

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



December 22, 2017

TO ALL CLASS A and B WATER AND SEWER UTILITIES

SUBJECT: Changes in Federal Tax Rates for 2018

The 2018 Federal Tax Law (2018 Tax Cuts and Jobs Act) significantly reduces the federal tax rate for businesses from 35% to 21% for the tax year beginning January 1, 2018. Existing authorized utility rates for water and sewer service are based on the current federal tax rate of 35%. In order to reflect the reduced federal tax expense in lower rates in a future rate proceeding, **all Class A and B water and sewer utilities are directed to file Tier 1 advice letters to establish and add a 2018 Tax Accounting Memorandum Account** to the preliminary statements in the tariff. The Tier 1 advice letters should be filed **no later than December 31, 2017** with **an effective date of January 1, 2018**.

The purpose of the 2018 Tax Accounting Memorandum Account 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.

The 2018 Tax Accounting Memorandum Account should be amortized and closed as part of the utilities next general rate adjustment where the authorized federal tax expense can be adjusted to reflect changes in the federal tax rate for businesses in prospective water and sewer service rates.

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