TURN DATA REQUEST
TURN-SCG-07
SOCALGAS 2012 GRC – A.10-12-006
SOCALGAS RESPONSE
DATE RECEIVED: MARCH 1, 2011
DATE RESPONDED: MARCH 15, 2011

Income Taxes - Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010

1. SoCalGas's testimony states that the "estimates contained in this section were calculated using current federal and state tax laws enacted through July 30, 2010." (Exhibit SCG-28, page RGR-7, lines 14-15) SoCalGas's testimony also states: "Since the effective date of SCG's 2008 GRC decision, Congress has passed three major pieces of legislation with deferred tax implications for SoCalGas's 2012 TY estimates." (page RGR-15, lines 22-23) One of these pieces of legislation is identified as "the Small Business Jobs Act of 2010" (page RGR-12, lines 20-22), which was passed after July 30, 2010. Was the impact of the Small Business Jobs Act of 2010 actually included in SoCalGas's application or not? If it was, provide workpapers showing the impact of this legislation on to SoCalGas's forecast 2010, 2011 and 2012 current and deferred income tax expense, 2011 and 2012 property tax expense, and 2011 and 2012 rate base.

SoCalGas Response:

Impact of Bonus Depreciation on Current and Deferred Income Tax Expense

Yes it was.

Below is a schedule showing the change in the weighted-average deferred taxes in the Application filing with and without 50% bonus depreciation. Supporting electronic files are attached at the end of the response to this question.

Weighted Average Deferred Tax Balances:

(Thousands of nominal dollars)

	Application (without Bonus D)	Application (with Bonus D)
2010	(463,833)	(479,397)
2011	(484,587)	(549,670)
2012	(508,190)	(563,666)

As shown above, the weighted-average deferred tax balances increased with bonus depreciation applied to 2010 qualified capital additions in the Application. Support for the figures shown above is contained in the attached files (see Worksheet #1, entitled "Total SCGDeferredTaxes"). Further detailed calculations of depreciation and the resulting impact on deferred taxes are also contained in those files, specifically Worksheets # 1-13. For the calculation of bonus depreciation in the workbook filed with the Application, please refer specifically to Worksheet #12, line 16. This line contains $209,223,000 of extra bonus depreciation on qualified capital additions in 2010.

Response to Question 1 (Continued)

Impact on Property Taxes
As noted in testimony, "HCLD (Historical Cost Less Depreciation) is the primary indicator of value for closely rate-regulated property because it approximates ratebase."[1] Since deferred taxes are a reduction to ratebase, reflecting the impact of 50% bonus depreciation pursuant to the Small Business Tax Act of 2010 on the HCLD indicator of value has the effect of reducing the taxable base subject to property taxes and the resulting revenue requirement for property taxes. This is evidenced by comparing the calculations made to forecast property taxes between the Application filing with bonus depreciation and the same filing without taking into account bonus depreciation. A table is provided below for illustrative purposes only; SCG did reflect the impact of 50% bonus depreciation resulting from the 2010 Jobs Act in its Application Filing).

Consistent with the methodology employed by the California State Board of Equalization, a prior year-end forecasted balance of accumulated deferred federal income taxes is used in the calculation of the taxable base subject to property taxes (this is the balance in the deferred tax reserve on the January 1 lien date).

Reduction to Taxable Base—Deferred Taxes in HCLD Indicator:

(Thousands of nominal dollars)

	Application (without Bonus D)	Application (with Bonus D)
2010	(459,224)	(459,224)
2011	(479,192)	(546,620)
2012	(502,567)	(559,832)

As shown above, the bonus depreciation provisions of the 2010 Jobs Act had no impact on the January 1, 2010 balance of deferred taxes in the calculation of the HCLD indicator of value because the 50% bonus depreciation provisions were effective for capital additions added in 2010. The 2010 Jobs Act had a material impact on the beginning deferred tax reserve balances in 2011 and 2012. Deferred taxes in the calculation of the HCLD indicator of value in the Application are up sharply from the same calculation without 50% bonus depreciation. This increase in deferred taxes reduces the computed HCLD indicator used to determine the taxable base and lowers property tax expense in TY 2012.

Ratebase Impact
Ratebase in the Application is compared below to ratebase without bonus depreciation:

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[1] Prepared Direct Testimony of Randall G. Rose on Behalf of Southern California Gas Company, Exhibit No. SCG-28, page RGR-4, lines 11-12.

Response to Question 1 (Continued)

(Thousands of nominal dollars)

	2010	2011	2012
Ratebase in the Application	3,054,544	3,276,549	3,666,224
Ratebase w/o Bonus Depreciation	3,070,108	3,341,631	3,720,699

As shown above, ratebase in the Application would have been higher had it not been for the 50% bonus depreciation from the 2010 Jobs Act reflected in the Application filing.

SCG-28 taxSCGDeferred w Bo

taxSCGDeferred wo Bonus D.xls

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2. Please provide the amount of bonus depreciation taken by SoCalGas (a) for GRC functions; (b) for other functions divided into FERC jurisdictional and various balancing accounts in each of the years 2008 and 2009 as recorded, and 2010 as forecast (if the Small Business Jobs Act was included).

SoCalGas Response:

SoCalGas does not compute bonus depreciation on a jurisdictional basis as requested, it computes bonus depreciation by asset class. Attached below are the bonus depreciation calculations prepared for the 2008 and 2009 tax returns, which show the bonus depreciation taken for each asset class on the tax returns in 2008 and 2009.

SoCalGas has forecasted 2010 50% bonus depreciation for assets in the Application filing in the amount of $209,223,000 (please see exhibit SCG-28-WP, Worksheet number 9, Line 16 for the breakout by asset class).

2008, 2009, and Forecasted 2010 bonus depreciation:

SCG Bonus Depr.pdf

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3. The Small Business Jobs Act, signed into law on September 27, provided retroactive bonus depreciation of 50% for the year 2010. The Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 signed by President Obama on December 17, 2010 provided for additional bonus depreciation in 2010 (increase from 50% to 100% for plant in service after September 8), 2011 (100% of qualified plant), and 2012 (50% of qualified plant). Please provide a revision to SoCalGas's forecast 2010, 2011 and 2012 current and deferred income tax expense, 2011 and 2012 property tax expense, and 2011 and 2012 rate base arising from these two tax law changes (only the second change if the Small Business Jobs Act was included in the application) and provide a complete set of supporting workpapers.

SoCalGas Response:

SoCalGas will update its workpapers and testimony for the impact of the bonus depreciation provisions in the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 (New Tax Act) on deferred taxes, ratebase, and property tax expense once the IRS issues regulations to interpret and make specific the bonus depreciation provisions of the New Tax Act. Guidance from the IRS is expected in late March 2011.

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4. Will property taxes assessed by the State Board of Equalization change as a result of the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010? If so, please explain why and provide revised calculations of property taxes with and without this tax act. If not, please explain why no change will be made.

SoCalGas Response:

As discussed in SoCalGas' response to Question 1 above, the State Board of Equalization uses Historical Cost Less Depreciation as a primary indicator of value in setting the appraised value for property tax purposes. This calculation includes a reduction in value for the balance of the deferred tax reserve on the lien date (January 1 of each year). Deferred taxes grow as a function of the enhancement and extension of bonus depreciation under the New Tax Act, therefore, the increase in deferred taxes resulting from bonus depreciation will lower the HCLD value and reduce the taxable base upon which property taxes are assessed and paid by SoCalGas. The revised calculation of property taxes based on revised HCLD values reflecting the impact of bonus depreciation in the New Tax Act will be included in the update noted above which will be performed after the IRS issues regulations to interpret and make specific the bonus depreciation provisions of the New Tax Act. Guidance from the IRS is expected in late March 2011.

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5. Does SoCalGas have any plans to make additional investments in plant and equipment in 2011 or 2012 as a result of these income tax changes? If so, please describe in detail all plans SoCalGas currently has to make additional investments in plant and equipment in 2011 or 2012 as a result of this income tax change. In the description, please include the following:

    a. Please provide SoCalGas's most recent forecast of additional investments (by individual project for projects costs in excess of $1 million and by each type of investment – e.g., $X for Y miles of pipeline replacement).

    b. Please identify the impacts such additional investments would have on 2012 rate base requested in this case (including gross plant, accumulated depreciation and accumulated deferred income taxes).

    c. Please provide a plan (including flow charts of timing, process, and costs) that indicates how SoCalGas expects to identify, manage and implement such additional investments in a manner that achieves the lowest cost (for example, by minimizing reliance on relatively expensive contractors or on overtime for utility employees).

    d. Please describe how SoCalGas will evaluate the additional spending in terms of cost-effectiveness.

SoCalGas Response:

SoCalGas' analysis of the effects of income tax changes due to the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 is continuing, given the pending issuance of final IRS guidelines, which is expected in late March 2011.