

ORIGINAL



0000143415

BEFORE THE ARIZONA CORPORATION COMMISSION

RECEIVED

COMMISSIONERS

- BOB STUMP – Chairman
- GARY PIERCE
- BRENDA BURNS
- BOB BURNS
- SUSAN BITTER SMITH

2013 MAR -8 P 4: 20
 Arizona Corporation Commission
 DOCKETED
 MAR 8 2013
 AZ CORP COMMISSION
 DOCKET CONTROL
 DOCKETED BY
 JM

IN THE MATTER OF THE APPLICATION
 OF JOHNSON UTILITIES, L.L.C., DBA
 JOHNSON UTILITIES COMPANY, FOR AN
 INCREASE IN ITS WATER AND WASTE-
 WATER RATES FOR CUSTOMERS
 WITHIN PINAL COUNTY, ARIZONA.

DOCKET NO. WS-02987A-08-0180
**PETITION TO AMEND DECISION 71854
 PURSUANT TO A.R.S. §40-252**

Brownstein Hyatt Farber Schreck, LLP
 One East Washington Street, Suite 2400
 Phoenix, AZ 85004

Johnson Utilities, L.L.C. ("Johnson Utilities" or the "Company") hereby submits this Petition to Amend Decision 71854 Pursuant to A.R.S. § 40-252 (the "Petition") to increase its test year revenue requirement by including income tax expense based upon the Arizona Corporation Commission's ("Commission") recently adopted Policy Statement on Income Tax Expense for Tax Pass-Through Entities ("Income Tax Policy Statement"), which is codified in Decision 73739. Johnson Utilities further requests that the Commission approve adjusted rates and charges to be charged prospectively for all water and wastewater services provided from and after the date of a decision on this petition. Finally, the Company requests that this petition be approved without a hearing following verification of the information and schedules provided herein by Utilities Division Staff ("Staff"). If the Commission approves Johnson Utilities' request, as set forth herein, the Company believes it will not need to seek a further increase in its rates and charges that would become effective before the sixth anniversary of the date of a decision on the Petition in this docket, or July 1, 2019, whichever is earlier.

I. INTRODUCTION.

Johnson Utilities is a limited liability company. The Commission approved new rates and charges for Johnson Utilities in Decision 71854, as modified and/or amended by Decisions 71910, 72089, 72533, 72579, 72634, 73284 and 73617. In its application to increase its rates

1 and charges, Johnson Utilities requested that the Commission authorize income tax expense as a
2 part of its revenue requirement. While the Commission did not authorize income tax expense at
3 the time it issued Decision 71854, it subsequently amended that decision with the following
4 ordering paragraph in Decision 72579:

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

9 After considering the question of income tax expense for limited liability companies and
10 S corporations over several years in various rate cases, public workshops in a generic docket,
11 and open meetings, the Commission adopted the Income Tax Policy Statement at its February
12 12, 2013, Open Meeting, as codified in Decision 73739 in Docket No. W-00000C-06-0149.
13 Specifically, the Commission found in Decision 73739 that "[i]t is in the public interest to adopt
14 the attached Revised Policy Statement to guide the ratemaking treatment of income taxes for tax
15 pass-through public service corporations."¹ The Income Tax Policy Statement states, in part, as
16 follows:

17 Based upon the evidence and testimony which has been presented in the recent
18 rate cases before this Commission as well as the generic docket, we are persuaded
19 that a tax pass-through entity should be allowed to recover income tax expense as
20 a part of its cost of service and that its revenue requirement should be grossed up
21 for the effect of income taxes. We are persuaded that the failure to include
22 income tax expense needlessly discriminates against tax pass-through entities and
23 creates an artificial impediment to investment in utility infrastructure. Neither of
24 these outcomes serves the interests of rate payers. Thus, we hereby adopt a new
25 policy which allows imputed income tax expense in the cost of service for limited
liability companies, Subchapter S corporations and partnerships. While sole
proprietorships are not technically tax pass-through entities, the arguments
supporting the inclusion of income tax expense for tax pass-through entities are
equally applicable in the case of sole proprietorships. Thus, the policy will apply
to sole proprietorships as well as tax pass-through entities.

26 This new policy will be applied in pending and future rate cases. Also,
27 companies that have been denied recognition of income tax expense in the past
28 may make a filing under A.R.S. § 40-252 to modify the revenue requirement
authorized in their most recent rate case order to include income tax expense

¹ Decision 73739 at p. 2, lines 6-8.

1 prospectively from the date of an order of the Commission approving the A.R.S.
2 § 40-252 filing.

3 Johnson Utilities was denied recognition of income tax expense in its most recent rate
4 case, and consistent with Decision 73739, the Company requests that the Commission issue its
5 order amending Decision 71854 to authorize the recovery of income tax expense as a part of its
6 cost of service and that its revenue requirement be grossed up for the effect of income taxes, as
7 calculated on the schedules which are attached hereto. If the Commission approves this Petition,
8 Johnson Utilities believes it will not need to file an application to increase rates and charges in
9 the intermediate term. Accordingly, if the Commission approves this Petition, the Company will
10 not seek a further increase in its rates and charges that would become effective before the earlier
11 of: (i) the sixth anniversary of the date of a decision on the Petition in this docket; or (ii) July 1,
12 2019.

13 **II. OWNERSHIP OF JOHNSON UTILITIES.**

14 The George H. Johnson Revocable Trust dated July 9, 1987 (the "Trust") owns 90% of
15 Johnson Utilities. The remaining 10% of Johnson Utilities is owned by Connorg, L.L.C., an
16 Arizona limited liability company. These owners and their respective ownership percentages
17 have not changed since the test year. The beneficiaries of the Trust are George H. Johnson and
18 Jana S. Johnson, husband and wife, who also serve as co-trustees. Brian Tompsett and Susan
19 Tompsett are the owners of Connorg, L.L.C. The income tax filing status of George and Jana
20 Johnson during the test year was married filing jointly. Likewise, the income tax filing status of
21 Brian and Susan Tompsett during the test year was married filing jointly.

22 **III. CALCULATION OF INCOME TAX EXPENSE.**

23 The Commission's Income Tax Policy Statement sets forth a step-by-step methodology
24 for calculating income tax expense for tax pass-through entities. Johnson Utilities followed the
25 methodology set forth by the Commission in calculating the income tax expense amount for the
26 Company. Attached here as Attachment 1 are the following schedules which support the
27 Company's calculation of the tax expense amount for the water division:
28

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

JOHNSON UTILITIES WATER DIVISION SCHEDULES	
Schedule A-1	Computation of Increase in Gross Revenue Requirements As Adjusted
Schedule C-1	Income Statement
Schedule C-2	Adjustment to Revenues and Expenses-Adjustment No. 2
Schedule C-3 (pages 1-2)	Computation of Gross Revenue Conversion Factor
Schedule C-3 (pages 3-5)	Effective Tax Rate Computation at Present Rates
Schedule C-3 (pages 6-8)	Effective Tax Rate Computation at Proposed Rates
Schedule C-3 (page 9)	Effective Tax Rate and Income Tax Comparison to C-Corp.
Schedule H-2	Customer Summary
Schedule H-3	Present and Proposed Rates

Attached here as Attachment 2 are the following schedules which support the Company's calculation of the tax increase for the wastewater division:

JOHNSON UTILITIES WASTEWATER DIVISION SCHEDULES	
Schedule A-1	Computation of Increase in Gross Revenue Requirements As Adjusted
Schedule C-1	Income Statement
Schedule C-2	Adjustment to Revenues and Expenses-Adjustment No. 2
Schedule C-3 (pages 1-2)	Computation of Gross Revenue Conversion Factor
Schedule C-3 (pages 3-5)	Effective Tax Rate Computation at Present Rates
Schedule C-3 (pages 6-8)	Effective Tax Rate Computation at Proposed Rates
Schedule C-3 (page 9)	Effective Tax Rate and Income Tax Comparison to C-Corp.
Schedule H-2	Customer Summary
Schedule H-3	Present and Proposed Rates

1 As shown on Schedule A-1, the inclusion of income tax expense results in an increase in
2 the water division revenue requirement of \$125,071 and in the wastewater division revenue
3 requirement of \$747,273. As shown on Schedule H-2, the change in revenue requirement
4 increases the bill of a water customer with a ¾-inch meter and average monthly usage of 6,931
5 gallons by \$0.47 per month, from \$29.81 to \$30.28, an increase of 1.58%. The change in
6 revenue requirement increases the bill of a wastewater customer with a ¾-inch water meter by
7 \$2.65 per month, from \$39.35 to \$42.00, an increase of 6.73%.

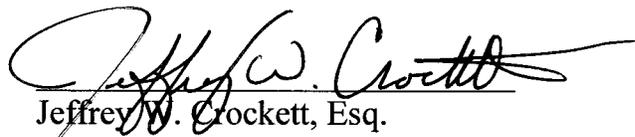
8 Schedule C-3, page 9, shows that income tax expense for the water and wastewater
9 divisions using the weighted average effective tax rate for the combined ownership of Johnson
10 Utilities as a limited liability company is lower than the income tax expense calculated assuming
11 that Johnson Utilities is a stand-alone subchapter C corporation. Schedules H-2 and H-3 show
12 the Company's proposed rate design for the water and wastewater divisions.

13 **IV. CONCLUSION.**

14 For the reasons set forth herein, Johnson Utilities requests that the Commission grant its
15 request to amend Decision 71854 to increase the Company's test year revenue requirement to
16 reflect the inclusion of income tax expense based upon the Commission's recently adopted
17 Income Tax Policy Statement as set forth in Decision 73739. Johnson Utilities further requests
18 that the Commission approve adjusted rates to be charged prospectively for the Company's
19 water and wastewater divisions, as set forth in the schedules attached hereto. Finally, the
20 Company requests that this petition be approved without a hearing following verification of the
21 information and schedules provided herein by Staff.

22 RESPECTFULLY submitted this 8th day of March, 2013.

23 BROWNSTEIN HYATT FARBER
24 SCHRECK, LLP

25 

26 Jeffrey W. Crockett, Esq.
27 One East Washington Street, Suite 2400
28 Phoenix, Arizona 85004
Attorneys for Johnson Utilities LLC

- 1 ORIGINAL and thirteen (13) copies of the
- 2 foregoing filed this 8th day of March, 2013, with:
- 3 Docket Control
- 4 ARIZONA CORPORATION COMMISSION
- 5 1200 West Washington Street
- 6 Phoenix, Arizona 85007
- 7
- 8 Copy of the foregoing hand-delivered
- 9 this 8th day of March, 2013, to:
- 10
- 11 Chairman Bob Stump
- 12 ARIZONA CORPORATION COMMISSION
- 13 1200 W. Washington Street
- 14 Phoenix, Arizona 85007
- 15
- 16 Commissioner Gary Pierce
- 17 ARIZONA CORPORATION COMMISSION
- 18 1200 W. Washington Street
- 19 Phoenix, Arizona 85007
- 20
- 21 Commissioner Brenda Burns
- 22 ARIZONA CORPORATION COMMISSION
- 23 1200 W. Washington Street
- 24 Phoenix, Arizona 85007
- 25
- 26 Commissioner Bob Burns
- 27 ARIZONA CORPORATION COMMISSION
- 28 1200 W. Washington Street
- Phoenix, Arizona 85007
- 29
- 30 Commissioner Susan Bitter Smith
- 31 ARIZONA CORPORATION COMMISSION
- 32 1200 W. Washington Street
- 33 Phoenix, Arizona 85007
- 34
- 35 Lyn Farmer, Chief Administrative Law Judge
- 36 Hearing Division
- 37 ARIZONA CORPORATION COMMISSION
- 38 1200 West Washington Street
- 39 Phoenix, Arizona 85007
- 40
- 41 Janice Alward, Chief Counsel
- 42 Legal Division
- 43 ARIZONA CORPORATION COMMISSION
- 44 1200 West Washington Street
- 45 Phoenix, Arizona 85007
- 46
- 47
- 48

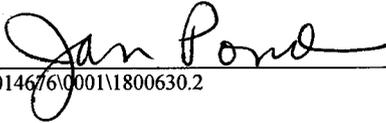
1 Steve Olea, Director
2 Utilities Division
3 ARIZONA CORPORATION COMMISSION
4 1200 West Washington Street
5 Phoenix, Arizona 85007

6 Copy of the foregoing mailed
7 this 8th day of March, 2013, to:

8 Craig A. Marks
9 CRAIG A. MARKS, PLC
10 10645 N. Tatum Blvd., Suite 200-676
11 Phoenix, Arizona 85028

12 James E. Mannato, Town Attorney
13 TOWN OF FLORENCE
14 P.O. Box 2670
15 775 N. Main Street
16 Florence, Arizona 85232-2670

17
18
19
20
21
22
23
24
25
26
27
28


014676\0001\1800630.2

ATTACHMENT 1

Johnson Utilities - Water Division - 40-252 Income Taxes
Test Year Ended December 31, 2007
Computation of Increase in Gross Revenue
Requirements As Adjusted

Exhibit
Schedule A-1

Line No.		<u>Decision 7184</u>	<u>40-252 Income Tax</u>	<u>Difference</u>
1	Fair Value Rate Base	\$ (2,414,613)	\$ (2,414,613)	\$ -
2				
3				
4	Operating Revenues	\$ 13,172,899	\$ 13,172,899	
5	Operating Expenses before Property Taxes and Income Taxes	8,708,243	8,708,243	
6	Property Taxes	845,062	845,062	
7	Income Taxes	-	1,314,444	
8	Adjusted Operating Income	<u>\$ 3,619,594</u>	<u>\$ 2,305,150</u>	\$ (1,314,444)
9				
10	Current Rate of Return	-149.90%	-95.47%	
11				
12	Required Operating Income	\$ 293,218	\$ 296,970	\$ 3,752
13				
14	Required Operating Margin	3.00%	3.00%	
15				
16	Operating Income Deficiency	\$ (3,326,376)	\$ (2,008,179)	\$ 1,318,196
17				
18	Gross Revenue Conversion Factor	1.022	1.6303	
19				
20	Increase in Gross Revenue Requirement	\$ (3,398,958)	\$ (3,273,886)	\$ 125,071
21				
22				
23	Test Year Adjusted Revenues	\$ 13,172,899	\$ 13,172,899	\$ -
24	Increase in Revenue Requirement	\$ (3,398,958)	\$ (3,273,886)	\$ 125,071
25	Proposed Revenue Requirement	\$ 9,773,941	\$ 9,899,013	\$ 125,071
26	% Increase	-25.80%	-24.85%	0.95%
27				
28				
29				
30				
31				
32				
33	Property Taxes at Proposed Revenues	\$ 768,729	\$ 775,151	\$ 6,423
34	Income Taxes at Proposed Revenues	-	\$ 118,648	\$ 118,648
35			Total	<u>125,071</u>
36			Change in Revenue Requirement	<u>125,071</u>
37			Difference	(0)
38				(rounding)
39				
40				
41				
42				
43	<u>SUPPORTING SCHEDULES</u>			
44	Decision			
45	C-1			
46	C-2			
47	C-3			
48				
49				
50				

Johnson Utilities - Water Division - 40-252 Income Taxes
 Test Year Ended December 31, 2007
 Income Statement

Exhibit
 Schedule C-1
 Page 1

Line No.		Per Decision Adjusted Test Year	Income Tax	40-252 Adjusted Results	Proposed Rate Increase	40-252 Adjusted with Rate Increase
1	Revenues					
2	Metered Water Revenues	\$ 12,843,604	\$ -	\$ 12,843,604	\$ (3,273,886)	\$ 9,569,718
3	Unmetered Water Revenues	-		-		-
4	Other Water Revenues	329,295		329,295		329,295
5		<u>\$ 13,172,899</u>		<u>\$ 13,172,899</u>	<u>\$ (3,273,886)</u>	<u>\$ 9,899,013</u>
6	Operating Expenses					
7	Salaries and Wages	\$ -		\$ -		\$ -
8	Purchased Water	334,948		334,948		334,948
9	Purchased Power	818,280		818,280		818,280
10	Chemicals	16,189		16,189		16,189
11	Repairs and Maintenance	14,333		14,333		14,333
12	Office Supplies and Expense	1,119		1,119		1,119
13	Outside Services	5,871,792		5,871,792		5,871,792
14	Water Testing	55,007		55,007		55,007
15	Rents	53,444		53,444		53,444
16	Transportation Expenses	-		-		-
17	Insurance - General Liability	21,565		21,565		21,565
18	Insurance - Health and Life	-		-		-
19	Reg. Commission Exp. - Rate Case	33,333		33,333		33,333
20	Miscellaneous Expense	255,555		255,555		255,555
21	Depreciation Expense	1,225,998		1,225,998		1,225,998
22	Taxes Other Than Income	-		-		-
23	Property Taxes	845,062		845,062	(69,910)	775,151
24	Income Tax	-	1,314,444	1,314,444	(1,195,796)	118,648
25	Reconciling Amount	6,681		6,681		6,681
26	Total Operating Expenses	<u>\$ 9,553,305</u>	<u>\$ 1,314,444</u>	<u>\$ 10,867,749</u>	<u>\$ (1,265,706)</u>	<u>\$ 9,602,043</u>
27	Operating Income	<u>\$ 3,619,594</u>	<u>\$ (1,314,444)</u>	<u>\$ 2,305,150</u>	<u>\$ (2,008,180)</u>	<u>\$ 296,970</u>

Johnson Utilities - Water Division - 40-252 Income Taxes
 Test Year Ended December 31, 2007
 Adjustment to Revenues and Expenses
 Adjustment Number 2

Exhibit
 Schedule C-2
 Page 1

Line No.			
1	<u>Property Taxes:</u>		
2			
3	Adjusted Revenues in year ended 12/31/07	\$ 13,172,899	\$ 13,172,899
4	Adjusted Revenues in year ended 12/31/07	13,172,899	13,172,899
5	Proposed Revenues	<u>13,172,899</u>	<u>9,899,013</u>
6	Average of three year's of revenue	\$ 13,172,899	\$ 12,081,603
7	Average of three year's of revenue, times 2	\$ 26,345,798	\$ 24,163,207
8	Add:		
9	Construction Work in Progress at 10%	\$ -	\$ -
10	Deduct:		
11	Book Value of Transportation Equipment	<u>-</u>	<u>-</u>
12			
13	Full Cash Value	\$ 26,345,798	\$ 24,163,207
14	Assessment Ratio	<u>23.0%</u>	<u>23.0%</u>
15	Assessed Value	6,059,533	5,557,538
16	Property Tax Rate	13.9264%	13.9264%
17			
18	Property Tax	843,878	773,968
19	Tax on Parcels	1,184	1,184
20			
21	Total Property Tax at Proposed Rates	<u>\$ 845,062</u>	<u>\$ 775,151</u>
22	Adjusted Test Year Property taxes	845,062	845,062
23	Change in Property Taxes	<u>\$ -</u>	<u>\$ (69,910)</u>
24			
25			
26	Adjustment to Revenues and/or Expenses	<u>\$ -</u>	<u>\$ (69,910)</u>
27			
28	Increase in Property Tax Due to Increase in Revenue Requirement (Line 24)		(69,910)
29	Increase in Revenue Requirement		(3,273,886)
30	Increase in Property Tax Per Dollar Increase in Revenue (Line 26 / Line 27)		2.13540%

Johnson Utilities - Water Division - 40-252 Income Taxes
 Test Year Ended December 31, 2007
 Computation of Gross Revenue Conversion Factor

Exhibit
 Schedule C-3
 Page 1

Line No.	Description	Percentage of Incremental Gross Revenues
1	State and Federal Income Taxes	37.32%
2		
3		
4		
5	Other Taxes and Expenses	<u>1.34%</u>
6		
7		
8	Total Tax Percentage	38.66%
9		
10	Operating Income % = 100% - Tax Percentage	61.34%
11		
12		
13		
14		
15	<u>1</u> = Gross Revenue Conversion Factor	
16	Operating Income %	1.6303
17		
18	<u>SUPPORTING SCHEDULES:</u>	<u>RECAP SCHEDULES:</u>
19	C-3 page 2	A-1
20		

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)	(E)	(F)
<u>Calculation of Gross Revenue Conversion Factor:</u>							
1	Revenue	100.0000%					
2	Uncollectible Factor (Line 11)	0.0000%					
3	Revenues (L1 - L2)	100.0000%					
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	38.6607%					
5	Subtotal (L3 - L4)	61.3393%					
6	Revenue Conversion Factor (L1 / L5)	1.630276					
<u>Calculation of Uncollectible Factor:</u>							
7	Unity	100.0000%					
8	Combined Federal and State Tax Rate (Line 17)	37.3223%					
9	One Minus Combined Income Tax Rate (L7 - L8)	62.6777%					
10	Uncollectible Rate	0.0000%					
11	Uncollectible Factor (L9 * L10)		0.0000%				
<u>Calculation of Effective Tax Rate:</u>							
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%					
13	Arizona State Income Tax Rate (L55 Col [E])	4.4985%					
14	Federal Taxable Income (L12 - L13)	95.5015%					
15	Applicable Federal Income Tax Rate (Line 44)	34.3699%					
16	Effective Federal Income Tax Rate (L14 x L15)	32.8238%					
17	Combined Federal and State Income Tax Rate (L13 +L16)		37.3223%				
<u>Calculation of Effective Property Tax Factor</u>							
18	Unity	100.0000%					
19	Combined Federal and State Income Tax Rate (L17)	37.3223%					
20	One Minus Combined Income Tax Rate (L18-L19)	62.6777%					
21	Property Tax Factor	2.1354%					
22	Effective Property Tax Factor (L20*L21)		1.3384%				
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)				38.6607%		
24	Required Operating Income	\$ 296,970					
25	Adjusted Test Year Operating Income (Loss)	\$ 2,305,150					
26	Required Increase in Operating Income (L24 - L25)		\$ (2,008,179)				
27	Income Taxes on Recommended Revenue (Col. (F), L52)	\$ 118,648					
28	Income Taxes on Test Year Revenue (Col. (C), L52)	\$ 1,314,444					
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		\$ (1,195,796)				
30	Recommended Revenue Requirement	\$ 9,899,013					
31	Uncollectible Rate (Line 10)	0.0000%					
32	Uncollectible Expense on Recommended Revenue (L24 * L25)	\$ -					
33	Adjusted Test Year Uncollectible Expense	\$ -					
34	Required Increase in Revenue to Provide for Uncollectible Exp.		\$ -				
35	Property Tax with Recommended Revenue	\$ 775,151					
36	Property Tax on Test Year Revenue	\$ 845,062					
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		\$ (69,910)				
38	Total Required Increase in Revenue (L26 + L29 + L34+L37)		\$ (3,273,886)				

	(A)		(B)		(C)		(D)		(E)		(F)
	Total	Water	Total	Water	Total	Water	Total	Water	Total	Water	
<u>Calculation of Income Tax:</u>											
39	Revenue	\$ 13,172,899	\$ 13,172,899		\$ 9,899,013	\$ 9,899,013					
40	Operating Expenses Excluding Income Taxes	\$ 9,553,305	\$ 9,553,305		\$ 9,483,394	\$ 9,483,394					
41	Synchronized Interest (L47)	\$ -	\$ -		\$ -	\$ -					
42	Arizona Taxable Income (L39 - L40 - L31)	\$ 3,619,594	\$ 3,619,594		\$ 415,619	\$ 415,619					
43	Arizona State Income Tax Rate (see Schedule C-3, page 3)	4.4252%	4.4252%		3.8601%	3.8601%					
44	Arizona Income Tax (L42 x L43)	\$ 160,174	\$ 160,174		\$ 16,043	\$ 16,043					
45	Federal Taxable Income (L42 - L44)	\$ 3,459,420	\$ 3,459,420		\$ 399,576	\$ 399,576					
46	Federal Tax Rate (see Schedule C-3, page 3)	33.3660%	33.3660%		25.6785%	25.6785%					
47	Federal Income Taxes (L45xL46)	\$ 1,154,270	\$ 1,154,270		\$ 102,605	\$ 102,605					
48											
49											
50											
51	Total Federal Income Tax (L47)	\$ 1,154,270	\$ 1,154,270		\$ 102,605	\$ 102,605					
52	Combined Federal and State Income Tax (L44 + L47)	\$ 1,314,444	\$ 1,314,444	\$ -	\$ 118,648	\$ 118,648	\$ -				

53 COMBINED Applicable Federal Income Tax Rate [Col. (D), L51 - Col. (A), L51] / [Col. (D), L45 - Col. (A), L45] 34.3699%

54 Applicable Federal Income Tax Rate [Col. (E), L51 - Col. (B), L51] / [Col. (E), L45 - Col. (B), L45] 34.3699%

55 Applicable State Income Tax Rate [Col. (E), L44 - Col. (B), L44] / [Col. (E), L42 - Col. (B), L42] 4.4985%

<u>Calculation of Interest Synchronization:</u>		
56	Rate Base	\$ (2,414,613)
57	Weighted Average Cost of Debt	0.0000%
58	Synchronized Interest (L56 X L57)	\$ -

Johnson Utilities - Water Division - 40-252 Income Taxes
Test Year Ended December 31, 2007
Effective Tax Rate Computation at Present Rates

Based upon 2008 Tax Tables

Member	1	But not Over	Married Filing Jointly State Taxable Income Amount plus	%	Taxes
State Income Tax					
Over	\$ -	\$ 20,000.00	\$ -	2.59%	-
	\$ 20,000.00	\$ 50,000.00	\$ (58.00)	2.88%	-
	\$ 50,000.00	\$ 100,000.00	\$ (298.00)	3.36%	-
	\$ 100,000.00	\$ 300,000.00	\$ (1,178.00)	4.24%	-
	\$ 300,000.00	\$ 999,999,999.00	\$ (2,078.00)	4.54%	145,818.62
					\$ 145,818.62
Effective Tax Rate					4.48%
Federal Income Tax					\$ 3,257,635

Member	2	But not Over	Married Filing Jointly State Taxable Income Amount plus	%	Taxes
State Income Tax					
Over	\$ -	\$ 16,050.00	\$ -	10%	-
	\$ 16,050.00	\$ 65,100.00	\$ 1,605.00	15%	-
	\$ 65,100.00	\$ 131,450.00	\$ 8,962.50	25%	-
	\$ 131,450.00	\$ 200,300.00	\$ 25,550.00	28%	-
	\$ 200,300.00	\$ 357,700.00	\$ 44,828.00	33%	-
	\$ 357,700.00	\$ 9,999,999,999.00	\$ 96,770.00	35%	1,060,710.65
					\$ 1,060,710.65
Effective Tax Rate					34.09%
Federal Income Tax					\$ 3,111,816

Member	1	But not Over	Married Filing Jointly State Taxable Income Amount plus	%	Taxes
State Income Tax					
Over	\$ -	\$ 20,000.00	\$ -	2.59%	-
	\$ 20,000.00	\$ 50,000.00	\$ (58.00)	2.88%	-
	\$ 50,000.00	\$ 100,000.00	\$ (298.00)	3.36%	-
	\$ 100,000.00	\$ 300,000.00	\$ (1,178.00)	4.24%	-
	\$ 300,000.00	\$ 999,999,999.00	\$ (2,078.00)	4.54%	14,354.96
					\$ 14,354.96
Effective Tax Rate					3.97%
Federal Income Tax					\$ 347,604

Member	2	But not Over	Married Filing Jointly State Taxable Income Amount plus	%	Taxes
State Income Tax					
Over	\$ -	\$ 16,050.00	\$ -	10%	-
	\$ 16,050.00	\$ 65,100.00	\$ 1,605.00	15%	-
	\$ 65,100.00	\$ 131,450.00	\$ 8,962.50	25%	-
	\$ 131,450.00	\$ 200,300.00	\$ 25,550.00	28%	-
	\$ 200,300.00	\$ 357,700.00	\$ 44,828.00	33%	93,438.47
	\$ 357,700.00	\$ 9,999,999,999.00	\$ 96,770.00	35%	93,438.47
					\$ 93,438.47
Effective Tax Rate					26.88%
Federal Income Tax					\$ 347,604

Johnson Utilities - Water Division - 40-252 Income Taxes
Test Year Ended December 31, 2007
Effective Tax Rate Computation at Proposed Rates

Member	1st level		1st level		1st level		2nd Level		2nd Level		Federal		Wtd		State		Wtd		
	Ownership Type	Ownership Tax Status	Ownership Type	Ownership Tax Status	Ownership Type	Ownership Tax Status	Ownership Tax Status	Ownership Taxable	Ownership Type	Ownership Taxable	Effective Tax rate	Effective Tax rate	Average Fed Tax Rate	Average State Tax Rate	Effective Tax rate	Effective Tax rate	Average State Tax Rate	Average State Tax Rate	
1	Trust	Pass-through	90.0000%	Individual	90.0000%	Individual	Married- Jointly	27.0856%	24.3770%	3.9845%	3.9845%	24.3770%	3.5860%	3.9845%	3.9845%	24.3770%	3.5860%	3.5860%	
2	LLC	Pass-through	10.0000%	Individual	10.0000%	Individual	Married- Jointly	13.0147%	1.3015%	2.7404%	2.7404%	1.3015%	0.2740%	2.7404%	2.7404%	1.3015%	0.2740%	0.2740%	
3																			
4																			
5																			
6																			
7																			
8																			
9																			
10																			
11																			
12																			
13																			
14																			
15																			
16																			
17																			
18																			
19																			
20																			
													100.0000%	25.6785%			3.8601%		

SUPPORTING SCHEDULE
C-3, pages 7 and 8

Johnson Utilities - Water Division - 40-252 Income Taxes
Test Year Ended December 31, 2007
Effective Tax Rate Computation at Proposed Rates

Exhibit
 Schedule C-3
 Page 7

Member	Proposed Test Year Water Income Before Tax	Allocated Water	Total Income	Federal Taxes	State Taxes
1	\$ 415,619	\$ 374,057	\$ 374,057	\$ 97,279	\$ 14,904
2		\$ 41,562	\$ 41,562	\$ 5,261	\$ 1,139
3					
4					
5					
6					
7					
8					
9					
10					
11					
12					
13					
14					
15					
16					
17					
18					
19					
20					
			\$ -	\$ -	\$ -
			\$ 415,619	\$ 102,540	\$ 16,043

SUPPORTING SCHEDULE

C-3, page 7

Johnson Utilities - Water Division - 40-252 Income Taxes
Test Year Ended December 31, 2007
Effective Tax Rate Computation at Proposed Rates

Exhibit
 Schedule C-3
 Page 8

Based upon 2008 Tax Tables

Member 1		Married Filing Jointly			
State Income Tax	But not Over	State Taxable Income	Amount plus	%	Taxes
\$ -	\$ 20,000.00	\$ -	\$ -	2.59%	\$ -
\$ 20,000.00	\$ 50,000.00	\$ (58.00)	\$ (58.00)	2.88%	\$ -
\$ 50,000.00	\$ 100,000.00	\$ (298.00)	\$ (298.00)	3.36%	\$ -
\$ 100,000.00	\$ 300,000.00	\$ (1,178.00)	\$ (1,178.00)	4.24%	\$ -
\$ 300,000.00	\$ 999,999,999.00	\$ (2,078.00)	\$ (2,078.00)	4.54%	\$ 14,904.20
					\$ 14,904.20
					3.98%
Effective Tax Rate					
Federal Income Tax		Federal Taxable Income			\$ 374,057

Member 2		Married Filing Jointly			
State Income Tax	But not Over	State Taxable Income	Amount plus	%	Taxes
\$ -	\$ 16,050.00	\$ -	\$ -	10%	\$ -
\$ 16,050.00	\$ 65,100.00	\$ 1,605.00	\$ 1,605.00	15%	\$ -
\$ 65,100.00	\$ 131,450.00	\$ 8,962.50	\$ 8,962.50	25%	\$ -
\$ 131,450.00	\$ 200,300.00	\$ 25,550.00	\$ 25,550.00	28%	\$ -
\$ 200,300.00	\$ 357,700.00	\$ 44,828.00	\$ 44,828.00	33%	\$ -
\$ 357,700.00	\$ 9,999,999,999.00	\$ 96,770.00	\$ 96,770.00	35%	\$ 97,278.57
					\$ 97,278.57
					27.09%
Effective Tax Rate					
Federal Income Tax		Federal Taxable Income			\$ 41,562

Member 1		Married Filing Jointly			
State Income Tax	But not Over	State Taxable Income	Amount plus	%	Taxes
\$ -	\$ 20,000.00	\$ -	\$ -	2.59%	\$ -
\$ 20,000.00	\$ 50,000.00	\$ (58.00)	\$ (58.00)	2.88%	\$ 1,138.98
\$ 50,000.00	\$ 100,000.00	\$ (298.00)	\$ (298.00)	3.36%	\$ -
\$ 100,000.00	\$ 300,000.00	\$ (1,178.00)	\$ (1,178.00)	4.24%	\$ -
\$ 300,000.00	\$ 999,999,999.00	\$ (2,078.00)	\$ (2,078.00)	4.54%	\$ -
					\$ 1,138.98
					2.74%
Effective Tax Rate					
Federal Income Tax		Federal Taxable Income			\$ 40,423

Member 2		Married Filing Jointly			
State Income Tax	But not Over	State Taxable Income	Amount plus	%	Taxes
\$ -	\$ 16,050.00	\$ -	\$ -	10%	\$ -
\$ 16,050.00	\$ 65,100.00	\$ 1,605.00	\$ 1,605.00	15%	\$ 5,260.94
\$ 65,100.00	\$ 131,450.00	\$ 8,962.50	\$ 8,962.50	25%	\$ -
\$ 131,450.00	\$ 200,300.00	\$ 25,550.00	\$ 25,550.00	28%	\$ -
\$ 200,300.00	\$ 357,700.00	\$ 44,828.00	\$ 44,828.00	33%	\$ -
\$ 357,700.00	\$ 9,999,999,999.00	\$ 96,770.00	\$ 96,770.00	35%	\$ -
					\$ 5,260.94
					13.01%
Effective Tax Rate					
Federal Income Tax		Federal Taxable Income			\$ 40,423

Johnson Utilities - Water Division - 40-252 Income Taxes
Test Year Ended December 31, 2007
Effective Tax Rate and Income Tax Comparison to C-Corp.

Exhibit
Schedule C-3
Page 9

Line No.	<u>LLC</u>	<u>C-Corp.</u>	<u>Difference</u>
1			
2 State Income Taxes at Proposed Rates	\$ 16,043	\$ 33,950	\$ 17,907
3 Federal Income Taxes at Proposed Rates	102,605	\$ 154,116	51,511
4 Total Income Taxes	<u>\$ 118,648</u>	<u>\$ 188,066</u>	<u>\$ 69,418</u>
5			
6			
7			
8			
9			
10			
11			
12			
13			
14			
15			
16 <u>SUPPORTING SCHEDULES</u>			
17 C-3, page 2			
18 Work papers			
19			
20			

Johnson Utilities - Water Division - 40-252
Test Year Ended December 31, 2007
Customer Summary

Exhibit
Schedule H-2
Page 1

Line No.	Meter Size	Class	(a)		Average Bill		Proposed Increase	
			Average Number of Customers at 12/31/2007	Average Consumption	Dec. 71854 Present Rates	40-252 Proposed Rates	Dollar Amount	Percent Amount
1	3/4 Inch	Residential	16,848	6,931	\$ 29.81	\$ 30.28	\$ 0.47	1.58%
2	1 Inch	Residential	275	13,130	55.60	56.40	0.80	1.43%
3	1.5 Inch	Residential	-	-	-	-	-	0.00%
4	2 Inch	Residential	1	295,489	770.01	775.09	5.08	0.66%
5	3 Inch	Residential	0	-	176.00	180.26	4.26	2.42%
6		Subtotal	<u>17,123</u>					
7								
8	3/4 Inch	Commercial	5	11,948	\$ 42.76	\$ 43.28	\$ 0.52	1.21%
9	1 Inch	Commercial	7	29,897	91.48	92.44	0.96	1.05%
10	1.5 Inch	Commercial	20	30,044	118.83	120.93	2.09	1.76%
11	2 Inch	Commercial	32	121,628	348.28	351.63	3.35	0.96%
12	3 Inch	Commercial	1	653,550	1,686.58	1,697.37	10.79	0.64%
13	4 Inch	Commercial	2	125,354	543.26	551.17	7.91	1.46%
14		Subtotal	<u>67</u>					
15								
16	3/4 Inch	Public Authority	-	-	\$ -	\$ -	\$ -	0.00%
17	1 Inch	Public Authority	-	-	-	-	-	0.00%
18	1.5 Inch	Public Authority	-	-	-	-	-	0.00%
19	2 Inch	Public Authority	-	35,048	163.00	165.48	2.48	1.52%
20	3 Inch	Public Authority	1	98,917	387.68	392.93	5.25	1.35%
21	4 Inch	Public Authority	1	210,833	726.18	734.95	8.76	1.21%
22		Subtotal	<u>2</u>					
23								
24	3/4 Inch	Irrigation	46	18,981	\$ 58.80	\$ 59.39	0.59	1.01%
25	1 Inch	Irrigation	64	52,090	146.12	147.31	1.19	0.81%
26	1.5 Inch	Irrigation	106	126,125	338.48	341.07	2.59	0.77%
27	2 Inch	Irrigation	103	315,028	818.77	824.05	5.28	0.64%
28	3 Inch	Irrigation	0	-	176.00	180.26	4.26	2.42%
29	4 Inch	Irrigation	2	417,983	1,169.48	1,180.32	10.83	0.93%
30	6 Inch	Irrigation	1	137,750	844.79	859.47	14.69	1.74%
31		Subtotal	<u>322</u>					
32								
33	3/4 Inch	Construction	-	-	\$ 16.50	\$ 16.90	\$ 0.40	2.42%
34	1 Inch	Construction	-	-	-	-	-	0.00%
35	2 Inch	Construction	-	-	-	-	-	0.00%
36	3 Inch	Construction	13	249,559	798.90	805.65	6.75	0.85%
37	4 Inch	Construction	-	-	275.00	281.66	6.65	2.42%
38	6 Inch	Construction	13	1,029,653	3,120.01	3,143.62	23.61	0.76%
39		Subtotal	<u>26</u>					
40								
41	6 Inch	CAP	1	3,557,346	\$ 3,494.77	\$ 3,508.08	\$ 13.31	0.38%
42								
43		Subtotal	<u>1</u>					
44								
45								
46								
47								
48								
49								
50								
51		Total	<u>17,541</u>					

52 (a) Average number of customers of less than one (1), indicates that less than 12 bills were issued during the year.

Johnson Utilities - Water Division - 40-252
 Test Year Ended December 31, 2007
 Present and Proposed Rates

Exhibit
 Schedule H-3
 Page 1

Line No.	Monthly Usage Charge for: Meter Size (All Classes)	Decision 71854		40-252 Proposed Rates	Change	Percent Change
		Present Rates	Proposed Rates			
1	5/8 Inch	\$ 11.00	\$ 11.27	\$	0.27	2.42%
2	3/4 Inch	\$ 16.50	\$ 16.90	\$	0.40	2.42%
3	1 Inch	27.50	28.17		0.67	2.42%
4	1 1/2 Inch	55.00	56.33		1.33	2.42%
5	2 Inch	88.00	90.13		2.13	2.42%
6	3 Inch	176.00	180.26		4.26	2.42%
7	4 Inch	275.00	281.66		6.65	2.42%
8	6 Inch	550.00	563.31		13.31	2.42%
9	8 Inch	880.00	901.30		21.30	2.42%
10	10 Inch	1,265.00	1,295.61		30.61	2.42%
11						
12						
13						
14						
15	Gallons In Minimum (All Zones and Classes)					
16						
17						
18						
19						
20						
21						
22						
23						
24						
25						
26						
27						
28						
29						
30						
31						
32						

Johnson Utilities - Water Division - 40-252
 Test Year Ended December 31, 2007
 Present and Proposed Rates

Line No.	Commodity Rates (per 1,000 gallons) (Residential, Commercial, Industrial)	Block	Decision 71854 Present Rate	40-252 Proposed Rate
1				
2				
3				
4		0 gallons to 4,000 gallons	\$ 1.760	\$ 1.771
5		4,001 gallons to 10,000 gallons	\$ 2.140	\$ 2.150
6		over 10,000 gallons	\$ 2.496	\$ 2.506
7				
8				
9		0 gallons to 10,000 gallons	\$ 2.140	\$ 2.150
10		over 10,000 gallons	\$ 2.496	\$ 2.506
11				
12		0 gallons to 32,000 gallons	\$ 2.140	\$ 2.150
13		over 32,000 gallons	\$ 2.496	\$ 2.506
14				
15		0 gallons to 88,000 gallons	\$ 2.140	\$ 2.150
16		over 88,000 gallons	\$ 2.496	\$ 2.506
17				
18		0 gallons to 156,000 gallons	\$ 2.140	\$ 2.150
19		over 156,000 gallons	\$ 2.496	\$ 2.506
20				
21		0 gallons to 339,000 gallons	\$ 2.140	\$ 2.150
22		over 339,000 gallons	\$ 2.496	\$ 2.506
23				
24		0 gallons to 545,000 gallons	\$ 2.140	\$ 2.150
25		over 545,000 gallons	\$ 2.496	\$ 2.506
26				
27		0 gallons to 1,120,000 gallons	\$ 2.140	\$ 2.150
28		over 1,120,000 gallons	\$ 2.496	\$ 2.506
29				
30		0 gallons to 1,800,000 gallons	\$ 2.140	\$ 2.150
31		over 1,800,000 gallons	\$ 2.496	\$ 2.506
32				
33		0 gallons to 2,600,000 gallons	\$ 2.140	\$ 2.150
34		over 2,600,000 gallons	\$ 2.496	\$ 2.506
35		All gallons	\$ 2.496	\$ 2.506
36				
37				
38				
39				
40				

See Current Tariff on Computation

All gallons

Central Arizona Project Water

ATTACHMENT 2

Johnson Utilities - Wastewater Division - 40-252 Income Taxes
 Test Year Ended December 31, 2007
 Computation of Increase in Gross Revenue
 Requirements As Adjusted

Exhibit
 Schedule A-1

Line No.		<u>Decision 72759</u>	<u>40-252 Income Tax</u>	<u>Difference</u>
1	Fair Value Rate Base	\$ 17,270,553	\$ 17,270,553	\$ -
2				
3				
4	Operating Revenues	\$ 11,354,014	\$ 11,354,014	
5	Operating Expenses before Property Taxes and Income Taxes	9,463,807	9,463,807	
6	Property Taxes	741,290	741,290	
7	Income Taxes	-	<u>372,745</u>	
8	Adjusted Operating Income	<u>\$ 1,148,917</u>	<u>\$ 776,172</u>	\$ (372,745)
9				
10	Current Rate of Return	6.65%	4.49%	
11				
12	Required Operating Income	\$ 1,381,644	\$ 1,381,644	\$ -
13				
14	Required Rate of Return on Fair Value Rate Base	8.00%	8.00%	
15				
16	Operating Income Deficiency	\$ 232,727	\$ 605,472	\$ 372,745
17				
18	Gross Revenue Conversion Factor	1.022	1.6270	
19				
20	Increase in Gross Revenue Requirement	\$ 237,847	\$ 985,120	\$ 747,273
21				
22				
23	Test Year Adjusted Revenues	\$ 11,354,014	\$ 11,354,014	\$ -
24	Increase in Revenue Requirement	\$ 237,847	\$ 985,120	\$ 747,273
25	Proposed Revenue Requirement	\$ 11,591,861	\$ 12,339,134	\$ 747,273
26	% Increase	2.09%	8.68%	6.58%
27				
28				
29				
30				
31				
32				
33	Property Taxes at Proposed Revenues	\$ 746,409	\$ 762,494	\$ 16,085
34	Income Taxes at Proposed Revenues	-	\$ 731,189	731,189
35			Total	<u>\$ 747,274</u>
36			Change in Revenue Requirement	<u>747,273</u>
37			Difference	\$ 1
38				(rounding)
39				
40				
41	<u>SUPPORTING SCHEDULES</u>			
42	Decision			
43	C-1			
44	C-2			
45	C-3			
46				
47				
48				
49				
50				

Johnson Utilities - Wastewater Division - 40-252 Income Taxes
 Test Year Ended December 31, 2007
 Income Statement

Exhibit
 Schedule C-1
 Page 1

Line No.		Decision Adjusted Results	Income Taxes	40-252 Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	Revenues					
2	Flat Rate Revenues	\$ 10,851,808		\$ 10,851,808	\$ 985,120	\$ 11,836,928
3	Misc. Service Revenues	-		-		-
4	Other Wastewater Revenues	502,206		502,206		502,206
5		<u>\$ 11,354,014</u>	\$ -	<u>\$ 11,354,014</u>	<u>\$ 985,120</u>	<u>\$ 12,339,134</u>
6	Operating Expenses					
7	Salaries and Wages	\$ -		\$ -		\$ -
8	Purchased Wastewater Treatment	-		-		-
9	Sludge Removal Expense	310,229		310,229		310,229
10	Purchased Power	714,560		714,560		714,560
11	Fuel for Power Production	-		-		-
12	Chemicals	147,196		147,196		147,196
13	Materials and Supplies	32,762		32,762		32,762
14	Contractual Services	4,817,218		4,817,218		4,817,218
15	Repairs and Maintenance	116,474		116,474		116,474
16	Rents	48,151		48,151		48,151
17	Transportation Expenses	-		-		-
18	Insurance	21,039		21,039		21,039
19	Reg. Comm. Exp. - Rate Case	33,333		33,333		33,333
20	Miscellaneous Expense	230,600		230,600		230,600
21	Depreciation Expense	2,985,719		2,985,719		2,985,719
22	Taxes Other Than Income	6,525		6,525		6,525
23	Property Taxes	741,290		741,290	21,205	762,494
24	Income Tax	-	372,745	372,745	358,444	731,189
25	Reconciling Amount	-		-		-
26	Total Operating Expenses	<u>\$ 10,205,097</u>	<u>\$ 372,745</u>	<u>\$ 10,577,842</u>	<u>\$ 379,648</u>	<u>\$ 10,957,490</u>
27	Operating Income	<u>\$ 1,148,917</u>	<u>\$ (372,745)</u>	<u>\$ 776,172</u>	<u>\$ 605,472</u>	<u>\$ 1,381,644</u>

Johnson Utilities - Wastewater Division - 40-252 Income Taxes
 Test Year Ended December 31, 2007
 Adjustment to Revenues and Expenses
 Adjustment Number 2

Exhibit
 Schedule C-2
 Page 1

Line No.			
1	Property Taxes:		
2			
3	Adjusted Revenues in year ended 12/31/07	\$ 11,354,014	\$ 11,354,014
4	Adjusted Revenues in year ended 12/31/07	11,354,014	11,354,014
5	Proposed Revenues	<u>11,354,014</u>	<u>12,339,134</u>
6	Average of three year's of revenue	\$ 11,354,014	\$ 11,682,387
7	Average of three year's of revenue, times 2	\$ 22,708,028	\$ 23,364,775
8	Add:		
9	Construction Work in Progress at 10%	\$ -	\$ -
10	Deduct:		
11	Book Value of Transportation Equipment	<u>-</u>	<u>-</u>
12			
13	Full Cash Value	\$ 22,708,028	\$ 23,364,775
14	Assessment Ratio	<u>23.0%</u>	<u>23.0%</u>
15	Assessed Value	5,222,846	5,373,898
16	Property Tax Rate	14.0380%	14.0380%
17			
18	Property Tax	733,182	754,386
19	Tax on Parcels	8,108	8,108
20			
21	Total Property Tax at Proposed Rates	<u>\$ 741,290</u>	<u>\$ 762,494</u>
22	Property Taxes in the test year	741,290	741,290
23	Change in Property Taxes	<u>\$ (0)</u>	<u>\$ 21,205</u>
24			
25			
26	Adjustment to Revenues and/or Expenses	<u>\$ (0)</u>	<u>\$ 21,205</u>
27			
28	Increase in Property Tax Due to Increase in Revenue Requirement (Line 24)		21,205
29	Increase in Revenue Requirement		985,120
30	Increase in Property Tax Per Dollar Increase in Revenue (Line 26 / Line 27)		2.15249%
31			

Johnson Utilities - Wastewater Division - 40-252 Income Taxes
 Test Year Ended December 31, 2007
 Computation of Gross Revenue Conversion Factor

Exhibit
 Schedule C-3
 Page 1

Line No.	<u>Description</u>	Percentage of Incremental Gross <u>Revenues</u>
1	Combined Federal and State Income Tax Rate	37.1862%
2		
3		
4		
5	Property Taxes	1.3521%
6		
7		
8	Total Tax Percentage	38.5382%
9		
10	Operating Income % = 100% - Tax Percentage	61.4618%
11		
12		
13		
14		
15	1	= Gross Revenue Conversion Factor
16	<u>Operating Income %</u>	1.6270
17		
18	<u>SUPPORTING SCHEDULES:</u>	<u>RECAP SCHEDULES:</u>
19		A-1
20		

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)	(E)	(F)
<i>Calculation of Gross Revenue Conversion Factor:</i>							
1	Revenue	100.0000%					
2	Uncollectible Factor (Line 11)	0.0000%					
3	Revenues (L1 - L2)	100.0000%					
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	38.5382%					
5	Subtotal (L3 - L4)	61.4618%					
6	Revenue Conversion Factor (L1 / L5)	1.627028					
<i>Calculation of Uncollectible Factor:</i>							
7	Unity	100.0000%					
8	Combined Federal and State Tax Rate (Line 17)	37.1862%					
9	One Minus Combined Income Tax Rate (L7 - L8)	62.8138%					
10	Uncollectible Rate	0.0000%					
11	Uncollectible Factor (L9 * L10)		0.0000%				
<i>Calculation of Effective Tax Rate:</i>							
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%					
13	Arizona State Income Tax Rate (L55 Col [E])	4.5099%					
14	Federal Taxable Income (L12 - L13)	95.4901%					
15	Applicable Federal Income Tax Rate (Line 44)	34.2195%					
16	Effective Federal Income Tax Rate (L14 x L15)	32.6763%					
17	Combined Federal and State Income Tax Rate (L13 +L16)		37.1862%				
<i>Calculation of Effective Property Tax Factor</i>							
18	Unity	100.0000%					
19	Combined Federal and State Income Tax Rate (L17)	37.1862%					
20	One Minus Combined Income Tax Rate (L18-L19)	62.8138%					
21	Property Tax Factor	2.1525%					
22	Effective Property Tax Factor (L20*L21)		1.3521%				
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			38.5382%			
24	Required Operating Income	\$ 1,381,644					
25	Adjusted Test Year Operating Income (Loss)	776,172					
26	Required Increase in Operating Income (L24 - L25)		\$ 605,472				
27	Income Taxes on Recommended Revenue (Col. (F), L52)	\$ 731,189					
28	Income Taxes on Test Year Revenue (Col. (C), L52)	\$ 372,745					
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		\$ 358,444				
30	Recommended Revenue Requirement	\$ 12,339,134					
31	Uncollectible Rate (Line 10)	0.0000%					
32	Uncollectible Expense on Recommended Revenue (L24 * L25)	\$ -					
33	Adjusted Test Year Uncollectible Expense	\$ -					
34	Required Increase in Revenue to Provide for Uncollectible Exp.		\$ -				
35	Property Tax with Recommended Revenue	\$ 782,494					
36	Property Tax on Test Year Revenue	\$ 741,290					
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		\$ 21,205				
38	Total Required Increase in Revenue (L26 + L29 + L34+L37)		\$ 985,120				

	(A)		(B)	(C)	(D)		(E)	(F)
	Total	Sewer	Test Year		Total	Sewer	At Proposed Rates	
<i>Calculation of Income Tax:</i>								
39	Revenue	\$ 11,354,014	\$ 11,354,014		\$ 12,339,134	\$ 12,339,134		
40	Operating Expenses Excluding Income Taxes	\$ 10,205,097	\$ 10,205,097		\$ 10,226,302	\$ 10,226,302		
41	Synchronized Interest (L47)	\$ 38,520	\$ 38,520		\$ 38,520	\$ 38,520		
42	Arizona Taxable Income (L39 - L40 - L31)	\$ 1,110,398	\$ 1,110,398		\$ 2,074,314	\$ 2,074,314		
43	Arizona State Income Tax Rate (see Schedule C-3, page 3)	4.2168%	4.2168%		4.3530%	4.3530%		
44	Arizona Income Tax (L42 x L43)	\$ 46,823	\$ 46,823		\$ 90,295	\$ 90,295		
45	Federal Taxable Income (L42 - L44)	\$ 1,063,574	\$ 1,063,574		\$ 1,984,019	\$ 1,984,019		
46	Federal Tax Rate (see Schedule C-3, page 3)	30.6440%	30.6440%		32.3028%	32.3028%		
47	Federal Income Taxes (L45xL46)	\$ 325,922	\$ 325,922		\$ 640,894	\$ 640,894		
48								
49								
50								
51	Total Federal Income Tax (L47)	\$ 325,922	\$ 325,922		\$ 640,894	\$ 640,894		
52	Combined Federal and State Income Tax (L44 + L47)	\$ 372,745	\$ 372,745	\$ -	\$ 731,189	\$ 731,189	\$ -	
53	COMBINED Applicable Federal Income Tax Rate [Col. (D), L51 - Col. (A), L51] / [Col. (D), L45 - Col. (A), L45]						34.2195%	
54	Applicable Federal Income Tax Rate [Col. (E), L51 - Col. (B), L51] / [Col. (E), L45 - Col. (B), L45]							34.2195%
55	Applicable State Income Tax Rate [Col. (E), L44 - Col. (B), L44] / [Col. (E), L42 - Col. (B), L42]							4.5099%

<i>Calculation of Interest Synchronization:</i>	
56	Rate Base
57	Weighted Average Cost of Debt
58	Synchronized Interest (L56 X L57)

\$ 17,270,553	
0.2230%	
\$ 38,520	

Johnson Utilities - Wastewater Division - 40-252 Income Taxes
Test Year Ended December 31, 2007
 Effective Tax Rate Computation at Present Rates

Exhibit
 Schedule C-3
 Page 4

<u>Member</u>	Adjusted Test Year Sewer Income before Tax	Allocated Sewer	Total Income	Federal Taxes	State Taxes
1	\$ 1,110,398	\$ 999,358	\$ 1,110,398	\$ 306,198	\$ 43,293
2		\$ 111,040	\$ 111,040	\$ 19,565	\$ 3,530
3					
4					
5					
6					
7					
8					
9					
10					
11					
12					
13					
14					
15					
16					
17					
18					
19					
20					

\$ 1,110,398	\$ 325,763	\$ 46,823
--------------	------------	-----------

SUPPORTING SCHEDULE

Johnson Utilities - Wastewater Division - 40-252 Income Taxes
Test Year Ended December 31, 2007
Effective Tax Rate Computation at Proposed Rates

Member	1st level Ownership Type	1st level Ownership Tax Status	1st level Ownership %	2nd Level Ownership Type	2nd Level Ownership Tax Status	Taxable Ownership Tax Filing Status	Federal Effective Tax rate	Wtd Average Fed Tax Rate	State Effective Tax rate	Wtd Average State Tax Rate
1	Trust	Pass-through	90.0000%	Individual	Married- Jointly	Married- Jointly	33.4069%	30.0662%	4.4287%	3.9858%
2	LLC	Pass-through	10.0000%	Individual	Married- Jointly	Married- Jointly	22.3668%	2.2367%	3.6721%	0.3672%
3										
4										
5										
6										
7										
8										
9										
10										
11										
12										
13										
14										
15										
16										
17										
18										
19										
20										
								<u>32.3028%</u>		<u>4.3530%</u>

SUPPORTING SCHEDULE
C-3, pages 7 and 8

Johnson Utilities - Wastewater Division - 40-252 Income Taxes
Test Year Ended December 31, 2007
 Effective Tax Rate Computation at Proposed Rates

<u>Member</u>	Proposed Test Year	Total Income	Federal Taxes	State Taxes
	Sewer Income before Tax	\$ 2,074,314	\$ 847,954	\$ 118,539
	Allocated Sewer	\$ 1,866,882	\$ 596,046	\$ 82,678
		\$ 207,431	\$ 44,692	\$ 7,617
1				
2				
3				
4				
5				
6				
7				
8				
9				
10				
11				
12				
13				
14				
15				
16				
17				
18				
19				
20				

\$ 2,074,314 \$ 640,738 \$ 90,296

\$ 2,074,314

SUPPORTING SCHEDULE
 C-3, page 7

Johnson Utilities - Wastewater Division - 40-252 Income Taxes
 Test Year Ended December 31, 2007
 Effective Tax Rate Computation at Proposed Rates

Exhibit
 Schedule C-3
 Page 8

Based Upon 2008 Tables

Member	1	Married Filing Jointly		
State Income Tax	State Income Tax	State Taxable Income	Amount plus	Taxes
Over	But not Over	Amount plus		
\$ -	\$ 20,000.00	\$ -	2.59%	-
\$ 20,000.00	\$ 50,000.00	\$ (58.00)	2.88%	-
\$ 50,000.00	\$ 100,000.00	\$ (298.00)	3.36%	-
\$ 100,000.00	\$ 300,000.00	\$ (1,178.00)	4.24%	-
\$ 300,000.00	\$ 999,999,999.00	\$ (2,078.00)	4.54%	82,678.46
				<u>\$ 82,678.46</u>
				4.43%
				\$ 1,866,882

Effective Tax Rate	Federal Taxable Income			
Federal Income Tax	But not Over	Amount plus	Taxes	
Over				
\$ -	\$ 16,050.00	\$ -	10%	
\$ 16,050.00	\$ 65,100.00	\$ 1,605.00	15%	
\$ 65,100.00	\$ 131,450.00	\$ 8,962.50	25%	
\$ 131,450.00	\$ 200,300.00	\$ 25,550.00	28%	
\$ 200,300.00	\$ 357,700.00	\$ 44,828.00	33%	
\$ 357,700.00	\$ 999,999,999.00	\$ 96,770.00	35%	
				<u>\$ 596,046.39</u>
				596,046.39
				33.41%
				\$ 1,784,204

Effective Tax Rate	Married Filing Jointly			
State Income Tax	But not Over	Amount plus	Taxes	
Over				
\$ -	\$ 20,000.00	\$ -	2.59%	
\$ 20,000.00	\$ 50,000.00	\$ (58.00)	2.88%	
\$ 50,000.00	\$ 100,000.00	\$ (298.00)	3.36%	
\$ 100,000.00	\$ 300,000.00	\$ (1,178.00)	4.24%	
\$ 300,000.00	\$ 999,999,999.00	\$ (2,078.00)	4.54%	
				<u>\$ 7,617.09</u>
				7,617.09
				3.67%
				\$ 207,431

Effective Tax Rate	Federal Taxable Income			
Federal Income Tax	But not Over	Amount plus	Taxes	
Over				
\$ -	\$ 16,050.00	\$ -	10%	
\$ 16,050.00	\$ 65,100.00	\$ 1,605.00	15%	
\$ 65,100.00	\$ 131,450.00	\$ 8,962.50	25%	
\$ 131,450.00	\$ 200,300.00	\$ 25,550.00	28%	
\$ 200,300.00	\$ 357,700.00	\$ 44,828.00	33%	
\$ 357,700.00	\$ 999,999,999.00	\$ 96,770.00	35%	
				<u>\$ 44,692.00</u>
				44,692.00
				22.37%
				\$ 199,814

Johnson Utilities - Wastewater Division - 40-252 Income Taxes
Test Year Ended December 31, 2007
 Effective Tax Rate and Income Tax Comparison to C-Corp.

Exhibit
 Schedule C-3
 Page 9

Line No.	<u>LLC</u>	<u>C-Corp.</u>	<u>Difference</u>
1			
2 State Income Taxes at Proposed Rates	\$ 90,295	\$ 152,422	\$ 62,127
3 Federal Income Taxes at Proposed Rates	640,894	\$ 691,913	51,019
4 Total Income Taxes	<u>\$ 731,189</u>	<u>\$ 844,335</u>	<u>\$ 113,147</u>
5			
6			
7			
8			
9			
10			
11			
12			
13			
14			
15			
16 <u>SUPPORTING SCHEDULES</u>			
17 C-3, page 2			
18 Work papers			
19			
20			

Johnson Utilities - WW Division - 40-252
 Test Year Ended December 31, 2007
 Customer Summary

Exhibit
 Final Schedule H-2
 Page 1

Line No.	Meter Size, Class	(a) Average Number of Customers at 12/31/2007	Average Bill		Proposed Increase	
			Dec. 72579 Present Rates	40-252 Proposed Rates	Dollar Amount	Percent Amount
1	3/4 Inch Residential	21,448	\$ 39.35	\$ 42.00	\$ 2.65	6.73%
2	1 Inch Residential	77	50.08	53.46	3.38	6.75%
3	1.5 Inch Residential	-	-	-	-	0.00%
4	2 Inch Residential	-	-	-	-	0.00%
5	3 Inch Residential	0	393.47	420.04	26.57	6.75%
6	Subtotal	<u>21,525</u>				
7						
8	3/4 Inch Commercial	5	\$ 39.35	\$ 42.00	2.65	6.73%
9	1 Inch Commercial	5	50.08	53.46	3.38	6.75%
10	1.5 Inch Commercial	30	64.39	68.73	4.34	6.74%
11	2 Inch Commercial	25	103.73	110.74	7.01	6.76%
12	3 Inch Commercial	1	393.47	420.04	26.57	6.75%
13	4 Inch Commercial	2	751.17	801.89	50.72	6.75%
14	Subtotal	<u>68</u>				
15						
16	3/4 Inch Public Authority	1	\$ -	\$ -	\$ -	0.00%
17	1 Inch Public Authority	-	-	-	-	0.00%
18	1.5 Inch Public Authority	-	-	-	-	0.00%
19	2 Inch Public Authority	-	103.73	110.74	7.01	6.76%
20	3 Inch Public Authority	1	393.47	420.04	26.57	6.75%
21	4 Inch Public Authority	1	751.17	801.89	50.72	6.75%
22	Subtotal	<u>3</u>				
23						
24						
25	Total	<u><u>21,596</u></u>				

27 (a) Average number of customers of less than one (1), indicates that less than 12 bills were issued during the year.

Johnson Utilities - WW Division - 40-252
 Test Year Ended December 31, 2006
 Present and Proposed Rates

Exhibit
 Schedule H-3
 Page 1

Line No.	Monthly Usage Charge for: Meter Size (All Zones and Classes):	Decision 72579 Present Rates	40-252 Proposed Rates	Change	Percent Change
1	\$				
2	5/8 Inch	35.77 \$	38.19 \$	2.42	6.77%
3	3/4 Inch	39.35	42.00	2.65	6.73%
4	1 Inch	50.08	53.46	3.38	6.75%
5	1 1/2 Inch	64.39	68.73	4.34	6.74%
6	2 Inch	103.73	110.74	7.01	6.76%
7	3 Inch	393.47	420.04	26.57	6.75%
8	4 Inch	751.17	801.89	50.72	6.75%
9	6 Inch	1,037.33	1,107.37	70.04	6.75%
10	8 Inch	1,430.80	1,527.60	96.80	6.77%
11	10 Inch	2,056.78	2,195.93	139.15	6.77%
12					
13	Effluent				
14	per 1000 gallons	\$ 0.63 \$	0.68	0.05	7.94%
15	per acre foot	\$ 205.29 \$	221.58	16.29	7.94%