



OPEN MEETING AGENDA ITEM

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June 9, 2017

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Chairman Tom Forese
Commissioner Bob Burns
Commissioner Doug Little
Commissioner Andy Tobin
Commissioner Boyd Dunn
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007

Arizona Corporation Commission

DOCKETED

JUN 13 2017

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Re: Docket No. ACC-00000B-17-0062

Dear Chairman and Commissioners,

This letter is written in response to the filing by Commissioner Tobin on June 5, 2017 in the above referenced Docket regarding income taxes granted by the Commission for flow-through entities in Decision 73739.

Facilitation works with many small water companies on different facets of their bookkeeping and well as rate cases and other regulatory matters. Some of these water companies were allowed income tax recovery in rates as a result of Decision 73739.

Without specific instructions on how to determine the "income received as recognition of income tax expenses"¹, the calculation for this amount could vary widely.

- Would the tax set aside amount be the line item income tax expense approved during the prior rate case divided by 12 months?
- What if the rate case was decided a few years ago and the income tax line item is outdated?
- Could the tax set aside amount be a percentage of the revenue each month so less is set aside in the winter when there is less cash flow?
- Many small utilities continually under-earn so it is possible they would never earn enough revenue to recover an income tax line item component.
- The costs of complying with Commissioner Tobin's request would be burdensome for small utilities, especially when the subject companies acted within Commission rules to obtain this tax recovery.

¹ Commission Tobin letter date June 5, 2017, paragraph 1

- Cash versus accrual. Utility books are kept as accrual basis, but the Tobin proposal uses a cash tax amount. Using accrual based revenue to determine a cash component is a mismatch as the billed revenue does not match the amount collected each month.

Enacting blanket compliance that will impact many small utilities as a result of the alleged bad behavior of one utility owner is unfair. These entities will have to bear the burden of the costs for this proposed compliance and potential change in policy *through no fault of their own*.

In the event the Commission decides to move forward with the July 1, 2017 proposed compliance for income tax recovery, it should contemplate a proper method to calculate the income tax portion to be set aside. The process should be fair for all sized utilities, but not overly burdensome to Class D and E utilities, who tend to have less sophisticated accounting systems.

In conclusion, I am against the proposed set aside because utilities were authorized those funds in a rate case. For the Commission to now in essence reduce the revenue requirement for these utilities due to an income tax set aside smacks of retro-active ratemaking. Please do not further burden small utilities that already cannot attain their revenue requirement and in many cases struggle to keep cash in the bank.

Thank you for your time.

Sincerely,



Sonn S Ahlbrecht
Certified Public Accountant