



# KENWOOD VILLAGE WATER COMPANY

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

June 17, 2019

Advice Letter No. 107

TO THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

KENWOOD VILLAGE WATER COMPANY (KVWC) 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>
491-W, 492-W	Amend Rule 15.E Tax Factor for CIAC and AIAC	253-W
493-W	Table of Contents	490-W

## REQUEST

This AL requests permission to amend KVWC'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 Rule 7.3.1 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 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.

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Method 5 requires larger water utilities, to advance part of the tax, resulting in a lower gross-up.

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 107 is designated as a Tier 1 AL and the enclosed tariff sheets will become effective upon filing.<sup>1</sup>

## **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 PROTEST<sup>2</sup>**

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;
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.

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<sup>1</sup> GO. 96-B, Water Industry Rule 7.3.1

<sup>2</sup> GO. 96-B, General Rule 7.4.1

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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](mailto: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 Kenwood Village 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.<sup>3</sup>

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<sup>3</sup> GO. 96-B, General Rule 7.4.3

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## SERVICE LIST

City of Santa Rosa  
PO Box 1658  
Santa Rosa, CA 95402

Valley of the Moon Water District  
PO Box 280  
El Verano, CA 95433-0280

Kinneybrook Mutual  
PO Box 1234  
Kenwood, CA 95452

I hereby certify that the above service list has been served a copy of AL 107 on 6/17/19.

Executed in Santa Rosa, California.

Kenwood Village Water Company

By: 

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Julie Cavaz  
Manager

Enclosures

**Rule 15**

MAIN EXTENSIONS (Continued)

E. INCOME TAX COMPONENTS OF CONTRIBUTIONS AND ADVANCES PROVISION FOR ALTOS SONOMA CORPORATION (ASC) dba KENWOOD VILLAGE 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 KVWC Advice Letter No. 107. (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)

Advice Letter No. 107

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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Issued By



**Manager**

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

Date Filed \_\_\_\_\_

Effective \_\_\_\_\_

Resolution No. \_\_\_\_\_

**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.

<b><u>SUBJECT MATTER OF SHEET</u></b>	<b><u>P.U.C. SHEET NO.</u></b>
<b>Title Page</b>	192-W
<b>Table of Contents</b>	493-W (C)
<b>Preliminary Statements</b>	3-W, 193-W, 385-W, 423-W,
<b>Service Area Map</b>	86-W
<b>Rate Schedules:</b>	
Schedule No. 1 – Metered Service	479-W
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Schedule No. LC Late Payment Charge	455-W
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Schedule No. F Facilities Fee	466-W
Schedule No. 4 – Private Fire Protection Service	465-W
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<b>Rules:</b>	
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No. 4 – Contracts	196-W
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No. 6 – Establishment and Re-establishment of Credit	197-W
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No. 14 – Continuity of Service	207-W
No. 14.1 – Voluntary and Mandatory Water Conservation	418-W- 421-W
No. 15 – Main Extensions	180-W, 491-W,492-W (C)
No. 16 – Service Connections, Meters, & Customer’s Facilities	181-W – 187-W
No. 17 – Standards for Measurements of Service	124-W
No. 18 – Meter Tests & Adjustment of Bills for Meter Error	125-W – 127-W
No. 19 – Service to Separate Premises & Multiple Units and Resale of Water	128-W, 129-W
No. 20 – Water Conservation	169-W

(To be inserted by utility)

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