APPLICATION OF SOUTHERN CALIFORNIA GAS COMPANY & SAN DIEGO GAS & ELECTRIC COMPANY FOR AUTHORITY TO REVISE THEIR NATURAL GAS RATES AND IMPLEMENT STORAGE PROPOSALS EFFECTIVE JANUARY 1, 2020 IN THE TRIENNIAL COST ALLOCATION PROCEEDING

(A.18-07-024)

(DATA REQUEST CAL ADVOCATES-DR-033)

DATA RECEIVED: 1-25-19

DATE RESPONDED: 2-8-19

QUESTION 1:

In response to Data Request CalAdvocates-DR-010 Question 1(b), the Applicants state: The recent US tax law changes (i.e., the federal Tax Cut and Jobs Act which lowered the corporate tax rate from 35% to 21% effective February 1, 2018) are not reflected in the 2020 LRMC Study. The 2020 LRMC studies utilized 2016 data including the then-effective tax laws. The recent US tax law changes became effective in 2018.

On April 6, 2018, Applicants served revised testimony in their 2019 General Rate Case (GRC) (A.17-10-008 and A.17-10-007) to update their revenue requirements for the impact of the TCJA.

SoCalGas and SDG&E tax witness Ragan Reeves stated:[1]

Most of the changes to federal tax law under the TCJA became effective beginning on January 1, 2018, although certain changes related to bonus depreciation became effective on September 28, 2017. The most significant change under the TCJA for corporations generally, and for regulated utility corporations specifically, was the lowering of the federal corporate tax rate from 35% to 21% beginning in 2018. The lower corporate rate results in a significant decrease in SoCalGas' tax expense. On January 5, 2018, SoCalGas filed a Prehearing Conference Statement in which SoCalGas notified the Commission that it would serve supplemental testimony in the 2019 GRC proceeding to reflect the impact of the TCJA soon after SoCalGas had completed its analysis of the impact. [footnote omitted] The comprehensive changes to the federal tax law under the TCJA and the uncertainties in some portions of the new law required considerable time for SoCalGas to analyze and calculate the TCJA's impact. During the Prehearing Conference held on January 10, 2018, the Commission directed SoCalGas to serve supplemental testimony on tax issues by April 6, 2018, as reflected in the Scoping Memo.

Similarly, the SoCalGas witness on Summary of Earnings Ryan Hom stated in GRC revised direct testimony: Incorporating the result of these changes into SoCalGas' revenue requirement request results in a net decrease in the overall requirement of $58.685M.

For SDG&E, the revenue requirement request would result in a net decrease in the overall revenue requirement of $57.744 million.3

In addition, the 2019 GRC SoCalGas witness Sharim Chaudhury presented a summary in second revised testimony on Present and Proposed Gas Transportation Revenue and Rates:

Based on SoCalGas' TY 2019 GRC proposals:

- System total bundled revenues will increase 18.5% over then-effective 2017 revenues for the period applicable during the date the TY 2019 GRC Application was filed on October 6, 2017 and revised testimony was served on December 20, 2017 (GRC Filing) and 17.3% over as expected authorized 2018 revenues shown in the GRC Filing.
- For an illustrative non-California Alternate Rates for Energy (non-CARE) residential customer with average gas usage, the average monthly bill at proposed rates will increase 16.3% over the bill at then-effective 2017 rates shown in the GRC Filing and 16.2% over the bill at as expected authorized 2018 rates shown in the GRC Filing.

With the above statements in mind, please respond to the following:

(a) Please confirm that the TCJA which implements a 21% corporate tax rate is effective January 1, 2018, not February 1, 2018.

(b) Please confirm that the TCJA also implements certain changes related to bonus depreciation which became effective on September 28, 2017.

(c) Please confirm that with the TCJA impacts analyzed and presented in SoCalGas/SDG&E's 2019 GRC revised testimony, the Applicants' proposed revenue requirements to be implemented effective January 1, 2020 through December 31, 2022 are shown to be lower for both SoCalGas and SDG&E compared to the prior filed direct testimony on October 6 and December 20, 2017.

(d) Please confirm whether the TCJA would lower the Real Economic Carrying Charge factors which are used in long run marginal cost analysis.

(e) Please describe the cost of capital (COC) in use for the 2020 LRMC and cite the Commission decision which authorized it. Since the latter, please state whether there is a more recent COC authorized for the Applicants by the Commission and cite the decision.

(f) Please describe other TCJA changes that would impact the long run marginal cost analysis.

(g) Given that the proposed cost allocation is based on a 2020 LRMC study (which uses 2016 recorded cost data and does not reflect the TCJA impacts), and is proposed to be implemented on revenue requirements with the TCJA impacts as described in the Applicants' second revised testimonies in the 2019 GRC, please provide a calculation of the revised marginal unit costs presented in the SoCalGas/SDG&E 2020 TCAP with updates for the impact of the TCJA. If the Applicants are unable to provide an update to the marginal unit costs as requested, please state why.

(h) Based on the updates to the marginal units in item (g), please provide an updated cost allocation that reflects the impact of the TCJA. If the Applicants are unable to provide an update to the cost allocation that reflects the impact of the TCJA, then please state why.

RESPONSE 1:

(a) Confirmed.

(b) Confirmed.

(c) Confirmed.

(d) Confirmed.

(e) The cost of capital in use for the 2020 LRMC is based on D.12-12-034, dated December 20, 2012, effective January 1, 2013, per Ordering Paragraph 6. The decision authorized a SoCalGas weighted-average return on rate base of 8.02%, which includes a return on common equity of 10.10%. D.12-12-034 also established SDG&E's 2013 authorized return on rate base of 7.79%. Further, the decision established SDG&E's 2013 return on common equity at 10.3%. These were used since the capital costs were based on 2016 data. There was a cost of capital adjustment based on D.17-17-005 for rates effective January 1, 2018. The utilities' next cost of capital application will be filed in April 2019 for a 2020 test year.

(f) Applicants are not aware of any other TCJA changes that would impact the long run marginal cost analysis.

(g) Applicants are unable to provide an update to the marginal unit costs as requested. The request is unduly burdensome as it essentially requires Applicants to perform another study, which was a multi-month process when Applicants prepared their studies for this TCAP filing. First, 2018 recorded data will not be available until the end of first quarter of 2019. Second, when the 2018 data become available, it will take months to update the studies. Constant updating for most up-to-date information, especially when such updating requires a significant effort, is not a reasonable or feasible exercise given Applicants must prepare their studies, application, and supporting materials at a point in time. Third, and most importantly, Applicants will use lower revenue requirements resulting from the TCJA by way of a reduced General Rate Case base margin when Applicants implement the 2020 TCAP decision in their advice letters. A GRC base margin that reflects the TCJA should lower costs across all customer classes. Fourth, the Real Economic Carrying Charge factors are used in cost studies to convert capital-related costs into annualized costs. It is not intuitive to the Applicants that the allocation of GRC-authorized revenue requirement across customer classes would be materially impacted due to the calculation of new LRMC marginal unit costs by applying 2018 tax law to 2016 recorded data. Presumably, Applicants will not simply incorporate 2018 Real Economic Carrying Charge factors to update the cost studies; Applicants would need to update all elements of the cost studies with 2018 data, including 2018 Operations and Maintenance cost data.

(h) Applicants are unable to provide an update to the cost allocation as requested. See Response 1(g) for the underlying reasons.

QUESTION 2:

Based on the Applicants' responses to items (g) and (h) above, please state when Applicants will provide an update to the proposed cost allocation.

RESPONSE 2:

See Responses to 1(g) and 1(h).

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QUESTION 3:

Please state whether the Applicants intend to implement a cost allocation for revenue requirements for the period January 1, 2020 - December 31, 2022 that are based on 2016 data and a higher tax rate and without reflecting any of the TCJA impacts.

RESPONSE 3:

To be clear, the revenue requirements, of which GRC base margin is the main component, will incorporate the impact of TCJA for the period January 1, 2020 - December 31, 2022. It is the Applicants' intention to implement a cost allocation for revenue requirements for the period January 1, 2020 – December 31, 2022 that are based on 2016 data for the reasons explained in Response 1(g).