

SAN GABRIEL VALLEY WATER COMPANY

January 14, 2013

Advice Letter 423

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>
2170-W	Preliminary Statement (continued)	N/A	N/A
2171-W	Table of Contents	N/A	2169-W

An original and four copies of this advice letter are submitted in compliance with General Order 96-B. In accordance with General Order 96-B, Industry Rule 7.3.2, this is designated as a Tier 2 advice letter requesting similar treatment as that authorized by Resolution W-4932, dated September 27, 2012, approving Golden State Water Company's Advice Letter No. 1498-WB. San Gabriel requests the proposed changes to become effective upon Commission approval.

Purpose

San Gabriel is seeking authorization to modify its Preliminary Statement to reflect the establishment and implementation of the Income Tax Repair Regulations Implementation Memorandum Account ("ITRRIMA"). The ITRRIMA will track the costs associated with the initial implementation of the repair regulations and will include (i) outside implementation service fees and (ii) other directly applicable costs. The costs recorded in this memorandum account will be reviewed for reasonableness in San Gabriel's next General Rate Case ("GRC").

Discussion

The U.S. Treasury Department ("Treasury Department") issued regulations on December 23, 2011 (T.D. 9564) and the Internal Revenue Service ("IRS") issued related guidance in March 2012.

On November 20, 2012, the Treasury Department issued Notice 2012-73 extending the implementation of the pending final regulations until taxable years beginning on or after January 1, 2014. Further guidance may be issued by the IRS or the California Franchise Tax Board. The regulations and guidance (collectively, "repair regulations") provide for several tax accounting method changes, one of which accelerates the recovery of repair costs for tax purposes. Under the repair regulations some repair costs which are normally capitalized would be treated as expensed items for tax purposes. Consequently, any resulting deferred taxes would be recorded on a normalized basis (i.e., reduction of rate base), thereby fully normalizing the income tax effects in accordance with the ratemaking normalization methodology followed in past GRC's.

Request

San Gabriel requests to modify its Preliminary Statement to establish the ITRRIMA.

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 Division of Water and Audits within 20 days of the date this advice letter is filed. The address for mailing or delivering a response or protest is:

Tariff Unit, Division of Water and Audits, 3rd floor
California Public Utilities Commission,
505 Van Ness Avenue, San Francisco, CA 94102

January 14, 2013

Email: water_division@cpuc.ca.gov

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

San Gabriel Valley Water Company
Director, Rates and Revenue
11142 Garvey Avenue
El Monte, CA 91733
FAX: (626) 448-5530 or
E-mail: dadellosa@sgwater.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 Division of Water and Audits 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.

San Gabriel Valley Water Company



Daniel A. Dell'Osa
Director of Rates and Revenue

cc: Bruce DeBerry, CPUC – Division of Water and Audits
Hani Moussa, CPUC – Water Branch, DRA
Danilo Sanchez, CPUC – Water Branch, DRA

PRELIMINARY STATEMENT

(Continued)

O. Income Tax Repair Regulations Implementation Memorandum Account (“ITRRIMA”).

1. Purpose

The purpose of this memorandum account is to track the cost of initial implementation of the Repair Regulations and will include (i) outside implementation service fees and (ii) other directly applicable costs, to comply with the U.S. Treasury Department regulations issued in December 2011 (T.D. 9564) and subsequent guidance issued by the Internal Revenue Service (“IRS”).

2. Applicability

The entries to the ITRRIMA include the following:

- a. A debit entry shall be made to the ITRRIMA at the end of each month to record any costs associated with implementing the Repair Regulations.
- b. A credit entry shall be made to the ITRRIMA at the end of each month to record the ITRRIMA related cost recovery collected in rates.
- c. Monthly interest expense calculated at 1/12 of the most recent month’s interest rate on Non-financial Commercial Paper (AA, 3-month), published in the Federal Reserve Statistical Release, H.15 ([www/federalreserve.gov/release/H15](http://www.federalreserve.gov/release/H15)), or its successor publication (debit or credit).

3. Effective Date

The ITRRIMA will be made effective upon Commission approval.

4. Disposition:

The ITRRIMA will be reviewed in San Gabriel’s next GRC. To the extent these costs are less than what is forecasted in rates, San Gabriel will refund the difference to its customers.

(To be inserted by utility)

Issued by

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

Advice Letter No. 423

R. W. Nicholson

Date Filed _____

Decision No. _____

NAME

Effective _____

President

Resolution No. _____

TITLE

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(continued)

(To be inserted by utility)

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