M. INCOME TAX COMPONENT OF CONTRIBUTION PROVISION

1. General. All Contributions in Aid of Construction and Advances For Construction (Contributions) made to SCE pursuant to its tariffs shall include a cost component to cover SCE’s estimated liability for Federal and State Income Tax resulting therefrom. SCE shall collect the Federal Income Tax on Contributions made on or after February 11, 1987 for unit costs under Rule 15, and January 1, 1987 for all other Contributions. California Corporate Franchise Tax (CCFT) 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 income taxes thereon provided to SCE by a person or agency (Contributor). The value of all Contributions shall be based on SCE’s estimates. Contributions shall consist of two components as follows:
      (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 Statement, a Government Agency shall include the Federal Government, any federally recognized Native American tribe, or a California state, county, or local government agency.
   c. Public Benefit Exemption: Where, in the opinion of SCE, a benefit to the public as a whole is clearly shown by the Government Agency making the Contribution for a project. 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.

3. Determination of ITCC.
   a. The ITCC shall be calculated by multiplying the Balance of the Contribution by the applicable Tax Factor, as follows. For Contributions received by SCE on or after January 1, 2018 the Tax Factor shall be 0.24 (24%).

   1/ The Tax Cuts and Jobs Act of 2017 (Act) reduced the Federal corporate income tax rate to 21 percent from 35 percent beginning January 1, 2018 and, for regulated electric utility companies such as SCE, required the use of Modified Accelerated Cost Recovery System tax depreciation (i.e., without bonus) for capitalized property acquired and placed in service after September 27, 2017. To ease the administrative burden associated with this change, SCE will not reissue ITCC invoices to reflect the higher ITCC rate for Contributions received between September 28 and December 31, 2017 that did not qualify for the 50 percent 2017 bonus depreciation as a result of the Act. §13201(h)(1) of the Act states that property subject to a binding contract as of the effective date of this provision will not be treated as acquired after September 27, 2017.

   (Continued)
M. INCOME TAX COMPONENT OF CONTRIBUTION PROVISION (Continued)

3. Determination of ITCC. (Continued)

   b. The Tax Factor is established using Method 5 as set forth in and pursuant to
      the Commission's Decision No. 87-09-026. Should the IRS deem Method 5
      to be a violation of the tax normalization rules, any penalties, interest or taxes
      incurred by SCE shall be recovered through general rates.

   c. SCE will file an Advice Letter for any changes which would cause an increase
      or decrease of five percentage points or more in the ITCC Tax Factor.

4. Applicability. The ITCC shall apply to contributions under the tariffs, including but not
   limited to, street and area lighting rate schedules and Rules 2, 13, 14, 15, 16, 20, and
   21, unless a Public Benefit Exemption or other applicable exemption exists as
determined by SCE.

5. Interest Rate. When interest is payable under this Part of the Preliminary Statement by
   the Contributor to SCE or by SCE 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.