PRELIMINARY STATEMENTS

M. INCOME TAX COMPONENT OF CONTRIBUTION PROVISION

1. General: Pursuant to Decision 87-09-026, as modified by Decisions 87-12-028, 88-07-020, and 96-10-037, 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 and California state ("State") income taxes resulting therefrom. (T) (T) (T)

2. Definitions

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: (T)

(1) Income Tax Component of Contribution (ITCC): and
(2) The balance of the Contribution (Balance of Contribution).

b. Government Agency: For purposes of administering this part of the Preliminary Statements, A Government Agency shall be a federal, 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.

d. Cost Estimates: Cost estimates for utility installed extensions, advances from developers, refunds, and job-specific estimates for competitive bidders shall include a tax component.

3. Determination of ITCC

a. Except for Government Agency Contributions for a Public Benefit, the ITCC shall be calculated by multiplying the Balance of the Contribution by a tax factor of 0.24 (24%). The 24 percent tax factor shall be applicable to Contributions received by GSWC on or after January 1, 2018. Contributions received prior to January 1, 2018 are subject to the applicable ITCC tax factors previously approved by the California Public Utilities Commission. (T)

For Government Agency Contributions for a Public Benefit received by GSWC on or after January 1, 2018, the ITCC shall be calculated by multiplying the Balance of the Contribution by a tax factor of 0.17 (17%). (T)

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 in violation of the tax normalization rules, any penalties, interest or taxes incurred by the Company shall be recovered through general rates.

c. An ITCC tax factor shall be adjusted for changes that would cause it to increase or decrease by five percentage points or more. (T) (T)(D)

4. Applicability: The ITCC shall apply to Contributions under the tariffs, including but not limited to, street And area lighting rate schedules and Rules Nos. 2, 4, 13, 15, 15.1, 15.2, 16 and 20.

(Continued)

M. INCOME TAX COMPONENT OF CONTRIBUTION PROVISION (continued)

5. Changes in Tax Liability: In the event that the state of California enacts legislation to conform state law to federal law in treating Contributions from a Government Agency for a Public Benefit as taxable income to the Company, the Company may increase the amount it collects for such Contributions from the Contributor to include its estimate of the tax resulting therefrom. In the event that any such legislation is applied on a retroactive basis, the Company may collect such tax for the retroactive period through general rates or surcharges. (T)

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.

In consideration of the Company not requiring payment by Government Agency of the ITCC which is, or may be, attributable to the Project, the Company is exempt from any and all claims, costs, liabilities and expenses relating to any federal and State income tax liabilities, including but not limited to, the full amount of any income tax, penalty, and interest, which the Company pays or is required to pay to the IRS or California Franchise Tax Board ("FTB"), and attorneys' fees, litigation costs or fees, associated therewith, arising from any payment for the Project received by the Company from Government Agency. Government Agency shall also pay, upon demand by the Company, the amount of any expense incurred by the Company in collecting any sum due the Company hereunder, including attorneys' fees, litigation costs or fees, and interest, at the highest rate permitted by law, on any monies advanced or expended by the Company. (T)

If the FTB makes a determination that the payment for the Project (or a payment of that type) is taxable, Government Agency shall forthwith pay the Company the applicable taxes and other costs determined as set forth in the preceding paragraph above, upon demand by the Company. (T)

7. Interest Rate: When interest is payable under this part of the Preliminary Statements 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 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.

8. The Company shall inform the Applicant of the final cost of the installation of all facilities and the resulting tax liability thereon. (T)