



Ross R. Fulton
Senior Counsel
8330 Century Park Court, CP32D
San Diego, CA 92123
Tel: 858-654-1861
Fax: 619-699-5027
rfulton@sdge.com

January 10, 2022

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 – Compliance Filing

Dear Secretary Bose:

San Diego Gas & Electric Company (“SDG&E”) respectfully submits proposed revisions to its Fifth Transmission Owner Formula Rate, Appendix VIII of SDG&E’s Transmission Owner Tariff (“TO5 Formula Rate”) in response to the Commission’s November 9, 2021 Order on Compliance accepting SDG&E’s August 12, 2021 tariff revisions, effective January 27, 2020, and directing submittal of a further compliance filing within 60 days¹ regarding SDG&E’s proposed revisions to its Order No. 864 Compliance Filing.² SDG&E submits these revisions to its TO5 Formula Rate Tariff, consistent with the Commission’s November 9, 2021 Order on Compliance providing SDG&E until January 10, 2022 to submit a further compliance filing as requested by the order.³

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.⁴ On May 1, 2020, SDG&E submitted revisions to its TO5 Formula Rate to meet Order No. 864’s mandates to the extent that SDG&E’s TO5 Formula Rate did not already contain those

¹ *San Diego Gas & Electric Co.*, 177 FERC ¶ 61,086 (2021), (“Order on Compliance”) accepting SDG&E’s 8/12/2021 tariff revisions and directing submittal of a further compliance filing within 60 days under ER20-1742 (November 9, 2021).

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

³ Order on Compliance, P 1.

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

requirements.⁵ These revisions included four Order No. 864 worksheets that were added to SDG&E’s TO5 Formula Rate—worksheets Order 864-1 through Order 864-4.

On October 28, 2020, the Commission issued its initial deficiency letter (“Deficiency Letter”) requiring SDG&E to address concerns regarding SDG&E’s Order No. 864 proposals. On December 11, 2020, SDG&E submitted proposed revisions to its Formula Rate Spreadsheet (“FRS”)—as well as responses to Commission questions that did not require spreadsheet amendments—to respond to the Deficiency Letter’s concerns and satisfy Order No. 864’s requirements.⁶

On June 28, 2021, the Commission issued its Supplemental Deficiency Letter requiring SDG&E to address additional questions regarding SDG&E’s Order No. 864 proposals. On August 12, 2021, SDG&E submitted further proposed revisions to its FRS—as well as responses to Commission questions that do not require spreadsheet amendments—to respond to the Supplemental Deficiency Letter’s concerns and satisfy Order No. 864’s requirements.⁷

On November 9, 2021, the Commission issued an Order on Compliance accepting SDG&E’s proposed Tariff revisions, effective January 27, 2020 and directing SDG&E to submit a further compliance filing within 60 days (the “Order”).

II. RESPONSES TO COMMISSION DETERMINATIONS

SDG&E addresses each item that the Commission found to be partially compliant with the requirements of Order 864 below, as identified in bold.

1. Rate Base Adjustment Mechanism

- a. **Requirement that SDG&E explain whether there is “excess ADIT items originating from Account 282 in ADIT worksheets 1, 2, and 3 that are not reflected in worksheets AF-1 and AF-2,” and to “revise its worksheets AF-1 and AF-2 to include all unamortized excess and deficient ADIT or, to the extent excess and deficient ADIT originating from AFUDC Debt, Repairs, and Other temporary differences are already included in the Rate Base Adjustment Mechanism, to more transparently depict the inclusion of these amounts.”⁸**

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

⁶ ER20-1742, SDG&E submits tariff filing per Order No. 864 (December 11, 2020).

⁷ ER20-1742, SDG&E submits tariff filing per Order No. 864 (August 12, 2021).

⁸ Order on Compliance, P 28.

All items of ADIT reduce rate base in SDG&E's TO5 formula rate spreadsheet submitted to the Commission for Order No. 864. That is, SDG&E's Rate Base Adjustment Mechanism deducts all excess ADIT from or adds all deficient ADIT to SDG&E's rate base.⁹ For this compliance filing, SDG&E made the following presentation changes to more transparently depict the inclusion of these amounts in the formula rate spreadsheet.

- On AF-1 and AF-2, lines 2 and 3 for “Compensation Related Items” and “Post Retirement Benefits” have been combined on line 2 and re-labeled “Non-Property Related.” This allows for the addition/removal of any type of temporary difference on the ADIT Worksheets because of a future tax rate change without also needing to modify the line items listed on AF-1 and AF-2.
- On AF-1 and AF-2, line 4 for “Net Operating Loss” is moved to line 3 and re-labeled “Property Related.” This allows for the addition/removal of any type of temporary difference on the ADIT Worksheets because of a future tax rate change without also needing to modify the line items listed on AF-1 and AF-2.
- On AF-1 and AF-2, line 10 for “Accumulated Depreciation Timing Differences” is re-labeled “Property Related.” This allows for the addition/removal of any type of temporary difference on the ADIT Worksheets because of a future tax rate change without also needing to modify the line items listed on AF-1 and AF-2.
- On AF-1 and AF-2, line 17 for “Ad Valorem Taxes” is re-labeled “Non-Property Related.” This allows for the addition/removal of any type of temporary difference on the ADIT Worksheets because of a future tax rate change without also needing to modify the line items listed on AF-1 and AF-2.
- On AF-1 the following is added to Note 2 to clearly show that all items of deficient ADIT reported on Order 864-1 are included in AF-1 “[t]otal ADIT calculated on Line 24; column (b) agrees to the Grand Total calculated on Order 864-1; Line 33; Col. 12.” This proves that all items of deficient ADIT are included in Total ADIT on AF-1 and therefore flow to the rate base calculation.
- On AF-1 the following is added to Note 3 to clearly show that all items of (excess) ADIT reported on Order 864-1 are included in AF-1 “[t]otal ADIT calculated on Line 24; column (c) agrees to the Grand Total calculated on Order 864-1; Line 33; Col. 13.” This proves that all items of (excess) ADIT are included in Total ADIT on AF-1 and therefore flow to the rate base calculation.
- On AF-2 the following is added to Note 2 to clearly show that all items of deficient ADIT reported on Order 864-3 are included in AF-2 “[t]otal ADIT

⁹ See *id.*

calculated on Line 24; column (b) agrees to the Grand Total calculated on Order 864-3; Line 33; Col. 12.” This proves that all items of deficient ADIT are included in Total ADIT on AF-2 and therefore flow to the rate base calculation.

- On AF-2 the following is added to Note 3 to clearly show that all items of (excess) ADIT reported on Order 864-3 are included in AF-2 “[t]otal ADIT calculated on Line 24; column (c) agrees to the Grand Total calculated on Order 864-3; Line 33; Col. 13.” This proves that all items of (excess) ADIT are included in Total ADIT on AF-2 and therefore flow to the rate base calculation.
- b. Requirement that SDG&E explain why “the value provided for Accumulated Depreciation Timing Differences in worksheet Statement AF-1, column (a) does not match the value for the same line item in ADIT Worksheet 2, column 3 (ADIT Balance at New Tax Rate)” and to revise “worksheets AF-1 and AF-2 as necessary to describe the source for inputs to column (a).”¹⁰**

The difference between AF-1, column (a) and the value for the same line in ADIT Worksheet 2, column 5 (the Order incorrectly identifies that column as column 3) is (\$55.9) million. This difference is related to state ADIT. Total ADIT reported on AF-1, column (a) includes the federal ADIT balance of (\$423.3) million reported in ADIT Worksheet 2, column 5, plus an additional (\$55.9) million in state ADIT for a total of (\$479.2) million. Because the 2017 tax rate change only impacted federal taxes, deficient and excess ADIT was generated for federal taxes only. Thus, what is calculated in the new ADIT worksheets created for this filing is only federal deficient and excess ADIT.

The ADIT worksheets are not state and federal specific. So in the event of a future state tax rate change, the ADIT worksheets are setup to allow for the calculation of state related deficient and excess ADIT. The total ADIT balances reported in column (d) of AF-1 and AF-2 agree to SDG&E’s FERC Form 1. These totals flow into Stmt AF to calculate the average balance of ADIT. That, in turn, flows to Statement BK-1 as part of the rate base calculation. Therefore, SDG&E’s rate base is properly reduced by both total federal and state ADIT.

SDG&E added the following explanatory notes in this filing to explain the difference on AF-1 and AF-2 of the formula rate spreadsheet.

- Note 4 on AF-1 – “Remeasured amount reported in column (a) includes (\$55.9) million in state related deferred tax liabilities. The Grand Total calculated on Order 864-2; Line 33; Col. 5 for federal taxes does not include this amount.”

¹⁰ *Id.* at P 29.

- Note 4 on AF-2 – “Remeasured amount reported in column (a) includes (\$65.9) million in state related deferred tax liabilities.”

2. Income Tax Allowance Adjustment Mechanism

- a. Requirement that SDG&E explain whether there are “excess ADIT items originating from Account 282 in ADIT Worksheet 3 that are not reflected in worksheets AR-1 and AT-1,” and to revise “worksheets AR-1 and AT-1 to include all unamortized excess and deficient ADIT or...to more transparently depict the inclusion of these amounts.”¹¹**

The Income Tax Allowance Adjustment Mechanism of the TO5 Formula Rate properly decreases or increases the income tax component of the TO5 Formula Rate by all categories of amortized excess or deficient ADIT in the formula rate spreadsheet submitted to the Commission for Order No. 864.¹² For this filing, SDG&E has made the following presentation changes to more transparently depict the inclusion of these amounts in the formula rate spreadsheet.

- On AR-1 and AT-1, lines 2 and 3 for “Compensation Related Items” and “Post Retirement Benefits” have been combined on line 2 and re-labeled “Non-Property Related.” This allows for the addition/removal of any type of temporary difference on the ADIT Worksheets because of a future tax rate change without also needing to modify the line items listed on AR-1 and AT-1.
- On AR-1 and AT-1, line 4 for “Net Operating Loss” is moved to line 3 and re-labeled “Property Related.” This allows for the addition/removal of any type of temporary difference on the ADIT Worksheets because of a future tax rate change without also needing to modify the line items listed on AR-1 and AT-1.
- On AR-1 and AT-1, line 10 for “Accumulated Depreciation Timing Differences” is re-labeled “Property Related.” This allows for the addition/removal of any type of temporary difference on the ADIT Worksheets because of a future tax rate change without also needing to modify the line items listed on AR-1 and AT-1.
- On AR-1 and AT-1, line 17 for “Ad Valorem Taxes” is re-labeled “Non-Property Related.” This allows for the addition/removal of any type of temporary difference on the ADIT Worksheets because of a future tax rate change without also needing to modify the line items listed on AR-1 and AT-1.

3. Category 1 – How ADIT accounts were re-measured and the excess or deficient ADIT contained therein.

¹¹ *Id.* at P 39.

¹² *Id.*

- a. **Requirement that SDG&E “either revise its ADIT Worksheets to clearly describe or demonstrate” the “allocation of excess and deficient ADIT to its transmission function” “through an explanatory note, additional columns, or both.”¹³**

SDG&E added the following explanatory notes in its ADIT Worksheets (Order 864-1 through 864-4) in this filing to explain how the functional allocation is determined in the formula rate spreadsheet.

- Note 3 – “Total company non-property, compensation and benefits related accumulated Schedule M Adjustments are allocated to transmission using common account allocations, which are calculated using labor allocation ratios. In addition, a portion of total company property taxes is allocated to transmission based on the proportion of the historical cost of electric transmission plant in service and CWIP to total system-wide taxable plant and CWIP.”
 - Note 5 – “FERC Account 282 ADIT balances shown above represent deferred taxes on electric transmission plant in service (excluding gross-up) that are largely driven by federal accelerated depreciation and computed in the tax depreciation software (“PowerTax”). The balances also include deferred taxes related to other adjustments such as repairs, CIAC, capitalized interest, and AFUDC Debt, which are posted as basis adjustments in PowerTax and allocated to transmission in the system. In addition, like the non-plant ADIT, deferred taxes related to common plant such as computer hardware, facilities, and structures are allocated to transmission based on common plant allocation factors calculated using labor allocation ratios. The deficient ADIT related to the transmission Net Operating Loss in Account 190 is computed on a FERC transmission standalone basis.”
3. **Category 2 – Accounting for any excess or deficient amounts in Accounts 254 (Other Regulatory Liabilities) and 182.3 (Other Regulatory Assets), respectively.**

- a. **Requirement that SDG&E “display the gross-up on excess ADIT included in Account 254 and deficient ADIT in Account 182.3.”¹⁴**

SDG&E has added the following footnote with tables to display the gross-up on excess and deficient ADIT in the formula rate spreadsheet.

- Note 6 on Order 864-1 and 864-3 – “Balances reported in this worksheet do not include gross-up and the gross-up is not included in rate base. See below for

¹³ *Id.* at P 51.

¹⁴ *Id.* at P 58.

demonstration of gross-up calculated on property and non-property related (excess)/deficient ADIT.” See the formula rate spreadsheet for corresponding tables.

4. Category 4 – Accounts to which the excess or deficient ADIT are amortized.

- a. Requirement that SDG&E “revise its ADIT Worksheets to properly record amortized excess ADIT to Account 411.1 and amortized deficient ADIT to Account 410.1.”¹⁵**

SDG&E has updated the ADIT Worksheets to reflect amortization of excess deferred balances to Account 411.1 and amortization of deficient deferred balances to Account 410.1. Refer to the populated version of Order 864-3 for updates to columns 7 and 8.

5. Category 5 – Amortization period of the excess or deficient ADIT being returned or recovered through the rates.

- a. Requirement that SDG&E “revise its ADIT Worksheets to provide the number of years over which its non-plant-based excess and deficient ADIT will be amortized.”¹⁶**

As of December 31, 2020, as reported in SDG&E’s TO5 Cycle 4 Annual Informational Filing¹⁷, the unamortized non-plant related ADIT balances are \$214,000 for Compensation Related Items and \$181,000 for Post-Retirement Benefits. Since SDG&E has been amortizing the non-plant related ADIT into rates when the underlying deferred taxes are reversed and these amounts are very small, SDG&E will amortize the balances remaining on December 31, 2020 over one year. Thus, the non-plant related ADIT will be fully amortized by December 31, 2021. In addition, in this compliance filing, SDG&E has revised the following footnote—which was previously Note 1 and is now Note 2—in the formula rate spreadsheet as follows:

- Note 2 – “Non-plant related ADIT related to future tax rate changes will be amortized into rates over one year. Non-plant related ADIT attributable to the 2017 Tax Cuts and Jobs Act will be fully amortized by December 31, 2021.”

6. Future Tax Rate Changes

- a. Requirement that SDG&E “include a footnote in its ADIT Worksheets to allow for the addition and removal of transmission-**

¹⁵ *Id.* at 67.

¹⁶ *Id.* at 78.

¹⁷ Docket No. ER22-527

related temporary differences” without a future FPA section 205 filing.¹⁸

SDG&E has added the following footnote in its ADIT Worksheets to allow for the addition or removal of transmission-related temporary differences, in the future:

- Note 1 – “In the event of future tax rate changes, transmission-related temporary differences can be added or removed to/from this worksheet without a Section 205 filing.”

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:

Ross R. Fulton
Senior Counsel
San Diego Gas & Electric Company
8330 Century Park Court, CP32D
San Diego, California 92123
Telephone: (858) 654-1861
Facsimile: (858) 699-5027
E-mail: RFulton@sdge.com

Melanie Hancock
Transmission Revenue Manager
San Diego Gas & Electric Company
8330 Century Park Court, CP31E
San Diego, California 92123
Telephone: (619) 696-2373
E-mail: MHancock@sdge.com

¹⁸ *Id.* at P 89.

VI. CONCLUSION

In compliance with the Commission's Order on Compliance SDG&E submits this further compliance filing, effective January 27, 2020.

Respectfully submitted,

/s/ Ross R. Fulton _____

Ross R. Fulton

Attorney For

SAN DIEGO GAS & ELECTRIC COMPANY