



Control Number: 48245



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DOCKET NO. 48245

RECEIVED

APPLICATION OF SJWTX, INC. DBA §
CANYON LAKE WATER SERVICE §
COMPANY FOR A MINOR TARIFF §
CHANGE (FEDERAL TAX CREDIT §
RIDER) §

PUBLIC UTILITY COMMISSION: 18

OF TEXAS
PUBLIC UTILITY COMMISSION
FILING CLERK

COMMISSION STAFF'S FINAL RECOMMENDATION

COMES NOW the Staff of the Public Utility Commission of Texas (Staff), representing the public interest and files this Final Recommendation and would show the following:

I. BACKGROUND

On April 19, 2018, SJWTX, Inc. dba Canyon Lake Water Service Company (SJWTX) filed an application for approval to implement a new Federal Tax Change Credit Rider (FTCCR), giving effect to the Tax Cuts and Jobs Act of 2017 (TCJA) and in response to the Amended Order Related to Changes in Federal Income Tax Rates in Project No. 47945. This filing does not address the accounting and rate-making treatment of excess accumulated deferred federal income tax arising from changes to federal tax law in the TCJA.

On April 25, 2018, the Commission issued a Notice Addressing Sufficiency of the Application and Notice; Approving Rates on an Interim Basis, directing Staff to file a recommendation by June 28, 2018. Therefore, this pleading is timely filed.

II. COMMISSION STAFF'S RECOMMENDATION

Staff has reviewed SJWTX's application, and, as supported by the attached memorandum of Debi Loockerman of the Water Utility Regulation Division, recommends that the application be approved.

III. CONCLUSION

Staff respectfully requests the issuance of an order approving SJWTX's application.

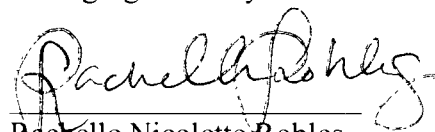
Dated: June 28, 2018

Respectfully Submitted,

**PUBLIC UTILITY COMMISSION OF
TEXAS
LEGAL DIVISION**

Margaret Uhlig Pemberton
Division Director

Stephen Mack
Managing Attorney

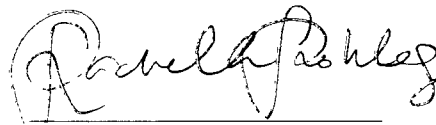


Rachelle Nicolette Robles
State Bar No. 24060508
1701 N. Congress Avenue
P.O. Box 13326
Austin, Texas 78711-3326
(512) 936-7255
(512) 936-7268 (facsimile)
rachelle.robles@puc.texas.gov

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CERTIFICATE OF SERVICE

I certify that a copy of this document will be served on all parties of record on June 28, 2018 in accordance with 16 TAC § 22.74.



Rachelle Nicolette Robles

PUC Interoffice Memorandum

To: Rachelle Robles, Attorney
Legal Division

Thru: Tammy Benter, Director
Water Utility Regulation Division

From: Debi Loockerman, Financial Manager
Water Utility Regulation Division

Date: June 28, 2018

Subject: **Tariff Control No. 48245;** *Application of SJWTX, Inc. dba Canyon Lake Water Company for a Minor Tariff Change (Federal Tax Credit Rider)*

On April 19, 2018, SJWTX, Inc. dba Canyon Lake Water Company (Canyon Lake) filed a new proposed Federal Tax Cut Credit (FTCC) with the Public Utility Commission of Texas. The FTCC gives effect to the Tax Cuts and Jobs Act of 2017 (TCJA), which changed the federal maximum corporate tax rate from 35% to 21%,¹ by reducing the cost of service paid by retail water and sewer utility customers taking service under Canyon Lake's tariffs. Canyon Lake estimated a reduction in annual cost of retail service of \$983,579. The refund applies to all retail water customers except one raw water customer, the City of Blanco, which has a wheeling agreement for the transportation of water that it purchases from the Guadalupe Blanco River Authority, a single zero bill customer, and wastewater or reuse water charges. Canyon Lake's FTCC filing is in response to the January 25, 2018 Order Related to Changes in Federal Income Tax Rates and the February 15, 2018 Amended Order Related to Changes in Federal Income Tax Rates in Project No. 47945 (Amended Order), *Proceeding to Investigate and Address the Effects of the Tax Cuts and Jobs Act of 2017 on the Rates of Texas Investor-Owned Utility Companies*.

This memo represents the review and recommendation relating to Canyon Lake's application. I have reviewed Canyon Lake's requested annual FTCC including the calculation of the proposed cost of service reduction and credits resulting from the change in federal corporate income tax rate.

Canyon Lake's FTCC filing does not address the accounting and rate-making treatment of excess accumulated deferred federal income tax (ADFIT) arising from changes to federal tax law in the TCJA. This treatment is consistent with the Amended Order in Project No. 47945, which requires Class A water utilities to account for a regulatory liability for "the balance of ADFIT that now exists because of the decrease in the federal income tax rate from 35% to 21%." beginning on January 25, 2018. The Amended Order does not require immediate treatment in rates, but only requires the establishment of a regulatory liability for full consideration at the next comprehensive rate review. Consistent with the Amended Order, the calculations to determine the balance of excess ADFIT and regulatory treatment will be considered in Canyon Lake's next comprehensive rate proceeding.

Based upon my review, I recommend that Canyon Lake's FTCC be approved as filed on April 19, 2018.

¹ Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018, Pub. L. No. 115-97, 113 Stat. 2054 (Dec. 22, 2017).