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BEFORE THE ARIZONA CORPORATION COMMISSION

RECEIVED

COMMISSIONERS

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

2009 APR 24 A 9:15

AZ CORP COMMISSION  
DOCKET CONTROL

IN THE MATTER OF THE APPLICATION OF  
JOHNSON UTILITIES, LLC DBA JOHNSON  
UTILITIES COMPANY FOR AN INCREASE  
IN ITS WATER AND WASTEWATER RATES  
FOR CUSTOMERS WITHIN PINAL  
COUNTY, ARIZONA.

DOCKET NO. WS-02987A-08-0180

STAFF'S NOTICE OF FILING  
TESTIMONY SUMMARIES

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

RESPECTFULLY SUBMITTED this 24<sup>th</sup> day of April, 2009.

Nancy Scott, Attorney  
Ayesha Vohra, Attorney  
Legal Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007  
(602) 542-3402

Original and thirteen (13) copies  
of the foregoing filed this  
24<sup>th</sup> day of April, 2009 with:

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

Arizona Corporation Commission  
DOCKETED

APR 24 2009

DOCKETED BY

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...

1 Copies of the foregoing hand-delivered  
this 24<sup>th</sup> day of April, 2009 to:

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**SUMMARY OF TESTIMONY  
OF  
JEFFREY M. MICHLIK  
FOR  
JOHNSON UTILITIES COMPANY  
DOCKET NO. WS-02987A-08-0180**

**OUTSTANDING ISSUES**

**Rate Base**

Post Test Year Plant (Water Division only) – Staff continues to recommend disallowance of \$3,222,994, in post test year plant additions, as the Company has denied Staff access to records needed

to verify the authenticity and accuracy of its additions.

Unsupported Plant Costs – Staff continues to recommend disallowance of \$7,959,115 for the water division plant valuation and \$11,896,227 for the wastewater division plant valuation, which constitutes a 10 percent permanent disallowance of all unsupported plant based on the Company's inadequate documentation.

Affiliate Profit – Staff continues to recommend disallowance of \$5,969,336 for the water division plant valuation and \$8,922,170 for the wastewater division plant valuation, which constitutes a 7.5 percent permanent disallowance of all plant based on the information provided by the Company to Staff indicating all plant valuations contained affiliate profits.

Unexpended Contribution in aid of Construction "CIAC" - Staff continues to recommend the inclusion of unexpended CIAC in the amount of \$6,931,078 for the water division and \$16,505 for the wastewater division in rate base.

**Operating Income**

Central Arizona Ground Water Replenishment District "CAGRDR" (Water Division only) – Staff recommends the CAGRDR use fee be treated as a pass-through to rate payers subject to certain conditions.

Income Taxes (Water and Wastewater Divisions) – Staff continues to recommend that federal and state income taxes not be included as an operating expense for the Company as it has elected to be organized as a Limited Liability Company (LLC) and does not have any income tax liability.

**Other Matters**

Hook-up Fees – Staff continues to recommend discontinuance of hook-up fees.

**SUMMARY OF TESTIMONY  
OF  
MARLIN SCOTT, JR.  
FOR  
JOHNSON UTILITIES COMPANY  
DOCKET NO. WS-02987A-08-0180**

**WATER DIVISION**

**Conclusions**

- A. The Johnson Utilities Company's ("Company") Anthem water system has a water loss of 7.1% and is within the acceptable limit of 10%. (For the Johnson Ranch water system, see Recommendation #1 below.)
- B. The Company's Johnson Ranch system's current source and storage capacity are adequate to serve the present customer base and reasonable growth. (For the Anthem water system's source and storage capacity recommendation, Staff determined that this system had excess capacity. See Recommendation #3 below.)
- C. For the Company's two water systems, the Arizona Department of Environmental Quality ("ADEQ") has reported no major deficiencies and has determined that both systems, PWS #11-128 and #11-136, are currently delivering water that meets water quality standards required by the Arizona Administrative Code, Title 18, Chapter 4.
- D. The Company is located in both of the Arizona Department of Water Resources' ("ADWR") Phoenix and Pinal Active Management Areas. The ADWR has reported that both of the Company's systems are in compliance with its requirements governing water providers and/or community water systems.
- E. The Company has no delinquent Arizona Corporation Commission compliance issues.
- F. The Company has an approved curtailment tariff that became effective on July 9, 2005.
- G. The Company has an approved backflow prevention tariff that became effective on June 30, 1997.
- H. The Company has an approved water hook-up fee tariff that became effective on May 27, 1997.

## **Recommendations**

1. The Company's Johnson Ranch water system has a water loss of 19.4%. For this Johnson Ranch system, Staff recommends that the Company begin a 12-month monitoring exercise of its water system. Staff further recommends that the Company docket the results of the system monitoring as a compliance item in this case by November 1, 2010. If the reported water loss for the period from October 1, 2009 through October 1, 2010, is greater than 10%, the Company shall prepare a report containing a detailed analysis and plan to reduce water loss to 10% or less. If the Company believes it is not cost effective to reduce water loss to less than 10%, it should submit a detailed cost benefit analysis to support its opinion. This report shall be docketed as a compliance item in this proceeding for review and certification by Staff. The above report or cost benefit analysis, if required, shall be docketed by December 31, 2010. In no case shall water loss be greater than 15 percent. If water loss is not reduced to less than 15 percent by 2010, Staff may initiate an Order to Show Cause against the Company.
2. Staff recommends that the Company's reported annual water testing expense of \$55,007 be adopted for this proceeding.
3. Staff recommends its adjusted water plant-in-service of \$74,337,067 be used as a guideline for purposes of setting rates in this proceeding.
4. Staff recommends approval of its water depreciation rates by individual National Association of Regulatory Utility Commissioners ("NARUC") category as shown in Table I-1.
5. Staff recommends approval of the proposed charges as shown in Table J-1, with separate installation charges for the service line and meter installations.

## **WASTEWATER DIVISION**

### **Conclusions**

- I. The Company's Section 11, Pecan, and Anthem Water Reclamation Plants ("WRPs") have adequate treatment capacity to serve the present customer base and reasonable growth. (For the San Tan WRP, Staff determined that this WRP had excess capacity. See Recommendation #7 below.)
- J. The ADEQ has reported the Anthem WRP as having no deficiencies and in compliance with ADEQ regulations.
- K. The Company has an approved wastewater hook-up fee tariff that became effective on May 27, 1997.

## **Recommendations**

6. ADEQ has reported the Section 11, San Tan, and Pecan WRPs as having deficiencies and not in compliance with ADEQ regulations. However, according to the Company, all the reported deficiencies have been addressed and/or corrected. Therefore, Staff recommends that the Company file with Docket Control, as a compliance item in this docket, copies of updated ADEQ Compliance Status Reports for the Pecan, San Tan and Section 11 wastewater systems indicating that the noted deficiencies have been resolved and all are in compliance. Staff further recommends that any increase in rates and charges approved in this proceeding not become effective until the first day of the month following the Company's filing of the updated ADEQ Compliance Status Reports indicating that the Pecan, San Tan and Section 11 wastewater systems have resolved the noted deficiencies and all are in compliance.
7. Staff recommends its adjusted wastewater plant-in-service of \$113,811,343 be used as a guideline for purposes of setting rates in this proceeding.
8. Staff recommends approval of its wastewater depreciation rates by individual NARUC category as shown in Table H-1.