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Transcript Exhibit(s)

Docket #(s): WS-02987A-08-0180

AZ CORP COMMISSION
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Exhibit #: S-1 through S-3, R-1 through R-4,

A-1 through A-7



BEFORE THE ARIZONA CORPORATION COMMISSION

BOB STUMP
Chairman
GARY PIERCE
Commissioner
BRENDA BURNS
Commissioner
BOB BURNS
Commissioner
SUSAN BITTER SMITH
Commissioner

IN THE MATTER OF THE APPLICATION OF) DOCKET NO. WS-02987A-08-0180
JOHNSON UTILITIES, LLC, DBA JOHNSON)
UTILITIES COMPANY, FOR AN INCREASE IN)
ITS WATER AND WASTEWATER RATES FOR)
CUSTOMERS WITHIN PINAL COUNTY,)
ARIZONA.)
_____)

TESTIMONY

REGARDING THE SETTLEMENT AGREEMENT

FILED ON NOVEMBER 4, 2013

OF

DARRON W. CARLSON

PUBLIC UTILITIES ANALYST MANAGER

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

FEBRUARY 12, 2014

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EXECUTIVE SUMMARY
JOHNSON UTILITIES, LLC, DBA JOHNSON UTILITIES COMPANY
DOCKET NO. WS-02987A-08-0180

Johnson Utilities, LLC dba Johnson Utilities Company (“Johnson” or “Company”) is a Class “A” Arizona public service corporation engaged in providing water utility services to approximately 17,550 customers and providing wastewater utility services to approximately 21,525 customers. Most of the water customers are also wastewater customers. The Company serves areas in various portions of Pinal County. Johnson’s current rates were approved in Decision No. 73992, dated July 16, 2013.

On July 16, 2013, the Arizona Corporation Commission (“Commission”) issued Decision No. 73992, increasing the Company’s rates to include an imputed income tax expense. The Company filed a motion pursuant to Arizona Revised Statutes (“ARS”) § 40-252 requesting the Commission re-hear the issue of the follow-up rate case requirement in this docket. The Residential Utility Consumers Office (“RUCO”) filed a motion pursuant to ARS §40-253 requesting the Commission re-hear the issue of income tax expense in this docket. Johnson and RUCO entered into discussions, the Company and RUCO agreed to a settlement related to this income tax recovery issue. The Settlement Agreement, filed on November 4, 2013, provides an alternate timeline for the Company’s next rate filing as well as providing for a reduction in the rate increase authorized in Decision No. 73992.

Staff did not participate in the negotiations nor did it sign the Settlement Agreement. Staff recommends approval of the income tax recovery level decrease noted in the Settlement. However, Staff recommends denial of the alternate filing requirement of a rate case noted in the Settlement. If either of the participants refuses to bifurcate these two issues, Staff recommends denial of the Settlement Agreement.

1 **INTRODUCTION**

2 **Q. Please state your name and business address.**

3 A. My name is Darron W. Carlson. My business address is 1200 West Washington Street,
4 Phoenix, Arizona 85007.

5
6 **Q. Where are you employed and in what capacity?**

7 A. I am employed by the Utilities Division ("Staff") of the Arizona Corporation Commission
8 ("ACC" or "Commission") as a Public Utilities Analyst Manager.

9
10 **Q. How long have you been employed with the Utilities Division?**

11 A. I have been employed with the Utilities Division since September of 1991.

12
13 **Q. Please describe your educational background and professional experience.**

14 A. I hold a Bachelor of Arts degree in both Accounting and Business Management from
15 Northeastern Illinois University in Chicago, Illinois.

16
17 I have participated in quite a number of seminars and workshops related to utility rate-
18 making, cost of capital, income taxes, and similar issues. These have been sponsored by
19 organizations such as the National Association of Regulatory Utility Commissioners
20 ("NARUC"), Duke University, Florida State University, Michigan State University, New
21 Mexico State University, and various other organizations.

22
23 **Q. Briefly describe your responsibilities as a Public Utilities Analyst Manager.**

24 A. In my capacity as a Public Utilities Analyst Manager, I supervise analysts who examine,
25 verify, and analyze utilities' statistical, financial, and other information. These analysts
26 write reports and/or testimonies analyzing proposed mergers, acquisitions, asset sales,

1 financings, rate cases, and other matters in which they make recommendations to the
2 Commission. I provide support and guidance along with reviewing and editing the work
3 products. I also perform analysis as needed on special projects. Additionally, I provide
4 expert testimony at formal hearings. Finally, I assist Staff members during formal
5 hearings and supervise responsive testimonies, as needed, during the hearing process.
6

7 **Q. What is the purpose of your testimony?**

8 A. The purpose of my testimony is to explain Staff's opinion regarding the Settlement
9 Agreement between the Johnson Utilities, LLC dba Johnson Utilities Company
10 ("Johnson" or "Company") and the Residential Utility Consumer Office ("RUCO").
11

12 **Q. How is your testimony being presented?**

13 A. My testimony is organized into four sections. Section I is the introduction, Section II
14 discusses Staff's position regarding the Settlement Agreement, Section III discusses the
15 rationale of why a portion of the Agreement may be in the public interest, and Section IV
16 is the conclusion.
17

18 **STAFF'S POSITION ON THE SETTLEMENT AGREEMENT**

19 **Q. Did Staff participate in the settlement discussions?**

20 A. No, Staff did not participate in the settlement discussions.
21

22 **Q. Who participated in the settlement discussions?**

23 A. Representatives from the Company and from RUCO participated in the settlement
24 discussions.

1 **Q. Why did Staff not participate along with the other parties?**

2 A. Staff had supported the Commission's original Decision No. 73992, issued on July 16,
3 2013. The Company filed a motion pursuant to Arizona Revised Statutes ("ARS") §40-
4 252 requesting the Commission re-hear the issue of the follow-up rate case requirement in
5 this docket. RUCO filed a motion pursuant to ARS §40-253 requesting reconsideration of
6 the income tax expense allowed in Decision No. 73992. Because Staff supported the
7 original Decision, it saw no reason to discuss settlement of issues already determined by
8 the Commission.

9
10 **Q. Has Staff reviewed the Settlement Agreement?**

11 A. Yes, Staff reviewed the Settlement Agreement.
12

13 **Q. What is Staff's opinion of the Settlement Agreement?**

14 A. Staff believes there are two main issues involved in the Settlement Agreement. The first
15 being the actual income tax rate adjustment agreed to by the parties that would reduce the
16 rate increase that had been previously authorized in Decision No. 73992. Staff believes
17 that this settlement provision is acceptable and recommends this item be authorized.
18

19 **Q. What is the second issue referred to above?**

20 A. The second issue is the appropriate filing date and test year for the next rate case filing
21 required of the Company. Decision No. 73992 requires the Company to file a full rate
22 case for both water and wastewater divisions no later than June 30, 2015, using a 2014 test
23 year. The Settlement Agreement alters that initial directive to a rate filing requirement of
24 no later than June 30, 2016, using a 2015 test year. Staff believes that this portion of the
25 settlement is not acceptable and Staff recommends denial of this item.
26

1 **Q. Why does Staff object to a one-year extension of this requirement?**

2 A. The test year utilized in this docket was 2007, and it will be seven years between rate
3 cases if a 2014 test year is utilized. Typically, the Commission recommends a three to
4 five year period between rate cases so the seven year requirement is already too long
5 between full rate reviews. If the deadline were extended for filing a rate case, Johnson
6 would have had only two rate cases in almost 20 years. Staff believes that the Commission
7 was correct in requiring the Company to file a rate application by 2015.

8
9 **Q. Did Staff review the recent growth in the Company's service territory?**

10 A. Yes, Staff reviewed the Company's annual reports and notes significant growth in both
11 water and wastewater customer counts. In the five year period between the test year 2007
12 and 2012, the Company added over 4,000 water customers for a 23 percent increase and
13 added over 5,000 wastewater customers for a 24 percent increase. While many of these
14 new customers are receiving both water and wastewater services, the revenue increases to
15 the Company are independent for each service.

16
17 **Q. What does this level of growth indicate to Staff?**

18 A. This level of growth in customer count indicates that revenue and also most likely
19 expenses have changed significantly, but not necessarily proportionately. Therefore, a full
20 rate case analysis is necessary to determine if current rates are still just and reasonable,
21 and if not, how these rates should be adjusted to be just and reasonable.

22
23 **Q. Does the imminent sale of Johnson's utilities to the Town of Florence ("Town")
24 impact Staff's current recommendation?**

25 A. No. Staff notes that this sale transaction was filed under Docket No. WS-02987A-13-
26 0477. If and when that sale occurs the rate case issue would be rendered moot.

1 **Q. Then why bother to object to the extension requested in the Settlement Agreement?**

2 A. Staff believes it should proceed with appropriate recommendations based on current
3 information available. Further, Staff notes that a previously planned sale of "Johnson to
4 Town" delayed the processing of the rate case in this docket five or six years ago, but did
5 not occur. Additionally, Staff notes that it has not yet been determined whether or not a
6 vote of the Town citizens will be required to approve the transaction. In other words, the
7 sale to the Town is not a done deal and possibly may never happen.

8
9 **PUBLIC INTEREST**

10 **Q. Is the Settlement Agreement in the public interest?**

11 A. Staff believes that the income tax expense settlement position as described previously is in
12 the public interest as it will reduce the rate increase authorized in Decision No. 73992, and
13 Staff recommends approval of this item.

14
15 Staff believes that the extension of the rate case filing requirements is not in the public
16 interest and recommends denial of this item.

17
18 **CONCLUSION**

19 **Q. Can the Settlement Agreement be bifurcated to separate the two issues previously
20 described by Staff?**

21 A. It certainly could be, but that is up to the parties of the Settlement Agreement, Johnson
22 and RUCO.

1 **Q. What if Johnson and/or RUCO refuse to permit bifurcation of the Settlement**
2 **Agreement?**

3 A. If either party refuses the bifurcation of the issues, Staff recommends denial of the entire
4 Settlement Agreement.

5
6 **Q. Does the Settlement Agreement alter the fair value rate base ("FVRB") in this**
7 **docket?**

8 A. No, it does not. The FVRB for this docket was determined to be a negative \$2,414,613 for
9 the water division and \$17,279,553 for the wastewater division as noted in Decision No.
10 73992 dated July 16, 2013. That determination remains unchanged and this Settlement
11 Agreement does not alter that determination.

12
13 **Q. Does this conclude your testimony?**

14 A. Yes.

ORIGINAL

COMMISSIONERS
BOB STUMP - Chairman
GARY PIERCE
BRENDA BURNS
BOB BURNS
SUSAN BITTERSMTIH



0000143794

E-mail: Pierce-Web@azcc.gov

**ARIZONA CORPORATION
COMMISSION**

March 27, 2013

Re: Petition to amend Decision 71854 Pursuant to A.R.S. 40-252;
Docket No. WS-02987A-08-0180



Dear Steve Olea:

The above mentioned petition seeks to re-open the Johnson Utilities water and waste-water rate case for the purpose of increasing the test year revenue requirement by including income tax expense based upon the Commission policy adopted at the February 12, 2013 Open Meeting. (Decision 73739, Docket No. W-0000C-06-0149)

Would you please have staff review the petition and the attached calculations to ensure that they comply with the adopted policy?

The petition also proposes a six year stay-out if the Commission approves the petition. I would like to hear your recommendation on this proposal.

Sincerely,

Commissioner Gary Pierce

Arizona Corporation Commission
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MAR 27 2013



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2013 MAR 27 P 4:42
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ORIGINAL



MEMORANDUM

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TO: Bob Stump, Chairman
Gary Pierce, Commissioner
Brenda Burns, Commissioner
Bob Burns, Commissioner
Susan Bitter Smith, Commissioner

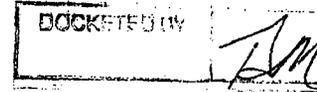
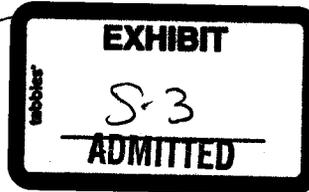
2013 MAR 29 P 2:34

Arizona Corporation Commission

DOCKETED

MAR 29 2013

FROM: Steven M. Olea
Director
Utilities Division



DATE: March 29, 2013

RE: RESPONSE TO COMMISSIONER PIERCE'S LETTER REGARDING JOHNSON UTILITIES, L.L.C. DBA JOHNSON UTILITIES COMPANY REQUEST TO AMEND DECISION NO. 71854 PURSUANT TO A.R.S. § 40-252
DOCKET NO. WS-02987A-08-0180

On March 8, 2013, Johnson Utilities Company ("JUC") filed a request to modify Decision No. 71854 pursuant to Arizona Revised Statute ("A.R.S.") § 40-252. In that request, JUC asked the Commission to re-open Decision No. 71854 to:

1. Increase JUC's test year (2007) revenue requirement by including income tax,
2. Adjust JUC's water and wastewater rates accordingly, and
3. Approve JUC's request without a hearing.

JUC's filing also seemed to request that the Commission order JUC not to increase its rates until after July 1, 2019.

On March 27, 2013, Commissioner Gary Pierce docketed a letter requesting that Staff review JUC's A.R.S. § 40-252 request and, in addition, provide Staff's recommendation on JUC's proposal for a "six year stay-out".

Since this filing by JUC was an A.R.S. § 40-252 request, Staff has not begun its analysis. However, based on Commissioner Pierce's March 27th letter, Staff will begin its analysis as soon as possible. The results of this analysis will be docketed in the form of a Staff Report. Therefore, if the Commission decides to grant JUC's request to re-open Decision No. 71854 pursuant to A.R.S. § 40-252, this Staff Report can be used in that proceeding.

If the Commission does grant JUC's re-opening request, Staff would recommend that this matter be assigned to the Hearing Division for preparation of a Recommended Opinion and Order. Staff would also recommend that notice be provided to JUC customers in a form that is agreeable to Staff and JUC.

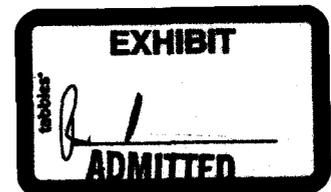
THE COMMISSION

March 29, 2013

Page 2

With regard to JUC stating that it will not seek a rate increase until 2019, Staff would oppose such a provision. In its Staff Report, Staff will recommend that the Commission order JUC to file its next rate case using a test year ending no later than December 31, 2014, and that filing should be made no later than six months after the end of the test year.

cc: Docket Control
Jodi Jerich
Lyn Farmer
Janice Alward
Eli Abinah
John LeSueur
James Armstrong



BEFORE THE ARIZONA CORPORATION COMMISSION

- BOB STUMP
CHAIRMAN
- GARY PIERCE
COMMISSIONER
- BRENDA BURNS
COMMISSIONER
- BOB BURNS
COMMISSIONER
- SUSAN BITTER SMITH
COMMISSIONER

IN THE MATTER OF THE APPLICATION OF JOHNSON UTILITIES, LLC FOR AN INCREASE IN ITS WATER AND WASTEWATER RATES FOR CUSTOMERS WITHIN PINAL COUNTY, ARIZONA.

Docket No. WS-02987A-08-0180

NOTICE OF FILING

The Residential Utility Consumer Office ("RUCO") hereby provides notice of filing the Direct Settlement Testimony of Patrick J. Quinn, in the above-referenced matter.

RESPECTFULLY SUBMITTED this 17th day of January, 2014.

[Signature]
Daniel W. Pozefsky
Chief Counsel

1 AN ORIGINAL AND THIRTEEN COPIES
of the foregoing filed this 17th day
2 of January, 2014 with:

3 Docket Control
Arizona Corporation Commission
4 1200 West Washington
Phoenix, Arizona 85007

5 COPIES of the foregoing hand delivered/
6 mailed this 17th day of January, 2014 to:

7 Teena Jibilian
Administrative Law Judge
8 Hearing Division
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24

JOHNSON UTILITIES
DOCKET NO. WS-02987A-08-0180

DIRECT SETTLEMENT TESTIMONY
OF
PATRICK J. QUINN

ON BEHALF OF
THE
RESIDENTIAL UTILITY CONSUMER OFFICE

JANUARY 17, 2014

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EXECUTIVE SUMMARY

1
2 The Arizona Residential Utility Consumer Office ("RUCO") presents the
3 direct testimony of RUCO's Director, Mr. Patrick Quinn, in support of the
4 Proposed Settlement Agreement of the Johnson Utilities, LLC, rate case
5 that settles the issue of the pass through of the income tax expense for
6 Corporations other than a "C" Corporation. Mr. Quinn recommends that
7 the Arizona Corporation Commission adopt the Proposed Settlement
8 Agreement as it is fair to both the consumer and Johnson Utilities and is in
9 the public interest under the Commission's current income tax policy.

10
11 RUCO supports the Proposed Settlement Agreement in its entirety
12 because it is the best resolution under the circumstances to resolve the
13 area of income tax pass through for Johnson Utilities.
14

1 **INTRODUCTION**

2 **Q. Please state your name, occupation and business address for the**
3 **record.**

4 A. My name is Patrick J. Quinn. I am the Director of the Arizona Residential
5 Utility Consumer Office ("RUCO"). My business address is 1110 W.
6 Washington Street, Suite 220, Phoenix, Arizona 85007.

7
8 **Q. Please state your educational background and qualifications in the**
9 **utility regulation field.**

10 A. I have a BS in Mathematics and a MBA from the University of South
11 Dakota. Additionally, I have 35 plus years of experience in the
12 Telecommunications Industry and the Consulting business dealing with
13 utility regulation. I have testified over 50 times before state and federal
14 regulatory commissions on issues including finance, economics, pricing,
15 policy and other related areas.

16
17 **Q. What is the purpose of your testimony?**

18 A. The purpose of my testimony is to explain RUCO's support of Johnson
19 Utilities Proposed Settlement Agreement ("Agreement").

20
21 **Q. Have you participated in other settlement negotiations?**

22 A. Yes. I have participated in settlement negotiations from both the utility
23 company's prospective as well as the consumer side. I have been

1 involved in several recent negotiations and have provided settlement
2 testimony before the Arizona Corporation Commission during past rate
3 case hearings.

4
5 **THE SETTLEMENT PROCESS**

6 **Q. Was the negotiation process that resulted in the Settlement**
7 **Agreement a proper and fair process?**

8 A. Yes. This Agreement is the result of several months of negotiation and a
9 willingness among RUCO and the Company to compromise.

10
11 **Q. Did all the parties sign the Agreement?**

12 A. Yes. RUCO and Johnson Utilities were the signatories to this agreement
13 as RUCO was the only party that objected to the income tax pass through.

14
15 **Q. Why is a negotiated settlement process an appropriate way to**
16 **resolve this matter?**

17 A. A negotiated settlement finds common ground that the parties can
18 support. RUCO believes that this agreement is a balanced agreement
19 and the rate increase resulting from the collection of income tax expense
20 is just and reasonable.

21
22
23

1 **BACKGROUND**

2 **Q. Can you please provide a brief background on this case?**

3 A. Yes. On September 15, 2011, the Commission issued Decision No.
4 72579, establishing the current rates for Johnson Utilities. This Decision
5 amended the rates that had been set for Johnson in Decision No. 71854,
6 issued August 25, 2010. Decision No. 72579 also provided that Johnson
7 could seek an allowance for income taxes generated as a result of its
8 operations if the Commission changed its policy regarding the treatment of
9 income taxes for pass-through entities.

10

11 On February 21, 2013, in Decision No. 73739, the Commission adopted a
12 policy allowing every utility other than a Sub-S corporation and other tax-
13 exempt entities, to seek to include in its cost of service an income tax
14 allowance based on the lower of comparable "C" corporate income tax
15 expense, or the combined personal income tax obligations created by the
16 distribution of the utility's profits.

17

18 On March 8, 2013, the Company filed a petition to amend Decision No.
19 71854 and approve the collection of income tax expenses in its rates
20 going forward.

21

1 On July 16, 2013, the Commission issued Decision No. 73992 approving
2 Johnson Utilities Petition to Amend Decision No. 71854, by approving
3 Johnsons request for collection of income tax expense.
4

5 **SUMMARY OF TESTIMONY**

6 **Q. Please summarize your testimony.**

7 A. RUCO supports the Agreement as it reduces the wastewater annual
8 increase previously approved by the Commission by approximately
9 \$289,000. RUCO also maintains its right to challenge future filings when
10 income taxes are approved for pass through to entities other than tax
11 paying entities.
12

13 **SETTLEMENT PROVISIONS**

14 **Q. In summary, what are the benefits to the residential ratepayer?**

15 A. RUCO believes that this Agreement is fair to both the consumer and
16 Johnson Utilities and is in the public interest under the current
17 Commission policy on income taxes for the following reasons:

18 (1) The Agreement reduces Johnson Utilities recoverable income tax
19 expense from 36.66 percent to a more appropriate level of 25.0
20 percent.

21 (2) The Agreement requires an independent verification by a Certified
22 Public Accounting Firm ("CPA") that the weighted average of the

- 1 income taxes paid by all of the Company shareholders for year
2 2007 is at least equal to or greater than 25 percent.
- 3 (3) The reduction in recoverable income tax expense will save
4 Johnson Utilities wastewater division ratepayers approximately
5 \$289,000 on an annual basis.
- 6 (4) The Agreement requires the Company to file yearly earnings
7 reports for years 2013 and 2014.
- 8 (5) The Agreement will not impair RUCO's right to challenge in future
9 rate case filings the imputation of income tax expense.

10

11 **PUBLIC INTEREST**

12 **Q. How is the public interest satisfied by the Agreement?**

13 A. The Agreement satisfies the public interest from RUCO's perspective in
14 that it provides favorable terms and protections for residential consumers
15 under the Commission's current income tax policy.

16

17 **AREAS OF IMPORTANCE**

18 **Q. Can you briefly discuss the areas you believe are most important to**
19 **RUCO in reaching a settlement agreement?**

20 A. Yes. A major concern to RUCO was the income tax expense, 36.5
21 percent, the Commission had approved for recovery under Decision No.

1 73992¹. RUCO believed that the income tax expense recovery was
2 excessive and represented the highest amount of tax expense that would
3 be recovered under the assumption that Johnson Utilities was taxed the
4 same as a "C" Corporation.

5
6 **Q. Did RUCO negotiate a reduction in income tax expense for Johnson**
7 **Utilities?**

8 **A.** Yes. This was a critical concession from RUCO's standpoint - the
9 reduction in recoverable income tax expense will save Johnson
10 Utilities wastewater division ratepayers approximately \$289,000 on an
11 annual basis. Another requirement that was important to RUCO is
12 independent confirmation from an independent CPA firm identifying the
13 actual tax expense paid by the shareholders of Johnson Utilities. RUCO's
14 intent is to independently verify that ratepayers are not paying any more in
15 taxes than the actual taxes paid by the shareholders. While neither
16 concession is optimal, RUCO feels that it is the best that can be done for
17 ratepayers under the Commission's current policy.

18
19
20

¹ The major concern to RUCO is the policy itself which allows the Company to recover income taxes it does not pay. RUCO disagrees with the policy, however, that issue is not the subject of the Settlement.

1 **Q. Another concern to RUCO is the issue on the amount of increase to**
2 **residential rates. Please explain this issue.**

3 A. Yes. RUCO's priority is to analyze monthly rate increases and act in the
4 best interests of the ratepayers under the circumstances. Through the
5 negotiation process specifically related to the income tax pass through
6 RUCO was able to lower the average monthly increase from \$2.65 to
7 \$1.63.

8
9 **Q. Does this conclude your testimony on the Agreement?**

10 A. Yes it does.



BEFORE THE ARIZONA CORPORATION COMMISSION

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- BOB STUMP
CHAIRMAN
- GARY PIERCE
COMMISSIONER
- BRENDA BURNS
COMMISSIONER
- BOB BURNS
COMMISSIONER
- SUSAN BITTER SMITH
COMMISSIONER

IN THE MATTER OF THE APPLICATION OF
JOHNSON UTILITIES, LLC FOR AN
INCREASE IN ITS WATER AND
WASTEWATER RATES FOR CUSTOMERS
WITHIN PINAL COUNTY, ARIZONA.

Docket No. WS-02987A-08-0180

NOTICE OF FILING

The Residential Utility Consumer Office ("RUCO") hereby provides notice of filing the Surrebuttal Testimony of Robert B. Mease, in the above-referenced matter.

RESPECTFULLY SUBMITTED this 28th day of February, 2014.


 Daniel W. Pozefsky
 Chief Counsel

1 AN ORIGINAL AND THIRTEEN COPIES
2 of the foregoing filed this 28th day
3 of February, 2014 with:

3 Docket Control
4 Arizona Corporation Commission
5 1200 West Washington
6 Phoenix, Arizona 85007

5 COPIES of the foregoing hand delivered/
6 mailed this 28th day of February, 2014 to:

7 Teena Jibilian
8 Administrative Law Judge
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12 Phoenix, Arizona 85007

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16 Jeffrey W. Crockett
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19 Craig A. Marks
20 Craig A. Marks, PLC
21 10645 N. Tatum Blvd.
22 Suite 200-676
23 Phoenix, AZ 85028
24

JOHNSON UTILITIES, LLC
DOCKET NO. WS-02987A-08-0180

SURREBUTTAL TESTIMONY
OF
ROBERT B. MEASE

ON BEHALF OF
THE
RESIDENTIAL UTILITY CONSUMER OFFICE

FEBRUARY 28, 2014

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ATTACHMENT (Settlement Agreement)

EXECUTIVE SUMMARY

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The Arizona Residential Utility Consumers Office ("RUCO") supports the Proposed Settlement Agreement ("Settlement," "agreement" or "Settlement Agreement") of Johnson Utilities, LLC that settles the pass through of income tax expense. RUCO supports the settlement agreement in its entirety as it reduces the applicable income tax percentage that Johnson Utilities is authorized to charge their ratepayers in the Wastewater Division and the agreement is fair to both the consumer and Johnson Utilities and is in the public interest.

The agreement reduces the Wastewater Divisions annual revenue requirement by approximately \$286,000, or each residential ratepayer's monthly billing by approximately \$1.02.

1 **INTRODUCTION**

2 **Q. Please state your name, position, employer and address.**

3 A. My name is Robert B. Mease and I am the Chief of Accounting and Rates
4 for the Residential Utility Consumers Office. My business address is 1110
5 W. Washington Street, Suite 220, Phoenix, Arizona 85007.

6
7 **Q. Please state your educational background and qualifications in the**
8 **utility regulation field.**

9 A. I graduated from Morris Harvey College in Charleston, WV and attended
10 Kanawha Valley School of Graduate Studies. I am a Certified Public
11 Accountant and currently maintain my license to practice in the State West
12 Virginia. My years of work experience include serving as Vice President
13 and Controller of a public utility and energy company in Great Falls,
14 Montana where I participated in several rate case filings on behalf of the
15 utility. I joined RUCO in October of 2011.

16
17 **Q. What is the purpose of your testimony?**

18 A. The purpose if my testimony is to explain RUCO's support of Johnson
19 Utilities Proposed Settlement Agreement.

20
21 **HISTORY**

22 **Q Mr. Mease, can you briefly explain the history of this rate case?**

23 A. Yes. Johnson Utilities filed its latest rate application in year 2008 with a
24 test year ending December 31, 2007. Johnson Utilities, a Sub-Chapter S

Limited liability

(^{LLC's})

1 ("Sub-S") Corporation, included in its application a request for the recovery
2 of income tax expenses. ^{LLC's} ~~Sub S Corporations~~ don't pay income taxes,
3 therefore, RUCO took exception to the income tax expense pass through
4 as did the Arizona Corporation Commission Staff. Decision No. 72579
5 disallowed the inclusion of income tax expense in determining revenue
6 requirements, however, left the docket open in case the ACC decided to
7 change its policy and allow the pass through of income tax expense for
8 non-tax paying entities.

9
10 **Q. Did the Commission change its policy on income tax expense in**
11 **rates for non-tax paying entities?**

12 A. Yes. On February 21, 2013, in Decision No. 73739, the Commission
13 adopted a policy that allows every utility entity, other than Subchapter C
14 corporations and tax-exempt entities, to seek to include in their cost of
15 service an income tax allowance based on the lower of comparable
16 Subchapter C corporate income tax expense, or the combined personal
17 income tax obligation created by the distribution of the utility's profits.

18
19 **Q. Did Johnson Utilities file for recovery of income tax expense as a**
20 **result of Decision No. 73739?**

21 A. Yes. The Company filed for the recovery of income tax expense and the
22 Commission issued Decision No. 73992 on July 16, 2013, authorizing the

1 increase in Johnson Utilities rates to reflect the recovery of income tax
2 expense as requested by the Company.

3

4 **Q. Did RUCO and Johnson Utilities both file a request for the rehearing**
5 **of Decision No. 73992?**

6 A. Yes. Johnson Utilities and RUCO each requested rehearing of Decision
7 No. 73992 which the Commission granted. RUCO filed its motion
8 requesting reconsideration of the income tax expense pass through while
9 Johnson Utilities filed for rehearing on the issue of follow-up rate case
10 requirements unrelated to the income tax issue.

11

12 **SETTLEMENT AGREEMENT**

13 **Q. Did RUCO enter into a settlement with Johnson Utilities to reduce the**
14 **income tax expense charged to ratepayers from 36.66 percent to 25**
15 **percent?**

16 A. Yes. Among the conditions of settlement, RUCO agreed with the
17 Company to reduce the calculated income tax expense. (Attached is a
18 copy of the Settlement Agreement)

19

20 **Q. Did the settlement agreement benefit the residential ratepayers?**

21 A Yes. The annual reduction for the ratepayer's in the wastewater division
22 was approximately \$286,000. Stated another way, the increase was
23 reduced from \$2.65 monthly to \$1.63 for residential ratepayer's. Another
24 provision required that the Company verify through an independent

1 Certified Public Accountant ("CPA") that the weighted average of the
2 personal income taxes of its shareholders was no less than the 25 percent
3 agreed upon rate. In this manner, RUCO was able to ascertain that
4 ratepayers will not pay more than the shareholder's actual income taxes.
5 RUCO's intent was to get assurance that ratepayer's will not pay more
6 than the actual personal income taxes paid by the shareholders.

7
8 **Q. Did the Arizona Corporation Commission Staff ("Staff") participate in**
9 **the negotiations?**

10 A. No. Staff in its Responsive Testimony states, "Because Staff supported
11 the original Decision, it saw no reason to discuss settlement of issues
12 already determined by the Commission."

13
14 **Q. What was the remaining issue brought up by Johnson Utilities in its**
15 **request for rehearing?**

16 A. Johnson Utilities did not agree with the requirement that the Company has
17 to file a full rate case application for both the water and wastewater
18 divisions no later than June 30, 2015, using a 2014 test year. Johnson
19 was requesting a rate case filing no later than June 30, 2016, using a test
20 year of 2015. This agreement provides that the Company will file its next
21 rate case no later than June 30, 2016, using a test year of 2015.

22
23

1 **Q. Was RUCO favorable to extending the rate case filing by an**
2 **additional year?**

3 A. Yes. RUCO believes that the instant annual savings to ratepayers of
4 \$286,000 was extremely critical in this case and outweighs any potential
5 harm associated with the later filing. Moreover, RUCO surely is receptive
6 to new rates going into effect later rather than sooner if those rates are an
7 increase over the current rates.

8
9 **Q. While the ACC Staff did not participate in the settlement discussions**
10 **did they indicate their opinion of the Settlement Agreement in its**
11 **responsive testimony?**

12 A. Yes, "Staff believes there are two main issues involved in the Settlement
13 Agreement. The first being the actual income tax rate adjustment agreed
14 to by the parties that would reduce the rate increase that had been
15 previously authorized in Decision No. 73992. Staff believes that this
16 settlement provision is acceptable and recommends this item be
17 authorized."

18
19 **Q. Does Staff take issue with the additional year provided in the**
20 **Settlement Agreement?**

21 A. Yes. Staff does not agree with granting the Company an additional year in
22 which to file their next rate case. Staff believes that this portion of the
23 settlement is not acceptable and Staff recommends denial of this item.

1 **Q. What was Staff's reasoning for their recommendations?**

2 A. The Company's test year utilized in this docket was 2007, approximately
3 seven years ago. Staff indicates that if the additional year is granted then
4 the Company will have had only two rate cases in the last 20 years.
5 Typically, the Staff likes to see rate cases filed every three to five years
6 and believes that allowing **one additional year** will make a difference in
7 this case.

8

9 **CONCLUSION**

10 **Q. Does Staff believe that the Settlement Agreement is in the public**
11 **interest?**

12 A. Staff believes that the income tax expense settlement is in the public
13 interest but further believes that the extension of the rate filing requirement
14 is not in the interest of the public and recommends denial of this item.

15

16 **Q. In Staff's responsive testimony, did they suggest that the two issues**
17 **be bifurcated?**

18 A. Staff's response was "It certainly could be, but that is up to the parties on
19 the Settlement Agreement."

20

21

22

1 **Q. What is Staff's position if either party refuses to bifurcate the two**
2 **issues?**

3 A. "If either party refuses the bifurcation of the issues, Staff recommends
4 denial of the entire Settlement Agreement."
5

6 **Q. Would RUCO agree with the bifurcation of this Settlement Agreement**
7 **in order to obtain the approval for the reduction in revenues, and**
8 **ultimately a reduction in rates, by \$286,000?**

9 A. Yes.
10

11 **Q. Would RUCO agree to a denial of the entire Settlement Agreement if**
12 **the Commission does not bifurcate the issues?**

13 A. No. RUCO would strongly urge the Commission approve the agreement
14 regardless of which way the Commission wishes to proceed procedurally.
15 The agreement benefits the ratepayers and it would be a travesty to not
16 approve it because of a procedural disagreement.
17

18 **Q. Does this conclude your testimony?**

19 A. Yes
20
21
22
23

ATTACHMENT

ORIGINAL



0000149343

BEFORE THE ARIZONA CORPORATION COMMISSION
RECEIVED

COMMISSIONERS

BOB STUMP—Chairman
GARY PIERCE
BRENDA BURNS
BOB BURNS
SUSAN BITTER SMITH

2013 NOV -4 P 4 47
AZ CORP COMMISSION
DOCKET CONTROL

Arizona Corporation Commission
DOCKETED
NOV 04 2013

DOCKETED BY 

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

**NOTICE OF FILING
SETTLEMENT AGREEMENT
AND
REQUEST FOR MODIFIED
PROCEDURAL ORDER, OR IN THE
ALTERNATIVE, REQUEST FOR
PROCEDURAL CONFERENCE**

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

On July 16, 2013, the Arizona Corporation Commission (“Commission”) issued Decision 73992 authorizing an increase in the water and wastewater rates of Johnson Utilities, LLC (“Johnson Utilities” or the “Company”) to include imputed income tax expense and requiring that the Company file a full rate case for both its water and wastewater divisions no later than June 30, 2015, using a 2014 test year. On July 26, 2013, Johnson Utilities filed a Petition for Rehearing Pursuant to A.R.S. § 40-253 (the “Rehearing Petition”) requesting that the Commission modify the rate case filing requirement to permit the Company to file a rate case for its water and wastewater divisions by June 30, 2017, using a 2016 calendar year test year. On July 31, 2013, the Residential Utility Consumer Office (“RUCO”) filed an Application for Rehearing of Decision No. 73992 (the “Rehearing Application”) because RUCO opposed the Commission’s authorization of imputed income tax expense in the case of Johnson Utilities as set forth in the Rehearing Application. On November 1, 2013, Johnson Utilities and RUCO entered into a Proposed Settlement Agreement (the “Settlement Agreement”) fully resolving the issues raised in RUCO’s Rehearing Application and the Company’s Rehearing Petition. A copy of the Settlement Agreement is attached hereto as Attachment 1.

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1 If approved, the Settlement Agreement will fully resolve the issues raised by RUCO in
2 its Rehearing Application. Thus, if approved, the Settlement Agreement will obviate the need
3 for Johnson Utilities to file fair value rate base schedules as required in the procedural order
4 issued October 5, 2013. Accordingly, Johnson Utilities requests that the administrative law
5 judge ("ALJ") stay the required filing of schedules by the Company and the filing of responses
6 by RUCO and Staff pending action on the Settlement Agreement.

7 Johnson Utilities further requests that the ALJ issue a modified procedural order that:
8 (i) sets a deadline for a filing by Staff regarding the Settlement Agreement; and (ii) sets a
9 deadlines for responses by Johnson Utilities and RUCO to Staff's filing. Alternatively, if the
10 ALJ desires to hear from the parties before modifying the procedural order, then Johnson
11 Utilities requests that the ALJ schedule a procedural conference at the earliest opportunity.

12 I. **OVERVIEW OF SETTLEMENT AGREEMENT.**

13 The Settlement Agreement between Johnson Utilities and RUCO fully resolves all
14 disputes between the two parties pertaining to Decision 73992, and likewise, resolves all
15 issues between the parties raised in RUCO's Rehearing Application and the Company's
16 Rehearing Petition. The Settlement Agreement provides the following benefits:

- 17
- 18 • Requires independent verification that the actual weighted average
19 income tax rate of the members of Johnson Utilities is at least equal
20 to or higher than the imputed income tax rate of 25% for the
wastewater division which the parties agree to in the Settlement
Agreement.
 - 21 • Reduces the applicable imputed income tax rate from 36.6558% to
22 25.00% for the wastewater division, resulting in lower wastewater
23 rates and combined annual savings for wastewater customers of
close to \$300,000.
 - 24 • Requires Johnson Utilities to file a rate case by June 30, 2016, using
25 a 2015 test year as opposed to filing a rate case by June 30, 2017,
26 using a 2016 test year as requested in the Company's Rehearing
Petition.
 - 27 • Requires Johnson Utilities to file yearly earnings reports, in the form
28 of the schedules attached as Exhibit A to the Settlement Agreement,

1 for the years 2013 and 2014 prior to the next rate case.

- 2
- 3 • Avoids further litigation and cost for both parties.
 - 4 • Does not impair the right of RUCO to challenge or the right of
5 Johnson Utilities to support future determinations regarding the
6 imputation of income tax for limited liability companies, subchapter
7 S corporations, and other forms of tax pass-through entities.

8 Pursuant to Section 2.2 of the Settlement Agreement, within 30 days of
9 Commission approval, Johnson Utilities would file a revised tariff with the new lower
10 wastewater rates. The new wastewater rates would be effective for all billings on and
11 after the date of the Commission's order approving the Settlement Agreement. The
12 Settlement Agreement does not affect the rates for water service approved in Decision
13 73992 which shall remain in effect.

14 Pursuant to Section 3.1, the Settlement Agreement serves as a procedural device
15 by which the parties submit their proposed settlement to the Commission for approval.
16 The parties acknowledge that the Commission will independently consider and evaluate
17 the terms of the Settlement Agreement.

18 **II. REQUEST FOR MODIFIED PROCEDURAL ORDER, OR**
19 **ALTERNATIVELY, REQUEST FOR PROCEDURAL CONFERENCE.**

20 In the October 5, 2013 procedural order, the ALJ ordered that Johnson Utilities docket,
21 on or before November 4, 2013, "a filing indicating the type of schedules on fair value rate base,
22 revenues, expenses, operating income, and the resulting rate of return, for both its divisions, that
23 the Company plans to present in this proceeding, and when it plans to file that evidence." The
24 ALJ further ordered that RUCO and Staff each file, on for before November 26, 2013, a
25 response to the November 4, 2013 filing. If approved, the Settlement Agreement will fully
26 resolve the issues raised by RUCO in its Rehearing Application. Thus, if approved, the
27 Settlement Agreement will obviate the need for Johnson Utilities to file fair value rate case
28 schedules as required in the November 4, 2013 procedural order. Accordingly, Johnson Utilities
requests that the ALJ stay the required filing of schedules and the filing of responses by RUCO
and Staff pending action on the Settlement Agreement.

1 The Settlement Agreement also resolves all issues between Johnson Utilities and RUCO
2 pertaining to the Company's Rehearing Petition. In its Rehearing Petition, Johnson Utilities
3 requested a 2016 test year, but in the Settlement Agreement with RUCO, the Company has
4 agreed to a 2015 test year.

5 With the filing of the Settlement Agreement, neither RUCO nor Johnson Utilities
6 believes that a hearing is necessary on either RUCO's Rehearing Application or the Company's
7 Rehearing Petition. Thus, Johnson Utilities requests that the ALJ issue a modified procedural
8 order that: (i) sets a deadline for a filing by Staff regarding the Settlement Agreement; and
9 (ii) sets a deadlines for responses by Johnson Utilities and RUCO to Staff's filing.
10 Alternatively, if the ALJ desires to hear from the parties before modifying the procedural order,
11 then Johnson Utilities requests that the ALJ schedule a procedural conference at the earliest
12 opportunity.

13 RESPECTFULLY submitted this 4th day of November, 2013.

14 BROWNSTEIN HYATT FARBER SCHRECK LLP

15 

16 Jeffrey W. Crockett, Esq.
17 One East Washington Street, Suite 2400
18 Phoenix, Arizona 85004
Attorneys for Johnson Utilities, L.L.C.

19 ORIGINAL and thirteen (13) copies filed
20 this 4th day of November, 2013, with:

21 Docket Control
22 ARIZONA CORPORATION COMMISSION
23 1200 West Washington Street
Phoenix, Arizona 85007

24 COPY of the foregoing hand-delivered
this 4th day of November, 2013, to:

25 Lyn Farmer, Chief Administrative Law Judge
26 Hearing Division
27 ARIZONA CORPORATION COMMISSION
28 1200 West Washington Street
Phoenix, Arizona 85007

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

1 Janice Alward, Chief Counsel
2 Legal Division
3 ARIZONA CORPORATION COMMISSION
4 1200 West Washington Street
5 Phoenix, Arizona 85007

6 Steve Olea, Director
7 Utilities Division
8 ARIZONA CORPORATION COMMISSION
9 1200 West Washington Street
10 Phoenix, Arizona 85007

11 Copy of the foregoing mailed and e-mailed
12 this 4th day of November, 2013, to:

13 Daniel Pozefsky, Chief Counsel
14 RESIDENTIAL UTILITY CONSUMER OFFICE
15 1110 West Washington Street
16 Phoenix, Arizona 85007

17 Craig A. Marks
18 CRAIG A. MARKS, PLC
19 10645 N. Tatum Blvd., Suite 200-676
20 Phoenix, Arizona 85028

21 James E. Mannato, Town Attorney
22 TOWN OF FLORENCE
23 P.O. Box 2670
24 775 N. Main Street
25 Florence, Arizona 85232-2670

26
27
28

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ATTACHMENT 1

**PROPOSED SETTLEMENT AGREEMENT
DOCKET NO. WS-02987A-08-0180**

The purpose of this Settlement Agreement ("Agreement") is to settle all issues related to Docket No. WS-02987A-08-0180 to RUCO's Motion to Rehear Decision No. 73992. This Agreement is entered into by the following entities:

**Johnson Utilities, LLC
Residential Utility Consumer Office**

These entities shall be referred to collectively as "Signatories;" a single entity shall be referred to individually as a "Signatory."

**PROPOSED SETTLEMENT AGREEMENT
DOCKET NO. WS-02987A-08-0180**

I. RECITALS

- 1.1 On September 15, 2011, the Arizona Corporation Commission ("Commission") established the rates for Johnson Utilities, LLC ("Johnson" or the "Company") in Decision No. 72579. Decision No. 72579 amended the rates that had been set for Johnson in Decision No. 71854 issued on August 25, 2010.
- 1.2 On March 8, 2013, the Company filed a petition to amend Decision No. 71854 under §40-252 to allow for imputed income taxes. On June 27, 2013, the Commission issued Decision No. 73992 which approved the Company's request to amend Decision No. 71854 to impute income taxes.
- 1.3 On July 26, 2013, the Company filed a Petition for Rehearing of Decision No. 73992 ("Petition") requesting the Commission to modify the rate case filing requirement in Decision No. 73992 to June 30, 2017, using a 2016 test year.
- 1.4 On July 31, 2013, the Residential Utility Consumer Office ("RUCO") filed an Application for Rehearing of Decision 73992 ("Application") requesting that the Commission reconsider its decision to allow imputed income tax expense in the rates of Johnson.
- 1.5 The Commission subsequently granted both the Company's Petition and RUCO's Application. Thereafter, RUCO and the Company met for the purpose of settling the matter and arrived at an agreement ("Agreement"), as set forth herein.
- 1.6 The Signatories believe that this Agreement is a fair resolution to this matter and all things considered is in the public interest. The benefits include:
 - Independent verification that the Company's member's actual weighted average tax rate is at least equal to or higher than the imputed rate of 25% that the Signatories are agreeing to in this Agreement.
 - Will reduce the applicable income tax rate to from 36.6558% to 25% for the wastewater division.
 - Will require the Company to file its next rate case by June 30, 2016, using a 2015 test year as opposed to filing by June 30, 2017, using a 2016 test year as requested by the Company in its Petition.

**PROPOSED SETTLEMENT AGREEMENT
DOCKET NO. WS-02987A-08-0180**

- Will require the Company to file yearly earnings reports for the years 2013 and 2014 prior to the next rate case.
- Avoids further litigation and cost to both Signatories.
- Will not impair RUCO's right to challenge or the Company's rights to support future determinations regarding the imputation of income tax for limited liability companies, subchapter S corporations, and other forms of tax pass-through entities.

II. TERMS AND CONDITIONS

- 2.1 The Company shall provide verification prior to the filing of this Agreement with the Commission through an independent third party certified public accountant (CPA) that the weighted average of the income taxes paid by all of the Company's shareholders for the 2007 test year is at least equal to or greater than 25%.
- 2.2 The applicable income tax rate for purposes of determining the amount of income tax to be imputed shall be reduced to 25% for the Company's wastewater division. Within thirty days of Commission approval of this Agreement, the Company will file a revised tariff with the new lower wastewater rates. The new wastewater rates shall be effective for all billings by the Company on and after the date of the Commission order approving this Agreement. This Agreement shall not affect the rates for water service approved in Decision 73992, which shall remain in effect.
- 2.3 The Company shall file a yearly earnings report starting with 2013 by the last day of the following February for each year prior to the next rate case filing. The Company shall make such filings in the form of the schedules attached hereto as Exhibit A.
- 2.4 The Company shall file its next rate case by June 30, 2016 and shall use the 2015 calendar test year.
- 2.5 If the Commission approves this Agreement, neither Signatory will thereafter challenge Commission's Decision 73992 for any reason.
- 2.6 The purpose of this Agreement is to resolve RUCO's Application and the Company's Petition and not to act as precedent and impair or impede in any manner either Signatory's right to challenge and/or support any future decision of the Commission in any other case on any of the issues that are the subject of this Agreement. The Signatories understand and accept that future positions of the Signatories in other cases on the same issues which are inconsistent or adverse to the positions taken by the Signatories in this Agreement do not constitute a breach of this Agreement for failure to support the terms and conditions of this Agreement, or any other reason.

**PROPOSED SETTLEMENT AGREEMENT
DOCKET NO. WS-02987A-08-0180**

III. COMMISSION EVALUATION OF PROPOSED SETTLEMENT

- 3.1 This Agreement will serve as a procedural device by which the Signatories will submit their proposed settlement to the Commission.
- 3.2 The Signatories recognize that the Commission will independently consider and evaluate the terms of this Agreement. If the Commission issues an order adopting all material terms of this Agreement, such action shall constitute Commission approval of the Agreement. Thereafter, the Signatories shall abide by the terms as approved by the Commission.
- 3.3 If the Commission fails to issue an order adopting all material terms of this Agreement, either Signatory may withdraw from this Agreement, and such Signatory may pursue without prejudice its respective remedies at law. For purposes of this Agreement, whether a term is "material" shall be left to the discretion of the Signatory choosing to withdraw from the Agreement.

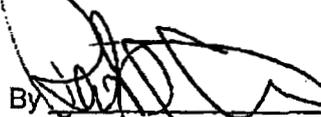
IV. MISCELLANEOUS PROVISIONS

- 4.1 The acceptance by any Signatory of a specific element of this Agreement shall not be considered as precedent for acceptance of that element in any other context.
- 4.2 No Signatory is bound by any position asserted in negotiations, except as expressly stated in this Agreement. No Signatory shall offer evidence of conduct or statements made in the course of negotiating this Agreement before this Commission, any other regulatory agency, or any court.
- 4.3 Neither this Agreement nor any of the positions taken in this Agreement by any of the Signatories may be referred to, cited, and or relied upon as precedent in any proceeding before the Commission, any other regulatory agency, or any court for any purpose except to secure approval of this Agreement and enforce its terms.
- 4.4 To the extent any provision of this Agreement is inconsistent with any existing Commission order, rule, or regulation, this Agreement shall control.

**PROPOSED SETTLEMENT AGREEMENT
DOCKET NO. WS-02987A-08-0180**

- 4.5 Each of the terms of this Agreement is in consideration of all other terms of this Agreement. Accordingly, the terms are not severable.
- 4.6 The Signatories shall make reasonable and good faith efforts necessary to obtain a Commission order approving this Agreement. The Signatories shall support and defend this Agreement before the Commission. Subject to paragraph 3.2 above, if the Commission adopts an order approving all material terms of the Agreement, the Signatories will support and defend the Commission's order before any court or regulatory agency in which it may be at issue.
- 4.7. This Agreement may be executed in any number of counterparts and by each Signatory on separate counterparts, each of which when so executed and delivered shall be deemed an original and all of which taken together shall constitute one and the same instrument. This Agreement may also be executed electronically or by facsimile.

RESIDENTIAL UTILITY CONSUMER OFFICE

By  _____
Title Director - RUCCO _____
Date 10/30/2013 _____

JOHNSON UTILITIES, LLC

By  _____
Title Managing Member _____
Date 11-10-13 _____

EXHIBIT A

Johnson Utilities - WW Division

SCHEDULE NO. 1

Rate Base

Docket No. _____

RATE BASE

1	PLANT		
2	Plant in Service	_____	
3	Less: Accumulated Depreciation	_____	
4	Net Plant		_____
5			
6	DEDUCTIONS		
7	Advances in Aid of Construction	_____	
8			
9	Contributions in Aid of Construction ("CIAC")	_____	
10	Accumulated Depreciation of CIAC	_____	
11	Net CIAC		
12			
13	Customer Meter Deposit	_____	
14			
15	Customer Security Deposits	_____	
16			
17	Accumulated Deferred Income Taxes ("ADIT")	_____	
18			
19			
20	ADDITIONS		
21	Deferred Regulatory Assets (Liabilities)	_____	
22			
23	Allowance for Working Capital	_____	
24			_____
25	Net Additions and Deductions		
26			
27	TOTAL RATE BASE		_____
28			
29			
30			
31	RATE OF RETURN		
32	Fair Value Rate Base - Ln 27 Above	_____	
33			
34	Operating Income - Schedule 3 Ln 30	_____	
35			
36	Current Rate of Return Ln 34 / Ln 32	_____	
37			
38	Approved Rate of Return - Last Rate Case	_____	
39			
40	Number of Customers - Last Rate Case	_____	
41			
42	Number of Customers - This Filing	_____	

WW DIVISION BALANCE BALANCE SHEET

1	<u>CURRENT AND ACCRUED ASSETS</u>		
2	Cash	_____	
3	Working Funds	_____	
4	Temporary Cash Investments	_____	
5	Customer Accounts Receivable	_____	
6	Notes/Receivables from Associated Companies	_____	
7	Plant Materials and Supplies	_____	
8	Prepayments	_____	
	Miscellaneous Current / Accrued Assets	_____	
9	Total Current and Accrued Assets		_____
10			
11	<u>FIXED ASSETS</u>		
12	Utility Plant In Service	_____	
13	Property Held for Future Use	_____	
14	Construction Work in Progress	_____	
15	Accumulated Depreciation - Utility Plant	_____	
16	Non-Utility Property	_____	
17	Accumulated Depreciation - Non Utility	_____	
18	Total Fixed Assets		_____
19			
20	TOTAL ASSETS		_____
21			
22	<u>CURRENT AND ACCRUED LIABILITIES</u>		
23	Accounts Payable	_____	
24	Notes Payable (Current Portion)	_____	
25	Notes / Accounts Payable to Assc Company	_____	
26	Security Deposits	_____	
27	Accrued Taxes	_____	
28	Accrued Interest	_____	
29	Miscellaneous Current / Accrued Liabilities	_____	
30	Total Current Liabilities		_____
31			
32	<u>LONG TERM DEBT</u>	_____	
33			
34	<u>DEFERRED CREDITS</u>		
35	Unamortized Premium on Debt	_____	
36	Advances in Aid of Construction	_____	
37	Accumulated Deferred Tax Credits	_____	
38	Contributions in Aid of Construction	_____	
39	Less: Amortizations of Contributions	_____	
40	Contributions in Aid of Construction - PHFU	_____	
41	Accumulated Deferred Income Tax	_____	
42	Total Deferred Credits		_____
43			
44	TOTAL LIABILITIES		_____
45			
46	<u>EQUITY</u>		
47	Common Stock Issued	_____	
48	Paid in Capital in Excess of Par Value	_____	
49	Retained Earnings	_____	
50	Proprietary Capital (Partnerships)	_____	
51	Total Equity		_____
52			
53	TOTAL LIABILITIES AND EQUITY		_____

Operating Income

Docket No. _____

SCHEDULE OF INCOME

1 **OPERATING REVENUES**

2	Metered Water Revenue	_____	
3	Annualized Revenues from 40-252 Tax Case	_____	
4	Unmetered Water Revenue	_____	
5	Other Water Revenues	_____	
6	Total Operating Revenues	_____	_____

7
8 **OPERATING EXPENSES**

9	Salaries and Wages	_____	
10	Purchased Water	_____	
11	Purchased Power	_____	
12	Sludge Removal	_____	
13	Chemicals	_____	
14	Repairs and Maintenance	_____	
15	Office Supplies and Expense	_____	
16	Outside Services	_____	
17	Water Testing	_____	
18	Rents	_____	
19	Transportation Expenses	_____	
20	Insurance Expense	_____	
21	Reg. Commission Expense	_____	
22	Bad Debt Expense	_____	
23	Miscellaneous Expense	_____	
24	Depreciation	_____	
25	Taxes Other Than Income	_____	
26	Property Taxes	_____	
27	Income Tax	_____	
28	Total Operating Expenses	_____	_____

29
30 **OPERATING INCOME (LOSS)**

31			_____
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32 **OTHER INCOME (LOSS)**

33	Interest and Dividend Income	_____	
34	Non-Utility Income	_____	
35	Miscellaneous Non-Utility Income	_____	
36	Interest Expense	_____	
37	Total Other Income (Loss)	_____	_____

38
39 **NET INCOME (LOSS)**

40			_____
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Town Of Florence Water Rates

	Current	2014
Inside Municipality	\$32.68	\$34.27
Outside Municipality	\$42.21	\$44.34

Town of Florence Wastewater Rates

	Current	2014
Inside Municipality	\$39.09	\$43.02
Outside Municipality	\$46.50	\$51.18

Johnson Utilities Water Rates

Current	\$31.51
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Johnson Utilities Wastewater Rates

Current	\$42.00
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Total Water & Sewer \$71.77 \$77.29 **\$73.51**

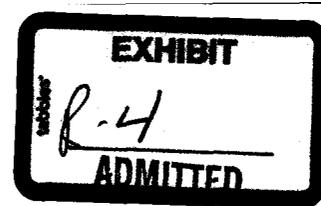
* Comparison based on 7,500 Gals of usage per month with a 3/4" Meter

Jerry L. Tuttle, C.P.A.
Paul G. Sharpe, C.P.A.
Constance L. Walsh, C.P.A.

Robert E. Travers, C.P.A.
Susan K. Lingle, C.P.A.
Jason J. Ashley, C.P.A.
Tamara J. Baker-Bryan, C.P.A.

**Hammond
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Arizona Society of
Certified Public Accountants

October 31, 2013

Mr. George H. Johnson
Johnson Utilities, L.L.C.
5230 E Shea Blvd, #200
Scottsdale AZ 85254

Dear Mr. Johnson:

As requested, I have reviewed the 2007 income tax returns of all partner-members of Johnson Utilities, L.L.C.

I confirm to you that the weighted average of the income taxes paid by all the Johnson Utilities, L.L.C, partners-members exceeds 25.00%.

If you have any questions, contact me.

Very truly yours,

A handwritten signature in black ink, appearing to read "Robert E. Travers".

Robert E. Travers, CPA

cc: D. Hodges
rt/

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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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

IN THE MATTER OF THE APPLICATION
OF JOHNSON UTILITIES, L.L.C., 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



**TESTIMONY OF DANIEL HODGES IN SUPPORT OF
SETTLEMENT AGREEMENT
JANUARY 17, 2014**

BROWNSTEIN HYATT FARBER SCHRECK, LLP
One East Washington Street, Suite 2400
Phoenix, AZ 85004
602.382.4040

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BROWNSTEIN HYATT FARBEN SCHRECK, LLP
One East Washington Street, Suite 2400
Phoenix, AZ 85004
602.382.4040

1 **I. INTRODUCTION.**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Daniel Hodges. My business address is 5230 East Shea Boulevard,
4 Suite 200, Scottsdale, Arizona 85254.

5 **Q. DO YOU WORK FOR JOHNSON UTILITIES, L.L.C.?**

6 A. Yes.

7 **Q. HAVE YOU TESTIFIED PREVIOUSLY IN ANY PROCEEDINGS**
8 **BEFORE THE ARIZONA CORPORATION COMMISSION**
9 **(“COMMISSION”)?**

10 A. Yes. I have testified as a witness for Johnson Utilities in Dockets WS-02987A-
11 09-0083 and WS-02987-12-0136.

12 **II. PURPOSE OF TESTIMONY**

13 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

14 A. I am testifying in support of the Proposed Settlement Agreement (“Settlement
15 Agreement”) between Johnson Utilities, L.L.C. (“Johnson Utilities” or the
16 “Company”) and the Residential Utility Consumer Office (“RUCO”) that was
17 filed in this docket on November 4, 2013.

18 **Q. DID YOU PARTICIPATE PERSONALLY IN THE NEGOTIATION OF**
19 **THE SETTLEMENT AGREEMENT?**

20 A. Yes. I participated over the past several months in discussions and
21 communications with RUCO which led to the Settlement Agreement.

22 **Q. WHAT IS THE PURPOSE OF THE SETTLEMENT AGREEMENT?**

23 A. As between Johnson Utilities and RUCO, the Settlement Agreement resolves all
24 issues raised in the Petition for Rehearing Pursuant to A.R.S. §40-253 filed by
25 Johnson Utilities on July 26, 2013 (the “Johnson Utilities Petition”) and the
26 Application for Rehearing of Decision No. 73992 filed by RUCO on July 31,
27 2013 (the “RUCO Application”).

28

1 **III. THE JOHNSON UTILITIES PETITION FOR REHEARING**

2 **Q. WHAT WAS THE ISSUE RAISED IN THE JOHNSON UTILITIES**
3 **PETITION?**

4 A. Johnson Utilities was seeking a rehearing on that limited portion of Decision
5 73992 (July 16, 2013) which imposed a new requirement that the Company file a
6 rate case for both its water and wastewater divisions no later than June 30, 2015,
7 using a 2014 calendar year test year. Please allow me to provide some
8 background.

9 On August 25, 2010, the Commission issued Decision 71854 which
10 ordered decreases in the rates and charges of Johnson Utilities for both its water
11 and wastewater divisions retroactive to June 1, 2010. Decision 71854 also
12 authorized the Company to implement a Central Arizona Groundwater
13 Conservation District ("CAGR") adjustor fee, subject to conditions proposed by
14 Staff. Johnson Utilities filed proposed CAGR adjustor fees with the
15 Commission on September 23, 2010, and the Commission approved the CAGR
16 adjustor fees in Decision 72089 (January 20, 2011) for all customer billings
17 subsequent to October 1, 2010.

18 On February 28, 2011, Johnson Utilities filed a Petition to Amend Decision
19 71854 Pursuant to A.R.S. § 40-252 to correct what the Company believed were
20 several errors in the decision. On September 15, 2011, the Commission issued
21 Decision 72579 which increased the Company's sewer rates for billings after
22 October 1, 2011, to address a correction in the Company's wastewater rate base
23 and established an 8% rate of return for the Company's wastewater division.
24 Decision 72579 also modified the late fee for wastewater service and reinstated
25 the Company's hook-up fees tariffs for the water and wastewater divisions.

26 Decision 72579 further amended Decision 71854 by ordering that "in the
27 event the Commission alters its policy to allow S corporation and LLC entities to
28 impute a hypothetical income tax expense for ratemaking purposes, Johnson

1 Utilities may file a motion to amend this Order prospectively, and Johnson
2 Utilities' authorized revenue requirement hereunder, pursuant to A.R.S. § 40-252,
3 to reflect the change in Commission policy." In Decision 73739 issued February
4 22, 2013, the Commission adopted an Income Tax Policy Statement stating that it
5 is in the public interest to allow tax pass-through entities to include income tax
6 expense as a part of their cost of service. Shortly thereafter, on March 8, 2013,
7 Johnson Utilities filed a Petition to Amend Decision 71854 Pursuant to A.R.S. §
8 40-252 to increase its test year revenue requirement to include income tax
9 expense. The Commission approved the Company's request in Decision 73992
10 issued July 16, 2013, and the new increased rates went into effect in August 2013.

11 Decision 73992 also adopted Staff's recommendation that "the Company
12 be ordered to file a full rate case application for both its water and wastewater
13 divisions by no later than June 30, 2015, using a 2014 calendar year test year."¹ It
14 was this new requirement that prompted the Company to file the Johnson Utilities
15 Petition seeking a ^{two}~~one~~-year delay in the rate case filing requirement.

16 **Q. WHAT WAS THE REASON FOR STAFF'S RECOMMENDATION**
17 **REGARDING THE FILING OF A RATE CASE?**

18 **A.** Staff is concerned about the potential length of time between Johnson Utilities'
19 last rate case and the next rate case the Company files. Decision 73992 states as
20 follows at Findings of Fact 10-12:

21 10. In its petition, the Company stated that, if its application is approved,
22 the Company would not need new rates to be effective prior to July
23 1, 2019.

24 11. Staff notes that the new Commission income tax policy has no stay-
25 out requirements. Further, Decision No. 71854 (amended by
26 Decision No. 72579) was the Company's first rate case since the
27 granting of its Certificate of Convenience and Necessity by Decision
28 No. 60223 (May 27, 1997).

¹ Decision 73992 at page 5, FOF 21, and page 6, lines 1-2.

1 12. Because of the length of time between rate cases that would occur if
2 the Company did not file a new rate application for several years,
3 Staff recommends that the Company be ordered to file a full rate
4 case application for its water and wastewater divisions by no later
5 than June 30, 2015, using a 2014 calendar year test year.²

6 **Q. DOES JOHNSON UTILITIES AGREE WITH THE BASIS OF STAFF'S**
7 **RECOMMENDATION?**

8 A. No, we disagree for several reasons. First, while Johnson Utilities' last rate case
9 was filed in 2008, the rates in effect today were not fully adopted and
10 implemented until August 2013, less than six months ago. As I described above,
11 the Company's rates and charges were decreased in Decision 71854 (August 25,
12 2010) retroactive to June 1, 2010, but were subsequently modified three times, as
13 follows:

- 14 • The new CAGR adjustor fees were implemented pursuant to
15 Decision 72089 for customer billings for water sold after October 1,
16 2010.
- 17 • Sewer rates were increased in Decision 72579 for billings after
18 October 1, 2011.
- 19 • Increases in water and sewer rates resulting from the inclusion of
20 income tax expense in the revenue requirement were implemented
21 pursuant to Decision 73992 for billings for service provided after
22 August 1, 2013.

23 Johnson Utilities has been back before the Commission almost continuously
24 regarding its rates and charges since Decision 71854 was issued in the fall of
25 2010.

26 Second, Staff's recommendation was based upon pure conjecture that
27 Johnson Utilities "will not file a new rate application for several years." This
28 possibility exists with all public utilities and it is my understanding that the
29 Commission does not typically order a utility to file a rate case by a date certain.

30 Rate cases are very expensive to prepare, file and prosecute,³ and rate case

² Decision 73992 at page 3, FOFs 10-12 (emphasis added).

³ I would note that Johnson Utilities spent in excess of \$1 million dollars on this rate case.

1 expense is ultimately borne by the customers through rates. Thus, in the absence
2 of some credible evidence by Staff that there is a need to file a public utility
3 should determine the timing for filing for new rates and charges based upon a
4 careful consideration of all of the relevant facts.

5 Third, Staff has provided no analysis or any basis for selecting a 2014 test
6 year as opposed to any other test year. The recommendation of a 2014 test year
7 appears to be purely arbitrary.

8 Fourth, if the Commission or Staff has a reasonable basis to believe that the
9 rates and charges of a utility are “unjust, discriminatory or preferential, illegal or
10 insufficient,” then the Commission always has the authority under A.R.S. §40-203
11 to undertake a rate review with respect to the utility and to adjust the utility’s rates
12 and charges based upon the outcome of that review.⁴

13 **Q. HAS STAFF PRESENTED ANY EVIDENCE THAT THE COMPANY’S**
14 **CURRENT RATES AND CHARGES ARE “UNJUST, DISCRIMINATORY**
15 **OR PREFERENTIAL, ILLEGAL OR INSUFFICIENT?”**

16 **A.** No. In fact, in evaluating the Company’s request for inclusion of income tax
17 expense in its rates, Staff stated in its April 26, 2013, Staff Report and Proposed
18 Order that “Staff concurs with these amounts because they comply with the
19 Commission’s new policy and will therefore result in just and reasonable rates.”⁵
20 This same language was included in Decision 73992 at Finding of Fact No. 5 and
21 Conclusion of Law No. 5. There is no evidence that the Company’s current rates
22 are not just and reasonable.

23 **Q. NOTWITHSTANDING JOHNSON UTILITIES’ DISAGREEMENT WITH**
24 **THE BASIS OF STAFF’S RECOMMENDATION, IS THE COMPANY**
25 **OPPOSED TO A REQUIREMENT THAT IT FILE A RATE CASE?**

26
27 ⁴ Please note that I am not an attorney and this portion of my testimony is based upon my reading of
28 A.R.S. §40-203 and my understanding of Commission practice based upon my experience working for a
public utility.

⁵ Staff Report and Proposed Order dated April 26, 2013, at page 1.

1 A. No. Johnson Utilities does not oppose a requirement that it file a rate case.
2 However, the Company does oppose the requirement that it file a rate case by
3 June 30, 2015, using a 2014 calendar year test year, as I will discuss later in my
4 testimony.

5 **Q. DOES THE SETTLEMENT AGREEMENT ADDRESS THE ISSUE OF**
6 **THE TEST YEAR?**

7 A. Yes. In the Johnson Utilities Petition, the Company requested the amendment of
8 Decision 73992 to require a rate case filing by June 30, 2017, using a calendar
9 year 2016 test year. As part of the give and take negotiations which produced the
10 Settlement Agreement, Johnson Utilities agreed to file its next rate case by June
11 30, 2016, using a 2015 calendar year. This is one year later than the 2014 test
12 year ordered in Decision 73992 and one year earlier than the 2016 test year
13 requested in the Johnson Utilities Petition.

14 **Q. WILL A DELAY OF ONE YEAR IN THE RATE CASE FILING**
15 **REQUIREMENT MAKE A MATERIAL DIFFERENCE TO JOHNSON**
16 **UTILITIES?**

17 A. Absolutely. Over the next two or three years, Johnson Utilities will be investing
18 in significant plant improvements and expansions, including a major expansion of
19 a wastewater treatment plant. Much of this planned construction will not be
20 completed by the end of 2014. In addition, Johnson Utilities is experiencing
21 significant increases in power costs and the Company is preparing for the
22 implementation of the Patient Protection and Affordable Care Act (also known as
23 ObamaCare), the full financial impact of which will not be known until after this
24 year. Delaying the test year by even one year will allow the Company to include
25 the additional plant investment in rate base and the additional expenses in
26 operating expenses. Alternatively, requiring the filing of a rate case using a 2014
27 calendar year test year will very likely force Johnson Utilities to file back-to-back
28 rate cases, which would be burdensome and costly for the Company and its

1 customers.

2 **Q. WOULD A ONE-YEAR DELAY IN FILING A RATE CASE HAVE ANY**
3 **ADVERSE EFFECT ON THE COMPANY'S CUSTOMERS?**

4 A. No. Johnson Utilities acknowledges and understands the legitimate interest of the
5 Commission, Staff and customers in utilities filing periodic and regular rate cases.
6 However, in this case Staff has provided no basis or rationale for selecting a 2014
7 calendar year test year over any other year, Staff has presented no evidence that
8 the Company's current rates are in any way "unjust, discriminatory or
9 preferential, illegal or insufficient," and I have provided legitimate reasons to
10 support the Company's request for a one-year delay in the rate case filing
11 requirement. Additionally, as I have previously stated, the requirement of a 2014
12 test year will likely result in the need for back-to-back rate cases. For all of these
13 reasons, I do not ^{know} how a one-year delay in the rate case filing requirement can have
14 any adverse impact on customers.

15 **IV. RUCO APPLICATION FOR REHEARING**

16 **Q. WHAT WAS THE ISSUE RAISED IN THE RUCO APPLICATION?**

17 A. The RUCO Application speaks for itself but in short, RUCO opposed the
18 inclusion of income tax expense in the rates and charges of Johnson Utilities as
19 authorized in Decision 73992.

20 **Q. HOW DOES THE SETTLEMENT AGREEMENT ADDRESS THE ISSUES**
21 **RAISED BY RUCO REGARDING INCOME TAX EXPENSE?**

22 A. Under the Settlement Agreement, Johnson Utilities agrees to reduce the applicable
23 income tax rate from 36.66% to 25% for the Company's wastewater division.

24 **V. ADOPTION OF THE SETTLEMENT AGREEMENT IS IN THE PUBLIC**
25 **INTEREST**

26 **Q. WHAT ARE THE BENEFITS OF THE SETTLEMENT AGREEMENT?**

27 A. The Settlement Agreement fully resolves all disputes between RUCO and Johnson
28

1 Utilities pertaining to Decision 73992 and, likewise, resolves all issues between
2 the parties raised in the RUCO Application and the Johnson Utilities Petition.
3 Specifically, the Settlement Agreement provides the following benefits:

- 4 • It requires independent verification that the actual weighted average
5 income tax rate of the members of Johnson Utilities is at least equal
6 to or higher than the imputed income tax rate of 25% for the
7 wastewater division which the parties agree to in the Settlement
8 Agreement.
- 9 • It reduces the applicable imputed income tax rate from 36.6558% to
10 25.00% for the wastewater division, resulting in lower wastewater
11 rates and combined annual savings for wastewater customers of
12 approximately \$289,000.
- 13 • It requires Johnson Utilities to file a rate case by June 30, 2016,
14 using a 2015 test year.
- 15 • It requires Johnson Utilities to file yearly earnings reports, in the
16 form of the schedules attached as Exhibit A to the Settlement
17 Agreement, for the years 2013 and 2014 prior to the next rate case.
- 18 • It avoids further litigation and cost for both parties.
- 19 • It does not impair the right of RUCO to challenge or the right of
20 Johnson Utilities to support future determinations regarding the
21 imputation of income tax for limited liability companies, subchapter
22 S corporations, and other forms of tax pass-through entities.

23 **Q. HOW WILL NEW WASTEWATER RATES BE IMPLEMENTED IF THE**
24 **COMMISSION APPROVES THE SETTLEMENT AGREEMENT?**

25 A. Pursuant to Section 2.2 of the Settlement Agreement, within 30 days of
26 Commission approval, Johnson Utilities would file a revised tariff with the new
27 lower wastewater rates. The new wastewater rates would be effective for all
28 billings on and after the date of the Commission's order approving the Settlement
Agreement. The Settlement Agreement does not affect the rates for water service
approved in Decision 73992 which shall remain in effect.

1 Q. BASED UPON THE BENEFITS YOU HAVE DESCRIBED, AS WELL AS
2 THE REASONS YOU HAVE PROVIDED SUPPORTING THE
3 COMPANY'S NEED FOR A ONE-YEAR DELAY IN THE TEST YEAR,
4 DO YOU BELIEVE THAT APPROVAL OF THE SETTLEMENT
5 AGREEMENT IS IN THE PUBLIC INTEREST?

6 A. Yes. A negotiated settlement agreement finds common ground between the
7 parties and resolves disagreements in a way that is supported by each of the
8 settling parties. In this instance, the Settlement Agreement, if approved, will
9 result in lower wastewater rates for Johnson Utilities customers as described
10 above. It also allows the Company to use a test year for its next rate case that will
11 better reflect plant in service and cost of service, and will help the Company avoid
12 a scenario where it might otherwise be forced to file back-to-back rate cases. For
13 all of these reasons, the Settlement Agreement is in the public interest.

14 Q. WHAT ACTION DOES JOHNSON UTILITIES REQUEST THAT THE
15 COMMISSION TAKE WITH RESPECT TO THE SETTLEMENT
16 AGREEMENT?

17 A. Johnson Utilities requests that the Commission issue its order modifying Decision
18 73992 to adopt and/or reflect the relevant provisions of the Settlement Agreement.

19 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

20 A. Yes.

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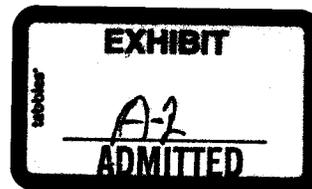
BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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

IN THE MATTER OF THE APPLICATION
OF JOHNSON UTILITIES, L.L.C., 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



**SURREBUTTAL TESTIMONY OF DANIEL HODGES IN
SUPPORT OF SETTLEMENT AGREEMENT
FEBRUARY 28, 2014**

BROWNSTEIN HYATT FARBER SCHRECK, LLP
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1 **I. INTRODUCTION.**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Daniel Hodges. My business address is 5230 East Shea Boulevard,
4 Suite 200, Scottsdale, Arizona 85254.

5 **Q. HAVE YOU PROVIDED TESTIMONY PREVIOUSLY IN THIS**
6 **DOCKET?**

7 A. Yes. I provided the Testimony of Daniel Hodges in Support of Settlement
8 Agreement dated January 17, 2014 ("Direct Testimony").

9 **II. PURPOSE OF SURREBUTTAL TESTIMONY**

10 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

11 A. I respond to certain statements contained in the Testimony of Darron Carlson
12 ("Carlson Testimony") dated February 12, 2014, regarding the Proposed
13 Settlement Agreement ("Settlement Agreement") between Johnson Utilities,
14 L.L.C. ("Johnson Utilities" or the "Company") and the Residential Utility
15 Consumer Office ("RUCO") that was filed in this docket on November 4, 2013.

16 **Q. HAVE YOU REVIEWED THE CARLSON TESTIMONY?**

17 A. Yes.

18 **III. STAFF COMPLETELY IGNORES THE COMPANY'S REASONS FOR A**
19 **ONE-YEAR EXTENSION OF THE RATE CASE TEST YEAR**

20 **Q. IN YOUR DIRECT TESTIMONY AT PAGES 6-7, YOU EXPLAIN THE**
21 **REASONS WHY A ONE-YEAR DELAY IN THE RATE CASE FILING**
22 **REQUIREMENT WILL MAKE A MATERIAL DIFFERENCE TO**
23 **JOHNSON UTILITIES. DOES THE CARLSON TESTIMONY ADDRESS**
24 **ANY OF THE REASONS DISCUSSED IN YOUR DIRECT TESTIMONY?**

25 A. No. Mr. Carlson completely ignores the reasons supporting the Company's
26 request for a one-year delay. As I explained in my Direct Testimony, over the
27 next two or three years, Johnson Utilities will be investing in significant plant
28

1 improvements and expansions, including a major expansion of a wastewater
2 treatment plant. To provide some additional detail, the Company will be
3 expanding the capacity of its Pecan wastewater treatment plant (“WWTP”) as
4 well as constructing a bypass of wastewater flows from the Pecan WWTP to the
5 San Tan WWTP. The costs of this construction will exceed \$5,000,000. In
6 addition, Johnson Utilities will be constructing three new water wells and
7 additional new water storage at a total cost of more than \$1,500,000. Much of this
8 construction will not be completed by the end of 2014. While the Company
9 would feel more comfortable that it can have all of the necessary construction
10 completed in 2016, we will work hard to get the work finished in 2015 so that it
11 can be included in a 2015 calendar year test year.

12 In addition to the plant construction described above, Johnson Utilities is
13 experiencing significant increases in power costs and the Company is preparing
14 for implementation of the Patient Protection and Affordable Care Act (also known
15 as ObamaCare), the full financial impact of which will not be known until after
16 this year.

17 Delaying the test year by one year from 2014 to 2015 will allow Johnson
18 Utilities to include significant additional plant investment in rate base and
19 additional expenses in operating expenses. Alternatively, requiring the filing of a
20 rate case using a 2014 calendar year test year will very likely force the Company
21 to file back-to-back rate cases, which would be burdensome and costly for the
22 Company and its customers, who ultimately pay the expense of a rate case.

23 **Q. YOU TESTIFIED AT PAGE 5 OF YOUR DIRECT TESTIMONY THAT**
24 **STAFF PROVIDED NO ANALYSIS OR ANY BASIS FOR SELECTING A**
25 **2014 TEST YEAR AS OPPOSED TO ANY OTHER TEST YEAR WHEN IT**
26 **FILED ITS STAFF REPORT AND ORDER ON APRIL 26, 2013. DOES**
27 **THE CARLSON TESTIMONY ADDRESS THIS POINT?**

28 **A. No.** In the Staff Report and Order, Staff was concerned about “the length of time

1 between rate cases that would occur if the Company did not file a new rate case
2 application for several years.¹ As a result, Staff recommended a 2014 test year.
3 However, there was no discussion or analysis in the Staff Report and Order to
4 explain why Staff picked 2014 as opposed to some other year. Thus, it appears
5 clear that Staff was primarily concerned with having a deadline for filing a rate
6 case rather than setting a specific test year for that rate case. In other words, there
7 is nothing in the Staff Report and Order to suggest that Staff put much thought
8 into a specific test year.

9 In the Carlson Testimony, Mr. Carlson states for the first time that “the
10 Commission recommends a three to five year period between rate cases.”² This
11 was certainly not put forth as a basis for Staff’s recommendation of a 2014 test
12 year in the Staff Report and Order. Furthermore, I am not aware that this is a
13 policy of the Commission or a recommendation that is typically included in rate
14 case orders. Additionally, Mr. Carlson’s statement is at odds with a statement in
15 the February 21, 2014, Staff Report and Order in the Sahuarita Water Company
16 rate case in Docket W-03718A-09-0359. In that Staff Report and Order, Staff
17 recommended a 2014 test year for Sahuarita Water Company “[i]n order to limit
18 the time span between rate cases to six years.”³ Thus, there appears to be a
19 difference of opinion among Staff analysts regarding the appropriate time span
20 between rate cases.

21 **Q. DOES JOHNSON UTILITIES INTEND TO WAIT SEVERAL YEARS TO**
22 **FILE A NEW RATE CASE APPLICATION, AS STAFF IS CONCERNED?**

23 A. No. As the Commission is aware, Johnson Utilities has filed an application to sell
24 and transfer all of the Company’s utility assets to the Town of Florence and
25 conditionally cancel its Certificate of Convenience and Necessity in Docket WS-
26 02987A-13-0477. While we fully expect that transaction to close (contingent

27 ¹ Staff Report and Order dated April 26, 2013 at 2.

28 ² Staff Report and Order dated April 26, 2013 at 2.

³ Staff Report and Order (Docket W-03718A-09-0359) dated February 21, 2014 at 2.

1 upon voter approval and prior approval by the Commission), in the unlikely event
2 that the transaction does not move forward, Johnson Utilities is obligated under
3 the Settlement Agreement to file a rate case by June 30, 2016, using a 2015
4 calendar year test year. The Company would certainly comply with that
5 requirement. Thus, Staff's concern that Johnson Utilities will wait several more
6 years to file a rate case is unfounded.

7 **Q. DOES THE SETTLEMENT AGREEMENT REQUIRE JOHNSON**
8 **UTILITIES TO FILE A RATE CASE A YEAR EARLIER THAN THE**
9 **COMPANY REQUESTED IN ITS PETITION FOR REHEARING FILED**
10 **JULY 26, 2013?**

11 A. Yes. In its petition, Johnson Utilities requested that the Commission amend
12 Decision 73992 to require a rate case filing by June 30, 2017, using a 2016
13 calendar year test year. As part of its negotiations with RUCO, Johnson Utilities
14 agreed to move up the test year by one year to calendar year 2015. This is only
15 one year later than the 2014 calendar year test year recommended by Staff.

16 **Q. IN YOUR DIRECT TESTIMONY AT PAGE 5, YOU ASSERT THAT**
17 **THERE IS NO EVIDENCE THAT THE CURRENT RATES OF JOHNSON**
18 **UTILITIES ARE NOT JUST AND REASONABLE. DOES THE**
19 **CARLSON TESTIMONY REFUTE THIS ASSERTION?**

20 A. No. Mr. Carlson acknowledges that "a full rate case analysis is necessary to
21 determine if current rates are still just and reasonable."⁴ Stated in the opposite,
22 without a rate case, Mr. Carlson cannot testify that the current rates of Johnson
23 Utilities are not just and reasonable. It is important to note that as recently as July
24 16, 2013, just a little more than seven months ago, the Commission found in
25 Decision 73992 that "the rates proposed herein [for Johnson Utilities] are just and
26 reasonable."⁵

27
28 ⁴ Carlson Testimony at 4, lines 19-20 (emphasis added).

⁵ Decision 73992 at 5, lines 19-21.

1 Q. IN YOUR DIRECT TESTIMONY AT PAGE 7, YOU ASSERT THAT A
2 ONE-YEAR DELAY IN FILING A RATE CASE WOULD NOT HAVE AN
3 ADVERSE AFFECT ON THE COMPANY'S CUSTOMERS. DOES THE
4 CARLSON TESTIMONY REFUTE THIS ASSERTION?

5 A. No. As I note above, Mr. Carlson testifies that "a full rate case analysis is
6 necessary to determine if current rates are still just and reasonable."⁶ This
7 statement, however, would apply to virtually any utility at any given point in time.
8 As I understand ratemaking, rates are just and reasonable at the point in time they
9 are established and approved by the Commission. After that, a utility's revenues,
10 expenses, plant investment and cost of capital may change. Mr. Carlson does not
11 testify that the Company's rates are not just and reasonable. Rather, he believes
12 that due to growth in the customer count, the Company's "revenue and also most
13 likely expenses have changed significantly, but not necessarily proportionately."⁷
14 Although Johnson Utilities has had growth in its customer numbers, it is
15 important to keep in mind that the Company actually has four separate systems
16 and the cost per customer has not gone down simply due to growth. The
17 Company's service area is spread from Apache Junction to Queen Creek to
18 Florence, which is over 20 miles between them.

19 As I have testified, delaying the test year by even one year will allow
20 Johnson Utilities to include additional plant investment in rate base and additional
21 expenses in operating expenses. This, in turn, will lessen the need for the
22 Company to file expensive back-to-back rate cases. Given all of these
23 considerations, the requested delay in the rate case filing requirement is
24 reasonable and will not adversely affect the Company's customers.

25
26
27
28 ⁶ Carlson Testimony at 4, lines 19-20 (emphasis added).

⁷ Carlson Testimony at 4, lines 18-19.

1 **IV. BIFURCATION OF THE SETTLEMENT AGREEMENT WOULD BE**
2 **UNFAIR TO JOHNSON UTILITIES**

3 **Q. MR. CARLSON TESTIFIES AT PAGE 5 OF HIS TESTIMONY THAT**
4 **JOHNSON UTILITIES AND RUCO COULD AGREE TO BIFURCATE**
5 **THE SETTLEMENT AGREEMENT INTO TWO PARTS—THE INCOME**
6 **TAX RATE ADJUSTMENT TO DECREASE THE RATE INCREASE**
7 **PREVIOUSLY APPROVED IN DECISION 73992 AND THE RATE CASE**
8 **TEST YEAR FILING REQUIREMENT. WILL JOHNSON UTILITIES**
9 **AGREE TO BIFURCATE THE SETTLEMENT AGREEMENT ISSUES AS**
10 **PROPOSED BY MR. CARLSON?**

11 **A.** No. Settlement agreements by their nature are an amalgamation of gives and
12 takes. To achieve consensus for a settlement, a party may accept a position that in
13 any other circumstances it would be unwilling to accept. The party does so
14 because it believes the settlement, as a whole, is consistent with its long-term
15 interests and with broad public interest. When someone attempts to sever parts of
16 a settlement agreement, the agreement begins to unravel. For this reason, Section
17 4.5 of the Settlement Agreement specifically provides that “[e]ach of the terms of
18 this Agreement is in consideration of all other terms of this Agreement” and that
19 “the terms are not severable.” The wastewater rate decrease and the one-year
20 extension of the rate case filing requirement are tied together.

21 The Settlement Agreement, if approved, would result in an immediate
22 reduction in the wastewater rates for Johnson Utilities customers, an obvious
23 benefit to the residential rate payers that RUCO represents. In exchange, RUCO
24 has agreed to a one-year extension of the rate case filing requirement in Decision
25 73992. This was an important benefit for Johnson Utilities. Staff would have the
26 Company potentially surrender this benefit while accepting the concession of
27 lower wastewater rates. This would not be fair.

1 **Q. MR. CARLSON STATES AT PAGE 6 OF HIS TESTIMONY THAT “IF**
2 **EITHER PARTY REFUSES THE BIFURCATION OF THE ISSUES,**
3 **STAFF RECOMMENDS DENIAL OF THE ENTIRE SETTLEMENT**
4 **AGREEMENT.” DO YOU BELIEVE THAT DENIAL OF THE**
5 **SETTLEMENT AGREEMENT IS IN THE PUBLIC INTEREST?**

6 A. No. Mr. Carlson has testified that Staff supports the portion of the Settlement
7 Agreement which reduces the increase in wastewater rates authorized in Decision
8 73992, and Staff recommends approval of the rate decrease. Yet, Staff is willing
9 to risk losing this important rate reduction to the Company’s customers by
10 refusing to accept a reasonable one-year extension of the rate case filing
11 requirement in Decision 73992. Given the facts and circumstances of this case as
12 presented in the testimony, and the lack of a compelling argument to support
13 Staff’s position regarding the extension of the rate case filing requirement, the
14 Commission should approve the Settlement Agreement.

15 **Q. BASED UPON THE BENEFITS YOU HAVE DESCRIBED, AS WELL AS**
16 **THE REASONS YOU HAVE PROVIDED SUPPORTING THE**
17 **COMPANY’S NEED FOR A ONE-YEAR EXTENSION OF THE RATE**
18 **CASE FILING REQUIREMENT, DO YOU BELIEVE THAT APPROVAL**
19 **OF THE SETTLEMENT AGREEMENT IS IN THE PUBLIC INTEREST?**

20 A. Yes. The Settlement Agreement fully resolves all disputes between RUCO and
21 Johnson Utilities pertaining to Decision 73992 and, likewise, resolves all issues
22 between the parties raised in RUCO’s Application for Rehearing filed July 31,
23 2013, and the Company’s Petition for Rehearing filed July 26, 2013. As I have
24 testified previously, the Settlement Agreement provides the following benefits:

- 25 • It requires independent verification that the actual weighted average
26 income tax rate of the members of Johnson Utilities is at least equal
27 to or higher than the imputed income tax rate of 25% for the
28 wastewater division which the parties agree to in the Settlement
Agreement.

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One East Washington Street, Suite 2400
Phoenix, AZ 85004
602.382.4040

- 1 • It reduces the applicable imputed income tax rate from 36.6558% to
- 2 25.00% for the wastewater division, resulting in lower wastewater
- 3 rates and combined annual savings for wastewater customers of
- 4 approximately \$289,000.
- 5 • It requires Johnson Utilities to file a rate case by June 30, 2016,
- 6 using a 2015 test year.
- 7 • It requires Johnson Utilities to file yearly earnings reports, in the
- 8 form of the schedules attached as Exhibit A to the Settlement
- 9 Agreement, for the years 2013 and 2014 prior to the next rate case.
- 10 • It avoids further litigation and cost for both parties.
- 11 • It does not impair the right of RUCO to challenge or the right of
- 12 Johnson Utilities to support future determinations regarding the
- 13 imputation of income tax for limited liability companies, subchapter
- 14 S corporations, and other forms of tax pass-through entities.

15 I would add also that the Settlement Agreement benefits the Commission
16 directly in that it resolves a challenge to Decision 73992 which would very likely
17 be headed to the courts.

18 **Q. WHAT ACTION DOES JOHNSON UTILITIES REQUEST THAT THE**
19 **COMMISSION TAKE WITH RESPECT TO THE SETTLEMENT**
20 **AGREEMENT?**

21 A. Johnson Utilities requests that the Commission issue its order modifying Decision
22 73992 to adopt and/or reflect the relevant provisions of the Settlement Agreement.

23 **V. STATUS OF THE SALE TO THE TOWN OF FLORENCE**

24 **Q. WHAT IS THE CURRENT STATUS OF THE PLANNED SALE AND**
25 **TRANSFER OF THE COMPANY'S UTILITY ASSETS TO THE TOWN**
26 **OF FLORENCE?**

27 A. On December 31, 2013, Johnson Utilities filed an Application for Approval of the
28 Sale and Transfer of Assets and Conditional Cancellation of Certificate of
 Convenience and Necessity in Docket WS-02987A-13-0477. On February 18,

Surrebuttal Testimony of Daniel Hodges in Support of Settlement Agreement
Docket WS-02987A-08-0180

1 2014, the Town of Florence adopted Resolution 1421-14 which authorizes a
2 special election to be held on May 20, 2014, regarding the Town's acquisition of
3 the assets of Johnson Utilities and Southwest Environmental Utilities. A copy of
4 the resolution, together with the action minutes showing its approval, are attached
5 to my testimony as Exhibit 1. Johnson Utilities and the Town are negotiating the
6 terms of an asset purchase agreement which should be completed and executed in
7 the near future, contingent upon voter approval and the approval of the
8 Commission. If all goes as planned, the parties hope to close the transaction by
9 the end of the Town's current fiscal year which is June 30, 2014.

10 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

11 A. Yes.

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Phoenix, AZ 85004
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EXHIBIT 1

RESOLUTION 1421-14

A RESOLUTION OF THE TOWN OF FLORENCE, PINAL COUNTY, ARIZONA, ORDERING AND CALLING, A SPECIAL ELECTION TO BE HELD ON MAY 20, 2014, IN AND FOR THE TOWN OF FLORENCE, ARIZONA, TO SUBMIT TO THE QUALIFIED ELECTORS OF THE TOWN THE QUESTION OF THE ACQUISITION OF THE WATER AND WASTEWATER UTILITIES OWNED BY JOHNSON UTILITIES, LLC, AND SOUTHWEST ENVIRONMENTAL UTILITIES, LLC.

WHEREAS, the Mayor and Council of the Town of Florence, Arizona, (hereinafter referred to as the "Town") hereby find and determine that the Town should acquire by purchase or condemnation, the water and wastewater utilities and related assets owned by Johnson Utilities, LLC, and Southwest Environmental Utilities, LLC, which provide a portion of the Town's residents with water and wastewater service so as to enable the Town to own and operate the utilities; and

WHEREAS, Arizona law requires cities and towns to obtain voter authorization before construction, purchase, acquisition or lease of any plant or property of a public utility. This measure will determine whether the Town of Florence shall be authorized to acquire and operate the water and wastewater utilities and related assets owned by Johnson Utilities, LLC, and Southwest Environmental Utilities, LLC.

BE IT RESOLVED by the Mayor and Council of the Town of Florence, Arizona, as follows:

Section 1: Designation of Election Date; Purpose

That Tuesday, May 20, 2014 has been set as the date for the Special Election in the Town of Florence, Arizona, for the purpose of submitting to the qualified electors of the Town the question of acquiring the water and wastewater utilities and related assets owned by Johnson Utilities, LLC, and Southwest Environmental Utilities, LLC, utility systems and the water and wastewater facilities, including but not limited to well sites, pumping stations, wastewater treatment plants, setback areas, access rights, current and future water delivery systems, and the service area connected to or associated with them necessary to provide utility service within and outside the Town limits.

Section 2: Designation of Election

(A) The Town Clerk is authorized to conduct the May 20, 2014 Special Election in accordance with A.R.S. Title 16.

(B) That all expenditures as may be necessary to order, notice, hold and administer the Election are hereby authorized, which expenditures shall be paid from current operating funds of the Town.

(C) That the Town Clerk is hereby authorized to take all necessary action to facilitate the Election.

Section 3: Ballot Language

That the official ballot for the Election (hereinafter referred to as the "Official Ballot") shall be in substantially the form attached hereto as Exhibit "A."

Section 4: Designation Deadline for Voter Resignation

Pinal County registration and voting lists will be used for the municipal election. In order to be qualified to vote you must be registered by April 21, 2014.

PASSED AND ADOPTED by the Mayor and Council of the Town of Florence, Arizona, this 18th day of February 2014.

Tom J. Rankin, Mayor

ATTEST:

APPROVED AS TO FORM:

Lisa Garcia, Town Clerk

James E. Mannato, Town Attorney

CERTIFICATION

I hereby certify that the foregoing Resolution ____ was duly passed and adopted by the Mayor and Council of the Town of Florence, Arizona, at a regular meeting held on February 18, 2014, that the vote thereon was ____ ayes, ____ nays, and that the Mayor and Town Council members were present thereat.

Lisa Garcia, Town Clerk
Florence, Arizona

EXHIBIT "A"

OFFICIAL BALLOT

QUESTION: Acquisition of utilities owned by Johnson Utilities, LLC, and Southwest Environmental Utilities

Official Title: Shall the Town of Florence, Arizona, be authorized to acquire and operate the water and wastewater utilities and related assets owned by Johnson Utilities, LLC, and Southwest Environmental Utilities Utility, including but not limited to wells sites, pumping stations, setback areas, access rights, and current and future water and wastewater delivery system and service area connected to or associated with them necessary to provide water service within and outside the Town limits?

Descriptive Title:

Arizona law requires cities and towns to obtain voter authorization before construction, purchase, acquisition or lease of any plant or property of a public utility. This measure will determine whether the Town of Florence shall be authorized to acquire and operate the water and wastewater utilities owned by Johnson Utilities, LLC, and Southwest Environmental Utilities.

A "YES" vote shall have the effect of authorizing the Town of Florence to own and operate the specified water and wastewater utility.

A "NO" vote shall have the effect of not authorizing the Town of Florence to own and operate the specified water and wastewater utility.

ACTION MINUTES

MINUTES OF THE FLORENCE TOWN COUNCIL MEETING HELD ON TUESDAY, FEBRUARY 18, 2014, AT 6:00 P.M., IN THE CHAMBERS OF TOWN HALL, LOCATED AT 775 NORTH MAIN STREET, FLORENCE, ARIZONA.

1. CALL TO ORDER:

Mayor Rankin called the meeting to order at 6:03 pm.

2. ROLL CALL:

Present: Rankin, Smith, Celaya, Hawkins, Montañño, Walter, Woolridge

3. INVOCATION

4. PLEDGE OF ALLEGIANCE

5. CALL TO THE PUBLIC

Call to the Public for public comment on issues within the jurisdiction of the Town Council. Council rules limit public comment to three minutes. Individual Councilmembers may respond to criticism made by those commenting, may ask staff to review a matter raised or may ask that a matter be put on a future agenda. However, members of the Council shall not discuss or take action on any matter during an open call to the public unless the matters are properly noticed for discussion and legal action.

6. PUBLIC HEARING AND PRESENTATION

- a. Presentation of a Service Award to Cynthia Clark for 15 years of dedicated service to the Town of Florence.**
- b. Presentation by Greater Florence Chamber of Commerce recognizing the Business of the Month.**
- c. Public Hearing on an application received from Robert E. Barker, Valentino's, located at 3385 N. Hunt Highway, Florence, Arizona, for a new Series 12 restaurant license; and for Council recommendation for approval or disapproval of said license.**

Mayor Rankin opened the public hearing. Mayor Rankin closed the public hearing.

On motion of Councilmember Hawkins, seconded by Councilmember Walter and carried to forward a favorable recommendation for approval on an application

received from Robert E. Barker, Valentino's, located at 3385 N. Hunt Highway, Florence, Arizona, for a new Series 12 restaurant license

7. CONSENT: All Items indicated by an (*) will be handled by a single vote as part of the consent agenda, unless a Councilmember or a member of the public objects at the time the agenda item is called.

- a. ***Approval of a Special Event Liquor License for the Pinal County Mounted Posse's Annual Eddie Martinez Benefit, on Saturday, March 29, 2014, from 11:00 am to 10:00 pm.**
- b. ***Approval of a Special Event Liquor License for Paladin Sports Outreach, Anthem Spring Festival, on Saturday, March 8, 2014, from 11:00 am to 6:00 pm.**
- c. ***Reappointment of Judy Hughes, Barbara J. Kelly, and Ty Schraufnagel to the Industrial Development Authority with terms to expire December 31, 2019.**
- d. ***Reappointment of Donald L. Woolridge to the Parks and Recreation Board with a term to expire December 31, 2016.**
- e. ***Reappointment of Denise Kollert to the Library Advisory Board with a term to expire December 31, 2015.**
- f. ***Approval of accepting the register of demands ending December 31, 2013, in the amount of \$2,201,094.82.**

On motion of Councilmember Montaño, seconded by Councilmember Walter, and carried to approve the Consent Agenda, as written.

8. NEW BUSINESS

- a. **Discussion/Approval/Disapproval of entering into a purchase agreement with Pinal County Federal Credit Union to purchase property located at 200 W. 20th Street, Florence, Arizona, in an amount not to exceed \$335,000 or \$72.54 per square foot of building.**

On motion of Councilmember Montaño, seconded by Vice-Mayor Smith, and carried to approve of entering into a purchase agreement with Pinal County Federal Credit Union to purchase property located at 200 W. 20th Street, Florence, Arizona, in an amount not to exceed \$335,000 or \$72.54 per square foot of building.

- b. Discussion/Approval/Disapproval of entering into an Intergovernmental Library Agreement between the Town of Florence ("Town") and the Florence Unified School District ("District").**

On motion of Councilmember Woolridge, seconded by Councilmember Celaya, and carried to approve of entering into an Intergovernmental Library Agreement between the Town of Florence ("Town") and the Florence Unified School District ("District").

- c. Resolution No. 1421-14 Discussion/Approval/Disapproval of adopting A RESOLUTION OF THE TOWN OF FLORENCE, PINAL COUNTY, ARIZONA, ORDERING AND CALLING, A SPECIAL ELECTION TO BE HELD ON MAY 20, 2014, IN AND FOR THE TOWN OF FLORENCE, ARIZONA, TO SUBMIT TO THE QUALIFIED ELECTORS OF THE TOWN THE QUESTION OF THE ACQUISITION OF THE WATER AND WASTEWATER UTILITIES OWNED BY JOHNSON UTILITIES, LLC, AND SOUTHWEST ENVIRONMENTAL UTILITIES, LLC.**

On motion of Councilmember Montañó, seconded by Councilmember Walter, to adopt Resolution No. 1421-14.

Roll Call Vote:

**Councilmember Montañó: Yes
Councilmember Walter: Yes
Councilmember Woolridge: Yes
Councilmember Hawkins: Yes
Councilmember Celaya: Yes
Vice-Mayor Smith: Yes
Mayor Rankin: Yes**

Motion passed (Yes: 7; No: 0)

- d. Discussion/Approval/Disapproval of authorization to enter into an Intergovernmental Agreement for provisions of services with the Pinal County Recorder for elections and voter registration services.**

On motion of Councilmember Montañó, seconded by Councilmember Walter, to enter into an Intergovernmental Agreement for provisions of services with the Pinal County Recorder for elections and voter registration services.

Roll Call Vote:

**Councilmember Montañó: Yes
Councilmember Walter: Yes
Councilmember Woolridge: Yes
Councilmember Hawkins: Yes
Councilmember Celaya: Yes**

Vice-Mayor Smith: Yes
Mayor Rankin: Yes

Motion passed (Yes: 7; No: 0)

9. CALL TO THE PUBLIC

10. CALL TO THE COUNCIL

11. ADJOURNMENT

Council may go into Executive Session at any time during the meeting for the purpose of obtaining legal advice from the Town's Attorney(s) on any of the agenda items pursuant to A.R.S. § 38-431.03(A)(3).

On motion of Councilmember Hawkins, seconded by Councilmember Montaña, and carried to adjourn the meeting at 6:40 pm.

Posted this 19th day of February, 2014, on the Town of Florence website at www.florenceaz.gov by Maria Hernandez, Deputy Town Clerk.



RESOLUTION 1421-14

A RESOLUTION OF THE TOWN OF FLORENCE, PINAL COUNTY, ARIZONA, ORDERING AND CALLING, A SPECIAL ELECTION TO BE HELD ON MAY 20, 2014, IN AND FOR THE TOWN OF FLORENCE, ARIZONA, TO SUBMIT TO THE QUALIFIED ELECTORS OF THE TOWN THE QUESTION OF THE ACQUISITION OF THE WATER AND WASTEWATER UTILITIES OWNED BY JOHNSON UTILITIES, LLC, AND SOUTHWEST ENVIRONMENTAL UTILITIES, LLC.

WHEREAS, the Mayor and Council of the Town of Florence, Arizona, (hereinafter referred to as the "Town") hereby find and determine that the Town should acquire by purchase or condemnation, the water and wastewater utilities and related assets owned by Johnson Utilities, LLC, and Southwest Environmental Utilities, LLC, which provide a portion of the Town's residents with water and wastewater service so as to enable the Town to own and operate the utilities; and

WHEREAS, Arizona law requires cities and towns to obtain voter authorization before construction, purchase, acquisition or lease of any plant or property of a public utility. This measure will determine whether the Town of Florence shall be authorized to acquire and operate the water and wastewater utilities and related assets owned by Johnson Utilities, LLC, and Southwest Environmental Utilities, LLC.

BE IT RESOLVED by the Mayor and Council of the Town of Florence, Arizona, as follows:

Section 1: Designation of Election Date; Purpose

That Tuesday, May 20, 2014 has been set as the date for the Special Election in the Town of Florence, Arizona, for the purpose of submitting to the qualified electors of the Town the question of acquiring the water and wastewater utilities and related assets owned by Johnson Utilities, LLC, and Southwest Environmental Utilities, LLC, utility systems and the water and wastewater facilities, including but not limited to well sites, pumping stations, wastewater treatment plants, setback areas, access rights, current and future water delivery systems, and the service area connected to or associated with them necessary to provide utility service within and outside the Town limits.

Section 2: Designation of Election

(A) The Town Clerk is authorized to conduct the May 20, 2014 Special Election in accordance with A.R.S. Title 16.

(B) That all expenditures as may be necessary to order, notice, hold and administer the Election are hereby authorized, which expenditures shall be paid from current operating funds of the Town.

(C) That the Town Clerk is hereby authorized to take all necessary action to facilitate the Election.

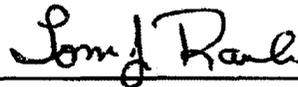
Section 3: Ballot Language

That the official ballot for the Election (hereinafter referred to as the "Official Ballot") shall be in substantially the form attached hereto as Exhibit "A."

Section 4: Designation Deadline for Voter Resignation

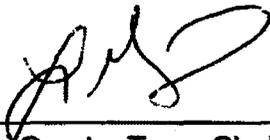
Pinal County registration and voting lists will be used for the municipal election. In order to be qualified to vote you must be registered by April 21, 2014.

PASSED AND ADOPTED by the Mayor and Council of the Town of Florence, Arizona, this 18th day of February 2014.



Tom J. Rankin, Mayor

ATTEST:



Lisa Garcia, Town Clerk

APPROVED AS TO FORM:

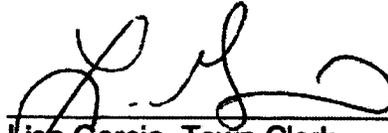
Associate Town Attorney:



James E. Mannato, Town Attorney

CERTIFICATION

I hereby certify that the foregoing Resolution 142/11 was duly passed and adopted by the Mayor and Council of the Town of Florence, Arizona, at a regular meeting held on February 18, 2014, that the vote thereon was 7 ayes, 0 nays, and that the Mayor and Town Council members were present thereat.



Lisa Garcia, Town Clerk
Florence, Arizona

EXHIBIT "A"

OFFICIAL BALLOT

QUESTION: Acquisition of utilities owned by Johnson Utilities, LLC, and Southwest Environmental Utilities

Official Title: Shall the Town of Florence, Arizona, be authorized to acquire and operate the water and wastewater utilities and related assets owned by Johnson Utilities, LLC, and Southwest Environmental Utilities Utility, including but not limited to wells sites, pumping stations, setback areas, access rights, and current and future water and wastewater delivery system and service area connected to or associated with them necessary to provide water service within and outside the Town limits?

Descriptive Title:

Arizona law requires cities and towns to obtain voter authorization before construction, purchase, acquisition or lease of any plan or property of a public utility. This measure will determine whether the Town of Florence shall be authorized to acquire and operate the water and wastewater utilities owned by Johnson Utilities, LLC, and Southwest Environmental Utilities.

A "YES" vote shall have the effect of authorizing the Town of Florence to own and operate the specified water and wastewater utility.

A "NO" vote shall have the effect of not authorizing the Town of Florence to own and operate the specified water and wastewater utility.

RESOLUCIÓN 1421-14

UNA RESOLUCIÓN DEL PUEBLO DE FLORENCE, CONDADO PINAL, ARIZONA, QUE ORDENA Y CONVOCA UNA ELECCIÓN ESPECIAL QUE SE CELEBRARÁ EN Y PARA EL PUEBLO DE FLORENCE, ARIZONA, PARA PRESENTARLES A LOS ELECTORES CAPACITADOS DEL PUEBLO LA CUESTIÓN DE LA ADQUISICIÓN DE LOS SERVICIOS PÚBLICOS DE AGUA Y AGUAS RESIDUALES PROPIEDAD DE JOHNSON UTILITIES, LLC, Y SOUTHWEST ENVIRONMENTAL UTILITIES, LLC.

VISTO QUE, el Alcalde y el Concejo del Pueblo de Florence, Arizona, (más adelante referido a como el "Pueblo") por la presente encuentra y determina que el Pueblo debería adquirir por compra o condenación, los servicios públicos de agua y aguas residuales y relacionados activos propiedad de Johnson Utilities, LLC, y Southwest Environmental Utilities, LLC, que les proveen a una porción de los residentes del Pueblo servicios de agua y de aguas residuales como para permitir al Pueblo sr dueño de y operar los servicios públicos; y

VISTO QUE, la ley de Arizona ordena que las ciudades y pueblos obtengan autorización de los votantes antes de construir, comprar, adquirir o arrendar cualquier planta o propiedad de una empresa de servicio público. Esta medida determinará si el Pueblo de Florence deberá ser autorizado de adquirir y operar los servicios públicos de agua y de aguas residuales y relacionados activos propiedad de Johnson Utilities, LLC, y Southwest Environmental Utilities.

RESUELVE el Alcalde y el Concejo del Pueblo de Florence, Arizona, como lo que sigue:

Sección 1: Designación de la Fecha de la Elección; Propósito:

Que el martes, 20 de mayo de 2014 se ha fijado como la fecha de la Elección Especial en el Pueblo de Florence, Arizona, con el propósito de presentarles a los electores capacitados del Pueblo la cuestión de adquirir los servicios públicos de agua y de aguas residuales y relacionados activos propiedad de Johnson Utilities, LLC, y Southwest Environmental Utilities, LLC, los sistemas de servicios públicos y las instalaciones de agua y de agua residuales, incluyendo pero sin limitación a locación de pozos, estaciones de bombeo, plantas de tratamiento de aguas residuales, locación de retallos, derechos de acceso, y sistemas de agua de entrega de agua actuales y en el futuro, y locación de servicios conectados a o relacionados con esos necesarios para proveer servicios públicos dentro y fuera de los límites del Pueblo.

Sección 2: Designación de la Elección

(A) Se le autoriza a la Secretaria Municipal administrar la Elección Especial del 20 de mayo de 2014 de acuerdo con los Estatutos Revisados de Arizona Título 16.

(B) Que todos los gastos como necesarios para ordenar, avisar, celebrar y administrar la Elección por la presente se autorizan, dichos gastos se deberán pagar de los fondos de operación actuales del Pueblo.

(C) Que por la presente se le autoriza a la Secretaria Municipal tomar todas las acciones necesarias para facilitar la Elección.

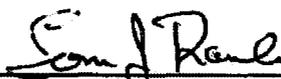
Sección 3: Lenguaje de la Balota

Que la balota oficial de la Elección (más adelante referido a como la "Balota Oficial") deberá ser substancialmente en la forma adjunta a esto como Documento de Prueba "A."

Sección 4: Designación de la Fecha Tope de Inscripción Como Votante

El registro y listas de votantes del Condado Pinal se usarán para la elección municipal. Para estar capacitado para votar uno tiene que estar inscrito para votar para el 21 de abril de 2014.

APROBADA Y ADOPTADA por el Alcalde y el Concejo del Pueblo de Florence, Arizona, este día 18 de febrero de 2014.



Tom J. Rankin, Alcalde

CERTIFICA:

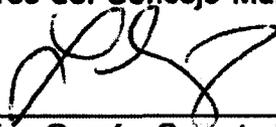

Lisa García, Secretaria Municipal

APROBADA EN FORMA:


James E. Mannato, Abogado del Pueblo

CERTIFICACIÓN

Por la presente certifico que la anterior Resolución 1421¹⁴ fue debidamente aprobada y adoptada por el Alcalde y el Concejo del Pueblo de Florence, Arizona, en una reunión regular que se celebró el 18 de febrero de 2014, que el voto sobre eso fue 7 a favor, en contra, y que el Alcalde y miembros del Concejo Municipal estaban presentes por eso.



Lisa García, Secretaria Municipal
Florence, Arizona

DOCUMENTO DE PRUEBA "A"

BALOTA OFICIAL

CUESTIÓN: Adquisición de los servicios públicos propiedad de Johnson Utilities, LLC, y Southwest Environmental Utilities

Título Oficial: ¿Se le deberá autorizar al Pueblo de Florence, Arizona adquirir y operar los servicios públicos de agua y aguas residuales y relacionados activos propiedad de Johnson Utilities, LLC y Southwest Environmental Utilities, incluyendo pero sin limitación a locación de pozos, estaciones de bombeo, locación de retallos, derechos de acceso, y el sistema de agua y de entrega de aguas residuales en el futuro y locación de servicios conectados a o relacionado con esos necesarios para proveer servicios de agua dentro y fuera de los límites del Pueblo?

Título Descriptivo:

La ley de Arizona ordena que las ciudades y pueblos obtengan la autorización de los votantes antes de construir, comprar, adquirir o arrendar cualquier planta o propiedad de una empresa de servicio público. Esta medida determinará si el Pueblo de Florence deberá ser autorizado de adquirir y operar los servicios públicos de agua y de aguas residuales y relacionados activos propiedad de Johnson Utilities, LLC, y Southwest Environmental Utilities.

Un voto de "SÍ" tendrá el efecto de autorizar al Pueblo de Arizona ser dueño de y operar la empresa de servicio público de agua especificado.

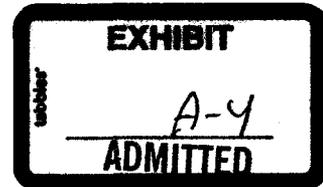
Un voto de "NO" tendrá el efecto de autorizar al Pueblo de Arizona ser dueño de y operar la empresa de servicio público de agua especificado.

**PROPOSED SETTLEMENT AGREEMENT
DOCKET NO. WS-02987A-08-0180**

The purpose of this Settlement Agreement ("Agreement") is to settle all issues related to Docket No. WS-02987A-08-0180 to RUCO's Motion to Rehear Decision No. 73992. This Agreement is entered into by the following entities:

Johnson Utilities, LLC
Residential Utility Consumer Office

These entities shall be referred to collectively as "Signatories;" a single entity shall be referred to individually as a "Signatory."



**PROPOSED SETTLEMENT AGREEMENT
DOCKET NO. WS-02987A-08-0180**

I. RECITALS

- 1.1 On September 15, 2011, the Arizona Corporation Commission ("Commission") established the rates for Johnson Utilities, LLC ("Johnson" or the "Company") in Decision No. 72579. Decision No. 72579 amended the rates that had been set for Johnson in Decision No. 71854 issued on August 25, 2010.
- 1.2 On March 8, 2013, the Company filed a petition to amend Decision No. 71854 under §40-252 to allow for imputed income taxes. On June 27, 2013, the Commission issued Decision No. 73992 which approved the Company's request to amend Decision No. 71854 to impute income taxes.
- 1.3 On July 26, 2013, the Company filed a Petition for Rehearing of Decision No. 73992 ("Petition") requesting the Commission to modify the rate case filing requirement in Decision No. 73992 to June 30, 2017, using a 2016 test year.
- 1.4 On July 31, 2013, the Residential Utility Consumer Office ("RUCO") filed an Application for Rehearing of Decision 73992 ("Application") requesting that the Commission reconsider its decision to allow imputed income tax expense in the rates of Johnson.
- 1.5 The Commission subsequently granted both the Company's Petition and RUCO's Application. Thereafter, RUCO and the Company met for the purpose of settling the matter and arrived at an agreement ("Agreement"), as set forth herein.
- 1.6 The Signatories believe that this Agreement is a fair resolution to this matter and all things considered is in the public interest. The benefits include:
 - Independent verification that the Company's member's actual weighted average tax rate is at least equal to or higher than the imputed rate of 25% that the Signatories are agreeing to in this Agreement.
 - Will reduce the applicable income tax rate to from 36.6558% to 25% for the wastewater division.
 - Will require the Company to file its next rate case by June 30, 2016, using a 2015 test year as opposed to filing by June 30, 2017, using a 2016 test year as requested by the Company in its Petition.

**PROPOSED SETTLEMENT AGREEMENT
DOCKET NO. WS-02987A-08-0180**

- Will require the Company to file yearly earnings reports for the years 2013 and 2014 prior to the next rate case.
- Avoids further litigation and cost to both Signatories.
- Will not impair RUCO's right to challenge or the Company's rights to support future determinations regarding the imputation of income tax for limited liability companies, subchapter S corporations, and other forms of tax pass-through entities.

II. TERMS AND CONDITIONS

- 2.1 The Company shall provide verification prior to the filing of this Agreement with the Commission through an independent third party certified public accountant (CPA) that the weighted average of the income taxes paid by all of the Company's shareholders for the 2007 test year is at least equal to or greater than 25%.
- 2.2 The applicable income tax rate for purposes of determining the amount of income tax to be imputed shall be reduced to 25% for the Company's wastewater division. Within thirty days of Commission approval of this Agreement, the Company will file a revised tariff with the new lower wastewater rates. The new wastewater rates shall be effective for all billings by the Company on and after the date of the Commission order approving this Agreement. This Agreement shall not affect the rates for water service approved in Decision 73992, which shall remain in effect.
- 2.3 The Company shall file a yearly earnings report starting with 2013 by the last day of the following February for each year prior to the next rate case filing. The Company shall make such filings in the form of the schedules attached hereto as Exhibit A.
- 2.4 The Company shall file its next rate case by June 30, 2016 and shall use the 2015 calendar test year.
- 2.5 If the Commission approves this Agreement, neither Signatory will thereafter challenge Commission's Decision 73992 for any reason.
- 2.6 The purpose of this Agreement is to resolve RUCO's Application and the Company's Petition and not to act as precedent and impair or impede in any manner either Signatory's right to challenge and/or support any future decision of the Commission in any other case on any of the issues that are the subject of this Agreement. The Signatories understand and accept that future positions of the Signatories in other cases on the same issues which are inconsistent or adverse to the positions taken by the Signatories in this Agreement do not constitute a breach of this Agreement for failure to support the terms and conditions of this Agreement, or any other reason.

**PROPOSED SETTLEMENT AGREEMENT
DOCKET NO. WS-02987A-08-0180**

III. COMMISSION EVALUATION OF PROPOSED SETTLEMENT

- 3.1 This Agreement will serve as a procedural device by which the Signatories will submit their proposed settlement to the Commission.
- 3.2 The Signatories recognize that the Commission will independently consider and evaluate the terms of this Agreement. If the Commission issues an order adopting all material terms of this Agreement, such action shall constitute Commission approval of the Agreement. Thereafter, the Signatories shall abide by the terms as approved by the Commission.
- 3.3 If the Commission fails to issue an order adopting all material terms of this Agreement, either Signatory may withdraw from this Agreement, and such Signatory may pursue without prejudice its respective remedies at law. For purposes of this Agreement, whether a term is "material" shall be left to the discretion of the Signatory choosing to withdraw from the Agreement.

IV. MISCELLANEOUS PROVISIONS

- 4.1 The acceptance by any Signatory of a specific element of this Agreement shall not be considered as precedent for acceptance of that element in any other context.
- 4.2 No Signatory is bound by any position asserted in negotiations, except as expressly stated in this Agreement. No Signatory shall offer evidence of conduct or statements made in the course of negotiating this Agreement before this Commission, any other regulatory agency, or any court.
- 4.3 Neither this Agreement nor any of the positions taken in this Agreement by any of the Signatories may be referred to, cited, and or relied upon as precedent in any proceeding before the Commission, any other regulatory agency, or any court for any purpose except to secure approval of this Agreement and enforce its terms.
- 4.4 To the extent any provision of this Agreement is inconsistent with any existing Commission order, rule, or regulation, this Agreement shall control.

**PROPOSED SETTLEMENT AGREEMENT
DOCKET NO. WS-02987A-08-0180**

- 4.5 Each of the terms of this Agreement is in consideration of all other terms of this Agreement. Accordingly, the terms are not severable.

- 4.6 The Signatories shall make reasonable and good faith efforts necessary to obtain a Commission order approving this Agreement. The Signatories shall support and defend this Agreement before the Commission. Subject to paragraph 3.2 above, if the Commission adopts an order approving all material terms of the Agreement, the Signatories will support and defend the Commission's order before any court or regulatory agency in which it may be at issue.

- 4.7 This Agreement may be executed in any number of counterparts and by each Signatory on separate counterparts, each of which when so executed and delivered shall be deemed an original and all of which taken together shall constitute one and the same instrument. This Agreement may also be executed electronically or by facsimile.

RESIDENTIAL UTILITY CONSUMER OFFICE

By 
Title Director - RUCCO
Date 10/30/2013

JOHNSON UTILITIES, LLC

By 
Title Managing Member
Date 11-10-13

EXHIBIT A

Johnson Utilities - WW Division

SCHEDULE NO. 1

Rate Base

Docket No. _____

RATE BASE

1	PLANT		
2	Plant in Service	_____	
3	Less: Accumulated Depreciation	_____	_____
4	Net Plant		
5			
6	DEDUCTIONS		
7	Advances in Aid of Construction	_____	
8			
9	Contributions in Aid of Construction ("CIAC")	_____	
10	Accumulated Depreciation of CIAC	_____	
11	Net CIAC		
12			
13	Customer Meter Deposit	_____	
14			
15	Customer Security Deposits	_____	
16			
17	Accumulated Deferred Income Taxes ("ADIT")	_____	
18			
19			
20	ADDITIONS		
21	Deferred Regulatory Assets (Liabilities)	_____	
22			
23	Allowance for Working Capital	_____	_____
24			
25	Net Additions and Deductions		
26			
27	TOTAL RATE BASE		=====
28			
29			
30			
31	RATE OF RETURN		
32	Fair Value Rate Base - Ln 27 Above	_____	
33			
34	Operating Income - Schedule 3 Ln 30	_____	
35			
36	Current Rate of Return Ln 34 / Ln 32	_____	
37			
38	Approved Rate of Return - Last Rate Case	_____	
39			
40	Number of Customers - Last Rate Case	_____	
41			
42	Number of Customers - This Filing	_____	

Balance Sheet

Docket No. _____

WW DIVISION BALANCE SHEET

1	<u>CURRENT AND ACCRUED ASSETS</u>		
2	Cash	_____	
3	Working Funds	_____	
4	Temporary Cash Investments	_____	
5	Customer Accounts Receivable	_____	
6	Notes/Receivables from Associated Companies	_____	
7	Plant Materials and Supplies	_____	
8	Prepayments	_____	
	Miscellaneous Current / Accrued Assets	_____	
9	Total Current and Accrued Assets		_____
10			
11	<u>FIXED ASSETS</u>		
12	Utility Plant In Service	_____	
13	Property Held for Future Use	_____	
14	Construction Work in Progress	_____	
15	Accumulated Depreciation - Utility Plant	_____	
16	Non-Utility Property	_____	
17	Accumulated Depreciation - Non Utility	_____	
18	Total Fixed Assets		_____
19			
20	TOTAL ASSETS		_____
21			
22	<u>CURRENT AND ACCRUED LIABILITIES</u>		
23	Accounts Payable	_____	
24	Notes Payable (Current Portion)	_____	
25	Notes / Accounts Payable to Assc Company	_____	
26	Security Deposits	_____	
27	Accrued Taxes	_____	
28	Accrued Interest	_____	
29	Miscellaneous Current / Accrued Liabilities	_____	
30	Total Current Liabilities		_____
31			
32	<u>LONG TERM DEBT</u>	_____	
33			
34	<u>DEFERRED CREDITS</u>		
35	Unamortized Premium on Debt	_____	
36	Advances in Aid of Construction	_____	
37	Accumulated Deferred Tax Credits	_____	
38	Contributions in Aid of Construction	_____	
39	Less: Amortizations of Contributions	_____	
40	Contributions in Aid of Construction - PHFU	_____	
41	Accumulated Deferred Income Tax	_____	
42	Total Deferred Credits		_____
43			
44	TOTAL LIABILITIES		_____
45			
46	<u>EQUITY</u>		
47	Common Stock Issued	_____	
48	Paid in Capital in Excess of Par Value	_____	
49	Retained Earnings	_____	
50	Proprietary Capital (Partnerships)	_____	
51	Total Equity		_____
52			
53	TOTAL LIABILITIES AND EQUITY		_____

Operating Income

Docket No. _____

SCHEDULE OF INCOME

1	<u>OPERATING REVENUES</u>		
2	Metered Water Revenue	_____	
3	Annualized Revenues from 40-252 Tax Case	_____	
4	Unmetered Water Revenue	_____	
5	Other Water Revenues	_____	
6	Total Operating Revenues	_____	_____
7			
8	<u>OPERATING EXPENSES</u>		
9	Salaries and Wages	_____	
10	Purchased Water	_____	
11	Purchased Power	_____	
12	Sludge Removal	_____	
13	Chemicals	_____	
14	Repairs and Maintenance	_____	
15	Office Supplies and Expense	_____	
16	Outside Services	_____	
17	Water Testing	_____	
18	Rents	_____	
19	Transportation Expenses	_____	
20	Insurance Expense	_____	
21	Reg. Commission Expense	_____	
22	Bad Debt Expense	_____	
23	Miscellaneous Expense	_____	
24	Depreciation	_____	
25	Taxes Other Than Income	_____	
26	Property Taxes	_____	
27	Income Tax	_____	
28	Total Operating Expenses	_____	_____
29			
30	<u>OPERATING INCOME (LOSS)</u>		_____
31			
32	<u>OTHER INCOME (LOSS)</u>		
33	Interest and Dividend Income	_____	
34	Non-Utility Income	_____	
35	Miscellaneous Non-Utility Income	_____	
36	Interest Expense	_____	
37	Total Other Income (Loss)	_____	_____
38			
39	<u>NET INCOME (LOSS)</u>		_____
40			

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

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ORIGINAL

EXHIBIT
A-5
ADMITTED

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
AZ CORP COMMISSION
DOCKET CONTROL
Arizona Corporation Commission
DOCKETED
MAR 8 2013
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

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
26 liability companies, Subchapter S corporations and partnerships. While sole
27 proprietorships are not technically tax pass-through entities, the arguments
28 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.

This new policy will be applied in pending and future rate cases. Also,
companies that have been denied recognition of income tax expense in the past
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:
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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 foregone 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 Copy of the foregoing hand-delivered
8 this 8th day of March, 2013, to:

9 Chairman Bob Stump
10 ARIZONA CORPORATION COMMISSION
11 1200 W. Washington Street
12 Phoenix, Arizona 85007

13 Commissioner Gary Pierce
14 ARIZONA CORPORATION COMMISSION
15 1200 W. Washington Street
16 Phoenix, Arizona 85007

17 Commissioner Brenda Burns
18 ARIZONA CORPORATION COMMISSION
19 1200 W. Washington Street
20 Phoenix, Arizona 85007

21 Commissioner Bob Burns
22 ARIZONA CORPORATION COMMISSION
23 1200 W. Washington Street
24 Phoenix, Arizona 85007

25 Commissioner Susan Bitter Smith
26 ARIZONA CORPORATION COMMISSION
27 1200 W. Washington Street
28 Phoenix, Arizona 85007

Lyn Farmer, Chief Administrative Law Judge
Hearing Division
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007

Janice Alward, Chief Counsel
Legal Division
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007

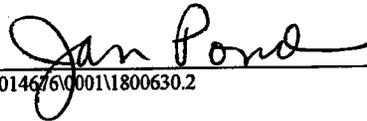
Brownstein Hyatt Farber Schreck, LLP
One East Washington Street, Suite 2400
Phoenix, AZ 85004

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

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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	125,071
36			Change in Revenue Requirement	125,071
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	<u>845,062</u>	<u>845,062</u>
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.	<u>Description</u>	Percentage of Incremental Gross <u>Revenues</u>
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)
Calculation of Gross Revenue Conversion Factor:							
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					
Calculation of Uncollectible Factor:							
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%				
Calculation of Effective Tax Rate:							
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)	32.6238%					
17	Combined Federal and State Income Tax Rate (L13 +L16)		37.3223%				
Calculation of Effective Property Tax Factor							
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	Test Year Water		Total	At Proposed Rates Water	
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%

Calculation of Interest Synchronization:		
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

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	Taxable	Married- Jointly	34.0865%	30.6779%	4.4762%	4.0286%
2	LLC	Pass-through	10.0000%	Individual	Taxable	Married- Jointly	26.8807%	2.6881%	3.9659%	0.3986%
3										
4										
5										
6										
7										
8										
9										
10										
11										
12										
13										
14										
15										
16										
17										
18										
19										
20										
			<u>100.0000%</u>					<u>33.3660%</u>		<u>4.4252%</u>

SUPPORTING SCHEDULE
C-3, pages 4 and 5

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

Exhibit
 Schedule C-3
 Page 4

Member	Adjusted Test Year Water Income Before Tax	Water Income Before Tax	Allocated Water	Total Income	Federal Taxes	State Taxes
1		\$ 3,619,594		\$ 3,619,594		
2			\$ 3,257,635	\$ 3,257,635	\$ 1,060,711	\$ 145,819
3			\$ 361,959	\$ 361,959	\$ 93,438	\$ 14,355
4						
5						
6						
7						
8						
9						
10						
11						
12						
13						
14						
15						
16						
17						
18						
19						
20						

\$ 3,619,594

\$ 3,619,594 \$ 1,154,149 \$ 160,174

SUPPORTING SCHEDULE
 C-3, page 5

Johnson Utilities - Water 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 Taxable	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	Taxable	Married- Jointly	27.0856%	24.3770%	3.9845%	3.5860%
2	LLC	Pass-through	10.0000%	Individual	Taxable	Married- Jointly	13.0147%	1.3015%	2.7404%	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					
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12					
13					
14					
15					
16					
17					
18					
19					
20					

\$ 415,619 \$ - \$ 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 and Income Tax Comparison to C-Corp.

Exhibit
Schedule C-3
Page 9

<u>Line</u> <u>No.</u>	<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><u>17,541</u></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		Percent Change
		Present Rates	Proposed Rates	Present Rates	Proposed Rates	
1	5/8 Inch	\$ 11.00	\$ 11.27	\$ 11.27	\$ 11.27	2.42%
2	3/4 Inch	\$ 16.50	\$ 16.90	\$ 16.90	\$ 16.90	2.42%
3	1 Inch	\$ 27.50	\$ 28.17	\$ 28.17	\$ 28.17	2.42%
4	1 1/2 Inch	\$ 55.00	\$ 56.33	\$ 56.33	\$ 56.33	2.42%
5	2 Inch	\$ 88.00	\$ 90.13	\$ 90.13	\$ 90.13	2.42%
6	3 Inch	\$ 176.00	\$ 180.26	\$ 180.26	\$ 180.26	2.42%
7	4 Inch	\$ 275.00	\$ 281.66	\$ 281.66	\$ 281.66	2.42%
8	6 Inch	\$ 550.00	\$ 563.31	\$ 563.31	\$ 563.31	2.42%
9	8 Inch	\$ 880.00	\$ 901.30	\$ 901.30	\$ 901.30	2.42%
10	10 Inch	\$ 1,265.00	\$ 1,295.61	\$ 1,295.61	\$ 1,295.61	2.42%
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31						
32						

Present Rates

Proposed Rates

Gallons In Minimum (All Zones and Classes)

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	Commodity Rates (per 1,000 gallons)			
3	(Residential, Commercial, Industrial)			
4	5/8 Inch and 3/4 Inch Meter Residential	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	5/8 Inch 3/4 Inch Meter Commercial, Industrial, Irrigation, and Public Authority	0 gallons to 10,000 gallons	\$ 2,140	\$ 2,150
9		over 10,000 gallons	\$ 2,496	\$ 2,506
10				
11	1 Inch Meter	0 gallons to 32,000 gallons	\$ 2,140	\$ 2,150
12		over 32,000 gallons	\$ 2,496	\$ 2,506
13				
14	1.5 Inch Meter	0 gallons to 88,000 gallons	\$ 2,140	\$ 2,150
15		over 88,000 gallons	\$ 2,496	\$ 2,506
16				
17	2 Inch Meter	0 gallons to 156,000 gallons	\$ 2,140	\$ 2,150
18		over 156,000 gallons	\$ 2,496	\$ 2,506
19				
20	3 Inch Meter	0 gallons to 339,000 gallons	\$ 2,140	\$ 2,150
21		over 339,000 gallons	\$ 2,496	\$ 2,506
22				
23	4 Inch Meter	0 gallons to 545,000 gallons	\$ 2,140	\$ 2,150
24		over 545,000 gallons	\$ 2,496	\$ 2,506
25				
26	6 Inch Meter	0 gallons to 1,120,000 gallons	\$ 2,140	\$ 2,150
27		over 1,120,000 gallons	\$ 2,496	\$ 2,506
28				
29	8 Inch Meter	0 gallons to 1,800,000 gallons	\$ 2,140	\$ 2,150
30		over 1,800,000 gallons	\$ 2,496	\$ 2,506
31				
32	10 Inch Meter	0 gallons to 2,600,000 gallons	\$ 2,140	\$ 2,150
33		over 2,600,000 gallons	\$ 2,496	\$ 2,506
34				
35	Construction/Standpipe	All gallons	\$ 2,496	\$ 2,506
36				
37	Central Arizona Project Water	All gallons	See Current Tariff on Computation	
38				
39				
40				

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	-	372,745	
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	\$ 747,274
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		\$ 11,354,014	\$ -	\$ 11,354,014	\$ 985,120	\$ 12,339,134
6	Operating Expenses					
7	Salaries and Wages	\$ -		\$ -		\$ -
8	Purchased Wastewater Treatme	-		-		-
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	\$ 10,205,097	\$ 372,745	\$ 10,577,842	\$ 379,648	\$ 10,957,490
27	Operating Income	\$ 1,148,917	\$ (372,745)	\$ 776,172	\$ 605,472	\$ 1,381,644

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	<u>Property Taxes:</u>		
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	<u>741,290</u>	<u>741,290</u>
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	Operating Income %	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)	1.527028					
<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	\$ 762,494					
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 (L28 + L29 + L34+L37)		\$ 985,120				

	(A)		(B)		(C)		(D)		(E)		(F)	
	Total	Sewer	Total	Sewer	Total	Sewer	Total	Sewer	Total	Sewer	Total	Sewer
<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	\$ 17,270,553
57	Weighted Average Cost of Debt	0.2230%
58	Synchronized Interest (L56 X L57)	\$ 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

Member	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 Present Rates

Exhibit
 Schedule C-3
 Page 5

Based Upon 2008 Tables

Member	1	But not Over	Married Filing Jointly State Taxable Income	%	\$	Taxes
State Income Tax			Amount plus		999,358	
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%	\$	43,292.85
Effective Tax Rate					\$	43,292.85
Federal Income Tax			Federal Taxable Income		\$	956,065
Over			Amount plus			
\$	-	\$ 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%	\$	306,197.75
Effective Tax Rate					\$	306,197.75
						32.03%

Member	2	But not Over	Married Filing Jointly State Taxable Income	%	\$	Taxes
State Income Tax			Amount plus		111,040	
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%	\$	3,530.09
\$	300,000.00	\$ 999,999,999.00	\$ (2,078.00)	4.54%	\$	-
Effective Tax Rate					\$	3,530.09
Federal Income Tax			Federal Taxable Income		\$	107,510
Over			Amount plus			
\$	-	\$ 16,050.00	\$ -	10%	\$	-
\$	16,050.00	\$ 65,100.00	\$ 1,605.00	15%	\$	-
\$	65,100.00	\$ 131,450.00	\$ 8,962.50	25%	\$	19,564.92
\$	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%	\$	-
Effective Tax Rate					\$	19,564.92
						18.20%

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	Individual	Married- Jointly	33.4069%	30.0662%	4.4287%	3.9858%
2	LLC	Pass-through	10.0000%	Individual	Individual	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

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

\$ 2,074,314

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

SUPPORTING SCHEDULE
C-3, page 7

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

<u>Line No.</u>		<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>21,596</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		40-252		Percent Change
		Present Rates	Proposed Rates	Present Rates	Proposed Rates	
1	5/8 Inch	\$ 35.77	\$ 38.19	\$ 38.19	\$ 38.19	6.77%
2	3/4 Inch	39.35	42.00	42.00	42.00	6.73%
3	1 Inch	50.08	53.46	53.46	53.46	6.75%
4	1 1/2 Inch	64.39	68.73	68.73	68.73	6.74%
5	2 Inch	103.73	110.74	110.74	110.74	6.76%
6	3 Inch	393.47	420.04	420.04	420.04	6.75%
7	4 Inch	751.17	801.89	801.89	801.89	6.75%
8	6 Inch	1,037.33	1,107.37	1,107.37	1,107.37	6.75%
9	8 Inch	1,430.80	1,527.60	1,527.60	1,527.60	6.77%
10	10 Inch	2,056.78	2,195.93	2,195.93	2,195.93	6.77%
11	Effluent					
12						
13	per 1000 gallons	\$ 0.63	\$ 0.68	\$ 0.68	\$ 0.68	7.94%
14	per acre foot	\$ 205.29	\$ 221.58	\$ 221.58	\$ 221.58	7.94%
15						

ORIGINAL

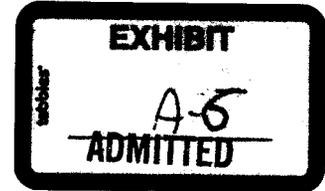
OPEN MEETING ITEM



0000142893

MEMORANDUM

2013 APR 26 P 2:17



TO: THE COMMISSION
AZ CORP COMMISSION
DOCKET CONTROL

FROM: Utilities Division

DATE: April 26, 2013

RE: STAFF REPORT FOR THE PETITION TO AMEND DECISION NOS. 71854 AND 72579 PURSUANT TO ARS § 40-252 REGARDING 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)

Attached is the Staff Report for Johnson Utilities, LLC's application for a Petition to Amend Decision Nos. 71854 and 72579 pursuant to Arizona Revised Statutes § 40-252 regarding 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. Staff recommends approval of the increase and associated rate design. Staff further recommends additional conditions in this Report.

Steven M. Olea
Director
Utilities Division

SMO:DWC:lhm\RRM

Originator: Darron W. Carlson

Arizona Corporation Commission
DOCKETED
APR 26 2013

DOCKETED BY

Service List for: Johnson Utilities, LLC, dba Johnson Utilities Company
Docket No. WS-02987A-08-0180

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STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

**JOHNSON UTILITIES, LLC, DBA
JOHNSON UTILITIES COMPANY**

DOCKET NO. WS-02987A-08-0180

**APPLICATION FOR A PETITION TO AMEND DECISION NOS. 71854 AND 72579
PURSUANT TO ARS § 40-252 REGARDING 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**

APRIL 26, 2013

STAFF ACKNOWLEDGMENT

The Staff Report for Johnson Utilities, LLC, dba Johnson Utilities Company ("Company"), Docket No. WS-02987A-08-0180 was the responsibility of the Staff member listed below. Darron Carlson was responsible for the review and analysis of the Company's application.

A handwritten signature in black ink, appearing to read 'Darron Carlson', written in a cursive style.

Darron W. Carlson
Public Utilities Analyst Manager

EXECUTIVE SUMMARY

Johnson Utilities, LLC, dba Johnson Utilities Company ("Johnson" or "Company") is a Class A water and wastewater public service corporation. The Company is headquartered in Scottsdale, Arizona but its service area encompasses various areas of Pinal County, Arizona. In the test year, ending December 31, 2007, the Company served an average of 17,541 water customers and 21,596 wastewater customers.

The Company's petition and application requests an increase in its revenue requirement for its water division in the amount of \$125,071 and for its wastewater division in the amount of \$747,274.

This increase reflects the income tax obligation created by the Company's distribution of profits to its members.

Staff Recommendations

Staff recommends approval of the rate increases requested by the Company in the amounts of \$125,071 for its water division and \$747,274 for its wastewater division.

Staff further recommends approval of the associated rate design proposed by the Company in its application.

Staff further recommends that the Company be ordered to file a full rate case application for both its water and wastewater divisions by no later than June 30, 2015, using a 2014 calendar year test year.

Staff further recommends that the Company provide the notice attached as Attachment 1 in a special direct mailing to all of its customers and to all parties to the case by May 8, 2013.

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ATTACHMENTS

Sample of Customer Notice.....	Attachment 1
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Introduction

Johnson Utilities, LLC, dba Johnson Utilities Company ("Johnson" or "Company") is a Class A water and wastewater public service corporation. The Company is headquartered in Scottsdale, Arizona but its service area encompasses various areas of Pinal County, Arizona. In the test year, ending December 31, 2007, the Company served an average of 17,541 water customers and 21,596 wastewater customers.

The Company has filed a petition as described below arising from the Arizona Corporation Commission's ("Commission") recent policy change regarding income taxes.

Summary of Filing

On September 15, 2011, the Commission issued Decision No. 72579, which established the current rates for Johnson. This Decision amended the rates that had been set for Johnson in Decision No. 71854, issued August 25, 2010. Decision No. 72579 also provided that Johnson could seek an allowance for income taxes generated as a result of its operations if the Commission changed its policy regarding the treatment of income taxes for subchapter S corporations. On February 21, 2013, in Decision No. 73739, the Commission adopted a policy allowing every utility entity, other than subchapter C corporations and tax-exempt entities, to seek to include in its cost of service an income tax allowance based on the lower of comparable subchapter C corporate income tax expense, or the combined personal income tax obligation created by the distribution of the utility's profits.

On March 8, 2013, the Company filed a petition to amend Decision No. 71854 pursuant to Arizona Revised Statutes ("A.R.S.") § 40-252. The Company has included full schedules that appropriately fulfill the new income tax policy requirements and the resulting recognition of an income tax allowance. The increase to the revenue requirement for water customers is \$125,071, or an increase of 0.95 percent, and the increase to the revenue requirement for wastewater customers is \$747,274, or an increase of 6.58 percent. Staff concurs with these amounts because they comply with the Commission's new policy and will therefore result in just and reasonable rates. Staff has confirmed that the amount the Company is seeking to collect for income taxes is less than it would be had the Company elected to be taxed as a stand-alone C corporation.

In its filing, the Company is not proposing any changes to its fair value rate base, which is negative \$2,414,613 for its water division and \$17,270,553 for its wastewater division. Adopting the increases proposed by the Company would increase the Company's revenue requirements to \$9,899,013 and \$12,339,134 for its water and wastewater divisions, respectively.

For the water division, there is no impact to the fair value rate of return ("FVROR") because the fair value rate base is negative, i.e., the revenue requirement is based on an operating margin. The impact to rates is *de minimis* because the amount of the increase is so small. For the wastewater division, the FVROR remains at 8.0 percent or may become 12.33 percent, depending on the ratemaking classification for the income tax issue, as discussed below.

Company Background

The Company's current rates, based on a 2007 test year, were approved in Decision No. 71854 as amended by Decision No. 72579. In that case, the Company requested recognition of income tax expense in its application, but it was disallowed as the Commission's policy at that time did not recognize income tax for pass-through entities that had no income tax liability. However, also at that time, the Commission was in the process of evaluating changes to this policy, which ultimately resulted in Decision No. 73739.

Stay-Out Provision

In its petition, the Company stated that, if its application is approved, the Company would not need new rates to be effective prior to July 1, 2019.

Staff notes that the new Commission income tax policy has no stay-out requirements. Further, Decision No. 71854 (amended by Decision No. 72579) was the Company's first rate case since the granting of its Certificate of Convenience and Necessity by Decision No. 60223 (May 27, 1997). Because of the length of time between rate cases that would occur if the Company did not file a new rate case application for several years, Staff recommends that the Company be ordered to file a full rate case application for its water and wastewater divisions by no later than June 30, 2015, using a 2014 calendar year test year.

Notice

Staff recommends that the Company provide the notice attached as Attachment 1 in a special direct mailing to all of its customers by May 8, 2013. Staff also recommends that the Company provide the attached notice to all parties to this case by May 8, 2013.

Terminology

The Commission's new policy on the income tax issue for pass-through entities refers in the body of the policy to an "imputed income tax expense"; however, in items 5, 6 and 7 listed on page 3 of the policy statement, it refers to an "income tax allowance." Although this terminology may appear insignificant, the classification of this adjustment may impact the calculation of the FVROR. If the income taxes were classified as an imputed expense, the FVROR for this case will not be impacted (will remain 8.0 percent) for the Johnson wastewater division. If the income taxes were classified as an allowance, the resulting FVROR could be 12.33 percent. Staff notes, however, that within the context of this case, the actual rate impact to customers is the same under either classification. Staff believes that, for the purposes of accounting, auditing, bookkeeping, and other associated activities, the Commission was correct on page 3 of its policy statement in classifying the income taxes for pass-through entities as an "allowance." This classification is also consistent with that used in Texas (referred to on page 2 of the Commission's policy statement) and with that used by the Federal Energy Regulatory Commission. However, for ratemaking purposes, the Commission could elect to classify this

adjustment as an imputed expense, which would also be consistent with the intent of the Commission's policy.

Rate Design

The Company has proposed a rate design that includes both an increase to the monthly minimum charge and an increase to the commodity charge for its water division, and an increase to its monthly minimum charge for its wastewater division as there is no commodity charge (except for the purchase of effluent) for wastewater service.

Staff concurs with the Company on its proposed rate design. For informational purposes, the typical bill impact analysis for a ¾-inch meter residential customer using the average of 6,931 gallons per month is as follows:

Water: current bill is \$29.81
 proposed bill would be \$30.28
 increase would be \$0.47 or 1.58%.

Wastewater: current bill is \$39.35
 proposed bill would be \$42.00
 increase would be \$2.65 or 6.73%.

Staff Recommendations

Staff recommends approval of the rate increases requested by the Company in the amounts of \$125,071 for its water division and \$747,274 for its wastewater division.

Staff further recommends approval of the associated rate design proposed by the Company in its application.

Staff further recommends that the Company be ordered to file a full rate case application for both its water and wastewater divisions by no later than June 30, 2015, using a 2014 calendar year test year.

Staff further recommends that the Company provide the notice attached as Attachment 1 in a special direct mailing to all of its customers and to all parties to this case by May 8, 2013.

NOTICE
PUBLIC NOTICE OF PUBLIC COMMENT MEETING AND OPEN MEETING

Regarding

Johnson Utilities' Petition to Amend Decision No. 71854 pursuant to AR.S. § 40-252 (Docket No. WS-02987A-08-0180)

Summary

On September 15, 2011, the Arizona Corporation Commission issued Decision No. 72579, which established the current rates for Johnson Utilities LLC, dba Johnson Utilities Company ("Johnson" or "Company"). This Decision amended the rates that had been set for Johnson in Decision No. 71854, issued August 25, 2010. Decision No. 72579 also provided that Johnson could seek an allowance for income taxes generated as a result of its operations. On February 21, 2013, in Decision No. 73739, the Commission adopted a policy that allows all utility entities, other than subchapter C corporations and tax-exempt entities, to include in the cost of service an income tax allowance based on the lower of comparable subchapter C corporate income tax expense, or the combined personal income tax obligation created by the distribution of the utility's profits. Johnson has filed a petition pursuant to A.R.S. 40-252 seeking recovery of an allowance for income taxes.

Public Comment Meeting and Open Meeting

This matter is currently scheduled for an opportunity to be heard at a Commission **Open Meeting** on **June 11 and 12, 2013, at 10:00 a.m.** at the Commission's offices located at 1200 West Washington Street, Phoenix, Arizona 85007. Please check the Commission's Open Meeting schedule at <http://www.azcc.gov/Divisions/Administration/Meetings/Agendas/2013/2013openmeetings.asp> in case the Open Meeting is rescheduled or this matter is postponed to a later date.

Written public comments may be submitted by mailing a letter referencing Docket No. WS-02987A-08-0180 to the Arizona Corporation Commission, Consumer Services Section, 1200 West Washington, Phoenix, Arizona 85007, or by e-mail. For a form to use and instructions on how to e-mail comments to the Commission, go to http://www.azcc.gov/divisions/utilities/forms/public_comment.pdf.

Requests to intervene may be filed in Docket No. WS-02987A-08-0180, and the last day to file a request for intervention is June 4, 2013. If you require assistance, either to provide public comment or to seek intervention, you may contact the Consumer Services Section at 602-542-4251 or 1-800-222-7000.

Water Division

Under the rates approved in Decision No. 72579, a residential customer with a ¾-inch meter and average usage of 6,931 gallons per month currently pays \$ 29.81 per month. Under the Company's request, that amount would increase by \$.47 (1.58 percent) to \$30.28. **The actual change in rates for individual customers would vary depending upon the type and quantity of service provided. You may contact the Company and request a calculation of the impact of its proposals on your account.**

Wastewater Division

Under rates approved in Decision No. 72579, a residential wastewater customer with a ¾-inch water meter currently pays \$39.35 per month. Under the Company's request, that amount would increase by \$2.65 (6.73 percent) to \$42.00. **The actual change in rates for individual customers would vary depending upon the type and quantity of service provided. You may contact the Company and request a calculation of the impact of its proposals on your account.**

The proposed rate changes are summarized in the following table:

<u>Water Monthly Minimum Charge</u>	Current Rates	New Rates
5/8" Meter	11.00	11.27
3/4" Meter	16.50	16.90
1" Meter	27.50	28.17
1 1/2" Meter	55.00	56.53
2" Meter	88.00	90.13
3" Meter	176.00	180.26
4" Meter	275.00	281.66
6" Meter	550.00	563.31
8" Meter	880.00	901.30
10" Meter	1,265.00	1,295.61
<u>Commodity Charge (Per 1,000 Gallons)</u>		
All Current Commodity Charges are increased by approximately \$0.01/per 1,000 gallons		

<u>Wastewater Monthly Minimum Charge</u>	Current Rates	New Rates
5/8" Meter	35.77	38.19
3/4" Meter	39.35	42.00
1" Meter	50.08	53.46
1 1/2" Meter	64.39	68.73
2" Meter	103.73	110.74
3" Meter	393.47	420.04
4" Meter	751.17	801.89
6" Meter	1,037.33	1,107.37
8" Meter	1,430.80	1,527.60
10" Meter	2,056.78	2,195.93
<u>Commodity Charge for Effluent</u>		
Per 1,000 Gallons	0.63	0.68
Per Acre Foot	205.29	221.58

The Commission is not bound by the proposals made by the Company in its Petition; therefore, the final rates approved by the Commission may be higher or lower than the rates requested by Johnson.

How You Can View or Obtain a Copy of the Petition

Copies of the Petition are available from Johnson Utilities at 968 East Hunt Highway, Queen Creek, Arizona 85242 and at the Commission's Docket Control Center at 1200 West Washington, Phoenix, Arizona, for public inspection during regular business hours and on the Internet via the Commission's website (www.azcc.gov) using the e-Docket function.

ADA/Equal Access Information

The Commission does not discriminate on the basis of disability in admission to its public meetings. Persons with a disability may request a reasonable accommodation, such as a sign language interpreter, as well as request this document in an alternative format, by contacting the ADA Coordinator, Shaylin Bernal, e-mail sbernal@azcc.gov, voice phone number 602-542-3931. Requests should be made as early as possible to allow time to arrange the accommodation.

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BEFORE THE ARIZONA CORPORATION COMMISSION

BOB STUMP
Chairman
GARY PIERCE
Commissioner
BRENDA BURNS
Commissioner
BOB BURNS
Commissioner
SUSAN BITTER SMITH
Commissioner

STAFF REPORT FOR THE PETITION TO AMEND DECISION NOS. 71854 AND 72579 PURSUANT TO ARS § 40-252 REGARDING 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
DECISION NO. _____
ORDER

Open Meeting
June 11 and 12, 2013
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Johnson Utilities, LLC, dba Johnson Utilities Company (“Johnson” or “Company”) is a Class A water and wastewater public service corporation. The Company is headquartered in Scottsdale, Arizona, but its service area encompasses various areas of Pinal County, Arizona. In the test year, ending December 31, 2007, the Company served an average of 17,541 water customers and 21,596 wastewater customers.

2. The Company has filed a petition as described below arising from the Arizona Corporation Commission’s (“Commission”) recent policy change regarding income taxes.

Background

3. On September 15, 2011, the Commission issued Decision No. 72579, which established the current rates for Johnson. This Decision amended the rates that had been set for

1 Johnson in Decision No. 71854, issued August 25, 2010. Decision No. 72579 also provided that
2 Johnson could seek an allowance for income taxes generated as a result of its operations if the
3 Commission changed its policy regarding the treatment of income taxes for subchapter S
4 corporations.

5 4. On February 21, 2013, in Decision No. 73739, the Commission adopted a policy
6 allowing every utility entity, other than subchapter C corporations and tax-exempt entities, to seek
7 to include in its cost of service an income tax allowance based on the lower of comparable
8 subchapter C corporate income tax expense, or the combined personal income tax obligation
9 created by the distribution of the utility's profits.

10 5. On March 8, 2013, the Company filed a petition to amend Decision No. 71854
11 pursuant to Arizona Revised Statutes ("A.R.S.") § 40-252. The Company has included full
12 schedules that appropriately fulfill the new income tax policy requirements and the resulting
13 recognition of an income tax allowance. Staff has confirmed that the amount that the Company is
14 seeking to collect for income taxes is less than it would be if the Company had elected to be taxed
15 as a stand-alone C corporation. The increase to the revenue requirement for water customers is
16 \$125,071, or an increase of 0.95 percent, and the increase to the revenue requirement for
17 wastewater customers is \$747,274, or an increase of 6.58 percent. Staff concurs with these
18 amounts because they comply with the Commission's new policy and will therefore result in just
19 and reasonable rates.

20 6. In its filing, the Company is not proposing any changes to its fair value rate base,
21 which is negative \$2,414,613 for its water division and \$17,270,553 for its wastewater division.
22 Adopting the increases proposed by the Company would increase the Company's revenue
23 requirements to \$9,899,013 and \$12,339,134 for its water and wastewater divisions, respectively.

24 7. For the water division, there is no impact to the fair value rate of return ("FVROR")
25 because the fair value rate base is negative, i.e., the revenue requirement is based on an operating
26 margin. The impact to rates is *de minimis* because the amount of the increase is so small.

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1 8. For the wastewater division, the FVROR remains at 8.0 percent, or may become
2 12.33 percent, depending on the ratemaking classification for the income tax issue, as discussed
3 in Finding of Fact Nos. 14 – 16 below.

4 9. The Company's current rates, based on a 2007 test year, were approved in Decision
5 No. 71854, as amended by Decision No. 72579. In that case, the Company requested recognition
6 of income tax expense in its application, but it was disallowed as the Commission's policy at that
7 time did not recognize income tax for pass-through entities that had no income tax liability.
8 However, also at that time, the Commission was in the process of evaluating changes to this
9 policy, which ultimately resulted in Decision No. 73739.

10 10. In its petition, the Company stated that, if its application is approved, the Company
11 would not need new rates to be effective prior to July 1, 2019.

12 11. Staff notes that the new Commission income tax policy has no stay-out
13 requirements. Further, Decision No. 71854 (amended by Decision No. 72579) was the
14 Company's first rate case since the granting of its Certificate of Convenience and Necessity by
15 Decision No. 60223 (May 27, 1997).

16 12. Because of the length of time between rate cases that would occur if the Company
17 did not file a new rate application for several years, Staff recommends that the Company be
18 ordered to file a full rate case application for its water and wastewater divisions by no later than
19 June 30, 2015, using a 2014 calendar year test year.

20 **Notice**

21 13. Staff asked the Company to provide the notice attached as Attachment 1 to the Staff
22 Memorandum in a special direct mailing to all of its customers by May 8, 2013. Staff also asked
23 the Company to provide the attached notice to all parties to this case by May 8, 2013.

24 **Terminology**

25 14. The Commission's new policy on the income tax issue for pass-through entities
26 refers in the body of the policy to an "imputed income tax expense"; however, in items 5, 6, and 7
27 listed on page 3 of the policy statement, it refers to an "income tax allowance." Although this

28 ...

1 terminology may appear insignificant, the classification of this adjustment impacts the
2 calculation of the FVROR.

3 15. If the income taxes were classified as an imputed expense, the FVROR for this case
4 would not be impacted (will remain 8.0 percent) for the Johnson wastewater division. If the
5 income taxes were classified as an allowance, the resulting FVROR could be 12.33 percent.
6 Within the context of this case, however, the actual rate impact to customers is the same under
7 either classification.

8 16. Staff believes that, for the purposes of accounting, auditing, bookkeeping, and other
9 associated activities, the Commission was correct on page 3 of its policy statement in classifying
10 the income taxes for pass-through entities as an "allowance." This classification is also consistent
11 with that used in Texas (referred to on page 2 of the Commission's policy statement) and with
12 that used by the Federal Energy Regulatory Commission. However, for ratemaking purposes, the
13 Commission could elect to classify this adjustment as an imputed expense, which would be
14 consistent with the intent of the Commission's policy.

15 Rate Design

16 17. The Company has proposed a rate design that includes both an increase to the
17 monthly minimum charge and an increase to the commodity charge for its water division, and an
18 increase to its monthly minimum charge for its wastewater division as there is no commodity
19 charge (except for the purchase of effluent) for wastewater service.

20 18. Staff concurs with the Company on its proposed rate design. For informational
21 purposes, the typical bill impact analysis for a 3/4-inch meter residential customer using the
22 average of 6,931 gallons per month is as follows:

23 Water current bill is \$29.81
24 proposed bill would be \$30.28
25 increase would be \$0.47 or 1.58%.

26 Wastewater: current bill is \$39.35
27 proposed bill would be \$42.00
28 increase would be \$2.65 or 6.73%.

1 **Staff Recommendations**

2 19. Staff recommends approval of the rate increases requested by the Company in the
3 amounts of \$125,071 for its water division and \$747,274 for its wastewater division.

4 20. Staff further recommends approval of the associated rate design proposed by the
5 Company in its application.

6 21. Staff further recommends that the Company be ordered to file a full rate case
7 application for both its water and wastewater divisions by no later than June 30, 2015, using a
8 2014 calendar year test year.

9 **CONCLUSIONS OF LAW**

10 1. Johnson Utilities, LLC, dba Johnson Utilities Company, is a public service
11 corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. §§40-250
12 and -252.

13 2. The Commission has jurisdiction over the Company and over the subject matter of
14 the application.

15 3. Notice of the proceeding and an opportunity to be heard have been afforded in the
16 manner prescribed by law.

17 4. For the purposes of evaluating this application, the information set forth in Finding
18 of Fact Nos. 6 – 8 serve as appropriate fair value information for the Commission's consideration.

19 5. The Commission may determine appropriate ratemaking classifications pursuant to
20 Article XV, Section 3 of the Arizona Constitution, and the rates proposed herein are just and
21 reasonable.

22 6. Decision Nos. 71854 and 72579 are hereby modified to provide for recovery of
23 income taxes through rates.

24 7. Staff's recommendations are reasonable and hereby approved.

25 **ORDER**

26 IT IS THEREFORE ORDERED that Decision Nos. 71854 and 72579 are hereby modified
27 to permit Johnson Utilities, LLC, DBA Johnson Utilities Company, to recover income taxes as
28 requested in its March 8, 2013 petition.

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IT IS FURTHER ORDERED that the recommendations of Staff discussed in Findings of Fact 19 through 21 are reasonable and are hereby adopted.

IT IS FURTHER ORDERED that this decision shall become effective immediately.

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, JODI JERICH, Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this _____ day of _____, 2013.

JODI JERICH
EXECUTIVE DIRECTOR

DISSENT: _____

DISSENT: _____

SMO:DWC:lhmfJFW

1 Service List for: Johnson Utilities, LLC, dba Johnson Utilities Company
2 Docket No. WS-02987A-08-0180

3 Mr. Jeffrey W. Crockett, Esq.
4 Brownstein Hyatt Farber Schreck, LLP
5 One East Washington Street, Suite 2400
6 Phoenix, Arizona 85004

7 Mr. George H. Johnson
8 Johnson Utilities, LLC
9 5320 East Shea Boulevard
10 Scottsdale, Arizona 85254

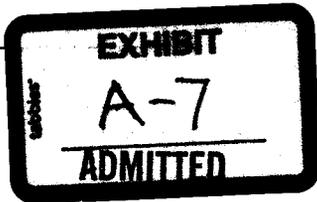
11 Mr. Craig A. Marks
12 Craig A. Marks, PLC
13 10645 North Tatum Boulevard, Suite 200-676
14 Phoenix, Arizona 85028

15 Mr. James E. Mannato, Town Attorney
16 Town of Florence
17 P.O. Box 2670
18 775 North Main Street
19 Florence, Arizona 85232-2670

20 Mr. Daniel Pozefsky, Esq.
21 RUCO
22 1110 West Washington Street, Suite 220
23 Phoenix, Arizona 85007

24 Mr. Steven M. Olea
25 Director, Utilities Division
26 Arizona Corporation Commission
27 1200 West Washington Street
28 Phoenix, Arizona 85007

Ms. Janice M. Alward
Chief Counsel, Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007



OPEN MEETING



0000151332

ORIGINAL

MEMORANDUM RECEIVED

Arizona Corporation Commission

DOCKETED

TO: THE COMMISSION

2014 FEB 24 P 2:07

FROM: Utilities Division

AZ CORP COMMISSION DOCKET CONTROL

FEB 24 2014

DATE: February 21, 2014

DOCKETED BY [Signature]

RE: IN THE MATTER OF THE APPLICATION OF SAHUARITA WATER COMPANY, LLC FOR AN INCREASE IN ITS WATER AND WASTEWATER RATES FOR CUSTOMERS WITHIN PIMA COUNTY, ARIZONA (DOCKET NO. W-03718A-09-0359)

I. Introduction

Sahuarita Water Company, LLC ("Sahuarita" or "Company") is a Class B public service corporation. The Company is headquartered in Sahuarita, Arizona, and its service area encompasses that area of Pima County, Arizona. In the test year, ending December 31, 2008, the Company served an average of 4,524 water customers.

The Company has filed a motion as described below arising from the Arizona Corporation Commission's ("Commission") policy change regarding income taxes.

II. Background

On February 11, 2011, the Commission issued Decision No. 72177 which established the current rates for Sahuarita. The Decision also authorized the Company to seek an allowance for income taxes generated as a result of its operations if the Commission changed its policy regarding the treatment of income taxes for subchapter S corporations. On February 21, 2013, in Decision No. 73739, the Commission adopted a policy allowing every utility entity, other than subchapter C corporations and tax-exempt entities, to seek to include in its cost of service an income tax allowance based on the lower of comparable subchapter C corporate income tax expense or the combined personal income tax obligation created by the distribution of the utility's profits.

III. Rate Increase

On August 19, 2013, the Company filed a motion to amend Decision No. 72177 pursuant to Arizona Revised Statutes ("A.R.S.") § 40-252. The Company has included full schedules that appropriately fulfill the new income tax policy requirements and the resulting recognition of an income tax allowance. The increase to the revenue requirement for water customers is \$178,328, or an increase of 8.05 percent. Staff concurs with these amounts because they comply with the Commission's policy, and they result in just and reasonable rates based on that policy. Staff has

confirmed that the amount the Company is seeking to collect for income taxes is less than it would be had the Company elected to be taxed as a stand-alone C corporation.

In its filing, the Company is proposing no changes to its fair value rate base, which is \$8,805,561. Adopting the increase proposed by the Company would increase the Company's revenue requirement to \$582,666. The fair value rate of return ("FVROR") remains at 9.20 percent.

The Company has proposed a rate design that includes both an increase to the monthly minimum charge and an increase to the commodity charge.

Staff concurs with the Company on its proposed rate design. For informational purposes, the typical bill impact analysis for a 5/8-inch meter residential customer using the average of 5,424 gallons per month is as follows:

Current Average Bill:	\$31.48
Proposed Average Bill:	\$33.74
Average Increase:	\$ 2.26 or 7.20%.

IV. Follow-Up Rate Case

In order to limit the time span between rate cases to six years, Staff recommends that the Company be ordered to file a full rate case application no later than June 30, 2015, using a 2014 calendar year test year.

V. Notice

Staff has asked the Company to provide the notice attached as Attachment 1 to all of its customers by February 27, 2014. Staff has also asked the Company to provide the attached notice to all parties to this case by February 27, 2014.

VI. Conclusions and Recommendations

Staff concludes that the Company has duly filed the appropriate request to amend Decision No. 72177 for an increase in water rates.

Staff recommends approval of the increase in revenue requirement requested by the Company in the amount of \$178,328.

Staff further recommends approval of the associated rate design proposed by the Company in its application.

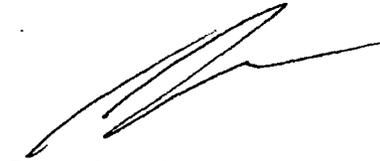
Staff further recommends that the Company be ordered to file a full rate case application by no later than June 30, 2015, using a 2014 calendar year test year.

THE COMMISSION

February 21, 2014

Page 3

Staff further recommends that the Company be ordered to file a full rate case application by no later than June 30, 2015, using a 2014 calendar year test year.



Steven M. Olea
Director
Utilities Division

SMO:JLK:sms\WVC

ORIGINATOR: Jorn Keller

THE COMMISSION
February 21, 2014
Page 4

Sahuarita Water Company, LLC

W-03718A-09-0359

Attachment 1

NOTICE
PUBLIC NOTICE OF PUBLIC COMMENT MEETING AND OPEN MEETING

Regarding

Sahuarita Water Company's Petition to Amend Decision No. 72177 pursuant to A.R.S. § 40-252 (Docket No. W-03718A-09-0359)

Summary

On February 11, 2011, the Arizona Corporation Commission issued Decision No. 72177, which established the current rates for Sahuarita Water Company, LLC, ("Sahuarita" or "Company"). This Decision amended the rates that had been set for Sahuarita in Decision No. 59431, issued December 20, 1995. Decision No. 72177 also provided that Sahuarita could seek an allowance for income taxes generated as a result of its operations. On February 21, 2013, in Decision No. 73739, the Commission adopted a policy that allows all utility entities, other than subchapter C corporations and tax-exempt entities, to include in the cost of service an income tax allowance based on the lower of comparable subchapter C corporate income tax expense or the combined personal income tax obligation created by the distribution of the utility's profits. On August 19, 2013, Sahuarita filed a motion pursuant to A.R.S. 40-252 seeking recovery of an allowance for income taxes.

Public Comment Meeting and Open Meeting

This matter is currently scheduled for an opportunity to be heard at a Commission **Open Meeting** on **March 11 and 12, 2014, at 10:00 a.m.** at the Commission's offices located at 1200 West Washington Street, Phoenix, Arizona 85007. Please check the Commission's Open Meeting schedule at http://www.azcc.gov/Divisions/Administration/Meetings/Agendas/2014/2014_agendas.asp in case the Open Meeting is rescheduled or this matter is postponed to a later date.

Written public comments may be submitted by mailing a letter referencing Docket No. W-03718A-09-0359 to the Arizona Corporation Commission, Consumer Services Section, 1200 West Washington, Phoenix, Arizona 85007, or by e-mail. For a form to use and instructions on how to e-mail comments to the Commission, go to <http://www.azcc.gov/Divisions/Utilities/forms/PublicCommentForm1.pdf>.

If you require assistance to provide public comment, you may contact the Consumer Services Section at 602-542-4251 or 1-800-222-7000.

Rates

Under the rates approved in Decision No. 72177, a residential customer with a 5/8 inch meter and average usage of 5,424 gallons per month currently pays \$ 31.48 per month. Under the Company's request, that amount would increase by \$2.26 (7.20 percent) to \$33.74. **The actual change in rates for individual customers would vary depending upon the type and quantity of service provided. You may contact the Company at 520-399-1105 and request a calculation of the impact of its proposals on your account.**

The proposed rate changes requested by the Company's Motion to Amend Decision 72177 are summarized in the following table:

<u>Water Monthly Minimum Charge</u>	<u>Current Rates</u>	<u>New Rates</u>
5/8" Meter	16.00	17.15
3/4" Meter	25.00	26.80
1" Meter	40.00	42.88
1 1/2" Meter	80.00	85.75
2" Meter	128.00	137.20
3" Meter	256.00	274.40
4" Meter	400.00	428.75
6" Meter	800.00	857.50
<u>Commodity Charge (Per 1,000 Gallons)</u>		
All Current Commodity Charges are increased by approximately \$0.25/per 1,000 gallons		

The Commission is not bound by the proposals made by the Company in its Motion; therefore, the final rates approved by the Commission may be higher or lower than the rates requested by Sahuarita.

How You Can View or Obtain a Copy of the Petition

Copies of the Motion are available from Sahuarita Water Company at 725 W. Via Rancho Sahuarita Rd., Sahuarita, Arizona 85269 and are available for public inspection during regular business hours at the Commission's Docket Control Center at 1200 West Washington, Phoenix, Arizona. The Motion may also be viewed on the Commission's website (www.azcc.gov) using the e-Docket function.

ADA/Equal Access Information

The Commission does not discriminate on the basis of disability in admission to its public meetings. Persons with a disability may request a reasonable accommodation, such as a sign language interpreter, as well as request this document in an alternative format, by contacting the ADA Coordinator, Shaylin Bernal, e-mail sbernal@azcc.gov, voice phone number 602-542-3931. Requests should be made as early as possible to allow time to arrange the accommodation.

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BEFORE THE ARIZONA CORPORATION COMMISSION

BOB STUMP
Chairman
GARY PIERCE
Commission
BRENDA BURNS
Commissioner
BOB BURNS
Commissioner
SUSAN BITTER SMITH
Commissioner

IN THE MATTER OF THE APPLICATION)
OF SAHUARITA WATER COMPANY, LLC)
FOR A RATE INCREASE.)

DOCKET NO. W9-03718A-09-0359
DECISION NO. _____
ORDER

Open Meeting
March 11/ 12, 2014
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Sahuarita Water Company, LLC ("Sahuarita" or "Company") is a Class B public service corporation. The Company is headquartered in Sahuarita, Arizona, and its service area is limited to Pinal County, Arizona. In the test year, ending December 31, 2008, the Company served an average of 4,524 water customers.

2. The Company has filed a motion as described below arising from the Arizona Corporation Commission's ("Commission") policy change regarding income taxes.

Background

3. On February 11, 2011, the Commission issued Decision No. 72177, which established the current rates for Sahuarita. This decision amended the rates that had been set for Sahuarita in Decision No. 59431, issued December 20, 1995. Decision No. 72177 also provided that Sahuarita could seek an allowance for income taxes generated as a result of its operations if

...

1 the Commission changed its policy regarding the treatment of income taxes for subchapter S
2 corporations and LLCs.

3 4. On February 21, 2013, in Decision No. 73739, the Commission adopted a policy
4 allowing every utility entity, other than subchapter C corporations and tax-exempt entities, to seek
5 to include in its cost of service an income tax allowance based on the lower of comparable
6 subchapter C corporate income tax expense or the combined personal income tax obligation
7 created by the distribution of the utility's profits.

8 5. On August 19, 2013, the Company filed a motion to amend Decision No. 72177
9 pursuant to Arizona Revised Statutes ("A.R.S.") § 40-252. The Company has included full
10 schedules that appropriately fulfill the new income tax policy requirements and the resulting
11 recognition of an income tax allowance. Staff has confirmed that the amount that the Company is
12 seeking to collect for income taxes is less than it would be if the Company had elected to be taxed
13 as a stand-alone C corporation. The increase to the revenue requirement is \$178,328, or an
14 increase of 8.05 percent. Staff concurs with this amount as it complies with the Commission's
15 new policy and they will therefore result in just and reasonable rates, based on this policy.

16 6. In its filing, the Company proposes no change to its fair value rate base, which is
17 \$8,805,561. Adopting the increase proposed by the Company would increase the Company's
18 revenue requirements to \$582,666. The fair value rate of return remains at 9.20%.

19 7. Decision No. 72177, authorizing Sahuarita's present rates, was issued on February
20 11, 2011, and it was based on a 2008 test year. Staff recommends that the Company be ordered to
21 file a full rate case application no later than June 30, 2015, using a 2014 calendar year test year.

22 **Notice**

23 8. Staff asked the Company to provide the notice attached as Attachment 1 to the Staff
24 Memorandum to all of its customers and all parties to this case by February 27, 2014.

25 **Rate Design**

26 9. The Company has proposed a rate design that includes both an increase to the
27 monthly minimum charge and an increase to the commodity charge.

28 ...

1 10. Staff concurs with the Company's proposed rate design. For informational
2 purposes, the typical bill impact analysis for a 5/8-inch meter residential customer using the
3 average of 4,524 gallons per month is as follows:

4 Current bill: \$31.48
5 Proposed bill: \$33.74
6 Increase: \$2.26 or 7.20%.

6 **Staff Recommendations**

7 11. Staff recommends approval of the rate increase requested by the Company in the
8 amounts of \$178,328.

9 12. Staff further recommends approval of the associated rate design proposed by the
10 Company in its application.

11 13. Staff further recommends that the Company be ordered to file a full rate case
12 application by no later than June 30, 2015, using a 2014 calendar year test year.

13 **CONCLUSIONS OF LAW**

14 1. Sahuarita Water Company, LLC is a public service corporation within the meaning
15 of Article XV of the Arizona Constitution and A.R.S. §§40-250 and 252.

16 2. The Commission has jurisdiction over the Company and over the subject matter of
17 the application.

18 3. Notice of the proceeding and an opportunity to be heard has been afforded in the
19 manner prescribed by law.

20 4. For the purposes of evaluating this application, the information set forth in Finding
21 of Fact No. 6 serves as appropriate fair value information for the Commission's consideration.

22 5. The Commission may determine appropriate ratemaking classifications pursuant to
23 Article XV, Section 3 of the Arizona Constitution, and the rates proposed herein are just and
24 reasonable.

25 6. Decision No. 72177 is hereby modified to provide for recovery of income taxes
26 through rates.

27 7. Staff's recommendations are reasonable and hereby approved.

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ORDER

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IT IS THEREFORE ORDERED that Decision No. 72177 is hereby modified to permit Sahuarita Water Company, LLC to recover income taxes as requested in its August 19, 2013 motion.

IT IS FURTHER ORDERED that the recommendations of Staff discussed in Findings of Fact 11 through 13 are reasonable and are hereby adopted.

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IT IS FURTHER ORDERED that Sahuarita Water Company, LLC is hereby authorized and directed to file with the Commission, on or before April 1, 2014, revised schedules of rates and charges consistent with the discussion herein.

IT IS FURTHER ORDERED that the new rates and charges approved herein shall become effective April 1, 2014.

IT IS FURTHER ORDERED that this decision shall become effective immediately.

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, JODI JERICH, Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this _____ day of _____, 2014.

JODI JERICH
EXECUTIVE DIRECTOR

DISSENT: _____

DISSENT: _____

SMO:JLK:lhmfJFW

- 1 SERVICE LIST for: Sahuarita Water Company, LLC
- 2 DOCKET NO. W-03718A-09-0359

- 3 Mr. Robert Metli
- 4 Munger Chadwick, P.L.C.
- 5 2398 E. Camelback Rd., Ste. 240
- 6 Phoenix, Arizona 85016

- 7 Arizona Reporting Service, Inc.
- 8 2200 N. Central Ave., S. 502
- 9 Phoenix, Arizona 85004

- 10 Mr. Lawrence V. Robertson, Jr.
- 11 Post Office Box 1448
- 12 Tubac, Arizona 85646

- 13 Mr. Steven M. Olea
- 14 Director, Utilities Division
- 15 Arizona Corporation Commission
- 16 1200 West Washington Street
- 17 Phoenix, Arizona 85007

- 18 Ms. Janice M. Alward
- 19 Chief Counsel, Legal Division
- 20 Arizona Corporation Commission
- 21 1200 West Washington Street
- 22 Phoenix, Arizona 85007

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