OPEN MEETING AGENDA ITEM

0000113226

RECEIVED

BEFORE THE ARIZONA CORPORATION COMMISSION

2010 JUL 26 P 4: 44

AZ CORP COMMISSION DOCKET CONTROL

Arizona Corporation Commission DOCKETED

JUL 26 2010

DOCKETED BY

COMMISSIONERS

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

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

DOCKET NO. WS-02987A-08-0180

JOHNSON UTILITIES' COMMENTS REGARDING MAYES AMENDMENTS

Snell & Wilmer
L.L.P.
LAW OFFICES
One Arizona Center, 400 E. Van Buren
Phoenix, Arizona 85004-2202
(602) 382-6000

On May 24, 2010, Chairman Mayes docketed the following proposed amendments to the recommended opinion and order ("ROO") issued in the above-captioned proceeding: (i) Mayes Proposed Amendment 1 which would require that Johnson Utilities, LLC, ("Johnson Utilities" or the "Company") submit to the Arizona Corporation Commission ("Commission"), for approval within 120 days of the effective date of a decision in this case, at least ten Best Management Practices ("BMPs")[1] as outlined in the Arizona Department of Water Resources' Modified Non Per Capita Conservation Program; and (ii) Mayes Proposed Amendment 2 which would approve the establishment of a Central Arizona Groundwater District Replenishment District ("CAGRD") adjustor mechanism for Johnson Utilities, inclusive of eight conditions proposed by Utilities Division Staff ("Staff"). Johnson Utilities fully supports the stated objective of these two Mayes amendments to promote conservation and wise

[1] Pursuant to the proposed amendment, a maximum of two of the ten BMPs may come from the "Public Awareness/PR" or "Education and Training" categories of the BMPs.

stewardship of groundwater in Arizona, and the Company fully supports both Mayes Proposed Amendment 1 and Mayes Proposed Amendment 2.

On July 22, 2010, Chairman Mayes docketed Mayes Revised Proposed Amendment 3 and Mayes Revised Proposed Amendment 4, which are alternative proposals.[2] Mayes Proposed Amendment 3, among other things, would (i) reset Johnson Utilities' rate base to zero; (ii) exclude $6,931,078 in unexpended hook-up fees from rate base; and (iii) establish a three percent (3%) operating margin for the Company for both its water and wastewater divisions. Alternatively, Mayes Proposed Amendment 4, among other things, would establish a five percent (5%) operating margin for both the water and wastewater divisions of Johnson Utilities. For the reasons discussed below, the adoption of either Mayes Revised Proposed Amendment 3 or Mayes Revised Proposed Amendment 4 would immediately place Johnson Utilities in a precarious financial position, and would almost certainly necessitate the immediate filing of an emergency rate case for both the water and wastewater divisions.

The instant rate case is based upon a 2007 test year which is now more than two and a half years old. Since the end of the test year, Johnson Utilities' expenses have increased significantly while revenues have not kept pace with the growth in expenses. Attached hereto as Attachment 1 is a copy of Johnson Utilities' 2007 Statement of Income prepared by Ullmann & Company Certified Public Accountants, a copy of which was previously submitted to the Commission with the Company's 2007 annual report. The 2007 income statement shows total operating revenues of $23,066,708 and total operating expenses of $18,118,755, for net operating income of $4,947,953. Attached hereto as Attachment 2 is a copy of Johnson Utilities' 2009 Statement of Income

[2] Mayes Proposed Amendment 3 and Mayes Proposed Amendment 4 were originally docketed on July 20, 2010, but were subsequently superseded by Mayes Revised Proposed Amendment 3 and Mayes Revised Proposed Amendment 4 on July 22, 2010.

Snell & Wilmer
L.L.P.
LAW OFFICES
One Arizona Center, 400 E. Van Buren
Phoenix, Arizona 85004-2202
(602) 382-6000

prepared by Ullmann & Company Certified Public Accountants, a copy of which was previously submitted to the Commission with the Company's 2009 annual report. The 2009 income statement shows total operating revenues of $25,864,001 and total operating expenses of $23,774,624, for net operating income of $2,089,377. Thus, a comparison of the 2007 and 2009 income statements shows that total operating expenses increased by $5,655,869, or approximately 31%, since the end of the test year while total operating revenue increased by only $2,797,293, or approximately 12%, since the end of the test year. The result is that net operating income has shrunk by $2,858,576 (from $4,947,953 in test year 2007 to $,2,089,377 in 2009).

Certainly, one factor that has contributed to the reduction in net revenue as been the deteriorating economy. Bad debt expense, for example, increased from $236,421.95 in test year 2007 to $607,301.33 in 2009. This increase of more than $370,000 represents an increase of 156.87% over test year bad debt expense. Another example is purchased power expense which increased by more than $376,566 annually, or 27.81%, over test year expense. Further, the Company's obligation to refund advances in aid of construction out of annual operating revenues is on-going, with refund obligations in 2009 totaling almost $1,200,000. The cash needed to refund advances in aid of construction is not accounted for as an expense on the Company's income statement.

Under Mayes Revised Proposed Amendment 3, gross revenue for Johnson Utilities' water division would decrease by $1,991,262 while gross revenue for the wastewater division would decrease by $1,631,137, for a combined reduction in revenues of $3,622,399. This amendment would offset all of the Johnson Utilities' net operating income of $2,089,377 in 2009, and would leave the Company with a net loss of $1,533,022. Thus, the adoption of Mayes Revised Proposed Amendment 3 would create dire consequences for the Company, and would almost certainly necessitate the filing of an immediate emergency rate case.

Snell & Wilmer
L.L.P.
LAW OFFICES
One Arizona Center, 400 E. Van Buren
Phoenix, Arizona 85004-2202
(602) 382-6000

Adoption of Mayes Revised Proposed Amendment 4 would create a similar emergency. Under this amendment, gross revenue for Johnson Utilities' water division would decrease by $2,116,339 while gross revenue for the wastewater division would decrease by $1,426,957, for a combined reduction in revenues of $3,543,269. This amendment would offset all of the Johnson Utilities' net operating income of $2,089,377 in 2009, and would leave the Company with a net loss of $1,453,919. Thus, if Mayes Revised Amendment 4 were adopted, it would likewise necessitate the filing of an immediate emergency rate case.

On June 4, 2010, Johnson Utilities docketed an Analysis of Positive Rate Base Alternatives. In that filing, Johnson Utilities proposed and discussed two alternatives, supported by the affidavit of accounting expert Tom Bourassa, that would produce a positive rate base for the water and wastewater divisions. In his affidavit, Mr. Bourassa explained the tremendous detriments of a negative rate base and operating margin for a Class A utility such as Johnson Utilities, which include the following:

- A negative rate base will make it difficult or likely impossible for Johnson Utilities to attract additional equity in the future, either from current members/shareholders or from future outside investors. Such a lack of access to additional equity would relegate the Company to reliance upon advances-in-aid-of-construction and/or contributions-in-aid-of-construction to fund future growth, which would do little to increase equity in the Company.

- A negative rate base will make it difficult or impossible for Johnson Utilities to borrow money because lenders are generally unwilling to loan money to a utility with negative equity. Even if the Company could find a willing lender, it is virtually certain that such a lender would require a higher interest rate to cover the substantial risk associated with lending to a company with negative equity.

- The elimination of $37,643,787 in rate base substantially reduces depreciation expense, thereby decreasing operating cash flow. The reduction of operating cash flow will make it much more difficult for

Snell & Wilmer
L.L.P.
LAW OFFICES
One Arizona Center, 400 E. Van Buren
Phoenix, Arizona 85004-2202
(602) 382-6000

Johnson Utilities to fund plant replacements in the future.

Johnson Utilities' Alternative 1 as set forth in the Company's June 4, 2010, filing is based upon the ROO,[3] assumes the adoption of Mayes Proposed Amendment #2 regarding the CAGRD adjuster mechanism, and makes the following modifications:

- Adds back into rate base Staff's 10% blanket disallowances for inadequately supported plant in the amount of $7,433,707 for the water division and $10,892,391 for the wastewater division.

- Deducts from rate base the amount of $2,860,844, which represents a reduction of 10% of the $28,608,166 in Members Capital (*i.e.*, members equity) in Johnson Utilities for alleged inadequately supported plant.

- Adds back into rate base Staff's 7.5% overstated disallowance for affiliate profit in the amount of $5,017,752 for the water division and $7,352,364 for the wastewater division.

- Deducts from rate base the amount of $1,270,011, which represents a reduction of 1.75% on the $72,572,024 in affiliate-constructed plant.

- Removes from rate base unexpended hook-up fees in the amount of $6,931,078 for the water division and $16,505 for the wastewater division.

- Adds $2,201,386 to wastewater test-year plant-in-service which was inadvertently misclassified as post test-year plant in the Company's initial filing.

- Makes adjustments to depreciation expense and property taxes to account for the changes in plant-in-service described above.

The adjustments outlined above produce a positive water division rate base of

[3] For purposes of Alternative 1, Johnson Utilities accepted Staff's reductions of plant-in-service for excess capacity, plant not used and useful, and post test-year plant. However, Johnson Utilities does not waive its arguments that these Staff adjustments are not appropriate for the reasons set forth in the Company's exceptions filed May 17, 2010.

Snell & Wilmer
L.L.P.
LAW OFFICES
One Arizona Center, 400 E. Van Buren
Phoenix, Arizona 85004-2202
(602) 382-6000

$3,725,208 and a positive wastewater division rate base of $16,572,869, for total plant in service of $20,298,077, as shown on Exhibit A to the Bourassa affidavit supporting the Company's June 4, 2010, filing. Applying rates of return of 8.18%, 10.00% and 11.89% using Alternative 1 produces the following revenue requirements and rate decreases/increases:

Alternative 1—Revenue Requirement and Rate Decrease/Increase Under Different Rates of Return								
8.18% Rate of Return			**10.00% Rate of Return**			**11.89% Rate of Return**		
Water	**Sewer**	**Comb.**	**Water**	**Sewer**	**Comb.**	**Water**	**Sewer**	**Comb.**
$9,951,439	$11,504,652	$21,456,091	$10,020,717	$11,812,913	$21,833,630	$10,092,660	$12,133,031	$22,225,691
-24.46%	1.33%	-12.52%	-23.93%	4.04%	-10.98%	-23.38%	6.86%	-9.38%

Johnson Utilities' Alternative 2 is the virtually identical to Alternative 1, but with the following modification:

- Alternative 2 deducts from rate base the amount of $5,442,902, which represents a reduction of 7.50% (as compared to 1.75%) on the $72,572,024 in affiliate-constructed plant.

The adjustments under Alternative 2 produced a positive water division rate base of $2,548,471 and a positive wastewater division rate base of $14,206,626, for total plant in service of $16,755,098, as shown on Exhibit A to the Bourassa affidavit. Applying rates of return of 8.18%, 10.00% and 11.89% using Alternative 2 produces the following revenue requirements and rate increases/decreases:

ALTERNATIVE 2—REVENUE REQUIREMENT AND RATE DECREASE/INCREASE UNDER DIFFERENT RATES OF RETURN								
8.18% RATE OF RETURN			**10.00% RATE OF RETURN**			**11.89% RATE OF RETURN**		
WATER	**SEWER**	**COMB.**	**WATER**	**SEWER**	**COMB.**	**WATER**	**SEWER**	**COMB.**
$9,811,477	$11,163,245	$20,974,722	$9,858,872	$11,427,494	$21,286,494	$9,908,089	$11,701,905	$21,609,994
-25.52%	-1.68%	-14.48%	-25.16%	0.65%	-13.21%	-24.78%	3.06%	-11.89%

On June 11, 2010, Johnson Utilities filed Johnson Utilities Proposed Amendment No. 11 based upon the Company's Alternative 1, using an 11.89% rate of return, which was the Company's calculated cost of capital. However, in order to provide the Commission with an additional alternative, Johnson Utilities has prepared Johnson Utilities Proposed Amendment No. 12 based upon the Company's Alternative 2, using an 8.18% rate of return, which is the weighed average cost of capital recommended by the Residential Utility Consumer Office in the case. A copy of Johnson Utilities Proposed Amendment No. 12 is attached hereto as Attachment 3. Staff did not present cost of capital testimony in the case.

Using Alternative 2, customers in the aggregate would see a 25.52% reduction to water rates and a 1.68% reduction to wastewater rates for a combined reduction of 14.48% using an 8.18% rate of return. In the aggregate, these reductions are substantially similar to the reductions recommended by Staff in its final rate case schedules. Using Staff's negative rate base (which is very problematic as discussed above) and a 10% operating margin, customers in the aggregate would see a 22.90% reduction to water rates and a 7.88% reduction to wastewater rates for a combined reduction of 15.95%. The difference between the combined water and wastewater

Snell & Wilmer
L.L.P.
LAW OFFICES
One Arizona Center, 400 E. Van Buren
Phoenix, Arizona 85004-2202
(602) 382-6000

reductions under the Company's Alternative 2 at an 8.18% rate of return and Staff's combined figure is less than 1.50%. Yet, by adopting the Company's Alternative 2, the Commission will avoid the very adverse consequences of a Class A utility with negative rate base. Attached hereto as Attachment 4 is a spreadsheet prepared by Mr. Bourassa which compares the Company's Alternative 2 at an 8.18% rate of return to the Staff's final position in this rate case using a 10% operating margin.

Johnson Utilities supports the adoption of Mayes Proposed Amendments 1 and 2 but respectfully urges that the Commission not adopt Mayes Revised Proposed Amendments 3 and 4 for the reasons set forth above. Instead, the Company urges the Commission to adopt Johnson Utilities Proposed Amendment No. 12 attached hereto as Attachment 3. This amendment will properly balance the interests of customers by providing water and wastewater rate decreases totaling nearly 15% with the interests of the Company by avoiding the very adverse consequences of a negative rate base.

RESPECTFULLY SUBMITTED this 26th day of July, 2010.

SNELL & WILMER L.L.P.

By ______________________
Jeffrey W. Crockett
Robert J. Metli
One Arizona Center
Phoenix, AZ 85004-2202
Attorneys for Johnson Utilities, LLC

ORIGINAL and 13 copies filed this
26th day of July 2010, with:

Docket Control
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85004

Snell & Wilmer
L.L.P.
LAW OFFICES
One Arizona Center, 400 E. Van Buren
Phoenix, Arizona 85004-2202
(602) 382-6000

COPIES of the foregoing hand-delivered this 26th day of July, 2010, to:

Kristin K. Mayes, Chairman
ARIZONA CORPORATION COMMISSION
1200 W. Washington Street
Phoenix, Arizona 85007

Gary Pierce, Commissioner
ARIZONA CORPORATION COMMISSION
1200 W. Washington Street
Phoenix, Arizona 85007

Paul Newman, Commissioner
ARIZONA CORPORATION COMMISSION
1200 W. Washington Street
Phoenix, Arizona 85007

Sandra D. Kennedy, Commissioner
ARIZONA CORPORATION COMMISSION
1200 W. Washington Street
Phoenix, Arizona 85007

Bob Stump, Commissioner
ARIZONA CORPORATION COMMISSION
1200 W. Washington Street
Phoenix, Arizona 85007

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

Robin Mitchell, Staff Attorney
Ayesha Vohra, Staff Attorney
Legal Division
ARIZONA CORPORATION COMMISSION
1200 W. Washington Street
Phoenix, Arizona 85007

Snell & Wilmer
L.L.P.
LAW OFFICES
One Arizona Center, 400 E. Van Buren
Phoenix, Arizona 85004-2202
(602) 382-6000

Steve Olea, Director
Utilities Division
ARIZONA CORPORATION COMMISSION
1200 W. Washington Street
Phoenix, Arizona 85007

Daniel W. Pozefsky, Chief Counsel
Residential Utility Consumer Office
1110 West Washington St., Suite 220
Phoenix, Arizona 85007

COPIES of the foregoing sent via e-mail and first-class mail this 26th day of July, 2010, to:

Craig A. Marks
CRAIG A. MARKS, PLC
10645 N. Tatum Blvd., Suite 200-676
Phoenix, Arizona 85028
Attorney for Swing First Golf, LLC

James E. Mannato
Florence Town Attorney
775 N. Main Street
P. 0. Box 2750
Florence, Arizona 85253

Gwen Ball

Snell & Wilmer
L.L.P.
LAW OFFICES
One Arizona Center, 400 E. Van Buren
Phoenix, Arizona 85004-2202
(602) 382-6000

ATTACHMENT 1

ULLMANN & COMPANY P.C.

Certified Public Accountants

To The Members of
Johnson Utilities, L.L.C.
Scottsdale, Arizona

We have compiled the accompanying balance sheet of Johnson Utilities, L.L.C. as of December 31, 2007 and the related statement of income for the year then ended, in accordance with the Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

Management has elected to omit substantially all of the disclosures and the statement of cash flows required by generally accepted accounting principles. If the omitted disclosures and statement of cash flows were included in the financial statements, they might influence the user's conclusions about the Company's financial position, results of operations, and cash flows. Accordingly, these financial statements are not designed for those who are not informed about such matters.

The Company is treated as a partnership for federal income tax purposes. Consequently, federal income taxes are not payable by, or provided for, the Company. Members are taxed individually on their shares of the Company's earnings. The Company's net income or loss is allocated among the members in accordance with the operating agreement of the Company.

This report is intended solely for the information and use of the owners, management, and others within the company and is not intended to be and should not be used by anyone other than these specified parties.

Ullmann & Company

Ullmann & Company, P.C.
Certified Public Accountants

April 8, 2008

Johnson Utilities, L.L.C.
Statement of Income
December 31, 2007

Operating Revenue	
Water Sales	$ 12,104,109
Sewer Fees	10,182,403
Other Revenue	780,196
Total Revenue	$ 23,066,708
Operating Expenses	
Purchased Water	$ 2,026,961
Purchased Power	1,353,874
Repairs & Maintenance	116,465
Outside Services	10,056,617
Water Testing	103,392
Rents	101,594
Insurance	44,168
Sludge Removal	286,429
Wastewater Treatment	147,196
Water Treatment	16,189
Miscellaneous Operating Expense	561,358
Depreciation and Amortization	2,661,796
Taxes Other Than Income	14,149
Property Taxes	628,567
Total Operating Expenses	$ 18,118,755
Net Operating Income	$ 4,947,953
Other Income (Expenses)	
Interest Income	$ 701,961
Interest Expense	(79,704)
Total Other Income (Expenses)	$ 622,257
Net Income	$ 5,570,210

See Accountants' Compilation Report

ATTACHMENT 2

ULLMANN
& COMPANY P.C.
Certified Public Accountants

To The Members of
Johnson Utilities, L.L.C.
Scottsdale, Arizona

We have compiled the accompanying balance sheet of Johnson Utilities, L.L.C. as of December 31, 2009 and the related statement of income for the year then ended, in accordance with the Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

Management has elected to omit substantially all of the disclosures and the statement of cash flows required by generally accepted accounting principles. If the omitted disclosures and statement of cash flows were included in the financial statements, they might influence the user's conclusions about the Company's financial position, results of operations, and cash flows. Accordingly, these financial statements are not designed for those who are not informed about such matters.

The Company is treated as a partnership for federal income tax purposes. Consequently, federal income taxes are not payable by, or provided for, the Company. Members are taxed individually on their shares of the Company's earnings. The Company's net income or loss is allocated among the members in accordance with the operating agreement of the Company.

This report is intended solely for the information and use of the owners, management, and others within the company and is not intended to be and should not be used by anyone other than these specified parties.

Ullmann & Company

Ullmann & Company, P.C.
Certified Public Accountants

April 9, 2010

4647 North 32nd Street ▪ Suite 220 ▪ Phoenix, Arizona 85018
Telephone: (602) 224-0166 ▪ FAX: (602) 224-6062 ▪ e-mail: CPA@ULLMANNCPA.com ▪ www.ULLMANNCPA.com

Johnson Utilities, L.L.C.
Statement of Income
December 31, 2009

Operating Revenue	
Water Sales	$ 12,637,464
Sewer Fees	12,312,439
Other Revenue	914,098
Total Revenue	$ 25,864,001
Operating Expenses	
Guaranteed Payments	$ 120,000
Purchased Water	1,057,417
Purchased Power	1,730,440
Repairs & Maintenance	976,100
Outside Services	13,528,241
Water Testing	106,480
Rents	202,671
Transportation	5,471
Insurance	104,995
Sludge Removal	648,552
Wastewater Treatment	129,490
Water Treatment	21,040
Miscellaneous Operating Expense	985,974
Depreciation and Amortization	3,192,684
Taxes Other Than Income	2,700
Property Taxes	962,369
Total Operating Expenses	$ 23,774,624
Net Operating Income	$ 2,089,377
Other Income (Expenses)	
Interest Income	$ 161,029
Non-Utility Income	258,737
Non-Utility Expense	(7,235)
Interest Expense	(93,708)
Total Other Income (Expenses)	$ 318,823
Net Income	$ 2,408,200

ATTACHMENT 3

JOHNSON UTILITIES PROPOSED AMENDMENT NO. 12

**** THIS PROPOSED AMENDMENT IS BASED UPON JOHNSON UTILITIES ALTERNATIVE 2 AS SET FORTH IN THE COMPANY'S JUNE 4, 2010, FILING IN DOCKET NO. WS-02987A-08-0180.**

**** THIS PROPOSED AMENDMENT ASSUMES THE ADOPTION OF MAYES PROPOSED AMENDMENT #2.**

DELETE the following:

Page 8, line 12 through page 9, line 19.

INSERT the following at page 8, line 12:

"It is incumbent upon all regulated utilities to keep the records necessary to demonstrate the actual cost of its properties in a form that provides complete and authentic information. The evidence in this case demonstrates that the Company has not fully complied with regulatory accounting requirements, and has not fully met its burden of proof regarding the actual cost of its properties. The Company's balance sheet shows member equity of $28,608,166 at of the end of the test year. Staff's recommended adjustment of 10% for inadequately supported plant costs would result in a disallowance of $18,326,088, or approximately 64% of the Company's total equity. Such a disallowance is too large under the circumstances of this case, and when combined with other disallowances recommended by Staff, would result in a negative rate base for the Company. Nevertheless, the Commission finds that an adjustment is warranted, and will make a disallowance equal to 10% of the Company's test year-end equity. Thus, the Company's plant-in-service will be reduced by $2,860,817. For the reasons discussed below, we will not make a corresponding deduction to AIAC or CIAC for this disallowance, so the entire $2,860,817 will come out of member/shareholder equity in the Company.

It is reasonable and in the public interest to require the Company to keep its records in accordance with the NARUC USOA and Commission rules in a manner that will support its filings with the Commission. In future proceedings, if the Company again fails to produce adequate records demonstrating the cost of plant additions, it may be reasonable to consider a greater disallowance than that adopted in this case or a penalty for noncompliance with Commission rules and Orders."

DELETE the following:

Page 14, lines 5-19.

INSERT the following at page 14, line 5:

"We find that $2,201,386 of plant was properly reclassified by the Company as test year plant and should be included in test year plant in service. However, we will not include the remaining $1,021,108 of post test year items in plant in service. The Company will have an opportunity to request inclusion of this plant in its next rate case."

DELETE the following:

Page 25, line 3, beginning with the word "However" through the end of the sentence on line 6.5.

DELETE the following:

Page 25, line 10, beginning with the word "The" through the word "1998" on line 11.

DELETE the following:

Page 31, line 1, beginning with the word "which" through the word "parties,".

DELETE the following:

Page 31, line 23.5, beginning with the word "After" through the end of the sentence on line 26.

INSERT the following at page 31, line 23.5, following the word "adjustments":

"After considering all the evidence presented, we find that an adjustment to remove affiliate profit is necessary and reasonable in order to exclude excessive plant costs from the Company's rate base and to achieve just and reasonable rates for the Company and its ratepayers. However, Staff's recommended adjustment of 7.5% applied to all plant (including plant constructed by non-affiliates of the Company) would result in a disallowance of $12,370,116, or approximately 43% of the Company's total member equity of $28,608,166 at of the end of the test year. Such a disallowance is too large under the circumstances of this case, and when combined with other disallowances recommended by Staff, would result in a negative rate base for the Company. The Company presented testimony and evidence at the hearing that its affiliate-constructed plant totaled $26,847,516 for the water division and $45,724,508 for the wastewater division, for a combined total of $72,572,024 in affiliate-constructed plant.[1] Thus, we will make an adjustment to remove affiliate profit, as discussed below, but will only apply that adjustment to the Company's affiliate-constructed plant."

INSERT the following at page 33, line 5, following the word "transactions":

", but we will apply the reduction only to the $72,572,024 of affiliate-constructed plant. Thus, the Company's plant-in-service will be reduced by $5,442,902. We will not make a corresponding deduction to AIAC or CIAC for this disallowance, so the entire $5,442,902 will come out of member/shareholder equity in the Company."

DELETE the following:

Page 36, line 6.5, through the end of the sentence on line 17.

[1] Company's Final Schedules Water B-2, at page 3.1, and Wastewater B-2, at page 3.1.

INSERT the following at page 36, line 6.5:

"We are persuaded by the Company's arguments based upon the facts and circumstances of this case. Adopting the recommendation of Staff and RUCO to include CIAC in rate base will result in a substantial negative rate base for the Company's water division. Thus, we will exclude unexpended HUFs from rate base in the amount of $6,931,078 for the water division and $16,505 for the wastewater division."

DELETE AND REPLACE the following:

Page 36, line 20, delete the figure "($13,682,831)" and replace with "$2,548,471", and delete the figure "$136,562" and replace it with "$14,206,626."

DELETE the following:

Page 50, line 12, through the end of the sentence on page 51, line 12.

INSERT the following at page 50, line 12:

"The Company's FVRB for its water division is $2,548,471 and the FVRB for its wastewater division is $14,206,626. We will adopt RUCO's recommended WACC of 8.18% to be used as the Company's rate of return to be applied to the FVRB to compute the Company's required operating income. By adopting a positive FVRB, we avoid the significant detriments associated with a negative rate base and operating margin for a utility the size of the Company. For example, a negative rate base could make it difficult or even impossible for the Company to attract additional equity in the future, either from current members/shareholders or from future outside investors. A lack of ready access to additional equity could render the Company dependent upon AIAC and/or CIAC to fund future growth, which would negatively impact the Company's ability to build equity over time. In addition, a negative rate base could make it difficult or even impossible for the Company to borrow money, or at a minimum, would increase the Company's borrowing costs to address the additional risk associated with the Company's negative rate base."

DELETE the following:

Page 51, line 15.5, through the end of the sentence on line 19.

INSERT the following at page 51, line 15.5:

"The adjusted test year operating income for the water division was $3,569,886. An 8.18% rate of return on the Company's FVRB for its water division of $2,548,471 results in an operating income of $208,465 and a revenue requirement of $9,811,477."

DELETE the following:

Page 51, line 21.5, through the end of the sentence on line 25.

INSERT the following at page 51, line 21.5:

"The adjusted test year operating income for the wastewater division was $1,352,871. An 8.18% rate of return on the Company's FVRB for its wastewater division of $14,206,626 results in an operating income of $1,162,102 and a revenue requirement of $11,163,245."

DELETE AND REPLACE the following:

Page 67, line 26, delete the figure "($13,682,831)" and replace with "$2,548,471".

DELETE AND REPLACE the following:

Page 67, line 28, delete the figure "$11,769,046" and replace with "$9,603,012".

DELETE AND REPLACE the following:

Page 68, line 1, delete the figure "$1,403,853" and replace with "$3,569,886".

DELETE the following:

Page 68, line 6, through the end of the sentence on line 14.

INSERT the following at page 68, line 6:

"The Company's adjusted FVRB for its water division is $2,548,471. Using an 8.18% rate of return applied to the FVRB for the water division to set fair and reasonable rates produces a decrease in the revenues from $13,172,899 to $9,811,477, or $3,361,421, a decrease of 25.52%

DELETE AND REPLACE the following:

Page 68, line 15, delete the figure "$98,522" and replace with "$3,361,421".

DELETE AND REPLACE the following:

Page 69, line 2, delete the figure "$136,562" and replace it with "$14,206,626".

DELETE AND REPLACE the following:

Page 69, line 5, delete the figure "$9,432,270" and replace with "$10,001,143", and delete the figure "$1,921,744" and replace it with "$1,352,871".

DELETE the following:

Page 69, line 10, through the end of the sentence on line 18.

INSERT the following at page 69, line 10:

"The Company's adjusted FVRB for is wastewater division is \$14,206,626. Using an 8.18% rate of return applied to the FVRB for the wastewater division to set fair and reasonable rates produces a decrease in the revenues from \$11,354,014 to \$11,163,245, or \$7190,769, a decrease of 1.68%."

DELETE the following:

Page 71, line 11, through the end of the sentence on line 13.

INSERT the following at page 71, line 11:

"The fair value of the Company's water division rate base is \$2,548,471. Authorizing a rate of return of 8.18% on the Company's FVRB produces rates and charges that are just and reasonable."

DELETE the following:

Page 71, line 14, through the end of the sentence on line 16.

INSERT the following at page 71, line 14:

"The fair value of the Company's wastewater division rate base is \$14,206,626. Authorizing a rate of return of 8.18% on the Company's FVRB produces rates and charges that are just and reasonable."

DELETE the following **ORDERING PARAGRAPH**:

Page 73, line 7, through the end of the sentence on line 11.

MAKE ALL CONFORMING CHANGES, INCLUDING PARAGRAPHS 95, 96, 101 AND 102 OF THE RECOMMENDED OPINION AND ORDER.

ATTACHMENT 4

Johnson Utilities, LLC
Alternative 2 at 8.18% ROR Compared to Staff 10% OM approach

	JUC Alternative 2[1,2,3,4,5]			Staff (Final) at 10%[3,6]		
	Water Division	Wastewater Division	Combined	Water Division	Wastewater Division	Combined
Fair Value Rate Base	$ 2,548,471	$ 14,206,626	$ 16,755,098	$ (13,863,166)	$ 136,562	$ (13,726,604)
Adjusted Revenues	$ 13,172,899	$ 11,354,014	$ 24,526,913	$ 13,172,899	$ 11,354,014	$ 24,526,913
Adjusted Operating Expenses	$ 9,603,012	$ 10,001,143	$ 19,604,155	$ 9,204,634	$ 9,432,101	$ 18,636,735
Adjusted Operating Income	$ 3,569,886	$ 1,352,871	$ 4,922,757	$ 3,968,265	$ 1,921,913	$ 5,890,178
Required Rate of Return	**8.18%**	**8.18%**	**8.18%**	**N/A**	**N/A**	**N/A**
Operating Margin				**10.00%**	**10.00%**	**10.00%**
Required Operating Income	$ 208,465	$ 1,162,102	$ 1,370,567	$ 1,015,888	$ 1,045,913	$ 2,061,801
Operating Income Deficiency	$ (3,361,421)	$ (190,769)	$ (3,552,191)	$ (2,952,377)	$ (876,000)	$ (3,828,377)
Tax Gross-up Factor	1.0000	1.0000	1.0000	1.0218	1.0218	1.0218
Required Revenue Increase(Decrease)	$ (3,361,421)	$ (190,769)	$ (3,552,191)	$ (3,016,800)	$ (895,100)	$ (3,911,900)
Total Revenue Requirement	$ 9,811,477	$ 11,163,245	$ 20,974,722	$ 10,156,099	$ 10,458,914	$ 20,615,013
% Increase(decrease)	-25.52%	-1.68%	-14.48%	-22.90%	-7.88%	-15.95%

[1] Adopts all Staff adjustments for post test year plant (except as noted in footnote 4), not used and useful plant, and excess capacity.
[2] Excludes unexpended CIAC for water and wastewater division. If unexpended CIAC is included water division rate base will be negative.
[3] Operating expense for water division excludes CAGRD fees. CAGRD treated as pass-through.
[4] Includes former $2,201,386 PTY plant reclassified to test year plant for wastewater division.
[5] 10% of equity for unsupported plant adjustment and 7.5% of affiliate constructed plant for affiliate profit adjustment
[6] From Staff Final Schedules excluding CAGRD fees.