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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

Arizona Corporation Commission

DOCKETED

JUL 16 2013

DOCKETED BY	ne
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IN THE MATTER OF THE APPLICATION)
OF PIMA UTILITY COMPANY, AN)
ARIZONA CORPORATION, FOR A)
DETERMINATION OF THE FAIR VALUE)
OF ITS UTILITY PLANT AND PROPERTY)
AND FOR INCREASES IN ITS WATER)
RATES AND CHARGES FOR UTILITY)
SERVICE BASED THEREON)

DOCKET NO. W-02199A-11-0329

IN THE MATTER OF THE APPLICATION)
OF PIMA UTILITY COMPANY, AN)
ARIZONA CORPORATION, FOR A)
DETERMINATION OF THE FAIR VALUE)
OF ITS UTILITY PLANT AND PROPERTY)
AND FOR INCREASES IN ITS)
WASTERWATER RATES AND CHARGES)
FOR UTILITY SERVICE BASED)
THEREON)

DOCKET NO. SW-02199A-11-0330

DECISION NO. 73993

ORDER

Open Meeting
June 27, 2013
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Pima Utility Company ("Pima" or "Company") is a Class B water and wastewater public service corporation. The Company is headquartered in Sun Lakes, Arizona and its service area encompasses that area of Maricopa County, Arizona. In the test year, ending December 31, 2010, the Company served an average of 10,167 water customers and 10,081 wastewater customers.

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

3 **Background**

4 3. On November 12, 2012, the Commission issued Decision No. 73573, which
5 established the current rates for Pima. Decision No. 73573 also provided that Pima could seek an
6 allowance for income taxes generated as a result of its operations if the Commission changed its
7 policy regarding the treatment of income taxes for subchapter S corporations.

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

13 5. On March 29, 2013, the Company filed a petition to amend Decision No. 73573
14 pursuant to Arizona Revised Statutes ("A.R.S.") § 40-252. The Company has included full
15 schedules that appropriately fulfill the new income tax policy requirements and the resulting
16 recognition of an income tax allowance. The increase to the revenue requirement for water
17 customers is \$152,666, or an increase of 7.75 percent, and the increase to the revenue requirement
18 for wastewater customers is \$168,722 or an increase of 5.45 percent. Staff concurs with these
19 amounts because they comply with the Commission's new policy and will therefore result in just
20 and reasonable rates. Staff has confirmed that the amount the Company is seeking to collect for
21 income taxes is less than it would be had the Company elected to be taxed as a stand-alone C
22 corporation.

23 6. In its filing, the Company is not proposing any changes to its fair value rate base,
24 which is \$9,122,677 for its water division and \$9,895,103 for its wastewater division. Adopting
25 the increases proposed by the Company would increase the Company's revenue requirements to
26 \$2,550,282 and \$3,400,935 for its water and wastewater divisions, respectively.

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1 7. For the water division, the fair value rate of return (“FVROR”) remains at 7.63
2 percent, or may become 9.34 percent, depending on the ratemaking classification for the income
3 tax issue, as discussed in Finding of Fact Nos. 12-14 below.

4 8. For the wastewater division, the FVROR remains at 7.63 percent, or may become
5 9.30 percent, depending on the ratemaking classification for the income tax issue, as discussed in
6 Finding of Fact Nos. 12-14 below.

7 9. The Company’s current rates, based on a 2010 test year, were approved in Decision
8 No. 73573. In that case, the Company requested recognition of income tax expense in its
9 application, but it was disallowed as the Commission’s policy at that time did not recognize
10 income tax for pass-through entities that had no income tax liability. However, also at that time,
11 the Commission was in the process of evaluating changes to this policy, which ultimately resulted
12 in Decision No. 73739.

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

16 **Notice**

17 11. Staff recommends that the Company provide the notice which is attached as Exhibit
18 1 to the Staff Memorandum in a special direct mailing to all of its customers by May 8, 2013.
19 Staff also asked the Company to provide the attached notice to all parties to this case by May 8,
20 2013.

21 **Terminology**

22 12. The Commission’s new policy on the income tax issue for pass-through entities
23 refers in the body of the policy to an “imputed income tax expense”; however, in items 5, 6 and 7
24 listed on page 3 of the policy statement, it refers to an “income tax allowance.” Although this
25 terminology may appear insignificant, the classification of this adjustment impacts the calculation
26 of the FVROR.

27 13. If the income taxes were classified as an imputed expense, the FVROR for this case
28 will not be impacted (will remain 7.63 percent) for Pima. If the income taxes were classified as an

1 allowance, the resulting FVROR could be 9.30 percent and 9.34 percent, respectively for its
2 water and wastewater divisions. Staff notes that within the context of this case, the actual rate
3 impact to customers is the same under either classification.

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

11 **Rate Design**

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

16 16. Staff concurs with the Company on its proposed rate design. For informational
17 purposes, the typical bill impact analysis for a 5/8-inch meter residential customer using the
18 average of 6,935 gallons per month is as follows:

19 Water: current bill is \$11.96
20 proposed bill would be \$12.65
21 increase would be \$0.70 or 5.82%.

22 Wastewater: current bill is \$23.97
23 proposed bill would be \$25.17
24 increase would be \$1.20 or 5.00%.

25 **Staff Recommendations**

26 17. Staff recommends approval of the rate increases requested by the Company in the
27 amounts of \$152,666 for its water division and \$168,722 for its wastewater division.

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ORDER

IT IS THEREFORE ORDERED that Decision No. 73573 is hereby modified to permit Pima Utility Company to recover income taxes as requested in its March 29, 2013 petition.

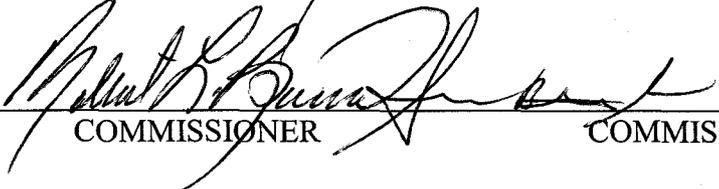
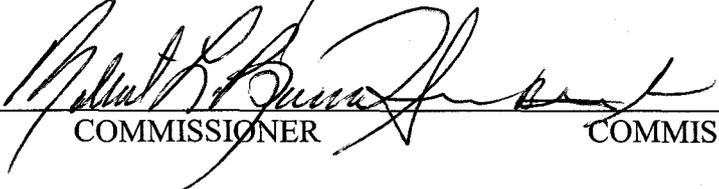
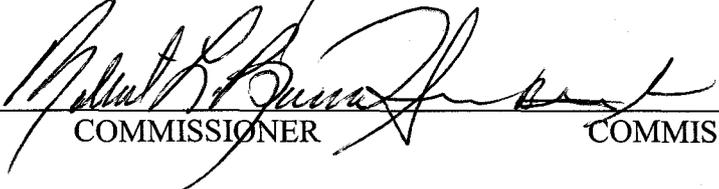
IT IS FURTHER ORDERED that the recommendations of Staff discussed in Findings of Fact 17 and 18 are reasonable and are hereby adopted.

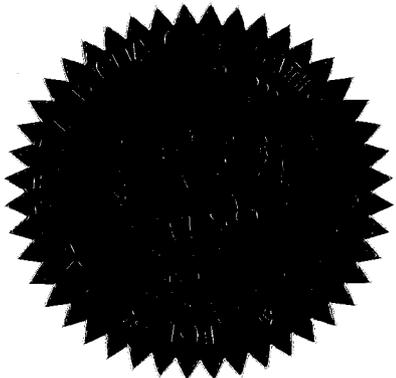
IT IS FURTHER ORDERED that the Company file a full rate case for both its water and wastewater divisions by no later than June 30, 2017, using a 2016 calendar year test year.

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

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

 _____ CHAIRMAN	 _____ COMMISSIONER
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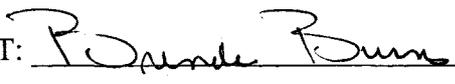
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IN WITNESS WHEREOF, I, JODI JERICH, Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this 16th day of July, 2013.



JODI JERICH
EXECUTIVE DIRECTOR

DISSENT: 

DISSENT: _____

SMO:DWC:lhmm\RMM

1 SERVICE LIST FOR: Pima Utility Company
DOCKET NO. W-02199A-11-0329 ET AL.

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