

May 22, 2002

Advice 2387-G/2243-E

(Pacific Gas and Electric Company ID U 39 M)

Subject: Revision of PG&E's Tariffs to Reflect Temporarily Lower ITCC Rates Due to Tax Law Changes.

Public Utilities Commission of the State of California

Pacific Gas and Electric Company (PG&E) hereby submits for filing revisions to its gas and electric Preliminary Statement Parts P and J, respectively. The affected tariff sheets are listed on the enclosed Attachment I.¹

Purpose

The purpose of this filing is to revise PG&E's gas and electric Preliminary Statements Parts P and J -- *Income Tax Component of Contributions Provision*, respectively, to reflect changes in Federal tax law that temporarily reduce the tax factor used to compute the "Income Tax Component of Contribution (ITCC)" associated with Contributions in Aid of Construction.

Background

On March 9, 2002, President Bush signed into law the Job Creation and Worker Assistance Act of 2002 (P.L. 107-147; the "Act"). Section 101(a) of the Act adds a new depreciation provision -- Section 168(k) to the Internal Revenue Code -- entitled, "Special allowance for certain property acquired after September 10, 2001, and before September 11, 2004." A copy of this new provision is attached (Attachment II).

The additional depreciation allowed under this Act temporarily reduces PG&E's current ITCC factor. The revised ITCC factor has been calculated, as set forth in Attachment III, by using Method 5 as described in Decision (D.) 87-09-026 and D. 87-12-028 in OII 86-11-019.

¹ PG&E reserves all legal rights to challenge the decisions or statutes under which it has been required to make this advice filing, and nothing in this advice filing constitutes a waiver of such rights. Also, PG&E reserves any additional legal rights to challenge the requirement to make this advice filing by reason of its status as a debtor under Chapter 11 of the Bankruptcy Code, and nothing in this advice filing constitutes a waiver of such rights.

Tariff Revisions

Gas Preliminary Statement Part P, *Section 5. a.* has been revised to reflect a temporary reduction in the ITCC tax factor to 0.27 (27 percent) on property contributed to PG&E after [40 days after filing date] and before September 11, 2004. Property contributed to PG&E after September 10, 2004 will be subject to the previously authorized ITCC tax factor of 35 percent.

In a similar fashion, Electric Preliminary Statement Part J, *Section 5. a.* has been revised to reflect a temporary reduction in the ITCC tax factor to 27 percent on property contributed to PG&E after [40 days after filing date] and before September 11, 2004. Property contributed to PG&E after September 10, 2004, will be subject to the previously authorized ITCC tax factor of 34 percent.

Protests

Anyone wishing to protest this filing may do so by sending a letter by **June 11, 2002**, which is 20 days from the date of this filing. The protest must state the grounds upon which it is based, including such items as financial and service impact, and should be submitted expeditiously. Protests should be mailed to:

IMC Branch Chief
Energy Division
California Public Utilities Commission
505 Van Ness Avenue, Room 4002
San Francisco, California 94102
Facsimile: (415) 703-2200

Copies should also be mailed to the attention of the Director, Energy Division, Room 4005 and Jerry Royer, Energy Division, at the address shown above. It is also requested that a copy of the protest be sent via postal mail and facsimile to Pacific Gas and Electric Company on the same date it is mailed or delivered to the Commission at the address shown below.

Pacific Gas and Electric Company
Attention: Les Gulas
Director, Regulatory Relations
77 Beale Street, Mail Code B10C
P.O. Box 770000
San Francisco, California 94177
Facsimile: (415) 973-7226

Effective Date

PG&E requests that this advice filing become effective on regular notice, **July 1, 2002**, which is 40 days after the date of filing, for contributions received on or after such effective date.

Notice

In accordance with General Order 96-A, Section III, Paragraph G, a copy of this advice letter is being sent electronically and via U.S. mail to parties shown on the attached list. Address changes or requests for copies of Attachments II or III of this filing should be directed to Rose Abao at (415) 973-2218. Advice letter filings can also be accessed electronically at:

http://www.pge.com/customer_services/business/tariffs/

Vice President - Regulatory Relations

Attachments



PRELIMINARY STATEMENT
(Continued)

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 (T)
- 2) The balance of the contribution, excluding income taxes (Balance of Contribution). (T)

b. Government Agency: For purposes of administering this part of the preliminary statement, a government agency shall include the Federal Government, a California state, county, or local government agency.

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. GOVERNMENT AGENCY EXEMPTIONS:

a. Public Benefit: A contribution for a project will be considered a public benefit if, in the opinion of PG&E, the government agency making the contribution can clearly show that the contribution will benefit the public as a whole. Internal Revenue Service (IRS) Notice 87-82 dated December 3, 1987, excludes from the Public Benefit Exemption any government agency contribution associated with projects causing new or increased usage of utility service.

b. Condemnation: Contributions resulting from condemnation 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 government agency.

5. DETERMINATION OF ITCC:

a. The ITCC shall be calculated by multiplying the Balance of Contribution by the tax factor of 0.35 (35 percent). PG&E will file an advice letter to reflect any changes in the tax factor which would cause an increase or decrease of five percentage points or more. If any portion of a Balance of Contribution is received on or after 40 days from the filing date and before September 11, 2004, then the ITCC on such portion shall be computed by multiplying the amount of such portion by a tax factor of 0.27 (27 percent). For Contributions received prior to January 1, 1992, the tax factor shall be 0.28 (28 percent). (T)

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. (T)

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