

Company: Southern California Gas Company (U 904 G) / San Diego Gas & Electric
Company (U 902 M)
Proceeding: 2028 General Rate Case
Application: A.26-06-014/015
Exhibit: SCG-25.1 / SDGE-30.1

REVISED PREPARED DIRECT TESTIMONY OF RAGAN G. REEVES
(TAX)

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



September 2026

TABLE OF CONTENTS

I.	INTRODUCTION	1
A.	Summary of Proposals	1
B.	Organization of Testimony.....	1
II.	PAYROLL TAXES	1
A.	Introduction.....	1
B.	Discussion	1
	1. Federal Insurance Contributions Act	2
	2. Federal Unemployment Tax Act	2
	3. California State Unemployment Insurance.....	3
	4. Methodology Used to Estimate Tax Expense	3
C.	Summary of Estimated Payroll Taxes	4
D.	Results.....	4
III.	AD VALOREM TAXES	6
A.	Introduction.....	6
B.	Discussion	6
C.	Summary of Estimated Ad Valorem Tax Expenses	8
D.	Results.....	12
IV.	INCOME TAXES	12
A.	Introduction.....	12
B.	Discussion of Income Tax Expense	12
	1. Impact of the Tax Cuts and Jobs Act (TCJA)	12
	2. Impact of the Inflation Reduction Act (IRA).....	13
	a. CAMT	13
	b. Expanded Energy-Related Tax Credits	14
	3. Impact of the One Big Beautiful Bill Act (OB3)	15
	a. Clean Energy Provisions.....	15
	b. Self-Developed Software (SDSW)	15
	4. Methodology	16
	5. Schedule M Items and Other Specific Tax Deductions	19
C.	Discussion of Deferred Taxes	23
	1. Bonus Depreciation.....	23
	a. Pre-TCJA	23
	b. Bonus Depreciation Rules under the TCJA	24
	2. Contributions-in-Aid-of-Construction	24
	3. Excess Deferred Taxes Related to the TCJA	25

a.	Protected Assets	26
b.	Unprotected Assets.....	28
D.	Summary Tables.....	29
E.	Results.....	38
F.	Tax Memorandum Account.....	38
1.	Background	38
2.	Cumulative TMA Balances as of December 31, 2025.....	40
a.	Mandatory Changes in Tax Law, Tax Accounting, Tax Procedures, or Tax Policy	41
b.	Elective Changes in Tax Law, Tax Accounting, Tax Procedures, or Tax Policy	43
c.	Other Net Revenue Changes	44
d.	Completion of Audits.....	44
e.	IRS Rulings on Normalization Issues	44
3.	TMA Proposal for the 2028 GRC Cycle.....	45
V.	CONCLUSION.....	45
VI.	WITNESS QUALIFICATIONS	46

APPENDICES

Appendix A – Glossary of Terms.....	A-1
Appendix B –Tax Memorandum Account Tracking Schedules.....	B-1

SUMMARY

- My testimony presents Southern California Gas Company's (SoCalGas) and San Diego Gas & Electric Company's (SDG&E) estimated tax expense for Test Year (TY) 2028 and explains how those estimates were derived. The tax expenses discussed in my testimony include payroll taxes, ad valorem taxes, and income taxes.
- For SoCalGas, my testimony estimates a TY 2028 payroll tax expense of \$60.6 million, ad valorem tax expense of \$243.4 million, and income tax expense of \$31.6 million.
- For SDG&E, my testimony estimates a TY 2028 payroll tax expense of \$23.8 million, ad valorem tax expense of \$264.6 million, and income tax expense of \$185.8 million.
- The Tax Cuts and Jobs Act (TCJA) was enacted on December 22, 2017 (Pub. L. No. 115-97). The TCJA made comprehensive changes to federal tax law. The changes affecting SoCalGas and SDG&E include: (1) a reduction of the federal corporate tax rate from 35% to 21%, effective beginning in 2018; (2) the elimination of the bonus depreciation deduction for regulated utilities; (3) the elimination of the deduction for transportation fringe benefits provided to employees beginning in 2018; (4) a requirement to return plant-related excess deferred taxes created by the reduction in the corporate tax rate to ratepayers ratably using the Adjusted Rate Assumption Method (ARAM) as described in the TCJA; and (5) a change in the tax treatment of self-developed software costs from being fully deductible in the year the costs are incurred to, beginning in 2022, a five-year and fifteen-year amortization period for deducting such domestic and foreign costs, respectively.
- The Inflation Reduction Act (IRA) was enacted on August 16, 2022. The IRA included two provisions with potentially significant tax ratemaking implications: (1) a newly enacted Corporate Alternative Minimum Tax (CAMT) based on financial statement income; and (2) an expansion of energy-related tax credits.
- The One Big Beautiful Bill Act (OB3) was enacted on July 4, 2025. The legislation introduces significant changes to federal income taxes for both

businesses and individuals. Some of the more notable provisions of OB3 for the regulated utilities industry included changes to existing clean energy provisions and tax credits, and changes to the tax treatment of research and development (R&D) costs, including the costs related to self-developed software.

**REVISED PREPARED DIRECT TESTIMONY
OF RAGAN G. REEVES
(TAX)**

I. INTRODUCTION

A. Summary of Proposals

My testimony presents Southern California Gas Company's (SoCalGas) and San Diego Gas & Electric Company's (SDG&E) (collectively, "the Companies") estimated tax expense for Test Year (TY) 2028 and explains how those estimates were derived. My testimony also presents the cumulative balances of the Tax Memorandum Accounts (TMA) as of December 31, 2025.

B. Organization of Testimony

The Companies incur three categories of taxes: (1) payroll taxes; (2) ad valorem (*i.e.*, property) taxes; and (3) income taxes. I will discuss each of these tax expense categories in turn.¹ A summary table for each category of tax expense is presented at the end of each section.²

To the extent that the California Public Utilities Commission (CPUC or Commission) adopts levels of operations and maintenance (O&M) expense or capital investment that are different from what has been proposed by the Companies in this Application, taxes would be re-calculated to reflect the impact of those changes.

II. PAYROLL TAXES

A. Introduction

The purpose of this section is to provide estimates of the Companies' 2028 payroll tax expenses, and to describe the methodology used to develop the Companies' estimates.

B. Discussion

Payroll taxes were estimated by applying a tax rate on TY 2028 O&M and capital labor covered in this Application up to a maximum wage base. Payroll taxes are paid by both the employee and the employer. The following discussion relates to the employer's payroll tax liability.

¹ The TMA discussion is included within the Income Taxes section of my testimony.

² Unless otherwise indicated, the computation of tax expense in my testimony and workpapers reflects only the amounts related to assets, projects, and activities that are included as part of this General Rate Case (GRC) and does not reflect revenues and expenses that are recovered through separate filings before the Commission.

1. Federal Insurance Contributions Act

Federal Insurance Contributions Act (FICA) taxes, also referred to as social security taxes, are composed of two pieces: (1) the Old-Age, Survivors, and Disability Insurance (OASDI); and (2) the Hospital Insurance (HI or Medicare). For 2025, the OASDI tax rate was 6.2% of wages³ up to a maximum wage base of \$176,100.⁴ The Medicare tax rate was 1.45% of wages⁵ with no maximum wage base. Based on rate schedules contained in the 2025 Annual Report published by the Social Security Administration (2025 Annual Report), the employer's portion of the OASDI and Medicare tax rates have been at current levels since 2013 and are not expected to change through 2028 based on currently enacted law.⁶ The OASDI wage base is \$184,500 for 2026⁷ and is projected to increase to \$190,800 for 2027 and \$198,900 for 2028, based on data reported in the 2025 Annual Report.⁸

2. Federal Unemployment Tax Act

The Federal Unemployment Tax Act (FUTA) statutory tax rate is 6%,⁹ although the rate is offset by a credit for taxes paid to a state unemployment fund that reduces the rate by up to 5.4%, resulting in a net tax rate as low as 0.6%.¹⁰ This credit is reduced for employers in states which have not fully repaid loans from the Federal Unemployment Account by the end of the calendar year following the year when the loans were withdrawn. The credit is reduced by 0.3% for each

³ Internal Revenue Code (IRC) Section 3111(a). Unless otherwise noted, all references in this testimony to "IRC §" or "IRC Section" are to sections of the Internal Revenue Code of 1986, as amended.

⁴ Social Security Administration, *The 2025 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds (2025 Annual Report)* (June 18, 2025) at Table V.C1 (intermediate projections), available at: https://www.ssa.gov/OACT/TR/2025/V_C_prog.html#1047210.

⁵ IRC § 3111(b).

⁶ 2025 Annual Report at Table VI.G1 (Payroll Tax Contribution Rates for the OASDI and HI Programs), available at: https://www.ssa.gov/OACT/TR/2025/VI_G1_OASDHI_payroll.html#92759.

⁷ Social Security Administration, *2026 Cost-of-Living Adjustment Fact Sheet* (October 24, 2025), available at: <https://www.ssa.gov/news/en/cola/factsheets/2026.html>.

⁸ See 2025 Annual Report at Table V.C1 (intermediate projections). If the projected OASDI wage bases change in a subsequent year's Annual Report, the Companies will update their 2028 payroll tax forecasts in the Update Testimony filing to reflect the projected OASDI wage bases in the most recently released Annual Report, consistent with prior GRCs.

⁹ IRC § 3301.

¹⁰ IRC §§ 3302(a) and (b).

1 year the loan repayment is delayed.¹¹ California has had such unpaid loans at the end of the
2 calendar year for several years and is projected to continue to have such unpaid loans through at
3 least 2027. Accordingly, the net FUTA rate for SoCalGas and SDG&E is 1.8% for 2025, 2.1% for
4 2026, and 2.4% for 2027¹² on wages up to \$7,000.¹³ The Companies have made the conservative
5 assumption for purposes of their payroll tax forecasts that the full credit amount will be available
6 for 2028. Therefore, the Companies' payroll tax forecasts reflect a net FUTA tax rate of 0.6% for
7 2028. The FUTA wage base is expected to remain at \$7,000 through 2028.

8 **3. California State Unemployment Insurance**

9 The California State Unemployment Insurance (SUI) is composed of two pieces: (1) the
10 Unemployment Insurance (UI); and (2) the California Employment Training Tax (CET). The
11 Companies' UI tax rate for 2025 and 2026 is 1.6% on wages up to \$7,000.¹⁴ The CET tax rate for
12 2025 and 2026 is an additional 0.1% on wages up to \$7,000.¹⁵ Based on currently enacted law, the
13 UI tax rate is expected to remain at 1.6% for 2027 and 2028. The CET tax rate and wage bases for
14 the Companies are not expected to change through 2028.

15 **4. Methodology Used to Estimate Tax Expense**

16 Payroll taxes are a function of taxable wages and applicable tax rates. The computation of
17 the estimated payroll taxes begins with the 2025 taxable wages stratified into salary increments.
18 The annual wage base in effect for the year for each type of payroll tax was applied to total wages
19 so that wages up to, but not exceeding, the wage base cap were subject to the tax.

20 Thus, wages up to the salary increment where the annual wage is closest to the wage base
21 cap are subject to the tax. Wages above the wage base cap for any particular type of payroll tax
22 were derived from multiplying the number of employees in each stratum above the cap by the wage
23 base cap. The resulting taxable wages for each tax type were totaled, and the applicable statutory
24 tax rate was then applied to the total taxable wages.

¹¹ IRC § 3302(c)(2).

¹² For historical FUTA credit reductions, *see* United States Department of Labor – Employment & Training Administration, *FUTA Credit Reductions*, available at: https://oui.doleta.gov/unemploy/futa_credit.asp.

¹³ IRC § 3306(b)(1).

¹⁴ *See* California Employment Development Department (EDD), *Contribution Rates, Withholding Schedules, and Meals and Lodging Values*, available at: https://edd.ca.gov/en/payroll_taxes/rates_and_withholding/.

¹⁵ *Id.*

The Medicare portion of the FICA tax is computed without respect to a wage base since all wages are subject to that tax. A companywide composite tax rate was computed based on total forecasted payroll taxes using the above methodology, divided by total forecasted wages. The composite payroll tax rate for each year was applied to labor dollars applicable to this Application to determine the employer's payroll tax expense.

C. Summary of Estimated Payroll Taxes

Table SCG-RR-1 below summarizes the amount of payroll taxes for SoCalGas on all non-capitalized wages applicable to this filing.

Table SCG-RR-1
Southern California Gas Company
Summary of Estimated Payroll Taxes
(\$ in Thousands)

<i>Line No.</i>	<i>2025 Recorded</i>	<i>2026 Forecast</i>	<i>2027 Forecast</i>	<i>2028 Test Year</i>
1	48,325	55,764	58,443	60,593

Table SDG&E-RR-1 below summarizes the amount of payroll taxes for SDG&E on all non-capitalized wages applicable to this filing.

Table SDG&E-RR-1
San Diego Gas & Electric Company
Summary of Estimated Payroll Taxes
(\$ in Thousands)

	<i>Line No.</i>	<i>2025 Recorded</i>	<i>2026 Estimated</i>	<i>2027 Estimated</i>	<i>2028 Test Year</i>
Electric Distribution	1	12,088	12,789	13,453	13,973
Gas Distribution	2	5,982	7,304	7,623	7,867
Electric Generation¹⁶	3	0	1,945	1,981	1,974
Total	4	18,070	22,038	23,057	23,814

D. Results

The increase in payroll taxes from 2025 to 2028 reflects the impacts of staffing level changes presented by other witnesses in their direct testimonies, the impact of labor cost escalation

¹⁶ Base year (BY) 2025 payroll tax amounts for electric generation are not separately identified and are included within the electric distribution payroll tax amounts for 2025, consistent with the base years for electric generation payroll taxes in SDG&E's prior GRCs.

1 on those changes, and the increase in the composite payroll tax rate resulting from the OASDI wage
2 base increase as discussed above.
3

III. AD VALOREM TAXES

A. Introduction

The purpose of this section is to provide estimates of SoCalGas and SDG&E's ad valorem taxes that will be incurred during TY 2028, and to describe the methodology used to develop the estimates.

B. Discussion

Ad valorem taxes are a function of the assessed value of property and a tax rate applied to that value. Property owned and used by public utilities as of January 1 (the lien date) each year is re-assessed to its full market value by the California State Board of Equalization (SBE). By definition, ad valorem taxes are based on the value of the property being taxed. Appraisers have developed various generally accepted indicators of value that are correlated to yield an estimation of the market value of the property being assessed. The primary indicator of value for regulated public utility property is the Historical Cost Less Depreciation (HCLD) indicator, and a secondary indicator is the Capitalized Earnings Ability (CEA).

HCLD is the primary value gauge for rate-regulated property because it approximates rate base. HCLD is equal to the estimated cost of property that is subject to assessment by the SBE, less the accumulated depreciation taken on the property. Historical cost consists of the original cost of plant balances on the January 1 lien date, plus construction work-in-progress, materials and supplies on hand to operate the plant, and non-current (cushion) gas stored underground. Adjustments are made to add the value of possessory interests held by the utility on government-owned property and to deduct non-taxable licensed motor vehicles, software, leasehold improvements, business inventories, and other property not subject to ad valorem taxes. Finally, the HCLD indicator is adjusted by deducting the accumulated deferred federal income taxes on taxable property.

The CEA, or the income approach to value, is designed to recognize the concept that the value of business property is closely related to its ability to generate income. The CEA indicator is used when the property being appraised is purchased in anticipation of receiving income (*i.e.*, rental property), and the actual future income stream can be reliably forecast, or a hypothetical income stream can be estimated by comparison to other similar properties. The CEA is the preferred approach for the appraisal of properties when reliable sales data are not available, or when the cost approach does not yield reliable results. The CEA is a secondary indicator of value for public utility property because the income of public utility property is limited by regulation, and comparison to the income stream from similar properties is limited.

1 The Companies have filed their property statements with the SBE for the 2025 and 2026 lien
2 dates. The property statements form the basis of the appraisals to set the value of the Companies’
3 property for the 2025 - 2026 and 2026 - 2027 fiscal years. The SBE reports the value of property
4 subject to ad valorem tax annually on the “Notice of Unitary Appraised Value,” which the
5 Companies have received for the 2025 lien date and expect to receive for the 2026 lien date by June
6 2026.

7 In correlating the value indicators calculated by the SBE from information contained in the
8 property statement, the SBE applied a weighting of 75% to the HCLD indicator and 25% to the CEA
9 indicator to derive the total appraised valuation of the Companies’ unitary property.¹⁷ Added to the
10 value of the Companies’ unitary property is the value of non-unitary property.¹⁸ In estimating ad
11 valorem taxes for ratemaking purposes, adjustments were made to exclude taxes resulting from: (a)
12 the assessment of non-utility property since it is not included as an operating expense; and (b)
13 Construction Work in Process (CWIP), which is capitalized rather than directly charged to ad
14 valorem tax expense.

15 The SBE has followed the same assessment methodology for several years, and this method
16 has been approved by the CPUC in the Companies’ prior GRCs, without exception. The Companies
17 thus followed this methodology to estimate the assessed value for unitary property and the resulting
18 ad valorem tax expense estimate for TY 2028.

19 The tax rate used to estimate California ad valorem taxes is the basic statewide tax rate of 1%
20 established under Proposition 13 plus an additional rate component of 0.4782% for SoCalGas and
21 0.9146% for SDG&E, which is a composite rate derived from dividing taxes paid to local jurisdictions
22 by the total assessed value of property in all voter-approved local assessment districts as allowed under
23 Proposition 13. The escalation in the rates from 2025 to 2028 represents the average historical rate of
24 increase in local tax rates over the most recent five-year period. The Companies have used a five-year
25 average of historical rate increases to forecast the escalation in ad valorem rates in several prior GRCs,
26 and this methodology has been accepted in prior GRCs without exception.

¹⁷ Unitary property is property owned or used by a utility that the SBE has determined is used in the Companies’ operating businesses. The weight given to the CEA and HCLD indicators by the SBE can be derived mathematically by correlating the value indicators to the final value.

¹⁸ Non-unitary property is property owned or used by the utility that the SBE has determined is not used in the Companies’ operating businesses.

The estimated ad valorem tax expense for TY 2028 is comprised of the second installment payment from fiscal year 2027 - 2028 plus the first installment payment for fiscal year 2028 - 2029.

The estimated ad valorem taxes for SoCalGas's Las Vegas Data Center, which is located in Nevada, are added to California ad valorem taxes as an "Other Adjustment" on the Ad Valorem summary table, Table SCG-RR-2 below.

The estimated ad valorem taxes for SDG&E's Desert Star Energy Center, also located in Nevada, are added to California ad valorem taxes as an "Other Adjustment" on the Electric Generation summary table, Table SDG&E-RR-2-3 below.

C. Summary of Estimated Ad Valorem Tax Expenses

Table SCG-RR-2 below summarizes SoCalGas's estimated ad valorem tax expenses.

TABLE SCG-RR-2
Southern California Gas Company
Summary of Estimated Ad Valorem Tax Expenses
(\$ in Thousands)

<i>Line No.</i>	<i>Description</i>	<i>2025 Recorded</i>	<i>2026 Estimated</i>	<i>2027 Estimated</i>	<i>2028 Test Year</i>
1	Taxable Plant in Service	24,676,337	26,546,622	28,596,455	30,580,801
2	Taxable Reserve for Depreciation	(8,536,417)	(9,100,439)	(9,848,894)	(10,560,069)
3	Taxable Net Plant	16,139,920	17,446,183	18,747,561	20,020,732
4	Taxable Reserve for Def. Inc. Tax	(1,829,566)	(1,884,111)	(1,853,205)	(1,889,385)
5	Adjustment for Income Approach	(789,154)	(858,181)	(931,651)	(999,865)
6	Assessed Value - Non-Unitary	69,898	76,012	82,519	88,561
7	Net Assessable Value	13,591,098	14,779,903	16,045,225	17,220,044
8	Ad Valorem Tax Rate	1.5010570%	1.5239560%	1.5468549%	1.5697538%
9	Ad Valorem Tax - Fiscal Year	204,010	225,239	248,196	270,312
10	Other Adjustments	357	357	357	357
	<u>Fiscal Year</u>				
11	Total Operating Ad Valorem Tax	204,367	225,597	248,554	270,670
12	Capitalized Ad Valorem Tax	(13,910)	(13,679)	(15,136)	(16,350)
13	Net Operating Ad Valorem Tax	190,457	211,918	233,418	254,320
	<u>Calendar Year (Note 1)</u>				
14	Total Operating Ad Valorem Tax	190,325	214,109	236,202	258,739
15	Capitalized Ad Valorem Tax	(13,567)	(12,432)	(13,058)	(15,376)
16	Net Operating Ad Valorem Tax	176,758	201,677	223,144	243,363

(Note 1) - Calendar year total operating ad valorem tax = ½ of the current fiscal year total ad valorem tax plus ½ of the prior fiscal year total ad valorem tax.

The following tables, Table SDG&E-RR-2-1, Table SDG&E-RR-2-2, Table SDG&E-RR-2-3, and Table SDG&E-RR-2-4, summarize SDG&E's estimated ad valorem tax expenses for Electric Distribution, Gas Distribution, Electric Generation, and in total, respectively.

Table SDG&E-RR-2-1
San Diego Gas & Electric Company
Summary of Estimated Ad Valorem Tax Expenses
Electric Distribution
(\$ in Thousands)

<i>Line No.</i>	<i>Description</i>	<i>2025 Recorded</i>	<i>2026 Estimated</i>	<i>2027 Estimated</i>	<i>2028 Test Year</i>
1	Taxable Plant in Service	13,507,897	14,142,231	15,116,918	16,156,380
2	Taxable Reserve for Depreciation	(4,653,634)	(4,795,976)	(5,128,714)	(5,490,926)
3	Taxable Net Plant	8,854,263	9,346,255	9,988,204	10,665,454
4	Taxable Reserve for Def. Inc. Tax	(586,054)	(589,097)	(574,592)	(562,748)
5	Adjustment for Income Approach	(477,903)	(506,164)	(544,107)	(583,936)
6	Assessed Value - Non-Unitary	13,244	14,027	15,078	16,182
7	Net Assessable Value	7,803,550	8,265,021	8,884,584	9,534,951
8	Ad Valorem Tax Rate	1.9767795%	2.0389634%	2.1011472%	2.1633311%
9	Ad Valorem Tax - Fiscal Year	154,259	168,521	186,678	206,273
10	Other Adjustments	196	196	196	196
<u>Fiscal Year</u>					
11	Total Operating Ad Valorem Tax	154,455	168,717	186,874	206,469
12	Capitalized Ad Valorem Tax	(7,787)	(7,023)	(6,948)	(7,202)
13	Net Operating Ad Valorem Tax	146,668	161,694	179,926	199,267
<u>Calendar Year (Note 1)</u>					
14	Total Operating Ad Valorem Tax	137,911	161,139	177,349	196,224
15	Capitalized Ad Valorem Tax	(7,522)	(6,857)	(6,296)	(6,706)
16	Net Operating Ad Valorem Tax	130,389	154,282	171,053	189,518

(Note 1) - Calendar year total operating ad valorem tax = ½ of the current fiscal year total ad valorem tax plus ½ of the prior fiscal year total ad valorem tax.

Table SDG&E-RR-2-2
San Diego Gas & Electric Company
Summary of Estimated Ad Valorem Tax Expenses
Gas Distribution
(\$ in Thousands)

<i>Line No.</i>	<i>Description</i>	<i>2025 Recorded</i>	<i>2026 Estimated</i>	<i>2027 Estimated</i>	<i>2028 Test Year</i>
1	Taxable Plant in Service	4,946,087	5,287,580	5,523,660	5,796,221
2	Taxable Reserve for Depreciation	(1,489,457)	(1,628,822)	(1,743,396)	(1,862,921)
3	Taxable Net Plant	3,456,630	3,658,758	3,780,264	3,933,300
4	Taxable Reserve for Def. Inc. Tax	(419,569)	(412,924)	(395,659)	(422,809)
5	Adjustment for Income Approach	(175,542)	(187,609)	(195,630)	(202,906)
6	Assessed Value - Non-Unitary	4,865	5,199	5,421	5,623
7	Net Assessable Value	2,866,383	3,063,424	3,194,396	3,313,208
8	Ad Valorem Tax Rate	1.9767795%	2.0389634%	2.1011472%	2.1633311%
9	Ad Valorem Tax - Fiscal Year	56,662	62,462	67,119	71,676
10	Other Adjustments	73	73	73	73
<u>Fiscal Year</u>					
11	Total Operating Ad Valorem Tax	56,735	62,535	67,192	71,749
12	Capitalized Ad Valorem Tax	(2,554)	(2,247)	(2,800)	(3,103)
13	Net Operating Ad Valorem Tax	54,181	60,288	64,392	68,646
<u>Calendar Year (Note 1)</u>					
14	Total Operating Ad Valorem Tax	51,339	59,464	64,693	69,299
15	Capitalized Ad Valorem Tax	(2,848)	(1,804)	(2,347)	(2,911)
16	Net Operating Ad Valorem Tax	48,491	57,660	62,345	66,388

(Note 1) - Calendar year total operating ad valorem tax = ½ of the current fiscal year total ad valorem tax plus ½ of the prior fiscal year total ad valorem tax.

Table SDG&E-RR-2-3
San Diego Gas & Electric Company
Summary of Estimated Ad Valorem Tax Expenses
Electric Generation
(\$ in Thousands)

<i>Line No.</i>	<i>Description</i>	<i>2025 Recorded</i>	<i>2026 Estimated</i>	<i>2027 Estimated</i>	<i>2028 Test Year</i>
1	Taxable Plant in Service	1,189,749	1,200,646	1,217,540	1,222,784
2	Taxable Reserve for Depreciation	(736,160)	(781,062)	(823,352)	(866,030)
3	Taxable Net Plant	453,589	419,584	394,188	356,754
4	Taxable Reserve for Def. Inc. Tax	(60,308)	(58,733)	(53,390)	(46,313)
5	Adjustment for Income Approach	(22,732)	(20,857)	(19,698)	(17,943)
6	Assessed Value - Non-Unitary	630	578	546	497
7	Net Assessable Value	371,179	340,572	321,645	292,995
8	Ad Valorem Tax Rate	1.9767795%	2.0389634%	2.1011472%	2.1633311%
9	Ad Valorem Tax - Fiscal Year	7,337	6,944	6,758	6,338
10	Other Adjustments	2,262	2,262	2,262	2,262
<u>Fiscal Year</u>					
11	Total Operating Ad Valorem Tax	9,599	9,206	9,020	8,600
12	Capitalized Ad Valorem Tax	(349)	(97)	(86)	(85)
13	Net Operating Ad Valorem Tax	9,250	9,109	8,934	8,515
<u>Calendar Year (Note 1)</u>					
14	Total Operating Ad Valorem Tax	9,009	9,355	9,065	8,762
15	Capitalized Ad Valorem Tax	(523)	(58)	(39)	(37)
16	Net Operating Ad Valorem Tax	8,486	9,296	9,026	8,725

(Note 1) - Calendar year total operating ad valorem tax = ½ of the current fiscal year total ad valorem tax plus ½ of the prior fiscal year total ad valorem tax.

Table SDG&E-RR-2-4
San Diego Gas & Electric Company
Summary of Estimated Ad Valorem Tax Expenses
Totals
(\$ in Thousands)

<i>Line No.</i>	<i>Description</i>	<i>2025 Recorded</i>	<i>2026 Estimated</i>	<i>2027 Estimated</i>	<i>2028 Test Year</i>
1	Calendar Year Net Operating Ad Valorem Tax - Electric Distribution	130,389	154,282	171,053	189,518
2	Calendar Year Net Operating Ad Valorem Tax - Gas Distribution	48,491	57,660	62,345	66,388
3	Calendar Year Net Operating Ad Valorem Tax - Electric Generation	8,486	9,296	9,026	8,725
4	Total SDG&E Calendar Year Net Operating Ad Valorem Tax	187,366	221,238	242,424	264,631

D. Results

The changes from BY 2025 to TY 2028 are the result of changes in plant and depreciation balances presented by other witnesses in their direct testimonies and the expected escalation in the tax rate for local assessments as discussed above.

IV. INCOME TAXES

A. Introduction

The purpose of this section is to provide estimates of SoCalGas and SDG&E's income tax expense for TY 2028, and to describe the assumptions and methodology used to calculate income tax expense. This section also presents and discusses the cumulative balances of the TMAs as of December 31, 2025.

B. Discussion of Income Tax Expense

1. Impact of the Tax Cuts and Jobs Act (TCJA)

The TCJA was enacted on December 22, 2017.¹⁹ It was the most comprehensive tax reform legislation to be enacted into law in more than thirty years. The changes to federal tax law under the TCJA affected both individuals and corporations. The TCJA also included provisions specific to regulated utilities such as SoCalGas and SDG&E. Most of the changes to federal tax law under the TCJA became effective beginning on January 1, 2018, although certain changes related to bonus

¹⁹ Pub. L. No. 115-97, 131 Stat. 2054 (2017).

1 depreciation became effective on September 28, 2017. The most significant change under the TCJA
2 for corporations generally, and for regulated utility corporations specifically, was the lowering of
3 the federal corporate tax rate from 35% to 21% beginning in 2018. The impact of the TCJA on the
4 Companies' income tax expense for TY 2028 is incorporated in the assumptions and methodology
5 used to calculate income tax expense, which is discussed in the remainder of this section.

6 **2. Impact of the Inflation Reduction Act (IRA)**

7 The IRA was enacted on August 16, 2022. The IRA included two provisions with
8 potentially significant tax ratemaking implications: (1) a newly enacted Corporate Alternative
9 Minimum Tax (CAMT) based on financial statement (*i.e.*, book) income; and (2) an expansion of
10 energy-related tax credits. The impact of these provisions on SoCalGas and SDG&E are discussed
11 below.

12 **a. CAMT**

13 The IRA enacted a new CAMT on Adjusted Financial Statement Income (AFSI) of 15
14 percent on applicable corporations.²⁰ A corporation subject to the CAMT will pay the greater of its
15 "regular tax" (computed under conventional tax rules) or the CAMT. The CAMT is effective for
16 tax years after December 31, 2022. The CAMT is a cost-of-service tax item, like property, payroll,
17 and other taxes, which must be recovered through rates.

18 The threshold for being subject to CAMT is an AFSI of over \$1 billion, tested over a 3-year
19 average ending with the tax year in question. The calculation of AFSI starts with the net income or
20 loss of SoCalGas's and SDG&E's applicable financial statements. The financial statement net
21 income or loss is then modified based on statutorily defined adjustments to compute an AFSI. Most
22 notably for SoCalGas and SDG&E, the book depreciation on most tangible property (*i.e.*, property
23 to which IRC § 168 applies) will be replaced by accelerated tax depreciation. Once a taxpayer
24 meets the \$1 billion AFSI threshold and is subject to CAMT, it generally will remain subject to
25 CAMT for all future years.

26 To determine whether SoCalGas or SDG&E met the CAMT threshold, the Companies
27 applied the separate return concept of Order Instituting Investigation (OII) 24²¹ and general

²⁰ IRA § 10101.

²¹ *Re Income Tax Expense for Ratemaking Purposes (Decision (D.) 84-05-036)*, 1984 Cal. PUC LEXIS 1325; 15 CPUC 2d 42.

1 ratemaking principles. Accordingly, the Companies' CAMT calculation only considers utility
2 ratemaking revenues and costs, and does not consider shareholder-related revenues and costs.

3 Applying these concepts and assumptions, neither SoCalGas nor SDG&E has met the \$1
4 billion AFSI threshold as of the date of this Application filing. Moreover, neither SoCalGas nor
5 SDG&E forecast being subject to CAMT through the 2028 test year. Accordingly, the Companies
6 are not seeking a recovery for CAMT in this TY 2028 GRC. If, however, a future law change or
7 mandatory accounting method change causes SoCalGas or SDG&E to be subject to CAMT, the
8 Companies will track the impact of the CAMT on rates in their respective TMAs.

9 **b. Expanded Energy-Related Tax Credits**

10 The IRA introduced new and expanded incentives for green energy in the form of tax
11 credits, particularly Investment Tax Credits (ITC).²² One of the new types of ITCs added by the
12 IRA was for standalone energy storage projects.²³

13 The IRA generally provides for a base ITC of 6 percent of qualified costs, which can be
14 increased by five times to 30 percent, for qualifying projects that meet the prevailing wage and
15 apprenticeship requirements.²⁴ Other non-ITC tax credits, such as Production Tax Credits (PTC),
16 were also expanded under the IRA.

17 Generally, SoCalGas and SDG&E's projects that are eligible for IRA tax credits are
18 incremental projects outside of the GRC, and thus the impact of IRA tax credits are reflected in
19 separate filings and separate proceedings from the GRC. ITCs and other IRA tax credits that are
20 included in separate filings outside of the GRC are not duplicated in this rate case.

21 SDG&E did, however, have one ITC-eligible energy storage project that was included with
22 and approved in the 2024 GRC – the Advanced Energy Storage (AES) project, which was placed
23 into service during 2025. SDG&E could not reasonably forecast the eligibility for the ITC or the
24 amount of the credit for the AES project during the 2024 GRC proceeding. Therefore, SDG&E is
25 tracking the 2025 ITC for this project in its TMA.

²² These new and expanded ITCs for green energy are codified in IRC §§ 48 and 48E.

²³ IRC §§ 48(a)(3)(A)(ix) and 48E(a)(1)(B).

²⁴ IRC §§ 48(a)(10) and (11) and IRC §§ 48E(d)(3) and (4). In certain circumstances, the credit could potentially increase further to up to 50 percent of qualified costs if both the domestic content and energy community requirements are met.

3. Impact of the One Big Beautiful Bill Act (OB3)

The OB3 was enacted on July 4, 2025.²⁵ The legislation introduces significant changes to federal income taxes for both businesses and individuals. Some of the more notable provisions of OB3 for the regulated utilities industry included changes to existing clean energy provisions and tax credits, and changes to the tax treatment of research and development (R&D) costs, including the costs related to self-developed software.

a. Clean Energy Provisions

The OB3 expedited the phase-out and, in some cases, repealed certain clean energy provisions of the IRA. The most aggressive cuts and phase-outs were to wind and solar projects. These changes under the OB3, however, are prospective and thus do not impact the IRA credit eligibility or credit amount for projects that had been placed in service or had started construction before the July 4, 2025 enactment date of the OB3. Moreover, the Companies do not expect the accelerated repeal and phase-out provisions for certain IRA tax credits under the OB3 to impact any IRA tax credits for either SoCalGas or SDG&E.

b. Self-Developed Software (SDSW)

As discussed in more detail later in this Income Taxes section of my testimony, prior to 2022, SDSW costs (both foreign and domestic) were immediately deductible. The TCJA changed this treatment starting in 2022. Domestic R&D costs (including SDSW costs) were required to be amortized over a 5-year period, and foreign R&D costs (including SDSW costs) were required to be amortized over a 15-year period.²⁶

The OB3 brought back immediate expensing for domestic R&D costs beginning in 2025, which allows taxpayers to deduct domestic R&D costs (including SDSW costs) in full in the year incurred.²⁷ The OB3 gives taxpayers an optional election to continue to amortize domestic R&D costs over a period of at least 60 months.²⁸ In addition, the OB3 provides transition rules that allow taxpayers to deduct, over a 1 or 2-year period, the unamortized basis of previously capitalized

²⁵ Pub. L. 119-21.

²⁶ Former IRC § 174(a)(2)(B), prior to the amendments made by the OB3.

²⁷ IRC § 174A(a), added by § 70302(a) of the OB3.

²⁸ IRC § 174A(c), added by § 70302(a) of the OB3.

domestic costs in 2022-2024.²⁹ For foreign SDSW costs, the OB3 mandates a 15-year amortization period.³⁰

SoCalGas and SDG&E plan to elect to immediately expense their domestic SDSW costs in full each year beginning with the 2025 tax return. In addition, the Companies plan to elect to amortize the unamortized balances of their 2022 - 2024 domestic SDSW costs over a 2-year period, beginning in 2025. These two elections will result in a larger tax deduction for SDSW costs in 2025 and future years than what was expected prior to the passage of the OB3.

4. Methodology

SoCalGas and SDG&E's operating income is subject to federal income tax and the California Corporation Franchise Tax (CCFT). Income tax expense is a function of cost-of-service amounts and capital expenditures adopted by the CPUC, as adjusted to comply with income tax rules. Accordingly, the calculation of ratemaking income taxes is dependent upon federal and state tax laws, prior CPUC decisions with general applicability to all utilities, and decisions with specific reference to SoCalGas or to SDG&E.

Consistent with CPUC Decision (D.) 84-05-036 issued in OII 24, the income tax estimates contained in this section are based on the Companies' stand-alone taxes, not on an allocation of tax expense from Sempra, the parent company of SoCalGas and SDG&E.³¹

Another issue considered by the CPUC in OII 24 was whether expenses not borne by customers should be included as income tax deductions in computing estimated TY income tax expense. The CPUC stated that it had consistently calculated income taxes for ratemaking purposes based on the cost of service developed from authorized expenses.³² The CPUC also found that if they were to include expenses not subject to rate recovery as a deduction in calculating taxable income, stockholders would be penalized by a reduction in their net income equal to the full amount of the expenditures, because they would have no offsetting tax deduction.³³ The Commission

²⁹ Taxpayers may also elect to continue to amortize the 2022-2024 domestic SDSW balances over a 5-year period.

³⁰ IRC § 174(a), as amended by § 70302(b) of the OB3.

³¹ *Re Income Tax Expense for Ratemaking Purposes (D.84-05-036)*, 1984 Cal. PUC LEXIS 1325 at *57-58 (Finding of Fact (FOF) 12); 15 CPUC 2d 42.

³² *Id.* at *15.

³³ *Id.* at *16-18.

1 concluded that their method of excluding expenses not borne by customers in the calculation of TY
2 income tax expense is reasonable and should continue.³⁴ As such, SoCalGas and SDG&E follow
3 this conclusion of law from OII 24 in this GRC proceeding, as they have done in prior GRCs.

4 The estimates contained in this section were calculated using current federal and state tax
5 laws enacted through the date of this testimony. The Companies have not attempted to forecast any
6 future changes in tax law in the income tax calculations. The Companies have utilized current
7 federal and state statutory tax rates of 21% and 8.84%, respectively, in developing their estimates of
8 federal and state income tax expense.

9 As prescribed in D.84-05-036, the Companies used the statutory federal tax rate of 21% and
10 the statutory state tax rate of 8.84% in their development of the net-to-gross multiplier used to
11 gross-up tax expense to a revenue requirement.³⁵

12 State income tax expense has been computed by reducing operating income by operating
13 expenses, including property taxes and payroll taxes, and making certain permanent and flow
14 through tax adjustments for differences in the book and state tax treatment of items of income and
15 expense (Schedule M adjustments) as explained in more detail later in this section. Consistent with
16 the CPUC policy discussed in D.93848,³⁶ a flow through accounting methodology was utilized in
17 estimating state tax expense.³⁷

18 Federal income tax expense has been computed by reducing operating income by operating
19 expenses, including property taxes, payroll taxes, and prior year state taxes, and making tax
20 adjustments for differences in the book and federal tax treatment of certain items of income and
21 expense (Schedule M adjustments), also explained in more detail later in this section.

22 Where required, SoCalGas and SDG&E have followed the normalization rules contained in
23 IRC § 168 and Treasury Regulations Section (Treas. Reg. § 1.167(l)-1) in computing federal income
24 tax expense.³⁸ Accordingly, federal tax depreciation on post-1980 vintage assets has been

³⁴ *Id.* at *62 (Conclusion of Law (COL) 2).

³⁵ *Id.* at *62-63 (COL 9).

³⁶ *Interim Order that Conventional Normalization Methods Shall Be Used for Purposes of the Economic Recovery Tax Act of 1981 (D.93848)*, 1981 Cal. PUC LEXIS 1240; 7 CPUC 2d 332 (1981).

³⁷ Flow-through accounting treats temporary differences between recognition of expenses for book purposes and their tax return treatment as current adjustments to the revenue requirement.

³⁸ Normalized tax accounting follows the book treatment for items of income and expense in the revenue requirement calculation.

1 “normalized” by using a book life and method to calculate tax depreciation. Consistent with CPUC
2 policy, where normalization is not required by the IRC, the Companies generally have flowed
3 through tax deductions. For example, tax depreciation on pre-1981 vintage assets have been flowed
4 through as an adjustment to federal tax expense as required by D.93848.³⁹

5 Tax expense based on income has been reduced by the amortization of deferred ITCs
6 generated in prior years in accordance with SoCalGas’s and SDG&E’s elections under applicable
7 tax law⁴⁰ to ratably flow through the ITC benefit as a reduction to ratemaking tax expense at a rate
8 not to exceed the book life of the property that generated the ITC. This application conforms to the
9 treatment of deferred ITC amortization mandated by D.88-01-061⁴¹ and is the same treatment
10 employed by the Companies in prior rate cases. SoCalGas has a small portion of deferred ITC that
11 reduced rate base, pursuant to an election made under applicable law⁴² by a predecessor company,
12 Pacific Lighting Gas Supply Company (Pacific Lighting), which merged with SoCalGas in
13 November 1985. As a successor in interest, SoCalGas continues to amortize deferred ITC
14 generated by Pacific Lighting as a ratable restoration to rate base.

15 SoCalGas’s and SDG&E’s federal income tax expense has been reduced by the amortization
16 of remaining excess deferred federal income taxes resulting from a reduction in the federal income
17 tax rate from a high of 41% prior to the Tax Reform Act of 1986 (TRA 86) to the current 21% under
18 the TCJA beginning in 2018, utilizing ARAM as required by Internal Revenue Service (IRS)
19 normalization rules and mandated by D.88-01-061.⁴³ Additionally, ARAM is the required method
20 for amortizing plant-related excess accumulated deferred federal income tax (ADFIT) resulting
21 from the tax rate reduction under the TCJA.⁴⁴ Only a small amount of excess ADFIT remains from
22 the decrease in tax rate under TRA 86. The ARAM amount increased significantly beginning in
23 2018, due to the reduction in the federal corporate income tax rate from 35% to 21% under the
24 TCJA. The ARAM rules and methodology required under the TCJA are discussed in more detail in
25 Section IV.C.3 below.

³⁹ D.93848 (*supra*).

⁴⁰ SoCalGas and SDG&E’s elections under former IRC § 46(f)(2).

⁴¹ *Re Tax Reform Act of 1986 (D.88-01-061)*, 1988 Cal. PUC LEXIS 102; 27 CPUC 2d 310 (1988).

⁴² Pacific Lighting’s election under former IRC § 46(f)(1).

⁴³ D.88-01-061 (*supra*) at *95-96.

⁴⁴ TCJA § 13001(d)(3)(B).

1 TRA 86 adopted rules regarding capitalization of construction-period interest for long-lived
2 assets that have an extended construction period. These rules were codified in IRC § 263A. For
3 book and ratemaking purposes, construction-period interest is capitalized through an allowance for
4 funds used during construction (AFUDC). While similar in concept, there are specific differences
5 between the book and tax treatment of construction-period interest. As in prior rate cases, for tax
6 purposes, SoCalGas and SDG&E follow the rules in IRC § 263A in this Application with respect to
7 the treatment of construction-period interest.

8 **5. Schedule M Items and Other Specific Tax Deductions**

9 SoCalGas and SDG&E made several adjustments to book income in the form of Schedule M
10 adjustments to arrive at taxable income. In addition, there are other types of deductions permitted
11 under the IRC that have been incorporated into the computation of the Companies' tax expense, as
12 discussed below.

13 Fixed Charges – Operating. This adjustment represents the interest expense accrued on debt
14 used to finance rate base. The deduction is computed using rate base and the authorized weighted-
15 average cost of long-term debt. The CCFT interest deduction is based on rate base net of deferred
16 ITC (as ITC is not available for CCFT purposes).

17 Preferred Dividend Deduction. IRC § 247 allows a deduction for dividends paid on
18 preferred stock issued prior to October 1, 1942. A deduction is also allowed for dividends on
19 preferred stock issued after October 1, 1942 if the preferred stock replaced other preferred stock or
20 bonds issued before October 1, 1942. A portion of SoCalGas's preferred stock dividends qualify for
21 deduction, which is a permanent difference between the book and tax treatment. SoCalGas has
22 flowed through this deduction.

23 Fiscal Year/Calendar Year Property Tax Adjustment. An adjustment is made to add back
24 book calendar-year property tax expense and deduct fiscal-year property tax expense as allowed by
25 federal and state tax law. Consistent with CPUC policy, this deduction is flowed through in the
26 calculation of income tax expense.

27 Prior Year CCFT. Federal law allows a deduction for state income taxes paid. In California,
28 this is the CCFT deduction. For ratemaking purposes, D.89-11-058⁴⁵ specifies that the allowable
29 deduction is the prior years' CPUC-adopted CCFT, not the current year CCFT. Since there is, as of

⁴⁵ *Re Proper Level of Expense for Rate-making Purposes for Public Utilities Due to the Changes Resulting from the 1986 Tax Reform Act (D.89-11-058)*, 1989 Cal. PUC LEXIS 815 at *34 (COL 1); 33 CPUC 2d 495 (1989).

1 yet, no CPUC-adopted CCFT, SoCalGas and SDG&E have used the prior year's CCFT estimate in
2 calculating federal tax expense for TY 2028.

3 Self-Developed Software (SDSW). For financial accounting purposes, software
4 expenditures are capitalized and amortized to expense over various lives. For tax purposes, a
5 current-year deduction was allowed under IRC § 174 for SDSW expenditures paid or incurred
6 through 2021. The TCJA changed the tax treatment for SDSW expenditures paid or incurred
7 beginning in 2022, from a deduction of the full amount in the year incurred to a 5-year amortization
8 period for such domestic expenditures and a 15-year amortization period for such foreign
9 expenditures.⁴⁶

10 As discussed earlier in this Income Taxes section of my testimony, the OB3 brought back
11 immediate expensing for domestic R&D costs beginning in 2025, which allows taxpayers to deduct
12 domestic R&D costs (including SDSW costs) in full in the year incurred. In addition, the OB3
13 provides transition rules that allow taxpayers to deduct, over a 1 or 2-year period, the unamortized
14 basis of previously capitalized domestic costs in 2022 - 2024.⁴⁷ For foreign SDSW costs, the OB3
15 mandates a 15-year amortization period.⁴⁸

16 SoCalGas and SDG&E plan to elect to immediately expense their domestic SDSW costs in
17 full each year beginning with the 2025 tax return.⁴⁹ In addition, the Companies plan to elect to
18 amortize the unamortized balances of their 2022 - 2024 domestic SDSW costs over a 2-year period,
19 beginning in 2025.

20 SoCalGas and SDG&E have deducted the allowable annual amount of SDSW costs as a
21 flow-through deduction pursuant to D.84-05-036.⁵⁰ IRC § 167(f) requires capitalization of un-
22 modified, or "canned" software. The Companies apply normalized tax accounting treatment to
23 expenditures for canned software pursuant to D.84-05-036.

⁴⁶ TCJA §§ 13206(a), (c)(3), and (e).

⁴⁷ Taxpayers may also elect to continue to amortize the 2022-2024 domestic SDSW balances over a 5-year period.

⁴⁸ IRC § 174(a), as amended by § 70302(b) of the OB3.

⁴⁹ The 2028 tax deduction for internally developed software is a function of the forecasted spend on internally developed software in TY 2028. Spend data is forecasted by capital witnesses in the rate base module of the Results of Operations (RO) Model, and the tax module pulls in the forecasted spend data from the rate base module.

⁵⁰ D.84-05-036 (*supra*).

1 Federal Tax Depreciation. Federal tax depreciation on post-1980 vintage property is
2 governed by the normalization rules described above. Differences between book and tax
3 depreciation resulting from the different methods and lives used to compute book and tax
4 depreciation are normalized. Federal tax return depreciation on pre-1981 vintage property is flowed
5 through as a deduction in the computation of federal taxable income, as is depreciation attributable
6 to differences in the basis used to depreciate property for book and tax purposes.

7 State Tax Depreciation. California did not adopt the federal accelerated depreciation lives
8 and methods or the normalization requirements enacted by the Economic Recovery Tax Act of 1981
9 (ERTA) and the TRA 86. Accordingly, there is no requirement to normalize state tax depreciation;
10 therefore, SoCalGas and SDG&E flow through the state tax depreciation in excess of the amount
11 deducted for book purposes. The Companies' state tax depreciation is calculated using the Asset
12 Depreciation Range Method (ADR) prescribed by the IRS prior to 1981, which utilizes double
13 declining balance depreciation switching to a straight-line method when book depreciation exceeds
14 the double declining balance method.

15 Federal Cost of Removal. SoCalGas and SDG&E follow the guidance in IRS Revenue
16 Ruling 2000-7,⁵¹ which provides a current tax deduction for actual costs to remove assets retired
17 from service in the year that those costs are incurred. For book purposes, estimates of such costs
18 are capitalized and depreciated over the life of the assets. Thus, there is a timing difference between
19 tax and book. To be consistent with the treatment of property that is being depreciated under the
20 Accelerated Cost Recovery System (ACRS) or the Modified Accelerated Cost Recovery System
21 (MACRS) as described above, SoCalGas and SDG&E normalize the costs to remove those assets
22 for federal tax purposes and flow through the federal removal costs only on pre-1981 vintage assets
23 retired from service. This approach is consistent with prior GRCs.

24 State Cost of Removal. California did not adopt the federal ACRS or MACRS depreciation
25 systems, choosing instead to remain on the ADR system. Accordingly, SoCalGas and SDG&E flow
26 through removal costs for CCFT purposes irrespective of the vintage of the underlying assets per
27 D.84-05-036.⁵² This treatment is consistent with prior GRCs.

⁵¹ 2000-1 C.B. 712.

⁵² D.84-05-036 (*supra*) at *59 (FOF 23).

1 Repairs Deduction. The Schedule M adjustment for the repairs deduction represents the
2 difference between expenditures that are permitted to be deducted as repairs for tax purposes and
3 those same expenditures that are required to be capitalized for financial reporting purposes.

4 On April 14, 2023, the IRS released Revenue Procedure 2023-15, effective for taxable years
5 ending after May 1, 2023. This Revenue Procedure provided a safe harbor method of accounting
6 that taxpayers may use to determine whether expenditures to maintain, replace, or improve gas
7 transmission and distribution property must be capitalized under IRC § 263(a) or § 263A or treated
8 as deductible expenses under IRC § 162. On October 11, 2024, SoCalGas and SDG&E made the
9 election to adopt the safe harbor method of accounting for gas repairs under Revenue Procedure
10 2023-15. The election was effective beginning with the Companies' 2023 tax year and continues to
11 apply to subsequent tax years.

12 The Commission accepted the Companies' proposal to reflect the increased repairs
13 deduction resulting from the accounting method change in the 2024 GRC.⁵³ SoCalGas and SDG&E
14 continue to apply the safe harbor methodology for gas repairs in this TY 2028 GRC.

15 SoCalGas and SDG&E have flowed through the tax benefits associated with their projected
16 repairs deduction to ratepayers for TY 2028 for both federal and California tax purposes in
17 accordance with D.93848.

18 Employee Transportation Benefits. Prior to the enactment of the TCJA, employers generally
19 were allowed a deduction for the costs associated with providing transportation fringe benefits to its
20 employees, such as parking and commuter rail costs, under IRC § 274. The TCJA amended IRC §
21 274 effective January 1, 2018 to eliminate the deduction for expenses incurred in providing any
22 transportation to employees, or any payment or reimbursement for transportation fringe benefits to
23 employees, except as necessary to ensure the safety of the employee.⁵⁴ SoCalGas and SDG&E
24 continue to provide transportation fringe benefits to their employees. But since such costs are no
25 longer deductible under the TCJA, the Companies must add back these costs in computing taxable
26 income.

⁵³ See D.24-12-074 at 826 ("We find it reasonable to update the revenue requirement to reflect the change in the tax accounting method because it lowers revenue requirements, which will lower rates, ultimately reducing customer bills. We also agree with SoCalGas and SDG&E to apply the 2023 tax benefits in this decision rather than an Advice Letter process to maximize the immediate ratepayer benefits rather than delaying a few months through another regulatory filing.").

⁵⁴ TCJA § 13304(c).

1 Tax Credits. SoCalGas and SDG&E have reflected an offset to tax expense for federal and
2 state tax credits allowed under current law. SoCalGas and SDG&E have also reflected a “credit
3 addback” where required in computing taxable income. Generally, a taxpayer cannot claim both a
4 deduction and a credit for the same item of expense. Therefore, the Companies have added the
5 amount of credits claimed back to taxable income to reverse the corresponding tax deductions.

6 **C. Discussion of Deferred Taxes**

7 The ADFIT resulting from the difference between normalized tax depreciation computed
8 using a book life and book method and the comparable tax depreciation computed using ACRS or
9 MACRS has been included as an adjustment to rate base in this GRC (*see* the rate base testimonies,
10 Exhibit (Ex.) SCG-23 and Ex. SDGE-28). SoCalGas’s and SDG&E’s treatment of deferred taxes is
11 in accordance with IRC § 168(i)(9), Treas. Reg. § 1.167(l)-1, and numerous related IRS rulings that
12 taken together constitute the “tax normalization” requirements.

13 All current law has been followed in the development of deferred federal income taxes.
14 Accumulated deferred taxes for TY 2028 were developed on a monthly basis and prorated in
15 accordance with the normalization requirements in Treas. Reg. § 1.167(l)-1(h)(6)(ii).⁵⁵

16 **1. Bonus Depreciation**

17 **a. Pre-TCJA**

18 Prior to the enactment of the TCJA, the bonus depreciation rules allowed regulated utilities
19 such as SoCalGas and SDG&E to immediately expense a specified percentage of qualifying
20 property placed into service in a particular year, rather than requiring the taxpayer to depreciate the
21 full amount of the property over multiple years.⁵⁶

22 For ratemaking purposes, bonus depreciation was subject to the tax normalization rules
23 contained in IRC § 168 and Treasury Regulations under former IRC § 167. The ratemaking effect
24 of bonus depreciation was to increase federal tax return depreciation above the regular tax
25 depreciation provided by the federal MACRS depreciation system for a particular year. The extra
26 bonus tax depreciation created additional deferred taxes equal to the extra bonus depreciation

⁵⁵ The method prescribed by Treas. Reg. § 1.167(l)-1(h)(6)(ii) is to be used when rates are set on a projected future period. Tax expense must be computed using a rate and method consistent with the rate and method used for book depreciation. The deferred tax reserve that reduces rate base must be computed using the average of the beginning-of-year balance plus a prorated end-of-year balance. The prorated end-of-year balance was computed assuming that additions to the deferred tax balances are credited ratably at the end of each month throughout the year.

⁵⁶ Former IRC § 168(k), prior to amendment by the TCJA.

multiplied by the federal income tax rate. The additional deferred taxes created by bonus depreciation were reflected in the accumulated deferred tax balances for purposes of calculating rate base.

b. Bonus Depreciation Rules under the TCJA

For qualified property acquired pursuant to a written binding contract and placed in service after September 27, 2017 (or for self-constructed property for which construction began after such date), the TCJA generally increased the bonus depreciation allowance to 100 percent through the end of 2022.⁵⁷ However, the TCJA also specified that bonus depreciation is not available for assets acquired or self-constructed in the trade or business of the furnishing or sale of:

(I) electric energy, water, or sewage disposal services, (II) gas or steam through a local distribution system, or (III) transportation of gas or steam by pipeline, if the rates for such furnishing or sale, as the case may be, have been established or approved by a State or political subdivision thereof, by any agency or instrumentality of the United States, by a public service or public utility commission or other similar body of any State or political subdivision thereof, or by the governing or ratemaking body of an electric cooperative.⁵⁸

Accordingly, for property acquired (or self-constructed) and placed in service after September 27, 2017, the TCJA generally eliminated the bonus depreciation deduction for regulated utilities such as SoCalGas and SDG&E. The TCJA included a bonus depreciation transition rule for property that was acquired (or for which self-construction began) before September 27, 2017.⁵⁹

Under both the general rule and the transition rules of the TCJA, no bonus depreciation is allowed for regulated utilities for property placed in service in 2021 or later. Therefore, no bonus depreciation deductions are reflected in the forecasts for any of the years included in the Companies' TY 2028 GRC. However, the residual impact of bonus depreciation taken on qualified property placed in service in prior periods, when bonus depreciation was allowed, is reflected in the accumulated deferred income tax balances for 2025-2028.

2. Contributions-in-Aid-of-Construction

Contributions-in-aid-of-construction (CIAC) are non-refundable contributions collected from utility customers in the form of money – or its equivalent – toward the construction of plant, such as customer-requested relocations. CIAC became taxable under the TRA 86. The CPUC

⁵⁷ TCJA § 13201(a)(2).

⁵⁸ *Id.* at 13201(d)(9)(A) and 13301(a).

⁵⁹ *Id.* at 13201(a)(8).

1 proposed the Maryland Method or Method 5 as acceptable alternatives for the ratemaking treatment
2 of CIAC in D.87-09-026.⁶⁰ SoCalGas elected Method 5 to account for the tax impacts of CIAC,
3 and the related income tax component of the CIAC (ITCC) as required by the TRA 86. In
4 accordance with D.87-09-026, SoCalGas has increased rate base for the tax paid on CIAC
5 subsequent to February 10, 1987, the date that CIAC became taxable under the TRA 86. The
6 increase to rate base related to CIAC tax impacts is reversed through tax depreciation over the tax
7 life of the constructed property.

8 ITCC represents the tax gross-up for CIAC. It also became taxable under TRA 86. These
9 tax gross-up amounts reflect the present value of tax paid upon receipt of CIAC, less the future tax
10 benefits to be received through tax depreciation over the tax life of the constructed property. For
11 SoCalGas, ITCC is included as a reduction to rate base and is amortized to miscellaneous revenues
12 over the tax life of the constructed property as instructed by D.87-09-026.⁶¹

13 SDG&E elected the Maryland Method to account for the tax impacts of CIAC and ITCC. In
14 accordance with D.87-09-026, SDG&E has thus not reflected any impact on rate base for the tax
15 paid on CIAC income and the related ITCC received subsequent to February 10, 1987 – the date
16 that CIAC became taxable under the TRA 86. Under the Maryland Method, the utility shareholders
17 bear the impact of any shortfall between the tax liability and the tax gross-up ITCC collected from
18 the contributor. The shareholders recover the shortfall through the tax depreciation benefits on the
19 constructed property. Accordingly, there is no impact on rate base.

20 **3. Excess Deferred Taxes Related to the TCJA**

21 SoCalGas and SDG&E recomputed their ADFIT balances as of January 1, 2018 to reflect
22 the reduction in the federal corporate income tax rate from 35% to 21% under the TCJA. The
23 difference in the ADFIT balance under the old tax rate versus under the new tax rate represents the
24 excess deferred tax reserve created by the TCJA. The TCJA defines the “excess tax reserve” as “(i)
25 the reserve for deferred taxes (as described in section 168(i)(9)(A)(ii) of the Internal Revenue Code
26 of 1986) as of the day before the corporate rate reductions . . . made by this section take effect, over
27 (ii) the amount which would be the balance in such reserve if the amount of such reserve were

⁶⁰ *Re Tax Reform Act of 1986 (D. 87-09-026)*, 1987 Cal. PUC LEXIS 195; 25 CPUC 2d 299 (1987).

⁶¹ *Id.*

1 determined by assuming that the corporate rate reductions provided in this Act were in effect for all
2 prior periods.”⁶²

3 **a. Protected Assets**

4 SoCalGas and SDG&E began returning the excess ADFIT to their customers shortly after
5 the TCJA was enacted. But in doing so, the Companies were required to adhere to the timing rules
6 and other requirements under the TCJA. Failure to follow these rules and procedures will result in a
7 normalization violation.⁶³ The TCJA specifies that utilities may not return the excess ADFIT
8 associated with utility plant assets (excess plant-based ADFIT) more rapidly than ratably over the
9 life of the underlying assets.⁶⁴ Specifically, utilities are generally not permitted, in computing costs
10 of service for ratemaking purposes, to refund excess plant-based ADFIT more rapidly or greater
11 than the reductions permitted by the ARAM approach, which requires amortization of the excess tax
12 reserve over the remaining regulatory lives of the property that gave rise to the ADFIT.⁶⁵ The TCJA
13 defines ARAM as follows:

14 The average rate assumption method is the method under which the excess in
15 the reserve for deferred taxes is reduced over the remaining lives of the
16 property as used in its regulated books of account which gave rise to the
17 reserve for deferred taxes. Under such method, during the time period in
18 which the timing differences for the property reverse, the amount of the
19 adjustment to the reserve for the deferred taxes is calculated by multiplying –
20 (i) the ratio of the aggregate deferred taxes for the property to the aggregate
21 timing differences for the property as of the beginning of the period in
22 question, by (ii) the amount of the timing differences which reverse during
23 such period.⁶⁶

24 The requirement to use ARAM applies only to excess deferred taxes on plant-based assets
25 that are subject to the IRS normalization rules (also known as “protected” assets). If a utility’s
26 books and records do not contain the vintage data necessary to apply ARAM, the TCJA allows the

⁶² TCJA § 13001(d)(3). The TCJA’s reference to IRC § 168(i)(9)(A)(ii) is to the IRS normalization rules discussed earlier in my testimony.

⁶³ TCJA § at 13001(d)(4).

⁶⁴ *Id.* at 13001(d)(1).

⁶⁵ *Id.* at 13001(d)(3)(B).

⁶⁶ *Id.*

1 utility to use an alternative method that amortizes the excess plant-based ADFIT ratably over the
2 remaining average life or composite rate used to compute depreciation for regulatory purposes.⁶⁷

3 ARAM is computed on an asset-by-asset basis. Thus, due to the large number of
4 SoCalGas's and SDG&E's plant-related assets, the computation is too complex and detailed to
5 incorporate within the RO Model. The Companies instead rely on their tax accounting and
6 depreciation software to compute the ARAM amount for each year.

7 Among the TCJA impacts considered by the CPUC in the 2019 GRC Decision was the
8 proper computation of ARAM – specifically, when computing the ARAM (as per TCJA §
9 13001(d)(3)(B)), whether the cost of removal should be included or excluded from book
10 depreciation in the ARAM calculation.⁶⁸ The CPUC concluded that unless otherwise directed by
11 the IRS, SoCalGas and SDG&E should not exclude cost of removal from the ARAM
12 computation.⁶⁹

13 Notwithstanding the CPUC's determination, the CPUC found it “prudent and reasonable to
14 allow SoCalGas and SDG&E to track the revenue requirement difference between including and
15 excluding cost of removal from the ARAM calculation,” and to allow the Companies to seek
16 recovery of such difference in the event the IRS issues a ruling or releases further guidance
17 indicating that cost of removal should be excluded from the ARAM calculation.⁷⁰ In such case, the
18 CPUC stated that SoCalGas and SDG&E “should seek recovery of any difference in costs by filing
19 a Tier 2 advice letter seeking appropriate adjustment to [their] revenue requirement.”⁷¹

20 On April 8, 2022, and on May 1, 2022, the IRS issued Private Letter Rulings to SDG&E and
21 SoCalGas, respectively, reaching a different conclusion than D.19-09-051.⁷² Specifically, the IRS
22 concluded that:

⁶⁷ *Id.* at 13001(d)(3)(C). SoCalGas and SDG&E have the vintage data needed to compute ARAM and thus do not fall within this exception.

⁶⁸ “Cost of removal” is the cost of demolishing, dismantling, tearing down, or otherwise removing electric or gas plant, including incidental transportation and handling costs.

⁶⁹ D.19-09-051 at 637-638.

⁷⁰ *Id.* at 638.

⁷¹ *Id.*

⁷² PLR-122708-21 (SoCalGas) and PLR-122706-21 (SDG&E).

1. The CPUC's method of including book cost of removal in the ARAM calculation for the return of excess deferred taxes to ratepayers is inconsistent with the normalization rules.
2. The method proposed by SoCalGas and SDG&E of excluding book cost of removal in the ARAM calculation for the return of excess deferred taxes to ratepayers is consistent with the normalization rules.
3. SoCalGas and SDG&E's use of the method proposed by the CPUC, as reflected in the 2019 GRC Decision, is not a violation of the normalization rules, provided that the Commission: (i) approves the method proposed by SoCalGas and SDG&E (or otherwise required by the Service); and (ii) allows SoCalGas and SDG&E to recover any difference in the rates charged to customers under the Commission's proposed method and SoCalGas/SDG&E's method.

Because the IRS reached conclusions that were different than those adopted in D.19-09-051, SoCalGas and SDG&E followed the process outlined in D.19-09-051 and filed Tier 2 advice letters seeking appropriate adjustment to their revenue requirements. These advice letters were approved by the Commission for SoCalGas and SDG&E on September 11, 2022 and September 12, 2022, respectively.⁷³

Accordingly, the ARAM forecasts included in this TY 2028 GRC have excluded book cost of removal from the ARAM calculation, consistent with the IRS's conclusions.

b. Unprotected Assets

As stated above, the requirement to use ARAM applies only to excess ADFIT on plant-based assets that are subject to the IRS normalization rules (also known as "protected" assets). In contrast, "unprotected" assets are not subject to the IRS normalization rules. There are thus no IRS restrictions regarding how excess ADFIT on unprotected assets are returned to ratepayers.

In the 2019 GRC Decision, the Commission adopted The Utility Reform Network's (TURN) proposal for returning excess ADFIT on unprotected assets to ratepayers.⁷⁴ TURN had proposed to amortize and return to ratepayers the excess ADFIT from SoCalGas and SDG&E's unprotected assets over a six-year period, with the exception of the unprotected ADFIT related to the cost of

⁷³ Advice Letters 6018G (SoCalGas) and 4055E/3113G (SDG&E).

⁷⁴ D.19-09-051 at 638.

1 removal tax deduction,⁷⁵ for which TURN had proposed to “apply the same ARAM-based
2 treatment” to the excess ADFIT “as for protected assets.”⁷⁶

3 Consistent with the 2019 GRC Decision, SoCalGas and SDG&E have continued to apply
4 ARAM-based treatment to amortize the excess ADFIT associated with the cost of removal tax
5 deduction in its 2028 GRC forecasts.⁷⁷

6 **D. Summary Tables**

7 The following summary tables reflect the federal and state income taxes applicable to this
8 filing. For SDG&E, the “Electric Distribution” tables, Table SDG&E-RR-3-1 and Table SDG&E-
9 RR-4-1, include electric distribution and electric generation for BY 2025.

⁷⁵ Cost of removal is not allowed as a deduction for tax purposes until the property is removed, which generally occurs at the end of the property’s useful life. In contrast, for book purposes, cost of removal is expensed ratably over the property’s useful life. This timing difference between book and tax creates a deferred tax asset, which causes rates to increase in the future as the excess ADFIT related to cost of removal is reversed over time.

⁷⁶ Application (A.) 17-10-008, Prepared Testimony of William Perea Marcus, Report on the Various Results of Operations Issues in Southern California Gas Company’s and San Diego Gas and Electric Company’s 2019 Test Year General Rate Cases, Ex. TURN-03 at 83-84.

⁷⁷ SoCalGas and SDG&E began amortizing the unprotected excess ADFIT over a six-year period (except for the excess ADFIT related to cost of removal) beginning in 2018. Accordingly, these unprotected excess ADFIT amounts were fully amortized by the end of 2023.

TABLE SCG-RR-3-1
Southern California Gas Company
Calculation of Federal & State Income Taxes
(\$ in Thousands)

<i>Line No.</i>	<i>Description</i>	<i>2025 Recorded</i>	<i>2026 Estimated</i>	<i>2027 Estimated</i>	<i>2028 Test Year</i>
1	Total Operating Revenue	4,092,184	4,466,404	4,683,280	5,089,776
2	O&M Expenses	(1,760,072)	(1,950,254)	(1,961,107)	(2,096,382)
3	Taxes Other than Income Taxes	(225,083)	(257,441)	(281,588)	(303,956)
4	Book Income Before Depr. & Income Taxes	2,107,029	2,258,708	2,440,586	2,689,438
5	State Tax Adjustments	(2,094,380)	(2,306,454)	(2,398,168)	(2,713,447)
6	Taxable Income	12,648	(47,746)	42,418	(24,008)
7	CCFT Rate	8.84%	8.84%	8.84%	8.84%
8	California Corporate Franchise Tax	1,118	(4,221)	3,750	(2,122)
9	Book Income Before Depr. & Income Taxes (Line 4, above)	2,107,029	2,258,708	2,440,586	2,689,438
10	Federal Tax Adjustments	(1,797,655)	(2,040,074)	(2,122,232)	(2,472,998)
11	Taxable Income	309,374	218,634	318,354	216,440
12	Federal Income Tax Rate	21%	21%	21%	21%
13	Federal Income Tax Before Credits	64,968	45,913	66,854	45,452
14	Investment Tax Credit Amortization	(756)	(559)	(360)	(264)
15	Amortization of Excess Deferred Taxes	(8,306)	(9,108)	(9,911)	(10,713)
16	Other	(1,936)	(704)	(704)	(704)
17	Total Federal Income Tax	53,969	35,541	55,879	33,771

TABLE SCG-RR-3-2
Southern California Gas Company
Summary of Income Tax Adjustments
(\$ in Thousands)

<i>Line No.</i>	<i>Description</i>	<i>2025 Recorded</i>	<i>2026 Estimated</i>	<i>2027 Estimated</i>	<i>2028 Test Year</i>
<u>Federal Tax Adjustments:</u>					
1	Tax Depreciation	(713,200)	(766,079)	(787,241)	(950,528)
2	Fixed Charges – Operating	(294,031)	(345,891)	(373,354)	(409,991)
3	Repairs	(604,358)	(707,860)	(788,618)	(890,068)
4	Software Development	(182,745)	(202,439)	(162,384)	(204,407)
5	Cost of Removal	(9,610)	(8,807)	(6,958)	(5,675)
6	Ad Valorem Tax - Fiscal/Calendar	(13,737)	(10,302)	(10,320)	(11,001)
7	Preferred Dividend & Other	(780)	(780)	(780)	(780)
8	Disallowed Transportation Fringe Benefits	3,202	3,202	3,202	3,202
9	Prior Year Calif. Corp. Franchise Tax	17,605	(1,118)	4,221	(3,750)
10	Total Federal Tax Adj. (Deduction)	<u>(1,797,655)</u>	<u>(2,040,074)</u>	<u>(2,122,232)</u>	<u>(2,472,998)</u>
<u>State Tax Adjustments:</u>					
11	Tax Depreciation	(803,594)	(889,151)	(954,297)	(1,091,287)
12	Fixed Charges – Operating	(293,924)	(345,788)	(373,259)	(409,901)
13	Repairs	(604,358)	(707,860)	(788,618)	(890,068)
14	Software Development	(240,557)	(261,444)	(199,061)	(251,961)
15	Cost of Removal	(138,210)	(91,910)	(72,613)	(59,228)
16	Ad Valorem Tax - Fiscal/Calendar	(13,737)	(10,302)	(10,320)	(11,001)
17	Preferred Dividend & Other	-	-	-	-
18	Total State Tax Adj. (Deduction)	<u>(2,094,380)</u>	<u>(2,306,454)</u>	<u>(2,398,168)</u>	<u>(2,713,447)</u>

Table SDG&E-RR-3-1
Electric Distribution
Calculation of Federal & State Income Taxes
(\$ in Thousands)

<i>Line No.</i>	<i>Description</i>	<i>2025 Recorded</i>	<i>2026 Estimated</i>	<i>2027 Estimated</i>	<i>2028 Test Year</i>
1	Total Operating Revenue	2,389,591	2,434,164	2,544,162	2,719,237
2	O&M Expenses	(788,321)	(821,668)	(828,828)	(866,485)
3	Taxes Other than Income Taxes	(150,963)	(167,071)	(184,506)	(203,491)
4	Book Income Before Depr. & Income Taxes	1,450,307	1,445,426	1,530,828	1,649,260
5	State Tax Adjustments	(1,062,242)	(980,960)	(1,059,424)	(1,150,366)
6	Taxable Income	388,065	464,465	471,404	498,894
7	CCFT Rate	8.84%	8.84%	8.84%	8.84%
8	California Corporate Franchise Tax	34,305	41,059	41,672	44,102
9	Book Income Before Depr. & Income Taxes (Line 4, above)	1,450,307	1,445,426	1,530,828	1,649,260
10	Federal Tax Adjustments	(968,641)	(903,928)	(968,119)	(1,090,918)
11	Taxable Income	481,666	541,498	562,709	558,342
12	Federal Income Tax Rate	21%	21%	21%	21%
13	Federal Income Tax Before Credits	101,150	113,715	118,169	117,252
14	Investment Tax Credit Amortization	(1,010)	(1,010)	(1,010)	(1,000)
15	Amortization of Excess Deferred Taxes	(6,270)	(6,887)	(7,504)	(8,121)
16	Other	(9,399)	(289)	(265)	(265)
17	Total Federal Income Tax	84,471	105,528	109,389	107,866

Table SDG&E-RR-3-2
Gas Distribution
Calculation of Federal & State Income Taxes
(\$ in Thousands)

<i>Line No.</i>	<i>Description</i>	<i>2025 Recorded</i>	<i>2026 Estimated</i>	<i>2027 Estimated</i>	<i>2028 Test Year</i>
1	Total Operating Revenue	754,921	806,854	837,027	900,511
2	O&M Expenses	(273,448)	(300,274)	(305,320)	(337,090)
3	Taxes Other than Income Taxes	(54,473)	(64,965)	(69,968)	(74,255)
4	Book Income Before Depr. & Income Taxes	427,000	441,615	461,738	489,166
5	State Tax Adjustments	(425,967)	(411,865)	(417,312)	(441,799)
6	Taxable Income	1,033	29,751	44,426	47,367
7	CCFT Rate	8.84%	8.84%	8.84%	8.84%
8	California Corporate Franchise Tax	91	2,630	3,927	4,187
9	Book Income Before Depr. & Income Taxes (Line 4, above)	427,000	441,615	461,738	489,166
10	Federal Tax Adjustments	(376,874)	(384,813)	(395,664)	(429,776)
11	Taxable Income	50,126	56,802	66,074	59,389
12	Federal Income Tax Rate	21%	21%	21%	21%
13	Federal Income Tax Before Credits	10,527	11,928	13,876	12,472
14	Investment Tax Credit Amortization	-	-	-	-
15	Amortization of Excess Deferred Taxes	(1,168)	(1,308)	(1,447)	(1,586)
16	Other	(13)	(7)	(7)	(7)
17	Total Federal Income Tax	9,345	10,614	12,422	10,878

Table SDG&E-RR-3-3
Electric Generation
Calculation of Federal & State Income Taxes
(\$ in Thousands)

<i>Line No.</i>	<i>Description</i>	<i>2025 Recorded</i>	<i>2026 Estimated</i>	<i>2027 Estimated</i>	<i>2028 Test Year</i>
1	Total Operating Revenue	-	219,081	218,444	224,508
2	O&M Expenses	-	(97,499)	(99,326)	(105,518)
3	Taxes Other than Income Taxes	-	(11,241)	(11,007)	(10,699)
4	Book Income Before Depr. & Income Taxes	-	110,341	108,112	108,292
5	State Tax Adjustments	-	(48,534)	(46,700)	(44,490)
6	Taxable Income	-	61,807	61,412	63,802
7	CCFT Rate	8.84%	8.84%	8.84%	8.84%
8	California Corporate Franchise Tax	-	5,464	5,429	5,640
9	Book Income Before Depr. & Income Taxes (Line 4, above)	-	110,341	108,112	108,292
10	Federal Tax Adjustments	-	(66,957)	(71,390)	(45,900)
11	Taxable Income	-	43,385	36,721	62,391
12	Federal Income Tax Rate	21%	21%	21%	21%
13	Federal Income Tax Before Credits	-	9,111	7,711	13,102
14	Investment Tax Credit Amortization	-	-	-	-
15	Amortization of Excess Deferred Taxes	-	-	-	-
16	Other	-	-	-	-
17	Total Federal Income Tax	-	9,111	7,711	13,102

Table SDG&E-RR-4-1
Electric Distribution
Summary of Income Tax Adjustments
(\$ in Thousands)

<i>Line No.</i>	<i>Description</i>	<i>2025 Recorded</i>	<i>2026 Estimated</i>	<i>2027 Estimated</i>	<i>2028 Test Year</i>
<u>Federal Tax Adjustments:</u>					
1	Tax Depreciation	(489,705)	(454,350)	(476,816)	(530,756)
2	Fixed Charges – Operating	(168,391)	(179,249)	(189,399)	(200,222)
3	Repairs	(202,857)	(166,534)	(179,943)	(228,528)
4	Software Development	(68,359)	(57,118)	(67,070)	(75,032)
5	Cost of Removal	(5,588)	(5,588)	(5,588)	(5,588)
6	Ad Valorem Tax - Fiscal/Calendar	(17,043)	(7,411)	(8,873)	(9,748)
7	Disallowed Transportation Fringe Benefits	582	582	582	582
8	Credit Addback & Other	85	47	47	47
9	Prior Year Calif. Corp. Franchise Tax	(17,365)	(34,305)	(41,059)	(41,672)
10	Total Federal Tax Adj. (Deduction)	(968,641)	(903,928)	(968,119)	(1,090,918)
<u>State Tax Adjustments:</u>					
11	Tax Depreciation	(471,272)	(451,170)	(491,230)	(512,805)
12	Fixed Charges – Operating	(168,126)	(178,990)	(189,160)	(200,004)
13	Repairs	(202,857)	(166,534)	(179,943)	(228,528)
14	Software Development	(108,104)	(82,015)	(95,378)	(104,440)
15	Cost of Removal	(94,840)	(94,840)	(94,840)	(94,840)
16	Ad Valorem Tax - Fiscal/Calendar	(17,043)	(7,411)	(8,873)	(9,748)
17	Credit Addback & Other	-	-	-	-
18	Total State Tax Adj. (Deduction)	(1,062,242)	(980,960)	(1,059,424)	(1,150,366)

Table SDG&E-RR-4-2
Gas Distribution
Summary of Income Tax Adjustments
(\$ in Thousands)

<i>Line No.</i>	<i>Description</i>	<i>2025 Recorded</i>	<i>2026 Estimated</i>	<i>2027 Estimated</i>	<i>2028 Test Year</i>
<u>Federal Tax Adjustments:</u>					
1	Tax Depreciation	(133,583)	(135,463)	(132,350)	(147,535)
2	Fixed Charges – Operating	(58,925)	(64,500)	(66,631)	(69,855)
3	Repairs	(182,791)	(157,732)	(167,097)	(177,048)
4	Software Development	(10,319)	(21,092)	(21,604)	(25,848)
5	Cost of Removal	(3,401)	(3,401)	(3,401)	(3,401)
6	Ad Valorem Tax - Fiscal/Calendar	(5,690)	(2,628)	(2,047)	(2,257)
7	Disallowed Transportation Fringe Benefits	88	88	88	88
8	Credit Addback & Other	13	7	7	7
9	Prior Year Calif. Corp. Franchise Tax	17,736	(91)	(2,630)	(3,927)
10	Total Federal Tax Adj. (Deduction)	<u>(376,874)</u>	<u>(384,813)</u>	<u>(395,664)</u>	<u>(429,776)</u>
<u>State Tax Adjustments:</u>					
11	Tax Depreciation	(150,332)	(140,342)	(135,861)	(141,196)
12	Fixed Charges – Operating	(58,925)	(64,500)	(66,631)	(69,855)
13	Repairs	(182,791)	(157,732)	(167,097)	(177,048)
14	Software Development	(16,319)	(34,754)	(33,768)	(39,534)
15	Cost of Removal	(11,909)	(11,909)	(11,909)	(11,909)
16	Ad Valorem Tax - Fiscal/Calendar	(5,690)	(2,628)	(2,047)	(2,257)
17	Credit Addback & Other	-	-	-	-
18	Total State Tax Adj. (Deduction)	<u>(425,967)</u>	<u>(411,865)</u>	<u>(417,312)</u>	<u>(441,799)</u>

Table SDG&E-RR-4-3
Electric Generation
Summary of Income Tax Adjustments
(\$ in Thousands)

<i>Line No.</i>	<i>Description</i>	<i>2025 Recorded</i>	<i>2026 Estimated</i>	<i>2027 Estimated</i>	<i>2028 Test Year</i>
<u>Federal Tax Adjustments:</u>					
1	Tax Depreciation	-	(58,562)	(58,025)	(32,790)
2	Fixed Charges – Operating	-	(8,582)	(7,994)	(7,892)
3	Repairs	-	-	-	-
4	Software Development	-	-	-	-
5	Cost of Removal	-	-	-	-
6	Ad Valorem Tax - Fiscal/Calendar	-	187	92	210
7	Disallowed Transportation Fringe Benefits	-	-	-	-
8	Credit Addback & Other	-	-	-	-
9	Prior Year Calif. Corp. Franchise Tax	-	-	(5,464)	(5,429)
10	Total Federal Tax Adj. (Deduction)	-	(66,957)	(71,390)	(45,900)
<u>State Tax Adjustments:</u>					
11	Tax Depreciation	-	(40,140)	(38,798)	(36,808)
12	Fixed Charges – Operating	-	(8,582)	(7,994)	(7,892)
13	Repairs	-	-	-	-
14	Software Development	-	-	-	-
15	Cost of Removal	-	-	-	-
16	Ad Valorem Tax - Fiscal/Calendar	-	187	92	210
17	Credit Addback & Other	-	-	-	-
18	Total State Tax Adj. (Deduction)	-	(48,534)	(46,700)	(44,490)

Table SDG&E-RR-5-1
Calculation of Federal & State Income Taxes
Totals
(\$ in Thousands)

<i>Line No.</i>	<i>Description</i>	<i>2025 Recorded</i>	<i>2026 Estimated</i>	<i>2027 Estimated</i>	<i>2028 Test Year</i>
1	Federal Income Taxes - Electric Distribution	84,471	105,528	109,389	107,866
2	Federal Income Taxes - Gas Distribution	9,345	10,614	12,422	10,878
3	Federal Income Taxes - Electric Generation	-	9,111	7,711	13,102
4	State Income Taxes - Electric Distribution	34,305	41,059	41,672	44,102
5	State Income Taxes - Gas Distribution	91	2,630	3,927	4,187
6	State Income Taxes - Electric Generation	-	5,464	5,429	5,640
7	Total Federal & State Income Taxes	128,212	174,405	180,550	185,776

E. Results

The changes in federal and state income tax expense from BY 2025 to TY 2028 are primarily a function of increasing book income before taxes resulting from the return on an increasing rate base (*see* the rate base testimonies Ex. SCG-23 and Ex. SDGE-28). Federal and state tax adjustments are also growing annually, which, in turn, partially offset the growth in book income before taxes from BY 2025 to TY 2028.

F. Tax Memorandum Account

1. Background

In the Companies' 2016 GRC Decision,⁷⁸ the Commission instructed SoCalGas and SDG&E to establish a TMA for the 2016 GRC cycle (January 1, 2016 – December 31, 2018).⁷⁹ As stated by the Commission in that decision, the purpose of the TMA “is to increase the transparency of the utilities’ incurred and forecasted income tax expenses to the Commission, so that the Commission can more closely examine the revenue impacts caused by the utilities’ implementation of various tax laws, tax policies, tax accounting changes, or tax procedure changes.”⁸⁰ The TMA “shall remain

⁷⁸ D.16-06-054.

⁷⁹ *Id.* at 328 (Ordering Paragraph (OP) 4).

⁸⁰ *Id.* at 196.

1 open and the balance in the account shall be reviewed in every subsequent GRC proceeding until a
2 Commission decision closes the account.”⁸¹

3 In the 2019 GRC Decision, the Commission concluded that the TMA should be maintained
4 for the 2019 GRC cycle.⁸² The Commission also clarified that “the TMA is not meant as a true-up
5 mechanism between actual and forecast tax expenses that are not caused by changes in tax law, tax
6 accounting methods, tax procedures, and tax policy,” and that the TMA “only tracks differences
7 arising from changes in tax law, tax accounting changes, tax policy changes, or procedural
8 changes.”⁸³ The Commission concluded that “SoCalGas and SDG&E may file separate Tier 1
9 advice letters within 45 days from the effective date of this decision to implement any necessary
10 changes to their respective TMAs consistent with this decision.”⁸⁴

11 Pursuant to the Commission’s directive, SoCalGas and SDG&E filed Advice Letter 5546
12 and Advice Letter 3462-E/2820-G, respectively, on November 12, 2019 to continue the TMA for the
13 2019 GRC cycle, and to reflect the Commission’s clarifications regarding the scope and purpose of
14 the TMA as provided in the 2019 GRC decision. The Commission approved the advice letters,
15 without modification, on April 10, 2020. The Commission also approved the Companies’
16 recommendation in the 2024 GRC to continue the TMA for the 2024 GRC cycle.⁸⁵

17 As discussed in Advice Letter 5546 (for SoCalGas) and Advice Letter 3462-E/2820-G (for
18 SDG&E), the TMA is a two-way tracking account, not recorded on SoCalGas’s or SDG&E’s
19 financial statements, that tracks tax-related items that are the result of changes in tax law, tax
20 accounting, tax policy, or tax procedure. Specifically, the TMA separately tracks the revenue
21 requirement impact of the differences between tax expenses authorized in the GRC and tax
22 expenses incurred resulting from: (1) mandatory tax law changes, tax accounting changes, tax
23 procedural changes, and tax policy changes; (2) elective tax law changes, tax accounting changes,
24 tax procedural changes, and tax policy changes; (3) other net revenue changes caused by tax law
25 changes, tax accounting changes, tax procedural changes, and tax policy changes; (4) the

⁸¹ *Id.*

⁸² D.19-09-051 at 639.

⁸³ *Id.* at 639, 648.

⁸⁴ *Id.* at 773 (COL 99).

⁸⁵ D.24-12-074 at 824.

1 completion of audits by federal and state taxing authorities; and (5) the implementation of any IRS
2 private letter ruling regarding compliance with IRS normalization regulations.

3 Consistent with D.19-09-051 and D.24-12-074, SoCalGas and SDG&E are tracking and will
4 continue to track the items in the TMA in accordance with the provisions of Advice Letter 5546 and
5 Advice Letter 3462-E/2820-G, until such time that the Commission closes the accounts.

6 **2. Cumulative TMA Balances as of December 31, 2025**

7 Based on the foregoing and in accordance with D.19-09-051 and D.24-12-074, SoCalGas
8 and SDG&E present the cumulative TMA balances as of December 31, 2025. Schedules that show
9 the cumulative TMA balances (TMA Schedules) are attached as Appendix B-1 and B-2. Consistent
10 with the CPUC's clarifications regarding the purpose and scope of the TMA as articulated in D.19-
11 09-051, the TMA Schedule reflects the impact of differences between authorized and incurred
12 amounts related to changes in tax law, tax accounting, tax procedure, or tax policy, holding all other
13 authorized items constant. As a general rule, only items and amounts that have been reported on an
14 originally filed or amended tax return are included in the TMA Schedule, because the tax impacts
15 have not been incurred until they are reflected in a filed tax return. However, to provide additional
16 transparency to the CPUC, SoCalGas and SDG&E's TMA Schedules also reflect 2025 tax items and
17 amounts that SoCalGas and SDG&E intend to include in their yet-to-be-filed 2025 federal and
18 California income tax returns.⁸⁶

19 If the change in tax expense would decrease revenue, the amount is shown as a credit in the
20 TMA Schedule. If the change in tax expense would increase revenue, the amount is shown as a
21 debit in the TMA Schedule. As of December 31, 2025, the total, cumulative revenue impact of the
22 tracked items shown in the TMA Schedules is a credit balance of \$0.873 million for SoCalGas, and
23 a credit balance of \$19.389 million for SDG&E. Each line item in the TMA Schedules for the 2022
24 - 2025 tax years is discussed in turn, below.⁸⁷

⁸⁶ The Companies anticipate filing their 2025 federal and California income tax returns shortly before the extended due dates for these returns, which are October 15, 2026 and November 15, 2026, respectively.

⁸⁷ The items related to the beginning balances shown in the TMA Schedules for 2021 and prior tax years were discussed in the Companies' prior GRC Applications; therefore, the descriptions of 2021 and prior year items have not been included again in the GRC Application for TY 2028.

1 **a. Mandatory Changes in Tax Law, Tax Accounting, Tax**
2 **Procedures, or Tax Policy**

3 Bonus Depreciation – SoCalGas and SDG&E

4 As discussed earlier in the Income Taxes section of my testimony, under the TCJA, no bonus
5 depreciation is allowed for regulated utilities for property placed in service in 2021 or later.
6 Therefore, no bonus depreciation deductions are reflected in the forecasts for any of the years
7 included in the Companies' TY 2028 GRC.

8 The TCJA included a bonus depreciation transition rule for property that was acquired (or
9 for which self-construction began) before September 27, 2017.⁸⁸ Under the transition rule,
10 SoCalGas and SDG&E qualified for additional bonus depreciation in the 2017-2020 tax years
11 beyond what had been forecasted in the 2019 GRC. This additional bonus depreciation increased
12 ADFIT, which in turn reduced rate base. The additional bonus depreciation for 2017-2020 will
13 continue to impact rate base until the ADFIT related to the additional bonus depreciation fully
14 reverses. The revenue impact of the additional bonus depreciation for 2022 and 2023 (i.e., the post-
15 test years for the 2019 GRC) is reflected in the TMA Schedules for both SoCalGas and SDG&E.

16 Non-Deductible Employee Transportation Fringe Benefits – SDG&E

17 Prior to the enactment of the TCJA, employers generally were allowed a deduction for the
18 costs associated with providing transportation fringe benefits to its employees, such as parking and
19 commuter rail costs, under IRC § 274. The TCJA amended IRC § 274 effective January 1, 2018 to
20 eliminate the deduction for expenses incurred in providing any transportation to employees, or any
21 payment or reimbursement for transportation fringe benefits to employees, except as necessary to
22 ensure the safety of the employee.⁸⁹

23 Initially, SDG&E did not believe this tax law change would impact its tax deduction related
24 to employee parking, because SDG&E's costs of maintaining and operating its employee parking
25 lots were incurred for the convenience of the company, and SDG&E's parking lots and structures do
26 not have independent value outside of that purpose. However, the IRS published guidance in 2018
27 clarifying that the "value" of the employee-provided parking lots and structures is not relevant for

⁸⁸ TCJA § 13201(a)(8).

⁸⁹ TCJA § 13304(c).

1 determining the deduction disallowed to the employer.⁹⁰ Rather, the deduction disallowance
2 amount should be based on the actual expense incurred by the employer, regardless of “value.”⁹¹

3 In light of this IRS guidance, SDG&E may not deduct the costs of maintaining and
4 operating its employee parking facilities. The addback of these non-deductible employee
5 transportation fringe benefits for 2022 - 2023 is reflected in the TMA Schedule.

6 TCJA and OB3 Changes to Self-Developed Software (SDSW) Deductions – SoCalGas and
7 SDG&E

8 As discussed earlier in the Income Taxes section of my testimony, for tax purposes, a
9 current-year deduction was allowed under IRC § 174 for SDSW expenditures paid or incurred
10 through 2021. The TCJA changed the tax treatment for SDSW expenditures paid or incurred
11 beginning in 2022, from a deduction of the full amount in the year incurred to a 5-year amortization
12 period for such domestic expenditures and a 15-year amortization period for such foreign
13 expenditures.⁹²

14 The OB3 brought back immediate expensing for domestic R&D costs beginning in 2025,
15 which allows taxpayers to deduct domestic SDSW costs in full in the year incurred.⁹³ In addition,
16 the OB3 provides transition rules that allow taxpayers to deduct, over a 1 or 2-year period, the
17 unamortized basis of previously capitalized domestic costs in 2022 - 2024. For foreign SDSW
18 costs, the OB3 mandates a 15-year amortization period.⁹⁴

19 SoCalGas and SDG&E plan to elect to immediately expense their domestic SDSW costs in
20 full each year beginning with the 2025 tax return. In addition, the Companies plan to elect to
21 amortize the unamortized balances of their 2022 - 2024 domestic SDSW costs over a 2-year period,
22 beginning in 2025.

23 The impact of these TCJA and OB3 law changes for SDSW for the 2022 - 2025 tax years is
24 reflected in the Companies’ TMA Schedules.

25

⁹⁰ IRS Notice 2018-99, 2018-52 I.R.B. 1067, at 7.

⁹¹ *Id.*

⁹² TCJA §§ 13206(a), (c)(3), and (e).

⁹³ IRC §174A(a), added by § 70302(a) of the OB3.

⁹⁴ IRC § 174(a), as amended by § 70302(b) of the OB3.

1 **b. Elective Changes in Tax Law, Tax Accounting, Tax Procedures, or**
2 **Tax Policy**

3 Alternative Fuel Refueling Property Credit – SoCalGas and SDG&E

4 Prior to the enactment of the IRA, IRC § 30C allowed a tax credit equal to 30 percent of the
5 cost of any qualified alternative fuel vehicle refueling property placed into service during the year.⁹⁵
6 The credit was limited to \$30,000 per location per year.⁹⁶ The pre-IRA version of the IRC § 30C
7 credit expired at the end of the 2022 tax year.

8 The IRA modified and extended the credit for property installed after December 31, 2022.⁹⁷
9 The post-IRA version of the IRC § 30C credit changed the \$30,000 per-location limit to a \$100,000
10 limit per item of property.⁹⁸ The modified credit also required the property to be located in a rural
11 or low-income census tract to qualify for the credit.⁹⁹ In addition, for projects with costs over
12 \$100,000, the base credit percentage was reduced from 30% to 6%, and the 30% credit was only
13 available if the taxpayer satisfied strict prevailing wage and apprenticeship labor requirements for
14 the construction and installation of the facilities.¹⁰⁰

15 SDG&E's beginning balances for Elective Changes in Tax Law, Tax Accounting, Tax
16 Procedures, or Tax Policy include approximately \$8.2 million of IRC § 30C credits from 2018 and
17 2019 related to the Power Your Drive (PYD) Pilot program. The total cost of the PYD Pilot
18 program was \$70.3 million. Subsequent to SDG&E claiming these credits on its tax returns for
19 2018 and 2019, the Commission denied recovery of \$25.3 million (approximately 36%) of the
20 program's costs that exceeded the authorized budget.¹⁰¹ SDG&E has adjusted the beginning TMA
21 balances by approximately \$3 million (*i.e.*, 36%) of the IRC § 30C credits claimed for 2018 and
22 2019 that were attributable to the PYD Pilot program to reflect the disallowed costs.

23 During 2022 and 2023, SoCalGas installed refueling stations for natural gas vehicles, and
24 SDG&E installed electric vehicle charging stations, that qualified for the pre-IRA (*i.e.*, 2022) and

⁹⁵ IRC § 30C(a), prior to the modifications under the IRA.

⁹⁶ *Id.* at § 30C(b)(1), prior to the modifications under the IRA.

⁹⁷ IRA § 13404.

⁹⁸ *Id.* at § 13404(b)(2)(B).

⁹⁹ *Id.* at § 13404(e).

¹⁰⁰ *Id.* at § 13404(d).

¹⁰¹ D.21-04-014 at 4; *see also* D.24-12-074 at 561-62.

1 post-IRA (*i.e.*, 2023) versions of the IRC § 30C credit. The revenue impact of the IRC § 30C credit
2 for 2022 - 2023 for SoCalGas and SDG&E is reflected in the TMA Schedules.

3 Energy Storage Investment Tax Credit – SDG&E

4 As discussed earlier in the Income Taxes section of my testimony, SoCalGas and SDG&E's
5 projects that are eligible for IRA tax credits generally are incremental projects outside of the GRC,
6 and thus the impact of IRA tax credits are reflected in separate filings and separate proceedings
7 from the GRC.

8 SDG&E did, however, have one ITC-eligible energy storage project that was included with
9 and approved in the 2024 GRC – the Advanced Energy Storage (AES) project, which was placed
10 into service during 2025. SDG&E could not reasonably forecast the eligibility for the ITC or the
11 amount of the credit for the AES project during the 2024 GRC proceeding. Therefore, SDG&E is
12 tracking the 2025 ITC for this project in its TMA.

13 **c. Other Net Revenue Changes**

14 There was no additional cumulative revenue impact from net revenue changes beyond the
15 impacts reflected in the other TMA categories for SoCalGas or SDG&E.

16 **d. Completion of Audits**

17 There was no cumulative revenue impact from completed federal or state audits for
18 SoCalGas or SDG&E.

19 **e. IRS Rulings on Normalization Issues**

20 Private Letter Ruling Request – ARAM Computation – SoCalGas and SDG&E

21 The beginning balances of the Companies' TMA Schedules reflect a tracked amount related
22 to the ARAM computation for SoCalGas and SDG&E, which was an issue in the 2019 GRC.

23 As discussed earlier in the Income Tax section of my testimony, the IRS issued Private
24 Letter Rulings to SoCalGas and SDG&E that reached conclusions regarding the Companies' ARAM
25 computation that were different than those adopted in D.19-09-051. The computational differences
26 had been tracked in the TMAs pending the receipt of guidance from the IRS, pursuant to the
27 Commission's instructions. After receiving the rulings from the IRS, SoCalGas and SDG&E
28 followed the process outlined by the Commission in D.19-09-051 and filed Tier 2 advice letters
29 seeking appropriate adjustment to their revenue requirements. These advice letters were approved

1 by the Commission for SoCalGas and SDG&E on September 11, 2022 and September 12, 2022,
2 respectively.¹⁰²

3 Accordingly, the beginning balances shown under this TMA category have been reversed to
4 reflect the resolution of this issue through the advice letter process.

5 **3. TMA Proposal for the 2028 GRC Cycle**

6 SoCalGas and SDG&E propose to continue the TMA for the 2028 TY GRC cycle, including
7 the post-test-year period, under rules and scope set forth in D.19-09-051, D.24-12-074, and Advice
8 Letters 5546 (SoCalGas) and 3462-E/2820-G (SDG&E). In addition, the Companies recommend
9 that the CPUC continue to review the TMA results in each subsequent GRC cycle.

10 **V. CONCLUSION**

11 SoCalGas's and SDG&E's estimated tax expense for TY 2028 for payroll taxes, ad valorem
12 taxes, and income taxes should be adopted by the Commission. SoCalGas's and SDG&E's TMA,
13 under the rules and scope set forth in D.19-09-051, D.24-12-074, and the Companies' adopted
14 tariffs, should be continued for the 2028 GRC cycle.

15 This concludes my prepared direct testimony.

¹⁰² Advice Letters 6018G (SoCalGas) and 4055E/3113G (SDG&E).

1 **VI. WITNESS QUALIFICATIONS**

2 My name is Ragan G. Reeves. I am employed by Sempra, SoCalGas and SDG&E's parent
3 company, as a Managing Tax Attorney. My business address is 488 8th Avenue, HQ08N1, San
4 Diego, California 92101-7123. I advise SoCalGas, SDG&E, and Sempra's other business units on
5 the implications of federal and state tax law, including tax compliance issues, tax audit issues and
6 strategies, and proposed acquisitions and restructurings.

7 Prior to joining Sempra in 2005, I worked as a tax attorney for eight years at Miller &
8 Chevalier, Chartered, in Washington, D.C., where my practice focused on tax credits, tax litigation,
9 and tax controversy matters.

10 I received a Bachelor of Business Administration in Accounting, a Masters in Professional
11 Accounting, and a Juris Doctorate from the University of Texas at Austin. I am licensed to practice
12 law in the District of Columbia and Texas, and I am a registered in-house counsel in California. I
13 am also a licensed Certified Public Accountant in Texas.

14 I have previously testified before the CPUC.

APPENDIX A

GLOSSARY OF TERMS

APPENDIX A - Glossary of Terms

ACRONYM	DEFINITION
ACRS	Accelerated Cost Recovery System
ADFIT	Accumulated Deferred Federal Income Tax
ADR	Asset Depreciation Range
AES	Advanced Energy Storage
AFUDC	Allowance For Funds Used During Construction
AFSI	Adjusted Financial Statement Income
ARAM	Average Rate Assumption Method
BY	Base Year
CAMT	Corporate Alternative Minimum Tax
CEA	Capitalized Earnings Ability
CCFT	California Corporation Franchise Tax
CET	California Employment Training
CIAC	Contribution in Aid of Construction
CPUC	California Public Utilities Commission
CWIP	Construction Work in Progress
D.	Decision
ERTA	Economic Recovery Tax Act of 1981
FICA	Federal Insurance Contributions Act
FUTA	Federal Unemployment Tax Act
GRC	General Rate Case
HCLD	Historical Cost less depreciation
HI	Hospital Insurance (<i>i.e.</i> , Medicare)
IRA	Inflation Reduction Act of 2022
IRC	Internal Revenue Code
IRS	Internal Revenue Service
ITC	Investment Tax Credit
ITCC	Income Tax Component of CIAC
MACRS	Modified Accelerated Cost Recovery System
O&M	Operations and Maintenance
OASDI	Old Age, Survivors, and Disability Insurance
OB3	One Big Beautiful Bill Act of 2025
OII	Order Instituting Investigation
Pacific Lighting	Pacific Lighting Gas Supply Company
PTC	Production Tax Credit
PYD	Power Your Drive
R&D	Research and Development
RO	Results of Operations
SBE	California State Board of Equalization
SDGE	San Diego Gas & Electric Company
SDSW	Self-Developed Software
SoCalGas	Southern California Gas Company
SUI	State Unemployment Insurance

TCJA	Tax Cuts and Jobs Act of 2017
TMA	Tax Memorandum Account
TRA 86	Tax Reform Act of 1986
Treas Reg.	Treasury Regulations
TURN	The Utility Reform Network
TY	Test Year
UI	Unemployment Insurance

APPENDIX B

**SOCALGAS/SDGE
TAX MEMORANDUM ACCOUNT TRACKING SCHEDULE
CUMULATIVE BALANCES AS OF DECEMBER 31, 2025**

APPENDIX B-1

[illegible]

[illegible]

2028 GRC Testimony Revision Log –September 2026

Page	Line or Table	Revision Detail
iii	2 nd bullet point	Changed SoCalGas’s payroll tax expense from “\$60.8 million” to “\$60.6 million”; Changed SoCalGas’s ad valorem tax expense from “\$243.6 million” to “\$243.4 million”; Changed SoCalGas’s income tax expense from “\$30.5 million” to “\$31.6 million”
iii	3 rd bullet point	Changed SDG&E’s payroll tax expense from “\$23.9 million” to “\$23.8 million”; Changed SDG&E’s ad valorem tax expense from “\$264.7 million” to “\$264.6 million”; Changed SDG&E’s income tax expense from “\$185.6 million” to “\$185.8 million”
3	1-2	Added “and is projected to continue to have such unpaid loans through at least 2027”
3	2-3	Added “, 2.1% for 2026, and 2.4% for 2027”
3	5	Deleted “2026 – “
3	6	Deleted “2026 – “
4	Table SCG-RR-1	Revised table
4	Table SDG&E-RR-1	Revised table
7	Table SCG-RR-2	Revised table
8	Table SDG&E-RR-2-1	Revised table
9	Table SDG&E-RR-2-2	Revised table
10	Table SDG&E-RR-2-3	Revised table
11	Table SDG&E-RR-2-4	Revised table
29	Table SCG-RR-3-1	Revised table
30	Table SCG-RR-3-2	Revised table
31	Table SDG&E-RR-3-1	Revised table
32	Table SDG&E-RR-3-2	Revised table
33	Table SDG&E-RR-3-3	Revised table
34	Table SDG&E-RR-4-1	Revised table
35	Table SDG&E-RR-4-2	Revised table
36	Table SDG&E-RR-4-3	Revised table

Page	Line or Table	Revision Detail
37	Table SDG&E-RR-5-1	Revised table
44	13	Corrected the citation to the 2024 GRC Decision from “D.24-09-051“ to “D.24-12-074”