The Gas Company ®

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May 22, 2002

Advice No. 3154
(U 904 G)

Public Utilities Commission of the State of California

**Subject: Reduction to the Income Tax Component of Contributions and
Advances for Construction**

Southern California Gas Company (SoCalGas) hereby submits for filing revisions to its
tariffs, applicable throughout its service territory, as shown on Attachment B.

Purpose

Pursuant to Ordering Paragraph 7 of California Public Utilities Commission
(Commission) Decision (D.) 87-09-026 in OII 86-11-019, SoCalGas hereby revises the
tax factor contained in Preliminary Statement, Part IV, Income Tax Component of
Contributions and Advances.

Background

SoCalGas' preliminary statement provides that Contributions in Aid of Construction
(CIAC) and Refundable Advances for Construction (Advances) shall consist of two
components: 1) income tax component (ITC) and 2) the balance of the Contribution or
Advance. The ITC shall be calculated by multiplying the Balance of Contribution or
Advance by the tax factor. The tax factor is established by using "Method 5" in
accordance with Ordering Paragraph 3.b of Commission D.87-09-026 as modified by
D.87-12-028.

D.87-09-026 directs the respondent utilities to file an advice letter filing to reflect any
change in the tax factor, which would increase or decrease the rate by five percentage
points or more. Accordingly, the tax factor is being revised to reflect a recent change in
the Federal depreciation provisions of the Internal Revenue Code, pursuant to Title I,
Section 101 of P.L. 107-147, the Job Creation and Worker Assistance Act of 2002 (H.R.
3090). A copy of this new provision is included herein as Attachment C.

Following September 11, 2004, this additional allowance is no longer allowed and
property contributed to SoCalGas after September 10, 2004 will be subject to the
previously calculated ITC.

By this filing, SoCalGas hereby revises its preliminary statement to reflect a temporary decrease in the tax factor from 35% to 27%, which is used to compute the ITC associated with Contribution in Aid of Construction and Refundable Advances for Construction. The revised tax factor has been calculated, as shown in Attachment D, by using Method 5 adopted by D.87-09-026 and D.87-12-028.

Protest

Anyone may protest this Advice Letter to the California Public Utilities Commission. The protest must state the grounds upon which it is based, including such items as financial and service impact, and should be submitted expeditiously. The protest must be made in writing and received within 20 days of the date of this Advice Letter. There is no restriction on who may file a protest. The address for mailing or delivering a protest to the Commission is:

> Energy Division - IMC Branch
> California Public Utilities Commission
> 505 Van Ness Avenue, 4th Floor
> San Francisco, CA 94102

Copies of the protest should also be sent via e-mail to the attention of both Jerry Royer (jjr@cpuc.ca.gov) and Honesto Gatchalian (jnj@cpuc.ca.gov) of the Energy Division. A copy of the protest shall also be sent via both e-mail and facsimile to the address shown below on the same date it is mailed or delivered to the Commission.

> Attn: Sid Newsom
> Regulatory Tariff Manager - GT14D6
> 555 West Fifth Street
> Los Angeles, CA 90013-1011
> Facsimile No. (213) 244-4957
> E-Mail: snewsom@semprautilities.com

Effective Date

SoCalGas respectfully requests that this filing become effective July 1, 2002, which is forty (40) days regular statutory notice.

Notice

In accordance with Section III.G of General Order No. 96-A, a copy of this advice letter is being sent to the parties shown on Attachment A.

_____
J. STEVE RAHON
Director
Tariffs and Regulatory Accounts

Attachments

ATTACHMENT A

Advice No. 3154

(See Attached Service List)

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Cal. P.U.C. Sheet No.	Title of Sheet	Cancelling Cal. P.U.C. Sheet No.
Revised 35396-G	PRELIMINARY STATEMENT, PART IV, INCOME TAX COMPONENT OF CONTRIBUTIONS AND ADVANCES, Sheet 1	Revised 24353-G
Revised 35397-G	TABLE OF CONTENTS	Revised 35392-G

PRELIMINARY STATEMENT   Sheet 1   T
PART IV
INCOME TAX COMPONENT OF CONTRIBUTIONS AND ADVANCES

Contributions in Aid of Construction (CIAC) and Refundable Advances for Construction (Advances) shall include federal and state taxes applicable to but not limited to, cash, services, facilities, labor, and property provided by a person or agency to the Utility. The value of all contributions and advances shall consist of two components for the purpose of recording transactions as follows:

  (1) Income Tax Component of Contributions and Advances (ITCCA), and

  (2) The balance of the contribution or advance.

The ITCCA shall be calculated by multiplying the balance of the CIAC or Advance by the tax factor of: (a) 35% for 1987, (b) 28% for 1988 through December 31, 1991, and (c) 35% beginning January 1, 1992 and thereafter. On or after July 1, 2002 and before September 11, 2004, the ITCCA shall be computed by   N
using a tax factor of 27%.   N

The Utility shall make advice letter filings to reflect any changes in the tax factor that would increase or decrease the tax factor by five percentage points or more.

The tax factor is established in accordance with Ordering Paragraph 3.a. of Decision 87-09-026, as modified by Decision 87-12-028.

Pursuant to Decision 87-09-026, the 1987 tax factor of 35% was effective as of February 11, 1987.

State tax shall be collected in accordance with Ordering Paragraph 6 of Decision 87-09-026.

Pursuant to Assembly Bill 1757, California Corporate Franchise Tax shall be collected beginning January 1, 1992.

Utility shall recover through rates any penalties, interest or taxes incurred if the Internal Revenue Service (IRS) deems the method of tax collection authorized by Decision 87-09-026 a violation of the tax normalization rules and imposes additional taxes, penalties and interest.

A Public Benefit Exemption may apply on a CIAC or Advance made to the Utility by a government agency on the basis of either:

  (1) the CIAC or Advance is exempt from the ITCCA tax because it is made pursuant to actual condemnation or the threat thereof as recognized by Internal Revenue Code Section 1033; or,

  (2) the CIAC or Advance is exempt because it does not reasonably relate to the provision of service but rather to the benefit of the public at large.

(Continued)

TABLE OF CONTENTS

The following listed sheets contain all effective Schedules of Rates and Rules affecting service and information relating thereto in effect on the date indicated thereon.

GENERAL   Cal. P.U.C. Sheet No.

PRELIMINARY STATEMENT

(Continued)

(TO BE INSERTED BY UTILITY)	ISSUED BY	(TO BE INSERTED BY CAL. PUC)
ADVICE LETTER NO. 3154	**Lee Schavrien**	DATE FILED May 22, 2002
DECISION NO. 87-09-026 & 87-12-028	Vice President	EFFECTIVE Jul 1, 2002
1H5	Regulatory Affairs	RESOLUTION NO.

ATTACHMENT C

Advice No. 3154

**Federal Depreciation Provisions of the Internal
Revenue Code, Pursuant to Title I, Section 101 of P.L.
107-147, the Job Creation and Worker Assistance Act
of 2002 (H.R. 3090)**

H.R. 3090

One Hundred Seventh Congress
of the
United States of America

AT THE SECOND SESSION

Begun and held at the City of Washington on Wednesday,
the twenty-third day of January, two thousand and two

An Act

To provide tax incentives for economic recovery.

Be it enacted by the Senate and House of Representatives of
the United States of America in Congress assembled,

SECTION 1. SHORT TITLE; ETC.

(a) SHORT TITLE.—This Act may be cited as the "Job Creation and Worker Assistance Act of 2002".

(b) REFERENCES TO INTERNAL REVENUE CODE OF 1986.—Except as otherwise expressly provided, whenever in this Act an amendment or repeal is expressed in terms of an amendment to, or repeal of, a section or other provision, the reference shall be considered to be made to a section or other provision of the Internal Revenue Code of 1986.

(c) TABLE OF CONTENTS.—

TITLE I—BUSINESS PROVISIONS

**SEC. 101. SPECIAL DEPRECIATION ALLOWANCE FOR CERTAIN PROP-
ERTY ACQUIRED AFTER SEPTEMBER 10, 2001, AND
BEFORE SEPTEMBER 11, 2004.**

(a) IN GENERAL.—Section 168 (relating to accelerated cost
recovery system) is amended by adding at the end the following
new subsection:

"(k) SPECIAL ALLOWANCE FOR CERTAIN PROPERTY ACQUIRED
AFTER SEPTEMBER 10, 2001, AND BEFORE SEPTEMBER 11, 2004.—

"(1) ADDITIONAL ALLOWANCE.—In the case of any qualified
property—

"(A) the depreciation deduction provided by section
167(a) for the taxable year in which such property is placed
in service shall include an allowance equal to 30 percent
of the adjusted basis of the qualified property, and

"(B) the adjusted basis of the qualified property shall
be reduced by the amount of such deduction before com-
puting the amount otherwise allowable as a depreciation
deduction under this chapter for such taxable year and
any subsequent taxable year.

"(2) QUALIFIED PROPERTY.—For purposes of this
subsection—

"(A) IN GENERAL.—The term 'qualified property' means
property—

"(i)(I) to which this section applies which has a recovery period of 20 years or less,

"(II) which is computer software (as defined in section 167(f)(1)(B)) for which a deduction is allowable under section 167(a) without regard to this subsection,

"(III) which is water utility property, or

"(IV) which is qualified leasehold improvement property,

"(ii) the original use of which commences with the taxpayer after September 10, 2001,

"(iii) which is—

"(I) acquired by the taxpayer after September 10, 2001, and before September 11, 2004, but only if no written binding contract for the acquisition was in effect before September 11, 2001, or

"(II) acquired by the taxpayer pursuant to a written binding contract which was entered into after September 10, 2001, and before September 11, 2004, and

"(iv) which is placed in service by the taxpayer before January 1, 2005, or, in the case of property described in subparagraph (B), before January 1, 2006.

"(B) CERTAIN PROPERTY HAVING LONGER PRODUCTION PERIODS TREATED AS QUALIFIED PROPERTY.—

"(i) IN GENERAL.—The term 'qualified property' includes property—

"(I) which meets the requirements of clauses (i), (ii), and (iii) of subparagraph (A),

"(II) which has a recovery period of at least 10 years or is transportation property, and

"(III) which is subject to section 263A by reason of clause (ii) or (iii) of subsection (f)(1)(B) thereof.

"(ii) ONLY PRE-SEPTEMBER 11, 2004, BASIS ELIGIBLE FOR ADDITIONAL ALLOWANCE.—In the case of property which is qualified property solely by reason of clause (i), paragraph (1) shall apply only to the extent of the adjusted basis thereof attributable to manufacture, construction, or production before September 11, 2004.

"(iii) TRANSPORTATION PROPERTY.—For purposes of this subparagraph, the term 'transportation property' means tangible personal property used in the trade or business of transporting persons or property.

"(C) EXCEPTIONS.—

"(i) ALTERNATIVE DEPRECIATION PROPERTY.—The term 'qualified property' shall not include any property to which the alternative depreciation system under subsection (g) applies, determined—

"(I) without regard to paragraph (7) of subsection (g) (relating to election to have system apply), and

"(II) after application of section 280F(b) (relating to listed property with limited business use).

"(ii) QUALIFIED NEW YORK LIBERTY ZONE LEASEHOLD IMPROVEMENT PROPERTY.—The term 'qualified property' shall not include any qualified New York

Liberty Zone leasehold improvement property (as defined in section 1400L(c)(2)).

"(iii) ELECTION OUT.—If a taxpayer makes an election under this clause with respect to any class of property for any taxable year, this subsection shall not apply to all property in such class placed in service during such taxable year.

"(D) SPECIAL RULES.—

"(i) SELF-CONSTRUCTED PROPERTY.—In the case of a taxpayer manufacturing, constructing, or producing property for the taxpayer's own use, the requirements of clause (iii) of subparagraph (A) shall be treated as met if the taxpayer begins manufacturing, constructing, or producing the property after September 10, 2001, and before September 11, 2004.

"(ii) SALE-LEASEBACKS.—For purposes of subparagraph (A)(ii), if property—

"(I) is originally placed in service after September 10, 2001, by a person, and

"(II) sold and leased back by such person within 3 months after the date such property was originally placed in service,

such property shall be treated as originally placed in service not earlier than the date on which such property is used under the leaseback referred to in subclause (II).

"(E) COORDINATION WITH SECTION 280F.—For purposes of section 280F—

"(i) AUTOMOBILES.—In the case of a passenger automobile (as defined in section 280F(d)(5)) which is qualified property, the Secretary shall increase the limitation under section 280F(a)(1)(A)(i) by $4,600.

"(ii) LISTED PROPERTY.—The deduction allowable under paragraph (1) shall be taken into account in computing any recapture amount under section 280F(b)(2).

"(F) DEDUCTION ALLOWED IN COMPUTING MINIMUM TAX.—For purposes of determining alternative minimum taxable income under section 55, the deduction under subsection (a) for qualified property shall be determined under this section without regard to any adjustment under section 56.

"(3) QUALIFIED LEASEHOLD IMPROVEMENT PROPERTY.—For purposes of this subsection—

"(A) IN GENERAL.—The term 'qualified leasehold improvement property' means any improvement to an interior portion of a building which is nonresidential real property if—

"(i) such improvement is made under or pursuant to a lease (as defined in subsection (h)(7))—

"(I) by the lessee (or any sublessee) of such portion, or

"(II) by the lessor of such portion,

"(ii) such portion is to be occupied exclusively by the lessee (or any sublessee) of such portion, and

"(iii) such improvement is placed in service more than 3 years after the date the building was first placed in service.

"(B) CERTAIN IMPROVEMENTS NOT INCLUDED.—Such term shall not include any improvement for which the expenditure is attributable to—

"(i) the enlargement of the building,

"(ii) any elevator or escalator,

"(iii) any structural component benefiting a common area, and

"(iv) the internal structural framework of the building.

"(C) DEFINITIONS AND SPECIAL RULES.—For purposes of this paragraph—

"(i) COMMITMENT TO LEASE TREATED AS LEASE.— A commitment to enter into a lease shall be treated as a lease, and the parties to such commitment shall be treated as lessor and lessee, respectively.

"(ii) RELATED PERSONS.—A lease between related persons shall not be considered a lease. For purposes of the preceding sentence, the term 'related persons' means—

"(I) members of an affiliated group (as defined in section 1504), and

"(II) persons having a relationship described in subsection (b) of section 267; except that, for purposes of this clause, the phrase '80 percent or more' shall be substituted for the phrase 'more than 50 percent' each place it appears in such subsection.".

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to property placed in service after September 10, 2001, in taxable years ending after such date.

SEC. 102. CARRYBACK OF CERTAIN NET OPERATING LOSSES ALLOWED FOR 5 YEARS; TEMPORARY SUSPENSION OF 90 PERCENT AMT LIMIT.

(a) IN GENERAL.—Paragraph (1) of section 172(b) (relating to years to which loss may be carried) is amended by adding at the end the following new subparagraph:

"(H) In the case of a taxpayer which has a net operating loss for any taxable year ending during 2001 or 2002, subparagraph (A)(i) shall be applied by substituting '5' for '2' and subparagraph (F) shall not apply.".

(b) ELECTION TO DISREGARD 5-YEAR CARRYBACK.—Section 172 (relating to net operating loss deduction) is amended by redesignating subsection (j) as subsection (k) and by inserting after subjection (i) the following new subsection:

"(j) ELECTION TO DISREGARD 5-YEAR CARRYBACK FOR CERTAIN NET OPERATING LOSSES.—Any taxpayer entitled to a 5-year carryback under subsection (b)(1)(H) from any loss year may elect to have the carryback period with respect to such loss year determined without regard to subsection (b)(1)(H). Such election shall be made in such manner as may be prescribed by the Secretary and shall be made by the due date (including extensions of time) for filing the taxpayer's return for the taxable year of the net

operating loss. Such election, once made for any taxable year, shall be irrevocable for such taxable year.".

(c) TEMPORARY SUSPENSION OF 90 PERCENT LIMIT ON CERTAIN NOL CARRYOVERS.—

(1) IN GENERAL.—Subparagraph (A) of section 56(d)(1) (relating to general rule defining alternative tax net operating loss deduction) is amended to read as follows:

"(A) the amount of such deduction shall not exceed the sum of—

"(i) the lesser of—

"(I) the amount of such deduction attributable to net operating losses (other than the deduction attributable to carryovers described in clause (ii)(I)), or

"(II) 90 percent of alternative minimum taxable income determined without regard to such deduction, plus

"(ii) the lesser of—

"(I) the amount of such deduction attributable to the sum of carrybacks of net operating losses for taxable years ending during 2001 or 2002 and carryforwards of net operating losses to taxable years ending during 2001 and 2002, or

"(II) alternative minimum taxable income determined without regard to such deduction reduced by the amount determined under clause (i), and".

(2) EFFECTIVE DATE.—The amendment made by this subsection shall apply to taxable years ending before January 1, 2003.

(d) EFFECTIVE DATE.—Except as provided in subsection (c), the amendments made by this section shall apply to net operating losses for taxable years ending after December 31, 2000.

TITLE II—UNEMPLOYMENT ASSISTANCE

SEC. 201. SHORT TITLE.

This title may be cited as the "Temporary Extended Unemployment Compensation Act of 2002".

SEC. 202. FEDERAL-STATE AGREEMENTS.

(a) IN GENERAL.—Any State which desires to do so may enter into and participate in an agreement under this title with the Secretary of Labor (in this title referred to as the "Secretary"). Any State which is a party to an agreement under this title may, upon providing 30 days' written notice to the Secretary, terminate such agreement.

(b) PROVISIONS OF AGREEMENT.—Any agreement under subsection (a) shall provide that the State agency of the State will make payments of temporary extended unemployment compensation to individuals who—

(1) have exhausted all rights to regular compensation under the State law or under Federal law with respect to a benefit year (excluding any benefit year that ended before March 15, 2001);

ATTACHMENT D

Advice No. 3154

Revised Tax Factor Calculation Using Method 5

Adopted by D.87-09-026 and D.87-12-028

CIAC GROSS-UP COMPUTATION INCLUDING CALIFORNIA TAXES

(A) YEAR	(B) TAX PMT/(BEN) REFLECTING CIAC OF $1,000	(C) TAX BASIS	(D) CALIFORNIA DEPRECIATION RATES	(E) CALIFORNIA RATES	(F) STATE TAX BENEFIT	(G) MODIFIED MACRS RATES	(H) FEDERAL TAX RATE	(I) FEDERAL TAX BENEFIT	(J) REMAINING CIAC PAYABLE	(K) WTD. AVG. UNRECOVERED TAX PMT.	(L) RATE OF RETURN	(M) REVENUE REQUIREMENT ON REMAINING INVESTMENT	(N) DISCOUNT FACTOR 0.12	(O) DISCOUNTED REVENUE REQUIREMENT ON REMAINING INVESTMENT
1	438.4	1,000	3.334%	8.840%	2.9473	32.625%	35.00%	114.1875	321.2652	379.8326	17.000%	64.5715	0.8929	57.6559
2	-30.94		6.445%		5.6974	5.053%		16.6540	267.9739	294.6196	17.000%	50.0853	0.7972	39.9277
3			6.016%		5.3181	4.674%		14.3649	248.2908	258.1323	17.000%	43.8825	0.7118	31.2347
4			5.615%		4.9637	4.324%		13.2726	230.0546	239.1727	17.000%	40.6594	0.6355	25.8398
5			5.241%		4.6330	3.999%		12.2592	213.1623	221.6084	17.000%	37.6734	0.5674	21.3769
6			4.892%		4.3245	3.700%		11.3284	197.5094	205.3359	17.000%	34.9071	0.5066	17.6850
7			4.566%		4.0363	3.422%		10.4634	183.0096	190.2595	17.000%	32.3441	0.4523	14.6308
8			4.261%		3.7667	3.165%		9.6648	169.5781	176.2939	17.000%	29.9700	0.4039	12.1044
9			3.977%		3.5157	3.123%		9.6121	156.4504	163.0142	17.000%	27.7124	0.3606	9.9934
10			3.712%		3.2814	3.123%		9.7000	143.4689	149.9596	17.000%	25.4931	0.3220	8.2081
11			3.465%		3.0631	3.123%		9.7820	130.6239	137.0464	17.000%	23.2979	0.2875	6.6976
12			3.234%		2.8589	3.123%		9.8584	117.9066	124.2653	17.000%	21.1251	0.2567	5.4223
13			3.018%		2.6679	3.123%		9.9299	105.3088	111.6077	17.000%	18.9733	0.2292	4.3482
14			2.817%		2.4902	3.123%		9.9967	92.8219	99.0654	17.000%	16.8411	0.2046	3.4460
15			2.630%		2.3249	3.123%		10.0589	80.4381	86.6300	17.000%	14.7271	0.1827	2.6906
16			2.455%		2.1702	3.123%		10.1168	68.1510	74.2946	17.000%	12.6301	0.1631	2.0602
17			2.367%		2.0924	3.123%		10.1709	55.8877	62.0194	17.000%	10.5433	0.1456	1.5356
18			2.367%		2.0924	3.123%		10.1982	43.5971	49.7424	17.000%	8.4562	0.1300	1.0996
19			2.367%		2.0924	3.123%		10.1982	31.3065	37.4518	17.000%	6.3668	0.1161	0.7392
20			2.367%		2.0924	3.123%		10.1982	19.0158	25.1612	17.000%	4.2774	0.1037	0.4434
21			2.367%		2.0924	1.562%		4.7347	12.1887	15.6023	17.000%	2.6524	0.0926	0.2455
22			2.367%		2.0924			(0.7323)	10.8286	11.5086	17.000%	1.9565	0.0826	0.1617
23			2.367%		2.0924			(0.7323)	9.4685	10.1485	17.000%	1.7252	0.0738	0.1273
24			2.367%		2.0924			(0.7323)	8.1083	8.7884	17.000%	1.4940	0.0659	0.0984
25			2.367%		2.0924			(0.7323)	6.7482	7.4283	17.000%	1.2628	0.0588	0.0743
26			2.367%		2.0924			(0.7323)	5.3881	6.0681	17.000%	1.0316	0.0525	0.0542
27			2.367%		2.0924			(0.7323)	4.0279	4.7080	17.000%	0.8004	0.0469	0.0375
28			2.367%		2.0924			(0.7323)	2.6678	3.3479	17.000%	0.5691	0.0419	0.0238
29			2.367%		2.0924			(0.7323)	1.3077	1.9877	17.000%	0.3379	0.0374	0.0126
30			2.367%		2.0924			(0.7323)	(0.0524)	0.6276	17.000%	0.1067	0.0334	0.0036
31			1.184%		1.0467			(0.7323)	(0.3668)	(0.2096)	17.000%	(0.0356)	0.0298	-0.0011
32					0.0000			(0.3663)	(0.0005)	(0.1837)	17.000%	(0.0312)	0.0266	-0.0008
			100.000%		88.4000	100.000%		319.0605				536.4069		267.9765
	407.46							407.4605				267.9765 / 1000		26.8000%
														27.0000%