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**BEFORE THE ARIZONA CORPORATION COMMISSION**

1  
2 TOM FORESE  
Chairman  
3 BOB BURNS  
Commissioner  
4 ANDY TOBIN  
Commissioner  
5 BOYD DUNN  
Commissioner  
6 JUSTIN OLSON  
Commissioner  
7

Arizona Corporation Commission

**DOCKETED**

AUG 22 2018

DOCKETED BY

8 IN THE MATTER OF THE APPLICATION }  
OF QUAIL CREEK WATER CO., INC.'S }  
9 APPLICATION FOR AN INCOME TAX }  
ADJUSTOR MECHANISM RELATED TO }  
10 THE TAX CUTS AND JOBS ACT OF 2017. }

DOCKET NO. W-02514A-18-0267

DECISION NO. 76836

ORDER

11  
12 Open Meeting  
August 14 and 15, 2018  
13 Phoenix, Arizona

14 BY THE COMMISSION:

15 \* \* \* \* \*

16 Having considered the entire record herein and being fully advised in the premises, the Arizona  
17 Corporation Commission ("Commission") finds, concludes and orders that:

18 FINDINGS OF FACT

19 **Background**

20 1. On October 27, 2015, the Arizona Corporation Commission ("Commission")  
21 approved Decision No. 75306, which established rates for Quail Creek Water Co., Inc. ("Quail  
22 Creek" or "Company"), based on a revenue requirement of \$1,191,789, at the then existing federal  
23 corporate income tax rate of 34 percent.

24 2. On December 22, 2017, the Tax Cuts and Jobs Act of 2017 ("Tax Act") was signed  
25 into law. The Tax Act impacted regulated utilities in several ways, chief among them was that it  
26 reduced the federal corporate income tax rates to a flat rate of 21 percent, effective January 1, 2018.  
27 In anticipation of the Tax Act, the Commission opened Docket No. AU-00000A-17-0379 on  
28 December 20, 2017. On December 22, 2017, the Commission's Utilities Division Staff ("Staff")

1 sent a letter to all regulated utilities in Arizona that asked two questions: 1) Do the current  
 2 Commission-approved rates being charged to ratepayers include the recovery of federal income  
 3 taxes; and 2) if the answer to Question No. 1 is “Yes,” please submit a detailed plan explaining how  
 4 you intend to assure the timely pass-through to ratepayers of all resulting revenue requirement  
 5 implications accompanying this Legislation.

6 3. Commission Decision Nos. 76595 and 76619 required that all Class A, B and C  
 7 utilities apply regulatory treatment to account for the impact of the Tax Act as of January 1, 2018,  
 8 and either a) apply for a tax expense adjustor mechanism within 60 days, b) file an intent to file a  
 9 rate case within 90 days,<sup>1</sup> or c) any other such application to address the ratemaking implications of  
 10 the Tax Act within 60 days.

11 4. On April 9, 2018, Quail Creek filed an Application to establish a tax refund process  
 12 based on option “a” above. Quail Creek proposes to establish an Income Tax Adjustor Mechanism  
 13 (“ITAM”).

14 5. Quail Creek proposed in its original filing to refund its year-to-date income tax  
 15 savings net of costs to prepare and file this application. The Company calculated an annual tax  
 16 savings of \$82,999, the difference between the old and new tax rates. The Company then calculated  
 17 a required reduction percentage based on the Company’s test year annual fixed revenue charges and  
 18 determined that 15.635 percent of fixed charges should be refunded monthly. The Company  
 19 calculated a year-to-date tax savings of \$26,166<sup>2</sup> for the months the tax savings had accumulated at  
 20 the time of the Company’s filing, and reduced the total balance by \$1,500, the cost of filing this  
 21 application. The Company then applied the tax savings to each of its meter sizes calculating a  
 22 monthly credit for 5/8” customers of \$3.17.

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27 <sup>1</sup> Cooperative companies were given 180 days to comply.  
 28 <sup>2</sup> The Company’s application calculated a \$26,166 year-to-date refund using four months, January through April. Staff notes, as does the Company in its application, that a new calculation would be required to incorporate all months of 2018 through the date of the Decision.

**1 Staff Analysis and Recommendations****2 Analysis of Quail Creek's Original Tax Reform Filing**

3           6. Staff agrees with the Company's proposal to establish an ITAM. However, Staff  
4 disagrees with the Company on the methodology of its proposed one-time credit, the monthly credit  
5 going forward, and the inclusion of costs of filing this application. Staff believes that the Company's  
6 refund should be determined based upon the impacts of the Tax Act on revenue requirement,  
7 resulting from the decrease in federal corporate income tax rate from 34 percent, used in the most  
8 recent rate case, to the new rate of 21 percent. Staff calculates the total annual refund obligation to  
9 be \$88,416 and recommends that Quail Creek refund this amount of tax savings. Staff rejects the  
10 Company's inclusion of the cost to file this application and has omitted the Company's \$1,500 from  
11 the calculation. Staff calculates a monthly refund for a 5/8 x 3/4-inch meter of \$2.48, as shown on  
12 Schedule BES-1, page 2.

13           7. Staff recommends that a one-time bill credit be approved to refund tax savings from  
14 January through August 2018, to the Company's ratepayers, effective with the Company's  
15 September 2018 billing cycles. Staff's calculation of this one-time bill credit totals \$19.87, for a 5/8  
16 x 3/4-inch meter, as shown on Schedule BES-1, page 3.

17           8. In its application, Quail Creek is silent on the impact of the Tax Act on its  
18 Accumulated Deferred Income Tax ("ADIT"), and the related amortization of Excess Accumulated  
19 Deferred Income Tax ("EADIT"). Staff recommends the Commission order Quail Creek to make a  
20 compliance filing within 90 days of the Commission order in this proceeding, demonstrating the  
21 impact of the Tax Act on its EADIT as of January 1, 2018, and the related EDIT amortization  
22 methods, both for "Protected" and "Unprotected" assets, as appropriate.

**23 True-Up of Tax Reform Filings**

24           9. Staff recommends that the Commission order Quail Creek to make an annual  
25 compliance filing that summarizes actual tax savings related to the Tax Act that is refunded in the  
26 preceding years, no later than April of each year. This compliance filing shall compare actual tax  
27 savings to the amount of tax savings approved for refund by the Commission and propose an  
28 appropriate mechanism for accounting for annual variance. Staff's recommended Tax Reform

1 compliance filing shall discontinue when the impact of the Tax Act is incorporated in Commission  
2 authorized revenue requirement and the related rates in the Company’s next rate application.

3 *Notice*

4 10. Staff recommends that the Commission order Quail Creek to file, as part of this  
5 docket, a notice that the Company intends to mail to its customers for Staff review no later than 10  
6 days from the effective date of the Commission decision in this preceding. Once approved, Staff  
7 recommends that Quail Creek send the Staff approved notice to its customers of its revised rates and  
8 bill credits as a bill insert, and post the information on its website, no later than 30 days from the  
9 effective date of the Commission decision in this proceeding.

10 CONCLUSIONS OF LAW

11 1. Quail Creek Water Co., Inc. is a public service corporation within the meaning of  
12 Article XV of the Arizona Constitution.

13 2. The Commission has jurisdiction over Quail Creek Water Co., Inc., and the subject  
14 matter of this filing.

15 3. The Commission concludes that it is in the public interest to authorize Quail Creek  
16 Water Co., Inc. to pass income tax savings from the Tax Act to its ratepayers, by approving Staff  
17 recommended bill credits discussed herein, to take effect in its first billing cycle in September 2018.

18 ORDER

19 IT IS THEREFORE ORDERED that Quail Creek Water Co., Inc. shall adopt the Staff  
20 recommended monthly bill credits as discussed herein, as a reduction to its authorized rates.

21 IT IS FURTHER ORDERED that the monthly bill credits and one-time bill credits approved  
22 herein are adopted and shall be effective for all customer classes in the Quail Creek Water Co., Inc.’s  
23 service areas, in the first billing cycle in September 2018.

24 IT IS FURTHER ORDERED that Quail Creek Water Co., Inc. shall address, within 180 days  
25 of the effective date of this decision, the impact of the Tax Act on its EADIT.

26 IT IS FURTHER ORDERED that Quail Creek Water Co., Inc. shall make compliance filings  
27 as discussed herein.

28 . . .

1 IT IS FURTHER ORDERED that Quail Creek Water Co., Inc. shall notify its affected  
2 customers of the revised schedules of rates and charges authorized herein by means of a message in  
3 its next regularly scheduled billing, and by posting a notice on its website.

4 IT IS FURTHER ORDERED that the Company files the results of an evaluation of the  
5 impact of the Tax Act on Quail Creek Water Company's ADIT and related EADIT no later than 180  
6 days from the effective date of the Decision in this matter, or as a part of the Company's next rate  
7 case, whichever is sooner.

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

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**BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

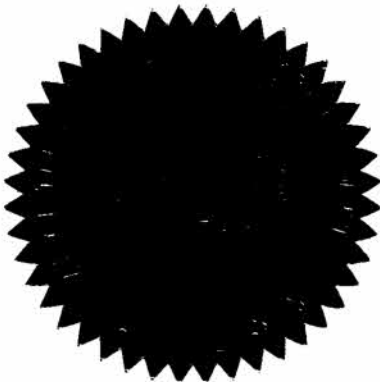
CHAIRMAN FORESE

COMMISSIONER DUNN

COMMISSIONER TOBIN

COMMISSIONER OLSON

COMMISSIONER BURNS



IN WITNESS WHEREOF, I, MATTHEW J. NEUBERT,  
Interim 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 22<sup>ND</sup> day of  
AVGUST, 2018.

MATTHEW J. NEUBERT  
INTERIM EXECUTIVE DIRECTOR

DISSENT: \_\_\_\_\_

DISSENT: \_\_\_\_\_

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Quail Creek Water Co., Inc.  
Docket No. W-02514A-18-0267

Jay L. Shapiro  
Shapiro Law Firm P.C.  
1819 East Morten Avenue, Suite 280  
Phoenix, Arizona 85020

Andy Kvesic  
Director, Legal Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

Elijah O. Abinah  
Director, Utilities Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

<b>INCOME TAX REFUND CALCULATION</b>
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Revenue requirement from Company's latest rate case	\$1,191,789
Staff's revenue requirement using 21 percent tax rate	\$1,103,373
Difference	\$88,416

<b>MONTHLY INCOME TAX REFUND CALCULATION</b>
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**Step 1 - 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	2,270	x	12	=	27,240
3/4" Meter	1.5	x	12	x	12	=	216
1" Meter	2.5	x	156	x	12	=	4,680
1½" Meter	5	x	9	x	12	=	540
2" Meter	8	x	11	x	12	=	1,056
3" Meter	15	x	2	x	12	=	360
4" Meter	25	x	1	x	12	=	300
6" Meter	50	x	2	x	12	=	1,200
			2,463				35,592

Col C - Number of Customers were as of June 2018 and provided by the Company on July 25, 2018.

**Step 2 - Find the Monthly Refund Amount**

\$88,416.06 Total Annual Income Tax Refund Amount (From Staff Calculation)	
35,592 Divided by: Total Number of Equivalent Bills (From Step 1)	
\$2.48 Monthly Surcharge for 5/8"x 3/4" Customers	

<b>MONTHLY INCOME TAX REFUND CALCULATION - CONTINUED</b>
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**Step 3 - Find the Monthly Refund for the Remaining Meter Size Customers**

Col A	Col B		Col C		Col D
Meter Size	NARUC Multiplier		5/8"x 3/4" Customers' Surcharge	=	Surcharge by Meter Size Col B x C
5/8"x 3/4" Meter	1	x	\$2.48	=	\$2.48
3/4" Meter	1.5	x	\$2.48	=	\$3.73
1" Meter	2.5	x	\$2.48	=	\$6.21
1½" Meter	5	x	\$2.48	=	\$12.42
2" Meter	8	x	\$2.48	=	\$19.87
3" Meter	15	x	\$2.48	=	\$37.26
4" Meter	25	x	\$2.48	=	\$62.10
6" Meter	50	x	\$2.48	=	\$124.21

**Step 4 - Recalculation of Annual Income Tax Refund**

Col A	Col B		Col C		Col D		Col E
Meter Size	Number of Customers		Number of Months in Year		Surcharge by Meter Size	=	Annual Surcharge Rev Col B x C X D
5/8"x 3/4" Meter	2,270	x	12	x	\$2.48	=	\$67,668.39
3/4" Meter	12	x	12	x	\$3.73	=	\$536.58
1" Meter	156	x	12	x	\$6.21	=	\$11,625.85
1½" Meter	9	x	12	x	\$12.42	=	\$1,341.44
2" Meter	11	x	12	x	\$19.87	=	\$2,623.27
3" Meter	2	x	12	x	\$37.26	=	\$894.30
4" Meter	1	x	12	x	\$62.10	=	\$745.25
6" Meter	2	x	12	x	\$124.21	=	\$2,980.99
	2,463				\$268.29		\$88,416.06 (From Step 2)



<b>ONE TIME BILL CREDIT</b>
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5/8" x 3/4" Meter

January	\$2.48
February	\$2.48
March	\$2.48
April	\$2.48
May	\$2.48
June	\$2.48
July	\$2.48
August	\$2.48
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Total	\$19.87