

Company: Southern California Gas Company (U 904 G) / San Diego Gas & Electric  
Company (U 902 M)  
Proceeding: 2028 General Rate Case  
Application: A.26-06-\_\_\_\_\_  
Exhibit: SCG-25 / SDGE-30

**PREPARED DIRECT TESTIMONY OF RAGAN G. REEVES**

**(TAX)**

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



**June 2026**

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## SUMMARY

- My testimony presents Southern California Gas Company's (SoCalGas) and San Diego Gas & Electric Company's (SDG&E) estimated tax expense for Test Year (TY) 2028 and explains how those estimates were derived. The tax expenses discussed in my testimony include payroll taxes, ad valorem taxes, and income taxes.
- For SoCalGas, my testimony estimates a TY 2028 payroll tax expense of \$60.8 million, ad valorem tax expense of \$243.6 million, and income tax expense of \$30.5 million.
- For SDG&E, my testimony estimates a TY 2028 payroll tax expense of \$23.9 million, ad valorem tax expense of \$264.7 million, and income tax expense of \$185.6 million.
- The Tax Cuts and Jobs Act (TCJA) was enacted on December 22, 2017 (Pub. L. No. 115-97). The TCJA made comprehensive changes to federal tax law. The changes affecting SoCalGas and SDG&E include: (1) a reduction of the federal corporate tax rate from 35% to 21%, effective beginning in 2018; (2) the elimination of the bonus depreciation deduction for regulated utilities; (3) the elimination of the deduction for transportation fringe benefits provided to employees beginning in 2018; (4) a requirement to return plant-related excess deferred taxes created by the reduction in the corporate tax rate to ratepayers ratably using the Adjusted Rate Assumption Method (ARAM) as described in the TCJA; and (5) a change in the tax treatment of self-developed software costs from being fully deductible in the year the costs are incurred to, beginning in 2022, a five-year and fifteen-year amortization period for deducting such domestic and foreign costs, respectively.
- The Inflation Reduction Act (IRA) was enacted on August 16, 2022. The IRA included two provisions with potentially significant tax ratemaking implications: (1) a newly enacted Corporate Alternative Minimum Tax (CAMT) based on financial statement income; and (2) an expansion of energy-related tax credits.
- The One Big Beautiful Bill Act (OB3) was enacted on July 4, 2025. The legislation introduces significant changes to federal income taxes for both

businesses and individuals. Some of the more notable provisions of OB3 for the regulated utilities industry included changes to existing clean energy provisions and tax credits, and changes to the tax treatment of research and development (R&D) costs, including the costs related to self-developed software.

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**PREPARED DIRECT TESTIMONY  
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(TAX)**

**I. INTRODUCTION**

**A. Summary of Proposals**

My testimony presents Southern California Gas Company’s (SoCalGas) and San Diego Gas & Electric Company’s (SDG&E) (collectively, “the Companies”) estimated tax expense for Test Year (TY) 2028 and explains how those estimates were derived. My testimony also presents the cumulative balances of the Tax Memorandum Accounts (TMA) as of December 31, 2025.

**B. Organization of Testimony**

The Companies incur three categories of taxes: (1) payroll taxes; (2) ad valorem (*i.e.*, property) taxes; and (3) income taxes. I will discuss each of these tax expense categories in turn.<sup>1</sup> A summary table for each category of tax expense is presented at the end of each section.<sup>2</sup>

To the extent that the California Public Utilities Commission (CPUC or Commission) adopts levels of operations and maintenance (O&M) expense or capital investment that are different from what has been proposed by the Companies in this Application, taxes would be re-calculated to reflect the impact of those changes.

**II. PAYROLL TAXES**

**A. Introduction**

The purpose of this section is to provide estimates of the Companies’ 2028 payroll tax expenses, and to describe the methodology used to develop the Companies’ estimates.

**B. Discussion**

Payroll taxes were estimated by applying a tax rate on TY 2028 O&M and capital labor covered in this Application up to a maximum wage base. Payroll taxes are paid by both the employee and the employer. The following discussion relates to the employer’s payroll tax liability.

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<sup>1</sup> The TMA discussion is included within the Income Taxes section of my testimony.

<sup>2</sup> Unless otherwise indicated, the computation of tax expense in my testimony and workpapers reflects only the amounts related to assets, projects, and activities that are included as part of this General Rate Case (GRC) and does not reflect revenues and expenses that are recovered through separate filings before the Commission.

1                   **1. Federal Insurance Contributions Act**

2                   Federal Insurance Contributions Act (FICA) taxes, also referred to as social security taxes,  
3 are composed of two pieces: (1) the Old-Age, Survivors, and Disability Insurance (OASDI); and (2)  
4 the Hospital Insurance (HI or Medicare). For 2025, the OASDI tax rate was 6.2% of wages<sup>3</sup> up to a  
5 maximum wage base of \$176,100.<sup>4</sup> The Medicare tax rate was 1.45% of wages<sup>5</sup> with no maximum  
6 wage base. Based on rate schedules contained in the 2025 Annual Report published by the Social  
7 Security Administration (2025 Annual Report), the employer’s portion of the OASDI and Medicare  
8 tax rates have been at current levels since 2013 and are not expected to change through 2028 based  
9 on currently enacted law.<sup>6</sup> The OASDI wage base is \$184,500 for 2026<sup>7</sup> and is projected to increase  
10 to \$190,800 for 2027 and \$198,900 for 2028, based on data reported in the 2025 Annual Report.<sup>8</sup>

11                   **2. Federal Unemployment Tax Act**

12                   The Federal Unemployment Tax Act (FUTA) statutory tax rate is 6%,<sup>9</sup> although the rate is  
13 offset by a credit for taxes paid to a state unemployment fund that reduces the rate by up to 5.4%,  
14 resulting in a net tax rate as low as 0.6%.<sup>10</sup> This credit is reduced for employers in states which  
15 have not fully repaid loans from the Federal Unemployment Account by the end of the calendar  
16 year following the year when the loans were withdrawn. The credit is reduced by 0.3% for each  
17 year the loan repayment is delayed.<sup>11</sup> California has had such unpaid loans at the end of the

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<sup>3</sup> Internal Revenue Code (IRC) Section 3111(a). Unless otherwise noted, all references in this testimony to “IRC §” or “IRC Section” are to sections of the Internal Revenue Code of 1986, as amended.

<sup>4</sup> Social Security Administration, *The 2025 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds (2025 Annual Report)* (June 18, 2025) at Table V.C1 (intermediate projections), available at: [https://www.ssa.gov/OACT/TR/2025/V\\_C\\_prog.html#1047210](https://www.ssa.gov/OACT/TR/2025/V_C_prog.html#1047210).

<sup>5</sup> IRC § 3111(b).

<sup>6</sup> 2025 Annual Report at Table VI.G1 (Payroll Tax Contribution Rates for the OASDI and HI Programs), available at: [https://www.ssa.gov/OACT/TR/2025/VI\\_G1\\_OASDHI\\_payroll.html#92759](https://www.ssa.gov/OACT/TR/2025/VI_G1_OASDHI_payroll.html#92759).

<sup>7</sup> Social Security Administration, *2026 Cost-of-Living Adjustment Fact Sheet* (October 24, 2025), available at: <https://www.ssa.gov/news/en/cola/factsheets/2026.html>.

<sup>8</sup> See 2025 Annual Report at Table V.C1 (intermediate projections). If the projected OASDI wage bases change in a subsequent year’s Annual Report, the Companies will update their 2028 payroll tax forecasts in the Update Testimony filing to reflect the projected OASDI wage bases in the most recently released Annual Report, consistent with prior GRCs.

<sup>9</sup> IRC § 3301.

<sup>10</sup> IRC §§ 3302(a) and (b).

<sup>11</sup> IRC § 3302(c)(2).

1 calendar year for several years. Accordingly, the net FUTA rate for SoCalGas and SDG&E is 1.8%  
2 for 2025<sup>12</sup> on wages up to \$7,000.<sup>13</sup> The Companies have made the conservative assumption for  
3 purposes of their payroll tax forecasts that the full credit amount will be available for 2026 - 2028.  
4 Therefore, the Companies' payroll tax forecasts reflect a net FUTA tax rate of 0.6% for 2026 - 2028.  
5 The FUTA wage base is expected to remain at \$7,000 through 2028.

### 6 **3. California State Unemployment Insurance**

7 The California State Unemployment Insurance (SUI) is composed of two pieces: (1) the  
8 Unemployment Insurance (UI); and (2) the California Employment Training Tax (CET). The  
9 Companies' UI tax rate for 2025 and 2026 is 1.6% on wages up to \$7,000.<sup>14</sup> The CET tax rate for  
10 2025 and 2026 is an additional 0.1% on wages up to \$7,000.<sup>15</sup> Based on currently enacted law, the  
11 UI tax rate is expected to remain at 1.6% for 2027 and 2028. The CET tax rate and wage bases for  
12 the Companies are not expected to change through 2028.

### 13 **4. Methodology Used to Estimate Tax Expense**

14 Payroll taxes are a function of taxable wages and applicable tax rates. The computation of  
15 the estimated payroll taxes begins with the 2025 taxable wages stratified into salary increments.  
16 The annual wage base in effect for the year for each type of payroll tax was applied to total wages  
17 so that wages up to, but not exceeding, the wage base cap were subject to the tax.

18 Thus, wages up to the salary increment where the annual wage is closest to the wage base  
19 cap are subject to the tax. Wages above the wage base cap for any particular type of payroll tax  
20 were derived from multiplying the number of employees in each stratum above the cap by the wage  
21 base cap. The resulting taxable wages for each tax type were totaled, and the applicable statutory  
22 tax rate was then applied to the total taxable wages.

23 The Medicare portion of the FICA tax is computed without respect to a wage base since all  
24 wages are subject to that tax. A companywide composite tax rate was computed based on total  
25 forecasted payroll taxes using the above methodology, divided by total forecasted wages. The

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<sup>12</sup> For historical FUTA credit reductions, *see* United States Department of Labor – Employment & Training Administration, *FUTA Credit Reductions*, available at: [https://oui.doleta.gov/unemploy/futa\\_credit.asp](https://oui.doleta.gov/unemploy/futa_credit.asp).

<sup>13</sup> IRC § 3306(b)(1).

<sup>14</sup> *See* California Employment Development Department (EDD), *Contribution Rates, Withholding Schedules, and Meals and Lodging Values*, available at: [https://edd.ca.gov/en/payroll\\_taxes/rates\\_and\\_withholding/](https://edd.ca.gov/en/payroll_taxes/rates_and_withholding/).

<sup>15</sup> *Id.*

1 composite payroll tax rate for each year was applied to labor dollars applicable to this Application  
 2 to determine the employer's payroll tax expense.

3 **C. Summary of Estimated Payroll Taxes**

4 Table SCG-RR-1 below summarizes the amount of payroll taxes for SoCalGas on all non-  
 5 capitalized wages applicable to this filing.

6 **Table SCG-RR-1**  
 7 **Southern California Gas Company**  
 8 **Summary of Estimated Payroll Taxes**  
 9 **(\$ in Thousands)**

<i>Line No.</i>	<i>2025 Recorded</i>	<i>2026 Forecast</i>	<i>2027 Forecast</i>	<i>2028 Test Year</i>
1	48,349	55,267	57,923	60,807

14 Table SDG&E-RR-1 below summarizes the amount of payroll taxes for SDG&E on all non-  
 15 capitalized wages applicable to this filing.

16 **Table SDG&E-RR-1**  
 17 **San Diego Gas & Electric Company**  
 18 **Summary of Estimated Payroll Taxes**  
 19 **(\$ in Thousands)**

	<i>Line No.</i>	<i>2025 Recorded</i>	<i>2026 Estimated</i>	<i>2027 Estimated</i>	<i>2028 Test Year</i>
<b>Electric Distribution</b>	1	12,067	12,700	13,342	14,025
<b>Gas Distribution</b>	2	5,971	7,254	7,561	7,897
<b>Electric Generation<sup>16</sup></b>	3	0	1,934	1,967	1,983
<b>Total</b>	4	<b>18,038</b>	<b>21,888</b>	<b>22,870</b>	<b>23,905</b>

20 **D. Results**

21 The increase in payroll taxes from 2025 to 2028 reflects the impacts of staffing level  
 22 changes presented by other witnesses in their direct testimonies, the impact of labor cost escalation  
 23 on those changes, and the increase in the composite payroll tax rate resulting from the OASDI wage  
 24 base increase as discussed above.

25 **III. AD VALOREM TAXES**

<sup>16</sup> Base year (BY) 2025 payroll tax amounts for electric generation are not separately identified and are included within the electric distribution payroll tax amounts for 2025, consistent with the base years for electric generation payroll taxes in SDG&E's prior GRCs.

1           **A.     Introduction**

2           The purpose of this section is to provide estimates of SoCalGas and SDG&E’s ad valorem  
3 taxes that will be incurred during TY 2028, and to describe the methodology used to develop the  
4 estimates.

5           **B.     Discussion**

6           Ad valorem taxes are a function of the assessed value of property and a tax rate applied to  
7 that value. Property owned and used by public utilities as of January 1 (the lien date) each year is  
8 re-assessed to its full market value by the California State Board of Equalization (SBE). By  
9 definition, ad valorem taxes are based on the value of the property being taxed. Appraisers have  
10 developed various generally accepted indicators of value that are correlated to yield an estimation of  
11 the market value of the property being assessed. The primary indicator of value for regulated public  
12 utility property is the Historical Cost Less Depreciation (HCLD) indicator, and a secondary  
13 indicator is the Capitalized Earnings Ability (CEA).

14           HCLD is the primary value gauge for rate-regulated property because it approximates rate  
15 base. HCLD is equal to the estimated cost of property that is subject to assessment by the SBE, less  
16 the accumulated depreciation taken on the property. Historical cost consists of the original cost of  
17 plant balances on the January 1 lien date, plus construction work-in-progress, materials and supplies  
18 on hand to operate the plant, and non-current (cushion) gas stored underground. Adjustments are  
19 made to add the value of possessory interests held by the utility on government-owned property and  
20 to deduct non-taxable licensed motor vehicles, software, leasehold improvements, business  
21 inventories, and other property not subject to ad valorem taxes. Finally, the HCLD indicator is  
22 adjusted by deducting the accumulated deferred federal income taxes on taxable property.

23           The CEA, or the income approach to value, is designed to recognize the concept that the  
24 value of business property is closely related to its ability to generate income. The CEA indicator is  
25 used when the property being appraised is purchased in anticipation of receiving income (*i.e.*, rental  
26 property), and the actual future income stream can be reliably forecast, or a hypothetical income  
27 stream can be estimated by comparison to other similar properties. The CEA is the preferred  
28 approach for the appraisal of properties when reliable sales data are not available, or when the cost  
29 approach does not yield reliable results. The CEA is a secondary indicator of value for public utility  
30 property because the income of public utility property is limited by regulation, and comparison to  
31 the income stream from similar properties is limited.

1 The Companies have filed their property statements with the SBE for the 2025 and 2026 lien  
2 dates. The property statements form the basis of the appraisals to set the value of the Companies’  
3 property for the 2025 - 2026 and 2026 - 2027 fiscal years. The SBE reports the value of property  
4 subject to ad valorem tax annually on the “Notice of Unitary Appraised Value,” which the  
5 Companies have received for the 2025 lien date and expect to receive for the 2026 lien date by June  
6 2026.

7 In correlating the value indicators calculated by the SBE from information contained in the  
8 property statement, the SBE applied a weighting of 75% to the HCLD indicator and 25% to the  
9 CEA indicator to derive the total appraised valuation of the Companies’ unitary property.<sup>17</sup> Added  
10 to the value of the Companies’ unitary property is the value of non-unitary property.<sup>18</sup> In estimating  
11 ad valorem taxes for ratemaking purposes, adjustments were made to exclude taxes resulting from:  
12 (a) the assessment of non-utility property since it is not included as an operating expense; and (b)  
13 Construction Work in Process (CWIP), which is capitalized rather than directly charged to ad  
14 valorem tax expense.

15 The SBE has followed the same assessment methodology for several years, and this method  
16 has been approved by the CPUC in the Companies’ prior GRCs, without exception. The Companies  
17 thus followed this methodology to estimate the assessed value for unitary property and the resulting  
18 ad valorem tax expense estimate for TY 2028.

19 The tax rate used to estimate California ad valorem taxes is the basic statewide tax rate of  
20 1% established under Proposition 13 plus an additional rate component of 0.4782% for SoCalGas  
21 and 0.9146% for SDG&E, which is a composite rate derived from dividing taxes paid to local  
22 jurisdictions by the total assessed value of property in all voter-approved local assessment districts  
23 as allowed under Proposition 13. The escalation in the rates from 2025 to 2028 represents the  
24 average historical rate of increase in local tax rates over the most recent five-year period. The  
25 Companies have used a five-year average of historical rate increases to forecast the escalation in ad  
26 valorem rates in several prior GRCs, and this methodology has been accepted in prior GRCs  
27 without exception.

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<sup>17</sup> Unitary property is property owned or used by a utility that the SBE has determined is used in the Companies’ operating businesses. The weight given to the CEA and HCLD indicators by the SBE can be derived mathematically by correlating the value indicators to the final value.

<sup>18</sup> Non-unitary property is property owned or used by the utility that the SBE has determined is not used in the Companies’ operating businesses.

The estimated ad valorem tax expense for TY 2028 is comprised of the second installment payment from fiscal year 2027 - 2028 plus the first installment payment for fiscal year 2028 - 2029.

The estimated ad valorem taxes for SoCalGas's Las Vegas Data Center, which is located in Nevada, are added to California ad valorem taxes as an "Other Adjustment" on the Ad Valorem summary table, Table SCG-RR-2 below.

The estimated ad valorem taxes for SDG&E's Desert Star Energy Center, also located in Nevada, are added to California ad valorem taxes as an "Other Adjustment" on the Electric Generation summary table, Table SDG&E-RR-2-3 below.

**C. Summary of Estimated Ad Valorem Tax Expenses**

Table SCG-RR-2 below summarizes SoCalGas's estimated ad valorem tax expenses.

**TABLE SCG-RR-2**  
**Southern California Gas Company**  
**Summary of Estimated Ad Valorem Tax Expenses**  
**(\$ in Thousands)**

<i>Line No.</i>	<i>Description</i>	<i>2025 Recorded</i>	<i>2026 Estimated</i>	<i>2027 Estimated</i>	<i>2028 Test Year</i>
1	Taxable Plant in Service	24,676,337	26,546,622	28,606,149	30,602,841
2	Taxable Reserve for Depreciation	(8,536,417)	(9,100,439)	(9,848,758)	(10,560,452)
3	Taxable Net Plant	16,139,920	17,446,183	18,757,391	20,042,389
4	Taxable Reserve for Def. Inc. Tax	(1,829,566)	(1,884,111)	(1,850,921)	(1,885,666)
5	Adjustment for Income Approach	(789,154)	(858,181)	(932,319)	(1,001,265)
6	Assessed Value - Non-Unitary	69,898	76,012	82,579	88,685
7	Net Assessable Value	13,591,098	14,779,903	16,056,731	17,244,145
8	Ad Valorem Tax Rate	1.5010570%	1.5239560%	1.5468549%	1.5697538%
9	Ad Valorem Tax - Fiscal Year	204,010	225,239	248,374	270,691
10	Other Adjustments	357	357	357	357
	<u>Fiscal Year</u>				
11	Total Operating Ad Valorem Tax	204,367	225,597	248,732	271,048
12	Capitalized Ad Valorem Tax	(13,910)	(13,679)	(15,136)	(16,350)
13	Net Operating Ad Valorem Tax	190,457	211,918	233,596	254,698
	<u>Calendar Year (Note 1)</u>				
14	Total Operating Ad Valorem Tax	190,325	214,109	236,291	259,017
15	Capitalized Ad Valorem Tax	(13,567)	(12,508)	(13,105)	(15,421)
16	Net Operating Ad Valorem Tax	176,758	201,601	223,186	243,597

(Note 1) - Calendar year total operating ad valorem tax = 1/2 of the current fiscal year total ad valorem tax plus 1/2 of the prior fiscal year total ad valorem tax.

The following tables, Table SDG&E-RR-2-1, Table SDG&E-RR-2-2, Table SDG&E-RR-2-3, and Table SDG&E-RR-2-4, summarize SDG&E's estimated ad valorem tax expenses for Electric Distribution, Gas Distribution, Electric Generation, and in total, respectively.

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**Table SDG&E-RR-2-1**  
**San Diego Gas & Electric Company**  
**Summary of Estimated Ad Valorem Tax Expenses**  
**Electric Distribution**  
**(\$ in Thousands)**

<i>Line No.</i>	<i>Description</i>	<i>2025 Recorded</i>	<i>2026 Estimated</i>	<i>2027 Estimated</i>	<i>2028 Test Year</i>
1	Taxable Plant in Service	13,507,897	14,142,231	15,117,771	16,163,367
2	Taxable Reserve for Depreciation	(4,653,634)	(4,795,976)	(5,128,645)	(5,491,045)
3	Taxable Net Plant	8,854,263	9,346,255	9,989,126	10,672,322
4	Taxable Reserve for Def. Inc. Tax	(586,054)	(589,097)	(574,584)	(562,893)
5	Adjustment for Income Approach	(477,903)	(506,164)	(544,161)	(584,325)
6	Assessed Value - Non-Unitary	13,244	14,027	15,080	16,193
7	Net Assessable Value	7,803,550	8,265,021	8,885,461	9,541,296
8	Ad Valorem Tax Rate	1.9767795%	2.0389634%	2.1011472%	2.1633311%
9	Ad Valorem Tax - Fiscal Year	154,259	168,521	186,697	206,410
10	Other Adjustments	196	196	196	196
	<u>Fiscal Year</u>				
11	Total Operating Ad Valorem Tax	154,455	168,717	186,893	206,606
12	Capitalized Ad Valorem Tax	(7,791)	(7,031)	(6,959)	(7,214)
13	Net Operating Ad Valorem Tax	146,664	161,686	179,934	199,392
	<u>Calendar Year (Note 1)</u>				
14	Total Operating Ad Valorem Tax	137,911	161,139	177,358	196,302
15	Capitalized Ad Valorem Tax	(7,522)	(6,862)	(6,306)	(6,718)
16	Net Operating Ad Valorem Tax	130,389	154,277	171,052	189,584

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(Note 1) - Calendar year total operating ad valorem tax = ½ of the current fiscal year total ad valorem tax plus ½ of the prior fiscal year total ad valorem tax.

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**Table SDG&E-RR-2-2**  
**San Diego Gas & Electric Company**  
**Summary of Estimated Ad Valorem Tax Expenses**  
**Gas Distribution**  
**(\$ in Thousands)**

<i>Line No.</i>	<i>Description</i>	<i>2025 Recorded</i>	<i>2026 Estimated</i>	<i>2027 Estimated</i>	<i>2028 Test Year</i>
1	Taxable Plant in Service	4,946,087	5,287,580	5,523,903	5,799,300
2	Taxable Reserve for Depreciation	(1,489,457)	(1,628,822)	(1,743,386)	(1,863,029)
3	Taxable Net Plant	3,456,630	3,658,758	3,780,517	3,936,271
4	Taxable Reserve for Def. Inc. Tax	(419,047)	(413,446)	(396,182)	(423,317)
5	Adjustment for Income Approach	(175,572)	(187,579)	(195,615)	(203,049)
6	Assessed Value - Non-Unitary	4,865	5,198	5,421	5,627
7	Net Assessable Value	2,866,876	3,062,932	3,194,142	3,315,532
8	Ad Valorem Tax Rate	1.9767795%	2.0389634%	2.1011472%	2.1633311%
9	Ad Valorem Tax - Fiscal Year	56,672	62,452	67,114	71,726
10	Other Adjustments	73	73	73	73
	<u>Fiscal Year</u>				
11	Total Operating Ad Valorem Tax	56,745	62,525	67,187	71,799
12	Capitalized Ad Valorem Tax	(3,989)	(2,248)	(2,803)	(3,106)
13	Net Operating Ad Valorem Tax	52,756	60,277	64,384	68,693
	<u>Calendar Year (Note 1)</u>				
14	Total Operating Ad Valorem Tax	51,344	59,464	64,685	69,322
15	Capitalized Ad Valorem Tax	(2,848)	(1,805)	(2,350)	(2,914)
16	Net Operating Ad Valorem Tax	48,496	57,659	62,335	66,408

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(Note 1) - Calendar year total operating ad valorem tax = ½ of the current fiscal year total ad valorem tax plus ½ of the prior fiscal year total ad valorem tax.

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**Table SDG&E-RR-2-3**  
**San Diego Gas & Electric Company**  
**Summary of Estimated Ad Valorem Tax Expenses**  
**Electric Generation**  
**(\$ in Thousands)**

<i>Line No.</i>	<i>Description</i>	<i>2025 Recorded</i>	<i>2026 Estimated</i>	<i>2027 Estimated</i>	<i>2028 Test Year</i>
1	Taxable Plant in Service	1,189,749	1,200,646	1,217,544	1,222,794
2	Taxable Reserve for Depreciation	(736,160)	(781,062)	(823,352)	(866,029)
3	Taxable Net Plant	453,589	419,584	394,192	356,765
4	Taxable Reserve for Def. Inc. Tax	(60,308)	(58,733)	(53,390)	(46,313)
5	Adjustment for Income Approach	(22,732)	(20,857)	(19,698)	(17,944)
6	Assessed Value - Non-Unitary	630	578	546	497
7	Net Assessable Value	371,179	340,572	321,649	293,005
8	Ad Valorem Tax Rate	1.9767795%	2.0389634%	2.1011472%	2.1633311%
9	Ad Valorem Tax - Fiscal Year	7,337	6,944	6,758	6,339
10	Other Adjustments	2,262	2,262	2,262	2,262
	<b>Fiscal Year</b>				
11	Total Operating Ad Valorem Tax	9,599	9,206	9,020	8,601
12	Capitalized Ad Valorem Tax	(335)	(97)	(86)	(85)
13	Net Operating Ad Valorem Tax	9,264	9,109	8,934	8,516
	<b>Calendar Year (Note 1)</b>				
14	Total Operating Ad Valorem Tax	9,009	9,355	9,065	8,762
15	Capitalized Ad Valorem Tax	(523)	(58)	(39)	(37)
16	Net Operating Ad Valorem Tax	8,486	9,296	9,026	8,725

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(Note 1) - Calendar year total operating ad valorem tax = ½ of the current fiscal year total ad valorem tax plus ½ of the prior fiscal year total ad valorem tax.

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**Table SDG&E-RR-2-4**  
**San Diego Gas & Electric Company**  
**Summary of Estimated Ad Valorem Tax Expenses**  
**Totals**  
**(\$ in Thousands)**

<i>Line No.</i>	<i>Description</i>	<i>2025 Recorded</i>	<i>2026 Estimated</i>	<i>2027 Estimated</i>	<i>2028 Test Year</i>
1	Calendar Year Net Operating Ad Valorem Tax - Electric Distribution	130,389	154,277	171,052	189,584
2	Calendar Year Net Operating Ad Valorem Tax - Gas Distribution	48,496	57,659	62,335	66,408
3	Calendar Year Net Operating Ad Valorem Tax - Electric Generation	8,486	9,296	9,026	8,725
4	<b>Total SDG&amp;E Calendar Year Net Operating Ad Valorem Tax</b>	<b>187,371</b>	<b>221,232</b>	<b>242,414</b>	<b>264,717</b>

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1           **D. Results**

2           The changes from BY 2025 to TY 2028 are the result of changes in plant and depreciation  
3 balances presented by other witnesses in their direct testimonies and the expected escalation in the  
4 tax rate for local assessments as discussed above.

5 **IV. INCOME TAXES**

6           **A. Introduction**

7           The purpose of this section is to provide estimates of SoCalGas and SDG&E’s income tax  
8 expense for TY 2028, and to describe the assumptions and methodology used to calculate income  
9 tax expense. This section also presents and discusses the cumulative balances of the TMAs as of  
10 December 31, 2025.

11           **B. Discussion of Income Tax Expense**

12                   **1. Impact of the Tax Cuts and Jobs Act (TCJA)**

13           The TCJA was enacted on December 22, 2017.<sup>19</sup> It was the most comprehensive tax reform  
14 legislation to be enacted into law in more than thirty years. The changes to federal tax law under  
15 the TCJA affected both individuals and corporations. The TCJA also included provisions specific to  
16 regulated utilities such as SoCalGas and SDG&E. Most of the changes to federal tax law under the  
17 TCJA became effective beginning on January 1, 2018, although certain changes related to bonus  
18 depreciation became effective on September 28, 2017. The most significant change under the TCJA  
19 for corporations generally, and for regulated utility corporations specifically, was the lowering of  
20 the federal corporate tax rate from 35% to 21% beginning in 2018. The impact of the TCJA on the  
21 Companies’ income tax expense for TY 2028 is incorporated in the assumptions and methodology  
22 used to calculate income tax expense, which is discussed in the remainder of this section.

23                   **2. Impact of the Inflation Reduction Act (IRA)**

24           The IRA was enacted on August 16, 2022. The IRA included two provisions with  
25 potentially significant tax ratemaking implications: (1) a newly enacted Corporate Alternative  
26 Minimum Tax (CAMT) based on financial statement (*i.e.*, book) income; and (2) an expansion of  
27 energy-related tax credits. The impact of these provisions on SoCalGas and SDG&E are discussed  
28 below.

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<sup>19</sup> Pub. L. No. 115-97, 131 Stat. 2054 (2017).



1 **b. Expanded Energy-Related Tax Credits**

2 The IRA introduced new and expanded incentives for green energy in the form of tax  
3 credits, particularly Investment Tax Credits (ITC).<sup>22</sup> One of the new types of ITCs added by the  
4 IRA was for standalone energy storage projects.<sup>23</sup>

5 The IRA generally provides for a base ITC of 6 percent of qualified costs, which can be  
6 increased by five times to 30 percent, for qualifying projects that meet the prevailing wage and  
7 apprenticeship requirements.<sup>24</sup> Other non-ITC tax credits, such as Production Tax Credits (PTC),  
8 were also expanded under the IRA.

9 Generally, SoCalGas and SDG&E’s projects that are eligible for IRA tax credits are  
10 incremental projects outside of the GRC, and thus the impact of IRA tax credits are reflected in  
11 separate filings and separate proceedings from the GRC. ITCs and other IRA tax credits that are  
12 included in separate filings outside of the GRC are not duplicated in this rate case.

13 SDG&E did, however, have one ITC-eligible energy storage project that was included with  
14 and approved in the 2024 GRC – the Advanced Energy Storage (AES) project, which was placed  
15 into service during 2025. SDG&E could not reasonably forecast the eligibility for the ITC or the  
16 amount of the credit for the AES project during the 2024 GRC proceeding. Therefore, SDG&E is  
17 tracking the 2025 ITC for this project in its TMA.

18 **3. Impact of the One Big Beautiful Bill Act (OB3)**

19 The OB3 was enacted on July 4, 2025.<sup>25</sup> The legislation introduces significant changes to  
20 federal income taxes for both businesses and individuals. Some of the more notable provisions of  
21 OB3 for the regulated utilities industry included changes to existing clean energy provisions and tax  
22 credits, and changes to the tax treatment of research and development (R&D) costs, including the  
23 costs related to self-developed software.

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<sup>22</sup> These new and expanded ITCs for green energy are codified in IRC §§ 48 and 48E.

<sup>23</sup> IRC §§ 48(a)(3)(A)(ix) and 48E(a)(1)(B).

<sup>24</sup> IRC §§ 48(a)(10) and (11) and IRC §§ 48E(d)(3) and (4). In certain circumstances, the credit could potentially increase further to up to 50 percent of qualified costs if both the domestic content and energy community requirements are met.

<sup>25</sup> Pub. L. 119-21.

1 **a. Clean Energy Provisions**

2 The OB3 expedited the phase-out and, in some cases, repealed certain clean energy  
3 provisions of the IRA. The most aggressive cuts and phase-outs were to wind and solar projects.  
4 These changes under the OB3, however, are prospective and thus do not impact the IRA credit  
5 eligibility or credit amount for projects that had been placed in service or had started construction  
6 before the July 4, 2025 enactment date of the OB3. Moreover, the Companies do not expect the  
7 accelerated repeal and phase-out provisions for certain IRA tax credits under the OB3 to impact any  
8 IRA tax credits for either SoCalGas or SDG&E.

9 **b. Self-Developed Software (SDSW)**

10 As discussed in more detail later in this Income Taxes section of my testimony, prior to  
11 2022, SDSW costs (both foreign and domestic) were immediately deductible. The TCJA changed  
12 this treatment starting in 2022. Domestic R&D costs (including SDSW costs) were required to be  
13 amortized over a 5-year period, and foreign R&D costs (including SDSW costs) were required to be  
14 amortized over a 15-year period.<sup>26</sup>

15 The OB3 brought back immediate expensing for domestic R&D costs beginning in 2025,  
16 which allows taxpayers to deduct domestic R&D costs (including SDSW costs) in full in the year  
17 incurred.<sup>27</sup> The OB3 gives taxpayers an optional election to continue to amortize domestic R&D  
18 costs over a period of at least 60 months.<sup>28</sup> In addition, the OB3 provides transition rules that allow  
19 taxpayers to deduct, over a 1 or 2-year period, the unamortized basis of previously capitalized  
20 domestic costs in 2022-2024.<sup>29</sup> For foreign SDSW costs, the OB3 mandates a 15-year amortization  
21 period.<sup>30</sup>

22 SoCalGas and SDG&E plan to elect to immediately expense their domestic SDSW costs in  
23 full each year beginning with the 2025 tax return. In addition, the Companies plan to elect to  
24 amortize the unamortized balances of their 2022 - 2024 domestic SDSW costs over a 2-year period,

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<sup>26</sup> Former IRC § 174(a)(2)(B), prior to the amendments made by the OB3.

<sup>27</sup> IRC § 174A(a), added by § 70302(a) of the OB3.

<sup>28</sup> IRC § 174A(c), added by § 70302(a) of the OB3.

<sup>29</sup> Taxpayers may also elect to continue to amortize the 2022-2024 domestic SDSW balances over a 5-year period.

<sup>30</sup> IRC § 174(a), as amended by § 70302(b) of the OB3.

1 beginning in 2025. These two elections will result in a larger tax deduction for SDSW costs in 2025  
2 and future years than what was expected prior to the passage of the OB3.

#### 3 **4. Methodology**

4 SoCalGas and SDG&E's operating income is subject to federal income tax and the  
5 California Corporation Franchise Tax (CCFT). Income tax expense is a function of cost-of-service  
6 amounts and capital expenditures adopted by the CPUC, as adjusted to comply with income tax  
7 rules. Accordingly, the calculation of ratemaking income taxes is dependent upon federal and state  
8 tax laws, prior CPUC decisions with general applicability to all utilities, and decisions with specific  
9 reference to SoCalGas or to SDG&E.

10 Consistent with CPUC Decision (D.) 84-05-036 issued in OII 24, the income tax estimates  
11 contained in this section are based on the Companies' stand-alone taxes, not on an allocation of tax  
12 expense from Sempra, the parent company of SoCalGas and SDG&E.<sup>31</sup>

13 Another issue considered by the CPUC in OII 24 was whether expenses not borne by  
14 customers should be included as income tax deductions in computing estimated TY income tax  
15 expense. The CPUC stated that it had consistently calculated income taxes for ratemaking purposes  
16 based on the cost of service developed from authorized expenses.<sup>32</sup> The CPUC also found that if  
17 they were to include expenses not subject to rate recovery as a deduction in calculating taxable  
18 income, stockholders would be penalized by a reduction in their net income equal to the full amount  
19 of the expenditures, because they would have no offsetting tax deduction.<sup>33</sup> The Commission  
20 concluded that their method of excluding expenses not borne by customers in the calculation of TY  
21 income tax expense is reasonable and should continue.<sup>34</sup> As such, SoCalGas and SDG&E follow  
22 this conclusion of law from OII 24 in this GRC proceeding, as they have done in prior GRCs.

23 The estimates contained in this section were calculated using current federal and state tax  
24 laws enacted through the date of this testimony. The Companies have not attempted to forecast any  
25 future changes in tax law in the income tax calculations. The Companies have utilized current

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<sup>31</sup> *Re Income Tax Expense for Ratemaking Purposes (D.84-05-036)*, 1984 Cal. PUC LEXIS 1325 at \*57-58 (Finding of Fact (FOF) 12); 15 CPUC 2d 42.

<sup>32</sup> *Id.* at \*15.

<sup>33</sup> *Id.* at \*16-18.

<sup>34</sup> *Id.* at \*62 (Conclusion of Law (COL) 2).

1 federal and state statutory tax rates of 21% and 8.84%, respectively, in developing their estimates of  
2 federal and state income tax expense.

3 As prescribed in D.84-05-036, the Companies used the statutory federal tax rate of 21% and  
4 the statutory state tax rate of 8.84% in their development of the net-to-gross multiplier used to  
5 gross-up tax expense to a revenue requirement.<sup>35</sup>

6 State income tax expense has been computed by reducing operating income by operating  
7 expenses, including property taxes and payroll taxes, and making certain permanent and flow  
8 through tax adjustments for differences in the book and state tax treatment of items of income and  
9 expense (Schedule M adjustments) as explained in more detail later in this section. Consistent with  
10 the CPUC policy discussed in D.93848,<sup>36</sup> a flow through accounting methodology was utilized in  
11 estimating state tax expense.<sup>37</sup>

12 Federal income tax expense has been computed by reducing operating income by operating  
13 expenses, including property taxes, payroll taxes, and prior year state taxes, and making tax  
14 adjustments for differences in the book and federal tax treatment of certain items of income and  
15 expense (Schedule M adjustments), also explained in more detail later in this section.

16 Where required, SoCalGas and SDG&E have followed the normalization rules contained in  
17 IRC § 168 and Treasury Regulations Section (Treas. Reg. § 1.167(l)-1) in computing federal income  
18 tax expense.<sup>38</sup> Accordingly, federal tax depreciation on post-1980 vintage assets has been  
19 “normalized” by using a book life and method to calculate tax depreciation. Consistent with CPUC  
20 policy, where normalization is not required by the IRC, the Companies generally have flowed  
21 through tax deductions. For example, tax depreciation on pre-1981 vintage assets have been flowed  
22 through as an adjustment to federal tax expense as required by D.93848.<sup>39</sup>

23 Tax expense based on income has been reduced by the amortization of deferred ITCs  
24 generated in prior years in accordance with SoCalGas’s and SDG&E’s elections under applicable

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<sup>35</sup> *Id.* at \*62-63 (COL 9).

<sup>36</sup> *Interim Order that Conventional Normalization Methods Shall Be Used for Purposes of the Economic Recovery Tax Act of 1981 (D.93848)*, 1981 Cal. PUC LEXIS 1240; 7 CPUC 2d 332 (1981).

<sup>37</sup> Flow-through accounting treats temporary differences between recognition of expenses for book purposes and their tax return treatment as current adjustments to the revenue requirement.

<sup>38</sup> Normalized tax accounting follows the book treatment for items of income and expense in the revenue requirement calculation.

<sup>39</sup> D.93848 (*supra*).

1 tax law<sup>40</sup> to ratably flow through the ITC benefit as a reduction to ratemaking tax expense at a rate  
2 not to exceed the book life of the property that generated the ITC. This application conforms to the  
3 treatment of deferred ITC amortization mandated by D.88-01-061<sup>41</sup> and is the same treatment  
4 employed by the Companies in prior rate cases. SoCalGas has a small portion of deferred ITC that  
5 reduced rate base, pursuant to an election made under applicable law<sup>42</sup> by a predecessor company,  
6 Pacific Lighting Gas Supply Company (Pacific Lighting), which merged with SoCalGas in  
7 November 1985. As a successor in interest, SoCalGas continues to amortize deferred ITC  
8 generated by Pacific Lighting as a ratable restoration to rate base.

9         SoCalGas's and SDG&E's federal income tax expense has been reduced by the amortization  
10 of remaining excess deferred federal income taxes resulting from a reduction in the federal income  
11 tax rate from a high of 41% prior to the Tax Reform Act of 1986 (TRA 86) to the current 21% under  
12 the TCJA beginning in 2018, utilizing ARAM as required by Internal Revenue Service (IRS)  
13 normalization rules and mandated by D.88-01-061.<sup>43</sup> Additionally, ARAM is the required method  
14 for amortizing plant-related excess accumulated deferred federal income tax (ADFIT) resulting  
15 from the tax rate reduction under the TCJA.<sup>44</sup> Only a small amount of excess ADFIT remains from  
16 the decrease in tax rate under TRA 86. The ARAM amount increased significantly beginning in  
17 2018, due to the reduction in the federal corporate income tax rate from 35% to 21% under the  
18 TCJA. The ARAM rules and methodology required under the TCJA are discussed in more detail in  
19 Section IV.C.3 below.

20         TRA 86 adopted rules regarding capitalization of construction-period interest for long-lived  
21 assets that have an extended construction period. These rules were codified in IRC § 263A. For  
22 book and ratemaking purposes, construction-period interest is capitalized through an allowance for  
23 funds used during construction (AFUDC). While similar in concept, there are specific differences  
24 between the book and tax treatment of construction-period interest. As in prior rate cases, for tax  
25 purposes, SoCalGas and SDG&E follow the rules in IRC § 263A in this Application with respect to  
26 the treatment of construction-period interest.

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<sup>40</sup> SoCalGas and SDG&E's elections under former IRC § 46(f)(2).

<sup>41</sup> *Re Tax Reform Act of 1986 (D.88-01-061)*, 1988 Cal. PUC LEXIS 102; 27 CPUC 2d 310 (1988).

<sup>42</sup> Pacific Lighting's election under former IRC § 46(f)(1).

<sup>43</sup> D.88-01-061 (*supra*) at \*95-96.

<sup>44</sup> TCJA § 13001(d)(3)(B).

## 5. Schedule M Items and Other Specific Tax Deductions

SoCalGas and SDG&E made several adjustments to book income in the form of Schedule M adjustments to arrive at taxable income. In addition, there are other types of deductions permitted under the IRC that have been incorporated into the computation of the Companies' tax expense, as discussed below.

Fixed Charges – Operating. This adjustment represents the interest expense accrued on debt used to finance rate base. The deduction is computed using rate base and the authorized weighted-average cost of long-term debt. The CCFT interest deduction is based on rate base net of deferred ITC (as ITC is not available for CCFT purposes).

Preferred Dividend Deduction. IRC § 247 allows a deduction for dividends paid on preferred stock issued prior to October 1, 1942. A deduction is also allowed for dividends on preferred stock issued after October 1, 1942 if the preferred stock replaced other preferred stock or bonds issued before October 1, 1942. A portion of SoCalGas's preferred stock dividends qualify for deduction, which is a permanent difference between the book and tax treatment. SoCalGas has flowed through this deduction.

Fiscal Year/Calendar Year Property Tax Adjustment. An adjustment is made to add back book calendar-year property tax expense and deduct fiscal-year property tax expense as allowed by federal and state tax law. Consistent with CPUC policy, this deduction is flowed through in the calculation of income tax expense.

Prior Year CCFT. Federal law allows a deduction for state income taxes paid. In California, this is the CCFT deduction. For ratemaking purposes, D.89-11-058<sup>45</sup> specifies that the allowable deduction is the prior years' CPUC-adopted CCFT, not the current year CCFT. Since there is, as of yet, no CPUC-adopted CCFT, SoCalGas and SDG&E have used the prior year's CCFT estimate in calculating federal tax expense for TY 2028.

Self-Developed Software (SDSW). For financial accounting purposes, software expenditures are capitalized and amortized to expense over various lives. For tax purposes, a current-year deduction was allowed under IRC § 174 for SDSW expenditures paid or incurred through 2021. The TCJA changed the tax treatment for SDSW expenditures paid or incurred beginning in 2022, from a deduction of the full amount in the year incurred to a 5-year amortization

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<sup>45</sup> *Re Proper Level of Expense for Rate-making Purposes for Public Utilities Due to the Changes Resulting from the 1986 Tax Reform Act (D.89-11-058)*, 1989 Cal. PUC LEXIS 815 at \*34 (COL 1); 33 CPUC 2d 495 (1989).

1 period for such domestic expenditures and a 15-year amortization period for such foreign  
2 expenditures.<sup>46</sup>

3 As discussed earlier in this Income Taxes section of my testimony, the OB3 brought back  
4 immediate expensing for domestic R&D costs beginning in 2025, which allows taxpayers to deduct  
5 domestic R&D costs (including SDSW costs) in full in the year incurred. In addition, the OB3  
6 provides transition rules that allow taxpayers to deduct, over a 1 or 2-year period, the unamortized  
7 basis of previously capitalized domestic costs in 2022 - 2024.<sup>47</sup> For foreign SDSW costs, the OB3  
8 mandates a 15-year amortization period.<sup>48</sup>

9 SoCalGas and SDG&E plan to elect to immediately expense their domestic SDSW costs in  
10 full each year beginning with the 2025 tax return.<sup>49</sup> In addition, the Companies plan to elect to  
11 amortize the unamortized balances of their 2022 - 2024 domestic SDSW costs over a 2-year period,  
12 beginning in 2025.

13 SoCalGas and SDG&E have deducted the allowable annual amount of SDSW costs as a  
14 flow-through deduction pursuant to D.84-05-036.<sup>50</sup> IRC § 167(f) requires capitalization of un-  
15 modified, or “canned” software. The Companies apply normalized tax accounting treatment to  
16 expenditures for canned software pursuant to D.84-05-036.

17 Federal Tax Depreciation. Federal tax depreciation on post-1980 vintage property is  
18 governed by the normalization rules described above. Differences between book and tax  
19 depreciation resulting from the different methods and lives used to compute book and tax  
20 depreciation are normalized. Federal tax return depreciation on pre-1981 vintage property is flowed  
21 through as a deduction in the computation of federal taxable income, as is depreciation attributable  
22 to differences in the basis used to depreciate property for book and tax purposes.

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<sup>46</sup> TCJA §§ 13206(a), (c)(3), and (e).

<sup>47</sup> Taxpayers may also elect to continue to amortize the 2022-2024 domestic SDSW balances over a 5-year period.

<sup>48</sup> IRC § 174(a), as amended by § 70302(b) of the OB3.

<sup>49</sup> The 2028 tax deduction for internally developed software is a function of the forecasted spend on internally developed software in TY 2028. Spend data is forecasted by capital witnesses in the rate base module of the Results of Operations (RO) Model, and the tax module pulls in the forecasted spend data from the rate base module.

<sup>50</sup> D.84-05-036 (*supra*).

1           State Tax Depreciation. California did not adopt the federal accelerated depreciation lives  
2 and methods or the normalization requirements enacted by the Economic Recovery Tax Act of 1981  
3 (ERTA) and the TRA 86. Accordingly, there is no requirement to normalize state tax depreciation;  
4 therefore, SoCalGas and SDG&E flow through the state tax depreciation in excess of the amount  
5 deducted for book purposes. The Companies' state tax depreciation is calculated using the Asset  
6 Depreciation Range Method (ADR) prescribed by the IRS prior to 1981, which utilizes double  
7 declining balance depreciation switching to a straight-line method when book depreciation exceeds  
8 the double declining balance method.

9           Federal Cost of Removal. SoCalGas and SDG&E follow the guidance in IRS Revenue  
10 Ruling 2000-7,<sup>51</sup> which provides a current tax deduction for actual costs to remove assets retired  
11 from service in the year that those costs are incurred. For book purposes, estimates of such costs  
12 are capitalized and depreciated over the life of the assets. Thus, there is a timing difference between  
13 tax and book. To be consistent with the treatment of property that is being depreciated under the  
14 Accelerated Cost Recovery System (ACRS) or the Modified Accelerated Cost Recovery System  
15 (MACRS) as described above, SoCalGas and SDG&E normalize the costs to remove those assets  
16 for federal tax purposes and flow through the federal removal costs only on pre-1981 vintage assets  
17 retired from service. This approach is consistent with prior GRCs.

18           State Cost of Removal. California did not adopt the federal ACRS or MACRS depreciation  
19 systems, choosing instead to remain on the ADR system. Accordingly, SoCalGas and SDG&E flow  
20 through removal costs for CCFT purposes irrespective of the vintage of the underlying assets per  
21 D.84-05-036.<sup>52</sup> This treatment is consistent with prior GRCs.

22           Repairs Deduction. The Schedule M adjustment for the repairs deduction represents the  
23 difference between expenditures that are permitted to be deducted as repairs for tax purposes and  
24 those same expenditures that are required to be capitalized for financial reporting purposes.

25           On April 14, 2023, the IRS released Revenue Procedure 2023-15, effective for taxable years  
26 ending after May 1, 2023. This Revenue Procedure provided a safe harbor method of accounting  
27 that taxpayers may use to determine whether expenditures to maintain, replace, or improve gas  
28 transmission and distribution property must be capitalized under IRC § 263(a) or § 263A or treated  
29 as deductible expenses under IRC § 162. On October 11, 2024, SoCalGas and SDG&E made the

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<sup>51</sup> 2000-1 C.B. 712.

<sup>52</sup> D.84-05-036 (*supra*) at \*59 (FOF 23).

1 election to adopt the safe harbor method of accounting for gas repairs under Revenue Procedure  
2 2023-15. The election was effective beginning with the Companies' 2023 tax year and continues to  
3 apply to subsequent tax years.

4 The Commission accepted the Companies' proposal to reflect the increased repairs  
5 deduction resulting from the accounting method change in the 2024 GRC.<sup>53</sup> SoCalGas and SDG&E  
6 continue to apply the safe harbor methodology for gas repairs in this TY 2028 GRC.

7 SoCalGas and SDG&E have flowed through the tax benefits associated with their projected  
8 repairs deduction to ratepayers for TY 2028 for both federal and California tax purposes in  
9 accordance with D.93848.

10 Employee Transportation Benefits. Prior to the enactment of the TCJA, employers generally  
11 were allowed a deduction for the costs associated with providing transportation fringe benefits to its  
12 employees, such as parking and commuter rail costs, under IRC § 274. The TCJA amended IRC §  
13 274 effective January 1, 2018 to eliminate the deduction for expenses incurred in providing any  
14 transportation to employees, or any payment or reimbursement for transportation fringe benefits to  
15 employees, except as necessary to ensure the safety of the employee.<sup>54</sup> SoCalGas and SDG&E  
16 continue to provide transportation fringe benefits to their employees. But since such costs are no  
17 longer deductible under the TCJA, the Companies must add back these costs in computing taxable  
18 income.

19 Tax Credits. SoCalGas and SDG&E have reflected an offset to tax expense for federal and  
20 state tax credits allowed under current law. SoCalGas and SDG&E have also reflected a "credit  
21 addback" where required in computing taxable income. Generally, a taxpayer cannot claim both a  
22 deduction and a credit for the same item of expense. Therefore, the Companies have added the  
23 amount of credits claimed back to taxable income to reverse the corresponding tax deductions.

#### 24 **C. Discussion of Deferred Taxes**

25 The ADFIT resulting from the difference between normalized tax depreciation computed  
26 using a book life and book method and the comparable tax depreciation computed using ACRS or

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<sup>53</sup> See D.24-12-074 at 826 ("We find it reasonable to update the revenue requirement to reflect the change in the tax accounting method because it lowers revenue requirements, which will lower rates, ultimately reducing customer bills. We also agree with SoCalGas and SDG&E to apply the 2023 tax benefits in this decision rather than an Advice Letter process to maximize the immediate ratepayer benefits rather than delaying a few months through another regulatory filing.").

<sup>54</sup> TCJA § 13304(c).

1 MACRS has been included as an adjustment to rate base in this GRC (*see* the rate base testimonies,  
2 Exhibit (Ex.) SCG-23 and Ex. SDGE-28). SoCalGas’s and SDG&E’s treatment of deferred taxes is  
3 in accordance with IRC § 168(i)(9), Treas. Reg. § 1.167(l)-1, and numerous related IRS rulings that  
4 taken together constitute the “tax normalization” requirements.

5 All current law has been followed in the development of deferred federal income taxes.  
6 Accumulated deferred taxes for TY 2028 were developed on a monthly basis and prorated in  
7 accordance with the normalization requirements in Treas. Reg. § 1.167(l)-1(h)(6)(ii).<sup>55</sup>

## 8 **1. Bonus Depreciation**

### 9 **a. Pre-TCJA**

10 Prior to the enactment of the TCJA, the bonus depreciation rules allowed regulated utilities  
11 such as SoCalGas and SDG&E to immediately expense a specified percentage of qualifying  
12 property placed into service in a particular year, rather than requiring the taxpayer to depreciate the  
13 full amount of the property over multiple years.<sup>56</sup>

14 For ratemaking purposes, bonus depreciation was subject to the tax normalization rules  
15 contained in IRC § 168 and Treasury Regulations under former IRC § 167. The ratemaking effect  
16 of bonus depreciation was to increase federal tax return depreciation above the regular tax  
17 depreciation provided by the federal MACRS depreciation system for a particular year. The extra  
18 bonus tax depreciation created additional deferred taxes equal to the extra bonus depreciation  
19 multiplied by the federal income tax rate. The additional deferred taxes created by bonus  
20 depreciation were reflected in the accumulated deferred tax balances for purposes of calculating rate  
21 base.

### 22 **b. Bonus Depreciation Rules under the TCJA**

23 For qualified property acquired pursuant to a written binding contract and placed in service  
24 after September 27, 2017 (or for self-constructed property for which construction began after such  
25 date), the TCJA generally increased the bonus depreciation allowance to 100 percent through the

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<sup>55</sup> The method prescribed by Treas. Reg. § 1.167(l)-1(h)(6)(ii) is to be used when rates are set on a projected future period. Tax expense must be computed using a rate and method consistent with the rate and method used for book depreciation. The deferred tax reserve that reduces rate base must be computed using the average of the beginning-of-year balance plus a prorated end-of-year balance. The prorated end-of-year balance was computed assuming that additions to the deferred tax balances are credited ratably at the end of each month throughout the year.

<sup>56</sup> Former IRC § 168(k), prior to amendment by the TCJA.

1 end of 2022.<sup>57</sup> However, the TCJA also specified that bonus depreciation is not available for assets  
2 acquired or self-constructed in the trade or business of the furnishing or sale of:

3 (I) electric energy, water, or sewage disposal services, (II) gas or steam  
4 though a local distribution system, or (III) transportation of gas or steam by  
5 pipeline, if the rates for such furnishing or sale, as the case may be, have been  
6 established or approved by a State or political subdivision thereof, by any  
7 agency or instrumentality of the United States, by a public service or public  
8 utility commission or other similar body of any State or political subdivision  
9 thereof, or by the governing or ratemaking body of an electric cooperative.<sup>58</sup>

10 Accordingly, for property acquired (or self-constructed) and placed in service after  
11 September 27, 2017, the TCJA generally eliminated the bonus depreciation deduction for regulated  
12 utilities such as SoCalGas and SDG&E. The TCJA included a bonus depreciation transition rule for  
13 property that was acquired (or for which self-construction began) before September 27, 2017.<sup>59</sup>

14 Under both the general rule and the transition rules of the TCJA, no bonus depreciation is  
15 allowed for regulated utilities for property placed in service in 2021 or later. Therefore, no bonus  
16 depreciation deductions are reflected in the forecasts for any of the years included in the  
17 Companies' TY 2028 GRC. However, the residual impact of bonus depreciation taken on qualified  
18 property placed in service in prior periods, when bonus depreciation was allowed, is reflected in the  
19 accumulated deferred income tax balances for 2025-2028.

## 20 **2. Contributions-in-Aid-of-Construction**

21 Contributions-in-aid-of-construction (CIAC) are non-refundable contributions collected  
22 from utility customers in the form of money – or its equivalent – toward the construction of plant,  
23 such as customer-requested relocations. CIAC became taxable under the TRA 86. The CPUC  
24 proposed the Maryland Method or Method 5 as acceptable alternatives for the ratemaking treatment  
25 of CIAC in D.87-09-026.<sup>60</sup> SoCalGas elected Method 5 to account for the tax impacts of CIAC,  
26 and the related income tax component of the CIAC (ITCC) as required by the TRA 86. In  
27 accordance with D.87-09-026, SoCalGas has increased rate base for the tax paid on CIAC  
28 subsequent to February 10, 1987, the date that CIAC became taxable under the TRA 86. The

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<sup>57</sup> TCJA § 13201(a)(2).

<sup>58</sup> *Id.* at 13201(d)(9)(A) and 13301(a).

<sup>59</sup> *Id.* at 13201(a)(8).

<sup>60</sup> *Re Tax Reform Act of 1986 (D. 87-09-026)*, 1987 Cal. PUC LEXIS 195; 25 CPUC 2d 299 (1987).

1 increase to rate base related to CIAC tax impacts is reversed through tax depreciation over the tax  
2 life of the constructed property.

3 ITCC represents the tax gross-up for CIAC. It also became taxable under TRA 86. These  
4 tax gross-up amounts reflect the present value of tax paid upon receipt of CIAC, less the future tax  
5 benefits to be received through tax depreciation over the tax life of the constructed property. For  
6 SoCalGas, ITCC is included as a reduction to rate base and is amortized to miscellaneous revenues  
7 over the tax life of the constructed property as instructed by D.87-09-026.<sup>61</sup>

8 SDG&E elected the Maryland Method to account for the tax impacts of CIAC and ITCC. In  
9 accordance with D.87-09-026, SDG&E has thus not reflected any impact on rate base for the tax  
10 paid on CIAC income and the related ITCC received subsequent to February 10, 1987 – the date  
11 that CIAC became taxable under the TRA 86. Under the Maryland Method, the utility shareholders  
12 bear the impact of any shortfall between the tax liability and the tax gross-up ITCC collected from  
13 the contributor. The shareholders recover the shortfall through the tax depreciation benefits on the  
14 constructed property. Accordingly, there is no impact on rate base.

### 15 **3. Excess Deferred Taxes Related to the TCJA**

16 SoCalGas and SDG&E recomputed their ADFIT balances as of January 1, 2018 to reflect  
17 the reduction in the federal corporate income tax rate from 35% to 21% under the TCJA. The  
18 difference in the ADFIT balance under the old tax rate versus under the new tax rate represents the  
19 excess deferred tax reserve created by the TCJA. The TCJA defines the “excess tax reserve” as “(i)  
20 the reserve for deferred taxes (as described in section 168(i)(9)(A)(ii) of the Internal Revenue Code  
21 of 1986) as of the day before the corporate rate reductions . . . made by this section take effect, over  
22 (ii) the amount which would be the balance in such reserve if the amount of such reserve were  
23 determined by assuming that the corporate rate reductions provided in this Act were in effect for all  
24 prior periods.”<sup>62</sup>

#### 25 **a. Protected Assets**

26 SoCalGas and SDG&E began returning the excess ADFIT to their customers shortly after  
27 the TCJA was enacted. But in doing so, the Companies were required to adhere to the timing rules  
28 and other requirements under the TCJA. Failure to follow these rules and procedures will result in a

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<sup>61</sup> *Id.*

<sup>62</sup> TCJA § 13001(d)(3). The TCJA’s reference to IRC § 168(i)(9)(A)(ii) is to the IRS normalization rules discussed earlier in my testimony.

1 normalization violation.<sup>63</sup> The TCJA specifies that utilities may not return the excess ADFIT  
2 associated with utility plant assets (excess plant-based ADFIT) more rapidly than ratably over the  
3 life of the underlying assets.<sup>64</sup> Specifically, utilities are generally not permitted, in computing costs  
4 of service for ratemaking purposes, to refund excess plant-based ADFIT more rapidly or greater  
5 than the reductions permitted by the ARAM approach, which requires amortization of the excess tax  
6 reserve over the remaining regulatory lives of the property that gave rise to the ADFIT.<sup>65</sup> The TCJA  
7 defines ARAM as follows:

8           The average rate assumption method is the method under which the excess in  
9           the reserve for deferred taxes is reduced over the remaining lives of the  
10          property as used in its regulated books of account which gave rise to the  
11          reserve for deferred taxes. Under such method, during the time period in  
12          which the timing differences for the property reverse, the amount of the  
13          adjustment to the reserve for the deferred taxes is calculated by multiplying –  
14          (i) the ratio of the aggregate deferred taxes for the property to the aggregate  
15          timing differences for the property as of the beginning of the period in  
16          question, by (ii) the amount of the timing differences which reverse during  
17          such period.<sup>66</sup>

18           The requirement to use ARAM applies only to excess deferred taxes on plant-based assets  
19          that are subject to the IRS normalization rules (also known as “protected” assets). If a utility’s  
20          books and records do not contain the vintage data necessary to apply ARAM, the TCJA allows the  
21          utility to use an alternative method that amortizes the excess plant-based ADFIT ratably over the  
22          remaining average life or composite rate used to compute depreciation for regulatory purposes.<sup>67</sup>

23           ARAM is computed on an asset-by-asset basis. Thus, due to the large number of  
24          SoCalGas’s and SDG&E’s plant-related assets, the computation is too complex and detailed to  
25          incorporate within the RO Model. The Companies instead rely on their tax accounting and  
26          depreciation software to compute the ARAM amount for each year.

27           Among the TCJA impacts considered by the CPUC in the 2019 GRC Decision was the  
28          proper computation of ARAM – specifically, when computing the ARAM (as per TCJA §

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<sup>63</sup> TCJA § at 13001(d)(4).

<sup>64</sup> *Id.* at 13001(d)(1).

<sup>65</sup> *Id.* at 13001(d)(3)(B).

<sup>66</sup> *Id.*

<sup>67</sup> *Id.* at 13001(d)(3)(C). SoCalGas and SDG&E have the vintage data needed to compute ARAM and thus do not fall within this exception.

1 13001(d)(3)(B)), whether the cost of removal should be included or excluded from book  
2 depreciation in the ARAM calculation.<sup>68</sup> The CPUC concluded that unless otherwise directed by  
3 the IRS, SoCalGas and SDG&E should not exclude cost of removal from the ARAM computation.<sup>69</sup>

4 Notwithstanding the CPUC’s determination, the CPUC found it “prudent and reasonable to  
5 allow SoCalGas and SDG&E to track the revenue requirement difference between including and  
6 excluding cost of removal from the ARAM calculation,” and to allow the Companies to seek  
7 recovery of such difference in the event the IRS issues a ruling or releases further guidance  
8 indicating that cost of removal should be excluded from the ARAM calculation.<sup>70</sup> In such case, the  
9 CPUC stated that SoCalGas and SDG&E “should seek recovery of any difference in costs by filing  
10 a Tier 2 advice letter seeking appropriate adjustment to [their] revenue requirement.”<sup>71</sup>

11 On April 8, 2022, and on May 1, 2022, the IRS issued Private Letter Rulings to SDG&E and  
12 SoCalGas, respectively, reaching a different conclusion than D.19-09-051.<sup>72</sup> Specifically, the IRS  
13 concluded that:

- 14 1. The CPUC’s method of including book cost of removal in the ARAM calculation for  
15 the return of excess deferred taxes to ratepayers is inconsistent with the  
16 normalization rules.
- 17 2. The method proposed by SoCalGas and SDG&E of excluding book cost of removal  
18 in the ARAM calculation for the return of excess deferred taxes to ratepayers is  
19 consistent with the normalization rules.
- 20 3. SoCalGas and SDG&E’s use of the method proposed by the CPUC, as reflected in  
21 the 2019 GRC Decision, is not a violation of the normalization rules, provided that  
22 the Commission: (i) approves the method proposed by SoCalGas and SDG&E (or  
23 otherwise required by the Service); and (ii) allows SoCalGas and SDG&E to recover  
24 any difference in the rates charged to customers under the Commission’s proposed  
25 method and SoCalGas/SDG&E’s method.

26 Because the IRS reached conclusions that were different than those adopted in D.19-09-051,  
27 SoCalGas and SDG&E followed the process outlined in D.19-09-051 and filed Tier 2 advice letters  
28 seeking appropriate adjustment to their revenue requirements. These advice letters were approved

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<sup>68</sup> “Cost of removal” is the cost of demolishing, dismantling, tearing down, or otherwise removing electric or gas plant, including incidental transportation and handling costs.

<sup>69</sup> D.19-09-051 at 637-638.

<sup>70</sup> *Id.* at 638.

<sup>71</sup> *Id.*

<sup>72</sup> PLR-122708-21 (SoCalGas) and PLR-122706-21 (SDG&E).

1 by the Commission for SoCalGas and SDG&E on September 11, 2022 and September 12, 2022,  
2 respectively.<sup>73</sup>

3 Accordingly, the ARAM forecasts included in this TY 2028 GRC have excluded book cost  
4 of removal from the ARAM calculation, consistent with the IRS's conclusions.

5 **b. Unprotected Assets**

6 As stated above, the requirement to use ARAM applies only to excess ADFIT on plant-based  
7 assets that are subject to the IRS normalization rules (also known as "protected" assets). In  
8 contrast, "unprotected" assets are not subject to the IRS normalization rules. There are thus no IRS  
9 restrictions regarding how excess ADFIT on unprotected assets are returned to ratepayers.

10 In the 2019 GRC Decision, the Commission adopted The Utility Reform Network's (TURN)  
11 proposal for returning excess ADFIT on unprotected assets to ratepayers.<sup>74</sup> TURN had proposed to  
12 amortize and return to ratepayers the excess ADFIT from SoCalGas and SDG&E's unprotected  
13 assets over a six-year period, with the exception of the unprotected ADFIT related to the cost of  
14 removal tax deduction,<sup>75</sup> for which TURN had proposed to "apply the same ARAM-based  
15 treatment" to the excess ADFIT "as for protected assets."<sup>76</sup>

16 Consistent with the 2019 GRC Decision, SoCalGas and SDG&E have continued to apply  
17 ARAM-based treatment to amortize the excess ADFIT associated with the cost of removal tax  
18 deduction in its 2028 GRC forecasts.<sup>77</sup>

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<sup>73</sup> Advice Letters 6018G (SoCalGas) and 4055E/3113G (SDG&E).

<sup>74</sup> D.19-09-051 at 638.

<sup>75</sup> Cost of removal is not allowed as a deduction for tax purposes until the property is removed, which generally occurs at the end of the property's useful life. In contrast, for book purposes, cost of removal is expensed ratably over the property's useful life. This timing difference between book and tax creates a deferred tax asset, which causes rates to increase in the future as the excess ADFIT related to cost of removal is reversed over time.

<sup>76</sup> Application (A.) 17-10-008, Prepared Testimony of William Perea Marcus, Report on the Various Results of Operations Issues in Southern California Gas Company's and San Diego Gas and Electric Company's 2019 Test Year General Rate Cases, Ex. TURN-03 at 83-84.

<sup>77</sup> SoCalGas and SDG&E began amortizing the unprotected excess ADFIT over a six-year period (except for the excess ADFIT related to cost of removal) beginning in 2018. Accordingly, these unprotected excess ADFIT amounts were fully amortized by the end of 2023.

**D. Summary Tables**

The following summary tables reflect the federal and state income taxes applicable to this filing. For SDG&E, the “Electric Distribution” tables, Table SDG&E-RR-3-1 and Table SDG&E-RR-4-1, include electric distribution and electric generation for BY 2025.

**TABLE SCG-RR-3-1**  
**Southern California Gas Company**  
**Calculation of Federal & State Income Taxes**  
**(\$ in Thousands)**

<i>Line No.</i>	<i>Description</i>	<i>2025 Recorded</i>	<i>2026 Estimated</i>	<i>2027 Estimated</i>	<i>2028 Test Year</i>
1	Total Operating Revenue	4,102,623	4,470,172	4,692,229	5,096,306
2	O&M Expenses	(1,761,600)	(1,957,873)	(1,970,639)	(2,099,973)
3	Taxes Other than Income Taxes	(225,106)	(256,868)	(281,109)	(304,404)
4	Book Income Before Depr. & Income Taxes	2,115,916	2,255,430	2,440,480	2,691,929
5	State Tax Adjustments	(2,094,343)	(2,311,958)	(2,404,418)	(2,719,367)
6	Taxable Income	21,573	(56,528)	36,061	(27,438)
7	CCFT Rate	8.84%	8.84%	8.84%	8.84%
8	<b>California Corporate Franchise Tax</b>	1,907	(4,997)	3,188	(2,426)
9	Book Income Before Depr. & Income Taxes (Line 4, above)	2,115,916	2,255,430	2,440,480	2,691,929
10	Federal Tax Adjustments	(1,805,496)	(2,047,916)	(2,129,001)	(2,479,475)
11	Taxable Income	310,420	207,514	311,478	212,453
12	Federal Income Tax Rate	21%	21%	21%	21%
13	Federal Income Tax Before Credits	65,188	43,578	65,410	44,615
14	Investment Tax Credit Amortization	(756)	(559)	(360)	(264)
15	Amortization of Excess Deferred Taxes	(8,306)	(9,108)	(9,911)	(10,713)
16	Other	(1,936)	(704)	(704)	(704)
17	<b>Total Federal Income Tax</b>	54,189	33,206	54,435	32,933

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**TABLE SCG-RR-3-2**  
**Southern California Gas Company**  
**Summary of Income Tax Adjustments**  
**(\$ in Thousands)**

<i>Line No.</i>	<i>Description</i>	<i>2025 Recorded</i>	<i>2026 Estimated</i>	<i>2027 Estimated</i>	<i>2028 Test Year</i>
	<b><u>Federal Tax Adjustments:</u></b>				
1	Tax Depreciation	(721,078)	(768,354)	(789,775)	(953,439)
2	Fixed Charges – Operating	(294,031)	(345,883)	(373,726)	(410,655)
3	Repairs	(604,358)	(711,329)	(791,961)	(892,493)
4	Software Development	(182,745)	(203,744)	(163,591)	(205,347)
5	Cost of Removal	(9,610)	(8,807)	(6,958)	(5,675)
6	Ad Valorem Tax - Fiscal/Calendar	(13,699)	(10,316)	(10,410)	(11,101)
7	Preferred Dividend & Other	(780)	(780)	(780)	(780)
8	Disallowed Transportation Fringe Benefits	3,202	3,202	3,202	3,202
9	Prior Year Calif. Corp. Franchise Tax	17,605	(1,907)	4,997	(3,188)
10	Total Federal Tax Adj. (Deduction)	(1,805,496)	(2,047,916)	(2,129,001)	(2,479,475)
	<b><u>State Tax Adjustments:</u></b>				
11	Tax Depreciation	(803,594)	(889,374)	(955,120)	(1,092,809)
12	Fixed Charges – Operating	(293,924)	(345,779)	(373,630)	(410,566)
13	Repairs	(604,358)	(711,329)	(791,961)	(892,493)
14	Software Development	(240,557)	(263,250)	(200,684)	(253,170)
15	Cost of Removal	(138,210)	(91,910)	(72,613)	(59,228)
16	Ad Valorem Tax - Fiscal/Calendar	(13,699)	(10,316)	(10,410)	(11,101)
17	Preferred Dividend & Other	-	-	-	-
18	Total State Tax Adj. (Deduction)	(2,094,343)	(2,311,958)	(2,404,418)	(2,719,367)

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**Table SDG&E-RR-3-1**  
**Electric Distribution**  
**Calculation of Federal & State Income Taxes**  
**(\$ in Thousands)**

<i>Line No.</i>	<i>Description</i>	<i>2025 Recorded</i>	<i>2026 Estimated</i>	<i>2027 Estimated</i>	<i>2028 Test Year</i>
1	Total Operating Revenue	2,390,222	2,434,063	2,545,646	2,729,249
2	O&M Expenses	(788,978)	(821,740)	(830,011)	(875,478)
3	Taxes Other than Income Taxes	(150,941)	(166,976)	(184,394)	(203,609)
4	Book Income Before Depr. & Income Taxes	1,450,303	1,445,346	1,531,241	1,650,162
5	State Tax Adjustments	(1,062,253)	(981,200)	(1,060,621)	(1,153,172)
6	Taxable Income	388,049	464,146	470,620	496,990
7	CCFT Rate	8.84%	8.84%	8.84%	8.84%
8	<b>California Corporate Franchise Tax</b>	34,304	41,031	41,603	43,934
9	Book Income Before Depr. & Income Taxes (Line 4, above)	1,450,303	1,445,346	1,531,241	1,650,162
10	Federal Tax Adjustments	(968,652)	(904,162)	(968,679)	(1,091,670)
11	Taxable Income	481,651	541,184	562,562	558,492
12	Federal Income Tax Rate	21%	21%	21%	21%
13	Federal Income Tax Before Credits	101,147	113,649	118,138	117,283
14	Investment Tax Credit Amortization	(1,010)	(1,010)	(1,010)	(1,000)
15	Amortization of Excess Deferred Taxes	(6,270)	(6,887)	(7,504)	(8,121)
16	Other	(9,399)	(289)	(265)	(265)
17	<b>Total Federal Income Tax</b>	84,467	105,462	109,358	107,897

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**Table SDG&E-RR-3-2**  
**Gas Distribution**  
**Calculation of Federal & State Income Taxes**  
**(\$ in Thousands)**

<i>Line No.</i>	<i>Description</i>	<i>2025 Recorded</i>	<i>2026 Estimated</i>	<i>2027 Estimated</i>	<i>2028 Test Year</i>
1	Total Operating Revenue	755,017	805,878	836,966	900,346
2	O&M Expenses	(272,942)	(299,527)	(305,201)	(337,194)
3	Taxes Other than Income Taxes	(54,467)	(64,913)	(69,896)	(74,305)
4	Book Income Before Depr. & Income Taxes	427,608	441,439	461,869	488,847
5	State Tax Adjustments	(424,537)	(412,067)	(418,020)	(443,171)
6	Taxable Income	3,071	29,372	43,849	45,675
7	CCFT Rate	8.84%	8.84%	8.84%	8.84%
8	<b>California Corporate Franchise Tax</b>	272	2,596	3,876	4,038
9	Book Income Before Depr. & Income Taxes (Line 4, above)	427,608	441,439	461,869	488,847
10	Federal Tax Adjustments	(375,443)	(385,169)	(396,016)	(429,999)
11	Taxable Income	52,165	56,270	65,854	58,848
12	Federal Income Tax Rate	21%	21%	21%	21%
13	Federal Income Tax Before Credits	10,955	11,817	13,829	12,358
14	Investment Tax Credit Amortization	-	-	-	-
15	Amortization of Excess Deferred Taxes	(1,168.30)	(1,307.54)	(1,447)	(1,586)
16	Other	(13)	(7)	(7)	(7)
17	<b>Total Federal Income Tax</b>	9,773	10,502	12,375	10,765

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**Table SDG&E-RR-3-3**  
**Electric Generation**  
**Calculation of Federal & State Income Taxes**  
**(\$ in Thousands)**

<i>Line No.</i>	<i>Description</i>	<i>2025 Recorded</i>	<i>2026 Estimated</i>	<i>2027 Estimated</i>	<i>2028 Test Year</i>
1	Total Operating Revenue	-	218,934	218,427	226,170
2	O&M Expenses	-	(97,364)	(99,279)	(106,145)
3	Taxes Other than Income Taxes	-	(11,230)	(10,993)	(10,709)
4	Book Income Before Depr. & Income Taxes	-	110,339	108,156	109,316
5	State Tax Adjustments	-	(48,535)	(46,705)	(44,706)
6	Taxable Income	-	61,805	61,451	64,611
7	CCFT Rate	8.84%	8.84%	8.84%	8.84%
8	<b>California Corporate Franchise Tax</b>	-	5,464	5,432	5,712
9	Book Income Before Depr. & Income Taxes (Line 4, above)	-	110,339	108,156	109,316
10	Federal Tax Adjustments	-	(66,957)	(71,395)	(46,119)
11	Taxable Income	-	43,383	36,761	63,197
12	Federal Income Tax Rate	21%	21%	21%	21%
13	Federal Income Tax Before Credits	-	9,110	7,720	13,271
14	Investment Tax Credit Amortization	-	-	-	-
15	Amortization of Excess Deferred Taxes	-	-	-	-
16	Other	-	-	-	-
17	<b>Total Federal Income Tax</b>	-	9,110	7,720	13,271

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**Table SDG&E-RR-4-1**  
**Electric Distribution**  
**Summary of Income Tax Adjustments**  
**(\$ in Thousands)**

<i>Line No.</i>	<i>Description</i>	<i>2025 Recorded</i>	<i>2026 Estimated</i>	<i>2027 Estimated</i>	<i>2028 Test Year</i>
	<b><u>Federal Tax Adjustments:</u></b>				
1	Tax Depreciation	(489,705)	(454,348)	(477,056)	(531,029)
2	Fixed Charges – Operating	(168,391)	(179,255)	(189,472)	(200,423)
3	Repairs	(202,857)	(166,716)	(180,172)	(228,777)
4	Software Development	(68,359)	(57,170)	(67,107)	(75,071)
5	Cost of Removal	(5,588)	(5,588)	(5,588)	(5,588)
6	Ad Valorem Tax - Fiscal/Calendar	(17,054)	(7,409)	(8,882)	(9,808)
7	Disallowed Transportation Fringe Benefits	582	582	582	582
8	Credit Addback & Other	85	47	47	47
9	Prior Year Calif. Corp. Franchise Tax	(17,365)	(34,304)	(41,031)	(41,603)
10	Total Federal Tax Adj. (Deduction)	(968,652)	(904,162)	(968,679)	(1,091,670)
	<b><u>State Tax Adjustments:</u></b>				
11	Tax Depreciation	(471,272)	(451,131)	(492,054)	(515,041)
12	Fixed Charges – Operating	(168,126)	(178,996)	(189,233)	(200,205)
13	Repairs	(202,857)	(166,716)	(180,172)	(228,777)
14	Software Development	(108,104)	(82,108)	(95,440)	(104,501)
15	Cost of Removal	(94,840)	(94,840)	(94,840)	(94,840)
16	Ad Valorem Tax - Fiscal/Calendar	(17,054)	(7,409)	(8,882)	(9,808)
17	Credit Addback & Other	-	-	-	-
18	Total State Tax Adj. (Deduction)	(1,062,253)	(981,200)	(1,060,621)	(1,153,172)

5  
6  
7  
8

**Table SDG&E-RR-4-2**  
**Gas Distribution**  
**Summary of Income Tax Adjustments**  
**(\$ in Thousands)**

<i>Line No.</i>	<i>Description</i>	<i>2025 Recorded</i>	<i>2026 Estimated</i>	<i>2027 Estimated</i>	<i>2028 Test Year</i>
	<b><u>Federal Tax Adjustments:</u></b>				
1	Tax Depreciation	(133,583)	(135,463)	(132,481)	(147,610)
2	Fixed Charges – Operating	(58,925)	(64,491)	(66,653)	(69,810)
3	Repairs	(182,791)	(157,899)	(167,307)	(177,242)
4	Software Development	(10,319)	(21,120)	(21,624)	(25,869)
5	Cost of Removal	(3,401)	(3,401)	(3,401)	(3,401)
6	Ad Valorem Tax - Fiscal/Calendar	(4,260)	(2,618)	(2,049)	(2,285)
7	Disallowed Transportation Fringe Benefits	88	88	88	88
8	Credit Addback & Other	13	7	7	7
9	Prior Year Calif. Corp. Franchise Tax	17,736	(272)	(2,596)	(3,876)
10	Total Federal Tax Adj. (Deduction)	(375,443)	(385,169)	(396,016)	(429,999)
	<b><u>State Tax Adjustments:</u></b>				
11	Tax Depreciation	(150,332)	(140,347)	(136,301)	(142,359)
12	Fixed Charges – Operating	(58,925)	(64,491)	(66,653)	(69,810)
13	Repairs	(182,791)	(157,899)	(167,307)	(177,242)
14	Software Development	(16,319)	(34,803)	(33,801)	(39,565)
15	Cost of Removal	(11,909)	(11,909)	(11,909)	(11,909)
16	Ad Valorem Tax - Fiscal/Calendar	(4,260)	(2,618)	(2,049)	(2,285)
17	Credit Addback & Other	-	-	-	-
18	Total State Tax Adj. (Deduction)	(424,537)	(412,067)	(418,020)	(443,171)

9

**Table SDG&E-RR-4-3**  
**Electric Generation**  
**Summary of Income Tax Adjustments**  
**(\$ in Thousands)**

<i>Line No.</i>	<i>Description</i>	<i>2025 Recorded</i>	<i>2026 Estimated</i>	<i>2027 Estimated</i>	<i>2028 Test Year</i>
<b>Federal Tax Adjustments:</b>					
1	Tax Depreciation	-	(58,562)	(58,025)	(32,791)
2	Fixed Charges – Operating	-	(8,582)	(7,998)	(8,106)
3	Repairs	-	-	-	-
4	Software Development	-	-	-	-
5	Cost of Removal	-	-	-	-
6	Ad Valorem Tax - Fiscal/Calendar	-	187	92	210
7	Disallowed Transportation Fringe Benefits	-	-	-	-
8	Credit Addback & Other	-	-	-	-
9	Prior Year Calif. Corp. Franchise Tax	-	-	(5,464)	(5,432)
10	<b>Total Federal Tax Adj. (Deduction)</b>	<b>-</b>	<b>(66,957)</b>	<b>(71,395)</b>	<b>(46,119)</b>
<b>State Tax Adjustments:</b>					
11	Tax Depreciation	-	(40,140)	(38,799)	(36,810)
12	Fixed Charges – Operating	-	(8,582)	(7,998)	(8,106)
13	Repairs	-	-	-	-
14	Software Development	-	-	-	-
15	Cost of Removal	-	-	-	-
16	Ad Valorem Tax - Fiscal/Calendar	-	187	92	210
17	Credit Addback & Other	-	-	-	-
18	<b>Total State Tax Adj. (Deduction)</b>	<b>-</b>	<b>(48,535)</b>	<b>(46,705)</b>	<b>(44,706)</b>

**Table SDG&E-RR-5-1**  
**Calculation of Federal & State Income Taxes**  
**Totals**  
**(\$ in Thousands)**

<i>Line No.</i>	<i>Description</i>	<i>2025 Recorded</i>	<i>2026 Estimated</i>	<i>2027 Estimated</i>	<i>2028 Test Year</i>
1	Federal Income Taxes - Electric Distribution	84,467	105,462	109,358	107,897
2	Federal Income Taxes - Gas Distribution	9,773	10,502	12,375	10,765
3	Federal Income Taxes - Electric Generation	-	9,110	7,720	13,271
4	State Income Taxes - Electric Distribution	34,304	41,031	41,603	43,934
5	State Income Taxes - Gas Distribution	272	2,596	3,876	4,038
6	State Income Taxes - Electric Generation	-	5,464	5,432	5,712
7	<b>Total Federal &amp; State Income Taxes</b>	<b>128,816</b>	<b>174,165</b>	<b>180,365</b>	<b>185,617</b>

**E. Results**

The changes in federal and state income tax expense from BY 2025 to TY 2028 are primarily a function of increasing book income before taxes resulting from the return on an increasing rate base (*see* the rate base testimonies Ex. SCG-23 and Ex. SDGE-28). Federal and

1 state tax adjustments are also growing annually, which, in turn, partially offset the growth in book  
2 income before taxes from BY 2025 to TY 2028.

3 **F. Tax Memorandum Account**

4 **1. Background**

5 In the Companies' 2016 GRC Decision,<sup>78</sup> the Commission instructed SoCalGas and SDG&E  
6 to establish a TMA for the 2016 GRC cycle (January 1, 2016 – December 31, 2018).<sup>79</sup> As stated by  
7 the Commission in that decision, the purpose of the TMA “is to increase the transparency of the  
8 utilities' incurred and forecasted income tax expenses to the Commission, so that the Commission  
9 can more closely examine the revenue impacts caused by the utilities' implementation of various tax  
10 laws, tax policies, tax accounting changes, or tax procedure changes.”<sup>80</sup> The TMA “shall remain  
11 open and the balance in the account shall be reviewed in every subsequent GRC proceeding until a  
12 Commission decision closes the account.”<sup>81</sup>

13 In the 2019 GRC Decision, the Commission concluded that the TMA should be maintained  
14 for the 2019 GRC cycle.<sup>82</sup> The Commission also clarified that “the TMA is not meant as a true-up  
15 mechanism between actual and forecast tax expenses that are not caused by changes in tax law, tax  
16 accounting methods, tax procedures, and tax policy,” and that the TMA “only tracks differences  
17 arising from changes in tax law, tax accounting changes, tax policy changes, or procedural  
18 changes.”<sup>83</sup> The Commission concluded that “SoCalGas and SDG&E may file separate Tier 1  
19 advice letters within 45 days from the effective date of this decision to implement any necessary  
20 changes to their respective TMAs consistent with this decision.”<sup>84</sup>

21 Pursuant to the Commission's directive, SoCalGas and SDG&E filed Advice Letter 5546  
22 and Advice Letter 3462-E/2820-G, respectively, on November 12, 2019 to continue the TMA for the  
23 2019 GRC cycle, and to reflect the Commission's clarifications regarding the scope and purpose of

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<sup>78</sup> D.16-06-054.

<sup>79</sup> *Id.* at 328 (Ordering Paragraph (OP) 4).

<sup>80</sup> *Id.* at 196.

<sup>81</sup> *Id.*

<sup>82</sup> D.19-09-051 at 639.

<sup>83</sup> *Id.* at 639, 648.

<sup>84</sup> *Id.* at 773 (COL 99).

1 the TMA as provided in the 2019 GRC decision. The Commission approved the advice letters,  
2 without modification, on April 10, 2020. The Commission also approved the Companies’  
3 recommendation in the 2024 GRC to continue the TMA for the 2024 GRC cycle.<sup>85</sup>

4 As discussed in Advice Letter 5546 (for SoCalGas) and Advice Letter 3462-E/2820-G (for  
5 SDG&E), the TMA is a two-way tracking account, not recorded on SoCalGas’s or SDG&E’s  
6 financial statements, that tracks tax-related items that are the result of changes in tax law, tax  
7 accounting, tax policy, or tax procedure. Specifically, the TMA separately tracks the revenue  
8 requirement impact of the differences between tax expenses authorized in the GRC and tax  
9 expenses incurred resulting from: (1) mandatory tax law changes, tax accounting changes, tax  
10 procedural changes, and tax policy changes; (2) elective tax law changes, tax accounting changes,  
11 tax procedural changes, and tax policy changes; (3) other net revenue changes caused by tax law  
12 changes, tax accounting changes, tax procedural changes, and tax policy changes; (4) the  
13 completion of audits by federal and state taxing authorities; and (5) the implementation of any IRS  
14 private letter ruling regarding compliance with IRS normalization regulations.

15 Consistent with D.19-09-051 and D.24-12-074, SoCalGas and SDG&E are tracking and will  
16 continue to track the items in the TMA in accordance with the provisions of Advice Letter 5546 and  
17 Advice Letter 3462-E/2820-G, until such time that the Commission closes the accounts.

## 18 **2. Cumulative TMA Balances as of December 31, 2025**

19 Based on the foregoing and in accordance with D.19-09-051 and D.24-12-074, SoCalGas  
20 and SDG&E present the cumulative TMA balances as of December 31, 2025. Schedules that show  
21 the cumulative TMA balances (TMA Schedules) are attached as Appendix B-1 and B-2. Consistent  
22 with the CPUC’s clarifications regarding the purpose and scope of the TMA as articulated in D.19-  
23 09-051, the TMA Schedule reflects the impact of differences between authorized and incurred  
24 amounts related to changes in tax law, tax accounting, tax procedure, or tax policy, holding all other  
25 authorized items constant. As a general rule, only items and amounts that have been reported on an  
26 originally filed or amended tax return are included in the TMA Schedule, because the tax impacts  
27 have not been incurred until they are reflected in a filed tax return. However, to provide additional  
28 transparency to the CPUC, SoCalGas and SDG&E’s TMA Schedules also reflect 2025 tax items and

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<sup>85</sup> D.24-12-074 at 824.

1 amounts that SoCalGas and SDG&E intend to include in their yet-to-be-filed 2025 federal and  
2 California income tax returns.<sup>86</sup>

3 If the change in tax expense would decrease revenue, the amount is shown as a credit in the  
4 TMA Schedule. If the change in tax expense would increase revenue, the amount is shown as a  
5 debit in the TMA Schedule. As of December 31, 2025, the total, cumulative revenue impact of the  
6 tracked items shown in the TMA Schedules is a credit balance of \$0.873 million for SoCalGas, and  
7 a credit balance of \$19.389 million for SDG&E. Each line item in the TMA Schedules for the 2022  
8 - 2025 tax years is discussed in turn, below.<sup>87</sup>

9 **a. Mandatory Changes in Tax Law, Tax Accounting, Tax**  
10 **Procedures, or Tax Policy**

11 Bonus Depreciation – SoCalGas and SDG&E

12 As discussed earlier in the Income Taxes section of my testimony, under the TCJA, no bonus  
13 depreciation is allowed for regulated utilities for property placed in service in 2021 or later.  
14 Therefore, no bonus depreciation deductions are reflected in the forecasts for any of the years  
15 included in the Companies' TY 2028 GRC.

16 The TCJA included a bonus depreciation transition rule for property that was acquired (or  
17 for which self-construction began) before September 27, 2017.<sup>88</sup> Under the transition rule,  
18 SoCalGas and SDG&E qualified for additional bonus depreciation in the 2017-2020 tax years  
19 beyond what had been forecasted in the 2019 GRC. This additional bonus depreciation increased  
20 ADFIT, which in turn reduced rate base. The additional bonus depreciation for 2017-2020 will  
21 continue to impact rate base until the ADFIT related to the additional bonus depreciation fully  
22 reverses. The revenue impact of the additional bonus depreciation for 2022 and 2023 (i.e., the post-  
23 test years for the 2019 GRC) is reflected in the TMA Schedules for both SoCalGas and SDG&E.

24 Non-Deductible Employee Transportation Fringe Benefits – SDG&E

25 Prior to the enactment of the TCJA, employers generally were allowed a deduction for the  
26 costs associated with providing transportation fringe benefits to its employees, such as parking and

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<sup>86</sup> The Companies anticipate filing their 2025 federal and California income tax returns shortly before the extended due dates for these returns, which are October 15, 2026 and November 15, 2026, respectively.

<sup>87</sup> The items related to the beginning balances shown in the TMA Schedules for 2021 and prior tax years were discussed in the Companies' prior GRC Applications; therefore, the descriptions of 2021 and prior year items have not been included again in the GRC Application for TY 2028.

<sup>88</sup> TCJA § 13201(a)(8).

1 commuter rail costs, under IRC § 274. The TCJA amended IRC § 274 effective January 1, 2018 to  
2 eliminate the deduction for expenses incurred in providing any transportation to employees, or any  
3 payment or reimbursement for transportation fringe benefits to employees, except as necessary to  
4 ensure the safety of the employee.<sup>89</sup>

5 Initially, SDG&E did not believe this tax law change would impact its tax deduction related  
6 to employee parking, because SDG&E's costs of maintaining and operating its employee parking  
7 lots were incurred for the convenience of the company, and SDG&E's parking lots and structures do  
8 not have independent value outside of that purpose. However, the IRS published guidance in 2018  
9 clarifying that the "value" of the employee-provided parking lots and structures is not relevant for  
10 determining the deduction disallowed to the employer.<sup>90</sup> Rather, the deduction disallowance  
11 amount should be based on the actual expense incurred by the employer, regardless of "value."<sup>91</sup>

12 In light of this IRS guidance, SDG&E may not deduct the costs of maintaining and  
13 operating its employee parking facilities. The addback of these non-deductible employee  
14 transportation fringe benefits for 2022 - 2023 is reflected in the TMA Schedule.

15 TCJA and OB3 Changes to Self-Developed Software (SDSW) Deductions – SoCalGas and  
16 SDG&E

17 As discussed earlier in the Income Taxes section of my testimony, for tax purposes, a  
18 current-year deduction was allowed under IRC § 174 for SDSW expenditures paid or incurred  
19 through 2021. The TCJA changed the tax treatment for SDSW expenditures paid or incurred  
20 beginning in 2022, from a deduction of the full amount in the year incurred to a 5-year amortization  
21 period for such domestic expenditures and a 15-year amortization period for such foreign  
22 expenditures.<sup>92</sup>

23 The OB3 brought back immediate expensing for domestic R&D costs beginning in 2025,  
24 which allows taxpayers to deduct domestic SDSW costs in full in the year incurred.<sup>93</sup> In addition,  
25 the OB3 provides transition rules that allow taxpayers to deduct, over a 1 or 2-year period, the

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<sup>89</sup> TCJA § 13304(c).

<sup>90</sup> IRS Notice 2018-99, 2018-52 I.R.B. 1067, at 7.

<sup>91</sup> *Id.*

<sup>92</sup> TCJA §§ 13206(a), (c)(3), and (e).

<sup>93</sup> IRC §174A(a), added by § 70302(a) of the OB3.

1 unamortized basis of previously capitalized domestic costs in 2022 - 2024. For foreign SDSW  
2 costs, the OB3 mandates a 15-year amortization period.<sup>94</sup>

3 SoCalGas and SDG&E plan to elect to immediately expense their domestic SDSW costs in  
4 full each year beginning with the 2025 tax return. In addition, the Companies plan to elect to  
5 amortize the unamortized balances of their 2022 - 2024 domestic SDSW costs over a 2-year period,  
6 beginning in 2025.

7 The impact of these TCJA and OB3 law changes for SDSW for the 2022 - 2025 tax years is  
8 reflected in the Companies' TMA Schedules.

9 **b. Elective Changes in Tax Law, Tax Accounting, Tax Procedures, or**  
10 **Tax Policy**

11 Alternative Fuel Refueling Property Credit – SoCalGas and SDG&E

12 Prior to the enactment of the IRA, IRC § 30C allowed a tax credit equal to 30 percent of the  
13 cost of any qualified alternative fuel vehicle refueling property placed into service during the year.<sup>95</sup>  
14 The credit was limited to \$30,000 per location per year.<sup>96</sup> The pre-IRA version of the IRC § 30C  
15 credit expired at the end of the 2022 tax year.

16 The IRA modified and extended the credit for property installed after December 31, 2022.<sup>97</sup>  
17 The post-IRA version of the IRC § 30C credit changed the \$30,000 per-location limit to a \$100,000  
18 limit per item of property.<sup>98</sup> The modified credit also required the property to be located in a rural  
19 or low-income census tract to qualify for the credit.<sup>99</sup> In addition, for projects with costs over  
20 \$100,000, the base credit percentage was reduced from 30% to 6%, and the 30% credit was only  
21 available if the taxpayer satisfied strict prevailing wage and apprenticeship labor requirements for  
22 the construction and installation of the facilities.<sup>100</sup>

23 SDG&E's beginning balances for Elective Changes in Tax Law, Tax Accounting, Tax  
24 Procedures, or Tax Policy include approximately \$8.2 million of IRC § 30C credits from 2018 and

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<sup>94</sup> IRC § 174(a), as amended by § 70302(b) of the OB3.

<sup>95</sup> IRC § 30C(a), prior to the modifications under the IRA.

<sup>96</sup> *Id.* at § 30C(b)(1), prior to the modifications under the IRA.

<sup>97</sup> IRA § 13404.

<sup>98</sup> *Id.* at § 13404(b)(2)(B).

<sup>99</sup> *Id.* at § 13404(e).

<sup>100</sup> *Id.* at § 13404(d).

1 2019 related to the Power Your Drive (PYD) Pilot program. The total cost of the PYD Pilot  
2 program was \$70.3 million. Subsequent to SDG&E claiming these credits on its tax returns for  
3 2018 and 2019, the Commission denied recovery of \$25.3 million (approximately 36%) of the  
4 program's costs that exceeded the authorized budget.<sup>101</sup> SDG&E has adjusted the beginning TMA  
5 balances by approximately \$3 million (*i.e.*, 36%) of the IRC § 30C credits claimed for 2018 and  
6 2019 that were attributable to the PYD Pilot program to reflect the disallowed costs.

7 During 2022 and 2023, SoCalGas installed refueling stations for natural gas vehicles, and  
8 SDG&E installed electric vehicle charging stations, that qualified for the pre-IRA (*i.e.*, 2022) and  
9 post-IRA (*i.e.*, 2023) versions of the IRC § 30C credit. The revenue impact of the IRC § 30C credit  
10 for 2022 - 2023 for SoCalGas and SDG&E is reflected in the TMA Schedules.

#### 11 Energy Storage Investment Tax Credit – SDG&E

12 As discussed earlier in the Income Taxes section of my testimony, SoCalGas and SDG&E's  
13 projects that are eligible for IRA tax credits generally are incremental projects outside of the GRC,  
14 and thus the impact of IRA tax credits are reflected in separate filings and separate proceedings  
15 from the GRC.

16 SDG&E did, however, have one ITC-eligible energy storage project that was included with  
17 and approved in the 2024 GRC – the Advanced Energy Storage (AES) project, which was placed  
18 into service during 2025. SDG&E could not reasonably forecast the eligibility for the ITC or the  
19 amount of the credit for the AES project during the 2024 GRC proceeding. Therefore, SDG&E is  
20 tracking the 2025 ITC for this project in its TMA.

#### 21 **c. Other Net Revenue Changes**

22 There was no additional cumulative revenue impact from net revenue changes beyond the  
23 impacts reflected in the other TMA categories for SoCalGas or SDG&E.

#### 24 **d. Completion of Audits**

25 There was no cumulative revenue impact from completed federal or state audits for  
26 SoCalGas or SDG&E.

#### 27 **e. IRS Rulings on Normalization Issues**

##### 28 Private Letter Ruling Request – ARAM Computation – SoCalGas and SDG&E

29 The beginning balances of the Companies' TMA Schedules reflect a tracked amount related  
30 to the ARAM computation for SoCalGas and SDG&E, which was an issue in the 2019 GRC.

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<sup>101</sup> D.21-04-014 at 4; *see also* D.24-12-074 at 561-62.

1 As discussed earlier in the Income Tax section of my testimony, the IRS issued Private  
2 Letter Rulings to SoCalGas and SDG&E that reached conclusions regarding the Companies' ARAM  
3 computation that were different than those adopted in D.19-09-051. The computational differences  
4 had been tracked in the TMAs pending the receipt of guidance from the IRS, pursuant to the  
5 Commission's instructions. After receiving the rulings from the IRS, SoCalGas and SDG&E  
6 followed the process outlined by the Commission in D.19-09-051 and filed Tier 2 advice letters  
7 seeking appropriate adjustment to their revenue requirements. These advice letters were approved  
8 by the Commission for SoCalGas and SDG&E on September 11, 2022 and September 12, 2022,  
9 respectively.<sup>102</sup>

10 Accordingly, the beginning balances shown under this TMA category have been reversed to  
11 reflect the resolution of this issue through the advice letter process.

### 12 3. TMA Proposal for the 2028 GRC Cycle

13 SoCalGas and SDG&E propose to continue the TMA for the 2028 TY GRC cycle, including  
14 the post-test-year period, under rules and scope set forth in D.19-09-051, D.24-12-074, and Advice  
15 Letters 5546 (SoCalGas) and 3462-E/2820-G (SDG&E). In addition, the Companies recommend  
16 that the CPUC continue to review the TMA results in each subsequent GRC cycle.

### 17 V. CONCLUSION

18 SoCalGas's and SDG&E's estimated tax expense for TY 2028 for payroll taxes, ad valorem  
19 taxes, and income taxes should be adopted by the Commission. SoCalGas's and SDG&E's TMA,  
20 under the rules and scope set forth in D.19-09-051, D.24-09-051, and the Companies' adopted  
21 tariffs, should be continued for the 2028 GRC cycle.

22 This concludes my prepared direct testimony.

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<sup>102</sup> Advice Letters 6018G (SoCalGas) and 4055E/3113G (SDG&E).

1 **VI. WITNESS QUALIFICATIONS**

2 My name is Ragan G. Reeves. I am employed by Sempra, SoCalGas and SDG&E's parent  
3 company, as a Managing Tax Attorney. My business address is 488 8th Avenue, HQ08N1, San  
4 Diego, California 92101-7123. I advise SoCalGas, SDG&E, and Sempra's other business units on  
5 the implications of federal and state tax law, including tax compliance issues, tax audit issues and  
6 strategies, and proposed acquisitions and restructurings.

7 Prior to joining Sempra in 2005, I worked as a tax attorney for eight years at Miller &  
8 Chevalier, Chartered, in Washington, D.C., where my practice focused on tax credits, tax litigation,  
9 and tax controversy matters.

10 I received a Bachelor of Business Administration in Accounting, a Masters in Professional  
11 Accounting, and a Juris Doctorate from the University of Texas at Austin. I am licensed to practice  
12 law in the District of Columbia and Texas, and I am a registered in-house counsel in California. I  
13 am also a licensed Certified Public Accountant in Texas.

14 I have previously testified before the CPUC.

**APPENDIX A**

**GLOSSARY OF TERMS**

## APPENDIX A - Glossary of Terms

ACRONYM	DEFINITION
ACRS	Accelerated Cost Recovery System
ADFIT	Accumulated Deferred Federal Income Tax
ADR	Asset Depreciation Range
AES	Advanced Energy Storage
AFUDC	Allowance For Funds Used During Construction
AFSI	Adjusted Financial Statement Income
ARAM	Average Rate Assumption Method
BY	Base Year
CAMT	Corporate Alternative Minimum Tax
CEA	Capitalized Earnings Ability
CCFT	California Corporation Franchise Tax
CET	California Employment Training
CIAC	Contribution in Aid of Construction
CPUC	California Public Utilities Commission
CWIP	Construction Work in Progress
D.	Decision
ERTA	Economic Recovery Tax Act of 1981
FICA	Federal Insurance Contributions Act
FUTA	Federal Unemployment Tax Act
GRC	General Rate Case
HCLD	Historical Cost less depreciation
HI	Hospital Insurance ( <i>i.e.</i> , Medicare)
IRA	Inflation Reduction Act of 2022
IRC	Internal Revenue Code
IRS	Internal Revenue Service
ITC	Investment Tax Credit
ITCC	Income Tax Component of CIAC
MACRS	Modified Accelerated Cost Recovery System
O&M	Operations and Maintenance
OASDI	Old Age, Survivors, and Disability Insurance
OB3	One Big Beautiful Bill Act of 2025
OII	Order Instituting Investigation
Pacific Lighting	Pacific Lighting Gas Supply Company
PTC	Production Tax Credit
PYD	Power Your Drive
R&D	Research and Development
RO	Results of Operations
SBE	California State Board of Equalization
SDGE	San Diego Gas & Electric Company
SDSW	Self-Developed Software
SoCalGas	Southern California Gas Company
SUI	State Unemployment Insurance

TCJA	Tax Cuts and Jobs Act of 2017
TMA	Tax Memorandum Account
TRA 86	Tax Reform Act of 1986
Treas Reg.	Treasury Regulations
TURN	The Utility Reform Network
TY	Test Year
UI	Unemployment Insurance

**APPENDIX B**

**SOCALGAS/SDGE  
TAX MEMORANDUM ACCOUNT TRACKING SCHEDULE  
CUMULATIVE BALANCES AS OF DECEMBER 31, 2025**

**APPENDIX B-1**

SoCalGas					
Tax Memorandum Account Tracking Schedule					
For the Tax Years Ended December 31, 2016 - 2025					
(\$ amounts in thousands)					
	Revenue Impact of Incurred Amount <sup>1</sup>	Revenue Impact of GRC Authorized Amount (w/ Attrition)	Revenue Impact of Difference Related to Changes in Tax Law, Tax Accounting, Tax Procedure, or Tax Policy	References	Comments
<b>1) Mandatory Changes in Tax Law, Tax Accounting, Tax Procedures, or Tax Policy</b>					
Beginning Balances from 2021 TMA	(20,987)	(16,476)	(4,511)	[a]	
2022 Rate Base Impact of Basis Adjustments for 2020 & Prior Bonus Depreciation on Assets Acquired Pre 9/28/17, Per the TCJA	(814)	-	(814)	[b]	
2023 Rate Base Impact of Basis Adjustments for 2020 & Prior Bonus Depreciation on Assets Acquired Pre 9/28/17, Per the TCJA	(632)	-	(632)	[c]	
2022-Self-Developed Software	(1,709)	(22,230)	20,522	[d]	
2023-Self-Developed Software	(5,144)	(21,679)	16,535	[e]	
2024 Self-Developed Software	(26,495)	(18,122)	(8,374)	[f]	
2025 Self-Developed Software	(53,326)	(31,277)	(22,049)	[g]	To be included on the 2025 tax return to be filed
Revenue Impact of Differences as of 12/31/2025			677	[h] = [a] + [b] + [c] + [d] + [e] + [f] + [g]	
<b>2) Elective Changes in Tax Law, Tax Accounting, Tax Procedures, or Tax Policy</b>					
Beginning Balances from 2021 TMA	(768)	-	(768)	[i]	
2022 Alternative Fuel 30C Credit	(139)	-	(139)	[j]	
2023 Alternative Fuel 30C Credit	(254)	-	(254)	[k]	
Revenue Impact of Differences as of 12/31/2025			(1,161)	[l] = [i] + [j] + [k]	
<b>3) Other Net Revenue Changes</b>					
None	-	-	-	[m]	
<b>4) Adjustments due to Completion of Audits</b>					
None	-	-	-	[n]	
<b>5) Adjustments due to IRS Private Letter Rulings on Normalization Issues</b>					
Beginning Balances from 2021 TMA	(73,108)	(113,057)	39,949	[o]	
Reversal of 2018-2021 Impact of Including Book Accruals for COR in ARAM Amortization	73,108	113,057	(39,949)	[p]	Addressed through Tier 2 Advice Letter approved in 2022
Revenue Impact of Differences as of 12/31/2025			-	[q] = [o] + [p]	
<b>Total Revenue Impact of Differences/Changes 12/31/2025</b>			(484)	[r] = [h] + [l] + [m] + [n] + [q]	
Cumulative Interest (Payable)/Receivable as of 12/31/2025			(389)	[s]	
<b>Ending Cumulative Balance (Credit)/Debit as of 12/31/2025</b>			(873)	[t] = [r] + [s]	
<b>NOTES:</b>					
<sup>1</sup> Incurred amounts are subject to change until the income tax returns are filed and the federal and state audits are completed.					

SDG&E											
Tax Memorandum Account Tracking Schedule											
For the Tax Years Ended December 31, 2016 - 2025											
(\$ amounts in thousands)											
	Revenue Impact of Incurred Amount <sup>1</sup>			Revenue Impact of GRC Authorized Amount (w/Attrition)			Revenue Impact of Difference Related to Changes in Tax Law, Tax Accounting, Tax Procedure, or Tax Policy			References	Comments
	Electric	Gas	Total	Electric	Gas	Total	Electric	Gas	Total		
<b>1) Mandatory Changes in Tax Law, Tax Accounting, Tax Procedures, or Tax Policy</b>											
Beginning Balances from 2021 TMA	(10,281)	(1,713)	(11,994)	(9,236)	(1,511)	(10,747)	(1,045)	(202)	(1,247)	[a]	
2022 Rate Base Impact of Basis Adjustments for 2019 & Prior Bonus Depreciation on Assets Acquired Pre 9/28/17, Per the TCJA	(285)	(53)	(338)	-	-	-	(285)	(53)	(338)	[b]	
2023 Rate Base Impact of Basis Adjustments for 2019 & Prior Bonus Depreciation on Assets Acquired Pre 9/28/17, Per the TCJA	(222)	(41)	(263)	-	-	-	(222)	(41)	(263)	[c]	
2022 Nondeductible Fringe Benefits, Per the TCJA	162	25	187	-	-	-	162	25	187	[d]	
2023 Nondeductible Fringe Benefits, Per the TCJA	170	31	201	-	-	-	170	31	201	[e]	
2022 Self-Developed Software	(265)	(109)	(374)	(3,779)	(1,558)	(5,337)	3,514	1,449	4,964	[f]	
2023 Self-Developed Software	(761)	(314)	(1,074)	(3,984)	(1,643)	(5,627)	3,223	1,329	4,553	[g]	
2024 Self-Developed Software	(9,382)	(2,618)	(12,001)	(6,829)	(1,906)	(8,735)	(2,553)	(712)	(3,266)	[h]	
2025 Self-Developed Software	(18,174)	(5,071)	(23,245)	(14,068)	(3,926)	(17,994)	(4,106)	(1,146)	(5,251)	[i]	
Revenue Impact of Differences as of 12/31/2025							(1,141)	681	(460)	[j] = [a] + [b] + [c] + [d] + [e] + [f] + [g] + [h] + [i]	To be included on the 2025 tax return to be filed
<b>2) Elective Changes in Tax Law, Tax Accounting, Tax Procedures, or Tax Policy</b>											
Beginning Balances from 2021 TMA							(8,974)	(19)	(8,993)	[k]	
Adjustment to Beginning Balances for 2018-2019 Alternative Fuel 30C Credit	2,959		2,959	-	-	-	2,959	-	2,959	[l]	The Power Your Drive Pilot program (PYD) was approved for \$45.0M in a prior CPUC decision. Actual costs incurred were \$70.3M, exceeding authorized by \$25.3M. The \$3.0M adjustment to the TMA beginning balance represents 36% (25.3/70.3) of the 2018-2019 30C credits claimed for PYD to reflect to the disallowed/unrecoverable costs
2022 Alternative Fuel 30C Credit	(111)		(111)	-	-	-	(111)	-	(111)	[m]	
2023 Alternative Fuel 30C Credit	(3)		(3)	-	-	-	(3)	-	(3)	[n]	
2025 Energy Storage Investment Tax Credit	(12,572)		(12,572)	-	-	-	(12,572)	-	(12,572)	[o]	AES project ITC to be included on the 2025 tax return to be filed
Revenue Impact of Differences as of 12/31/2025							(18,701)	(19)	(18,719)	[p] = [k] + [l] + [m] + [n] + [o]	
<b>3) Other Net Revenue Changes</b>											
None							-	-	-	[q]	
<b>4) Adjustments due to Completion of Audits</b>											
None							-	-	-	[r]	
<b>5) Adjustments due to IRS Private Letter Rulings on Normalization Issues</b>											
Beginning Balances from 2021 TMA	(31,081)	(8,069)	(39,149)	(66,579)	(11,228)	(77,807)	35,499	3,159	38,658	[s]	
Reversal of 2018-2021 Impact of Including Book Accruals for COR in ARAM Amortization	31,081	8,069	39,149	66,579	11,228	77,807	(35,499)	(3,159)	(38,658)	[t]	Addressed through Tier 2 Advice Letter approved in 2022
Revenue Impact of Differences as of 12/31/2025							-	0	-	[u] = [s] + [t]	
<b>Total Revenue Impact of Differences/Changes 12/31/2025</b>							(19,841)	662	(19,179)	[v] = [j] + [p] + [q] + [r] + [u]	
Cumulative Interest (Payable)/Receivable as of 12/31/2025							(741)	532	(209)	[w]	
<b>Ending Cumulative Balance (Credit)/Debit as of 12/31/2025</b>							<b>(20,583)</b>	<b>1,194</b>	<b>(19,389)</b>	[x] = [v] + [w]	
<b>NOTES:</b>											
<sup>1</sup> Incurred amounts are subject to change until the income tax returns are filed and the federal and state audits are completed.											