

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



June 14, 2018

Jeffrey T. Linam
Vice President of Rates & Regulatory
California-American Water Company
4701 Beloit Drive
Sacramento, CA 95838-2434

Dear Mr. Linam,

The Commission has approved California-American Water Company's Advice Letter No. 1207, filed on May 30, 2018, regarding Changes to Rule 15 income tax provisions pertaining to Contributions in Aid of Construction.

Enclosed are copies of the following revised tariff sheets for the utility's files:

<u>P.U.C. Sheet No.</u>	<u>Title of Sheet</u>
8769-W	Rule No. 15 MAIN EXTENSIONS (Continued)
8770-W	TABLE OF CONTENTS (Page 5)
8771-W	TABLE OF CONTENTS (Page 1)

Please contact Tayeb Mogri at 415-703-2146, if you have any questions.

Thank you,

/s/ROBIN BRYANT

Robin Bryant
Water & Sewer Advisory Branch
Division of Water and Audits

Enclosures



**CALIFORNIA
AMERICAN WATER**

May 30, 2018

4701 Beloit Drive
Sacramento, CA 95838
www.amwater.com

P (916)-568-4251
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ADVICE LETTER NO. 1207

TO THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

California-American Water Company (California American Water) (U210W) submits this advice letter, including the following tariff sheet applicable to all of its water customers.

<u>C.P.U.C. Sheet No.</u>	<u>Title of Sheet</u>	<u>Canceling Sheet No.</u>
8769-W	Rule No. 15 MAIN EXTENSIONS (Continued)	6766-W
8770-W	TABLE OF CONTENTS (Page 5)	8660-W
8771-W	TABLE OF CONTENTS (Page 1)	8768-W

Request:

With this advice letter, California American Water requests authority to update the Rule 15 income tax provisions pertaining to Contributions in Aid of Construction (CIAC) and Advance in Aid of Construction (AIAC) to reflect the “Tax Cuts and Jobs Act” (“TCJA”) signed on December 22, 2017. These updates are necessary because the TCJA reclassifies CIAC and AIAC as taxable income. This advice letter will have no impact on rates.

Discussion:

The TCJA, which became effective January 1, 2018, contains many provisions that substantially modify the Internal Revenue Code. Among other things, the TCJA changes the tax applicable to CIAC and AIAC that water utilities receive from developers. Specifically, California American Water will adjust the tax factors, and applicability, for CIAC and AIAC based on the revised corporate tax rate and the updated cost of capital as determined Decision 18-03-035.

Tier Designation:

In accordance with General Order (GO) No. 96B – Water Industry Rule 7.3.1(3), this advice letter is designated as a Tier 1 Advice letter.

Effective Date:

California American requests an effective date of June 1, 2018.

RESPONSE OR PROTEST¹

Anyone may submit a response or protest for this AL. When submitting a response or protest, **please include the utility name and advice letter number in the subject line.**

¹ G.O. 96-B, General Rule 7.4.1

A **response** supports the filing and may contain information that proves useful to the Commission in evaluating the AL. A **protest** objects to the AL in whole or in part and must set forth the specific grounds on which it is based. These grounds² are:

- (1) The utility did not properly serve or give notice of the AL;
- (2) The relief requested in the AL would violate statute or Commission order, or is not authorized by statute or Commission order on which the utility relies;
- (3) The analysis, calculations, or data in the AL contain material error or omissions;
- (4) The relief requested in the AL is pending before the Commission in a formal proceeding; or
- (5) The relief requested in the AL requires consideration in a formal hearing, or is otherwise inappropriate for the AL process; or
- (6) The relief requested in the AL 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 protest may not rely on policy objections to an AL where the relief requested in the AL follows rules or directions established by statute or Commission order applicable to the utility. A protest shall provide citations or proofs where available to allow staff to properly consider the protest.

DWA must receive a response or protest via email (**or** postal mail) within 20 days of the date the AL is filed. When submitting a response or protest, **please include the utility name and advice letter number in the subject line.**

The addresses for submitting a response or protest are:

Email Address: Water.Division@cpuc.ca.gov	Mailing Address: CA Public Utilities Commission Division of Water and Audits 505 Van Ness Avenue San Francisco, CA 94102
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On the same day the response or protest is submitted to DWA, the respondent or protestant shall send a copy of the protest to Cal-Am at:

Email Address: melody.singh@amwater.com	Mailing Address: 4701 Beloit Drive Sacramento, CA 95838
sarah.leeper@amwater.com	555 Montgomery Street, Suite 816 San Francisco, CA 94111
lakhjit.thind@amwater.com	4701 Beloit Drive Sacramento, CA 95838

Cities and counties that need Board of Supervisors or Board of Commissioners approval to protest should inform DWA, within the 20 day protest period, so that a late filed protest can be

² G.O. 96-B, General Rule 7.4.2

entertained. The informing document should include an estimate of the date the proposed protest might be voted on.

REPLIES³

The utility shall reply to each protest and may reply to any response. Any reply must be received by DWA within five business days after the end of the protest period, and shall be served on the same day on each person who filed the protest or response to the AL.

The actions requested in this advice letter are not now the subject of any formal filings with the California Public Utilities Commission, including a formal complaint, nor action in any court of law.

This filing will not cause the withdrawal of service, nor conflict with other schedules or rules.

If you have not received a reply to your protest within 10 business days, please contact me at (916) 568-4255.

CALIFORNIA-AMERICAN WATER COMPANY

/s/ Jeffrey T. Linam

Jeffrey T. Linam
Vice President of Rates & Regulatory

³ G.O. 96-B, General Rule 7.4.3

Rule No. 15
MAIN EXTENSIONS
(Continued)

Sheet 14

E. INCOME TAX COMPONENT OF CONTRIBUTIONS AND ADVANCES PROVISION

1. Contributions is Aid of Construction (CIAC) and Advances for Construction (AIC) shall include, but are not limited to, cash, services, facilities, labor, property, and income taxes thereon provided by a person or agency to the utility. The value of all contributions and advances shall be based on the utility's estimates. Contributions and advances shall consist of two components for the purpose of recording transactions as follows:
 - a. Income Tax Component, and
 - b. The balance of the contribution or advance.

2. The Income Tax Component shall be calculated by multiplying the following tax factors times the appropriate portion of the contribution or advance:

a. For CIAC:	19.80%	(D)
b. For AIC:	20.93%	(R)(D)

3. The tax factors are established by using Method 5 as set forth in Decision No. 87-09-026 in I. 86-11-019.

4. The formula to compute Method 5 includes the following factors:

a. Corporate tax rate of:	21%	(R)
b. Franchise tax rate of:	8.84%	
c. A discount rate of:	7.61%	(R)
d. A pre-tax rate of return of:	9.59%	(R)

5. The Income Tax Component factor has been derived from the federal and state corporate income tax rates and will remain in effect until changes to those rates would increase or decrease the gross-up rate by five percentage points or more as reflected in Ordering Paragraph No. 7 of I. 86-11-019/D. 87-09-026. When and if that occurs, the utility will file and advice letter showing the new rates and cancel out this sheet.

6. In the event that the Utility collects a gross-up 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 carry forward, the difference between what was and what should have been collected will be refunded to the Applicant.

(Continued)

(TO BE INSERTED BY UTILITY)

Advice 1207
Decision

ISSUED BY

J. T. LINAM
DIRECTOR - Rates & Regulatory

(TO BE INSERTED BY C.P.U.C.)

Date Filed 05/30/2018
Effective 06/01/2018
Resolution _____

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	Schedule 14.1-DUN
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No. 14.2	Voluntary Water Conservation Plan
No. 15	Main Extensions
No. 16	Service Connections, Meters and Customers' Facilities
No. 17	Measurement of Service
No. 18	Meter Tests and Adjustment Bills for Meter Error
No. 19	Service to Separate Premises and Multiple Units and Resale
No. 20	Fire Protection
No. 21	Water Conservation
No. 22	The Military Family Financial Relief Act
No. 23	Customer Information Sharing

(Continued)

(TO BE INSERTED BY UTILITY)	ISSUED BY	(TO BE INSERTED BY C.P.U.C.)
Advice 1207	J. T. LINAM	Date Filed <u>05/30/2018</u>
Decision	DIRECTOR - Rates & Regulatory	Effective <u>06/01/2018</u>
		Resolution _____

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