

SAN GABRIEL VALLEY WATER COMPANY

February 15, 2018

Advice Letter 516

U337W

TO THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

San Gabriel Valley Water Company ("San Gabriel") submits an original and four copies of this advice letter requesting authority to modify its Rule No. 15 to explicitly identify Facilities Fees as a Contribution in Aid of Construction (CIAC) that is subject to gross-up as a result of the 2018 Tax Cuts and Jobs Act ("New Tax Law"), with the following changes in tariff sheets applicable to the Fontana Water Company division:

<u>CPUC Sheet No.</u>	<u>Title</u>	<u>Canceling Schedule No.</u>	<u>CPUC Sheet No.</u>
2797-W	Rule 15- Main Extensions (cont.)	N/A	2785-W
2798-W	Table of Contents (cont.)	N/A	2789-W
2799-W	Table of Contents	N/A	2796-W

San Gabriel requests that these tariff sheets be made effective as of January 1, 2018. In accordance with Water Industry Rule 7.3.1, this advice letter is designated as Tier 1.

Discussion

On January 16, 2018, San Gabriel submitted Advice Letter 512 to modify its Rule No. 15 to allow for an income tax gross-up on CIAC and Advances in Aid of Construction to be collected from developers and prospective customers. The new tariff sheets were approved effective January 1, 2018. Facilities Fees are a form of CIAC, although they are used to fund projects not directly associated with the developer's or prospective customer's project.

On January 25, 2018, San Gabriel submitted Advice Letter 514 seeking authority to apply a portion of the Facilities Fees collected to the associated federal income taxes. After consulting with Water Division, San Gabriel elected to treat Facilities Fees the

same as all other CIAC with respect to income taxes. Accordingly, San Gabriel withdrew Advice Letter 514 and by this advice letter intends to apply the Rule 15 tax gross-up on Facilities Fees. To avoid possible confusion, San Gabriel herein requests a minor wording change to Rule 15 to clarify that Facilities Fees shall be grossed-up for income taxes.

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.

February 15, 2018

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.

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



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), including Facilities Fees, 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: (T)
 - 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 the following tax factors:

	LA	FWC
a. For CIAC:	21.54%	21.43%
b. For AIAC:	22.58%	22.49%
3. The tax factors are established using Method 5, as set forth in Decision No. 87-09-026 in I.86-11-019.
4. The formula to compute the ITC tax factors include:

a. Federal income tax rate:	21.00%
b. State franchise tax rate:	8.84%
c. Discount rate:	8.49%
d. Pre-tax rate of return:	10.98%/10.96%
e. Cost of debt:	6.26%
f. Debt:equity ratio:	37:63
g. Net-to-gross multiplier	1.404184/1.400992
5. The ITC tax factors have been derived from the above-listed tax rates and 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 a Tier 1 advice letter showing the new rates and cancel this sheet.
6. The utility shall inform the Applicant of the final cost of the installation of all facilities and the resulting tax paid thereon.
7. 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. 516

R.W. Nicholson
NAME

Date Filed _____

Decision No. _____

President
TITLE

Effective _____

Resolution No. _____

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(continued)

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

<u>Subject Matter of Sheet</u>	<u>C.P.U.C. Sheet No.</u>	
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Fontana Water Company		
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(continued)

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NAME
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DISTRIBUTION LIST
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Fontana Water Company Division
Advice Letter No. 516

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