Company: Southern California Gas Company (U 904 G)
Proceeding: 2019 General Rate Case
Application: A.17-10-008
Exhibit: SCG-38-2R

SECOND REVISED

SOCALGAS

DIRECT TESTIMONY OF KAREN C. CHAN

(WORKING CASH)

APRIL 6, 2018

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

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APPENDIX A – GLOSSARY OF TERMS KCC-A-1

SUMMARY

- Describes the methodology used by the Southern California Gas Company (SoCalGas) to prepare its working cash request in compliance with California Public Utilities Commission (CPUC) Standard Practice (SP) U-16.
- Requests adoption of a Test Year 2019 working cash of $169.1 million.

SOCALGAS SECOND REVISED DIRECT TESTIMONY OF KAREN C. CHAN (WORKING CASH)

I. INTRODUCTION

Pursuant to the Assigned Commissioner's Scoping Memorandum and Ruling issued on January 29, 2018 (Scoping Memo), this exhibit has been revised to reflect the impact of the Tax Cuts and Jobs Act (TCJA) on the SoCalGas/SDG&E TY 2019 General Rate Case. The TCJA was signed into federal law on December 22, 2017 and is discussed in the testimony of the Taxes witness Ragan Reeves (Exhibit SCG-37-2R/SDG&E-35-2R), served concurrently with this exhibit.

A. Summary of Proposals

I sponsor the Test Year 2019 working cash requirement. My Direct Testimony describes the methodology used by SoCalGas to prepare its General Rate Case (GRC) request for working cash in compliance with SP U-16, based on 2016 recorded costs and Test Year (TY) 2019 forecasts. Based on SP U-16 guidance, SoCalGas requests a total 2019 working cash request of $169.1 million.

TABLE KC1
Test Year 2019 Summary of SoCalGas Working Cash Requirement
($ in millions)

Operational Cash Requirement	$ 243.0	
Lead-Lag Working Cash Requirement	$ 162.6	
Total Working Cash Requirement		$ 405.6
Working Cash Provided by Non-Investors		$ (236.5)
Net Working Cash Requirement		**$ 169.1**

Note: Values may not add to totals and may differ from Results of Operations model due to rounding.

B. Organization of Testimony

In my testimony, I describe the purpose of working cash and the methodology under SP U-16 to determine the working cash allowance. I also provide a narrative and summary reports to describe the steps that SoCalGas used to prepare its working cash study. Lastly, I provide detailed descriptions of the key accounts and activities that support SoCalGas' TY 2019 request.

II. PURPOSE AND DETERMINATION OF WORKING CASH UNDER SP U-16

Working cash is a component of rate base under SP U-16, and is described as the funding supplied by investors to meet day-to-day utility operational requirements, and to cover the time that expenditures are made for services until the time revenues are collected for those services.[1] When practical, SP U-16 calls for a detailed analysis of working cash referred to as the "weighted average" or "lead-lag days" method.[2]

As described in SP U-16, the working cash allowance is comprised of balance sheet items and income statement items. Balance sheet items quantify the daily cash requirements needed to run the business economically and efficiently. These items include accounts funded with cash supplied by investors, offset by items funded with cash supplied by others. The analysis of the balance sheet accounts is supplemented by an analysis of the income statement items, which quantify the timing between when revenues are collected and when expenses are paid.

For SoCalGas, the net outcome of the timing of these transactions results in its average revenue lag (the time between when utility services are rendered and when revenue is received for those services) being greater than its average expense lag (the time between when suppliers render services to SoCalGas and when SoCalGas pays for those services). Consequently, SoCalGas' investors are required to fund the operating cash needed during the net lag days (net of revenue and expense lags). The sum of the net operational cash requirement and the lead-lag requirement results in the total working cash allowance.

Table KC4, below, summarizes the working cash required for SoCalGas' recorded year 2016 and forecasted TY 2019.

[1] Determination of Working Cash Allowance, SP U-16-W, March 2006, p. 1-2 ("Its purpose is to compensate investors for funds provided by them which are permanently committed to the business for the purpose of paying operating expenses in advance of receipt of offsetting revenues from its customers and in order to maintain minimum bank balances.").

[2] *See* SP U-16-W, March, 2006, Chapter 3, section 1, which compares the detailed method to the simplified method (defined in Chapter 2, section 1). It states: "The detailed basis of determining working cash allowance is normally referred to as the 'weighted average or lead-lag days' method. Fundamentally, the same principles apply for the detailed basis as for the simplified basis. That is, first the operational requirement is determined and then amounts of monies available through tax accruals and other funds not supplied by the investor are deducted from the operational requirement."

III. SOCALGAS' WORKING CASH DETERMINATION

A. Working Cash Requirement for Balance Sheet Accounts

Working cash requirements for the in-scope balance sheet accounts (*see* Table KC4, below) were quantified by calculating the weighted-average 2016 account balances using a mid-month convention, and then escalating to 2019 dollars. Specifically, SoCalGas identified those account balances that 1) are necessary for the utility to operate economically and efficiently, and 2) do not bear interest or other carrying costs recovered elsewhere from customers. SoCalGas then calculated the sum of the monthly ending balances from December 2015 through December 2016, less one-half of each December balance, divided by 12. This practice of averaging month-end balances for determining the balance sheet related working cash allowance is outlined in Chapter 3 of SP U-16. These balances were escalated to 2019 dollars using the shared services escalation factor index, which reflects the weighted-average of labor and non-labor Operations & Maintenance (O&M) indexes, as noted in the escalation testimony of Scott R. Wilder (Ex. SCG-40).

B. Working Cash Requirements for Income Statement Accounts

Working cash requirements for income statement accounts were determined by performing a lead-lag study. The lead-lag study consists of two major components: revenue lag and expense lag.

1. Revenue Lag

Revenue lag is the average number of days between the midpoint of all utility customers' monthly service periods and receipt of payment by SoCalGas (line 1 of Table KC3, below). Because SoCalGas customers pay for all categories of service with a single bill, the lead-lag study uses a single value for revenue lag days.

2. Expense Lag

Expense lag is the number of days between the time the utility incurs its expenses and the time it pays its suppliers (*see* columns a and b of Table KC2, below). Because SoCalGas pays separately for each expense category, each category has its own value for lead-lag days. The expense lag analysis reflects 2016 recorded expenses and the associated average expense lag days. To determine the number of expense lag days, SoCalGas analyzed 12 months of invoices from 2016 for the types of expenses forecasted in the GRC (*e.g.*, accounts payable records, O&M expenses, payroll expense, taxes, and benefits).

The method described below applies to both non-commodity expenses and commodity purchases. The weighted-average number of expense lag days for each category was derived by the following process:

- For the total population of invoices for 2016, identified the lag days for each expense category by comparing the service date (defined as either the date service was provided or the midpoint of the service period) to the date cash payment was made;
- For each category, multiplied the lag days by the associated dollar amount of the payment. This resulted in "dollar-days;" and
- Summed the dollar-days for each category and divided the subtotal by the total of the 2016 payment amounts.

The overall weighted-average number of expense lag days for all non-commodity account categories was calculated, and applied to the total 2019 O&M costs forecasted in the GRC, using the following steps:

- Multiplied total 2016 expenses for each category by total lag days, generating dollar-days (column c in Table KC2, below);
- Summed dollar-days and total expenses for all categories (except commodities); and
- Divided total dollar-days by total expenses to determine non-commodity weighted-average lag days (*see* line 18 of Table KC2, below).

Non-commodity weighted-average lag days were multiplied by total forecasted 2019 O&M costs, plus forecasted deferred taxes, franchise fees on commodities, pass-through taxes, and refundable program costs, again generating dollar-days (*see* "All Other Expenses" on line 4 of Table KC3, below). For commodity purchases, specific, rather than weighted-average expense lag days were applied to the forecasted dollars to generate dollar-days.

The total of Commodity and All Other Expenses dollar-days was divided by total forecasted expenses to determine overall weighted-average expense lag days (*see* line 5 of Table KC3, below).

In the last step of the lead-lag study, the overall weighted-average expense lag days were subtracted from revenue lag days to get net revenue lag days (*see* line 6 of Table KC3, below), representing the average number of days between payment of expenses and collection of revenue. This value was then multiplied by total forecasted expenses and divided by 365 days to

determine the total working cash requirement associated with revenue and expenses (*see* line 7 of Table KC3, below).

C. Derivation of the Total Working Cash Requirement

The total working cash allowance was determined by adding the balance sheet related working cash requirements to the lead-lag related working cash requirements (*see* line 10 of Table KC4, below).

IV. SUMMARY REPORTS

Table KC2 summarizes 2016 expense lag days, commodity expenses, non-commodity expenses, and associated dollar-days by expense category. The overall 2016 weighted-average non-commodity expense lag days are 25.7 days. These values were developed to apply against 2019 expense forecasts.

TABLE KC2
Test Year 2019, 2016 Expense Lag Days, Recorded Expenses, and Dollar-Days ($000)

Line No.	Description	[a] Expense Lag Days	[b] Total Company Expenses	[c] Total Company Dollar-Days [a]*[b]
	Commodity Expense:			
1	Purchased Gas Costs	41.58	$ 956,791	$ 39,783,388
	Non-Commodity Expense:			
2	Payroll Expense	13.05	$ 597,759	$ 7,799,671
3	F.I.C.A.	12.38	43,071	533,422
4	Federal/State Unemployment Insurance	76.05	1,775	135,002
5	Incentive Compensation Plan	257.50	39,175	10,087,678
6	Employee Benefits	15.84	228,922	3,626,127
7	Goods & Services	34.00	586,584	19,943,864
8	Payments by Corporate Center	21.15	97,389	2,060,194
9	Real Estate Rental	(21.28)	16,133	(343,308)
10	Materials Issued from Stores	-	12,954	-
11	Property/Ad Valorem/Pass-Through Taxes	87.06	257,358	22,405,603
12	Federal Income Taxes--Current	(255.20)	(745)	190,181
13	CA Corporate Franchise Taxes	(66.25)	41,807	(2,769,701)
14	Depreciation Provision	-	463,398	-
15	Amortization of Insurance Premiums	-	30,108	-
16	Federal Income Taxes - Deferred	-	60,295	-
17	**Total Non-Commodity Expenses**		**$ 2,475,985**	**$ 63,668,734**
18	**Weighted Average Non-Commodity Expense Lag Days**		**25.71**	[17c/17b]

Note: Values may not add to totals and may differ from Results of Operations model due to rounding.

Table KC3 summarizes 2016 revenue lag days; weighted-average expense lag days for energy commodity and non-commodity expense categories; 2019 forecasted commodity and

non-commodity expenses; associated dollar-days; overall weighted-average expense lag days; net revenue lag days; and the resulting total 2019 lead-lag working cash requirement of $162.6 million.

TABLE KC3
Test Year 2019 Summary of Lead-Lag Study
($000)

Line No.	Description	[a] 2016 Expense Lag Days	[b] 2019 Expense Forecast	[c] 2019 Calculated Dollar-Days [a]*[b]
1	**Revenue**	44.49		
2	**Expenses**			
3	Commodity Purchases - Core Gas	41.58	$ 980,961	$ 40,788,366
4	All Other Expenses	25.71	3,009,943	77,399,218
5	Total Expenses - a: c/b; b&c: (3+4)	29.61	$ 3,990,904	$ 118,187,585
6	**Net Revenue Lag Days** [1a-5a]	14.88		
7	**Total Lead-Lag Working Cash Requirement** [5b*6a/365]		**$ 162,644**	

Note: Values may not add to totals and may differ from Results of Operations model due to rounding.

Table KC4 summarizes 2016 and forecasted 2019 balance sheet sources and uses of working cash, lead-lag working cash requirements, and total working cash requirements of $169.1 million.

TABLE KC4
Test Year 2016 Summary of Working Cash Requirements
($000)

Line No.	Description	2016 As-Recorded	2019 Requirement
	Balance Sheet Account Uses of Working Cash		
1	Cash Balances	$ 4,264	$ 4,560
2	Other Receivables	83,284	89,073
3	Prepayments	36,176	38,690
4	Deferred Debits	103,488	110,681
5	Sub-total Balance Sheet Account Uses of Working Cash	227,212	243,004
	Balance Sheet Account Sources of Working Cash		
6	Employee Withholdings	(1,057)	(1,130)
7	Current and Accrued Liabilities	(220,099)	(235,395)
8	Sub-total Balance Sheet Account Sources of Working Cash	(221,156)	(236,525)
9	Net Balance Sheet Account Working Cash Requirement [5+8] *	$ 6,057	$ 6,478
	Lead/Lag Working Capital Requirement **		$ 162,644
10	**Total Working Cash Requirement**		**$ 169,123**

Note: Values may not add to totals and may differ from Results of Operations model due to rounding.

* Proposed 2019 amount is derived by escalating the 2016 recorded value using the shared service index.

** Proposed 2019 working cash requirement is from the previous table (Table SCG-KCC-3).

V. WORKING CASH DETAILS

This section contains additional details about each account used in the development of SoCalGas' 2019 GRC working cash request.

A. Balance Sheet Accounts

These categories provide an overview of the main components of each operational cash requirement. For a full list of all the components, *see* Schedule P and Schedule P Detail in my workpapers.

1. Operational Cash Requirements

These accounts represent cash supplied by investors, and establish the working cash requirement.

a. Cash Balance – This represents a reasonable bank balance for SoCalGas to operate economically and efficiently. (*See* line 1 of Table KC4)

b. Other Receivables – This category includes sundry billing, A/R gas sales hub & swap and other third party receivables (including claims) and miscellaneous receivables, such as A/R from new business, customer unallocated collections, Miscellaneous Sales, Rentals and Jobbing, and Unallocated Charges, as well as receivables from other services. (*See* line 2 of Table KC4)

- SoCalGas' sundry billing process addresses customer requested construction projects, governmental programs, and marketing services. Receivables for such activity remain on the books until payment is received from a third party. SoCalGas does not charge interest on the balances.
- A/R Gas Sales Hub & Swap contains pending receivables from Hub & Swap transactions. SoCalGas does not charge counterparties interest on accounts receivable balances.

c. Prepayments – This category includes accounts that SoCalGas uses to make prepayments, which do not earn interest on the balances. These accounts include prepaid insurance, prepaid software, deferred debit sundry (unbilled work performed on behalf of third parties), and emissions credits (credits bought by SoCalGas on behalf of its customers). (*See* line 3 of Table KC4)

d. Deferred Debits – These accounts include deferred emissions credits and survey and investigation costs (costs incurred on potential capital projects, before they are added to

construction work in progress and earn Allowance for Funds Used During Construction (AFUDC)). (*See* line 4 of Table KC4)

2. Working Capital Not Supplied by Investors

The following accounts represent cash supplied by sources other than utility investors, and thus reduce the working cash requirement.

a. Employee Withholdings – This category includes the employee paid portion of benefits costs and taxes. (*See* line 6 of Table KC4)

b. Current and Accrued Liabilities – These accounts include Workers' Compensation Reserves, Emissions Liabilities, the Invoice Received Clearing account, Accrued Vacation, and CPUC Fees. (*See* line 7 of Table KC4)

- Workers' Compensation Reserves represent estimated future costs payable to employees for work-related injuries incurred. This amount was tax effected at a rate of 40.75%[3] to reflect the fact that the revenues collected are taxed in the year received, and only a portion of this is available as working cash.
- Emissions Liabilities represent emission credits that are surrendered.
- The Invoice Received Clearing account includes accounts payable for purchased materials that have been received and will be capitalized, but for which the company has not yet received a corresponding invoice.
- Accrued Vacation was included as a reduction in accordance with Chapter 3, section 25 of SP U-16.
- CPUC Fees are the unpaid amounts owed to the CPUC.
- Customer Deposits are excluded as a working cash item because the utility pays interest at the Federal Reserve published prime non-financial 3-month commercial paper rate. This treatment is consistent with SP U-16 whereby interest bearing accounts are excluded from working cash. SoCalGas is applying the same methodology it has advocated in past GRCs. SP U-16 states under the Customers' Deposits heading that "Only non-interest bearing customer deposits are to be considered" (*see* Chapter 3, Section 22). Furthermore, the Customer Deposit balance can decrease depending upon the economy and building demand, and these balances do not have the same characteristics as permanent sources of financing.

[3] SoCalGas' testimony as submitted here did not incorporate the lower tax rate related to the enactment of the Tax Cuts and Jobs Act of 2017. With the updated rate of 27.98%, SoCalGas' working cash requirement will be lower by $9.2 million. This adjustment will be reflected at a later point.

- Public Liability and Property Damage (PLPD) reserves are excluded as a working cash item because SoCalGas is not requesting recovery of PLPD reserves in the GRC.

B. Income Statement Accounts (Lead-Lag Working Cash Requirements)

1. Revenue Lag

This is found on line 1 of Table KC3 above, and Schedule C of the workpapers. The year 2016 actual of 44.5 lag days is comprised of the following:

a. Meter reading lag (15.2 days) is calculated from the midpoint of each month's consumption to when the meter is read. Meters are read 12 times a year, so the average time between the meter reading periods is 30.4 days (365/12). This study assumes that service is rendered evenly before and after the meter is read, which results in an average lag of 15.2 days.

b. Billing lag (2.6 days) reflects the time from the date the meter is read until the time the bill is prepared and mailed to the customer. SoCalGas performed a detailed query of all meters read in 2016, which resulted in 2.6 lag days.

c. Collection lag (25.7 days) is based on the accounts receivable turnover for 2016, which is calculated by dividing annual revenues by the adjusted average monthly accounts receivable balance. Revenue collection lag is equal to 365 days divided by the average annual accounts receivable turnover.

d. Bank lag (1.0 day) describes the amount of days between the in-flow of funds and when those funds are made available.

2. 2016 Expense Lag Categories

a. Purchased Commodities, Gas – The ratemaking mechanisms associated with these costs presume collection of revenues as supply is consumed and payment of expenses when supply is delivered. Therefore, this line item is necessary to recover a working cash allowance for the net revenue lag associated with commodity purchases. The 2016 purchased gas costs were derived by summing the net payments made each month for Transportation payments, California payments, Interstate payments, and Secondary Market Services.[4] Lag days reflect the

[4] Transportation payments included capacity and transportation costs from several pipelines to transport gas to our system. California payments include payments to three California producers that supply gas from oil productions. Interstate Payments include proceeds and expenditures from gas suppliers for SCG and SDG&E core.

weighted-average of all net gas commodity payments. Each category has the total invoice amounts and its corresponding dollar weighted days. These dollar-days were calculated by multiplying the invoice amount by the number of lag days. The total dollar-days for all the categories were divided by the total invoice amounts to determine the number of lag days for this category. *See* line 1 of Table KC2 for summarized information, or *see* workpaper Schedule D for more detail (Ex. SCG-38-WP).

- As proposed by TURN and agreed to by SoCalGas in its 2016 GRC, SoCalGas will unbundle the commodity-related working cash from distribution to sales for rate recovery purposes. [5]

b. Payroll Expense – This category includes O&M and the O&M portion of clearing and refundable labor costs. Payroll expenses are incurred every other Friday and have 12.4 lag days. Withholding taxes are paid the day before payday to the outsourcing company that makes all tax payments on behalf of SoCalGas, and therefore the resulting net lag is 13.4 lag days. *See* line 2 of Table KC2, or workpaper Schedule E for more detail.

c. Federal Insurance Contributions Act Tax (FICA) – As with the tax portion of payroll expenses above, FICA (which includes Old-Age, Survivor's, and Disability Insurance ["OASDI"] and Medicare) expenses are paid the day before payday to SoCalGas' payroll outsourcing company. *See* line 3 of Table KC2, or workpaper Schedule F for more detail.

d. Federal Unemployment Tax Act (FUTA) and State Unemployment Insurance (SUI) – These costs are paid electronically to SoCalGas' payroll outsourcing company one month after each quarter end. This study reflects both FUTA and SUI, net of capital. *See* line 4 of Table KC2, or workpaper Schedule F for more detail.

e. Incentive Compensation Plan (ICP) – This compensation is earned and reflected as an expense in the preceding year (2016), but paid out in 2017. *See* line 5 of Table KC2, or workpaper Schedule G for more detail.

f. Employee Benefits – *See* line 6 of Table KC2, or workpaper Schedule H for more detail.

g. Goods and Services – The Goods and Services expense amount includes other expenses that have not been identified separately on the lead-lag study, such as Inventory, Small

[5] A.14-11-004, Ex. 229 SCG/Foster at 16.

Price Difference, and Goods Received/Invoice Received. *See* line 7 of Table KC2, or workpaper Schedule I for more detail.

h. Payments by Corporate Center – SoCalGas pays for its share of expenses incurred by Corporate Center on behalf of the utility. The lead-lag days from corresponding expense categories in this lead-lag study are applied to Corporate Center payments to calculate overall lag days. *See* line 8 of Table KC2, or workpaper Schedule J for more detail.

i. Real Estate Lease Payments – Leases are paid in advance. The overall expense lag is negative because payments are made prior to the midpoint of the occupancy period. *See* line 9 of Table KC2, or workpaper Schedules K-1, K-2 and K-3 for more detail.

j. Materials Issued from Stores – This category includes materials issued for O&M, such as tools, pipes and other material. *See* line 10 of Table KC2, or workpaper Schedule L for more detail.

k. Property/Ad Valorem/Pass-through Taxes – Most of these payments are made electronically. This category includes property/ad valorem taxes, franchise fees, and pass-through taxes collected on behalf of government agencies.

Although pass-through taxes do not flow through the income statement, they are a source of working cash and are appropriately included in the lead-lag study.[6] The taxes are collected from ratepayers, and payments are made later to taxing authorities. *See* line 11 of Table KC2, or workpaper Schedules Ma and Mb for more detail.

l. Federal Income Taxes, Current – Tax expense lags are based on statutory due dates: April 15 of each year for the first quarter, June 15 for the second quarter, September 15 for the third quarter, and December 15 for the fourth quarter. The tax lag days of each payment are calculated between the midpoint of the year and the wire payment date. Federal Income Taxes also include tax refunds, which result in negative lag days. These were funds held by the IRS instead of SoCalGas and therefore result in negative lag days. *See* line 12 of Table KC2, or workpaper Schedule N-1 for more detail.

m. California Corporate Franchise Taxes, Current – Tax expense lags are based on statutory due dates of April 15, June 15, and December 15. The method of calculating the lag days is the same, although the dollar weighting is different. California Franchise Taxes also

[6] CPUC Standard Practices U-16-W, March, 2006, Chapter 3, section 27.

include tax refunds, which result in negative lag days. *See* line 13 of Table KC2, or workpaper Schedule N-2 for more detail.

n. Depreciation – When a capital investment is made, the expense of the investment is allocated systematically and periodically over the life of the investment through depreciation expense. Capital investments are included as rate base and therefore should not be included as part of working cash. Depreciating an asset over its useful life allows the timing of the expense recognition to closely match that of the use of the asset. Therefore, the lag associated with depreciation expense should be set to zero as it is assumed that depreciation expense occurs when the use of the asset occurs. CPUC standard practices endorse this treatment.[7]

Revenue lag exists between the time the depreciation is recognized and the time customers' revenue is received for that depreciation. This lag is captured as part of the revenue lag forecast. *See* line 14 of Table KC2, or workpaper Schedule O-2 for more detail.

o. Amortization of Insurance Premiums – Amortization is weighted at zero days recognizing that investor funding has occurred but has not yet been recovered. *See* line 15 of Table KC2, or workpaper Schedule O-3 for more detail.

p. Federal/State Income Taxes, Deferred – This amount reflects the change of deferred federal and state taxes in 2016. Accumulated deferred income taxes (ADIT) are deducted from rate base as cost-free funds available for investment. However, the financial recording of deferred income taxes does not produce cost-free capital and the funds do not become available until customers pay their bills. Therefore, the recorded amount of ADIT overstates the actual amount of cost-free funds that are available. The inclusion of deferred income taxes at zero lag days in the overall expense lag weighted-average corrects this condition by increasing net revenue lag, in the same manner as Depreciation, described above.[8] *See* line 16 of Table KC2, or workpaper Schedule O-1 for more detail.

[7] CPUC Standard Practices U-16-W, March, 2006, Chapter 3, section 40: "Since book depreciation expense is occurring uniformly day by day and accumulated depreciation is deducted from the rate base, the practice is to include depreciation provisions at zero lag days."

[8] CPUC Standard Practices U-16-W, March, 2006, Chapter 3, section 45.

3. TY 2019 Forecasted Expense Components

Forecasted expenditures for commodity costs, O&M non-commodity costs, franchise fees on commodity costs, pass-through taxes, and balancing account costs are utilized in the working cash computation. *See* line 5 of Table KC3, or workpaper Schedule B-1 for more detail.

a. TY Forecasted Commodity Costs – For commodity costs, 2016 actual weighted-average number of lag days is applied to forecasted 2019 costs. Forecasted gas costs are computed by multiplying the forecasted 2019 monthly demand by the monthly weighted-average cost of gas (WACOG). The monthly WACOG reflects purchase and interstate transportation costs. See line 3 column b of Table KC3.

b. Other TY Non-Commodity Costs – The 2016 overall weighted-average number of lag days for expenses excluding commodities is applied to projected test year O&M expenses. This category includes non-commodity O&M expenses, deferred income taxes, franchise fees on commodity, pass-through taxes, and refundable program costs. See line 4 column b of Table KC3.

VI. CONCLUSION

The foregoing testimony describes the methodology used by SoCalGas to arrive at a total TY 2019 working cash request requirement of $169.1 million. SoCalGas' methodology of determining the net operational cash needs and the lead-lag working cash requirements is reasonable as it is based on the guidance outlined in SP U-16, is supported by a comprehensive analysis of recorded information, and is consistent with the approach used by SoCalGas in past GRCs.

For all of the reasons stated above, SoCalGas' total 2019 working cash requirement of $169.1 million is reasonable and appropriate.

This concludes my prepared direct testimony.

VII. WITNESS QUALIFICATIONS

My name is Karen C. Chan, and my business address is 555 West 5th Street, Los Angeles, CA 90013-1011. I am the Utility Accounting Manager for SoCalGas.

I have been employed by SoCalGas since February 2013. I have been in the Utility Accounting department since July 2017 and am responsible for overseeing the processing of financial accounting transactions and the preparation of related financial statement disclosures. Prior to my current position, I was in the Financial and Strategic Analysis department where I was responsible for overseeing the financial analysis and development of revenue requirements in support of new investment opportunities.

Prior to joining SoCalGas, I was employed with Sempra Energy where I held positions of increasing responsibility in Audit Services. Prior to Sempra Energy, I was employed by Deloitte & Touche, LLP as an auditor.

In my career, my roles have included conducting financial statement and internal controls audits and reviews; conducting fraud interviews and walk-throughs of business cycles; risk assessing financial and operational processes in areas such as inventory management, cash controls, natural gas trading, and capital project management; and I have provided financial expertise for regulatory concepts including revenue requirement, return on rate base, and rate recovery to aid clients with decision making and business case development.

I received a Bachelor of Science degree in Accounting from California State Polytechnic University, Pomona in 2008 where I graduated summa cum laude. I am a Certified Public Accountant and a Certified Internal Auditor.

I have not previously testified before the Commission.

APPENDIX A - [GLOSSARY OF TERMS]

DEFINITION OF ACRONYMS USED IN THIS TESTIMONY

ADIT:	accumulated deferred income tax
A/R:	Accounts Receivable
CA:	California
CAC:	Customer Advances for Construction
CAISO:	California Independent System Operator
CPUC:	California Public Utilities Commission
Ex.:	Exhibit
FICA:	Federal Insurance Contributions Act
FUTA:	Federal Unemployment Tax Act
GRC:	General Rate Case
ICP:	Incentive Compensation Plan
NOI:	Notice of Intent
OASDI:	Old Age, Survivors, and Disability Insurance
O&M:	Operations and Maintenance
PBOPs:	Postretirement Benefits Other Than Pension
PLPD:	Public Liability and Property Damage
SDG&E:	San Diego Gas & Electric Company
SCG:	Southern California Gas Company
SoCalGas	Southern California Gas Company
SP:	Standard Practice
SUI:	State Unemployment Insurance
TY:	Test Year
WACOG:	Weighted Average Cost of Gas
WP:	Workpaper

SCG 2019 GRC Testimony Revision Log – April 2018

Exhibit	Witness	Page	Line	Revision Detail
SCG-38	*Karen Chan*	*KCC-ii*		*Changed 2019 working cash requirement from $179.8 to $169.1*
SCG-38	*Karen Chan*	*KCC-1*	*4-9*	*Added Introduction paragraph.*
SCG-38	*Karen Chan*	*KCC-1*	*15*	*Changed $179.8 to $169.1*
SCG-38	*Karen Chan*	*KCC-1*	*TABLE KC1*	*Changed Lead-Lag Working Cash Requirement from $173.3 to $162.6* *Updated footnote related to rounding.*
SCG-38	*Karen Chan*	*KCC-7*	*1*	*Changed $173.3 to $162.6*
SCG-38	*Karen Chan*	*KCC-7*	*TABLE KC3, Line 4*	*Changed 2019 All Other Expenses from $3,217,718 to $3,009,943* *Updated footnote related to rounding.*
SCG-38	*Karen Chan*	*KCC-7*	*TABLE KC3, Line 7*	*Changed Lead/Lag Working Capital Requirement from $173,332 to $162,644*
SCG-38	*Karen Chan*	*KCC-7*	*11*	*Changed $179.8 to $169.1*
SCG-38	*Karen Chan*	*KCC-8*	*TABLE KC4*	*Changed Lead/Lag Working Capital Requirement from $173,332 to $162,644*
SCG-38	*Karen Chan*	*KCC-10*	*Footnote*	*Added Footnote 3*
SCG-38	*Karen Chan*	*KCC-15*	*17*	*Changed $179.8 to $169.1*
SCG-38	*Karen Chan*	*KCC-15*	*23*	*Changed $179.8 to $169.1*