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OPEN MEETING AGENDA ITEM

BEFORE THE ARIZONA CORPORATION COMMISSION

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Arizona Corporation Commission

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JUL 26 2011

COMMISSIONERS

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BRENDA BURNS

AZ CORP COMMISSION
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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

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

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

On February 28, 2011, Johnson Utilities, LLC, dba Johnson Utilities Company ("Johnson Utilities" or "Company") filed a Petition to Amend Decision 71854 Pursuant to A.R.S. §40-252 ("Petition"). In its Petition, the Company requested that the Arizona Corporation Commission ("Commission") adopt certain amendments to Decision 71854 which, if approved, would produce a positive rate base for the water division and a larger positive rate base for the wastewater division. Johnson Utilities also requested that the Commission establish a rate of return for the Company, in lieu of an operating margin, based upon its weighted average cost of capital in the range of 8.18% to 11.89%.

Johnson Utilities further requested that the Commission amend Decision 71854 to allow imputed income tax to be included as an expense in the Company's revenue requirement. In its Petition, the Company noted 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 for S-corporations and limited liability companies in its ongoing water workshops (Docket No. W-00000C-06-0149). Johnson Utilities further stated that it would abide by the outcome of the water workshops on the issue of imputed income tax expense, and requested that the Commission issue an order consistent with Decision 72177

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

3 On June 1, 2011, Johnson Utilities made a filing which included, *inter alia*, schedules
4 showing the rate impacts of the several amendments requested by the Company. The rate
5 impacts assumed a weighted average cost of capital of 10.04%, which is the midpoint between
6 the weighted average cost of capital of 8.18% requested by Johnson Utilities during the rate case
7 and the weighted average cost of capital of 11.89% recommended by the Residential Utility
8 Consumer Office ("RUCO"). However, in order to limit the rate impact of the requested
9 amendments, the Company hereby amends its Petition to request a rate of return based upon a
10 weighted average cost of capital of 8%. This rate of return is below the rate of return
11 recommended by RUCO, and it is well below the rates of return that have recently been
12 approved for other water and wastewater companies by the Commission.

13 Johnson Utilities also wishes to clarify its request with regard to the inclusion of imputed
14 income tax expense in its revenue requirement. In this case, the Company requests only that the
15 Commission amend Decision 71854 to include the following language, consistent with the
16 Commission's recent Decision 72177:

17 The Commission has agreed to examine the merits of imputing income tax
18 expenses to S-corps and LLCs in its ongoing water workshops (Docket No. W-
19 00000C-06-0149). While we believe it is prudent to follow the current policy
20 today, we do not wish to prejudice Johnson Utilities in the event the Commission
21 determines to alter its policy in the future. Accordingly, in the event the
22 Commission alters its policy in the future, Johnson Utilities may file a motion to
amend this Order prospectively, and Johnson Utilities' authorized revenue
requirement hereunder, pursuant to A.R.S. §40-252, to reflect the change in
Commission policy.

23 In the event the Commission subsequently adopts a policy which allows a limited
24 liability company such as Johnson Utilities to include imputed income tax expense in its revenue
25 requirement, the Company will file a new petition under A.R.S. §40-252 to amend Decision
26 71854 prospectively to request income tax expense in the Company's authorized revenue
27 requirement.

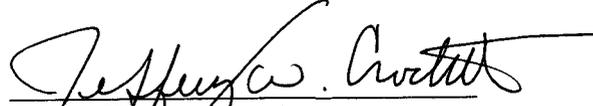
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RESPECTFULLY submitted this 26th day of July, 2011.

BROWNSTEIN HYATT FARBER SCHRECK LLP



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ORIGINAL and thirteen (13) copies of the
foregoing filed this 26th day of July, 2011, with:

Docket Control
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Copy of the foregoing hand-delivered
this 26th day of July, 2011, to:

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