

Rule No. 15

MAIN EXTENSIONS

(continued)

E. Income Tax Component of Contributions and Advances Provision

1. Contributions in Aid Of Construction (CIAC) and Advances for Construction (AIAC) shall include, but are not limited to, cash, services, facilities, labor, property, and income taxes thereon provided by a person or an agency to the utility. The value of non-cash contributions and advances shall be based upon the utility's estimates. Contributions and advances shall consist of two components for the purpose of recording transactions as follows:
  - a. Income Tax Component (ITC), and
  - b. The contribution or advance.
2. The ITC shall be calculated by multiplying the appropriate portion of the contribution or advance by the following tax factors:
  - a. For service connection component of CIAC: 36.63%
  - b. For service connection component of AIAC: 37.48%
3. The tax factors are established using Method 5, as set forth in Decision No. 87-09-026 in I.86-11-019.
4. The formula to compute the ITC tax factors include:
 

|                              |         |
|------------------------------|---------|
| a. Federal income tax rate:  | 35.00%  |
| b. State franchise tax rate: | 8.84%   |
| c. Discount rate:            | 9.73%   |
| d. Pre-tax rate of return:   | 13.72%  |
| e. Cost of debt:             | 9.02%   |
| f. Debt:equity ratio:        | 45:55   |
| g. Net-to-gross multiplier   | 1.70424 |
5. The ITC tax factors have been derived from the above-listed tax rates and will remain in effect until changes to those rates would increase or decrease the ITC tax factors by five percentage points or more. When and if that occurs, the utility will file an advice letter showing the new rates and cancel this sheet.
6. The utility shall inform the Applicant of the final cost of the installation of all service laterals and the resulting tax paid thereon.
7. In the event the utility collects an ITC using an incremental tax rate that is more than its incremental tax rate as determined on a taxable year basis, without consideration of a tax credit or tax loss carryforward, the difference between what was and what should have been collected will be refunded to the Applicant.

(To be inserted by utility)

Issued by

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

Advice Letter No. 313

M. L. Whitehead

Date Filed \_\_\_\_\_

Decision No. \_\_\_\_\_

NAME

Effective \_\_\_\_\_

President

TITLE

Resolution No. \_\_\_\_\_