TURN DATA REQUEST-060
SDG&E-SOCALGAS 2019 GRC – A.17-10-007/8
SDG&E_SOCALGAS RESPONSE
DATE RECEIVED: APRIL 25, 2018
DATE RESPONDED: MAY 9, 2018

Exhibit Reference: SDG&E -35
Witnesses: Reeves
Subject: Taxes

1. Regarding detail on individual components of accumulated deferred income taxes, please provide a list of all individual components of accumulated deferred tax assets and liabilities. For each individual component, please answer parts (a) through (f) below. Include and separately identify any components where a deferred tax asset or liability is netted within the cash working capital exhibit. If a deferred tax asset or liability can be functionalized between electric and gas, or among the electric functions (generation, transmission or distribution), please provide the functionalization used. If assignment to function is done by an allocation, identify each allocation factor used for different types of deferred taxes.

a. What is the amount included in rate base in each of 2016 recorded, 2017, 2018, and 2019 forecast? If the answer is zero, please explain why. Include and separately identify any components where a deferred tax asset or liability is netted against a corresponding liability or asset within the cash working capital exhibit rather than included in rate base in the rate base exhibit.

b. Identify the FERC Account (190, 282, and 283) associated with each of the components.

c. Identify whether the component is protected and subject to mandatory ARAM (lives and methods of depreciation) or unprotected (basis adjustments to plant or non-plant ADIT).

d. Please provide ADIT calculated as of December 31, 2017 at a 35% federal tax rate and the Excess ADIT on January 1 (caused by the reduction in the federal tax rate from 35% to 21%).

e. Provide the amount of Excess ADIT forecast to be returned to ratepayers in each of 2018, 2019, 2020, and 2021.

f. Provide the method by which SoCalGas proposes to return Excess ADIT to ratepayers for each individual component (e.g., ARAM, spread over a fixed number of years, etc.)

Utility Response 1:

Please refer to Attachment A to this data request for a list of individual components of accumulated deferred tax assets and liabilities.

Utility Response 1:-Continued

a. The 2016 recorded and 2017 – 2019 forecasted accumulated deferred income taxes (ADIT) included in rate base for electric distribution, electric generation, and gas is shown in Exhibit SDG&E-35-WP-2R, page 29. As discussed in Exhibit SDG&E-35-2R at page RGR-3, the reduction to ADIT related to the change in the federal income tax rate under the Tax Cuts and Jobs Act (TCJA) is offset in the Results of Operations (RO) Model by a corresponding regulatory liability that reduces rate base, so there is no net impact to rate base from the re-measurement of deferred taxes on January 1, 2018. This rate base offset is shown in the workpapers of SDG&E's rate base witness R. Craig Gentes (*see* Exhibit SDG&E-33-WP-2R, page 5, line 10 for electric property and page 6, line 10 for gas property (entitled "Accumulated Deferred Taxes – 2017 Tax Cuts & Jobs Act Adj")).

   There are no components of accumulated deferred income taxes where a deferred tax asset or liability is netted against a corresponding liability or asset within the cash working capital exhibit rather than included in rate base in the rate base exhibit.

b. The ADIT asset and liability balances are all included in FERC account 282 – Accumulated Deferred Income Taxes – Other Property.

c. Please refer to detail provided in Attachment A to this data request.

d. Please refer to detail provided in Attachment A to this data request.

e. SDG&E objects to this request on the grounds that it is unduly burdensome and calls for speculation. Subject to and without waiving these objections, SDG&E responds as follows. Due to the thousands of SDG&E's plant-related assets, and the TCJA's requirement to compute the average rate assumption method (ARAM) on an asset-by-asset basis, the ARAM computation is too complex and detailed to incorporate within SDG&E's RO Model or within an Excel file (*see* Exhibit SDG&E-35-2R at RGR-23 lines 17-20). Further, SDG&E is not required to create new data or present existing data in a different form beyond that which might be readily available. SDG&E instead relies on its tax accounting and depreciation software to compute the forecasted ARAM amount for each year.

   The forecasted ARAM amounts for 2018 and 2019 are shown in Exhibit SDG&E-35-WP-2R, page 3. Please note that 2020 and 2021 are attrition years to the 2019 GRC. Consistent with SDG&E's approach in this GRC and in previous GRCs, SDG&E does not forecast tax adjustments beyond the GRC test year. Accordingly, SDG&E has not attempted to forecast the ARAM amounts for years after 2019, but has instead applied the 2019 ARAM amount to the attrition years. The amortization for these attrition years is presented in Exhibits SDG&E-43-2R and SDG&E-43-WP-2R (the testimony and workpapers of SDG&E's post-test year witness Kenneth J. Deremer).

Utility Response 1:-Continued

f. SDG&E proposes to use the ARAM method to return Excess ADIT to ratepayers. The amortization of excess ADIT (also known as ARAM) for each year is required under the TCJA to be computed on an asset-by-asset basis.

2. There are line items for ARAM of $5,795.000 for electric and $1,508,000 for gas in 2019 and 4,981.000 for electric and $1,343,000 for gas in 2018 on the workpapers SDG&E-35-WP-2R, pages 4 through 7 respectively. Please provide documentation as to how these ARAM numbers were calculated, and specifically indicate the extent to which these ARAM figures include costs for (a) unprotected plant-based ADIT and (b) non-plant ADIT. Reconcile these figures to those in Question 1.

Utility Response 2:

Please refer to the detail set forth in Attachment A to this data request, which was provided in response to Questions 1(c) and 1(d) above.

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3. Please refer to the chart below that TURN has prepared with rough calculations as to the amount of deferred income taxes returned to ratepayers through ARAM as a percentage of the ADIT reduction shown in SDG&E's property tax assessment workpapers.

	Deferred Taxes Used for Property Tax Assessment			
	2018	2019	Difference	% reduction
Electric Distribution	629,766	363958	265,808	42.2%
Electric Generation	76,048	49351	26,697	35.1%
Gas	127,401	76827	50,574	39.7%
	ARAM Returned to Ratepayers			
Electric (Dist+Gen)	4,981	5795		
Gas	1343	1508		
ARAM % of deferred tax reduction				
Electric (Dist+Gen)	1.70%	1.98%		
Gas	2.66%	2.98%		

Please explain why the ARAM percentages are so low (1.7% to 2.98%), referencing the response to Question 1 including the amounts and SDG&E's proposed method of returning excess ADIT for protected and unprotected assets.

Utility Response 3:

SDG&E objects to this request on the grounds that it is vague, amibigous, calls for speculation, lacks foundation, and is beyond the scope of permissible discovery in that it requests that SDG&E review and validate TURN's analysis, which is not offered as part of SDG&E's materials tendered in testimony and workpapers. Subject to and without waiving these objections, SDG&E responds as follows.

SDG&E's excess ADIT balances as of December 31, 2017 are shown in Exhibit SDG&E-35-WP-2R, page 33. ARAM calculations are a function of the tax and book depreciation on the underlying assets. As explained in Exhibit SDG&E-35-2R, page 23, the TCJA requires ARAM to be computed on an asset-by-asset basis. SDG&E has thousands of plant-related assets that are subject to depreciation. Accordingly, SDG&E relies on its tax accounting and depreciation software (PowerTax) to compute the ARAM amount for each year. Because ARAM is computed on an asset-by-asset basis, the total ARAM amounts for SDG&E will fluctuate from year to year; however, SDG&E's expects that the ARAM amounts will be relatively low in the years immediately following the change in the federal income tax rate under the TCJA, with relatively higher ARAM amounts in future years.

Utility Response 3:-Continued
This expectation is a function of the mechanics of the ARAM calculation, because there is no ARAM amount generated for a specific asset until book depreciation for that asset exceeds tax depreciation for that asset, which will not occur until several years after the asset is placed in service. This concept is illustrated by the ARAM example that was included in the Joint Explanatory Statement of the Committee of Conference for the TCJA (TCJA Explanation), which shows that no ARAM is generated for the asset used in the example until 2021, which was five years after the property was placed in service in 2016. *See* TCJA Explanation at 344-346.

This general principle for ARAM is especially true in SDG&E's case, because SDG&E has made significant capital additions in recent years that are still receiving accelerated depreciation for tax purposes. Therefore, the book depreciation for these assets will not exceed the tax depreciation for several more years, and thus there will be no ARAM associated with these assets for several years.

Accordingly, the ARAM amounts computed by SDG&E's tax accounting and depreciation software for 2018 and 2019 are consistent with SDG&E's expectations and are consistent with the ARAM principals and mechanics as shown in the ARAM calculation example included in the TCJA.

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4. Why is unamortized ITC declining on SDG&E-35-WP-2R, page 3?

Utility Response 4:

The unamortized ITC balance is declining each year by the amount of ITC amortization for the year. The ITC amortization amounts for each year are shown as a separate line item on Exhibit SDG&E-35-WP-2R, page 3.

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5. Please specifically provide ADIT for pensions and post-retirement benefits other than pensions (PBOPs) at end-of-year 2012 to 2017 and as forecast for 2017 in this case, 2018 and 2019. Identify any changes to ADIT that would result if the Company's proposal to revise pension spending is adopted.

Utility Response 5:

SDG&E objects to this request on the grounds that it seeks the production of information that is neither relevant to any issue within the scope of this proceeding nor is likely reasonably calculated to lead to the discovery of admissible evidence. Subject to and without waiving these objections, SDG&E responds as follows. Consistent with its prior GRC proceedings, SDG&E is not seeking recovery of the deferred tax assets associated with pensions and PBOPs in its 2019 GRC Application. Accordingly, there would be no changes to the ADIT reflected in the GRC if SDG&E's proposal to revise pension spending is adopted.

6. Please provide six years of historical data (2012-2017) on cost of removal included in the state and federal tax adjustments and provide workpapers showing how the cost of removal was forecast for 2017-2019 from the 2016 data or from other data sources. Divide into electric and gas, as SDG&E has done with its estimates on SDG&E-35-WP-2R page 3.

Utility Response 6:

Please see Attachment B to this data request, which shows the historical data (actuals) for cost of removal for 2012-2016 and the 2017-2019 forecast and supporting workpapers. Please note that the actual cost of removal deduction for 2017 will not be known until SDG&E completes and files its 2017 income tax returns, which is expected to occur in October 2018.

7. Please provide six years of historical data (2012-2017) on deductible repairs included in the state and federal tax adjustments and provide workpapers showing how the forecast of deductible repairs was developed for 2017-2019 from the 2016 data or from other data sources.

Utility Response 7:

Please see the tables below for the historical data (actuals) for deductible repairs for 2012-2016. Please note that the 2017 actual amounts for deductible repairs will not be known until SDG&E completes and files its 2017 income tax returns, which is expected to occur in October 2018.

Please refer to Attachment C to this data request for workpapers showing how the forecast of deductible repairs was developed for 2017-2019.

Tax Year	Actual Federal Electric Repairs	Actual State Electric Repairs
2012	$ 65,616,002	$ 65,616,002
2013	$ 90,910,841	$ 90,910,841
2014	$ 93,499,189	$ 93,499,189
2015	$ 75,852,067	$ 75,852,067
2016	$ 97,813,602	$ 97,813,602

Tax Year	Actual Federal Gas Repairs	Actual State Gas Repairs
2012	$ 28,362,015	$ 14,265,765
2013	$ 16,750,958	$ 8,375,479
2014	$ 10,180,030	$ 10,180,030
2015	$ 14,103,613	$ 14,103,613
2016	$ 15,276,787	$ 15,276,787

8. Please provide the tax lives used by SDG&E for federal and state purposes for AMI meters.

Utility Response 8:

The tax lives for AMI meters used by SDG&E for federal and state purposes are as follows:

Electric: Federal – 5 years; State – 6 years
Gas: Federal – 20 years; State – 35 years

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9. Please provide the amount of AMI meters expected to come into service for purposes of tax depreciation in 2018 and 2019. Divide into electricity and gas.

Utility Response 9:

SDG&E objects to this request on the grounds that it calls for speculation. Subject to and without waiving this objection, SDG&E responds as follows.

For electric property, please see the testimony of SDG&E Electric Distribution – Capital witness Alan Colton, Exhibit SDG&E-14-R at AFC-17 to AFC-18, which details the requested amount per year for acquiring meters and regulators. Electric is currently not able to provide forecasted meter installations as AMI meters are purchased based on historical usage and demand, which is driven by jobs for new construction and change outs.

For gas property, please see the testimony of SDG&E Gas Distribution witness Gina Orozco-Mejia, Exhibit SDG&E-04-R, pages GOM-71 to GOM-72.

10. Regarding Property Taxes:

a. Please provide the Taxable percentages for Plant, Reserve for Depreciation, and Deferred Income Taxes for 2012-2015 and 2017 recorded (consistent with the figures listed for 2016 on SDG&E-35-WP-2R, pages 18-21)

b. Please provide the ad valorem tax rates for SDG&E in each year from 2007/08 to 2017/18.

c. Regarding the estimated decline in deferred income taxes from $629,766,000 in Tax Year 2018 to $337,561,000 in Tax Year 2019 for electric distribution (SDG&E-35-WP-2R, page 18), and corresponding declines in deferred income taxes for property tax purposes for electric generation and gas on other workpapers:

i. Is that largely the result of SDG&E's position that the taxing authorities will reduce deferred income taxes from 35% to 21% in a single year, as a result of the TCJA?

ii. If the answer to part (i) is yes, please provide the amount that would have been recorded had deferred income taxes been included at the 35% level in Tax Year 2019.

iii. If the answer to part (i) is yes, please provide all communications between SDG&E or Sempra Energy and the Board of Equalization regarding this point.

d. When does SDG&E expect to obtain its assessment for the 2018/2019 tax year?

Utility Response 10:

a. The Taxable percentages for 2012-2015 and 2017 recorded are provided in the following table:

Taxable Percentage	2012	2013	2014	2015	2017
Plant	126.90%	111.95%	115.36%	111.59%	103.02%
Depreciation	121.91%	118.75%	119.20%	118.59%	93.34%
Deferred Income Tax	87.43%	91.96%	82.39%	82.52%	90.33%

Utility Response 10:-Continued

b. SDG&E objects to this request under Rule 10.1 of the Commission's Rules of Practice and Procedure on the grounds that the timeframe encompassed in this request is not relevant to the subject matter involved in the pending proceeding and therefore, the burden, expense and intrusiveness of this request outweighs the likelihood that the information sought will lead to the discovery of relevant and admissible evidence. In particular, this request seeks information prior to 2012 and is thus, outside the scope of the relevant time period used by SDG&E in developing its forecasts. Subject to and without waiving the foregoing objection, SDG&E responds as follows:

The ad valorem rates for the years 2011/12 through 2017/18 are provided in the following table:

Year	Rate
2011/12	1.2977%
2012/13	1.3274%
2013/14	1.3318%
2014/15	1.4374%
2015/16	1.4562%
2016/17	1.4894%
2017/18	1.5088%

c.

i. No. The decline in deferred income taxes from 2018 to 2019 for electric distribution shown on Exhibit SDG&E-35-WP-2R, page 18, and corresponding declines in deferred income taxes for property tax purposes for electric generation and gas shown on corresponding workpapers, were largely the result of formula errors. The "100% Deferred Tax Reserve" amounts for 2019 should have also included the offsetting rate base adjustments (decreases), as of the end of 2018, to reflect the impact of the change in the federal income tax rate under the TCJA. The rate base adjustment for electric property is shown in the workpapers of SDG&E's rate base witness R. Craig Gentes (*see* Exhibit SDG&E-33-WP-2R, page 5, line 10 (entitled "Accumulated Deferred Taxes – 2017 Tax Cuts & Jobs Act Adj")). Accordingly, the formula for "100% Deferred Tax Reserve" for 2019 on Exhibit SDG&E-35-WP-2R, page 18, should have added the rate base adjustment amount for electric distribution property of $229,229,000, so that the corrected "100% Deferred Tax

Utility Response 10:-Continued

Reserve" amount for 2019 for electric distribution should be $566,790,000 ($337,561,000 + $229,229,000). The same formula error occurred in the corresponding property tax workpapers for electric generation and gas.

SDG&E will reflect these corrections in its Update Testimony, which is anticipated to be submitted on August 24, 2018 in accordance with the proceeding schedule set forth in the January 10, 2018 Scoping Memo.

ii. Not applicable.

iii. Not applicable.

d. SDG&E objects to this request on the grounds that it calls for speculation. Subject to and without waiving this objection, SDG&E responds as follows. The California State Board of Equalization is scheduled to meet on May 30, 2018 to vote on the valuation of state-assessed properties. SDG&E estimates that the assessments will be available shortly thereafter.

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11. Regarding Franchise Fees:

a. Please provide the 2017 Franchise Fee Percentage calculated in the same way as the percentages calculated for 2012-2016 on SD&GE-35-WP-2R, page 27).

b. Do the franchise fees shown on SDG&E's workpapers include franchise fees that are surcharged to individual municipalities? If they do include those surcharges, please identify surcharged amounts in 2015-2017 as recorded.

Utility Response 11:

a. The franchise fee percentages for 2017, calculated in the same way as the percentages calculated for 2012-2016 on Exhibit SDG&E-35-WP-2R, page 27, are 3.4597% for electric and 2.1305% for gas. The calculation is shown in the table below:

	Electric	Gas
Total Franchise Payments - 2017	$ 121,368,324	$ 10,153,265
Divided by: Gross Receipts - 2017	$ 3,508,064,575	$ 476,572,530
Franchise Fee Percentage - 2017	3.4597%	2.1305%

b. The total franchise fees shown on Exhibit SDG&E-35-WP-2R do include franchise fees that are surcharged to individual municipalities. The 2015-2017 recorded surcharge amounts are as follows:

	2015	2016	2017
Electric	86,930,312	78,705,614	84,090,343
Gas	1,936,520	2,110,187	2,253,879
Total	88,866,832	80,815,802	86,344,223

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12. What is the source of the 2016 book income before taxes on SDG&E-35-WP-2R page 28? Please provide per-books 2016 net operating losses on a recorded basis.

Utility Response 12:

SDG&E objects to this request on the grounds that it is vague and ambiguous and calls for speculation. It appears that this Question 12 intended to refer to page 40 of Exhibit SDG&E-35-WP-2R, and not page 28. Subject to and without waiving these objections, SDG&E responds as follows.

The source of the amount shown for 2016 book income before taxes on Exhibit SDG&E-35-WP-2R, page 40, is the "sum" file of the RO Model, on row 22 of the "Combined Rev Requirement" worksheet.

SDG&E had no net operating loss on a recorded basis for 2016.

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13. Please provide results of operations at base rates summary pages for 2016, 2017 and 2018 showing actual base rate revenues in each year from 2016 to 2018, actual adjusted expenses and taxes in 2016 and forecasted expenses and taxes in 2017 and 2018 , actual rate base in 2016 and forecasted rate base in 2017 and 2018, and the earned rate of return in each of the three years in the format of Appendix A of the testimony of Ryan Hom (SDG&E-42-2R). The income tax expenses and the actual return should be based not on the assumption that the utility earns its authorized rate of return in each year but on the actual revenues (for 2016-2018) and actual expenses and rate base (in 2016) and forecast expenses and rate base (for 2017-2018) and the return

Utility Response 13:

SDG&E objects to this request under Rule 10.1 of the Commission's Rules of Practice and Procedure on the grounds that the burden, expense and intrusiveness of this request clearly outweigh the likelihood that the information sought will lead to the discovery of admissible evidence. Subject to and without waiving the foregoing objection, SDG&E responds as follows.

Please refer to detail provided in Attachment D to this data request for 2016-2018 actual base GRC revenues, 2016 acutal expenses/taxes/ratebase/return, and 2017/2018 forecasted expenses/taxes/ratebase/return from the 2019 GRC RO model.

SDG&E is unable to provide the income tax expense and the actual return based on actual revenues (for 2016-2018) as requested. The current RO model does not have the functionality to perform the necessary calculations. Further, the RO model uses a complex goal seek function which cannot be replicated in an ad hoc report. SDG&E is not required to create new data or present existing data in a different form beyond that which might be readily available.