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BEFORE THE ARIZONA CORPORATION CO.

Arizona Corporation Commission

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COMMISSIONERS

GARY PIERCE - Chairman
BOB STUMP
SANDRA D. KENNEDY
PAUL NEWMAN
BRENDA BURNS

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AL CORP COMMISSION
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DOCKETED BY

IN THE MATTER OF THE APPLICATION OF
CLEAR SPRINGS UTILITY COMPANY, INC.
FOR AUTHORITY TO INCUR LONG-TERM
DEBT.

DOCKET NO. W-01689A-11-0401

IN THE MATTER OF THE APPLICATION OF
CLEAR SPRINGS UTILITY COMPANY, INC.
FOR A RATE INCREASE.

DOCKET NO. WS-01689A-11-0402

**STAFF'S NOTICE OF FILING
LATE-FILED EXHIBITS**

At the hearing held on August 6, 2012, the Administrative Law Judge ("ALJ") assigned to these consolidated matters directed the Utilities Division ("Staff") of the Arizona Corporation Commission ("Commission") to file the following two late-filed exhibits: "Exhibit S-7 (Late-Filed)" addresses a potential inconsistency with Staff's recommendation that Clear Springs Utility Company, Inc. ("Company" or "Clear Springs") provide notice of the effective date of the authorized rates and charges approved by the Commission in this proceeding in the Company's next regularly scheduled billing; and "Exhibit S-8 (Late-Filed)" provides an example of the relevant journal entries for recording surcharge collections for the debt service reserve fund as a regulatory liability as recommended by Staff. Staff hereby provides notice of filing the aforementioned late-filed exhibits.

RESPECTFULLY SUBMITTED this 21st day of August, 2012.

Scott M. Hesla
Staff Attorney, Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007
(602) 542-3402

1 Original and thirteen (13) copies
of the foregoing were filed
2 this 21st day of August, 2012, with:

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

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7 Copies of the foregoing were mailed this
21st day of August, 2012, to:

8 Steve Wene, Esq.
MOYES SELLERS & HENDRICKS LTD.
9 1850 N. Central Avenue, Suite 1100
Phoenix, Arizona 85004

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11 Clear Springs Utility Company, Inc.
Attn: Bonnie O'Connor
Southwestern Utility Management
12 P.O. Box 85160
Tucson, Arizona 85754

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Monica A. Martz

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CLEAR SPRINGS UTILITY COMPANY, INC.
DOCKET NOS. WS-01689A-11-0402 AND W-01689A-11-0401
APPLICATION FOR AUTHORITY TO INCUR LONG-TERM DEBT
APPLICATION FOR APPROVAL OF A RATE INCREASE

Exhibit S-7 (Late-Filed)

Witness: Jeffrey M. Michlik

At the hearing and in its pre-filed testimony, Staff recommended that the rates and charges ultimately approved by the Commission in this proceeding become effective only after the Company corrects the water storage deficiencies for PWS #02-048 and PWS #02-050 and files a water loss reduction plan with Docket Control.¹ Staff also recommended:

“Directing the Company, as a compliance item in this case, to notify its customers of the authorized rates and charges approved in this proceeding, *and their effective date*, in a form acceptable to Staff, by means of an insert *in its next regularly-scheduled billing* and to file copies with Docket Control within 10 days of the date notice is sent to customers.”²

Staff acknowledges a potential inconsistency with recommending that the Company notify its customers of the effective date of these rates and charges in its next regularly-scheduled billing when that effective date is entirely contingent upon the Company’s efforts and willingness to address the storage deficiencies for PWS #02-048 and PWS #02-050 and file a water loss reduction plan. Specifically, if the Company fails or is unwilling to comply with these compliance measures before a Commission decision in this matter, the Company will not be able to notify its customers of the specific effective date of these rates and charges in the Company’s next regularly-scheduled billing. Therefore, to address this potential inconsistency, Staff modifies its recommendation regarding customer notice to include the following language noted in underline:

“Directing the Company, as a compliance item in this case, to notify its customers of the authorized rates and charges approved in this proceeding, and their effective date, except that if the Company has not complied with the Commission’s orders to correct the storage deficiencies for PWS #02-048 and PWS #02-050 and file a water loss reduction plan prior to a Commission decision in this matter, the Company shall notify its customers that the effective date is contingent upon the Company’s completion of those compliance measures and that the Company will provide additional notice to its customers once those compliance measures have been completed, in a form acceptable to Staff, by means of an insert in its next regularly-scheduled billing, and to file copies with Docket Control within 10 days of the date notice is sent to customers. In the

¹ Exh. S-3 (Direct Testimony of Jeffrey M. Michlik) at 25-26.

² *Id.* at page 3 of the Executive Summary and at page 26 (emphasis added).

event that the Company has not complied with the Commission's orders to correct the storage deficiencies for PWS #02-048 and PWS #02-050 and file a water loss reduction plan prior to a Commission decision in this matter, the Company, as a compliance item in this case, shall additionally notify its customers of the specific effective date of the rates and charges approved in this proceeding upon completion of those compliance measures, in a form acceptable to Staff, by means of an insert in its next regularly-scheduled billing, and to file copies with Docket Control within 10 days of the date notice is sent to customers."

Illustrative Journal Entries as T-Accounts

Asset Account		Asset Account		Asset Account		Liability Account		Liability Account		Liability Account		Liability Account	
Cash		WIFA Debt Service Reserve		Deferred Tax Asset		Regulatory Liability		Long Term WIFA Loan		Income Tax Payable		Property Tax Payable	
Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
\$31,617 (a)							\$10,630 (a)						
	\$36,152 (b)	\$6,025 (b)		\$1,638 (c)				\$14,708 (b)					
	\$10,630 (e)				\$1,638 (f)	\$10,630 (e)					\$4,901 (c)		
													\$603 (d)

Revenue		Expense		Expense	
Surcharge Revenue		WIFA Interest Expense		Income Tax Expense	
Debit	Credit	Debit	Credit	Debit	Credit
	\$20,987 (a)				
		\$15,419 (b)		\$3,263 (c)	
					\$603 (d)
				\$1,638 (f)	

Illustrative Journal Entries - Year 1

(a) Record Customer Surcharge Payment

Cash	\$	31,617	
Other Deferred Credits - Regulatory Liability			\$ 10,630
Revenue			\$ 20,987

To record surcharge collections from ratepayers recognizing the \$10,630 portion for funding the debt service reserve on all WIFA loans as a regulatory liability and the remaining \$20,987 as revenue.

(b) Record Annual Payment to WIFA

Long Term WIFA Loan (Principle)	\$	14,708	
Long Term WIFA Loan (Interest)			\$ 15,419
Sinking Fund - Debt Service Reserve Fund			\$ 6,025
Cash			\$ 36,152

To record the annual payment to WIFA for principal, interest and debt service reserve fund on the new loan only. Payments on existing loans would be similarly recorded. Note that the cash collected from the surcharge (entry (a) above) does not cover the full payment to WIFA as base revenues provide a portion of the cash.

(c) Record Deferred Tax Asset and Provision for Income Taxes

Income Tax Expense	\$	3,263	
Deferred Debit - Accumulated Income Taxes			\$ 1,638
Income Tax Payable			\$ 4,901

To record the provisions for Income Tax Expense and Accumulated Deferred Income Tax Debit (Asset) on the the surcharge collections for the debt service reserve fund. The Accumulated Deferred Income Tax (\$1,638 = \$10,630 x .154081) results from a timing difference - the recognition of revenue for taxes not recognized for books.

(d) Record Property Taxes

Property Tax Expense	\$	603	
Property Tax Payable			\$ 603

To record Property Taxes on the the surcharge collections for the debt service reserve fund.

Illustrative Journal Entries - Future Years

(e) Refund Ratepayers

Other Deferred Credits - Regulatory Liability	\$	10,630	
Cash			\$ 10,630

To record the refund of ratepayer surcharge collections used to fund the debt service reserve. For simplicity, the transaction assumes that the entire surcharge collection is refunded in the year following the collection.

(f) Refund Ratepayers

Income Tax Expense	\$	1,638	
Deferred Debit - Accumulated Income Taxes			\$ 1,638

To record reversal of Accumulated Deferred Income Tax initially recorded on the surcharge revenues as the \$10,630 refund results in book income exceeding taxable income (\$1,638 = \$10,630 x .154081).

WIFA Debt Service Reserve - End of Loan

Long Term WIFA Loan (Principle)	\$	28,472	
Long Term WIFA Loan (Interest)			\$ 1,655
Sinking Fund - Debt Service Reserve Fund			\$ 30,127

To record use of debt service reserve funds to payoff the new WIFA loan only when the fund balance equals the outstanding principal. Payments on the existing loans would be similarly recorded.

Note: Illustrative journal entries (a-f) above reflect a scenario in which surcharge revenues collected for the debt service reserve are treated as a regulatory liability as recommended by Staff and refunded in the following year. Multiple-year collections and refunds would be similarly recorded. The NARUC Uniform System of Accounts provides a framework to address the appropriate accounting for any ultimate refunding mechanism selected by the Commission including a decision to wholly or in-part dispense with refunding. The amounts presented are illustrative only. Ultimately, the appropriate entries must reflect the Commissions decision(s) and the actual amounts of surcharge collections, principle and interest on the loans, the effective tax rates/regulations, etc. The Company is responsible for maintaining proper accounting records.