

Preliminary Statement

F. INCOME TAX COMPONENT OF CONTRIBUTION PROVISION

(N)

1. General. Effective on and after January 1, 1987, all Contributions in Aid of Construction and Advances for Construction (Contributions) made to the Company pursuant to its tariffs shall include a cost component to cover the Company's estimated liability for Federal Income Tax resulting therefrom.

2. Definitions
 - a. Contributions: Contributions shall include, but are not limited to: cash, services, facilities, labor, property, and income taxes thereon provided to the Company by a person or agency. The value of all Contributions shall be based on the Company's estimates. Contributions shall consist of two components as follows:
 - (1) Income Tax Component of Contribution (ITCC); and
 - (2) The balance of the Contribution, excluding ITCC, (Balance of Contribution).
 - b. Government Agency: For purposes of administering this part of the Preliminary Statements, a Government Agency shall be a California state, county, or local government agency.
 - c. Public Benefit: Where, in the opinion of the Company, a benefit to the public as a whole is clearly shown by the Government Agency making the Contribution for a project.

3. Determination of ITCC
 - a. The ITTC shall be calculated by multiplying the Balance of the Contribution by the Tax Factor of:
 - (1) 0.312 for calendar year 1987 contributions; and
 - (2) 0.246 on or after January 1, 1988.

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(Continued)

(To be inserted by utility)

Advice Letter No. 775-W
Decision No. 87-09-026

Issued By
W. V. CAVENEY
President

(To be inserted by P.U.C.)

Date Filed December 7, 1987
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F. INCOME TAX COMPONENT OF CONTRIBUTION PROVISION (Continued) (N)

3. Determination of ITCC (Continued)
 - b. The tax factor included herein is established using Method 5 as set forth in and pursuant to the Commission's Decision No. 87-09-026. Should the Internal Revenue Service (IRS) deem Method 5 to be a violation of the tax normalization rules, any penalties, interest or taxes incurred by the Company shall be recovered through general rates.
4. Applicability. The ITCC shall apply to Contributions under the tariffs including but not limited to Rule Nos 4, 13, and 15.
5. State Taxes. Under the current California State law, Contributions are not taxable at the time of the Contribution. In the event legislation is enacted to conform state law to federal law, the Company may increase the amount it collects from the Contributor to include its estimate of the tax resulting therefrom. In the event state law is applied retroactively, the Company may collect such tax for the retroactive period through general rates in accordance with Ordering Paragraph No. 6 of Decision No. 87-09-026.
6. The Company may accept a contractual promise to pay the ITCC, including interest thereon, (using an Agreement form filed with and approved by the Commission) from a Government Agency required to make a Contribution pursuant to the tariffs where the Government Agency's project:
 - a. Provides a Public Benefit as defined above, or
 - b. Results from condemnation of Company facilities, or the threat or imminence thereof, which is supported by evidence provided by the Government Agency which is acceptable to the Company.

Unless an irrevocable determination acceptable to the Company is issued by the IRS that there is no tax liability to the Company on the Contribution for which the promise to pay was made, the ITCC including interest thereon, shall be due and payable no later than September 10, 1989. If the IRS makes a determination that the Contribution (or a contribution of that type) is taxable prior to September 10, 1989, the payment will become due at that time.

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6. (Continued)

The Government Agency shall also pay, upon demand by the Company, any expense associated with, or incurred by the Company related to the promise to pay such as, but not limited to, administrative and legal costs, interest, and penalties assessed by the IRS.

7. Interest Rate. When interest is payable under this Part of the Preliminary Statement by the Contributor to the Company or by the Company to the Contributor, the Interest Rate to be applied each month to the balance due (including all prior interest) shall be 1/12 of the most recent month's interest rate on Commercial Paper (prime, three months), published in the Federal Reserve Statistical Release, G. 13. Should publication of the interest rate on Commercial Paper (prime, three months) be discontinued, interest will so accrue at the rate of 1/12 of the most recent month's interest rate on Commercial , which most closely approximates the rate that was discontinued and which is published in the Federal Reserve Statistical Release, G.13, or its successor publication.

8. Revisions. Changes in the Tax Factor which would increase or decrease the rate by five percentage points or more shall be made by advice letter filing as authorized in Ordering Paragraph No. 7 of Decision No. 87-09-026.

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