



GAS PRELIMINARY STATEMENT PART P
INCOME TAX COMPONENT OF CONTRIBUTIONS PROVISION

Sheet 1

P. INCOME TAX COMPONENT OF CONTRIBUTIONS PROVISION

1. **GENERAL:** All Contributions in Aid of Construction (Contributions, or CIAC) made to PG&E shall include a charge to cover PG&E's resulting estimated liability for Federal and State Income Tax. PG&E shall collect the Federal Income Tax on Contributions made on or after February 11, 1987, for the unit costs under Rule 15 and January 1, 1987, for all other Contributions. California Corporate Franchise Tax shall be collected beginning January 1, 1992.

2. **DEFINITIONS:**

a. **Contributions:** Contributions shall include, but are not limited to, cash, services, facilities, labor, property, and related income taxes provided by a person or agency to PG&E. The value of all contributions shall be based on PG&E's estimates or a contract value acceptable to PG&E. Contributions shall consist of two components, as follows:

- 1) Income Tax Component of Contribution (ITCC); and
- 2) The balance of the contribution, excluding income taxes (Balance of Contribution).

b. **Eminent Domain Agency:** For purposes of administering this part of the preliminary statement, an Eminent Domain Agency is any Federal, state, county, or local governmental or quasi-governmental agency or a federally-recognized Native American tribe that has the general authority or is able to readily obtain the authority to condemn property for the public good upon the award and payment of just compensation. (T)

3. **APPLICABILITY:** The ITCC shall apply to Contributions including but not limited to charges under the applicable Rate Schedule and Rules, except as provided in Section 4 below.

4. **EMINENT DOMAIN EXEMPTIONS:**

Involuntary Conversion: Contributions resulting from condemnation or involuntary conversion of company facilities, or the threat or imminence thereof may be excluded from the ITCC requirement when supported by evidence acceptable to PG&E provided by the Eminent Domain Agency. Where, in the opinion of PG&E, payments or other forms of compensation received by PG&E from an Eminent Domain Agency satisfy the requirements of Internal Revenue Code (IRC) section 1033 as an Involuntary Conversion, the value of such payments, property or other permissible forms of compensation will not be treated as taxable income by PG&E and, as a result, the ITCC component of the Contribution will not be collected. Generally, the nontaxable provisions of IRC section 1033 are satisfied if (1) the Eminent Domain Agency initiates condemnation proceedings, or (2) PG&E receives notice of intent by the Eminent Domain Agency to acquire the property before the initiation of condemnation proceedings, or (3) it can be demonstrated that it was reasonable to believe that PG&E was compelled to dispose of the property by the impending consequences. (T)

5. **DETERMINATION OF ITCC:**

a. The ITCC shall be calculated by multiplying the Balance of Contribution by the tax factor in effect at the time the contributions are received by PG&E. A 24 percent tax factor shall be applicable to contributions received by PG&E on or from January 1, 2019. PG&E will submit an advice letter to reflect any changes in the tax factor which would cause an increase or decrease of five percentage points or more.

b. The tax factor is established by using Method 5 as set forth in Decisions 87-09-026 and 87-12-028 in OII 86-11-019.

(Continued)



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P. INCOME TAX COMPONENT OF CONTRIBUTIONS PROVISION (Cont'd.)

- 6. STATE TAXES: Should any California state tax be imposed on Contributions in Aid of Construction or other Contributions, it shall be collected in accordance with Ordering Paragraph 6 of Decision No. 87-09-026. However, in the event state tax is applied retrospectively, PG&E may collect such tax through general rates for the retroactive period.
- 7. INTERNAL REVENUE SERVICE: PG&E shall recover through rates any penalties, interest, or taxes incurred if the Internal Revenue Service deems the method of tax collection authorized by Decision No. 87-09-026 to be a violation of the tax normalization rules and imposes additional taxes, penalties, and interest.
- 8. REFUNDS: Any refund shall include an ITCC using a tax factor that reflects the tax benefit actually realized by PG&E through tax deductibility in the year the refund occurs. In any event, the tax refund will not exceed the tax advanced. (T)
- 9. INTEREST RATE: When interest is payable under this part of the Preliminary Statement by PG&E to the contributor, the interest rate 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 paper 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.