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**December 11, 2020**

The Hon. Kimberly D. Bose, Secretary  
Federal Energy Regulatory Commission  
888 First Street, N.E.  
Washington, D.C. 20426

**Re: San Diego Gas & Electric Company, Docket No. ER20-1742  
Amendment to Filing and Response to Deficiency Letter**

Dear Secretary Bose:

San Diego Gas & Electric Company (“SDG&E”) respectfully submits proposed revisions to its Fifth Transmission Owner Formula Rate (“TO5 Formula Rate”), Appendix VIII of SDG&E’s Transmission Owner Tariff in response to the Commission’s request for additional information (“Deficiency Letter”)<sup>1</sup> regarding SDG&E’s proposed revisions to its Order No. 864 Compliance Filing.<sup>2</sup> SDG&E submits these revisions consistent with the Commission’s November 9, 2020 notice providing SDG&E until December 11, 2020 to submit additional information as requested by the Deficiency Letter.<sup>3</sup>

## **I. BACKGROUND**

On November 21, 2019, the Commission issued Order No. 864, requiring public utilities to make certain changes to their rates to reflect the impacts of the 2017 Tax Cuts and Jobs Act.<sup>4</sup> On May 1, 2020, SDG&E submitted revisions to its TO5 Formula Rate to meet Order No. 864’s mandates to the extent SDG&E’s TO5 Formula Rate did not already contain those requirements.<sup>5</sup>

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<sup>1</sup> ER20-1742, Letter informing SDG&E that the 05/01/2020 filing is deficient and requesting additional information within 30 days under ER20-1742 (Oct. 28, 2020).

<sup>2</sup> *Public Utility Transmission Rate Changes to Address Accumulated Deferred Income Taxes*, RM19-5, Order No. 864, 169 FERC ¶ 61,139 (Nov. 21, 2019).

<sup>3</sup> ER20-1742, Notice of Extension of Time (Nov. 9, 2020).

<sup>4</sup> Order No. 864, 169 FERC ¶ 61,139, PP 1, 3-5.

<sup>5</sup> ER20-1742, SDG&E submits tariff filing per Order No. 864 (May 1, 2020).

On October 28, 2020, the Commission issued its Deficiency Letter requiring SDG&E to address concerns about SDG&E's Order No. 864 proposals. On October 30, 2020, SDG&E requested an additional two weeks to submit the information requested by the Deficiency Letter, which the Commission granted, providing SDG&E until December 11, 2020 to respond. SDG&E thus submits proposed revisions to its Formula Rate Spreadsheet—as well as responses to Commission questions that do not require spreadsheet amendments—to respond to the Deficiency Letter's concerns and satisfy Order No. 864's requirements.<sup>6</sup>

## II. RESPONSES TO COMMISSION QUESTIONS

SDG&E addresses each question raised in the Deficiency Letter below.

- 1. In Order No. 864, the Commission required public utilities to propose revisions to address both excess and deficient ADIT. SDG&E proposed revisions reflect only excess ADIT. Please explain whether, and if so how, SDG&E's proposed revisions include deficient ADIT.**

Contrary to the Deficiency Letter's concern that SDG&E's proposed revisions only reflect excess ADIT, SDG&E's proposed revisions reflect both excess and deficient ADIT. SDG&E included four new ADIT worksheets to comply with the Commission requirements in Order No. 864. These new ADIT worksheets are labeled "Order 864-1," "Order 864-2," "Order 864-3," and "Order 864-4." The starting point for calculating excess and/or deficient ADIT in these worksheets—beginning with 2017—is on Order 864-2. There, SDG&E performs the following steps to arrive at the balance of excess and deficient ADIT.

- Step 1:** In Column 3, SDG&E provides the accumulated schedule M adjustments organized by category (*i.e.*, unprotected non-property related, protected property related, and unprotected property related), as well as by FERC Account (*i.e.*, 190, 282, and 283).
- Step 2:** In Column 4, SDG&E provides the ending ADIT balances for each line item included in Column 3.
- Step 3:** In Column 5, SDG&E calculates the ADIT balance at the new tax rate. This calculation is performed by multiplying the accumulated schedule M adjustments in Column 3 by the new rate—in this case 21%—included in cell I9.
- Step 4:** In Column 6, SDG&E calculates the net excess/deficient ADIT at the new tax rate. The calculation takes the ending ADIT balances included in Column 4 at the previous tax rate—in this case 35%—and subtracts the ADIT balances included in Column 5 at the new tax rate—in this case

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<sup>6</sup> SDG&E TO Tariff, Appendix VIII, Attachment 2.

21%—to arrive at the excess or deficient ADIT balance. In Column 8, deficient ADIT is represented on Lines 2, 3, 9, 16, and 20 of Order 864-2.

**Step 5:** The excess or deficient ADIT then flows to Order 864-1. Column 11, labeled “Ending Deficient ADIT – Account 182.3,” reflects the deficient ADIT calculated on Order 864-2. Column 12, labeled “Ending (Excess) ADIT – Acct 254,” reflects the excess ADIT calculated Order 864-2.

The same worksheets discussed above are included for the subsequent tax year—in this case 2018—and reflect the same breakout between excess and deficient ADIT. Since there was beginning deficient and excess ADIT for 2018, the calculations begin on Column 3 of Order 864-3 and show the beginning deficient ADIT in Account 182.3, while Column 4 shows the beginning excess ADIT in Account 254.

One component of SDG&E’s proposed revisions to implement Order No. 864 is that the existing worksheets (included as part of SDG&E’s TO5 Formula Rate settlement prior to Order No. 864’s publication) AF-1 and AF-2 only include the term “Excess” in the headers of columns (b) and (c)—despite excess and deficient balances both being represented in the columns. SDG&E is proposing to correct the issue in this filing by changing column (b) of AF-1 and AF-2 to reflect deficient ADIT, and column (c) of AF-1 and AF-2 reflect the excess amounts. This change will be further discussed in item no. 3 below.

**2. Please explain how SDG&E’s Rate Base Adjustment and Income Tax Allowance Adjustment Mechanisms in its TO5 Formula Rate work in conjunction with its ADIT Worksheets. For example, please provide references—in SD&GE’s TO5 Formula Rate and/or ADIT Worksheets—to the inputs used in calculating SDG&E’s income tax allowance and rate base.**

SDG&E’s existing Formula Rate Spreadsheet, which existed prior to Order No. 864 and SDG&E’s Order No. 864 filing, properly included the impacts of excess and deficient ADIT in both the Rate Base Adjustment and Income Tax Allowance Adjustment Mechanism. SDG&E did not alter the existing calculations in its Order No. 864 filing because those calculations were already included in its formula rate. It merely added the new ADIT worksheets to reflect the required Order No. 864 components.

Statement AF in SDG&E’s existing Formula Rate Spreadsheet calculates the average balance of ADIT to be included in rate base. The average balance calculated in column (c) of Statement AF flows to the rate base calculation on Statement BK-1; Page 3; Line 14. The balances in Statement AF come from column (d) of AF-1 and AF-2. They reflect the net impact of excess and deficient ADIT reported in columns (b) and (c). In AF-1, the sum of Lines 7, 14, and 22 in column (b) plus the sum of Lines 7, 14, and 22 in column (c) equal a balance of (\$282,201) in net excess/deficient ADIT for 2017. This is consistent with Line 24, Col. 10 of Order 864-1. In AF-2, the sum of Lines 7, 14, and 22 in column (b) plus the sum of Lines 7, 14,

and 22 in column (c) equal a balance of (\$275,261) in net excess/deficient ADIT for 2018. This matches Order 864-3; Line 24; Col. 9.

Statement AR of SDG&E's existing Formula Rate Spreadsheet reflects the amortization of excess and deficient ADIT, which is included in the income tax allowance adjustment mechanism calculated on Statement AV. Line 9 of Statement AR, which includes the amortization of excess and deficient ADIT, flows to Statement AV; Page 3; Line 7. Line 7, in turn, flows into the calculation of the federal and state income tax rate—including tax gross-up—calculated on Statement AV; Page 3; Line 28.

This tax rate is then combined with the weighted cost of capital to arrive at the cost of capital rate on Statement AV; Page 3; Line 32. The cost of capital rate then flows to Statement BK-1; Page 1; Line 17 and is used to calculate the return and associated income taxes on SDG&E's rate base on Statement BK-1; Page 1; Line 19. The transmission related amortization of excess and deficient ADIT included on line 7 of Statement AR in the amount of (\$5,033) agrees to the sum of amortization reported on Order 864-3; Line 24; Cols. 7 and 8.

SDG&E's existing Formula Rate Spreadsheet properly reflected Order No. 864's required rate base adjustment and income tax allowance prior to Order No. 864's issuance, and also matched the newly created Order No. 864 worksheets. SDG&E has revised the Formula Rate Spreadsheet in response to the Commission's Deficiency Letter, however, to more clearly link the Order No. 864 worksheets to the existing worksheets in the Formula Rate Spreadsheet. These revisions are addressed in more detail in item nos. 3 and 5 below.

**3. Please explain and reconcile the amounts in Column 11 and Column 12 of SDG&E's FERC Order No. 864 Worksheet – Order 864-3 with TO5 Formula Rate tab AF-2 and explain whether those amounts are commensurately booked to Accounts 190, 282, or 283.**

The Deficiency Letter asks SDG&E to explain and reconcile the amounts in Col. 11 and Col. 12 of SDG&E's Order No. 864 worksheet—Order 864-3 with the existing tab AF-2. In order to make the reconciliation of the new ADIT Worksheets to the existing worksheets clearer, SDG&E has made the following revisions.

- a. Column (b) of AF-2 has been re-labeled "Deficient Reserve Account 182.3." The amounts in this column now link to Order 864-3, Col. 11.
  - i) The total deficient reserve for Account 190 (label included in the description for Line 1) of \$110,237 is calculated on AF-2; Line 7. The individual lines that make up this balance are linked to Column 11, Lines 2, 3, and 9 of Order 864-3. The respective FERC Account is also included in Column 2 of Order 864-3.

- ii) The total deficient reserve for Account 282 (label included in the description for Line 9) of \$40,216 is calculated on AF-2, Line 14. The individual lines that make up this balance are linked to Order 864-3 Columns 11, Lines 10, 14, 15, 16, and 20. The respective FERC Account is also included in Order 864-3, column 2.
  - iii) The total deficient reserve for Account 283 (label included in the description for Line 16) of \$0 is calculated on AF-2; Line 22. The individual lines that make of this balance are linked to Column 11, Line 4 of Order 864-3. The respective FERC Account is also included in Column 2 of Order 864-3.
- b. Column (c) of AF-2 has been re-labeled “(Excess) Reserve Account 254.” The amounts in this column now link to Order 864-3, Column 12.
  - i) The total excess reserve for Account 190 (label included in the description for Line 1) of \$0 is calculated on AF-2; Line 7. The individual lines that make up this balance are linked to Order No. 864 Column 12; Lines 2, 3, and 9. The respective FERC Account is also included in Column 2 of Order 864-3.
  - ii) The total excess reserve for Account 282 (label included in the description for Line 9) of (\$425,714) is calculated on AF-2; Line 14. The individual lines that make up this balance are linked to Order 864-3; Column 12; Lines 10, 14, 15, 16, and 20. The respective FERC Account is also included in Order 864-3, Column 2.
  - iii) The total excess reserve for Account 283 (label included in the description for Line 16) of \$0 is calculated on AF-2; Line 22. The individual lines that make up this balance are linked to Order 864-3; Column 12; Line 4. The respective FERC Account is also included in Order 864-3, Column 2.
- c. AF-2; Line 24 has been added to show “Total ADIT.” The amount reported in column (b) for deficient ADIT of \$150,453 reconciles to Order 864-3; Line 24; Column 11. The amount reported in column (c) for excess ADIT of (\$425,714) reconciles to Line 24, Column 12 of Order 864-3.
- d. SDG&E has made the same changes referenced in items a – c above on AF-1 to reconcile to Order 864-1.

**4. Please identify the specific amortization period SDG&E proposes to use for non-plant based ADIT along with a justification for those proposed periods.**

The non-plant related ADIT will be amortized when the underlying deferred taxes are reversed. This will occur when the associated liability balances accrued on the balance sheet are paid by SDG&E and the relevant tax deductions are taken on SDG&E's tax return(s). The non-plant related ADIT associated with Ad Valorem Taxes was fully amortized in 2018, as reported on Order 864-3; Line 4; Column 7.

**5. Please explain whether, and if so how, SDG&E's ADIT Worksheets apply to future tax rate changes.**

SDG&E's ADIT Worksheets will apply to future tax rate changes, including state and local tax rate changes. Order No. 864-2 and 864-4 both include the ability to enter a new tax rate in cell I9. In the event of a tax rate change, SDG&E will enter the new rate in that cell to calculate the "ADIT Balance at the New Tax Rate" in Column 5. The instruction section of these worksheets—on Lines 41 to 43—provides an explanation of how to populate the change in tax rate, if applicable. Any existing excess/deficient ADIT at a prior tax rate, that was not amortized into rates, would be included in Column 7. The amount in Column 7 is subtracted from the calculated balance of excess/deficient ADIT at the new tax rate, calculated in Column 6, and reported in Column 8 as an adjustment for the new tax rate.

While SDG&E's ADIT Worksheets will apply to future tax rate changes, including state and local tax rate changes SDG&E has revised the Formula Rate Spreadsheet in response to the Commission's Deficiency Letter to add Statement AT. Like Statement AR described in no. 3 above, Statement AT will be used to flow amortization of state and local excess or deficient ADIT into the income tax allowance adjustment mechanism calculated on Statement AV. Line 9 of Statement AT, which will include future amortization of excess and deficient ADIT for state and local tax rate changes, flows to Statement AV; Page 3; Line 19. Line 19, in turn, flows into the calculation of the federal and state income tax rate—including tax gross-up—calculated on Statement AV; Page 3; Line 28.

**6. Please explain whether SDG&E proposes to amortize excess and deficient ADIT resulting from future tax rate changes over the remaining lives of its assets using the Average Rate Assumption Method.**

Yes, SDG&E proposes to amortize excess and deficient ADIT resulting from future tax rate changes, including state and local tax rate changes, consistent with the 2017 Tax Cuts and Jobs Act, subject to compliance with federal normalization principles and future IRS guidance.

**7. Please explain whether SDG&E's ADIT Worksheets include a calculation to gross up excess and deficient ADIT recorded in Accounts 182.3 and 254, respectively.**

SDG&E's ADIT Worksheets do not include a calculation of the gross up of excess and deficient ADIT recorded in Accounts 182.3 and 254. For excess ADIT, the gross-up accounting requires a credit to account 254 and a debit to ADIT account 283. For deficient ADIT, the gross-up accounting requires a debit to account 182.3 and a credit to account 283. Each of these journal entries results in zero net impact to rate base. SDG&E does follow the Commission's accounting guidance in Docket No. AI93-5-000, which states that public utilities should record an income tax gross-up as part of the regulatory asset (Account 182.3) associated with deficient ADIT, or a regulatory liability (Account 254) associated with excess ADIT in their financial statements. But as previously explained, this accounting does not result in an impact to rate base and is thus not reflected in the ADIT Worksheets.

- 8. SDG&E's Income Tax Allowance Adjustment Mechanism includes a calculation grossing up any amortized excess and deficient ADIT for a given year. Please explain whether this gross up calculation results in a double gross-up of excess and deficient ADIT.**

No, there is not a double gross-up of excess and deficient ADIT. Please see the response to item no. 7 above.

### **III. DOCUMENTS SUBMITTED**

This filing consists of the following documents:

- A. Transmittal letter;
- B. Revised Formula Rate Spreadsheet (TO Tariff, Appendix VIII, Attachment 2) in both clean and redline format; and
- C. A populated excel version of the formula rate spreadsheet, including new permanent ADIT worksheets, for TO5 Cycle 2 (reflecting the 2020 revenue requirement).

### **IV. SERVICE**

Electronic copies are being served on the ER20-1742 service list.

## V. CORRESPONDENCE

SDG&E requests that all correspondence, pleadings and other communications concerning this filing be served upon the following individuals:

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## VI. CONCLUSION

SDG&E respectfully requests that the Commission approve its proposed modifications to Appendix VIII of its Transmission Owner Tariff as in compliance with Commission Order No. 864, effective January 27, 2020.

Respectfully submitted,

*/s/ Ross R. Fulton*

Ross R. Fulton

Attorney For

SAN DIEGO GAS & ELECTRIC COMPANY