

San Diego Gas & Electric Company

Exhibit No. SDG-3

Prepared Direct Testimony of

Randall Rose

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

San Diego Gas & Electric Company) Docket No. ER12-____-000

**PREPARED DIRECT TESTIMONY OF
RANDALL G. ROSE
ON BEHALF OF SAN DIEGO GAS & ELECTRIC COMPANY**

I. PERSONAL QUALIFICATIONS

Q1. Please state your name, position and business address.

A1. My name is Randall G. Rose. I am employed by Sempra Energy as Director - Income Tax. My business address is 101 Ash Street HQ-07B, San Diego, California 92101.

Q2. Please state your employment background and related professional affiliations.

A2. I am currently responsible for federal and state income taxes and regulatory tax matters for Sempra Energy's regulated public utilities. I have previously managed state income tax compliance and audits as well as property and sales tax compliance and audits for Sempra Energy and San Diego Gas and Electric Company. Prior to being employed by San Diego Gas and Electric Company, I served for eight years as chief tax advisor to a member of California's State Board of Equalization, the tax agency responsible for administering transaction taxes and hearing all administrative tax appeals in the state of California.

I earned a Bachelor of Arts in Business Administration with an emphasis in Accounting from San Diego State University. I am a Certified Public Accountant licensed by the state of California. I have previously provided testimony in proceedings before the Federal Energy Regulatory Commission.

II. PURPOSE AND SUMMARY OF TESTIMONY

Q3. What is the purpose of your testimony in this proceeding?

A3. The purpose of my testimony is to highlight and explain the impact of bonus depreciation on deferred taxes in ratebase. The bonus depreciation provisions are contained in Internal

Revenue Code (“IRC”) Section 168(k), codified at 28 U.S.C. 168(k). Simply stated, bonus depreciation is a special allowance of tax depreciation equal to 100% of the cost of qualified property placed in service in an eligible year. In 2012, 100% bonus depreciation is allowed on property constructed by the taxpayer if the property has a cost in excess of \$1,000,000 and a construction period exceeding one year (but only if construction began after September 8, 2010). SDG&E expects the Sunrise Powerlink Transmission Project (“Sunrise”) to qualify for 100% bonus depreciation, including the section referred to as “the Border-East Line” leased to Citizens.

Q4. Why is your testimony necessary?

A4. As accumulated deferred income taxes (“ADIT”) reduce ratebase, failure to account for the impact of bonus depreciation in computing ADIT inflates ratebase and results in higher rates paid by customers. Pursuant to tax law, SDG&E remains the tax owner of the Border-East Line leased to Citizens, therefore Citizens has no ADIT attributable to bonus depreciation related to the Border-East Line. Under the Development and Coordination Agreement (as amended, the “DCA”) between SDG&E and Citizens, SDG&E is obligated to transfer to Citizens an amount equal to the revenue requirement benefit of the ADIT offset to ratebase resulting from bonus depreciation achieved by SDG&E. Citizens will then pass this benefit along to its ratepayers.

Q5. How are income taxes treated under Generally Accepted Accounting Principles (“GAAP”)?

A5. Accounting for income taxes under GAAP is contained in ASC 740 (formerly SFAS No. 109, Accounting for Income Taxes (SFAS 109)) of the accounting codification. Under GAAP, there are several components to the calculation. The first component is “current” income tax expense, representing the estimated amount of current year income taxes payable based on current year taxable income. Taxable income for the year is determined in accordance with the IRC and is the amount reflected on the income tax return for the year. The IRC contains procedures for determining if and when an item is “taxable” or “deductible” (and therefore what is included in the tax return for the year). The IRC rules for determining what is taxable or deductible may differ from what is reportable as “revenue” or “expense” under GAAP. For instance, certain expenses recorded on the

1 financial statements under GAAP in one year may be deductible on the tax return in a
2 different period. There are also instances where the amounts shown as deductions on the
3 tax return in one year are not reflected on the financial statements until a later year. At
4 the end of each reporting period, there will likely be accumulated differences on the book
5 and income tax balance sheets of reported assets and liabilities resulting from different
6 book treatment and the tax return treatment of revenues and expenses. These differences
7 are referred to as temporary book to tax differences.

8 **Q6. Can you further explain what you mean by temporary difference and provide some**
9 **examples?**

10 A6. Yes. When a company acquires a fixed asset, under GAAP that asset is depreciated for
11 book purposes over its estimated useful life in a systematic and rational manner. Most
12 utilities depreciate their fixed assets for book purposes using the straight-line depreciation
13 method to determine book depreciation expense. For income tax purposes, that same
14 asset may be depreciated for determining taxable income on the income tax return using
15 an accelerated depreciation method and/or different (generally shorter) estimated useful
16 lives permitted under the IRC. When the annual depreciation charge for book purposes
17 and income tax purposes is computed each year and compared to one another, there will
18 likely be differences between annual book and tax depreciation. The sum of the annual
19 depreciation differences results in accumulated depreciation differences when comparing
20 the net book value (on the book balance sheet) and net tax value (on the income tax
21 balance sheet) of fixed assets. However, given the same capitalized asset cost, over the
22 life of the asset, total depreciation will be the same. This is because depreciation charges
23 under both the accounting rules and the IRC are meant to “recover” the capitalized asset
24 cost.

25 **Q7. Do temporary differences give rise to additional income tax accounting under**
26 **Accounting Rule ASC 740?**

27 A7. Yes. Because the financial statements reflect accrual accounting, the income tax expense
28 calculation must reflect the liability for income taxes payable in the future (*i.e.*, ADIT) as
29 a result of transactions recorded in the financial statements currently. Thus, income tax
30 expense under GAAP includes both the previously described currently payable

component (based on the tax return) as well as a “deferred” income tax component (based on temporary differences). ASC 740 requires the calculation of ADIT at the end of each annual reporting period. The ADIT is measured by applying the currently applicable income tax rates to temporary differences. “Deferred income tax expense” is the amount required to adjust the balance sheet ADIT balance from the end of the previous reporting period to the end of the current reporting period. In the regulated environment, the process of recording deferred income taxes on temporary differences is often referred to as “deferred tax accounting,” “comprehensive inter-period income tax allocation” or “normalization.”

Q8. Does the ADIT Liability Balance represent an obligation for future income taxes at the balance sheet date?

A8. Yes. The ADIT liability reflects taxes that are expected to be paid in the future based on transactions recorded in the financial statements today. The purpose of deferred income tax accounting is to reflect in the financial statements the tax effects (both current and deferred) of assets, liabilities, revenues and expenses recorded on the financial statements.

ADIT balances are often characterized as an “interest free loan” from the U.S. Treasury. This was the result intended by Congress when it provided for accelerated depreciation in the IRC. Congress felt that permitting companies to increase their tax depreciation deductions (and thereby reduce current income tax payments), would lower the financing costs of their investment in capital assets more quickly and thus they would be incented to make such expenditures. For accounting purposes, using up the tax basis of capital assets is both a cost to be recognized in the financial statements when claimed (deferred tax expense) and a liability for future taxes due when the turnaround occurs and book depreciation exceeds tax depreciation (“ADIT”).

Q9. What is FERC’s Position on Deferred Income Taxes?

A9. The FERC requires comprehensive inter-period income tax allocation for all book/tax timing/temporary differences. Orders 144 and 144A provide guidance in this area. Normalization of book to tax temporary differences has been the FERC methodology

1 since the early 1980's. The FERC USOA and many FERC rate orders embrace
2 normalization.

3 **III. RATEMAKING IMPACT OF BONUS DEPRECIATION**

4 **Q10. What is the ratemaking treatment for deferred taxes generated by bonus** 5 **depreciation?**

6 A10. The ADIT resulting from the difference between ratemaking depreciation computed
7 using a book life and method and the comparable tax depreciation computed using the
8 applicable federal Modified Cost Recovery System ("MACRS") plus bonus depreciation
9 or the state Asset Depreciation Range System ("ADRS") has been included as an
10 adjustment to rate base.

11 **Q11. For what period is bonus depreciation in effect?**

12 A11. All current law has been followed in the development of deferred income taxes, including
13 the impact of bonus depreciation legislation passed in 2010. Bonus depreciation is an
14 economic stimulus tool that President Obama called on Congress to enact in 2010 and
15 Congress responded by passing HR 4853, the Tax Relief, Unemployment Insurance
16 Reauthorization, and Job Creation Act of 2010 ("Tax Relief Act"), which the President
17 signed on December 17, 2010.

18 Section 401 of the Tax Relief Act includes an extension and enhancement of
19 bonus tax depreciation provisions that were in effect in 2010 pursuant to the Small
20 Business Jobs Act and made them applicable to tax years 2010 (for property acquired
21 after September 8, 2010), 2011, and 2012. Section 401 amends IRC Section 168(k) to
22 extend the period in which taxpayers may elect to claim bonus tax depreciation on
23 qualified capital additions for income tax reporting purposes. Qualified property
24 acquired and placed in service after September 8, 2010 and before January 1, 2012 is
25 eligible for 100% bonus depreciation. Property acquired and placed in service after
26 December 31, 2011 and before January 31, 2013 is eligible for 50% bonus depreciation.
27 Property acquired under a binding written contract in effect prior to January 1, 2008 is
28 not eligible for bonus depreciation. There are special eligibility rules that apply to self-
29 constructed property with a long-construction period, such as Sunrise. The effect of these
30 bonus depreciation provisions is to increase the income tax deduction for depreciation

1 thereby reducing current income taxes expensed and paid with an equal and offsetting
2 increase to deferred tax expense and ADIT, the latter representing income tax liabilities
3 that will be paid in the future.

4 **Q12. What property qualifies for bonus depreciation?**

5 A12. The bonus depreciation provisions contained in the Tax Relief Act apply to the same
6 types of property eligible for bonus depreciation under prior law. Eligible property is
7 generally limited to business property with a tax recovery period of 20 years or less and
8 only if the original use of the property commences with the taxpayer. For example,
9 transmission property has a 15 year federal MACRS tax life, so it qualifies for bonus
10 depreciation. However, structures have a 39 year federal tax life, so structures do not
11 qualify for bonus depreciation.

12 **Q13. What are the federal income tax normalization rules and do they apply to bonus**
13 **depreciation?**

14 A13. Under the Internal Revenue Code, certain differences between book and tax treatment
15 must be treated in a certain manner by utilities and their regulators in rate cases if the
16 utility is to continue to be allowed such income tax deductions. For ratemaking purposes,
17 bonus depreciation allowed by the Tax Relief Act is subject to the tax normalization rules
18 contained in IRC Section 168 and Treasury Regulations (Regs) under former IRC Section
19 167. The tax normalization rules effectively bar the utility from passing the current
20 income tax savings resulting from bonus depreciation to ratepayers by lowering the
21 revenue requirement for income tax expense in the cost of service. However, the
22 resulting net deferred taxes generated by bonus depreciation represent an interest-free
23 source of cash the utilities may use to finance capital projects. Accordingly, the
24 additional ADIT created by bonus depreciation will reduce ratebase to the extent of the
25 cash tax savings.

26 **Q14. What specific guidance has the IRS provided with respect to bonus depreciation?**

27 A14. On March 29, 2011, the IRS issued Revenue Procedure 2011-26 (Rev. Proc. 2011-26), to
28 interpret and make specific the rules pertaining to 50% and 100% bonus depreciation
29 allowances in IRC section 168(k) as amended by the Tax Relief Act. Under Rev. Proc.
30 2011-26, qualified property is eligible for 100% first year bonus depreciation if the

property is acquired and placed in service after September 8, 2010 and before January 1, 2012, (or before January 1, 2013 in the case of self-constructed property with a production period exceeding one year and a cost in excess of \$1,000,000).

Q15. How has bonus depreciation been reflected in this filing?

A15. SDG&E has recomputed its federal tax depreciation on forecasted capital additions otherwise eligible for MACRS depreciation using 100% bonus tax depreciation provisions contained in the Tax Relief Act, as applicable. The incremental ADIT generated is equal to the additional first year bonus depreciation in excess of the ratemaking allowance for depreciation multiplied by the 35% federal income tax rate. SDG&E has reflected 100% bonus depreciation on Sunrise for qualified eligible property since construction began after September 8, 2010, the project has a cost that exceeds \$1,000,000, and the project is expected to be placed in service in mid-2012.

Q16. How will bonus depreciation affect current taxes?

A16. As a result of bonus depreciation, current taxes have decreased and deferred federal income tax liabilities have increased compared to deferred taxes computed with regular federal MACRS tax depreciation (however, state tax depreciation is unaffected by bonus depreciation). As explained below, however, while bonus depreciation creates a deferred tax liability due to the large variance between book and tax depreciation, it also has the potential to create a deferred tax asset that nets against the deferred tax liability when a taxable net operating loss ("NOL") occurs.

Q17. Will bonus depreciation put SDG&E in a taxable NOL?

A17. Yes. As a result of 100% bonus depreciation, SDG&E expects to have a taxable NOL in 2011 and 2012 on a stand-alone basis. NOLs occur when tax deductions exceed taxable revenue in any year.

Q18. What is the impact of an NOL?

A18. NOLs may be carried back or forward as a reduction to taxable income in prior or future years. Based on its year-end 2011 tax provision and forecasted results for 2012, SDG&E expects to have taxable NOLs in 2011 and 2012 on its stand-alone company basis tax returns, on a FERC jurisdictional basis, and on taxable revenues and expenses related to

1 Sunrise by itself. Under federal law,¹ any NOLs remaining after the carryback of the
2 2012 NOL against taxable income in 2010 may be carried forward to offset taxable
3 income in future years. The remaining NOL carried forward creates a deferred tax asset
4 because it represents a future cash tax benefit that the taxpayer has not yet received. Per
5 prior FERC guidance, the impact of the NOL carryforward is recorded as a deferred tax
6 asset in a subaccount of Account 190.²

7 **Q19. On what basis was the NOL calculated for this filing?**

8 A19 Consistent with FERC policy, the NOL SDG&E has forecast as result of bonus
9 depreciation in this filing was computed first on a stand-alone company basis.³ A
10 percentage of the overall company-wide NOL has been allocated to Sunrise based on the
11 contribution its tax depreciation made to the overall company NOL. Since depreciation is
12 a function of capital costs, Sunrise's contribution to the overall NOL was estimated based
13 on the Project's forecasted capital additions as a percentage of total company forecasted
14 capital additions in 2012, which results in 73% of the forecasted 2012 company-wide
15 NOL being allocated to Sunrise. Likewise, a portion of the NOL allocated to Sunrise was
16 allocated to the Border-East Line leased to Citizens based on the Border-East Line's
17 capital costs as a percentage of Sunrise's forecasted capital costs. The percentage of
18 Sunrise's NOL allocated to Citizens is 4.41%.

19 **Q20. Are NOLs subject to normalization?**

20 A20. Yes. If ADIT is thought of as representing an interest free loan from the U.S. Treasury,
21 in a situation where the benefit of accelerated depreciation cannot be utilized to offset
22 taxable income, there is no interest free loan. As a result, rate base should not be reduced
23 for ADIT in that situation. Adding the deferred tax NOL asset to rate base accomplishes
24 this result. IRS regulations confirm SDG&E's proposed treatment of the deferred tax
25 asset created by an NOL. The IRS established the following rule when an NOL is

¹ 28 U.S.C. 172(a).

² AI935000: Guidance on Accounting for Income Taxes, Q&A #10, "NOL and Tax Credits Carryforwards," April 23, 1993.

³ *Kentucky Power*, 69 FERC ¶62,172, at ¶64,393 (1994) ("Under the FERC's requirements, a company should record income tax expense . . . under a stand-alone method.").

created by accelerated tax return depreciation in excess of normalized ratemaking depreciation:

The amount of Federal income tax liability deferred as a result of the use of different methods of depreciation...is the excess...of the amount the tax liability would have been had a subsection (l) method been used over the amount of the actual tax liability. If, however, in respect to any taxable year the use of a method of depreciation other than a subsection (l) method ...results in a net operating loss carryover...which would not have arisen...had the taxpayer determined his (depreciation) using a subsection (l) method, then the amount and time of the deferral of tax liability shall be taken into account in such appropriate time and manner as is satisfactory to the district director of the IRS.⁴

The tax normalization regulation cited above is designed to prevent public utility commissions from imputing an unrealized tax benefit in setting rates. Fairness and equity in ratemaking dictate that if a utility has not received a tax benefit, a tax benefit should not be imputed in rates as if it had been received. In this regard, the ratebase reduction for deferred taxes should measure the actual cash tax benefit received, not a future benefit waiting to be received.

Q21. What is the net impact of bonus depreciation and the resulting NOL on deferred taxes related to Sunrise and the Border-East Line?

A21. SDG&E has computed the deferred taxes on a net basis, taking into account both the deferred tax liability created by accelerated bonus tax depreciation over normalized tax depreciation and the deferred tax asset created by the forecasted depreciation deductions in excess of taxable income creating an NOL. The table below shows the components of the net deferred taxes in rate base:

(In \$ thousands)		
	6/01/2012	5/30/2013
Sunrise in Total:		
Deferred Tax Liability (Acct. 282)	(261,579)	(580,727)

⁴ IRS Regulation Section 1.167(l)(h)(1)(iii). A subsection (1) method of depreciation is depreciation based on book lives and book methods.

1	Deferred Tax Asset (Acct. 190)	<u>83,112</u>	<u>117,837</u>
2	Net Deferred Tax Reserve	(178,467)	(462,890)
3	Citizens Border-East Line:		
4	Deferred Tax Liability (Acct. 282)	(12,790)	(28,506)
5	Deferred Tax Asset (Acct. 190)	<u>3,740</u>	<u>5,302</u>
6	Net Deferred Tax Reserve	(9,050)	(23,204)

Q22. How does bonus depreciation apply to the property leased to Citizens?

A22. SDG&E remains the tax owner of the Border-East segment of the Sunrise PowerLink property leased to Citizens under the Transfer Capacity Lease between the parties. As a result, SDG&E will be entitled to claim bonus depreciation on the costs attributable to the Border-East Line.

Q23. How will ratepayers benefit from bonus depreciation on the Border-East Line leased to Citizens?

A23. In order to ensure that ratepayers receive the lower revenue requirement benefits attributable to bonus depreciation on the Border-East Line, SD&GE has calculated the incremental revenue requirement benefit to ratepayers based on the impact of the net deferred taxes resulting from bonus depreciation on the Border-East Line less the deferred taxes attributable to regular normalized deferred taxes computed without the impact of bonus depreciation. SDG&E will transfer that amount to Citizens for the benefit of its customers in order for Citizens to achieve a representative rate comparable to the rate SDG&E would have had. The comparative ending ADIT balances for the Border-East Line leased to Citizens is shown in the table below:

Citizens Border-East Line			
Deferred Income Taxes (DIT) With and Without Bonus Depreciation			
(In \$ thousands)			
	6/01/2012	5/30/2012	
DIT with Bonus Depreciation	(12,790)	(28506)	
Less Offset for DTA Due to NOL	3,740	5,302	
Net ADIT with Bonus Depreciation	(9,050)	(23,204)	

ADIT Without Bonus Depreciation	(1,727)	(3,061)
Incremental ADIT from Bonus Depreciation*	(7,323)	(20,143)

*The incremental ADIT from bonus depreciation is calculated as the difference between the sum of the deferred tax liability plus the deferred tax asset computed with bonus depreciation less the deferred tax liability computed without bonus depreciation.

The revenue requirement effect of offsetting the ADIT liability by the deferred tax asset associated with the NOL is \$1,698,000. This is the amount that SDG&E is passing to Citizens to be shared with Citizens customers. This revenue requirement benefit calculation is shown on Cost Statement BK sponsored by L. Sanchez.

IV. SUMMARY AND CONCLUSION

Q24. What is SDG&E's proposal for the tax benefit of bonus depreciation on the Border-East Line?

A24. SDG&E proposes computing the revenue requirement attributable to the net deferred tax benefit attributable to bonus depreciation claimed by SDG&E on the Border-East Line. The net impact on rate base, as shown above (\$7,323 million at 6/1/2012 and \$20,143 million at 5/30/2013), produces a reduction in revenue requirements of \$1,698,000. This is the amount we propose to transfer to Citizens. The net deferred taxes that reduce ratebase measure the actual cash tax benefit received by SDG&E at the measurement date. The amount transferred to Citizens by SDG&E is incremental to the deferred taxes Citizens has already reflected in its filing for accelerated cost recovery for tax over the book recognition of expense.

Q25. Are SDG&E ratepayers neutral in this transaction between SDG&E and Citizens?

A25. Yes, SDG&E's ratepayers are neutral. Since SDG&E's ratepayers are not funding capital costs or paying a return on capital costs attributable to the Border-East Line leased to Citizens, SDG&E customers do not have a claim on the tax benefits associated with bonus depreciation on the Border-East Line section of Sunrise. By transferring this tax benefit to Citizen's customers, who do bear the cost, SDG&E's customers are not harmed and Citizens' customers receive the benefits associated with costs funded by the them.

1 **Q26. Can you provide an example of the interaction between taxes recovered in rates, the**
2 **deferred tax liability resulting from accelerated tax depreciation over ratemaking**
3 **depreciation, and the deferred tax asset resulting from a net operating loss?**

4 A26. Yes. The appendix contains a series of representative calculations and explanations.

5 **Q27. Does this conclude your testimony?**

6 A27. Yes. This concludes my testimony.
7

APPENDIX

Treatment of Net Operating Losses in the Calculation Of Deferred Federal Income Taxes

The following example illustrates why the deferred taxes that reduce rate base must be the sum of:

- the deferred tax liability created by differences between actual tax return depreciation and normalized tax depreciation for ratemaking purposes, and
- the deferred tax asset created by a taxable net operating loss (“NOL”)

These examples ignore the gross up of income tax expense that would be required to insure that the revenue requirement provides for the recovery of the income tax expense itself plus the taxes on the resulting revenues.

Assumptions:

Revenues =	10,000,000
Ratemaking Depreciation (straight line over book lives) =	8,000,000
Tax Return Depreciation =	11,000,000

A. Calculation of Ratemaking Tax Expense Recovered in Rates:

Revenues	10,000,000
Ratemaking Depreciation	<u>-8,000,000</u>
Ratemaking Taxable Income	2,000,000
Tax Rate	<u>35%</u>
Ratemaking Tax Expense Recovered in Rates	700,000

B. Calculation of “Real World” IRS Tax Liability:

Revenues	10,000,000
IRS Tax Depreciation	<u>-11,000,000</u>
Taxable Net Income	- 1,000,000 (NOL)
Tax Rate	<u>35%</u>
Real World IRS Tax Liability*	-0-

Since the “real world” taxable income is less than zero (-\$1,000,000), the actual tax paid is simply zero. If there is no taxable income in the prior two years, the NOL is carried forward to a future year until the company once again has taxable income. The NOL can be used to offset taxable income.

C. Calculation of Amount That Ratemaking Tax Expense Exceeds “Real World” IRS Tax Liability:

Ratemaking Tax Expense Recovered in Rates	A.	700,000
Real World IRS Tax Liability	B.	<u>-0-</u>
Difference		700,000

Ratemaking tax expense exceeds real world taxes paid to the IRS by \$700,000. This amount represents the actual cash tax benefit that the company can use to invest in new capital projects. Since it is a no-cost source of capital, it reduces rate base.

D. Calculation of Deferred Tax Liability Created by Different Depreciation Lives and Methods:

Ratemaking Depreciation	8,000,000
Tax Return Depreciation	<u>-11,000,000</u>
Difference	(3,000,000)
Tax Rate	<u>35%</u>
Deferred Tax Liability	(1,050,000)

This calculation shows the difference between ratemaking depreciation and tax return depreciation. Ratemaking depreciation is based on longer lives and a straight-line method compared to tax return depreciation, which is calculated using shorter lives and 150% of straight-line depreciation. This creates a deferred tax liability, but will only produce a cash tax benefit to the extent that the company has enough taxable income for the tax depreciation to offset.

E. Calculation of Deferred Tax Asset Created by NOL:

Actual Tax Return Taxable Income	(1,000,000)
Tax Rate	<u>35%</u>
Deferred Tax Asset Created by NOL	350,000

This calculation shows that since the company's taxable income was negative by \$1,000,000, it has a NOL tax benefit of \$350,000 (based on the 35% federal tax rate). This is a deferred tax asset because it can be used to offset future tax liability.

F. Calculation of Net Deferred Federal Income Taxes

Deferred Tax Liability from D above	(1,050,000)
Deferred Tax Asset from E Above	<u>350,000</u>
Net Deferred Federal Income Taxes	700,000

Summary:


The calculations above demonstrate that in this example, the difference between ratemaking tax expense (based on ratemaking depreciation) recovered in rates and the "real world" tax expense actually paid is \$700,000. Because this represents the amount of the cash tax savings realized by the utility at the measurement date, it is the amount of net deferred income taxes that should

1 reduce rate base. Ratebase should not be reduced by the entire ADIT liability of \$1,050,000
2 because the deferred tax liability exceeds the amount of actual cash tax savings by \$350,000,
3 which is the amount of the deferred tax asset created by the NOL. It is the revenue requirement
4 impact of this reduction in rate base that SDG&E is passing on to Citizens.

VERIFICATION

STATE OF CALIFORNIA)
)
COUNTY OF SAN DIEGO) ss.

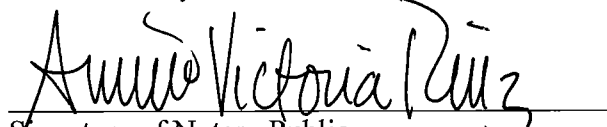
Randall G. Rose, being duly sworn, on oath, says that he is the Randall G. Rose identified in the foregoing prepared direct testimony; that he caused to be prepared such testimony on behalf of San Diego Gas & Electric Company; that the answers appearing therein are true to the best of his knowledge and belief; and that if asked the questions appearing therein, his answers would, under oath, be the same.


Randall G. Rose

STATE OF CALIFORNIA)
)
COUNTY OF SAN DIEGO)

Subscribed and sworn before me, a notary public of the state of CALIFORNIA, this 30th day of March, 2012, by RANDALL G. ROSE, proved to me on the basis of satisfactory evidence to be the person who appeared before me.

WITNESS my hand and official seal.



Signature of Notary Public

