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AZ CORP COMMISSION
DOCKET CONTROL

7 **BEFORE THE ARIZONA CORPORATION COMMISSION**

9 **COMMISSIONERS**

10 SUSAN BITTER SMITH, CHAIRMAN
11 BOB STUMP
12 BOB BURNS
13 TOM FORESE
14 DOUG LITTLE

Arizona Corporation Commission

DOCKETED

OCT 13 2015

DOCKETED BY
BTU

15 IN THE MATTER OF THE APPLICATION
16 OF TIERRA BUENA WATER COMPANY,
17 INC. FOR APPROVAL OF A RATE
18 INCREASE.

Docket No. W-02076A-15-0135
Docket No. W-02076A-15-0024

19 IN THE MATTER OF THE APPLICATION
20 OF TIERRA BUENA WATER COMPANY,
21 INC. FOR AUTHORITY TO INCUR LONG-
22 TERM DEBT.

**COMMENTS REGARDING THE
RECOMMENDED OPINION
AND ORDER**

23 Tierra Buena Water Company, Inc. ("Company" or "Tierra Buena") hereby files
24 its comments to the Recommended Opinion and Order ("ROO") in this matter.

25 The Company seeks a clarification regarding the disbursement of funds from the
26 WIFA surcharge account. Staff's gross revenue conversion factor includes both income
27 tax and property tax. See Attachment 1 (Staff Report, Schedule CSB-1, p. 3, lines 1-6).
28

1 This gross up is a component of the WIFA surcharge calculation. See Attachment 2
2 (Staff Report, Schedule CSB-6, p. 1). The Company believes the intent of the WIFA
3 surcharge as adopted in the ROO is to function as a pass through of funds from the
4 customers to WIFA, thereby being revenue neutral to the Company.
5

6 To carry out this intent, one minor revision should be made. The last sentence on
7 ROO page 23 should be revised as follows:
8

9 Tierra Buena Water Company, Inc. shall only disburse funds from this
10 account for debt service, and reserve payments to the Water Infrastructure
11 Finance Authority of Arizona and the payment of ~~income~~ taxes related to
12 recovery of the principle payments, as describe herein.

13 Deleting the word "income" as a modifier enables the Company to pay both income and
14 property taxes with revenues derived from the WIFA surcharge as intended.

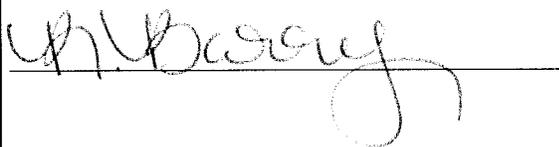
15 DATED this 13th day of October, 2015.

16
17 **MOYES SELLERS & HENDRICKS**

18 
19 _____
20 Steve Wene

21 **Original and 13 copies filed this**
22 **13th day of October, 2015, with:**

23 Docket Control
24 Arizona Corporation Commission
25 1200 West Washington
26 Phoenix, Arizona 85007

27 
28 _____

Attachment 1

GROSS REVENUE CONVERSION FACTOR AND INCOME TAX CALCULATION FOR RECOMMENDED REVENUE

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
<u>Calculation of Gross Revenue Conversion Factor:</u>					
1	Revenue	100.0000%			
2	Uncollectible Factor (Line 11)	0.0000%			
3	Revenues (L1 - L2)	100.0000%			
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	20.7873%			
5	Subtotal (L3 - L4)	79.2127%			
6	Revenue Conversion Factor (L1 / L5)	1.262424			
<u>Calculation of Uncollectible Factor:</u>					
7	Unity	100.0000%			
8	Combined Federal and State Tax Rate (Line 17)	19.6750%			
9	One Minus Combined Income Tax Rate (L7 - L8)	80.3250%			
10	Uncollectible Rate	0.0000%			
11	Uncollectible Factor (L9 * L10)	0.0000%			
<u>Calculation of Effective Tax Rate:</u>					
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
13	Arizona State Income Tax Rate	5.5000%			
14	Federal Taxable Income (L12 - L13)	94.5000%			
15	Applicable Federal Income Tax Rate (Line 53)	15.0000%			
16	Effective Federal Income Tax Rate (L14 x L15)	14.1750%			
17	Combined Federal and State Income Tax Rate (L13 +L16)		19.6750%		
<u>Calculation of Effective Property Tax Factor</u>					
18	Unity	100.0000%			
19	Combined Federal and State Income Tax Rate (L17)	19.6750%			
20	One Minus Combined Income Tax Rate (L18-L19)	80.3250%			
21	Property Tax Factor	1.3848%			
22	Effective Property Tax Factor (L20*L21)		1.1123%		
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			20.7873%	
24	Required Operating Income	\$ 10,000			
25	Adjusted Test Year Operating Income (Loss)	1,135			
26	Required Increase in Operating Income (L24 - L25)		\$ 8,865		
27	Income Taxes on Recommended Revenue (Col. [C], L52)	\$ 2,449			
28	Income Taxes on Test Year Revenue (Col. [A], L52)	278			
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		2,171		
30	Recommended Revenue Requirement	\$ 99,921			
31	Uncollectible Rate (Line 10)	0.0000%			
32	Uncollectible Expense on Recommended Revenue (L30*L31)	\$ -			
33	Adjusted Test Year Uncollectible Expense	\$ -			
34	Required Increase in Revenue to Provide for Uncollectible Exp. (L32-L33)				
35	Property Tax with Recommended Revenue	\$ 3,729			
36	Property Tax on Test Year Revenue	3,574			
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		155		
38	Total Required Increase in Revenue (L26 + L29 + L34 + L37)		\$ 11,191		
<u>Calculation of Income Tax:</u>					
39	Revenue	\$ 88,730	\$ 11,191	\$ 99,921	
40	Operating Expenses Excluding Income Taxes	\$ 87,317	\$ 155	\$ 87,472	
41	Synchronized Interest (L56)	\$ -		\$ -	
42	Arizona Taxable Income (L39 - L40 - L41)	\$ 1,413		\$ 12,449	
43	Arizona State Income Tax Rate	5.5000%		5.5000%	
44	Arizona Income Tax (L42 x L43)	\$ 78		\$ 685	
45	Federal Taxable Income (L42 - L44)	\$ 1,335		\$ 11,765	
46	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ 200		\$ 1,765	
47	Federal Tax on Second Income Bracket (\$51,001 - \$75,000) @ 25%	\$ -		\$ -	
48	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$ -		\$ -	
49	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	\$ -		\$ -	
50	Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	\$ -		\$ -	
51	Total Federal Income Tax	\$ 200		\$ 1,765	
52	Combined Federal and State Income Tax (L44 + L51)	\$ 278		\$ 2,449	
53	Applicable Federal Income Tax Rate [Col. [C], L51 - Col. [A], L51] / [Col. [C], L45 - Col. [A], L45]			15.0000%	
<u>Calculation of Interest Synchronization:</u>					
54	Rate Base (Schedule CSB-3, Col. (C), Line 14)	\$ (247,244)			
55	Weighted Average Cost of Debt	0.0000%			
56	Synchronized Interest (L45 X L46)	\$ -			

Attachment 2

WIFA LOAN SURCHARGE CALCULATION

Loan Amount: **\$899,506**
Term: **20** Years
Interest Rate Before Subsidy: **5.25%**
WIFA Subsidy Rate: **85%**
Interest Rate After Subsidy: **4.46%**

Step 1 - Find the Principal and Interest Components of the Annual Surcharge Revenue

\$28,508.27 Principal (From Loan Amortization Schedule)
\$39,562.06 Plus: Interest (From Loan Amortization Schedule)

\$68,070.33 Debt Service Component of the Annual Surcharge Revenue

Step 2 - Find the Gross Revenue Conversion Factor

1.26242322 From Testimony or Staff Report or Decision, Schedule XXX-1, Col. B, Line 7

Step 3 - Find the Incremental Income Tax Factor

1.26242 minus 1 = 0.26242

Step 4 - Find the Annual Income Tax Component of Surcharge Related To Principle

0.26242 Incremental Income Tax Factor (from Step 3)
\$28,508.27 Multiplied by: Annual Principal Payment on Loan from Step 1 (Note: Interest Expense is tax deductible)

\$7,481.26 Annual Income Tax Component Related to the Principle

Step 5 - Find the Annual Income Tax Component of Surcharge Related to Depreciation Expense

0.26242 Incremental Income Tax Factor (from Step 3)
\$4,717.00 Depreciation Expense (From Schedule XXX-1)

\$1,237.86 Annual Income Tax Component of Surcharge Related to Depreciation Expense

Step 6 - Find the Net Annual Income Tax Component of Surcharge

\$7,481.26 Annual Income Tax Component Related to the Principle (from Step 4)

(\$1,237.86) Less: Annual Income Tax Component of Surcharge Related to Depreciation Expense (from Step 5)

\$6,243.41 Net Annual Income Tax Component of Surcharge Revenue

Step 7 - Find the Debt Reserve Component of the Annual Surcharge Revenue

\$68,070.33 Annual Interest and Principal Payments on the Loan (from Step 1)
20% Multiplied by: One-fifth of Annual Principal and Interest Payment

\$13,614.07 Debt Reserve Component of the Annual Surcharge Revenue for first five years

Step 8 - Find the Annual Surcharge Revenue Requirement Needed for the Loan Including Reserve Fund

\$6,243.41 Net Annual Income Tax Component of the Annual Surcharge Revenue (from Step 6)
\$68,070.33 Plus: Debt Service Component of the Annual Surcharge Revenue (from Step 1)
\$13,614.07 Plus: Annual Reserve Fund Deposit (from Step 7)

\$87,927.80 Total Annual Surcharge Revenue Requirement for the Loan

Step 9 - Find the Equivalent Bills

Col A	Col B	Col C	Col D	Col E
Meter Size	NARUC Multiplier	Number of Customers	Number of Months in Year	Equivalent Bills Col B x C X D
5/8"x 3/4" Meter	1	x 0	x 12	= -
3/4" Meter	1.5	x 0	x 12	= -
1" Meter	2.5	x 127	x 12	= 3,810
1 1/2" Meter	5	x 0	x 12	= -
2" Meter	8	x 0	x 12	= -
3" Meter	15	x 0	x 12	= -
4" Meter	25	x 0	x 12	= -
6" Meter	50	x 0	x 12	= -
		<u>127</u>		<u>3,810</u>

Step 10 - Find the Monthly Surcharge for the 1-Inch Meter Size Customers

\$87,927.80 Total Annual Surcharge Revenue Requirement for the Loan (from Step 8)
3,810 Divided by: Total Number of Equivalent Bills (from Step 9)

\$23.08 Monthly Surcharge for 1-Inch Customers

Step 11 - Find the Monthly Surcharge for the Remaining Meter Size Customers

Col A	Col B	Col C	Col D
Meter Size	NARUC Multiplier	1-Inch Customers' Surcharge	Surcharge by Meter Size Col B x C
5/8"x 3/4" Meter	1	x \$23.08	= \$23.08
3/4" Meter	1.5	x \$23.08	= \$34.62
1" Meter	2.5	x \$23.08	= \$57.70
1 1/2" Meter	5	x \$23.08	= \$115.39
2" Meter	8	x \$23.08	= \$184.63
3" Meter	15	x \$23.08	= \$346.17
4" Meter	25	x \$23.08	= \$576.95
6" Meter	50	x \$23.08	= \$1,153.91