ORA DATA REQUEST
ORA-SDGE-180-MRK
SDG&E 2019 GRC – A.17-10-007
SDG&E RESPONSE
DATE RECEIVED: JUNE 26, 2018
DATE RESPONDED: JULY 11, 2018

Exhibit Reference: SDG&E-240
SDG&E Witness: Eric Dalton
Subject: Miscellaneous Revenues

Please provide the following:

1. Referring to page ED-5 of Ex. SDG&E-240, regarding ITCC for SDG&E versus SCG, SDG&E states that the "the gross–up calculations are the same for both utilities as both have elected the Method 5 and the Maryland Method." However on page 30 of CPUC decision D.87-09-026, SDG&E writes "SDG&E intends to compute the present value of the tax benefit more directly than the rate base technique contained in Method 5. Under SDG&E's proposal, the so-called "Maryland Method," the present value of the tax benefits is computed utilizing the utility's authorized rate of return as the discount factor." Please explain how the gross up ITCC calculations are the same for both SCG and SDG&E, if one uses the rate base technique contained in Method 5 while the other utility does not.

SDG&E Response 01:

See ordering paragraph 3a in D.87-09-026, which states:

> 3a. Respondents adopting Method 5 or the Maryland Method shall compute the federal tax portion of the contribution or refundable advance using the respondent's incremental federal tax rate as determined on a ratemaking basis and using either a 12% discount rate or the respondent's last authorized rate of return. Respondents selecting 12% as a discount rate shall also use 17% as the pre-tax rate of return in their Method 5 calculation. Such choice shall be reflected in the tariff filing pursuant to Ordering Paragraph 2.

Per Ordering Paragraph 3a, the gross up ITCC calculations are the same for both SCG and SDG&E; respondents can use either a 12% discount rate (17% pre-tax rate) or the last authorized rate of return. In this case, both SCG and SDGE use the 12% discount rate.

2. Please supply a working spreadsheet that shows how SCG's gas 2016 gross-up ITCC is calculated from source data and how SDG&E's 2016 gas gross-up ITCC is calculated from source data. Please indicate how the calculations reflect the fact that SCG uses a rate base technique while SDG&E does not.

SDG&E Response 02:

The attached "ORA-SDGE-180-MRK Q2 Attachment 1" shows the ITCC tax gross-up calculation, which is the same for both SCG and SDG&E.

However, for the regulatory treatment differences at SCG and SDGE:

For SCG:
On Page 5 of SCG (Ex. SCG-35-WP-2R) accumulated deferred taxes related to CIAC (Line 14) is a part of the rate base calculation. The amounts shown on Line 14 come from page 35 of the Tax workpapers (Ex. SCG-37-WP-2R). See pages 1 and 2 of the attachment "ORA-SDGE-180-MRK Q2 Attachment 2." Since accumulated deferred taxes are included in rate base, the revenue requirement is covering the deferred tax over the life of the asset. The tax gross-up received from CIAC is given back to ratepayers over the life of the asset to prevent double recovery. In this situation, the difference in the revenue requirement received and the tax gross-up received are covered by ratepayers. This reflects the adoption of the Method 5.

For SDGE:
In contrast to SCG, page 5 of SDG&E Ex. SDG&E-33-WP-2R does not include a line item for accumulated deferred taxes related to CIAC in SDG&E's rate base calculation. See page 3 of the attachment "ORA-SDGE-180-MRK Q2 Attachment 2." Therefore, there is no revenue requirement to cover these deferred taxes. The tax gross-up received from CIAC is amortized over the life of the asset to offset the deferred taxes. In this situation, the difference in the deferred taxes and the tax gross-up received are covered by shareholders. This reflects the adoption of the Maryland Method.