plant Sewers Magma 2	2005 Plant Sewers Quail Run	2006 Collection Swrs Sewers Ironwood	Intentionally Left Blank	Intentionally Left Blank	Total
7	351	Organization						$ -
8	352	Franchises						-
9	353	Land and Land Rights						-
10	354	Structures and Improvements						-
11	355	Power Generation Equipment						-
12	360	Collection Sewers - Force			(889,407)			(889,407)
13	361	Collection Sewers - Gravity						-
14	362	Special Collecting Structures						-
15	363	Services to Customers						-
16	364	Flow Measuring Devices						-
17	365	Flow Measuring Installations						-
18	370	Receiving Wells						-
19	371	Pumping Equipment						-
20	375	Reuse T&D						-
21	380	Treatment and Disposal Equip.						-
22	381	Plant Sewers	(473,527)	(846,092)				(1,319,619)
23	382	Outfall Sewer Lines						-
24	389	Other Plant and Misc. Equip.						-
25	390	Office Furniture and Equipment						-
26	391	Transportation Equipment						-
27	393	Tools, Shop and Garage Equip.						-
28	394	Laboratory Equipment						-
29	395	Power Operated Equipment						-
30	398	Other TangiblePlant						-
31								-
32								-
33								-
34								-
35		TOTALS	$ (473,527)	$ (846,092)	$ (889,407)	$ -	$ -	$ (2,209,026)
36								
37								
38		Increase (decrease) in Advances-in-aid of Construction						$ (2,209,026)
39								
40		Adjustment to Advances-in-aid of Construction						$ (2,209,026)
41								
42								
43		SUPPORTING SCHEDULES						
44								
45								

Johnson Utilities - Wastewater Division
Test Year Ended December 31, 2007
Computation of Working Capital

Exhibit
Rebuttal Schedule B-5
Page 1
Witness: Bourassa

Line No.			
1	Cash Working Capital (1/8 of Allowance		
2	Operation and Maintenance Expense)	$	770,982
3	Pumping Power (1/24 of Pumping Power)		12,926
4	Purchased Water (1/24 of Purchased Water)		-
5			
6			
7			
8			
9	Total Working Capital Allowance	$	783,909
10			
11			
12	Working Capital Requested	$	-
13			
14			
15	SUPPORTING SCHEDULES:	RECAP SCHEDULES:	
16	E-1	B-1	
17			

Johnson Utilities - Wastewater Division
Test Year Ended December 31, 2007
Income Statement

Exhibit
Rebuttal Schedule C-1
Page 1
Witness: Bourassa

Line No.		Adjusted Test Year Book Results	Proforma Adjustments	Rebuttal Adjusted Results	Proposed Rate Increase	Rebuttal Adjusted with Rate Increase
1	**Revenues**					
2	Flat Rate Revenues	$ 10,786,457	$ 65,351	$ 10,851,808	$ 2,326,532	$ 13,178,340
3	Misc. Service Revenues	-		-		-
4	Other Wastewater Revenues	502,206	-	502,206		502,206
5		$ 11,288,663	$ 65,351	$ 11,354,014	$ 2,326,532	$ 13,680,546
6	**Operating Expenses**					
7	Salaries and Wages	$ -	-	$ -		$ -
8	Purchased Wastewater Treatment	-	-	-		-
9	Sludge Removal Expense	286,429	23,800	310,229		310,229
10	Purchased Power	688,557	26,003	714,560		714,560
11	Fuel for Power Production	-	-	-		-
12	Chemicals	147,196	-	147,196		147,196
13	Materials and Supplies	32,762	-	32,762		32,762
14	Contractual Services	4,826,240	(9,022)	4,817,218		4,817,218
15	Repairs and Maintenance	116,474	-	116,474		116,474
16	Rents	48,151	-	48,151		48,151
17	Transportation Expenses	-	-	-		-
18	Insurance	21,039	-	21,039		21,039
19	Regulatory Comm. Exp. - Rate Case	33,333	-	33,333		33,333
20	Miscellaneous Expense	231,593	(993)	230,600		230,600
21	Depreciation Expense	3,142,068	(26,746)	3,115,322		3,115,322
22	Taxes Other Than Income	6,525	-	6,525		6,525
23	Property Taxes	785,281	6,087	791,368		791,368
24	Income Tax	330,522	18,883	349,405	868,022	1,217,427
25	**Total Operating Expenses**	$ 10,696,172	$ 38,011	$ 10,734,183	$ 868,022	$ 11,602,206
26	**Operating Income**	$ 592,491	$ 27,340	$ 619,831	$ 1,458,510	$ 2,078,341
27	**Other Income (Expense)**					
28	Interest Income	-	-	-		-
29	Other income (loss)	-	-	-		-
30	Interest Expense	(42,710)	3,723	(38,986)		(38,986)
31	Other Expense	-	-	-		-
32				-		-
33	**Total Other Income (Expense)**	$ (42,710)	$ 3,723	$ (38,986)	$ -	$ (38,986)
34	**Net Profit (Loss)**	$ 549,781	$ 31,063	$ 580,845	$ 1,458,510	$ 2,039,354
35						
36	SUPPORTING SCHEDULES:				RECAP SCHEDULES:	
37	Rebuttal C-2				Rebuttal A-1	
38						

Exhibit
Rebuttal Schedule C-1
Page 2
Witness: Bourassa

Johnson Utilities - Wastewater Division
Test Year Ended December 31, 2007
Income Statement

Line No.		Adjusted Test Year Book Results	Proforma Adjustments 1 Depreciation	2 Property Taxes	3 Unrecorded Revenues	4 Sludge Removal	5 Purchased Power	6 Deferred Expense	7 Misc. Expense	8 Interest Sync.	9 Income Taxes	Rebuttal Adjusted Results	Proposed Rate Increase	Rebuttal Adjusted with Rate Increase
1	**Revenues**											$ 10,851,808	$ 2,326,532	$ 13,178,340
2	Flat Rate Revenues	$ 10,786,457			65,351							-		-
3	Misc. Service Revenues	-										502,206		502,206
4	Other Wastewater Revenues	502,206												
5		$ 11,288,663	$ -	$ -	$ 65,351	$ -	$ -	$ -	$ -	$ -	$ -	$ 11,354,014	$ 2,326,532	$ 13,680,546
6	**Operating Expenses**											$ -		$ -
7	Salaries and Wages	$ -										-		-
8	Purchased Wastewater Treatme	-										310,229		310,229
9	Sludge Removal Expense	286,429				23,800						714,560		714,560
10	Purchased Power	688,557					26,003					-		-
11	Fuel for Power Production	-										147,196		147,196
12	Chemicals	147,196										32,762		32,762
13	Materials and Supplies	32,762						(9,022)				4,817,218		4,817,218
14	Contractual Services	4,826,240										116,474		116,474
15	Repairs and Maintenance	116,474										48,151		48,151
16	Rents	48,151										-		-
17	Transportation Expenses	-										21,039		21,039
18	Insurance	21,039										33,333		33,333
19	Reg. Comm. Exp. - Rate Case	33,333							(993)			230,600		230,600
20	Miscellaneous Expense	231,593										3,115,322		3,115,322
21	Depreciation Expense	3,142,068	(26,746)									6,525		6,525
22	Taxes Other Than Income	6,525										791,368		791,368
23	Property Taxes	785,281		6,087							18,883	349,405	868,022	1,217,427
24	Income Tax	330,522												
25	**Total Operating Expenses**	$ 10,696,172	$ (26,746)	$ 6,087	$ -	$ 23,800	$ 26,003	$ (9,022)	$ (993)	$ -	$ 18,883	$ 10,734,183	$ 868,022	$ 11,602,206
26	**Operating Income**	$ 592,491	$ 26,746	$ (6,087)	$ 65,351	$ (23,800)	$ (26,003)	$ 9,022	$ 993	$ -	$ (18,883)	$ 619,831	$ 1,458,510	$ 2,078,341
27	**Other Income (Expense)**											-		-
28	Interest Income	-										-		-
29	Other income (loss)	-								3,723		(38,986)		(38,986)
30	Interest Expense	(42,710)										-		-
31	Other Expense	-										-		-
32		-												
33	**Total Other Income (Expense)**	$ (42,710)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 3,723	$ -	$ (38,986)	$ -	$ (38,986)
34	**Net Profit (Loss)**	$ 549,781	$ 26,746	$ (6,087)	$ 65,351	$ (23,800)	$ (26,003)	$ 9,022	$ 993	$ 3,723	$ (18,883)	$ 580,845	$ 1,458,510	$ 2,039,354
35														
36	SUPPORTING SCHEDULES:												RECAP SCHEDULES:	
37	Rebuttal C-2													
38														

Johnson Utilities - Wastewater Division
Test Year Ended December 31, 2007
Adjustments to Revenues and Expenses

Exhibit
Rebuttal Schedule C-2
Page 1
Witness: Bourassa

Line No.		Adjustments to Revenues and Expenses						
		1 Depreciation Expense	2 Property Taxes	3 Unrecorded Revenues	4 Sludge Removal	5 Purchased Power	6 Deferred Expense	Subtotal
1								
2								
3	Revenues			65,351				65,351
4								
5	Expenses	(26,746)	6,087		23,800	26,003	(9,022)	20,121
6								
7	Operating							
8	Income	26,746	(6,087)	65,351	(23,800)	(26,003)	9,022	45,230
9								
10	Interest							
11	Expense							-
12	Other							
13	Income /							-
14	Expense							
15								
16	Net Income	26,746	(6,087)	65,351	(23,800)	(26,003)	9,022	45,230
17								
18		Adjustments to Revenues and Expenses						
19		7 Misc. Expense	8 Interest Sync.	9 Income Taxes	10 Intentionally Left Blank	11 Intentionally Left Blank	12 Intentionally Left Blank	Subtotal
20								
21								
22	Revenues							65,351
23								
24	Expenses	(993)		18,883				38,011
25								
26	Operating							
27	Income	993	-	(18,883)	-	-	-	27,340
28								
29	Interest							
30	Expense		3,723					3,723
31	Other							
32	Income /							-
33	Expense							
34								
35	Net Income	993	3,723	(18,883)	-	-	-	31,063
36								

Johnson Utilities - Wastewater Division
Test Year Ended December 31, 2007
Adjustments to Revenues and Expenses
Adjustment Number 1

Exhibit
Rebuttal Schedule C-2
Page 2
Witness: Bourassa

Line No.					
1	Depreciation Expense				
2					
3	**Account**		**Rebuttal Adjusted**	**Proposed**	**Depreciation**
4	**No.**	**Description**	**Original Cost**	**Rate**	**Expense**
5	351	Organization	-	0.00%	-
6	352	Franchises	-	0.00%	-
7	353	Land and Land Rights	4,122,800	0.00%	-
8	354	Structures and Improvements	453,663	3.33%	15,107
9	355	Power Generation Equipment	-	5.00%	-
10	360	Collection Sewers - Force	20,396,993	2.00%	407,940
11	361	Collection Sewers - Gravity	23,217,488	2.00%	464,350
12	362	Special Collecting Structures	-	2.00%	-
13	363	Services to Customers	-	2.00%	-
14	364	Flow Measuring Devices	-	10.00%	-
15	365	Flow Measuring Installations	-	10.00%	-
16	370	Receiving Wells	-	3.33%	-
17	371	Pumping Equipment	7,489,901	12.50%	936,238
18	375	Reuse T&D	958,646	2.50%	23,966
19	380	Treatment and Disposal Equipment	871,194	5.00%	43,560
20	381	Plant Sewers	64,483,259	5.00%	3,224,163
21	382	Outfall Sewer Lines	-	3.33%	-
22	389	Other Plant and Misc. Equipment	-	6.67%	-
23	390	Office Furniture and Equipment	-	20.00%	-
24	391	Transportation Equipment	-	20.00%	-
25	393	Tools, Shop and Garage Equipment.	-	5.00%	-
26	394	Laboratory Equipment	-	10.00%	-
27	395	Power Operated Equipment	-	5.00%	-
28	398	Other TangiblePlant	-	10.00%	-
29		TOTALS	$ 121,993,943		$ 5,115,323
30					
31		Post Test Year Plant			
32	360	Collection Sewers - Force	-	2.00%	$ -
33	380	Treatment and Disposal Equip.	-	5.00%	-
34	381	Plant Sewers	1,021,108	5.00%	51,055
35			$ 1,021,108		$ 51,055
36					
37	Less: Amort. of CIAC		$ 48,915,085	4.1931%	$ (2,051,056)
38					
39	Total Depreciation Expense				$ 3,115,322
40					
41	Test Year Depreciation Expense				$ 3,142,068
42					
43	Increase (decrease) in Depreciation Expense				(26,746)
44					
45	Adjustment to Revenues and/or Expenses				$ (26,746)
46					
47	SUPPORTING SCHEDULES				
48	Rebuttal B-2, page 3				

Johnson Utilities - Wastewater Division
Test Year Ended December 31, 2007
Adjustment to Revenues and Expenses
Adjustment Number 2

Exhibit
Rebuttal Schedule C-2
Page 3
Witness: Bourassa

Line No.			
1	Property Taxes:		
2			
3	Adjusted Revenues in year ended 12/31/07	$	11,354,014
4	Adjusted Revenues in year ended 12/31/07		11,354,014
5	Proposed Revenues		13,680,546
6	Average of three year's of revenue	$	12,129,525
7	Average of three year's of revenue, times 2	$	24,259,050
8	Add:		
9	Construction Work in Progess at 10%	$	-
10	Deduct:		
11	Book Value of Transportation Equipment		-
12			
13	Full Cash Value	$	24,259,050
14	Assessment Ratio		23.0%
15	Assessed Value		5,579,581
16	Property Tax Rate		14.0380%
17			
18	Property Tax		783,260
19	Tax on Parcels		8,108
20			
21	Total Property Tax at Proposed Rates	$	791,368
22	Property Taxes in the test year		785,281
23	Change in Property Taxes	$	6,087
24			
25			
26	Adjustment to Revenues and/or Expenses	$	6,087
27			
28			

Johnson Utilities - Wastewater Division
Test Year Ended December 31, 2007
Adjustment to Revenues and Expenses
Adjustment Number 3

Exhibit
Rebuttal Schedule C-2
Page 4
Witness: Bourassa

Line No.			
1	Unrecorded Revenues (Oasis Golf Course)		
2			
3			
4	Unrecorded Revenues (Oasis Golf Course)	$	65,351
5			
6	Increase (decrease) in Metered Revenues	$	65,351
7			
8			
9	Adjustment to Revenues and/or Expenses	$	65,351
10			
11			
12			
13			
14			
15			
16			
17			
18			
19	REFERENCE		
20	Staff Adj. #1 Schedule JMM WW-15 ; RUCO Adj #3 Schedule RLM-8		

Johnson Utilities - Wastewater Division
Test Year Ended December 31, 2007
ADJUSTMENTS TO REVENUES AND/OR EXPENSES
Adjustment Number 4

Exhibit
Rebuttal Schedule C-2
Page 5
Witness: Bourassa

Line No.			
1	Sludge Removal Expense		
2			
3			
4	Remove 2008 Sludge Removal Expense recorded in 2007	$	(7,688)
5	Add 2007 Sludge Removal Expense recorded in 2008		31,488
6			
7	Increase (decrease) in Sludge Removal Expense	$	23,800
8			
9			
10			
11			
12			
13			
14			
15	Adjustment to Revenue and/or Expense	$	23,800
16			
17			
18			
19	REFERENCE		
20	Staff Adj. # 2 Schedule JMM WW-16		
21			
22	SUPPORTING SCHEDULE		
23	Rebuttal C-2, page 5.1		
24			

Johnson Utilities - Wastewater Division
Test Year Ended December 31, 2007
ADJUSTMENTS TO REVENUES AND/OR EXPENSES
Adjustment Number 4

Exhibit
Rebuttal Schedule C-2
Page 5.1
Witness: Bourassa

Line No.

1 2007 Sludge Removal Expense Recorded in 2008

Line	Date	Reference	Journa	Vendor/Description	Amount
3					
4	1/1/2008	67668	PJ	CT ENVIRONMENTAL SERVICES - Bin spotting 11/6/07	$ 576.61
5	1/1/2008	67669	PJ	CT ENVIRONMENTAL SERVICES - Transport of bin 11/26/07	681.96
6	1/1/2008	113007	PJ	CT ENVIRONMENTAL SERVICES - Transprot of bin	553.56
7	1/1/2008	67671	PJ	CT ENVIRONMENTAL SERVICES - Transport of Bin	553.56
8	1/1/2008	67672	PJ	CT ENVIRONMENTAL SERVICES - Transport of bin	430.85
9	1/1/2008	67673	PJ	CT ENVIRONMENTAL SERVICES - Transport of bin 11/29/07	410.85
10	1/1/2008	67674	PJ	CT ENVIRONMENTAL SERVICES - Transport of bin	330.79
11	1/1/2008	67675	PJ	CT ENVIRONMENTAL SERVICES - Transport of bin	456.53
12	1/1/2008	67676	PJ	CT ENVIRONMENTAL SERVICES - Transport of bin 11/29/07	702.21
13	1/1/2008	67677	PJ	CT ENVIRONMENTAL SERVICES - Transport of bin 11/30/07	727.89
14	1/1/2008	007925	PJ	APACHE JUNCTION LANDFILL - Sludge removal 12/7/07-12/31/07	4,807.48
15	1/1/2008	63100	PJ	LIQUID ENVIRONMENTAL SOLUTIONS - Sludge removal	310.00
16	1/1/2008	68074	PJ	CT ENVIRONMENTAL SERVICES - Onsite shuttling 12/26/07	437.23
17	1/1/2008	68073	PJ	CT ENVIRONMENTAL SERVICES - Bin service 12/5/07-12/31/07	316.00
18	1/1/2008	68072	PJ	CT ENVIRONMENTAL SERVICES - Bin Service 11/12/07- 12/31/07	796.61
19	1/1/2008	68071	PJ	CT ENVIRONMENTAL SERVICES - Bin spotting 12/26/07	362.05
20	1/1/2008	68070	PJ	CT ENVIRONMENTAL SERVICES - transport of bin 12/28/07	576.28
21	1/1/2008	68069	PJ	CT ENVIRONMENTAL SERVICES - Transport of bin 12/31/07	628.42
22	1/1/2008	68068	PJ	CT ENVIRONMENTAL SERVICES - Transport of bin 12/31/07	452.93
23	1/1/2008	68067	PJ	CT ENVIRONMENTAL SERVICES - Transport of bin 12/29/07	846.75
24	1/1/2008	68066	PJ	CT ENVIRONMENTAL SERVICES - Transport of bin 12/28/07	452.93
25	1/1/2008	68065	PJ	CT ENVIRONMENTAL SERVICES - Transport of bin 12/27/07	472.93
26	1/1/2008	68064	PJ	CT ENVIRONMENTAL SERVICES - transport of bin 12/27/07	402.60
27	1/1/2008	68063	PJ	CT ENVIRONMENTAL SERVICES - transport of bin 12/26/07	578.75
28	1/1/2008	68062	PJ	CT ENVIRONMENTAL SERVICES - Transport of bin 12/24/07	427.77
29	1/1/2008	68061	PJ	CT ENVIRONMENTAL SERVICES - Transport of bin 12/22/07	626.38
30	1/1/2008	68060	PJ	CT ENVIRONMENTAL SERVICES - transport of bin 12/21/07	540.06
31	1/1/2008	68059	PJ	CT ENVIRONMENTAL SERVICES - Transport of bin	514.79
32	1/1/2008	68058	PJ	CT ENVIRONMENTAL SERVICES - Transport of bin 12/20/07	480.06
33	1/1/2008	68057	PJ	CT ENVIRONMENTAL SERVICES - transport of bin	353.72
34	1/1/2008	68056	PJ	CT ENVIRONMENTAL SERVICES - transport of bin 12/19/07	656.91
35	1/1/2008	68055	PJ	CT ENVIRONMENTAL SERVICES - Transport of bin	379.00
36	1/1/2008	68054	PJ	CT ENVIRONMENTAL SERVICES - Transport of bin 12/18/07	497.72
37	1/1/2008	68053	PJ	CT ENVIRONMENTAL SERVICES - Transport of bin 12/18/07	863.25
38	1/1/2008	68052	PJ	CT ENVIRONMENTAL SERVICES - Transport of bin 12/17/07	635.85
39	1/1/2008	68051	PJ	CT ENVIRONMENTAL SERVICES - Transport of bin	631.33
40	1/1/2008	68050	PJ	CT ENVIRONMENTAL SERVICES - transport of bin	636.81
41	1/1/2008	68049	PJ	CT ENVIRONMENTAL SERVICES - Transport of bin	594.92
42	1/1/2008	68048	PJ	CT ENVIRONMENTAL SERVICES - Transport of bin 12/13/07	483.98
43	1/1/2008	68047	PJ	CT ENVIRONMENTAL SERVICES - Transport of bin	662.27
44	1/1/2008	68046	PJ	CT ENVIRONMENTAL SERVICES - Transport of bin 12/11/07	447.55
45	1/1/2008	68045	PJ	CT ENVIRONMENTAL SERVICES - Transport of bin 12/10/07	518.50
46	1/1/2008	68044	PJ	CT ENVIRONMENTAL SERVICES - Transport of bin 12/7/07	557.09
47	1/1/2008	68043	PJ	CT ENVIRONMENTAL SERVICES - Transport of bin 12/07/07	434.79
48	1/1/2008	68042	PJ	CT ENVIRONMENTAL SERVICES - Transport of bin 12/6/07	557.09
49	1/1/2008	68041	PJ	CT ENVIRONMENTAL SERVICES - Transport of bin 12/6/07	511.50
50	1/1/2008	68040	PJ	CT ENVIRONMENTAL SERVICES - Transport of bin 12/5/07	537.09
51	1/1/2008	68039	PJ	CT ENVIRONMENTAL SERVICES - Transport of bin 12/4/07	505.94
52	1/1/2008	68038	PJ	CT ENVIRONMENTAL SERVICES - Transport of bin	485.94
53	1/1/2008	68037	PJ	CT ENVIRONMENTAL SERVICES - Transport of bin 12/3/07	602.65
54	1/1/2008	68036	PJ	CT ENVIRONMENTAL SERVICES - Transport of bin 12/3/07	478.79
55					$ 31,488
56					
57					

Johnson Utilities - Wastewater Division
Test Year Ended December 31, 2007
Adjustment to Revenues and Expenses
Adjustment Number 5

Exhibit
Rebuttal Schedule C-2
Page 6
Witness: Bourassa

Line No.			
1	Purchased Power Expense		
2			
3			
4	Credit refunds from SRP recorded in test year	$	26,003
5			
6			
7	Increase (decrease) in Purchased Power	$	26,003
8			
9			
10			
11	Adjustment to Revenue and/or Expense	$	26,003
12			
13			
14			
15			
16	REFERENCE		
17	Staff Adj. #34 Schedule JMM WW-17		
18			
19			
20			

Johnson Utilities - Wastewater Division
Test Year Ended December 31, 2007
Adjustment to Revenues and Expenses
Adjustment Number 6

Exhibit
Rebuttal Schedule C-2
Page 7
Witness: Bourassa

Line No.		
1	Outside Services	
2		
3		
4	Remove outside services expense	$ (9,022)
5		
6		
7	Increase (decrease) in Outside Services	$ (9,022)
8		
9		
10		
11	Adjustment to Revenue and/or Expense	$ (9,022)
12		
13		
14		
15		
16	REFERENCE	
17	Staff Adj. # 4 Schedule JMM WW-18	
18		
19		
20		

Johnson Utilities - Wastewater Division
Test Year Ended December 31, 2007
Adjustment to Revenues and Expenses
Adjustment Number 7

Exhibit
Rebuttal Schedule C-2
Page 8
Witness: Bourassa

Line No.		
1	Miscellaneous Expenses	
2		
3		
4	Remove unncessary expenses	$ (993)
5		
6		
7	Increase (decrease) in Misc. Expense	$ (993)
8		
9		
10		
11	Adjustment to Revenue and/or Expense	$ (993)
12		
13		
14		
15		
16	REFERENCE	
17	Staff Adj. # 5 Schedule JMM WW-19	
18		
19		
20		
21		
22		

Johnson Utilities - Wastewater Division
Test Year Ended December 31, 2007
Adjustment to Revenues and Expenses
Adjustment Number 8

Exhibit
Schedule C-2
Page 9
Witness: Bourassa

Line No.				
1	Interest Synchronization			
2				
3				
4	Fair Value Rate Base	$ 17,479,735		
5	Weighted Cost of Debt (from D-1)	0.22%		
6	Interest Expense		$	38,986
7				
8	Interest Expense Per Direct Filing		$	42,710
9				
10	Increase (decrease) in Interest Expense			(3,723)
11				
12				
13				
14	Adjustment to Revenue and/or Expense		$	3,723
15				
16				
17				
18				
19				
20				
21				
22				
23				
24				

Johnson Utilities - Wastewater Division
Test Year Ended December 31, 2007
Adjustment to Revenues and Expenses
Adjustment Number 9

Exhibit
Schedule C-2
Page 10
Witness: Bourassa

Line No.			Adjusted Test year		Adjusted With Rate Increase	
1						
2						
3						
4						
5	Taxable Income		$ 936,500		$ 3,263,032	
6						
7						
8						
9	Income Before Taxes		$ 936,500		$ 3,263,032	
10						
11	Arizona Income Before Taxes		$ 936,500		$ 3,263,032	
12						
13						
14	1	**Less Than 10,000**	-		-	
15	2	**Less Than 25,000**	-		-	
16	3	**Less Than $50,000**	-		-	
17	4	**Less Than $150,000**	-		-	
18	5	**Over $150,000**	41,478		148,142	
19	Less Arizona Income Tax		$ 41,478		$ 148,142	
20	Effective Arizona Tax Rate		4.4%		4.5%	
21						
22	Arizona Taxable Income		895,022		3,114,890	
23	Arizona Income Taxes		41,478		148,142	
24						
25	Federal Income Before Taxes		936,500		3,263,032	
26						
27	Less Arizona Income Taxes		41,478		148,142	
28						
29	Federal Taxable Income		895,022		3,114,890	
30						
31						
32						
33	FEDERAL INCOME TAXES:					
34	10% BRACKET		783		783	
35	15% BRACKET		3,604		3,604	
36	25% BRACKET		11,313		11,313	
37	28% BRACKET		23,450	Federal	23,450	Federal
38	33% BRACKET		62,321	Effective	62,321	Effective
39	35% BRACKET		190,863	Tax	967,817	Tax
40				Rate		Rate
41	Federal Income Taxes		$ 292,332	31.22%	$ 1,069,286	32.77%
42						
43						
44	Total Income Tax		$ 333,810		$ 1,217,427	
45						
46	Overall Tax Rate		35.64%		37.31%	
47						
48	Income Tax at Proposed Rates Effective Rate		$ 349,405			
49						

Johnson Utilities - Wastewater Division
Test Year Ended December 31, 2007
Computation of Gross Revenue Conversion Factor

Exhibit
Rebuttal Schedule C-3
Page 1
Witness: Bourassa

Line No.	Description	Percentage of Incremental Gross Revenues
1	Federal Income Taxes	32.77%
2		
3	State Income Taxes	4.54%
4		
5	Other Taxes and Expenses	0.00%
6		
7		
8	Total Tax Percentage	37.31%
9		
10	Operating Income % = 100% - Tax Percentage	62.69%
11		
12		
13		
14		
15	1 = Gross Revenue Conversion Factor	
16	Operating Income %	1.5951
17		
18	SUPPORTING SCHEDULES:	RECAP SCHEDULES:
19		A-1
20		

Johnson Utilities - Wastewater Division
Test Year Ended December 31, 2007
Revenue Summary
With Annualized Revenues to Year End Number of Customers

Exhibit
Rebuttal Schedule H-1
Page 1
Witness: Bourassa

Line No.	Meter Size	Class	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues
1	3/4 Inch	Residential	$ 9,908,899	$ 12,052,824	$ 2,143,925	21.64%	98.18%	98.24%
2	1 Inch	Residential	45,374	55,190	9,816	21.63%	0.45%	0.45%
3	1.5 Inch	Residential	-	-	-	0.00%	0.00%	0.00%
4	2 Inch	Residential	-	-	-	0.00%	0.00%	0.00%
5	3 Inch	Residential	1,540	1,873	333	21.64%	0.02%	0.02%
6								
7		Subtotal	9,955,813	12,109,887	2,154,074	21.64%	98.65%	98.70%
8								
9	3/4 Inch	Commercial	$ 2,079	$ 2,529	450	21.64%	0.02%	0.02%
10	1 Inch	Commercial	3,087	3,755	668	21.63%	0.03%	0.03%
11	1.5 Inch	Commercial	22,428	27,280	4,852	21.63%	0.22%	0.22%
12	2 Inch	Commercial	30,856	37,532	6,676	21.64%	0.31%	0.31%
13	3 Inch	Commercial	4,620	5,620	1,000	21.64%	0.05%	0.05%
14	4 Inch	Commercial	17,640	21,457	3,817	21.64%	0.17%	0.17%
15								
16		Subtotal	$ 80,710	$ 98,173	$ 17,463	21.64%	0.80%	0.80%
17								
18	3/4 Inch	Public Authority	$ 462	$ 562	$ 100	21.64%	0.00%	0.00%
19	1 Inch	Public Authority	-	-	-	0.00%	0.00%	0.00%
20	1.5 Inch	Public Authority	-	-	-	0.00%	0.00%	0.00%
21	2 Inch	Public Authority	8,932	10,864	1,932	21.64%	0.09%	0.09%
22	3 Inch	Public Authority	4,620	5,620	1,000	21.64%	0.05%	0.05%
23	4 Inch	Public Authority	8,820	10,729	1,909	21.64%	0.09%	0.09%
24								
25		Subtotal	$ 22,834	$ 27,775	4,941	21.64%	0.23%	0.23%
26								
27	6 Inch	Effluent	$ 33,163	$ 33,163	-	0.00%	0.33%	0.27%
28								
29								
30								
31		Subtotal	$ 33,163	$ 33,163	-	0.00%	0.33%	0.27%
32								
33	Total Revenues Before Annualization		$ 10,092,520	$ 12,268,998	$ 2,176,478	21.57%	100.00%	100.00%
34								

Johnson Utilities - Wastewater Division
Test Year Ended December 31, 2007
Revenue Summary
With Annualized Revenues to Year End Number of Customers

Exhibit
Rebuttal Schedule H-1
Page 2
Witness: Bourassa

Line No.	Meter Size	Class	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Additional Bills to be Issued		Schedule Number
1				Revenue Annualization					
2									
3									
4									
5	3/4 Inch	Residential	$ 681,989	$ 829,547	147,558	21.64%	17,714		C-2, P7.1
6	1 Inch	Residential	3,430	4,172	742	21.63%	70		C-2, P7.2
7	1.5 Inch	Residential	-	-	-	0.00%	-		
8	2 Inch	Residential	-	-	-	0.00%	-		C-2, P7.3
9	3 Inch	Residential	3,080	3,746	666	21.64%	8		C-2, P7.4
10									
11		Subtotal	$ 688,499	$ 837,465	148,966	21.64%	17,792		
12									
13	3/4 Inch	Commercial	$ 231	$ 281	50	21.64%	6		C-2, P7.5
14	1 Inch	Commercial	441	536	95	21.63%	9		C-2, P7.6
15	1.5 Inch	Commercial	(2,772)	(3,372)	(600)	0.00%	(44)		C-2, P7.7
16	2 Inch	Commercial	5,684	6,914	1,230	21.64%	56		C-2, P7.8
17	3 Inch	Commercial	-	-	-	0.00%	-		C-2, P7.9
18	4 Inch	Commercial	-	-	-	0.00%	-		C-2, P7.10
19					-				
20		Subtotal	$ 3,584	$ 4,359	298,708	8334.48%	27		
21									
22	3/4 Inch	Public Authority	$ -	$ -	-	0.00%	-		C-2, P7.11
23	1 Inch	Public Authority	$ -	$ -	-	0.00%	-		C-2, P7.12
24	1.5 Inch	Public Authority	$ -	$ -	-	0.00%	-		C-2, P7.13
25	2 Inch	Public Authority	$ 812	$ 988	176	21.64%	-		C-2, P7.14
26	3 Inch	Public Authority	$ -	$ -	-	0.00%	-		C-2, P7.15
27	4 Inch	Public Authority	$ -	$ -	-	0.00%	-		
28									
29		Subtotal	$ 812	$ 988	176	21.64%	-		
30									
31									
32	6 Inch	Effluent	65,351	65,351	-	0.00%	-	C-2 Adj. #3	
33									
34									
35									
36		Subtotal	$ 65,351	$ 65,351		0.00%	-		
37									
38	Total Revenue Annualization		$ 758,246	$ 908,163	$ 447,674	59.04%	17,819		
39									

Johnson Utilities - Wastewater Division
Test Year Ended December 31, 2007
Revenue Summary
With Annualized Revenues to Year End Number of Customers

Exhibit
Rebuttal Schedule H-1
Page 3
Witness: Bourassa

Line No.		Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues
1							
2							
3	Subtotal Metered Revenues	$ 10,092,520	$ 12,268,998	$ 2,176,478	21.57%	100.00%	100.00%
4	Subtotal Revenue Annualization	758,246	908,163	149,917	19.77%	7.51%	7.40%
5	Total Metered Revenues	$ 10,850,766	$ 13,177,161	$ 2,326,395	21.44%		
6							
7	Misc. Revenues	$ 502,206	$ 502,206	-	0.00%	4.98%	4.09%
8	Reconciling Amount (Tolerance)	1,854	1,991	137	7.40%	0.02%	0.02%
9	Total Water Revenues	$ 11,354,826	$ 13,681,358	$ 2,326,532	20.49%	0.00%	0.00%
10							
11							
12	Revenue Reconciliation						
13							
14	Revenue per bill count before revenue annualization		$ 10,092,520				
15	Revenue per GL (metered water revenues)		10,094,374				
16	Difference		$ (1,854)				
17	Difference %		-0.02%				
18	Tolerance %		0.50%				
19	Tolerance Amount + or -		$ 50,472				
20							
21	Acceptable?		YES				
22							
23							
24							
25							
26							
27							
28							
29							
30							
31							
32							
33							
34							
35							

Johnson Utilities - Wastewater Division
Test Year Ended December 31, 2007
Customer Summary

Exhibit
Rebuttal Schedule H-2
Page 1
Witness: Bourassa

Line No.		Meter Size, Class	(a) Average Number of Customers at 12/31/2007	Average Bill Present Rates	Average Bill Proposed Rates	Proposed Increase Dollar Amount	Proposed Increase Percent Amount
1	3/4 Inch	Residential	21,448	$ 38.50	$ 46.83	$ 8.33	21.64%
2	1 Inch	Residential	77	49.00	59.60	10.60	21.63%
3	1.5 Inch	Residential	-	-	-	-	0.00%
4	2 Inch	Residential	-	-	-	-	0.00%
5	3 Inch	Residential	0	385.00	468.31	83.31	21.64%
6		Subtotal	21,525				
7							
8	3/4 Inch	Commercial	5	$ 38.50	$ 46.83	8.33	21.64%
9	1 Inch	Commercial	5	49.00	59.60	10.60	21.63%
10	1.5 Inch	Commercial	30	63.00	76.63	13.63	21.63%
11	2 Inch	Commercial	25	101.50	123.46	21.96	21.64%
12	3 Inch	Commercial	1	385.00	468.31	83.31	21.64%
13	4 Inch	Commercial	2	735.00	894.05	159.05	21.64%
14		Subtotal	68				
15							
16	3/4 Inch	Public Authority	1	$ -	$ -	$ -	0.00%
17	1 Inch	Public Authority	-	-	-	-	0.00%
18	1.5 Inch	Public Authority	-	-	-	-	0.00%
19	2 Inch	Public Authority	-	102	123	21.96	21.64%
20	3 Inch	Public Authority	1	385	468	83.31	21.64%
21	4 Inch	Public Authority	1	735	894	159.05	21.64%
22		Subtotal	3				
23							
24							
25		Total	21,596				
26							

27 **(a)** Average number of customers of less than one (1), indicates that less than 12 bills were issued during the year.

Johnson Utilities - Wastewater Division
Test Year Ended December 31, 2006
Present and Proposed Rates

Exhibit
Rebuttal Schedule H-3
Page 1
Witness: Bourassa

Line No.	Monthly Usage Charge for:			Present Rates		Proposed Rates		Change	Percent Change
1	Meter Size (All Zones and Classes):								
2	5/8 Inch		$	35.00	$	42.57	$	7.57	21.63%
3	3/4 Inch			38.50		46.83		8.33	21.64%
4	1 Inch			49.00		59.60		10.60	21.63%
5	1 1/2 Inch			63.00		76.63		13.63	21.63%
6	2 Inch			101.50		123.46		21.96	21.64%
7	3 Inch			385.00		468.31		83.31	21.64%
8	4 Inch			735.00		894.05		159.05	21.64%
9	6 Inch			1,015.00		1,234.65		219.65	21.64%
10	8 Inch			N/T		1,561.00			
11	10 Inch			N/T		2,497.60			
12									
13	Effluent	per 1000 gallons	$	0.62	$	0.62		-	0.00%
14		per acre foot	$	200.00	$	200.00		-	0.00%
15									

Johnson Utilities - Wastewater Division
Changes in Representative Rate Schedules
Test Year Ended December 31, 2007

Exhibit
Schedule H-3
Page 2
Witness: Bourassa
REVISED

Line No.	Other Service Charges	Present Rates	Proposed Rates
1	Establishment	$ 25.00	$ 25.00
2	Establishment (After Hours)	$ 40.00	$ 40.00
3	Deposit Requirement (Residential)	(a)	(a)
4	Deposit Requirement (Non Residential Meter)	(a)	(a)
5	Deposit Interest	(b)	(b)
6	Re-Establishment (With-in 12 Months)	(c)	(c)
7	Re-Establishment (After Hours)	(c)	(c)
8	NSF Check	$ 15.00	$ 25.00
9	Deferred Payment, Per Month	1.50%	1.50%
10	After hours service charge, per Rule R14-2-603D	Refer to	Refer to
11		Above	Above
12		Charges	Charges
13	Late Charge per month	1.5%	1.5%
14	Service Line Connection Charge	$ 350.00	$ 350.00
15	Main Extension Tariff, per Rule R14-2-606B	Cost	Cost
16	except refunds shall be based upon five percent (5%) of		
17	gross revenues from bonafide customers,		
18	until all advances are fully refunded to Developer.		
19	Off-site Facilities Hook-up Fee (See H-3, page 3)	(d)	(d)
20			
21			

22 (a) Residential - two times the estimated average monthly bill. Non-residential - two and one-half times the estimated
23 maximum monthly bill.
24 (b) Interest per Rule R14-2-603(B).
25 (c) Minimum charge times number of full months off the system. per Rule R14-2-603(B).
26 (d) New water installations. May be assessed only once per parcel, service connection, or lot within a sub-
27 division. Purpose is to equitably apportion the costs of constructing additional off-site facilities to provide
28 water production, delivery, storage, and presssure among all new service connections.
29 (e) New wastewater installations. May be assessed only once per parcel, service connection, or lot within a sub-
30 division.
31
32
33 IN ADDITION TO THE COLLECTION OF REGULAR RATES, THE UTILITY WILL COLLECT FROM
34 ITS CUSTOMERS A PROPORTIONATE SHARE OF ANY PRIVILEGE, SALES, USE, AND FRANCHISE
35 TAX. PER COMMISSION RULE 14-2-608D(5).
36 ALL ADVANCES AND/OR CONTRIBUTIONS ARE TO INCLUDE LABOR, MATERIALS, OVERHEADS,
37 AND ALL APPLICABLE TAXES, INCLUDING ALL GROSS-UP TAXES FOR INCOME TAXES, IF APPLICABLE.
38
39 All advances and/or contributions are to include labor, materials and parts, overheads and all applicable taxes.
40 including all gross-up taxes, if applicable.

Johnson Utilities - Wastewater Division
Test Year Ended December 31, 2007
Hook-Up Fees

Exhibit
Rebuttal Schedule H-3
Page 3
Witness: Bourassa

Line No.			
1			
2	**Off-site Facilities Hook-up Fee**		
3			
4		Present	Proposed
5	Lateral Service	Charge	Charge
6	4 Inch	$ 1,000	$ 1,000
7	6 Inch	2,000	2,000
8	8 Inch or greater	4,000	4,000
9			
10			
11			
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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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

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

PRE-FILED REBUTTAL TESTIMONY OF BRIAN TOMPSETT

ON BEHALF OF

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

MARCH 9, 2009

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Exhibit E: CAP Final 200/2010 Rate Schedule

Exhibit F: Preliminary Construction Estimate

I. INTRODUCTION.

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Brian Tompsett. My business address is 5230 East Shea Boulevard, Scottsdale, Arizona, 85254.

Q. MR. TOMPSETT, BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am the Executive Vice President of Johnson Utilities, L.L.C., doing business as Johnson Utilities Company ("Johnson Utilities" or the "Company").

Q. HAVE YOU PREVIOUSLY PRE-FILED TESTIMONY IN THIS DOCKET OR IN ANY OTHER COMMISSION DOCKET?

A. No.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THIS PROCEEDING?

A. The purpose of my rebuttal testimony is to address certain adjustments to rate base and operating income as contained in: (i) the Pre-Filed Direct Testimony of Jeffrey M. Michlik (Water Division) dated February 4, 2009 (the "Michlik Direct Testimony-Water"); (ii) the Pre-Filed Direct Testimony of Jeffrey Michlik (Wastewater Division) dated February 4, 2009 (the "Michlik Direct Testimony-Wastewater"); (iii) the Pre-Filed Direct Testimony of Marlon Scott, Jr., dated February 4, 2009 (the "Scott Direct Testimony"); and (iv) the Pre-Filed Direct Testimony of Rodney Moore dated February 4, 2009 (the "Moore Direct Testimony") on behalf of the Residential Utility Consumer Office ("RUCO").

Q. IS JOHNSON UTILITIES PRE-FILING ANY OTHER TESTIMONY IN REBUTTAL TO THE PRE-FILED DIRECT TESTIMONIES OF UTILITIES DIVISION STAFF AND RUCO?

A. Yes. Simultaneous with the filing of my rebuttal testimony, Johnson Utilities witness Thomas J. Bourassa will be filing rebuttal testimony as follows:

- Pre-Filed Rebuttal Testimony of Thomas J. Bourassa, Volume I–Cost of Capital, dated March 9, 2009 ("Bourassa Rebuttal Volume I").
- Pre-Filed Rebuttal Testimony of Thomas J. Bourassa, Volume II–Water Division Rate Base, Income Statement, Revenue Requirement, Rate Design, dated March 9, 2009 ("Bourassa Rebuttal Volume II").
- Pre-Filed Rebuttal Testimony of Thomas J. Bourassa, Volume III–Wastewater Division Rate Base, Income Statement, Revenue Requirement, Rate Design, dated March 9, 2009 ("Bourassa Rebuttal Volume III").

Bourassa Rebuttal Volume I responds to the Pre-Filed Direct Testimony on Cost of Capital of William A. Rigsby of RUCO dated February 4, 2009. Bourassa Rebuttal Volumes II and III address adjustments to rate base and operating income as contained in the Michlik Direct Testimony-Water, the Michlik Direct Testimony-Wastewater, the Scott Direct Testimony, and the Moore Direct Testimony.

Q. HOW IS YOUR TESTIMONY ORGANIZED?

A. I begin by addressing the customer complaint history for Johnson Utilities for the years 2006 through March 9, 2009. I then address the Michlik Direct Testimony-Water and the Moore Direct Testimony pertaining to Johnson Utilities' water division. Next, I address the Michlik Direct Testimony-Wastewater and the Moore Direct Testimony pertaining to Johnson Utilities' wastewater division. With regard to each division, I begin by addressing adjustments to rate base, followed by adjustments to operating income, and then other adjustments or recommendations.

II. CUSTOMER COMPLAINT HISTORY.

Q. AT PAGES 3-4 OF BOTH THE MICHLIK DIRECT TESTIMONY-WATER AND THE MICHLIK DIRECT TESTIMONY-WASTEWATER, MR. MICHLIK REPORTS THAT JOHNSON UTILITIES HAD 12 CUSTOMER COMPLAINTS IN 2006, 69 CUSTOMER COMPLAINTS IN 2007, 30 CUSTOMER COMPLAINTS IN 2008, AND 1 CUSTOMER COMPLAINT SO FAR IN 2009.[1] WAS THERE A REASON WHY THE NUMBER OF COMPLAINTS INCREASED IN 2007?

A. Yes. In 2006, customer complaints averaged about one per month, which is approximately the same trend that Johnson Utilities is experiencing in 2009. During 2007 and 2008, a number of newspaper articles and television news stories ran in the media regarding Johnson Utilities. One of the articles even provided the phone number of the Arizona Corporation Commission and encouraged customers of Johnson Utilities to call the Commission to complain. As a result of the media attention focused on the Company, customer complaints in 2007 and 2008 were higher than normal. I think it is very important to keep in mind that all complaints and inquiries regarding Johnson Utilities, with the single exception of a formal complaint filed by Swing First Golf, LLC, pending in Docket WS-02987A-08-0049, have been resolved and closed as stated in the Michlik Direct Testimony-Water and the Michlik Direct Testimony-Wastewater. I think it should also be noted that more often then not, complaints related to billing issues and not service issues.

III. WATER DIVISION—JOHNSON UTILITIES.

[1] As of March 9, 2009, Johnson Utilities had received four customer complaints in 2009, and each of the complaints has been resolved and closed out.

A. **RESPONSE TO ADJUSTMENTS TO RATE BASE—WATER DIVISION**.

Q. WHAT WATER RATE BASE ADJUSTMENTS WILL YOU ADDRESS IN YOUR TESTIMONY?

A. I will address Staff Rate Base Adjustments 1, 2, 4, 5 and 8 in the Michlik Direct Testimony-Water and RUCO Rate Base Adjustment 3 in the Moore Direct Testimony.

Staff Rate Base Adjustment 1 (Water Division): Plant Not Used and Useful.

Q. AT PAGE 8, LINES 18-20 OF THE MICHLIK DIRECT TESTIMONY-WATER, MR. MICHLIK RECOMMENDS DECREASING WATER PLANT IN SERVICE BY $4,127,019 TO REMOVE PLANT FROM RATE BASE THAT IS NOT "USED AND USEFUL" AS SHOWN ON SCHEDULES JMM-W2 AND JMM-W3.[2] DO YOU AGREE WITH THIS ADJUSTMENT?

A. Johnson Utilities agrees with all of the adjustments except one. Mr. Michlik has removed the $731,125 original cost of a four-mile section of 12-inch water main north of Johnson Utilities' Ricke Water Plant as "plant not used and useful." However, this water main was constructed and installed to provide water service to a new subdivision known as Silverado Ranch that is planned for approximately 1,834 residential units. Johnson Utilities and the land owner, MBC CVII, LLC, executed a Master Utility Agreement on September 7, 2006, ("Silverado Ranch Master Utility Agreement") and installation of the water main was completed pursuant to the agreement in the fourth quarter of 2006 at an original cost of

[2] The $4,127,019 reduction in water plant in service shown on column "B" of Mr. Michlik's Schedule JMM-W3 (page 1 of 2) is based upon Table H-1 (*Plant Not Used and Useful*) of Exhibit MSJ (page 11 of 47) to the Scott Direct Testimony.

$731,125. A copy of the Silverado Ranch Master Utility Agreement is attached as Exhibit A to my testimony. Because the water main was constructed as required under the Silverado Ranch Master Utility Agreement, it would be inappropriate to remove the cost of the water main from plant in service.

Q. HAS CONSTRUCTION OF HOMES PROCEEDED AT SILVERADO RANCH?

A. No. While the initial site preparation and grading work was performed by the developer, construction of homes has not yet proceeded due to the current lack of demand for new residential housing. However, Johnson Utilities should not be penalized for the lack of progress at Silverado Ranch by removing the $731,125 cost of the water main from plant in service. Johnson Utilities received a request for service from the developer. The decision to construct the water main was prudent at the time it was made, and Johnson Utilities was contractually obligated to construct the water main under the Silverado Ranch Master Utility Agreement. In addition, the water main was also constructed within a roadway section that has already been paved by the developer. Moreover, the water main is in place and ready to provide water to customers within Silverado Ranch once homes are constructed. Therefore, Mr. Michlik's recommendation to remove the $731,125 cost of the four-mile water main constructed to serve Silverado Ranch should be rejected. In Bourassa Rebuttal Testimony Volume II, Mr. Bourassa has added back the $731,125 in water plant in service.

Q. WHAT ABOUT THE REMAINING $3,395,894 IN ADJUSTMENTS FOR PLANT THAT WAS FOUND TO BE NOT USED AND USEFUL?[3]

[3] $4,127,019 minus $731,125 equals $3,395,894.

A. Johnson Utilities agrees with removing the remaining $3,395,894 in plant not used and useful as identified on Table H-1 (*Plant Not Used and Useful*) of Exhibit MSJ (page 11 of 47) to the Scott Direct Testimony.

Staff Rate Base Adjustment 2 (Water Division): Excess Capacity.

Q. IN THE MICHLIK DIRECT TESTIMONY-WATER AT PAGE 9, LINES 8-10, MR. MICHLIK RECOMMENDS DECREASING WATER PLANT IN SERVICE BY $1,127,065 TO REMOVE "EXCESS CAPACITY" PLANT COSTS AS SHOWN ON SCHEDULES JMM-W3 AND JMM-W5.[4] IS THIS ADJUSTMENT APPROPRIATE?

A. No. The well and storage tank that Mr. Michlik removed as excess capacity are, in fact, necessary and integral to the operation of the Anthem at Merrill Ranch system. The Anthem at Merrill Ranch system has two water plants which each connect to the distribution system. The first water plant is comprised of a 1.0 million gallon storage tank and Anthem Well #1, a 600 gallon-per-minute ("GPM") well located adjacent to the storage tank. The second water plant is comprised of (i) a 0.5 million gallon storage tank; (ii) the adjacent Rancho Sendero Well #1, a 600 GPM well; and (iii) the adjacent Rancho Sendero Well #2, a 300 GPM well. All three wells and both storage tanks are necessary to provide safe and reliable water service to Anthem at Merrill Ranch.

Q. MR. MICHLIK'S TESTIMONY IS BASED UPON EXHIBIT MSJ TO THE SCOTT DIRECT TESTIMONY. AT PAGE 9 OF THE SCOTT DIRECT TESTIMONY, MR. SCOTT STATES THAT RANCHO SENDERO WELL #1 AND THE 0.5 MILLION GALLON STORAGE TANK ADJACENT TO

[4] The $1,127,065 reduction in water plant in service shown on column "C" of Mr. Michlik's Schedule JMM-W3 (page 1 of 2) is based upon Table H-3 (*Excess Plant Capacity*) of Exhibit MSJ (page 12 of 47) to the Scott Direct Testimony.

THE RANCHO SENDERO WELLS ARE NOT NEEDED TO SERVE HIS GROWTH PROJECTION OF 1,780 CUSTOMERS AT THE END OF 2012, AND THAT THEY SHOULD BE DISALLOWED AS EXCESS CAPACITY. DO YOU AGREE WITH MR. SCOTT?

A. No. There are three primary problems with Mr. Scott's recommendation. First, Mr. Scott has substantially underestimated customer growth through 2012 at Anthem at Merrill Ranch. Mr. Scott states that there were 857 customers on the Anthem water system at the end of test year 2007. He then uses a linear regression analysis[5] to reach an estimate of 1,780 customers at the end of 2012, for an average growth rate of approximately 185 customers per year. However, in 2008, a year for which we have actual data, Johnson Utilities added 366 customers. This is approximately twice Mr. Scott's estimated average growth rate of 185 customers.

Q. IS THERE AN EXPLANATION FOR WHY MR. SCOTT'S PROJECTED GROWTH RATE IS TOO LOW?

A. Yes. Mr. Scott appears to have extrapolated his growth estimate based upon customer growth for the fourth quarter 2007. However, home closings in the fourth quarter are typically much lower than home closings during the middle of the year because people avoid moving during the holidays. To illustrate my point, I have attached a 2007 water use data sheet for the Anthem system as Exhibit B to my testimony. As you can see from the 2007 data, Johnson Utilities added 17 customers in October, 3 customers in November, and 30 customers in December, for a total of only 50 for the entire fourth quarter. By way of comparison, Johnson Utilities added 71 customers in June, 69 customers in July, 38 customers in

[5] *See* Figure D-2 (*Anthem System Growth Projection*) of Exhibit MSJ (page 22 of 47) to the Scott Direct Testimony.

August and 71 customers in September, for a monthly average just over 62. The monthly average over the four summer months exceeded new customers for the entire fourth quarter. Because Mr. Scott's analysis is extrapolated from fourth quarter 2007 data, he has significantly underestimated the growth that will likely occur in the Anthem at Merrill Ranch system through 2012.

Q. WHAT IS JOHNSON UTILITIES' ESTIMATE OF GROWTH FOR THE PERIOD THROUGH 2012?

A. No one can dispute that 2008 was a disastrous year for the housing industry. Yet, Johnson Utilities saw an increase of 366 customers in its Anthem at Merrill Ranch system. The federal government has introduced billions of dollars in liquidity to shore up the nation's banks and has recently passed a $789 billion economic stimulus package. In addition, interest rates remain at historic low levels, and there are many new lending programs targeted specifically at rural areas such as Anthem at Merrill Ranch. Further, market demand for new housing at Anthem at Merrill Ranch remains relatively strong. What this all means is that we have or will likely reach a low watermark in the current real estate down turn, and I would expect to see an acceleration of customer growth in the Company's Anthem at Merrill Ranch water system over the next several years. Therefore, I believe that the 366 customers added in 2008 represents a conservative number that should be used to estimate growth going forward. Multiplying 366 by five years and adding that number to the test year-end customer count of 857 produces a customer count of 2,687 at the end of 2012. SEE Customer Projection for Anthem Water System, attached as Exhibit C. This estimate is 51% higher than Mr. Scott's estimate of 1,780.

Q. BASED UPON YOUR ESTIMATE OF 2,687 CUSTOMERS AT THE END OF 2012, IS THERE EXCESS CAPACITY IN THE WELL PRODUCTION

CAPACITY OR THE STORAGE CAPACITY AT THE ANTHEM AT MERRILL RANCH WATER SYSTEM?

A. No. The three wells in the Anthem at Merrill Ranch water system have a combined pumping capacity of 1,500 GPM. The two storage tanks have a combined storage capacity of 1.5 million gallons. Mr. Scott has recommended removing Rancho Sendero Well #1 (600 GPM of pumping capacity) as excess capacity ($422,238), but this would leave Johnson Utilities with only 900 GPM of combined pumping capacity from Rancho Sendero Well #1 and Anthem Well #1.[6] Using Mr. Scott's peak capacity factor of 0.35 GPM[7] per service connection and multiplying by 2,687 service connections produces a well capacity requirement of just over 940 GPM. Thus, the combined pumping capacity of 900 GPM from Rancho Sendero Well #1 and Anthem Well #1 is less than the 940 GPM that will be required to meet customer demand using Johnson Utilities' conservative estimate of 2,687 customers at the end of 2012.

Mr. Scott has also recommended removing the 0.5 million gallon storage tank as excess capacity ($693,827).[8] This would leave Anthem at Merrill Ranch with only 1.0 million gallons of storage at a single tank. Using Mr. Scott's peak factor of 400 gallons per day of storage capacity per service connection,[9] then multiplying by 2,687 service connections at the end of 2012, then adding Mr. Scott's figure of 120,000 gallons per day for fire flow produces a storage capacity requirement of 1,194,800 gallons. This storage requirement exceeds the storage capacity of the 1.0 million gallon tank by approximately 20%. It is clear that the

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[6] *See* Exhibit MSJ to the Scott Direct Testimony at page 9 of 47.
[7] *Id.*
[8] *Id.*
[9] *Id.*

Company's Anthem at Merrill Ranch water system does not have excess well production capacity of excess storage capacity.

Q. YOU STATED THAT THERE WERE THREE PRIMARY PROBLEMS WITH MR. SCOTT'S RECOMMENDATION ON EXCESS CAPACITY. WHAT IS THE SECOND?

A. My second concern is more serious because it pertains directly to the safety and reliability of the water system. Mr. Scott wants to remove the 600 GPM Rancho Sendero Well #1 as excess capacity. This would leave Johnson Utilities with the 600 GPM Anthem Well #1 and the 300 GPM Rancho Sendero Well #2. If the Anthem Well #1 was taken off-line for service—or if the well was lost due to a lighting strike—that would leave the Company with only the 300 GPM Rancho Sendero Well #2 to serve all of Anthem at Merrill Ranch. As of December 31, 2008, Johnson Utilities was serving 1,223 customers in its Anthem at Merrill Ranch water system. Using Mr. Scott's peak factor of 0.35 GPM and multiplying by 1,223 customers produces a required well production capacity of 428 GPM, so it is clear that the 300 GPM Rancho Sendero Well #1 could not keep up with demand in the event of the loss of Anthem Well #1. Based upon my years of experience in the utility business, wells do go down from time to time for a variety of reasons. Prudence requires that we plan for such a contingency.

I have a similar safely and reliability concern with regard to Mr. Scott's recommendation to remove 0.5 million gallons of storage. Pursuant to Arizona Administrative Code R18-5-503, Johnson Utilities must maintain storage for the average daily demand peak flow for a minimum of one day. For system design and planning purposes, Johnson Utilities uses a figure of 260 gallons per household per day for customer usage. Multiplying 260 gallons by the 2,687 customers at the end of 2012 and then multiplying that number by two (for two

days worth of storage) produces a storage requirement of 1,397,240 gallons. Obviously, this storage requirement exceeds the capacity of the 1.0 million gallon tank without allowing for fire flow storage. Thus, I would have serious concerns regarding the safety and reliability of the Anthem at Merrill Ranch water system if the 0.5 million gallon tank is removed as excess capacity.

Q. WHAT IS THE THIRD PROBLEM WITH MR. SCOTT'S RECOMMENDATION ON EXCESS CAPACITY?

A. Both Rancho Sendero Well #1 and Rancho Sendero Well #2 pump directly into the 0.5 million gallon storage tank, as opposed to the distribution system. Therefore, it is not possible to pump Rancho Sendero Well #2 into the water distribution system without going through the 0.5 million gallon storage tank. While Mr. Scott wants to remove the storage tank as excess capacity, the reality is that water from Rancho Sendero Well #2 (which Mr. Scott agrees is necessary to serve the customers) will flow through that tank 365 days a year. To modify the water system to directly connect Rancho Sendero Well #2 to the distribution system would be expensive, and more importantly, would remove important redundancy and water production capability. Thus, it would be inequitable to remove the 0.5 million gallon storage tank as excess capacity.

Q. WOULD YOU PLEASE SUMMARIZE JOHNSON UTILITIES' POSITION ON THE STAFF ADJUSTMENT TO REMOVE $1,127,065 IN WATER PLANT IN SERVICE AS EXCESS CAPACITY?

A. For all of the reasons I have discussed above, the Rancho Sendero Well #1 at an original cost of $433,238 and the 0.5 million gallon storage tank at a cost of $693,827 are not excess capacity and should not be removed from plant in service. Mr. Bourassa has rejected these adjustments in Bourassa Rebuttal Testimony Volume II.

Staff Rate Base Adjustment 4 (Water Division): Inadequately Supported Plant Costs.

Q. IN THE MICHLIK DIRECT TESTIMONY-WATER AT PAGE 14, LINES 7-8, MR. MICHLIK DECREASED PLANT IN SERVICE BY $7,959,115 ON THE GROUNDS THAT THE PLANT COSTS WERE INADEQUATELY SUPPORTED. DO YOU AGREE WITH THIS ADJUSTMENT?

A. No. Mr. Michlik asserts that Johnson Utilities did not provide "complete and authentic" information as required by Commission rules. However, the Company provided contracts, invoices, cancelled checks and/or main extension agreements which supported all but $885,064 of the $79,591,151 in plant in service. Stated differently, the Company supported almost 99% of the water plant in service with source documentation. Mr. Michlik specifically identifies contracts (which includes main extension agreements) and cancelled checks as source documentation that is "complete and authentic" information.[10] Thus, Staff's arbitrary 10% reduction in water plant in service totaling $7,959,115 is inappropriate.

Q. DID JOHNSON UTILITIES PROVIDE PLANT SOURCE DOCUMENTATION REQUESTED BY STAFF?

A. Yes. Johnson Utilities was responsive to Staff's data requests regarding plant documentation and submitted virtually all of the documentation that staff requested. Staff requested plant documentation on Staff's Data Requests JMM 1-43, 1-44, 4-2, 7-1, 7-2, 8-7, 8-8, 9-1 and 10-11. Johnson Utilities' only objection was to Staff Data Request JMM 4-2 which requested all of the construction company's invoices for the plant constructed with hook-up fees by an affiliated company from 1997 through 2007. The reply to Staff was that the construction

[10] Michlik Direct Testimony-Water at page 11, lines 1-7.

company's files were by vendor and not by job, and that assembling the requested information would be extremely time consuming and burdensome for the entire 11-year period. Johnson Utilities requested that Staff narrow its request so that the Company could answer the requests within the discovery time constraints. There was a meeting with Staff to address this issue, and Staff agreed to accept wire transfers and cancelled checks that tied back to the plant addition backup already provided to staff with the responses to Staff Data Requests JMM 1-43 and JMM 1-44. As a result of that meeting, Staff issued Data Request JMM 9-1 asking for the check copies and/or wire transfers which were then provided to Staff. Johnson Utilities is of the opinion that it was responsive to all Staff data requests.

Q. MR. MICHLIK STATES AT PAGE 12, LINE 9 OF THE MICHLIK DIRECT TESTIMONY-WATER THAT JOHNSON UTILITIES DID NOT FILE MOST OF ITS 2000-2007 MAIN EXTENSION AGREEMENTS WITH THE COMMISSION UNTIL 2008. IS THIS TRUE?

A. Yes. It is true that many of the Company's main extension agreements executed between 2003 and 2007 were not submitted to the Utilities Division until 2008. The Company recognizes the seriousness of this oversight, and has adopted procedures to ensure that all future main extension agreements are submitted on a timely basis. The Company is currently working with Staff for approval of the remaining executed main extension agreements pursuant to Arizona Administrative Code R14-2-406(M).

Q. MR. MICHLIK STATES AT PAGE 12, LINE 12 OF THE MICHLIK DIRECT TESTIMONY-WATER THAT "APPROXIMATELY ALL OF THE PLANT WAS CONSTRUCTED BY AFFILIATES" OF JOHNSON UTILITIES. IS THIS STATEMENT ACCURATE?

A. No. Johnson Utilities did not enter into any main extension agreements with an affiliated party from 2005 forward. Johnson Utilities became a Class A utility in 2005.

Q. MR. MICHLIK STATES AT PAGE 13, LINES 16-17 OF THE MICHLIK DIRECT TESTIMONY-WATER THAT "STAFF ASKED BY COMPANY, ON NUMEROUS OCCASIONS, TO PROVIDE THE SOURCE PLANT DOCUMENTATION" AND THAT "MOST OF THE UNDERLYING PLANT DOCUMENTATION WAS NEVER PROVIDED." DO YOU AGREE WITH THIS STATEMENT?

A. No. As I stated above, Johnson Utilities provided contracts, invoices, cancelled checks and/or main extension agreements supporting almost 99% of the water plant in service. What Mr. Michlik is apparently seeking is actual invoices for materials, supplies and labor paid for by Johnson Utilities' general contractor, as the Company explained in its response to Staff Data Request JMM 4-2.

Q. MR. MICHLIK TESTIFIES AT PAGE 12, LINES 16-17 OF THE MICHLIK DIRECT TESTIMONY-WATER THAT JOHNSON UTILITIES DID NOT PROVIDE EVIDENCE THAT COSTS CHARGED BY THE COMPANY'S AFFILIATES WERE SUPPORTED BY COMPETITIVE BIDS. DID JOHNSON UTILITIES OBTAIN COMPETITIVE BIDS FOR WORK THAT WAS ULTIMATELY PERFORMED BY AFFILIATES OF THE COMPANY?

A. Yes. Although Johnson Utilities did not maintain copies of competitive bids, the Company did routinely and continues to obtain competitive bids for work that was to be performed by affiliates. I believe that all of the work performed by affiliates of Johnson Utilities was at or in most cases below the market rate for such work. I also believe that Staff would agree that the cost of the Company's water plant in

service is reasonable. The lack of a record of past competitive bids should not be a basis to remove water plant in service.

Staff Rate Base Adjustment 5 (Water Division): Capitalized Affiliate Profit.

Q. IN THE MICHLIK DIRECT TESTIMONY-WATER AT PAGE 15, LINES 22-23, MR. MICHLIK DECREASED WATER PLANT IN SERVICE BY $5,969,336 TO REMOVE CAPITALIZED AFFILIATE PROFIT. DO YOU AGREE WITH THIS ADJUSTMENT?

A. Not entirely. While Johnson Utilities acknowledges that the Commission has not allowed capitalized affiliate profit in past decisions, Mr. Michlik's calculation of the adjustment to remove the affiliate profit is excessive. First, Mr. Michlik's reduction is based upon an assumed affiliate profit of 7.5%. However, the information provided by Johnson Utilities in response to Staff Data Request JMM 9-2 states that affiliate profit was generally no higher than 2% of the base contract price which equates to 1.75% of the total contract price. In addition, Mr. Michlik applies the 7.5% reduction to all $79,591,151 in water plant in service, as opposed to the water plant in service actually constructed by affiliates of Johnson Utilities which totaled $26,847,516. Thus, Staff has substantially overstated the adjustment for capitalized affiliate profit. Mr. Bourassa addresses this issue in Bourassa Rebuttal Volume II.

Staff Rate Base Adjustment 8 (Water Division): Unexpended Contributions in Aid of Construction.

Q. IN THE MICHLIK DIRECT TESTIMONY-WATER AT PAGE 18, LINES 25-26, MR. MICHLIK INCREASED CONTRIBUTIONS IN AID OF CONSTRUCTION ("CIAC") BY $6,931,078 TO REFLECT THE ACTUAL TEST YEAR-END BALANCE OF CIAC. DO YOU AGREE WITH THIS ADJUSTMENT?

A. No. The $6,931,078 that Johnson Utilities removed from CIAC is comprised of hook-up fees ("HUFs") paid to construct backbone infrastructure. As development occurred at a fast pace within the Company's CC&N, significant additional backbone infrastructure was needed to serve the new growth. As the residential housing market has cooled, the expenditure of the HUFs collected to fund necessary backbone to serve the new developments slowed down. However, the backbone infrastructure will still be needed for Johnson Utilities to serve the customers that will certainly move into the developments. Attached to my testimony as Exhibit D is a spreadsheet which shows the planned construction of backbone infrastructure and the expenditure of the HUFs that will fund that construction. As you can see from the schedule, the HUF account balance will go negative by the end of 2009. Since Johnson Utilities has already contracted for developments and must construct the backbone infrastructure that will be required to serve the developments which paid the HUFs, they should be removed from CIAC. Mr. Bourassa provides additional information regarding this adjustment in Bourassa Rebuttal Volume II.

RUCO Rate Base Adjustment 3 (Water Division): Unexpended Contributions in Aid of Construction.

Q IN THE MOORE DIRECT TESTIMONY AT PAGE 11, LINES 18-21, MR. MOORE DECREASED RATE BASE TO REFLECT THE INCLUSION OF UNEXPENDED CIAC IN THE AMOUNT OF $6,931,078 AS SHOWN ON SCHEDULE RLM-3, COLUMN D. DO YOU AGREE WITH THIS ADJUSTMENT?

A. No. I addressed this adjustment above when I testified regarding Mr. Michlik's Rate Base Adjustment 4 (Water Division) in the Michlik Direct Testimony-Water. Thus, I incorporate herein my testimony from above.

B. **RESPONSE TO ADJUSTMENTS TO OPERATING INCOME—WATER DIVISION**.

Q. WHAT ADJUSTMENTS TO OPERATING INCOME WILL YOU ADDRESS IN YOUR TESTIMONY?

A. I will address Staff Rate Operating Income Adjustments 1 and 7 in the Michlik Direct Testimony-Water and RUCO Operating Income Adjustments 5 and 8 in the Moore Direct Testimony.

Staff Operating Income Adjustment 1 (Water Division): Central Arizona Groundwater Replenishment District Expense.

Q. WHAT IS THE CENTRAL ARIZONA GROUNDWATER REPLENISHMENT DISTRICT?

A. The Central Arizona Groundwater Replenishment District ("CAGRD") was established in 1993 by the Arizona legislature to serve as a groundwater replenishment entity for its members.[11] The CAGRD provides a mechanism for landowners and water providers such as Johnson Utilities to demonstrate a 100-year assured water supply under the State's Assured Water Supply Rules ("AWS Rules") which became effective in 1995. As a member of the CAGRD, the landowner or water provider must pay the CAGRD to replenish (or recharge) any groundwater pumped by the member which exceeds the pumping limitations imposed by the AWS Rules. This exceedance is referred to as "excess groundwater." The CAGRD includes the Phoenix, Tucson and Pinal County Active Management Areas ("AMAs").

Q. IS JOHNSON UTILITIES A MEMBER OF THE CAGRD?

[11] The CAGRD is operated by the Central Arizona Water Conservation District, which operates the Central Arizona Project.

A. Yes. Johnson Utilities completed the process for becoming a member service area ("Member Service Area") of the CAGRD on or about June 9, 2000.

Q. WHY DID JOHNSON UTILITIES JOIN THE CAGRD?

A. Joining the CAGRD is one of the steps in the process of becoming a designated provider, which means a water provider that has demonstrated to the Arizona Department of Water Resources ("ADWR") that it has a 100-year water supply. The AWS Rules were designed to protect groundwater supplies within each AMA and to ensure that people purchasing or leasing subdivided land within an AMA have a water supply of adequate quality and quantity. Thus, in each AMA, new subdivisions must demonstrate to ADWR that a 100-year assured water supply is available to serve the subdivision before sales can begin. An assured water supply can be demonstrated in two ways. First, the owner of a subdivision can prove an assured water supply for that specific subdivision and receive a certificate of assured water supply from ADWR. Alternatively, the owner of a subdivision can receive service from a city, town or private water company which has been designated by ADWR as having an assured water supply.

Q. HAS JOHNSON UTILITIES BEEN DESIGNATED AS HAVING AN ASSURED WATER SUPPLY?

A. Yes. Johnson Utilities made application to ADWR for designation as having an assured water supply on June 2, 1999. ADWR approved that application on July 20, 2000, in Decision and Order No. 26-400090 (Assured Water Supply No. 2002-002). As a result, developers of subdivisions which receive water service from Johnson Utilities have satisfied the requirement of an assured water supply.

Q. HOW IS THE CAGRD FUNDED?

A. The costs of the CAGRD are covered by a replenishment tax or replenishment assessment levied on CAGRD members. Designated water providers such as

Johnson Utilities that serve a Member Service Area pay a replenishment tax directly to the CAGRD according to the number of acre-feet of "excess groundwater" they deliver within their service areas during a year. The amount of the replenishment tax is based on CAGRD's total cost per acre-foot of recharging groundwater, including the capital costs of constructing recharge facilities, water acquisition costs, operation and maintenance costs and administrative costs. By statute, the replenishment tax must be calculated separately for each AMA.

Q. WHAT IS THE CURRENT CAGRD REPLENISHMENT TAX APPLICABLE TO JOHNSON UTILITIES?

A. The CAGRD replenishment tax varies by AMA. Johnson Utilities is a designated provider in both the Phoenix and Pinal County AMAs. Johnson Utilities operates two potable water systems ("PWS"). PWS 11-128 serves Johnson Ranch and the surrounding vicinity and is located within the Phoenix AMA. PWS 11-136 serves Anthem at Merrill Ranch and is located within the Pinal County AMA. For the Phoenix AMA, the CAGRD tax assessment for the 2008/2009 assessment period is $290 per acre-foot. For the Pinal County AMA, the CAGRD tax assessment for the 2008/2009 assessment period is $254 per acre-foot. An acre-foot of water equals 325,851 gallons of water. A copy of the Central Arizona Project Final 2009/2010 Rate Schedule adopted June 19, 2008, is attached to my testimony as Exhibit E.

Q. HOW DID JOHNSON UTILITIES ADDRESS THE CAGRD TAX ASSESSMENT IN ITS RATE CASE FILING?

A. Johnson Utilities removed the $883,842 CAGRD tax assessment from purchased water expense in the test year and proposed that the tax be passed-through to customers on their monthly bills.

Q. DID UTILITIES DIVISION STAFF AGREE WITH THIS APPROACH?

A. No. In the Michlik Direct Testimony-Water at page 24, lines 15-16, Mr. Michlik increased purchased water expense by $883,842 from $334,948 to $1,218,790 to add back the CAGRD tax assessment.

Q. **DO YOU AGREE WITH THIS ADJUSTMENT?**

A. No. In the Michlik Direct Testimony-Water at page 24, lines 22-23, Mr. Michlik states that in Decision 64598 (March 4, 2002), the Commission denied Johnson Utilities' request to pass through the CAGRD tax to its water and effluent customers. However, Decision 64598 should not be used as the basis for denying the pass-through of the CAGRD tax assessment on customer bills in this rate case. Decision 64598 was based upon Findings of Fact 7 and 8, which state as follows:

> 7. Staff determined that the GRD tax cannot be treated as a pass-through tax within the Arizona Administrative Code R14-2-409.D.5 because it is not a "privilege, sales or use tax" since GRD taxes are not based on sales revenues. Therefore, GRD taxes do not fall within the scope of the Company's current tariff.
>
> 8. Staff filed a memorandum recommending that (1) the Company's application be denied and (2) that the matter of GRD taxes should be addressed in the Company's next full rate case.[12]

Thus, Staff rejected Johnson Utilities' request to pass-through the CAGRD tax assessment because it was outside the scope of the Company's existing tariff—Staff did not reject the concept of a pass-through of the tax assessment. This is clear from the fact that Staff recommended that CAGRD taxes be addressed in the Company's next full rate case.

[12] Decision 64598 (March 4, 2002) at page 2, FOF Nos. 7-8.

Q. ARE THERE GOOD REASONS WHY THE COMMISSION SHOULD APPROVE THE PASS-THROUGH OF THE CAGRD TAX ON CUSTOMER BILLS?

A. Yes, there are a number of good reasons. First, the CAGRD tax assessment increases year-by-year. Set forth in the table below are the historical and projected increases in the CAGRD tax assessment from 2005 through 2014:

CAGRD ASSESSMENT RATES ADOPTED JUNE 19, 2008									
	HISTORIC			FIRM		ADVISORY			
	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014
PHOENIX	$212	$236	$240	$290	$318	$346	$358	$367	$376
PINAL	$192	$210	$219	$254	$279	$305	$312	$324	$337

What this table shows is overall increases in the Phoenix and Pinal County CAGRD tax assessments of 77% and 76%, respectively, for the 9-year period from 2005 through 2014, based on the historic, firm and advisory rates published by the CAGRD. The increase in tax assessment occurs each and every year. As a result, we know that Johnson Utilities will under-collect the CAGRD tax expense each and every year until it files its next rate case if the tax is treated as an expense item and not a pass-through. To illustrate my point, the test-year 2007 composite CAGRD tax assessment for the Phoenix AMA is $238 whereas the 2009 composite CAGRD tax assessment rate is $304, an increase of approximately 28% over test year CAGRD tax assessment. For this reason alone, the CAGRD tax should be authorized as a pass-through expense.

Q. ARE THERE OTHER GOOD REASONS TO ALLOW THE PASS-THROUGH OF THE CAGRD TAX?

A. Yes. Authorizing Johnson Utilities and other designated providers to pass-through the CAGRD tax assessment on customer bills will promote conservation of water. The CAGRD tax is not an insignificant tax. The 2009-2010 assessment of $318 per acre-foot equates to $.98 per thousand gallons of water. If the CAGRD tax assessment is treated as an expense item, it will be buried and lost in the total cost of water service. However, if a customer sees the assessment as a specific line item on the bill, the customer know that his or her bill can be reduced by approximately $1.00 for each 1,000 gallons of reduced water usage. Thus, making the tax explicit on the bill will promote conservation.

Q. PLEASE CONTINUE.

A. There are many other reasons to allow the pass-through, which I will list below.

1. <u>CAGRD taxes are directly analogous to privilege, sales or use taxes</u>. The CAGRD tax assessment has many similarities to a "privilege, sales or use tax" which may be treated as a pass-through tax pursuant to A.A.C. R14-2-409(D)(5).

(a) The CAGRD tax assessment is—in actual fact—a tax enacted pursuant to A.R.S. § 48-3781.

(b) The CAGRD tax assessment is directly tied to consumption by the customer. Whereas a privilege, sales or use tax is calculated based upon the amount of the customer bill, the CAGRD tax assessment is imposed based upon the volume of water consumed.

(c) Like a privilege, sales or use tax which is remitted by the water company to the taxing authority, the CAGRD tax is remitted by the water provider to the CAGRD.

(d) All water delivered within a designated provider's service area is subject to the CAGRD tax assessment. By comparison, a non-designated water provider does not remit CAGRD taxes to CAGRD. Rather, CAGRD taxes for subdivisions enrolled as "member lands" in the CAGRD are assessed directly to the property owner by the respective county assessor's office.

(e) CAGRD taxes are assessed on groundwater delivered as opposed to groundwater pumped, so no taxes are paid by customers for lost and unaccounted for water.

(f) CAGRD taxes apply to all customers equally, with no special tax zones or tax tiers.

(g) CAGRD taxes are subject to change only when the CAGRD changes the tax assessment. This occurs annually in June, based upon the CAGRD's budgeted cost to recharge water.

(h) CAGRD taxes are not subject to change by the water provider. The water provider is simply the conduit to collect and remit the taxes.

2. A CAGRD tax pass-through is very different from an adjuster mechanism. The pass-through of CAGRD taxes is nothing like an adjuster mechanism or clause.

(a) CAGRD tax assessments are set by CAGRD and not by the Commission. Thus, there is no "base cost" or "formula" to be established, monitored and updated.

(b) CAGRD tax assessments are a direct pass-through, dollar for dollar, based upon an easily identifiable single variable—water delivered to the customer.

(c) CAGRD taxes are not based upon nor are they impacted by equipment efficiency, size or operation.

(d) CAGRD taxes are not impacted or affected by management or operational decisions.

(e) CAGRD taxes are not subject to true up. CAGRD tax assessments are based upon actual quantities of groundwater delivered to the customer.

3. CAGRD taxes should not be addressed as a rate case expense item. CAGRD tax assessments are unlike other expense items that must be addressed in a rate case.

(a) CAGRD taxes do not impact any fixed or variable expenses. There is no company labor or services involved, no plant, no depreciation, no operating expense, and no property tax consequences. In short, there are no *Scates* considerations regarding (i) full review of expenses; (ii) establishment of rate base; or (iii) rate of return.

(b) As I stated above, if the Commission treats CAGRD tax assessments as an expense, Johnson Utilities will increasingly under-recover the expense every year until its next rate case.

(c) CAGRD taxes are revenue neutral to the water provider. The taxes should be excluded from test year revenues and expenses just like sales taxes.

(d) If CAGRD taxes are treated as an expense item, in order for Johnson Utilities to obtain full reimbursement of its remitted CAGRD

taxes, it would be required to file a rate case once a year. This, of course, if not a workable option for the Company, its customers, or the Commission.

4. Simplicity. The direct pass-through of CAGRD taxes is simple to administer for the water provider and easy to understand for the customer.

(a) For Johnson Utilities, the computation of the CAGRD tax assessment on a customer's bill is simple. The tax assessment is multiplied by the 1,000-gallon increments of water delivered to the customer.

(b) For the customers, the CAGRD tax is easy to understand. The tax would appear as a line item on the customer's bill—CAGRD Replenishment Tax: $xx.xx. Moreover, the direct pass-through of CAGRD taxes is equitable to customers. Each customer pays only the tax burden that he or she directly places on the Company.

(c) For the Commission, the pass-through of CAGRD taxes is easy to monitor.

5. Public Policy—Designated providers are an essential part of the groundwater code. Becoming a designated provider is not easy, but Johnson Utilities believed that it was an important step. Within the Phoenix AMA, there are only two private water companies regulated by the Commission which have been designated as having an assured water supply: Johnson Utilities and Chaparral City Water Company.[13] These two companies join twelve municipalities which are designated providers, including the Cities of Phoenix, Scottsdale, Tempe, Glendale and Peoria, and one special purpose district. There are over 35 other water providers in the Phoenix AMA regulated by the

[13] For a current list of designated water providers, see: http://www.azwater.gov/DWR/Content/Find_by_Category/Permits_Forms_Applications/Files/List_of_Mandatory_Adequacy_Jurisdictions_2-19-09.pdf

Commission which are not designated providers and, therefore, do not pay the CAGRD tax. For those providers, the CAGRD tax is directly assessed against each individual homeowner through property tax bills.

Staff has recommended that the CAGRD tax be treated as an expense to Johnson Utilities, as opposed to allowing the Company to pass the tax through to customers on their bills. However, by refusing to allow the pass-through of CAGRD tax, the Commission will discourage other private water companies from seeking designation as having an assured water supply. Moreover, Johnson Utilities should not be penalized for taking the steps to become designated, thereby ensuring that groundwater withdrawn within its service area is replenished and guaranteeing a reliable source of water for future generations.

For all of these many reasons, Johnson Utilities believes that the Commission should authorize the direct pass-through of CAGRD taxes on customer bills.

Staff Operating Income Adjustment 7 (Water Division): Income Tax.

Q. IN THE MICHLIK DIRECT TESTIMONY-WATER AT PAGE 29, LINES 11-15, MR. MICHLIK RECOMMENDED DECREASING INCOME TAX EXPENSE BY $1,185,679 TO ZERO BECAUSE JOHNSON UTILITIES IS A LIMITED LIABILITY COMPANY WHICH DOES NOT REPORT INCOME TAXES. IS IT APPROPRIATE TO REMOVE INCOME TAX EXPENSE?

A. No it is not. First, the removal of income taxes from the expenses of a limited liability company discriminates against customers of subchapter "C" corporations. Because Johnson Utilities was formed as a limited liability company, it does not report income taxes at the corporate level. Instead, income taxes on Johnson Utilities' profits are passed through to the members of the Company and paid on

their individual tax returns. If Johnson Utilities was a subchapter "C" corporation, there would be no question that income taxes should properly be included in the expenses of the Company. Under that scenario, the rates paid by customers would appropriately reflect the inclusion of income tax expense. However, as a result of Staff's adjustment to remove income taxes from Johnson Utilities' expenses, customers wind up paying lower rates simply because the Company is a limited liability company. It is not good public policy to favor customers of a limited liability company (who would pay lower rates) over customers of a subchapter "C" corporation (who would pay higher rates).

Second, the removal of income taxes from Johnson Utilities' expenses will result in a windfall to the Company's customers—who will pay lower rates—at the expense of the members of the Company. If the Commission is going to remove income taxes from expenses, then the members of Johnson Utilities are entitled to a higher return on equity.

Q. PLEASE EXPLAIN HOW THE INCOME TAXES ATTRIBUTABLE TO THE PROFITS OF JOHNSON UTILITIES GET PAID.

A. On January 1, 2007, Johnson Utilities and its members executed a Tax Allocation and Reimbursement Agreement ("Tax Agreement"). Pursuant to Section 3 of the Tax Agreement, Johnson Utilities is obligated to pay each member's proportionate share of the local, state and federal income taxes attributable to the profits of the Company as if the Company were a subchapter "C" corporation. Under Section 4 of the Tax Agreement, Johnson Utilities must issue a cashier's check (or equivalent) to each member on a quarterly basis covering that member's income tax liability. The payment for the fourth quarter of each calendar year reflects a true-up of any over-reimbursement or under-reimbursement to the members. Pursuant to Section 2, the Tax Agreement continues until dissolution of Johnson

Utilities. Thus, Johnson Utilities is contractually obligated to reimburse the members for income taxes attributable to the profits of the Company.

Q. IN THE MICHLIK DIRECT TESTIMONY-WATER AT PAGE 32, LINES 1-5, MR. MICHLIK STATES THAT JOHNSON UTILITIES HAS NEVER PRESENTED INCOME TAX ON ITS ANNUAL REPORTS FILED WITH THE COMMISSION. IS THIS TRUE?

A. Yes. Prior to the effective date of the Tax Agreement, Johnson Utilities did not make tax reimbursement payments to its members, so the Company's annual reports to the Commission would not have reflected any income tax expense. However, since January 1, 2007, Johnson Utilities has recorded tax reimbursement payments made to members under the Tax Agreement as income taxes on the Company's books. After reading Mr. Michlik's Direct Testimony-Water, I realized that Johnson Utilities' outside auditors removed the tax reimbursement payments from the income tax accounts in preparing the Company's financial statements for 2007. These financial statements were used in preparing the Company's annual report to the Commission for 2007, so the report does not reflect the tax reimbursement payments. Johnson Utilities will correct its 2007 annual report to the Commission to reflect the income tax reimbursement payments. The annual report for 2008 has not yet been filed, but it will likewise reflect the income tax reimbursement payments in the appropriate income tax accounts.

Q. MR. MICHLIK REFERENCES SECTIONS 409.10, 409.11 and 409.12 OF THE NARUC UNIFORM SYSTEM OF ACCOUNTS IN THE MICHLIK DIRECT TESTIMONY-WATER. DO YOU INTEND TO DISCUSS THESE SECTIONS?

A. No. Mr. Bourassa will address those sections in his Rebuttal Testimony.

Q. IN SUMMARY, IS IT YOUR TESTIMONY THAT THE INCOME TAX REIMBURSEMENT PAYMENTS IN THE AMOUNT OF $1,185,679 MADE BY JOHNSON UTILITIES FOR TEST YEAR 2007 SHOULD BE INCLUDED AS INCOME TAX EXPENSE FOR THE COMPANY?

A. Yes. Taxes on the profits of Johnson Utilities must be paid whether the Company is a limited liability company or a subchapter "C" corporation. It is appropriate for the rates of the Company to cover tax expense. If the Commission does not permit the inclusion of income tax expense in Johnson Utilities' expenses, then the Company is entitled to a higher return on equity.

Mr. Bourassa provides additional testimony regarding the issue of income taxes in Bourassa Rebuttal Testimony Volume II.

RUCO Operating Income Adjustment 5 (Water Division): Central Arizona Groundwater Replenishment District Tax Expense.

Q. AT PAGE 16, LINES 15-19 OF THE MOORE DIRECT TESTIMONY, MR. MOORE INCREASES EXPENSES BY $1,295,895 FOR CAGRD TAX EXPENSE. DO YOU AGREE WITH THIS ADJUSTMENT?

A. No. I addressed the appropriateness of the pass-through a the CAGRD tax on customer bills when I testified regarding Mr. Michlik's Operating Income Adjustment 1 (Water Division) in the Michlik Direct Testimony-Water. Thus, I incorporate herein my testimony from above.

RUCO Operating Income Adjustment 8 (Water Division): Income Taxes.

Q. AT PAGE 19, LINES 8-11 OF THE MOORE DIRECT TESTIMONY, MR. MOORE DECREASES EXPENSES BY $1,185,679 TO REMOVE INCOME TAX EXPENSE AS SHOWN ON RLM-8, COLUM I. DO YOU AGREE WITH THIS ADJUSTMENT?

A. No. I addressed this issue when I testified regarding Mr. Michlik's Operating Income Adjustment 7 (Water Division) in the Michlik Direct Testimony-Water. Thus, I incorporate herein my testimony from above.

C. RESPONSE TO OTHER ADJUSTMENTS AND RECOMMENDATIONS.

Discontinuance of Hook-Up Fees.

Q. IN THE MICHLIK DIRECT TESTIMONY-WATER AT PAGE 34, LINE 23, MR. MICHLIK RECOMMENDS THAT THE COMMISSION DISCONTINUE JOHNSON UTILITIES' HOOK-UP FEES. DOES JOHNSON UTILITIES AGREE THAT HOOK-UP FEES SHOULD BE DISCONTINUED?

A. No. Johnson Utilities does not agree with this recommendation, nor does the Company agree with Mr. Michlik's analysis. Johnson Utilities believes that the HUFs should continue in effect.

Q. WHY DOES JOHNSON UTILITIES BELIEVE THAT THE HOOK-UP FEE SHOULD REMAIN UNCHANGED?

A. Johnson Utilities has compiled a standard cost of the offsite infrastructure that it is responsible for building to serve each section of land as seen on Exhibit F. It shows that the current HUF only covers from 40-45% of the costs of the subdivision. The remaining 55-60% of the cost of the subdivision is funded by equity. This has caused—and will continue to cause—a healthy increase in the percentage of Members' Capital without the dramatic change of discontinuing the HUF as Mr. Michlik recommends.

Recently the Company has experienced an incredible growth in Members' Capital from 2005-2007, in which the account increased by 394% during a two-year period. The reason Johnson Utilities did not have a higher equity level prior

to 2005 is due to the Company's HUF collection practices. Johnson Utilities collects 30-50% of the HUFs for a master planned community up front to make sure it can meet its construction needs. With the tremendous growth starting in 2003, a large number of planned communities started and the HUF account balance ballooned from 2003 to 2005. Johnson Utilities used HUFs to build new plant first to meet the needs of these new communities and did not have a considerable amount of plant funded with equity until after 2005. Currently, all of the wastewater HUFs have been used and Johnson Utilities has a considerable amount of wastewater facilities needed to meet its current requirement, as seen on Exhibit D. The water HUF account still had a balance of $6,931,078 at the end of 2007; however these fees have been collected on developments where construction has stopped due to current market conditions. In the coming years, Johnson Utilities has ongoing obligations to build plant capacities for the development that were started during the real estate boom, and with the HUFs already used for the initial plant capacities, the remaining plant will be funded by equity. Thus, over the next few years we expect the Members' Capital account to surpass the CIAC account balance to a percentage similar to those on the cost estimates given in Exhibit F. To reiterate, the only reason for the imbalance in the amount of CIAC contributions and the members' capital account was the combination of the collection practices on HUFs and tremendous real estate growth. Johnson Utilities does not expect to see this unlikely combination of events again. To change the financial design of Johnson Utilities would do a huge disservice to the Company's existing customers causing them to pay for future development growth when the amount of members' capital is already increasing through the normal course of business.

Mr. Bourassa also addresses the issue of HUFs in Bourassa Rebuttal Volume II.

Water Loss for the Johnson Ranch System.

Q. ON PAGE 8 OF EXHIBIT MSJ TO THE SCOTT REBUTTAL TESTIMONY, MR. SCOTT REPORTED THAT "FOR THE JOHNSON RANCH SYSTEM, THE COMPANY REPORTED 2,438,732,000 GALLONS PUMPED AND 1,965,312,000 GALLONS SOLD, RESULTING IN WATER LOSS OF 19.4%. IS THIS WATER LOSS PERCENTAGE ACCURATE?

A. No. Mr. Scott's number of 1,965,312,000 gallons sold does not include construction water sales and irrigation water sales from the Company's construction billing cycle. After adjusting for these additional water sales, the actual percentage of "non-account" water for the Johnson Ranch system for 2007 was under 10%.

Q. BASED UPON HIS CALCULATION OF A 19.4% WATER LOSS FOR THE JOHNSON RANCH SYSTEM, MR. SCOTT RECOMMENDED THAT JOHNSON UTILITIES BEGIN A 12-MONTH MONITORING EXERCISE. DOES THE COMPANY NEED TO UNDERTAKE A WATER LOSS MONITORING PROGRAM?

A. No. As I stated above, the water loss for the Johnson Ranch system is under the 10% maximum water loss allowed by the Commission. Thus, there is no need for the monitoring exercise recommended by Mr. Scott.

IV. WASTEWATER DIVISION

A. RESPONSE TO ADJUSTMENTS TO RATE BASE—WASTEWATER DIVISION.

Q. WHAT WASTEWATER RATE BASE ADJUSTMENTS WILL YOU ADDRESS IN YOUR TESTIMONY?

A. I will address Staff Rate Base Adjustments 1, 2, 3, 4, 5 and 7 in the Michlik Direct Testimony-Wastewater and RUCO Rate Base Adjustment 1 and 3 in the Moore Direct Testimony.

Staff Rate Base Adjustment 1 (Wastewater Division): Utility Plant in Service, PTY Plant.

Q. IN THE MICHLIK DIRECT TESTIMONY-WASTEWATER AT PAGE 10, LINES 5-7, MR. MICHLIK RECOMMENDS DECREASING PLANT IN SERVICE BY $2,684,888 TO REMOVE ALL POST TEST YEAR PLANT FROM RATE BASE AS SHOWN ON SCHEDULES JMM-WW3 AND JMM-WW4. DO YOU AGREE WITH THE REMOVAL OF POST TEST YEAR PLANT?

A. No. All of the post test year plant was necessary to maintain service to customers of Johnson Utilities. It is Johnson Utilities' policy to be proactive with regard to the construction of necessary upgrades to its sewer system, and the Commissioners have endorsed this service-focused approach at open meetings addressing the Company's various dockets and in other dockets. The Company believes that the Commissioners would prefer there not be any customer complaints. Identifying and implementing upgrades to the sewer system before service issues arise should be taken into account and addressed favorably.

Q. DOES JOHNSON UTILITIES DISAGREE WITH STAFF'S POSITION THAT THE POST TEST YEAR PLANT SHOULD BE DISALLOWED BECAUSE "THE COMPANY DID NOT REPORT ANY PROBLEMS WITH PROVIDING INADEQUATE LEVELS OF SERVICE FOR ITS TEST-YEAR CUSTOMERS?

A. Yes. The repairs and upgrades were needed to support the 2007 level of customers. If Johnson Utilities had not made these repairs and upgrades to the plant, the Company could have experienced service related issues. All of the repairs and upgrades were considered by Johnson Utilities as part of its best management practices. Resolving potential problems before service issues and complaints arise is not only prudent but necessary. The Company should not be punished for the fact that these plant additions were not invoiced and paid until 2008.

Q. PLEASE EXPLAIN HOW THE NEW PLANT INSTALLED IF FOR THE BENEFIT OF THE 2007 LEVEL OF CUSTOMERS.

A. In addition to the numerous repairs and upgrades referenced above, I would like to discuss the specifics of three projects that were not invoiced and paid for at the end of 2007 but which are necessary to serve the test-year level of customers. First, the Parks lift station was constructed for use initially by a Fry's shopping center that was started in 2007. Without the completion of the Parks lift station, the Company would have been forced to pay for vaulting and hauling the wastewater generated by the shopping center. The physical transportation of the wastewater to the Pecan wastewater treatment plant ("Pecan WWTP") would have been very costly. Moreover, I note that Mr. Scott specifically listed the Parks lift station in Table S-2 (*Lift Stations*) at page 26 of Exhibit MSJ to the Scott Direct Testimony,[14] and did not identify the lift station as plant not used and useful in Table G-1 (*Plant Not Used and Useful*) at page 35 of Exhibit MSJ to the Scott Direct Testimony.

[14] The Parks lift station is listed in Table S-2 (*Lift Stations*) under the heading Pecan System.

Second, I would like to address is the Hunt Highway South Force Main. The Hunt Highway South Force Main connects the Section 11 wastewater treatment plant ("Section 11 WWTP") to the Anthem wastewater treatment plant ("Anthem WWTP"), and was used during the test year to redirect flows from the Anthem WWTP to the Section 11 WWTP when the Anthem WWTP was not yet ready for operation. Again, Mr. Scott specifically mentions these facts at the bottom of page 31 of Exhibit MSJ to the Scott Direct Testimony.[15]

Third, I would like to address the Queen Creek Leach Field. All of the excess effluent flows from the Pecan WWTP during the test year which required disposal were being sent offsite to Shea Homes' Trilogy Encanterra development during the construction of that project. These flows were well in excess of the demands needed for the Encanterra golf course. Once the construction was completed, the amount of effluent reduced. Johnson Utilities constructed the Queen Creek Leach Field to dispose of the excess effluent that Shea Homes agreed to take during construction to alleviate the 2007 level of effluent disposal needs. For these reasons, I believe there should be post test year treatment of these plant additions.

Mr. Bourassa provides additional testimony regarding the post test year plant additions in Bourassa Rebuttal Testimony Volume III.

<u>Staff Rate Base Adjustment 2 (Wastewater Division): Plant Not Used and Useful</u>.

Q. IN THE MICHLIK DIRECT TESTIMONY-WASTEWATER AT PAGE 10, LINES 21-23, MR. MICHLIK RECOMMENDS DECREASING PLANT IN

[15] Specifically, Mr. Scott states that: "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." Scott Direct Testimony at pages 31-32.

SERVICE BY $4,595,298 TO REMOVE ALL PLANT FROM RATE BASE THAT WAS NOT USED AND USEFUL AS SHOWN ON SCHEDULES JMM-WW3 AND JMM-WW5.[16] DO YOU AGREE WITH THIS ADJUSTMENT?

A. Part of the adjustment is appropriate and part is not. First, Mr. Michlik removed $1,696,086 of original cost from wastewater plant in service for construction of the Precision wastewater treatment plant ("Precision WWTP"). The Precision WWTP is located adjacent to and south of Bella Vista Road within the Johnson Ranch development. ADEQ issued Aquifer Protection Permit ("APP") No. P-105004 for the Precision WWTP on April 8, 2004 authorizing the collection and treatment of an average monthly flow of 0.3 million gallons per day ("MGD") of wastewater. While it is true that the Precision WWTP is not currently in use, the decision by Johnson Utilities to build the plant was prudent, and in fact, unavoidable, based upon the requirements of ADEQ. In 2002, ADEQ implemented new policies requiring that wastewater treatment capacity be fully constructed and operational prior to subdivision approvals. As a result of this new policy, ADEQ ceased issuing approvals to construct sanitary facilities to developers within Johnson Ranch and other developments unless and until Johnson Utilities constructed the Precision WWTP. Because the decision by Johnson Utilities to construct the Precision WWTP was prudent at the time it was made, and because construction of the plant was a necessary prerequisite to the approval of additional residential home construction in Johnson Ranch, the

[16] The $4,595,298 reduction in wastewater plant in service shown on column "C" of Mr. Michlik's Schedule JMM-WW3 (page 1 of 2) is based upon Table G-1 (*Plant Not Used and Useful*) of Exhibit MSJ (page 35 of 47) to the Scott Direct Testimony.

Precision WWTP should not be excluded from plant in service on the grounds that it is not used and useful.

Second, Mr. Michlik has removed $690,186 of original cost from wastewater plant in service for construction of approximately four miles of 8-inch force sewer main to serve approximately 1,834 new homes planned for Silverado Ranch development I discussed above. Construction and installation of the force main was completed pursuant to the Silverado Ranch Master Utility Agreement, a copy of which is attached as Exhibit A to my testimony. Because the force main was constructed as required under the Silverado Ranch Master Utility Agreement, it would be inappropriate to remove the cost of the force main from plant in service.

Q. WHAT ABOUT THE REMAINING $2,209,026 IN ADJUSTMENTS FOR WASTEWATER PLANT THAT WAS FOUND TO BE NOT USED AND USEFUL?[17]

A. Johnson Utilities agrees with removing the remaining $2,209,026 in plant not used and useful as identified on Table G-1 (*Plant Not Used and Useful*) of Exhibit MSJ (page 35 of 47) to the Scott Direct Testimony.

Staff Rate Base Adjustment 3 (Wastewater Division): Utility Plant in Service, Excess Capacity.

Q. IN THE MICHLIK DIRECT TESTIMONY-WASTEWATER AT PAGE 11, LINES 12-14, MR. MICHLIK RECOMMENDS DECREASING PLANT IN SERVICE BY $5,443,062 TO REMOVE EXCESS CAPACITY PLANT

[17] $2,209,026 is the sum of $473,527 (Plant Sewers-Magma 2 Subdivision), $846,092 (Plant Sewers-Quail Run Estates subdivision) and $889,407 (Collection Sewers-Ironwood Crossing #2).

COSTS AS SHOWN ON SCHEDULES JMM-WW3 AND JMM-WW6.[18] DO YOU AGREE WITH THIS ADJUSTMENT?

A. No. Mr. Michlik has removed the $5,443,062 original cost of constructing the 1.0 MGD Phase II ("Phase II") of the Santan Wastewater Treatment Plant ("Santan WWTP") on the basis that Phase II is excess capacity. However the Phase II capacity is actually needed now, and will be put to use by late 2009, to treat wastewater flow that will be redirected from Johnson Utilities' Pecan wastewater treatment plant ("Pecan WWTP"), which is currently nearing full capacity.

Q. WHY WOULD JOHNSON UTILITIES REDIRECT SEWER FLOWS FROM ONE WASTEWATER TREATMENT PLANT TO ANOTHER?

A. The answer is for operational flexibility and cost savings. Johnson Utilities has interconnected its Section 11, Santan and Pecan wastewater treatment plants by force mains. This provides Johnson Utilities with greater operational flexibility in treating wastewater flows in its service area, and it allows the Company to obtain the maximum benefit from its combined wastewater treatment capacity before building costly new treatment plants or plant expansions. This is particularly important in an area such as the southeast valley where construction of new homes has proceeded at breakneck pace. To illustrate my point, wastewater flows into the Pecan WWTP are approaching the 2.0 MGD permitted capacity. Mr. Scott reports at page 32 of Exhibit MSJ to the Scott Rebuttal Testimony as follows:

> 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 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, <u>this WRP will need</u>

[18] The $5,443,062 reduction in wastewater plant in service as excess capacity shown on column "D" of Mr. Michlik's Schedule JMM-WW3 (page 1 of 2) is based upon Table G-2 (*Excess Capacity Plant*) of Exhibit MSJ (page 35 of 47) to the Scott Direct Testimony.

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. (emphasis added).

Rather than construct expensive new capacity at the Pecan WWTP at this time, Johnson Utilities can use available capacity at its Santan WWTP. To do this, Johnson Utilities is currently planning/engineering upgrades to the Morning Star Farms and Circle Cross lift stations, and planning/engineering the construction of one mile of new force main which will enable the Company to redirect flows from the Pecan WWTP to the Santan WWTP. By so doing, Johnson Utilities can delay the costly construction of an additional 2.0 MGD at the Pecan WWTP.

Q. WHAT VOLUME OF WASTEWATER FLOW WILL BE REDIRECTED TO THE SANTAN WWTP?

A. Johnson Utilities will redirect approximately 0.53 MGD of existing flow from the Pecan WWTP to the Santan WWTP. Over time, wastewater flow to the Santan WWTP will increase to the full 2.0 MGD permitted capacity as growth comes on line. At some point, Johnson Utilities will need to complete the 2.0 MGD plant expansion at the Pecan WWTP, but the redirection of wastewater flow from Pecan to Santan in the interim will delay the cost of expensive new construction and allow the Company to take full advantage of the existing capacity at its wastewater treatment plants.

Q. WHEN WILL JOHNSON UTILITIES BUILD THE UPGRADES TO THE MORNING SUN FARMS AND CIRCLE CROSS LIFT STATIONS AND CONSTRUCT THE NEW FORCE MAIN?

A. As I stated above, planning and engineering is occurring at the present time. The upgrades to the lift stations and construction of the force main will occur in the

third quarter of 2009, assuming the timely issuance of approvals to construct by ADEQ.

Q. IN SUMMARY, DO YOU AGREE WITH MR. SCOTT THAT JOHNSON UTILITIES HAS EXCESS WASTEWATER TREATMENT CAPACITY?

A. No. I don't see how this is possible. Mr. Scott testified that Johnson Utilities must construct an additional 2.0 MGD of capacity at the Pecan WWTP in the next five years. Yet, he also found that the Santan WWTP has excess capacity of 1.0 MGD over the next five years. Doing the simple math, this amounts to add 2, subtract 1, leaving a need for 1. Johnson Utilities can delay construction of 2.0 MGD of new treatment capacity at its Pecan WWTP by redirecting wastewater flow to take advantage of available capacity at the Santan WWTP. There is no excess wastewater treatment capacity at this time.

Staff Rate Base Adjustment 4 (Wastewater Division): Inadequately Supported Plant Costs.

Q. IN THE MICHLIK DIRECT TESTIMONY-WASTEWATER AT PAGE 15, LINES 14-16, MR. MICHLIK RECOMMENDS DECREASING WASTEWATER PLANT IN SERVICE BY $11,896,227 TO REMOVE INADEQUATELY SUPPORTED PLANT COSTS AS SHOWN ON SCHEDULES JMM-WW3 AND JMM-WW7. DO YOU AGREE THAT JOHNSON UTILITIES DID NOT ADEQUATELY SUPPORT ITS PLANT COSTS?

A. No. I addressed this assertion above when I testified regarding Mr. Michlik's Rate Base Adjustment 4 (Water Division) in the Michlik Direct Testimony. Thus, I incorporate herein my testimony from above.

Staff Rate Base Adjustment 5 (Wastewater Division): Capitalized Affiliate Profit.

Q. IN THE MICHLIK DIRECT TESTIMONY-WASTEWATER AT PAGE 17, LINES 13-16, MR. MICHLIK RECOMMENDS DECREASING PLANT IN SERVICE BY $8,922,170 TO REMOVE CAPITALIZED AFFILIATE PROFIT AS SHOWN ON SCHEDULES JMM-WW3 AND JMM-WW8. DO YOU AGREE WITH THIS ADJUSTMENT?

A. No. I addressed this adjustment above when I testified regarding Mr. Michlik's Rate Base Adjustment 5 (Water Division) in the Michlik Direct Testimony-Water. Thus, I incorporate herein my testimony from above.

Staff Rate Base Adjustment 7 (Wastewater Division): Unexpended Contributions in Aid of Construction.

Q. IN THE MICHLIK DIRECT TESTIMONY-WASTEWATER AT PAGE 20, LINES 4-6, MR. MICHLIK RECOMMENDS INCREASING CONTRIBUTIONS IN AID OF CONSTRUCTION ("CIAC") BY $16,505 TO REFLECT THE ACTUAL TEST YEAR-END BALANCE OF CIAC AS SHOWN ON SCHEDULES JMM-WW3 AND JMM-WW10. DO YOU AGREE WITH THIS ADJUSTMENT?

A. No. I addressed this adjustment above when I testified regarding Mr. Michlik's Rate Base Adjustment 8 (Water Division) in the Michlik Direct Testimony. Thus, I incorporate herein my testimony from above.

RUCO Rate Base Adjustment 1 (Wastewater Division): Post Test-Year Plant.

Q IN THE MOORE DIRECT TESTIMONY AT PAGE 9, LINES 21-23, MR. MOORE INCREASES ADJUSTED TEST-YEAR RATE BASE BY $689,382 AS SHOWN ON SCHEDULE RLM-3, COLUMN B. DO YOU ADDRESS THIS ADJUSTMENT?

A. No. Mr. Bourassa addresses this adjustment in Bourassa Rebuttal Testimony Volume III.

RUCO Rate Base Adjustment 3 (Wastewater Division): Unexpended Contributions in Aid of Construction.

Q. IN THE MOORE DIRECT TESTIMONY AT PAGE 11, LINES 18-21, MR. MOORE DECREASED RATE BASE TO REFLECT THE INCLUSION OF UNEXPENDED CIAC IN THE AMOUNT OF $397,390 AS SHOWN ON SCHEDULE RLM-3, COLUMN D. DO YOU AGREE WITH THIS ADJUSTMENT?

A. No. I addressed this adjustment above when I testified regarding Mr. Michlik's Rate Base Adjustment 7 (Wastewater Division) in the Michlik Direct Testimony-Wastewater. Thus, I incorporate herein my testimony from above.

B. RESPONSE TO ADJUSTMENTS TO OPERATING INCOME—WASTEWATER DIVISION.

Q. WHAT ADJUSTMENTS TO OPERATING INCOME WILL YOU ADDRESS IN YOUR TESTIMONY?

A. I will address Staff Operating Income Adjustment 8 in the Michlik Direct Testimony-Wastewater and RUCO Operating Income Adjustment 8 in the Moore Direct Testimony.

Staff Operating Income Adjustment 8 (Wastewater Division): Income Tax.

Q. IN THE MICHLIK DIRECT TESTIMONY-WASTEWATER AT PAGE 27, LINES 15-20, MR. MICHLIK DECREASED INCOME TAX EXPENSE FROM $330,522 TO ZERO BECAUSE JOHNSON UTILITIES IS A LIMITED LIABILITY COMPANY WHICH DOES NOT REPORT INCOME TAXES. IS IT APPROPRIATE TO REMOVE INCOME TAX EXPENSE?

A. No. I have addressed the issue of income taxes in my testimony above, and incorporate herein my testimony on that issue here.

RUCO Operating Income Adjustment 8 (Wastewater Division): Income Taxes.

Q. AT PAGE 19, LINES 8-11 OF THE MOORE DIRECT TESTIMONY, MR. MOORE DECREASES EXPENSES BY $330,522 TO REMOVE INCOME TAX EXPENSE AS SHOWN ON RLM-8, COLUMN I. DO YOU AGREE WITH THIS ADJUSTMENT?

A. No. I addressed this issue when I testified regarding Mr. Michlik's Operating Income Adjustment 8 (Wastewater Division) in the Michlik Direct Testimony-Wastewater. Thus, I incorporate herein my testimony from above.

C. RESPONSE TO OTHER ADJUSTMENTS AND RECOMMENDATIONS.

Discontinuance of Hook-Up Fees.

Q. IN THE MICHLIK DIRECT TESTIMONY-WASTEWATER AT PAGE 32, LINE 21, MR. MICHLIK RECOMMENDS THAT THE COMMISSION DISCONTINUE JOHNSON UTILITIES' HOOK-UP FEES. DO YOU AGREE THAT THE HUFS SHOULD BE DISCONTINUED?

A. No. I have addressed the issue of hook-up fees in my rebuttal testimony above, and incorporate my testimony on the issue here.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.

9618053.3

EXHIBIT A

MASTER UTILITY AGREEMENT

FOR

WATER AND WASTEWATER FACILITIES

BETWEEN

JOHNSON UTILITIES, L.L.C.
dba JOHNSON UTILITIES COMPANY

AND

MBC CVII, LLC
A Delaware limited liability company

FOR

SILVERADO RANCH

PINAL COUNTY, ARIZONA

September 7, 2006

MASTER UTILITY AGREEMENT

THIS MASTER UTILITY AGREEMENT, entered into this 7th day of September, 2006, by and between JOHNSON UTILITIES, L.L.C., dba JOHNSON UTILITIES COMPANY (hereinafter referred to as the "Company") and MBC CVII, LLC, a Delaware limited liability company or its successors or assigns, (hereinafter referred to as the "Land Owner"), is regarding the provision of water and wastewater utility services to SILVERADO RANCH, a master planned community in Pinal County, Arizona (hereinafter referred to as the "Property").

WITNESSTH

WHEREAS, the Company owns and operates a public service corporation and holds a Certificate of Convenience and Necessity authorizing it to provide the public with water and wastewater utility services; and

WHEREAS, the Company will make an application to obtain a Certificate of Convenience and Necessity authorizing it to provide the public with water and wastewater utility services for the Property; and

WHEREAS, the Land Owner intends to zone and provide planning for residential and commercial improvements within the Property and desires the Company to provide water and wastewater service to the Property described on **Attachment A** hereto, (hereinafter referred to as the Property); and

WHEREAS, Land Owner intends to plat and rezone for a total of approximately 1,834 residential units, and related commercial property, within the Property; and

WHEREAS, the Land Owner must obtain certain zoning authorizations and approvals for the master plan on a community wide basis; and

WHEREAS, the homes within the Property will be constructed by builder(s) in as yet undetermined phases; and

WHEREAS, for the Land Owner to obtain; (1) the required approvals for the Property, (2) commitments from prospective builders of subdivisions within the Property, and (3) necessary financing for development of and improvements within the Property, it is necessary for the Land Owner to have certain assurances regarding the provision of water and wastewater services and facilities within the entire Property at this time; and

WHEREAS, in connection with it providing utility services, the Company is authorized and required, to assess Off-Site Facilities Hook-Up Fees ("HUF's") for water and wastewater service pursuant to Arizona Corporation Commission (hereinafter referred to as the "Commission") Tariffs authorized for the Company; and

WHEREAS, in areas such as the Property, in which the Company does not presently own and operate water distribution and/or wastewater collection systems, the Commission Rules and Regulations contemplate the Company and the Land Owner entering into Line Extension Agreement(s) more particularly described below; and

WHEREAS, for the Land Owner or its successors, assigns or home builders to obtain Arizona Real Estate Department approval for the various subdivisions within the Property, it is necessary for the Land Owner to obtain a Certificate of Assured Water Supply from the Arizona Department of Water Resources (hereinafter referred to as "ADWR") for each subdivision; and

WHEREAS, the Company has received from ADWR a Designation of Assured Water Supply applicable to the Company's service area that is sufficient to meet the above requirement; and

WHEREAS, the Land Owner needs certain assurances as to the timing of construction of certain utility facilities and the adequacy of utility services for the subject subdivisions.

NOW, THEREFORE, is mutually covenanted and agreed by and between the parties hereto as follows:

1. To permit the Company to provide wastewater treatment plant capacity, lift-stations, transmission mains, an effluent delivery system, and sludge disposal facilities, as well as the water wells, treatment if necessary, storage, pressure and the transmission facilities, necessary to meet the Company's requirements and to serve the Property, Land Owner agrees to advance HUF's payments for $1,222,500.00 for 489 units, all in accordance with the Commission approved Tariff for the Company. For this Property, the advances are $733,500.00 for water facilities and $489,000.00 for wastewater facilities. Payment of the advance for said HUF's shall be made within 7 days of the Corporation Commission Decision approving the CC&N Extension to include the Property. The HUF's advanced under this paragraph shall be applied to the last phase(s) or subdivision(s) of the Property. Any applicable Gross-Up Tax associated with the HUF's shall be assessed and refunded under the Line Extension Agreement(s) described below. All funds collected by the Company as HUF's shall be deposited into an interest bearing account and used for the purpose of paying for the costs of off-site facilities, including repayment of loans obtained for the installation of off-site facilities. Notwithstanding any provision of this Agreement, or by the payment of any HUF, the Land Owner shall have no right, title or interest in, or claim to service from, any specific plant of the Company.

2. Land Owner agrees that upon entry into the Line Extension Agreement(s) for each phase or subdivision within the Property, Land Owner, or its successors and assigns, will advance the HUF's for the number of residential units and irrigation meter(s) within that subdivision.

3. It is understood and agreed that at the time a water meter installation request has been executed for a lot, the wastewater service to that lot shall start, and the tariffed charges for water and sewer service to that lot shall commence, whether that service is utilized or not.

4. Upon payment of the initial block of HUF's by the Land Owner, the Company will allocate units of its Designation of Assured Water Supply to the Property equal to the service requirements associated with the Property, and shall take all reasonable actions to assist the Land Owner with plat approval.

5. Commencing September 1, of the year first following the Company's service to the first customer within the Property, Land Owner shall provide the Company with a schedule indicating, to the best of Land Owner's knowledge, the projected development schedule for the Property, including the numbers and types of residential units expected to be constructed, any commercial and industrial development, the phasing of the projects within the Property, and the estimated number of units constructed annually until build-out is reached. Land Owner shall thereafter provide the Company updated projections on or before September 1 of each succeeding calendar year through build-out.

6. The HUF's and applicable Line Extension Agreement costs, if any, for any service established outside of a subdivision (i.e. irrigation, commercial, multi-family or industrial) shall be based on the Tariff charges and shall be paid at the time the service is requested.

7. All HUF's under this Agreement are non-refundable advances pursuant to the Company's approved Tariff.

8. The Company will supply water and wastewater service to the Property as and when requested to the planned 1,834 residential units, and related commercial property, within the Property, provided that the Land Owner has paid the HUF's in accordance with this Agreement and further provided the Land Owner has given no less than nine (9) months written notice of that required service to the Company for all phases subsequent to the first 557 lots. Said services shall be provided to the Property at service standards no less than the standards provided to other utility customers within the Company's service area. Upon payment of the HUF's for each phase or subdivision, the Company shall undertake such advance planning, process all government approvals and permits, and undertake construction so as to timely serve potential customers as and when service to such customers is requested and needed.

9. Upon execution of this Agreement, Land Owner shall provide to the Company in a digital format (i.e..AutoCad, MicroStation or .dxf format or as otherwise

specified by the Company), all available data for the Property, including ALTA surveys, topographical, aerials, tentative plats, engineering plans, and final plats.

10. Wastewater service to the Property shall be conditioned on the Land Owner constructing one sanitary lift station at the agreed upon location within the Property. The required lift station site within the Property is more fully described in **Attachment B** hereto, and will be platted as tracts in the Property and conveyed to the Company by Special Warranty Deed an approximate 100' by 50' site substantially in the form of **Attachment C** hereto and must include appropriate maintenance, ingress and egress easements substantially in the form attached as **Attachment D** hereto. Said conveyance of lift station shall be completed in conjunction with Phase I of the development. Land Owner's cost of construction for that lift station shall be included in the Line Extension Agreement as contemplated in Paragraph 13 for the first phase of the development.

11. Water service to the existing Property shall be provided by existing Company owned facilities adjacent to or near the Property, however, the Land Owner shall convey to the Company by Special Warranty Deed, substantially in the form of **Attachment E** hereto, a Well and Reservoir Site described therein, located in the southeast corner of the Property, West of the Magma Arizona Railroad and as shown on Attachment E shall show that the site is accessible by the provided right of way on the proposed Skyline drive right of way **Attachment E** hereto.

12. All facilities constructed under this Agreement will be operated and maintained in accordance with good utility practice, including but not limited to the use of qualified operators and engineers. All services shall be subject to the Provisions of Service regulations set forth in Commission and the applicable Arizona Department of Environmental Quality Regulations. The election to build a new plant or expand any existing water or wastewater facilities to meet the demands of the Property or the Company's system, and the decision as to which water or wastewater facilities shall be used to serve the Property, shall be at the sole discretion of the Company.

13. For each phase or subdivision within the Property, the Land Owner or the home builder that owns such portion of the Property shall enter into a separate Line Extension Agreement for water and wastewater service in accordance with the Commission's Rule and Regulations, and the Company's Tariff. Under the terms of those agreements, the Land Owner shall construct, or cause to be constructed, all on-site facilities consistent with the Company's engineering requirements and specifications, and thereafter, convey all right, title and interest in and under those facilities, and any easements if necessary, to the Company. The Company shall annually refund five percent of the total gross revenue from water and wastewater sales to each bona fide customer whose service is connected to the main lines covered by the line extension agreements, less all applicable sales, transaction and privilege taxes and regulatory assessments and surcharges, until such time as the entire advance has been fully refunded. The form of the agreement shall be substantially in the form of **Attachments F** and **G** hereto.

14. Water and wastewater service, as applicable, shall be provided to the Land Owner, builder, or the ultimate occupants of the buildings in accordance with the

Commission's Orders, Rules, Regulations, Rates, Charges, Tariffs, Terms and Conditions as applicable to the Company which are currently on file with the Commission. Land Owner hereby acknowledges that at the time the ultimate occupant/customer requests service, certain additional charges may be payable to the Company by the customer. All rates, charges, terms and conditions are subject to change from time to time as approved by the Commission.

15. Extension of Utility's CC&N and Other Approvals. Utility shall promptly seek authority from the Commission for the extension of its CC&N to include the Property in Utility's CC&N. All of Land Owner' obligations under this Agreement shall be conditioned upon Utility gaining authority from the Commission to include the Property in Utility's certificated service area. In addition, all amounts paid to or advanced by Land Owner pursuant to this Agreement shall be reimbursed in the event Utility is unable to extend its CC&N to include the Property, except for Administrative Costs reasonably and necessarily incurred by Utility in preparing this Agreement and pursuing Utility's application to extend its CC&N. Land Owner hereby consents to and approves inclusion of the Property in Utility's CC&N. Further, Land Owner covenants and agrees to support Utility's application to extend its CC&N, and shall, upon request by Utility, provide testimony and/or public comment supporting Utility's application in connection with any proceeding before the Commission.

16. Land Owner may assign its rights under this Agreement to a third party developer or homebuilder buying property from Land Owner, or partially assign its rights under this Agreement with respect to any part of the Property sold by Land Owner to a third party developer or homebuilder. A copy of the written Assignment and Assumption shall be delivered to the Company as provided in Paragraph 16. Upon assignment of this Agreement to a third party developer or homebuilder, and the Company's approval of that assignment which approval shall not be unreasonably withheld, the Land Owner shall be relieved of all liabilities under this Agreement.

17. Except as otherwise required by law, any notice required or permitted under this Agreement must be in writing and must be given by either: (i) personal delivery; (ii) United States certified mail, return receipt requested, with all postage prepaid and properly addressed; (iii) any reputable, private overnight delivery service with delivery charges prepaid and proof of receipt; or (iv) by facsimile machine or telecopier. Notice sent by any of the foregoing methods must be addressed or sent to the party to whom notice is to be given, as the case may be, at the addresses or telecopy numbers set forth below:

Land Owner: MBC CVII, LLC

4800 N. Scottsdale Rd., #2200
Scottsdale, AZ. 85251
Attn: George Cannon
Vice President
Phone: (480) 946-0731
Facsimile: (480)308-8292

With a copy to:

Montalbano Builders, Inc.
Attn: Tony Montalbano
2208 Midwest Road
Oak Brook , IL 60523
Facsimile: (630) 481-4290
Phone: (630) 481-4200

And a copy to:

Jerry L. Cochran
Cochran & Dahl, P.C.
2999 N. 44th Street, Suite 600
Phoenix, AZ 85018
Phone: (602) 952-7010
Facsimile: (602) 952-5300

Company: JOHNSON UTILITIES
5230 East Shea Boulevard
Scottsdale, Arizona 85254
Attn: George H. Johnson
Facsimile: (480) 783-7908

Any party may change its address or telecopy number for purposes of delivery and receipt of notices by advising the other parties in writing of the change. Notice provided by the methods described above will be deemed to be received: (i) on the day of delivery, if personally delivered; (ii) on the date which is three (3) days after deposit in the United States mail, if given by certified mail; (iii) on the next regular business day after deposit with an express delivery service for overnight, "same day", or "next day" delivery service; or (iv) on the date of transmittal, if given on a regular business day and during regular business hours by facsimile machine or telecopy. No notice will be effective unless provided by one of the methods described above.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the day and year first above written.

JOHNSON UTILITIES COMPANY

By: Brian P Tompsett

Its: EXECUTIVE VICE PRESIDENT
"Company"

MBC CVII, LLC

By: George Cannon

Its: VICE PRESIDENT
"Land Owner"

ATTACHMENTS

A. Legal Description or Plat Plan of the Property.

B. Legal Description of One Lift Station Site.

C. Special Warranty Deed with Legal Description of Lift Station Site.

D. Utility Easement.

E. Special Warranty Deed with Legal Description of Well and Reservoir Site.

F. On-Site Line Extension Agreement for Land Owner Installed Water Facilities.

G. On-Site Line Extension Agreement for Land Owner Installed Wastewater Facilities.

A

CHICAGO TITLE INSURANCE COMPANY

LEGAL DESCRIPTION

Escrow/Title No. 2515023 19

PARCEL NO. 1:

LOTS 1, 2 AND 3 AND THE SOUTH HALF OF THE NORTHEAST QUARTER AND THE SOUTHEAST QUARTER OF THE NORTHWEST QUARTER OF SECTION 3, TOWNSHIP 3 SOUTH, RANGE 9 EAST OF THE GILA AND SALT RIVER BASE AND MERIDIAN, PINAL COUNTY, ARIZONA.

PARCEL NO. 2:

THE SOUTH HALF OF SECTION 3, TOWNSHIP 3 SOUTH, RANGE 9 EAST OF THE GILA AND SALT RIVER BASE AND MERIDIAN, PINAL COUNTY, ARIZONA;

EXCEPT THAT PORTION OF THE MAGMA ARIZONA RAILROAD RIGHT-OF-WAY AS DESCRIBED AS BOOK 51 OF DEEDS, PAGE 645, AND THEREAFTER AFFIDAVIT OF CORRECTION RECORDED NOVEMBER 1, 2002 IN RECORDING NO. 2002-059993 OF OFFICIAL RECORDS.

PARCEL NO. 3:

A PERPETUAL RIGHT-OF-WAY EASEMENT ALONG THE FOLLOWING:

THE NORTH 10.00 FEET OF THE SOUTH 50.00 FEET OF SECTION 1, TOWNSHIP 3 SOUTH, RANGE 8 EAST OF THE GILA AND SALT RIVER BASE AND MERIDIAN, PINAL COUNTY, ARIZONA;

AND THE FOLLOWING SECTIONS LOCATED IN TOWNSHIP 3 SOUTH, RANGE 9 EAST, GILA AND SALT RIVER BASE AND MERIDIAN, PINAL COUNTY;

THE SOUTH 25.00 FEET OF SECTION 4;

THE SOUTH 25.00 FEET OF SECTION 5:

THE SOUTH 25.00 FEET OF LOT 7, THE SOUTHEAST QUARTER OF THE SOUTHWEST QUARTER AND SOUTHEAST QUARTER OF SECTION 7;

THE NORTH 25 FEET OF LOT 1, THE NORTHEAST QUARTER OF THE NORTHWEST QUARTER AND THE NORTHEAST QUARTER OF SECTION 7;

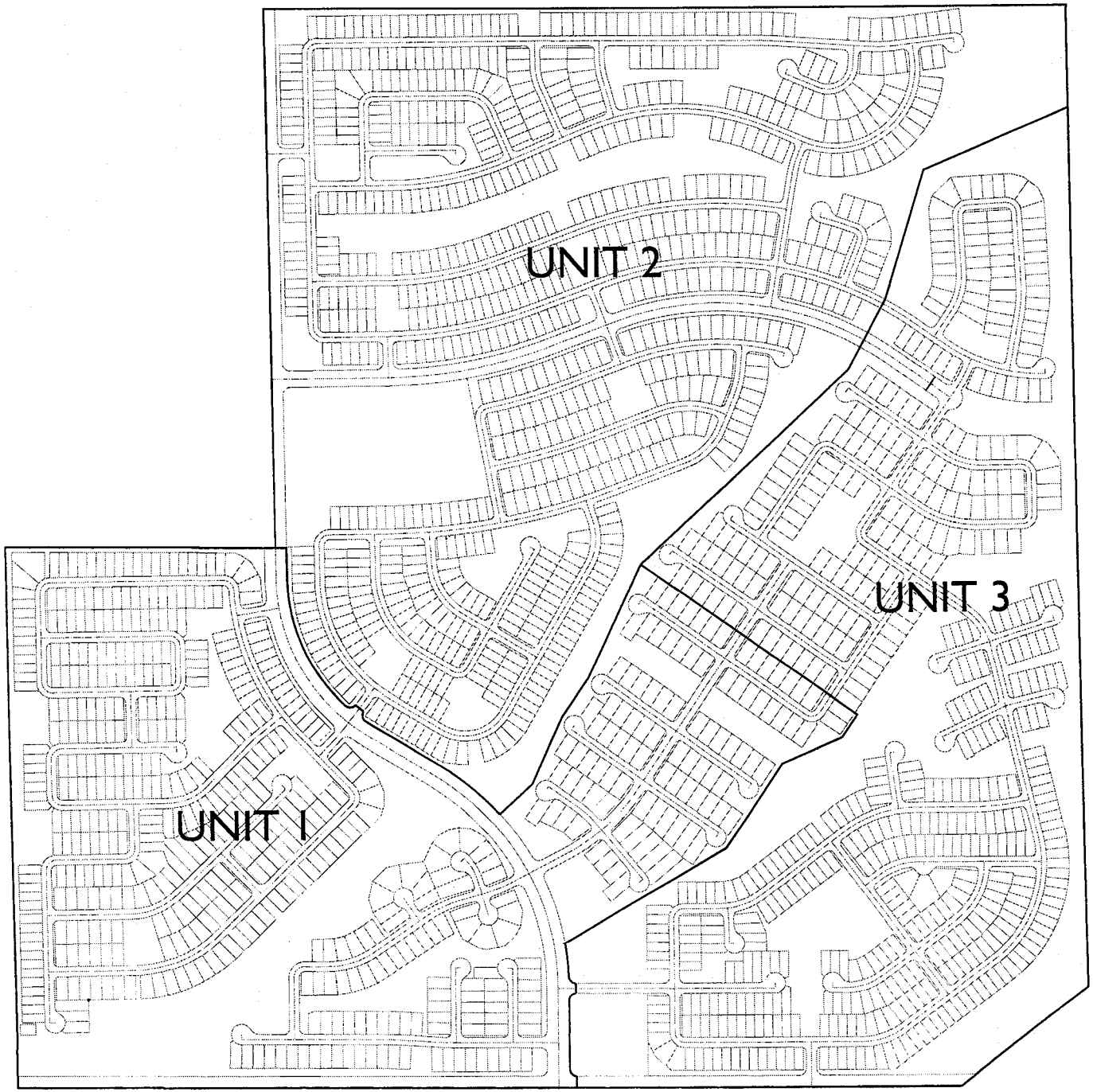
THE NORTH 25.00 FEET OF NORTHEAST QUARTER OF SECTION 8;

THE NORTH 25.00 FEET OF SECTION 9;

THE NORTH 25.00 FEET OF WEST 50.00 FEET OF SECTION 10;

AND THEREAFTER ASSIGNMENT OF RIGHT-OF-WAY RECORDED IN FEE NO. 2004-065196.

UNIT DENSITY EXHIBIT FOR SILVERADO RANCH



SILVERADO DENSITY SUMMARY			
UNIT	UNIT AREA (ac.)	NO. OF LOTS	DENSITY (DU/ac)
UNIT 1	168.12 ac.	557	3.31 DU/ac.
UNIT 2	221.31 ac.	753	3.40 DU/ac.
UNIT 3	170.27 ac.	524	3.08 DU/ac.
TOTAL	559.70 ac.	1834	3.28 DU/ac.

NORTH

N.T.S.

eps group, Inc.
Engineers, Planners & Surveyors
2150-1 S. Country Club Dr., Ste. 22, Mesa, Arizona 85210
Phone (480) 503-2250 Fax (480) 503-2258

DATE: JULY 12, 2006
EPS JOB NO. 04-028

B

eps group, Inc.
Engineers, Planners & Surveyors

LEGAL DESCRIPTION
Silverado Ranch
Lift Station

Job No. 04.028

July 12, 2006

That portion of the Southwest Quarter of Section 3, Township 3 South, Range 9 East of the Gila and Salt River Meridian, Pinal County, Arizona, more particularly described as follows:

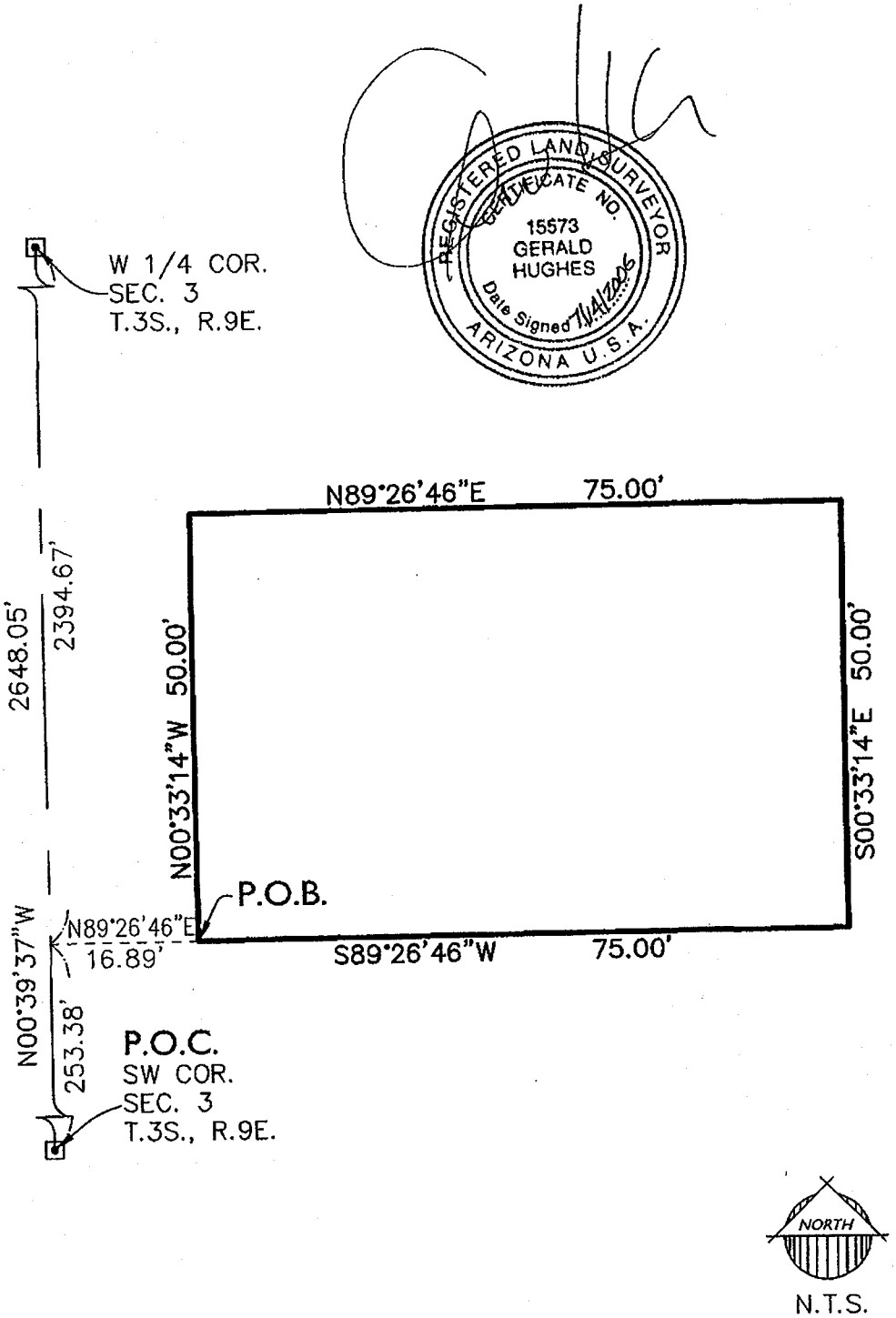
COMMENCING at a rebar at the southwest corner of said Section 3, from which a half inch pipe at the west quarter corner of said Section 3 bears N00°39'37"W (an assumed bearing) at a distance of 2648.05 feet; thence N00°39'37"W, along the west line of the southwest quarter of said Section 3, for a distance of 253.38 feet; thence N89°26'46"E, leaving said west line, for a distance of 16.89 feet to the POINT OF BEGINNING;

Thence N00°33'14"W for a distance of 50.00 feet; thence N89°26'46"E for a distance of 75.00 feet; thence S00°33'14"E for a distance of 50.00 feet; thence S89°26'46"W for a distance of 75.00 feet to the POINT OF BEGINNING.

An area containing 3,750 square feet or 0.0861 acres, more or less.

REGISTERED LAND SURVEYOR
CERTIFICATE NO.
15573
GERALD
HUGHES
Date Signed 7/14/2006
ARIZONA U.S.A.

EPS Group, Inc. • 2150-1 S. Country Club Dr., Suite 22 • Mesa, AZ 85210
Tel (480) 503-2250 • Fax (480) 503-2258



04-028

Project: Lift Station
Silverado Ranch
Pinal County, AZ

Exhibit

eps group, Inc.
Engineers, Planners & Surveyors
2150-1 S. Country Club Dr., Ste. 22, Mesa, Arizona 85210
Phone (480) 503-2250 Fax (480) 503-2258

C

When recorded mail to:
Jerry L. Cochran, Esq.
2999 North 44th Street
Suite 600
Phoenix, Arizona 85018

SPECIAL WARRANTY DEED
(Lift Station)

FOR VALUABLE CONSIDERATION, the receipt of which is hereby acknowledged, MBC VII, LLC, a Delaware limited liability company, ("Grantor"), does hereby convey unto Johnson Utilities, L.L.C., an Arizona limited liability company, ("Grantee") all right, title, claim and interest of Grantor in and to the real property described on Exhibit A attached hereto, together with all rights and privileges appurtenant or to become appurtenant thereto on the date of the signing of this instrument, unto Grantee, its successors and assigns.

Grantor hereby assigns unto Grantee all warranties of title or of any nature whatsoever which Grantor owns or to which Grantor is entitled respecting Grantor's interest in the real property described herein; provided, however, Grantor warrants title as against all of their acts and no other acts and subject to current taxes and assessments, reservations and all easements, rights of way, covenants, conditions, restrictions, liens and encumbrances as may appear of record.

Provided, however, the property granted herein shall be restricted in use to the construction of and use as a lift station and such other ancillary services and uses necessary or required for the Grantee to maintain and operate its water distribution system.

DATED this ___ day of _____, 2006.

GRANTOR: MBC VII, LLC
a Delaware limited liability company

By: _____
Anthony Montalbano
Its: President

_STATE OF)
)
County of)

On _____, 2006, before me, the undersigned, a Notary Public in and for said State, personally appeared Anthony Montalbano, personally known to me or proved to me on the basis of satisfactory evidence, to be the person who executed the within instrument as President of MBC VII, LLC, and acknowledged that he executed same for and on behalf of MBC VII, LLC for the purposes set forth above.

_____
Notary Public

My Commission Expires

_____

D

eps group, Inc.
Engineers, Planners & Surveyors

LEGAL DESCRIPTION
Silverado Ranch
Lift Station Access Drive

Job No. 04.028 July 12, 2006

That portion of the Southwest Quarter of Section 3, Township 3 South, Range 9 East of the Gila and Salt River Meridian, Pinal County, Arizona, more particularly described as follows:

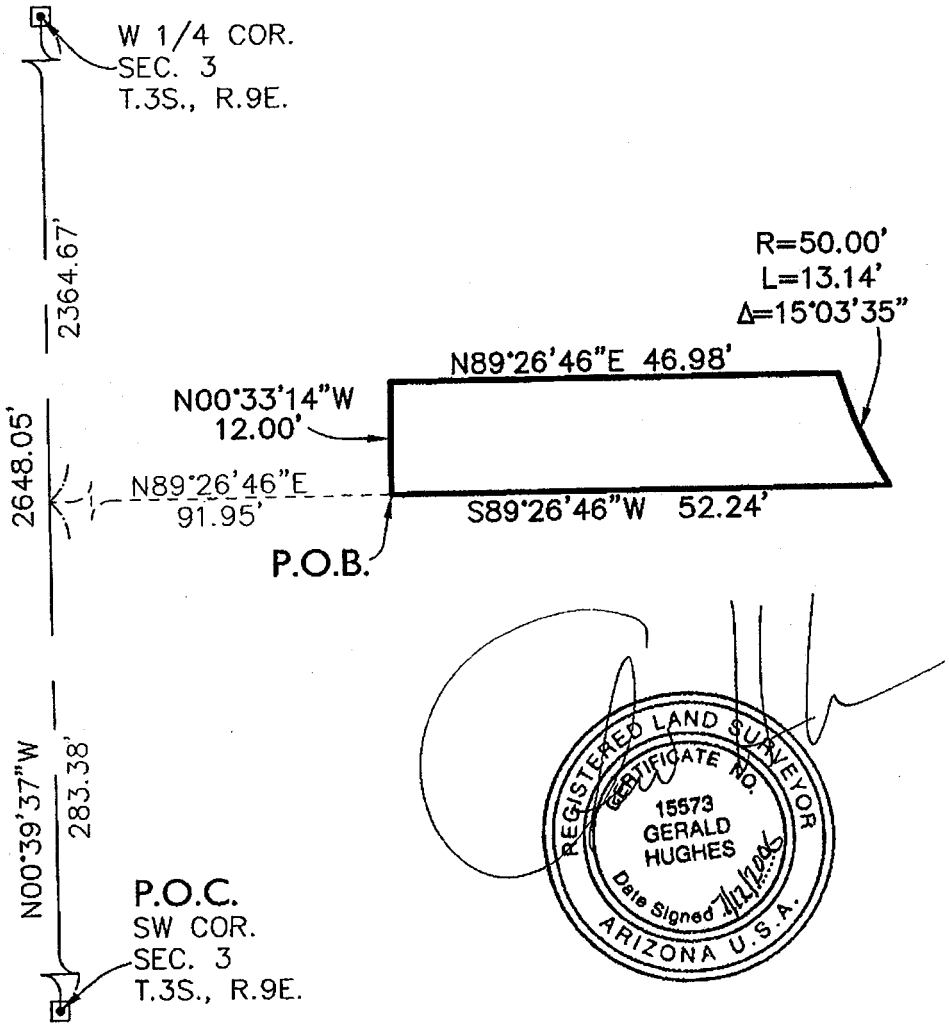
COMMENCING at a rebar at the southwest corner of said Section 3, from which a half inch pipe at the west quarter corner of said Section 3 bears N00°39'37"W (an assumed bearing) at a distance of 2648.05 feet; thence N00°39'37"W, along the west line of the southwest quarter of said Section 3, for a distance of 283.38 feet; thence N89°26'46"E, leaving said west line, for a distance of 91.95 feet to the POINT OF BEGINNING;

Thence N00°33'14"W for a distance of 12.00 feet; thence N89°26'46"E for a distance of 46.98 feet to a point on a non-tangent curve, concave to the east, the center of which bears N73°17'07"E for a distance of 50.00 feet; thence southerly, along the arc of said curve, through a central angle of 15°03'35" for a distance for 13.14 feet; thence S89°26'46", not tangent to said curve, for a distance of 52.24 feet to the POINT OF BEGINNING.

An area containing 591 square feet or 0.0136 acres, more or less.

REGISTERED LAND SURVEYOR
CERTIFICATE NO.
15573
GERALD
HUGHES
Date Signed 7/12/2006
ARIZONA U.S.A.

EPS Group, Inc. • 2150-1 S. Country Club Dr., Suite 22 • Mesa, AZ 85210
Tel (480) 503-2250 • Fax (480) 503-2258



REGISTERED LAND SURVEYOR
CERTIFICATE NO.
15573
GERALD
HUGHES
Date Signed 7/12/06
ARIZONA U.S.A.

NORTH

N.T.S.

04-028

Project: Lift Station Access Drive
Silverado Ranch
Pinal County, AZ

Exhibit

eps group, Inc.
Engineers, Planners & Surveyors
2150-1 S. Country Club Dr., Ste. 22, Mesa, Arizona 85210
Phone (480) 503-2250 Fax (480) 503-2258

E

When recorded mail to:
Jerry L. Cochran, Esq.
2999 North 44th Street
Suite 600
Phoenix, Arizona 85018

SPECIAL WARRANTY DEED
(Well Site)

FOR VALUABLE CONSIDERATION, the receipt of which is hereby acknowledged, MBC VII, LLC, a Delaware limited liability company, ("Grantor"), does hereby convey unto Johnson Utilities, L.L.C., an Arizona limited liability company, ("Grantee") all right, title, claim and interest of Grantor in and to the real property described on Exhibit A attached hereto, together with all rights and privileges appurtenant or to become appurtenant thereto on the date of the signing of this instrument, unto Grantee, its successors and assigns.

Grantor hereby assigns unto Grantee all warranties of title or of any nature whatsoever which Grantor owns or to which Grantor is entitled respecting Grantor's interest in the real property described herein; provided, however, Grantor warrants title as against all of their acts and no other acts and subject to current taxes and assessments, reservations and all easements, rights of way, covenants, conditions, restrictions, liens and encumbrances as may appear of record.

Provided, however, the property granted herein shall be restricted in use to the construction of and use as a well site, water storage tank, booster pumps, pneumatic pumps, well and such other ancillary services and uses necessary or required for the Grantee to maintain and operate its water distribution system.

DATED this ___ day of _____, 2006.

GRANTOR: MBC VII, LLC
a Delaware limited liability company

By: _____
Anthony Montalbano
Its: President

STATE OF)
)
County of)

On _____, 2006, before me, the undersigned, a Notary Public in and for said State, personally appeared Anthony Montalbano, personally known to me or proved to me on the basis of satisfactory evidence, to be the person who executed the within instrument as President of MBC VII, LLC, and acknowledged that he executed same for and on behalf of MBC VII, LLC for the purposes set forth above.

_____
Notary Public

My Commission Expires

_____

eps group, Inc.
Engineers, Planners & Surveyors

LEGAL DESCRIPTION
Silverado Ranch
Wellsite

Job No. 04-028

Rev. August 29, 2006
January 11, 2006

That portion of the Southeast Quarter of Section 3, Township 3 South, Range 9 East of the Gila and Salt River Meridian, Pinal County, Arizona, more particularly described as follows:

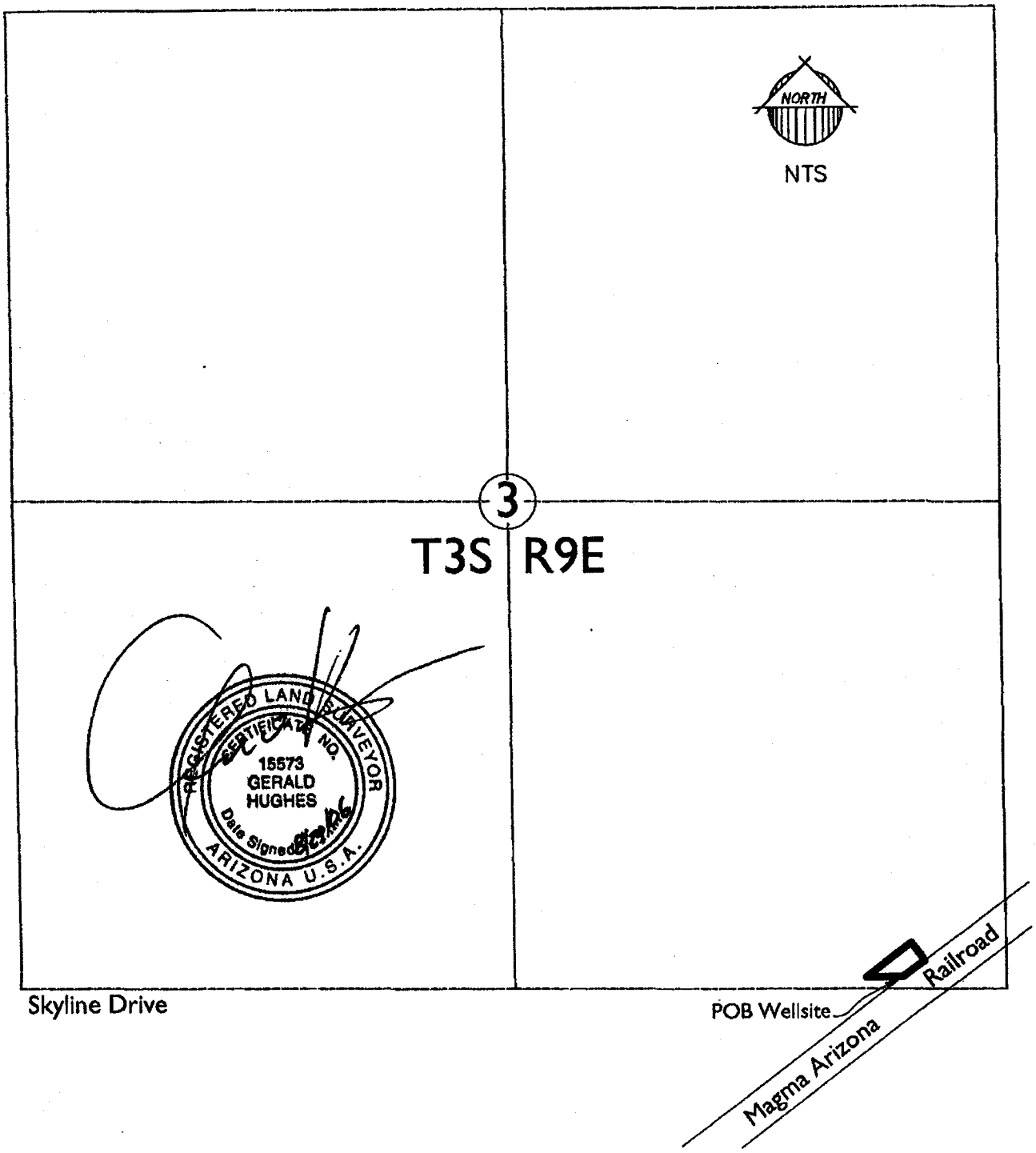
COMMENCING at a 1.5" Pipe at the southeast corner of said Section3, from which a ¾" Pipe at the south quarter corner of said Section 3 bears N89°42'07"W (an assumed bearing) at a distance of 2641.14 feet thence N89°42'07"W, along the south line of the Southeast Quarter of said Section 3, for a distance of 635.95 feet to a point on the northwesterly right-of-way line of the Magma Arizona Railroad, as described in Book 1 of Deeds, Page 645, and thereafter Affidavit of Correction recorded in Document No. 2002-059993, Official Records of Pinal County, Arizona; thence N52°52'39"E, along said right-of-way line, for a distance of 103.68 feet to a point on the north line of the south 63.00 feet of the Southeast Quarter of said Section 3, said point being the POINT OF BEGINNING;

Thence N89°42'07"W, along said north line, for a distance of 197.48 feet; thence N52°52'39"E for a distance of 306.84 feet; thence S37°07'21"E for a distance of 120.00 feet to a point on said northwesterly right-of-way line of the Magma Arizona Railroad; thence S52°52'39"W, along said right of way line, for a distance of 150.00 feet to the POINT OF BEGINNING.

An area containing 27,411 square feet or 0.6293 acres, more or less

REGISTERED LAND SURVEYOR
CERTIFICATE NO.
15573
GERALD
HUGHES
Date Signed 8-29-06
ARIZONA U.S.A.

EPS Group, Inc. • 2150-1 S. Country Club Dr., Suite 22 • Mesa, AZ 85210
Tel (480) 503-2250 • Fax (480) 503-2258



04-028

Project: Silverado Ranch Wellsite
Pinal County, Arizona

Exhibit

eps group, Inc.
Engineers, Planners & Surveyors
2150-1 S. Country Club Dr., Ste. 22, Mesa, Arizona 85210
Phone (480) 503-2250 Fax (480) 503-2258

F

EXHIBIT B

WATER USE DATA SHEET

NAME OF COMPANY	JOHNSON UTILITIES, L.L.C.
ADEQ Public Water System No.	11-136

MONTH/YEAR (Last 12 Months)	NUMBER OF CUSTOMERS	GALLONS SOLD (Thousands)	Gallons Pumped	Gallons Purchasesd
January, 2007	372	4,746	5,362	0
February, 2007	372	6,018	6,558	0
March, 2007	515	9,252	9,753	0
April, 2007	546	11,087	11,804	0
May, 2007	558	13,721	14,705	0
June, 2007	629	16,356	17,300	0
July, 2007	698	16,828	18,321	0
August, 2007	736	14,219	14,855	0
September, 2007	807	16,995	18,309	0
October, 2007	824	11,991	12,781	0
November, 2007	827	19,401	20,206	0
December, 2007	857	9,279	11,416	0

STORAGE TANK CAPACITY (GALLONS)	NUMBER OF EACH	ARIZONA DEPT. OF WATER RESOURCES WELL I.D. NUMBER	WELL PRODUCTION (Gallons per Minute)
500,000	1	55-569177	600
1,000,000	1	55-583151	300
		55-211602	~~750~~ 600

Other Water Sources in Gallons Per Minute	**None**
Fire Hydrants on System	**YES**
Total Water Pumped Last 12 Months (Gallons in Thousands)	161,371

EXHIBIT C

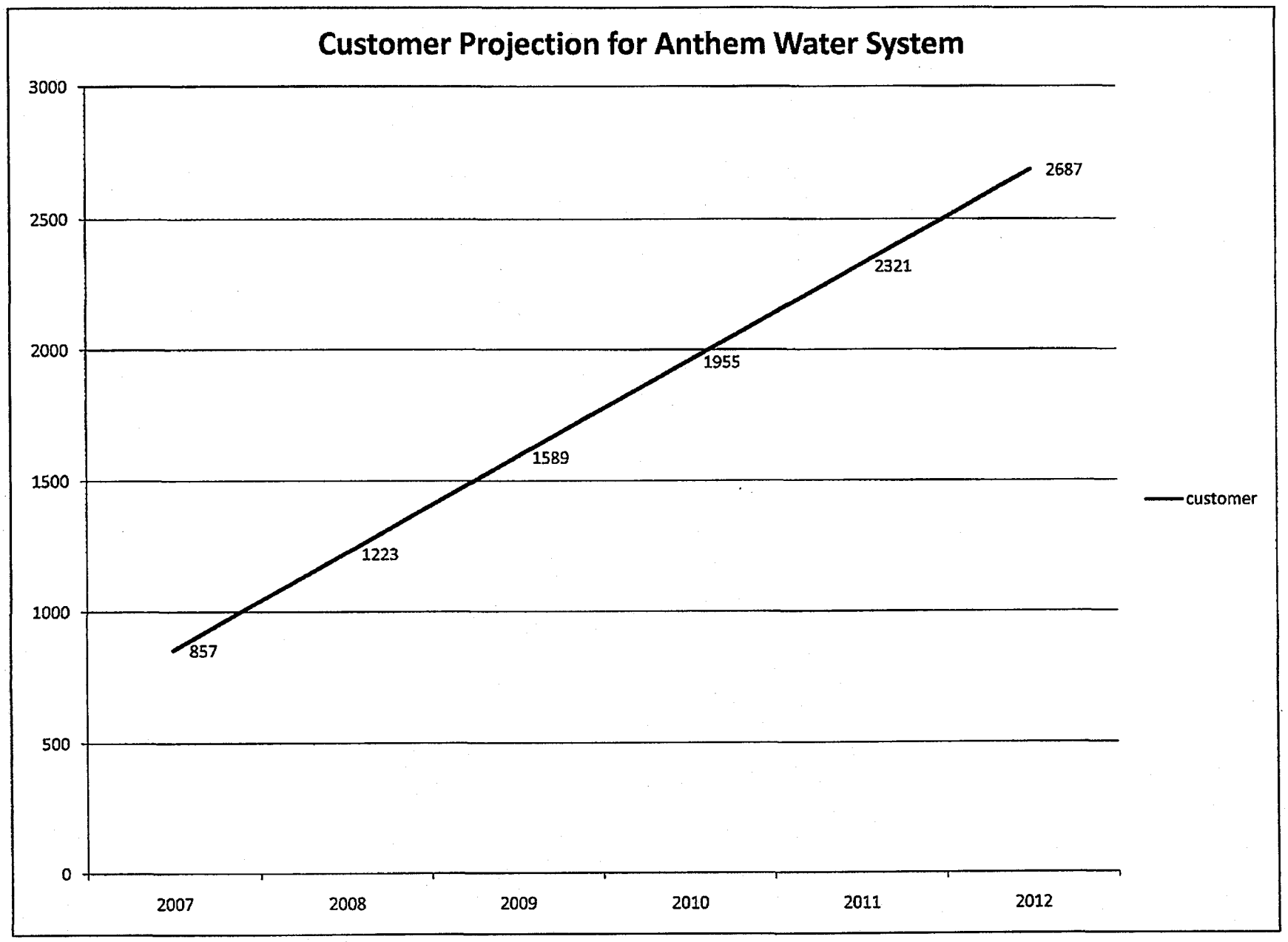

Customer Projection for Anthem Water System
3000
2500
2000
1500
1000
500
0
2007
2008
2009
2010
2011
2012
857
1223
1589
1955
2321
2687
customer

EXHIBIT D

Johnson Utilites
Treatment Plant Construction Schedule

WWTP Identification:	Phase Size in (MGD)	Estimated Construction Cost per Phase	Additional Off-Site Costs (Est. @ 10%)	Estimated Total Phase Cost	Cumulative Cost Since 1/1/2009	Costs through end of Year:
Anthem WRP - Solar Power - Phase 2 - 1MW	N/A	$ 6,700,000	$ 670,000	$ 7,370,000		
Sec. 11 WRP Recharge expansion	1.0	$ 300,000	$ 30,000	$ 330,000		
San Tan WRP - Recharge Facility	1.0	$ 100,000	$ 10,000	$ 110,000		
The Parks lift-station upgrade	N/A	$ 415,000	$ 41,500	$ 456,500		
				$ 8,266,500	**$ 8,266,500**	**End of 2009**
Sec. 11 WWTP Expansion to 2.0 MGD mechanical	2.0	$ 11,375,226	$ 1,137,523	$ 12,512,749		
The Bella Vista lift-station	N/A	$ 515,000	$ 51,500	$ 566,500		
Copper Basin WRP - Phase 1	1.0	$ 5,000,000	$ 500,000	$ 5,500,000		
Copper Basin - Recharge Basin Phase 1	1.0	$ 500,000	$ 50,000	$ 550,000		
				$ 19,129,249	**$ 27,395,749**	**End of 2010**
Anthem WWTP - Phase 2	1.0	$ 7,500,000	$ 750,000	$ 8,250,000		
Pecan Creek Effluent Field - Phase 2	N/A	$ 500,000	$ 50,000	$ 550,000		
Mesquite Trails lift-station	N/A	$ 385,000	$ 38,500	$ 423,500		
Unnamed lift-station #1	N/A	$ 415,000	$ 41,500	$ 456,500		
Unnamed lift-station #2	N/A	$ 415,000	$ 41,500	$ 456,500		
				$ 10,136,500	**$ 37,532,249**	**End of 2011**
Copper Basin WWTP - Phase 2	1.0	$ 5,000,000	$ 500,000	$ 5,500,000		
Unnamed lift-station #3	N/A	$ 415,000	$ 41,500	$ 456,500		
Unnamed lift-station #4	N/A	$ 415,000	$ 41,500	$ 456,500		
				$ 6,413,000	**$ 43,945,249**	**End of 2012**
Bella Vista WWTP - Phase 2	1.0	$ 5,000,000	$ 500,000	$ 5,500,000		
Unnamed lift-station #5	N/A	$ 415,000	$ 41,500	$ 456,500		
Unnamed lift-station #6	N/A	$ 415,000	$ 41,500	$ 456,500		
				$ 6,413,000	**$ 50,358,249**	**End of 2013**

Sub-Totals: 8.0 $ 45,780,226 $ 4,578,023

Water Plant Identification:	Phase Size in (MGD)	Estimated Construction Cost per Phase	Additional Contingency Costs (Est. @ 10%)	Estimated Total Phase Cost	Cumulative Cost Since 1/1/2008	Costs through end of Year:
Section 23 Well #1 (new application)	N/A	$ 480,000	$ 48,000	$ 528,000		
Section 23 Waterplant #1 (1,000,000 gal)	1.00	$ 1,200,000	$ 120,000	$ 1,320,000		
Skyline/Gary Road Waterline Extension	N/A	$ 353,900	$ 35,390	$ 389,290		
Arizona Farms (12" water) Hunt to Felix	N/A	$ 400,000	$ 40,000	$ 440,000		
				$ 2,677,290	**$ 2,677,290**	**End of 2009**
Anthem Well #5	N/A	$ 239,563	$ 23,956	$ 263,519		
Aspen Farms Well #1	N/A	$ 269,000	$ 26,900	$ 295,900		
Aspen Farms Well #2	N/A	$ 269,000	$ 26,900	$ 295,900		
Magma Well #2	N/A	$ 242,991	$ 24,299	$ 267,290		
Ellsworth Well #1 (55-627098)	N/A	$ 221,323	$ 22,132	$ 243,455		
Precision Well #1	N/A	$ 269,000	$ 26,900	$ 295,900		
Precision 1,000,000 storage	1.00	$ 547,500	$ 54,750	$ 602,250		
Silverado Well #1 & 500,000 storage	0.50	$ 1,267,550	$ 126,755	$ 1,394,305		
				$ 3,658,520	**$ 6,335,810**	**End of 2010**
Anthem 1,000,000 storage - Phase 2	1.00	$ 1,341,901	$ 134,190	$ 1,476,091		
Bella Vista Water Plant- Phase 1	1.00	$ 1,350,000	$ 135,000	$ 1,485,000		
Arizona Farms (12" water) Felix to Sun Valley	N/A	$ 400,000	$ 40,000	$ 440,000		
Mesquite Trails Well #1 & 500,000 storage	0.50	$ 1,267,550	$ 126,755	$ 1,394,305		
				$ 4,795,396	**$ 11,131,206**	**End of 2011**
Bella Vista Water Plant- Phase 2	1.00	$ 1,000,000	$ 100,000	$ 1,100,000		
Unnamed Well #1	N/A	$ 245,133	$ 24,513	$ 269,646		
Unnamed Well #2	N/A	$ 245,133	$ 24,513	$ 269,646		
Copper Basin Water Plant- Phase 1	1.00	$ 1,000,000	$ 100,000	$ 1,100,000		
Unnamed Water Plant #1	1.00	$ 1,000,000	$ 100,000	$ 1,100,000		
				$ 3,839,293	**$ 14,970,498**	**End of 2012**
SanTan Heights Water Plant - Phase 3	1.00	$ 1,000,000	$ 100,000	$ 1,100,000		
Unnamed Well #3	N/A	$ 245,133	$ 24,513	$ 269,646		
Unnamed Well #4	N/A	$ 245,133	$ 24,513	$ 269,646		
Copper Basin Water Plant- Phase 2	1.00	$ 1,000,000	$ 100,000	$ 1,100,000		
Unnamed Water Plant #1	1.00	$ 1,000,000	$ 100,000	$ 1,100,000		
				$ 3,839,293	**$ 18,809,791**	**End of 2013**

Sub-Totals: 9.0 $ 17,099,810 $ 1,709,981

EXHIBIT E

Adopted: June 19, 2008

CENTRAL ARIZONA PROJECT
FINAL 2009/2010 RATE SCHEDULE

DELIVERY RATES FOR VARIOUS CLASSES OF WATER SERVICE

Units = $/ acre-foot

(The Letter Designations in the Formulas Refer to the Rate Components Shown Below)

		Firm	Firm	Advisory			
	2008	2009	2010	2011	2012	2013	2014
Municipal and Industrial							
Long Term Subcontract (C+D) [1]	$ 91	$ 108	$ 118	$ 127	$ 136	$ 144	$ 149
Excess Water (A+C+D)	112	126	133	139	136	144	149
Incentive Recharge [2]	51	82	100	118	136	144	149
AWBA Interstate Recharge (A+C+F+G) [3]	219	233	231	165	165	175	184
Federal (C+D)	$ 91	$ 108	$ 118	$ 127	$ 136	$ 144	$ 149
Agricultural							
Settlement Pool (D) [4]	$ 36	$ 45	$ 49	$ 50	$ 53	$ 56	$ 58
Long Term Subcontract (B+C+D) [5]	93	110	120	129	136	144	149
Agricultural Incentives [4]							
Meet Settlement Pool Goals	n/a	(6)	(6)	tbd	tbd	tbd	tbd
Meet AWBA/CAGRD GSF Goals	n/a	(1)	(2)	tbd	tbd	tbd	tbd
Meet Recovery Goals	n/a	(1)	(2)	tbd	tbd	tbd	tbd
Miscellaneous [6]	$ 46	$ 82	$ 100	$ 118	$ 136	$ 144	$ 149

RATE COMPONENTS

Units = $/acre-foot

		Firm	Firm	Advisory			
	2008	2009	2010	2011	2012	2013	2014
Capital Charges							
(A) Municipal and Industrial - Long Term Subcontract [7]	$ 21	$ 18	$ 15	$ 12	$ -	$ -	$ -
(B) Agricultural - Long Term Subcontract [5]	2	2	2	2	-	-	-
Delivery Charges							
(C) Fixed OM&R [8]	$ 55	$ 63	$ 69	$ 77	$ 83	$ 88	$ 91
(D) Pumping Energy Rate 1 [9]	36	45	49	50	53	56	58
(E) Pumping Energy Rate 2 [10]	41	70	85	n/a	n/a	n/a	n/a
(F) Pumping Energy Rate 3 [11]	115	125	122	n/a	n/a	n/a	n/a
(G) Property Tax Equivalency [12]	28	27	25	26	29	31	35
(H) Lost Federal Revenues [13]	5	n/a	n/a	n/a	n/a	n/a	n/a

Qualifications for Various Classes of Water Service

Long-Term Municipal and Industrial (M&I) Subcontract: M&I subcontractors.
Excess: M&I users who are not subcontractors and the CAGRD; rate is for "as available" water.
Incentive Recharge (AWBA/CAGRD and M&I Incentive Underground Water Storage): The Arizona Water Banking Authority (available for scheduling after all other schedules have been filled) and M&I subcontractors and other Arizona entities who have valid Arizona Department of Water Resources permits and accrue long-term recharge/storage credits from this activity.

Adopted: June 19, 2008

CENTRAL ARIZONA PROJECT
FINAL 2009/2010 RATE SCHEDULE

DIRECT UNDERGROUND WATER STORAGE

Units = $/acre-foot

	2008	Firm 2009	Firm 2010	Advisory 2011	2012	2013	2014
Underground Water Storage O&M [14]							
Phoenix AMA	$ 8	$ 8	$ 8	$ 9	$ 10	$ 11	$ 11
Tucson AMA	15	15	15	15	16	17	18
Underground Water Storage Capital Charge [15]							
Phoenix AMA	$ 15	$ 15	$ 15	$ 15	$ 15	$ 15	$ 15
Tucson AMA	9	9	9	9	9	9	9

CENTRAL ARIZONA GROUNDWATER REPLENISHMENT DISTRICT ASSESSMENT RATES

Units = $/acre-foot

	Historic 2007/08	Firm 2008/09	Firm 2009/10	Advisory 2010/11	2011/12	2012/13	2013/14
Phoenix Active Management Area							
Water & Replenishment Component [16]	$ 112	$ 134	$ 143	$ 154	$ 157	$ 162	$ 166
Administrative Component [17]	28	33	33	31	29	27	25
Infrastructure & Water Rights Component [18]	79	90	101	112	115	118	122
Replenishment Reserve Charge [19]	21	33	41	49	57	60	63
Total Assessment Rate ($/AF)	$ 240	$ 290	$ 318	$ 346	$ 358	$ 367	$ 376
Pinal Active Management Area							
Water & Replenishment Component [16]	$ 87	$ 100	$ 107	$ 117	$ 117	$ 125	$ 134
Administrative Component [17]	28	33	33	31	29	27	25
Infrastructure & Water Rights Component [18]	79	90	101	112	115	118	122
Replenishment Reserve Charge [19]	25	31	38	45	51	54	56
Total Assessment Rate ($/AF)	$ 219	$ 254	$ 279	$ 305	$ 312	$ 324	$ 337
Tucson Active Management Area							
Water & Replenishment Component [16]	$ 133	$ 143	$ 153	$ 164	$ 161	$ 168	$ 177
Administrative Component [17]	28	33	33	31	29	27	25
Infrastructure & Water Rights Component [18]	79	90	101	112	115	118	122
Replenishment Reserve Charge [19]	25	39	46	54	61	65	67
Total Assessment Rate ($/AF)	$ 265	$ 305	$ 333	$ 361	$ 366	$ 378	$ 391
Contract Replenishment Tax - Scottsdale [20]							
Cost of Water	$ 108	$ 112	$ 126	$ 133	$ 139	$ 136	$ 144
Cost of Transportation	0	0	0	0	0	0	0
Cost of Replenishment	0	0	0	0	0	0	0
Administrative Component [17]	28	33	33	31	29	27	25
Total Tax Rate ($/AF)	$ 136	$ 145	$ 159	$ 164	$ 168	$ 163	$ 169

ENROLLMENT & ACTIVATION FEES

Units = $/Housing Unit

Enrollment Fee [21]	$ 23	$ 74	$ 83	$ 92	$ 94	$ 96	$ 100
Activation Fee [21]	$ 63	$ 72	$ 81	$ 90	$ 92	$ 94	$ 98

Adopted: June 19, 2008

CENTRAL ARIZONA PROJECT
FINAL 2009/2010 RATE SCHEDULE

NOTES:

1 Does not include the Capital Charge.

2 Rate transitions to M&I rate by 2012. This rate applies to all incentive recharge customers. Rules regarding the eligibility for and use of M&I Incentive Underground Water Storage are shown on page 1.

3 Rate is the Fixed OM&R component plus the Pumping Energy Rate 3 component plus the M&I Capital Charge plus an equivalency tax component. Starting in 2011 Pumping Energy Rate 1 replaces Pumping Energy Rate 3 as a rate component.

4 Rate is the Pumping Energy Rate 1 component. Incentives may be earned for meeting delivery goals in three areas. Any incentives earned can be applied to Settlement Pool deliveries.

5 Ag capital charge is part of the delivery rate through 2011.

6 Starting in 2009, the Miscellaneous Rate is the same as the Incentive Recharge Rate.

7 Capital charge is paid on full allocation regardless of amount delivered; not included in delivery rates.

8 Fixed O&M costs divided by projected total water volumes plus a component to fund capital replacements. This amount is collected on all ordered water whether delivered or not.

9 Applies to all water deliveries except AWBA and M&I/CAGRD Incentive Underground Water Storage, AWBA Interstate and SRP bring-your-own power acre-feet. Net pumping energy costs divided by projected deliveries. This amount is collected only for water actually delivered as opposed to scheduled.

10 Applies to AWBA and M&I/CAGRD Incentive Underground Water Storage and SRP bring-your-own power acre-feet. Rate is the average of the prior 3 years actual or forecasted rate. Starting in 2009 a $5/AF Energy Rate 2 catch-up component is included. The SRP rate is the incentive recharge rate less Energy Rate 2.

11 Rate is based upon the estimated cost of purchasing CAP's highest cost energy (above threshold energy until 2011).

12 The rate is based upon the tax levy for the previous elapsed tax year divided by the average water deliveries (excluding Federal deliveries and water storage credits) for the three previous completed delivery years (e.g., for 2009 Rate, the tax equivalency is the levy for the 2007-2008 tax year divided by the average water deliveries for 2005, 2006 and 2007). The Advisory Rates are estimates.

13 A component to compensate for loss of revenues from Federal deliveries resulting from adding AWBA and M&I/CAGRD incentive and SRP bring your own power deliveries (derived by formula). This component is eliminated starting with the 2009 rates.

14 Underground Water Storage O&M is paid by all direct recharge customers using CAP recharge sites.

15 Underground Water Storage capital charge is paid by all direct recharge customers except AWBA for M&I firming, the CAGRD, municipal providers within the CAP service area and co-owners of CAWCD recharge facilities using no more than their share of capacity.

16 The Water & Replenishment Component includes the projected cost to purchase and recharge water and effluent. For rate development purposes it was assumed that the replenishment of effluent would have the same cost as Excess CAP water recharged at a CAP state demonstration recharge project. The total volume to be purchased and replenished includes the replenishment obligation plus a sufficient volume to offset losses incurred during the replenishment process (generally 1% to 2.5%). For the Phoenix Active Management Area (AMA), replenishment will be accomplished at direct underground storage facilities (USFs) and groundwater savings facilities facilities (GSFs). For the Pinal AMA, replenishment will be accomplished at GSFs. For the Tucson AMA, replenishment will be accomplished at USFs.

17 The Administrative Component is designed to cover all CAGRD administrative costs. $2/AF has been added to this component to help fund the CAGRD conservation program.

18 The Infrastructure & Water Rights Component was established to provide funds to (1) purchase long-term rights to water as opportunities arise, and (2) construct additional infrastructure facilities as the need arises in the future.

19 The Replenishment Reserve Charge is based on a program to establish a replenishment reserve of long-term storage credits as required by statutes. Excess CAP water will be purchased at the CAP Incentive Recharge rate and stored at a combination of USFs and GSFs in the Phoenix and Tucson AMAs. In the Pinal AMA, credits will be purchased from CAP at the incentive recharge rate in accordance with Board policy adopted on October 6, 2005. This charge will be levied as provided in ARS Sections 48-3774.01 and 48-3780.01.

20 The components of the Contract Replenishment Tax - Scottsdale reflect the provisions in the Water Availability Status Contract to Replenish Groundwater Between CAWCD and Scottsdale. The rates reflect the assumption that Excess CAP water will be available to meet the associated contract replenishment obligations.

CENTRAL ARIZONA PROJECT
FINAL 2009/2010 RATE SCHEDULE

21 The Enrollment Fee and Activation Fee reflect the fees established pursuant to the CAGRD Enrollment Fee and Activation Fee Policy adopted by the Board on May 1, 2008. $2 per housing unit is included to the enrollment fee to help fund CAGRD's conservation program.

EXHIBIT F

SPECIFIC ENGINEERING, LLC.
5310 E. SHEA BOULEVARD SUITE 2
SCOTTSDALE, ARIZONA 85254
Phone: (480) 596-6335
FAX: (480) 596-6437

PRELIMINARY CONSTRUCTION ESTIMATE

PROJECT :TYPICAL SECTION COST-INFRASTRUCTURE

DATE: February 27, 2009

WATER

PROJECT NO.

NO. of LOTS: N/A

BY: JOHNSON UTILITY LLC

Description	Unit	Approximate Quantity	Unit Price	TOTAL
16" AWWA C900 DR 18 PVC 150psi	LF	**5,280**	70.00	$369,600.00
12" AWWA C900 DR 18 PVC 150psi	LF	**21,320**	51.00	$1,087,320.00
16" GATE VALVE, BOX & COVER	EA	**5**	2,100.00	$10,500.00
12" GATE VALVE, BOX & COVER	EA	**26**	1,870.00	$48,620.00
PVC WATER MAIN LOCATING TAPE	LF	**26,600**	0.85	$22,610.00
NEW WATER WELLS	EA	**2**	525,000.00	$1,050,000.00
WATER PLANT w/ WELL	EA	**1**	1,860,000.00	$1,860,000.00
	SUBTOTAL			**$4,448,650.00**
				$1,986.00

Note: Specific Engineering LLC has no control over the costs of labor, materials or equipment or over any contractor's method of determining prices or over competitive bidding or market conditions. Consequently, the estimates of cost contained herein represent Specific Engineering, LLC's opinions of probable cost and are made solely on the basis of experience and qualifications and represent only a best judgement as a design professional familiar with the construction industry. Specific Engineering LLC cannot and does not guarantee that proposals, bids or final construction costs will not vary from opinions of probable cost prepared by Specific Engineering LLC.

SPECIFIC ENGINEERING, LLC.
5310 E. SHEA BOULEVARD SUITE 2
SCOTTSDALE, ARIZONA 85254
Phone: (480) 596-6335
FAX: (480) 596-6437

ENGINEER'S OPINION OF PROBABLE COST
PROJECT: TYPICAL SECTION COST FOR INFRA
February 27, 2009
SEWER

PROJECT NO. 3010A007
NO. of LOTS: N.A.
BY: Johnson Utilities-CC & N Cost Est.

Description	Unit	Approximate Quantity	Unit Price	TOTAL
12" SDR 35 PVC PIPE	LF	5280	$25.00	$132,000.00
10" SDR 35 PVC PIPE	LF	10560	$18.00	$190,080.00
4' DIA MANHOLE	EA	20	$2,600.00	$52,000.00
5' DIA MANHOLE	EA	12	$3,000.00	$36,000.00
LIFT STATION	EA	1	$600,000.00	$600,000.00
FORCE MAIN-10 INCH C-900 PVC	LF	500	30.00	$15,000.00
WATER RECLAMATION PLANT	EA	1	4,193,280.00	$4,193,280.00
	SUBTOTAL			$5,218,360.00
				$2,329.63

Note: Specific Engineering LLC has no control over the costs of labor, materials or equipment or over any contractor's method of determining prices or over competitive bidding or market conditions. Consequently, the estimates of cost contained herein represent Specific Engineering, LLC's opinions of probable cost and are made solely on the basis of experience and qualifications and represent only a best judgement as a design professional familiar with the construction industry. Specifc Engineering, LLC cannot and does not guarantee that proposals, bids or final construction costs will not vary from opinions of probable cost prepared by Specific Engineering, LLC.