



**PRELIMINARY STATEMENT**

Sheet 1

VI. MISCELLANEOUS

INCOME TAX COMPONENT OF CONTRIBUTIONS AND ADVANCES PROVISION (ITCCAP)

1. General

Pursuant to Decision 87-09-026, dated September 10, 1987, in OII 86-11-019, all Contributions to the utility, including Contributions in Aid of Construction (CIAC), and Advances for Construction (Contributions), made pursuant to the utility's tariffs shall include a cost component to cover the utility's estimated time value of money cost related to its liability for State and Federal Income Tax resulting therefrom. Effective January 1, 1992, the cost component shall be revised to cover the utility's estimated liability for both Federal and State Income Tax, pursuant to Resolution E-3243, dated September 25, 1991.

2. Definitions

a. Contributions: Contributions shall include, but are not limited to, cash, services, facilities, labor, property, and income taxes thereon provided by a person or agency to the utility. The value of all Contributions and Advances shall be based on the utility's estimates. Contributions shall consist of two components for purposes of recording transactions as follows:

- (1) Income Tax Component (ITC), and
- (2) The Balance of the Contribution or Advance, excluding income taxes (Balance of Contribution).

b. ITC: The ITC shall be calculated by multiplying the Balance of Contribution or Advance by the tax factor of 0.22 beginning January 1, 2012 and thereafter.

Under the "Periodic Review" provisions contained in Section E.2.of Rule 15, the ITC shall be adjusted for any state and federal income tax liability when such changes result in a change of five percentage points or more. The ITC should also be adjusted for any state income tax liability, effective January 1, 1992. Prior to the contemplated filing date for any revision of the system average unit costs contained in Rule 15, any filings for changes in ITC shall be made to reflect changes in income tax liability.

c. Tax Factor: The tax factor is established by using the "Maryland Method" as set forth in Decision 87-09-026 in I.86-11-019. Should the Internal Revenue Service (IRS) deem the "Maryland Method" to be in violation of the tax normalization rules, any penalties, interest or taxes incurred by the utility shall be recovered through general rates.

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Senior Vice President

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San Diego Gas & Electric Company  
San Diego, California

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3. Applicability

The ITC shall apply to contributions under the tariffs, including but not limited to, Rules 2, 13, 15, 16, 20, and 21.

4. Formula

The Formula used to compute the Maryland Method includes the following factors:

- a. a Federal Corporate tax rate of 34%
- b. a California Corporate Franchise tax rate of 9.3%, and
- c. a discount rate of 10.91%.

5. Interest Rate

When interest is payable by the Contributor to the utility or by the utility 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, H.15. 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, H.15, or its successor publication.

6. Refund Procedure

In accordance with Ordering Paragraph 8.b of Decision No. 87-09-026, the utility shall refund to the Contributor from the date of collection of a Contribution to the date of refund, the difference between the Tax Factor of 0.667 and the Tax Factor of 0.39 authorized by Decision 87-09-026, plus interest thereon, for the period February 11, 1987 through December 31, 1987.

7. Pursuant to Decision 87-09-026, the 39% ITC tax factor was in effect from February 11, 1987 through December 31, 1987.

8. The utility will accept a contractual promise to pay the ITC, including interest thereon, (using an Agreement form filed with and approved by the Commission) from an agency required to make a contribution pursuant to the tariffs where the Government Agency's project:

- a. Provides a Public Benefit, or
- b. Results from condemnation of utility facilities or the threat or imminence thereof, which is supported by evidence provided by the Government Agency which is acceptable to the utility.

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San Diego, California

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**PRELIMINARY STATEMENT**

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VI. MISCELLANEOUS

INCOME TAX COMPONENT OF CONTRIBUTIONS AND ADVANCES PROVISION (ITCCAP)

8. (Continued)

Unless an irrevocable determination acceptable to the utility is issued by the IRS that there is no tax liability to the utility on the contribution for which the promise to pay was made, the ITC 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.

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

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