

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**



FILED

04-11-11
04:59 PM

Application of San Diego Gas & Electric Company (U902M) for Authority, Among Other Things, to Increase Rates and Charges for Electric and Gas Service Effective on January 1, 2012.

Application No. 10-12-005
(Filed December 15, 2010)

Application of Southern California Gas Company (U904G) for authority to update its gas revenue requirement and base rates effective on January 1, 2012.

Application No. 10-12-006
(Filed December 15, 2010)

NOTICE OF EX PARTE COMMUNICATION

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April 11, 2011

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Application of San Diego Gas & Electric Company (U902M) for Authority, Among Other Things, to Increase Rates and Charges for Electric and Gas Service Effective on January 1, 2012.

Application No. 10-12-005
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Application of Southern California Gas Company (U904G) for authority to update its gas revenue requirement and base rates effective on January 1, 2012.

Application No. 10-12-006
(Filed December 15, 2010)

NOTICE OF EX PARTE COMMUNICATION

Pursuant to Rule 8.3 of the California Public Utilities Commission's Rules of Practice and Procedure, Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E) file this notice of written ex parte communication for two letters addressing the Commission's Draft Resolution L-411.

The first letter, addressed to Commissioner Catherine Sandoval from Mr. Robert Schlax, Vice President, Controller, and Chief Financial Officer for SoCalGas and SDG&E, was electronically mailed on April 6, 2011 at approximately 3:30 p.m. from SoCalGas' Los Angeles office located at 555 W. 5th Street, Los Angeles, CA 90012. Commissioners Michael Peevey, Timothy Simon, Mike Florio, and Mark Ferron were also copied on the April 6 letter, as were Commissioner Sandoval's interim Chief-of-Staff, Mr. Phil Weismehl, Chief Administrative Law Judge (ALJ) Karen Clopton, and ALJ Michael Galvin. The April 6 letter responded to a question from Mr. Joel Perlstein of the Commission's Legal Division regarding whether SoCalGas and

SDG&E would be adding to rate base more plant than previously planned due to either or both of the new tax laws (*i.e.*, Small Business Jobs Act of 2010 and the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010). Mr. Schlax responded that a comprehensive and definitive answer could not be provided on an expedited basis because of many factors which were yet to be determined.

The second letter, addressed to Commissioners Sandoval and Ferron from Mr. Schlax, was electronically mailed on April 8, 2011 at approximately 3:40 p.m. from the same Los Angeles office. Commissioners Peevey, Simon, and Florio were also copied on the April 8 letter, as were Mr. Weismehl and Chief ALJ Clopton. The April 8 letter was sent pursuant to an all-party meeting where utilities were asked to provide an estimate of the impacts of the new tax legislation. Mr. Schlax responded that the estimated impact for 2011, on a revenue requirement basis, was \$1 million for SDG&E and \$2 million for SoCalGas. Supporting calculations were also attached to the April 8 letter. In addition, Mr. Schlax provided reasons why the Draft Resolution was problematic and not necessary, especially for utilities with pending 2012 General Rate Case proceedings.

Copies of the April 6 letter and April 8 letter are hereby attached to this notice. To request a copy of this notice, please contact:

Alina Lawrence
601 Van Ness Avenue, Suite 2060
San Francisco, CA 94102
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Respectfully submitted,

By: /s/ Johnny J. Pong

JOHNNY J. PONG

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April 11, 2011

Attachments



Robert Schlx

Vice President, Controller
& Chief Financial Officer

8330 Century Park Court, CP33A
San Diego, CA 92123-1530

Tel: 858-650-4191

Fax: 858-650-6106

RSchlax@SempraUtilities.com

April 6, 2011

Commissioner Catherine Sandoval
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

Re: Information Requested by Telephone Communication on Draft Resolution L-411

Dear Commissioner Sandoval:

On April 1, 2011, Joel Perlstein of the CPUC Legal Division called San Diego Gas & Electric Company ("SDG&E") and Southern California Gas Company ("SoCalGas") (jointly, Sempra Energy Utilities or "SEU") to request an expedited response to your question below relating to Draft Resolution L-411 ("Draft Resolution"):

For SDG&E and SoCalGas, will each utility be adding to rate base more plant than previously planned due to either or both of the new tax laws¹ for 2011? If yes, how much spending, and what kind of plant is added.

SEU cannot provide a comprehensive or definitive response to this question within the time requested, as it is dependent on a large variety of factors, many of which are yet to be determined. However, in the interest of complying with your request, SEU submits the following provisional response:

SEU investment plans for 2011 are based on the existing regulatory process and are at levels adequate to meet the provision of safe and reliable service. In the event of changes in the business or legislative and regulatory environments, or if new legislative and/or regulatory mandates are issued during 2011, SEU may identify needs or opportunities resulting in additional investments in excess of our current planned investment level. SEU cannot quantify potential changes or the type of utility plant at this time.

¹ SEU understands this to be the tax laws within the scope of the current version of Draft Resolution L-411, which are the Small Business Jobs Act of 2010, and the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010.

In addition to possible changes in business circumstances, the resolution of other unknowns will have a bearing on the response to this question, including but not limited to the following considerations:

- The Treasury Department and Internal Revenue Service (“IRS”) guidance regarding the tax laws addressed in Draft Resolution L-411 was only recently issued.² SEU is still in the process of reviewing the rules governing the election of bonus depreciation for the federal tax filing purposes, and has not yet quantified the extent that cash taxes will be reduced making funds available for reinvestment.
- SEU does not know if the CPUC will enact a different regulatory process governing the approval and treatment of incremental investments using cash made available from election of bonus depreciation allowed by the tax laws. In previous comments SEU has expressed the sentiment that the current version of Draft Resolution L-411 undermines the intent of the tax laws to encourage timely incremental infrastructure investment.

Thank you for this additional opportunity to communicate on this matter.

Sincerely,



Robert Schlax
Vice President, Controller & Chief Financial Officer
Sempra Energy Utilities

cc: Commission President Michael Peevey
Commissioner Mark Ferron
Commissioner Mike Florio
Commissioner Timothy Alan Simon
Joel Perlstein, Esq., Legal Division
Arocles Aguilar, Legal Division
Paul Clanon, Executive Director
Karen Clopton, Chief ALJ
Michael Galvin, ALJ
Rami Kahlon, Director, Division of Water and Audits
Frank R. Lindh, General Counsel
Phil Weismehl, Interim Chief-of-Staff for Cmmr. Sandoval
Marzia Zafar, Executive Division
Service List for Draft Resolution L-411

² IRS Rev. Proc. 2011-26, dated March 29, 2011.



Robert Schlax
Vice President, Controller
& Chief Financial Officer

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April 8, 2011

Commissioner Catherine Sandoval
Commissioner Mark Ferron
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

Re: Draft Resolution L-411

Dear Commissioners Sandoval and Ferron:

I am writing on behalf of San Diego Gas & Electric Company (“SDG&E”) and Southern California Gas Company (“SoCalGas”) (jointly, Sempra Energy Utilities or “SEU”) in response to the All-Party meeting on Draft Resolution L-411 (“Draft Resolution”) held on March 30, 2011. This letter also addresses the alternative approach to the advice letter process described in the April 5, 2010 letter from The Utility Reform Network (“TURN”).

At the All-Party meeting you requested that SEU identify the cash impact of bonus depreciation in 2011. Attached to this letter is the requested analysis. In summary, the estimated effect for the entire year of 2011, expressed on a revenue requirements basis is \$1 million for SDG&E and \$2 million for SoCalGas.¹ As noted at the All-Party meeting, due to the expedited nature of this request and the limited time to review the recently-issued Treasury Department and Internal Revenue Service (“IRS”) guidance regarding the election of bonus depreciation,² the information provided is a preliminary estimate subject to change after further analysis. You also offered SEU the opportunity to provide additional comments on the Draft Resolution. SEU appreciates this opportunity and hopes that these additional comments will help the Commission understand the complexity of the issues surrounding bonus depreciation and why SEU feels the Draft Resolution should not be adopted.

¹ If authorized, it is SEU’s understanding the contemplated memorandum accounts would reflect a portion of the amounts, according to the time remaining in 2011 following approval of the Draft Resolution by the Commission.

² IRS Rev. Proc. 2011-26, dated March 29, 2011.

As expressed at the meeting and previously in written comments, SEU believes the memorandum accounts proposed in the Draft Resolution are not necessary for utilities with a pending 2012 General Rate Case (“GRC”) proceeding. This is due to the fact that SEU’s January 1, 2012 rate base forecast for the GRC will be lower than otherwise forecasted due to the projected net accrued deferred tax liability resulting from the bonus depreciation deducted for income tax purposes with ratepayers realizing 100% of the forecasted benefits due to the election of bonus depreciation as a rate base offset upon implementation of the 2012 GRC decision. If the Commission does not withdraw or reject the Draft Resolution, it should be modified to exempt parties with Test Year 2012 GRCs as a matter of both fairness and implementation feasibility.

By electing bonus depreciation for federal income tax filing purposes an economic benefit is realized as a result of a reduction in near-term cash taxes. However, as stated at the All-Party meeting, and reiterated here, this economic benefit is a timing difference, not a reduction to tax expense – it is a reduction of cash tax payments in the years in which bonus depreciation is elected which will be offset by an increase in cash tax payments in subsequent years as a result of increased taxable income due to lower depreciation expense for tax purposes. The economic benefit is derived from the availability of additional cash during the time period of the deferred payment. It is, in essence, an interest-free loan from the Federal Government. However, receiving the benefit is wholly dependent on the ability to take advantage of the timing difference. SEU does expect to be able to reduce its estimated tax payments in 2011 as a result of these Acts, but, as reflected in the analysis accompanying this letter, these benefits will be realized ratably during 2011. Further, any benefits that do materialize from the election of bonus depreciation may be offset by higher tax obligations resulting from enactment of the legislation, such as loss of the tax deduction for domestic manufacturing activities under Internal Revenue Code Section 199.

Since the Small Business Jobs Act of 2010 (“Small Business Act”) was enacted prior to SEU’s submittal of the 2012 GRC applications, the impact of the Small Business Act is already reflected in its 2012 GRCs. However, since the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (“Tax Relief Act”) was enacted after SEU’s submittal of the 2012 GRC applications, the impact of the Tax Relief Act was not reflected in the applications. SEU has previously advised the Commission (reiterated at the All-Party meeting) of its intent to amend its showing and to also include the effect of the Tax Relief Act in its 2012 GRCs. As a result, all of the expected net accrued benefits resulting from the deferral of cash tax payments from 2011 associated with both the Small Business Act and the Tax Relief Act, and the vast majority of the expected cash tax benefits realized as a result of the deferral of cash tax payments for 2010 will be reflected in the deferred tax liability as of December 31, 2011 - resulting in a lower rate base than would have otherwise been forecasted. Therefore, by virtue of the GRC process, 100% of the forecasted accrued benefits of both pieces of legislation will flow to SEU ratepayers as an offset to rate base effective January 1, 2012, or upon approval by the CPUC of SEU’s 2012 GRCs. Yet despite this, the Draft Resolution would contravene long-standing Commission precedent for the treatment of bonus depreciation and would create serious implementation issues.

Bonus depreciation has been enacted a number of times in prior years to stimulate the economy and there is no precedent from those earlier occasions supporting what is proposed in Draft Resolution L-411. Further, in Decision 84-05-036 (“OII 24”), the Commission “declined...to require utilities to submit adjustments reflecting reductions in taxes” for tax law changes, and instead established a standard of “changes that appear to be permanent and substantial” to overcome that hurdle. As supported by the schedule attached, SEU estimates the tax laws enacted in 2010 to have a small revenue requirement impact and are clearly not permanent. The change in taxes is temporal, in that it does not alter the tax expense itself,³ but simply defers the timing of the payment to a later date.⁴ The Draft Resolution thus clearly fails both tests established by the Commission since 1984. In the absence of showing the tax changes are permanent and substantial, the logic for abandoning standards that emerged from a general investigation into Commission practices is left wanting.

In addition to the issues discussed above, the Draft Resolution lacks clarity in how to quantify the benefits realized as a result of bonus depreciation and for incremental costs associated with the tax law changes which creates serious implementation issues. The Draft Resolution would have SEU compare the net benefits realized due to the tax law changes with any incremental capital investments made as a result of the benefits realized. This creates serious issues in the determination of what the authorized levels of capital investments are in post-test years. SEU’s 2008 GRC decision approved settlements that do not contain specific authorized capital investment levels for 2009-2011 to complete such a computation. Once such investment levels were authorized for 2008, post-test year increases are in the form of fixed total revenue requirement increases in each of 2009, 2010 and 2011. In the absence of authorized capital investment levels for the post-test years, it is not clear how the memorandum account will properly measure the incremental benefits and costs from the tax laws. In order to comply with memorandum account requirements of the Draft Resolution, SEU will need to devise a “proxy method” to record incremental costs and benefits. SEU believes that having to resort to proxy methods is an inferior alternative to existing ratemaking mechanisms which address the unique circumstances of each utility in their respective GRCs.

Lastly, SEU provides comments regarding the alternative approach to the advice letter process suggested by TURN. In its letter, TURN discusses the concern expressed by the utilities regarding the ability to determine capital investment levels incremental to GRC authorized levels, and recommends a “proxy method” with reference to Southern California Edison’s Reliability Investment Incentive Mechanism. SEU strongly disagrees that any memorandum account is necessary for utilities with a 2012 GRC, however in the event a memorandum account is ordered, SEU intends to propose its own proxy method and continues to urge the Commission to not prejudge the details that will need to be addressed during the review process.

³ Except the potential loss of tax deductions, such as the Section 199 deduction, that would *increase* income taxes for SDG&E.

⁴ In addition, the ability to elect bonus depreciation under the Tax Relief Act, generally, will expire on December 31, 2012.

In summary, SEU first recommends the Commission withdraw or reject the Draft Resolution, as the current draft of the resolution has been shown to be seriously flawed. In the alternative, SEU asks that any utility with a Test Year 2012 GRC be exempted from the Draft Resolution, because the impact is not permanent or substantial in 2011, and ratepayers will receive 100% of the forecasted accrued benefit beginning January 1, 2012.

Sincerely,

A handwritten signature in blue ink, appearing to read "Robert Schlax".

Robert Schlax
Vice President, Controller & Chief Financial Officer
Sempra Energy Utilities

Attachment

cc: Commission President Michael Peevey
Commissioner Mike Florio
Commissioner Timothy Alan Simon
Joel Perlstein, Esq., Legal Division
Paul Clanon, Executive Director
Karen Clopton, Chief ALJ
Marzia Zafar, Executive Division
Frank R. Lindh, General Counsel
Rami Kahlon, Director, Division of Water and Audits
Phil Weismehl, Interim Chief-of-Staff for Cmmr. Sandoval
Service List for Draft Resolution L-411

Preliminary - Subject to Change

San Diego Gas & Electric and Southern California Gas Company
 Estimated Revenue Requirement Impact of Bonus Depreciation in 2011
 (\$ in Millions, Rounded)

| Line | SCG | SDG&E |
|------|--------|--------|
| 1 | \$ | \$ |
| 2 | (14) | (19) |
| 3 | | |
| 4 | 12.28% | 12.20% |
| 5 | \$ | \$ |
| 6 | (2) | (2) |
| 7 | | |
| 8 | N/A | 1 |
| 9 | | |
| 10 | \$ | \$ |
| | (2) | (1) |

Preliminary - Subject to Change

**San Diego Gas and Electric Company
Net Cash Tax Deferral and Weighted Average Deferred Tax Impact - \$000
Estimated Revenue Requirement Impact of Bonus Depreciation in 2011**

| Line | | Qtr 1 | Qtr 2 | Qtr 3 | Qtr 4 | Total 2011 |
|------|---|---------------|-----------|-------------|-------------|------------|
| 1 | Forecasted Costs Eligible for 50% Bonus Depreciation | 50,078 | 50,078 | 83,744 | 14,120 | |
| 2 | 50% Bonus Depreciation on Above Costs | 25,039 | 25,039 | 41,872 | 7,060 | |
| 3 | Add: Regular Federal Tax Depreciation on Above Costs | (2,003) | (2,003) | (3,350) | (565) | |
| 4 | Difference Due to 50% Bonus Depreciation | A | 23,036 | 23,036 | 38,522 | 6,495 |
| 5 | | | | | | |
| 6 | Forecasted Costs Eligible for 100% Bonus Depreciation | 97,906 | 97,906 | 103,910 | 85,522 | |
| 7 | 100% Bonus Depreciation on Above Costs | 97,906 | 97,906 | 103,910 | 85,522 | |
| 8 | Add: Regular Federal Tax Depreciation on Above Costs | (3,916) | (3,916) | (4,156) | (3,421) | |
| 9 | Difference Due to 100% Bonus Depreciation | B | 93,990 | 93,990 | 99,754 | 82,101 |
| 10 | | | | | | |
| 11 | Total Difference Due to Additional Bonus Depreciation | A+B=C | 117,026 | 117,026 | 138,276 | 88,596 |
| 12 | Federal Tax Rate | D | 35% | 35% | 35% | 35% |
| 13 | Incremental Deferred Tax Liability | CxD=E | 40,959 | 40,959 | 48,397 | 31,009 |
| 14 | Add: Deferred Tax Asset Created by Net Operating Loss | F | (19,377) | (19,377) | (19,377) | (77,509) |
| 15 | Net Cash Tax Deferral (See Note 1) | E+F=G | 21,582 | 21,582 | 29,019 | 11,631 |
| 16 | | | | | | |
| 17 | | | | | | |
| 18 | | | | | | |
| 19 | | A | B | C = B/366 | D = A x C | E |
| | | Monthly | Days | Days | Monthly Wtd | Prorated |
| | Weighted Average Calculation (See Note 2) | Deferral | Remaining | Remaining % | Avg | Deferral |
| 20 | | | | | | |
| 21 | | | | | | - |
| 22 | Jan | 6,984 | 335 | 0.9153 | 6393 | 6,393 |
| 23 | Feb | 6,984 | 304 | 0.8306 | 5801 | 12,194 |
| 24 | Mar | 6,984 | 276 | 0.7541 | 5267 | 17,461 |
| 25 | Apr | 6,984 | 245 | 0.6694 | 4675 | 22,137 |
| 26 | May | 6,984 | 215 | 0.5874 | 4103 | 26,240 |
| 27 | Jun | 6,984 | 184 | 0.5027 | 3511 | 29,751 |
| 28 | Jul | 6,984 | 154 | 0.4208 | 2939 | 32,690 |
| 29 | Aug | 6,984 | 123 | 0.3361 | 2347 | 35,037 |
| 30 | Sep | 6,984 | 92 | 0.2514 | 1756 | 36,793 |
| 31 | Oct | 6,984 | 62 | 0.1694 | 1183 | 37,976 |
| 32 | Nov | 6,984 | 31 | 0.0847 | 592 | 38,567 |
| 33 | Dec | 6,984 | 1 | 0.0027 | 19 | 38,586 |
| 34 | | <u>83,814</u> | | | | |
| 35 | Prorated Additions | | | | | 38,586 |
| 36 | Beginning of Year Balance | | | | | - |
| 37 | Prorated End of Year Balance | | | | | 38,586 |
| 38 | Weighted Average Deferred Tax | | | | | 19,293 |

Note 1

Bonus depreciation in 2011 includes both 50% and 100% eligible property (if construction began on self-constructed property before 9/9/2010), only 50% bonus depreciation is allowed. Regular federal tax depreciation provides approximately 4% composite depreciation on 2011 capital additions. The cash tax benefit of bonus depreciation in 2011 is measured by the difference between bonus depreciation and regular federal tax depreciation that would have been claimed had bonus depreciation not been enacted for 2011. Due to 50% and 100% bonus depreciation in 2011, SDG&E will be in a net operating loss (NOL). The NOL will not provide an economic benefit until the IRS processes a refund against prior or future years' tax liabilities. This will occur in late 2012 after the 2011 tax return is filed and amended returns for other years can be processed by the IRS. As a result, the deferred tax asset created by the NOL will partially offset the deferred tax liability created by additional bonus depreciation.

Note 2

IRS Regulation 1.167(l)-1(h)(6)(ii) requires the proration methodology used above when rates are set on a projected future period.

Preliminary, Subject to Change

**Southern California Gas Company
Net Cash Tax Deferral and Weighted Average Deferred Tax Impact - \$000
Estimated Revenue Requirement Impact of Bonus Depreciation in 2011**

| Line | | Qtr 1 | Qtr 2 | Qtr 3 | Qtr 4 | Total 2011 | |
|------|---|---------------|-----------|-------------|-------------|------------|----------|
| 1 | Forecasted Costs Eligible for 50% Bonus Depreciation | 35,859 | 35,859 | 18,133 | 22,880 | | |
| 2 | 50% Bonus Depreciation on Above Costs | 17,930 | 17,930 | 9,066 | 11,440 | | |
| 3 | Add: Regular Federal Tax Depreciation on Above Costs | (1,434) | (1,434) | (725) | (915) | | |
| 4 | Difference Due to 50% Bonus Depreciation | A | 16,495 | 16,495 | 8,341 | 10,525 | |
| 5 | | | | | | | |
| 6 | Forecasted Costs Eligible for 100% Bonus Depreciation | 75,058 | 75,058 | 109,429 | 74,762 | | |
| 7 | 100% Bonus Depreciation on Above Costs | 75,058 | 75,058 | 109,429 | 74,762 | | |
| 8 | Add: Regular Federal Tax Depreciation on Above Costs | (3,002) | (3,002) | (4,377) | (2,990) | | |
| 9 | Difference Due to 100% Bonus Depreciation | B | 72,056 | 72,056 | 105,052 | 71,772 | |
| 10 | | | | | | | |
| 11 | Total Difference Due to Additional Bonus Depreciation | A+B=C | 88,551 | 88,551 | 113,393 | 82,297 | 372,792 |
| 12 | Federal Tax Rate | D | 35% | 35% | 35% | 35% | 35% |
| 13 | Incremental Deferred Tax Liability | CxD=E | 30,993 | 30,993 | 39,688 | 28,804 | 130,477 |
| 14 | Add: Deferred Tax Asset Created by Net Operating Loss | F | (17,096) | (17,096) | (17,096) | (17,096) | (68,384) |
| 15 | Net Cash Tax Deferral (See Note 1) | E+F=G | 13,897 | 13,897 | 22,591 | 11,708 | 62,093 |
| 16 | | | | | | | |
| 17 | | | | | | | |
| 18 | | | | | | | |
| 19 | | A | B | C = B/366 | D = A x C | E | |
| | | Monthly | Days | Days | Monthly Wtd | Prorated | |
| | Weighted Average Calculation (See Note 2) | Deferral | Remaining | Remaining % | Avg | Deferral | |
| 20 | | | | | | | |
| 21 | | | | | | | |
| 22 | Jan | 5,174 | 335 | 0.9153 | 4736 | 4,736 | |
| 23 | Feb | 5,174 | 304 | 0.8306 | 4298 | 9,034 | |
| 24 | Mar | 5,174 | 276 | 0.7541 | 3902 | 12,936 | |
| 25 | Apr | 5,174 | 245 | 0.6694 | 3464 | 16,400 | |
| 26 | May | 5,174 | 215 | 0.5874 | 3040 | 19,439 | |
| 27 | Jun | 5,174 | 184 | 0.5027 | 2601 | 22,041 | |
| 28 | Jul | 5,174 | 154 | 0.4208 | 2177 | 24,218 | |
| 29 | Aug | 5,174 | 123 | 0.3361 | 1739 | 25,957 | |
| 30 | Sep | 5,174 | 92 | 0.2514 | 1301 | 27,258 | |
| 31 | Oct | 5,174 | 62 | 0.1694 | 877 | 28,134 | |
| 32 | Nov | 5,174 | 31 | 0.0847 | 438 | 28,572 | |
| 33 | Dec | 5,174 | 1 | 0.0027 | 14 | 28,586 | |
| 34 | | <u>62,093</u> | | | | | |
| 35 | Prorated Additions | | | | | 28,586 | |
| 36 | Beginning of Year Balance | | | | | - | |
| 37 | Prorated End of Year Balance | | | | | 28,586 | |
| 38 | Weighted Average Deferred Tax | | | | | 14,293 | |

Note 1

Bonus depreciation in 2011 includes both 50% and 100% eligible property (if construction began on self-constructed property before 9/9/2010), only 50% bonus depreciation is allowed. Regular federal tax depreciation provides approximately 4% composite depreciation on 2011 capital additions. The cash tax benefit of bonus depreciation in 2011 is measured by the difference between bonus depreciation and regular federal tax depreciation that would have been claimed had bonus depreciation not been enacted for 2011. Due to 50% and 100% bonus depreciation in 2011, SoCalGas will be in a net operating loss (NOL). The NOL will not provide an economic benefit until the IRS processes a refund against prior or future years' tax liabilities. This will occur in late 2012 after the 2011 tax return is filed and amended returns for other years can be processed by the IRS. As a result, the deferred tax asset created by the NOL will partially offset the deferred tax liability created by additional bonus depreciation.

Note 2

IRS Regulation 1.167(l)-1(h)(6)(ii) requires the proration methodology used above when rates are set on a projected future period.