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June 12, 2003

Advice No. 3267
(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 business provisions of the Internal Revenue Code, pursuant to Title I, Section 201(a) of the Jobs and Growth Tax Relief Reconciliation Act of 2003 (P.L. 108-27). A copy of this new provision, which increases and extends the bonus depreciation allowance adopted by the Job Creation and Worker Assistance Act of 2002, is included herein as Attachment C.¹

By this filing, SoCalGas hereby revises its preliminary statement to reflect a temporary decrease in the tax factor from 27% to 22%, 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

¹ On May 22, 2002, SoCalGas filed Advice No. 3154 to revise the tax factor to reflect the bonus depreciation provisions of the Job Creation and Worker Assistance Act of 2002. On November 26, 2002, the Energy Division approved Advice No. 3154, effective July 1, 2002.

adopted by D.87-09-026 and D.87-12-028. Effective January 1, 2005, this additional allowance is no longer allowed and property contributed to SoCalGas after December 31, 2004 will be subject to the previously authorized tax factor of 35%.

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 August 1, 2003, which is more than 40 days 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
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Tariffs and Regulatory Accounts

Attachments

ATTACHMENT A

Advice No. 3267

(See Attached Service List)

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ATTACHMENT B
Advice No. 3267

Cal. P.U.C. Sheet No.	Title of Sheet	Cancelling Cal. P.U.C. Sheet No.
Revised 36614-G	PRELIMINARY STATEMENT, PART IV, INCOME TAX COMPONENT OF CONTRIBUTIONS AND ADVANCES, Sheet 1	Revised 35396-G*
Revised 36615-G	TABLE OF CONTENTS	Revised 36613-G

PRELIMINARY STATEMENT

Sheet 1

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 August 1, 2003 the ITCCA shall be computed by using a tax factor of 27%. On or after August 1, 2003 and before January 1, 2005 the ITCCA shall be computed by using a tax factor of 22%.

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)

(TO BE INSERTED BY UTILITY)
ADVICE LETTER NO. 3267
DECISION NO. 87-09-026 & 87-12-028

ISSUED BY
Lee Schavrien
Vice President
Regulatory Affairs

(TO BE INSERTED BY CAL. PUC)
DATE FILED Jun 12, 2003
EFFECTIVE Aug 1, 2003
RESOLUTION NO. _____

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(Continued)

(TO BE INSERTED BY UTILITY)
 ADVICE LETTER NO. 3267
 DECISION NO. 87-09-026 & 87-12-028

ISSUED BY
Lee Schavrien
 Vice President
 Regulatory Affairs

(TO BE INSERTED BY CAL. PUC)
 DATE FILED Jun 12, 2003
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SoCalGas Advice No. 3267
Attachment C

Jobs and Growth Tax Relief Reconciliation Act of 2003
TITLE II--GROWTH INCENTIVES FOR BUSINESS

SEC. 201. INCREASE AND EXTENSION OF BONUS DEPRECIATION.

(a) IN GENERAL- Section 168(k) (relating to special allowance for certain property acquired after September 10, 2001, and before September 11, 2004) is amended by adding at the end the following new paragraph:

(4) 50-PERCENT BONUS DEPRECIATION FOR CERTAIN PROPERTY-

(A) IN GENERAL- In the case of 50-percent bonus depreciation property-

(i) paragraph (1)(A) shall be applied by substituting `50 percent' for `30 percent', and

(ii) except as provided in paragraph (2)(C), such property shall be treated as qualified property for purposes of this subsection.

(B) 50-PERCENT BONUS DEPRECIATION PROPERTY- For purposes of this subsection, the term `50-percent bonus depreciation property' means property described in paragraph (2)(A)(i)--

(i) the original use of which commences with the taxpayer after May 5, 2003,

(ii) which is acquired by the taxpayer after May 5, 2003, and before January 1, 2005, but only if no written binding contract for the acquisition was in effect before May 6, 2003, and

(iii) which is placed in service by the taxpayer before January 1, 2005, or, in the case of property described in paragraph (2)(B) (as modified by subparagraph (C) of this paragraph), before January 1, 2006.

(C) SPECIAL RULES- Rules similar to the rules of subparagraphs (B) and (D) of paragraph (2) shall apply for purposes of this paragraph; except that references to September 10, 2001, shall be treated as references to May 5, 2003.

(D) AUTOMOBILES- Paragraph (2)(E) shall be applied by substituting `\$7,650' for `\$4,600' in the case of 50-percent bonus depreciation property.

(E) ELECTION OF 30-PERCENT BONUS- If a taxpayer makes an election under this subparagraph with respect to any class of property for any taxable year, subparagraph (A)(i) shall not apply to all property in such class placed in service during such taxable year.

(b) EXTENSION OF CERTAIN DATES FOR 30-PERCENT BONUS DEPRECIATION PROPERTY-

(1) PORTION OF BASIS TAKEN INTO ACCOUNT-

(A) Subparagraphs (B)(ii) and (D)(i) of section 168(k)(2) are each amended by striking `September 11, 2004' each place it appears in the text and inserting `January 1, 2005'.

(B) Clause (ii) of section 168(k)(2)(B) is amended by striking `PRE-SEPTEMBER 11, 2004' in the heading and inserting `PRE-JANUARY 1, 2005'.

(2) ACQUISITION DATE- Clause (iii) of section 168(k)(2)(A) is amended by striking `September 11, 2004' each place it appears and inserting `January 1, 2005'.

(3) ELECTION- Clause (iii) of section 168(k)(2)(C) is amended by adding at the end the following: `The preceding sentence shall be applied separately with respect to property treated as qualified property by paragraph (4) and other qualified property.'.

(c) CONFORMING AMENDMENTS-

(1) The subsection heading for section 168(k) is amended by striking `SEPTEMBER 11, 2004' and inserting `JANUARY 1, 2005'.

(2) The heading for clause (i) of section 1400L(b)(2)(C) is amended by striking `30-PERCENT ADDITIONAL ALLOWANCE PROPERTY' and inserting `BONUS DEPRECIATION PROPERTY UNDER SECTION 168(k)'.

(d) EFFECTIVE DATE- The amendments made by this section shall apply to taxable years ending after May 5, 2003.

ATTACHMENT D

Advice No. 3267

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
AND MACRS DEPRECIATION MODIFIED WITH 50% BONUS DEPRECIATION

(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)	(M)	(N)	(O)
YEAR	TAX PMT/(BEN) REFLECTING CIAC	TAX BASIS	CALIFORNIA DEPRECIATION RATES	CALIFORNIA RATES	STATE TAX BENEFIT	MODIFIED MACRS RATES	FEDERAL TAX RATE	FEDERAL TAX BENEFIT	REMAINING CIAC PAYABLE	WTD. AVG. UNRECOVERED TAX PMT.	PRE-TAX RATE RETURN	REVENUE ON REMAINING INVESTMENT	DISCOUNT FACTOR 0.12	DISCOUNTED REVENUE REQUIREMENT ON REMAINING INVESTMENT
1	438.4	1,000	3.334%	8.840%	2,947.3	51.875%	35.00%	181.5625	253.8902	346.1451	17.000%	58.8447	0.8929	52.5389
2	-30.94		6.445%		5,697.4	3.610%		11.6034	205.6494	229.7698	17.000%	39.0609	0.7972	31.1391
3			6.016%		5,318.1	3.339%		9,632.4	190.6389	198.1441	17.000%	33.6845	0.7118	23.9760
4			5.615%		4,963.7	3.089%		8,950.2	176.7250	183.6820	17.000%	31.2259	0.6355	19.8446
5			5.241%		4,633.0	2.857%		8,262.2	163.8298	170.2774	17.000%	28.9472	0.5674	16.4254
6			4.892%		4,324.5	2.643%		7,629.0	151.8764	157.8531	17.000%	26.8350	0.5066	13.5954
7			4.566%		4,036.3	2.444%		7,040.4	140.7996	146.3380	17.000%	24.8775	0.4523	11.2533
8			4.261%		3,766.7	2.261%		6,500.8	130.5322	135.6659	17.000%	23.0632	0.4039	9.3148
9			3.977%		3,515.7	2.231%		6,490.2	120.5263	125.5292	17.000%	21.3400	0.3606	7.6954
10			3.712%		3,281.4	2.231%		6,578.0	110.6669	115.5966	17.000%	19.6514	0.3220	6.3272
11			3.465%		3,063.1	2.231%		6,660.0	100.9438	105.8053	17.000%	17.9869	0.2875	5.1708
12			3.234%		2,858.9	2.231%		6,736.4	91.3485	96.1461	17.000%	16.3448	0.2567	4.1953
13			3.018%		2,667.9	2.231%		6,807.9	81.8727	86.6106	17.000%	14.7238	0.2292	3.3743
14			2.817%		2,490.2	2.231%		6,874.7	72.5077	77.1902	17.000%	13.1223	0.2046	2.6851
15			2.630%		2,324.9	2.231%		6,936.9	63.2459	67.8768	17.000%	11.5391	0.1827	2.1082
16			2.455%		2,170.2	2.231%		6,994.8	54.0809	58.6634	17.000%	9.9728	0.1631	1.6268
17			2.367%		2,024.4	2.231%		7,048.9	44.9396	49.5103	17.000%	8.4167	0.1456	1.2258
18			2.367%		2,024.4	2.231%		7,076.2	35.7710	40.3553	17.000%	6.8604	0.1300	0.8921
19			2.367%		2,024.4	2.231%		7,076.2	26.6025	31.1868	17.000%	5.3017	0.1161	0.6156
20			2.367%		2,024.4	2.231%		7,076.2	17.4339	22.0182	17.000%	3.7431	0.1037	0.3880
21			2.367%		2,024.4	1.116%		3,173.7	12.1679	14.8009	17.000%	2.5162	0.0926	0.2329
22			2.367%		2,024.4			(0.7323)	10.8078	11.4878	17.000%	1.9529	0.0826	0.1614
23			2.367%		2,024.4			(0.7323)	9.4477	10.1278	17.000%	1.7217	0.0738	0.1270
24			2.367%		2,024.4			(0.7323)	8.0877	8.7677	17.000%	1.4905	0.0659	0.0982
25			2.367%		2,024.4			(0.7323)	6.7276	7.4076	17.000%	1.2893	0.0588	0.0741
26			2.367%		2,024.4			(0.7323)	5.3676	6.0476	17.000%	1.0281	0.0525	0.0540
27			2.367%		2,024.4			(0.7323)	4.0075	4.6875	17.000%	0.7969	0.0469	0.0374
28			2.367%		2,024.4			(0.7323)	2.6474	3.3275	17.000%	0.5657	0.0419	0.0237
29			2.367%		2,024.4			(0.7323)	1.2874	1.9674	17.000%	0.3345	0.0374	0.0125
30			2.367%		2,024.4			(0.7323)	(0.0727)	0.6073	17.000%	0.1032	0.0334	0.0034
31			1.184%		1,046.7			(0.3663)	(0.3870)	(0.2299)	17.000%	(0.0391)	0.0298	-0.0012
32					0.0000			(0.3663)	(0.0207)	(0.2039)	17.000%	(0.0347)	0.0266	-0.0009
					88.3986	100.0%		319.0811				427.2371		215.2158
								407.4807				215.2158	/ 1000	21.5200%
														22.0000%

407.46

Calculation of 20 year MACRS Rates
 Following election of 50% first year Expensing

Cost 1,000,000

	Original Rate	Bonus Rate	Combined	Depreciation	Percentage
1	3.750%	50.000%	53.750%	518,750.0000	51.875%
2	7.219%			36,095.0000	3.610%
3	6.677%			33,385.0000	3.339%
4	6.177%			30,885.0000	3.089%
5	5.713%			28,565.0000	2.857%
6	5.285%			26,425.0000	2.643%
7	4.888%			24,440.0000	2.444%
8	4.522%			22,610.0000	2.261%
9	4.462%			22,310.0000	2.231%
10	4.461%			22,305.0000	2.231%
11	4.462%			22,310.0000	2.231%
12	4.461%			22,305.0000	2.231%
13	4.462%			22,310.0000	2.231%
14	4.461%			22,305.0000	2.231%
15	4.462%			22,310.0000	2.231%
16	4.461%			22,305.0000	2.231%
17	4.462%			22,310.0000	2.231%
18	4.461%			22,305.0000	2.231%
19	4.462%			22,310.0000	2.231%
20	4.461%			22,305.0000	2.231%
21	2.231%			11,155.0000	1.116%
	<u>100.000%</u>			<u>1,000,000.0000</u>	<u>100.0%</u>