

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



December 17, 2019

Advice Letter 5541-G

Ronald van der Leeden
Director, Regulatory Affairs
Southern California Gas
555 W. Fifth Street, GT14D6
Los Angeles, CA 90013-1011

SUBJECT: 2018 Income Tax Expenses Resulting from the Tax Cuts and Jobs Act (TCJA) in Compliance with Decision (D.) 19-09-051, SoCalGas' General Rate Case (GRC) Application for Test Year 2019 (TY2019)

Dear Mr. van der Leeden:

Advice Letter 5541-G is effective as of January 1, 2020.

Sincerely,

A handwritten signature in cursive script that reads "Edward Randolph".

Edward Randolph
Deputy Executive Director for Energy and Climate Policy/
Director, Energy Division



Ronald van der Leeden

Director
Regulatory Affairs

555 W. Fifth Street, GT14D6
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October 31, 2019

Advice No. 5541
(U 904 G)

Public Utilities Commission of the State of California

Subject: 2018 Income Tax Expenses Resulting from the Tax Cuts and Jobs Act (TCJA) in Compliance with Decision (D.) 19-09-051, SoCalGas' General Rate Case (GRC) Application for Test Year 2019 (TY2019)

Purpose

Southern California Gas Company (SoCalGas) hereby requests California Public Utilities Commission (Commission) approval to implement rate adjustments to the revenue requirements for 2018 in order to reflect the 2018 tax savings from the TCJA in rates effective January 1, 2020.

Background

On October 6, 2017, SoCalGas submitted its TY2019 GRC Application (A.) 17-10-008 with the Commission. On September 26, 2019, the Commission approved SoCalGas' TY2019 GRC via D.19-09-051 adopting, among other things, SoCalGas' revenue requirement to establish rates to provide natural gas services for the test year period beginning January 1, 2019 through December 31, 2019, and the post-test year attrition adjustments for 2020 through 2021. Included in D.19-09-051 is Ordering Paragraph (OP) 22, which requires the following:

Southern California Gas Company and San Diego Gas & Electric Company must file separate Tier 2 Advice Letters within 45 days from the effective date of this decision, to implement adjustments to their respective revenue requirements for 2018 in order to reflect the 2018 tax savings from the Tax Cuts and Jobs Act in rates.

Additionally, D.19-09-051 correctly notes that 2018 is a post-test year to SoCalGas' TY2016 GRC. Therefore, the impact of the TCJA to the 2018 revenue requirement is outside the scope of this TY2019 GRC.¹

¹ See D.19-09-051 at 5 and 647.

Pursuant to OP 22 of D.19-09-051, SoCalGas submits this Tier 2 Advice Letter with the Commission's Energy Division to begin the process of returning to ratepayers 2018 tax savings resulting from the TCJA.

Discussion

In accordance with D.19-09-051, SoCalGas has calculated the 2018 tax savings from the TCJA. To do this calculation, SoCalGas started with the estimated 2018 amounts presented in its Exhibit 514, the Update Testimony of Ragan Reeves.² As explained in Mr. Reeves' Update Testimony:

SoCalGas and SDG&E used the final RO [Results of Operations] Model from the TY 2016 GRC – which reflects the RO amounts from SoCalGas' and SDG&E's final decision in the TY 2016 GRC – as the starting point for the 2018 estimated impact. SoCalGas and SDG&E then adjusted the TY 2016 formulas and amounts in the RO Model to reflect the impact of the TCJA as if the TCJA applied to 2016.³

SoCalGas then applied the same calculation adjustments adopted in D.19-09-051 for 2019 to 2018, specifically:⁴

- Applying the Average Rate Assumption Method (ARAM) for return of excess Accumulated Deferred Income Taxes (ADIT) on protected assets but do not remove costs of removal from book depreciation when calculating ARAM; and
- Amortizing excess ADIT on unprotected assets equally over the next six years.

These adjustments are consistent with the direction put forth in D.19-09-051, which states, “[i]t is possible that some calculation adjustments applied in this decision may also be applied to the 2018 adjustment during the advice letter process.”⁵

Based on the methodology above, the resulting 2018 TCJA-related tax savings amount is \$75.16 million, which includes interest, franchise fees and uncollectibles (FF&U), and a gross-up for income taxes.⁶ It is SoCalGas' intent that once this Advice Letter is approved, this amount will be returned to ratepayers by incorporating it into SoCalGas' consolidated Advice Letter and the corresponding rate change, effective January 1, 2020. Consistent with the Commission's treatment of SoCalGas' General Rate Case Memorandum Account 2019 (GRCMA2019) balance,⁷ SoCalGas requests that the 2018 TCJA tax savings be amortized in rates from January 1, 2020 through December 31, 2021.

² Update Testimony of Ragan G. Reeves on Behalf of Southern California Gas Company and San Diego Gas & Electric Company (August 2018).

³ *Id.* at 20.

⁴ D.19-09-051 at 647.

⁵ *Id.* at 647-648.

⁶ The TY2016 GRC RO model was used to calculate this amount. The RO model is confidential and is available upon request.

⁷ D.19-09-051 at OP 3.b.

Protest

Anyone may protest this Advice Letter to the 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 must be received within 20 days of the date of this Advice Letter, which is November 20, 2019. The address for mailing or delivering a protest to the Commission is:

CPUC Energy Division
Attention: Tariff Unit
505 Van Ness Avenue
San Francisco, CA 94102

Copies of the protest should also be sent via e-mail to the attention of the Energy Division Tariff Unit (EDTariffUnit@cpuc.ca.gov). A copy of the protest should 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: Ray B. Ortiz
Tariff Manager - GT14D6
555 West Fifth Street
Los Angeles, CA 90013-1011
Facsimile No.: (213) 244-4957
E-mail: ROrtiz@socalgas.com

Effective Date

SoCalGas believes this Advice Letter is subject to Energy Division disposition and should be classified as Tier 2 (effective pending disposition) pursuant to General Order (GO) 96-B and OP 22 of D.19-09-051. Therefore, SoCalGas respectfully requests that this submittal be approved effective January 1, 2020.

Notice

A copy of this Advice Letter is being sent to SoCalGas' GO 96-B service list and the Commission's service list in A.17-10-008. Address change requests to the GO 96-B service list should be directed via e-mail to tariffs@socalgas.com or call 213-244-2837. For changes to all other service lists, please contact the Commission's Process Office at 415-703-2021 or via e-mail at Process_Office@cpuc.ca.gov.

Ronald van der Leeden
Director - Regulatory Affairs

Attachments



ADVICE LETTER SUMMARY

ENERGY UTILITY



MUST BE COMPLETED BY UTILITY (Attach additional pages as needed)

Company name/CPUC Utility No.:

Utility type:

ELC GAS WATER
 PLC HEAT

Contact Person:

Phone #:
E-mail:
E-mail Disposition Notice to:

EXPLANATION OF UTILITY TYPE

ELC = Electric GAS = Gas WATER = Water
PLC = Pipeline HEAT = Heat

(Date Submitted / Received Stamp by CPUC)

Advice Letter (AL) #:

Tier Designation:

Subject of AL:

Keywords (choose from CPUC listing):

AL Type: Monthly Quarterly Annual One-Time Other:

If AL submitted in compliance with a Commission order, indicate relevant Decision/Resolution #:

Does AL replace a withdrawn or rejected AL? If so, identify the prior AL:

Summarize differences between the AL and the prior withdrawn or rejected AL:

Confidential treatment requested? Yes No

If yes, specification of confidential information:

Confidential information will be made available to appropriate parties who execute a nondisclosure agreement. Name and contact information to request nondisclosure agreement/ access to confidential information:

Resolution required? Yes No

Requested effective date:

No. of tariff sheets:

Estimated system annual revenue effect (%):

Estimated system average rate effect (%):

When rates are affected by AL, include attachment in AL showing average rate effects on customer classes (residential, small commercial, large C/I, agricultural, lighting).

Tariff schedules affected:

Service affected and changes proposed¹:

Pending advice letters that revise the same tariff sheets:

¹Discuss in AL if more space is needed.

Protests and all other correspondence regarding this AL are due no later than 20 days after the date of this submittal, unless otherwise authorized by the Commission, and shall be sent to:

CPUC, Energy Division
Attention: Tariff Unit
505 Van Ness Avenue
San Francisco, CA 94102
Email: EDTariffUnit@cpuc.ca.gov

Name:
Title:
Utility Name:
Address:
City:
State: Zip:
Telephone (xxx) xxx-xxxx:
Facsimile (xxx) xxx-xxxx:
Email:

Name:
Title:
Utility Name:
Address:
City:
State: Zip:
Telephone (xxx) xxx-xxxx:
Facsimile (xxx) xxx-xxxx:
Email: