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March 8, 2022

ADVICE LETTER NO. 1364

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.

Purpose:

The purpose of this advice letter is to comply with Water Division’s Memo on Changes in Federal Tax Law – Contributions in Aid of Construction, dated February 11, 2022.

Background:

Through Advice Letter 1207, California American Water requested authority to update its Rule 15 income tax provisions pertaining to Contributions in Aid of Construction (“CIAC”) and Advances for Construction (“AIC”) to reflect changes caused by the Tax Cuts and Jobs Act (“TCJA”) signed on December 22, 2017. Advice Letter 1207 was necessary because the TCJA reclassified CIAC and AIC as taxable income.

On November 15, 2021, President Biden signed into law the Infrastructure Investment and Jobs Act (H.R 3684). The Infrastructure Investment and Jobs Act changes the federal tax law concerning the income tax implications associated with CIAC, AIC, and government grant funds.

On February 1, 2022, Water Division issued a memo entitled “Changes in Federal Tax Law – Contributions in Aid of Construction,” followed by a corrected February 11, 2022 memo entitled “Correction to February 1, 2022 Memo on Changes in Federal Tax Law – Contributions in Aid of Construction.” These memos instructed California American Water to file a Tier 1 Advice Letter to request authority to make changes to its Rule 15 tariff consistent with the Infrastructure Investment and Jobs Act.

Request:

California American Water requests authority to update its tariff Rule 15 consistent with Infrastructure Investment and Jobs Act and the Water Division Memo on Changes in Federal Tax Law – Contributions in Aid of Construction dated February 11, 2022.

Tier Designation:

In accordance with the Water Division Memo on Changes in Federal Tax Law – Contributions in Aid of Construction dated February 11, 2022, and 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 Water requests an effective date of January 1, 2021.

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.**

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

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:

ca.rates@amwater.com

Mailing Address:

4701 Beloit Drive
Sacramento, CA 95838

sarah.leeper@amwater.com

555 Montgomery Street, Suite 816
San Francisco, CA 94111

¹ G.O. 96-B, General Rule 7.4.1

² G.O. 96-B, General Rule 7.4.2

leana.ramirez@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 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) 568-4279.

CALIFORNIA-AMERICAN WATER COMPANY

/s/ Leana Ramirez

Leana Ramirez
Operations Specialist - Rates & Regulatory

³ G.O. 96-B, General Rule 7.4.3

**Cal P.U.C.
Sheet No.**

Title of Sheet

**Cancelling
Cal P.U.C.
Sheet No.**

XXXXX-W

Rule No. 15
MAIN EXTENSIONS
Sheet 15

10317-W

Rule No. 15
MAIN EXTENSIONS

Sheet 15

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:

Service Connection Component:	19.80%	(C)
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 - b. For AIC:

Service Connection Component:	20.93%	(C)
-------------------------------	--------	-----

3. The tax factors are established by using Method 5 as set forth in Decision 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%
 - b. Franchise tax rate of: 8.84%
 - c. A discount rate of: 7.61%
 - d. A pre-tax rate of return of: 9.59%

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)	ISSUED BY	(TO BE INSERTED BY C.P.U.C.)
Advice 1364	J. T. LINAM	Date Filed <u>March 8, 2022</u>
Decision	DIRECTOR - Rates & Regulatory	Effective _____
		Resolution _____

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ADVICE LETTER 1364

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ADVICE LETTER 1364

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ADVICE LETTER 1364

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CALIFORNIA-AMERICAN WATER COMPANY
ADVICE LETTER 1364
SUPPORTING DOCUMENTATION FOR STAFF

Update to Rule 15 Contributions for Tax Changes – All Divisions
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PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
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February 11, 2022

To: All Investor-Owned Water and Sewer Utilities

SUBJECT: Correction to **February 1, 2022** Memo on Changes in Federal Tax Law –
Contributions in Aid of Construction

It has come to our attention that a correction needs to be made to the Memo issued by Water Division on February 1, 2022, regarding compliance with changes to Federal Tax Law in accordance with H.R. 3684. Please see the below strikethrough of the original text from the memo and the revised language that follows as guidance to all investor-owned water and sewer utilities.

In response to the change in the federal tax law, Water Division requests utilities, at their earliest convenience, submit Tier 1 advice letters to bring their Tariff Rule 15 into compliance with Section 80601 of H.R. 3684. The changes should be made effective retroactively back to January 1, 2021, consistent with the effective date for Section 80601. ~~Further, any federal income taxes associated with Contributions in Aid of Construction that were received after December 31, 2020, should be refunded, with interest, to the contributor. Any ITC on Contributions in Aid of Construction collected by the utility other than for water and sewer service connections should cease immediately.~~

Further, any collections under Methods 2 or 5 as applicable to a utility's Rule 15 associated with Contributions in Aid of Construction or Advances that are no longer taxable under H.R. 3684 should immediately cease, and any such collections that were received after December 31, 2020 should be refunded, without interest, to the contributor.

Sincerely,

/s/TERENCE SHIATerence Shia, Director
Water DivisionCc: Jennifer Capitolo, Executive Director, California Water Association
Director, Public Advocates

Rule No. 15
MAIN EXTENSIONS

Sheet 15

E. INCOME TAX COMPONENT OF CONTRIBUTIONS AND ADVANCES PROVISION

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(Continued)

(TO BE INSERTED BY UTILITY)	ISSUED BY	(TO BE INSERTED BY C.P.U.C.)
Advice 1353	J. T. LINAM	Date Filed <u>December 23, 2021</u>
Decision	DIRECTOR - Rates & Regulatory	Effective <u>March 4, 2022</u>
		Resolution _____
		CANCELLED