

**CALIFORNIA PUBLIC UTILITIES COMMISSION
WATER DIVISION**

Advice Letter Cover Sheet

Utility Name: KENWOOD VILLAGE WATER COMPANY
District: KENWOOD VILLAGE
CPUC Utility #: 118
Advice Letter #: 111
Tier: 1 2 3 Compliance
Authorization: Rule 7.3.1 GO 96-B
Description: Amend Rule 15.E Tax Factor for CIAC and AIAC

Date Mailed to Service List: July 14, 2022
Protest Deadline (20th Day): August 4, 2022
August 14,
Review Deadline (30th Day): 2022
Requested Effective Date: July 14, 2022
Rate Impact: No Impact on Rates

The protest or response deadline for this advice letter is 20 days from the date that this advice letter was mailed to the service list. Please see the "Response or Protest" section in the advice letter for more information.

Utility Contact: Julie Cavaz
Phone: 707-539-6397
Email: julie@mfcomputing.com

Utility Contact: Jim Downey
Phone: 707-539-6397
Email: jbdny@cs.com

WD Contact: Tariff Unit
Phone: (415) 703-1133
Email: Water.Division@cpuc.ca.gov

WD USE ONLY

DATE

STAFF

COMMENTS

APPROVED

WITHDRAWN

REJECTED

Signature: _____

Comments: _____

Date: _____

KENWOOD VILLAGE WATER COMPANY

4982 Sonoma Hwy. Santa Rosa, CA 95409
707-539-6397

July 14, 2022

Advice Letter No. 111

TO THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Kenwood Village Water Company (118) 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>
515-516 -W	Amend Rule 15.E Tax Factor for CIAC and AIAC	491-492-W
517-W	Table of Contents	514-W

REQUEST

This AL requests permission to amend KVWC's Rule 15.E to update the Tax Factor used to calculate the Income Tax C Component (ITC) associated with the Contributions in Aid of Construction (CIAC) and Advances in Aid of Construction (AIAC) pursuant to Water Industry rule 7.3.1 or GO 96-B. This filing is designated as a Tier 1 AL.

BACKGROUND

In November of 2021, HR 3684 was signed into law changing, among other things, the federal tax law concerning income tax implications associated with CIAC and AIAC, as well as government grant funds received. Prior to this, all infrastructure contributed to a water utility as a CIAC and plant additions funded as AIAC were considered taxable income for federal tax purposes. Under HR 3684, only contributions for service connections are treated as taxable income. HR 3684 also eliminated the taxability of grants received from government agencies, except for grants related to water and sewer service connections. There has been no change to the applicability of income taxability for California (state) income tax purposes. This AL proposes new tax factors to calculate the gross-up Income Tax Component (ITC) associated with CIAC and AIAC plant additions consistent with the provisions of the Tax Cuts and Job Act (TCJA), as signed into law in 2017, HR 3684, and prior Commission decisions.

TIER DESIGNATION AND REQUESTED EFFECTIVE DATE

This AL and the enclosed tariff sheets are submitted pursuant to General Order (GO.) 96-B. AL 111 is designated as a Tier 1 AL and the enclosed tariff sheets will become effective upon filing.¹

¹ GO. 96-B, General Rule 7.4.3

KENWOOD VILLAGE WATER COMPANY

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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

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.

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.

KENWOOD VILLAGE WATER COMPANY

4982 Sonoma Hwy. Santa Rosa, CA 95409

707-539-6397

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 Water Division (WD), 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 Hwy.
Santa Rosa, CA 95409

Cities and counties that need Board of Supervisors or Board of Commissioners approval to protest should inform WD, 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 WD 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.²

² GO. 96-B, General Rule 7.4.3

KENWOOD VILLAGE WATER COMPANY

4982 Sonoma Hwy. Santa Rosa, CA 95409

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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 111.

Executed in Santa Rosa, California on the July 14, 2022.

Kenwood Village Water Company

By: 

Manager

Enclosures

KENWOOD VILLAGE WATER COMPANY

4982 Sonoma Hwy. Santa Rosa, CA 95409

707-539-6397

Advice Letter 111 Work Papers

The Tax Cuts and Jobs Act (TCJA) signed into law in 2017 and effective January 1, 2018 established several changes to existing law which impact regulated water utilities. Contributions in Aid of Construction (CIAC) and Advances in Construction (AIAC) have been reclassified as taxable income for federal taxes. Rule 15, Section E provides for an Income Tax Component (ITC) to be added to the net CIAC or AIAC by which the contributor pays the gross-up so that the utility's authorized rate of return is not compromised and so that the tax burden is not passed on to the utility's ratepayers. Facilities Fees (FF) are considered to be CIAC, FF are to be grossed-up with an ITC the same as contributions of plant assets.

There are two components of the gross-up taxes in the ITC:

- 1 the income tax imposed by the State of California,
- 2 the income tax imposed by the federal government.

The ITC is a single gross-up tax covering both and determined by the combined income tax requirement of both. The TCJA specified a flat and maximum federal tax rate of 21% for corporations designated as C-Corps and the Water Division has determined that this listed rate will apply to all regulated water utilities. The California tax rate is 8.84%. Under the TCJA state income taxes paid continue to reduce the taxable income for federal taxes for corporations. This is reflected in the calculations to amend Rule 15.E which follow. As stated in the Discussion section of this AL, KVWC will use Method 2 as set forth in D.87-09-026 to compute the combined state and federal tax rate and the Tax Factor to determine the ITC in any contribution situation:

THE VARIABLES IN THE COMPUTATIONS:

N = the net cost (value) of the contributed or advanced facilities or FF;

ITC = the Income Tax Component of the grossed-up contribution or advance;

Federal Income Tax rate = 21%;

State Income Tax rate = 8.84%;

Combined federal & state tax rate = CTR.

FOR SERVICE CONNECTION CONTRIBUTIONS AND ADVANCES EXCLUSIVELY:

(both federal and state taxes are imposed)

$$\text{CTR} = 21\% + 8.84 - (21\% \times 8.84\%) = 29.84\% - 1.86\% = 27.98\%$$

$$\text{Gross Contribution} = \text{Net Contribution} + \text{ITC} = (N + \text{ITC})$$

$$\text{ITC} = \text{CTR} \times (N + \text{ITC})$$

$$\text{ITC} = 0.2798 \times (N + \text{ITC})$$

$$\text{ITC} \times (1 - 0.2798) = 0.2798 \times N$$

$$\text{ITC} \times (0.7202) = 0.2798 \times N$$

$$\text{ITC} = 0.2798 / 0.7202 \times N$$

KENWOOD VILLAGE WATER COMPANY

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ITC + 0.3885 X N
Tax Factor = 0.3885%

EXAMPLE:

Net CIAC valued at N= \$100,000
ITC = 0.3885 x \$100,000 = \$38,850
N + ITC = \$100,000 + 38,850 = 138,850
ITC = 0.2798 x \$138,850
ITC = \$38,850

KVWC proposes to retain the combined federal/state tax rate computation of 27.98 % and the ITC of 38.85% for contributions exclusively of service connection plant additions including Facilities Fees.

FOR CONTRIBUTIONS OF PLANT ASSETS OTHER THAN SERVICE CONNECTIONS:
(no federal income tax is imposed and California continues to tax contributed and advanced plant additions.

The CTR is simply the state rate of 8.84%
Gross contribution = N + ITC
ITC = CTR X (N + ITC)
ITC = 0.0884 X (N + ITC)
ITC (1 - 0.0884) = 0.0884 X N
ITC (0.9116) = 0.0884 X N
ITC = 0.0884/0.9116 X N
ITC = 0.096972 X N
The Tax Factor = 0.096972

Example 2

Net CIAC valued at N = \$100,000
ITC = 0.096972 X 100,000 = \$9697.2
N + ITC = 109,697.2
ITC = 0.0884 X 109,697.2 = 9697.2

KVWC proposes to add the second tax factor for contribution or advance situations involving plant additions other than just service connections. such as mains, etc.

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 0.3885 for situations involving service connection plant additions only, or by the tax factor of 0.096972 for situations involving plant additions other than service connections.

3. The combined state and federal income tax rate is 0.2798, for service connections only and a rate of 0.0884 with situations involving other plants. (C)

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

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

- (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.

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.

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.

9. This tariff is effective as of July 14, 2022.

(To be inserted by utility)

Advice Letter No. 111

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)

Advice Letter No. 111

Decision No. _____

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.

<u>SUBJECT MATTER OF SHEET</u>	<u>P.U.C. SHEET NO.</u>
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Preliminary Statements	3-W, 193-W, 385-W, 423-W,
Service Area Map	86-W
Rate Schedules:	
Schedule No. 1 – Metered Service	479-W
Schedule No. 2- Cost to Serve Agreement	464-W
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Schedule No. LC Late Payment Charge	455-W
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Schedule No. F Facilities Fee	466-W
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No. 1 – Definitions	90-W, 91-W
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No. 11 – Discontinuance and Restoration of Service	257-W-263-W,405-W
No. 12 – Information Available to Public	203-W, 204-W
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No. 15 – Main Extensions	180-W, 515-516-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)

Advice Letter No. 111

Decision No. _____

Issued By



Manager

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

Date Filed _____

Effective _____

Resolution No. _____