TURN DATA REQUEST-073
SDG&E-SOCALGAS 2019 GRC – A.17-10-007/8
SDG&E_SOCALGAS RESPONSE
DATE RECEIVED: JUNE 28, 2018
DATE RESPONDED: JULY 12, 2018

1. Re: SCG-237, page RGR-15, lines 10-22:

a. Please confirm that the unprotected deferred tax asset of $170,828,000 is comprised of an asset for cost of removal of $185,579,000 and a total of other unprotected liabilities of $14,751,000 (page RGR-B-6). If you cannot confirm this information, please provide correct numbers.

b. Please confirm that SoCalGas understands that TURN recommended that the unprotected deferred tax asset for cost of removal be treated differently than other plant-based unprotected liabilities, as described at page 83 of William Marcus's testimony (TURN-03).

Utility Response 1:

a. SoCalGas objects to the extent the question is vague or ambiguous. Notwithstanding that objection, the amounts provided in question 1.a. are correct. As a clarification, however, the $14,751,000 total of "other unprotected liabilities" are comprised of both unprotected assets and liabilities, which net to an unprotected liability of $14,751,000.

b. SoCalGas objects to the extent the question is vague or ambiguous, or argumentative by asking for SoCalGas' "understanding" of TURN's proposal. TURN is best positioned to "understand" its proposal. Notwithstanding that objection, SoCalGas believes that TURN recommended that the unprotected deferred tax asset for cost of removal be treated differently than the net total of the other plant-based unprotected deferred tax assets and liabilities.

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2. Please confirm that neither SCG-37 (SoCalGas's direct testimony) nor its workpapers contain any statements regarding the need to adjust the taxable percentages for property taxes to a GRC basis nor any calculations making such adjustments. If you cannot confirm this statement, please identify by page and line number each place in the testimony and workpapers where these adjustments to taxable percentages are referenced. If you do confirm this statement, please explain why SoCalGas did not mention these adjustments or show their calculation while preparing the testimony and workpapers.

Utility Response 2:

As discussed in Ex. SCG-237, page RGR-21, the starting point for SoCalGas' property tax forecasts is the relevant Results of Operations (RO) Model recorded amounts for the GRC base year (*e.g.*, Gas Plant in Service, Materials & Supplies, etc.), which are provided by other witness areas outside of Tax. These RO Model amounts are provided as the starting point to Tax and already include the adjustments needed to reflect a GRC basis. As stated in the direct testimony of SoCalGas' Summary of Earnings witness Ryan Hom (Ex. SCG-43-2R, pages RH-4, line 25 through RH-5, line 2):

> **V. RECORDED DATA**
> Adjustments have been made to the 2016 O&M data to exclude all revenues and expenses that are recovered through separate filings before the Commission or the FERC. Examples of excluded costs are Demand Side Management (DSM), Energy Savings Assistance Program (ESAP), and California Alternate Rates for Energy (CARE) costs.

Specifically for property taxes, the adjustments to reflect a GRC basis for recorded Plant in Service and recorded Reserve for Depreciation amounts are provided in the workpapers of SoCalGas' Rate Base witness Patrick D. Moersen (Ex. SCG-35-WP-2R), on pages 443 and 452. Both pages include a footnote to the calculations which states, "Amounts represent adjustments which are excluded from the General Rate Case." SoCalGas also provided GRC-basis recorded amounts for Materials & Supplies in its response to TURN Data Request-017 Question 8.

As discussed in Ex. SCG-237, page RGR-21, SoCalGas compares the Board of Equalization's (BOE) assessed values for the GRC base year to the amounts in the RO Model for the base year to derive the taxable percentages for its GRC property tax forecasts. In doing so, SoCalGas' Tax Department does <u>not</u> make any adjustments to reflect a GRC basis when forecasting its property taxes. As discussed above, any such adjustments to the recorded amounts to reflect a GRC-basis have already been made by other witness areas and are already reflected in the RO Model amounts.

3. Given SoCalGas's testimony in SCG-237, page RGR-20 lines 14-28, please explain why SoCalGas provided unadjusted recorded figures for taxable percentages in the response to TURN DR 58-08a without informing TURN that the figures used in its testimony and workpapers for 2016 were adjusted and the figures in its data response were unadjusted.

Utility Response 3:

SoCalGas objects to the extent the question is argumentative and requires the adoption of any assumption. Notwithstanding that objection, SoCalGas' response to TURN Data Request-58 Question 8a was intended to be straightforward, and SoCalGas regrets any confusion caused by its response.

When the response was initially drafted, the only information readily available for the 2012 – 2015 and 2017 tax years requested by TURN in the data request was total company recorded amounts. SoCalGas did not anticipate at that time that providing the total company recorded amounts would lead to any confusion or misunderstanding regarding SoCalGas' property tax forecasts in the GRC. SoCalGas was not aware of the misunderstanding caused by its response until SoCalGas reviewed TURN's property tax proposals in TURN's testimony. Once SoCalGas became aware of the issue and identified the reason for the confusion, SoCalGas' Tax Department requested and received the GRC-base recorded amounts for the 2012 – 2017 tax years. SoCalGas' Tax Department then re-calculated the taxable percentages for Plant and Depreciation using those adjusted amounts, to be consistent with the 2016 base year amounts reflected in the RO Model. SoCalGas wanted to address the misunderstanding in the record of this GRC, so SoCalGas described the misunderstanding and presented the re-computed amounts in its rebuttal testimony, which was filed shortly after SoCalGas had completed the re-calculation (*see* Ex. RGR-237, pages RGR-21 to RGR-23). SoCalGas would not oppose TURN entering SoCalGas' response to TURN Data Request-073 into the record of the 2019 GRC.

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4. Re: SCG-237, p. RGR-22, lines 5-7: Please provide workpapers showing how the taxable percentages provided to TURN in the response to TURN-SEU DR 58-08a (and the corresponding taxable percentages for 2016 that were not requested in this data request) are "GRC-adjusted" to result in the taxable percentages in the table on page RGR-22 starting at line 8.

Utility Response 4:

As discussed in our response to Question #3, during the process of drafting SoCalGas' rebuttal testimony, SoCalGas' Rate Base team provided the recorded amounts for Plant and Depreciation that are subject to the GRC to the Tax team for the 2012 – 2017 tax years. Those amounts are shown in the following tables:

	Tax Year 2012	Tax Year 2013	Tax Year 2014	Tax Year 2015	Tax Year 2016	Tax Year 2017
Gas Plant in Service	9,424,911	10,083,567	10,754,572	11,407,133	12,253,796	12,972,482
Materials & Supplies	19,010	16,285	18,677	19,329	21,100	22,579
Plant in Service per Books	9,443,921	10,099,853	10,773,249	11,426,462	12,274,896	12,995,061

	Tax Year 2012	Tax Year 2013	Tax Year 2014	Tax Year 2015	Tax Year 2016	Tax Year 2017
Reserve for Depreciation per Books	5,495,248	5,759,431	6,045,284	6,361,206	6,640,753	6,928,247

The calculation of the above amounts is shown: (1) in workpapers prepared by the Rate Base team, which are included in this data request response as Attachment A; (2) in Ex. SCG-35-WP-2R), on pages 443 and 452, as discussed in SoCalGas' response to Question #2; and (3) in SoCalGas' response to TURN Data Request-017 Question 8, as discussed in SoCalGas' response to Question #2.

The SoCalGas Tax Department then computed the taxable percentages for Plant and Depreciation (as shown in the table on line 8 of Ex. SCG-237, page 22) by taking the ratio of the GRC-base recorded amounts to the property tax assessments received by the BOE for each of these tax years, as described in Ex. SCG-237, page RGR-21. This calculation is shown in the tables below:

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Utility Response 4:-Continued

PLANT	Tax Year	Tax Year	Tax Year	Tax Year	Tax Year	Tax Year
	2012	2013	2014	2015	2016	2017
Book Plant in Service	9,443,921	10,099,853	10,773,249	11,426,462	12,274,896	12,995,061
/ Taxable Plant in Service (per BOE assessment)	9,498,063	9,871,266	10,483,301	11,348,846	12,457,129	13,500,772
= Taxable Percentage	100.57%	97.74%	97.31%	99.32%	101.48%	103.89%

DEPRECIATION	Tax Year	Tax Year	Tax Year	Tax Year	Tax Year	Tax Year
	2012	2013	2014	2015	2016	2017
Book Reserve for Depreciation	5,495,248	5,759,431	6,045,284	6,361,206	6,640,753	6,928,247
/ Taxable Reserve for Depreciation (per BOE assessment)	5,324,682	5,519,654	5,740,638	5,978,341	6,167,078	6,363,691
= Taxable Percentage	96.90%	95.84%	94.96%	93.98%	92.87%	91.85%

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5. Re: SCG-237, p. RGR-24:

a. Does SoCalGas contend that gas commodity price changes affect not just the total amount of franchise fees, but the percentage of revenue collected in franchise fees? If the answer to this question is anything other than an unqualified negative, please explain in detail how gas commodity price changes affect the percentage of revenue collected in franchise fees.

b. Please confirm that Broughton Act franchise fees are expressed as a percentage of total revenue.

c. Please provide any statistical or other studies conducted by SoCalGas relating the franchise fee percentage to total commodity revenue or to commodity prices.

d. Please provide the following information regarding franchise fees for the last 15 years (2003-2017): Dollars of fee, dollars of total gross revenue, dollars of gas commodity revenue, and the annual average Henry Hub gas price for each of the 15 years shown in Table RGR-1. If SoCalGas believes it would be unduly burdensome to provide this information for the last 15 years, please provide it going as far back as SoCalGas can without unduly taxing its resources.

Utility Response 5:

a. SoCalGas objects to the extent this question is argument or requires assumptions. Notwithstanding that objection, SoCalGas would like to clarify that its discussion of natural gas prices on Ex. SCG-237, pages RGR-24 to RGR-25 was intended as an example merely to illustrate that recent trends affecting gross revenues (such as gas prices) can and do change. SoCalGas is <u>not</u> proposing to increase or otherwise change its franchise fee factor as reflected in its GRC workpapers based on natural gas prices. SoCalGas' franchise fee factor is instead based on its historic franchise fee percentages for 2012 - 2016. SoCalGas' primary arguments regarding franchise fees are described in Ex. SCG-237, p. RGR-24, lines 1 – 12.

   As explained in Exhibit SCG-237, page RGR-23, "SoCalGas uses a 5-year average of historic franchise fee percentages for forecasting the franchise fee factor for TY 2019. The historic franchise fee percentages for each year are calculated by dividing SoCalGas' total franchise fee payments by SoCalGas' gross receipts for the year." Accordingly, SoCalGas' franchise fee percentage for each year is an <u>effective</u> rate computed across all of its franchise fee jurisdictions. As of January 1, 2017, SoCalGas had franchise fee agreements with 248 taxing jurisdictions.

Utility Response 5:-Continued

SoCalGas does not contend that gas commodity price changes have a direct impact on the percentage of revenue collected in franchise fees. Changes in gross receipts from year-to-year – whether caused by changes in gas commodity prices, changes in consumption, or any other reason – do not impact the negotiated or statutory franchise fee rate in any particular jurisdiction.

In addition, if all of SoCalGas' jurisdictions imposed the same franchise fee rate or were allocated the same percentage of overall gross revenue each year, SoCalGas' effective franchise fee percentage would not change solely because of a change in gross receipts. However, the franchise fee rate is not uniform across all of SoCalGas' 248 taxing jurisdictions. As a result, when there is a change in revenue from one year to another, the numerator used in calculating SoCalGas' overall franchise fee percentage (*i.e.*, total franchise fee payments) may not change in the same ratio as the denominator (*i.e.*, gross receipts). The reasons the changes in the numerator and denominator may not be proportional include: (1) changes in the mix of gross receipts from year-to-year between jurisdictions with differing franchise fee rates; and (2) jurisdictions that utilize the higher of the franchise fees computed under the "Percentage of Gross Receipts" formula versus the Broughton Act formula (as discussed in Ex. SCG -37-2R, p. RGR-32), and "flip" between the two formulas from one year to the next as a result of changes in revenue allocations to those jurisdictions.

Accordingly, changes in gross receipts caused by changes in gas commodity prices (or by any other factor impacting revenue) could change SoCalGas' effective franchise fee percentage from year to year.

b. SoCalGas objects to the extent the question calls for a legal conclusion. Notwithstanding that objection, as defined in the California Public Utility Code, Division 3, Chapter 1, Article 1, Section 6006, Broughton Act franchise fees are based on "gross annual receipts . . . arising from the use, operation, or possession of the franchise."

c. SoCalGas is not aware of any statistical or other studies it has conducted relating the franchise fee percentage to total commodity revenue or to commodity prices.

d. SoCalGas objects to the extent the request is unduly burdensome or duplicative. Notwithstanding that objection, SoCalGas does not separately track or record its historic dollars of gas commodity revenue for purposes of its franchise fee computation or its franchise fee records. For the other categories of information requested by TURN, SoCalGas is able to provide the data for 2009 – 2017 without undue burden. This information is shown in the table below. The sources of the Franchise Fees, Gross Receipts, and Franchise Fee Percentage shown in the table are SoCalGas' GRC workpapers for the 2016 and 2019 rate cases, as well as its response to TURN Data Request-058 Question 9 in the 2019 GRC. The source of information for Henry Hub Gas Prices is the following website link, which was provided in Ex. SCG-237, p. RGR-24, footnote 80:
https://www.eia.gov/dnav/ng/hist/rngwhhdm.htm

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Utility Response 5:-Continued

Year	Franchise Fees	Gross Receipts	Franchise Fee Percentage	Avg. Henry Hub Gas Price ($ per million Btu)
2009	42,785,661	2,996,488,216	1.4279%	5.30
2010	47,659,945	3,360,715,964	1.4181%	5.04
2011	48,026,117	3,405,399,118	1.4103%	3.83
2012	40,509,131	2,886,349,085	1.4035%	3.01
2013	45,348,380	3,220,497,583	1.4081%	3.79
2014	45,163,748	3,258,644,339	1.3860%	4.10
2015	40,659,795	3,017,496,742	1.3475%	2.46
2016	41,968,790	3,189,482,138	1.3158%	2.94
2017	42,594,446	3,356,694,034	1.2689%	3.06

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6. Please confirm that the 2013-2017 five-year average franchise fee referenced at page RGR-24 Footnote 79 is 1.3447%, as calculated from Table 64 on page 96 of TURN-03. If you cannot confirm this calculation, please provide the number that SoCalGas believes to be a correct calculation of the five-year average 2013-2017 franchise fee, and workpapers demonstrating how that average was derived.

Utility Response 6:

SoCalGas agrees that the 2013-2017 five-year average franchise fee is 1.3447%.