

# PROPOSED RESOLUTION

Resolution W-5090  
DWA

AGENDA ID #14726

## PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

DIVISION OF WATER AND AUDITS  
Water and Sewer Advisory Branch

RESOLUTION W-5090  
April 7, 2016

### RESOLUTION

**(RES. W-5090) LIBERTY UTILITIES (APPLE VALLEY RANCHOS WATER COMPANY) CORP. (U 346 W). ORDER APPROVING LIBERTY UTILITIES (APPLE VALLEY RANCHOS WATER COMPANY) CORP.'S REQUEST TO IMPLEMENT A ONE-TIME SURCREDIT OF \$1.03 TO ALL CUSTOMERS TO REFUND THE OVER-COLLECTED BALANCE RECORDED IN ITS 2010 TAX ACT MEMORANDUM ACCOUNT.**

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**By Advice Letter No. 213-W filed on January 8, 2016 and Supplemented by Advice Letter No. 213-W-A filed on February 18, 2016.**

### SUMMARY

Liberty Utilities (Apple Valley Ranchos Water Company) Corp. ("Liberty Apple Valley") formerly known as Apple Valley Ranchos Water Company<sup>1</sup>, a Class A water utility, seeks to implement a one-time surcredit of \$1.03 to all customers to refund the over-collected balance recorded as of December 31, 2014 in its 2010 Tax Act Memorandum Account. Once the surcredit has been applied to all customer accounts, the 2010 Tax Act Memorandum Account will terminate and should be closed.

Upon review of Liberty Apple Valley's request, the Division of Water and Audits (DWA) finds the surcredit to be reasonable and recommends Commission approval.

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<sup>1</sup> Effective January 12, 2016 Apple Valley Ranchos Water Company's name was changed to Liberty Utilities(Apple Valley Ranchos Water Company) Corp. with the filing of Advice Letter 214-W pursuant to the Commission's Decision 15-12-029 approving Liberty Utilities Company's acquisition of Park Water Company and Apple Valley Water Company.

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## BACKGROUND

Liberty Apple Valley's 2010 Tax Act Memorandum Account (TAMA) was established in accordance with Commission Resolution L-411A to track Commission-jurisdictional revenue requirement impacts not otherwise reflected in rates of the 2010 Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (2010 Tax Act). The TAMA was authorized by Advice Letter No. 168-W-A, which was approved on August 18, 2011. The tracking period began on April 14, 2011 and ended on December 31, 2014 as the impacts of the 2010 Tax Act were incorporated into revenue requirement changes in Liberty Apple Valley's General Rate Case (A.14-01-0012). The balance recorded in the account has been calculated on a Commission-jurisdictional basis showing an overall impact on revenue requirement. The total excess revenue to be refunded as of December 31, 2014, including interest through end of 2015, is \$20,638. Pursuant to Resolution L-411A, Liberty Apple Valley was required to record the following 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 qualified additional utility infrastructure investment enabled by the bonus depreciation provisions of the 2010 Tax Law;
- c) amounts to reflect the impacts of any decrease in Section 199 deductions resulting from bonus depreciation taken;
- d) changes in working cash resulting from the 2010 Tax Law;
- e) any decrease in the tax component of contributions in-aid-of-construction (CIAC) received due to changes in the tariffed tax component of CIAC to reflect the 2010 Tax Law; and
- f) any other direct changes in revenue requirement resulting from the utility's taking advantage of the 2010 Tax Law.

Liberty Apple Valley was instructed in the Settlement Agreement adopted by the Commission in D.15-11-030 to refund the over-collected balance in the TAMA by filing a Tier 3 advice letter by April 30, 2015. Liberty Apple Valley did not file this advice letter requesting amortization of the balance in the 2010 TAMA by April 30, 2015 because A. 14-01-002 was delayed and a final decision adopting the settlement in that proceeding was issued on November 23, 2015. Advice Letter No. 213-W was filed on January 8, 2016.

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Upon examination of Liberty Apple Valley's TAMA entries in Advice Letter 213-W, DWA requested that Liberty Apple Valley file a supplement reflecting agreed-upon adjustments to the surcredit calculations based on amortizing the amounts over all customers including irrigation customers; Liberty Apple Valley did so on February 18, 2016. DWA finds that Liberty Apple Valley has correctly recorded the impacts on revenue requirement of the 2010 Tax Act for the tracking period ending December 31, 2014 per Settlement Agreement adopted by the Commission in D.15-11-030 and Commission's direction in Resolution L-411-A. The total amount to be refunded, including interest through the end of 2015, is \$20,638.

## NOTICE AND SERVICE

In accordance with General Rules 4.3 and 7.2, and Water Industry Rule 4.1, of General Order 96-B, Liberty Apple Valley served copies of Advice Letter 213-W to competing and adjacent utilities and other parties requesting such notification, on January 8, 2016. Liberty Apple Valley served copies of the supplement, Advice Letter 213-W-A, to the same list on February 18, 2016.

## RESPONSE AND PROTEST

No protests to AL 213-W or AL-213-W-A were received.

## DISCUSSION

The 2010 TAMA tracks the revenue requirement impacts of the 2010 Tax Act that were not incorporated into adopted rates. The decrease in Liberty Apple Valley's revenue requirement resulting from the 2010 Tax Act is attributed mainly to a decrease in rate base, which is partially offset by increases in income tax expense and depreciation expense.

The net decrease in Liberty Apple Valley's rate base is primarily a result of the increase in deferred taxes due to bonus depreciation both on adopted plant and on incremental reinvestment arising from the 2010 Tax Act. This effect is partially offset by increases in rate base due to plant impacts of reinvestment and additional working cash due to adjustments in deferred tax accrual. The net decrease in rate base is converted to a decrease in revenue requirement by applying the adopted rate of return and net-to-gross multiplier.

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The increase in income tax expenses results from decreases in two deductions: the interest deduction, due to reduction in rate base, and due to bonus depreciation taken. The increase in depreciation expense results from reinvestment.

The net impact on revenue requirement for 2011 and 2012 is a combination of the impact calculated for the utility and a portion of the impact calculated for the General Office, based on the adopted General Office allocation factor. The adopted 2013 plant additions were not used in the calculations because 2010 Tax Act did not authorize any Bonus Depreciation for 2013 (bonus depreciation for 2013 was authorized by a subsequent tax act, not subject to this memorandum account, and Liberty Apple Valley did not elect to take bonus depreciation in 2013). Interest is calculated using the Three-Month Commercial Paper Rate from mid-April 2011 through the end of 2015. The balance in the TAMA at the end of this period is \$20,638.

Using the adopted number of customers for 2015, Liberty Apple Valley will refund the over-collected balance in the TAMA by issuing a surcredit of \$1.03 to each customer including irrigation customers. Once this occurs, the 2010 Tax Act Memorandum Account will be closed.

## **SAFETY**

This matter has no safety implications.

## **COMMENTS**

Public Utilities Code Section 311 (g)(2) provides that the 30-day public review period may be reduced or waived for an uncontested matter in which the decision grants the relief requested. Accordingly, this draft Resolution was not made available for public comment.

## **FINDINGS AND CONCLUSIONS**

1. On January 8, 2016 Liberty Apple Valley filed Advice Letter 213-W requesting to implement a one-time surcredit to all customers in order to refund the over-collected balance recorded in its 2010 Tax Act Memorandum Account (TAMA).

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2. Liberty Apple Valley had established the TAMA via Advice Letter No. 168-W-A, which was authorized on August 18, 2011, pursuant to Resolution L-411A.
3. Liberty Apple Valley recorded in the TAMA Commission-jurisdictional revenue requirement impacts not otherwise reflected in rates of the 2010 Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (2010 Tax Act) from April 14, 2011 through December 31, 2012.
4. Upon review of the original workpapers, the Division of Water and Audits (DWA) requested that Liberty Apple Valley file a supplement to AL 213-W reflecting adjustments to the surcredit calculations to include all customers.
5. Liberty Apple Valley filed Advice Letter 213-W-A on February 18, 2016.
6. DWA reviewed Liberty Apple Valley's updated documentation supporting the balance in the TAMA and finds the \$20,638 balance to be reasonable.
7. Liberty Apple Valley should refund the TAMA balance through a one-time surcredit to all customers of \$1.03, which should be noted in each rate schedule, and should delete the Tax Act Memorandum Account section of the Preliminary Statement in its tariffs.
8. Once the over-collected balance has been refunded to customers, the Tax Act Memorandum Account should be closed.
9. There are no safety implications associated with this matter.

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### THEREFORE IT IS ORDERED THAT:

1. Advice Letter 213-W-A is approved. Liberty Utilities (Apple Valley Ranchos Water Company) Corp. is authorized to implement a one-time surcredit of \$1.03 on all customer bills to refund the over-collected balance in its 2010 Tax Act Memorandum Account by filing a Tier 1 advice letter requesting tariff adjustments consistent with the tariff sheets attached in Appendix A to this Resolution.
2. Liberty Utilities (Apple Valley Ranchos Water Company) Corp. shall close the 2010 Tax Act Memorandum Account and remove the associated section from the Preliminary Statement from its tariff by filing a Tier 1 advice letter to remove the 2010 Tax Act Memorandum Account from the Preliminary Statement in its tariffs.
3. This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on April 7, 2016; the following Commissioners voting favorably thereon:

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TIMOTHY J. SULLIVAN  
Executive Director

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## APPENDIX A

### PRELIMINARY STATEMENT

(Continued)

O. Low-Income Customer Data Sharing Cost Memorandum Account

- b. Monthly Interest expense calculated at 1/12 of the most recent month's interest rate on Commercial Paper (prime, 3-month), published in the Federal Reserve Statistical Release 15, (<http://www.federalreserve.gov/releases/H15/data/m/cp3m/txt>), or its successor publication (debit or credit).

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## APPENDIX A (continued)

### SCHEDULE NO. 1 RESIDENTIAL GENERAL METERED SERVICE (Continued)

6. As authorized by the California Public Utilities Commission, a surcredit of \$2.77 is to be applied for a period of 12 months beginning on the effective date of Advice Letter 207-W. This surcredit will refund the over-collection in the Employee and Retiree Health Care Balancing Account balance as of December 31, 2014.
7. As authorized by the California Public Utilities Commission, a one-time surcredit of \$0.93 per customer is to be applied on the effective date of Advice Letter 207-W. This surcredit will refund the over-collection in the Pension Expense Balancing Account as of December 31, 2014.
8. As authorized by the California Public Utilities Commission, an amount of \$2.43 per Ccf is to be added to the quantity rate for a period of 12 months, beginning on the effective date of Advice Letter 208-W. This surcharge will recover the under-collection in the CARW Revenue Reallocation Balancing Account as of December 31, 2013. (T)
9. As authorized by the California Public Utilities Commission, a one-time sur-credit of \$0.61 per customer is to be applied on the effective date of Advice Letter 209-W. This sur-credit will refund the over-collection in the One-Way Conservation Balancing Account as of October 31, 2015.
10. As authorized by the California Public Utilities Commission, an amount of \$0.02 per Ccf is to be added to the quantity rate for a period of 12 months, beginning on the effective date of Advice Letter 210-W. This surcharge will recover the net total under-collected balance for the 2011 Conservation Memorandum Account, the 2011 Outside Services Memorandum Account, and the Credit Card Memorandum Account.
11. As authorized by the California Public Utilities Commission, an amount of \$0.430 per Ccf is to be added to the quantity rate for a period of 21.5 months, beginning on the effective date of Advice Letter 216-W-A. This surcharge will recover the under collection in the Interim Rates Memorandum Account as of November 23, 2015.
12. As authorized by the California Public Utilities Commission, a one-time surcredit of \$1.03 is to be applied on the effective date of Advice Letter 213-W-A. This surcredit will refund the over-collection in the 2010 Tax Act Memorandum Account. (R)

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## APPENDIX A (continued)

### SCHEDULE NO. 2 GRAVITY IRRIGATION SERVICE (Continued)

6. As authorized by the California Public Utilities Commission, a surcredit of \$2.77 is to be applied for a period of 12 months, beginning on the effective date of Advice Letter 207-W. This surcredit will refund the over-collection in the Employee and Retiree Health Care Balancing Account balance as of December 31, 2014.
7. As authorized by the California Public Utilities Commission, a one-time surcredit of \$0.93 per customer is to be applied on the effective date of Advice Letter 207-W. This surcredit will refund the over-collection in the Pension Expense Balancing Account as of December 31, 2014.
8. As authorized by the California Public Utilities Commission, an amount of \$0.009 per Ccf is to be added to the quantity rate for a period of 21.5 months, beginning on the effective date of Advice Letter 216-W-A. This surcharge will recover the under collection in the Interim Rates Memorandum Account as of November 23, 2015.
9. As authorized by the California Public Utilities Commission, a one-time surcredit of \$1.03 is to be applied on the effective date of Advice Letter 213-W-A. This surcredit will refund the over-collection in the 2010 Tax Act Memorandum Account. (R)

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## APPENDIX A (continued)

### SCHEDULE NO. 3

#### NON-RESIDENTIAL GENERAL METERED SERVICE

(Continued)

6. As authorized by the California Public Utilities Commission, a surcredit of \$2.77 is to be applied for a period of 12 months, beginning on the effective date of Advice Letter 207-W. This surcredit will refund the over-collection in the Employee and Retiree Health Care Balancing Account balance as of December 31, 2014.
7. As authorized by the California Public Utilities Commission, a one-time surcredit of \$0.93 per customer is to be applied on the effective date of Advice Letter 207-W. This surcredit will refund the over-collection in the Pension Expense Balancing Account as of December 31, 2014.
8. As authorized by the California Public Utilities Commission, an amount of \$2.43 per Ccf is to be added to the quantity rate for a period of 12 months, beginning on the effective date of Advice Letter 208-W. This surcharge will recover the under collection in the CARW Revenue Reallocation Balancing Account as of December 31, 2013. (T)
9. As authorized by the California Public Utilities Commission, a one-time sur-credit of \$0.61 per customer is to be applied on the effective date of Advice Letter 209-W. This sur-credit will refund the over-collection in the One-Way Conservation Balancing Account as of October 31, 2015.
10. As authorized by the California Public Utilities Commission, an amount of \$0.02 per Ccf is to be added to the quantity rate for a period of 12 months, beginning on the effective date of Advice Letter 210-W. This surcharge will recover the net total under-collected balance for the 2011 Conservation Memorandum Account, the 2011 Outside Services Memorandum Account, and the Credit Card Memorandum Account.
11. As authorized by the California Public Utilities Commission, an amount of \$0.430 per Ccf is to be added to the quantity rate for a period of 21.5 months, beginning on the effective date of Advice Letter 216-W-A. This surcharge will recover the under collection in the Interim Rates Memorandum Account as of November 23, 2015.
12. As authorized by the California Public Utilities Commission, a one-time surcredit of \$1.03 is to be applied on the effective date of Advice Letter 213-W-A. This surcredit will refund the over-collection in the 2010 Tax Act Memorandum Account. (R)

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## APPENDIX A (continued)

### SCHEDULE NO. 4 NON-METERED FIRE SERVICE

(Continued)

6. Any unauthorized use of water, other than for fire extinguishing purposes shall be charged for at the regular established rate as set forth under Schedule No. 3, Non-Residential General Metered Service, and/or may be the grounds for the immediate disconnection of the service without liability to the Company.
7. A late charge will be imposed per Schedule No. LC
8. All bills subject to the reimbursement fee set forth on Schedule No. UF.
9. As authorized by the California Public Utilities Commission, a surcredit of \$2.77 is to be applied for a period of 12 months, beginning on the effective date of Advice Letter 207-W. This surcredit will refund the over-collection in the Employee and Retiree Health Care Balancing Account balance as of December 31, 2014.
10. As authorized by the California Public Utilities Commission, a one-time surcredit of \$0.93 per customer is to be applied on the effective date of Advice Letter 207-W. This surcredit will refund the over-collection in the Pension Expense Balancing Account as of December 31, 2014.
11. As authorized by the California Public Utilities Commission, a one-time sur-credit of \$0.61 per customer is to be applied on the effective date of Advice Letter 209-W. This sur-credit will refund the over-collection in the One-Way Conservation Balancing Account as of December 31, 2014.
12. As authorized by the California Public Utilities Commission, an amount of \$9.16 per month is to be added to the quantity rate for a period of 21.5 months, beginning on the effective date of Advice Letter 216-W-A. This surcharge will recover the under collection in the Interim Rates Memorandum Account as of November 23, 2015.
13. As authorized by the California Public Utilities Commission, a one-time surcredit of \$1.03 is to be applied on the effective date of Advice Letter 213-W-A. This surcredit will refund the over-collection in the 2010 Tax Act Memorandum Account. (R)

END OF APPENDIX A

**LIBERTY UTILITIES  
(APPLE VALLEY RANCHOS WATER) CORP.**

**ADVICE LETTER 213-W-A  
DISTRIBUTION LIST**

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