



**SECTION 7
LINE EXTENSIONS**

Introduction

The Company will construct, own, operate and maintain lines along public streets, roads and highways which the Company has the legal right to occupy, and on public lands and private property across which rights-of-way and easements satisfactory to the Company may be obtained without cost to or condemnation by the Company.

A request for electric service often requires the construction of new distribution lines of varying distances. The distances and costs vary widely depending upon Customer's location and load size. With such a wide variation in extension requirements, it is necessary to establish conditions under which the Company will extend its electric facilities.

All extensions, relocations, special or excess facilities, conversions, and temporary service (single-phase, three-phase or feeder) are subject to the availability of adequate capacity, voltage and Company facilities at the beginning point of an extension, as determined by the Company.

A standard policy has been adopted to provide service to Customers whose requirements are deemed by the Company to be ordinary in nature.

A. General Requirements

1. Upon an Applicant's request for a line extension, the Company will prepare, without charge, a preliminary electric design and a rough estimate of the cost of installation to be paid by said Applicant.
2. Upon any Applicant for a line extension requesting the Company to prepare detailed plans, specifications, or cost estimates, the Company reserves the right to require a deposit in the amount equal to the estimated cost of preparation. The Company will, upon request, aim to make available within ninety (90) days after receipt of the deposit referred to above, these plans, specifications, or cost estimates of the proposed line extension. Where the Applicant authorizes the Company to proceed with construction of the extension, the deposit will be credited to the cost of construction; otherwise, the deposit will be nonrefundable. If the extension is to include oversizing of facilities to be done at the Customer's expense, appropriate details will be set forth in the plans, specifications, and cost estimates.
3. When all the requested details on the application for a line extension are not provided by the Applicant, the Company will prepare, without charge, a rough estimate of the cost of installation to be paid by said Applicant.
4. The Company will provide a copy of the line extension policy prior to the Applicant's acceptance of the utility's extension agreement.
5. All line extension agreements requiring payment by the Applicant will be in writing and signed by each party.
6. If the estimated billing amount of a non-refundable project is less than \$500.00, it may be waived by the Company.



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7. If the estimated billing amount for a refundable project is less than \$1,000.00, it may be waived by the Company.
8. The provisions of this rule apply only to those Applicants who, in the Company's judgment, will be permanent Customers of the Company. Applications for temporary service will be governed by the Company's Rules concerning temporary service applications. The Company reserves the right to delay the extension of facilities until the satisfactory completion of required site improvements, as determined by the Company, and an approved service entrance to accept electric service has been installed.
9. If, subsequent to construction, any changes require the Company to relocate or repair the facilities, the cost will be borne by the Applicant.
10. Applicant may be responsible for any trip charges or additional fees for excessive re-inspections performed by the Company.

B. Minimum Written Agreement Requirements

1. Each line extension agreement will, at a minimum, include the following information:
 - a. Name and address of Applicant(s);
 - b. Proposed service address or location;
 - c. Description of requested service;
 - d. Description and sketch of the requested line extension;
 - e. A cost estimate which includes a summary of materials, labor, and other costs as necessary;
 - f. Payment terms;
 - g. A concise explanation of any refunding provisions, if applicable;
 - h. The estimated duration for Company-related construction responsibilities for the line extension; and
 - i. A summary of the results of the economic feasibility analysis performed by the Company to determine the amount of advance required from the Applicant for the proposed line extension where applicable.
2. Each Applicant will be provided with a copy of the written line extension agreement.

Filed By: Dallas J. Dukes
Title: Vice President of Customer Experience,
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District: Entire Electric Service Area

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Rules and Regulations



SECTION 7
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C. Line Extension Requirements

1. Overhead Extensions to Individual Applicants

a. Line Extension Allowance

Upon the Applicant's satisfactory completion of required site improvements, the Company will make extensions from its existing facilities of proper voltage and adequate capacity at the Company's expense up to one thousand (1,000) feet except where excluded in Section 7.C.1.d., Section 7.C.7., and Section 15. The distance of (1,000) feet is to be measured by the shortest feasible route along public streets, roads, highways, or suitable easements from the existing facilities to the Applicant's nearest point of delivery and inclusive of the service drop and is for initial site improvements, as determined by the Company, only.

b. Extensions in Excess of Line Extension Allowance Distance

The Company will make extensions in excess of one thousand (1,000) feet per Customer upon receipt of a non-interest bearing, refundable cash deposit with the Company to cover costs of construction computed at the rates shown in the TEP Statement of Charges (for voltages up to 14kV) for each foot of single-phase line extension or for each foot of three-phase line extension in excess of the allowance length and in accordance with Subsection 7.C.2.a.v. (unless otherwise agreed to by the Company and the Applicant).

The foregoing charges shown in the TEP Statement of Charges are based on the Company's current average cost of construction of 14kV distribution lines. The Company will review its costs periodically and reserves the right to file a Rate revision when such costs have changed by more than ten percent (10%) since the last revision of costs. Such revisions will be subject to approval by the Commission before becoming effective.

The Company will install, own and maintain, on an individual project basis, the distribution facilities necessary to provide permanent service.

c. Method of Refund

i. At the request of the Customer, the Company will review the revenue received from the Customer during the period of twelve (12) months from the date the Company is initially ready to render service from an extension. Seventy-five percent (75%) of any revenue received from the Customer in excess of the footage allowance during that period will be applied toward refunding the line extension deposit. The Company will notify the Customer via the Customer's email and/or mailing address, upon the completion of the 12-month period from the date the Customer's line extension project is capable of rendering service, that the Customer may be eligible for a refund of a line extension project. Additionally, within any line extension agreement between both parties and subsequent notification related to the Customer's line extension project, the Company will list the terms under which the Customer has the right to request a refund for a line extension project as well as the approved process TEP utilizes to determine a line extension project's qualification for a refund.



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- ii. Deposit refunds will be made to a depositor when separately metered Customers are served directly from the 14kV line extension originally constructed to serve said depositor, providing the new line extension is less than one thousand (1,000) feet in distance, and the Customer to be served occupies a permanent structure designed for continued occupancy for either residential or business purposes, meeting established municipal, county or state codes as applicable.

The amount of the deposit refund will be equal to the applicable TEP Statement of Charges rates per foot multiplied by one thousand (1,000) feet less the actual footage of the new line extension required to serve the new Customer.

In no event will the total of the refund payments made by the Company to a depositor be in excess of the deposit amount advanced.

A pictorial explanation of the method of refund for a single-phase line extension is as follows:

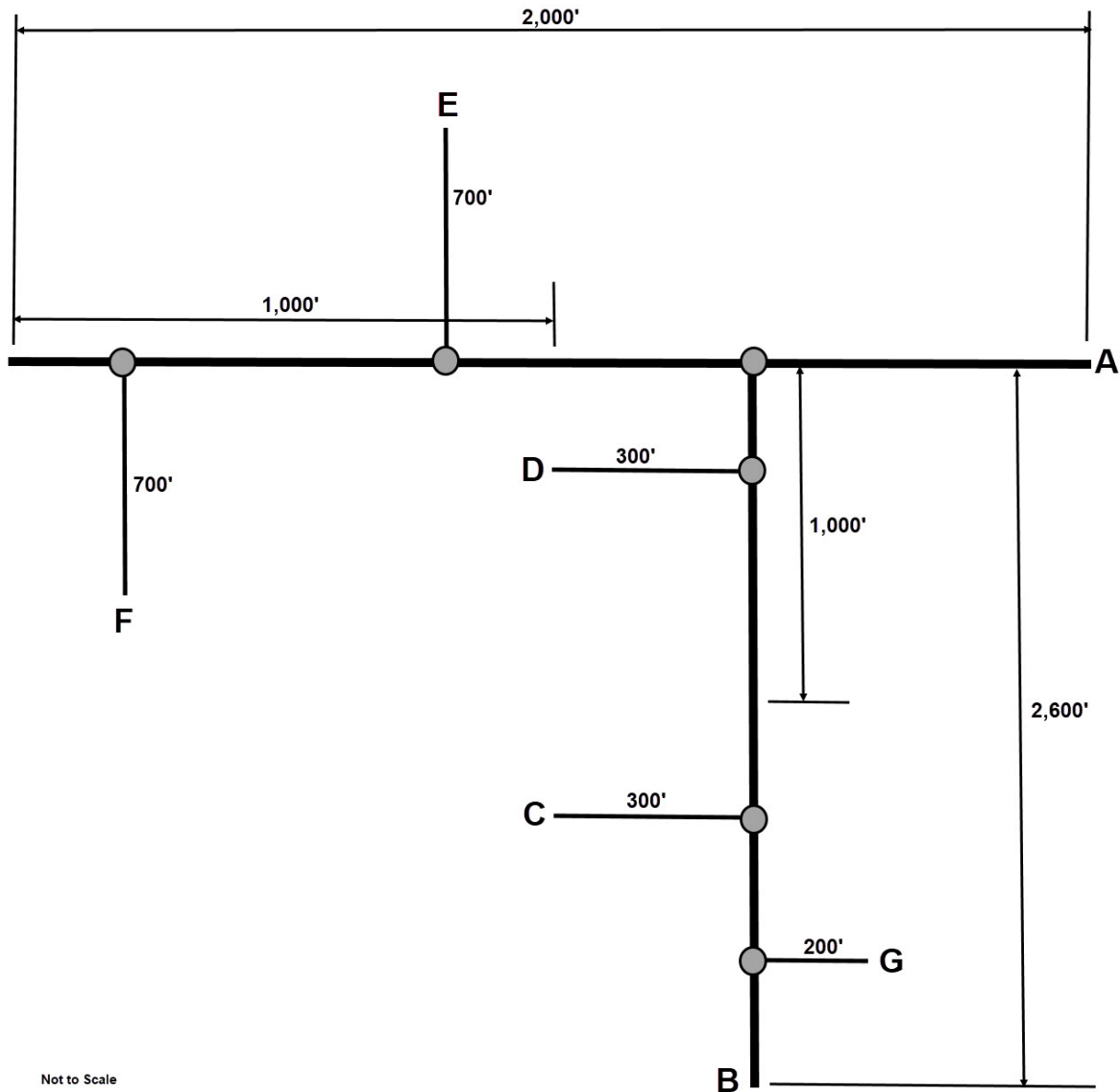


Tucson Electric Power

Tucson Electric Power Company Rules and Regulations

Original Sheet No.: 907-4
Superseding: _____

Changed Line A to 2,000'
Changed Line E to 700'
Changed Line F to 700'
Changed Line B to 2,600'



Not to Scale

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Applicant "A" – Customer makes refundable advance of \$20,530 for footage over 1,000' at \$20.53/foot.

Applicant "B" – Customer makes refundable advance of \$32,848 for footage over 1,000' at \$20.53/foot. No refund to A for B's connection because B is over 1,000'.

Applicant "C" – Customer gets line at no cost. Refund goes to B at \$20.53 x 700', or \$14,371.00 because C ties directly into B's line and is less than 1,000'.

Applicant "D" – Customer gets line at no cost. Refund goes to B at \$20.53 x 700', or \$14,371.00-, because it ties directly into B's line and is less than 1,000'.

Applicant "E" – Customer gets line at no cost. Refund goes to A at \$20.53 x 300', or \$6,159.00 because E ties directly into A's line and is less than 1,000'.

Applicant "F" – Customer gets line at no cost. Refund goes to A at \$20.53 x 300', or \$6,159.00 because F ties directly into A's line and is less than 1,000'.

Applicant "G" – Customer gets line at no cost. Refund goes to B at \$20.53 x 800', or \$16,424.00; B receives \$4,106.00 since this is the remaining balance of the initial deposit.

Note: The dollars in the example above are illustrative. This method requires that: a) The deposit advance made for an initial line extension cannot be refunded to the depositor unless a new line extension required to serve a new separately metered Customer is directly connected to the initial line extension; and b) the new line extension is less than 1,000 feet in length.

- iii. Payment of eligible refunds will be made within ninety (90) days following receipt of notification from the Customer to the Company that a qualifying permanent Customer has commenced receiving service from an extension.
- iv. A Customer may request an annual survey to determine if additional Customers have been connected to and are using service from the extension.
- v. After a period of six (6) years from the date of the execution of the agreement, the Company will review the deposit and make appropriate refunds then due, if any. Any unrefunded amount remaining thereafter will become the property of the Company and will no longer be eligible for refund and will become a contribution in aid of construction.



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- d. Extensions to Large General Service and Large Power Service Customers 3000 kW or Greater
 - i. For line extensions with voltages less than or equal to 14kV and 3000 kW or greater, the Company will install, own, and maintain, on an individual project basis, the distribution facilities necessary to provide permanent service to a large general service or large power service Customer. Prior to the installation of facilities, the Customer will be required to make a cash advance to the Company for any portion of the capital expenditures not justified by the estimated two-year revenue of the new facilities. Such advance, if any, will be in the amount determined by subtracting two (2) times the estimated annual revenue from the total estimated installation costs based in the TEP Statement of Charges. Adjustments to the advance will be made after the initial twenty-four (24) month billing period, and the Company will refund to the amount by which the estimated advance exceeds the actual installation cost less the actual twenty-four (24) month billing. In no event shall the total of the refund payments made by the Company to the depositor be in excess of the deposit amount advanced. See Section 7.C.7.b for additional information.

1,000-foot line extension allowance does not apply.

- ii. For line extensions with voltages greater than 14kV and less than or equal to 46kV, the installation costs will be the actual costs of construction. The Company will install, own and maintain, on an individual project basis, the facilities necessary to provide permanent service. Prior to the installation of facilities, the Customer will be required to pay the estimated cost of the construction of the distribution or transmission facilities. Upon completion of construction, the Company will compare the actual cost to the estimated cost and any difference will be either billed or refunded within 60 days to the Customer. See Section 7.C.7.b for additional information.

1,000-foot line extension allowance and adjustments for annual revenues do not apply.

LPS Customers with line voltages greater than 46kV will necessitate a special line extension agreement as required per Subsection 7.C.7.e.

2. Overhead or Underground Distribution Facilities Up to and Within a New Duly Recorded Residential Subdivision

a. General

Required distribution facilities up to and within a new duly recorded residential subdivision, including subdivision plats which are activated subsequent to their recordation, for permanent service to single and/or multi-family residences and/or unmetered area lighting, will be constructed, owned, operated and maintained by the Company in advance of applications for service by permanent Customers only after the Company and the Applicant have entered into a written contract which (unless otherwise agreed to by the Company and the Applicant) provides that:



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- i. The Applicant is responsible for providing the Company an approved subdivision plat prior to project design. If the final approved plat is different from what was originally provided to the Company, it may result in delays and additional cost for redesign.
- ii. The total estimated installed cost of such overhead distribution facilities, exclusive of meters, services and exclusive of other costs as may be deemed as reasonable by the Company, will be advanced to the Company as a refundable non-interest-bearing cash deposit to cover the Company's cost of construction. In the event that the advance has not met the requirements for total refunding on or before the end of two (2) years from the date of installation of the Company's facilities, the advance will further be utilized for reimbursement of the Company's cost of ownership as provided in Subsection 7.C.2.b. In lieu of the refundable cash deposit, the Applicant may elect to execute a Deferred Construction Deposit Agreement, secured by a bond or letter of credit in a form acceptable to the Company, equal to the deferred cash deposit, which guarantees the posting by the Applicant of the full cash deposit one (1) to six (6) years subsequent to the execution of the agreement.
- iii. Refundable advances will become non-refundable at such time and in such manner provided in Subsection 7.C.2.b.
- iv. The Applicant will be responsible for ownership costs at such time and in such manner as provided in Subsection 7.C.2.b.
- v. Where applicable, if distribution facilities must be constructed in excess of an average of one thousand (1,000) feet per new permanent Customer within a duly recorded residential subdivision, a nonrefundable cash amount equal to that portion of the total estimated installed cost represented by those required line facilities in excess of one thousand (1,000) feet per Customer average will be paid to the Company.
- vi. Underground Installations – Extensions of single-phase underground distribution lines necessary to furnish permanent electric service to new residential buildings or manufactured homes within a subdivision, in which facilities for electric service have not been constructed, for which applications are made by a developer will be installed underground in accordance with the provisions set forth in this regulation except where it is not feasible from an engineering, operational, or economic standpoint. Extensions of single-phase underground distribution lines necessary to furnish permanent electric service within a new single family and/or multi-family residential subdivision will be made by the Company in advance of receipt of applications for service by permanent Customers in accordance with the following provisions (unless otherwise agreed to by the Company and the Applicant):
 - 1) The subdivider or other Applicant will provide and install all the required underground duct system (including all or a portion of the necessary trenching, backfilling, conduits, ducts, transformer and equipment pads, manholes, and pull boxes) in accordance with the Company's specifications and subject to the Company's inspection and approval. Upon acceptance and approval by the Company, the Applicant will grant to the Company the exclusive right to use and occupy said duct system or, at the option of the Company, will transfer ownership thereof to the Company.



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- 2) Underground service will be installed, owned, operated and maintained as provided in Section 6 of these Rules and Regulations.
- 3) Any underground electric distribution system requiring more than single-phase service is not governed by this Subsection 7.C.2, but rather will be constructed pursuant to Subsection 7.C.4.
- vii. Underground extensions up to the duly recorded Subdivision will be owned, operated, and maintained by the Company, provided the Applicant pays the rate indicated by the PME Switchgear Cabinet Charge (if applicable) in the TEP Statement of Charges.
- b. Method of Refund
 - i. For Line Extensions Within A New Duly Recorded Residential Subdivision (“Subdivision Agreements”)

On or after two (2) years subsequent to the installation of the Company’s facilities, and thereafter every twelve (12) months, and earlier, if requested in accordance with the process referenced below, the Company will review the status of a subdivision to determine the percentage ratio that the number of lots or service locations occupied by permanent Customers bears to the number of lots identified in each Subdivision Agreement specified as the basis for refund. Refunds will be made prior to the actual occupancy by a permanent Customer if the lot or service location has been substantially completed so that in the judgment of the Company permanent occupancy will occur within a reasonable time. Such periodic review will continue until either: i) the calculated ratio equals one hundred percent (100%), at which time the total refund will be made to the Applicant; or ii) a six (6) year period subsequent to the execution of the agreement elapses. The ratio determined at the time of each review multiplied by the total refundable advance associated with the line extension agreement, less applicable cost of ownership charges previously deducted, if any, will represent that portion of the advance qualified for refund. If the foregoing calculation indicates a refund is due, an appropriate refund of cash deposit, or reduction of the cash deposit requirement at the end of the deferral period in those cases where a Deferred Construction Deposit Agreement has been executed, will be made.



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Refunds of cash deposits, less applicable cost of ownership charges, if any, will also be made by the Company within ninety (90) days following receipt of written notice from the developer requesting payment of earned refund. No payment will be made by the Company in excess of the total refundable advance less applicable cost of ownership charges, if any, nor after a period of six (6) years subsequent to the execution of the agreement. Any un-refunded amount remaining at the end of the six (6) year period will become the property of the Company and a nonrefundable contribution in aid of construction.

- ii. For Line Extensions To The Perimeter of New Duly Recorded Residential Subdivisions (“Feeder Agreements”)

On or after two (2) years subsequent to the installation of the Company’s facilities, and thereafter every twelve (12) months, and earlier, if requested in accordance with the process referenced below, the Company will review the status of Customers added as a result of the extension and within connected subdivisions in excess of the Customer level identified in each subdivision’s agreement to determine the percentage that the number of lots or service locations occupied by permanent Customers bears to the number of lots identified in the Feeder Agreement specified as the basis for refund. Refunds will be made prior to the actual occupancy by a permanent Customer if the lot or service location has been substantially completed so that in the judgment of the Company permanent occupancy will occur within a reasonable time. Such periodic review will continue until either: i) the calculated ratio equals the level identified in the Feeder Agreement at which time the total refund will be made to the Applicant; or ii) a six (6) year period subsequent to the execution of the agreement elapses. The ratio determined at the time of each review multiplied by the total refundable advance associated with the line extension agreement, less applicable cost of ownership charges previously deducted, if any, will represent that portion of the advance qualified for refund. If the foregoing calculation indicates a refund is due, an appropriate refund of cash deposit, or reduction of the cash deposit requirement at the end of the deferral period in those cases where a Deferred Construction Deposit Agreement has been executed, will be made.



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Refunds of cash deposits, less applicable cost of ownership charges, if any, will also be made by the Company within ninety (90) days following receipt of written notice from the developer requesting payment of earned refund. No payment will be made of the Company in excess of the total refundable advance less applicable cost of ownership charges, if any, nor after a period of six (6) years subsequent to the execution of the agreement. Any unrefunded amount remaining at the end of the six (6) year period will become the property of the Company and will be treated as a nonrefundable contribution in aid of construction.

- iii. In the event that any portion of an advance has not qualified for refund at the time of each review, the developer will be responsible for the Company's cost of ownership charges based on the average (mean) of the electric facilities represented by:
 - 1) that portion of the advance not qualified for refund at the time of current review, and
 - 2) that portion of the advance not qualified for refund at the time of the last periodic review.

When the advance is in the form of a cash deposit, the annual cost of ownership charges will be equal to the average of (i) and (ii) above multiplied by eleven percent (11%). When the advance is in the form of a Deferred Construction Deposit, the annual cost of ownership charges will be equal to (i) and (ii) above multiplied by the sum of eleven percent (11%) plus the original cost equivalent of the rate of return, expressed as a percent, last allowed to the Company by the Commission. Payment of such cost of ownership charges, which will be computed and paid at the time of each review after the initial review, will be made in the following manner:

When the advance is in the form of a cash deposit, a deduction of cost of ownership charge will be made by the Company from the cash deposit.

When the advance is in the form of a Deferred Construction Deposit, the Company will bill and developer will pay to Company said cost of ownership charge. In the event that the Applicant fails to pay the cost of ownership charge when due, the Company will exercise its rights provided for in the Deferred Construction Deposit and will call the bond or letter of credit.

The portion of the original advance on which cost of ownership charges are computed will not be reduced for purposes of that computation by amounts deducted previously for cost of ownership charges.



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3. Underground Extensions to Individual Applicants

a. General

Underground line extensions will generally be made only where mutually agreed upon by the Company and the Applicant, or in areas where the Company does maintain underground distribution facilities for its operating convenience.

- i. Underground extensions will be owned, operated, and maintained by the Company, provided the Applicant pays in advance a non-refundable sum equal to the estimated difference between the cost, exclusive of meters and services, of the underground extension and an equivalent overhead extension at the rate indicated by the PME Switchgear Cabinet Charge (if applicable) in the TEP Statement of Charges (for voltages up to 14kV).
- ii. In addition to the non-refundable sum, the Applicant will (unless otherwise agreed to by the Company and the Applicant) make such refundable deposit as shown in the TEP Statement of Charges (for voltages up to 14kV) and in accordance with Subsection 7.C as otherwise would have been required under these Rules and Regulations if the extension had been made by overhead construction.
- iii. The Applicant will provide and install all of the required underground duct system (including all or a portion of the necessary trenching, backfilling, conduits, ducts, transformer and equipment pads, manholes, and pull boxes) in accordance with the Company's specifications and subject to the Company's inspection and approval. Upon acceptance and approval by the Company, the Applicant will grant to the Company the exclusive right to use and occupy said duct system or, at the option of the Company, will transfer ownership thereof to the Company.
- iv. Refunds of cash deposits will be made in the same manner as provided for overhead extensions to individual Applicants for service, in accordance with the applicable provisions of Subsection 7.C.
- v. Underground services will be installed, owned, operated and maintained as provided in Section 6 of these Rules and Regulations.



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4. Replacement of Overhead with Underground Distribution Facilities

Where a Customer has requested that existing overhead distribution facilities be replaced with underground distribution facilities not in conjunction with a new line extension or existing customer upgrade, the total cost of such replacement will be paid by the Customer as a nonrefundable contribution in aid of construction.

5. Conversion from Single-Phase to Three-Phase Service

Where it is necessary to convert all or any portion of an existing underground distribution system from single-phase to three-phase service to a Customer, the total cost of such conversion will be paid by the Customer as a nonrefundable contribution in aid of construction. In cases where additional load requires such conversion, as determined by the Company, the Customer must advance a refundable deposit set forth as Fee No. 10 in the TEP Statement of Charges. Refunds of cash deposits will be based only on the additional load and will be made in the same manner as provided for in accordance with the applicable provisions of Subsection 7.C.

6. Relocation

When the Company is requested to relocate its facilities for the benefit and/or convenience of the Customer and not in conjunction with new line extension or existing customer upgrade, the total cost of such relocation will be paid by the Customer as a nonrefundable contribution in aid of construction.

7. Long Term Rental Mobile Home Park, Townhouses, Condominiums and Apartment Complexes

Line extensions to long term rental mobile home parks, townhouses, condominiums and apartment complexes, where the property is not platted and subdivided into individual lots containing single family dwellings, will be made by the Company under terms and conditions provided in Subsection 7.C.1. The Company will install, own and maintain internal distribution facilities and individual metering for all new or expansion of said development in accordance with the provisions of Subsection 7.C.1. and 7.C.3. Any said development meeting the definition of a Residential Subdivision will follow Subsection 7.C.2. hereof.

8. Special Conditions

a. Contracts

Each sub divider or other Applicant for service requesting an extension over the allowable footage allowance, or in advance of applications for service to permanent Customers, or in advance of completion of required site improvements will (unless otherwise agreed to by the Company and the Applicant) be required to execute contracts covering the terms under which the Company will install lines at its own expense, or contracts covering line extensions for which advance deposits will (unless otherwise agreed to by the Company and the Applicant) be made in accordance with the provisions of these Rules and Regulations or of the applicable rate schedules.



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b. Primary Service and Metering

The Company will provide primary service to a point of delivery, such point of delivery to be determined by the Company. The Customer will provide the entire distribution system (including transformers) from the point of delivery to the load. The system will be treated as primary service for the purposes of billing. The Company reserves the right to approve or require modification to the Customer's distribution system prior to installation, and the Company will determine the voltage available for primary service. Instrument transformers, metering riser poles and associated equipment to be installed and maintained by the Company will be at the Customer's expense.

c. Advances under Previous Rules and Contracts

Amounts advanced under the conditions established by a rule previously in effect will be refunded in accordance with the requirements of such contract under which the advance was made.

d. Extensions for Temporary Service

Extensions for temporary service or for operations of a speculative character or questionable permanency will be charged the applicable estimated cost of establishing and removing the temporary facilities. Temporary facilities will remain in service for a maximum of two (2) years. Refer to Section 15 of the Rules for additional information regarding temporary service.

e. Exceptional Cases

Where unusual terrain, location, soil conditions, or other unusual circumstances make the application of these line extension rules impractical or unjust to either party or in the case of extension of lines of other than standard distribution voltage, service under such circumstances will be negotiated under special agreements specifying terms and conditions covering such extensions.

f. Special or Excess Facilities

Under this rule, the Company will install only those facilities which it deems are necessary to render service in accordance with the rate schedules. Where the Customer requests facilities which are in addition to, or in substitution for, the standard facilities which the Company normally would install, the extra cost thereof will be paid by the Customer as a nonrefundable contribution in aid of construction.

g. Unusual Loads

Line extensions to unusually small loads not serving a permanent structure designed for continued occupancy for either residential or business purposes (e.g. individual lights, wells, signs, recreational vehicles, travel trailers, etc.) and where 75% of the estimated twelve (12) month revenue does not exceed the per foot line extension charge (See Fee No. 9 and Fee No. 10 of the TEP Statement of Charges) multiplied by 1,000 feet,



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will not be granted the one thousand (1,000) foot allowance. These line extensions will instead be required to advance a non-interest bearing, refundable cash deposit with the Company for any costs of service in excess of their estimated twelve (12) month revenue.

After a period of twelve (12) months from the date the Company is initially ready to render service from an extension, seventy-five percent (75%) of any revenue received from the Customer in excess of the estimated 12-month revenue during that period will be applied toward refunding the line extension deposit. Additional refunding will be according to Subsections 7.C.1.c.ii and 7.C.3.a.iv, where applicable. For line extensions to unusually small loads defined above and where 75% of the estimated – twelve (12) month revenue exceeds the per foot line extension charge multiplied by 1,000 feet, refer to Section 7.C for costs and refunds.

D. Construction / Facilities Related Income Taxes

1. Collection of Income Tax Gross Up

- a. Any federal, state or local income taxes resulting from the receipt of a contribution or advance in aid of construction in compliance with this rule is the responsibility of the Company and will be recorded as a deferred tax asset and reflected in the Company's rate base for ratemaking purposes.
- b. However, if the estimated contribution or advance for any service line or distribution main extension (as determined for each individual extension agreement) exceeds \$1,000,000, the Company may require the Applicant to include in the contribution, advance or deferred construction deposit agreement an amount (the "gross up amount") equal to the estimated federal, state, or local income tax liability of the Company resulting from the contribution or advance computed as follows:

$$\text{Gross Up Amount} = \frac{\text{Advance or Contribution}}{(1 - \text{Statutory combined income tax rate})} - \text{Advance or Contribution}$$

- c. After the Company's tax returns for the year of receipt of the advance or contribution are completed, if the statutory combined income tax rate is less than the rate used to calculate the gross-up, the Company shall refund to the Applicant an amount equal to such excess.
- d. When a gross-up amount is to be collected in connection with an extension agreement, the contract will state the tax rate used to compute the gross up amount and will also disclose the gross-up amount separately from the estimated cost of facilities.

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2. Refund of Income Tax Gross Up

- a. In the case of construction advance refunds made pursuant to Subsection 7.C., a pro rata portion of the gross up will be refunded when the amount of the underlying advance is refunded. Any remaining gross-up will be refunded on November 1 of each year as tax depreciation deductions are taken on the Company's tax returns. At the end of five years from installation, the remaining gross up will be refunded at an amount that reflects the net present value of the Company's remaining tax depreciation deductions on the underlying advance discounted at the Company's authorized rate of return.
- b. In the case of all other advances or deferred construction deposit agreements, the gross up will be refunded, or the amount of required deferred construction deposit will be reduced, as follows:
 - i. If the full amount of the advance is refunded prior to September 30th of the year following the year in which the advance is received, the entire amount of the gross-up will be refunded.
 - ii. For any amount of the advance not refunded as of September 30th of the year following the year in which the advance is received, on November 1st of each year a portion of the gross-up will be refunded based on the amount of the tax depreciation deductions taken by the Company on its federal and state income tax returns.
 - iii. When any advance is refunded after depreciation refunds pursuant to clause ii have begun, a pro rata portion of the gross up will be refunded reduced by the amount of depreciation refunds previously made for that portion of the gross up.
 - iv. For any advance that is not refunded at the end of the contract period, the remaining gross up will be refunded at an amount that reflects the net present value of the Company's remaining tax depreciation deductions on the underlying advance discounted at the Company's authorized rate of return.

3. Non-refundable Income Tax Gross Up for Contribution in Aid of Construction

- a. At the option of the Customer, a non-refundable gross-up may be calculated as follows:

$$\text{Non-refundable Gross Up Amount} = \frac{(\text{Contribution Amount} - \text{Net Present Value of Tax Depreciation})}{(1 - \text{Current Tax Rate})} - \text{Contribution Amount}$$

4. Alternate Income Tax Gross Up for Advances in Aid of Construction

- a. At the option of the Customer, a gross-up may be calculated as in Section 7.D.3.a. when an advance is received. When the Customer has received its final advance refund the alternate gross-up will be recomputed as follows:

$$\text{Alternate Gross Up Amount} = \frac{(\text{Advance Amount} - \text{Net Present Value of (Advance Refunds} + \text{Tax Depreciation on Advances Not Refunded)})}{(1 - \text{Current Tax Rate})} - \text{Advance Amount}$$