

SAN GABRIEL VALLEY WATER COMPANY

August 22, 2011

Advice Letter 405-A

U337W

TO THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

San Gabriel Valley Water Company ("San Gabriel") hereby requests ministerial review of the following changes in tariff sheets applicable to its Los Angeles County division:

CPUC		Schedule	Canceling
<u>Sheet No.</u>	<u>Title</u>	<u>No.</u>	<u>Sheet No.</u>
2060-W	Preliminary Statement (cont.)	N/A	N/A
2061-W	Preliminary Statement (cont.)	N/A	N/A
2062-W	Table of Contents	N/A	2059-W

At the request of the Division of Water and Audits made by e-mail dated August 10, 2011, this amendment to Advice Letter No. 405 is being submitted to provide clarifying language to Section L of the Preliminary Statement, "Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 Memorandum Account (2010 Tax Act Memorandum Account) for the Los Angeles County Division". San Gabriel has revised the language of the Tax Act Memorandum Account in Section L, Paragraph 3.e, of the proposed Preliminary Statement.

Advice Letter 405 was submitted to establish a new memorandum account ("2010 Tax Act Memorandum Account"), effective April 14, 2011, to track the revenue requirement impacts, not otherwise reflected in rates, resulting from the federal Tax Relief Unemployment Insurance Reauthorization and Job Creation Act of 2010 ("New Tax Law"). The 2010 Tax Act Memorandum Account is only applicable to San Gabriel's Los Angeles County division, as San Gabriel has forecasted the impacts of the New Tax Law in Test Year 2012-2013 in Fontana Water Company division's general rate case

(A.11-06-005). In accordance with Water Industry Rule 7.3.1 as modified by Resolution W-4664 of General Order 96-B, **this filing is designated as Tier 1.**

Background

On December 17, 2010, the New Tax Law was signed into law. On April 14, 2011, Commission Resolution L-411 (“Original Resolution”) directed all Class A and B water utilities and others to establish, by advice letter, a 2010 Tax Act Memorandum Account within 60 days of the date of Original Resolution. On June 23, 2011, the Commission issued Resolution L-411A to remove inconsistencies, correct errors, and clarify the Ordering Paragraphs of the Original Resolution. The effective date of the memorandum accounts to be established remains at April 14, 2011, but Resolution L-411A allowed covered utilities until July 31, 2011 to file the required advice letters. San Gabriel timely submitted Advice Letter 405 on Monday, August 1, 2011.

Discussion

San Gabriel submits an original and four copies of this advice letter in compliance with Resolution L-411A to “add a memorandum account to its tariffs consistent with the requirements of Ordering Paragraphs 1, 3, 4, 5, and 6, above.” This memorandum account will record and track revenue requirement impacts of the New Tax Law and shall be used in determining whether any future rate adjustment is appropriate to reflect impacts of the New Tax Law in the Los Angeles County division’s next general rate case or at such other time as ordered by the Commission. In accordance with Resolution L-411A, San Gabriel requests that the attached proposed tariff sheets be made effective as of April 14, 2011.

Ordering Paragraphs 1 and 3 of Resolution L-411A require that all entries made to the 2010 Tax Act Memorandum Account be made on a “revenue requirement basis”. This is important because the Internal Revenue Code prohibits any tax savings from accelerated depreciation from being passed through directly to ratepayers. Nonetheless, ratepayers do receive benefits through the accounting procedure of normalization which results in a recorded deferred federal income tax reserve that is deducted from rate base.

Ratepayers also benefit from avoided interest costs as a utility's cash flow is preserved to the extent of the deferred federal income taxes which require no interest.

Ordering Paragraph 7 of Resolution L-411A further requires that "[t]he proposed tariff language shall describe the debits and credits that are to be entered into the memorandum account." San Gabriel has complied with this directive in the proposed addition to its Preliminary Statement.

By granting San Gabriel authority to establish a 2010 Tax Act Memorandum Account, the Commission avoids retroactive ratemaking and preserves the opportunity for San Gabriel to reflect in rates, at a future date, impacts that are due to the New Tax law in the process of determining the applicable federal income tax liability portion of revenue requirement. Since San Gabriel's request seeks only to record and track the revenue requirements resulting from the New Tax Law in a memorandum account, Commission approval of this advice letter will have no effect on San Gabriel's Los Angeles County division's current rates.

Notice

Since this filing is made in compliance with Resolution L-411A and does not result in an increase to rates, withdrawal of service or more restrictive terms or conditions, customer notice in accordance with Section 4.2 of General Order 96-B is not required. However, copies of this filing are being distributed to the parties on the attached distribution list.

Protest and Responses

Anyone may respond to or protest 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 the specific grounds on which it is based. These grounds are:

- (1) San Gabriel did not properly serve or give notice of the advice letter;

- (2) The relief requested in the advice letter would violate statute or Commission order, or is not authorized by statute or Commission order on which San Gabriel relies;
- (3) The analysis, calculations, or data in the advice letter contain material error or omissions;
- (4) The relief requested in the advice letter is pending before the Commission in a formal proceeding;
- (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 relitigating a prior order of the Commission.

A response or protest must be made in writing or by electronic mail and must be received by the Division of Water and Audits within 20 days of the date this advice letter is filed. The address for mailing or delivering a response or protest is:

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

On the same date the response or protest is submitted to the Division of Water and Audits, the respondent or protestant shall send a copy of the protest by mail to San Gabriel addressed as follows:

San Gabriel Valley Water Company
Director, Rates and Revenue
11142 Garvey Avenue
El Monte, CA 91733
FAX: (626) 448-5530 or
E-mail: dadellosa@sgvwater.com

August 22, 2011

The advice letter process does not provide for any responses, protests or comments, except for San Gabriel's reply, after the 20-day comment period.

Replies: San Gabriel will reply to each protest and may reply to any response. Each reply must be received by the Division of Water and Audits within 5 business days after the end of the protest period, and shall be served on the same day to the person who filed the protest or response.

If you have not received a reply to your protest within 10 business days, contact me at (626) 448-6183.

San Gabriel Valley Water Company,



Daniel A. Dell'Osa
Director of Rates and Revenue

cc: Bruce DeBerry, CPUC – Division of Water & Audits
Danilo Sanchez, CPUC – Water Branch, DRA
Hani Moussa, CPUC – Water Branch, DRA

PRELIMINARY STATEMENT

(Continued)

L. Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 Memorandum Account (2010 Tax Act Memorandum Account) for the Los Angeles County Division

1. Purpose

The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 Memorandum Account ("2010 Tax Act Memorandum Account") is established in accordance with CPUC Resolution L-411A. The purpose of this memorandum account is to track on a CPUC-jurisdictional, revenue requirement basis the impacts of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 ("The New Tax Law") not otherwise reflected in rates from April 14, 2011 until the effective date of the revenue requirement changes in San Gabriel's next General Rate Case ("Memo Account Period"). San Gabriel shall record in this memorandum account: (a) decreases in revenue requirement resulting from increases in deferred tax reserve; (b) offsets to reflect additional costs or expenses, not otherwise recovered in rates, incurred as a result of additional utility infrastructure investment enabled by the bonus depreciation provisions of the New Tax Law, to the extent allowed by Ordering Paragraph 5 of Resolution L-411A; and (c) amounts to reflect the impacts of any decrease in Section 199 deductions resulting from bonus depreciation taken, and any other direct changes in revenue requirement resulting from the New Tax Law's effects on San Gabriel.

The 2010 Tax Act Memorandum Account shall be used in determining whether any future rate adjustment is appropriate to reflect impacts of the New Tax Law during the Memo Account Period. This memorandum account shall not be used to recover any net revenue requirement increase recorded during the Memorandum Account Period. If, at the end of the Memo Account Period, this memorandum account reflects a net revenue requirement increase, the memorandum account shall be terminated without any impact on rates.

The following limits allowed by Ordering Paragraph 5 of Resolution L-411A apply to the additional needed utility infrastructure investments that may be tracked in the 2010 Tax Act Memorandum Account: (a) the property in which the investment is made must be Commission-jurisdictional; (b) the property in which the investment is made must itself be eligible for bonus depreciation; (c) at least 90% of the investment must have a tax depreciable life of at least 15 years, and any remaining investments must be ancillary to such investment; and (d) if a utility determines that it would be best to invest in something other than the typical types of projects included in general rate case type applications, the utility must file an application or advice letter seeking Commission approval in order to record the revenue requirement impact of that investment as an offset in the memorandum account.

(continued)

(To be inserted by utility)

Issued by

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

Advice Letter No. 405-A

R. W. Nicholson
NAME

Date Filed _____

Decision No. _____

President
TITLE

Effective _____

Resolution No. L-411A

PRELIMINARY STATEMENT

(Continued)

2. Applicability

The 2010 Tax Act Memorandum Account applies to San Gabriel Valley Water Company's Los Angeles County division service area.

3. Memorandum Account Entries

The entries made to the 2010 Tax Act Memorandum Account may include the following:

- a. Debit for decrease in revenue requirement resulting from increase in deferred tax reserve.
- b. Credit for increase in revenue requirement resulting from the impact of any decrease in Section 199 deductions resulting from bonus depreciation taken.
- c. Credit or debit for increase or decrease, respectively, in revenue requirement resulting from the impact from bonus depreciation taken.
- d. Credit or debit for increase or decrease, respectively, in revenue requirement resulting from any other direct change in revenue requirement resulting from the New Tax Law's effects on San Gabriel.
- e. Credit for increase in revenue requirement resulting from additional Utility infrastructure investment consistent with the limitations set forth by Ordering Paragraph 5 of Resolutions L-411-A and detailed in Purpose of this Preliminary Statement.
- f. Monthly interest expense calculated at 1/12 of the most recent month's interest rate on Non-financial Commercial Paper (AA, 3-month), published in the Federal Reserve Statistical Release, H.15 ([www/federalreserve.gov/release/H15](http://www.federalreserve.gov/release/H15)), or its successor publication (debit or credit).

This is a memorandum account that is to be tracked "off balance sheet," and no general ledger entries are required at this time. At such time that the Commission rules that San Gabriel is required to make an adjustment to its revenue requirement and rates, as a result of the tax impacts not otherwise reflected in rates, San Gabriel will make the appropriate entries in its general ledger.

4. Disposition

In San Gabriel's next General Rate Case (GRC), or at such other time as ordered in that GRC decision, the Commission shall address the disposition of amounts (a) recorded in the 2010 Tax Act Memorandum Account and (b) forecast for the remainder of the Memo Account Period, and may cause any net revenue requirement decrease to be reflected in prospective rates.

(To be inserted by utility)

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