TURN DATA REQUEST-02
SDG&E-SOCALGAS 2016 GRC – A.14-11-003-004
SDG&E_SOCALGAS RESPONSE
DATE RECEIVED: DECEMBER 22, 2014
DATE RESPONDED: JANUARY 9, 2015

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.

Utility Response 01:

The Results of Operations (RO) model is designed to calculate a revenue requirement based on the Applicants' authorized rate of return. The requested scenario above is beyond the RO model's intended use, and going beyond its use would compromise the integrity and accuracy of the revenue requirement calculation.

Notwithstanding, Applicants will provide a working copy of the confidential RO model with a user guide whereby TURN can run various scenarios based on different inputs and assumptions. Applicants are willing to work with TURN by providing guidance on where input changes can be made, how to run the model, and where to find the different reports used in Appendix A of SCG-34 and SDG&E-36.

Because Applicants treat the RO model as confidential and proprietary, it can be supplied upon signing of an interim non-disclosure agreement (NDA). A motion for protective order is currently pending in the case, and if granted, the RO model would be subject to the protective order. Interim NDAs were used in Applicants' 2012 GRC also. Please let Applicants know whether TURN would like the interim NDA. Signed copies can then be sent to:

Attn: Billie Overturf
8330 Century Park Ct. CP31-E
San Diego, CA 92123
Email: boverturf@semprautilities.com

TURN DATA REQUEST-02
SDG&E-SOCALGAS 2016 GRC – A.14-11-003-004
SDG&E_SOCALGAS RESPONSE
DATE RECEIVED: DECEMBER 22, 2014
DATE RESPONDED: JANUARY 9, 2015

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.

Utility Response 02:

Please see response to Question 1.

TURN DATA REQUEST-02
SDG&E-SOCALGAS 2016 GRC – A.14-11-003-004
SDG&E_SOCALGAS RESPONSE
DATE RECEIVED: DECEMBER 22, 2014
DATE RESPONDED: JANUARY 9, 2015

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.

Utility Response 03:

Please see the schedule below. It is not feasible to divide the amounts among gas storage, transmission, and distribution because the data was not captured according to those classifications for purposes of taking the tax deduction.

Southern California Gas Company
Recorded Tax Repairs Deductions
Tax Years 2006-2013
(x 1,000)

Legend:
(Deduct) / Addback

	Recorded Federal Repairs Deduction	Recorded State Repairs Deduction
2006	(13,143)	(42,815)
2007	(13,738)	(40,835)
2008	(15,802)	(47,991)
2009	(16,600)	(46,590)
2010	(15,969)	(47,557)
2011	(17,573)	(45,586)
2012	(126,443)	(126,443)
2013	(114,561)	(114,561)

4. Please provide the recorded Deductible Repairs Ratio for SoCal Gas for 2009-2012.

Utility Response 04:

SoCalGas did not utilize a "Deductible Repairs Ratio" to compute the tax return repairs deduction from 2009 – 2011. Instead, SoCalGas elected the "percentage repair allowance" methodology provided for in Treasury Regulation Section 1.167(a)-11(d)(2) and the associated IRS Revenue Procedure 72-10. In 2012, SoCalGas adopted a "facts and circumstances" methodology, applying statistical sampling techniques to determine on a facts and circumstances basis whether repairs that are capitalized for books could be deducted for tax. The base of capitalized book additions was stratified to eliminate "per se" capital additions, such as line extensions, mandated programs of rehabilitation, etc. A statistical sample was drawn from the remaining base to determine a "Deductible Repairs Ratio," which was then applied to the remaining base. The "Deductible Repairs Ratio" from the results of the statistical sampling methodology was 31.5% in 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.

Utility Response 05:

There are no separate work papers for the forecasted 2014-2016 repairs deduction because the deduction is automated in the RO Model as a function of capital additions multiplied by the deductible repairs ratio. For support for the forecasted repairs deductions, we can provide the cell references to the formulas in the RO model upon request.

There are no workpapers supporting the forecast of deductible repairs for SoCalGas for the post test years 2017-2018 because the methodology used to determine post test year revenue requirements does not calculate specific tax adjustments. Because the 2016 test year revenue requirement includes the forecast of deductible repairs, this amount is embedded in the 2017 and 2018 post test year revenue requirements.

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).

Utility Response 06:

Full-year 2014 financial information will be available after SoCalGas makes its 10-K filing with the SEC in late February 2015.

TURN DATA REQUEST-02
SDG&E-SOCALGAS 2016 GRC – A.14-11-003-004
SDG&E_SOCALGAS RESPONSE
DATE RECEIVED: DECEMBER 22, 2014
DATE RESPONDED: JANUARY 9, 2015

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.

Utility Response 07:

	Electric T&D Repairs Deduction-Federal			Electric T&D Repairs Deduction-State			Gas Repairs Deduction-Federal and State	
	ED	ET	Recorded Federal	ED	ET	Recorded State	Recorded Federal - Gas	Recorded State - Gas
(x 1,000)								
2006	(9,670)	(3,062)	(12,732)	(50,430)	(16,092)	(66,522)	(1,504)	(1,504)
2007	(9,639)	(3,079)	(12,718)	(48,008)	(16,841)	(64,849)	(1,223)	(1,223)
2008	(10,727)	(3,436)	(14,163)	(44,949)	(15,949)	(60,898)	(1,509)	(1,510)
2009	(8,868)	(2,849)	(11,717)	(70,955)	(4,577)	(75,532)	(1,894)	(1,894)
2010	(7,780)	(2,590)	(10,370)	(78,639)	(6,018)	(84,657)	(2,417)	(2,417)
2011	(71,530)	(27,325)	(98,855)	(67,006)	(5,096)	(72,102)	(1,989)	(1,989)
2012	(65,616)	(27,425)	(93,041)	(65,616)	(27,425)	(93,041)	(3,251)	(3,252)
2013	(90,911)	(40,251)	(131,162)	(90,911)	(40,251)	(131,162)	(8,376)	(8,375)

Legend:
(Deduct)/Addback
ED = Electric Distribution
ET = Electric Transmission
Gas Repairs deduction includes both gas transmission and distribution.
Steam generation repairs follow the book treatment; SDG&E does not make a tax adjustment for steam generation repairs.
Nuclear generation repairs are excluded from the electric repairs shown above and were not subject to a change in method.

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.

Utility Response 08:

SDG&E did not utilize a "Deductible Repairs Ratio" to compute deductible repairs for tax in years 2009-2010. Instead, SDG&E elected the "percentage repair allowance" methodology provided for in Treasury Regulation Section 1.167(a)-11(d)(2) and the associated IRS Revenue Procedures, beginning with Revenue Procedure 76-18. In tax years 2011 and 2012, SDG&E adopted the "safe harbor" methodology provided for in IRS Revenue Procedure 2011-43 for electric distribution and transmission property. Using the prescribed statistical sampling methodology, SDG&E tested a sample of workorders to determine a "Deductible Repairs Ratio," which was 22.6% in 2011 and 23.8% in 2012.

For SONGS generation, other generation, and gas property, SDG&E continued to follow its past repairs accounting methods, so there was no change in the method and no "deductible repairs ratio" was utilized to compute the repairs deduction from 2009-2012.

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.

Utility Response 09:

There are no separate work papers for the forecasted 2014-2016 repairs deduction because the deduction is automated in the RO Model as a function of capital additions multiplied by the deductible repairs ratio. For support for the forecasted repairs deductions, we can provide the cell references to the formulas in the RO model upon request.

There are no workpapers supporting the forecast of deductible repairs for SDG&E for the post test years 2017-2018 because the methodology used to determine post test year revenue requirements does not calculate specific tax adjustments. Because the 2016 revenue requirement includes the forecast of deductible repairs, this amounts is embedded in the 2017 and 2018 post test year revenue requirements.

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.

Utility Response 10:

Full-year 2014 financial information will be available after SDG&E makes its 10-K filing with the SEC in late February 2015.

TURN DATA REQUEST-02
SDG&E-SOCALGAS 2016 GRC – A.14-11-003-004
SDG&E_SOCALGAS RESPONSE
DATE RECEIVED: DECEMBER 22, 2014
DATE RESPONDED: JANUARY 9, 2015

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?

Utility Response 11:

The percentage repair allowance election, which allows taxpayers to deduct a specified percentage of capitalized book repairs for income tax purposes, is contained in Treasury Regulation Section 1.167(a)-11(d)(2). The actual "specified percentage" for gas transmission and distribution property is contained in IRS Revenue Procedure 72-10. The Regulation and the Revenue Procedure are separately attached.

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.

Utility Response 12:

As discussed in our response to question 22, which was submitted to TURN on January 9, 2015, there is a correction required to the testimony inasmuch as SoCalGas' accounting method change for tax year 2012 was made pursuant to IRS Revenue Procedure 2012-19 (issued by the IRS on March 7, 2012 and which superseded Revenue Procedure 2011-14), and not Revenue Procedure 2011-14. Revenue Procedure 2012-19 is separately attached.

The final tangible property regulations that were adopted on September 13, 2013 were incorporated within existing Regulations and covered several Internal Revenue Code sections. Providing every impacted Regulation would be voluminous, and moreover, we do not believe attaching every impacted Regulation would be helpful to TURN. As an alternative, we are providing as a separate attachment Treasury Decision 9636, which was the preamble to the final tangible property Regulations and thoroughly explains those Regulations (note that Treasury Decision 9636 is itself 152 pages, but this is a much shorter document than what the full set of Regulations would be). If TURN would like for us to provide specific sections of the Regulations, we would be happy to do so upon request.

The requested information regarding Net Operating Losses for 2009-2013 is provided in the tables, below. Note that neither SDG&E nor SoCalGas had state Net Operating Losses for those years.

TURN DATA REQUEST-02
SDG&E-SOCALGAS 2016 GRC – A.14-11-003-004
SDG&E_SOCALGAS RESPONSE
DATE RECEIVED: DECEMBER 22, 2014
DATE RESPONDED: JANUARY 9, 2015

Response to Question 12
(Continued)

SEMPRA CONSOLIDATED 2009-2013_ FEDERAL

	Income / (Loss)				
(x 1,000)	**2009**	**2010**	**2011**	**2012**	**2013**
AS FILED 2009-2013	37,081	587,492	(2,129,489)	(2,747,142)	(82,131)
NOL Utiliization	0	0	0	0	0
Accumulated NOL Carryforward	**0**	**0**	**(2,129,489)**	**(4,876,631)**	**(4,958,762)**

***Sempra Energy elected to forego Carryback**

SEMPRA CONSOLIDATED 2009-2013_ CALIFORNIA

	Income / (Loss)				
(x 1,000)	**2009**	**2010**	**2011**	**2012**	**2013**
AS FILED 2009-2013	264,251	503,937	(705,380)	(331,995)	(316,494)
NOL Utiliization	0	0	0	0	0
Accumulated NOL Carryforward	**0**	**0**	**(705,380)**	**(1,037,375)**	**(1,353,869)**

SDGE 2009-2013_FEDERAL

	Income / (Loss)				
(x 1,000)	**2009**	**2010**	**2011**	**2012**	**2013**
AS FILED 2009-2013	118,383	441,984	(628,120)	(1,199,271)	54,974
Carryback of 2011 NOL	(118,383)	(441,984)	560,367	0	0
Remaining Tax Inc/(NOL) to be Utilized	0	0	(67,753)	(1,199,271)	54,974
2011 NOL utilized in 2013	0	0	54,974	0	(54,974)
Accumulated NOL Carryforward	**0**	**0**	**(12,779)**	**(1,212,050)**	**(1,157,076)**

SCG 2009-2013_FEDERAL

	Income / (Loss)				
(x 1,000)	**2009**	**2010**	**2011**	**2012**	**2013**
AS FILED 2009-2013	139,116	172,456	(81,898)	(356,561)	(3,594)
Carryback of 2011 NOL	(81,898)	0	81,898	0	0
Remaining Tax Inc / (NOL) to be Utilized	57,218	172,456	0	(356,561)	(3,594)
Carryback of 2012 NOL	0	(172,456)	0	172,456	0
Accumulated NOL Carryforward	**0**	**0**	**0**	**(184,105)**	**(187,699)**

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.

Utility Response 13:

Net Operating Losses are a function of deductible expenses in excess of revenues. On a "within and without" basis, incremental difference between taxable income with the new repairs deduction vs. continuing on the prior repairs deduction method is as follows:

Sempra Energy				
Federal Incremental NOL Due to Change in Accounting Method for Repairs				
(amounts in thousands)				
		2011	2012	2013
Recorded Taxable Income/(NOL)		(2,129,489)	(2,747,142)	(82,131)
Impact of Incremental Repairs Deduction:				
SDG&E		(320,298)	(21,115)	(35,392)
SCG			(401,591)	(41,975)
Total Incremental Repairs Deductions		(320,298)	(422,706)	(77,367)
(Excess of NOL over Repairs)/Excess of Repairs over NOL		(1,809,191)	(2,324,436)	(4,764)
Conclusion: The incremental repairs deductions contribututed to the NOL in 2011-2013 but				
did not cause the NOL in any of those years.				

Response to Question 13 (Continued)

SDG&E				
Incremental NOL Due to Change in Accounting Method for Repairs				
(amounts in thousands)				
		2011	2012	2013
Recorded Taxable Income/(NOL)		(628,120)	(1,199,271)	54,974
Impact of Incremental Repairs Deduction-ED & ET		(320,298)	(21,115)	(35,392)
(Excess of NOL over Repairs)/Excess of Repairs over NOL		(307,822)	(1,178,156)	N/A
Calculation of Impact of Incremental Repairs Deduction on Taxable Income/(NOL)--ED:				
Net Incremental Repairs Deduction		(62,161)	(56,247)	(81,542)
Offset for Tax Depreciation That Would Have Occurred		62,161	29,530	45,481
Subtotal: Incremental Difference		-	(26,717)	(36,061)
481(a) Adjustment		(258,600)		
Offset for Tax Depreciation That Would Have Occurred		12,447	12,447	12,447
Net Impact of Incremental Repairs Deduction on Taxable Income/(NOL)		(246,153)	(14,270)	(23,614)
Calculation of Impact of Incremental Repairs Deduction on Taxable Income/(NOL)--ET:				
Net Incremental Repairs Deduction		(24,322)	(24,422)	(37,248)
Offset for Tax Depreciation That Would Have Occurred		24,322	12,822	20,715
Incremental Difference		-	(11,600)	(16,533)
481(a) Adjustment		(78,900)		
Offset for Tax Depreciation That Would Have Occurred		4,755	4,755	4,755
Net Impact of Incremental Repairs Deduction on Taxable Income/(NOL)		(74,145)	(6,845)	(11,778)
Conclusion: The incremental repairs deduction contributed to NOL but did not cause it				
in 2011 and 2012. There was no NOL in 2013.				

TURN DATA REQUEST-02
SDG&E-SOCALGAS 2016 GRC – A.14-11-003-004
SDG&E_SOCALGAS RESPONSE
DATE RECEIVED: DECEMBER 22, 2014
DATE RESPONDED: JANUARY 9, 2015

Response to Question 13 (Continued)

SoCalGas			
Incremental NOL Due to Change in Accounting Method for Repairs			
(amounts in thousands)			
	2011	2012	2013
Recorded Taxable Income/(NOL)	(81,898)	(356,561)	(3,594)
Impact of Incremental Repairs Deduction:	N/A	(401,591)	(41,975)
(Excess of NOL over Repairs)/Excess of Repairs over NOL	N/A	45,030	38,381
Calulation of Impact of Incremental Repairs Deduction on Taxable Income/(NOL):			
Net Incremental Repairs Deduction	N/A	(111,389)	(99,507)
Offset for Tax Depreciaton That Would Have Occurred	N/A	58,479	57,532
Subtotal: Incremental Difference	N/A	(52,910)	(41,975)
481(a) Adjustment		(366,300)	
Less Tax Depreciaton That Would Have Occurred	N/A	17,619	-
Impact of Incremental Repairs Deduction on Taxable Income/(NOL)	N/A	(401,591)	(41,975)
Conclusion: The incremental repairs deduction was larger than the NOL in 2012 and 2013.			

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.

Utility Response 14:

Full-year 2014 financial information will be available after Sempra Energy, SDG&E, and SoCalGas make their 10-K filings with the SEC in late February 2015.

TURN DATA REQUEST-02
SDG&E-SOCALGAS 2016 GRC – A.14-11-003-004
SDG&E_SOCALGAS RESPONSE
DATE RECEIVED: DECEMBER 22, 2014
DATE RESPONDED: JANUARY 9, 2015

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).

Utility Response 15:

Full-year 2014 financial information will be available after Sempra Energy makes its 10-K filing with the SEC in late February 2015.

16. Regarding previous treatment of the repair deduction:
    a. 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?
    b. 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.

Utility Response 16:

a. Yes, those incremental costs above the percentage repair allowance would have been capitalized and depreciated. The difference between book and tax depreciation on those capitalized costs would have been normalized over the book life of the underlying property, and the resulting deferred taxes would have been an adjustment to ratebase.

b. SDG&E Gas: 100%, SDG&E Electric: 100%, SoCalGas: 100%.

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.

Utility Response 17:

a. Consistent with the Commission's policy and precedent, the impact of any tax adjustments in excess of or below the forecasts in the 2009 and 2012 GRCs would be borne by or flow to shareholders.

b. Please see our response to Question a.

18. 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.

Utility Response 18:

The premise stated in the above question is incorrect.

The IRS prescribes rules for changing accounting methods that have two primary impacts: 1) the current-year repairs deduction is converted to the new method of accounting (which receives flow-through treatment per Commission policy); and 2) a one-time catch-up adjustment is required to convert all eligible prior-year repairs deductions claimed under the prior method to the new method (which receives normalized treatment per Commission policy regarding prior-period adjustments). This is commonly referred to as a Section 481(a) adjustment. Consequently, ratepayers will receive a somewhat smaller reduction of rate base from accumulated deferred income taxes on the difference between normalized tax depreciation vs. book depreciation than would have occurred had the change in accounting method not been adopted for that years' vintage of capital additions, but ratepayers will receive a significantly larger reduction of rate base due to the incremental deferred income taxes generated on the one-time catch-up adjustment (Section 481(a) adjustment) for prior years that would not have occurred had the change in accounting method not been made.

19. 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.

Utility Response 19:

The enhanced repairs deduction claimed on the tax return as a result of the change in accounting method will have no impact on future book depreciation. It will, however, impact future ratemaking income tax depreciation (depreciation on the tax basis of property using a book life and book method to generate the rate). Taking repair deductions reduces the tax basis of the property, thereby reducing future ratemaking tax depreciation on that year's vintage of captial additions.

TURN DATA REQUEST-02
SDG&E-SOCALGAS 2016 GRC – A.14-11-003-004
SDG&E_SOCALGAS RESPONSE
DATE RECEIVED: DECEMBER 22, 2014
DATE RESPONDED: JANUARY 9, 2015

20. Regarding the impacts on 2016 rates from the change in the repair deduction for SoCal Gas:
    a. 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.
    b. 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.

Utility Response 20:

a. The table below shows the difference in the Accumulated Deferred Income balance at the beginning of 2016 if SoCalGas had continued to use the percentage repair allowance from 2011-2015 and had only adopted the new repair deduction in 2016. Accumulated deferred income taxes would have been lower by $60.5 million in 2016 if SoCalGas had not changed its method of accounting for repairs.

Response to Question 20 (Continued)

SoCalGas					
Calculation of (Additional)/Foregone ADIT Due to Change in Method for Repairs					
(amounts in thousands)					
Gas Transmission and Distribution		**2012**	**2013**	**2014**	**2015**
		Actual	**Actual**	**Forecasted**	**Forecasted**
Actual and Forecasted Repairs Deduction	a	(126,443)	(114,561)	(107,823)	(93,192)
Foregone Percentage Repair Allowance Deduction	b	15,054	15,054	15,054	15,054
Incremental Repairs Deduction	a-b = c	(111,389)	(99,507)	(92,769)	(78,138)
Incremental Foregone Deferred Tax Calculation:					
Bonus Depreciation	c x rate = d	(55,695)	(49,754)	(46,385)	(39,069)
1st Yr MACRS Depreciation	c - d x rate = e	(2,785)	(2,488)	(2,319)	(1,953)
2nd Yr MACRS Depreciation	c - d x rate = f		(5,291)	(4,727)	(4,407)
3rd Yr Macrs Depreciation	c - d x rate = g			(4,762)	(4,254)
4th Yr MACRS Depreciation	c - d x rate = h				(4,288)
Annual Foregone Tax Depreciation on Incremental Repairs	sum of (d:h)= i	(58,479)	(57,532)	(58,192)	(53,971)
1st Yr Book Depreciation	i x rate = j	3,793	3,437	3,235	2,796
2nd Year Book Depreciation	i x rate = k		3,793	3,437	3,235
3rd Yr Book Depreciation	I x rate = l			3,793	3,437
4th Yr Book Depreciaiton	i x rate = m				3,793
Total Annual Book Deprecaiation	sum of (I:m) = n	3,793	7,230	10,465	13,261
Difference Between Tax and Book Depreciation	i - j = o	(54,686)	(50,302)	(47,727)	(40,711)
Tax Rate	p	35%	35%	35%	35%
Incremental Foregone Deferred Taxes	o x p = q	(19,140)	(17,606)	(16,705)	(14,249)
Offset for Incremental ADIT due to Section 481(a) Adjustment	$366.3M x 35% = r	128,205			
Incremental (Foregone)/Additional Accumulated DIT	q + r	109,065	91,459	74,755	60,506
Conclusion: ADIT at the beginning of 2016 would have been $60.5 million lower if SoCal Gas had not changed its method of accounting for repairs.					

b. Federal tax return depreciation is shown as “Annual Foregone Tax Depreciation on Incremental Repairs” (line i) in the worksheet supporting the response to question 20a. Since depreciation life and method differences between book and tax return depreciation must be normalized, ratemaking tax depreciation, in this case, is essentially equal to book depreciation. Thus, the foregone ratemaking tax depreciation would be equal to the book depreciation shown in the work paper supporting the response to question 20a (line n).

TURN DATA REQUEST-02
SDG&E-SOCALGAS 2016 GRC – A.14-11-003-004
SDG&E_SOCALGAS RESPONSE
DATE RECEIVED: DECEMBER 22, 2014
DATE RESPONDED: JANUARY 9, 2015

21. 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):
    a. 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.
    b. 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.

Utility Response 21:

a. The table below shows the difference in the Accumulated Deferred Income balance at the beginning of 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. Accumulated deferred income taxes would have been lower by $26.5 million in 2016 if SDG&E had not changed its method of accounting for repairs.

   SDG&E adopted a new accounting method for repairs on electric transmission and distribution property only, so there is no difference in accumulated deferred income taxes for Gas, SONGS Generation, or Other Generation.

Response to Question 21 (Continued)

b. Federal tax return depreciation is shown as the "Annual Foregone Tax Depreciation on Incremental Repairs" (line j) in the worksheet supporting the response to question 21a. Since depreciation life and method differences between book and tax return depreciation must be normalized, ratemaking tax depreciation, in this case, is essentially equal to book depreciation. Thus the foregone ratemaking tax depreciation would be equal to the book depreciation shown in the work paper supporting the response to question 21a (line p).

TURN DATA REQUEST-02
SDG&E-SOCALGAS 2016 GRC – A.14-11-003-004
SDG&E_SOCALGAS RESPONSE
DATE RECEIVED: DECEMBER 22, 2014
DATE RESPONDED: JANUARY 9, 2015

22. 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:

"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]

Utility Response 22:

There is no inconsistency between the testimony regarding the timing of the accounting method change for repairs and the verbiage in the 2012 10-K report to the SEC on February 26, 2013. As described generally in our testimony, and as indicated in our response to question 27, the accounting method change at SoCalGas was perfected with the filing of the Form 3115 with the IRS for the 2012 tax year, which occurred on August 20, 2013. In its 2012 10-K report filed with the SEC in February 2013, the company disclosed its intent to file for an automatic accounting method change for repairs and included an estimate of the potential impact of expected change as though it had already occurred.

There is a correction required to the testimony, however, inasmuch as SoCalGas' accounting method change for tax year 2012 was made pursuant to IRS Revenue Procedure 2012-19 (issued by the IRS on March 7, 2012 and which superseded Revenue Procedure 2011-14), and not Revenue Procedure 2011-14, as will be explained in more detail in our forthcoming response to question 23.

23. 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.
    a. 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.

Utility Response 23:

Each Sempra utility relied on IRS guidance applicable to that utility, therefore, a separate response will be provided for each utility:

SDG&E:

a. When did the Sempra utilities first become aware that an increased repair deduction could potentially be available?

   Response: On August 19, 2011, the IRS issued Revenue Procedure 2011-43 which established a "safe harbor" method of accounting for electric transmission and distribution repairs. Due to limitations on SDG&E's ability to extract the

Response to Question 23a SDG&E (Continued)

required circuit data directly from its workflow systems (a limitation shared by most other utilities), SDG&E could not perform a scoping study to determine whether an increased repair deduction would be available under IRS revenue procedure 2011-43 before the end of 2011. As a result, SDG&E filed its 2011 10K report with the SEC in late February 2012 with an income tax provision that included a tax adjustment using the percentage repair allowance methodology. On February 8, 2012, SDG&E engaged the accounting firm of Deloitte, LLP to assist in performing a scoping study using statistical sampling methods to determine whether the safe harbor methodology would increase the repairs deduction over the percentage repair allowance methodology. Based on the results of the scoping study, SDG&E engaged Deloitte on April 2, 2012 to perform a complete study, using expanded statistical sampling methods, to determine the actual tax repairs deduction SDG&E would be eligible to claim under IRS revenue procedure 2011-43.

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?

   Response: A team from Deloitte in concert with SDG&E staff performed the complete study required to determine the allowable repairs deduction utilizing the safe harbor method contained in Revenue Procedure 2011-43 between April and September 2012. SDG&E indicated its intent to formally implement the changes to the repair deduction by filing IRS Form 3115 with the Ogden office of the IRS on September 5, 2012 to request automatic consent to change its accounting method.

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.

   Response: To the best of our knowledge, documentation of exact dates of each step in SDG&E's consideration to change from a percentage repair allowance methodology to the IRS approved safe harbor methodology does not exist; however, the decision-making would have coincided with the dates described in the responses to a and b above.

   The individuals involved in generating and reviewing the data and making the decision to adopt the safe harbor methodology were Steve Olivier, Tax Manager, Randall Rose, Tax Director, Paul Yong, Vice President of Tax, Robert Schlax,

Response to Question 23c SDG&E (Continued)

CFO and Controller of the Sempra Utilities, and Joseph Householder, Controller for Sempra Energy. These individuals would have been responsible for briefing any senior officers on the change in accounting method.

d. 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.

Response: Paul Yong, Vice President of Tax for Sempra Energy, Joseph Householder, Controller for Sempra Energy, and Robert Schlax, CFO and Controller for the Sempra Utilities would have had the ultimate decision to implement the changes to the repair deduction. Their review and decision to implement would have coincided with the preparation and review of the 2011 tax return, which occurred between July and September 2012.

e. 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.

Response: To the best of our knowledge, there are no minutes or other documentation of meetings that addressed the repairs deduction. Attachment of Protected Materials forthcoming.

f. 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.

Response: There are no internal memoranda addressing the impact of taking the increased repair deduction immediately versus waiting until the Test Year of the next general rate case. SDG&E did not consider waiting until 2016, the Test Year of the next general rate case, to implement the change in accounting method for repairs due to the waiver of scope limitations contained in the revenue procedure. Revenue Procedure 2011-43 includes the following waiver of the scope limitations that normally apply to requests made to the IRS for an accounting method change:

> "Waiver of scope limitations. The scope limitations in section 4.02 of this revenue procedure do not apply to an electric transmission or distribution company that changes to the method of accounting provided in Rev. Proc. 2011-43 for its first or second taxable year ending after December 30, 2010."

Response to Question 23f SDG&E (Continued)

Accordingly, taxpayers had to implement the safe harbor method of accounting for repairs using the special procedures outlined in Revenue Procedure 2011-43 on either their 2011 or 2012 tax return, and if they did not, the regular scope limitations that apply to requests for changes in accounting method would apply. The practical impact of the scope limitations is that the Sempra Utilities could not make the automatic accounting method change while under audit by the IRS. Since Sempra Energy and its affiliates are under virtually continuous audit, the window of opportunity to file an automatic request for an accounting method change within the window provided was the primary consideration.

g. 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.

Response: Attachment of Protected Materials forthcoming. Technical memorandum regarding SDG&E's change in accounting method for the repairs deduction, which was prepared by the accounting firm of Deloitte, LLP on September 1, 2012. This memorandum was provided to staff as guidance after SDG&E had decided to make the change in accounting method for the repairs deduction.

The Form 3115 (Application for Change in Accounting Method) that was filed with the IRS on September 5, 2012 was previously provided on January 9, 2015 in our response to question 27.

SoCal Gas:

a. When did the Sempra utilities first become aware that an increased repair deduction could potentially be available?

Response: SoCalGas made its accounting method change for repairs pursuant to Revenue Procedure 2012-19, which superseded Revenue Procedure 2011-14. Revenue Procedure 2012-19 provided general procedures for requesting automatic consent to make a change of accounting method.

Unlike Revenue Procedure 2011-43, which was industry specific to electric distribution and transmission property, Revenue Procedure 2011-14 (issued 1/10/2011) was generic in its application to all industries and to a host of possible

Response to Question 23a SoCalGas (Continued)

accounting method changes. Revenue Procedure 2011-14 provided no safe harbors for repairs to gas transmission and distribution systems.

On March 7, 2012, the IRS issued Revenue Procedure 2012-19, which superseded Revenue Procedure 2011-14 and updated the procedures for requesting automatic consent to make accounting method changes from the IRS. Again, similar to its predecessor 2011-14, there was no safe harbor guidance specific to gas transmission and distribution expenditures in 2012-19; however, the IRS issued temporary tangible property regulations on December 23, 2011 providing further guidance and clarity on capitalization and expensing of expenditures to acquire, repair, and dispose of tangible property. Based on a reading of Revenue Procedure 2012-19 in March 2012 in combination with the temporary tangible property regulations issued in December 2011, SCG determined that there existed a possibility of an increased repair deduction over the amount that could be claimed under the percentage repair allowance methodology. SoCalGas engaged the accounting firm of PwC to scope the potential benefit of adopting a "facts and circumstances" method of accounting in place of the percentage repair allowance method. PwC began its work on March 26, 2012. PwC worked with Sempra staff to test a statistical sample of capital expenditures between 2009 and 2011 to determine which expenditures could be deducted currently and which had to be capitalized based on the tests in case law and the proposed tangible property regulations. PwC's scoping study determined that a larger repairs deduction could be obtained using a "facts and circumstances" approach compared to a percentage repair allowance approach, so on July 18, 2012, SoCalGas engaged PwC to do a full workup.

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?

   Response: SoCalGas did not determine it was going to formally implement the changes to the repairs deduction in until August 2013, as indicated by its filing of IRS Form 3115 with the Ogden office of the IRS on August 20, 2013.

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.

   Response: To the best of our knowledge, documentation of exact dates of each step in SCG's consideration to change from a percentage repair allowance

Response to Question 23c SoCalGas (Continued)

methodology to the facts and circumstances methodology does not exist; however, the decision-making would have coincided with the dates described in the responses to a and b above.

The individuals involved in generating and reviewing the data and making the decision to adopt the safe harbor methodology were Steve Olivier, Tax Manager, Randall Rose, Tax Director, Paul Yong, Vice President of Tax, Robert Schlax, CFO and Controller of the Sempra Utilities, and Joseph Householder, Controller for Sempra Energy. These individuals would have been responsible for briefing any senior officers on the change in accounting method.

d. 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.

Response: Paul Yong, Vice President of Tax for Sempra Energy, Joseph Householder, Controller for Sempra Energy, and Robert Schlax, CFO and Controller for the Sempra Utilities would have had the ultimate decision to implement the changes to the repair deduction. Their decision to implement the changes to the repair deduction would have coincided with the preparation and review of the 2012 income tax return, which occurred between March and September 2013.

e. 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.

Response: To the best of our knowledge, there are no minutes or other documentation of meetings that addressed the repairs deduction. Attachment of Protected Materials forthcoming.

f. 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.

Response: To the best of our knowledge, there are no internal memoranda or other documents addressing 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. Effectively, the decision was made to take the deduction as soon as it became clear that adoption of a new method of accounting for repairs would yield an enhanced deduction.

Response to Question 23 SoCalGas (Continued)

g. 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.

Response: Attachment of Protected Materials forthcoming. Technical memorandum regarding SoCalGas' change in accounting method for the repairs deduction, which was prepared by the accounting firm of PwC on June 20, 2013. This memorandum was provided to staff as guidance after SoCalGas had decided to make the change in accounting method for the repairs deduction.

The Form 3115 (Application for Change in Accounting Method) that was filed with the IRS on August 20, 2013 was previously provided on January 9, 2015 in our response to question 27.

24. 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.

Utility Response 24:

The repairs deduction was not considered for inclusion in the 2012 update testimony. The initial scoping work regarding the potential impact of a change in accounting method for repairs had not been completed for SDG&E and had not yet begun for SoCalGas at the time of the 2012 update testimony was served. Therefore, neither SDG&E nor SoCalGas knew at that time whether a method change would be made, or what the potential amount of the repairs deduction could be under the alternative method of accounting. Additionally, the 2012 update testimony was limited in scope and included only enacted tax law changes and changes to published tax rates.

25. 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.

Utility Response 25:

To the best of our knowledge, the Sempra utilities did not consider seeking authorization to establish a memorandum account to track the repair deductions.

26. 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.

Utility Response 26:

To the best of our knowledge, the Sempra utilities did not consider seeking Z-factor treatment for the repairs deductions.

TURN DATA REQUEST-02
SDG&E-SOCALGAS 2016 GRC – A.14-11-003-004
SDG&E_SOCALGAS RESPONSE
DATE RECEIVED: DECEMBER 22, 2014
DATE RESPONDED: JANUARY 9, 2015

27. 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.

Utility Response 27:

Separately attached are: 1) SDG&E's Form 3115 filed with the IRS on September 5, 2012; and 2) SoCalGas' Form 3115 filed with the IRS on August 20, 2013.