

GATLIN, WOODS & CARLSON  
Attorneys at Law  
a partnership including a professional association

The Mahan Station  
1709-D Mahan Drive  
Tallahassee, Florida 32308

B. KENNETH GATLIN, P.A.  
THOMAS F. WOODS  
JOHN D. CARLSON  
WAYNE L. SCHIEFELBEIN

TELEPHONE (904) 877-7191  
TELECOPIER (904) 877-9031

October 25, 1996

HAND DELIVERY

Ms. Blanca S. Bayo, Director  
Division of Records and Reporting  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, Florida 32399-0850

RE: Docket No. ~~900965~~<sup>961270</sup>-WS  
Cancellation of Authority to Gross-Up  
Contributions in Aid of Construction

Dear Ms. Bayo:

It has just come to our attention that the proposed tariff sheets referred to in the Application for Variance by Palm Coast Utility Corporation were not filed therewith.

Accordingly, we hereby submit an original and fifteen copies of Third Revised Sheet No. 44.0 and Second Revised Sheet No. 45.0 for water and Fifth Revised Sheet No. 38.0 and Fourth Revised sheet No. 39.0 for wastewater.

ACK  Please acknowledge receipt of the foregoing by stamping the enclosed extra copy of this letter  
AFA  and returning same to my attention.

APP \_\_\_\_\_

CAF \_\_\_\_\_

CMU \_\_\_\_\_

CTR \_\_\_\_\_

EAG \_\_\_\_\_ WLS/met

LEG  Enclosures

LIN

OPC \_\_\_\_\_

RCH \_\_\_\_\_

SEC \_\_\_\_\_

WAS \_\_\_\_\_

OTH \_\_\_\_\_

Sincerely,

Wayne L. Schiefelbein

RECEIVED & FILED

EPSC-BUREAU OF RECORDS

DOCUMENT NUMBER-DATE

11380 OCT 25 96

FPSC-RECORDS/REPORTING

NAME OF COMPANY PALM COAST UTILITY CORPORATION

WATER TARIFF

16.0 TAX IMPACT OF CIAC

Prior to the Congressional Tax Reform Act of 1986, Section 118(b) of the Internal Revenue Code provided for the exclusion of certain types of Contributions In Aid of Construction (CIAC) from the taxable income of a corporate utility. Such amounts were, therefore, tax exempt.

However, pursuant to the Congressional Tax Reform Act of 1986, Section 118(b) was amended to reclassify CIAC (both cash and property) as a taxable source of revenue, effective January 1, 1987. The net result of this action was that a utility which is a corporation paid income tax on the CIAC it collected.

Retroactive for CIAC collected after June 12, 1996, the Small Business Job Protection Act of 1996 repealed the taxable status of CIAC. Therefore, Palm Coast Utility Corporation will not collect the tax impact (gross-up) of the CIAC from developers and others who convey cash and/or property on/or after June 13, 1996, to the Utility as CIAC.

However, during the time period that CIAC was taxable from January 1, 1987, through June 12, 1996, PCUC collected prepaid CIAC in advance of customers connecting to the water system. Such prepaid CIAC was reported as taxable revenue and appropriate taxes were paid, pursuant to the tax laws in effect at the time of collection. Palm Coast Utility Corporation is authorized to continue collecting the tax impact (gross-up) for prepaid CIAC collected from January 1, 1987, through June 12, 1996, at the time of customer connection to the water system.

The tax impact (gross-up) amount to be collected shall be determined using the following formula:

$$\text{Tax Impact} = (\text{CTR}/(1-\text{CTR})) * ((\text{C}) - (((\text{C})/\text{TL}) * (1 - (1 + \text{ROR})^{-t1}))) / \text{ROR} * (\text{CTR}_i / \text{CTR}))$$

CTR = Applicable marginal rate of federal and state corporate income tax

CTR = ST + FT(1-ST)

ST = applicable marginal rate of state corporate income tax

FT = applicable marginal rate of federal income tax

C = dollar amount of charges paid to a utility as prepaid Contributions In Aid of Construction from January 1, 1987, through June 12, 1996.

TL = tax life for contributed property

CTR<sub>i</sub> = tax rate expected to be in effect when the depreciation is taken on the tax return

-t1 = negative exponent of the tax life of the contributed asset

ROR = rate of return of 9.21%

Effective:  
TYPE OF FILING - CIAC Gross-up Authority

Thomas L. Trace, President

SECOND REVISED SHEET NO. 45.0  
CANCELS FIRST REVISED SHEET NO. 45.0

NAME OF COMPANY PALM COAST UTILITY CORPORATION  
WATER TARIFF

HELD FOR FUTURE USE

Effective:

Thomas L. Trace, President

NAME OF COMPANY PALM COAST UTILITY CORPORATION

SEWER TARIFF

16.0 TAX IMPACT OF CIAC

Prior to the Congressional Tax Reform Act of 1986, Section 118(b) of the Internal Revenue Code provided for the exclusion of certain types of Contributions In Aid of Construction (CIAC) from the taxable income of a corporate utility. Such amounts were, therefore, tax exempt.

However, pursuant to the Congressional Tax Reform Act of 1986, Section 118(b) was amended to reclassify CIAC (both cash and property) as a taxable source of revenue, effective January 1, 1987. The net result of this action was that a utility which is a corporation paid income tax on the CIAC it collected.

Retroactive for CIAC collected after June 12, 1996, the Small Business Job Protection Act of 1996 repealed the taxable status of CIAC. Therefore, Palm Coast Utility Corporation will not collect the tax impact (gross-up) of the CIAC from developers and others who convey cash and/or property on or after June 13, 1996, to the Utility as CIAC.

However, during the time period that CIAC was taxable from January 1, 1987, through June 12, 1996, PCUC collected prepaid CIAC in advance of customers connecting to the sewer system. Such prepaid CIAC was reported as taxable revenue and appropriate taxes were paid, pursuant to the tax laws in effect at the time of collection. Palm Coast Utility Corporation is authorized to continue collecting the tax impact (gross-up) for prepaid CIAC collected from January 1, 1987, through June 12, 1996, at the time of customer connection to the sewer system.

The tax impact (gross-up) amount to be collected shall be determined using the following formula:

$$\text{Tax Impact} = (\text{CTR}/(1-\text{CTR})) * ((\text{C}) - (((\text{C})/\text{TL}) * (1 - (1 + \text{ROR})^{-t1}))) / \text{ROR}) * (\text{CTR}_i/\text{CTR})$$

CTR = Applicable marginal rate of federal and state corporate income tax

CTR = ST + FT(1-ST)

ST = applicable marginal rate of state corporate income tax

FT = applicable marginal rate of federal income tax

C = dollar amount of charges paid to a utility as prepaid Contributions In Aid of Construction from January 1, 1987, through June 12, 1996.

TL = tax life for contributed property

CTR<sub>i</sub> = tax rate expected to be in effect when the depreciation is taken on the tax return

-t1 = negative exponent of the tax life of the contributed asset

ROR = rate of return of 9.21%

Effective:

TYPE OF FILING - CIAC Gross-up Authority

Thomas L. Trace, President

FOURTH REVISED SHEET NO. 39.0  
CANCELS THIRD REVISED SHEET NO. 39.0

NAME OF COMPANY PALM COAST UTILITY CORPORATION  
SEWER TARIFF

HELD FOR FUTURE USE

Effective:

TYPE OF FILING

Thomas L. Trace, President