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ARIZONA CORPORATION COMMISSION
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ANWAY MANVILLE, LLC

Po Box 85160

Tucson, Arizona 85754

520-624-1460 #7

Fax 520-792-0377

January 10, 2013

Chairman Bob Stump
Commissioner Gary Pierce
Commissioner Brenda Burns
Commissioner Susan Bitter Smith
Commissioner Bob Burns
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007

Arizona Corporation Commission
DOCKETED
JAN 15 2013
DOCKETED BY *TJM*

RE: Proposed Policy Statement on Income Tax Expense for Pass-Through Entities (In the Matter of the Commission's Generic Evaluation of the Regulatory Impact from the Use of Non-Traditional Financing Arrangements by Utilities and their Affiliated, Docket No. W-00000C-06-0149)

Dear Chairman and Commissioners;

Chairman Pierce on June 15, 2012, filed a proposed Policy Statement on Income Tax Expense for Tax Pass-Through Entities in Docket W-00000C-06-0149.

The then Chairman proposed that the tax pass-through entity should be allowed to recover income tax expense as a part of its cost of service and that its revenue requirement should be grossed up for the effect of income taxes. In addition Chairman Pierce stated that the failure to include income tax expense discriminates against tax pass-through entities and creates an

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artificial impediment to investment in utility infrastructure and neither of the outcomes serves the interest of the rate payers.

We agree that Limited Liability Companies, Subchapter S Corps and Partnerships, as well as Sole Proprietorships (though technically different) should be allowed the same consideration as C Corps in regard to this expense.

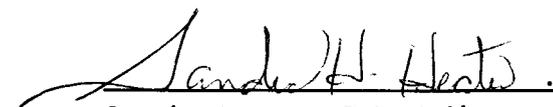
We strongly urge the Commission to implement this policy at its earliest opportunity.

We adamantly disagree with Staff's recommendation to continue the current policy against pass through entities. Ratemaking should be based on fairness to all utility companies not based on the legal form of the entity.

The income for all entities creates tax liability and each form of utility is entitled to income tax expense in its cost of service.

Again, we urge the Commission to consider implementing this policy as soon as possible.

Regards,


Sandra Heater, Principal