

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



February 9, 2018

TO ALL CLASS A and B WATER AND SEWER UTILITIES

SUBJECT: Changes in Federal Tax Rates for 2018

On December 22, 2017, Water Division sent a letter to all Class A and B water and sewer utilities directing them to establish and add a 2018 Tax Accounting Memorandum Account to the preliminary statements in the tariff. The purpose of the 2018 Tax Accounting Memorandum Account as stated in the second paragraph of the December 22, 2017 letter "is to track the impact on Commission-jurisdictional revenue requirement caused by changes in the business tax rate and other potential tax code changes from the 2018 Federal Tax Law."

Water Division has received a number of advice letters addressing potential tax liability impacts that may be caused by the 2018 Federal Tax Law. A number of these advice letters are proposing changes to policies previously issued by Commission decision and not appropriately addressed in an advice letter. Water Division's word choice in the quoted language above, "Commission-jurisdictional revenue requirement", may be read as too limiting and thus requiring the various advice letters that have been filed dealing with regulatory issues outside the revenue requirement used to set rates.

It is Water Division's understanding that the 2018 Tax Accounting Memorandum Account be sufficiently broad to track all tax implications associated with *Commission-jurisdictional revenues* and not only the revenues associated with setting rates. As such, the purpose of the 2018 Tax Accounting Memorandum Accounts that have been added to the utilities' preliminary statements should be read as tracking the tax impact on all Commission-jurisdictional *revenues* for the utilities.

If you have any questions, please contact Bruce DeBerry at 415-703-1279 or Bruce.DeBerry@cpuc.ca.gov.

Sincerely,

A handwritten signature in black ink, appearing to read "Rami Kahlon".

Rami Kahlon, Director
Water Division

Cc: Richard Smith, Program Manager, Office of Ratepayer Advocates