

SAN GABRIEL VALLEY WATER COMPANY

January 16, 2018

Advice Letter 512

U337W

TO THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

San Gabriel Valley Water Company (“San Gabriel”) hereby requests ministerial review of the following changes in tariff sheets applicable to both its Los Angeles County and Fontana Water Company divisions:

<u>CPUC Sheet No.</u>	<u>Title</u>	<u>Schedule No.</u>	<u>Canceling CPUC Sheet No.</u>
2785-W	Rule No. 15 Main Extensions (cont.)	N/A	1552-W
2786-W	Table of Contents (cont.)	N/A	2600-W
2787-W	Table of Contents	N/A	2784-W

The purpose of this advice letter is to update the Rule No. 15 income tax component of Contributions In Aid of Construction (CIAC) and Advances in Aid of Construction (AIAC), as a result of the federal 2018 Tax Cuts and Jobs Act (“New Tax Law”). In accordance with Water Industry Rule 7.3.1, **this filing is designated as Tier 1.**

Background

The New Tax Law, which is the first major overhaul of the Internal Revenue Code since 1986, was signed into law on December 22, 2017, and is effective as of January 1, 2018. Among other things, the New Tax Law reclassified CIAC and AIAC as taxable income to public utilities, as well as reducing the corporate income tax rate from 35% to 21%. The Commission previously addressed a federal income tax law change affecting Rule No. 15 in D.87-09-026 in I.86-11-019 and in Resolution W-4263, dated April 19, 2001.

Discussion

San Gabriel submits an original and four copies of this advice letter and requests that the attached proposed tariff sheets be made effective as of January 1, 2018.

In D.87-09-026, the Commission investigated five different methods of accounting for a new tax on CIAC. This decision allowed water utilities to use two of those methods depending on company size. Method 2 allowed utilities to gross-up the CIAC by enough money to pay the income tax (and the income tax portion of CIAC) and charge that amount to the contributor, whereas Method 5 required utilities to advance part of the tax, resulting in a lower gross-up. San Gabriel employed Method 5.

The Small Business Job Protection Act repealed taxes on CIAC for water and sewage utilities for amounts received after June 12, 1996. However, on January 6, 2001, the Internal Revenue Service reclassified CIAC receipts for single-customer service lines (the pipe and fittings from the distribution main, the meter box, and the meter to serve a single customer) as taxable income.

Section E.2 of Rule No. 15 currently lists the tax gross-up factors of 36.63% for CIAC and 37.48% for AIAC. Section E.5 of Rule No. 15 states:

The ITC tax factors [i.e., Income Tax Component or tax gross-up factor] ... will remain in effect until changes to those rates would increase or decrease the ITC tax factors by five percentage points or more. When and if that occurs, the utility will file an advice letter showing the new rates and cancel this sheet.

The New Tax Law exposes San Gabriel (and ultimately, ratepayers) to significant additional liability for federal income taxes that were not contemplated in the last general rate case. Therefore, San Gabriel is submitting this advice letter prior to receiving specific direction from the Commission regarding the ratemaking treatment of the income taxes on CIAC that it intends to authorize.

This advice letter proposes a 38.85% gross-up factor employing Method 2 which allows San Gabriel to charge the contributor the full amount of income taxes attributable to CIAC or AIAC, thereby protecting ratepayers from having to pay costs related to new

development. However, San Gabriel has also computed the gross-up factors using Method 5, which are included in the workpapers:

	<u>LA Division</u>	<u>Fontana Division</u>
For CIAC	21.54%	21.43%
For AIAC	22.58%	22.49%

Should the Commission ultimately direct utilities to use Method 5 under the New Tax Law, San Gabriel will refund all excess amounts deposited by the contributor at the 38.85% Method 2 tax gross-up rate.

Notice

Since this filing does not result in an increase in rates to customers, withdrawal of service or more restrictive terms or conditions, customer notice in accordance with Section 3.2 of General Order 96-B is not required. However, copies of this filing are being distributed to the parties on the attached distribution lists in accordance with Water Industry Rule 4.1, and will also be posted to San Gabriel's websites, www.sgvwater.com and www.fontanawater.com, in accordance with Water Industry Rule 3.3.

Protest and Responses

Anyone may respond to or protest this advice letter. A response supports the filing and may contain information that proves useful to the Commission in evaluating the advice letter. A protest objects to the advice letter in whole or in part and must set forth the specific grounds on which it is based. These grounds are:

- (1) San Gabriel did not properly serve or give notice of the advice letter;
- (2) The relief requested in the advice letter would violate statute or Commission order, or is not authorized by statute or Commission order on which San Gabriel relies;
- (3) The analysis, calculations, or data in the advice letter contain material error or omissions;

- (4) The relief requested in the advice letter is pending before the Commission in a formal proceeding;
- (5) The relief requested in the advice letter requires consideration in a formal hearing, or is otherwise inappropriate for the advice letter process; or
- (6) The relief requested in the advice letter is unjust, unreasonable, or discriminatory, provided that such a protest may not be made where it would require relitigating a prior order of the Commission.

A response or protest must be made in writing or by electronic mail and must be received by the Water Division within 20 days of the date this advice letter is filed. The address for mailing or delivering a response or protest is:

Tariff Unit, Water Division, 3rd floor
California Public Utilities Commission,
505 Van Ness Avenue, San Francisco, CA 94102
Email: water_division@cpuc.ca.gov

On the same date the response or protest is submitted to the Water Division, the respondent or protestant shall send a copy of the protest by mail to San Gabriel addressed as follows:

San Gabriel Valley Water Company
Vice President of Regulatory Affairs
11142 Garvey Avenue
El Monte, CA 91733
FAX: (626) 448-5530 or
E-mail: jmreiker@sgvwater.com

The advice letter process does not provide for any responses, protests or comments, except for San Gabriel's reply, after the 20-day comment period.

Replies: San Gabriel will reply to each protest and may reply to any response. Each reply must be received by the Water Division within 5 business days after the end of the protest period, and shall be served on the same day to the person who filed the protest or response.

January 16, 2018

If you have not received a reply to your protest within 10 business days, contact me at (626) 448-6183.

A handwritten signature in black ink, appearing to read "Joel M. Reiker". The signature is fluid and cursive, with a large initial "J" and "M".

Joel M. Reiker
Vice President of Regulatory Affairs

cc: James Boothe, CPUC – Water Division
Richard Smith, CPUC – Water Branch, ORA
Hani Moussa, CPUC – Water Branch, ORA

Rule No. 15

MAIN EXTENSIONS

(continued)

E. Income Tax Component of Contributions and Advances Provision

1. Contributions in Aid Of Construction (CIAC) and Advances for Construction (AIAC) shall include, but are not limited to, cash, services, facilities, labor, property, and income taxes thereon provided by a person or an agency to the utility. The value of non-cash contributions and advances shall be based upon the utility's estimates. Contributions and advances shall consist of two components for the purpose of recording transactions as follows:
 - a. Income Tax Component (ITC), and
 - b. The contribution or advance.
2. The ITC shall be calculated by multiplying the appropriate portion of the contribution or advance by 38.85%. (I)
3. The ITC will be collected subject to refund, pending the Commission's final determination of the method of accounting for the new tax on advances and contribution. (N)
(N)
(D)
4. The utility shall inform the Applicant of the final cost of the installation of all facilities and the resulting tax paid thereon. (T)
5. In the event the utility collects an ITC using an incremental tax rate that is more than its incremental tax rate as determined on a taxable year basis, without consideration of a tax credit or tax loss carryforward, the difference between what was and what should have been collected will be refunded to the Applicant.

(To be inserted by utility)

Issued by

(To be inserted by Cal. P.U.C.)

Advice Letter No. 512

R.W. Nicholson
NAME

Date Filed _____

Decision No. _____

President
TITLE

Effective _____

Resolution No. _____

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TABLE OF CONTENTS

The following listed tariff sheets contain all effective rates and rules affecting the rates and services of the utility, together with information relating thereto:

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(continued)

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Advice Letter No. 512

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San Gabriel, CA 91778

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655 W. Broadway, Suite 1410
San Diego, CA 92101

San Gabriel County Water District
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Rosemead, CA 91770

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City of Montebello
1600 West Beverly Boulevard
Montebello, CA 90640

City of Whittier Water Department
13230 East Penn Street
Whittier, CA 90602

City of Monterey Park Water Department
320 West Newmark Avenue
Monterey Park, CA 91754

California Public Utilities Commission
Office of Ratepayer Advocates
505 Van Ness Avenue
San Francisco, CA 94102-4208

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Pico Rivera, CA 90660

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Advice Letter No. 512

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