

ORA DATA REQUEST
ORA-SDGE-125-CL8
SDG&E 2019 GRC – A.17-10-007
SDG&E RESPONSE
DATE RECEIVED: FEBRUARY 6, 2018
DATE RESPONDED: FRBRUARY 20, 2018

Exhibit Reference: SDG&E-36-WP-R

SDG&E Witness: Steven Dais

Subject: Working Cash

Please provide the following:

1. Schedule N-2 of Ex. SDG&E-36-WP-R shows total 2016 California corporate franchise tax payments as \$62.2 million. Table SDG&E-RGR-3-1 on page RGR-17 of Ex. SDG&E-35-R shows 2016 California corporate franchise taxes as \$18.047 million.

- a. Please provide an explanation for the discrepancy between these two sources' descriptions of the 2016 California corporate franchise tax total.
- b. Please provide a reconciliation of the discrepancy identified above in (a).
- c. If a refund is expected on any of these 2016 amounts, please identify the amount of the refund and provide a justification for the over-payment.
- d. If payments are made based upon estimations, please provide a description of how SDG&E estimates its tax payments.
- e. Please provide a copy of the law that prescribes when SDG&E must disburse payments for California corporate franchise taxes.

SDG&E Response 01:

- a. The 2016 California corporate franchise tax of \$62.2 million on page RGR-17 of Ex. SDG&E-35-R is a derived figure calculated within the RO Model for the 2019 GRC. Accordingly, this calculation only incorporates projects included within the GRC filing. The tax payments included in Schedule N-2 are the actual estimated payments made by SDG&E in 2016. Accordingly, these payments incorporate all SDG&E projects, including projects covered by regulatory mechanisms outside of the GRC.
- b. SDG&E does not, as a matter of practice, compartmentalize the estimated taxes relating to GRC projects as a subcomponent of its total estimated tax payments, and does not have a means of providing a meaningful reconciliation between the tax calculated within the RO model (shown on page RGR-17 of Ex. SDG&E-35-R) and the actual estimated tax payments (shown on Schedule N-2).
- c. Throughout the first 3 quarters of 2016, SDG&E annualized its estimated income and made quarterly estimated payments based on the best information it had available at that time. In Q4 of 2016, it was determined that SDG&E would claim a tax deduction for its wildfire settlement payments that exceeded amounts SDG&E had received from insurance, third party settlements, and FERC recoveries.

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SDG&E Response 01:-Continued

SDG&E shareholders incurred the full cost of these settlement payments. This deduction was not included in the first 3 quarters and therefore, the estimated payment for Q4 resulted in an overpayment of \$33 million.

- d. SDG&E calculates its estimated tax payments under the annualized income installment method. The state of California requires that 30% of the annual tax liability be paid by April 15th, another 40% (70% cumulative) by June 15th, and another 30% (100% cumulative) by December 15th. SDG&E prepares estimated calculations of the full year California tax liability, based on the best information available at the time, and multiplies this full year amount by the applicable percentage due for each estimated payment.
- e. Please refer to the attached Cal. Rev. & Tax Cd. §19025(b), provided for convenience.

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2. Schedule N-1 of Ex. SDG&E-36-WP-R shows total 2016 federal income tax payments as \$119.8 million, with a fourth quarter refund of \$37.2 million. Table SDG&E-RGR-3-1 on page RGR-17 of Ex. SDG&E-35-R shows 2016 federal income taxes as \$60.685 million.

- a. Please provide an explanation for the discrepancy between these two sources' descriptions of the 2016 federal income tax total.
- b. Please provide a reconciliation of the discrepancy identified above in (a).
- c. If a refund is expected on any of these 2016 amounts, please identify the amount of the refund and provide a justification for the over-payment.
- d. If payments are made based upon estimations, please provide a description of how SDG&E estimates its tax payments.
- e. Please provide a copy of the law that prescribes when SDG&E must disburse payments for federal income taxes.

SDG&E Response 02:

- a. The 2016 federal income tax of \$60.7 million shown on page RGR-17 of Ex. SDG&E-35-R is a derived figure calculated within the RO Model for the 2019 GRC. Accordingly, this calculation only incorporates projects included within the GRC filing. The tax payments included in Schedule N-1 are the actual estimated payments made by SDG&E in 2016. Accordingly, these payments incorporate all SDG&E projects, including projects covered by regulatory mechanisms outside of the GRC.
- b. SDG&E does not, as a matter of practice, compartmentalize the estimated taxes relating to GRC projects as a subcomponent of its total estimated tax payments, and does not have a means of providing a meaningful reconciliation between the tax calculated within the RO model (shown on page RGR-17 of Ex. SDG&E-35-R) and the actual estimated tax payments (shown on Schedule N-1).
- c. SDG&E calculates its estimated tax payments under the annualized income installment method. Throughout the first 3 quarters of 2016, SDG&E annualized its estimated income and made quarterly estimated payments based on the best information it had available at that time. In Q4 of 2016, it was determined that SDG&E would claim a tax deduction for its wildfire settlement payments that exceeded amounts SDG&E had received from insurance, third party settlements, and FERC recoveries. SDG&E shareholders incurred the full cost of these settlement payments. This deduction was not included in the first 3 quarters and therefore, the estimated payment for Q4 resulted in an overpayment of \$82.6 million.

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SDG&E Response 02:-Continued

- d. SDG&E calculates its estimated tax payments under the annualized income installment method. The IRS requires that 25% of the annual forecast of tax liability be paid by April 15, another 25% (50% cumulative) by June 15th, another 25% (75% cumulative) by September 15, and another 25% (100% cumulative) by December 15. SDG&E prepares estimated calculations of the full year Federal tax liability, based on the best information available at the time, and multiplies this full year amount by the applicable percentage due for each estimated payment.

- e. Please refer to the attached IRS regulations §1.6655-1(d) and §1.6655-1(f), provided for convenience.