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SOCALGAS RESPONSE
DATE RECEIVED: APRIL 18, 2018
DATE RESPONDED: APRIL 27, 2018

April 6, 2018 Update Testimony

9-01. Please provide executable versions in native format with all formulas intact of the following April 6, 2018 filing regarding the impact of the Tax Cut and Jobs Act ("TCJA") of 2017:
a. The testimony and exhibits; and

b. The supporting workpapers.

SoCalGas Responses 9-1:

a. SoCalGas Testimony and exhibits from the April 6, 2018 submission regarding the impact of the Tax Cut and Jobs Act ("TCJA") are separately attached in their native Word format.
b. SoCalGas Workpapers from the April 6, 2018 submission regarding the impact of the TCJA are separately attached in their native Excel or Word format. Document "SCG-38-WP-2R_Chan_Working_Cash CONFIDENTIAL.xls" is a CONFIDENTIAL document, which contains Confidential and Protected Materials Pursuant to P.U. Code Section 583 & General Order 66-D and D.17-09-023.

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9-02. Please provide the following regarding the individual accumulated deferred income tax ("ADIT") asset and liability account balances, in native format with all formulas intact, including all supporting documentation:

a. The individual account and subaccount numbers, descriptive account and subaccount titles and account balances at 12/31/17, separated by federal and state income taxes.

b. An explanation of the tax events/transactions that gave rise to each of the balances provided in response to subpart (a).

SoCalGas Responses 9-2:

a. SoCalGas objects to this request on the grounds that it is overbroad, unduly burdensome, and not reasonably calculated to lead to the discovery of relevant evidence. Subject to and without waiving these objections, SoCalGas responds as follows. The ADIT asset and liability balances are all included in FERC account 282 – Accumulated Deferred Income Taxes – Other Property. The detail for the SoCalGas ADIT asset and liability balances are computed in the tax accounting and depreciation software used by SoCalGas and the detail produced by this system is not available by individual account. SoCalGas is not required to create new data or present existing data in a different form beyond that which might be readily available. Please refer to Attachment A for ADIT asset and liability balances at 12/31/17 by major tax adjustment categories.

b. The ADIT balances provided in response to Question 9-2(a) above are caused by the timing differences between normalized tax depreciation computed using a book life and book method (as required by the Internal Revenue Service (IRS) normalization rules) and the comparable tax depreciation using accelerated recovery lives and methods under Internal Revenue Code (IRC) Section 168. These accelerated recovery lives and methods include the Accelerated Cost Recovery System (ACRS), the Modified Accelerated Cost Recovery System (MACRS), and bonus depreciation.

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9-03. Please reference the individual ADIT balances provided in response to 9-02 and provide the following, in native format with all formulas intact, including all supporting documentation:

a. Identify the portion of each ADIT account and subaccount that is an excess balance, based on the new federal income tax rate of 21%.

b. Identify the individual portions of subpart (a) that are, based on the Internal Revenue Code/Treasury Regulations, "protected" (subject to Average Rate Assumption Method flow-back) and those that are "unprotected"; and

c. Provide specific cites to Treasury Regulations and other authoritative text that support the categorization of the ADIT balances in subpart (b) as protected and unprotected.

SoCalGas Responses 9-3:

a. Please refer to Attachment A provided in response to Question 9-2(a) above for the portion of each ADIT balance by major tax adjustment category that is an excess deferred balance, based on the new federal income tax rate of 21%.

b. Please refer to attached Attachment A provided in response to Question 9-2(a) above for the individual portions of subpart (a) of Question 9-3 that are "protected" and those that are "unprotected."

c. As applied to ADIT balances, the terms "protected" and "unprotected" are industry terms and are not defined in the Internal Revenue Code or Treasury Regulations. "Protected" ADIT refers to deferred taxes on plant-based assets that are subject to the IRS normalization rules, which are provided in IRC Section 168(i) and Treasury Regulations Section 1.167(l)-1. "Unprotected" ADIT refers to deferred taxes, both plant-related and non-plant-related, that are not subject to the IRS normalization rules. The Tax Cuts and Jobs Act (TCJA) enacted on December 22, 2017 (Pub. L. No. 115-97) defines the "excess tax reserve" as "(i) the reserve for deferred taxes (as described in section 168(i)(9)(A)(ii) of the Internal Revenue Code of 1986) as of the day before the corporate rate reductions . . . made by this section take effect, over (ii) the amount which would be the balance in such reserve if the amount of such reserve were determined by assuming that the corporate rate reductions provided in this Act were in effect for all prior periods." TCJA Section 13001(d)(3).

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9-04. Please reference the excess individual ADIT balances provided in response to 9-03 and provide the following in native format with all formulas intact, including all supporting documentation:

a. Over what period of time does SoCalGas anticipate amortization/flow-back will occur for the protected excess ADIT?

b. What are the anticipated amounts of annual amortization/flow-back of protected excess ADIT, for 2018, 2019, 2020, 2021 and 2022?

SoCalGas Responses 9-4:

a. SoCalGas objects to this request on the grounds that it calls for speculation. Subject to and without waiving this objection, SoCalGas responds as follows. The amortization of excess ADIT (also known as adjusted rate assumption method (ARAM)) for each year is required under the TCJA to be computed on an asset-by-asset basis, as explained in Exhibit SCG-37-2R at RGR-21 line 26. Accordingly, given that SoCalGas has thousands of plant-based assets, it is not possible at this point in time to pinpoint the total amortization period for the excess ADIT. However, SoCalGas expects the total amortization period to be slightly longer than the average current book life of its plant assets. The majority of the asset lives range from 35 – 40 years.

b. SoCalGas objects to this request on the grounds that it is unduly burdensome and calls for speculation. Subject to and without waiving these objections, SoCalGas responds as follows. Due to the thousands of SoCalGas' plant-related assets, and the TCJA's requirement to compute ARAM on an asset-by-asset basis, the ARAM computation is too complex and detailed to incorporate within SoCalGas' Results of Operations (RO) Model or within an Excel file (*see* Ex. SCG-37-2R at RGR-21 lines 26-29). Further, SoCalGas is not required to create new data or present existing data in a different form beyond that which might be readily available. SoCalGas instead relies on its tax accounting and depreciation software to compute the forecasted ARAM amount for each year. The forecasted ARAM amounts and the corresponding GRC workpaper references are shown in the table, below. Please note that 2020, 2021, and 2022 are attrition years to the 2019 GRC. Consistent with SoCalGas' approach in this GRC and in previous GRCs, SoCalGas does not forecast tax adjustments beyond the GRC test year. Accordingly, SoCalGas 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 SCG-44-2R and SCG-44-WP-2R (the testimony and workpapers of SoCalGas' post-test year witness Jawaad Malik).

Year	Forecasted ARAM (in $000)	GRC Workpaper Reference
2018	$12,599	SCG-37-WP-2R, page 5
2019	$14,060	SCG-37-WP-2R, page 4
2020	$14,060	SCG-44-WP-2R, page 4, Table-5

SoCalGas Responses 9-4:-Continued

2021	$14,060	SCG-44-WP-2R, page 4, Table-5
2022	$14,060	SCG-44-WP-2R, page 4, Table-5

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9-05. Please explain how SoCalGas has been recording the amortization of the protected excess deferred income taxes for 2018 year to date (i.e., recorded in a regulatory liability account, etc.). Additionally, please provide the amount of amortization of the protected excess deferred income taxes that has been recorded to date.

SoCalGas Responses 9-5:

SoCalGas objects to this request on the grounds that it is overbroad, unduly burdensome, calls for speculation, and seeks information that is neither relevant nor reasonably calculated to lead to the discovery of admissible information. Subject to and without waiving these objections, SoCalGas responds as follows: The GRC forecast was developed according to the Rate Case Plan, which does not contemplate the use of 2018 recorded data and the forecasts were not developed using that information.

As noted in Exhibit SCG-37-2R at RGR-2, 2018 is an attrition year of SoCalGas' last GRC cycle (for test year 2016); however, on March 2, 2018, CPUC Energy Division Director Edward Randolph issued a letter (the ED Letter) to several California utilities, including SoCalGas, regarding the implementation of the TCJA. The ED Letter directed SoCalGas to follow instructions of the presiding officer regarding the need for any filings in that same GRC regarding the TCJA-related balance in the Tax Memorandum Account accumulated through 2018.

Consistent with the ED Letter and the Scoping Memo, SoCalGas submitted testimony and supporting workpapers to address the TCJA on April 6, 2018 (e.g., *see* Ex. SCG-37-2R, Ex. SCG-37-WP-2R, Ex. SCG-42-S). For the reasons set forth in Ex. SCG-37-2R at Section IV.C, SoCalGas has not yet recorded any amortization of excess ADIT for 2018. Ex. SCG-37-2R also states, "SoCalGas looks forward to working with the Commission, Administrative Law Judge Lirag, and parties to determine the best method for returning to its customers the benefits of the reduced tax expense through 2018 related to the TCJA" (Ex. SCG-37-2R at RGR-4 lines 9-12).

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9-06. Is SoCalGas recording the amortization of the protected excess deferred income taxes under the Average Rate Assumption Method ("ARAM") method as a regulatory liability to return to customers? If no, explain why not.

SoCalGas Responses 9-6:

Please see the response to Question 9-5, above.

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9-07. Please state whether SoCalGas agrees that the rate and manner of flow back to customers of the excess unprotected ADIT is a matter that the CPUC can determine. If not, please explain why not.

SoCalGas Responses 9-7:

SoCalGas agrees that the CPUC has the discretion to determine the rate and manner of flow back to customers of the excess unprotected ADIT. It should be noted, however, that SoCalGas' balance of excess unprotected ADIT is a deferred tax asset, not a deferred tax liability. Accordingly, the balance of excess unprotected ADIT represents a cost to ratepayers, not a benefit.

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9-08. Over what period of time does SoCalGas propose amortizing/flowing back the unprotected excess ADIT?

SoCalGas Responses 9-8:

SoCalGas objects to this request on the grounds that it calls for speculation. Subject to and without waiving this objection, SoCalGas responds as follows. In SoCalGas' prior rate case proceedings, certain unprotected timing differences related to plant-based assets have been and continue to be treated as normalized differences, even though they fall outside of the IRS definition of normalization. Since these unprotected plant-based timing differences have been afforded normalization treatment in prior rate case decisions, SoCalGas proposes that an ARAM methodology should also be used for the unprotected excess ADIT related to these assets.

The timing of the ARAM amortization is discussed in the response to Question 9-04(a), above.

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9-09. Please explain how SoCalGas has been recording the amortization of the unprotected excess deferred income taxes for 2018 year to date (i.e., recorded in a regulatory liability account, etc.). Additionally, please provide the amount of amortization of the unprotected excess deferred income taxes that has been recorded to date.

SoCalGas Responses 9-9:

Please see the response to Question 9-5, above.

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9-010. Please provide tables similar to Application Appendix D individually for 2020, 2021 and 2022.

SoCalGas Responses 9-10:

SoCalGas objects to all portions of this question requesting 2020-2022 forecasts under Rule 10.1 of the Commission's Rules of Practice and Procedure to the extent it seeks the production of information that is neither relevant to the subject matter involved in the pending proceeding nor is likely reasonably calculated to lead to the discovery of admissible evidence, and is outside the scope of this proceeding. Subject to and without waiving the foregoing objections, SoCalGas responds as follows:

Consistent with prior GRCs, SoCalGas has not estimated rates for the post-test years 2020-2022 in this GRC application. SoCalGas' filed application follows the Rate Case Plan, which identifies forecasted costs for a Test Year of 2019. SoCalGas has not forecasted specific funding for years beyond 2019, which is addressed by the attrition mechanism. Please see the testimony of Jawaad Malik Exhibit SCG-44-2R, which describes SoCalGas' proposal to provide an appropriate level of authorized revenues in 2020, 2021, and 2022.

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9-011. Please provide a table similar to Application Appendix D that identifies the total increase by rate class for the years 2019, 2020, 2021 and 2022 excluding gas costs.

SoCalGas Responses 9-11:

SoCalGas objects to all portions of this question requesting 2020-2022 forecasts under Rule 10.1 of the Commission's Rules of Practice and Procedure to the extent it seeks the production of information that is neither relevant to the subject matter involved in the pending proceeding nor is likely reasonably calculated to lead to the discovery of admissible evidence, and is outside the scope of this proceeding. Subject to and without waiving the foregoing objections, SoCalGas responds as follows:

Consistent with prior GRCs, SoCalGas has not estimated rates for the post-test years 2020-2022 in this GRC application. SoCalGas' filed application follows the Rate Case Plan, which identifies forecasted costs for a Test Year of 2019. SoCalGas has not forecasted specific funding for years beyond 2019, which is addressed by the attrition mechanism. Please see the testimony of Jawaad Malik Exhibit SCG-44-2R, which describes SoCalGas' proposal to provide an appropriate level of authorized revenues in 2020, 2021, and 2022.

Please see the separately attached document "IS-SCG-009 Q11.xlsx" for the test year 2019. The numbers provided in that spreadsheet were developed at the time SoCalGas filed its original Test Year 2019 GRC Application.

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9-012. Please provide a table similar to Application Appendix D that identifies the total proposed rates ($/therm) by rate class for the years 2019, 2020, 2021 and 2022 excluding gas costs.

SoCalGas Responses 9-12:

SoCalGas objects to all portions of this question requesting 2020-2022 forecasts under Rule 10.1 of the Commission's Rules of Practice and Procedure to the extent it seeks the production of information that is neither relevant to the subject matter involved in the pending proceeding nor is likely reasonably calculated to lead to the discovery of admissible evidence, and is outside the scope of this proceeding. Subject to and without waiving the foregoing objections, SoCalGas responds as follows:

Consistent with prior GRCs, SoCalGas has not estimated rates for the post-test years 2020-2022 in this GRC application. SoCalGas' filed application follows the Rate Case Plan, which identifies forecasted costs for a Test Year of 2019. SoCalGas has not forecasted specific funding for years beyond 2019, which is addressed by the attrition mechanism. Please see the testimony of Jawaad Malik Exhibit SCG-44-2R, which describes SoCalGas' proposal to provide an appropriate level of authorized revenues in 2020, 2021, and 2022.

For test year 2019, please refer to the document provided in response to Question 9-011 above.

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9-013. Please provide versions of the tables provided in response to 9-10, 9-11 and 9-12 that have been updated for the Tax Cuts and Jobs Act.

SoCalGas Responses 9-13:

SoCalGas objects to all portions of this question requesting 2020-2022 forecasts under Rule 10.1 of the Commission's Rules of Practice and Procedure to the extent it seeks the production of information that is neither relevant to the subject matter involved in the pending proceeding nor is likely reasonably calculated to lead to the discovery of admissible evidence, and is outside the scope of this proceeding. Subject to and without waiving the foregoing objections, SoCalGas responds as follows:

Consistent with prior GRCs, SoCalGas has not estimated rates for the post-test years 2020-2022 in this GRC application. SoCalGas' filed application follows the Rate Case Plan, which identifies forecasted costs for a Test Year of 2019. SoCalGas has not forecasted specific funding for years beyond 2019, which is addressed by the attrition mechanism. Please see the testimony of Jawaad Malik Exhibit SCG-44-2R, which describes SoCalGas' proposal to provide an appropriate level of authorized revenues in 2020, 2021, and 2022.

Please see the separately attached document "IS-SCG-009 Q13.xlsx" for the test year 2019, which includes two tabs, one with and one without gas commodity costs.

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April 6, 2018 Update Testimony

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a. The testimony and exhibits; and

b. The supporting workpapers.

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a. SoCalGas Testimony and exhibits from the April 6, 2018 submission regarding the impact of the Tax Cut and Jobs Act ("TCJA") are separately attached in their native Word format.
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