

ORIGINAL

OPEN MEETING AGENDA ITEM



0000125587

BEFORE THE ARIZONA CORPORATION

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Arizona Corporation Commission

DOCKETED

JUN 1 2011

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AZ CORP COMMISSION  
DOCKET CONTROL

DOCKETED BY

COMMISSIONERS

GARY PIERCE – Chairman  
BOB STUMP  
SANDRA D. KENNEDY  
PAUL NEWMAN  
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-08-0180

**NOTICE REGARDING RATE IMPACTS  
OF RELIEF REQUESTED IN §40-252  
PETITION, CUSTOMER NOTICE AND  
PROCEDURE**

On February 28, 2011, Johnson Utilities, LLC ("Johnson Utilities" or the "Company") filed a petition pursuant to A.R.S. §40-252 (the "§40-252 Petition") to amend Decision 71854 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 from wastewater division rate base for alleged inadequately supported wastewater plant costs; and (ii) a \$7,352,364 deduction from wastewater division 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%.

Brownstein Hyatt Farber Schreck, LLP  
40 North Central Avenue, 14<sup>th</sup> Floor  
Phoenix, AZ 85004

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1           6.       Reclassifying \$2,201,386 of wastewater plant mistakenly misclassified in the rate  
2 application as post test year plant-in-service to test year plant-in-service.

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

5           8.       Including imputed income tax expense in the Company's revenue requirement if  
6 authorized in Docket No. W-00000C-06-0149.

7           At the procedural conference held April 12, 2011, the administrative law judge ordered  
8 Johnson Utilities to make a filing on or before June 1, 2011 addressing the following three  
9 items:

- 10           •       What is the rate impact of each of the eight requests in the Company's  
11           §40-252 petition.  
12           •       Must the Company give notice of the §40-252 petition to its customers,  
13           and if so, what type of notice should be provided.  
14           •       A proposed procedure for the §40-252 proceeding, including whether a  
15           hearing is required and whether witnesses are necessary, including expert  
16           witnesses.

15           Each of these items is address below.

16 I.       **RATE IMPACTS.**

17           A set of schedules showing the rate impacts of items 2, 3, 6 and 7 above are set forth in  
18 Attachment 1, and are summarized in the following table below. The proposed revisions to  
19 Decision 71854 assume a weighted average cost of capital of 10.04%, which is the midpoint  
20 between the weighted average cost of capital of 8.18% proposed by Johnson Utilities during the  
21 rate case and the weighed average cost of capital of 11.89% proposed by the Residential Utility  
22 Consumer Office. Johnson Utilities has not calculated the impact of imputing income tax  
23 expense because the issue of whether such imputed income taxes will be allowed for limited  
24 liability companies and subchapter S corporations, as well as the methodology for calculating  
25 such taxes, is being addressed in the water workshops (Docket W-00000C-06-0149). In its §40-  
26 252 Petition, Johnson Utilities stated that the Company will abide by the outcome of the water  
27 workshops on the issue of imputed income tax expense, and requested that the Commission  
28 issue an order consistent with Decision 72177 (Docket W-03718A-09-0359) which would

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

RATE IMPACTS			
		WATER	SEWER
1	Change sewer late fee from \$40/month to 1.5%/month	Not Applicable	No impact
2.a	Add back \$10,892,391 in disallowed sewer plant for alleged inadequately supported sewer plant costs	Not Applicable	\$1,520,854 <u>increase</u> to revenue requirement <sup>1</sup>
2.b	Add back \$7,352,364 in disallowed sewer plant for alleged affiliate profit associated with affiliate-constructed sewer plant	Not Applicable	\$1,026,479 <u>increase</u> to revenue requirement <sup>2</sup>
3	Remove from rate base \$6,931,078 in unexpended water hook-up fees	\$906,303 <u>increase</u> to revenue requirement <sup>3</sup>	Not applicable
4	Reinstate Hook-Up Fee Tariff for water and sewer	No impact	No impact
5	Increase 3% operating margin to 10.04% rate of return	Addressed in other columns	Addressed in other columns
6	Reclassify \$2,201,386 of wastewater plant mistakenly misclassified in the rate application as post test year plant-in-service to test year plant-in-service	Not Applicable	\$8,247 <u>decrease</u> to revenue requirement <sup>4</sup>
7	Add \$1,021,076 of post test year wastewater plant which is necessary to serve the test year-end level of sewer customers	Not Applicable	\$21,430 <u>decrease</u> to revenue requirement <sup>5</sup>
8	Allow imputed income tax expense	Pending decision in Docket W-00000C-06-0149	Pending decision in Docket W-00000C-06-0149

1 Based upon a normalization of Decision 71854, which assumes a 10.04% average weighted cost of capital and utilizes the rate base revenues and expenses of Decision 71854.

2 Based upon a normalization of Decision 71854, which assumes a 10.04% average weighted cost of capital and utilizes the rate base revenues and expenses of Decision 71854.

3 Based upon a normalization of Decision 71854, which assumes a 10.04% average weighted cost of capital and utilizes the rate base revenues and expenses of Decision 71854.

4 Based upon a normalization of Decision 71854, which assumes a 10.04% average weighted cost of capital and utilizes the rate base revenues and expenses of Decision 71854.

5 Based upon a normalization of Decision 71854, which assumes a 10.04% average weighted cost of capital and utilizes the rate base revenues and expenses of Decision 71854.



- 1 Copy of the foregoing hand-delivered  
2 this 1st day of June, 2011, to:
- 3 Teena Jibilian, Administrative Law Judge  
4 Hearing Division  
5 ARIZONA CORPORATION COMMISSION  
6 1200 West Washington Street  
7 Phoenix, Arizona 85007
- 8 Janice Alward, Chief Counsel  
9 Legal Division  
10 ARIZONA CORPORATION COMMISSION  
11 1200 West Washington Street  
12 Phoenix, Arizona 85007
- 13 Steve Olea, Director  
14 Utilities Division  
15 ARIZONA CORPORATION COMMISSION  
16 1200 West Washington Street  
17 Phoenix, Arizona 85007
- 18 Daniel W. Pozefsky, Chief Counsel  
19 RESIDENTIAL UTILITY CONSUMER OFFICE  
20 1110 W. Washington Street, Suite 220  
21 Phoenix, Arizona 85007
- 22 COPY of the foregoing sent via e-mail and first  
23 class mail this 1st day of June, 2011, to:
- 24 Mr. James E. Mannato  
25 Town Attorney  
26 P.O. Box 2670  
27 775 North Main Street  
28 Florence, Arizona 85232-2670
- 29 Mr. Craig A. Marks  
30 Craig A. Marks, PLC  
31 10645 North Tatum Boulevard, Suite 200-676  
32 Phoenix, Arizona 85028



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# **Attachment 1**

Johnson Utilities - Wastewater Division  
Docket No. W-02987A-08-0180  
Comparison of Decision and 40-252 Requests (without Income Taxes)  
Item 2(a) Adding back \$10,892,391 for alleged inadequately supported plant

	[A] Decision	[B] Normalized Decision	[C] 40-252 Requests	[D] = [C] - [B] Change
Plant-in-service (PIS)	\$ 95,566,589	\$ 95,566,589	\$ 106,458,980	\$ 10,892,391
Accumulated Depreciation	(6,375,814)	(6,375,814)	(7,039,208)	(663,393)
Net PIS	\$ 89,190,775	\$ 89,190,775	\$ 99,419,772	\$ 10,228,997
AIAC	(52,231,631)	(52,231,631)	(52,231,631)	-
CIAC, net	(36,822,583)	(36,822,583)	(36,822,583)	-
Rate Base	\$ 136,561	\$ 136,561	\$ 10,365,558	\$ 10,228,997
Test year Revenue	\$ 11,354,014	\$ 11,354,014	\$ 11,354,014	\$ -
Operating Expense (Except Taxes and Depreciation)	6,478,090	6,478,090	6,478,090	-
Depreciation	2,212,891	2,212,891	2,674,015	461,124
Property Taxes	741,290	741,290	741,290	-
Income Taxes (reflects interest synchronization)	-	-	-	-
Total Operating Expenses	\$ 9,432,270	\$ 9,432,270	\$ 9,893,395	\$ 461,124
Operating Income (Loss)	\$ 1,921,744	\$ 1,921,744	\$ 1,460,619	\$ (461,124)
	OM	ROR	ROR	
Required Operating Margin/ROR	3.00%	10.04%	10.04%	
Required Operating Income	\$ 290,610	\$ 13,711	\$ 1,040,702	\$ 1,026,991
Operating Income Deficiency	\$ (1,631,134)	\$ (1,908,033)	\$ (419,917)	\$ 1,488,116
Tax Gross-up Factor	1.0220	1.0220	1.0220	
Gross Revenue Increase (Decrease)	\$ (1,667,018)	\$ (1,950,010)	\$ (429,156)	\$ 1,520,854
Adjusted Test Year Revenue	\$ 11,354,014	\$ 11,354,014	\$ 11,354,014	\$ -
Required Annual Increase	\$ (1,667,018)	\$ (1,950,010)	\$ (429,156)	\$ 1,520,854
Annual Revenue	\$ 9,686,996	\$ 9,404,004	\$ 10,924,859	\$ 1,520,854
Percentage Increase (Decrease)	-14.68%	-17.17%	-3.78%	13.39%
<u>Impact on 3/4 Inch Residential Bill from Normalized Rate</u>				
Average 3/4 Inch Residential Bill	\$ 32.79	\$ 31.89	\$ 36.16	\$ 4.27
Impact from current rate [E]=[C]-[A]	\$ 3.37			

Weighted Average Cost of Capital

	%	Cost	Wtd Cost
Debt	2.79%	8.00%	0.22%
Equity	97.21%	10.10%	9.82%
			10.04% Mid-point of range 8.18% to 11.89%

	[A] Decision	[B] Normalized Decision	[C] 40-252 Requests	[D] = [C] - [B] Change
Plant-in-service (PIS)	\$ 95,566,589	\$ 95,566,589	\$ 102,918,953	\$ 7,352,364
Accumulated Depreciation	(6,375,814)	(6,375,814)	(6,823,605)	(447,791)
Net PIS	\$ 89,190,775	\$ 89,190,775	\$ 96,095,348	\$ 6,904,573
AIAC	(52,231,631)	(52,231,631)	(52,231,631)	-
CIAC, net	(36,822,583)	(36,822,583)	(36,822,583)	-
Rate Base	\$ 136,561	\$ 136,561	\$ 7,041,134	\$ 6,904,573
Test year Revenue	\$ 11,354,014	\$ 11,354,014	\$ 11,354,014	\$ -
Operating Expense (Except Taxes and Depreciation)	6,478,090	6,478,090	6,478,090	-
Depreciation	2,212,891	2,212,891	2,524,054	311,163
Property Taxes	741,290	741,290	741,290	-
Income Taxes (reflects interest synchronization)	-	-	-	-
Total Operating Expenses	\$ 9,432,270	\$ 9,432,270	\$ 9,743,434	\$ 311,163
Operating Income (Loss)	\$ 1,921,744	\$ 1,921,744	\$ 1,610,580	\$ (311,163)
Required Operating Margin/ROR	OM 3.00%	ROR 10.04%	ROR 10.04%	
Required Operating Income	\$ 290,610	\$ 13,711	\$ 706,930	\$ 693,219
Operating Income Deficiency	\$ (1,631,134)	\$ (1,908,033)	\$ (903,651)	\$ 1,004,382
Tax Gross-up Factor	1.0220	1.0220	1.0220	
Gross Revenue Increase (Decrease)	\$ (1,667,018)	\$ (1,950,010)	\$ (923,531)	\$ 1,026,479
Adjusted Test Year Revenue	\$ 11,354,014	\$ 11,354,014	\$ 11,354,014	\$ -
Required Annual Increase	\$ (1,667,018)	\$ (1,950,010)	\$ (923,531)	\$ 1,026,479
Annual Revenue	\$ 9,686,996	\$ 9,404,004	\$ 10,430,483	\$ 1,026,479
Percentage Increase (Decrease)	-14.68%	-17.17%	-8.13%	9.04%
Impact on 3/4 Inch Residential Bill from Normalized Rate				
Average 3/4 Inch Residential Bill	\$ 32.79	\$ 31.89	\$ 34.77	\$ 2.88
Impact from current rate [E]=[C]-[A]	\$ 1.98			

Weighted Average Cost of Capital

	%	Cost	Wtd Cost
Debt	2.79%	8.00%	0.22%
Equity	97.21%	10.10%	9.82%
			10.04% Mid-point of range 8.18% to 11.89%

Docket No. W-02987A-08-0180

Comparison of Decision and 40-252 Requests (without Income Taxes)

Item 6 Reclassifying \$2,201,386 of post test year plant-in-service to test year plant-in-service

	[A] Decision	[B] Normalized Decision	[C] 40-252 Requests	[D] = [C] - [B] Change
Plant-in-service (PIS)	\$ 95,566,589	\$ 95,566,589	\$ 97,767,976	\$ 2,201,387
Accumulated Depreciation	(6,375,814)	(6,375,814)	(6,403,332)	(27,517)
Net PIS	<u>\$ 89,190,775</u>	<u>\$ 89,190,775</u>	<u>\$ 91,364,644</u>	<u>\$ 2,173,870</u>
AIAC	(52,231,631)	(52,231,631)	(52,231,631)	-
CIAC, net	(36,822,583)	(36,822,583)	(38,968,935)	(2,146,352)
Rate Base	<u>\$ 136,561</u>	<u>\$ 136,561</u>	<u>\$ 164,078</u>	<u>\$ 27,517</u>
Test year Revenue	\$ 11,354,014	\$ 11,354,014	\$ 11,354,014	\$ -
Operating Expense (Except Taxes and Depreciation)	6,478,090	6,478,090	6,478,090	-
Depreciation	2,212,891	2,212,891	2,202,058	(10,833)
Property Taxes	741,290	741,290	741,290	-
Income Taxes (reflects interest synchronization)	-	-	-	-
Total Operating Expenses	<u>\$ 9,432,270</u>	<u>\$ 9,432,270</u>	<u>\$ 9,421,438</u>	<u>\$ (10,833)</u>
Operating Income (Loss)	<u>\$ 1,921,744</u>	<u>\$ 1,921,744</u>	<u>\$ 1,932,576</u>	<u>\$ 10,833</u>
Required Operating Margin/ROR	OM 3.00%	ROR 10.04%	ROR 10.04%	
Required Operating Income	\$ 290,610	\$ 13,711	\$ 16,473	\$ 2,763
Operating Income Deficiency	\$ (1,631,134)	\$ (1,908,033)	\$ (1,916,103)	\$ (8,070)
Tax Gross-up Factor	1.0220	1.0220	1.0220	
Gross Revenue Increase (Decrease)	\$ (1,667,018)	\$ (1,950,010)	\$ (1,958,257)	\$ (8,247)
Adjusted Test Year Revenue	\$ 11,354,014	\$ 11,354,014	\$ 11,354,014	\$ -
Required Annual Increase	<u>\$ (1,667,018)</u>	<u>\$ (1,950,010)</u>	<u>\$ (1,958,257)</u>	<u>\$ (8,247)</u>
Annual Revenue	<u>\$ 9,686,996</u>	<u>\$ 9,404,004</u>	<u>\$ 9,395,757</u>	<u>\$ (8,247)</u>
Percentage Increase (Decrease)	-14.68%	-17.17%	-17.25%	-0.07%
<u>Impact on 3/4 Inch Residential Bill from Normalized Rate</u>				
Average 3/4 Inch Residential Bill	\$ 32.79	\$ 31.89	\$ 31.86	\$ (0.02)
Impact from current rate [E]=[C]-[A]	<u>\$ (0.93)</u>			

Weighted Average Cost of Capital

	%	Cost	Wtd Cost
Debt	2.79%	8.00%	0.22%
Equity	97.21%	10.10%	9.82%
			<u>10.04%</u> Mid-point of range 8.18% to 11.89%

	[A] Decision	[B] Normalized Decision	[C] 40-252 Requests	[D] = [C] - [B] Change
Plant-in-service (PIS)	\$ 95,566,589	\$ 95,566,589	\$ 96,587,697	\$ 1,021,108
Accumulated Depreciation	(6,375,814)	(6,375,814)	(6,375,814)	-
Net PIS	<u>\$ 89,190,775</u>	<u>\$ 89,190,775</u>	<u>\$ 90,211,883</u>	<u>\$ 1,021,108</u>
AIAC	(52,231,631)	(52,231,631)	(52,231,631)	-
CIAC, net	(36,822,583)	(36,822,583)	(37,818,163)	(995,580)
Rate Base	<u>\$ 136,561</u>	<u>\$ 136,561</u>	<u>\$ 162,089</u>	<u>\$ 25,528</u>
Test year Revenue	\$ 11,354,014	\$ 11,354,014	\$ 11,354,014	\$ -
Operating Expense (Except Taxes and Depreciation)	6,478,090	6,478,090	6,478,090	-
Depreciation	2,212,891	2,212,891	2,189,359	(23,531)
Property Taxes	741,290	741,290	741,290	-
Income Taxes (reflects interest synchronization)	-	-	-	-
Total Operating Expenses	<u>\$ 9,432,270</u>	<u>\$ 9,432,270</u>	<u>\$ 9,408,739</u>	<u>\$ (23,531)</u>
Operating Income (Loss)	<u>\$ 1,921,744</u>	<u>\$ 1,921,744</u>	<u>\$ 1,945,275</u>	<u>\$ 23,531</u>
Required Operating Margin/ROR	OM 3.00%	ROR 10.04%	ROR 10.04%	
Required Operating Income	\$ 290,610	\$ 13,711	\$ 16,274	\$ 2,563
Operating Income Deficiency	\$ (1,631,134)	\$ (1,908,033)	\$ (1,929,001)	\$ (20,968)
Tax Gross-up Factor	1.0220	1.0220	1.0220	
Gross Revenue Increase (Decrease)	\$ (1,667,018)	\$ (1,950,010)	\$ (1,971,439)	\$ (21,430)
Adjusted Test Year Revenue	\$ 11,354,014	\$ 11,354,014	\$ 11,354,014	\$ -
Required Annual Increase	<u>\$ (1,667,018)</u>	<u>\$ (1,950,010)</u>	<u>\$ (1,971,439)</u>	<u>\$ (21,430)</u>
Annual Revenue	<u>\$ 9,686,996</u>	<u>\$ 9,404,004</u>	<u>\$ 9,382,575</u>	<u>\$ (21,430)</u>
Percentage Increase (Decrease)	-14.68%	-17.17%	-17.36%	-0.19%
<u>Impact on 3/4 Inch Residential Bill from Normalized Rate</u>				
Average 3/4 Inch Residential Bill	\$ 32.79	\$ 31.89	\$ 31.83	\$ (0.06)
Impact from current rate [E]=[C]-[A]	<u>\$ (0.96)</u>			

Weighted Average Cost of Capital

	%	Cost	Wtd Cost
Debt	2.79%	8.00%	0.22%
Equity	97.21%	10.10%	9.82%
			<u>10.04%</u> Mid-point of range 8.18% to 11.89%

Johnson Utilities - Wastewater Division

Docket No. W-02987A-08-0180

Comparison of Decision and 40-252 Requests (without Income Taxes)

Item 2(a) Adding back \$10,892,391 for alleged inadequately supported plant

Item 2(b) Adding back \$7,352,364 for affiliate profit

	[A]	[B]	[C]	[D] = [C] - [B]
	<u>Decision</u>	<u>Normalized Decision</u>	<u>40-252 Requests</u>	<u>Change</u>
Plant-in-service (PIS)	\$ 95,566,589	\$ 95,566,589	\$ 113,811,344	\$ 18,244,755
Accumulated Depreciation	(6,375,814)	(6,375,814)	(7,486,998)	(1,111,184)
Net PIS	\$ 89,190,775	\$ 89,190,775	\$ 106,324,345	\$ 17,133,571
AIAC	(52,231,631)	(52,231,631)	(52,231,631)	-
CIAC, net	(36,822,583)	(36,822,583)	(36,822,583)	-
Rate Base	\$ 136,561	\$ 136,561	\$ 17,270,132	\$ 17,133,571
Test year Revenue	\$ 11,354,014	\$ 11,354,014	\$ 11,354,014	\$ -
Operating Expense (Except Taxes and Depreciation)	6,478,090	6,478,090	6,478,090	-
Depreciation	2,212,891	2,212,891	2,985,719	772,828
Property Taxes	741,290	741,290	741,290	-
Income Taxes (reflects interest synchronization)	-	-	-	-
Total Operating Expenses	\$ 9,432,270	\$ 9,432,270	\$ 10,205,099	\$ 772,828
Operating Income (Loss)	\$ 1,921,744	\$ 1,921,744	\$ 1,148,915	\$ (772,828)
	OM	ROR	ROR	
Required Operating Margin/ROR	3.00%	10.04%	10.04%	
Required Operating Income	\$ 290,610	\$ 13,711	\$ 1,733,921	\$ 1,720,210
Operating Income Deficiency	\$ (1,631,134)	\$ (1,908,033)	\$ 585,006	\$ 2,493,039
Tax Gross-up Factor	1.0220	1.0220	1.0220	
Gross Revenue Increase (Decrease)	\$ (1,667,018)	\$ (1,950,010)	\$ 597,876	\$ 2,547,886
Adjusted Test Year Revenue	\$ 11,354,014	\$ 11,354,014	\$ 11,354,014	\$ -
Required Annual Increase	\$ (1,667,018)	\$ (1,950,010)	\$ 597,876	\$ 2,547,886
Annual Revenue	\$ 9,686,996	\$ 9,404,004	\$ 11,951,890	\$ 2,547,886
Percentage Increase (Decrease)	-14.68%	-17.17%	5.27%	22.44%
<u>Impact on 3/4 Inch Residential Bill from Normalized Rate</u>				
Average 3/4 Inch Residential Bill	\$ 32.79	\$ 31.89	\$ 39.04	\$ 7.16
Impact from current rate [E]=[C]-[A]	\$ 6.25			

Weighted Average Cost of Capital

	%	Cost	Wtd Cost
Debt	2.79%	8.00%	0.22%
Equity	97.21%	10.10%	9.82%
			10.04% Mid-point of range 8.18% to 11.89%

Johnson Utilities - Wastewater Division  
Docket No. W-02987A-08-0180  
Comparison of Decision and 40-252 Requests (without Income Taxes)  
All Wastewater Division Items

	[A]	[B]	[C]	[D] = [C] - [B]
	<u>Decision</u>	<u>Normalized Decision</u>	<u>40-252 Requests</u>	<u>Change</u>
Plant-in-service (PIS)	\$ 95,566,589	\$ 95,566,589	\$ 117,033,839	\$ 21,467,250
Accumulated Depreciation	(6,375,814)	(6,375,814)	(7,514,516)	(1,138,701)
Net PIS	\$ 89,190,775	\$ 89,190,775	\$ 109,519,323	\$ 20,328,548
AIAC	(52,231,631)	(52,231,631)	(52,231,631)	-
CIAC, net	(36,822,583)	(36,822,583)	(39,964,515)	(3,141,933)
Rate Base	\$ 136,561	\$ 136,561	\$ 17,323,177	\$ 17,186,616
Test year Revenue	\$ 11,354,014	\$ 11,354,014	\$ 11,354,014	\$ -
Operating Expense (Except Taxes and Depreciation)	6,478,090	6,478,090	6,478,090	-
Depreciation	2,212,891	2,212,891	2,949,738	736,847
Property Taxes	741,290	741,290	741,290	-
Income Taxes (reflects interest synchronization)	-	-	-	-
Total Operating Expenses	\$ 9,432,270	\$ 9,432,270	\$ 10,169,118	\$ 736,847
Operating Income (Loss)	\$ 1,921,744	\$ 1,921,744	\$ 1,184,897	\$ (736,847)
Required Operating Margin/ROR	OM 3.00%	ROR 10.04%	ROR 10.04%	ROR 10.04%
Required Operating Income	\$ 290,610	\$ 13,711	\$ 1,739,247	\$ 1,725,536
Operating Income Deficiency	\$ (1,631,134)	\$ (1,908,033)	\$ 554,350	\$ 2,462,383
Tax Gross-up Factor	1.0220	1.0220	1.0220	
Gross Revenue Increase (Decrease)	\$ (1,667,018)	\$ (1,950,009)	\$ 566,546	\$ 2,516,555
Adjusted Test Year Revenue	\$ 11,354,014	\$ 11,354,014	\$ 11,354,014	\$ -
Required Annual Increase	\$ (1,667,018)	\$ (1,950,009)	\$ 566,546	\$ 2,516,555
Annual Revenue	\$ 9,686,996	\$ 9,404,005	\$ 11,920,560	\$ 2,516,555
Percentage Increase (Decrease)	-14.68%	-17.17%	4.99%	22.16%
<u>Impact on 3/4 Inch Residential Bill from Normalized Rate</u>				
Average 3/4 Inch Residential Bill	\$ 32.79	\$ 31.89	\$ 38.96	\$ 7.07
Impact from current rate [E]=[C]-[A]	\$ 6.17			

Weighted Average Cost of Capital

	%	Cost	Wtd Cost
Debt	2.79%	8.00%	0.22%
Equity	97.21%	10.10%	9.82%
			10.04% Mid-point of range 8.18% to 11.89%

Johnson Utilities - Water Division  
Docket No. W-02987A-08-0180  
Comparison of Decision and 40-252 Requests (without Income Taxes)  
Item 3 Removing \$6,931,078 in unexpended test year hook-up fees from CIAC

	[A] <u>Decision</u>	[B] Normalized <u>Decision</u>	[C] 40-252 <u>Requests</u>	[D] = [C] - [B] <u>Change</u>
Plant-in-service (PIS)	\$ 74,337,067	\$ 74,337,067	\$ 74,337,067	\$ -
Accumulated Depreciation	(5,972,155)	(5,972,155)	(5,972,155)	-
Net PIS	\$ 68,364,912	\$ 68,364,912	\$ 68,364,912	\$ -
AIAC	(36,519,048)	(36,519,048)	(36,519,048)	-
CIAC, net	(27,480,707)	(27,480,707)	(20,549,629)	6,931,078
Meter and Service Line Advances	(6,779,771)	(6,779,771)	(6,779,771)	-
Rate Base	\$ (2,414,613)	\$ (2,414,613)	\$ 4,516,464	\$ 6,931,078
Test year Revenue	\$ 13,172,899	\$ 13,172,899	\$ 13,172,899	\$ -
Operating Expense (Except Taxes and Depreciation)	7,482,245	7,482,245	7,482,245	-
Depreciation	1,225,997	1,225,997	1,417,066	191,069
Property Taxes	845,062	845,062	845,062	-
Income Taxes (reflects interest synchronization)	-	-	-	-
Total Operating Expenses	\$ 9,553,304	\$ 9,553,304	\$ 9,744,373	\$ 191,069
Operating Income (Loss)	\$ 3,619,595	\$ 3,619,595	\$ 3,428,526	\$ (191,069)
Required Operating Margin/ROR	OM 3.00%	ROR 10.04%	ROR 10.04%	
Required Operating Income	\$ 293,218	\$ (242,427)	\$ 453,453	\$ 695,880
Operating Income Deficiency	\$ (3,326,377)	\$ (3,862,022)	\$ (2,975,073)	\$ 886,949
Tax Gross-up Factor	1.0218	1.0218	1.0218	
Gross Revenue Increase (Decrease)	\$ (3,398,960)	\$ (3,946,293)	\$ (3,039,991)	\$ 906,303
Adjusted Test Year Revenue	\$ 13,172,899	\$ 13,172,899	\$ 13,172,899	\$ -
Required Annual Increase	\$ (3,398,960)	\$ (3,946,293)	\$ (3,039,991)	\$ 906,303
Annual Revenue	\$ 9,773,939	\$ 9,226,605	\$ 10,132,908	\$ 906,303
Percentage Increase (Decrease)	-25.80%	-29.96%	-23.08%	6.88%
<u>Impact on 3/4 Inch Residential Bill from Normalized Rate</u>				
Average 3/4 Inch Residential Bill	\$ 29.81	\$ 29.84	\$ 31.89	\$ 2.05
Impact from current rate [E]=[C]-[A]	\$ 2.08			

Weighted Average Cost of Capital

	%	Cost	Wtd Cost
Debt	2.79%	8.00%	0.22%
Equity	97.21%	10.10%	9.82%
			10.04% Mid-point of range 8.18% to 11.89%

# **Attachment 2**

## WE'RE WATCHING YOUR WATER & YOU SHOULD TOO!

Johnson Utilities is VERY concerned about the FLORENCE COPPER PROJECT! Water contamination is at the top of our list of problems with this project, but we have many other objections.

Curis Resources Ltd. proposes an 1182 acre "in-situ" COPPER MINING OPERATION on property surrounded by residential uses in the Merrill Ranch/Anthem master planned community. This project is just 2 MILES from homes, wells, and schools and only 1000 feet from a future drinking water well!

We are looking into and still waiting for answers from Curis to our questions about possible soil contamination, environmental pollution, reduced property values and tax payer liabilities. There are many issues we demand facts about.

VISIT [www.johnsonutilities.com](http://www.johnsonutilities.com) often for more information on this matter.

Visit [www.protectourwaterourfuture.com](http://www.protectourwaterourfuture.com) NOW for facts on what could happen to your water supply and how you can get involved.

Send comments/concerns to: [ellenmbabbitt@gmail.com](mailto:ellenmbabbitt@gmail.com) or call Ellen at (480) 707-3955.

## Community Meeting Announcement for June 9th

Citizen Involvement is the Key to Change

The San Tan Valley Villages are bringing together residents who have a desire to improve and maintain the quality of life in our community. You are invited to attend our next meeting and learn more about our mission . . . and how, together, we can make a difference. The future of San Tan Valley will be shaped by those of us who care about our neighborhoods and are willing to take action to plan, promote and manage the factors that impact our families. Our guest speaker at our next meeting will be Mr. Fritz Behring, Pinal County Manager. Please join us as we learn from Mr. Behring how we can effectively partner with our County government to achieve our common objectives.

**Michael Timm, Chair – Pinal County Taxpayers' Association** Date: Thursday, June 9, 2011 Time: 6:30 p.m.

Location: Central Arizona College

2474 E. Hunt Highway, Suite 100 (behind Barro's Pizza)

Please respond to: Ellen Babbitt (480) 707-3955 / [ebabbitt@pcta.org](mailto:ebabbitt@pcta.org) or Michael Timm [mtimm@azpcta.org](mailto:mtimm@azpcta.org)

Sponsored by the Pinal County Taxpayers' Association – [www.azpcta.org](http://www.azpcta.org)



**Prevent Drowning - Block, Watch, and Learn**

**Arizona has the highest child-drowning rate in the US.**

**Don't put our children in danger!**

Johnson Utilities, Johnson Community Library, YMCA, CPR Pro's, Leslie's Pool Supplies, and Drowning Prevention Coalition of Arizona have teamed up to make our community aware of the dangers of children and water.

The YMCA provides a variety of water safety classes to help families and children learn good water safety practices designed to help prepare for life-threatening emergencies. Be a part of creating a more aware healthier, better prepared community by signing up for one of the water safety classes.

With many life-threatening emergencies happening in or around the pool area, it's more important than ever to be prepared in case you're confronted with an emergency. Being prepared can avert tragedy and minimize the possibility of injury or death.

Tragically, 16 deaths, including 7 of them being children, have resulted from 43 water related incidents this year, and we are just getting started. Drowning is the leading cause of death for children ages 1 to 4 in Arizona. Johnson Utilities and the Johnson Community Library have been provided literature to share with the community. Please stop by Johnson Utilities or the library located at 968-1 E Hunt Hwy and pick up a free Drowning Prevention Packet.

Leslies Pools has provided a coupon to help save money on ALL pool safety products valid at any of their 54 valley wide locations. (Coupon on page 2 of this newsletter) Visit [www.johnsonutilities.com](http://www.johnsonutilities.com) to learn more.

## Did you know?

### Monthly Statements

Everyone is mailed a bill through the United States Postal Service. If a Johnson Utilities monthly statement is not received please contact customer service and have another one sent to you. Please Note: Johnson Utilities statements are mailed out the last week of every month. For example: January's bills are mailed out the last week of December and are due January 15th. Residential, Commercial, and Builder's are all accounted for when leaving the Johnson Utilities Office. Johnson Utilities has no control OR can not be held responsible for the whereabouts of your statement once they are picked up by USPS and leaves our facility. You are still responsible for your monthly bill. Johnson Utilities Water/Waste Water statements are billed on a monthly basis and are due on the 15th of every month.

### E-Bill

E-Bill enables you to access your monthly electric bill from the Internet using any available web browser. The Johnson Utilities monthly statement is emailed to the email address you provide and access is available 24 hours per day, 7 days per week. Visit [www.johnsonutilities.com](http://www.johnsonutilities.com) and simply click on MY ACCOUNT to sign up today.

### EFT (Electronic Funds Transfer)

Electronic Funds Transfer, often called EFT, is a payment method that replaces sending a paper check. Your monthly balance will be withdrawn on the 15th of every month automatically. You no longer have to worry about whether your payment made it through the mail on time. Registration for EFT is a simple one-time process. In order to have your funds deducted electronically from your checking account you will have to provide us with a Voided Check and an EFT Form you can conveniently download online.

### Online Payment

The PAY ONLINE option allows customers to pay their Johnson utility bill with Visa, Mastercard, or Discover. Online payments are processed (takes up to 3 days) through Authorized.net and there is a fee (\$1.00) for this service. HOWEVER you can not make a payment online if your account. 1. Received a Disconnect Notice. 2. Your account is about to be disconnected. 3. Your account has been disconnected due to delinquency. Please visit our FAQ's online for more information.

### Pay in Person

Johnson Utilities is located at 968 E Hunt Hwy. Our lobby hours are Monday-Friday 8AM-4:45PM. We gladly accept payments during these business hours. Please bring your Johnson Utilities statement for faster service.

### Pay over the phone

We gladly accept Visa, Mastercard, and Discover Payments over the phone. You may call 480-987-9870 Monday-Friday 8AM-4:45PM to make a payment to your account. Please have your Johnson Utilities account number available to ensure faster service. Please note that there is a longer on hold time on the 15th of the month.

## JOHNSON UTILITIES SUMMER POOL SAFETY TIPS!

### Block

- Make sure your pool or spa has an effective barrier, such as a fence to help guard against unauthorized access.
- Your pool or spa should have a barrier regardless of whether they are covered.
- Door and windows leading to the pool areas should be locked.
- Fence gates should have self-closing, self-latching mechanisms. Latches need to be out of reach of young children.

### Watch

- Never leave your child unattended in or near a swimming pool, hot tub, spa, not even for a second.
- Keep toys, tricycles, and other children's play things away from the pool or spa.
- Don't consider your children to be "drownproof" because they have taken swimming lessons.
- Don't allow barriers, such as fences or walls, give you a false sense of security regarding your child's safety. There is No substitute for adult supervision.

### Learn

- Learn how to administer CPR, mouth-to-mouth resuscitation, and other lifesaving techniques. To administer CPR correctly you must be properly trained.
- Know how to contact your local emergency medical services. Install a phone or keep a cordless phone in the pool or spa area. Post the emergency number in an easy to see place.
- Learn to swim and teach age appropriate children to swim.

### Other Pool Safety Tips

- Do not allow children to play in or around the pool area.
- Mount life saving devices near the pool.
- Keep tables, chairs and ladders away from pool fences.
- Check placement of doggie doors for direct access to pool area.
- Post your local emergency number on the phone. Think about installing a phone near the pool area.

If you find a child in any source of water...

- Yell for help and pull the child out of the water.
- Call 9-1-1 or your local emergency number immediately!
- Begin CPR if you are trained.
- If you are not trained to administer CPR, follow the instructions from the 9-1-1 operator until help arrives.

Adult supervision is the best approach in the prevention of drowning



**CPR PROS**  
"We're Here For Life"

**SUMMER IS COMING,  
LEARN CPR AND SAVE A LIFE!**

CPR Pros will be holding a CPR/First Aid Class Saturday June 18th from 10:30 am to 1:30 pm in the community room of the Central Arizona College San Tan campus located in the strip mall plaza off Hunt Highway/Coppermine Road in Copper Basin/San Tan Valley. Space is limited so reserve your spot today! Contact CPR Pros at 602-717-6193 or visit us on the web at

[www.cprpros.net](http://www.cprpros.net) LEARN CPR AND SAVE A LIFE!!!

# LESLIE'S SWIMMING POOL SUPPLIES.

[lesliespool.com](http://lesliespool.com)

Make your pool experience safer this summer with offers on: Safety Fences, Door Alarms, Floatation Devices, Pool Alarms and More!

Visit any of our 54 Valley wide locations and receive **10% off** important pool safety products.

Pool Care Made Easy

**10% Off**  
All Pool Safety Products

Offer Ends July 31, 2011



1000001913

Offer expires 07/31/11. Discount cannot be combined with other offers. Other restrictions may apply. See store for details. © 2011 Leslie's Poolmart, Inc.

## Johnson Utilities Submits Request to Modify Rate Case Decision

On August 25, 2010, the Arizona Corporation Commission ("Commission") issued Decision 71854 which substantially reduced the water and sewer rates of Johnson Utilities ("Company"), retroactive to June 1, 2010. The Company believes there are a number of erroneous findings of fact and conclusions of law in the decision, and that the current authorized rates and charges do not allow the Company to earn a just and reasonable return as legally required by the Arizona Constitution. In fact, Johnson Utilities is now operating at a loss as a result of the rates and charges approved in Decision 71854. While customers should rightly expect that the Company will operate prudently and efficiently in order to keep rates and charges at the lowest reasonable levels, the rates and charges approved in Decision 71854 place the Company in financial jeopardy, which is contrary to the best interests of the Company's customers. Therefore, the Company has filed a petition with the Commission to amend Decision 71854 as follows:

- Changing the \$40 per month late fee in the 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. It should be noted that the Company did not propose the \$40 later charge, and its inclusion by the Commission in the final authorized rates and charges was presumably a simple mistake.
- Adding back into rate base \$18,244,755 of wastewater plant which was improperly removed from rate base. The removal of the wastewater plant from rate base was based upon unwarranted, arbitrary and inconsistent adjustments proposed by Commission staff.
- Removing from rate base \$6,931,078 in unexpended test year hook-up fees ("HUFs"). Since issuing Decision 71854, the Commission has reversed its policy regarding the exclusion of unexpected HUFs from rate base, and has excluded unexpended HUFs in another utility rate case. The Company should be treated the same.
- Reinstating the Company's previously authorized hook-up fees for new water and sewer connections. By so doing, new development will pay its proportionate share of the cost of new utility infrastructure, as opposed to requiring existing customers to subsidize the cost of new utility infrastructure to serve new development.
- Establishing a rate of return for the Company based upon its weighted average cost of capital. Because of large reductions to the Company's rate base in Decision 71854, the Company has a negative rate base for its combined water and wastewater divisions. As a result, the Commission established a minimal operating margin as opposed to a rate of return. The Company is legally entitled to a reasonable rate of return.
- Reclassifying \$2,201,386 of wastewater plant erroneously classified as post test-year wastewater plant in the rate case application to test year plant-in-service.
- 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.
- Including imputed income tax expense in the Company's revenue requirement if approved in Generic Docket W-00000C-06-0149 where the issue is being considered.

The amendments to Decision 71854 described above are necessary to ensure the continued financial viability of the Company. If you have questions regarding the Company's petition, please contact us at 480-987-9870 or via the Internet at [customerservice@johnsonutilities.com](mailto:customerservice@johnsonutilities.com).



### Students Learn the Hazards of Driving Under the Influence Mountain Vista Middle School

The eighth grade Mountain Vista Middle School students had the tremendous opportunity to participate in a simulated Driving Under The Influence Activity. Deputy Delicia Randall, the school's resource officer, brought in the Pinal County Sheriff's Golf Cart and the goggles that simulate how dangerous it is to drive under the influence of alcohol or other drugs. A course was set up on campus using orange cones and a golf cart. The principal went first to demonstrate sober driving and then the students chose the fatally impaired goggles for her to wear; each cone hit represents a life and/or damage to property. The students then got to try the simulation under the supervision of their teacher and the School Resource Officer, Deputy Delicia Randall. This was a great way to end their unit on drug and alcohol abuse with a "hands on" activity that they had the opportunity to debrief following the exercise. We would like to thank the Pinal County Sheriff's Office for making

### The Coolidge Unified School Dist. announces the sponsorship of the Summer Food Service Program for Children.

Meals will be made available free to all children 1-18 years of age within the approved geographical area. Listed below are the dates, times and locations meals will be provided:

Date applies to all sites. 5/31/11 - 7/1/11 and 7/11/11 - 7/29/11  
Breakfast 7:30am-8:30am., Lunch 11 :00am -1 :00pm

San Tan Heights Elementary 2500 W. San Tan Hgts. Blvd. San Tan Valley  
Copper Basin YMCA, 28682 N. Main St., San Tan Valley, Az. 85143  
Florence Park & Recreation, 133 N. Main St., Florence, Az. 85232



**SAN TAN SHOPPER**  
Community & Business Directory  
Presented by The San Tan Regional Chamber



JOHNSON COMMUNITY LIBRARY

PH 480-353-2770  
Fax 480-353-2771

Mon-Thurs 9-8pm Fri & Sat 9-5pm  
968-1 E Hunt Hwy Queen Creek AZ 85143

Visit [www.johnsoncommunitylibrary.org](http://www.johnsoncommunitylibrary.org)  
to sign up for our \*NEW\* Summer programs and  
participate in our Children's Story Time held on  
Tuesday's and Thursday's weekly.

**S.A.N.D.**  
Superstition Area  
Networking & Development



TAKING CARE  
OF BUSINESSES  
SINCE 2005

The San Tan Valley Chamber of Commerce focuses on promoting our members and providing them with the tools and resources needed to grow.

General Membership meetings are held the fourth Thursday of each month, 7:30am at the SRP Service Center (3735 E. Combs Road, San Tan Valley, AZ 85140)

**UPCOMING MEETINGS & MIXERS**

Thursday, May 26th, 7:30am – General Membership Meeting  
General Membership meetings are held the fourth Thursday of each month, 7:30am at the SRP Service Center (3735 E. Combs Road, San Tan Valley, AZ 85140)

Thursday October 6th 7am-1pm - Northeastern Buy Pinal - if you have a business - you don't want to miss this event!



**"Designated Water Watchers"  
Save Lives**

According to media reports, nearly Half of Serious Water Related Incidents, involving children, were in a group setting beside a pool, like a pool party.

To improve supervision, adults are encouraged to:

- Designate a "Water Watcher," with a lanyard, wristband, hat, bandana, or any item that can remind adults about who is responsible for watching children. The Water Watcher should sit close to the water, stay within "touch distance" of children and maintain eye-to-eye supervision of the children.
- Switch to a new Designated Water Watcher every 15-20 minutes.
- "Guard the gate," ensuring that barriers are in place when a Water Watcher needs to take a break.
- Make sure the Water Watcher is a capable adult, who knows how to swim. Limit alcohol consumption for Water Watchers.

Having a Water Watcher in place can allow everyone to have a great time beside the water, without taking chances with children's safety.

Your home, your party, your responsibility.

"Water Watcher" tags and "Banner Buddies" wrist reminders and "Designated Water Watcher" baseball caps are available at no cost to you from Swift Office Solutions, until supplies are gone. (480) 966-2100.

Designated Water Watcher tags and Banner Buddies wrist reminders are supplied by Phoenix Children's Hospital and Cardon Children's Medical Center.



**FEATURED BUSINESSES**

This month the San Tan Valley Chamber of Commerce wants to CONGRATULATE the following 4 businesses that won the opportunity to have their businesses featured in this newsletter! With distribution to over 30,000 homes – this is a prime example of the San Tan Valley Chamber of Commerce working to promote our members! An amazing benefit available ONLY to San Tan Valley Chamber of Commerce members!

**HILL FAMILY DENTISTRY**



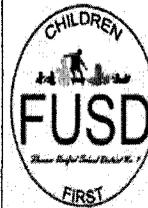
Now open in San Tan Valley!  
Dr. Tim Hill and his staff look forward to providing your family access to superior dental health in a friendly, comfortable environment. All aspects of dentistry are provided from implants and root canals to fillings and cleanings for patients age 1 to 100. Insurance is accepted and an in office insurance is available, as well as financing. Visit us HillFamilyDentistry.com or call 480-588-8127 to make Hill Family Dentistry your family's dentist!

**LAW OFFICE OF ALAN K. WITTIG, P.C.**



When you need an Attorney, look no further than the San Tan Valley. I am a sole practitioner with over 18 years of experience. I provide general legal services including family law, personal injury, criminal defense and other areas of practice. I also offer legal document preparation including QDROs (Qualified Domestic Relations Orders). For your local personalized legal needs contact me at 480-510-8318.

**FLORENCE UNIFIED SCHOOL DISTRICT #1**



The "KIDS FIRST" District, where your child's education and well-being are number one! Our district is a recognized leader in educational technology at all levels, but it is our teachers who really make the difference. With 8 computers in every K-8 classroom, 1-to-1 computing in both high schools, interactive whiteboards, projectors, document cameras and more, our staff has the coolest tools in education today, but their dedication to know each child and to teach each child to his or her best potential drives beyond technology to RESULTS. Florence USD, serving Florence and San Tan Valley, and now accepting a LIMITED NUMBER of out-of-district applications. Call 520-866-3511 for more information or visit www.florenceusd.org.



**DESERT SCHOOLS**  
FEDERAL CREDIT UNION

**DESERT SCHOOLS FEDERAL CREDIT UNION**

The largest credit union in Arizona, federally insured by the NCUA. We are a not-for-profit financial institution owned by our members—people like you. With over 75 Desert Schools ATMs and 50 branches in Arizona, 24x7 Online Banking and phone access & free email and text message alerts on your account activity. Please visit us in the San Tan Valley Wal-Mart or call us at 602.335.4540 to join today!

