



August 1, 2011

Advice Letter No. 256-E

(U 913-E)

California Public Utilities Commission

Golden State Water Company (GSWC) hereby transmits for filing an original and four conformed copies of the following tariff sheets applicable to its Bear Valley Electric Services (BVES) division:

<u>CPUC Sheet No.</u>	<u>Title of Sheet</u>	<u>Canceling CPUC Sheet No.</u>
Original No. 1928-E	Preliminary Statements Part Y, Page 1	
Original No. 1929-E	Preliminary Statements Part Y, Page 2	
Revised No. 1930-E	Table of Contents Page 1 of 4	Revised No. 1927-E

SUBJECT: 2010 Tax Act Memorandum Account (TAMA)

Purpose

In compliance the California Public Utilities Commission's (Commission) Resolution L-411A, dated June 23, 2011, BVES submits this advice letter to establish the 2010 Tax Act Memorandum Account (TAMA). The 2010 TAMA was created to reflect, on a CPUC-jurisdictional, revenue requirements basis, impacts from the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (New Tax Law).

Specifically, the 2010 TAMA will be used to determine whether any future rate changes are appropriate to reflect impacts of the New Tax Law for the period from April 14, 2011 until the effective date of revenue requirement changes in BVES' next general rate case (GRC).

Background

On December 17, 2010, President Obama signed the Tax Relief Act. Among other provisions, the Tax Relief Act provides for 100% bonus depreciation on certain business

property put into service after September 8, 2010 and before January 1, 2012. The Tax Relief Act also provides for 50% bonus depreciation for property placed into service thereafter and before January 1, 2013 and for property placed into service in 2013 where construction begins prior to January 1, 2013.

Consistent with the Internal Revenue Code, the Commission's ratemaking procedures do not reflect in rates the full reduction in tax expense in the year in which accelerated depreciation is taken for tax purposes. Rather, rates are set as if depreciation for tax purposes were being calculated on the straight line method over the projected life of the asset (the same depreciation method used for setting rates). Thus, the utility collects in rates taxes that will not need to be paid until a later time, if at all. Nevertheless, ratepayers do get a benefit from the accelerated depreciation. This is accomplished through "normalization" and the use of a "deferred tax reserve". The deferred tax reserve for any particular asset reflects the amount of depreciation taken for tax purposes that exceeds the amount used in setting rates. This difference is then multiplied by a tax rate to yield the amount of deferred tax reserve. The combined deferred tax reserve on all of the utility's assets is, in turn, deducted from rate base in calculating the utility's revenue requirement, thus reducing rates.

On June 23, 2011, the Commission issued Resolution L-411A. Resolution L-411A establishes a 2010 Tax Act Memorandum Account for all cost-of-service rate regulated utilities that do not address the New Tax Law in a 2011 or 2012 test year GRC proceeding, to track the impacts of the New Tax Law. The 2010 Tax Act Memorandum Account will track on a CPUC-jurisdictional, revenue requirement basis: (a) decreases in each impacted utility's revenue requirement resulting from increases in its deferred tax reserve; and (b) other direct changes in revenue requirement resulting from taking advantage of the New Tax Law. The establishment of the 2010 Tax Act Memorandum Account does not change rates, nor guarantee that rates will be changed in the future. This approach allows the Commission to determine at a future date whether rates should be changed, without having to be concerned with issues of retroactive ratemaking.

Request

In compliance with Resolution L-411A, BVES is requesting authorization to establish the 2010 TAMA. The 2010 TAMA will track on a CPUC-jurisdictional, revenue requirement basis the impacts of the New Tax Law not otherwise reflected in rates from April 14, 2011 until the effective date of the revenue requirement changes in BVES' next General Rate Case ("Memo Account Period"). BVES will 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, changes in working cash resulting from the New Tax Law, 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 New Tax Law, and any other direct changes in revenue requirement resulting from BVES taking advantage of the New Tax Law.

The 2010 TAMA is a one-way balancing account. The 2010 TAMA will not be used to recover any net revenue requirement increases.

Revisions to Preliminary Statement

For the reasons stated above, BVES proposes to revise its Preliminary Statement to include Part Y, 2010 Tax Act Memorandum Account.

Memorandum Account Treatment

BVES is aware that a memorandum account is not a guarantee of eventual recovery of expenses, nor is it carried as a regular account under the uniform system of accounts for electric utilities. It is carried "off the books" as a memorandum account. Further, it is also known that Commission policy on memorandum account treatment has always been that the burden of proof of the reasonableness of expenses charged to the account is the responsibility of the utility requesting reimbursement of such expenses.

Tier Designation and Effective Date

This advice letter is submitted with a Tier 1 designation. In compliance with Ordering Paragraph No. 7 in Resolution L-411A, the 2010 Tax Act Memorandum Account will have an effective date of April 14, 2011.

Protest and Responses

A copy of this filing has been served on the utilities and interested parties shown on the attached list by either providing them a copy electronically or by mailing them a copy hereof, properly stamped and addressed.

A protest is a document objecting to the granting in whole or in part of the authority sought in this advice letter.

A response is a document that does not object to the authority sought, but nevertheless presents information that the party tendering the response believes would be useful to the CPUC in acting on the request.

A protest must be mailed within 20 days of the date the CPUC accepts the advice letter for filing. The Calendar is available on the CPUC's website at www.cpuc.ca.gov.

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A protest must state the facts constituting the grounds for the protest, the effect that approval of the advice letter might have on the protestant, and the reasons the protestant believes the advice letter, or a part of it, is not justified. If the protest requests an evidentiary hearing, the protest must state the facts the protestant would present at an evidentiary hearing to support its request for whole or partial denial of the advice letter. The utility must respond to a protest with five days.

All protests and responses should be sent to:

California Public Utilities Commission, Energy Division

ATTN: Tariff Unit

505 Van Ness Avenue

San Francisco, CA 94102

E-mail: jnj@cpuc.ca.gov or Maria Salinas (mas@cpuc.ca.gov)

Copies should also be mailed to the attention of the Director, Energy Division, Room 4004 (same address above).

Copies of any such protests should be sent to this utility at:

Golden State Water Company

ATTN: Nguyen Quan

630 East Foothill Blvd.

San Dimas, CA 91773

Fax: 909-394-7427

E-mail: nquan@gswater.com

If you have not received a reply to your protest within 10 business days, contact Ronald Moore at 909-394-3600 ext. 664.

No individuals or utilities have requested notification of filing of tariffs. In accordance with General Order 96-B, a copy of this advice letter is being furnished to the entities listed on the attached service list.

In accordance with Public Utilities Code Section 491, notice to the public is hereby given by filing and keeping the advice letter filing open for public inspection at Bear Valley Electric Service and Golden State Water Company Headquarters.

Sincerely yours,



Nguyen Quan

Manager, Regulatory Affairs

c: Julie Fitch, Chief
CPUC- Energy Division

Donald Lafrenz
CPUC- Energy Division

R. Mark Pocta
CPUC – Division of Ratepayer Advocates

PRELIMINARY STATEMENTS

(N)

Y. 2010 TAX ACT MEMORANDUM ACCOUNT

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 the Utility's next General Rate Case ("Memo Account Period"). The Utility 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, changes in working cash resulting from the New Tax Law, 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 New Tax Law, and any other direct changes in revenue requirement resulting from the Utility's taking advantage of the New Tax Law.

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; (d) for electric Utilities, the spending must not provide generation capacity at a new plant; and (e) 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.

(N)

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PRELIMINARY STATEMENTS

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(N)

2. **Applicability**

The 2010 Tax Act Memorandum Account applies to the Utility's 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 increases 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 impact of any calculations in the calculation of working cash resulting from the New Tax Law or 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 Utility's taking advantage of the New Tax Law.
- e. Credit for increase in revenue requirement resulting from additional utility infrastructure investment.
- f. Balances in the Tax Memorandum Account will accrue interest at the 90-day commercial paper rate.

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 the Utility is required to make an adjustment to its revenue requirement and rates, as a result of the tax impacts not otherwise reflected in rates, the Utility will make the appropriate entries in its general ledger.

4. **Disposition**

In the Utility'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.

(N)

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GOLDEN STATE WATER COMPANY

DISTRIBUTION LIST

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