

PENNGROVE WATER COMPANY [PWC]

4982 Sonoma Highway Santa Rosa, CA 95409
707-539-6397

May 9, 2019

Advice Letter No. 115

TO THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Penngrove Water Company (PWC) hereby transmits for filing one original and one copy of this advice letter (AL) and the following tariff sheets which are enclosed:

<u>NEW SHEET #</u>	<u>TITLE</u>	<u>CANCELLING SHEET #</u>
480-W,481-W	Amend Rule15.E Tax Factor for CIAC and AIAC	256-W
482-W	Table of Contents	476-W

REQUEST

This AL requests permission to amend PWC's Rule 15.E to update the Tax Factor used to calculate the Income Tax Component associated with the Contributions in Aid of Construction (CIAC) and Advances In Aid of Construction (AIAC). Pursuant to Water Industry Rule7.3.1 of GO 96-B, this filing is designated as a Tier 1 AL.

BACKGROUND

The new federal tax law, known as the Tax Cuts and Jobs Act (TCJA), passed and signed into law in December 2017 and effective in 2018, reclassified CIAC and AIAC as taxable income for public water utilities. The Commission allows contributions which are considered income to be 'grossed-up' for income taxes, so that the burden is not passed onto ratepayers and so that the utility's authorized rate of return is not compromised. This AL proposes a Tax Factor to calculate the gross-up Income Tax Component (ITC) associated with CIAC or AIAC consistent with the TCJA and prior Commissions decisions.

DISCUSSION

The commission previously addressed a federal income tax change affecting Rule 15 in its Decision D. 87-09-026, in which the Commission investigated five different methods of calculating the tax gross-up on CIAC and AIAC. This Decision allows water utilities to use one of two methods to gross-up the value of the CIAC or AIAC (the contribution) by enough money to

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pay the associated income tax on the contributed or advanced asset value and the income tax on the tax funding contribution itself as well, and to charge that amount to the contributor. Method 2 allows smaller utilities to gross up the contribution by enough money to pay the income tax on the contributed value as well as the tax on the funding contribution itself. Method 5 requires larger water utilities, to advance part of the tax, resulting in a lower gross-up. PWC is a Class C utility and will employ Method 2 to determine the Tax Method.

The Water Division has determined that tall regulated water utilities will use the 21% federal tax rate specified in the TCJA for C-Corp utilities regardless of the tax structure for individual utilities (S-Corp. proprietorship etc.). The income tax rate for California is 8.84% The combined tax rates result in a Tax Factor of 38.85%, as shown in the attached work papers.

TIER DESIGNATION AND REQUESTED EFFECTIVE DATE

This AL and the enclosed tariff sheets are submitted pursuant to General Order (GO.) 96-B. AL 114 is designated as a Tier 1 AL and the enclosed tariff sheets will become effective upon filing.¹

NOTICE

Since the approval requested in this AL will not result in an increase in rates to its customers, withdrawal of service, or more restrictive terms or conditions, customer notice is not required in accordance with Section 3.2 of GO 96-B. However, copies of this filing are distributed to the parties on the service list on the last page of this AL in accordance with Water Industry Rule 4.1 of GO 96-B.

RESPONSE OR PROTEST²

Anyone may respond to or protest this AL. 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 grounds 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;

¹ GO. 96-B, Water Industry Rule 7.3.1

² GO. 96-B, General Rule 7.4.1

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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. The addresses for submitting a response or protest are:

Email Address:

Water.Division@cpuc.ca.gov

Mailing Address:

California Public Utilities Commission
Water Division, 3rd Floor
505 Van Ness Avenue
San Francisco, CA 94102

On the same day the response or protest is submitted to DWA, the respondent or protestant shall send a copy of the protest to Penngrove Water Company at:

Email Address:

julie@mfcomputing.com

Mailing Address:

4982 Sonoma Highway
Santa Rosa, CA 95409

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

REPLIES

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.³

³ GO. 96-B, General Rule 7.4.3

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SERVICE LIST

Susan Sommers
City of Petaluma
PO Box 61
Petaluma, CA 94953


City of Rohnert Park
130 Avram
Rohnert Park, CA 94927

American Water Company
Attn: Rates Department
4701 Beloit Drive
Sacramento, CA 95838

I hereby certify that the above service list has been served a copy of AL 115 on 5/9/19.

Executed in Santa Rosa, California.

Penngrove Water Company

By: 

Julie Cavaz
Manager

Enclosures

Rule 15

MAIN EXTENSIONS (Continued)

E. INCOME TAX COMPONENTS OF CONTRIBUTIONS AND ADVANCES PROVISION FOR ALTOS SONOMA CORPORATION (ASC) dba PENNGROVE WATER COMPANY

1. Contributions in Aid of Construction and Advances for Construction shall include, but are not limited to, cash, services, facilities fees, labor, and income taxes thereon provided by a person or agency to the utility. The value of non-cash contributions and advances shall be based on the utility's estimates. Contributions and advances shall consist of two components for purposes of recording transactions as follows:

- (a) Income tax component (ITC)
- (b) The balance of the contribution or advance

2. The ITC shall be calculated by multiplying the balance of the contribution or advance by (C) the tax factor of 38.85%.

3. The combined state and federal income tax rate is 27.98%, as derived in PWC Advice Letter No. 115. (C)

4. The tax factor is established by using Method 2 as set forth in D. 87-09-026 in I.86-11-109.(C)

5. The formula to compute the ITC using Method 2 includes the following factors: (C)

- (a) California corporate tax rate of 8.84%
- (b) Federal tax rate of 21% for 2018 and thereafter.

6. The ITC will be collected subject to refund, pending the Commission's final determination of the method of accounting for the new tax on contributions and advances. (C)

7. The utility shall inform the Applicant of the final cost of the installation of all contributed or advanced facilities (the balance) and the corresponding tax paid thereon (the ITC) to be collected from the Applicant. (C)

8. In the event that 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 carry forward, the difference between what was and what should have been collected will be refunded to the Applicant. (C)

9. This tariff is effective as of January 1, 2018. (C)

(To be inserted by utility)

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Decision No. _____

Issued By



Manager

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

Date Filed _____

Effective _____

Resolution No. _____

Rule 15

MAIN EXTENSIONS (continued)

SPECIAL CONDITIONS

1) In the event that the utility collects a gross-up using an incremental tax rate that is more than its incremental tax rate determined on a taxable year basis, without consideration of a tax credit or tax loss carry forward, the difference between what was what should have been collected will be refunded to the applicant.

F. The following paragraph will be added under “**Refunds**” to each Utility’s Main Extension Contract Forms signed after October 9, 1996 in the forms section of the utility’s tariff book.

“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.”

(To be inserted by utility)

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TABLE OF CONTENTS

The following listed tariff sheets contain all effective rates and rules affecting the charges and services of the utility, together with other pertinent information.

SUBJECT MATTER OF SHEET

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No. 20 – Water Conservation		

(To be inserted by utility)

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