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BEFORE THE ARIZONA CORPORATION C

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Arizona Corporation Commission
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COMMISSIONERS

GARY PIERCE, Chairman
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP
BRENDA BURNS

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-[redacted]-0180

PETITION TO AMEND DECISION 71854 PURSUANT TO A.R.S. §40-252

(Expedited Action Requested)

Pursuant to A.R.S. §40-252, Johnson Utilities LLC ("Johnson Utilities" or the "Company") hereby petitions the Arizona Corporation Commission ("Commission") to amend Decision 71854 (the "Decision") dated August 25, 2010, as follows:

1. Changing the $40 per month late fee in the Company's wastewater division tariff to a late fee of 1.5% per month on the unpaid account balance, consistent with the Company's water division tariff.

2. Adding back into rate base wastewater division plant of $18,244,755 which was erroneously disallowed in the rate case. This amount consists of: (i) a $10,892,391 deduction to rate base for alleged inadequately supported wastewater plant costs; and (ii) a $7,352,364 deduction to rate base for alleged affiliate profit associated with affiliate-constructed wastewater plant.

3. Removing from rate base $6,931,078 in unexpended test year hook-up fees.

4. Reinstating the Company's previously authorized hook-up fees for new water and sewer connections.

5. Establishing a rate of return for the Company based upon its weighted average cost of capital in the range of 8.18% to 11.89%.

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6. Reclassifying $2,201,386 of wastewater plant erroneously as post test year wastewater plant in the rate case application to test year plant-in-service.

7. Including in plant-in-service post test-year wastewater plant of $1,021,076 which is necessary to serve the test year-end level of customers.

8. Including imputed income tax expense in the Company's revenue requirement, consistent with the understanding hereinafter described.

As a result of the rates approved in Decision 71854, Johnson Utilities is operating at a loss. Without the relief requested, the Company faces financial jeopardy. Johnson Utilities has filed this application to modify Decision 71854 in lieu of filing an emergency rate application. The Company requests that the Commission act expeditiously on this application and grant the relief requested.

I. INTRODUCTION.

On August 25, 2010, the Commission issued Decision 71854 setting new rates and charges for Johnson Utilities. Due to various deficiencies in the Decision, as discussed herein, the Decision sets rates and charges that do not provide Johnson Utilities a just and reasonable return on its fair value rate base. In fact, the totality of these deficiencies produces a negative rate base for the Company's combined water and wastewater divisions, which places Johnson Utilities in financial jeopardy. Therefore, the Company requests that the Commission grant the relief requested in the petition to amend Decision 71854 so that these deficiencies can be corrected.

II. DECISION 71854 DOES NOT SET JUST AND REASONABLE RATES.

A. Overview of the Applicable Legal Standard.

1. Utility Rates and Charges Must be Just and Reasonable.

The Commission is established by Article 15, Section 1, of the Arizona Constitution. The Commission's rate-setting authority is derived from Article 15, Section 3 which provides in pertinent part that the Commission "shall have full power to, and shall, prescribe just and reasonable classifications to be used and just and reasonable rates and charges

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to be made and collected by public service corporations within the State for service rendered therein." *Ariz. Const. Art. XV, § 3.*

When setting rates for public service corporations, the Commission should focus on the principle that "total revenue, including income from rates and charges, should be sufficient to meet a utility's operating costs and to give the utility and its stockholders a reasonable rate of return on the utility's investment." *Scates v. Arizona Corp. Comm'n,* 118 Ariz. 531, 533-34, 578 P.2d 612, 614-15 (App. 1978). Although the Commission's authority to prescribe rates is plenary (*see Tucson Elec. Power Co. v. Arizona Corp. Comm'n.,* 132 Ariz. 240, 242, 645 P.2d 231, 233 (1982)), the Commission's rate-making authority is subject to the "just and reasonable" clauses of Article 15, Section 3 of the Arizona Constitution. *Residential Utility Consumer Office v. Arizona Corp. Comm'n,* 199 Ariz. 588, 591, 20 P.3d 1169, 1172 (App. 2001).

Under the Arizona Constitution "the Commission is required to find the fair value of the company's property and use such finding as a rate base for the purpose of determining what are just and reasonable rates." *Arizona Corp. Comm'n v. Arizona Public Service Co,* 113 Ariz. 368, 370, 555 P.2d 326, 328 (1976) (*citing Simms v. Round Valley Light & Power Co.*, 80 Ariz. 145, 294 P.2d 378 (1956)). "Thus, the rates established by the Commission should meet the overall operating costs of the utility and produce a reasonable rate of return. It is equally clear that the rates cannot be considered just and reasonable if they fail to produce a reasonable rate of return or if they produce revenue which exceeds a reasonable rate of return." *Scates,* 118 Ariz. at 534, 578 P.2d at 615 (emphasis added).

2. **The Commission's Determination of Just and Reasonable Rates Must be Supported by the Evidence.**

"The acceptance of evidence presented by one person over that presented by another is not necessarily decisive because the weight given any of the evidence is within the Commission's discretion, so long as that discretion is not abused." *City of Tucson v. Citizens Utilities Water Co.,* 17 Ariz. App. 477, 480-481, 498 P.2d 551, 554-555 *(citing Arizona Corp. Comm'n. v. Arizona Water Co.,* 85 Ariz. 198, 335 P.2d 412 (1959)). "It is, however, also well established 'that a reasonable judgment concerning all relevant factors is required in determining

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the fair value of the properties at the time of inquiry.'" *City of Tucson,* 17 Ariz. App. at 481, 498 P.2d at 555 (App. 1972) *(citing Arizona Water Co.,* 85 Ariz. at 200, 335 P.2d at 414). "If the Commission 'refuses to consider all the relevant factors, the fair value of the properties cannot have been determined under our Constitution.' Mere speculation and arbitrary conclusions are not substantial evidence and cannot be determinative." *City of Tucson,* 17 Ariz. App. at 481, 498 P.2d at 555 *(quoting Arizona Water Co.,* 85 Ariz. at 200, 335 P.2d at 414). When considering the Commission's decisions in a rate making context, the courts will look at the evidence only to determine if the decision is unreasonable in that it lacks substantial support in the record, is arbitrary, or is otherwise unlawful. *Chaparral City Water Co. v. Arizona Corp. Comm'n,* Case No. 1 CA-CC 05-0002, Mem. (App., Feb. 13, 2007) *(citing Simms,* 80 Ariz. at 154-155, 294 P.2d at 384). Moreover, in establishing just and reasonable rates, the Commission may not simply "back into a result." *See generally id.*

3. **Procedural Requirements Applicable to Setting Rates.**

The process and procedures the Commission follows to gather and consider evidence in setting rates are quasi-judicial in character. Perhaps the clearest statement of the Commission's duties is found in *State ex rel. Corbin v. Arizona Corp. Comm'n,* 143 Ariz. 219, 693 P.2d 362 (App. 1984):

> [A proceeding to set rates] carries with it fundamental procedural requirements. There must be a full hearing. There must be evidence adequate to support pertinent and necessary findings of fact. Nothing can be treated as evidence which is not introduced as such.... Facts and circumstances which ought to be considered must not be excluded. Facts and circumstances must not be considered which should not legally influence the conclusion. Findings based on the evidence must embrace the basic facts which are needed to sustain the order....
>
> * * *
>
> A proceeding before the Commission that involves the required taking and weighing of evidence, determinations of fact based upon the consideration of the evidence, and the making of an order supported by such findings, has a quality resembling that of a judicial proceeding. Hence, it is frequently described as a proceeding of a *quasi-judicial* character. The requirement of a "full hearing" has obvious reference to the tradition of judicial proceedings in which evidence is received and weighed by the trier of the facts. The "hearing" is designed to afford the safeguard that the one who decides shall be bound in good conscience to consider the evidence, to be guided by that alone, and to reach his conclusion

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uninfluenced by extraneous considerations, which in other fields might have play in determining purely executive action. The "hearing" is the hearing of evidence and argument.

In ex rel. Corbin, 143 Ariz. at 224, 693 P.2d at 367 *(quoting Morgan v. United States,* 298 U.S. 468, 56 S.Ct. 906, 80 L.Ed. 2d 1288 (1936) (citations omitted)).

B. **Decision 71854 Disregards the Substantial Weight of Evidence on Several Critical Issues.**

As set forth above, the Commission's decision in this case must be based upon factual findings that are supported by the evidence presented by the parties in this proceeding, with due regard to the expertise and credibility of the witnesses, as well as the authorities and precedent supporting the parties' positions. An order issued by the Commission cannot disregard the evidence. For the reasons discussed below, Decision 71854 disregarded substantial evidence offered by Johnson Utilities on several critical matters, which has resulted in rates that are not just and reasonable.

III. REQUESTED AMENDMENTS TO DECISION 71854.

A. **Johnson Utilities Requests to Modify the $40 Late Fee in the Sewer Tariff to an Interest Rate of 1.5% per Month on the Unpaid Account Balance.**

In Decision 71854, the Commission approved a late charge for the wastewater division of $40 per month. However, the late charge for the water division is 1.5% of the past due balance per month. Johnson Utilities requests that the Commission amend Decision 71854 to establish the late charge for the wastewater division at 1.5% of the past due balance per month, consistent with the water division late charge.

B. **The Decision Erroneously Removes Wastewater Plant Totaling $18,244,755.**

1. **The Decision Erroneously Removes $10,892,391 of Wastewater Plant based upon the Unsupported Assertion of Staff that Johnson Utilities did not Adequately Support its Wastewater Plant Costs.**

Johnson Utilities provided substantial evidence at the hearing to support its wastewater plant costs. In fact, of all of the supporting documentation requested by Staff, the Company failed to support only $1,047,941 from its wastewater division plant-in-service account. (Exhibit A-2, Volume III at 7). The remainder of the Company's wastewater plant-in-service costs was supported by contracts, invoices, cancelled checks, and/or line extension

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agreements, together with accounting records, bank statements, plant schedules, reconciliations, and other documentation.

Decision 71854 erroneously adopted Staff's recommendation to impose an arbitrary across-the-board disallowance of 10% to wastewater plant-in-service, resulting in a decrease to wastewater division plant-in-service of $10,892,391.[1] Johnson Utilities requests that the Commission correct Decision 71854 to add back into rate base the $10,892,391 that was erroneously deducted based upon Staff's arbitrary and unsupportable deduction.

At the hearing, Johnson Utilities provided evidence that, in response to Staff Data Requests JMM 1-44 and JMM 9-1, the Company provided copies of contracts, invoices, cancelled checks, and/or line extension agreements to support almost all of the wastewater plant items that were requested by Staff. (Exhibit A-2, Volume II at 7). In addition, in responses to Staff Data Requests 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 and JMM 12-1, Johnson Utilities provided its accounting records, bank statements, plant schedules, reconciliations and other information supporting wastewater plant costs. (Exhibit A-2, Volume II at 7-8).

Despite the acknowledgment of Staff's witness that Johnson Utilities "submitted voluminous documents" to support its plant costs, Decision 71854 erroneously adopts Staff's arbitrary 10% disallowance and decreases wastewater division plant-in-service by $10,892,391. The Staff witness decided upon this enormous disallowance not by identifying and removing specific plant costs which he found to be unsupported or inadequately supported, but rather by imposing a blanket 10% disallowance against all plant-in-service. (Exhibit S-38 at 14; Exhibit S-44 at 15; and Tr. Vol. XI at 1661 [Michlik]). This disallowance was made even though the Staff witness agreed that the copies of line extension agreements, construction agreements, invoices, receipts, and other supporting documentation provided by Johnson Utilities is the type of documentation that a utility would submit to substantiate its plant costs. (Tr. Vol. IX at 1643 [Michlik]). Likewise, in some instances, the Company provided estimates of plant costs, which

[1] It bears noting that Decision 71854 did not make a corresponding adjustment to Johnson Utilities' water plant-in-service account. The documentation supplied for both the water and wastewater divisions was substantially similar.

the Staff witness admitted on cross-examination may be used for plant cost accounting if actual costs are not known under NARUC accounting. (Tr. Vol. XI at 1648 [Michlik]).[2]

The adoption of Staff's disallowance is *de facto* arbitrary as the record contains no supportable basis for a blanket 10% reduction to plant-in-service other than a statement by the Staff witness that sometimes Staff recommends disallowances in the range of 10% to 100%. (Exhibit S-38 at 14; *see also* Exhibit A-2, Volume II at 9). Moreover, this arbitrary deduction cannot be reconciled given Staff's testimony on cross-examination that line extension agreements, construction agreements, invoices, receipts and other supporting documentation are the types of documentation that a utility would traditionally submit to substantiate plant costs. (Tr. Vol. XI at 1643 [Michlik]). In fact, these types of documentation are exactly the types of documentation that Johnson Utilities provided to Staff in this case. The Staff witness admitted on cross-examination that he did not identify any specific item of plant that was inadequately documented or unsupported by Johnson Utilities. (Tr. Vol. XI at 1660-1661 [Michlik]). Thus, the uncontroverted evidence in the rate case is that Staff did not identify one single item of plant that was not properly documented by Johnson Utilities.

Johnson Utilities retained Waterworks Engineers to prepare a study (the "RCN-RCNLD Study") of the value of the Company's water and wastewater plant-in-service based upon an analysis of the reconstruction cost new and the reconstruction cost new less depreciation of the system. The RCN-RCNLD Study was completed on February 21, 2011 and shows that for wastewater plant-in-service as of the end of the 2007 test year, the reconstruction cost new in 2007 dollars is $159,840,652 and the reconstruction cost new less depreciation in 2007 dollars is $143,450,413. These figures are, respectively, 26% and 21% higher than the conservative figures provided in the Company's original rate case application, which were $126,534,592 for gross wastewater plant-in-service and $118,610,908 for gross plant less accumulated depreciation. A copy of the RCN-RCNLD Study is attached hereto as Attachment 1. The RCN-RCNLD Study corroborates the Company's argument that Staff's $10,892,391 blanket

[2] According to the Uniform System of Accounts for Class A Water Utilities, Subsection D, "Utility plant account shall be charged with construction costs estimated, if not known, of the utility plant contributed by others or constructed by the utility using contributed cash or its equivalent." (Hearing Exhibit A-55).

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disallowance is arbitrary, is not supported by the facts and the record in this case, and results in rates for Johnson Utilities which are not just and reasonable.

It should also be noted that because Staff's blanket disallowance did not apply to any specific item of wastewater plant, the Company never received sufficient information to challenge the disallowance or raise a reasonable defense regarding the plant costs that were disallowed. (Exhibit A-2, Volume II at 9). For these reasons, the wastewater division plant-in-service totaling $10,892,391 that was removed in Decision 71854 should be added back into rate base.

2. **The Decision Erroneously Removed $7,352,364 of Wastewater Plant for Affiliate Profit**.

In addition to the amount discussed in the preceding section, Decision 71854 erroneously removed $7,352,364 from wastewater division plant-in-service for alleged affiliate profit. This reduction represented 7.5% of $98,031,520 of wastewater plant (Staff's Final Schedule JMM-WW3), even though in its response to Staff Data Request JMM 9.2, Johnson Utilities provided Staff with a complete listing of affiliate-constructed wastewater plant which totaled only $45,724,508. (Exhibit A-2, Volume III at 5).

Johnson Utilities provided uncontroverted evidence that the 7.5% disallowance applied to virtually all of the Company's wastewater plant is grossly overstated. For example, the affiliate contracts and the responses provided to Staff by the Company in its data responses (Staff data requests JMM 1-43 and JMM 4-2) clearly show that the affiliate contracts included a mark-up of 5-10% for affiliate profit and overhead-not just affiliate profit. (Exhibit A-2, Volume II at 5-6). Further, as explained by the Company in its response to Staff Data Request JMM 9-2, the Company's affiliates added 10% to the base contract cost to cover overhead and profit, and the affiliate profit represented only 2% of the contract cost. (Exhibit A-2, Volume II at 6).

The Company does not dispute the Commission's authority to exclude affiliate profit from plant-in-service. To this end, the Company provided uncontroverted evidence that an adjustment of $800,179 was made to wastewater plant-in-service to remove affiliate profit on the affiliate-constructed sewer plant totaling $45,724,508. (Exhibit A-2, Volume III at 5). The

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Company also provided uncontroverted evidence that the appropriate affiliate profit percentage on affiliate contracts is 1.75% not 7.5%. (Exhibit A-2, Volume II at 4-5).

For the foregoing reasons, the Company requests that the wastewater division plant totaling $7,352,364 be added back to the Company's rate base.

C. **The Decision Erroneously Includes $6,931,078 of Unexpended Water Hook-Up Fees in Rate Base.**

The Decision erroneously adopted Staff's recommendation to include $6,931,078 of unexpended water hook-up fees (*i.e.*, contributions in aid of construction, also known as CIAC) in rate base. (Decision at 36, lines 14½-16½). Historically, Johnson Utilities collected hook-up fees ("HUFs") in advance of the time the Company will be expected to provide service to the customers for whom the HUFs are credited. (Exhibit A-2, Volume II at 15). The period between the time a HUF is collected, the time the capital improvements to provide capacity are constructed, and the date that a customer connects to the system can be a year or longer. *(Id.).* Thus, for a period of time, the customer who is credited with the HUF is not present on the system and the plant required to serve that future customer is not constructed and recorded in plant. *(Id.).* Including the unexpended HUFs in rate base not only creates a mismatch in rate base, but existing ratepayers receive a windfall because existing rate payers get credit for HUFs paid on behalf of future customers who have not yet connected to the system. (Exhibit A-2, Volume II at 15-16). The capacity to serve those future customers has not been constructed, nor has cost of the future capacity been reflected in rate base. (Exhibit A-2, Volume II at 16). The Company's collection of HUFs ensures that funds are available for new and needed capacity when construction begins, not after-the-fact. *(Id.).* The evidence in this case is uncontroverted that the collected HUFs were (and remain) restricted and can only be spent on new capacity. (Exhibit A-2, Volume II at 17). The evidence is also uncontroverted that the Company does not benefit from excluding unexpended CIAC from rate base, and that existing rate payers are not harmed in any way. *(Id.).*

The Decision followed Staff's decision to exclude both the plant costs and related CIAC and AIAC from rate base for its proposed plant not used and useful and excess capacity

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adjustments, presumably to recognize the rate base mismatch that would occur if the corresponding adjustments are not made. (Exhibit A-4, Volume II at 11). Hypothetically speaking, if Johnson Utilities had in fact constructed plant with the unexpended HUFs, and Staff had determined that there was excess capacity in such plant or that such plant was not used and useful, then Staff would have made a corresponding adjustment to CIAC after removing the plant from rate base, just as Staff is proposing with its "not used and useful" and "excess capacity" plant adjustments in this case. *(Id.)*. Thus, there is no good reason why the same adjustment should not be made with regard to the unexpended HUFs.

For the foregoing reasons, it was erroneous and inequitable to include the $6,931,078 of unexpended HUFs *(i.e.,* CIAC) in rate base, and would result in rates that are not just and reasonable. Accordingly, the Decision should be amended to remove the $6,931,078 of unexpended HUFs from rate base.

D. **The Decision Erroneously Discontinues the Hook-Up Fees for New Water and Sewer Connections**.

Johnson Utilities strongly disagrees with the Commission's decision to discontinue its HUFs. The evidence at the hearing demonstrated that the HUF only covered from 40-45% of the Company's costs of providing service to a new subdivision. (Exhibit A-5 at 30). The remaining 55-60% of the cost of the subdivision is funded by equity. *(Id.)*. Although the Company's water HUF account still had a balance of $6,931,078 at the end of 2007, these fees were collected for developments where construction stopped due to the slow-down in the real estate market. (Exhibit A-5 at 31). However, in the coming years Johnson Utilities will be required to meet its obligations to build plant for these developments that were started during the real estate boom. Thus, it is inequitable to discontinue the HUF tariff. *(Id.)*.

Staff asserted that due to the Company's inadequate accounting records, Staff recommended that a certified public accounting firm attest to the Company's membership equity level of 40% in order for the company to reapply for HUFs. (Exhibit S-39 at 15). However, on an annual basis, Johnson Utilities provides a report to the Commission detailing its collection and disbursement of HUFs. (Exhibit A-7 at 7). In 2006, Mr. Jim Dorf, formerly of the

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Commission's Staff, conducted a thorough audit of the Company's HUF accounts and found nothing improper or amiss. *(Id.)*. While Mr. Dorf indicated to Mr. Brian Tompsett that he would be producing a written report regarding the HUF accounts, the Company never received anything in writing from the Commission. *(Id.)*. However, Mr. Dorf confirmed with Mr. Tompsett that the audit had not disclosed anything unusual or improper regarding the way that Johnson Utilities was collecting, using and accounting for its HUFs. *(Id.)*.

For the foregoing reasons, Johnson Utilities requests that the Commission amend Decision 71854 to reinstate the HUF tariff for new water and sewer connections.

E. **Setting a just and reasonable rate of return**.

If the Commission amends Decision 71854 to (i) rescind the 10% blanket disallowance for alleged inadequately supported wastewater division plant; (ii) rescind the 7.5% blanket disallowance for alleged affiliate profit; and (iii) exclude from rate base the $6,931,078 in unexpended HUFs, then Johnson Utilities will have a positive rate base for both its water and wastewater divisions. In its pre-filed testimony and at hearing, the Company provided evidence to support a cost of equity of 12.0%, a cost of debt of 8.0%, and a weighted average cost of capital ("WACC") of 11.89%. (Exhibit A-2, Volume I at 3). In its pre-filed testimony and at hearing, RUCO argued for a cost of equity of 8.31%, a cost of debt of 8.0%, and a WACC of 8.18%. (Exhibit R-9 at 3-4). Based upon the ten rate case decisions for water and gas utilities in 2010, the average return on equity was 9.29%. Johnson Utilities submits that a rate of return in the range of 8.18% to 11.89% is reasonable, and will result in rates that are just and reasonable.

F. **The Decision Erroneously Fails to Reclassify $2,201,386 from Post Test-Year Wastewater Plant to Test Year Plant**.

The Decision adopted Staff's recommendation that $3,222,494 of the wastewater division plant be excluded as post test-year plant. (Decision at 14, lines 17-18). However, the record supports Johnson Utilities' contention that during the rate case, the Company discovered that $2,201,386 of plant originally classified at post test year plant and booked to plant in 2008 was actually placed into service in 2007 (the "Hunt Highway Project"). (Exhibit A-2, Volume III at

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14; *see also* Johnson's Final Schedules, Wastewater Division, Schedule B-2 at 3.4). In its rebuttal filing, this plant was reclassified from post test year plant to test year plant-in-service.

Despite the fact that Johnson Utilities had identified the Hunt Highway Project in its rebuttal testimony, the Staff engineer did not further evaluate whether this project was, in fact, placed in service in 2007 and instead "left it up to the accounting section to figure that out." (Tr. Vol. X at 1497 [Scott]). The Staffs accounting witness, in turn, testified that it was the engineer who could not determine when the plant went into service. (Tr. Vol. X at 1593 [Michlik]). However, the Staff engineer testified that there was no question in his mind that the Hunt Highway Project was placed in service in 2007. (Tr. Vol. X at 1498 [Scott]). At the hearing, the Staff engineering witness admitted that he had not looked at or analyzed the $2,201,386 of plant that the Company had re-identified as test-year plant. Rather, he testified that that analysis was done by the Commission's accounting section:

> Q. (BY MR. CROCKETT) You understood that that was the *company's* position, that this plant was not, in fact, post-test-year plant, but was actually plant-in-service in the test year?
>
> A. (BY MR. SCOTT) I'm getting a little confused here because what the company filed, a $3.3 million post-test-year plant item, and there was some discussion between Staff and the company that it was actually -- was not post-test-year plant that it was built during the test year. So I didn't follow that discussion with the company or Staff accounting section. So I'm not clear on these -- all of these lift stations, so I would have to defer that question to our Staff accountant.
>
> Q. To Mr. Michlik?
>
> A. Yes.
>
> Q. Wouldn't Mr. Michlik come to you and say, Mr. Scott, the company asserts that this plant on lines 6 through 19 was actually in place during the test year? Wouldn't he come to you to corroborate that?
>
> A. He could, but I don't remember him doing that. All we talked about was my concern was the other three main post-test-year plant items on this sheet.
>
> Q. We will get to that in a minute. But in terms of the plant that the company alleges was in place in 2007, I'm trying to understand, when you saw this exhibit -- and you testified that you did see this exhibit -- did you understand that the company was asserting that that plant was, in fact, in place during the test year?
>
> A. Yes.
>
> Q. And understanding that, then what steps did you take after that to either confirm or disapprove that this plant was, in fact, in place during the test year?

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A. I did not further evaluate this listing on these lift stations.

Q. Is there a reason you didn't further evaluate it?

A. My understanding was there was discussion between the company and Staff on post-test-year plants, should it be post-test-year plant or was it built at the end of the test year. I just left it up to our accounting section to figure that out and let me just resolve or work on these other three main post-test-year plant items.

(Tr. Vol. X at 1495-1497 [Scott]).

However, the Staff accounting witness testified that the basis of the disallowance of the post test-year plant was the Staff engineer's conclusion that he was not able to determine when the plant was, in fact, placed in service:

(BY MR. CROCKETT) I'm going to shift gears here for a minute. Mr. Michlik, do you have in front of you a copy of Exhibit A-53 or can you put your hands on that?

(BY MR. MICHLIK) I have it.

Q. You have that. Okay. Were you here earlier today when I discussed this exhibit with Mr. Scott?

A. Yes.

Q. And have you seen this exhibit before?

A. Yes.

Q. Did you look at this exhibit in the process of reviewing the company's rate case filing?

A. Yes.

Q. Now, do you understand the company's position that line items 6 through 19 were plant that was actually constructed and placed in service in the year 2007?

A. I believe the company originally had all this amount as post-test year plant, and then they looked back and there was some type of error in their accounting records. And so the time between their direct and surrebuttal -- or rebuttal and rejoinder testimony you changed or moved some of the post-test-year plant into current test year, is my understanding.

Q. And I think that is correct. Did you hear Mr. Scott testify that he did not try to ascertain whether -- or did you hear him testify that he did not address this adjustment to rate base?

A. I think he testified that he was unable to tell when this plant went into service.

Q. Well, that wasn't my recollection of his testimony. I recall that he said that he had spoken to you about this; is that correct? Do you recall him saying that you were dealing with the company on this adjustment?

A. That I was?

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Q. Yes. Do you recall that?

A. No.

Q. Is that a true statement?

A. We talked about this, and I think he said he didn't know when the plant was placed in service and he hadn't -- he had been out to look, but he didn't know whether it was in service or not.

Q. Okay. Well, he did not -- he testified, I believe, and the record will speak for itself, that he did not address this adjustment that the company had proposed and that you had addressed it. Is that not accurate?

A. Yeah, I think we addressed this one.

Q. We being -- who are you referring to?

A. Staff. Staff.

Q. Does that include Mr. Scott?

A. It may have. I believe at one point it did.

Q. Okay. What did you do to address this adjustment?

A. Well, we asked the company for supporting documentation for post-test-year plant, and they provided us with invoices from an affiliate. And then we wanted to actually look at the affiliates' general ledger and supporting documentations and the company confused [sic] to.

Q. That wasn't my question. My question was with respect to the plant that was moved into the test year, not post-test-year plant. How did you deal with the company's statement in this exhibit that the plant identified in lines 6 through 19 was actually plant that was completed and booked -- or was completed and placed into service in 2007?

A. We -- it was just the company's presentation. We didn't do an adjustment for it or anything. Is that your question?

Q. Yeah. Did you analyze this exhibit?

A. Did I analyze it, yeah. We analyzed it, and the company first wanted it as post-test-year plant and now it's -- two-thirds of it is in test-year plant. Our engineer was unable to determine when it was placed in service.

Q. And was that –

A. That was his testimony.

Q. That was his testimony today?

A. I think so.

Q. That he was unable to determine that?

A. Yes.

(Tr. Vol. X at 1592-1595 [Michlik]).

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In addition, even though the Staff engineer testified that there was no question in his mind that the Hunt Highway Project was placed in service in the test year, Staff still disallowed the plant as post test-year plant:

> (BY MR. CROCKETT) Now, Mr. Scott, the line 19, do you see what Mr. -- do you see what Mr. Bourassa's note or comment says on that item, the Hunt Highway force main?
>
> (BY MR. SCOTT) Yes.
>
> Q. And does it say that that force main connects the Section 11 and Anthem Wastewater Treatment Plant?
>
> A. Yes.
>
> Q. And it says there year in service was 2007. Do you see that?
>
> A. Yes.
>
> Q. Do you have any reason -- let me back up. Did you actually confirm that there is a force main that connects to the Section 11 and Anthem plant?
>
> A. Yes.
>
> Q. Do you know what year that force main was placed in service?
>
> A. During the test year.
>
> Q. During the test year?
>
> A. Yes.
>
> Q. Is there any question in your mind about that?
>
> A. No.
>
> Q. Then this would not be an item of post-test-year plant, would it?
>
> A. Well, there is also that accounting side as how to show it on the books and records. I'm not going to get into that or how it was reported. I will leave it at that. That is an accounting issue for Mr. Michlik.
>
> Q. But as far as your engineering analysis goes you confirmed that that force main connecting Section 11 and Anthem Treatment Plant was in place and in service in 2007?
>
> A. Yes.

(Tr. Vol. X at 1498-1499 [Scott]).

G. **The Decision Erroneously Fails to Include $1,021,076 of Properly Includable Post Test Year Wastewater Plant**.

The Decision erroneously fails to include $1,021,076 in properly includable post test year plant. In addition, the actual post test year plant costs for two projects totaling $1,021,076

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(the Parks Lift Station project at a cost of $486,714, and the Queen Creek Leach Field project at a cost of $534,394). (Exhibit A-2, Volume III at 14-15). The net increase in plant the Company proposed in its rebuttal filing was $537,607. (Exhibit A-2, Volume III at 15). The Parks lift station was constructed for use initially by a Fry's shopping center that was started in 2007. (Exhibit A-5 at 34). The Decision completely ignores Johnson Utilities' evidence supporting the fact that without completion of the Parks Lift Station, the Company would have been forced to pay for vaulting and hauling the wastewater generated by the Fry's shopping center. *(Id.)*. The physical transportation of the wastewater by truck to the Pecan wastewater treatment plant ("Pecan WWTP") would have been very costly. *(Id.)*.

All of the excess treated 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. (Exhibit A-5 at 35). These flows were well in excess of the demands needed for the Encanterra golf course. *(Id.)*. The Queen Creek Leach Field was constructed to dispose of the excess effluent that Shea Homes agreed to take during construction to alleviate the 2007 level of effluent disposal needs. *(Id.)*.

There have been several recent decisions in which post test year plant was allowed in rate base. 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.[3] (Exhibit A-2, Volume III at 18). The Decision ignored the Company's uncontroverted evidence through the testimony of its expert witness that supported the fact that these two projects were revenue neutral and were necessary for reasons of reliability, to serve the test year-end level of customers. (Exhibit A-2, Volume III at 15). In addition, both the Parks Lift Station and the Queen Creek Leach Field were completed

[3] *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, 200 1); *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).

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and placed in service a reasonable time before the hearing, allowing for audit and inspection. (Exhibit A-2, Volume III at 19).

Staff determined that the Parks Lift Station was, in fact, used and useful during the test year, but did not make an adjustment to plant-in-service because it was skeptical about the information it was provided to verify the cost. (Exhibit S-44 at 6). For the Queen Creek Leach Field, Staff stated that it was unable to determine whether the project is used and useful. *(Id.)*. Consequently, Staff did not propose to include this plant in rate base and recommended the project be looked at in a subsequent case. (Exhibit S-44 at 7). Because 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, thereby resulting in a net zero impact on rate base. (Exhibit A-2, Volume III at 15).

The Decision also adopts Staffs position that the Company has not substantiated its claim that the additions are revenue neutral. (Staff Brief at 11). Yet according to the uncontroverted testimony of Company expert accounting witness Thomas Bourassa, these two projects are both revenue neutral and necessary for reasons of reliability to serve the test year-end level of customers. (Exhibit A-2, Volume III at 15).

For the foregoing reasons, Johnson Utilities requests that Decision 71854 be amended so that the Parks Lift Station and the Queen Creek Leach Field (totaling $1,021,076 in plant for the wastewater division) can be properly included in the Company's rate base.

H. **The Decision Erroneously Excludes Imputed Income Tax Expense from Operating Expenses.**

The Decision adopted the positions of Staff and RUCO to exclude income taxes from the determination of the revenue requirement for Johnson Utilities because the Company is a limited liability company and pass-though entity for income tax purposes. (Decision at 48, lines 10-11). The Staff and RUCO positions rest on the fact that Johnson Utilities does not itself pay income taxes at the company level, but rather the taxable income and tax liability passes through to its member owners who must then pay the taxes. However, neither Staff nor RUCO deny that the income tax liability of the member owners of Johnson Utilities is directly attributable to the

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taxable income of the Company. Moreover, the evidence in the case also shows that Johnson Utilities pays the tax liability of its member owners pursuant to an agreement between the Company and its member owners. (Exhibit A-2, Volume II at 24). Clearly, the Staff and RUCO position leads to an inequitable and discriminatory outcome, because an S-corporation or limited liability company will suffer from a lower revenue requirement and operating income than a C-corporation which is entitled to income tax expense. *(Id.).* Ultimately, the tax payment comes from the S-corporation or limited liability company itself because the member owners insure that their taxes are paid by the entities that generate them. *(Id.).* In fact, the situation is analogous to a C-corporation subsidiary of a public utility holding company which files a consolidated "corporate family" tax return. *(Id.).* Although the subsidiary C-corporation utility does not file its own separate tax return, this Commission has traditionally allowed income taxes of the utility to be computed on a stand-alone basis and included in the revenue requirement. *(Id.).* There is no good policy reason or other reason to reach a different result with regard to an S-corporation or a limited liability company. By denying income tax expense to the S-corporation or limited liability company, the rate payers receive an unjustified windfall from the lower revenue requirement and operating income that results from the exclusion of income tax expense. *(Id.).*

Rate making should be applied in a manner which produces reasonable and realistic results, regardless of the legal form of the utility. (Exhibit A-4, Volume II at 19). Inclusion or exclusion of income taxes should not be limited to technical distinctions, but rather should be based on whether or not it is fair and does not discriminate. *(Id.).* The income taxes that must be paid by the members of a limited liability company such as Johnson Utilities are inescapable business outlays directly attributed to the utility and are directly comparable to the taxes paid by C-corporations. *(Id.).*

It is undisputed that the Commission is constitutionally endowed with very broad power to prescribe classifications and to establish categories to consider in setting rates for public service corporations, which includes authority to consider classification for income tax expenses. A.R.S. §40-254.01, subd. E; Ariz. Const. Art. 15, § 1 *et seq.; see also Consolidated*

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Water Utilities, Ltd. v. Arizona Corp. Comm'n, 178 Ariz. 478, 484, 875 P.2d 137, 143 (App. 1993). Thus, the Commission has the authority to allow the recovery of income tax expense on a case by case basis. In *Consolidated Water Utilities, Ltd. v. Arizona Corp. Comm'n,* the Arizona Court of Appeals ruled as follows:

> In Arizona, the decision to allow or disallow that tax expense is to be made by the Commission, not the courts. *See also Tucson Gas,* 15 Ariz. at 306, 138 P. at 786 (the Commission has exclusive power over rate cases, and this "exclusive field may not be invaded by the courts, the legislative or executive.").

(Id.).

Perhaps the best rationale for the allowance of income tax recovery for pass-through entities was set forth in *ExxonMobil Oil Corp. v. Federal Energy Regulatory Comm'n,* 487 F.3d 945, 376 U.S. App. D.C. 259 (D.C. Cir. 2007). In that case, the Federal Energy Regulatory Commission ("FERC") adopted a policy of full income tax allowances for limited partnerships. *(Id.* at 952). FERC determined that income taxes paid by partners on their distributive share of the pipeline's income are "just as much a cost of acquiring and operating the assets of that entity as if the utility assets were owned by a corporation." *(Id.).* Consistent with the evidence presented by Johnson Utilities in support of allowing income tax expense for pass-through entities, FERC found no good reason to limit the income tax allowance to corporations, given that "both partners and Subchapter C corporations pay income taxes on their first tier income." *(Id.).* Moreover, FERC determined that income taxes paid on the partners' distributive share of the pipeline's income were properly "attributable" to the regulated entity because such taxes must be paid regardless of whether the partners actually receive a cash distribution. *See United States v. Basye,* 410 U.S. 441, 453, 93 S.Ct. 1080, 35 L.Ed.2d 412 (1973) ("[I]t is axiomatic that each partner must pay taxes on his distributive share of the partnership's income without regard to whether that amount is actually distributed to him."). *(Id.).* Based on this aspect of partnership law, FERC concluded that income taxes paid by investors in a limited partnership are "first-tier'' taxes that may be allocated to the regulated entity's cost-of-service. *(Id.).*

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In *ExxonMobil,* the petitioners argued that these taxes are ultimately paid by individual investors-not the pipeline-and thus it was improper for FERC to allow income tax as an expense to the regulated entity. *(Id.).* However, FERC reasonably addressed this concern, explaining:

> Because public utility income of pass-through entities is attributed directly to the owners of such entities and the owners have an actual or potential income tax liability on that income, the Commission concludes that its rationale here does not violate the court's concern that the Commission had created a tax allowance to compensate for an income tax cost that is not actually paid by the regulated utility.

(Id.). (emphasis added). FERC also emphasized that "the return to the owners of pass-through entities will be reduced below that of a corporation investing in the same asset if such entities are not afforded an income tax allowance on their public utility income." *(Id.).* FERC determined that "termination of the allowance would clearly act as a disincentive for the use of the partnership format," because it would lower the returns of partnerships *vis-a-vis* corporations, and because it would prevent certain investors from realizing the benefits of a consolidated income tax return. *(Id.* at 952-953, 376 U.S. App. D.C. at 266-267).

It is better policy for the Commission to allow the inclusion of income tax expense in the Company's revenue requirement. For the foregoing reasons, Johnson Utilities requests that the Commission amend Decision 71854 to permit income tax to be included as an expense in the Company's revenue requirement.

Johnson Utilities is aware that in the recent Sahuarita Water Company rate case decision (Decision 72177 in Docket W-03718A-09-0359), the Commission agreed to examine the merits of imputing income tax expense to S-corporations and limited liability companies in its ongoing water workshops (Docket No. W-00000C-06-0149). The Commission ordered that "in the event the Commission alters its policy to allow S-corps and LLCs to impute a hypothetical income tax expense for ratemaking purposes, Sahuarita Water Company, LLC may file a motion to amend this Order prospectively, and Sahuarita Water Company, LLC's authorized revenue requirement hereunder, pursuant to A.R.S. § 40-252, to reflect the change in Commission policy." Johnson Utilities will abide by the outcome of the water workshops on the issue of imputed income tax expense, and requests that the Commission issue an order consistent with Decision 72177 which

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would permit the Company to impute income tax expense prospectively if the Commission approves such a policy in the workshops.

IV. EXPEDITED ACTION REQUESTED.

Without the relief requested in this application, Johnson Utilities faces financial jeopardy. The Company has filed this application to modify Decision 71854 in lieu of filing an emergency rate application. The Company requests that the Commission act expeditiously on this application and grant the relief requested.

V. CONCLUSION.

For the reasons set forth herein, Johnson Utilities requests that the Commission grant its request to amend Decision 71854, as described herein.

RESPECTFULLY submitted this 28th day of February, 2011.

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Copy of the foregoing hand-delivered this 28th day of February, 2011, to:

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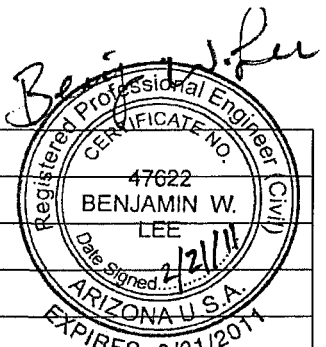
Attachment 1

WATERWORKS
ENGINEERS



To	Johnson Utilities, LLC
From	Water Works Engineers
Written By	Benjamin W. Lee, PE
Reviewed By	John H. Matta, PE
Date	February 21, 2011
Subject	Johnson Utilities, LLC 2007 Asset Inventory and Valuation

Introduction

This analysis includes an inventory of the water systems and wastewater systems and the development of replacement costs new (RCN) and RCN less depreciation (RCNLD) for Johnson Utilities L.L.C (JU). WWE was approached by JU to update the inventory, RCN and RCNLD based on updated and more accurate information as it related to the 2007 analysis. This document provides a summary of the JU facilities and the updated RCN and RCNLD analysis is included as Appendix A.

Potable Water Systems

The JU Certificate of Convenience and Necessity (CC&N) area is located southeast of the Town of Queen Creek and northwest of the Town of Florence. The CC&N area also includes portions of incorporated areas of the Town of Florence. The Gila River Indian Reservation lies to the southwest and State Land to the northeast.

JU maintains two separate potable water systems that are divided by the boundary between the Phoenix and Pinal Active Management Areas (AMAs). These two systems function independently. The dividing line between the Phoenix AMA and the Pinal AMA is the east-west alignment one mile north of E. Franklin Rd. or one mile south of E. Heritage Rd. The potable water system asset inventory has been grouped by AMA.

Potable water is supplied to the JU service area through a network of groundwater wells, water storage reservoirs, booster pump stations, chlorination facilities and water distribution piping. Groundwater is the sole source of potable water for the JU service area. In general, these facilities have been standardized based on a typical design developed by JU.

Water storage reservoirs and booster pump stations are primarily co-located at the same site and are called Water Plants by JU. Water storage reservoirs are typically American Water Works Association (AWWA) compliant steel tanks. The tanks provide the water supply to the booster pump stations.

The typical booster pump station includes a number of pumps that sit on a slab on grade. The pumps are centrifugal pumps, typically manufactured by ITT Gould. The booster pump stations are equipped with isolation valves, a flow meter/totalizer, a pressure guage, and a check valve. A hydro-pneumatic tank is provided on the discharge of the booster pump station. The pump stations are equipped with a local control panel that controls the pump sequencing, ON/OFF operation and Manual/Auto mode.

The chlorine feed systems are of the chlorine gas feed type and typically consist of pre-fabricated fiberglass enclosure, chlorine ejector, chlorine supply water pump, strainer, vacuum regulator

manufactured by Regal, ambient chlorine detector and indicating light, and 99-pound chlorine gas cylinder.

Groundwater in the Johnson Utilities service area is generally of good quality. For groundwater's in this area, the primary constituents of concern that have required mitigation to comply with the Environmental Protection Agency's (EPA's) Maximum Contaminant Levels (MCLs) have been nitrate and arsenic. These constituents are treated when necessary by JU per Arizona Department of Environmental Quality (ADEQ) requirements.

Arsenic concentrations in the Johnson Utilities wells have been below the arsenic MCL of 10 micrograms per liter (µg/L) (0.010 milligrams per liter (mg/L)). Johnson Utilities has no arsenic treatment facilities, and does not require them. Nitrate concentrations vary significantly throughout the service area and depend primarily on current and past agricultural land use. In general, Johnson Utilities has been able to avoid nitrate treatment by supplying potable water from groundwater wells that are below the 10 mg/L MCL. However, they currently operate one reverse osmosis (RO) treatment facility to reduce the nitrate concentrations in Johnson Ranch Well No. 4. RO product water is blended with the bypass water and with Johnson Ranch Well No. 5 to bring the nitrate concentrations below the MCL.

Wastewater System

Johnson Utilities has five Water Reclamation Plants (WRPs). The Phoenix/Pinal AMA dividing line that separates the potable water systems does not impact the wastewater system because both raw wastewater and treated effluent can be passed between the AMAs.

The wastewater collection and conveyance system serves the Johnson Utilities service area through a series of trunk sewers, lift stations, and force mains.

The lift stations are all below grade duplex submersible wet well configuration. A manhole used as a "grit chamber" is provided upstream of the wet well. A below grade covered valve vault contains plug valves and check valves dedicated for each pump. The pump discharge pipes converge into a common forcemain at the meter vault. The pipe material switches from ductile iron to PVC downstream of the flowmeter. The lift stations are typically equipped with odor control and an emergency standby power, engine driven, generator.

The lift stations are typically controlled by a local control panel that controls the pump sequence and monitors the water level in the wetwell. The panel is equipped with a light strobe for alarm.

Johnson Utilities has standardized its new water reclamation facilities using Aeromod – a proprietary treatment system that produces denitrified secondary effluent. This is true for all their plants except for the Section 11 and Precision WRPs. The Section 11 WRP utilizes the extended aeration lagoon process, but is permitted to be converted to an Aeromod Plant. The Precision WTP is a sequencing batch reactor plant that is currently off line. Wastewater flows can be conveyed between different plants which provides system flexibility and redundancy.

The effluent generated by the reclamation facilities is used for either reuse or recharge. Currently, Johnson Utility receives credits for the recharged effluent in both AMAs.

The sewage sludge management facilities used at each facility consists of mechanical dewatering using a belt press at all plants except Section 11 WRP. The dewatered sludge is disposed of in a landfill. As

noted previously, the Section 11 plant is a lagoon plant and sludge has not been required to be removed.

Replacement Cost Estimates

RCN is the cost in 2007 dollars to replace the facilities with new items. The RCNLD takes into account the age of the equipment as of 2007 such that the RCN is depreciated linearly over the useful life of the various facilities. It should be noted that the unit costs were not updated to 2010 or 2011 dollars but remain in 2007 dollars. This revision is an update to the previous analysis in which the inventory was revised to more accurately represent the facilities and age of the JU system in 2007. The major changes to the original 2007 RCN and RCNLD are as follows:

- The 'average' age of the water and wastewater pipelines was revised from 1997 to 2003. In the original analysis the assumed construction year was 1997 as a worst case based on the start-up year of JU. However, many of these pipelines were constructed after that time and a more accurate assessment of the 'average' age of all the pipelines was provided by JU as 2003.
- The cost of the sewer lift stations was updated to include all of the ancillary equipment and costs associated with the site.
- Other changes included small revisions to the quantity of pipe, some corrections to the construction years of various sites, deletion or addition of certain sites, etc.

The results of the RCN and RCNLD analysis are presented in the following table and the line item details are provided in Appendix A.

Parameter	RCN	RCNLD
Water System	$ 90,031,980	$ 79,540,083
Wastewater System	$ 159,840,652	$ 143,450,413
Total	$ 249,872,632	$ 222,990,496

Appendix A

Johnson Utilities Water and Wastewater Systems
Overall Summary

Asset	RCN ($ 2007)	RCNLD ($ 2007)
Water	$ 90,031,980	$ 79,540,083
Wastewater	$ 159,840,652	$ 143,450,413
Total	$ 249,872,632	$ 222,990,496

Johnson Utilities Water Systems: Phoenix and Pinal Active Management Areas
Asset Valuation: Replacement Cost New (RCN) and RCN Less Depreciation (RCNLD) ($2007)

AMA	Service	Asset Type	Asset Name	Construction Year	Expected Useful Life	Age	Remaining Useful Life	Replacement Year	Unit Price ($ 2007)	Quantities	RCN ($ 2007)	RCNLD ($ 2007)
Phoenix	Water	Wells	Johnson Ranch #3 Well (500 gpm)	1978	30	29	1	2008	$ 300,000	1	$ 300,000	$ 10,000
Phoenix	Water	Wells	Johnson Ranch #4 Well (500 gpm)	1996	30	11	19	2026	$ 300,000	1	$ 300,000	$ 190,000
Phoenix	Water	Wells	Johnson Ranch #5 Well (500 gpm)	1997	30	10	20	2027	$ 300,000	1	$ 300,000	$ 200,000
Phoenix	Water	Wells	Johnson Ranch #7 Well (900 gpm)	2007	30	0	30	2037	$ 500,000	1	$ 500,000	$ 500,000
Phoenix	Water	Wells	Oasis #1 Well (110 gpm)	1998	30	9	21	2028	$ 140,000	1	$ 140,000	$ 98,000
Phoenix	Water	Wells	Oasis #2 Well (110 gpm)	2001	30	6	24	2031	$ 140,000	1	$ 140,000	$ 112,000
Phoenix	Water	Wells	Oasis #3 Well (110 gpm)	2002	30	5	25	2032	$ 140,000	1	$ 140,000	$ 116,667
Phoenix	Water	Wells	Edwards Road #1 Well (35 gpm)	2001	30	6	24	2031	$ 110,000	1	$ 110,000	$ 88,000
Phoenix	Water	Wells	Ricke #1 Well (360 gpm)	1999	30	8	22	2029	$ 250,000	1	$ 250,000	$ 183,333
Phoenix	Water	Wells	Ricke #3 Well (360 gpm)	2002	30	5	25	2032	$ 250,000	1	$ 250,000	$ 208,333
Phoenix	Water	Wells	Wild Horse #1 Well (360 gpm)	1998	30	9	21	2028	$ 250,000	1	$ 250,000	$ 175,000
Phoenix	Water	Wells	Skyline #1 Well (1000 gpm)	1978	30	29	1	2008	$ 500,000	1	$ 500,000	$ 16,667
Phoenix	Water	Wells	Circle Cross #1 Well (1000 gpm)	2003	30	4	26	2033	$ 500,000	1	$ 500,000	$ 433,333
Phoenix	Water	Wells	San Tan #2 Well (720 gpm)	2003	30	4	26	2033	$ 400,000	1	$ 400,000	$ 346,667
Phoenix	Water	Wells	Morning Sun Farms #1 Well (1100 gpm)	2004	30	3	27	2034	$ 500,000	1	$ 500,000	$ 450,000
Phoenix	Water	Wells	Morning Sun Famrs #2 Well (1000 gpm)	2006	30	1	29	2036	$ 500,000	1	$ 500,000	$ 483,333
Phoenix	Water	Wells	Hardison #1 Well (1000 gpm)	2007	30	0	30	2037	$ 500,000	1	$ 500,000	$ 500,000
Phoenix	Water	Well Pumps	Johnson Ranch #3 Well Pump (500 gpm)	1998	10	9	1	2008	$ 50,000	1	$ 50,000	$ 5,000
Phoenix	Water	Well Pumps	Johnson Ranch #4 Well Pump (500 gpm)	1998	10	9	1	2008	$ 50,000	1	$ 50,000	$ 5,000
Phoenix	Water	Well Pumps	Johnson Ranch #5 Well Pump (500 gpm)	1998	10	9	1	2008	$ 50,000	1	$ 50,000	$ 5,000
Phoenix	Water	Well Pumps	Johnson Ranch #7 Well Pump (900 gpm)	1998	10	9	1	2008	$ 80,000	1	$ 80,000	$ 8,000
Phoenix	Water	Well Pumps	Oasis #1 Well Pump (110 gpm)	1998	10	9	1	2008	$ 25,000	1	$ 25,000	$ 2,500
Phoenix	Water	Well Pumps	Oasis #2 Well Pump (110 gpm)	2001	10	6	4	2011	$ 25,000	1	$ 25,000	$ 10,000
Phoenix	Water	Well Pumps	Oasis #3 Well Pump (110 gpm)	2002	10	5	5	2012	$ 25,000	1	$ 25,000	$ 12,500
Phoenix	Water	Well Pumps	Edwards Road #1 Well Pump (35 gpm)	2001	10	6	4	2011	$ 20,000	1	$ 20,000	$ 8,000
Phoenix	Water	Well Pumps	Ricke #1 Well Pump (360 gpm)	2006	10	1	9	2016	$ 30,000	1	$ 30,000	$ 27,000
Phoenix	Water	Well Pumps	Ricke #3 Well Pump (360 gpm)	2002	10	5	5	2012	$ 30,000	1	$ 30,000	$ 15,000
Phoenix	Water	Well Pumps	Wild Horse #1 Well Pump (360 gpm)	1998	10	9	1	2008	$ 30,000	1	$ 30,000	$ 3,000
Phoenix	Water	Well Pumps	Skyline #1 Well Pump (1000 gpm)	2007	10	0	10	2017	$ 85,000	1	$ 85,000	$ 85,000
Phoenix	Water	Well Pumps	Circle Cross #1 Well Pump (1000 gpm)	2007	10	0	10	2017	$ 85,000	1	$ 85,000	$ 85,000
Phoenix	Water	Well Pumps	San Tan #2 Well Pump (720 gpm)	2003	10	4	6	2013	$ 70,000	1	$ 70,000	$ 42,000
Phoenix	Water	Well Pumps	Morning Sun Farms #1 Well Pump (1100 gpm)	2004	10	3	7	2014	$ 85,000	1	$ 85,000	$ 59,500
Phoenix	Water	Well Pumps	Morning Sun Famrs #2 Well Pump (1000 gpm)	2006	10	1	9	2016	$ 85,000	1	$ 85,000	$ 76,500
Phoenix	Water	Well Pumps	Hardison #1 Well Pump (1000 gpm)	2007	10	0	10	2017	$ 85,000	1	$ 85,000	$ 85,000
Phoenix	Water	Treatment	Johnson Ranch Water Plant RO (240 gpm)	2002	12.5	6	7	2014	$1,000,000	1	$ 1,000,000	$ 560,000
Phoenix	Water	Chlorine	Skyline #1 Well Chlorine	2007	12.5	1	12	2019	$ 10,000	1	$ 10,000	$ 9,600
Phoenix	Water	Chlorine	Hardison Well Chlorine	2007	12.5	1	12	2019	$ 10,000	1	$ 10,000	$ 9,600
Phoenix	Water	Chlorine	San Tan #2 Well Chlorine	2007	12.5	1	12	2019	$ 10,000	1	$ 10,000	$ 9,600
Phoenix	Water	Chlorine	Morning Sun Farms #1 Well Chlorine	2007	12.5	1	12	2019	$ 10,000	1	$ 10,000	$ 9,600
Phoenix	Water	Chlorine	Morning Sun Farms Water Plant Chlorine	2007	12.5	1	12	2019	$ 10,000	1	$ 10,000	$ 9,600
Phoenix	Water	Chlorine	Johnson Ranch Water Plant Chlorine	2007	12.5	1	12	2019	$ 10,000	1	$ 10,000	$ 9,600
Phoenix	Water	Chlorine	Oasis Water Plant Chlorine	2007	12.5	1	12	2019	$ 10,000	1	$ 10,000	$ 9,600
Phoenix	Water	Chlorine	Wild Horse Water Plant Chlorine	2007	12.5	1	12	2019	$ 10,000	1	$ 10,000	$ 9,600

Johnson Utilities Water Systems: Phoenix and Pinal Active Management Areas
Asset Valuation: Replacement Cost New (RCN) and RCN Less Depreciation (RCNLD) ($2007)

AMA	Service	Asset Type	Asset Name	Construction Year	Expected Useful Life	Age	Remaining Useful Life	Replace-ment Year	Unit Price ($ 2007)	Quant-ities	RCN ($ 2007)	RCNLD ($ 2007)
Phoenix	Water	Chlorine	Ricke Water Plant Chlorine	2007	12.5	1	12	2019	$ 10,000	1	$ 10,000	$ 9,600
Phoenix	Water	Chlorine	Circle Cross Water Plant Chlorine	2007	12.5	1	12	2019	$ 10,000	1	$ 10,000	$ 9,600
Phoenix	Water	Reservoirs	Johnson Ranch Water Plant 1,000,000 gal Storage	2007	45	0	45	2052	$ 500,000	1	$ 500,000	$ 500,000
Phoenix	Water	Reservoirs	Johnson Ranch Water Plant 500,000 gal Storage	1998	45	9	36	2043	$ 350,000	1	$ 350,000	$ 280,000
Phoenix	Water	Reservoirs	Johnson Ranch Water Plant 100,000 gal Storage	2000	45	7	38	2045	$ 100,000	1	$ 100,000	$ 84,444
Phoenix	Water	Reservoirs	Oasis Water Plant 500,000 gal Storage	2007	45	0	45	2052	$ 350,000	1	$ 350,000	$ 350,000
Phoenix	Water	Reservoirs	Wild Horse Water Plant 50,000 gal Storage	2000	45	7	38	2045	$ 50,000	1	$ 50,000	$ 42,222
Phoenix	Water	Reservoirs	Edwards Road Water Plant 50,000 gal Storage	1999	45	8	37	2044	$ 50,000	1	$ 50,000	$ 41,111
Phoenix	Water	Reservoirs	Ricke Water Plant 500,000 gal Storage	2006	45	1	44	2051	$ 350,000	1	$ 350,000	$ 342,222
Phoenix	Water	Reservoirs	Ricke Water Plant 50,000 gal Storage	1999	45	8	37	2044	$ 50,000	1	$ 50,000	$ 41,111
Phoenix	Water	Reservoirs	Circle Cross Water Plant 500,000 gal Storage	2004	45	3	42	2049	$ 350,000	1	$ 350,000	$ 326,667
Phoenix	Water	Reservoirs	San Tan Reservoir 1,000,000 gal Storage	2004	45	3	42	2049	$ 500,000	1	$ 500,000	$ 466,667
Phoenix	Water	Reservoirs	Morning Sun Farms Water Plant 1,000,000 gal Storage	2007	45	0	45	2052	$ 500,000	1	$ 500,000	$ 500,000
Phoenix	Water	Reservoirs	Morning Sun Farms Water Plant 1,000,000 gal Storage	2007	45	0	45	2052	$ 500,000	1	$ 500,000	$ 500,000
Phoenix	Water	Booster Pumps	Johnson Ranch Water Plant 50 hp Booster (2)	2000	12.5	8	5	2012	$ 10,000	2	$ 20,000	$ 8,000
Phoenix	Water	Booster Pumps	Johnson Ranch Water Plant 75 hp Booster (2)	2007	12.5	1	12	2019	$ 12,000	2	$ 24,000	$ 23,040
Phoenix	Water	Booster Pumps	Oasis Water Plant 40 hp Booster	2000	12.5	8	5	2012	$ 10,000	1	$ 10,000	$ 4,000
Phoenix	Water	Booster Pumps	Oasis Water Plant 75 hp Booster (2)	2000	12.5	8	5	2012	$ 12,000	2	$ 24,000	$ 9,600
Phoenix	Water	Booster Pumps	Wild Horse Water Plant 10 hp Booster (2)	2000	12.5	8	5	2012	$ 6,500	2	$ 13,000	$ 5,200
Phoenix	Water	Booster Pumps	Wild Horse Water Plant 30 hp Booster	2000	12.5	8	5	2012	$ 7,500	1	$ 7,500	$ 3,000
Phoenix	Water	Booster Pumps	Edwards Road Water Plant 50 hp Booster (2)	1999	12.5	9	4	2011	$ 10,000	2	$ 20,000	$ 6,400
Phoenix	Water	Booster Pumps	Edwards Road Water Plant 75 hp Booster	1999	12.5	9	4	2011	$ 12,000	1	$ 12,000	$ 3,840
Phoenix	Water	Booster Pumps	Ricke Water Plant 50 hp Booster (2)	1999	12.5	9	4	2011	$ 10,000	2	$ 20,000	$ 6,400
Phoenix	Water	Booster Pumps	Ricke Water Plant 75 hp Booster	1999	12.5	9	4	2011	$ 12,000	1	$ 12,000	$ 3,840
Phoenix	Water	Booster Pumps	Circle Cross Water Plant 50 hp Booster (2)	2003	12.5	5	8	2015	$ 10,000	2	$ 20,000	$ 12,800
Phoenix	Water	Booster Pumps	Circle Cross Water Plant 75 hp Booster	2003	12.5	5	8	2015	$ 12,000	1	$ 12,000	$ 7,680
Phoenix	Water	Booster Pumps	Morning Sun Farms Water Plant 50 hp Booster (5)	2002	12.5	6	7	2014	$ 10,000	5	$ 50,000	$ 28,000
Phoenix	Water	Water Pipe	16" Water Pipe	2003	40	4	36	2043	$ 80	4,075	$ 326,000	$ 293,400
Phoenix	Water	Water Pipe	12" Water Pipe	2003	40	4	36	2043	$ 60	207,286	$ 12,437,160	$ 11,193,444
Phoenix	Water	Water Pipe	10" Water Pipe	2003	40	4	36	2043	$ 50	38,904	$ 1,945,200	$ 1,750,680
Phoenix	Water	Water Pipe	8" Water Pipe	2003	40	4	36	2043	$ 40	749,490	$ 29,979,600	$ 26,981,640
Phoenix	Water	Water Pipe	6" Water Pipe	2003	40	4	36	2043	$ 30	285,166	$ 8,554,980	$ 7,699,482
Phoenix	Water	Water Pipe	4" Water Pipe	2003	40	4	36	2043	$ 20	4,596	$ 91,920	$ 82,728
Phoenix	Water	Water Pipe	2" Water Pipe	2003	40	4	36	2043	$ 10	126	$ 1,260	$ 1,134
Phoenix	Water	Valves and Accessories	16 in Isolation	2003	40	4	36	2043	$ 3,620	13	$ 47,060	$ 42,354
Phoenix	Water	Valves and Accessories	12 in Isolation	2003	40	4	36	2043	$ 2,900	448	$ 1,299,200	$ 1,169,280
Phoenix	Water	Valves and Accessories	10 in Isolation	2003	40	4	36	2043	$ 2,200	0	$ -	$ -
Phoenix	Water	Valves and Accessories	8 in Isolation	2003	40	4	36	2043	$ 1,950	2,046	$ 3,989,700	$ 3,590,730
Phoenix	Water	Valves and Accessories	6 in Isolation	2003	40	4	36	2043	$ 1,460	1,537	$ 2,244,020	$ 2,019,618
Phoenix	Water	Valves and Accessories	4 in Isolation	2003	40	4	36	2043	$ 1,300	4	$ 5,200	$ 4,680
Phoenix	Water	Valves and Accessories	Fire Hydrant	2003	50	4	46	2053	$ 500	1,659	$ 829,500	$ 763,140
Phoenix	Water	Valves and Accessories	Blowoff	2003	40	4	36	2043	$ 500	158	$ 79,000	$ 71,100

Johnson Utilities Water Systems: Phoenix and Pinal Active Management Areas
Asset Valuation: Replacement Cost New (RCN) and RCN Less Depreciation (RCNLD) ($2007)

AMA	Service	Asset Type	Asset Name	Construction Year	Expected Useful Life	Age	Remaining Useful Life	Replace-ment Year	Unit Price ($ 2007)	Quant-ities	RCN ($ 2007)	RCNLD ($ 2007)
Phoenix	Water	Valves and Accessories	3 in S.T.	2003	40	4	36	2043	$ 500	1	$ 500	$ 450
Phoenix	Water	Valves and Accessories	2 in S.T.	2003	40	4	36	2043	$ 500	52	$ 26,000	$ 23,400
Phoenix	Water	Valves and Accessories	1 ½ in S.T.	2003	40	4	36	2043	$ 500	0	$ -	$ -
Phoenix	Water	Valves and Accessories	1 in S.T.	2003	40	4	36	2043	$ 500	10,200	$ 5,100,000	$ 4,590,000
Phoenix	Water	Valves and Accessories	¾ in S.T.	2003	40	4	36	2043	$ 500	1,433	$ 716,500	$ 644,850
Phoenix	Water	Valves and Accessories	3 in Water TAPDS	2003	40	4	36	2043	$ 500	1	$ 500	$ 450
Phoenix	Water	Valves and Accessories	2 in Water TAP	2003	40	4	36	2043	$ 500	2	$ 1,000	$ 900
Phoenix	Water	Valves and Accessories	ARV	2003	40	4	36	2043	$ 2,000	99	$ 198,000	$ 178,200
Pinal	Water	Wells	Rancho Sendero #1 Well	1998	30	9	21	2028	$ 400,000	1	$ 400,000	$ 280,000
Pinal	Water	Wells	Rancho Sendero #2 Well	2001	30	6	24	2031	$ 400,000	1	$ 400,000	$ 320,000
Pinal	Water	Wells	Anthem #1 Well	2006	30	1	29	2036	$ 400,000	1	$ 400,000	$ 386,667
Pinal	Water	Wells	Anthem #3 Well (200 hp, 1,000 gpm)	2006	30	1	29	2036	$ 500,000	1	$ 500,000	$ 483,333
Pinal	Water	Wells	Anthem #4 Well (200 hp, 1,000 gpm)	2006	30	1	29	2036	$ 500,000	1	$ 500,000	$ 483,333
Pinal	Water	Well Pumps	Rancho Sendero #1 Well Pump (600 gpm)	1998	10	9	1	2008	$ 50,000	1	$ 50,000	$ 5,000
Pinal	Water	Well Pumps	Rancho Sendero #2 Well Pump (360 gpm)	2001	10	6	4	2011	$ 30,000	1	$ 30,000	$ 12,000
Pinal	Water	Well Pumps	Anthem #1 Well Pump (750 gpm)	2006	10	1	9	2016	$ 70,000	1	$ 70,000	$ 63,000
Pinal	Water	Well Pumps	Anthem #3 Well (200 hp, 1,000 gpm)	2007	10	0	10	2017	$ 85,000	1	$ 85,000	$ 85,000
Pinal	Water	Chlorine	Rancho Sendero Water Plant Chlorine	2001	12.5	7	6	2013	$ 10,000	1	$ 10,000	$ 4,800
Pinal	Water	Chlorine	Anthem Water Plant Chlorine	2007	12.5	1	12	2019	$ 10,000	1	$ 10,000	$ 9,600
Pinal	Water	Reservoirs	Rancho Sendero Water Plant 500,000 gal Storage	1998	45	9	36	2043	$ 350,000	1	$ 350,000	$ 280,000
Pinal	Water	Reservoirs	Anthem Water Plant 1,000,000 gal Storage	2007	45	0	45	2052	$ 500,000	1	$ 500,000	$ 500,000
Pinal	Water	Booster Pumps	Rancho Sendero Water Plant 50 hp Booster (2)	2004	12.5	4	9	2016	$ 10,000	2	$ 20,000	$ 14,400
Pinal	Water	Booster Pumps	Rancho Sender Water Plant 75 hp Booster	2004	12.5	4	9	2016	$ 12,000	1	$ 12,000	$ 8,640
Pinal	Water	Booster Pumps	Anthem Water Plant 50 hp Booster (5)	2006	12.5	2	11	2018	$ 10,000	5	$ 50,000	$ 44,000
Pinal	Water	Water Pipe	16" Water Pipe	2003	40	4	36	2043	$ 80	5,049	$ 403,920	$ 363,528
Pinal	Water	Water Pipe	14" Water Pipe	2003	40	4	36	2043	$ 70	867	$ 60,690	$ 54,621
Pinal	Water	Water Pipe	12" Water Pipe	2003	40	4	36	2043	$ 60	29,414	$ 1,764,840	$ 1,588,356
Pinal	Water	Water Pipe	10" Water Pipe	2003	40	4	36	2043	$ 50	24,000	$ 1,200,000	$ 1,080,000
Pinal	Water	Water Pipe	8" Water Pipe	2003	40	4	36	2043	$ 40	61,545	$ 2,461,800	$ 2,215,620
Pinal	Water	Water Pipe	6" Water Pipe	2003	40	4	36	2043	$ 30	6,921	$ 207,630	$ 186,867
Pinal	Water	Valves and Accessories	16 in Isolation	2003	40	4	36	2043	$ 3,620	2	$ 7,240	$ 6,516
Pinal	Water	Valves and Accessories	14 in Isolation	2003	40	4	36	2043	$ 2,900	2	$ 5,800	$ 5,220
Pinal	Water	Valves and Accessories	12 in Isolation	2003	40	4	36	2043	$ 2,200	67	$ 147,400	$ 132,660
Pinal	Water	Valves and Accessories	10 in Isolation	2003	40	4	36	2043	$ 1,950	44	$ 85,800	$ 77,220
Pinal	Water	Valves and Accessories	8 in Isolation	2003	40	4	36	2043	$ 1,460	211	$ 308,060	$ 277,254
Pinal	Water	Valves and Accessories	6 in Isolation	2003	40	4	36	2043	$ 1,300	90	$ 117,000	$ 105,300
Pinal	Water	Valves and Accessories	Fire Hydrant	2003	50	4	46	2053	$ 500	171	$ 85,500	$ 78,660
Pinal	Water	Valves and Accessories	Blowoff	2003	40	4	36	2043	$ 500	2	$ 1,000	$ 900
Pinal	Water	Valves and Accessories	1 in D.S.	2003	40	4	36	2043	$ 500	284	$ 142,000	$ 127,800

Johnson Utilities Water Systems: Phoenix and Pinal Active Management Areas
Asset Valuation: Replacement Cost New (RCN) and RCN Less Depreciation (RCNLD) ($2007)

AMA	Service	Asset Type	Asset Name	Construction Year	Expected Useful Life	Age	Remaining Useful Life	Replace-ment Year	Unit Price ($ 2007)	Quant-ities	RCN ($ 2007)	RCNLD ($ 2007)
Pinal	Water	Valves and Accessories	¾ in S.T.	2003	40	4	36	2043	$ 500	467	$ 233,500	$ 210,150
Pinal	Water	Valves and Accessories	3 in Water TAPDS	2003	40	4	36	2043	$ 500	0	$ -	$ -
Pinal	Water	Valves and Accessories	2 in Water TAP	2003	40	4	36	2043	$ 500	0	$ -	$ -
Pinal	Water	Valves and Accessories	ARV	2003	40	4	36	2043	$ 2,000	28	$ 56,000	$ 50,400
										TOTAL	$ 90,031,980	$ 79,540,083

Johnson Utilities Wastewater Systems
Asset Valuation: Replacement Cost New (RCN) and RCN Less Depreciation (RCNLD) ($2007)

AMA	Service	Asset Type	Asset Name	Construction Year	Expected Useful Life	Age	Remaining Useful Life	Replace-ment Year	Unit Price ($ 2007)	Quant-ities	RCN ($ 2007)	RCNLD ($ 2007)
Both	Wastewater	SCADA	Main Station Controls	2007	12.5	1	12	2019	$ 30,000	1	$ 30,000	$ 28,800
Both	Wastewater	SCADA	Station 4A Controls	2007	12.5	1	12	2019	$ 5,750	1	$ 5,750	$ 5,520
Both	Wastewater	SCADA	Station 6 Controls	2007	12.5	1	12	2019	$ 30,000	1	$ 30,000	$ 28,800
Both	Wastewater	SCADA	San Tan Controls	2007	12.5	1	12	2019	$ 8,500	1	$ 8,500	$ 8,160
Both	Wastewater	SCADA	Pecan Controls	2007	12.5	1	12	2019	$ 25,000	1	$ 25,000	$ 24,000
Both	Wastewater	SCADA	Reuse PS Controls	2007	12.5	1	12	2019	$ 10,000	1	$ 10,000	$ 9,600
Both	Wastewater	SCADA	Superstition Views Controls	2007	12.5	1	12	2019	$ 10,000	1	$ 10,000	$ 9,600
Both	Wastewater	SCADA	4D/4F Controls	2007	12.5	1	12	2019	$ 15,000	1	$ 15,000	$ 14,400
Both	Wastewater	SCADA	Copper Basin #1 Controls	2007	12.5	1	12	2019	$ 10,000	1	$ 10,000	$ 9,600
Both	Wastewater	SCADA	Copper Basin #2 Controls	2007	12.5	1	12	2019	$ 16,000	1	$ 16,000	$ 15,360
Both	Wastewater	SCADA	Circle Cross #1 Controls	2007	12.5	1	12	2019	$ 16,000	1	$ 16,000	$ 15,360
Both	Wastewater	SCADA	Circle Cross #2 Controls	2007	12.5	1	12	2019	$ 35,000	1	$ 35,000	$ 33,600
Both	Wastewater	SCADA	Magic ranch #1 Controls	2007	12.5	1	12	2019	$ 10,000	1	$ 10,000	$ 9,600
Both	Wastewater	SCADA	Oasis Sunrise Controls	2007	12.5	1	12	2019	$ 6,500	1	$ 6,500	$ 6,240
Both	Wastewater	SCADA	Morning Sun Farms Controls	2007	12.5	1	12	2019	$ 16,000	1	$ 16,000	$ 15,360
Both	Wastewater	SCADA	Rancho Bella Vista #1 Controls	2007	12.5	1	12	2019	$ 5,500	1	$ 5,500	$ 5,280
Both	Wastewater	SCADA	Rancho Bella Vista #2 Controls	2007	12.5	1	12	2019	$ 6,500	1	$ 6,500	$ 6,240
Both	Wastewater	SCADA	JR Unit 29 Controls	2007	12.5	1	12	2019	$ 16,000	1	$ 16,000	$ 15,360
Both	Wastewater	SCADA	14-52B Controls	2007	12.5	1	12	2019	$ 10,000	1	$ 10,000	$ 9,600
Both	Wastewater	SCADA	Judd Road Controls	2007	12.5	1	12	2019	$ 45,000	1	$ 45,000	$ 43,200
Both	Wastewater	SCADA	Cambria Controls	2007	12.5	1	12	2019	$ 6,000	1	$ 6,000	$ 5,760
Both	Wastewater	SCADA	Crestfield Manor Controls	2007	12.5	1	12	2019	$ 35,000	1	$ 35,000	$ 33,600
Both	Wastewater	SCADA	Joy Drive Controls	2007	12.5	1	12	2019	$ 5,500	1	$ 5,500	$ 5,280
Both	Wastewater	SCADA	Meadow Vista Controls	2007	12.5	1	12	2019	$ 5,750	1	$ 5,750	$ 5,520
Both	Wastewater	SCADA	Laredo Ranch Controls	2007	12.5	1	12	2019	$ 7,000	1	$ 7,000	$ 6,720
Both	Wastewater	SCADA	Anthem WRP LS Controls	2007	12.5	1	12	2019	$ 12,000	1	$ 12,000	$ 11,520
Both	Wastewater	SCADA	Magic Ranch Par G & K L.S. 15 HP (2)	2007	12.5	1	12	2019	$ 16,000	1	$ 16,000	$ 15,360
Both	Wastewater	SCADA	Ironwood Crossing 160 hp Lift (2)	2007	12.5	0	13	2020	$ 52,000	1	$ 52,000	$ 52,000
Both	Wastewater	SCADA	Quail Run 30 hp Lift (2)	2007	12.5	0	13	2020	$ 12,000	1	$ 12,000	$ 12,000
Both	Wastewater	SCADA	Johnson Farms 100 hp Lift (2)	2006	12.5	1	12	2019	$ 33,000	1	$ 33,000	$ 30,360
Both	Wastewater	SCADA	The Parks 45 hp Lift (2)	2007	12.5	0	13	2020	$ 17,000	1	$ 17,000	$ 17,000
Both	Wastewater	Sewer Lift Station	Main Station 88 hp Lift (2)	2006	30	2	29	2036	$ 209,714	1	$ 209,714	$ 199,229
Both	Wastewater	Sewer Lift Station	Station 4A 7.5 hp Lift (2)	2007	30	1	30	2037	$ 78,879	1	$ 78,879	$ 77,564
Both	Wastewater	Sewer Lift Station	Station 6 7.5 hp Lift (2)	2007	30	1	30	2037	$ 78,879	1	$ 78,879	$ 77,564
Both	Wastewater	Sewer Lift Station	San Tan Station 25 hp Lift (2)	2007	30	1	30	2037	$ 115,836	1	$ 115,836	$ 113,905
Both	Wastewater	Sewer Lift Station	Pecan Station 75 hp Lift (2)	2007	30	1	30	2037	$ 198,943	1	$ 198,943	$ 195,627
Both	Wastewater	Sewer Lift Station	Section 11 WWTP Reuse Station 30 hp Lift (2)	2007	30	1	30	2037	$ 116,857	1	$ 116,857	$ 114,910
Both	Wastewater	Sewer Lift Station	Superstition Views 7.5 hp Lift (2)	2007	30	1	30	2037	$ 71,357	1	$ 71,357	$ 70,168
Both	Wastewater	Sewer Lift Station	Upgrade 4D/4F 40 hp Lift (2)	2007	30	1	30	2037	$ 150,286	1	$ 150,286	$ 147,781
Both	Wastewater	Sewer Lift Station	Copper Basin #1 32 hp Lift (2)	2007	30	1	30	2037	$ 116,857	1	$ 116,857	$ 114,910
Both	Wastewater	Sewer Lift Station	Copper Basin #2 47 hp Lift (2)	2007	30	1	30	2037	$ 154,743	1	$ 154,743	$ 152,164
Both	Wastewater	Sewer Lift Station	Circle Cross #1 50 hp Lift (2)	2007	30	1	30	2037	$ 155,857	1	$ 155,857	$ 153,260
Both	Wastewater	Sewer Lift Station	Circle Cross #2 100 hp Lift (2)	2007	30	1	30	2037	$ 220,263	1	$ 220,263	$ 216,592
Both	Wastewater	Sewer Lift Station	Magic Ranch #1 7.5 hp Lift (2)	2007	30	1	30	2037	$ 78,879	1	$ 78,879	$ 77,564
Both	Wastewater	Sewer Lift Station	Oasis Sunrise 15 hp Lift (2)	2007	30	1	30	2037	$ 92,993	1	$ 92,993	$ 91,443

Johnson Utilities Wastewater Systems
Asset Valuation: Replacement Cost New (RCN) and RCN Less Depreciation (RCNLD) ($2007)

AMA	Service	Asset Type	Asset Name	Construction Year	Expected Useful Life	Age	Remaining Useful Life	Replace-ment Year	Unit Price ($ 2007)	Quant-ities	RCN ($ 2007)	RCNLD ($ 2007)
Both	Wastewater	Sewer Lift Station	Upgrade Morning Sun Farms 47 hp Lift (2)	2007	30	1	30	2037	$ 154,743	1	$ 154,743	$ 152,164
Both	Wastewater	Sewer Lift Station	Upgrade Rancho Bella Vista North #1 5 hp Lift (2)	2007	30	1	30	2037	$ 73,586	1	$ 73,586	$ 72,359
Both	Wastewater	Sewer Lift Station	Rancho Bella Vista North #2 15 hp Lift (2)	2007	30	1	30	2037	$ 92,993	1	$ 92,993	$ 91,443
Both	Wastewater	Sewer Lift Station	JR Unit 29 45 hp Lift (2)	2007	30	1	30	2037	$ 154,743	1	$ 154,743	$ 152,164
Both	Wastewater	Sewer Lift Station	14-52B 30 hp Lift (2)	2007	30	1	30	2037	$ 217,143	1	$ 217,143	$ 213,524
Both	Wastewater	Sewer Lift Station	Magma Ranch-Judd Road 130 hp Lift (2)	2007	30	1	30	2037	$ 273,786	1	$ 273,786	$ 269,223
Both	Wastewater	Sewer Lift Station	Cambria 10 hp Lift (2)	2005	30	3	28	2035	$ 81,571	1	$ 81,571	$ 74,774
Both	Wastewater	Sewer Lift Station	Crestfield Manor 105 hp Lift (2)	2007	30	1	30	2037	$ 220,263	1	$ 220,263	$ 216,592
Both	Wastewater	Sewer Lift Station	Joy Drive 5 hp Lift (2)	2007	30	1	30	2037	$ 73,586	1	$ 73,586	$ 72,359
Both	Wastewater	Sewer Lift Station	Upgrade Meadow Vista 7 hp Lift (2)	2007	30	1	30	2037	$ 78,879	1	$ 78,879	$ 77,564
Both	Wastewater	Sewer Lift Station	Laredo Ranch 18 hp Lift (2)	2007	30	1	30	2037	$ 95,314	1	$ 95,314	$ 93,726
Both	Wastewater	Sewer Lift Station	Anthem WRP 35 hp Lift (2)	2007	30	1	30	2037	$ 143,600	1	$ 143,600	$ 141,207
Both	Wastewater	Sewer Lift Station	Magic Ranch Par G & K L.S. 15 HP (2)	2006	30	2	29	2036	$ 154,743	1	$ 154,743	$ 147,006
Both	Wastewater	Sewer Lift Station	Ironwood Crossing 160 hp Lift (2)	2007	30	0	30	2037	$ 324,857	1	$ 324,857	$ 324,857
Both	Wastewater	Sewer Lift Station	Quail Run 30 hp Lift (2)	2007	30	0	30	2037	$ 116,857	1	$ 116,857	$ 116,857
Both	Wastewater	Sewer Lift Station	Johnson Farms 100 hp Lift (2)	2006	30	1	29	2036	$ 228,286	1	$ 228,286	$ 220,676
Both	Wastewater	Sewer Lift Station	The Parks 45 hp Lift (2)	2007	30	0	30	2037	$ 142,857	1	$ 142,857	$ 142,857
Both	Wastewater	Sewer Lift Pumps	Main Station 88 hp Lift (2)	2006	12.5	2	11	2018	$ 43,000	2	$ 86,000	$ 75,680
Both	Wastewater	Sewer Lift Pumps	Station 4A 7.5 hp Lift (2)	2007	12.5	1	12	2019	$ 7,775	2	$ 15,550	$ 14,928
Both	Wastewater	Sewer Lift Pumps	Station 6 7.5 hp Lift (2)	2007	12.5	1	12	2019	$ 7,775	2	$ 15,550	$ 14,928
Both	Wastewater	Sewer Lift Pumps	San Tan Station 25 hp Lift (2)	2007	12.5	1	12	2019	$ 17,725	2	$ 35,450	$ 34,032
Both	Wastewater	Sewer Lift Pumps	Pecan Station 75 hp Lift (2)	2007	12.5	1	12	2019	$ 40,100	2	$ 80,200	$ 76,992
Both	Wastewater	Sewer Lift Pumps	Section 11 WWTP Reuse Station 30 hp Lift (2)	2007	12.5	1	12	2019	$ 18,000	2	$ 36,000	$ 34,560
Both	Wastewater	Sewer Lift Pumps	Superstition Views 7.5 hp Lift (2)	2007	12.5	1	12	2019	$ 5,750	2	$ 11,500	$ 11,040
Both	Wastewater	Sewer Lift Pumps	Upgrade 4D/4F 40 hp Lift (2)	2007	12.5	1	12	2019	$ 27,000	2	$ 54,000	$ 51,840
Both	Wastewater	Sewer Lift Pumps	Copper Basin #1 32 hp Lift (2)	2007	12.5	1	12	2019	$ 18,000	2	$ 36,000	$ 34,560
Both	Wastewater	Sewer Lift Pumps	Copper Basin #2 47 hp Lift (2)	2007	12.5	1	12	2019	$ 28,200	2	$ 56,400	$ 54,144
Both	Wastewater	Sewer Lift Pumps	Circle Cross #1 50 hp Lift (2)	2007	12.5	1	12	2019	$ 28,500	2	$ 57,000	$ 54,720
Both	Wastewater	Sewer Lift Pumps	Circle Cross #2 100 hp Lift (2)	2007	12.5	1	12	2019	$ 45,840	2	$ 91,680	$ 88,013
Both	Wastewater	Sewer Lift Pumps	Magic Ranch #1 7.5 hp Lift (2)	2007	12.5	1	12	2019	$ 7,775	2	$ 15,550	$ 14,928
Both	Wastewater	Sewer Lift Pumps	Oasis Sunrise 15 hp Lift (2)	2007	12.5	1	12	2019	$ 11,575	2	$ 23,150	$ 22,224
Both	Wastewater	Sewer Lift Pumps	Upgrade Morning Sun Farms 47 hp Lift (2)	2007	12.5	1	12	2019	$ 28,200	2	$ 56,400	$ 54,144
Both	Wastewater	Sewer Lift Pumps	Upgrade Rancho Bella Vista North #1 5 hp Lift (2)	2007	12.5	1	12	2019	$ 6,350	2	$ 12,700	$ 12,192
Both	Wastewater	Sewer Lift Pumps	Rancho Bella Vista North #2 15 hp Lift (2)	2007	12.5	1	12	2019	$ 11,575	2	$ 23,150	$ 22,224
Both	Wastewater	Sewer Lift Pumps	JR Unit 29 45 hp Lift (2)	2007	12.5	1	12	2019	$ 28,200	2	$ 56,400	$ 54,144
Both	Wastewater	Sewer Lift Pumps	14-52B 30 hp Lift (2)	2007	12.5	1	12	2019	$ 45,000	2	$ 90,000	$ 86,400
Both	Wastewater	Sewer Lift Pumps	Magma Ranch-Judd Road 130 hp Lift (2)	2007	12.5	1	12	2019	$ 60,250	2	$ 120,500	$ 115,680
Both	Wastewater	Sewer Lift Pumps	Cambria 10 hp Lift (2)	2005	12.5	3	10	2017	$ 8,500	2	$ 17,000	$ 13,600
Both	Wastewater	Sewer Lift Pumps	Crestfield Manor 105 hp Lift (2)	2007	12.5	1	12	2019	$ 45,840	2	$ 91,680	$ 88,013
Both	Wastewater	Sewer Lift Pumps	Joy Drive 5 hp Lift (2)	2007	12.5	1	12	2019	$ 6,350	2	$ 12,700	$ 12,192
Both	Wastewater	Sewer Lift Pumps	Upgrade Meadow Vista 7 hp Lift (2)	2007	12.5	1	12	2019	$ 7,775	2	$ 15,550	$ 14,928
Both	Wastewater	Sewer Lift Pumps	Laredo Ranch 18 hp Lift (2)	2007	12.5	1	12	2019	$ 12,200	2	$ 24,400	$ 23,424
Both	Wastewater	Sewer Lift Pumps	Anthem WRP 35 hp Lift (2)	2007	12.5	1	12	2019	$ 25,200	2	$ 50,400	$ 48,384
Both	Wastewater	Sewer Lift Pumps	Magic Ranch Par G & K L.S. 15 HP (2)	2006	12.5	2	11	2018	$ 28,200	2	$ 56,400	$ 49,632
Both	Wastewater	Sewer Lift Pumps	Ironwood Crossing 160 hp Lift (2)	2007	12.5	0	13	2020	$ 74,000	2	$ 148,000	$ 148,000

Johnson Utilities Wastewater Systems

Asset Valuation: Replacement Cost New (RCN) and RCN Less Depreciation (RCNLD) ($2007)

AMA	Service	Asset Type	Asset Name	Construction Year	Expected Useful Life	Age	Remaining Useful Life	Replace-ment Year	Unit Price ($ 2007)	Quant-ities	RCN ($ 2007)	RCNLD ($ 2007)
Both	Wastewater	Sewer Lift Pumps	Quail Run 30 hp Lift (2)	2007	12.5	0	13	2020	$ 18,000	2	$ 36,000	$ 36,000
Both	Wastewater	Sewer Lift Pumps	Johnson Farms 100 hp Lift (2)	2006	12.5	1	12	2019	$ 48,000	2	$ 96,000	$ 88,320
Both	Wastewater	Sewer Lift Pumps	The Parks 45 hp Lift (2)	2007	12.5	0	13	2020	$ 25,000	2	$ 50,000	$ 50,000
Both	Wastewater	Force Mains	18" Force Main	2003	40	4	36	2043	$ 90	3,962	$ 356,580	$ 320,922
Both	Wastewater	Force Mains	16" Force Main	2003	40	4	36	2043	$ 80	5,623	$ 449,840	$ 404,856
Both	Wastewater	Force Mains	12" Force Main	2003	40	4	36	2043	$ 60	11,020	$ 661,200	$ 595,080
Both	Wastewater	Force Mains	10" Force Main	2003	40	4	36	2043	$ 50	34,966	$ 1,748,300	$ 1,573,470
Both	Wastewater	Force Mains	8" Force Main	2003	40	4	36	2043	$ 40	183,473	$ 7,338,920	$ 6,605,028
Both	Wastewater	Force Mains	6" Force Main	2003	40	4	36	2043	$ 30	6,935	$ 208,050	$ 187,245
Both	Wastewater	Force Mains	4" Force Main	2003	40	4	36	2043	$ 20	4,890	$ 97,800	$ 88,020
Both	Wastewater	Gravity Sewers	30" Gravity Sewer	2003	40	4	36	2043	$ 150	2,140	$ 321,000	$ 288,900
Both	Wastewater	Gravity Sewers	24" Gravity Sewer	2003	40	4	36	2043	$ 120	1,853	$ 222,360	$ 200,124
Both	Wastewater	Gravity Sewers	18" Gravity Sewer	2003	40	4	36	2043	$ 90	11,533	$ 1,037,970	$ 934,173
Both	Wastewater	Gravity Sewers	15" Gravity Sewer	2003	40	4	36	2043	$ 75	20,273	$ 1,520,475	$ 1,368,428
Both	Wastewater	Gravity Sewers	12" Gravity Sewer	2003	40	4	36	2043	$ 60	101,947	$ 6,116,820	$ 5,505,138
Both	Wastewater	Gravity Sewers	10" Gravity Sewer	2003	40	4	36	2043	$ 50	42,931	$ 2,146,550	$ 1,931,895
Both	Wastewater	Gravity Sewers	8" Gravity Sewer	2003	40	4	36	2043	$ 40	1,029,314	$ 41,172,560	$ 37,055,304
Both	Wastewater	Gravity Sewers	6" Gravity Sewer	2003	40	4	36	2043	$ 30	28,159	$ 844,770	$ 760,293
Both	Wastewater	Gravity Sewers	4" Gravity Sewer	2003	40	4	36	2043	$ 20	4,695	$ 93,900	$ 84,510
Both	Wastewater	Valves and Accessories	12 in Isolation	2003	37.5	4	34	2041	$ 3,000	46	$ 138,000	$ 123,280
Both	Wastewater	Valves and Accessories	8 in Isolation	2003	37.5	4	34	2041	$ 1,460	160	$ 233,600	$ 208,683
Both	Wastewater	Valves and Accessories	4 ft Manhole	2003	37.5	4	34	2041	$ 5,000	3881	$ 19,405,000	$ 17,335,133
Both	Wastewater	Valves and Accessories	5 ft Manhole	2003	37.5	4	34	2041	$ 7,000	873	$ 6,111,000	$ 5,459,160
Both	Wastewater	Valves and Accessories	Cleanouts	2003	37.5	4	34	2041	$ 1,000	577	$ 577,000	$ 515,453
Both	Wastewater	Valves and Accessories	Taps	2003	37.5	4	34	2041	$ 500	30,883	$ 15,441,500	$ 13,794,407
Both	Wastewater	Valves and Accessories	ARVs	2003	37.5	4	34	2041	$ 2,000	15	$ 30,000	$ 26,800
Both	Wastewater	WRP Structures	Pecan WRP - Phase 1 (1 mgd)	2001	30	6	24	2031	$4,550,000	1	$ 4,550,000	$ 3,640,000
Both	Wastewater	WRP Structures	Pecan WRP - Phase 2 (1mgd)	2005	30	2	28	2035	$4,550,000	1	$ 4,550,000	$ 4,246,667
Both	Wastewater	WRP Structures	San Tan WRP (2.0 mgd)	2005	30	2	28	2035	$4,550,000	2	$ 9,100,000	$ 8,493,333
Both	Wastewater	WRP Structures	Anthem WRP (1.5 mgd)	2007	30	0	30	2037	$4,550,000	1.5	$ 6,825,000	$ 6,825,000
Both	Wastewater	WRP Structures	Precision WRP (0.3 mgd)	2002	30	5	25	2032	$4,550,000	0.3	$ 1,365,000	$ 1,137,500
Both	Wastewater	WRP Structures	Section 11 WRP (1.6 mgd)	2000	30	7	23	2030	$3,400,000	1.6	$ 5,440,000	$ 4,170,667
Both	Wastewater	WRP Equipment	Pecan WRP - Phase 1 (1 mgd)	2001	20	6	14	2021	$2,450,000	1	$ 2,450,000	$ 1,715,000
Both	Wastewater	WRP Equipment	Pecan WRP - Phase 2 (1mgd)	2005	20	2	18	2025	$2,450,000	1	$ 2,450,000	$ 2,205,000
Both	Wastewater	WRP Equipment	San Tan WRP (2.0 mgd)	2005	20	2	18	2025	$2,450,000	2	$ 4,900,000	$ 4,410,000
Both	Wastewater	WRP Equipment	Anthem WRP (1.5 mgd)	2007	20	0	20	2027	$2,450,000	1.5	$ 3,675,000	$ 3,675,000
Both	Wastewater	WRP Equipment	Precision WRP (0.3 mgd)	2002	20	5	15	2022	$2,450,000	0.3	$ 735,000	$ 551,250
Both	Wastewater	WRP Equipment	Section 11 WRP (1.6 mgd)	2000	20	7	13	2020	$ 600,000	1.6	$ 960,000	$ 624,000
										TOTAL	$ 159,840,652	$ 143,450,413