



GREAT OAKS WATER COMPANY

P.O. Box 23490
San Jose, CA 95153
(408) 227-9540
tguster@greatoakswater.com

January 19, 2018

California Public Utilities Commission
Division of Water and Audits
Room 3102
505 Van Ness Avenue
San Francisco, CA 94102-3298

**Advice Letter 268-W
Great Oaks Water Company (U-162-W)
To the California Public Utilities Commission**

Great Oaks Water Company (Great Oaks) hereby submits this Tier 1 advice letter to update the Rule 15 income tax provisions pertaining to Contributions in Aid of Construction (CIAC) and Advance in Aid of Construction (AIAC). This update is in direct response to the recent changes in the federal tax laws pertaining to both CIAC and AIAC. The following tariff sheets are provided with this Advice Letter 268-W:

CPUC Sheet Number	Title	Canceling
852-W	Rule No 15 Main Extensions (Continued)	New
853-W	Table of Contents	851-W

Background

On December 22, 2017, major revisions to the Internal Revenue Code were signed into law through what has become known as the “Tax Cuts and Jobs Act” (TCJA). The TCJA makes several changes to existing tax law that will impact Great Oaks, including the reclassification of CIAC and AIAC as taxable income.

The Commission has already provided guidance on how to address the taxation issue for CIAC and AIAC through D.87-09-026 and Res. W-4263. This advice letter implements that guidance. At the same time, it is understood that the regulations for implementation of the TCJA have not been issued. The tariff sheets accompanying this advice letter provide for appropriate refunds in the event the final regulations call for a lower income tax component for CIAC and AIAC.

Requested Action

D.87-09-026 allows water utilities to use two different methods to address taxability of CIAC and AIAC. Method 2 allows utilities to gross-up CIAC and AIAC to include income taxes payable on CIAC and AIAC. The Method 2 calculations for the gross-up are shown in San Gabriel Valley Water Company’s (San Gabriel) Advice Letter 512, filed January 16, 2018. Those calculations are incorporated by reference herein.

For uniformity, Great Oaks is utilizing the existing and proposed language of San Gabriel’s Rule 15, Section E - Income Tax Component of Contributions and Advances in its proposed tariff sheets.¹

Because the TCJA exposes Great Oaks (and ultimately its ratepayers) to significant additional liability for federal income taxes that are not presently included in rates, Great Oaks requests authority to amend its Rule 15 with proposed tariff sheet 852-W. Please note that the language included protects against over-collection by providing for refunds, when appropriate.

Tier Designation

This is a Tier 1 Advice Letter under General Order 96-B, as it addresses additional taxes imposed upon the utility.

Requested Effective Date

Great Oaks requests that this Advice Letter be approved with an effective date of January 19, 2018.

Notice and Service

This Advice Letter is being served upon the Distribution List provided below.

¹ See San Gabriel’s Advice Letter 512, filed January 16, 2018, including its proposed tariff sheet 2785-W.

Protests and Responses

Anyone may protest and respond to this Advice Letter. A Response supports the filing and may contain information that proves useful to the Commission in evaluating the Advice Letter. A Protest objects to the Advice Letter in whole or in part and must set forth specific grounds on which it is based. These grounds may be based upon the following:

- (1) The utility did not properly serve or give notice of the Advice Letter; or
- (2) The relief requested in the Advice Letter would violate a statute or Commission order, or is not authorized by statute or Commission order on which the utility relies; or
- (3) The analysis, calculations, or data in the Advice Letter contain material error or omissions; or
- (4) The relief requested in the Advice Letter is pending before the Commission in a formal proceeding; or
- (5) The relief requested in the Advice Letter requires consideration in a formal hearing, or is otherwise inappropriate for the Advice Letter process; or
- (6) The relief requested in the Advice Letter is unjust, unreasonable, or discriminatory (provided that such a Protest may not be made where it would require re-litigating a prior order of the Commission).

Any Protest or Response must be made in writing or by electronic mail and must be received by the Water Division of the Commission within 20 days of the date this Advice Letter is filed. The Advice Letter process does not provide for any Protests, Responses or other comments, except for a reply by Great Oaks, after the 20 day comment period expires. The address for mailing or delivering a Protest or Response is:

Tariff Unit, Water Division, 3rd floor
California Public Utilities Commission,
505 Van Ness Avenue, San Francisco, CA 94102
water_division@cpuc.ca.gov

On the same date any Protest or Response is submitted to the Water Division, the protesting or responding person, entity or party must serve a copy of the Protest or Response on Great Oaks addressed to Timothy S. Guster, Great Oaks Water Co., PO Box 23490, San Jose, CA 95153, 408-227-9540, 408 227-7126 (fax), email: tguster@greatoakswater.com.

Great Oaks Water Company

/s/

Timothy S. Guster
General Counsel
Legal and Regulatory Affairs

Great Oaks Water Co.
Distribution List

Municipal Water System
City of San Jose
3025 Tuers Road
San Jose, CA 95121

County Clerk
County of Santa Clara
70 W. Hedding Street
San Jose, CA 95110

Safe Drinking Water Office
Department of Water Resources
1416 9th Street, Room 804
Sacramento, CA 95814

Office of Regulatory Affairs (by email)
California Water Service Company
1720 North First Street
San Jose, CA 95112

Santa Clara Valley Water District
5750 Almaden Expressway
San Jose, CA 95118

Raminder Kahlon
Division of Water and Audits
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

Richard Smith
Division of Ratepayer Advocates
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

Ting-Pong Yuen
Division of Ratepayer Advocates
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

Legal Division
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102-3214

Regulatory Affairs
San Jose Water Company
110 West Taylor Street
San Jose, CA 95110

Rule No. 15

MAIN EXTENSIONS

(Continued)

E. Income Tax Component of Contributions and Advances

(N)

1. Contributions in Aid of Construction (CIAC) and Advances for Construction (AIAC) shall include, but are not limited to, cash, services, facilities, labor, and income taxes thereon provided by a person or an agency to the utility. The value of non-cash contributions and advances shall be based upon the utility's estimates. Contributions and advances shall consist of two components for the purpose of recording transactions as follows:
 - a. Income Tax Component (ITC); and
 - b. The contribution or advance.
2. The ITC shall be calculated by multiplying the appropriate portion of the contribution or advance by 38.85%.
3. 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.
4. The utility shall inform the applicant of the final cost of the installation of all facilities and the resulting tax paid thereon.
5. In the event the utility collects an ITC using an incremental tax rate that is more than the incremental tax rate as determined on a taxable year basis, without consideration of a tax credit or tax loss carryforward, the difference between what was and what should have been collected will be refunded to the applicant.

(N)

(To be inserted by utility)

Advice Letter No. 268-W

Issued by

Timothy S. Guster

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

Date Filed _____

NAME

Decision No. _____

Vice President and General Counsel

Effective _____

TITLE

Decision/Resolution No. _____

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(To be inserted by utility)

Issued by

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

Advice Letter No. 268-W

Timothy S. Guster

Date Filed _____

Decision No. _____

VP & General Counsel

Effective _____

TITLE

Resolution No. _____