

PRELIMINARY STATEMENT

Sheet 1

PART IV
INCOME TAX COMPONENT OF CONTRIBUTIONS AND ADVANCES

Contributions in Aid of Construction (CIAC) and Refundable Advances for Construction (Advances) shall include federal and state taxes applicable to but not limited to, cash, services, facilities, labor, and property provided by a person or agency to the Utility. The value of all contributions and advances shall consist of two components for the purpose of recording transactions as follows:

- (1) Income Tax Component of Contributions and Advances (ITCCA), and
- (2) The balance of the contribution or advance.

The ITCCA shall be calculated by multiplying the balance of the CIAC or Advance by the tax factor of 22% beginning January 1, 2012, and thereafter.

The Utility shall make advice letter filings to reflect any changes in the tax factor that would increase or decrease the tax factor by five percentage points or more.

The tax factor is established in accordance with Ordering Paragraph 3.a. of Decision 87-09-026, as modified by Decision 87-12-028.

State tax shall be collected in accordance with Ordering Paragraph 6 of Decision 87-09-026.

Pursuant to Assembly Bill 1757, California Corporate Franchise Tax shall be collected beginning January 1, 1992.

Utility shall recover through rates any penalties, interest or taxes incurred if the Internal Revenue Service (IRS) deems the method of tax collection authorized by Decision 87-09-026 a violation of the tax normalization rules and imposes additional taxes, penalties and interest.

A Public Benefit Exemption may apply on a CIAC or Advance made to the Utility by a government agency on the basis of either:

- (1) the CIAC or Advance is exempt from the ITCCA tax because it is made pursuant to actual condemnation or the threat thereof as recognized by Internal Revenue Code Section 1033; or,
- (2) the CIAC or Advance is exempt because it does not reasonably relate to the provision of service but rather to the benefit of the public at large.

(Continued)

(TO BE INSERTED BY UTILITY)
ADVICE LETTER NO. 4321
DECISION NO. 87-09-026 & 87-12-028

ISSUED BY
Lee Schavrien
Senior Vice President

(TO BE INSERTED BY CAL. PUC)
DATE FILED Jan 6, 2012
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PRELIMINARY STATEMENT

Sheet 2

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(Continued)

If a favorable IRS determination applicable to a particular type of government agency CIAC is not obtained by September 10, 1989, or an unfavorable IRS ruling is received prior to that date, then such type of government agency contribution shall henceforth be presumed taxable in accordance with Decision No. 87-09-026 until a favorable IRS determination is received.

IRS Advance Notice 87-82, released December 3, 1987 (scheduled to be republished in Internal Revenue Bulletin No. 1987-51, December 21, 1987) excludes from the Public Benefit Exemption any government agency payment associated with projects causing new or increased usage of utility service.

When the Public Benefit Exemption is considered subject to an Adverse IRS ruling, the government agency may be required to sign form No. 6403 (10-87 Rev.) to ensure recovery of potential tax liability.

Any refund of an Advance shall include an ITCCA using a tax factor that reflects the tax benefit actually realized by the Utility through tax deductibility in the year the refund occurs. In any event, the tax refund will not exceed the tax advanced.

If Utility is not in a taxable position in the year that a CIAC or Advance is received, there is no tax liability and the ITCCA shall be refunded to the contributor. If Utility collects an ITCCA calculated using an incremental tax rate that is more than the Utility's actual incremental rate, as determined on a ratemaking basis, the difference between what was and what should have been collected shall be returned to the contributor.

(TO BE INSERTED BY UTILITY)

ADVICE LETTER NO. 2209
DECISION NO.

ISSUED BY

Nancy I. Day
Vice President

(TO BE INSERTED BY CAL. PUC)

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