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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

RESPONSE OF JOHNSON UTILITIES TO COMMISSIONER PIERCE'S AUGUST 4, 2010, LETTER

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I. RESPONSE OF JOHNSON UTILITIES TO COMMISSIONER PIERCE'S AUGUST 4, 2010, LETTER

In an August 4, 2010, letter, Commissioner Pierce directed the parties in the above-captioned docket to provide answers to certain questions regarding a table that was included in the letter ("Pierce Letter"). Johnson Utilities, L.L.C., ("Johnson Utilities" or the "Company"), hereby responds to Commissioner Pierce's request.

1. Johnson Utilities has calculated the dollar amounts under the applicable scenarios and has inserted correct dollar amounts in bold for those entries that were shown as a question mark in the Pierce letter as well as set forth in Attachment A.

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Alternatives	Water Rate Base	Wastewater Rate Base	Revenue Requirement	CAGRD Adjustor ($1.297 million)
ROO	**($13,863,166)**	$136,562	$23,533,291	N/A
ROO & Hearing 1	**($13,863,166)**	$136,562	**$19,188,131**	N/A
Mayes 3	**($610,904)**	**$9,598,384**	**$22,662,113**	N/A
Mayes 4	**($13,863,166)**	$136,562	**$22,289,112**	N/A
Alternatives	**Water Rate Base**	**Wastewater Rate Base**	**Revenue Requirement**	**CAGRD Adjustor** ($1.297 million)
Johnson 12	$2,548,471	$14,206,626	$20,974,722	$22,272,617
Pierce 1	N/A	N/A	**$24,957,226**	N/A
Pierce 2	**($6,932,088)**	$136,562	**$23,770,837**	N/A

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.

Under Mayes Revised Proposed Amendment 4, 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.

2. Revenue impact of adopting CAGRD adjustor: **$22,272,617**

3. Revenue requirement impact of adopting Pierce Amendments 1 and 2: **$24,957,226 and $23,770,837.**

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4. Rate base and revenue requirement impact for the water and wastewater division if the Commission adopted a modified version of Johnson Utilities Amendment 12, assuming a 2% disallowance for unsupported plant:

See Attachment B. The rate base under a modified Johnson Utilities Amendment No. 12, assuming a 2% disallowance for unsupported plant would be $1,704,362 for the water division and $14,407,397 for the wastewater division for a combined rate base of $16,111,759. The revenue requirement under a modified Johnson Utilities Amendment No. 12, assuming a 2% disallowance for unsupported plant would be $9,714,224 for the water division and $11,186,780 for the wastewater division for a combined revenue requirement of $20,900,984.

5. Rate base and revenue requirement impact for the water and wastewater division if the Commission adopted a modified version of Johnson Utilities Amendment 12, assuming a 2.5% disallowance for unsupported plant:

See Attachment B. The rate base under a modified Johnson Utilities Amendment No. 12, assuming a 2.5% disallowance for unsupported plant would be $1,397,193 for the water division and $13,915,616 for the wastewater division for a combined rate base of $15,312,809. The revenue requirement under a modified Johnson Utilities Amendment No. 12, assuming a 2.5% disallowance for unsupported plant would be $9,678,880 for the water division and $11,123,589 for the wastewater division for a combined revenue requirement of $20,802,469.

II. RESPONSE TO SFG'S RESPONSE TO COMMISSIONER PIERCE' LETTER.

Johnson Utilities is inclined to respond to that portion of SFG's Response to Commissioner Pierce's Letter in which SFG attacks the timeliness of Johnson Utilities filing its rate case, the fact that the Company has zero retained earnings, as well as the unsubstantiated, libelous allegation that the owners have somehow "looted" the company.

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First SFG continies to disingenuously argue that Johnson Utilities "ignored" Commission Decision 68235 requiring a rate case filing by May 1, 2007, using a 2006 test-year. These assertions are simply contrary to the evidence in this case. At the hearing, SFG introduced several pleadings and a letter filed by Johnson Utilities regarding its requested delay of the rate case filing deadline. (*See* Exhibits SF-3, SF-4, SF-5 and SF-6). As set forth in a motion to extend compliance dates (Exhibit SF-3) filed by Johnson Utilities on March 30, 2007, the Company notified the Commission that it had filed—that same day—an application for authority to sell all of its water and wastewater assets to the Town of Florence, and requesting that the Commission cancel its certificates of convenience and necessity. (Ex SF-3 at 2). Alternatively, and in the event that the sale to the Town of Florence did not close, Johnson Utilities requested an extension of the rate case filing deadline and permission to use a 2007 test year. This pleading was followed by pleadings filed October 1, 2007 (Exhibit SF-4) and December 27, 2007 (Exhibit SF-6), as well as a letter to docket control dated December 6, 2007 (Exhibit SF-5).

In a letter dated September 18, 2007, from the Commission's former Chief Counsel to Johnson Utilities' former legal counsel, Mr. Kempley stated as follows:

> As you can tell, Staff is not interested in requiring JUC to submit a rate case that would not be a productive part of the Commission's ongoing regulatory oversight. Nor is Staff interested in creating any impediments to a possible municipal acquisition of JUC. At the same time, Staff continues to believe that a review of the reasonableness of JUC's rates at the earliest practicable date is an important requirement if JUC is going to remain in business as a public service corporation.
>
> In order to balance these competing concerns, I have been authorized to advise you of Staff's position with regard to your requested delay to JUC's rate case filing. Staff is willing to accede to changing the requirements such that a rate case filing could be made utilizing a calendar year 2007 test year. However, Staff believes that the date that such filing should be required is

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> no later than March 31, 2008, rather than June 30, 2008. Staff believes that a March 31, 2008 filing date provides an adequate period of time to prepare such a rate case filing. Of course, consistent with the suggestion in your letter, Staff would anticipate that no further delays to this proposed rate case filing would be requested or granted.

(Attachment to Exhibit SF-4).

The sale of the water and wastewater assets to the Town of Florence did not ultimately close. Consistent with Mr. Kempley's letter, Johnson Utilities filed its rate case application by March 31, 2008 using a 2007 test year. Staff accepted the application and found the filing sufficient in a letter filed with docket control dated August 1, 2008. The Company's timely filing of a request to extend the rate case filing deadline and use a 2007 test year <u>before</u> the expiration of the original filing deadline of May 1, 2007, combined with the Commission's acceptance of the rate case filing using a 2007 test year consistent with Mr. Kempley's letter, constitute compliance by Johnson Utilities with Decision 68235. SFG's assertion that the Company ignored a Commission order simply misstates the facts.

Next, Johnson Utilities is a limited liability company and limited liability companies record capital contributions, which include retained earnings, as Proprietary Capital on the balance sheet. As stated in previous filings, the owners of the company have a substantial capital investment of over $28,608,439 combined between water and sewer through the end of the test year, as seen on the balance sheet.

Finally, there has not been any evidence, nor has any party (that actually conducted an audit of Johnson Utilities) alleged during the rate case, that the owners of Johnson Utilities have somehow "looted" the company. SFG did not do a financial audit of Johnson Utilities and such unsubstantiated libelous accusations should not be tolerated by this Commission.

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RESPECTFULLY SUBMITTED this 10th day of August, 2010.

SNELL & WILMER L.L.P.

By [signature]
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ATTACHMENT A

Alternatives	Water Rate Base	Wastewater Rate Base	Revenue Requirement	CAGRD Adjuster ($1.297 million)
ROO	$ (13,863,166)	$ 136,562	$ 23,533,291	N/A
ROO & Hearing 1	$ (13,863,166)	$ 136,562	$ 19,188,131	N/A
Mayes 3	$ (610,904)	$ 9,598,384	$ 22,662,113	N/A
Mayes 4	$ (13,863,166)	$ 136,562	$ 22,289,112	N/A
Johnson 12	$ 2,548,471	$ 14,206,626	$ 20,974,722	$ 22,272,617
Pierce 1	N/A	N/A	$ 24,957,226	N/A
Pierce 2	$ (6,932,088)	$ 136,562	$ 23,770,837	N/A

ATTACHMENT B

Johnson Utilities, LLC
Pierce Amended JUC 12 and JUC 12

	Pierce Amended JUC 12 1[1,2,3,4,5]			Pierce Amended JUC 12[1,2,3,4,6]			JUC 12[1,2,3,4,7]		
	Water Division	Wastewater Division	Combined	Water Division	Wastewater Division	Combined	Water Division	Wastewater Division	Combined
Fair Value Rate Base	$ 1,704,362	$ 14,407,397	$ 16,111,759	$ 1,397,193	$ 13,915,616	$ 15,312,809	$ 2,548,471	$ 14,206,626	$ 16,755,098
Adjusted Revenues	$ 13,172,899	$ 11,354,014	$ 24,526,913	$ 13,172,899	$ 11,354,014	$ 24,526,913	$ 13,172,899	$ 11,354,014	$ 24,526,913
Adjusted Operating Expenses[8]	$ 9,574,807	$ 10,008,235	$ 19,583,042	$ 9,564,590	$ 9,985,292	$ 19,549,882	$ 9,603,012	$ 10,001,143	$ 19,604,155
Adjusted Operating Income[8]	$ 3,598,092	$ 1,345,779	$ 4,943,871	$ 3,608,309	$ 1,368,722	$ 4,977,031	$ 3,569,886	$ 1,352,871	$ 4,922,757
Required Rate of Return	**8.18%**	**8.18%**	**8.18%**	**8.18%**	**8.18%**	**8.18%**	**8.18%**	**8.18%**	**8.18%**
Operating Margin									
Required Operating Income	$ 139,417	$ 1,178,525	$ 1,317,942	$ 114,290	$ 1,138,297	$ 1,252,588	$ 208,465	$ 1,162,102	$ 1,370,567
Operating Income Deficiency	$ (3,458,675)	$ (167,254)	$ (3,625,929)	$ (3,494,018)	$ (230,425)	$ (3,724,444)	$ (3,361,421)	$ (190,769)	$ (3,552,191)
Tax Gross-up Factor[8]	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000
Required Revenue Increase(Decrease)	$ (3,458,675)	$ (167,254)	$ (3,625,929)	$ (3,494,018)	$ (230,425)	$ (3,724,444)	$ (3,361,421)	$ (190,769)	$ (3,552,191)
Total Revenue Requirement	$ 9,714,224	$ 11,186,760	$ 20,900,984	$ 9,678,880	$ 11,123,589	$ 20,802,469	$ 9,811,477	$ 11,163,245	$ 20,974,722
% Increase(decrease)	-26.26%	-1.47%	-14.78%	-26.52%	-2.03%	-15.19%	-25.52%	-1.68%	-14.48%

[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] 2% of unsupported plant for unsupported plant adjustment and 7.5% of affiliate constructed plant for affiliate profit adjustment
[6] 2.5% of unsupported plant for unsupported plant adjustment and 7.5% of affiliate constructed plant for affiliate profit adjustment
[7] 10% of equity for unsupported plant adjustment and 7.5% of affiliate constructed plant for affiliate profit adjustment
[8] Assumes no income tax expense recovery