



**ARIZONA SUPREME COURT  
ORAL ARGUMENT CASE SUMMARY**



**SAN DIEGO GAS & ELECTRIC COMPANY v. ARIZONA  
DEPARTMENT OF REVENUE, et al.  
CV-23-0283-PR  
256 Ariz. 344 (App. 2023)**

**PARTIES:**

*Petitioner:* Arizona Department of Revenue (“ADOR”)

*Cross-Petitioner/Respondent:* San Diego Gas & Electric Company (“SDG&E”)

**FACTS:**

This case involves a dispute over the valuation of SDG&E’s interstate electric transmission line for the 2020 tax year. SDG&E reported a net plant in service full cash value of negative \$2,629,001, which it offset against the full cash value of construction work in progress (“CWIP”) to obtain a net full cash value for all property of \$1,019,474. In so reporting, SDG&E claimed that in computing the net book value of its plant in service, ADOR must consider the “accumulated provision for depreciation” as reported to the Federal Energy Regulatory Commission (“FERC”), which includes an allowance for future costs of removal (“COR”). ADOR disagreed, claiming that future COR should not be included in the accumulated depreciation calculation and that the full cash value of plant in service should not be offset against the full cash value of CWIP.

The parties each moved for summary judgment. In addressing the motions, the tax court identified the pertinent legal question as whether the statutory method for valuing SDG&E’s property includes consideration of amounts for COR. The court then analyzed the language of A.R.S. § 42-14154 and concluded that the context of the use of the word “depreciation” in § 42-14154(B)(2) requires application and interpretation according to FERC. The court noted that under FERC’s Uniform System of Accounts (“USoA”), “removal costs that are not asset retirement obligations are included as a component of the depreciation expense and recorded in accumulated depreciation.” The court thus granted summary judgment in favor of SDG&E and set the 2020 full cash value of SDG&E’s Arizona property at \$1,019,474. ADOR appealed, arguing that accumulated depreciation does not include future COR, does not reduce the full cash value of a plant in service to a negative number, and does not offset the value of CWIP.

The Court of Appeals vacated the tax court’s summary judgment in favor of SDG&E. It analyzed whether the future cost of removing electric transmission and distribution property can be included as a component of depreciation under § 42-14154(B). Construing the phrase “[t]he related accumulated provision for depreciation” in accordance with the FERC USoA, the court held that accumulated depreciation under Arizona’s valuation formula includes future COR. The court then noted that nothing in the plain language of § 42-14154 or the related valuation statutes expressly provides for or precludes a negative full cash valuation of a plant in service. However, interpreting the statute in such a way as to avoid absurd results, the court held that accumulated depreciation may not reduce the full cash value of a plant in service to a negative number. The court also held

that accumulated depreciation may reduce only the “related” original plant in service cost and may not reduce the value of CWIP, which is separately calculated under subsection (C) of the statute.

**ISSUE:**

The court of appeals held that in determining the full cash value of all property owned by public utilities, the Arizona Department of Revenue can include the future costs of removing electric transmission and distribution property as accumulated depreciation under A.R.S. § 42-14154. Did the court incorrectly hold that such accumulated depreciation cannot reduce the full cash value of a plant in service to a negative number or offset the value of unrelated property?

**RELEVANT STATUTE:**

A.R.S. § 42-14154 states, in pertinent part, as follows:

A. The valuation of all electric transmission, electric distribution, gas distribution, combination gas and electric transmission and distribution, and transmission and distribution cooperative property that is subject to valuation for tax purposes shall be determined in the manner prescribed by this section except for:

1. The property of member-owned nonprofit electric distribution cooperatives.
2. Renewable energy equipment that is valued pursuant to § 42-14155.

B. Electric transmission, electric distribution, gas distribution, combination gas and electric transmission and distribution, and transmission and distribution cooperative property shall be valued as follows:

1. The department shall determine the original plant in service cost.
2. The original plant in service cost shall then be reduced by:
  - (a) The related accumulated provision for depreciation.

- (b) The reduction in value caused by a state or federal governmental order prohibiting total or partial physical use of electric transmission, electric distribution, gas distribution, combination gas and electric transmission and distribution, and transmission and distribution cooperative property for periods of more than six months. Any reductions in value caused by a total or partial prohibition of the physical use of the property shall not exceed the cost of the restricted property less accumulated depreciation.

3. The department shall not value contributions in aid of construction.

C. The value of construction work in progress is fifty per cent of the amount spent and entered on the taxpayer's accounting records as of December 31 of the preceding calendar year as construction work in progress.

....

F. All terms and applications of terms shall be interpreted according to the federal energy regulatory commission uniform system of accounts for electric and gas utilities in effect on January 1, 1989.

G. For the purposes of this section, unless the context otherwise requires:

1. "Construction work in progress" means the total of the balances of work orders for an electric transmission, electric distribution, gas distribution, combination gas and electric transmission and distribution, and transmission and distribution cooperative plant in process of construction on December 31 of the preceding calendar year, exclusive of land rights and licensed vehicles.

2. "Depreciation" means straight line depreciation over the useful life of the item of property.

....

7. "Original plant in service cost" means the actual cost of acquiring or constructing property including additions, retirements, adjustments and transfers, but without deducting related accumulated provision for depreciation, amortization or other purposes.

8. "Plant" means all property that is situated in this state and that is used or useful for the transmission or distribution of electric power or distribution of natural gas. Plant does not include land rights, materials and supplies and licensed vehicles.

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