

## PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE  
SAN FRANCISCO, CA 94102-3298



February 11, 2022

To: All Investor-Owned Water and Sewer Utilities

SUBJECT: Correction to **February 1, 2022** Memo on Changes in Federal Tax Law – Contributions in Aid of Construction

It has come to our attention that a correction needs to be made to the Memo issued by Water Division on February 1, 2022, regarding compliance with changes to Federal Tax Law in accordance with H.R. 3684. Please see the below strikethrough of the original text from the memo and the revised language that follows as guidance to all investor-owned water and sewer utilities.

In response to the change in the federal tax law, Water Division requests utilities, at their earliest convenience, submit Tier 1 advice letters to bring their Tariff Rule 15 into compliance with Section 80601 of H.R. 3684. The changes should be made effective retroactively back to January 1, 2021, consistent with the effective date for Section 80601. ~~Further, any federal income taxes associated with Contributions in Aid of Construction that were received after December 31, 2020, should be refunded, with interest, to the contributor. Any ITC on Contributions in Aid of Construction collected by the utility other than for water and sewer service connections should cease immediately.~~

Further, any collections under Methods 2 or 5 as applicable to a utility's Rule 15 associated with Contributions in Aid of Construction or Advances that are no longer taxable under H.R. 3684 should immediately cease, and any such collections that were received after December 31, 2020 should be refunded, without interest, to the contributor.

Sincerely,

/s/TERENCE SHIA

Terence Shia, Director  
Water Division

Cc: Jennifer Capitolo, Executive Director, California Water Association  
Director, Public Advocates