Company:	Southern California Gas Company (U 904 G)
Proceeding:	2019 General Rate Case
Application:	A.17-10-007/008 (cons.)
Exhibit:	SCG-238

PUBLIC VERSION

SOCALGAS

REBUTTAL TESTIMONY OF KAREN C. CHAN

(WORKING CASH)

JUNE 18, 2018

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

TABLE OF CONTENTS

I. SUMMARY OF DIFFERENCES 1
II. INTRODUCTION 1
A. ORA 2
B. TURN 2
III. REBUTTAL TO PARTIES' OPERATIONAL CASH PROPOSALS 3
A. Methodology 3
1. ORA 3
B. Cash Balances 4
1. ORA 4
C. GHG Balances 6
1. ORA 6
D. Customer Deposits 9
1. ORA 9
2. TURN 11
IV. REBUTTAL TO PARTIES' LeAD/LAG Proposals 11
A. Revenue Lag 11
1. ORA 11
2. TURN 13
B. Employee Benefits Expense Lag 14
1. ORA 14
C. Goods & Services Lag 14
1. ORA 14
2. TURN 15
D. California Corporate Franchise Tax (CCFT) and Federal Income Tax (FIT) Expense Lags 15
1. ORA 15
2. TURN 16
E. Depreciation Expense and Deferred Income Taxes 16
1. TURN 16
V. CONCLUSION 18

APPENDIX A – ERRATA AND DISCOVERY RESPONSES

APPENDIX B – GLOSSARY OF TERMS

SOCALGAS REBUTTAL TESTIMONY OF KAREN C. CHAN
(WORKING CASH)

I. SUMMARY OF DIFFERENCES

TOTAL WORKING CASH REQUIREMENT - Test Year 2019 ($000)					
	Operational Cash Requirement	**Working Cash Not Supplied by Investors**	**Lead/Lag Working Capital Requirement**	**Total Working Cash Requirement**	**Variance to SoCalGas Proposal**
SOCALGAS[1]	**243,004**	**-236,525**	**162,644**	**169,123**	
ORA[2]	**116,939**	**-145,601**	**122,996**	**94,334**	**-74,789**
TURN[3]				**83,222**	**-85,901**

II. INTRODUCTION

This rebuttal testimony regarding Southern California Gas Company's (SoCalGas) request for Working Cash addresses the following testimony from other parties, except as it concerns the subject of Director and Officer insurance, which is discussed in the Rebuttal Testimony of Neil Cayabyab (Exhibit SCG-229/SDG&E-227):

- The Office of Ratepayer Advocates (ORA) as submitted by Mr. Christian Lambert.[4]
- The Utility Reform Network (TURN), as submitted by Mr. William Perea Marcus[5] and Mr. Eric Borden.[6]

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[1] SoCalGas' figures are from its April 2018 tax update filing and do not reflect items presented in the Errata Table at the end of this rebuttal testimony.

[2] ORA's figures are from its testimony (ORA-26-C) and appear to be based on SoCalGas' December 2017 revised filing, which do not reflect the impacts of the 2017 Tax Cuts and Jobs Act.

[3] TURN's figures are derived from its testimony (TURN-01 & TURN-03) and appear to be based on SoCalGas' December 2017 revised filing, which do not reflect the impacts of the 2017 Tax Cuts and Jobs Act. TURN witnesses recommended a total reduction in working cash of $85,901,000.

[4] April 13, 2018, Prepared Direct Testimony of Christian Lambert, Report on the Results of Operations for San Diego Gas & Electric Company, Southern California Gas Company, Test Year 2019 General Rate Case, Rate Base and Working Cash, Confidential Version, Ex. ORA-26-C (Ex. ORA-26-C (Lambert)).

[5] May 14, 2018, Prepared Direct Testimony of William Perea Marcus, Report on Various Operations Issues in Southern California Gas Company's and San Diego Gas and Electric Company's 2019 Test Year General Rate Cases, Ex. TURN-03C (Ex. TURN-03C (Marcus)).

[6] May 14, 2018, Prepared Testimony of Eric Borden, Addressing the Proposals of San Diego Gas & Electric Company and Southern California Gas Company in Their Test Year 2019 General Rate Case

Please note that the fact that I may not have responded to every issue raised by others in this rebuttal testimony, does not mean or imply that SoCalGas agrees with the proposal or contention made by these or other parties.

A. ORA

ORA issued its report on working cash on April 13, 2018.[7] The following is a summary of ORA's position(s):

- Methodology: ORA claims SoCalGas' methodology is susceptible to the incorrect weighting of expenses, and recommends individual expense lags should be linked to their corresponding individual test year expense forecasts.
- Cash Balances: ORA recommends the balances should be excluded from the determination of working funds because they are not required bank balances.
- Greenhouse Gas (GHG): ORA recommends the asset and liability balances should be excluded from the determination of working funds because the amounts receive a return under their balancing account treatment.
- Customer Deposits: ORA recommends customer deposits be treated like long-term debt.
- Revenue Lag: ORA recommends a 5-year average (2012-2016) to determine revenue lag for TY 2019.
- Expense Lag: ORA recommends a higher expense lag for employee benefits, pension, goods and services, and federal and state taxes.

B. TURN

TURN submitted testimony on May 14, 2018.[8] The following is a summary of TURN's position(s):

Related to Electric Distribution Capital, Gas Transmission Operation, Gas Major Projects, Cash Working Capital, and Customer Forecast, Ex. TURN-01 (Ex. TURN-01 (Borden)).

[7] Ex. ORA-26-C (Lambert).

[8] Ex. TURN-03C (Marcus); Ex. TURN-01 (Borden).

- Customer Deposits: TURN recommends customer deposits be treated as working capital not provided by investors, and be applied as an offset to rate base.
- Revenue Lag: TURN recommends a series of adjustments to determine revenue lag for Test Year (TY) 2019.
- Expense Lag: TURN recommends higher expense lags for federal and state taxes and goods and services.
- Non-Cash Items: TURN recommends depreciation and deferred income taxes be removed from the working cash study.

III. REBUTTAL TO PARTIES' OPERATIONAL CASH PROPOSALS

A. Methodology

1. ORA

ORA takes issue with SoCalGas' methodology in determining the working cash requirement, asserting SoCalGas' methodology is susceptible to the incorrect weighting of expenses, and therefore recommends individual expense lags should be linked to their corresponding individual test year expense forecasts.[9]

SoCalGas disagrees with ORA; SoCalGas' holistic methodology determines working cash from an unbiased position. As stated in my direct testimony, SoCalGas uses 2016 recorded data as the proxy for test-year 2019.[10] While 2019 expense lags may be different from those of 2016, not all 2019 expense lags will be longer, and thus require a lower working cash requirement. In reality, some expense lags may be longer while others may be shorter, potentially offsetting each other. By applying a uniform approach using 2016 recorded data, SoCalGas does not cherry-pick items for its study, and therefore produces an impartial, neutral result that is most likely to correctly weigh expenses. ORA's approach, in contrast, appears to adjust expense lag items for the primary purpose of generating lower working cash requirements for SoCalGas. Because SoCalGas evaluates all expenses using the same approach, that is, by

[9] Ex. ORA-26-C (Lambert) at 13.

[10] October 6, 2017, SoCalGas Direct Testimony of Karen C. Chan (Working Cash), Ex. SCG-38 (Ex. SCG-38 (Chan)) at KCC-2-KCC-3.

using 2016 actual expense lag as a basis for test-year 2019, SoCalGas' methodology is more reasonable than ORA's.

In any event, ORA's recommendation to link individual expense lags to their corresponding individual test year expense forecasts in the Results of Operations (RO) Model is unnecessary – it will produce the same mathematical result as SoCalGas' current approach. As stated in my direct testimony, SoCalGas computes one Overall Weighted Average Expense Lag for base year 2016, and then applies this one weighted average lag to one Total Forecasted Expense (summation of the individual test year expense forecasts) for test year 2019.[11] ORA's recommendation is to break out the individual expenses from the total and compute the individual working cash requirement for each expense item. As shown in the example below, both approaches produce the same result.

	SoCalGas Approach (Weighted Lag Days x Total Dollars = Weighted Dollar Days)	ORA Recommendation (Individual Lag Days x Individual Dollars = Individual Dollar Days)
Expense A		1 x 1 = 1
Expense B		1 x 1 = 1
Expense C		1 x 1 = 1
Total Weighted Dollar Days	1 x 3 = 3	3

In addition, ORA's recommendation is impractical. The RO Model is structured to facilitate the computation of revenue requirement for the entire company, not just for working cash, and thus does not contain the break down for each of the working cash components. For example, Goods and Services expenses cannot be specifically quantified in the RO Model as they are embedded in various functional areas (*e.g.*, Gas Distribution; Gas Transmission; Gas Storage, etc.).

Thus, ORA's recommendation regarding SoCalGas' expense lag methodology is flawed and should not be adopted.

B. Cash Balances

1. ORA

ORA takes issue with SoCalGas' inclusion of cash balances in its operational cash requirement. ORA states that because the balances are not required bank deposits, they should be excluded from the working cash requirement.[12]

[11] Ex. SCG-38 (Chan) at KCC-4.

[12] Ex. ORA-26-C (Lambert) at 15-16; 36.

SoCalGas disagrees with ORA's interpretation of California Public Utilities Commission (Commission or CPUC) Standard Practice U-16 (SP U-16), which allows for "[consideration of] the required minimum bank deposits that must be maintained ***and*** *reasonable amounts of working funds."* It must be remembered that the cash requirement "is the amount that must be maintained for day-to-day operations."[13] Although not required by its bank, SoCalGas maintains an above-zero cash balance to ensure continued goodwill with its financial institution, and to avoid excessive fees. SoCalGas is a prudent operator, and as such, SoCalGas maintains above-zero balances to cushion any shortfalls in daily cash forecasts, which are impacted by external factors that may not be under SoCalGas' control, including the timing of funds transfer with other institutions and external parties. SoCalGas understands that no forecast is perfect, so it maintains a low, non-zero balance in its account to mitigate the risk of overdraft fees, and to sustain amiable relations with its bank.

In support of its argument for excluding cash balances, ORA cites the last three GRC decisions for Southern California Edison (SCE), but fails to mention that the Commission determined SCE provided no evidence that it was maximizing its use of cash balances. SoCalGas can provide such evidence. For 2016, SoCalGas' ratio of its average cash balance to cash transactions that flow through its bank in a given month is a low 0.29%.[14] In addition, SoCalGas' average 1-day float (*i.e.*, funds not yet available to use) was approximately $4.5 million. As evidenced by these figures, SoCalGas is extremely efficient with its cash. Maintaining a zero balance is perhaps attainable in theory, but for an account that facilitates over $1.4 billion of cash flows monthly, it is practically impossible to achieve without incurring overdraft fees or damaging banking relations. Despite the numerous transactions flowing through its account, and despite an already low non-zero balance, SoCalGas did not incur any overdraft fees in 2016.

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[13] California Public Utilities Commission, Water Division, *Determination of Working Cash Allowance, Standard Practice U-16* (SP U-16) (March 2006) at 1-4 (emphasis added), *available at* http://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M055/K059/55059235.PDF.

[14] 0.29% is derived by dividing SoCalGas' 2016 average cash balance of $4.264M (2016 $) by its 2016 average monthly inflows and outflows of $1.452 billion.

In sum, SoCalGas' inclusion of its cash balances in its working cash request is prudent and reasonable, as these funds allow SoCalGas operational flexibility in its day-to-day activities and ensure continued positive relations with its financial institution.

C. GHG Balances

1. ORA

ORA states the asset and liability balances associated with GHG Cap-and-Trade activities should be excluded from the working cash determination because they receive balancing account treatment that "removes any risk associated with the relevant assets."[15] ORA's alternative proposal for GHG activities, if permitted into the working cash study, is to require SoCalGas to show that its inventory levels of compliance instruments are economic and efficient.[16]

ORA misunderstands the accounting for GHG compliance instruments and emissions expense. GHG compliance instruments are only recorded to the balancing account when they are used to offset actual emissions. Contrary to ORA's assertion, SoCalGas properly excluded the balancing account balances from its working cash study to ensure no duplicate compensation from regulatory interest earned on the balancing account balances and from compensation through working cash. As stated in my direct testimony, SoCalGas' determination of the working cash requirement for balance sheet accounts only includes account balances that do *not* bear interest.[17] SoCalGas requests working cash related to the non-interest bearing, *unused* portion of its compliance instruments, which are the amounts not recorded to the balancing account, and are instead captured in the asset account balances that ORA proposes to exclude from the working cash study.

Compliance instruments can be lawfully purchased in advance of when they are needed to offset emissions. SoCalGas' inclusion of these items in its working cash request to compensate investors for providing this flexibility and upfront funding, which allows SoCalGas to comply with Cap-and-Trade regulations, is reasonable and *not* risk-free. Contrary to ORA's assertion, SoCalGas is not incentivized to hoard compliance instruments.[18] First, SoCalGas

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[15] Ex. ORA-26-C (Lambert) at 17.

[16] Ex. ORA-26-C (Lambert) at 36.

[17] Ex. SCG-38 (Chan) at KCC-2 (emphasis added).

[18] Ex. ORA-26-C (Lambert) at 18-19.

complies with holding limits as defined by Title 17 of the California Code of Regulations (CCR), and it is subject to penalties for violations.[19] SoCalGas, as a prudent operator, does not subject itself to unnecessary penalties. Second, it is nonsensical for SoCalGas (or any business for that matter) to tie up its limited funds in purchases that only have a *chance* at earning a return. As evidenced by the very existence of this proceeding, working cash is not guaranteed.

However, SoCalGas conceptually agrees with ORA that an investor who provides upfront funding should be compensated for the time value of money.[20] Although Decision (D.) 14-12-040 and D.15-10-032 address matters of calculating forecasted and recorded natural gas-related GHG allowance proceeds and GHG costs, they are silent on the treatment of the carrying costs associated with GHG instruments. Because compensation for this item is not addressed in the GHG decisions nor in any other natural gas proceeding, it is reasonable to consider the item within the working cash study. SoCalGas notes this topic was addressed in D.14-10-033, covering the rules of compliance for *electric* utilities subject to the Cap-and-Trade regulations, where "compliance instruments that are held are considered prepayments and are treated as investments and included in rate base."[21] Working cash is a component of rate base, and by including GHG instruments in its working cash study, SoCalGas' treatment of this item is aligned with the guidance provided to its electric counterparts. Should the Commission not find it reasonable for the carrying costs associated with GHG instruments to be addressed through working cash, SoCalGas requests the Commission to clarify what the appropriate venue should be to seek recovery for this item.

Notwithstanding the above scoping clarification, SoCalGas' working cash request for GHG instruments is reasonable. Current Cap-and-Trade regulations show a declining supply of compliance instruments; therefore, it is reasonable for SoCalGas to anticipate basic market response and price economics and acquire instruments at a lower cost before the shortened supply of instruments impacts the market. As shown on Table 6-1 and Table 6-2 of Title 17 of

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[19] California Code of Regulations, *Title 17, Section 95920(b), Trading, Application of the Holding Limit*.

[20] Ex. ORA-26-C (Lambert) at 19.

[21] D.14-10-033 at 39.

the CCR, the annual allowance budget will decrease every year,[22] and as shown on Table 9-5 and Table 9-6 of Title 17 of the CCR, consignment requirements will increase each year.[23] The requirements of a reduced allowance budget and an increased consignment will drive SoCalGas to go to market to acquire the compliance instruments needed to ensure it has adequate compliance instruments to meet future emission obligations. As the Cap-and-Trade regulations apply to other covered and opt-in entities as well, SoCalGas will be in a competitive market for the limited amount of compliance instruments.

Furthermore, SoCalGas is subject to punitive penalties if it fails to acquire the necessary amount of compliance instruments for the compliance period: "The entity's compliance obligation for untimely surrender is calculated as four times the entity's excess emissions."[24] As a prudent operator, SoCalGas avoids incurring penalties, especially those that are quadruple the cost of compliance, and takes steps to mitigate this risk. In the case of GHG instruments, SoCalGas acquires compliance instruments to meet its obligations, and like any other sound business decision, SoCalGas considers current and future market conditions to acquire what it needs to ensure compliance with regulations, and to avoid incurring large penalties. As outlined by Title 17 of the CCR, participants will face a lower allowance budget and higher consignment obligations, which in turn also increases their demand for compliance instruments; yet, at the same time, holding limits under Section 95920 still apply. Translated into price economics, these requirements may impact traditional supply curves, potentially driving a higher future price for compliance instruments. Therefore, the acquisition of instruments at today's lower prices is reasonable, the asset and liability accounts associated with GHG should be included in the working cash study, and investors should be compensated for providing upfront funding.

Regarding ORA's alternative recommendation for increased transparency related to SoCalGas' compliance instrument purchases, ORA fails to recognize that processes are already established to provide ORA with insight into these activities. First, SoCalGas files its

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[22] California Code of Regulations, *Title 17, Section 95841, Annual Allowance Budgets for Calendar Years 2013-2050* at Table 6-1; Table 6-2.

[23] California Code of Regulations, *Title 17, Section 95893, Allocation to Natural Gas Suppliers for Protection of Natural Gas Ratepayers* at Table 9-5; Table 9-6.

[24] California Code of Regulations, *Title 17, Section 95857(b)(2), Untimely Surrender of Compliance Instruments by a Covered Entity*.

confidential Greenhouse Gas Annual Report with the CPUC Energy Division and with ORA. This report provides transactional details of the GHG activities that SoCalGas engaged in during the year, and is provided in compliance with D.14-12-040, which directs SoCalGas to provide a confidential annual report "listing its purchases and sales of all natural gas supplier compliance instruments including greenhouse gas allowances, allowance futures and forwards, and offsets and offset forwards, carbon allowance derivatives, and any agreements with counterparties to purchase compliance instruments in the future. The report must list the quantity, source, clearing mechanism, and the price of natural gas supplier compliance instruments purchased by the utility and the quantity, buyer, clearing mechanism, and price of all natural gas supplier compliance instruments sold by the utility."[25] Moreover, in compliance with D.18-03-017, SoCalGas provides details of its recorded GHG costs in its annual rate update filings,[26] as captured recently in Advice Letters (AL) 5293 and 5293-A.[27] Outside of these formal avenues, SoCalGas also conducts biweekly meetings with ORA and Energy Division personnel to discuss SoCalGas' compliance instrument activities. Since multiple avenues are already available to ORA to monitor SoCalGas' GHG activities, and since ORA has shown no evidence that these existing processes are ineffective, ORA's proposal of requiring additional transparency into these otherwise confidential activities should be dismissed.

D. Customer Deposits

1. ORA

ORA argues SoCalGas should treat customer deposits like long-term debt to ensure consistency with the policy that the Commission adopted for Pacific Gas & Electric Company (PG&E).[28]

SoCalGas disagrees with ORA's recommendation because the circumstances in which the Commission adopted the treatment for PG&E are dissimilar to SoCalGas' circumstances. Although ORA cites D.14-08-032 to support its arguments, the decision states: "We have not always adopted identical treatment of customer deposits among utilities or for the same utility

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[25] D.14-12-040, Appendix A at 10.

[26] D.18-03-017 at Ordering Paragraph (OP) 7 and OP 10.

[27] AL 5293-A, pending (awaiting Commission approval).

[28] Ex. ORA-26-C (Lambert) at 37-38.

over time. The treatment of customer deposits adopted for PG&E here is based on the circumstances before us which leave discretion to tailor the adopted ratemaking treatment accordingly."[29] Specifically, the Commission directed PG&E to treat customer deposits as long-term debt because it was trying to find middle ground until the issue could be fully addressed in the cost of capital proceeding.[30] Additionally, the Commission stated its preference for consistency under SP U-16: "As a general matter, however, we presume that ratemaking treatment consistent with SP U-16 should be deemed reasonable, especially where there are no special circumstances that justify a deviation."[31] SoCalGas' working cash request properly excludes the interest-bearing customer deposit accounts, which is a directive specified by SP U-16: "This account represents monies advanced by the customer as security for the payment of utility bills. Only noninterest-bearing customer deposits are to be considered."[32]

Should the Commission decide SoCalGas' interest-bearing customer deposits should be considered in its working cash determination, SoCalGas proposes the balances be used to offset the funding needed to support its GHG activities, as they are a fundamental part of SoCalGas' operations and regulatory compliance, and GHG compliance instruments share similar characteristics as customer deposits. GHG compliance instruments represent a large amount of cash spent (asset) by investors, and customer deposits represent large amounts of cash available (liability) to investors. In addition, both customer deposits and GHG compliance instruments will continue to be a significant part of SoCalGas' business in the foreseeable future, and both items are interest-bearing (except unused portions of GHG inventory). If consideration is given to the inclusion of interest-bearing items that decrease working cash, fair consideration should also be given to inclusion of interest-bearing items that increase working cash. For base year (BY) 2016, SoCalGas had an average balance of $73 million in customer deposits, and an average balance of [redacted] tied up in GHG compliance instruments. As described in the "GHG Balances" section above, under current Cap-and-Trade regulations, it is reasonable for SoCalGas to assume more cash will be tied up in GHG compliance instruments, and therefore

[29] D.14-08-032 at 628.

[30] D.14-08-032 at 629.

[31] D.14-08-032 at 628.

[32] SP U-16 at 1-8.

will require compensation to investors to enable upfront purchases, as needed. Therefore, if the Commission believes customer deposits should be treated as a source of funding, they should be used to fund activities related to GHG.

2. TURN

Like ORA, TURN takes issue with SoCalGas' exclusion of customer deposits from its working cash study, and recommends deducting the balances against rate base.[33] SoCalGas disagrees with TURN for the reasons set forth in the above discussion regarding customer deposits, and supports SoCalGas' proposed alternatives to customer deposits treatment should the Commission not agree that customer deposits should be excluded from the working cash study, per guidance from SP U-16.

IV. REBUTTAL TO PARTIES' LEAD/LAG PROPOSALS

A. Revenue Lag

1. ORA

ORA recommends 43.42 revenue lag days instead of SoCalGas' proposed 44.49[34] lag days. ORA bases its recommendation on a 5-year average (2012-2016), to smooth out the effects of above-average collection lag and heating degree days observed in prior years.[35]

SoCalGas disagrees with ORA's use of a 5-year average, and believes SoCalGas' approach of using 2016 data as a proxy for TY 2019 conditions is a more accurate measurement of revenue lag. SoCalGas consistently uses 2016 data to determine its TY 2019 working cash requirement. For revenue lag, SoCalGas used the Accounts Receivable (A/R) method permitted by SP U-16 to calculate the collection lag component. ORA dismisses SoCalGas' calculation, which uses 2016 recorded A/R and 2016 recorded sales, arguing that SoCalGas' response to a data request (DR) concerning why collection lag increased from 2013 to 2016 is inconsistent with the upward trend in heating degree days.[36] This logic is not sound.

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[33] Ex. TURN-03C (Marcus) at 115.

[34] Revenue lag should be 44.35 days after bank lag correction. *See* TURN-SDG&E_SoCalGas-DR-050, Question 1, attached in Appendix A.

[35] Ex. ORA 26-C (Lambert) at 40-41.

[36] Ex. ORA 26-C (Lambert) at 41.

SoCalGas' collection lag calculation uses *recorded* sales and A/R balances, which already reflect the effects of heating-degree days experienced during 2016. A/R balances can be impacted by many variables, such as weather and economic conditions, and the precise impact from each of the variables is difficult to quantify and correlate. SoCalGas' response identified heating degree days as one observation to explain the types of variables that impact the movement in the average monthly A/R balance. As SoCalGas further explains in its response, the 2013 vs. 2016 variance was primarily attributed to the months of the prior year December and the current year January, which exhibited higher heating degree days observed for that same period. Upon additional research into this matter, SoCalGas also noted the colder weather was coupled with the approval of Advice Letter 4504[37], in which SoCalGas consolidated the residential Past Due Notice with the next monthly bill. Prior to September 2013, SoCalGas sent the customer the first late payment notice if payment was not received within 19 calendar days after mailing of the monthly bill. With the implementation of this Advice Letter, instead of sending the first late payment notice in a separate mailing, SoCalGas combined the late notice with the next month's bill. This delayed customer notification of late payment by several days, which may have contributed to the increased aging of A/R balances. The implementation of this new process saved ratepayers nearly $1 million annually.[38] SoCalGas also notes the number of residential customers grew from 5.57 million customers in 2013[39] to 5.66 million customers in 2016,[40] which could have contributed to higher A/R balances. Again, these are variables that SoCalGas identified to describe the movement of the A/R balances, which is in turn used to determine the collection lag; regardless of these potential drivers, the collection lag calculation was properly calculated using the A/R method under SP U-16.

SoCalGas additionally disagrees with the use of a 5-year average, which allows consideration of the lowest data point and thus skews the quantitative metric. This is especially

[37] AL 4504, approved July 17, 2013 and effective September 23, 2013.

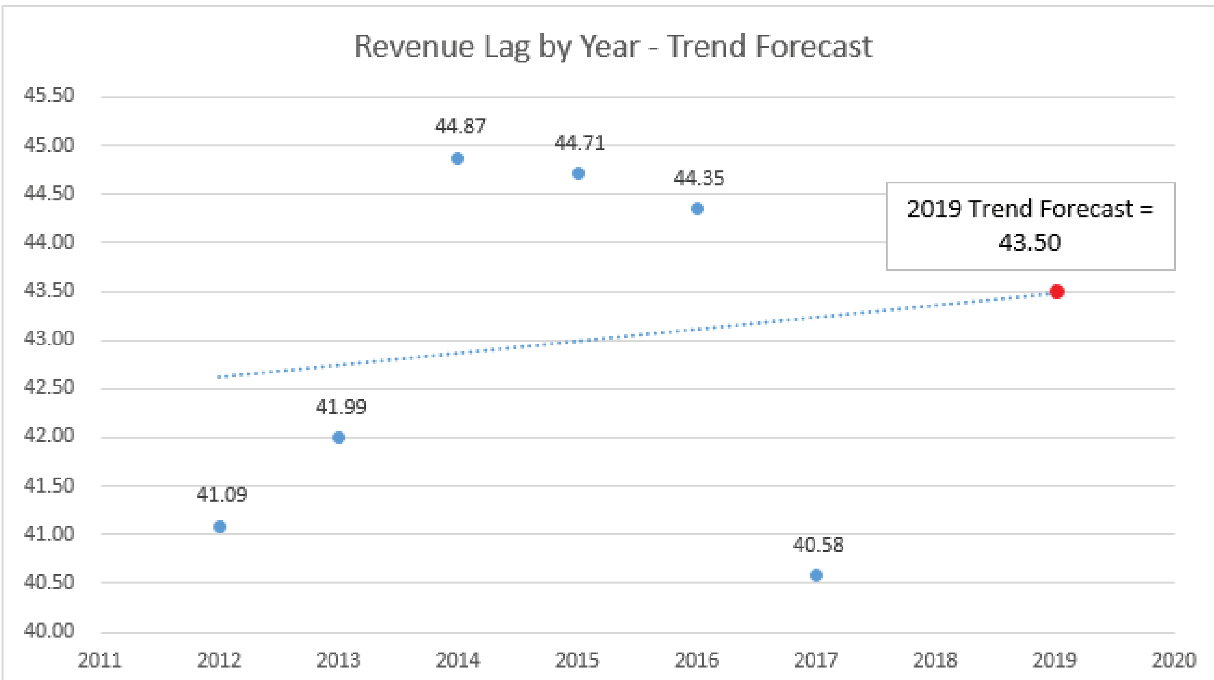
[38] TURN-SDG&E-SOCALGAS-DR-050, Question 6, attached in Appendix A.

[39] Sempra Energy, *2015 Statistical Report, Unaudited Supplement to the Financial Report*, at 24, *available at* http://files.shareholder.com/downloads/SRE/6303048175x0x882688/FCFFF358-94C7-4ED0-A763-164DFE345789/Statistical_Report_2015_.pdf.

[40] Sempra Energy, *2016 Statistical Report, Unaudited Supplement to the Financial Report*, at 24, *available at* http://files.shareholder.com/downloads/SRE/6303048175x0x934665/BF04A017-1D25-4523-A1DC-8762B09C8888/2016_statistical_report.pdf.

true for data that aligns closely on a time series basis, such that more weight should be placed on the most current data, instead of using equal weights for all data points in the past.

Should the Commission not agree with SoCalGas' proposal of a revenue lag based on 2016 balances, SoCalGas alternatively proposals a revenue lag determined by applying linear regression to SoCalGas' historic revenue lags. Under this proposal, SoCalGas recommends 43.5[41] revenue lag days instead of its original proposal of 44.49 revenue lag days. The linear regression approach is superior to ORA's proposal of a simple average because linear regression incorporates trends that are inherent in data over time, thus creating a better predictor for TY 2019 conditions.



2. TURN

TURN recommends a series of adjustments to the components of revenue lag, including a 6-year average for (2012-2017) for collection lag, which results in an overall recommendation of 42.85 lag days compared to SoCalGas' proposal of 44.29 days.[42] SoCalGas disagrees with TURN for the same reasons set forth in the SoCalGas' rebuttal to ORA's position on revenue lag, and supports SoCalGas' alternative recommendation should the Commission decide a

[41] Already adjusted for bank lag correction.

[42] Ex. TURN-03C (Marcus) at 112.

deviation from SoCalGas' methodology of using 2016 as a basis to estimate 2019 conditions is warranted.

B. Employee Benefits Expense Lag

1. ORA

ORA proposes 34.46 lag days for employee benefits, compared to SoCalGas' original proposal of 15.84 lag days. ORA's calculation is based on 18.8 lag days for workers' compensation and 59.75 lag days for pension payments based on quarterly installments.[43]

SoCalGas does not dispute the proposal for workers' compensation, but disagrees with ORA's proposal for pension expense lag. As previously described, SoCalGas applies a consistent approach in using 2016 recorded information as a proxy for 2019, and does not selectively apply alternative calculations, as ORA does with its proposal. For pension expense lag, SoCalGas consistently used 2016 recorded information, as with all the other items captured in its working cash study. SoCalGas' approach is reasonable, as actual lag days for individual items in TY 2019 may differ, both higher and lower, than the recorded lag days observed for actual activity in 2016. Because SoCalGas took a comprehensive, consistent approach to its working cash determination, based on 2016 recorded data, its analysis is impartial and balanced, and therefore, is a more reasonable approach than ORA's approach that cherry picks certain items to artificially ensure a lower working cash requirement for SoCalGas.

C. Goods & Services Lag

1. ORA

ORA recommends Goods and Services lag to increase by 2.3 days. ORA's recommendation is based on the incorporation of check clearing lag.[44] SoCalGas does not dispute ORA's proposal.

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[43] Ex. ORA 26-C (Lambert) at 42-43.

[44] ORA-SCG-DR-091-CL8, Question 1, attached in Appendix A.

2. TURN

TURN recommends Goods and Services lag to increase by 0.26 days. TURN's recommendation is based on the exclusion of rents from the analysis of other goods and services. SoCalGas does not dispute TURN's proposal.[45]

Combining TURN's proposal to increase Goods and Services lag by 0.26 days with ORA's proposal to increase Goods and Services lag by 2.3 days, Goods & Services lag would increase by a total of 2.56 days, from 34.00 days to 36.56 days.

D. California Corporate Franchise Tax (CCFT) and Federal Income Tax (FIT) Expense Lags

1. ORA

ORA recommends a weighted average expense lag based on quarterly payment due dates of SoCalGas' state and federal taxes, asserting that SoCalGas' lead days based on 2016 recorded information is not reflective of TY 2019 conditions due to the volatility of factors impacting tax payments.

SoCalGas disagrees with ORA's approach based on the installment dates and percent installment of the quarterly payment. This approach assumes SoCalGas will be able to perfectly forecast its tax payments upon each due date, and yet, ORA itself states the litany of factors that can impact tax payments:

> Actual lag days for FIT payments are subject to the potential occurrence of refunds, extensions, true-ups, or net operating losses (*i.e.*, no FIT payments), which increase the volatility of recorded lag days for FIT.[46]

> Actual lag days for CCFT payments are subject to the potential occurrence of refunds, extensions, true-ups, or other irregularities, which increase the volatility of recorded lag days for CCFT.[47]

As ORA acknowledges, tax payments are impacted by income estimates, and the exact amount of total taxes due is not known until the fiscal year is complete. In addition, ORA argues SoCalGas' use of 2016 recorded payments is not reflective of TY 2019 conditions. SoCalGas disagrees, as it is not uncommon for SoCalGas to have tax refunds, thus generating a historic

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[45] Ex. TURN-03C (Marcus) at 113.

[46] Ex. ORA-26-C (Lambert) at 30.

[47] Ex. ORA-26-C (Lambert) at 31.

trend of *lead* days for state and federal tax expense. As a prudent operator, with a strong desire to comply with tax regulations, SoCalGas adopts a conservative approach in paying its estimated tax payments. That is, a conservative enterprise like SoCalGas will, more likely than not, pay more than what is required to avoid penalties, and this approach may result in tax refunds, thus generating lead days. ORA, however, ignores this reasonable, common behavior. Despite ORA's assertion, SoCalGas is compliant with SP U-16 in estimating TY 2019 payments by acknowledging the relatively frequent occurrence of historic refunds, which supports SoCalGas' position that a refund in TY 2019 is likely to occur, and that lead days can be expected.

2. TURN

TURN agrees with ORA's recommendation of using the planned tax payment dates to determine the federal and state income tax expense lags.[48] As SoCalGas discusses above, this approach is flawed, and SoCalGas' position more accurately captures conditions expected for TY2019, while also complying with guidance in SP U-16.

E. Depreciation Expense and Deferred Income Taxes

1. TURN

TURN recommends depreciation and deferred income taxes be removed from working cash, asserting the following: "It should be fundamental – ratepayer funding of cash working capital should involve 'cash.' However, because of outdated constructs, ratepayers have for years funded working capital for non-cash items. Utilities do not need to be furnished with cash working capital for non-cash items like depreciation and deferred income taxes, as there is no cash involved in those transactions."[49]

SoCalGas disagrees with TURN's recommendation, which is based on an incomplete understanding of accrual accounting and utility rate making in California. "Depreciation" is commonly described as a "non-cash item;" however, that is not to suggest that a company with depreciation expenses on its income statement did not outlay cash related to those expenses. In fact, the opposite is true. Depreciation is commonly referred to as "non-cash" because when depreciation is included on the income statement, it represents the accrued expense recognition of a transaction for which cash was outlaid in a prior period. It is incorrect to suggest that there

[48] Ex. TURN-03C (Marcus) at 113.

[49] Ex. TURN-01 (Borden) at 49.

was never any cash associated with the expense. Depreciation is a cost allocation mechanism, and depreciation expense would not exist if an associated upfront investment did not occur. Because the presence of depreciation expense evidences a previous upfront investment, the investor who provides that investment should be compensated through working cash.

Specifically, at SoCalGas, depreciation represents cash provided by its investors. Depreciation arises only after SoCalGas shareholders have invested cash in depreciable assets, and from a ratemaking perspective, depreciation expense represents recovery of the original cash investment from ratepayers. As stated in my direct testimony, there is a timing difference between when ratepayers benefit by using SoCalGas' assets over the service period, and when SoCalGas receives payment for providing the services. This timing difference is called revenue lag, which SoCalGas determined to be 44.49 days.[50] Since rate base is reduced by depreciation expense prior to the collection of payments from ratepayers, it is appropriate to include depreciation in the working cash determination, as illustrated in the example below, to compensate investors for their upfront funding.

Day 0	* $100 investment (cash-out) by shareholders
Day 1 - Day 43	* Incur $10 in Depreciation expense * Charge ratepayers $10 for Depreciation expense * $10 removed from rate base; shareholders are not compensated for the $10 out-of-pocket
Day 44	* Receive $10 from ratepayers

Deferred Income Taxes operate under the same logic as described above for Depreciation; timing differences between cash outlays funded by investors and cash inflows from collected customer revenues drives the need for working cash compensation for Deferred Income Taxes. Income taxes are part of the utility's revenue requirement collected from ratepayers. Due to the differences in depreciation methods, the utility's tax obligation to the IRS may differ from the tax amount billed to its ratepayers. This temporary difference (deferred income taxes) is adjusted in rate base to offset the tax benefits taken by the utility. As a result, there is no return on this item during the interim period. Therefore, it is appropriate to include deferred income taxes in the working cash determination.

[50] Ex. SCG-38 (Chan) at KCC-3; KCC-6.

As explained above, both Depreciation and Deferred Income Taxes represent cash outlaid in a previous period, and do not receive a return during the interim periods when the costs are flowed and recovered from ratepayers. Therefore, it is appropriate to include them in working cash, as allowed by SP U-16, to compensate investors for providing upfront funding to allow the utility to carry on and sustain its operations as it awaits cash collections from its customers.

V. CONCLUSION

To summarize, SoCalGas used a holistic approach to determine its working cash requirement for TY 2019. A consistent approach was applied in the analysis of working cash items, and SoCalGas considered the nature of its operations, per SP U-16, to determine the reasonableness of its request.

This concludes my prepared rebuttal testimony.

SCG 2019 GRC Errata Table – June 2018

SoCalGas' working cash requirement of $169.1 million from its April 2018 filing does not reflect the items listed in this table.

Exhibit	Witness	Page	Line	Revision Detail
SCG-38-2R	*Karen Chan*	*KCC-10*	*Footnote*	*Workers' Compensation amounts need to be tax effected to reflect the new federal tax rate of 21%. With this adjustment, SCG's working cash requirement will be lower by approximately $9.2 million.*
Data Request	*Karen Chan*	*ORA-SCG-024-CL8*	*Response 4*	*Workers' Compensation lag needs to be adjusted from 9 days to 18.8 days. With this adjustment, SCG's working cash requirement will be lower by approximately $0.6 million.*
Data Request	*Karen Chan*	*ORA-SCG-091-CL8*	*Response 1*	*Goods and Services lag needs to be increased by 2.3 days to account for check clearing lag. With this adjustment, SCG's working cash requirement will be lower by approximately $4.5 million.*
Data Request	*Karen Chan*	*ORA-SCG-110-CL8*	*Response 1*	*2016 general ledger balances related to greenhouse gas (GHG) need to be adjusted. With this adjustment, SCG's working cash requirement will be lower by approximately $1.5 million.*
Data Request	*Karen Chan*	*TURN-SEU-050*	*Response 1*	*Bank lag needs to be adjusted from 1.00 day to 0.86 days. With this adjustment, SCG's working cash requirement will be lower by approximately $1.5 million.*

BEFORE THE PUBLIC UTILITIES
COMMISSION OF THE STATE OF CALIFORNIA

DECLARATION OF SANDRA K. HRNA
REGARDING CONFIDENTIALITY OF CERTAIN DATA/DOCUMENTS
PURSUANT TO D.17-09-023

I, Dyan Z. Wold, do declare as follows:

1. I am the Director of Utility Financial Reporting for Southern California Gas Company ("SoCalGas"). I have been delegated authority to sign this declaration by Sandra K. Hrna, Vice President of Accounting and Finance for SoCalGas. I have reviewed the rebuttal testimony for SoCalGas Working Cash (Exhibit SCG-238). I am personally familiar with the facts in this Declaration and, if called upon to testify, I could and would testify to the following based upon my personal knowledge and/or information and belief.

2. I hereby provide this Declaration in accordance with Decision ("D.") 17-09-023 to demonstrate that the confidential information ("Protected Information") provided in Exhibit SCG-238 is within the scope of data protected as confidential under applicable law.

3. In accordance with the legal citations and narrative justification described in Attachment 1, the Protected Information should be protected from public disclosure.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct to the best of my knowledge.

Executed this 13th day of June 2018, at Los Angeles.

Dyan Z. Wold
Director of Utility Financial Reporting

ATTACHMENT 1

SoCalGas Requests for Confidentiality on the following information in its 2019 Test Year General Rate Case, Working Cash Rebuttal Testimony (Exhibit SCG-238)

Location of Protected Information	Legal Citations	Narrative Justification
Gray shaded area on page KCC-10 of SoCalGas Working Cash Rebuttal Testimony	D.15-10-032 Appendix B part 1b, P.U. Code § 454.5(g), and GO 66-C (D.15-10-032 Appendix B part 1b makes the following confidential: Utility GHG compliance instrument inventories or quantities that can be used to derive GHG compliance instrument holdings) CPRA Exemption, Gov't Code § 6254(k) ("Records, the disclosure of which is exempted or prohibited pursuant to federal or state law") • Evid. Code § 1060 • Civil Code § 3426 et seq. Civil Code § 3426 et seq. GO 66-D addresses public records not open to public inspection, which includes information confidential in nature.	17 CCR Section 95914(c)(1) of the Cap-and-Trade regulations prohibits disclosure of any auction-related information, except when the release is made by a privately-owned utility to its regulatory agency pursuant to its rules, orders or decisions (Section 95914(c)(2)). Auction-related information also falls under the "Confidential" category included in the Confidentiality Protocols of both D.15-01-033 and D.15-10-032 (Attachment A and Appendix B respectively). Disclosure of this information would place SoCalGas at an unfair business disadvantage relative to other Cap-and-Trade market participants and would result in higher Cap-and-Trade compliance costs for SoCalGas and its end-use ratepayers. Since SoCalGas' historical auction awards and historical consignment strategies reveal SoCalGas' prior bidding/consignment strategies, prior auction results are required to be kept confidential. Market-sensitive financial information, if disclosed, could provide market participants and SoCalGas' competitors with insight into SoCalGas' activities, plans and strategies, which would place SoCalGas at an unfair business disadvantage. This could ultimately result in increased cost to core ratepayers. If disclosed, SoCalGas' competitors and market participants could also derive economic value from this information.

APPENDIX A
DISCOVERY RESPONSES (CONFIDENTIAL)

Follow-up question regarding Data Request ORA-SCG-004-CL8, referred to as "that data request" below:

4. In its response to Question 4 of that data request, SoCalGas responded that the lag day figure for Schedule H-6 "represents the estimated time period between notification of amount due to when payments are disbursed" and adduces the 2016 and 2012 GRCs as additional evidence.

a. Please explain whether or not this estimation is based upon a study of the total population of relevant invoices.

b. If the answer to (a) is no, please provide a detailed explanation of the basis for this estimation of 9 lag days.

SoCalGas Response 4:

a. The 9-day lag estimate is based on a study that was performed for SoCalGas' 2012 GRC. Because of the effort required to perform this study in relation to the immateriality of the impact worker's compensation payments has on the overall working cash study, this same estimate was used for SoCalGas' 2016 GRC, and similarly rolled forward for the 2019 GRC as well.

b. We recreated the 9-day estimate study based on the total population of relevant 2016 workers' compensation payments. In doing so we derived a payment lag of 18.8 days for these payments. This change would not have a material impact on the overall working cash request (approximately $600k).

Exhibit Reference: SCG-38-R
SCG Witness: Karen Chan
Subject: Working Cash

Please provide the following:

1. In Schedule G of SCG-38-WP-R, SoCalGas states, "Most checks are direct deposits, and for the rest, employees usually deposit the check on the same day. To be conservative, 1 days check clear lag is assumed."

    a. Please identify all other schedules in SCG-38-WP-R that reflect payments made by check.
    b. Where a schedule reflects payments that are made by check or by a combination of payment methods (e.g., direct deposit), please identify the dollar amount and clearance lag associated with each payment method.
    c. Please provide evidence describing the clearance policies and schedules of SoCalGas's banks. Include an explanation of how clearance schedules apply to deposits made by payment recipients on non-business days.

SoCalGas Response 1:

a. Schedules I (Goods and Services), Schedule K (Real Estate Rental Payments), and Schedule Ma (Ad Valorem Taxes only) include amounts paid by check. Payments included on other schedules may occasionally be paid be check; however, these would generally be on an exception basis.

b. Check clearing lags have been incorporated into Schedule K and Ma.

    - Of the $16 million of real estate payments in Schedule K, $5 million was made by check with a check clearing lag of 7.35 days.
    - Of the $61 million of ad valorem taxes in Schedule Ma, $27 million was made by check with a check clearing lag of 12.20 days.

    SoCalGas did not incorporate check clearing lags into its Schedule I. The check clearing lag, based on review of 2016 check encashment dates, is approximately 6.0 days. When weighted with electronic payments, the average Goods & Services lag for Schedule I is approximately 36.3 days (or 2.3 days longer than previously stated).

SoCalGas Response 1 Continued:

c. Please refer to the statement below from Union Bank:

"There isn't a clear timeline in place for processing times. Generally checks and electronic payments are processed, debited from the makers account, within 24-72 hours.
The items received on a non-banking business day are processed the next banking business day. So an item received on a Saturday or Sunday will be processed on Monday. Items received the day preceding a non-business day should be processed the day received."

Exhibit Reference: SCG-38-WP-R
SCG Witness: Karen Chan
Subject: Working Cash

Please provide the following:

1. Please provide an explanation of the following, with respect to current and non-current greenhouse gas (GHG) California Carbon Allowances (CCAs) and California Carbon Offsets (CCOs), as included in the working cash determination in Schedule P:
    a. Please explain why the monthly balances of general ledger account #1131109 (current CCAs/CCOs in inventory) equal the correspondent balances of account #2197231 (current GHG emissions liability) for the months of 2016 but not for the month of December 2015.
    b. Please provide a reconciliation of the difference identified *supra* in (a).
    c. Please explain why the monthly balances of general ledger account #1360085 (noncurrent CCAs/CCOs in inventory) exceed the correspondent balances of account #2540036 (noncurrent GHG emissions liability) for the months of December 2015 through December 2016.
    d. Please provide a reconciliation of the differences identified *supra* in (c).

SoCalGas Response 1:

[redacted] Confidential and Protected Materials Pursuant to PUC Section 583, GO 66-D, and D.17-09-023.

a. The monthly balance of general ledger account #1131109 does not equal the corresponding balance of account #2197231 for the month of December 2015 because of an inadvertent accounting error that was subsequently corrected by month-end February 2016.

b. [redacted] Confidential and Protected Materials Pursuant to PUC Section 583, GO 66-D, and D.17-09-023.

c. The monthly balances of general ledger account #1360085 (noncurrent CCAs/CCOs in inventory) exceed the correspondent balances of account #2540036 (noncurrent GHG emissions liability) for the months of December 2015 through December 2016, as is typical for these two accounts, because SoCalGas purchases compliance instruments ratably for a compliance period but charges emissions expense and accrues an offsetting liability as monthly GHG emissions occur.

SoCalGas Response 1.c:

As an example, SoCalGas may purchase 100 MTCO2e of compliance instruments during a month (which are recorded as inventory), but GHG emissions for the month may equal only 30 MTCO2e (recorded as a charge to emissions expense and offset to a liability). The result would be at month-end, a larger balance in the inventory account compared to the liability account. The remaining 70 MTCO2e of compliance instruments are held in inventory and will be used to meet future month emissions.

d. [redacted] Confidential and Protected Materials Pursuant to PUC Section 583, GO 66-D, and D.17-09-023.

BEFORE THE PUBLIC UTILITIES
COMMISSION OF THE STATE OF CALIFORNIA

DECLARATION OF JAWAAD A. MALIK
REGARDING CONFIDENTIALITY OF CERTAIN DATA/DOCUMENTS
PURSUANT TO D.17-09-023

I, Dyan Z. Wold, do declare as follows:

1. I am the Director of Utility Financial Reporting for Southern California Gas Company ("SoCalGas"). I have been delegated authority to sign this declaration by Jawaad A. Malik, Vice President of Accounting and Finance for SoCalGas. I have reviewed the ORA-SCG-110-CL8, Question 1 responses. I am personally familiar with the facts in this Declaration and, if called upon to testify, I could and would testify to the following based upon my personal knowledge and/or information and belief.

2. I hereby provide this Declaration in accordance with Decision ("D.") 17-09-023 to demonstrate that the confidential information ("Protected Information") provided in ORA-SCG-110-CL8, Question 1 responses is within the scope of data protected as confidential under applicable law.

3. In accordance with the legal citations and narrative justification described in Attachment A, the Protected Information should be protected from public disclosure.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct to the best of my knowledge.

Executed this day of February 7, 2018, at Los Angeles.

Dyan Z. Wold
Director of Utility Financial Reporting

ATTACHMENT A

SoCalGas Requests for Confidentiality on the following information in its response to its 2019 Test Year General Rate Case, ORA Data Request 110, Question 1 Responses

Location of Protected Information	Legal Citations	Narrative Justification
Gray shaded portions in Excel files "ORA-SCG-110-CL8 Schedule P Corrections (Confidential)," "ORA-SCG-110-CL8 Response 1b (Confidential)," and "ORA-SCG-110-CL8 Response 1d (Confidential)."	D.15-10-032 Appendix B part 1b, P.U. Code § 454.5(g), and GO 66-C (D.15-10-032 Appendix B part 1b makes the following confidential: Utility GHG compliance instrument inventories or quantities that can be used to derive GHG compliance instrument holdings) CPRA Exemption, Gov't Code § 6254(k) ("Records, the disclosure of which is exempted or prohibited pursuant to federal or state law") • Evid. Code § 1060 • Civil Code § 3426 et seq. Civil Code § 3426 et seq. GO 66-D addresses public records not open to public inspection, which includes information confidential in nature.	17 CCR Section 95914(c)(1) of the Cap-and-Trade regulations prohibits disclosure of any auction-related information, except when the release is made by a privately-owned utility to its regulatory agency pursuant to its rules, orders or decisions (Section 95914(c)(2)). Auction-related information also falls under the "Confidential" category included in the Confidentiality Protocols of both D.15-01-033 and D.15-10-032 (Attachment A and Appendix B respectively). Disclosure of this information would place SoCalGas at an unfair business disadvantage relative to other Cap-and-Trade market participants and would result in higher Cap-and-Trade compliance costs for SoCalGas and its end-use ratepayers. Since SoCalGas' historical auction awards and historical consignment strategies reveal SoCalGas' prior bidding/consignment strategies, prior auction results are required to be kept confidential. Market-sensitive financial information, if disclosed, could provide market participants and SoCalGas' competitors with insight into SoCalGas' activities, plans and strategies, which would place SoCalGas at an unfair business disadvantage. This could ultimately result in increased cost to core ratepayers. If disclosed, SoCalGas' competitors and market participants could also derive economic value from this information. The responses for Question 1 contain actual general ledger account balances that are non-public company financial information and financial information related to greenhouse gas (GHG).

Confidential and Protected Materials Pursuant to PUC Section 583, GO 66-D, and D.17-09-023

SOCALGAS
CASH WORKING CAPITAL STUDY--TEST YEAR 2019
RESPONSE TO ORA-SCG-110-CL8, QUESTION 1

Corrections to Schedule P Detail

GL No. / Month		Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16
AS FILED														
	1131109	[redacted]												
	1360085													
	2197231													
	2540036													
AS RECORDED														
	1131109	[redacted]												
	1360085													
	2197231													
	2540036													
RECORDED vs. FILED														
	1131109	-	1,672,299	-	-	-	-	-	-	-	-	-	-	-
	1360085	(1,281,102)	(33,458,217)	(5,998,435)	(9,072,695)	(618,801)	-	(631,551)	(12,800,550)	-	367,224	-	-	-
	2197231	(826,794)	-	-	-	-	-	-	-	-	-	-	-	-
	2540036	(1,578,712)	5,620,550	4,052,373	4,853,361	4,719,011	3,938,025	4,495,915	5,383,036	6,015,625	7,306,638	-	4,218,777	(9,473,241)
		(3,686,608)	(26,165,368)	(1,946,062)	(4,219,334)	4,100,210	3,938,025	3,864,364	(7,417,514)	6,015,625	7,673,862	-	4,218,777	(9,473,241)
IMPACT TO 2019 WORKING CASH		**(1,472,108)**												

Confidential and Protected Materials Pursuant to PUC Section 583, GO-66D, and D.17-09-023

SOUTHERN CALIFORNIA GAS COMPANY
CASH WORKING CAPITAL STUDY--TEST YEAR 2019
RESPONSE TO ORA-SCG-110-CL8, QUESTION 1

Question 1b.

Please provide a reconciliation of the difference identified *supra* in (a).

Debit / (Credit)

Reconciliation	Current Asset SAP Accnt #1131109	Current Liability SAP Accnt #2197231	Difference	Noncurrent Asset SAP Accnt #1360085	Noncurrent Liability SAP Accnt #2540036
December 31, 2015 balance:	[redacted]	[redacted])	845,504.86		
January 26, 2016 correcting entry (debit 2197231 / credit 2540036):		826,794.20	826,794.20		(826,794.20)
February 29, 2016 correcting entry (debit 1360085 / credit 1131109):	(1,672,299.06)		(1,672,299.06)	1,672,299.06	
Total - Account Balance at February 29, 2016	[redacted]	[redacted]	-		

Confidential and Protected Materials Pursuant to PUC Section 583, GO-66D, and D.17-09-023

SOUTHERN CALIFORNIA GAS COMPANY
CASH WORKING CAPITAL STUDY--TEST YEAR 2019
RESPONSE TO ORA-SCG-110-CL8, QUESTION 1

Question 1d.

Please provide a reconciliation of the differences identified *supra* in (c).

Debit / (Credit)

Reconciliation	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16
Account #1360085 Noncurrent Compliance Instrument Inventory	[redacted]												
Account #2540036 Noncurrent Emissions Liability													
Difference: (Note A)													

Note A: difference represents the value of compliance instruments held in inventory to be used to meet future emission obligations. See response at question 1c

TURN DATA REQUEST-050
SDG&E-SOCALGAS 2019 GRC – A.17-11-007/8
SDG&E_SOCALGAS PARTIAL RESPONSE #1
DATE RECEIVED: APRIL 19, 2018
DATE RESPONDED: MAY 4,, 2018

Exhibit Reference: SCG-38
Witnesses: Chan
Subject: Working Cash Capital

1. For each year 2012-2017, inclusive, please provide in Excel format the recorded annual amounts for the following schedules, using the same format as the 2016 recorded figures are presented in the indicated schedule.

a. Schedule C – revenue lag.
b. Schedule N-1 and N-2 – federal income tax, franchise tax.

Utility Response 1:

The GRC forecasts were developed according to the Rate Case Plan, which does not contemplate the use of 2017 recorded data, so the GRC forecasts were not developed using that information. While that recorded data may indicate lower spending than forecasted in some areas, it may also indicate higher spending than forecasted in others. Although this data is not part of SoCalGas' forecasts or within the scope of this case, SoCalGas is providing 2017 data in the spirit of cooperation, without waiving the right to contest or respond to how the data is used. The utility is not permitted to revise its forecasts, either up or down, once the application is filed.

a. Please see Excel file "Question 1 Response – Revenue Lag."

In the course of researching this data request, SoCalGas discovered an error in its bank lag calculation. The bank lag calculation takes into account the availability of funds related to self-service customers who make payments electronically to SoCalGas through their banks. Prior to October 2015, SoCalGas used Mellon Bank, which put a 2-day hold on these payments. In October 2015, SoCalGas switched its bank to Union Bank, which puts a 0-day hold on these payments. When SoCalGas was updating its bank lag for base year 2016, it inadvertently forgot to change the availability for these payments from 2 to 0. With this correction, SoCalGas' bank lags for 2015 to 2017 are as follows:

	2015	2016	2017
Before Correction	0.99	1.00	0.97
After Correction	0.97	0.86	0.84

With this correction, SoCalGas' working cash requirement for 2019 will be lower by approximately $1.5 million. SoCalGas will make this adjustment to its working cash request and requested 2019 revenue requirement at a later date.

b. Please see Excel file "Question 1 Response – Tax Lags."

TURN DR-50 Q1

SOUTHERN CALIFORNIA GAS COMPANY
WORKING CASH REVENUE LAG DAYS
YEARS 2012-2017

	2012	2013	2014	2015	2016	2017
Meter Reading Lag	15.25	15.21	15.21	15.21	15.21	15.21
Billing Lag *	2.50	2.50	2.58	2.58	2.58	2.58
Collection Lag	22.31	23.29	26.06	25.95	25.70	21.95
Bank Lag **	1.03	1.00	1.03	0.99	1.00	0.97
Total Revenue Lag	41.09	41.99	44.87	44.73	44.49	40.71

* Billing lags in 2014, 2015 and 2017 are assumed to be consistent with 2016 recorded for illustrative purposes.
** Bank lags for 2015 to 2017 have not been adjusted for the error mentioned in SoCalGas' response.

SOUTHERN CALIFORNIA GAS COMPANY
GRC INCOME TAX LAG DAYS
Calendar Year 2012-2017

FEDERAL INCOME TAXES--CURRENT
($ in Dollars)

	[1]	[2]	[3]	[4]	[5]	[6]	[7]
	SERVICE PERIOD						LEAD/LAG
LINE No.	BEGINNING	END	SERVICE MIDPOINT	PAYMENT DATE	(LEAD) LAG DAYS	TAX AMOUNT	DOLLAR DAYS
			([1] + [2]) / 2		[4] - [3]		[5] * [6]
	2017						
1	1/1/2015	12/31/2015	07/02/15	4/15/2017	653.0	-	-
2	1/1/2016	12/31/2016	07/01/16	4/15/2017	287.5	-	-
3	1/1/2017	12/31/2017	07/02/17	4/15/2017	(78.0)	-	-
4	1/1/2017	12/31/2017	07/02/17	6/15/2017	(17.0)	-	-
5	1/1/2017	12/31/2017	07/02/17	12/15/2017	166.0	-	-
	TOTAL			**Lag Days**	**-**	**$ -**	**$ -**
	2016						
6	1/1/2014	12/31/2014	07/02/14	3/15/2016	622.0	1,045,775	650,472,050
7	1/1/2015	12/31/2015	07/02/15	3/15/2016	257.0	(1,791,000)	(460,287,000)
8	1/1/2016	12/31/2016	07/01/16	4/15/2016	(77.5)	-	-
9	1/1/2016	12/31/2016	07/01/16	6/15/2016	(16.5)	-	-
10	1/1/2016	12/31/2016	07/01/16	12/15/2016	166.5	-	-
	TOTAL			**Lag Days**	**(255.20)**	**$ (745,225)**	**$ 190,185,050**
	2015						
11	1/1/2014	12/31/2014	07/02/14	3/15/2015	256.0	-	-
12	1/1/2015	12/31/2015	07/02/15	4/15/2015	(78.0)	68,541,000	(5,346,198,000)
13	1/1/2015	12/31/2015	07/02/15	6/15/2015	(17.0)	(68,600,000)	1,166,200,000
14	1/1/2015	12/31/2015	07/02/15	12/15/2015	166.0	-	-
	TOTAL			**Lag Days**	**70,847.42**	**$ (59,000)**	**(4,179,998,000)**
	2014						
15	1/1/2014	12/31/2014	07/02/14	4/15/2014	(78.0)	54,900,000	(4,282,200,000)
16	1/1/2013	12/31/2013	07/02/13	6/15/2014	348.0	(36,100,000)	(12,562,800,000)
17	1/1/2014	12/31/2014	07/02/14	6/15/2014	(17.0)	(19,200,000)	326,400,000
18	1/1/2014	12/31/2014	07/02/14	9/15/2014	75.0	(35,700,000)	(2,677,500,000)
19	1/1/2014	12/31/2014	07/02/14	12/15/2014	166.0	-	-
	TOTAL			**Lag Days**	**531.75**	**$ (36,100,000)**	**$ (19,196,100,000)**
	2013						
20	1/1/2012	12/31/2012	07/01/12	10/15/2013	470.5	(20,827,247) *	(9,799,219,714)
21	1/1/2013	12/31/2013	07/02/13	4/15/2013	(78.0)	10,800,000	(842,400,000)

SOUTHERN CALIFORNIA GAS COMPANY
GRC INCOME TAX LAG DAYS
Calendar Year 2012-2017

22	1/1/2013	12/31/2013	07/02/13	6/15/2013	(17.0)	25,300,000	(430,100,000)
				Lag Days	**(724.93)**	**15,272,753**	**(11,071,719,714)**
	2012						
23	1/1/2011	12/31/2011	07/02/11	11/15/2012	502.0	(33,319,000)	(16,726,138,000)
24	1/1/2012	12/31/2012	07/01/12	4/15/2012	(77.5)	20,100,000	(1,557,750,000)
25	1/1/2012	12/31/2012	07/01/12	6/15/2012	(16.5)	20,400,000	(336,600,000)
	TOTAL			**Lag Days**	**(2,593.02)**	**$ 7,181,000**	**$ (18,620,488,000)**

* 5 year average True-Up Payment 2008-2012. For details, please see page MWF-14 of Exhibit SCG-29-R (Working Cash) of SCG's 2016 GRC.

SOUTHERN CALIFORNIA GAS COMPANY
GRC INCOME TAX LAG DAYS
Calendar Year 2012-2017

CALIFORNIA STATE FRANCHISE TAXES
($ in Dollars)

	[1]	[2]	[3]	[4]	[5]	[6]	[7]
	SERVICE PERIOD		SERVICE	PAYMENT	(LEAD) LAG	TAX	LEAD/LAG DOLLAR
	BEGINNING	END	MIDPOINT	DATE	DAYS	AMOUNT	DAYS
			([1] + [2]) / 2		[4] - [3]		[5] * [6]
	2017						
1	1/1/2015	12/31/2015	07/02/15	4/15/2017	653.0	1,457,846	951,973,438
2	1/1/2016	12/31/2016	07/01/16	4/15/2017	287.5	(3,400,000)	(977,500,000)
3	1/1/2017	12/31/2017	07/02/17	4/15/2017	(78.0)	10,900,000	(850,200,000)
4	1/1/2017	12/31/2017	07/02/17	6/15/2017	(17.0)	13,100,000	(222,700,000)
5	1/1/2017	12/31/2017	07/02/17	12/15/2017	166.0	6,200,000	1,029,200,000
	TOTAL			**Lag Days**	**(2.45)**	**$ 28,257,846**	**$ (69,226,562)**
	2016						
6	1/1/2014	12/31/2014	07/02/14	3/15/2016	622.0	(8,993,199)	(5,593,769,778)
7	1/1/2015	12/31/2015	07/02/15	3/15/2016	257.0	12,900,000	3,315,300,000
8	1/1/2016	12/31/2016	07/01/16	4/15/2016	(77.5)	17,000,000	(1,317,500,000)
9	1/1/2016	12/31/2016	07/01/16	6/15/2016	(16.5)	14,500,000	(239,250,000)
10	1/1/2016	12/31/2016	07/01/16	12/15/2016	166.5	6,400,000	1,065,600,000
	TOTAL			**Lag Days**	**(66.25)**	**$ 41,806,801**	**$ (2,769,619,778)**
	2015						
11	1/1/2014	12/31/2014	07/02/14	3/15/2015	256.0	(3,400,000)	(870,400,000)
12	1/1/2015	12/31/2015	07/02/15	4/15/2015	(78.0)	17,705,000	(1,380,990,000)
13	1/1/2015	12/31/2015	07/02/15	6/15/2015	(17.0)	200,000	(3,400,000)
14	1/1/2015	12/31/2015	07/02/15	12/15/2015	166.0	(10,300,000)	(1,709,800,000)
	TOTAL			**Lag Days**	**(942.83)**	**$ 4,205,000**	**(3,964,590,000)**
	2014						
15	1/1/2014	12/31/2014	07/02/14	4/15/2014	(78.0)	19,300,000	(1,505,400,000)
16	1/1/2013	12/31/2013	07/02/13	6/15/2014	348.0	(22,000,000)	(7,656,000,000)
17	1/1/2014	12/31/2014	07/02/14	6/15/2014	(17.0)	(7,800,000)	132,600,000
18	1/1/2014	12/31/2014	07/02/14	9/15/2014	75.0	5,400,000	405,000,000
19	1/1/2014	12/31/2014	07/02/14	12/15/2014	166.0	(1,932,364)	(320,772,424)
	TOTAL			**Lag Days**	**1,271.92**	**$ (7,032,364)**	**$ (8,944,572,424)**
	2013						
20	1/1/2012	12/31/2012	07/01/12	12/15/2013	531.5	(15,623,618)	(8,303,952,967)
21	1/1/2013	12/31/2013	07/02/13	4/15/2013	(78.0)	12,900,000	(1,006,200,000)
22	1/1/2013	12/31/2013	07/02/13	6/15/2013	(17.0)	9,400,000	(159,800,000)

SOUTHERN CALIFORNIA GAS COMPANY
GRC INCOME TAX LAG DAYS
Calendar Year 2012-2017

23	1/1/2013	12/31/2013	07/02/13	12/15/2013	166.0		7,620,000		1,264,920,000
	TOTAL			**Lag Days**	**(573.92)**	**$**	**14,296,382**	**$**	**(8,205,032,967)**
	2012								
24	1/1/2011	12/31/2011	07/02/11	11/15/2012	502.0		(6,104,000)		(3,064,208,000)
25	1/1/2012	12/31/2012	07/01/12	4/15/2012	(77.5)		10,200,000		(790,500,000)
26	1/1/2012	12/31/2012	07/01/12	6/15/2012	(16.5)		12,900,000		(212,850,000)
27	1/1/2012	12/31/2012	07/01/12	12/15/2012	166.5		9,200,000		1,531,800,000
	TOTAL			**Lag Days**	**(96.80)**	**$**	**26,196,000**	**$**	**(2,535,758,000)**

6. Please explain why the collection lag days increased from 2013 to 2016 as indicated by comparing Schedule C of the TY 2016 to Schedule C of the TY 2019 workpapers. Please provide all sources and workpapers related to this response.

Utility Response 6:

Collection lag is directly impacted by Accounts Receivable (A/R) turnover, which is derived by Total Sales divided by the Average A/R Balance. Collection lag days increased from 2013 to 2016 primarily due to the increases in A/R balances. As A/R balances increased, the A/R turnover decreased. As a result, collection lag increased.

A/R balances can be impacted by many variables such as weather, economic conditions, and many others. The precise impact due to each of the variables is difficult to quantify and correlate. Presented below are possible impacts by two variables:

- Colder weather produced higher bills, which can make it difficult for customers to keep their accounts current or pay off their monthly charges. Therefore, their balances would age. As presented in the table below, the Average A/R Balance increased by $16.8 million from 2013 to 2016. For prior year December and current year January alone, the Average A/R Balance increased by $15.5 million, partly due to colder weather, as indicated by the increase in heating degree days.

	Variance 2016 vs 2013
Average AR Balance	$ 16,778,351
Average AR Balance for Prior Year (PY) Dec & Current Jan *	$ 15,479,853
Heating Degree Days for PY Dec & Current Jan	65

** Mid-month convention*
Average for Feb - Dec was $1.3 million

- In accordance with Advice Letter 4504, effective September 2013, SoCalGas consolidated its customer late payment notice with the next monthly bill. Prior to September 2013, SoCalGas sent the customer the first late payment notice if payment was not received within 19 calendar days after mailing of the monthly bill. With the implementation of this advice letter, instead of sending the first late payment notice in a separate mailing, SoCalGas combined the late notice with the next month's bill. This delayed the customer notification of late payment by several days, which may have contributed to the increased aging of A/R balances. The implementation of this new process saved ratepayers nearly $1 million annually.

APPENDIX B
GLOSSARY OF TERMS

A/R	Accounts Receivable
AL	Advice Letters
CCFT	California Corporate Franchise Tax
CCr	California Code of Regulations
Commission/CPUC	California Public Utilities Commission
D	Decision
DR	Data Request
FIT	Federal Income Tax
GHG	Greenhouse Gas
ORA	Office of Ratepayer Advocates
PG&E	Pacific Gas and Electric Company
RO	Results of Operations
SoCalGas	Southern California Gas Company
TURN	The Utility Reform Network
TY	Test Year