

Company: Southern California Gas Company (U 904 G)  
Proceeding: 2019 General Rate Case  
Application: A.17-10-008  
Exhibit: SCG-42-S

**SOCALGAS**

**SUPPLEMENTAL TESTIMONY OF RAE MARIE Q. YU**

**(REGULATORY ACCOUNTS)**

**April 6, 2018**

**BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA**



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## **SUMMARY**

- Southern California Gas Company proposes to create a new sub-account in the Tax Memorandum Account to separately track any impacts through 2018 related to the implementation of the Tax Cuts and Jobs Act of 2017 and provides options for the disposition of the sub-account.

1                   **SOCALGAS SUPPLEMENTAL TESTIMONY OF RAE MARIE Q. YU**  
2   **(REGULATORY ACCOUNTS)**

3   **I.       INTRODUCTION**

4           The purpose of my supplemental testimony is to put forth proposals for the consideration  
5 of the California Public Utilities Commission (CPUC or Commission) to address the impacts of  
6 the Tax Cuts and Jobs Act of 2017 (TCJA) that are being tracked in the Tax Memorandum  
7 Account (TMA) of Southern California Gas Company (SoCalGas) through 2018 (2018 TCJA  
8 Impacts). A discussion of the changes to federal tax law as a result of the TCJA and its impacts  
9 on SoCalGas forecasted for Test Year (TY) 2019 is provided in the Second Revised Taxes  
10 Testimony of Ragan Reeves, Exhibit SCG-37-2R. A roadmap of this TCJA-related submission  
11 and impacts on other witnesses' areas is provided in the Case Management Exhibit SCG-  
12 49/SDG&E-49.

13           On March 2, 2018, the Energy Division provided guidance to the California utilities  
14 regarding the implementation of the TCJA (ED Letter) and indicated that SoCalGas “should  
15 follow the rulings of the presiding officer in [SoCalGas’ TY 2019 General Rate Case (GRC)]  
16 and submit additional TCJA testimony.” The ED Letter also instructed SoCalGas to “follow  
17 [the] instructions of the presiding officer regarding the need for any filings in that same GRC  
18 regarding the TCJA-related balance in the Tax Memorandum Account accumulated through  
19 2018.”<sup>1</sup> Consistent with the guidance in the ED Letter, SoCalGas is proactively including its  
20 proposals addressing the 2018 TCJA Impacts in this TY 2019 GRC proceeding<sup>2</sup> through the  
21 submission of this supplemental Regulatory Accounts testimony concurrent with the ordered  
22 submission of testimony on tax issues discussed by other witness areas.<sup>3</sup> SoCalGas will follow  
23 the subsequent instructions of Administrative Law Judge Lirag when issued on the 2018 TCJA  
24 Impacts.

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<sup>1</sup> ED Letter, “Implementation of the Tax Cuts and Jobs Act of 2017,” dated March 2, 2018, at 2-3.

<sup>2</sup> 2018 is a post-test year of SoCalGas’ TY 2016 GRC, Application (A.) 14-11-004.

<sup>3</sup> See ED Letter, at 3; Assigned Commissioner’s Scoping Memorandum and Ruling, dated January 29, 2018, at 7 and 12. Refer to Case Management Exhibit SCG-49/SDG&E-49’s roadmap of testimonies discussing the TY 2019 tax impacts.

1     **II.     TAX MEMORANDUM ACCOUNT**

2             As described in my direct testimony (Exhibit SCG-42), served on October 6, 2017 in this  
3 proceeding, the TMA was created pursuant to Decision (D.) 16-06-054 as an interest-bearing  
4 memorandum account that is not recorded on SoCalGas’ financial statements. The purpose of  
5 the TMA is to increase the transparency of SoCalGas’ incurred and forecasted income tax  
6 expense to the Commission by tracking revenue differences resulting from the income tax  
7 expense forecasted in SoCalGas’ 2016 GRC and actual tax expense incurred during the 2016  
8 GRC period of January 1, 2016 through December 31, 2018. In accordance with D.16-06-054  
9 and SoCalGas’ TMA Preliminary Statement, Part VI of its tariffs, the TMA has separate line  
10 items detailing the differences between tax expenses forecasted and tax expenses incurred for (1)  
11 net revenue changes; (2) mandatory tax law changes, tax accounting changes, tax procedural  
12 changes, or tax policy changes; and (3) elective tax law changes, tax accounting changes, tax  
13 procedural changes, or tax policy changes.<sup>4</sup> Pursuant to D.16-06-054, SoCalGas is tracking the  
14 impacts of the TCJA in its TMA under “mandatory tax law changes.” The Commission has not  
15 explicitly determined the disposition of the TMA; rather, D.16-06-054 ordered the TMA to  
16 “remain open and the balance in the account shall be reviewed in every subsequent GRC  
17 proceeding until a Commission decision closes the account.”<sup>5</sup>

18             SoCalGas anticipates that the final recorded amounts (i.e., tax expense incurred)<sup>6</sup> related  
19 to the 2018 TCJA Impacts will be available following the filing of the 2018 tax return for  
20 SoCalGas (anticipated to be October 2019).<sup>7</sup> However, based on the ED Letter, SoCalGas  
21 understands the Commission may want to address the 2018 TCJA Impacts before the final  
22 recorded amounts are available. Accordingly, SoCalGas proposes to create a new, interest-  
23 bearing sub-account in the TMA for the 2018 TCJA Impacts, which will not be recorded on  
24 SoCalGas’ financial statements (2018 TCJA Sub-Account). The purpose of this sub-account  
25 would be to separately track the difference between actual 2018 tax benefits realized as a result  
26 of the TCJA and any estimated benefits the Commission may approve. Creation of the sub-

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<sup>4</sup> D.16-06-054 at 196; SoCalGas TMA Preliminary Statement,  
<https://www.socalgas.com/regulatory/tariffs/tm2/pdf/TMA.pdf>.

<sup>5</sup> D.16-06-054 at 196.

<sup>6</sup> Recorded amounts included in tax returns are subject to audit by the Internal Revenue Service.

<sup>7</sup> Sempra Energy, the parent company of SoCalGas, is the entity that files tax returns which includes its subsidiaries, such as SoCalGas.

1 account is beneficial for multiple reasons. First, the establishment of a sub-account will provide  
2 additional transparency of the direct 2018 impacts of the TCJA. While the impacts of the TCJA  
3 are being tracked within the TMA, they are in the larger category of “mandatory tax law  
4 changes, tax accounting changes, tax procedural changes, or tax policy changes.” The sub-  
5 account would be specific to the TCJA and focus on the 2018 TCJA Impacts. Second, the sub-  
6 account will allow for estimated 2018 TCJA Impacts to be recognized by the Commission prior  
7 to the filing of the 2018 tax return. As explained in Mr. Reeves’ Second Revised Testimony,  
8 SoCalGas does not have a final forecasted amount of the 2018 TCJA Impacts at this time.  
9 SoCalGas proposes to provide an estimate as part of the Update Testimony in this proceeding to  
10 be submitted on August 24, 2018 in accordance with the Assigned Commissioner’s schedule  
11 outlined in the Scoping Memorandum and Ruling issued on January 29, 2018. Third, the sub-  
12 account will permit discrete disposition of the 2018 TCJA Impacts.<sup>8</sup>

13 With respect to the disposition of the sub-account, SoCalGas offers two proposals for the  
14 Commission’s consideration. One option is for the Commission to authorize an estimated  
15 amount for the 2018 TCJA Impacts in a final decision in this proceeding to be implemented in  
16 rates concurrently with the other approved items in the TY 2019 GRC. Doing so would help  
17 offset any increases, if applicable, to customers’ rates as a result of the amortization of the GRC  
18 Memorandum Account (GRCMA).<sup>9</sup> Any difference that results between actual 2018 TCJA  
19 Impacts and those authorized by the Commission will be subject to true-up in SoCalGas’ annual  
20 regulatory accounts update advice letter filing.

21 Another option for the Commission’s consideration for a timely return of 2018 TCJA  
22 Impacts to customers is to issue a separate, interim order prior to January 2019 authorizing  
23 SoCalGas to create the 2018 TCJA Sub-Account<sup>10</sup> and include an estimate of the 2018 TCJA  
24 Impacts in its 2018 year-end consolidated advice letter filing for incorporation in customers’  
25 transportation rates effective January 1, 2019. Any difference that results between actual 2018

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<sup>8</sup> Currently, the recorded balance in the TMA is to be reviewed for disposition in every subsequent GRC proceeding.

<sup>9</sup> On March 27, 2018, SoCalGas and San Diego Gas & Electric Company (SDG&E) jointly filed a motion to request authority to establish a GRCMA to track the changes in revenue requirement adopted in this 2019 GRC between January 1, 2019 and the effective date of the 2019 GRC final decision.

<sup>10</sup> Creating the 2018 TCJA Sub-Account through an interim order can occur through multiple regulatory vehicles that can establish regulatory accounts, such as through a ruling on a motion in this proceeding.

1 TCJA Impacts and those authorized by the Commission will be subject to true-up in SoCalGas'  
2 annual regulatory accounts update advice letter filing.

3 **III. CONCLUSION**

4 SoCalGas proposes to establish the 2018 TCJA Sub-Account in the TMA to track the  
5 2018 TCJA Impacts. SoCalGas will provide an estimate of the 2018 TCJA Impacts during the  
6 Update Testimony in this proceeding. SoCalGas proposes that the disposition of the 2018 TCJA  
7 Sub-Account be authorized by the Commission either: (1) in the final decision in this proceeding  
8 to be implemented concurrently with the GRCMA to help offset any increases to customer rates,  
9 or (2) through an interim order authorizing SoCalGas to include an estimate of the 2018 TCJA  
10 Impacts in SoCalGas' year-end consolidated advice letter filing to be implemented in rates on  
11 January 1, 2019. Any difference that results between actual 2018 TCJA Impacts and those  
12 authorized by the Commission will be subject to true-up in SoCalGas' annual regulatory  
13 accounts update advice letter filing.

14 This concludes my supplemental testimony.

## LIST OF ACRONYMS

<b>ACRONYM</b>	<b>DEFINITION</b>
A.	Application
D.	Decision
CPUC	California Public Utilities Commission
GRC	General Rate Case
GRCMA	General Rate Case Memorandum Account
SDG&E	San Diego Gas & Electric Company
SoCalGas	Southern California Gas Company
TCJA	Tax Cuts and Jobs Act of 2007
TMA	Tax Memorandum Account
TY	Test Year