**A.14-11-003 and A.14-11-004 Sempra Utilities’ 2016 TY GRC**

**TURN Data Request**

**Data Request Number:** TURN-2 (Income Taxes)

**Date Sent:** December 22, 2014

**Response Due:** January 8, 2015

Please provide an electronic response to the following questions. A hard copy response is unnecessary. The response should be provided on a CD sent by mail or as attachments sent by e-mail to the following:

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| Bob Finkelstein  The Utility Reform Network (TURN)  785 Market Street, Suite 1400  San Francisco, CA 94103  [bfinkelstein@turn.org](mailto:bfinkelstein@turn.org) | Garrick Jones  JBS Energy  311 D Street, Suite A  West Sacramento, CA 95605  [garrick@jbsenergy.com](mailto:garrick@jbsenergy.com) |

For each question, please provide the name of each person who materially contributed to the preparation of the response. If different, please also identify the Sempra Utilities witness who would be prepared to respond to cross-examination questions regarding the response.

For any questions requesting numerical recorded data, please provide all responses in working Excel spreadsheet format if so available, with cells and formulae functioning.

For any question requesting documents, please interpret the term broadly to include any and all hard copy or electronic documents or records in the possession of either of the Sempra Utilities.

1. Please provide results of operations calculations separately for SoCal Gas, SDG&E gas operations, and SDG&E electric operations, assuming recorded GRC revenues and expenses, taxes, and rate base for 2009-2013. Provide the rate of return on rate base and the rate of return on common equity resulting from these calculations. Do not assume that revenues were set so that each utility actually earned its authorized rate of return in these calculations, but instead use recorded GRC revenues through 2013. Divide SDG&E electric operations into SONGS and everything else for 2009-2012. Exclude SONGS revenues and expenses for 2012-2013 from SDG&E electric operations given the terms of the SONGS settlement and exclude legacy meter revenue requirements and costs in 2012-2013. The information should be provided in the format of Table KN-1 in Appendix A of SCG-34 and Tables KN-1 to KN-6 in Appendix A of SDG&E-36.
2. Please provide results of operations calculations separately for SoCal Gas, SDG&E gas, and SDG&E electric operations, assuming the utility’s forecast of expenses, taxes, and rate base for 2014-2015. Provide the rate of return on rate base and the rate of return on common equity resulting from these calculations. Do not assume that revenues were set so that each utility actually earned its authorized rate of return in these calculations, but instead use forecast 2012 GRC revenues reflecting the utility’s attrition mechanisms. Exclude SONGS revenues and expenses from SDG&E electric operations given the terms of the SONGS settlement and exclude legacy meter revenue requirements and costs. The information should be provided in the format of Table KN-1 in Appendix A of SCG-34 and Tables KN-1 to KN-6 in Appendix A of SDG&E-36.
3. Please provide the federal and state repair allowance and repair deduction taken by SoCal Gas in each year from 2006-2013 recorded. To the extent feasible, divide between gas storage, transmission, and distribution.
4. Please provide the recorded Deductible Repairs Ratio for SoCal Gas for 2009-2012.
5. Please provide workpapers supporting the forecast of the amount of deductible repairs for SoCal for each year from 2014-2016 and Post Test Year 2017-2018.
6. Provide the latest available forecast of the repair deduction for 2014 for SoCal Gas arising specifically because of the implementation of the flow-through repair deduction consistent with Sempra’s 10-Q filings through the third quarter of 2014 (not the rate case forecast, but using available data underlying the 10-Q filings through the third quarter and consistent internal forecasts for the fourth quarter).
7. Please provide the federal and state repair allowance and repair deduction taken by SDG&E in each year from 2006-2013 recorded. Divide the amounts into electric and gas, and for electric (to the extent feasible), divide them between SONGS Generation, Other Generation, Transmission, and Distribution.
8. Please provide the recorded Deductible Repairs Ratio for SDG&E for 2009-2012, divided into electric and gas, and for electric (to the extent feasible), divide among SONGS Generation, Other Generation, Transmission, and Distribution.
9. Please provide workpapers supporting the forecast of deductible repairs for SDG&E for 2014-2016 and Post Test Year 2017-2018. Divide the amounts into electric and gas, and for electric, (to the extent feasible), divide them between SONGS Generation, Other Generation, Transmission, and Distribution.
10. Provide the latest available forecast of the repair deduction for 2014 for SDG&E arising specifically because of the implementation of the flow-through repair deduction consistent with Sempra’s 10-Q filings through the third quarter of 2014 (not the rate case forecast, but using available data underlying the 10-Q filings through the third quarter and consistent internal forecasts for the fourth quarter). Divide the amounts into electric and gas, and for electric, (to the extent feasible), divide them between SONGS Generation, Other Generation, Transmission, and Distribution.
11. In the 2012 GRC testimony, Sempra witness Randall Rose referred to “a current deduction for a specified percentage of capitalized book repairs related to ADR property.” (SCG-28, p. 11 and SDG&E-34, p. 12). Who specified the percentage of capitalized book repairs (IRS, utility or CPUC), and what is the basis for its specification?
12. Please provide copies of Revenue Procedure 2011-14 and the September 13, 2013 regulations referenced in SCG-28, page RGR-11 Footnote 28.Please provide the amounts of Net Operating Losses (state and federal) actually experienced by (a) Sempra Energy; (b) SDG&E; (c) SoCal Gas in each year from 2009-2013. Provide amounts carried back and carried forward in each year.
13. Please identify the amount of the net operating losses in each year from 2011-2013 that arose for by (a) Sempra Energy; (b) SDG&E; (c) SoCal Gas specifically because of the implementation of the flow-through repair deduction.
14. Provide the latest available forecast of net operating losses for 2014 for each of (a) Sempra Energy; (b) SDG&E; (c) SoCal Gas consistent with Sempra’s 10-Q filings through the third quarter of 2014 (not the rate case forecast, but using available data underlying the 10-Q filings through the third quarter and consistent internal forecasts for the fourth quarter). Provide amounts carried back and carried forward.
15. Provide the latest available forecast of net operating losses for 2014 arising specifically because of the implementation of the flow-through repair deduction consistent with Sempra’s 10-Q filings through the third quarter of 2014 (not the rate case forecast, but using available data underlying the 10-Q filings through the third quarter and consistent internal forecasts for the fourth quarter).
16. Regarding previous treatment of the repair deduction:
    1. Before the Sempra utilities took the increased repair deduction as described in the testimony, would those costs that are now part of the increased repair deduction instead have been capitalized for tax purposes and depreciated, and would taxes have been normalized on those costs creating a deferred tax adjustment to rate base?
    2. If the answer to part (a) is anything other than an unqualified negative, what percentage of those costs that are now part of the increased repair deduction would have been eligible for bonus depreciation in each year from 2011-2014? Provide separate information for SDG&E Gas, SDG&E electric, and SoCal Gas.
17. Regarding the ratemaking treatment of repair deductions prior to Test Year 2016:

a. Please confirm that the repair allowance deductions in excess of the amount forecast in the 2009 GRC with post-test-year adjustments (for the year 2011) and the 2012 GRC with a post test year adjustment in 2013 (for the years 2012-2013 recorded) were flowed through to shareholders under Sempra’s ratemaking proposal in this rate case. If you cannot confirm this point or if there is a difference by year, please explain why.

b. Please confirm that the repair allowance deductions in excess of the amount forecast in the 2012 GRC with post-test-year adjustments (for the years 2014-2015 GRC forecast) would be flowed through to shareholders under Sempra’s ratemaking proposal in this rate case. If you cannot confirm this point or if there is a difference by year, please explain why.

1. Please confirm that by flowing these repair allowance deductions to shareholders between rate cases from 2011-2015, ratepayers will receive a smaller reduction of rate base from accumulated deferred income taxes in the current rate case than they otherwise would have received. If you cannot confirm this point, please explain why.
2. Please confirm that by flowing these repair allowance deductions to shareholders between rate cases from 2011-2015, more future book depreciation will be taxable, thus raising the utility’s revenue requirement by assigning ratepayers responsibility for paying those income taxes. If you cannot confirm this point, please explain why.
3. Regarding the impacts on 2016 rates from the change in the repair deduction for SoCal Gas:
   1. Please provide calculations with supporting workpapers showing the difference in the Accumulated Deferred Income Tax balance in 2016 if SoCal Gas had continued to use the percentage repair allowance from 2011-2015 and had only adopted the new repair deduction in 2016, relative to SoCal’s actual adoption of the new repair deduction. The calculation should be consistent with the GRC forecasts of capital spending for 2014-2015.
   2. Please provide calculations with supporting workpapers showing the total difference in tax depreciation in each year from 2011-2016 if SoCal Gas had continued to use the percentage repair allowance from 2011-2015 and had only adopted the new repair deduction in 2016, relative to SoCal’s actual adoption of the new repair deduction. The calculation should be consistent with the GRC forecasts of capital spending for 2014-2015.
4. Regarding the impacts on 2016 rates from the change in the repair deduction for SDG&E (to the extent feasible divided into SONGS Generation, Other Generation, Transmission and Distribution):
   1. Please provide calculations with supporting workpapers showing the difference in the Accumulated Deferred Income Tax balance in 2016 if SDG&E had continued to use the percentage repair allowance from 2011-2015 and had only adopted the new repair deduction in 2016, relative to SDG&E’s actual adoption of the new repair deduction. The calculation should be consistent with the GRC forecasts of capital spending for 2014-2015.
   2. Please provide calculations with supporting workpapers showing the total difference in tax depreciation in each year from 2011-2016 if SDG&E had continued to use the percentage repair allowance from 2011-2015 and had only adopted the new repair deduction in 2016, relative to SDG&E’s actual adoption of the new repair deduction. The calculation should be consistent with the GRC forecasts of capital spending for 2014-2015.
5. At SoCal Gas’ Exh. SCG-28, page RGR-11, lines 19 through 23, SoCalGas states:

“During 2013, pursuant to Revenue Procedure 2011-14 and the adoption of final tangible property regulations by the IRS interpreting IRC Sections 162 and 263(a), SoCalGas obtained automatic consents from the IRS and the FTB to change its method of accounting to begin deducting certain repairs that are capitalized for book purposes.”[citations omitted].

Please reconcile this testimony regarding the timing of the change in the repair deduction with the following statement in Sempra Energy’s 2012 10-K issued February 26, 2013 [unnumbered page 102 of 244 in pdf version downloaded from Sempra website, http://files.shareholder.com/downloads/SRE/3749202501x0xS86521-13-14/1032208/filing.pdf]:

“SoCalGas’ income tax expense decreased in 2012 due to lower pretax book income and a lower effective tax rate. The lower rate in 2012 compared to 2011 was primarily due to:

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|  | “a change in the income tax treatment of certain repairs expenditures that are capitalized for financial statement purposes, which resulted in a $34 million higher income tax benefit compared to 2011. This higher income tax benefit reflects the offsetting impact of lower income tax depreciation and unrecognized income tax benefits. The change in income tax treatment of certain repairs expenditures for gas plant assets was made pursuant to an IRS Revenue Procedure which allows, under an IRC section, for such expenditures to be deducted from taxable income when incurred;” [and two other items] |

1. Please answer the following questions for each of the Sempra Utilities. If the answer to any question is different as it relates to SDG&E and SoCal Gas, answer separately for each utility and explain why there is a difference between the two Sempra utilities.
   1. When did the Sempra utilities first become aware that an increased repair deduction could potentially be available?

b. When did the Sempra utilities determine that they were going to implement the changes to the repair deduction as a result of the IRS revenue procedures?

c. Please explain and describe the process involved in determining whether the Sempra utilities would take the larger deductions, including but not limited to identification of the persons who provided material input, the persons who ultimately made the decision, and the dates of each step of the consideration. Please also provide all internal memoranda or other documents addressing the question of whether a memorandum account should be established to track increased repair deductions.

c. Please identify each corporate officer who reviewed or ultimately approved any decision to implement the changes to the repair deduction, and the approximate date of that review or approval.

d. Please provide all internal memoranda or other documents given or made available to the corporate officer(s) on the topic of the repair deduction and any minutes or other documentation of meetings that addressed this topic.

e. Please provide all internal memoranda or other documents addressing the question of the timing of the increased repair deductions, including but not limited to the impact of taking the increased repair deductions immediately versus waiting until the Test Year of the next general rate case.

f. Please provide all internal memoranda or other documents regarding the change to the repair deduction once the Sempra utilities had decided to make the change , including but not limited to material given to staff on how to implement the change in the Sempra Energy Utilities’ accounting system and material given to internal and external auditors supporting the change.

1. Did the Sempra utilities consider including the increased repair deductions in the update testimony served in early 2012 in their 2012 general rate cases? If the response is anything other than an unqualified negative, please describe how this consideration was made, including but not limited to identification of the persons who provided material input, the persons who ultimately made the decision, and the dates of each step of the consideration. Please also provide all internal memoranda or other documents addressing the question of whether the increased repair deductions should be included in the update filings made in early 2012 in the TY 2012 general rate case.
2. Did the Sempra utilities consider seeking authorization to establish a memorandum account to track the increased repair deductions? If the response is anything other than an unqualified negative, please describe how this consideration was made, including but not limited to identification of the persons who provided material input, the persons who ultimately made the decision, and the dates of each step of the consideration. Please also provide all internal memoranda or other documents addressing the question of whether a memorandum account should be established to track increased repair deductions.
3. Did the Sempra utilities consider seeking Z-factor treatment of the increased repair deductions? If the response is anything other than an unqualified negative, please describe how this consideration was made, including but not limited to identification of the persons who provided material input, the persons who ultimately made the decision, and the dates of each step of the consideration. Please also provide all internal memoranda or other documents addressing the issue of whether the change in the repair deduction should or should not be treated as a Z-factor at any time since Sempra realized that it was going to take the larger deduction.
4. Please provide complete copies of any Forms 3115 (Application for Change in Accounting Method) filed with the Internal Revenue Service regarding the repair deduction for either utility. Include all attachments to each filing.