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PIERCE PROPOSED AMENDMENT # 1

DATE PREPARED: August 10, 2011 A 9:46

COMPANY: Johnson Utilities, LLC

AZ CORP COMMISSION
DOCKET CONTROL

DOCKET NO: WS-02987A-08-0180

OPEN MEETING DATES: August 16 & 17, 2011 Arizona Corporation Commission AGENDA ITEM: U-12

DOCKETED

Sewer Plant in Service

AUG 11 2011

Page 8, lines 19-20, DELETE:

DOCKETED BY

"We believe the record does not support a specific disallowance figure for the water division, notwithstanding the Company's record keeping issues as discussed in this proceeding."

AND REPLACE WITH:

"We believe the record does not support a specific disallowance to plant in service, notwithstanding the Company's record keeping issues as discussed in this proceeding. Accordingly, we will not adopt Staffs recommended disallowance of \$7,433,707 for the water division and \$10,892,391 for the wastewater division."

Page 8, line 20, DELETE "Further" AND REPLACE WITH "However."

DELETE the section captioned "*AIAC and CIAC Related to Unsupported Plant*" beginning at page 9, line 22½, and continuing through page 10, line 1 I.

Post Test Year Sewer Plant and Reclassification of Post Test Year Sewer Plant

Page 10, line 19, DELETE "\$1,201,108" AND REPLACE WITH "\$1,021,108."¹

DELETE the paragraph at page 14, lines 5 ½ - 19, AND REPLACE WITH:

"We believe Johnson Utilities presented credible evidence that \$2,201,386 of sewer plant was misclassified as post test year plant in the Company's rate application and that it should be reclassified as test year plant. Accordingly, the \$2,201,386 of post test year sewer plant will be reclassified as test year plant in service."

¹ This amendment corrects a typographical error in the decision

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_____ Failed _____	Not Offered	_____ Withdrawn

"We also believe the Company presented credible evidence that the Parks lift station and the Queen Creek leach field are prudent and necessary to serve the test year level of customers, that they are revenue neutral, and that they are necessary for system reliability. The Commission has allowed *pro forma* adjustments, including post test year plant, in order to ensure a proper matching of plant to test year customers and to more accurately reflect reality during the period that rates will be in effect. Accordingly, we will increase the Company's test year plant in service by \$1,021,108 to include the Parks lift station and the Queen Creek leach field."

Affiliate Profit

Beginning at page 3 1, line 23½, DELETE:

"After considering all the evidence presented, we find that the record is insufficient to support specific plant in service adjustments for the water division. Rather than estimating an appropriate adjustment and excluding plant costs from the Company's rate base, we believe it is appropriate to make adjustments to the authorized operating margin."

AND REPLACE WITH:

"After considering all the evidence presented, we find that the record is insufficient to support additional plant in service adjustments for affiliate profit beyond the adjustments of \$469,832 for the water division and \$800,179 for the wastewater division that were included in the Company's rate application."

DELETE the sentence beginning on page 32, line 13½, and ending on line 14½.

Unexpended Hook-Up Fees

DELETE page 35, lines 3-13½, AND REPLACE WITH:

"We find that HUF funds meet the definition of Contributions in Aid of Construction found in Section 271 of the NARUC USOA and are appropriately deducted from rate base as non-investor supplied capital. However, we think that such deductions should not occur until such amounts have been expended for plant, consistent with our Decision 72251. Accordingly, we will not include \$6,931,078 of unexpended water HUFs and \$16,505 in sewer HUFs in the CIAC balance in rate base,"

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Fair Value Rate Base Summary

Page 35, line 16½, DELETE "\$2,414,613" AND REPLACE WITH "\$4,516,464."

Page 35, line 16½, DELETE "\$136,562" AND REPLACE WITH "\$17,323,177."

Income Tax Expense

DELETE beginning with the words "We agree" on page 46, line 20, and continuing through the end of the paragraph on page 47, line 7½, AND REPLACE WITH:

"AS an LLC, Johnson Utilities does not pay income taxes. It has long been the policy of this Commission not to impute a hypothetical income tax expense to "pass through" entities such as Johnson Utilities. The Company's owners chose the business form they believed was beneficial to the owners, and knew, or should have known about the long-standing Commission policy. Regardless of the members' knowledge, however, we find that it is fair and reasonable to continue the Commission policy not to impute an income tax expense when the utility is a passthrough entity for tax purposes.

At a recent Commission open meeting, the Commission agreed to examine the merits of imputing income tax expenses to S-corporations and LLCs in its ongoing water workshops (Docket No. W-00000C-06-0149). While we believe it is prudent to follow the current policy today, we do not wish to prejudice Johnson Utilities in the event the Commission determines to alter its policy in the future. Accordingly, in the event the 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."

At page 74, immediately before the ordering paragraph on line 8, ADD a new ordering paragraph as follows:

"IT IS FURTHER ORDERED that in the event the Commission alters its policy to allow Scorporation and LLC entities to impute a hypothetical income tax expense for ratemaking purposes, Johnson Utilities, LLC dba Johnson Utilities Company may file a motion to amend this Order prospectively, and Johnson Utilities, LLC dba Johnson Utilities Company's authorized revenue requirement hereunder, pursuant to A.R.S. § 40-252, to reflect the change in Commission policy."

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Operating Income Summary

Page 47, lines 13½ -15, DELETE:

	Water Division	Waste Water Division
Adjusted test year revenues	\$13,172,899	\$11,354,014
Test year operating expenses	\$9,553,304	\$9,432,270
Test year operating income	\$3,619,595	\$1,921,744

AND REPLACE WITH:

	Water Division	Waste Water Division
Adjusted test year revenues	\$13,172,899	\$11,354,014
Test year operating expenses	\$9,744,373	\$10,169,118
Test year operating income	\$3,428,526	\$1,184,897

Cost of Capital

DELETE page 49, line 8½, through page 50, line 15½, AND REPLACE WITH:

"Considering the entire record in this case, long-held Commission practices, as well as other recent decisions of this Commission, we find an 8.00% overall rate of return on rate base."

Authorized Increase/Decrease

Page 50, lines 19-22½, DELETE:

"The adjusted test year operating income for the water division was \$3,619,595. A 3 percent operating margin for the Company's water division results in operating income of \$293,218. Based on our findings herein, we determine that the Company's gross revenue for its water division should decrease by \$3,398,960."

AND REPLACE WITH:

"The adjusted test year operating income for the water division was \$3,428,526. An 8 percent rate of return for the Company's water division results in operating income of \$361,317. Based on our findings herein, we determine that the Company's gross revenue for its water division should decrease by \$3,134,137."

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Beginning at page 50, line 25, continuing through page 51, line 2, DELETE:

"The adjusted test year operating income for the wastewater division was \$1,921,744. A 3 percent operating margin for the Company's wastewater division results in operating income of \$290,610. Based on our findings herein, we determine that the revenues for the Company's wastewater division should decrease by \$1,667,019."

AND REPLACE WITH:

"The adjusted test year operating income for the wastewater division was \$1,184,897. An 8 percent rate of return for the Company's wastewater division results in operating income of \$1,385,854. Based on our findings herein, we determine that the revenues for the Company's wastewater division should increase by \$205,379."

Hook-Up Fee Tariff

DELETE from page 52, line 7½ through line 14½, AND REPLACE WITH:

"We agree with the Company that it should be permitted to continue to collect HUFs."

DELETE Finding of Fact 104 at page 68, lines 21-24, AND REPLACE WITH:

"It is reasonable and in the public interest to continue the Company's authority to collect additional HUFs for both its water and wastewater divisions under the Company's current HUF tariff."

Page 70, line 27, DELETE "discontinue" AND REPLACE WITH "continue."

DELETE Conclusion of Law 10, page 71, lines 1-3, and renumber the remaining Conclusions of Law.

Page 72, line 19, DELETE "discontinued" AND REPLACE WITH "continued."

DELETE the ordering paragraph at page 72, lines 21 -24.

Water Rates

Finding of Fact 89, page 67, line 2, DELETE "\$2,414,613" AND REPLACE WITH "\$4,516,464."

Finding of Fact 90, page 67, line 4, DELETE "\$9,553,304" AND REPLACE WITH "\$9,744,373."

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Finding of Fact 90, page 67, line 5, DELETE "\$3,619,595" AND REPLACE WITH "\$3,428,526."

Finding of Fact 92, page 67, lines 10-14, DELETE:

"Because the Company's adjusted FVRB for its water division is negative, a rate of return calculation is not meaningful. Based on the unique circumstances of this case, it is appropriate to use an operating margin to set fair and reasonable rates, and to allow a 3 percent operating margin, for revenues of \$9,773,939. This represents a \$3,398,960, or 25.80 percent, revenue decrease from \$13,172,899 to \$9,773,939."

AND REPLACE WITH:

"It is appropriate to use an 8.00 percent rate of return on the Company's fair value rate base. Based upon an 8.00 percent rate of return, the Company's revenue requirement is \$10,038,762. This represents a \$3,134,137, or 23.79 percent, revenue decrease from \$13,172,899 to \$10,038,762."

Finding of Fact 93, page 67, line 15, DELETE "\$3,398,960" AND REPLACE WITH "\$3,134,137."

Finding of Fact 96, page 67, lines 24-26, DELETE:

"Under the rates adopted herein, an average usage (6,931 gallons/month) residential water customer on a 1/2-inch meter would experience a monthly rate decrease of \$12.78, approximately 30.01 percent, from \$42.59 per month to \$29.81 per month."

AND REPLACE WITH:

"Under the rates adopted herein, an average usage (6,931 gallons/month) residential water customer on a 3/4 -inch meter would experience a monthly rate decrease of \$11.73, approximately 27.54 percent, from \$42.59 per month to \$30.86 per month."

Conclusion of Law 4, page 70, lines 12 - 14, DELETE:

"The fair value of the Company's water division rate base is (\$2,414,613) and therefore a rate of return analysis is not reasonable. Authorizing an operating margin of 3 percent produces rates and charges that are just and reasonable."

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AND REPLACE WITH:

"The fair value of the Company's water division rate base is \$4,516,464. Authorizing a rate of return of 8.00 percent produces rates and charges that are just and reasonable."

Wastewater Rates

Finding of Fact 97, page 67, line 28, DELETE "\$136,562" AND REPLACE WITH "\$17,323,177."

Finding of Fact 98, page 68, line 3, DELETE "\$9,432,270" AND REPLACE WITH "\$10,169,118."

Finding of Fact 98, page 68, line 3, DELETE "\$1,921,744" AND REPLACE WITH "\$1,184,897."

Finding of Fact 100, page 68, lines 8-12, DELETE:

"Because the Company's adjusted FVRB for its wastewater division is so small, a rate of return calculation is not meaningful. Based on the unique circumstances of this case, it is appropriate to use an operating margin to set fair and reasonable rates, and to allow a 3 percent operating margin, for operating income of \$290,610. This represents a \$1,667,019, or 14.68 percent, revenue decrease from \$11,354,014 to \$9,686,995."

AND REPLACE WITH:

"It is appropriate to use an 8.00 percent rate of return on the Company's fair value rate base. Based upon an 8.00 percent rate of return, the Company's revenue requirement is \$1,385,854. This represents a \$205,379, or 1.81 percent, revenue increase from \$11,354,014 to \$11,559,393."

Finding of Fact 102, page 68, lines 16 - 18, DELETE:

"Under the rates adopted herein, a residential wastewater customer on a ¾ inch water meter would experience a decrease of \$5.71, approximately 14.83 percent, from \$38.50 per month to \$32.79 per month."

AND REPLACE WITH:

"Under the rates adopted herein, a residential wastewater customer on a ¾ inch water meter would experience an increase of \$0.70, approximately 1.81 percent, from \$38.50 per month to \$39.20 per month."

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Conclusion of Law 5, page 70, lines 15-17, DELETE:

"The fair value of the Company's wastewater division rate base is \$136,562 and therefore a rate of return analysis is not reasonable. Authorizing an operating margin of 3 percent produces rates and charges that are just and reasonable."

AND REPLACE WITH:

"The fair value of the Company's wastewater division rate base is \$17,323,177. Authorizing a rate of return of 8.00 percent produces rates and charges that are just and reasonable."

Exhibit A to Decision 71854²

Exhibit A, page 1, DELETE:

Monthly Usage Charge	
5/8" x 3/4" Meter	\$11.00
3/4" Meter	\$16.50
1" Meter	\$27.50
1-1/2" Meter	\$55.00
2" Meter	\$88.00
3" Meter	\$176.00
4" Meter	\$275.00
6" Meter	\$550.00
8" Meter	\$880.00
10" Meter	\$1,265.00

AND REPLACE WITH:

Monthly Usage Charge	
5/8" x 3/4" Meter	\$11.70
3/4" Meter	\$17.55
1" Meter	\$29.25
1-1/2" Meter	\$58.50
2" Meter	\$93.60
3" Meter	\$187.20
4" Meter	\$292.50
6" Meter	\$585.00
8" Meter	\$936.00
10" Meter	\$1,345.50

² The original Exhibit A to Decision 71854 was replaced with a corrected Exhibit A adopted in Decision 71910 dated September 28, 2010.

THIS AMENDMENT:			
_____ Passed _____	Passed as amended by _____		
_____ Failed _____	_____ Not Offered _____	_____ Withdrawn _____	

Exhibit A, page 3, DELETE:

Monthly Usage Charge	
5/8" Meter	\$29.8100
3/4" Meter	\$32.7900
1" Meter	\$41.7300
1-1/2" Meter	\$53.6508
2" Meter	\$86.4400
3" Meter	\$327.8700
4" Meter	\$625.9300
6" Meter	\$864.3700
8" Meter	\$1,092.6000
10" Meter	\$1,748.3300
Effluent: per 1,000 gallons	\$0.5280
Per acre foot	170.3200

AND REPLACE WITH:

Monthly Usage Charge	
5/8" Meter	\$35.6300
3/4" Meter	\$39.2000
1" Meter	\$49.8900
1-1/2" Meter	\$64.1500
2" Meter	\$103.3500
3" Meter	\$392.0100
4" Meter	\$748.3800
6" Meter	\$1,033.4700
8" Meter	\$1,425.2000
10" Meter	\$2,048.7300
Effluent: per 1,000 gallons	\$0.63
Per acre foot	\$205.29

Exhibit A, page 3, on the line identified as "Late Charge, Per Month" DELETE "40.00" and REPLACE with "1.50%."

MAKE ALL CONFORMING CHANGES

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