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TURN-SCG-DR-48
SOCALGAS 2012 GRC – A.10-12-006
SOCALGAS RESPONSE
DATE RECEIVED: NOVEMBER 18, 2011
DATE RESPONDED: DECEMBER 9, 2011

1. Regarding taxable income for SoCalGas additional to base rates given in results of operations:
   a. Please confirm that the Net Operating Loss Calculations in Mr. Rose's revised workpapers SCG-28 pages **RGR-WP-23 to 25** do not include other sources of taxable income that come from utility operations outside of base rates for SoCalGas (e.g., Gas Cost Incentive Mechanism, energy efficiency incentives, sharing of gain on sale, oil production, other non-tariffed products and services, return on capital spending funded in smart meter and other balancing accounts, etc.).

   b. Do the Net Operating Loss Calculations in Mr. Rose's revised workpapers SCG-28 page **RGR-WP-26** for recorded year 2009 include other sources of taxable income that come from utility operations outside of base rates for SoCalGas (e.g., Gas Cost Incentive Mechanism, energy efficiency incentives, sharing of gain on sale, oil production, other non-tariffed products and services, return on capital spending funded in smart meter and other balancing accounts, etc.)?

   c. **If part (a)** is confirmed, because the calculations in Mr. Rose's workpapers do not include these other utility taxable items, please confirm that excess accelerated depreciation, denoted as Net Operating Loss in Mr. Rose's workpapers, in reality would first be used to offset current federal income taxes owed by SoCalGas on other sources of utility taxable income not included in base rates before being carried back or forward.

   d. Please identify each source of taxable income that SoCalGas has within the utility aside from base rates given in results of operations (e.g., Gas Cost Incentive Mechanism, energy efficiency incentives, sharing of gain on sale, oil production, other non-tariffed products and services, return on capital spending funded in smart meter and other balancing accounts, etc.).

   e. For each source of earnings identified, identify the amount earned in each of 2007-2010 recorded (gross and federal income tax liability associated with each source), identify any amounts where applications (energy efficiency incentives) or other CPUC filings (e.g., GCIM 17) effective in 2011-2012 either have been approved or are currently pending, and identify any amounts projected to be earned in the ordinary course of business in 2012 beyond currently pending applications. Provide gross earnings and federal income tax liability associated with gross earnings for each of these items.

SoCalGas Response 01-Continued:

a. SoCalGas confirms that the Net Operating Loss computed in Mr. Rose's workpapers is based solely on the RO model that is associated with costs addressed in the 2012 GRC.
b. The NOL for 2009 computed in Mr. Rose's workpapers is based solely on the RO model that is associated with costs addressed in the 2012 GRC.
c. On SoCalGas' actual proforma tax return, an NOL from sources within the RO model would be combined with income and expenses from all other sources within the same year.
d. SoCalGas objects to this request as the requested information is outside the scope of the GRC and the reconciliation would be unduly and overly burdensome to prepare.
e. SoCalGas objects to this request as the requested information is outside the scope of the GRC and the reconciliation would be unduly and overly burdensome to prepare.

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2. Please provide the actual Federal Tax Net Operating Loss for SoCalGas as a whole for 2010 and the amount carried back and carried forward. Reconcile it to the estimated net operating loss shown in Mr. Rose's revised workpaper RGR-WP-25 and to the data shown in Sempra's 10-K, pages 87-91 (income statement, balance sheet, and cash flow statement for SoCal Gas and subsidiaries).

SoCalGas Response 02:

SoCalGas objects to this request in that it asks for information that is outside the scope of the GRC. Without waiving its objection, SCG provides the following response:

SoCalGas did not show an NOL on its actual proforma 2010 tax return when all sources of income and expense were taken into account. Sempra's 10-K Report for 2010 shows a reconciliation of current and deferred tax expense for SoCalGas on page 125, which agrees with the total income tax expense for SoCalGas shown on page 87 of Sempra's 10-K report.

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3. Given the actual NOL experienced by SoCalGas in 2010, is there in reality any remaining carry-back available in 2011? If so, how much.

SoCalGas Response 03:

SoCalGas objects to this request in that it asks for information is outside the scope of the GRC. Without waiving its objection, SoCalGas provides the following response:

On a total company basis, SoCalGas has no NOL carryback or carryforward for 2010 when all sources of income and expense are taken into account.

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4. Please provide a calculation of the Federal Tax Net Operating Loss for SoCalGas for the first 9 months of 2011 consistent with the tax accounting contained in Sempra's Third Quarter 10-Q filing pages 14-17 (Southern California Gas Company and Subsidiaries income statement, balance sheet, and cash flow statement).

SoCalGas Response 04:

SoCalGas objects to this request because it requests information that is outside the scope of the GRC. Without waiving this objection, see response below:

SoCalGas reports tax expense for SEC reporting purposes in the 10-Q based on a book net income adjusted for permanent book/tax differences multiplied by the tax rate. The 10-Q report does not segregate tax expense into current and deferred portions, so the NOL impact is not shown, other than the increase in cash flows provided by deferred taxes. In this regard, through 9/30/2011, SCG has no liability for estimated tax payments to the IRS due to its forecasted NOL.

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5. Please provide the most recent financial projections made by Sempra management for SoCalGas for the year 2011 taking into account 6 or 9 months recorded data that include projections of current and deferred income taxes and net operating losses.

SoCalGas Response 05:

SoCalGas objects to this request because it requests information that is outside the scope of the GRC.

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<u>For SDG&E</u>

6. Regarding taxable income for SDG&E additional to base rates given in results of operations:
   a. Please confirm that the Net Operating Loss Calculations in Mr. Rose's revised workpapers SDG&E-34 pages RGR-WP-29 to 31 do not include other sources of taxable income that come from utility operations outside of base rates for SoCal Gas (e.g., Gas Cost Incentive Mechanism, energy efficiency incentives, sharing of gain on sale, oil production, other non-tariffed products and services, return on capital spending funded in smart meter and other balancing accounts, etc.).

   b. If part (a) is confirmed, because the calculations in Mr. Rose's workpapers do not include these other utility taxable items, please confirm that excess accelerated depreciation, denoted as Net Operating Loss in Mr. Rose's workpapers, in reality would first be used to offset current federal income taxes owed by SoCal on other sources of utility taxable income not included in base rates before being carried back or forward.

   c. Please identify each source of taxable income that SDG&E has within the utility aside from base rates given in results of operations (e.g., energy efficiency incentives, sharing of gain on sale, other non-tariffed products and services, return on capital spending funded in smart meter and other balancing accounts, etc.).

   d. For each source of earnings identified, identify the amount earned in each of 2007-2010 recorded (gross and federal income tax liability associated with each source), identify any amounts where applications (energy efficiency incentives) or other CPUC filings (e.g., energy efficiency incentives) effective in 2011-2012 either have been approved or are currently pending, and identify any amounts projected to be earned in the ordinary course of business in 2012 beyond currently pending applications. Provide gross earnings and federal income tax liability associated with gross earnings for each of these items.

SDG&E Response 06:

SDG&E's response presumes the references to SoCalGas in TURN-48, Q6 was intended to instead refer to SDG&E.

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SDG&E Response 06-Continued:

a. SDG&E confirms that the Net Operating Loss computed in Mr. Rose's workpapers is based solely on the RO model that is associated with costs addressed in the 2012 GRC.
b. On SDG&E's actual proforma tax return, an NOL from sources within the RO model are combined with income and expenses from all other sources.
c. SDG&E objects to this request as the requested information is outside the scope of the GRC and the reconciliation would be overly burdensome to prepare.
d. SDG&E objects to this request as the requested information is outside the scope of the GRC and the reconciliation would be overly burdensome.

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7. Please provide the actual Federal Tax Net Operating Loss for SDG&E as a whole for 2010 and the amount carried back and carried forward. Reconcile it to the estimated net operating loss shown in Mr. Rose's revised workpaper RGR-WP-31 and to the data shown in Sempra's 10-K, pages 87-91 (income statement, balance sheet, and cash flow statement for SoCal Gas and subsidiaries).

SDG&E Response 07:

SDG&E's response presumes the reference to SoCalGas in TURN-48, Q7 was intended to instead refer to SDG&E.

SDG&E objects to this request in that it asks for the information that is outside the scope of the GRC; Sempra Energy is not a party to this proceeding. Without waiving its objection, SDG&E provides the following response: SDG&E did not have an NOL on its actual proforma 2010 tax return when all sources of income and expense were taken into account. A reconciliation of SDG&E's 2010 current and deferred tax expense is shown on page 125 of Sempra Energy's 10-K Report that agrees to income tax expense shown on page 75.

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8. Given the actual NOL experienced by SoCal Gas in 2010, is there in reality any remaining arry-back available in 2011? If so, how much.

SoCalGas Response 08:

Please see the response to Question 3 above. The same is true of SDG&E.

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9. Please provide a calculation of the Federal Tax Net Operating Loss for SoCal Gas for the first 9 months of 2011 consistent with the tax accounting contained in Sempra's Third Quarter 10-Q filing pages 14-17 (Southern California Gas Company and Subsidiaries income statement, balance sheet, and cash flow statement).

SoCalGas Response 09:

Please see the response to Question 4 above.

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10. Please provide the most recent financial projections made by Sempra management for SoCal Gas for the year 2011 taking into account 6 or 9 months recorded data that include projections of current and deferred income taxes and net operating losses.

SoCalGas Response 10:

Please see the response to Question 5 above.

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<u>For both SDG&E and SoCalGas</u>

11. Re: Impact of changes to capital spending forecast on net operating losses:
    a. Please confirm that if the capital spending forecast for 2011 and/or 2012 is reduced, the net operating loss in the RO model would be reduced because the overall utility tax loss would be reduced (because the equity return that would have been earned on the 2011/2012 additions that were removed would be less than the tax depreciation those additions).

    b. Please confirm that the reduction in capital additions would reduce both deferred income taxes and the NOL offset to deferred income taxes in equal amounts until and unless the reduction were to be so large that the NOL would no longer exists.

SoCalGas Response 11:

a. If the capital spending forecast for 2011 and/or 2012 is reduced, the net operating loss in the RO model would be reduced as well because the overall utility taxable loss would be reduced by the amount of the foregone depreciation. The reduction in the equity return would be smaller than the increase in taxable income resulting from the loss of bonus depreciation.

b. If the capital spending forecast is reduced for 2011 and/or 2012, the deferred tax liability resulting from bonus depreciation would decrease by the same amount as the reduction to the deferred tax asset resulting from a smaller net operating loss up to the point where the NOL no longer exists.

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12. Interaction of net operating loss with attrition year:

a. Please confirm that Mr. Emmerich's post-test-year testimony as revised does not contain any rate reduction arising because the net operating losses are realized in 2013 through lower cash taxes so that the deferred taxes are no longer offset by net operating losses. If not confirmed, please explain where the NOL offset is included.

b. If this point is confirmed, please explain why it is reasonable for SoCal and SDG&E to retain the net operating loss offset for their shareholders through the entire rate case cycle, given that it is expected to be reversed in 2013.

SoCalGas Response 12

a. Mr. Emmrich has confirmed that his post-test year testimony, as revised, does not contain any rate reduction arising because of the net operating losses being realized in 2013 through lower cash taxes. It would be premature to assume a reversal of test year NOLs in 2013.

b. Mr. Rose has made no assumptions regarding post test-year reversal of NOLs in 2013.

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13. Please confirm that if the unregulated portion of Sempra Energy has federal taxable income in 2010, 2011, and 2012 that any net operating loss generated by the Sempra utilities will actually be used to pay unregulated affiliates' taxes in the current year. If you do not confirm this point, please explain.

SDG&E and SoCalGas Response 13:

SoCalGas and SDG&E object to this request in that it asks for information that is outside the scope of the GRC, and Sempra Energy is not a party to this proceeding. Without waiving this objection, SoCalGas and SDG&E provide the following response:

On a consolidated return, taxable net incomes and taxable net operating losses from each of the members of the consolidated return are combined.

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14. Please explain why the stand-alone principle should require utility ratepayers to accept a hypothetical net operating loss in order to give Sempra Energy unregulated affiliates an interest-free loan for income taxes that they otherwise would have had to pay sooner.

SoCalGas Response 14:

The Commission's decision in OII-24 (D.84-05-036) explains that principle:

> "It is the practice of the Commission in calculating the test-year income tax expense, to assume a separate return basis considering solely utility operations. By making this assumption, the Commission presumes that the utility will pay the income taxes generated by the adopted rates. However, because of a utility's affiliated or nonutility operations, its actual income tax liability will be determined as one member of a consolidated tax return. Thus, income taxes collected through authorized rates may not actually be paid, but may be used to offset tax losses of other nonutility and affiliated members of the consolidated return." [mimeo, page 49].

> "We see no public interest that is served by making utility rates a function of profits or losses in nonutility affiliates, as would result from the consolidated return method. Further, we are persuaded that a tax loss is an asset that would be taken either without compensation and without due process of law, or with compensation but for no useful purpose." [Id. at 51]

Findings of Fact:

> "12. It is the practice of the Commission, in calculating the test-year income tax expense, to assume a separate return basis considering solely utility operations.
>
> 13. Because of a utility's affiliated or nonutility operations, its actual income tax liability will be determined as one member of a consolidated tax return." [Id. at 59-60]

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15. Please provide the actual tax position of Sempra Energy as a whole, SoCal Gas, and SDG&E for 2011 and the first 3 quarters of 2011, consistent with the data provided for the two utilities above and the Sempra Energy 10-K and 10-Q filings referenced above.

SoCalGas Response 15:

SDG&E and SoCalGas object to this question because the requested data is outside the scope of the GRC.