Company: Southern California Gas Company (U 904 G)
Proceeding: 2024 General Rate Case
Application: A.22-05-015/-016 (cons.)
Exhibit: SCG-245-E

REBUTTAL TESTIMONY OF

SARA P. MIJARES

(POLITICAL ACTIVITIES BOOKED TO RATEPAYER ACCOUNTS)

ERRATA

BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

~~May~~June 2023

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I. SUMMARY OF DIFFERENCES

TOTAL O&M Constant 2021 ($000)				
	Base Year 2021	**Test Year 2024**	**Change**	**Change from SoCalGas**
SOCALGAS	93,318	125,548	32,230	-
CAL ADVOCATES	93,318	46,340	(79,208)	63.1%

* Represents total company proposed reductions.

SOCALGAS Constant 2021 ($000)	**SoCalGas TY 2024 Estimated**	**Cal Advocates TY2024**	**Change from SoCalGas**
SCG-04 (2GD011) Regional Public Affairs[1]	3,970	794	(3,176)
SCG-12 Clean Energy Innovations	47,223	9,445	(37,778)
SCG-16 Customer Services - Information[2]	27,177	5,435	(21,742)
SCG-29 Administrative & General[3]	47,178	30,666	(16,512)
Total	**125,548**	**46,340**	**(79,208)**

[1] Due to errors discovered for Regional Public Affairs in the course of SoCalGas's review or when responding to various data requests, SoCalGas corrects its Base Year (BY) 2021 value from $3.982 million to $3.845 million and its Test Year (TY) 2024 operations & maintenance (O&M) forecasted value from $4.107 million to $3.970 million to reflect these corrections.

[2] A reduction to the base year 2021 and TY 2024 forecast presented in testimony is being made in the amount of $48,000 to reflect the revision previously made in August to Exhibit (Ex.) SCG-16-WP-R, at 6.

[3] Due to errors discovered and in the course of SoCalGas's review or when responding to various data requests, SoCalGas corrects its Test Year (TY) 2024 O&M forecasted value from $47.249 million to $47.178 million to reflect these corrections.

II. INTRODUCTION

This rebuttal testimony addresses the testimony from the Public Advocates Office of the California Public Utilities Commission (Cal Advocates) as submitted by Stephen Castello (Ex. CA-23), dated March 27, 2023.[4]

As shown in direct testimony, SoCalGas's costs in the areas in question are based on sound estimates of its revenue requirements at the time of testimony preparation and reflect the exclusion of Political Activities.[5] Cal Advocates provides no testimony disputing the facts or accuracy of the Regional Public Affairs, Clean Energy Innovations, Customer Services – Information, and Administrative & General needs assessment and analysis presented in the respective direct testimonies, upon which SoCalGas TY 2024 forecast is based. Instead, Cal Advocates makes numerous policy arguments throughout its testimony about campaigns related to the "continued use of natural gas"[6] as opposed to electric options. SoCalGas disagrees with Cal Advocates' policy contentions, however, these issues are not appropriate for this venue and accordingly, I will not be addressing these policy claims in my testimony.[7]

SoCalGas is not aware—and Cal Advocates does not point to any decision—that the Commission has predetermined that electrification is the singular pathway to decarbonize the State's complex and changing energy needs now and in the future. Notwithstanding, there must be a transparent formalized procedural process to identify and address the consequences of any predetermination that electrifying all end uses is the sole and best way to achieve decarbonization. Any process should include whether limiting energy resource diversity to the exclusion of other potential, beneficial pathways is the optimal approach to provide Californians with safe, reliable, resilient, and

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4 March 27, 2023, Public Advocates Office Report of Stephen Castello on Political Activities Booked to Ratepayer Accounts, Ex. CA-23C (Castello).

5 For the purposes of this testimony, "Political Activities" refers to those expenditures for certain civic, political and related activities as defined by Federal Energy Regulatory Commission (FERC) account 426.4. See 18 CFR § 367.4264. Cal Advocates also now agrees that FERC Account 426.4's definition of Political Activities is the appropriate definition. Ex. CA-23C (Castello) at 1, n.2.

6 Ex. CA-23C (Castello) at 4.

7 *See* Overall Policy testimony, Ex. SCG-01 (Brown) and Ex. SCG-201 (Brown). Also *see* Climate and Sustainability Policy testimony, Ex. SCG-02 (Peress/Sim) and Ex. SCG-202 (Niehaus/Arazi).

affordable service in the midst of significant impacts from climate change. Such consideration should include, among other things, customer impacts, costs, how switching fuel sources will be paid for (who will pay them), and effects on energy system stability.

Moreover, SoCalGas has an obligation to provide safe and reliable gas service to its core customers found in statute.[8] SoCalGas shares the goal to decarbonize the integrated electric and gas grids in a comprehensive manner that can result in thoughtful, fact-based determinations within these legal bounds. Such a planning process can provide the right venue where the complexity of these significant issues can be worked through rather than ignored.[9] If addressed in this venue, since these are procedural and legal issues, they will be addressed, if needed, in appropriate legal briefing or other pleadings.

Instead, this testimony will address the inadequacies of evidentiary support for Cal Advocates' recommended adjustment of approximately $80 million from SoCalGas's total request based on Cal Advocates' claims that SoCalGas improperly charged ratepayers for lobbying and other Political Activities.[10]

Furthermore, the absence of a response to any particular issue in this rebuttal testimony does not imply or constitute agreement by SoCalGas with the proposal or contention made by this or other parties. The forecasts contained in SoCalGas's direct testimony, performed at the project level, are based on sound estimates of its revenue requirements at the time of testimony preparation.

III. SUMMARY OF REBUTTAL

Cal Advocates' testimony, Ex. CA-23C (Castello), recommends the following adjustments:[11]

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8 *See* Pub. Util. Code §§ 451, 328.2, and 963.

9 *See* e.g., R.20-01-007.

10 Ex. CA-23C (Castello) at 1-2.

11 *Id.* at 2. Dollar amounts provided here are as shown in Ex. CA-23C (Castello) thus they do not reflect the impacts from errors identified in SoCalGas exhibits.

- "An 80% disallowance for the estimated total TY costs of $4.107 million associated with the Regional Public Affairs organization described at SCG-04-R, Aguirre;
- An 80% disallowance for the estimated total TY costs of $47.223 million associated with the Clean Energy Innovations organization described at SCG-12-R, Infanzon;
- An 80% disallowance for the estimated total TY costs of $27.227 million associated with the Customer Services – Information organization described at SCG-16, Prusnek;
- A 35% disallowance for the estimated total TY costs of $47.249 million in Administrative and General costs described at SCG-29-R, Mijares."

Cal Advocates' testimony argues in Ex. CA-23C (Castello), at 2, lines 19-23, that it is only fair to assume costs associated with Political Activities[12] are imbedded in historical costs and improperly included in the General Rate Case (GRC) request because SoCalGas has not shown that the costs of its Political Activities have been removed from the GRC request. On the contrary, when all the facts and evidence are taken into consideration, including evidence Cal Advocates introduced here and obtained pursuant to an almost four-year "non-proceeding" informal investigation, it shows that Cal Advocates' arguments and conclusions are flawed and thus their conclusions should be rejected. Specifically, Cal Advocates' testimony and conclusions:

- inappropriately focus on select activities from 2017-2019 while failing to acknowledge the full information and evidence provided by SoCalGas over the

[12] In response to Cal Advocates' data request PAO-SCG-019-BKZ, Introductory Statement (*see* Appendix B), SoCalGas objected to Cal Advocates' terms "lobbying" and "lobbying services" as vague and ambiguous in addition to the request seeking information about "lobbying" as that term may be used for any other purpose than accounting. Rather, SCG noted for CPUC accounting purposes, the Federal Energy Regulatory Commission (FERC) definition of lobbying applies. The California Public Utilities Commission referenced the below-the-line FERC Account 426.4, noting that "SoCalGas and DRA [Public Advocates Office's predecessor] agree that Account 426.4 is the authority for defining lobbying activities that should not be funded by ratepayers." Furthermore, SoCalGas cites the FERC definition of lobbying excludes activities "directly related to public appearances before regulatory or other governmental bodies in connection with a utility's existing or proposed operations." *See* Title 18 Code of Federal Regulations (CFR) Part 367.4264(b).

past three years on the policies, controls, governance and GRC exclusion process that the Company has implemented/enhanced to record Political Activities to Federal Energy Regulatory Commission (FERC) 426.4 since 2020;

- ignore (1) the adjusting entry made to historical 2017-2020 labor based on actual Political Activities incurred in 2021, and (2) the detailed review of the non-labor expenses as part of SoCalGas's GRC process;
- ignore that many of the cost centers at issue utilized a base year 2021 forecast method;
- ignore the fact that their own auditors found "no recommended adjustments to SCG's O&M Expense" as a result of their, examination of Administrative and General expenses Ex. CA-19 (Chia/Lee), at 1[13];
- fail to specify any methodology or explain how it arrived at its proposed reductions; and
- ignore the detrimental effect to SoCalGas's fundamental work as a utility and the negative impact to ratepayers (e.g., jeopardize public safety by limiting SoCalGas's ability to communicate with local governments, first responders; limit customer support; limit development and implementation of innovative technologies that support California's climate policy goals; and limit ability to maintain internal controls and compliance with financial, regulatory and legal requirements).

Cal Advocates' testimony fails to quantify or provide a calculation or methodology supporting its recommendation for reductions of 80% or 35%. Cal Advocates' response to SoCalGas's data request (*see* Appendix D) confirmed that there is no methodology or support for Cal Advocates' proposed percentage reductions. The resulting \$80 million reduction appears to be arbitrary, is substantially higher than the labor and non-labor Political Activities costs tracked

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13 March 27, 2023, Report on the Results of Operations for…Southern California Gas Company Test Year 2024 General Rate Case of Sophie Chia and Joyce Lee, Ex. CA-19 (Chia/Lee) the "examination addresses: (1) SCG's and SDG&E's recorded historical data used in connection with forecasting the revenue requirement in their current applications; (2) recommended adjustments related to forecast years; and (3) compliance issues."

by SoCalGas in 2021 and 2022 and ignores the adjustments SoCalGas already made to historical costs.

FERC Account 426.4 is where SoCalGas records costs associated with civic and political activities (as defined by the FERC Uniform System of Accounts (USofA)). These costs are "below-the-line" and the forecasts for the areas in question reflect that these costs were excluded from the GRC. SoCalGas prepares and annually files with the Commission its FERC Form-2. The FERC Form-2 reports the costs that are recorded to various FERC Accounts, including FERC Account 426.4. As noted in the FERC Form-2[14], the costs recorded to FERC Account 426.4 since SoCalGas enhanced its Political Activities policies, training and governance were as follows:

TABLE SM-1
426.4 FERC Form 2 Results 2020-2022

Report	2020	2021	2022
FERC Form-2 Total[15]	$ 8,040,508	$ 10,080,718	$ 12,147,722
Labor	$ 365,623	$ 1,145,872	$ 1,054,981
Non-Labor	$ 7,674,885	$ 8,934,845	$ 11,092,741

As shown in Table SM-1 above, the total dollars recorded to FERC Account 426.4 were approximately $12 million in 2022. This is substantially less than Cal Advocates' unsubstantiated proposed reductions of about $80 million. In addition to the dollars reported in the FERC Form-2 that are charged directly to FERC Account 426.4, SoCalGas has removed additional dollars from the GRC via manual adjustments as described in the GRC exclusion process below in section IV.C. Table SM-2 below provides a summary of the manual adjustments that were made by SoCalGas in the GRC related to FERC Account 426.4 activity.

TABLE SM-2
GRC Manual Exclusions Related to FERC Account 426.4

In Constant 2021					
2017	**2018**	**2019**	**2020**	**2021**	**2022**
$~~1,045,729~~	$~~1,271,514~~	$~~857,402~~	$~~928,917~~	$~~2,569,189~~	$~~266,521~~

14 SoCalGas provided the 2017-2021 FERC reports as part of the MDR Section A, Company Specific Requirements Question 10 on June 19, 2022.

15 The costs include both direct, overhead costs (e.g., pensions, benefits, and procurement) and inter-company billings.

1,551,287	1,634,803	1,354,728	1,157,771	3,189,267	298,853

Together, the automatic and manual exclusions processes developed and implemented by SoCalGas enables the removal of costs that should not be included for consideration in GRCs.

Finally, Cal Advocates' request that the proposed reductions be applied first, and then additional reductions from other Cal Advocates' testimony be applied is improper and would negatively impact the organizations, company and ratepayers. For example, Table SM-3 highlights the impact of applying both reductions to A&G and shows that the resulting forecast is significantly lower than (1) historical costs, (2) BY 2021 and (3) the SoCalGas request:

TABLE SM-3
Example of Cal Advocates' Proposed Reductions to a Portion of A&G

A&G Area	SoCalGas Forecast	Cal Adv-23 (Castello)	Cal Adv-14 (Amin)	Total CA Forecast	Change %
BSEP	$ 4,869	$ (1,704)	$ (1,492)	$ 1,673	-66%
Claims Payments & Recovery	$ 8,467	$ (2,963)	$ (1,940)	$ 3,564	-58%
Total A&G (Non-shared)	$ 47,246	$ (16,536)	$ (3,432)	$ 27,277	-42%

Cal Advocates' reductions would detrimentally impact Regional Public Affairs, Clean Energy Innovations, Customer Services – Information, and Administrative & General and would not allow the departments to fulfill the essential and required work that they perform, including but not limited to, providing field operation support (including during emergency incidents), activities to support California climate policy goals, customer support and communications, accounting functions, meeting regulatory and legal requirements, managing third-party claims and payments, activities to support and supporting internal and external stakeholders[16]. Refer to Table SM-8 below for the full effect of Cal Advocates' arbitrary and unsubstantiated reductions on the impacted organizations.

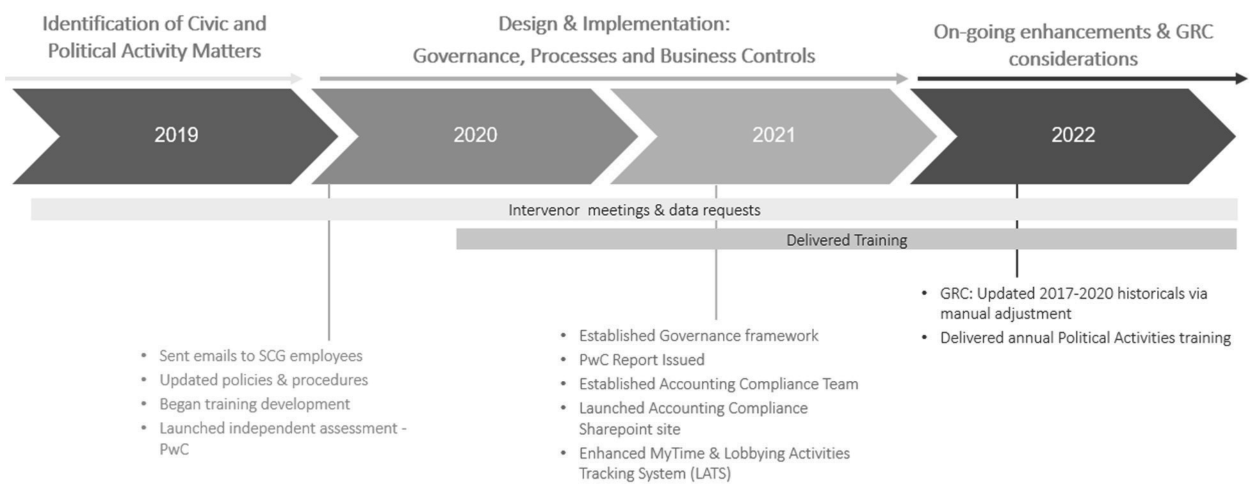
16 Ex. SCG-29-R (Mijares) at SPM-iv.

IV. REBUTTAL TO CAL ADVOCATES' O&M PROPOSALS

A. Cal Advocates' testimony ignores SoCalGas's policies, training and governance, which provide evidence substantiating the good faith effort of the Company to identify and track Political Activities

SoCalGas acknowledges that, historically, time spent on advocacy activities was not always consistently recorded correctly.[17] In 2020, SoCalGas began enhancing its policies, practices, procedures, governance, and internal controls to assist employees to more accurately record their time and expenses. SoCalGas has made a concerted and good faith effort to accurately track Political Activities in internal orders that settle to FERC Account 426.4 and also exclude the costs from the GRC manually if an error is identified as part of SoCalGas's GRC controls. These efforts have been communicated to Cal Advocates multiple times over the course of the past three years through in-person meetings and responses to data requests. SoCalGas disagrees with Cal Advocates' statement that the evidence shows that SoCalGas has made no meaningful effort over the years to accurately track employee lobbying activities.[18] Figure 1 shows the timeline of SoCalGas's efforts, described in response to data requests (*see* e.g., Appendix E):

FIGURE SM-1
Business Controls Journey



SoCalGas's efforts, which are described in detail, give the Company confidence that the historical costs, particularly the 2021 base year used by most of the organizations included in Cal

[17] *See* Appendix E for PAO-SCG-019-BKZ Question 10.

[18] Ex. CA-23 (Castello) at 25:12-14.

Advocate's testimony, are free from costs associated with Political Activities and the costs associated with the "campaigns" that Cal Advocates highlights in their testimony have not been included in SoCalGas's forecast[19]. Despite SoCalGas communicating and providing evidence of our good faith effort with Cal Advocates multiple times over the past three years, they appear to have ignored this evidence and focused their argument on four "campaigns" that occurred between 2017-2019.[20]

1. Cal Advocates' testimony ignores the evidence provided in data request responses provided over the past three years.[21]

Cal Advocates' workpapers are over 500 pages, most of which are data request responses over the past three years. Only two of the data requests, 39 pages, were obtained through GRC discovery. Conveniently missing from Cal Advocates' workpapers is SoCalGas's Supplemental Response to GRC data request PAO-SCG-019-BKZ, Question 10 (*see* Appendix E) that describes in great detail that during this time, "The Company has enhanced governance and designed and implemented policies, practices, procedures and internal controls that directly address the FERC and CPUC requirements that certain costs be recorded below-the-line"[22].

First, Sempra and SoCalGas revised their Political Activities Policy to include further guidance related to BTL accounting treatment. Additionally, the Company developed and issued the Political Activities Accounting procedure which documents the Company's detailed business processes and internal controls to assist employees to accurately record their time and expenses associated with BTL activities.

Second, the Company engaged PricewaterhouseCoopers in 2020 to perform an independent assessment of Civic, Political and Related Costs, as defined by FERC Account 426.4, for the period January 1, 2017, through December 31, 2019.[23] SoCalGas reviewed the PwC report, noted that the findings were consistent with the Company's observations and continued its efforts to enhance processes and internal controls associated with Political

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19 Ex. CA-23 (Castello) at 2-24.

20 *Id.* at 6-23.

21 *Id.* at 1, n.1.

22 Below-the-line as used herein typically refers to shareholder funded operating expenses whereas above-the-line refers to ratepayer funded operating expenses.

23 *See* Appendix C for SoCalGas's responses to Cal Advocates' data requests PAO-SCG-072-TBO, Question 1.

Activities. For example, SoCalGas established its Accounting Compliance group (Accounting Compliance) in 2021, with the directive to implement and enhance policies, procedures and business controls and facilitate training across the organization. Accounting Compliance also developed and delivered Political Activities training to approximately 750 employees between 2020-2021 and another approximate 580 employees in 2022. Accounting Compliance is composed of several employees focused (in part) on the distinction between above-the-line (ATL) and below-the-line (BTL) costs as defined by the FERC USofA. Accounting Compliance has direct interaction with the Company's senior management team, demonstrating the Company's commitment to compliance.

Prior to the GRC Application's filing, SoCalGas met with the Executive Director of Cal Advocates and other representatives on two occasions to inform them of our commitment to improving our controls, processes and governance related to civic and political activities. SoCalGas shared the PwC Report (described above) and walked them through the specific activities that the Company had undertaken over the course of the previous year and a half.

In addition, SoCalGas relied on our GRC exclusion process to identify and remove costs that should be excluded, including costs associated with Political Activities.

B. SoCalGas attempted to explain the GRC process to Cal Advocates.

During the Meet and Confer that was held on December 7, 2022, between SoCalGas and Cal Advocates, Cal Advocates' attorney commented that she had not been part of a GRC previously to which SoCalGas reiterated an offer for a GRC Walkthrough to illuminate the costs that are part of the Company's GRC and conversely those that are not. On January 25, 2023, SoCalGas presented the GRC walkthrough to Cal Advocates during a ninety-minute session, including reference materials (*see* Appendix G). SoCalGas explained the timing of the GRC cycles, that System Application and Products (SAP) is only one data point for the GRC, the automated and manual exclusion process, and the forecast methodology, among other topics.

SoCalGas explained that the CPUC already determined the current rates that SoCalGas could charge ratepayers in the TY 2019 GRC D.19-09-051 and as modified by the Petition for Modification D.21-05-003 for the years 2019 – 2023. The pending TY 2024 will determine the rates for 2024-2027. Figure SM-1 below illustrates SoCalGas's 2019 and 2024 GRC cycles and the relevant historical period provided for informational purposes pursuant to the CPUC's Rate Case Plan.

FIGURE SM-2
Illustration of GRC Cycles

2019 GRC Proceeding		
Base Year	2016	5 Years Historical 2012-2016
Forecast Year	2017	
Forecast Year	2018	
Test Year	**2019**	
Post-Test Year	2020	
Post-Test Year	2021	
Post-Test Year	2022	
Post-Test Year	2023	

2024 GRC Proceeding		
Base Year	2021	5 Years Historical 2017-2021
Forecast Year	2022	
Forecast Year	2023	
Test Year	**2024**	
Post-Test Year	2025	
Post-Test Year	2026	
Post-Test Year	2027	

"The use of a forecasted test period allows the revenue requirement to represent a forward-looking perspective".[24] As shown in Table SM-1 above, rates have been set for the 2019 GRC proceeding through 2023. Based on the principle of retroactive ratemaking, which is well established by the Commission and the courts, rates cannot be retroactively adjusted:

> It is a well-established tenet of the Commission that ratemaking is done on a prospective basis. The Commission's practice is not to authorize increased utility rates to account for previously incurred expenses unless, before the utility incurs those expenses, the Commission has authorized the utility to book those expenditures into a memorandum or balancing account for possible future recovery in rates. This practice is consistent with the rule against retroactive ratemaking.[25]

Rather than looking backwards, California sets rates on a forecasted basis: "The use of a forecasted test period allows the revenue requirement to represent a forward-looking perspective".[26] To develop forecasts for this forward-looking perspective, utilities (and parties)

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[24] S*ee* Appendix H at 20.

[25] D.07-07-041 at 5-6, Section 2.2.1 Prohibition Against Retroactive Ratemaking. ("The courts have recognized this problem and found: If the prohibition against retroactive ratemaking is to remain a useful principle of regulatory law and not become a device to fetter the commission in the exercise of its lawful discretion, the rule must be properly understood. … But we did not require that each and every act of the commission operate solely in futuro; our decision was limited to the act of promulgating 'general rates.' (Southern California Edison Co. v. Public Utility Commission, 20 Cal. 3d 813 (1978) at 816.)"). *Id.*

[26] S*ee* Appendix H at 20.

utilize generally accepted forecast methodologies to reflect the future funding needs. These generally accepted forecasting methods include base year (last year of recorded costs), historical averages, linear trends (trends in growth), or zero-based (a method that does not rely on history and rather bases the forecast on other information). In SoCalGas's GRC application, we select the appropriate forecast method for each activity or group of activities, referred to as "workpapers." The forecast method selected directly determines what costs are included the SoCalGas's revenue requirement request.

While SoCalGas presents a particular forecast method, parties typically propose alternative forecast methods in their respective testimony. Here, Cal Advocates did not utilize one of the generally accepted forecasting methods in GRCs nor did Cal Advocates describe which programs should or should not be funded. Instead, Mr. Castello recommended high-level, arbitrary percentage reductions to SoCalGas's funding requests without evidence of why such percentages were reasonable.

Mr. Castello's high-level percentage reductions related to political activities are inconsistent with generally accepted GRC forecasting methods and do not provide enough details to determine whether particular programs are funded or disallowed, which is needed for future accountability reporting, and thus does not result in sound ratemaking. As explained above, only the adjusted-recorded costs and selected forecast methodology described in the TY 2024 GRC are relevant when determining just and reasonable rates for 2024-2027. More importantly, if a workpaper used a base year (BY) forecast methodology, it means that only 2021 incurred costs informed the forecast and revenue requirement request in this GRC. Accordingly, when a BY forecast methodology is utilized, the adjusted-recorded costs in 2017 – 2020 are irrelevant because they are not included within the TY 2024 GRC request. This was explained to Cal Advocates during the GRC Walk-Through that was provided on January 25, 2023.[27]

SoCalGas also explained that SAP is SoCalGas's system of record for all accounting activities and contains all accounting activities regardless of regulatory framework. Simply because a transaction shows up in SAP does not mean it is included in the GRC forecast. Some of these costs are included in the GRC while others are not. The process to determine whether expenses are in or out of the GRC is based on the automated exclusions and manual adjustment

27 *See* Appendix G.

process which are not reflected in SAP. This means that while all costs begin with the same source data, SAP, not all costs in the GRC are presented in the same manner as reflected in SAP due to ratemaking frameworks and exclusions as further described below.

C. Cal Advocates appears to ignore SoCalGas's adjustments to exclude costs associated with Political Activities from its historical periods as part of the GRC process

Typically, as part of the GRC, SoCalGas performs an exclusion process to identify and remove costs that should be excluded, including costs associated with Political Activities as defined by the FERC USofA. As noted in SoCalGas's Response PAO-SCG-019-BKZ Question 10 (*see* Appendix E), the Company performs the following as part of the GRC in a good faith effort to exclude costs that should be booked to below-the-line accounts in accordance with FERC:

- An automated process based on a set of pre-defined cost centers, internal orders, FERC accounts in addition to several other accounting system attributes.
- Specifically, all costs that are charged directly to FERC accounts 426.1, 426.2, 426.3, 426.4, 426.5 are excluded from the GRC; and
- Manual adjustments for costs identified as part of the GRC review process, which are clearly identified in the applicable GRC workpapers as evidenced in Figure SM-3 below. SoCalGas provided a reconciliation of Base Year dollars recorded in the FERC general ledger (GL) to the Business Warehouse dollars used by the GRC witnesses in response to the Master Data Request, Audit Chapter 32, Question 7. The attachment "Ch32-Q7c-e_SCG_2021.xlsx" shows the Company-wide Adjustments and the Manual Adjustments made by planners that are referenced herein. [28]

In addition, for this GRC, SoCalGas determined that it would not be possible to identify the exact labor costs associated with Political Activities given the passage of time and communicated this to Cal Advocates as part of DR PAO-SCG-019-BKZ, Question 10 (*see* Appendix E). As such, it performed the following in a good faith effort to exclude labor expenses

[28] *See* Appendix E for SoCalGas's responses to Cal Advocates' data requests PAO-SCG-019-BKZ, Q.10.

associated with Political Activities in historical periods (2017-2020) as this period did not have the new policies, controls and governance in place that 2021 and 2022 did:

1) SAP system reclasses to internal orders that settle to FERC Account 426.4 for costs identified as part of the non-proceeding data request process (e.g., the "campaigns," etc.);

2) Manual adjustments to labor costs in historical periods in the GRC workpapers using 2021 as a proxy; and

3) Manual exclusions in the GRC workpapers for "civic or political activities" identified during review or as a result of data request responses.

Even the CPUC's own Policy and Planning Divisions' November 13, 2017 Utility General Rate Case – A Manual for Regulatory Analysts recognizes that "In their GRC filings utilities provide various data for the base year, which is the last year of recorded costs. In GRC proceedings the Commission sets a new revenue requirement for test year and post-test year(s). Test year is the year used for evaluating a utility's cost of service. Base year is typically used as a basis to forecast revenue requirement for test-year."[29] As such, the claim that SoCalGas has made no meaningful effort over the years to accurately track employee lobbying activities is unsubstantiated.[30]

D. Cal Advocates' testimony ignores their auditors' Financial Examination Report had no recommended adjustments to SoCalGas's Operation and Maintenance expenses.

As part of each GRC, including this GRC, Cal Advocates performs an audit. As described by CPUC staff, "The Commission's Rules of Practice and Procedure Article (Rule) 2 and the Commission's Rate Case Plan (RCP) as embodied in Decision (D.) 07-07-004 set the rules and procedures for the GRC review process. D.07-07-004 also set the filing requirement list for RCP.[31] In addition, the Commission is mandated by Public Utilities Code 314.5 to inspect and audit the books and records of utilities for regulatory and tax purposes <u>*at least once every*</u>

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29 *See* Appendix H.

30 Ex. CA-23 (Castello) at 25:12-14.

31 D.07-07-004, Appendix A at A-30.

<u>three years</u>[32]. An audit is conducted in connection with GRC." [33] Table SM-4 highlights the process that Cal Advocates auditors followed for their financial examination in this proceeding.

TABLE SM-4
Cal Advocates' Financial Examination Process Ex. CA-19 (Chia/Lee)

Audit Steps:	Cal Advocates' Data Request
Starts with GRC Workpapers SWC-001	Please provide the 2017 to 2021 recorded expenses for Administrative and General (A&G) expenses by lines of business/departments. Please provide the exhibit reference for the recorded A&G expenses.
Auditor asked for the GL transactions supporting the GRC WP totals SWC-006	Please provide the next level of detail for the yellow highlighted selections on the spreadsheet received in response to PubAdv-SCG-AUDIT-SWC-001, Question 1 that will allow Cal Advocates the ability to make selections and tie those to the supporting documentation (i.e. general ledger transaction, cost element, vendor name description of cost, etc.) for the following exhibits.
Auditor requested support for selected transactions SWC-014	Please provide the next level of detail or the supporting documents for the green highlighted selections on the attached spreadsheet for SoCalGas' expenses for Exhibits SCG-27, SCG-28, and SCG-29 that will allow Cal Advocates the ability to make selections and tie those to the supporting documentation (i.e. general ledger transaction, cost element, vendor name description of cost, etc.). The source of the spreadsheet is from the response to PubAdv-SCG-AUDIT-SWC-006.

Based on the above process, Cal Advocates conducted their audit and presented its findings in testimony, Ex. CA-19 (Chia/Lee). As outlined in Cal Advocates' Financial Examination Report Ex. CA-19 (Chia/Lee), "from the list of transaction entries for the recorded A&G expenses (*see* Table 19-3 below), Cal Advocates selected transactions to review the associated supporting documents (i.e., SAP transactions, invoices, and other source data) to determine the accuracy of SoCalGas's recorded transaction entries", which included A&G where Cal Advocates is recommending a 35% reduction. Cal Advocates' audit testimony also states, "Cal Advocates also review[ed] the transaction to determine[e] if it is a recurring expense or a one-time expense and if the transaction should be recorded below-the-line or above-the-line" and on page 1 concluded that there was "no recommended adjustment to SCG's O&M

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[32] D.20-01-002 at Ordering Paragraph (OP) 3 changed the GRC cycle from three years to four years. *See also* Assembly Bill (AB) 209, which was signed by the governor on September 06, 2022, that requires the commission to conduct an audit at least once every five years.

[33] CPUC's Policy and Planning Divisions' November 13, 2017 Utility General Rate Case – A Manual for Regulatory Analysts by Maryam Ghadessi.

expenses."[34] Figure SM-2 below provides an excerpt of Ex. CA-19 highlighted to show the results associated with SoCalGas's Administrative & General witness area.

FIGURE SM-3
Excerpt from Cal Advocates' Financial Examination Ex. CA-19 (Chia/Lee)

Table 19-3
2017-2021 Recorded Data for SCG's A&G Expenses
(in Thousands of Nominal Dollars)

Description	2017	2018	2019	2020	2021
Ex. SCG-23 Corporate Center-General Administration	$70,865	$82,390	$82,783	$90,443	$76,882
Ex. SCG-24 Corporate Center-Insurance	$31,215	$32,793	$41,875	$57,770	$65,310
Ex. SCG-25 Corporate Center Benefit & Compensation	$175,307	$185,919	$181,688	$214,259	$244,690
Ex. SCG-26 Pension & Postretirement Benefits Other Than Pension	$95,062	$103,002	$150,465	$150,465	$150,465
Ex. SCG-27 Safety & Risk Management Systems	$8,201	$9,224	$9,940	$13,096	$15,571
Ex. SCG-28 People & Culture Department	$34,042	$36,404	$37,885	$38,772	$45,173
Ex. SCG-29 Administrative & General	$30,631	$43,563	$38,081	$33,585	$39,950

Source: 2017-2021 data from SCG's response to data request PubAdv-SCG-Audit-SWC-001, Attachment to Question 1 (PAO-SCG-002-SWC-Audit-Q1-Attachment 779).

Although the highlighted results only cover one of the four witness areas that Cal Advocates is recommending a reduction to, it is evidence of the effectiveness of the Company's tracking of Political Activities and exclusion from the GRC. It appears that the results of this Cal Advocates' audit were not included or taken into consideration in the arguments or evidence made by the investigators that participated in the financial review reported in Ex. CA-23C (Castello).

E. Cal Advocates preliminary findings from the SAP review are not accurate and a reflection that Cal Advocates' witness in this area still does not understand how the GRC works

Despite SoCalGas's attempts to explain how the GRC process works, Cal Advocates' witness in this area appears to continue to misunderstand the data and forecast methodology. Cal Advocates' continued fixation on SAP and their incorrect use of the SAP data as well as their focus on activities from 2017-2019 has led to incomplete and inaccurate conclusions.

[34] Ex. CA-19 (Chia/Lee) at 7.

1. Cal Advocates' focus on activities from 2017-2019 is misplaced.

Cal Advocates reference to the four campaigns are not new and various data requests have been responded to by SoCalGas for years, including in the "non-proceeding" and in this GRC. In fact, most of Mr. Castello's testimony (32 pages out of 39) covers "legal and factual background," which focuses on the past and ignores the efforts of SoCalGas, including adjustments to historical periods and exclusion from the GRC. As discussed above and shown in Figure SM-1, SoCalGas has worked to diligently and deliberately enact changes to enhance past processes and practices.

Cal Advocates' claim that SoCalGas has not identified all of its Political Activities or shown that the costs have been booked to FERC Account 426.4 is incorrect and flawed. Cal Advocates continues to insist on evidence in SAP that Political Activities have been charged to FERC Account 426.4[35] when SoCalGas has already explained that in historical periods there were some errors and that those misclassifications would be corrected through exclusion in the GRC, and not by reclassifying historical transactions prior to BY 2021 to FERC Account 426.4 within SAP. The financial system of record is closed at the end of each year, so if an error is identified outside of the period incurred, it is not usually corrected within SAP. While some were reclassified in SAP, others were recorded to the special-purpose ledger or manually removed from the GRC historical period. SoCalGas provided Cal Advocates with evidence of (1) journal entries booked[36] and (2) GRC manual adjustments on multiple occasions[37]. In fact, SoCalGas walked Cal Advocates through an example from the Regional Public Affairs (RPA) team as part of the January 25, 2023, GRC Training. Refer to Appendix G, slides 20-21 clearly show examples of both the automated exclusions and the manual exclusions that are made during the GRC process regardless of how the transactions appear in SAP. Table SM-5 below provides a summary of exclusions from BY 2021 expenditures for the four witness areas that are at issue within Ex. CA-23C (Castello).

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[35] Ex. CA-23C (Castello) at 29-32.

[36] *See* Ex. CA-23-WP-C Workpaper 186 as an example.

[37] *See* Ex. SCG-04-WP-R, Ex. SCG-12-WP-R, Ex. SCG-16-WP-R, Ex. SCG-29-WP-R, and Appendix G.

TABLE SM-5
2021 FERC 426.4 Excluded from the GRC for the Four Impacted Witness Areas

		($000)		
Ex. #	**Exhibit Name**	**Automatic Exclusions**	**Manual Exclusions**	**Total BTL Exclusions**
SCG-04	Gas Distribution Regional Public Affairs	(312)	(~~144~~143)	(~~456~~455)
SCG-12	Clean Energy Innovations (CEI)	(0)	(~~2,026~~2,028)	(~~2,027~~2,028)
SCG-16	CS - Information	(150)	(~~79~~50)	(~~229~~201)
SCG-29	Administrative & General (A&G)	(6,150)	(~~855~~958)	(~~7,005~~7,108)

The manual adjustments summarized in Table SM-5 are provided in more detail in SoCalGas's workpapers, which were available concurrently with SoCalGas's application filed on May 16, 2022. Figure SM-3 below provides an example of a manual GRC adjustment that would not be reflected in SAP but would be shown in GRC workpapers.

FIGURE SM-4
Example of Manual Adjustment from GRC Workpapers
Ex. SCG-29-WP-R page 76 of 158

2021	0	-159	0	0.0	1-Sided Adj
Explanation:	Exclude non-labor expenses associated with lobbying activities (FERC 426.4). This adjustment is in addition to other costs that have already been excluded based on other specific accounting attributes.				
2021	-38	0	0	-0.3	1-Sided Adj
Explanation:	Exclude labor expenses associated with lobbying activities (FERC 426.4) and other advocacy related activities. This adjustment is in addition to other costs that have already been excluded based on other specific accounting attributes.				

In particular, Cal Advocates' claim that SoCalGas began to work with a particular vendor, Marathon, in early January 2017 is not relevant as 100% of the Marathon costs were already excluded from the GRC.[38]

Furthermore, Cal Advocates' focus on activities from 2017-2019 ignores the fact that most of the GRC forecasts that Cal Advocates is recommending broad brush reductions to utilized a base year 2021 forecast method, which means that expenses incurred in 2017-2020 are automatically excluded from the TY 2024 GRC request. *See* Table SM-7 below that illustrates the forecast methodologies used by the workpapers at issue in Ex. CA-23C (Castello).

[38] Ex. CA-23C (Castello) at 7:6-11.

2. Cal Advocates draws incomplete and incorrect conclusions from SAP records

Cal Advocates states that their review of "SAP records appear to reflect that SoCalGas has paid roughly $2.7 million to six vendors between 2017 and 2022 and booked those costs to ratepayer accounts."[39] Table SM-6 below shows that the $2.7 million paid to six vendors identified by Cal Advocates is all either properly included or excluded from the GRC, with the exception of $22,170 that SoCalGas identified before the SAP Review, to update at the next available time, which is done through this testimony. Note that this adjustment does not impact SoCalGas's forecast. Given that the identified error was to historical costs and the costs in question were forecasted using a base year forecast methodology, the costs do not contribute to SoCalGas's revenue requirement request. Nonetheless, SoCalGas committed to correcting the error to its history.

TABLE SM-6
Cal Advocates' Flawed Conclusions from SAP

Correctly Charged BTL	Incorrectly Charged ATL, but Manually Removed from the GRC	Correctly Charged ATL, but not in TY 2024 Forecast	Correctly Charged ATL and Included in the GRC Forecast	Total per Cal Advocates WP 318
$1,103	$53	$1,081	$494	$2,730

Even though Cal Advocates' inquiry into SoCalGas's accounting has been ongoing for over three years, they still claim that their evidence is incomplete and limited[40] and accounting review was cut short by SoCalGas's refusal to cooperate.[41] Table SM-7 reflects the various opportunities/offers for SAP access made by SoCalGas to Cal Advocates:

[39] Ex. CA-23C (Castello) at 30.

[40] *Id.* at 1, n.1.

[41] Id. at 4.

TABLE SM-7
Summary of SoCalGas SAP Access Offers to Cal Advocates

Date	SoCalGas's Offer and Availability	Cal Advocates' Response
May 29, 2020	SAP access to ATL transactions from 2017-2020 available for Cal Advocates upon execution of Non-Disclosure agreement offered by Cal Advocates.	Cal Advocates reneged on offer to sign Non-Disclosure Agreement and insisted on access to all information in SAP.
May 2020-February 2023	Litigation over scope of SAP Access at the CPUC and Court of Appeal. Court of Appeal granted Temporary Stay. Stay extended by CPUC Executive Director's Rule 16.6 Extension Letter until 21 days after Court of Appeal's final disposition.	
July 12, 2022	SoCalGas provided all SAP transactions for 2021 as part of this GRC's Master Data Request, Section D, Chapter 32, Question 16.	Cal Advocates did not access this information in a timely manner and access expired on September 11, 2022.
February 27 – March 10, 2023	In compliance with Resolution ALJ-391, D.21-03-001 and the Executive Director's extension, SAP access was available on February 27, 2023.	Cal Advocates requested a delay of two weeks.
March 13 – March 24, 2023	SAP access for two weeks, in person March 13-17 and remote March 18-24 (1998-2022, all transactions except privileged and First Amendment). Dedicated resource for two week to respond to Cal Advocates' SAP navigational questions.	Cal Advocates only appeared in person one day. Remote access provided for the two weeks.
March 24, 2023	SoCalGas offered an extension of SAP access for additional two weeks (March 24 - April 7, 2023).	Cal Advocates refused extension offer.
April 21, 2023 – May 15, 2023	ALJ grants Cal Advocates a two-week extension until May 15. Cal Advocates must provide SoCalGas a minimum of three days' notice.	Cal Advocates has not provided SoCalGas with notice to access SAP.

Furthermore, Cal Advocates claims that due to their alleged limited access to the Utility's SAP system, they were unable to identify evidence that the costs related to some or all of the four campaigns were moved to FERC Account 426.4.[42] Despite the fact that SoCalGas was specifically asked by the Cal Advocates' attorney via conversation, as confirmed via email from SoCalGas to Cal Advocates,[43] to not include FERC Account 426.4 in the FERC Line-Item Report view, that did not mean that the transactions could not be viewed through the other three views provided[44] to Cal Advocates. Cal Advocates did have access and was able to view transactions that were recorded to FERC Account 426.4, as evidenced by Figure SM-4 which shows the below-the-line internal order (300796601) that Cal Advocates included in their workpaper 318. [45]

FIGURE SM-5
Excerpt from CA-23C (Castello) Workpaper 318

Vendor ID 133625

Line #	Cost Cent	Cost Elem.	Cost Element Name	AuxAcctAsmnt_1	Name
1	2200-2282	6220200	SRV-LEGAL	ORD 300796601	June Invoice
2			SRV-LEGAL	ORD 300796601	SERVICE
3			SRV-LEGAL	ORD 300796601	Services
4			SRV-LEGAL	ORD 300796601	Services
5			SRV-LEGAL	ORD 300796601	SERVICE

As shown in Cal Advocates' workpaper 159, internal order 300796601 settles to FERC Account 426.4. Figure SM-5 provides an excerpt from Cal Advocates' workpapers. In the last

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42 Ex. CA-23C (Castello), at 13:1-4.

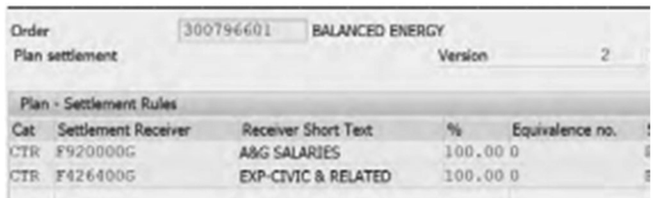
43 *See* Appendix I for March 14, 2023 email from SoCalGas to Cal Advocates.

44 The following four views were provided to Cal Advocates: Order Line Item Display, Cost Center Line Item Display, and GL Line Item Display.

45 Cal Advocates omits the fact that the reason SoCalGas provided FERC search capabilities for FERC 900 series accounts only was because that was what Cal Advocates asked for in its still pending October 21, 2021 MTC. [Public Advocates Office Motion to Compel Southern California Gas Company to Provide Remote Access to SAP Database to Audit Ratepayers, at 1 (October 21, 2021) ("…the Public Advocates Office at the California Public Utilities Commission (Cal Advocates) moves the Commission to compel Southern California Gas Company (SoCalGas) to do all things necessary to provide full and complete remote access to the utility's SAP (System Application and Product in Processing) database so that Cal Advocates may audit ***Federal Energy Regulatory Commission (FERC) Uniform System of Accounts (USOA) numbers 901 through 935*** for the period January 1, 2010 to the present." (Emphasis Added)] *available at:* https://www.publicadvocates.cpuc.ca.gov/-/media/cal-advocates-website/files/legacy3/1---10-21-21-caladvocates-motion-to-compel-access-to-socalgas-ratepayer-accts.pdf. Once SoCalGas was informed that Cal Advocates wanted the ability to search for all FERC accounts (except for FERC account 426.4), SoCalGas added those FERC accounts to the search functionality the very next day.

line in the second column, it shows this SAP entry settles to F4264 or FERC 426.4, a below-the-line expense.

FIGURE SM-6
Excerpt from CA-23C (Castello) Workpaper 347



Furthermore, Cal Advocates did not make a single request of SoCalGas during their SAP review in February/March 2023, which could have allowed the Company to provide evidence that the $2.7 million of costs they claim are included in ratepayer accounts are in fact properly included or excluded from the GRC, where applicable.

In addition, Cal Advocates inaccurately assumes that costs booked to above-the-line accounts are always included in the GRC forecasts or historical costs. The USofA guidance is clear that tracking costs using the FERC definitions does not dictate whether or not a cost should be recovered or disallowed, but rather the ratemaking process (i.e., the GRC) determines if something is recoverable through rates.[46] For example, officer salaries would normally be recorded above-the-line, however, D.19-09-051 states "Pursuant to Senate Bill (SB) 901, Pub. Util. Code § 706 has been amended such that, beginning January 1, 2019, Applicants are no longer able to recover from ratepayers the annual salaries, bonuses, benefits, or other consideration paid to officers and these must instead be funded by shareholders".[47] In these scenarios, SoCalGas manually excludes costs that may be above-the-line but are not included in the GRC.

F. Cal Advocates' recommended adjustments are not supported by evidence and are detrimental to SoCalGas's fundamental work as a utility.

Not only are Cal Advocates' recommended funding reductions unwarranted and not supported by evidence, they also are detrimental to the fundamental work SoCalGas does as a

[46] S*ee* Appendix F for PAO-SCG-019-BKZ, Question 18.

[47] D.19-09-051 at 726 (Finding of Fact 12).

utility. Mr. Castello's testimony does not appear to be incorporated into Cal Advocates' overall request. For example, the proposed $80 million reduction is not reflected in Cal Advocates' Results of Operations (RO) model sponsored by Jerry Oh, Ex. CA-15. This then requires the Commission and parties to interpret and consolidate Cal Advocates' proposals themselves. Table SM-7 below summarizes the combination of Cal Advocates' proposed recommendations of Mr. Castello's testimony with the reductions of other Cal Advocates' witnesses for the same areas. As shown in Table SM-7, the result is total reductions of $94.9 million, which would remove all but $30 million of already incurred BY 2021 expenses.

TABLE SM-8
Effect of Cal Advocates' Recommendations[48]
($000)

Workpaper	Workpaper Name	Forecast Method	BY 2021	TY 2024	Cal Adv-23C Proposed Reductions	Other Cal Adv Proposed Reductions	Total Cal Adv Proposed Reductions
SCG-04	**Gas Distribution**						
2GD011.000	**Total Regional Public Affairs**	Base Year (BY)	**3,845**	**3,970**	**(3,176)**	**0**	**(3,176)**
SCG-12	**Clean Energy Innovations (CEI)**						
2RD000.000	Clean Fuels Infrastructure Development	Base Year (BY)	8,195	11,245	(8,996)	0	(8,996)
2RD000.001	Clean Fuels Infrastructure Development-RAMP	Base Year (BY)	0	9,155	(7,324)	(6,655)	(13,979)
2RD001.001	Research Development and Demonstration (Balanced)	Zero-Based	18,039	23,249	(18,599)	(4,410)	(23,009)
2RD002.000	Clean Energy Innovations Project Management Office (PMO)	Base Year (BY)	297	1,592	(1,274)	0	(1,274)
2RD003.000	Sustainability	Base Year (BY)	1,930	1,982	(1,586)	0	(1,586)
	TOTAL Clean Energy Innovations		**28,461**	**47,223**	**(37,778)**	**(11,065)**	**(48,843)**
SCG-16	**CS – Information**						
2IN001.000	CI – Strategic Communications & Engagement	Base Year (BY)	9,142	11,395	(9,116)	0	(9,116)
2IN002.000	CI – Customer Programs & Assistance	5-Yr Average	2,041	4,108	(3,286)	0	(3,286)
2IN004.000	CI – Customer Solutions	Base Year (BY)	10,464	11,674	(9,339)	(1,020)	(10,359)
	TOTAL CS – Information		**21,647**	**27,177**	**(21,742)**	**(1,020)**	**(22,762)**
SCG-29	**Administrative & General (A&G)**						
	Accounting & Finance Groups		**14,082**	**15,735**	**(5,507)**	**0**	**(5,507)**
2AG001.000	Innovation Support	5-Yr Average	83	309	(108)	0	(108)
2AG002.000	Accounting Operations	5-Yr Average	4,495	4,837	(1,693)	0	(1,693)
2AG003.000	Financial Systems and Innovation	5-Yr Average	1,151	1,282	(449)	0	(449)

48 The values in this table represent the corrected values SoCalGas has identified and the corresponding impacts to Cal Advocates' numbers, accordingly.

Workpaper	Workpaper Name	Forecast Method	BY 2021	TY 2024	Cal Adv-23C Proposed Reductions	Other Cal Adv Proposed Reductions	Total Cal Adv Proposed Reductions
2AG003.001	Accounting Research & Business Controls and Affiliate Billing	5-Yr Average	400	509	(178)	0	(178)
2AG004.000	Finance	Base Year (BY)	2,049	2,247	(786)	0	(786)
2AG005.000	Financial & Operational Planning	Base Year (BY)	5,526	5,936	(2,078)	0	(2,078)
2AG013.000	Controller & CFO	5-Yr Average	378	615	(215)	0	(215)
	Legal Workpapers		**15,490**	**18,850**	**(6,598)**	**(1,940)**	**(8,538)**
2AG007.000	Legal	Base Year (BY)	8,380	8,744	(3,060)	0	(3,060)
2AG010.000	Claims Payments & Recovery	5-Yr Average	5,650	8,467	(2,963)	(1,940)	(4,903)
2200-2095.000	Claims Management	5-Yr Average	1,460	1,639	(574)	0	(574)
2AG006.000	**Business Strategy & Energy Policy**	Base Year (BY)	**2,826**	**4,815**	**(1,685)**	**(1,492)**	**(3,177)**
	Regulatory Affairs Workpapers		**4,823**	**5,323**	**(1,863)**	**0**	**(1,863)**
2AG008.000	Regulatory Tariffs & Info	Base Year (BY)	834	1,016	(356)	0	(356)
2200-2075.000	Regulatory Case Management	5-Yr Average	1,002	1,081	(378)	0	(378)
2200-2305.000	Director of Regulatory Affairs	5-Yr Average	431	321	(112)	0	(112)
2200-2307.000	Gas Rates and Analysis	5-Yr Average	249	441	(154)	0	(154)
2200-2308.000	Gas Demand Forecasting and Economic Analysis	5-Yr Average	868	964	(337)	0	(337)
2200-2374.000	GRC and Revenue Requirements	5-Yr Average	520	455	(159)	0	(159)
2200-2401.000	Regulatory Affairs Strategy Manager	5-Yr Average	124	156	(55)	0	(55)
2200-2462.000	GRC and Revenue Requirements	5-Yr Average	496	638	(223)	0	(223)
2200-2544.000	GRC and Revenue Requirements	5-Yr Average	300	252	(88)	0	(88)
2AG011.000	**External Affairs**	Base Year (BY)	**2,143**	**2,454**	**(859)**	0	**(859)**
	TOTAL A&G		**39,365**	**47,178**	**(16,517)**	**(3,432)**	**(19,944)**
	TOTAL ALL		**93,454**	**125,684**	**(79, 317)**	**(15,517)**	**(94,834)**

As illustrated in Table SM-8 below, Cal Advocates' proposed reductions, which are not based on the merits of the ratepayer funding levels necessary or requested to provide the services described within the four impacted witness areas, in combination with Cal Advocates' other proposed reductions would drastically cut funding levels well below the BY 2021 incurred levels. In addition to the drastic impact to customers, the proposed reductions would have unintended consequences on the activities that Cal Advocates takes issue within this testimony – such as accounting and business controls.

TABLE SM-9
Potential Ratepayer Impacts of Cal Advocates' Recommendations
($000)

		SCG-04 Regional Public Affairs (RPA) only	SCG-12 Clean Energy Innovations (CEI)	SCG-16 CS – Information (CS-I)	SCG-29 Administrative & General (A&G)
TY 2024 Request	A	3,970	47,223	27,177	47,178
Cal Adv Proposed Total Reductions	B	(3,176)	(48,843)	(22,762)	(19,941)
Net Funding if Cal Adv Proposed Disallowances are Adopted	C=A+B	794	(1,620)	4,415	27,234
BY 2021 Adjusted-Recorded	D	3,844	28,461	21,647	39,365
Amount Cal Adv Funding Level is Below BY 2021 Spending Levels	**E=C-D**	**(3,050)**	**(30,081)**	**(17,232)**	**(12,131)**

1. Potential Ratepayer Impacts of Adopting Cal Advocates' Proposals – Key Services That Would Need to be Cut or Discontinued

If Cal Advocates' recommendations are adopted, a reduction in services would be required. Examples of these impacts are described below.

<u>Regional Public Affairs – as described in Ex. SCG-04-R (Aguirre)</u>

Adopting Cal Advocates' proposal to reduce RPA request for funding by 80% would result in significant reductions in SoCalGas's ability to support field operations across its service territory, communicate with regional and local governments and uphold existing franchise agreements. RPA's primary function is supporting SoCalGas' field operations by communicating with and serving as liaisons to regional and local governments and special districts regarding permitting, proposed regulations, franchises, customer inquiries, and emergency preparedness and response. For example, RPA resolves disputes with franchisees over unreasonable and illegal permitting fees and conditions, shares information with public officials and customers about the construction, repair and maintenance of our facilities, coordinates responses to emergency incidents with public officials, and tracks and comments on proposed local ordinances or regulations that may conflict with state and federal laws, regulations, or franchise agreements. The reduction would also jeopardize public safety by limiting our ability to communicate with local governments and first responders during emergency incidents. RPA provides these critical functions that help manage operating costs, and by extension keeps rates down.

<u>Clean Energy Innovations – as described in Ex. SCG-12-R (Infanzon)</u>

Cal Advocates' proposed 80% reduction in CEI would drastically limit SoCalGas's ability to support the development and implementation of innovative technologies that support California's climate policy goals, including the continued use and increased adoption of clean fuels, such as renewable natural gas, hydrogen, and synthetic natural gas, as well as carbon management in support of the State's carbon neutrality goals. Development of clean energy solutions help customers to adopt low carbon products and services and supports a variety of statewide clean policy commitments. CEI also provides support to enhance clean energy system and operational readiness and assists with system resiliency.

<u>Customer Services – Information – as described in Ex. SCG-16 (Prusnek)</u>

Cal Advocates' proposed 80% reduction in Customer Services – Information would reduce funding for mandated customer programs which include, compliance with the California Customer Privacy Act, the Medical Baseline program, Natural Gas Appliance Testing (NGAT) conducted via the Energy Savings Assistance Program, the Gas Assistance Fund, SB 1440 Renewable Gas Interconnections and Tariffs, natural gas pipeline safety and leak recognition information, and the AB802 Commercial Benchmarking Program. It would also severely limit staffing for and communications about these programs to our customers which would negatively impact public awareness and customer decarbonization efforts. Additionally, it would eliminate the ability of SoCalGas to provide fundamental utility services to customers via our website, including My Account web portal, tools to manage customers' natural gas usage and costs, pay bills, request gas services, multi-language capabilities, access to low-income program information and more. Other fundamental utility services that would be significantly reduced or eliminated include non-residential customer account support, winter preparedness, natural gas pipeline and appliance safety, contractor safety, and in language public safety campaigns.

Administrative & General – as described in Ex. SCG-29-R (Mijares)

The A&G costs included in this request relate collectively to Accounting and Finance (A&F), Legal, Business Strategy and Energy Policy (BSEP), Regulatory Affairs, and External Affairs, which are crucial functions as a regulated utility. Cal Advocates' 35% proposed reduction to A&G would impact functions that are necessary to attend to our customers, maintain our internal controls, support internal clients and external stakeholders, as well as meeting financial, regulatory, and legal requirements.

V. CONCLUSION

As demonstrated in this rebuttal testimony, Cal Advocates' 80% and 35% proposed reductions are unsubstantiated, are duplicative of exclusions that SoCalGas has already removed from the GRC, are significantly larger than the expenses recorded to FERC Account 426.4 in recent years. For example, the $12.1 million recorded to FERC Account 426.4 in 2022 represents 0.~~002~~3% of SoCalGas's total request, which is nowhere near the reduction Cal Advocates is proposing.

Cal Advocates erroneously impugns SoCalGas's 2017-2019 activities, repeatedly suggesting that the forecast for the four areas in question are not reliable. Cal Advocates selectively cites four "campaigns", but the costs are already excluded from the GRC. Consequently, Cal Advocates' recommendations should be disregarded.

To summarize, SoCalGas has made a good faith effort over the recent years to track the labor and non-labor costs associated with Political Activities as defined by the FERC USofA. This is evidenced by the Cal Advocates' own audit results, which did not identify any findings of errors related to above-the-line or below-the line classification, and in the annual FERC Form-2 that is filed with the Commission and discloses the total SoCalGas recorded to FERC Account 426.4.

The forecasts for each area are well supported and should be adopted. On the other hand, Cal Advocates' unsupported assertions of opinion regarding SoCalGas's activities should be disregarded.

This concludes my rebuttal testimony.

APPENDIX A

GLOSSARY OF TERMS

APPENDIX A

GLOSSARY OF TERMS

ACRONYM	DEFINITION
ATL	Above-the-line
A&F	Accounting and Finance
A&G	Administrative and General
AB	Assembly Bill
BY	Base Year
BSEP	Business Strategy and Energy Policy
BTL	Below-the-line
CEI	Clean Energy Innovations
FERC	Federal Energy Regulatory Commission
GL	General ledger
GRC	General Rate Case
NGAT	Natural Gas Appliance Testing
O&M	Operations and Maintenance
OP	Ordering Paragraph
PMO	Project Management Office
Cal Advocates	Public Advocates Office of the California Public Utilities Commission
RCP	Rate Case Plan
RPA	Regional Public Affairs
RO	Results of Operations
SAP	System Application and Products
SB	Senate Bill
TY	Test Year
USofA	Uniform System of Accounts

APPENDIX B

SoCalGas Response to Data Request – PAO-SCG-019-BKZ Introductory Statement

Data Request Number: PAO- SCG-019-BKZ_Supplemental

Proceeding Name: A2205015_016 - SoCalGas and SDGE 2024 GRC

Publish To: Public Advocates Office

Date Received: 8/12/2022

Date of Original Response: 8/31/2022

Date of Amended Response: 12/30/2022

With respect to PAO's Introductory Statement and Definitions for Purposes of this Data Request:

PAO Introductory Statement: For purposes of this Data Request:

"Lobbying" is any action intended to influence legislative or administrative action. Lobbyists can be individual employees, entities or a collective group of affiliated entities."[1]

"Lobbying Services" are defined to include any and all services procured to facilitate lobbying, including, without limitation, government or media consultant services.

SoCalGas Response to PAO's Introductory Statement and Definitions:

SoCalGas objects to the terms "lobbying" and "lobbying services" as vague and ambiguous. SoCalGas objects to this Request to the extent that it seeks information about "lobbying" as that term may be used for any other purpose than accounting. For CPUC accounting purposes, the Federal Energy Regulatory Commission (FERC) definition of lobbying applies. See Section 793 of the California Public Utilities Code. Also, the CPUC has referenced the below-the-line FERC Account 426.4 in numerous ratemaking decisions, such as in a 1993 SoCalGas rate case decision (D.93-12-043), noting that "SoCalGas and DRA [Public Advocates Office's predecessor] agree that Account 426.4 is the authority for defining lobbying activities that should not be funded by ratepayers." Public Advocates Office's request for lobbying activity and costs relate to accounting information and the treatment of costs attributable to ratepayers. Accordingly, the FERC definition is the appropriate definition for the purposes of responding to the data request in question. To the extent the Request relates to activities generally excluded from "lobbying" definitions, such as appearing at public meetings, giving administrative testimony at a public hearing, or providing technical advice or information to an official, these activities were excluded from this response. For instance, the FERC definition of lobbying excludes activities "directly related to public appearances before regulatory or other governmental bodies in connection with a utility's existing or proposed operations." See Title 18 Code of Federal Regulations (CFR) Part 367.4264(b).

PAO REQUESTS

1. Please supplement the following workpapers provided with SoCalGas' Application to include all Adjusted-Recorded costs from 2010 to 2021 (instead of 2017-2021):

[1] This definition of lobbying is the same as the definition provided in Sempra Energy's Political Activity Policy.

APPENDIX C

SoCalGas Response to Data Request – PAO-SCG-072-TBO, Question 1

Data Request Number: PAO-SCG-Audit-TBO-072

Proceeding Name: A2205015_016 - SoCalGas and SDGE 2024 GRC

Proceeding Number: A2205015_016 2024 GRC

Publish To: Public Advocates Office

Date Received: 12/9/2022

Date Responded:12/21/2022

1. Please provide all audits, analyses, or reports prepared at any time between 2020 and 2022 that address SoCalGas processes and/or costs related to lobbying or other advocacy activities.

SoCalGas Response 1:

SoCalGas objects to this request on the grounds that it is vague and ambiguous, and overbroad particularly with respect to the words "analyses" and "reports." SoCalGas further objects to this request under Rule 10.1 of the Commission's Rules of Practice and Procedure to the extent it seeks the production of information that is neither relevant to the subject matter involved in the pending proceeding nor is likely reasonably calculated to lead to the discovery of admissible evidence. SoCalGas further objects to the extent that the request seeks information or documents protected from disclosure by the attorney-client privilege and attorney work product doctrine. Subject to and without waiving the foregoing objection, SoCalGas responds as follows:

SoCalGas will provide documents that comprise an independent assessment in the timeframe January 1, 2020, through December 31, 2021, as requested by DR PAO-SCG-TBO-072, Question 1 that relate to "lobbying or other advocacy activities" as those concepts are used for accounting purposes relative to this General Rate Case. See General Continuing Objection above.

Please see the following attachment:

"PAO-SCG-TBO-072_Q1_Attach_PwC Assessment Report.pdf"

In addition to the report provided herein, information requested by DR PAO-SCG-TBO-072 Question 1 related to SoCalGas's processes and/or costs relative to "lobbying or other advocacy activities" was previously provided in response to PAO-SCG-019-BKZ Questions 10 and 14 dated August 31, 2022.

APPENDIX D

Cal Advocates Response to Data Request – SCG-SDGE-PAO-008

PUBLIC ADVOCATES OFFICE (Cal Advocates)
DATA RESPONSE
Southern California Gas Company and San Diego Gas & Electric Company Test Year 2024 General Rate Cases
A.22-05-015 and A.22-05-016

Date: April 21, 2023

Origination Date: April 7, 2023

Response Due: April 21, 2023

Data Request No: SCG-SDGE-PAO-008

To: Jamie York, Sempra 2024 GRC Manager
JYork@semprautilities.com

Sempra Central Files
centralfiles@semprautilities.com

From: Stacey Hunter, Project Coordinator
Public Advocates Office
505 Van Ness Avenue, Room 4104
San Francisco, CA 94102
Stacey.Hunter@cpuc.ca.gov

GENERAL OBJECTIONS

Cal Advocates objects to each data request to the extent that it mischaracterizes Cal Advocates' opening testimony.

Cal Advocates objects to each data request to the extent that it is overly broad, unduly burdensome, or not reasonably calculated to lead to the discovery of admissible evidence.

Cal Advocates objects to each instruction and data request as overly broad and unduly burdensome to the extent that it seeks documents or information that Sempra already possesses upon receipt of Cal Advocates' prepared testimony and workpapers.

Cal Advocates objects to each instruction and data request to the extent that it seeks information or documents protected from disclosure by the attorney-client privilege, attorney work product doctrine, or any other applicable privilege.

Sempra Questions 1 through 4:

Please provide the following:[1]

1. Methodology, workpapers, and calculations to support the disallowance of 35% of "the estimated total [Test Year (TY) 2024] costs of $47.249 million associated with Administrative and General costs described at Ex. SCG-29-R";

2. Methodology, workpapers, and calculations to support the disallowance of 80% of "the estimated total TY costs of $4.107 million [sic] associated with the Regional Public Affairs organization described at SCG-04-R";

3. Methodology, workpapers, and calculations to support the disallowance of 80% of "the estimated total TY costs of $47.223 million associated with the Clean Energy Innovations organization described at SCG-12-R"; and

4. Methodology, workpapers, and calculations to support the disallowance of 80% of "the estimated total TY costs of $27.227 million associated with the Customer Services – Information organization described at SCG-16."

Cal Advocates' Response to Sempra Questions 1 through 4:

The bases for Cal Advocates' proposed disallowances are set forth throughout the discussion in Exhibit CA-23, Intervenor Testimony of Stephen Castello, and supported by the workpapers provided. Please see, for example, the discussion in Exhibit CA-23 at pages 32-38 and the workpapers cited.

There are no supplementary workpapers, calculations, or methodologies available, other than what has already been provided.

[1] All language in quotes found at CA-23, Intervenor Testimony of Stephen Castello at p.2.

APPENDIX E

SoCalGas Response to Data Request – PAO-SCG-019-BKZ, Question 10

Data Request Number: PAO- SCG-019-BKZ_Supplemental

Proceeding Name: A2205015_016 - SoCalGas and SDGE 2024 GRC

Publish To: Public Advocates Office

Date Received: 8/12/2022

Date of Original Response: 8/31/2022

Date of Amended Response: 12/30/2022

10. Please provide a narrative description of all steps SoCalGas has taken to ensure all costs that should be booked to below-the-line accounts have been properly booked, including how SoCalGas identified an accurate estimate of staff time spent on activities to be booked to below-the-line accounts and whether it booked any costs of expenses, pensions, and other benefits to those below-the-line accounts.

SoCalGas Response 10:

SoCalGas objects to this request under Rule 10.1 of the Commission's Rules of Practice and Procedure on the grounds that this request to the extent it seeks information not relevant to the subject matter involved in the pending proceeding and therefore, the burden, expense and intrusiveness of this request outweighs the likelihood that the information sought will lead to the discovery of admissible evidence. SoCalGas further objects that the request is vague and ambiguous, and overbroad and unduly burdensome to the extent it requests "all steps." SoCalGas has included below a sample of some of the steps taken.

Subject to and without waiving the foregoing objections, SoCalGas responds as follows:

SoCalGas provides a non-exhaustive sample of the key steps taken to properly record costs that should be booked to below-the-line accounts as follows:

Governance, Policies, and Training:

The Company has enhanced governance and designed and implemented policies, practices, procedures and internal controls that directly address the FERC and CPUC requirements that certain costs be recorded below-the-line. First SoCalGas engaged its Accounting Compliance group (Accounting Compliance), with the directive to set policies and procedures, design and implement internal controls, monitors activities, develop and facilitate training, provide accurate reporting to management, and continuously enhance these processes with iterative learnings and information (e.g. additional Commission guidance). Accounting Compliance is composed of several employees focused (in part) on the distinction between above-the-line (ATL) and below-the-line (BTL)[5] costs. Accounting Compliance has a direct interaction with and reporting on activities to the Company's senior management team.

[5] In order to track and appropriately record and classify shareholder / customer costs, the Company follows the Federal Energy Regulatory Commission ("FERC") uniform system of accounts ("USoA") and records below-the-line costs to certain FERC accounts. As a gas utility operating within one state, SoCalGas is not regulated by the FERC. However, the Company applies the FERC USoA, pursuant to section 793 of the California Public Utilities Code.

Sempra and SoCalGas revised their Political Activities Policy to include further guidance related to BTL accounting treatment. Additionally, the Company developed and issued the Political Activities Accounting procedure which documents the Company's detailed business processes and internal controls to assist employees to accurately record their time and expenses associated with BTL activities.

The Company engaged PricewaterhouseCoopers in 2020 to perform an independent assessment of Civic, Political and Related Costs, as defined by FERC Account 426.4, for the period January 1, 2017 through December 31, 2019.

Beginning in 2021, the Company engaged in an extensive training campaign which included the following courses:[6]

- Civic & Political Activities Accounting Training: Live based training which included an overview of ATL and BTL (based on Federal Energy Regulatory Commission (FERC) 426), Guidance and Resources (e.g., Decision Trees, Work Order Authorizations, Governance), Scenario Workshop, and Prohibition of Ratepayer Funds Re: Energy Efficiency Codes & Standards and Reach Codes.
- Supplemental C&S Training RE: D.22-03-010 Compliance: Live based training which provided an update to compliance requirements around the prohibition on using ratepayer funds for certain proposed Energy Efficiency codes and standards activities and proposed reach codes activities.

Practices, Procedures and Internal Controls:

As regulatory rulings are issued and changes to the overall internal control environment occur, SoCalGas has and will continue to issue company-wide e-mail communications detailing the current changes and the expectation for its employees to follow the new prescribed practices, procedures, and internal controls. Company-wide communications were issued to SoCalGas employees regarding the prohibition on ratepayer funding pursuant to D.22-03-0101 and D.22-04-034. These communications raised awareness of the compliance requirements and also directed employees to additional informational resources.

As part of the establishment of the Accounting Compliance group, an intranet site was developed which serves as a repository of various tools and resources related to ATL and BTL requirements. This includes resources and tools for those engaging in activities that

[6] Although some of these training activities were already in the development process, they were updated in response to the Presiding Officer's Decision that ultimately resulted in D.22-04-034.

may be subject to the prohibition on ratepayer funding or the ATL time tracking requirement. Such tools and resources include the following:

- Frequently Asked Questions: A dedicated subsite which includes responses to frequently asked questions ranging from questions on proposed energy efficiency codes and standards to questions about appropriately reporting and tracking time associated with BTL activities.
- Internal Orders: A dedicated subsite which includes a listing of internal orders designed to record labor and non-labor costs and activities associated with proposed energy efficiency codes and standards activities and proposed reach code activities covered by the prohibition in D.22-03-010 and D.22-04-034. All costs tracked to these internal orders settle to a BTL FERC account.
- Training Resources: A dedicated subsite which includes presentations of previously provided courses.

In addition to the Accounting Compliance intranet site available resources, SoCalGas has also implemented new internal controls and procedures, and augmented existing internal controls and procedures, as follows:

- Added a banner to the Company's time reporting system (MyTime) and LATS highlighting the need to properly account for BTL related activities.
- Added a system flag in LATS requiring employees entering activities to indicate whether the time and costs should be accounted for as BTL.
- Established a process whereby entries into the LATS System and the MyTime system are reconciled and reviewed.
- Enhanced the Work Order Authorization (WOA) process, which is the Company's process to set up internal orders, to assist employees in identifying BTL transactions.

General Rate Case Exclusion:

SoCalGas also performs the following as part of the GRC in a good faith effort to exclude all costs that should be booked to below-the-line accounts in accordance with FERC (as noted in the response to Question 5):

- An automated process based on a set of pre-defined cost centers, internal orders, FERC accounts in addition to several other accounting system attributes.
- Specifically, all costs that are charged directly to 426.1, 426.2, 426.3, 426.4, 426.5 are excluded from the GRC; and
- Manual adjustments for costs identified as part of the GRC review process, which are identified in the applicable GRC work papers.

SoCalGas provided a reconciliation of Base Year dollars recorded in the FERC general ledger to the Business Warehouse dollars used by the GRC witnesses in response to the

Master Data Request, Audit Chapter 32, Question 7. The attachment "Ch32-Q7C-F-SCG_2021.xlsx" shows the Company-wide Adjustments and the Manual Adjustments made by planners that are referenced herein.

Accounting for Labor Costs:

In calculating the 2021 Adjusted Recorded Base Year for this proceeding, the labor hours spent on activities to be booked to below-the-line accounts was based on:

1. Direct charging for time spent performing BTL activities; and
2. Automatic allocation of 100% for one cost center.

In calculating the related historical period (2017-2020), the Company was aware that time spent on BTL activities were not always consistently recorded to BTL. As such, the Company updated historical periods (2017-2020) through manual adjustments, using 2021 labor hours recorded BTL.

When time is recorded to 426.4, the pro-rata portion of pensions and other benefits associated with the time is also recorded to 426.4.

SoCalGas Supplemental Response 10:

Although Question 10 was not part of the scope of the December 13th Meet & Confer, a discussion about this response ensued during that session, and consistent with the discussion during that session, SoCalGas provides the following additional response:

As noted by the extensive process and control enhancements described above, SoCalGas has made a good faith effort to exclude all costs that should be booked to below-the-line accounts in accordance with FERC guidance. In addition, where SoCalGas has discovered an error, it is further correcting such error(s) by excluding such costs and updating its testimony and/or workpapers, as appropriate, at the next available opportunity.

APPENDIX F

SoCalGas Response to Data Request – PAO-SCG-019-BXZ, Question 18

Data Request Number: PAO- SCG-019-BKZ_Supplemental

Proceeding Name: A2205015_016 - SoCalGas and SDGE 2024 GRC

Publish To: Public Advocates Office

Date Received: 8/12/2022

Date of Original Response: 8/31/2022

Date of Amended Response: 12/30/2022

18. Are all base business costs booked to ratepayer accounts? If not, please provide an example where that is not the case.

SoCalGas Response 18:

SoCalGas objects to this request pursuant to Rule 10.1 of the Commission's Rules of Practice and Procedure on the grounds that it is vague and ambiguous as to the terms "base business costs" and "ratepayer accounts." Subject to and without waiving the foregoing objection, SoCalGas responds as follows:

SoCalGas defines base business costs in the Company's Approval and Commitment Policy (revised 11/30/2020):

> Base business or Ordinary course of business (OCB) – The usual transactions, customs and practices of SoCalGas that maintain existing assets, services and business lines that are governed by the California Public Utilities Commission (CPUC) through a General Rate Case (GRC).

Base business costs are recorded in accordance with the FERC USoA.

SoCalGas generally seeks cost recovery in the GRC for "above-the-line" accounts. Its "below-the-line" accounts are expenditures not recovered from ratepayers in the GRC (i.e., shareholder funded accounts). Activities or contracts are preliminarily booked to an above-the-line or below-the-line account, with the final ratemaking decision settled in a GRC.

As explicitly noted in the FERC USoA, the classification of expenses as nonoperating and their inclusion in below-the-line accounts is for accounting purposes. It does not preclude Commission consideration of proof to the contrary for ratemaking or other purposes.

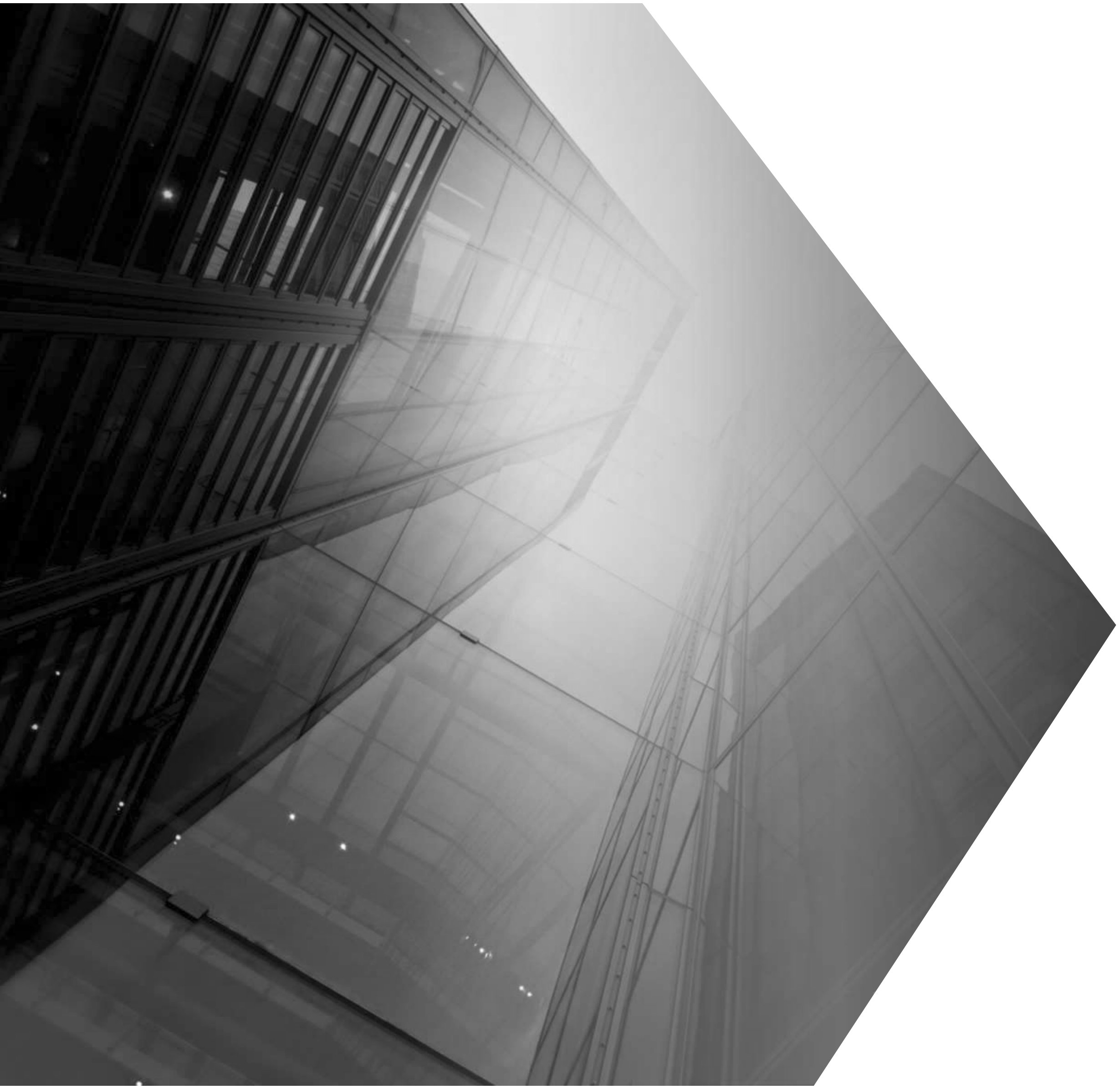
SoCalGas Supplemental Response 18:

Pursuant to the clarification provided by Public Advocates during the Meet and Confer sessions, it wants to confirm what approval is required for lobbying services. All transactions require one or more levels of approval. Lobbying services would follow the applicable invoice processing.

Refer to the Supplemental Response to Question 16 above and the SoCalGas Approval and Commitment Policy for the applicable invoice processing, which includes any expenditures related to Lobbying Services.

APPENDIX G

SoCalGas GRC Walkthrough (January 25, 2023)



GRC WALKTHROUGH

January 25, 2023

SoCalGas

Agenda

- Provide a detailed understanding of the General Rate Case Proceeding and how the Company creates its forecasts and revenue requirement request
- Workpaper walkthrough
- Illustrative example of GRID/BW data query to the Workpaper
- Overview of MDR Audit Chapter and data already provided in responses to Q7, Q9 and Q16
- Illustrative examples of PAO Audit Data Requests

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GRC Cycle Timing

2019 GRC Proceeding		
Base Year	2016	5 Years Historical 2012-2016
Forecast Year	2017	
Forecast Year	2018	
Test Year	**2019**	
Post-Test Year	2020	
Post-Test Year	2021	
Post-Test Year	2022	
Post-Test Year	2023	

2024 GRC Proceeding		
Base Year	2021	5 Years Historical 2017-2021
Forecast Year	2022	
Forecast Year	2023	
Test Year	**2024**	
Post-Test Year	2025	
Post-Test Year	2026	
Post-Test Year	2027	

» The TY2019 GRC determined the ratepayer rates for 2019-2023

» The TY2024 GRC will determine ratepayer rates from 2024-2027

» TY2024 GRC Timeline:

- 5 years of History 2017-2021 (Base Year 2021)
- 3 years of Forecast 2022-2024 (Test Year 2024)*
- Filed Case 5/16/22
- Limited testimony and workpaper exhibit revisions submitted 8/16/22

* Limited PTY specific project forecasts 2025-2027

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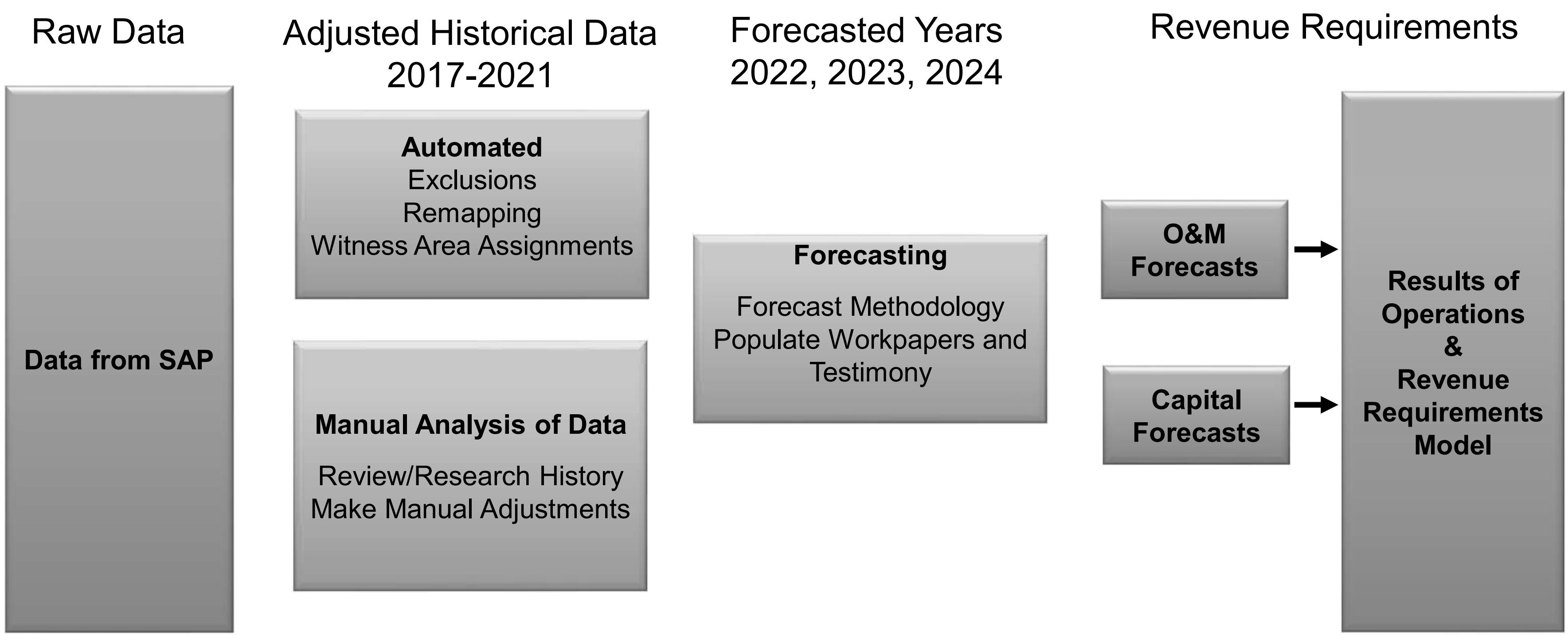
Financial Workflow



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SAP Data

- SAP is the system of record for all accounting activities
- SAP data contains all accounting activities, regardless of regulatory framework
- SAP data must be migrated from SAP to GRID (regulatory database) system for use in the GRC
- Raw SAP data does not:
  - Indicate GRC witness area assignments
  - Signify FERC Accounts or whether an accounting entry is included in the GRC or not (for example, it could be related to an incremental filing, commodity cost, or excluded as a non-ratepayer funded activity)

Automated Programming Steps

- Once the SAP data is migrated into the GRID database system, the data is aggregated via an automated program
- Automated Programming steps include:
  - Witness area assignments (setting the regulatory framework, assigning ownership of cost centers and budget codes to each witness area and workpaper)
  - Exclusions (removing costs that are not recoverable via the GRC; examples include: disallowed costs, costs requested in other filings (e.g., Low Income), and projects with separate applications or shareholder funded programs)
  - Re-mapping (moving costs between budget codes or cost centers to align with witness areas; for example, remapping spot cash awards to the compensation and benefits witness)

Manual Analysis of the Data (2017-2021)

- After the data has been aggregated via the automated program, the information is available for reviewing and researching costs
- Each witness area analyzes their actual costs to include only applicable GRC costs within the correct witness area and workpaper
- If a witness area identifies a cost that should not be included in the GRC a manual adjustment is entered to remove the costs
- Additionally, a company-wide vacation and sick factor as well as escalation are added to bring the historical costs into constant base year (2021) dollars as required by the rate case plan

Manual Adjustments

» Manual adjustments take place outside of SAP. Any adjustments performed for the GRC will not be reflected in SAP. They are only available in the GRID database.

» Common adjustments include:

- CEMA, COVID, and SB901 exclusions;
- Expenses that were recorded correctly in SAP, but don't align with the TY2024 GRC framework (for example, re-organizations may have historical costs in one workpaper but going forward are expected to recur in a different workpaper);
- Expenses were recorded incorrectly in SAP (e.g., charges were made to the wrong budget code or costs that posted against an incorrect cost center);
- Non-GRC costs that were not previously excluded and should have been

Forecasting (2022, 2023, and 2024)

- Once the adjusted 5 years of historical costs are completed, the next step is to determine how the workpaper will be forecasted for the next 3 years
- Witness areas determine the forecast methodology that best represents future expected spend (and this forecast methodology is identified and justified in both the Workpapers and Testimony)

Forecast Methodologies

- » There are different types of forecast methodologies
  - Linear (3-YR, 4-YR, 5-YR)
  - Average (3-YR, 4-YR, 5-YR)
  - Base Year (2021)
  - Zero-Based
- » Depending upon the forecast methodology chosen, some, or all years of history may be utilized as the basis for future requests. For example, a base year forecast only uses 2021 Adjusted-Recorded data to begin the forecast for future years as 2017-2020 are not indicative of future costs.

Revenue Requirements

- Once forecasts are completed, the data is moved to the *Results of Operation ("RO") Model* for further analysis, transformation, and calculations
- The RO Model is an Microsoft Excel based model with an Access Database which calculates the revenue requirement for SDG&E and SoCalGas consistent with witness testimony
- The Revenue Requirement is collected in customer rates and fees
  - Base margin revenues are collected through rates (i.e. gas transportation service revenues)
  - Miscellaneous revenues are collected through fees (i.e. non-rate sources such as service establishment fees)

Workpapers and Testimony

» Once the financial data is finalized (both historical and forecasted costs) that data is populated into tables and available in both the Workpapers and Testimony

» The witness teams memorialize the justifications and backgrounds for each workpaper

» These are all publicly available on the SoCalGas website and were served in May 2022. Some updates were served via the Errata filing in August 2022 and SoCalGas also served revised testimony and workpapers in November 2022 per an ALJ ruling.

Navigating the Workpapers

Southern California Gas Company
2024 GRC - REVISED
Non-Shared Service Workpapers

Area:	ADMINISTRATIVE & GENERAL
Witness:	Sara P. Mijares
Category:	A. Accounting and Finance
Category-Sub	1. Accounting and Finance
Workpaper:	2AG013.000 - CONTROLLER & CFO

Activity Description:

The Chief Financial Officer / Controller, along with the Vice President of A&F / Assistant Controller, have responsibility for the day-to-day executive oversight of the financial and accounting functions at SoCalGas. The organization has approximately 130 professional, administrative, and clerical employees. The VPs are the local executive financial representatives available to support day-to-day business operations' need for understanding the financial implications of business decisions, and oversee the proper functioning of internal control systems and processes on site at SoCalGas.

Description/Justification

Forecast Explanations:

Labor - 5-YR Average

The 5-year average methodology produces a reasonable forecast of 2022-2024 expenses as it best reflects the current organization and related cost structure. It should be noted that the year-to-year variability is attributable to various drivers. Since these activities are managed in aggregate, this methodology is appropriate to normalize year-to-year variability and has been consistently applied for these groups in prior SoCalGas GRCs. Where additional business requirements dictate, incremental resources are identified and specific cost forecasts are quantified based on current salary levels and related non-labor costs.

Non-Labor - 5-YR Average

The 5-year average methodology produces a reasonable forecast of 2022-2024 expenses as it best reflects the current organization and related cost structure. It should be noted that the year-to-year variability is attributable to various drivers. Since these activities are managed in aggregate, this methodology is appropriate to normalize year-to-year variability and has been consistently applied for these groups in prior SoCalGas GRCs. Where additional business requirements dictate, incremental resources are identified and specific cost forecasts are quantified based on current salary levels and related non-labor costs.

NSE - 5-YR Average

Not Applicable.

Forecast
Methodology

Summary of Results:

	In 2021$ (000) Incurred Costs							
	Adjusted-Recorded					Adjusted-Forecast		
Years	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
Labor	634	613	497	155	295	512	512	512
Non-Labor	-165	25	534	108	84	120	120	120
NSE	0	0	0	0	0	0	0	0
Total	**469**	**638**	**1,030**	**262**	**378**	**632**	**632**	**632**
FTE	2.9	3.0	3.0	1.0	1.7	3.1	3.1	3.1

Costs

Note: Totals may include rounding differences.

SCG/ADMINISTRATIVE & GENERAL/Exh No:SCG-29-WP-R/Witness: S. Mijares
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Navigating the Workpapers

Southern California Gas Company
2024 GRC - REVISED
Non-Shared Service Workpapers

Area: ADMINISTRATIVE & GENERAL
Witness: Sara P. Mijares
Category: A. Accounting and Finance
Category-Sub: 1. Accounting and Finance
Workpaper: 2AG013.000 - CONTROLLER & CFO

Summary of Adjustments to Forecast:

		In 2021 $(000) Incurred Costs								
Forecast Method		Base Forecast			Forecast Adjustments			Adjusted-Forecast		
Years		2022	2023	2024	2022	2023	2024	2022	2023	2024
Labor	5-YR Average	439	439	439	74	74	74	513	513	513
Non-Labor	5-YR Average	117	117	117	3	3	3	120	120	120
NSE	5-YR Average	0	0	0	0	0	0	0	0	0
Total		**556**	**556**	**556**	**77**	**77**	**77**	**633**	**633**	**633**
FTE	5-YR Average	2.3	2.3	2.3	0.8	0.8	0.8	3.1	3.1	3.1

Forecast Adjustment Details:

Year	Labor	NLbr	NSE	Total	FTE	Adj Type
2022	33	0	0	33	0.3	1-Sided Adj
Explanation:	Labor add back for the full-year impact of positions vacant during the five year average.					
2022	41	3	0	44	0.5	1-Sided Adj
Explanation:	Incremental: 1 Administrative Assistant.					
2022 Total	**74**	**3**	**0**	**77**	**0.8**	
2023	33	0	0	33	0.3	1-Sided Adj
Explanation:	Labor add back for the full-year impact of positions vacant during the five year average.					
2023	41	3	0	44	0.5	1-Sided Adj
Explanation:	Incremental: 1 Administrative Assistant.					
2023 Total	**74**	**3**	**0**	**77**	**0.8**	
2024	33	0	0	33	0.3	1-Sided Adj
Explanation:	Labor add back for the full-year impact of positions vacant during the five year average.					
2024	41	3	0	44	0.5	1-Sided Adj
Explanation:	Incremental: 1 Administrative Assistant.					
2024 Total	**74**	**3**	**0**	**77**	**0.8**	

Note: Totals may include rounding differences.
SCG/ADMINISTRATIVE & GENERAL/Exh No:SCG-29-WP-R/Witness: S. Mijares
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TY2024 GRC Adjusted-Forecast

Forecast Adjustments and Descriptions. If requested, these are in addition to the dollars computed via the selected forecast method.

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Navigating the Workpapers

Southern California Gas Company
2024 GRC - REVISED
Non-Shared Service Workpapers

Area:	ADMINISTRATIVE & GENERAL
Witness:	Sara P. Mijares
Category:	A. Accounting and Finance
Category-Sub:	1. Accounting and Finance
Workpaper:	2AG013.000 - CONTROLLER & CFO

Year	Labor	NLbr	NSE	FTE	Adj Type
2018 Total	**-321**	**21**	**0**	**-1.0**	
2019	-71	-4	0	-0.2	1-Sided Adj
Explanation:	Removing executive officer costs as defined under Resolution E-4963 pursuant to Public Utilities Code Section 706, as enacted by Senate Bill (SB) 901, which prohibits [SDG&E or SoCalGas], from recovering from ratepayers any annual salary, bonus, benefits, or other consideration of any value (compensation and benefits).				
2019	0	163	0	0.0	CCTR Transf To 2200-8000.002
Explanation:	Transfer of Long Term Incentive Plan expenses to Compensation & Benefits Witness area (Ex. SCG-25).				
2019	-2	0	0	0.0	1-Sided Adj
Explanation:	Exclude labor expenses associated with lobbying activities (FERC 426.4). This adjustment is in addition to other costs that have already been excluded based other specific accounting attributes.				
2019	0	9	0	0.0	1-Sided Adj
Explanation:	Net impact of payments for event season tickets and chargebacks to internal partners.				
2019	0	0	0	0.0	1-Sided Adj
Explanation:	Removing executive officer costs as defined under Resolution E-4963 pursuant to Public Utilities Code Section 706, as enacted by Senate Bill (SB) 901, which prohibits [SDG&E or SoCalGas], from recovering from ratepayers any annual salary, bonus, benefits, or other consideration of any value (compensation and benefits).				
2019	0	0	0	0.0	1-Sided Adj
Explanation:	Removal of promotional items & apparel.				
2019 Total	**-73**	**168**	**0**	**-0.2**	
2020	0	-3	0	0.0	1-Sided Adj
Explanation:	Incremental COVID-related costs that are anticipated to be requested for recovery through a non-GRC Catastrophic Event Memorandum Account (CEMA).				
2020	0	0	0	0.0	1-Sided Adj
Explanation:	Incremental COVID-related costs that are anticipated to be requested for recovery through a non-GRC Catastrophic Event Memorandum Account (CEMA).				
2020	0	-8	0	0.0	1-Sided Adj
Explanation:	Removing executive officer costs as defined under Resolution E-4963 pursuant to Public Utilities Code Section 706, as enacted by Senate Bill (SB) 901, which prohibits [SDG&E or SoCalGas], from recovering from ratepayers any annual salary, bonus, benefits, or other consideration of any value (compensation and benefits).				
2020	0	-26	0	0.0	1-Sided Adj
Explanation:	Net impact of payments for event season tickets and chargebacks to internal partners.				
2020	-2	0	0	0.0	1-Sided Adj

Note: Totals may include rounding differences.

SCG/ADMINISTRATIVE & GENERAL/Exh No:SCG-29-WP-R/Witness: S. Mijares
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Historical manual adjustments and descriptions

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Navigating the Workpapers

Southern California Gas Company
2024 GRC - REVISED
Non-Shared Service Workpapers

Area: ADMINISTRATIVE & GENERAL
Witness: Sara P. Mijares
Category: A. Accounting and Finance
Category-Sub: 1. Accounting and Finance
Workpaper: 2AG013.000 - CONTROLLER & CFO

Determination of Adjusted-Recorded (Incurred Costs):

	2017 ($000)	2018 ($000)	2019 ($000)	2020 ($000)	2021 ($000)
Recorded (Nominal $)*					
Labor	796	803	469	130	252
Non-Labor	-8	2	330	137	85
NSE	0	0	0	0	0
Total	**788**	**805**	**798**	**267**	**337**
FTE	3.5	3.6	2.7	0.8	1.4
Adjustments (Nominal $) **					
Labor	-310	-321	-73	-2	-2
Non-Labor	-138	21	168	-37	-1
NSE	0	0	0	0	0
Total	**-448**	**-300**	**95**	**-39**	**-3**
FTE	-1.0	-1.0	-0.2	0.0	0.0
Recorded-Adjusted (Nominal $)					
Labor	486	482	395	128	250
Non-Labor	-147	23	498	100	84
NSE	0	0	0	0	0
Total	**339**	**505**	**893**	**228**	**334**
FTE	2.5	2.6	2.5	0.8	1.4
Vacation & Sick (Nominal $)					
Labor	82	83	75	22	44
Non-Labor	0	0	0	0	0
NSE	0	0	0	0	0
Total	**82**	**83**	**75**	**22**	**44**
FTE	0.4	0.4	0.5	0.2	0.3
Escalation to 2021$					
Labor	65	48	26	4	0
Non-Labor	-18	2	36	8	0
NSE	0	0	0	0	0
Total	**47**	**50**	**62**	**12**	**0**
FTE	0.0	0.0	0.0	0.0	0.0
Recorded-Adjusted (Constant 2021$)					
Labor	634	613	497	155	295
Non-Labor	-165	25	534	108	84
NSE	0	0	0	0	0
Total	**469**	**638**	**1,030**	**262**	**378**
FTE	2.9	3.0	3.0	1.0	1.7

* After company-wide exclusions of Non-GRC costs
** Refer to "Detail of Adjustments to Recorded" page for line item adjustments
Note: Totals may include rounding differences.

SCG/ADMINISTRATIVE & GENERAL/Exh No:SCG-29-WP-R/Witness: S. Mijares
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This page shows the "walk" from Recorded costs to Adjusted-Recorded costs with V&S and Escalation to Base Year Constant dollars.

Summary of Results on Page 43 of 158

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Navigating the O&M Shared Service Workpapers

Southern California Gas Company
2024 GRC - REVISED
Shared Services Workpapers

Area: ADMINISTRATIVE & GENERAL
Witness: Sara P. Mijares
Category: B. Legal
Category-Sub 1. Legal
Cost Center: 2200-2095.000 - CLAIMS MANAGEMENT

Activity Description:

The Claims department processes all third-party property damage, bodily injury and recovery claims for the utilities. The SoCalGas Claims department is responsible for the investigation (field and office), documentation, and resolution of third-party liability claims and recovery claims that are brought against the Utility or where Utility facilities have been damaged. The final resolution can include a decision to deny or pay liability claims based on determined liability or for recovery cases, a decision to bill or no bill, again based on liability.

Forecast Explanations:

Labor - 5-YR Average

The 5-year average methodology produces a reasonable forecast of 2022-2024 expenses as it best reflects the current organization and related cost structure. It should be noted that the year-to-year variability is attributable to various drivers. Since these activities are managed in aggregate, this methodology is appropriate to normalize year-to-year variability and has been consistently applied for these groups in prior SoCalGas GRCs. Where additional business requirements dictate, incremental resources are identified and specific cost forecasts are quantified based on current salary levels and related non-labor costs.

Non-Labor - 5-YR Average

The 5-year average methodology produces a reasonable forecast of 2022-2024 expenses as it best reflects the current organization and related cost structure. It should be noted that the year-to-year variability is attributable to various drivers. Since these activities are managed in aggregate, this methodology is appropriate to normalize year-to-year variability and has been consistently applied for these groups in prior SoCalGas GRCs. Where additional business requirements dictate, incremental resources are identified and specific cost forecasts are quantified based on current salary levels and related non-labor costs.

NSE - 5-YR Average

Not Applicable.

Summary of Results:

	In 2021$ (000) Incurred Costs							
	Adjusted-Recorded					Adjusted-Forecast		
Years	2017	2018	2019	2020	2021	2022	2023	2024
Labor	1,072	1,358	1,358	1,395	1,370	1,310	1,500	1,500
Non-Labor	242	222	42	64	90	132	138	138
NSE	0	0	0	0	0	0	0	0
Total	1,313	1,580	1,400	1,459	1,461	1,442	1,638	1,638
FTE	10.1	12.6	12.5	10.9	12.4	11.7	13.7	13.7

Note: Totals may include rounding differences.

SCG/ADMINISTRATIVE & GENERAL/Exh No:SCG-29-WP-R/Witness: S. Mijares
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In the GRC, witnesses defend 100% of the incurred costs, the allocation percentages, and the cost allocation methodologies.

Southern California Gas Company
2024 GRC - REVISED
Shared Services Workpapers

Area: ADMINISTRATIVE & GENERAL
Witness: Sara P. Mijares
Category: B. Legal
Category-Sub: 1. Legal
Cost Center: 2200-2095.000 - CLAIMS MANAGEMENT

Cost Center Allocations (Incurred Costs):

	2021 Adjusted-Recorded					2022 Adjusted-Forecast				
	Labor	Non-Labor	NSE	Total	FTE	Labor	Non-Labor	NSE	Total	FTE
Directly Retained	0	0	0	0	0.0	10	1	0	11	0.1
Directly Allocated	0	0	0	0	0.0	-162	-9	0	-171	-1.9
Subj. To % Alloc.	1,370	90	0	1,460	12.4	1,462	140	0	1,602	13.5
Total Incurred	1,370	90	0	1,460	12.4	1,310	132	0	1,442	11.7
% Allocation										
Retained	99.48%	99.48%				99.87%	99.87%			
SEU	0.00%	0.00%				0.00%	0.00%			
CORP	0.52%	0.52%				0.13%	0.13%			
Unreg	0.00%	0.00%				0.00%	0.00%			

	2023 Adjusted-Forecast					2024 Adjusted-Forecast				
	Labor	Non-Labor	NSE	Total	FTE	Labor	Non-Labor	NSE	Total	FTE
Directly Retained	10	1	0	11	0.1	10	1	0	11	0.1
Directly Allocated	-162	-9	0	-171	-1.9	-162	-9	0	-171	-1.9
Subj. To % Alloc.	1,652	146	0	1,798	15.5	1,652	146	0	1,798	15.5
Total Incurred	1,500	138	0	1,638	13.7	1,500	138	0	1,638	13.7
% Allocation										
Retained	99.87%	99.87%				99.87%	99.87%			
SEU	0.00%	0.00%				0.00%	0.00%			
CORP	0.13%	0.13%				0.13%	0.13%			
Unreg	0.00%	0.00%				0.00%	0.00%			

Cost Center Allocation Percentage Drivers/Methodology:

Cost Center Allocation Percentage for 2021

The allocation methodology is based on a workload study of claims payments processed in historical periods.

Cost Center Allocation Percentage for 2022

The allocation methodology is based on a workload study of claims payments processed in historical periods.

Cost Center Allocation Percentage for 2023

The allocation methodology is based on a workload study of claims payments processed in historical periods.

Cost Center Allocation Percentage for 2024

The allocation methodology is based on a workload study of claims payments processed in historical periods.

Note: Totals may include rounding differences.

SCG/ADMINISTRATIVE & GENERAL/Exh No:SCG-29-WP-R/Witness: S. Mijares
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Illustrative Example: TY2024 GRC SCG Regional Public Affairs

GRC Areas	Witness	Testimony	Workpapers
Regional Public Affairs	Mario Aguirre	Testimony Link	Workpaper Link

GRC Workpaper: 2GD011.000

TABLE MA-33
Regional Public Affairs

GAS DISTRIBUTION (In 2021 $)			
D. Regional Public Affairs	**2021 Adjusted-Recorded (000s)**	**TY2024 Estimated (000s)**	**Change (000s)**
1. Regional Public Affairs	3,982	4,107	125

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Illustrative Example: TY2024 GRC SCG Regional Public Affairs

Southern California Gas Company
2024 GRC - REVISED
Non-Shared Service Workpapers

Area: GAS DISTRIBUTION
Witness: Mario A. Aguirre
Category: D. Regional Public Affairs
Category-Sub 1. Regional Public Affairs
Workpaper: 2GD011.000 - Regional Public Affairs

Activity Description:

Regional Public Affairs (RPA) primarily supports field operations through its work with regional and local governments on issues regarding proposed regulations, franchises, permitting, and emergency preparedness and response. RPA also educates officials at the county and city levels about SoCalGas issues that could impact customers. RPA further serves as the point of contact in the communities SoCalGas serves, educating stakeholders about SoCalGas activities, programs and services, responding to customer and media inquiries, and resolving customer complaints.

Forecast Explanations:

Labor - Base YR Rec

SoCalGas evaluated the historical expenditures for 2017 through 2021 for the Regional Public Affairs (RPA) workgroup. The level of spending for this workgroup is primarily based on the salaries and non-labor expenses of the current RPA workgroup. Therefore, a base year forecast method was used to forecast the base level of future labor expense plus incremental funding needed to fund an additional Public Affairs Manager.

Non-Labor - Base YR Rec

SoCalGas evaluated the historical expenditures for 2017 through 2021 for the Regional Public Affairs (RPA) workgroup. The level of spending for this workgroup is primarily based on the salaries and associated non-labor expenses of the current RPA workgroup. Therefore, a base year forecast method was used to forecast the base level of future non-labor expense.

NSE - Base YR Rec

NSE is not applicable to this workgroup.

Summary of Results:

	In 2021$ (000) Incurred Costs							
	Adjusted-Recorded					Adjusted-Forecast		
Years	2017	2018	2019	2020	2021	2022	2023	2024
Labor	3,192	3,310	3,445	3,378	3,435	3,560	3,560	3,560
Non-Labor	549	595	576	580	546	547	547	547
NSE	0	0	0	0	0	0	0	0
Total	**3,740**	**3,905**	**4,021**	**3,957**	**3,982**	**4,107**	**4,107**	**4,107**
FTE	27.8	28.0	29.0	28.2	27.9	28.9	28.9	28.9

Note: Totals may include rounding differences.

SCG/GAS DISTRIBUTION/Exh No:SCG-04-WP-R/Witness: M. Aguirre
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The basics:

- GRC Workpaper: 2GD011.000
- Utilized a Base Year 2021 Forecast Methodology, which means that the forecast starts with 2021 Adjusted-Recorded Actuals and then adds or subtracts forecasted adjustments to derive the forecasts for 2022-TY 2024. In this example, costs shown in 2017-2020, don't impact the TY2024 forecast, but are provided for comparison.
- The incremental $125K is because they are requesting 1 Public Affairs Manager starting in 2022, so the same adjustment is shown in all three forecast years.

Summary of Adjustments to Forecast:

		In 2021 $(000) Incurred Costs								
Forecast Method		Base Forecast			Forecast Adjustments			Adjusted-Forecast		
Years		2022	2023	2024	2022	2023	2024	2022	2023	2024
Labor	Base YR Rec	3,435	3,435	3,435	125	125	125	3,560	3,560	3,560
Non-Labor	Base YR Rec	546	546	546	0	0	0	546	546	546
NSE	Base YR Rec	0	0	0	0	0	0	0	0	0
Total		**3,982**	**3,982**	**3,982**	**125**	**125**	**125**	**4,107**	**4,107**	**4,107**
FTE	Base YR Rec	27.9	27.9	27.9	1.0	1.0	1.0	28.9	28.9	28.9

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Illustrative Example: TY2024 GRC SCG Regional Public Affairs

» **Determination of Adjusted-Recorded Historical O&M Costs in Constant 2021$:**

1. *Recorded (Nominal $)*: SAP data is loaded into Business Warehouse queries, which present costs:
   - After companywide non-GRC costs have been removed
   - Groups cost centers into each assigned witness area and then into the assigned GRC workpaper
2. *Adjustments (Nominal $)*: Manual adjustments that are detailed in the workpaper pages, by year, in the pages following the page shown below.
3. *Recorded-Adjusted (Nominal$)* = (1) Recorded + (2) Adjustments
4. *Vacation & Sick (Nominal $)* = Companywide factors are added that represent paid time off for vacation, sick leave, and holiday pay.
5. *Escalation to 2021$*: brings the historical dollars up to Constant Base Year 2021$
6. *Recorded-Adjusted (Constant 2021$)* as shown on workpaper page 112 of 135

			Amount					FTE				
GRC Wkp Grp Sub		GRC/NonGRC Code	2017	2018	2019	2020	2021	2017	2018	2019	2020	2021
2GD011.000	Regional Public Affairs	GRC	$ 3,089,286	$ 3,297,569	$ 3,390,945	$ 3,512,806	$ 3,538,043	24.1	24.2	24.8	24.2	23.6
		Non_GRC	$ 1,141,253	$ 452,492	$ 482,113	$ 540,635	$ 903,240	4.9	4.1	4.5	4.4	5.4
		Result	$ 4,230,538.00	$ 3,750,061.25	$ 3,873,058.00	$ 4,053,440.75	$ 4,441,282.00	29.0	28.4	29.4	28.6	29.0

Southern California Gas Company
2024 GRC - REVISED
Non-Shared Service Workpapers

Area: GAS DISTRIBUTION
Witness: Mario A. Aguirre
Category: D. Regional Public Affairs
Category-Sub: 1. Regional Public Affairs
Workpaper: 2GD011.000 - Regional Public Affairs

Determination of Adjusted-Recorded (Incurred Costs):

	2017 ($000)	2018 ($000)	2019 ($000)	2020 ($000)	2021 ($000)
Recorded (Nominal $)*					
Labor	2,537	2,692	2,832	2,879	2,926
Non-Labor	552	606	559	634	612
NSE	0	0	0	0	0
Total	**3,089**	**3,298**	**3,391**	**3,513**	**3,538**
FTE	24.1	24.2	24.8	24.2	23.6
Adjustments (Nominal $) **					
Labor	-90	-90	-90	-91	-6
Non-Labor	-65	-60	-21	-95	-66
NSE	0	0	0	0	0
Total	**-154**	**-150**	**-111**	**-185**	**-72**
FTE	-0.6	-0.6	-0.6	-0.7	-0.1
Recorded-Adjusted (Nominal $)					
Labor	2,447	2,602	2,742	2,789	2,920
Non-Labor	488	546	538	539	546
NSE	0	0	0	0	0
Total	**2,935**	**3,148**	**3,280**	**3,327**	**3,466**
FTE	23.5	23.6	24.2	23.5	23.5
Vacation & Sick (Nominal $)					
Labor	415	448	520	491	515
Non-Labor	0	0	0	0	0
NSE	0	0	0	0	0
Total	**415**	**448**	**520**	**491**	**515**
FTE	4.3	4.4	4.8	4.7	4.4
Escalation to 2021$					
Labor	330	260	183	98	0
Non-Labor	61	50	39	41	0
NSE	0	0	0	0	0
Total	**391**	**310**	**222**	**139**	**0**
FTE	0.0	0.0	0.0	0.0	0.0
Recorded-Adjusted (Constant 2021$)					
Labor	3,192	3,310	3,445	3,378	3,435
Non-Labor	549	595	576	580	546
NSE	0	0	0	0	0
Total	**3,740**	**3,905**	**4,021**	**3,957**	**3,982**
FTE	27.8	28.0	29.0	28.2	27.9

* After company-wide exclusions of Non-GRC costs
** Refer to "Detail of Adjustments to Recorded" page for line item adjustments
Note: Totals may include rounding differences.

SCG/GAS DISTRIBUTION/Exh No:SCG-04-WP-R/Witness: M. Aguirre
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Illustrative Example: TY2024 GRC SCG Regional Public Affairs

- » The manual adjustments made to the 2021 recorded costs begin at the bottom of workpaper page 119 and continue to the top of page 121.
- » The dollar amounts are listed first (in thousands) and the Explanations/Descriptions are listed below the dollar amounts.
- » The sub-total on page 121 matches the 2021 Adjustment details on page 114:

2021	0	-8	0	0.0	1-Sided Adj
Explanation:	Incremental COVID-related costs that are anticipated to be requested for recovery through a non-GRC Catastrophic Event Memorandum Account (CEMA).				
2021	0	-38	0	0.0	1-Sided Adj

Note: Totals may include rounding differences.

SCG/GAS DISTRIBUTION/Exh No:SCG-04-WP-R/Witness: M. Aguirre
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Southern California Gas Company
2024 GRC - REVISED
Non-Shared Service Workpapers

Area: GAS DISTRIBUTION
Witness: Mario A. Aguirre
Category: D. Regional Public Affairs
Category-Sub: 1. Regional Public Affairs
Workpaper: 2GD011.000 - Regional Public Affairs

Year	Labor	NLbr	NSE	FTE	Adj Type
Explanation:	Excluding payments made to Chambers of Commerce. 2017: $14,389 2018: $8,830 2019: $8,889 2020: $3,370 2021: $38,084				
2021	0	-6	0	0.0	1-Sided Adj
Explanation:	Excluding costs associated to tickets. 2017: $5,680 2018: $12,014 2019: $9,081 2020: $4,488 2021: $6,223				
2021	0	-3	0	0.0	1-Sided Adj
Explanation:	Excluding costs associated to dues. 2017: $2,385 2018: $2,027 2019: $2,817 2020: $1,503 2021: $2,650				
2021	0	-11	0	0.0	1-Sided Adj
Explanation:	Excluding costs associated to sponsorships. 2017: $42,148 2018: $23,550 2019: $14,307 2020: $14,439 2021: $10,700				
2021	0	0	0	0.0	1-Sided Adj
Explanation:	Exclude labor expenses associated with lobbying activities (FERC 426.4). This adjustment is in addition to other costs that have already been excluded based other specific accounting attributes.				
2021	-1	0	0	0.0	1-Sided Adj
Explanation:	Exclude labor expenses associated with lobbying activities (FERC 426.4). This adjustment is in addition to other costs that have already been excluded based other specific accounting attributes.				
2021	-1	0	0	0.0	1-Sided Adj
Explanation:	Exclude labor expenses associated with lobbying activities (FERC 426.4). This adjustment is in addition to other costs that have already been excluded based other specific accounting attributes.				
2021	0	0	0	0.0	1-Sided Adj
Explanation:	Exclude labor expenses associated with lobbying activities (FERC 426.4). This adjustment is in addition to other costs that have already been excluded based other specific accounting attributes.				
2021	-2	0	0	0.0	1-Sided Adj
Explanation:	Exclude labor expenses associated with lobbying activities (FERC 426.4). This adjustment is in addition to other costs that have already been excluded based other specific accounting attributes.				
2021	-1	0	0	-0.1	1-Sided Adj

Note: Totals may include rounding differences.

SCG/GAS DISTRIBUTION/Exh No:SCG-04-WP-R/Witness: M. Aguirre
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Southern California Gas Company
2024 GRC - REVISED
Non-Shared Service Workpapers

Area: GAS DISTRIBUTION
Witness: Mario A. Aguirre
Category: D. Regional Public Affairs
Category-Sub: 1. Regional Public Affairs
Workpaper: 2GD011.000 - Regional Public Affairs

Year	Labor	NLbr	NSE	FTE	Adj Type
Explanation:	Exclude labor expenses associated with lobbying activities (FERC 426.4) and other advocacy related activities. This adjustment is in addition to other costs that have already been excluded based on other specific accounting attributes.				
2021 Total	-6	-66	0	-0.1	

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MDR Audit Chapter 32 Q7, Q9, and Q16

Question 7*

- “A comparison table showing the following:
  - FERC general ledger year-end account balance for the base year (2021)
  - The base year (2021) account balances adjusted for ratemaking purposes, and the differences in each account
  - Provide a detailed listing of all adjustments including a complete description of each adjustment
  - For the base year (2021), a reconciliation of the presentation of expense by non-shared service cost center (or groups of cost centers) and shared service cost center to the Business Warehouse data
  - For the base year (2021), a reconciliation of the Business Warehouse data to the general ledger”

Question 9*

- “An electronic trial balance for SoCalGas showing balances by sub-account for the last five years (2017-2021) by month.

Question 16*

- “Provide an electronic database file for all accounting entries made in utility’s base year (2021) database such that accounting balances can be traced to documents”

*The responses to these MDR questions were prepared prior to the errata filing, so they do not include additional adjustments made after the original filing and that are included in the revised workpapers dated August 2022.

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GRC Audit

- SoCalGas is currently undergoing a GRC audit led by PAO auditors Sophia Chia and Joyce Lee
- To date, SoCalGas has responded to 33 audit data requests

The audit begins with the GRC workpaper Adjusted-Recorded Nominal Costs

→

Then drills down into the Recorded costs by making selections

→

Finally, supporting documentation is requested (e.g., invoices) that match the recorded costs that are shown in the GRC workpapers.

Questions?

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APPENDIX

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GRC Audit Data Request Samples

Origination Date:	02 June 2022
Originated by:	Sophie Chia
Phone:	415-703-5609
Email:	sophie.chia@cpuc.ca.gov
Exhibit Reference:	N/A
SCG Witness:	N/A
Subject:	Recorded Costs for A&G Expenses and Capital Expenditures
From:	Stacey Hunter, Project Coordinator Public Advocates Office Stacey.Hunter@cpuc.ca.gov
To:	Jamie York, Project Coordinator Sempra Utilities jyork@semprautilities.com
Public Advocates No:	PubAdv-SCG-AUDIT-SWC-001

Please provide the following:

1. Please provide the 2017 to 2021 recorded expenses for Administrative and General (A&G) expenses by lines of business/departments. Please provide the exhibit reference for the recorded A&G expenses.
2. Please provide the 2017 to 2021 recorded expenses for capital expenditures by lines of business/departments. Please provide the exhibit reference for the recorded capital expenditures.

END OF REQUEST

Origination Date:	23 June 2022
Originated by:	Sophie Chia
Phone:	415-703-5609
Email:	sophie.chia@cpuc.ca.gov
Exhibit Reference:	N/A
SCG Witness:	N/A
Subject:	Audit
From:	Stacey Hunter, Project Coordinator Public Advocates Office Stacey.Hunter@cpuc.ca.gov
To:	Jamie York, Project Coordinator Sempra Utilities jyork@semprautilities.com
Public Advocates No:	PubAdv-SCG-AUDIT-SWC-006

Please provide the following:

1. Please provide the next level of detail for the yellow highlighted selections on the spreadsheet received in response to PubAdv-SCG-AUDIT-SWC-001, Question 1 that will allow Cal Advocates the ability to make selections and tie those to the supporting documentation (i.e. general ledger transaction, cost element, vendor name description of cost, etc.) for the following exhibits.
   a. Exhibit SCG-27
   b. Exhibit SCG-28
   c. Exhibit SCG-29

Origination Date:	29 July 2022
Originated by:	Sophie Chia
Phone:	415-703-5609
Email:	sophie.chia@cpuc.ca.gov
Exhibit Reference:	SCG-27, SCG-28, and SCG-29
SCG Witness:	Various
Subject:	Audit
From:	Stacey Hunter, Project Coordinator Public Advocates Office Stacey.Hunter@cpuc.ca.gov
To:	Jamie York, Project Coordinator Sempra Utilities jyork@semprautilities.com
Public Advocates No:	PubAdv-SCG-AUDIT-SWC-014

Please provide the following:

1. Please provide the next level of detail or the supporting documents for the green highlighted selections on the attached spreadsheet for SoCalGas' expenses for Exhibits SCG-27,SCG-28, and SCG-29 that will allow Cal Advocates the ability to make selections and tie those to the supporting documentation (i.e. general ledger transaction, cost element, vendor name description of cost, etc.). The source of the spreadsheet is from the response to PubAdv-SCG-AUDIT-SWC-006.

END OF REQUEST

Origination Date:	27 September 2022
Originated by:	Sophie Chia
Phone:	415-703-5609
Email:	sophie.chia@cpuc.ca.gov
Exhibit Reference:	SCG-29
SCG Witness:	Mijares
Subject:	Audit
From:	Stacey Hunter, Project Coordinator Public Advocates Office Stacey.Hunter@cpuc.ca.gov
To:	Jamie York, Project Coordinator Sempra Utilities jyork@semprautilities.com
Public Advocates No:	PubAdv-SCG-AUDIT-SWC-020

Please provide the following:

1. Please provide the supporting documents for the journal entry selections on the attached spreadsheet for SoCalGas' expenses for Exhibits SCG-29 that will allow Cal Advocates the ability to verify the selected transaction to the supporting documentation (i.e. general ledger transaction, cost element, vendor's name, description of services/work, date, amount of services/work, etc.).

END OF REQUEST

SoCalGas

Glad to be of service.®

APPENDIX H

CPUC Utility General Rate Case – A Manual for Regulatory Analysts

Utility General Rate Case – A Manual for Regulatory Analysts

California Public Utilities Commission

Policy & Planning Division

Maryam Ghadessi
Principal Author
POLICY AND PLANNING DIVISION

Marzia Zafar
Director
POLICY AND PLANNING DIVISION

November 13, 2017

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OVERVIEW

Utilities are considered to be natural monopolies. What are monopolies? Monopolies are businesses or markets where one producer (or a group of producers acting in concert) controls supply of a good or service, and where the entry of new producers is prevented or highly restricted. So, in a nutshell your basic necessities (i.e. electricity, gas, & water services) are provided by government imposed monopolies. So what? Well, the natural instinct of any business is to maximize profits. But, when there is little to no competition, then monopolies can restrict access/service and/or increase the price with the customer having no choice. That is where the Commission comes in. The Commission is responsible for ensuring that utility service monopolies provide safe and reliable service at just and reasonable rates.

So, let us re-cap: Utilities are government imposed monopolies or at least they are very similar to monopolies in that they own and control the distribution and delivery of basic necessities. In other words there is no competition to keep the utility from indiscriminately raising the price of service. To remedy this situation, regulation was established long ago to ensure the safe and reliable delivery of service at just and reasonable rates.

For utilities, regulation represents tradeoffs by imposing restraints on utilities and in return, they receive certain protections. For example, prices charged are regulated and can never exceed the original cost of the asset dedicated to utility service. Utilities have a regulated capital structure (not over-leveraged that would make them unstable), and tax benefits are conveyed to ratepayers as reductions to their rates. On the other hand, utilities have the exclusive right to provide electric service in their service territories (e.g. provide a monopoly service). And utilities are entitled to recover the costs of reasonably-incurred investments, even when they retire prematurely, etc.

How do regulators do that? Well, regulators start by asking the utility to compile a report that provides answers to the following key questions;

1. What kind of infrastructure and investments does the utility need to serve its customers?
2. What is the prudent and reasonable cost of providing the service? and,
3. What rates would allow the utility company a reasonable opportunity to recover its costs, including a reasonable return on invested capital (i.e. profit)?

This report is called a General Rate Case. It is the single most important case for the utility and the regulator since it establishes the revenue from customers to provide safe and reliable service at just and reasonable rates (cost). An effective regulator has to find the balance between what’s really needed to maintain safe and reliable service and what’s gold-plating. In other words, an effective regulator has to choose the appropriate quality of service, avoid wasted costs, and set reasonable rates to recover the prudent cost.

The rest of this write-up is a more detailed explanation of how a General Rate Case works.

GRC REVIEW PROCESS – Chapter 1

I. INTRODUCTION

The Commission establishes rates for utilities under its jurisdiction in a rate-setting proceeding called, the General Rate Case (GRC). The Commission's Rules of Practice and Procedure Article 2 and Appendix A of the Commission decision (D.) 07-07-004 set the rules and procedures for GRC review process.

In this section we discuss the authority granted to the Commission by the Public Utilities Codes for establishing just and reasonable rates and the principles that emerge from the Public Utilities Codes and guide the Commission in establishing rates. We will also discuss the original and the current modified rate case plan that set the rules and procedures for the GRC review process at the Commission.

II. AUTHORITY FOR RATE REGULATION

The Commission is mandated by Sections 451, 454, and 728 of the Public Utilities Code to establish just and reasonable rates for utilities under its jurisdiction. According to Public Utilities Code 451 to be legal all public utility charges must be just and reasonable. Public Utilities Code 451 states:

> "All charges demanded or received by any public utility, or by any two or more public utilities, for any product or commodity furnished or to be furnished or any service rendered or to be rendered shall be just and reasonable. Every unjust or unreasonable charge demanded or received for such product or commodity or service is unlawful."

Public Utilities Code 454 and 728 hold the Commission responsible for ensuring that rates are just and reasonable. According to Public Utilities Code 454 a public utility can change its' rate only after the Commission establishes that the new rate is just. Public Utilities Code 454 states:

> "[A] public utility shall not change any rate or so alter any classification, contract, practice, or rule as to result in any new rate, except upon a showing before the commission and a finding by the commission that the new rate is justified."

And Public Utilities Code 728 directs the Commission to put in effect rates that are just and reasonable whenever the Commission finds that the existing rates are unjust and unreasonable. Public Utilities Code 728 states:

> "Whenever the commission, after a hearing, finds that the rates or classifications, demanded, observed, charged, or collected by any public utility for or in connection with any service, product, or commodity, or the rules, practices, or contracts affecting such rates or classifications are insufficient, unlawful, unjust, unreasonable, discriminatory, or preferential, the commission shall determine and fix, by order, the just, reasonable, or sufficient rates, classifications, rules, practices, or contracts to be thereafter observed and in force."

III. PRINCIPLES of RATE REGULATION

The statutory authority to establish just and reasonable rates require the Commission to set rates sufficient to cover the prudent costs of providing utility service. Included in the cost of providing service is a return on capital used to finance purchase of plants and assets. Investors expect a reasonable return on their capital investment. The Commission is mandated by statute to ensure that utilities are able to attract capital by offering an adequate or fair rate of return to investors. This mandate stems from the Supreme Court in the Bluefield and Hope decisions.

Fairness in rate regulation entails that the Commission should try to strike a balance between the interests of the ratepayers, on one hand, and the regulated utility (its owners; stockholders), on the other hand. Ratepayers are interested in reliable and safe utility service at the lowest possible rates. Investors ultimately are interested in earning maximum return on their capital. The role of the Commission in this process is to assure the interests of the ratepayers and utility are balanced by providing the utility with adequate and reasonable funding levels for both operating and capital costs.

IV. RATE-SETTING PROCESS

Major investor-owned utilities in California must seek approval from the Commission through a General Rate Case (GRC) application to change their rates. The GRC application is filed with the Commission and is available for the public to review on the Commission's website. Utilities under the jurisdiction of the Commission can change the rates only after the Commission completes the GRC application review process and issues an order authorizing changes in rates.

The application filing begins a formal evidentiary process in which the Commission must establish the amount of money that needs to be collected from ratepayers through rates i.e. Revenue Requirement. The establishment of a utility's revenue requirement is the basis for setting the overall level of the utility's rates. Revenue requirement is the amount of gross revenues needed by the utility to cover its operating expenses, book depreciation, return, taxes, etc.

It should be pointed out that utilities in California recover a large portion of their revenue requirement through balancing and memorandum accounts. A balancing account is an account established to record certain authorized amounts for recovery through rates and to ensure that the revenue collected matches the authorized amounts. Balancing accounts usually accrue interest – to be additionally returned to ratepayers if the utility is over-collected, or to recover additional revenue if the utility is under-collected. Memorandum accounts are similar to balancing accounts except that they do not usually establish an authorized revenue requirement and are subject to further scrutiny by the CPUC. Upon Commission review expenses accrued in Memorandum accounts may or may not be recoverable through rates.

In 2012 the portion of revenue requirement recovered through balancing and memorandum accounts for SCE, SDG&E, SoCalGas, and PG&E was 45.24%, 44.09%, 54.45%, and 40.00%, respectively. Disallowances of operating expenses from these balancing and memorandum accounts have not been material for utilities in California in the past.[1]

The development of a utility's revenue requirements is the first analytical step of the rate-setting process, which includes cost allocation and rate design. After revenue requirement is determined, then the next step is to allocate the revenue requirement to various classes of customers (cost allocation) and finally the rate structure for each customer rate class needs to be determined (rate design). Cost Allocation determines what portion of the revenue requirement to collect from various customer classes (residential, small business, commercial, industrial) and rate design determines how to collect those dollars from various customer classes.

A. GRC PROCEEDINGS

In California the GRC process for major investor-owned utilities – Pacific Gas and Electric Company (PG&E), Southern California Edison Company (SCE), San Diego Gas & Electric Company (SDG&E), Southern California Gas Company (SoCalGas) - typically consists of two separate proceedings. GRC Phase 1 sets the revenue requirement while GRC Phase 2 marginal costs[2] is established, revenue requirement is allocated across different customer classes, and rates for each customer class are developed. For major utilities each Phase of GRC proceedings, from the date utilities file an

[1] D.12-12-034.
[2] Marginal costs are the change in total costs resulting from the generation of one additional kilowatt of electricity.

application to the date the final decision is published, typically take two years to complete.

The GRC process for utilities that are small or operate across multiple jurisdictions - PacifiCorp, California Pacific Electric Company, and Bear Valley Electric Services - consist of one proceeding in which both revenue requirement is determined, and rates are established. For utilities that are small or multi-jurisdictional GRC proceedings typically takes one year.

Major investor-owned utilities operating in California are required to file a GRC application with the Commission every 36 months (3 years). In 2015 San Diego Gas & Electric Company (SDG&E), Southern California Gas Company (SoCalGas), and the Office of Ratepayer Advocates filed a petition for modification and requested the Commission to change the length of the GRC cycle for major investor-own utilities from three to four years. Decision (D.)16-06-005 denied the petition.

However D.16-06-005 ordered that the proceeding to remain open and directed the Energy Division to hold a workshop within six months to address the pertinent issues that are involved in moving to a longer GRC cycle, and to provide a workshop report on whether a longer GRC cycle is worth pursuing. The proceeding is still open.

In their GRC filings utilities provide various data for the base year, which is the last year of recorded costs. In GRC proceedings the Commission sets a new revenue requirement for test year and post-test year(s). Test year is the year used for evaluating a utility's cost of service. Base year is typically used as a basis to forecast revenue requirement for test-year. Post-test year are the two years succeeding the test year. Post-test year revenue requirement is usually estimated by adjusting test year revenue requirement based on forecasted increases (Inflationary cost increases, additional capital investments) during the post-test year period.

Below is an example of a large energy utility Rate Case Cycle:

- ✓ Base Year: 2014
- ✓ Rate Case Cycle: 2017 – 2019
- ✓ Test Year: 2017
- ✓ Post Test Years / Attrition Years: 2018 and 2019
- ✓ Application Submitted: 3rd – 4th quarter 2015

B. STEPS in GRC REVIEW PROCESS

The Commission's Rules of Practice and Procedure Article (Rule) 2 and the Commission's Rate Case Plan (RCP) as embodied in Decision (D.) 07-07-004 set the rules and procedures for the GRC review process. Commission Decision 07-07-004 (Appendix A page A-30) also set the filing requirement list for RCP. In addition the

Commission is mandated by Public Utilities Code 314.5 to inspect and audit the books and records of utilities for regulatory and tax purposes at least once every three years. An audit is conducted in connection with GRC.

The RCP was initially developed by the Commission to provide guidance to the utilities on the type of information they need to present, and the schedule they need to follow in GRC proceedings. As a result of Senate Bill (SB) 705[3] (signed into law by on October 7, 2011) and its emphasis on making natural gas safety a top priority, the Commission modified the RCP in D.14-12-025 to incorporate a risk-based decision-making framework into GRCs.

In this next section the original RCP as was developed in D.07-07-004 will be laid out. Subsequently the framework that was adopted in D.14-12-025, the Refined Straw Proposal, will be discussed.

V. ORIGINAL RATE CASE PLAN

1. Notice of Intent

The review process begins when the applicant serves the Notice of Intent (NOI) on the Office of Ratepayer Advocates (ORA). The NOI includes prepared testimony, draft exhibits and a brief statement of the amount of increase sought and the reasons for the proposed increase. Appendix A (page A-30) of D.07-07-004 sets the standard requirement list of documents supporting an NOI (a copy of Appendix A is attached). The application can be filed only after the NOI has been accepted by ORA.

The acceptance of the NOI will be based upon whether the applicant has substantially complied with the requirements of the Commission's Rules and the RCP. If there are deficiencies in the utility application it is the responsibility of ORA to identify and notify the deficiencies in the NOI to the applicant. The service of the NOI is completed after deficiencies are corrected and the NOI has been accepted by the ORA.

2. Filing of Application

An application may be filed no sooner than 60 days after the NOI has been accepted by ORA. In conformity with the Commission's Rules the application should include final exhibits, prepared testimony, and other evidence, and should be served on all parties to the last general rate case. The application serves as the request of the utility for ratepayer funds to continue the operation of the utility for the next 3 years.

Also the utility is required to provide notification to ratepayers that it has made a request for a rate change, how they can participate in the proceeding, etc., within 45 or 75 days

[3] SB 705 was codified into Public Utilities Code Sections 961 and 963 in Chapter 522 of the Statutes of 2011.

as required by Rule 3.2(b)-(d). This notification is usually made through notices added to monthly customer bills.

The date the application is filed will be noted as Day 0 under the rate case plan.

3. Assigned Administrative Law Judge and Commissioner

Once the utility files its application with the Commission then the President of the Commission working in concert with the Chief Administrative Law judge assigns a Commissioner and an Administrative Law Judge (ALJ) to oversee the proceeding. The assigned ALJ in cooperation with the assigned Commissioner develop proposed decisions for the full Commission's consideration.

4. Protests/Responses filed

Pursuant to the Rule 2.6 protests or responses to the application are due within 30 days after the notice of the filing of the application was mailed or published. The protest must state the grounds for the protest, the effect of the application on the protestant, and the reasons the application is not justified.

5. Prehearing conference (PHC)

In any proceeding in which it is preliminarily determined that a hearing is needed the assigned Commissioner may set a prehearing conference for 45 to 60 days after the initiation of the proceeding. The assigned ALJ will conduct a PHC to identify the issues to be addressed in the proceeding, determine whether evidentiary hearings are needed, and to discuss the schedule for the proceeding and other procedural matters.

Parties that file a protest to the application may submit PHC statements. PHC statements should address the procedural schedule, scope of issues to be included in (or excluded from) the proceeding, need for evidentiary hearings, appropriate category for the proceeding, discovery issues, and list and description of other matters the parties wish to address at the PHC.

6. Scoping Memo

After the PHC, the Assigned Commissioner issues a scoping memo determining the procedural schedule, assigns the presiding officer, and addresses the scope of the proceeding and other procedural matters for the proceeding. The scoping memo should also state the category and the need for hearing. For an example of a scoping memo see PG&E's 2017 GRC Scoping Memo.

7. Public Participation Hearings

Pursuant to Commission Decision 14-12-025, a series of Public Participation Hearings (PPHs) may be held on GRC application within 45 days of the filing date, prior to evidentiary hearings. The purpose of the PPHs is to provide an opportunity for customers to communicate directly with the Commission about how the utility's application, if granted, would impact them. PPHs are scheduled in locations throughout the utility's service territory in the communities affected by the project to allow for comments from members of the public who are not parties in the proceeding. Commissioners can attend these public participation hearings.

At PPHs utilities provide parties with a roadmap of their GRC filing, summarize the contents of the exhibits, and answer questions about their GRC proposals. For an example of PPH announcement see PG&E's 2017 GRC **Public Participation Hearings**.

8. Discovery from Parties

Pursuant to Rule 10.1 any party may obtain discovery (documents or other things) from any other party regarding any matter that is relevant to the subject matter involved in the pending proceeding, unless the expense of that discovery outweighs the likelihood that the information will lead to the discovery of admissible evidence.

A person may become a party to a GRC proceeding by; (a) filing an application, petition, or complaint, (b) filing a protest or response to an application, (c) making an oral motion to become a party at a prehearing conference or hearing; or (d) filing a motion to become a party. Parties file written testimony, cross-examine witnesses at evidentiary hearings, file written briefs, and appeal any final decision.

9. Proposal of Settlements

Pursuant to Rule 12.1, within 30 days after the PHC parties may propose in writing settlements of any issue or an outcome to the proceeding. Settlements need not be joined by all parties but must be signed by the applicant and the complainant.

The settlement motion should contain a statement of the factual and legal considerations adequate to advise the Commission of the scope of the settlement and of the grounds on which adoption is urged. In GRC proceedings the settlement motion must be supported by a comparison exhibit indicating the impact of the settlement in relation to the utility's application and, if the participating staff supports the settlement, in relation to the issues staff contested, or would have contested, in a hearing.

Prior to signing any settlement, the settling parties should convene at least one conference with notice and opportunity to participate provided to all parties for the purpose of discussing settlements in the proceeding. Attendance at any settlement conference is limited to the parties and their representatives.

Pursuant to Rule 12.2 parties can file comments contesting all or part of the settlement within 30 days of the date settlement was served. Comments must specify the factual issues that the party opposes and if hearing is requested the contested facts that would require a hearing. Parties can file reply comments within 15 days after the last day for filing comments.

The settlement will be approved if the Commission finds that the settlement is reasonable and in the public interest. Commission adoption of a settlement is binding on all parties to the proceeding in which the settlement is proposed.

Pursuant to Rule 12.3 the Commission can decline to set hearing if there are no contested issues of fact. If a hearing is set, it will be scheduled after the close of the comment period. Parties to the settlement must provide one or more witnesses to testify on the contested issues. Contesting parties may present evidence and testimony on the contested issues.

Pursuant to Rule 12.4 the Commission can reject a proposed settlement whenever it determines that the settlement is not in the public interest. The Commission can then holds hearings on the underlying issues, allow the parties time to renegotiate the settlement, or propose alternative terms to the parties to the settlement which are acceptable to the Commission.

10. Evidentiary Hearings Notice

Evidentiary hearings are commonly held in Phase I of GRC. In contrast parties typically reach settlements in Phase II of GRC, in which case evidentiary hearings are not held.

If evidentiary hearings are set, pursuant to Rule 13.1, the Commission and the utility should give notice of the time, date, and place of evidentiary hearings. The Commission should give notice not less than ten days before the date of hearing. And the utility should give notice to entities that may be affected by the decision by posting in public places and publishing in a newspaper.

In GRC proceedings parties will generally file prepared testimony. When evidentiary hearings are held copies of prepared testimony including any exhibits should be served to all parties prior to hearing. Prepared testimony should constitute the entirety of the witness's direct testimony, and should include any exhibits to be offered in support of the testimony and, in the case of an expert witness, a statement of the witness's qualifications.

In order to become part of the proceeding’s record, prepared testimony is offered into evidence in the evidentiary hearings. In addition to receipt of prepared testimony, in the evidentiary hearings cross-examination of witnesses sponsoring the written testimony takes place. In the absence of an evidentiary hearing, prepared testimony may be offered into evidence by written motion or by oral motion at a prehearing conference.

The assigned ALJ may require the production of further evidence upon any issue. Upon agreement of the parties, the presiding officer may authorize the receipt of specific documentary evidence as a part of the record within a fixed time after the hearing is adjourned.

Whether or not evidentiary hearings are set, the schedule will generally provide for the filing of briefs by the parties. The ALJ may fix the time for the filing of briefs. Concurrent briefs are preferable. The ALJ may outline specific issues to be briefed. Briefing of additional issues is optional. Factual statements in closing briefs must be supported by evidence in the record. Citations to the transcript must indicate the transcript page number(s) and identify the party and witness sponsoring the cited testimony. Reply Briefs may be filed 14 days after Opening Briefs.

In GRC proceedings in which hearings were held, a party has the right to make a final oral argument before the Commission, provided that the party makes such request in its closing brief or, if closing briefs are not permitted, in the manner specified in the scoping memo or later ruling in the proceeding. A quorum of the Commission shall be present.[4]

A proceeding is considered submitted for decision by the Commission after the taking of evidence, the filing of briefs, and the presentation of oral argument as may have been prescribed.

11. Issuance of Proposed Decision

Pursuant to Rule 14.2 the ALJ should file a proposed decision. A proposed decision should be filed no later than 90 days after submission. In GRC proceedings that hearing is held, an alternate proposed decision by the assigned Commissioner or assigned ALJ should be filed concurrently with the proposed decision.

12. Comments on Proposed or Alternate Decision

Pursuant to Rule 14.3 parties can file comments on a proposed or alternate decision within 20 days of the date of its service on the parties. Comments in general rate cases shall not exceed 25 pages and should include a subject index listing the recommended changes to the proposed or alternate decision, a table of authorities and an appendix setting forth proposed findings of fact and conclusions of law.

Comments should focus on factual, legal or technical errors in the proposed or alternate decision and in citing such errors should make specific references to the record or applicable law. Comments proposing specific changes to the proposed or alternate decision should include supporting findings of fact and conclusions of law.

[4] A Commissioner may be present by teleconference to the extent permitted by the Bagley-Keene Open Meeting Act.

Replies to comments may be filed within five days after the last day for filing comments and should be limited to identifying misrepresentations of law, fact or condition of the record contained in the comments of other parties. Replies should not exceed five pages in length.

In addition to parties to the proceeding any person may comment on a draft or alternate draft resolution by serving comments on the Commission no later than ten days before the Commission meeting when the draft or alternate resolution is first scheduled for consideration.

13. Appeal and Review of Presiding Officer's Decision

Parties can file an appeal and Commissioners can file a request for review of the proposed decision within 30 days of the date the decision is served. Any Appeals and requests for review should set forth specifically the grounds on which the requestor believes the proposed decision to be unlawful or erroneous. References to the record or the law must be clear.

Any party may file its response no later than 15 days after the date the appeal or request for review was filed. The Commission is not obligated to withhold a decision on an appeal or request for review to allow time for responses to be filed.

14. Decision in Rate-setting Proceeding

Pursuant to Rule 15.1 and 15.4 the Commission must vote on proposed or alternate decisions in a rate-setting proceeding in Commission Business Meetings. Commission Business Meetings are held on a regularly scheduled basis to consider and vote on decisions. Commission Business Meetings are open to the public. But in a rate-setting proceeding, the Commission can hold a Rate-setting Deliberative Meeting to consider the proposed decision in closed session. Notice of the time and place of these meetings will appear in the Commission's Daily Calendar.

15. Application for Rehearing

Pursuant to Rule 16.1 application for rehearing of a Commission decision should be filed within 30 days after the date the Commission mails the decision. Filing of an application for rehearing does not excuse compliance with a decision.

Applications for rehearing shall set forth specifically the grounds on which the applicant considers the decision of the Commission to be unlawful or erroneous. The purpose of an application for rehearing is to notify the Commission of a legal error, so that the Commission can correct it promptly. The resolution of the application for rehearing is reached when the petition is either granted or denied

VI. CURRENT RATE CASE PLAN

The Refined Straw Proposal, adopted in D.14-12-025, modified the original RCP to incorporate a process that assesses the risks relevant to the utility operations, and ensures that utilities' requested revenue requirement is sufficient for managing and mitigating operating risks in a cost-effective manner. More specifically the Refined Straw Proposal added the following three new processes to the original RCP:

1. The Commission should hold a periodic generic Safety Model Assessment Proceeding (S-MAP) either as part of GRC proceeding or as a separate proceeding. The purpose of SMAP should be to: (1) allow parties to understand the models the utilities propose to use to prioritize the programs/projects intended to mitigate risks and (2) allow the Commission to establish standards and requirements for those models.

2. At the initial phase of GRC the utility should presents the top ten asset-related risks for which the utility expects to seek recovery in the GRC, in the Risk Assessment and Mitigation Phase (RAMP). Initially the focus of RAMP will be on asset conditions but as the process matures the Commission can move beyond just asset conditions. RAMP should be based on the model that was vetted in the S-MAP and has to comply with CPUC requirements for the model as determined in the most recent S-MAP. There would be no Commission decision in this phase. However the utility's presentation and the staff and interested party responses would inform the utility's recommended projects and funding requests in the GRC.

3. Each utility has to submit two annual verification documents:

a. A Risk Mitigation Accountability Report, in which the utility compares its GRC projections of the benefits and costs of the risk mitigation programs adopted in the GRC with the actual benefits and costs, and explains any discrepancies; and

b. A Risk Spending Accountability Report, in which the utility compares its GRC projected spending for approved risk mitigation projects with the actual spending on those projects, and explains any discrepancies.

The Commission staff is expected to audit these reports and make the findings available to all interested parties.

Furthermore, D.14-12-025 eliminated the NOI process in the original RCP. As reflected in the Table the Refined Straw Proposal's timeline for the processing of a GRC replaces the timing of the NOI process with the timing for the RAMP process.

Deadline	Activity	Time After Prior Activity

		(illustrative and not to conflict with calendar deadlines at left)
October 1 of Base Year	Utility provides RAMP submittal on operational lines of business	--
November 1	Utility and Commission Staff host public workshop on risk submittal	30 days after submittal
March 1 of Base Year, Plus 1	Staff issues draft report	150 days after submittal
April 1	Staff hosts public workshop on draft report	30 days after issuance of draft report
April 15	Stakeholders provide comments on Staff report	45 days after issuance of draft report
May 15	Staff issues final report	30 days after receiving comments on draft report
September 1	Utility files GRC application, including possible changes from RAMP submittal	105 days after issuance of final report
October 1	Utility hosts public workshop on overall GRC application	30 days after filing of application
November 1	Staff issues verification that utility has addressed technical recommendations in Staff Report	60 days after filing of application
April 11 of Base Year, Plus 2	ORA & Interveners submit opening testimony	7 months after filing of application
April 25	Concurrent rebuttal testimony	Two weeks after opening testimony
March/April	Public Participation Hearings	
May 12 – May 30	Evidentiary Hearings, including Staff participation	2 weeks after rebuttal testimony
June 30	Opening briefs	1 month after end of hearings

July 14	Reply briefs	2 weeks after opening brief
July	Update testimony and hearings, if necessary	--
November	Proposed decision	4 months after reply briefs
December	Final decision	1 month after proposed decision

VII. CONCLUSION

In this chapter the authority granted to the Commission by the Public Utilities Codes for establishing just and reasonable rates and the principles that emerge from the Public Utilities Codes and guide the Commission in establishing rates were discussed. We also discussed the Commission's Rules of Practice and Procedure that set the rules and procedures for GRC review process.

DEVELOPING REVENUE REQUIREMENT – Chapter 2

I. INTRODUCTION

Utility regulation aims to provide safe and reliable electricity service at a fair price. Cost of service regulation tries to accomplish these goals by setting the standard that service should be provided at the original cost of assets placed in service or operating expenses.

Cost of service regulation sometimes is referred to as rate of return regulation because in cost of service ratemaking utilities have an opportunity to earn authorized rate of return on prudently incurred capital investments. However utilities are not guaranteed to earn their authorized return. Rates are set prospectively and an element of the authorized revenues is planned to repay investors for the use of their money. However, if the utility fails to manage its business efficiently and overspends, then it will likely fail to earn its authorized rate of return. This uncertainty is symmetrical, and if the utility spends less than authorized revenues it will earn greater than its authorized return.

An alternative to cost of service regulation, performance based regulation, has been implemented in many natural monopoly industries. Performance based regulation are designed to control costs by establishing a benchmarked price or revenue cap.[5]

Cost of service regulation is currently used in California. In cost of service regulation rates are set based on the total amount a utility requires to pay all operating expenses and capital costs or revenue requirement. Revenue requirement determination is the first step in cost of service study. Subsequent steps in cost of service study (functionalization of costs, classification of costs, and allocation of costs to customer classes) are intended to allocate the total revenue requirement to various customer classes in a fashion that reflects the cost of providing utility services to each class. After revenue requirement is allocated to customer classes, to develop rates for each customer class, rate design analysis is conducted.

In this chapter revenue requirement determination is discussed.

II. REVENUE REQUIREMENT DETERMINATION

Revenue Requirement is defined as reasonable and prudent amount of revenue that enables the utility to provide safe and reliable service to its customers. The

[5] If utilities are able to accomplish cost savings, they would earn a higher return. Alternatively, if they exceed their revenue-cap, they will incur losses.

establishment of the revenue requirement is an important first step in the cost of service process. Revenue requirement is the basis for rate design.

Utility's cost of providing service includes operating expenses such as Operation and Maintenance (O&M) expenses, taxes, and depreciation. In addition to reasonable operating expenses, revenue requirement includes a reasonable return on investment.

Utilities borrow capital to finance investment in physical plant and assets (rate base) needed to fulfill public utility service obligation. The return on rate base provides for payment of interest on debt and a return on the equity provided by the investors. Determining revenue requirements usually necessitates establishing a rate base, defined to be the value of the assets on which the utility is entitled to earn a return, and the setting of a fair return rate on the rate base.

Furthermore utilities normally receive revenues from sources other than retail sales of electricity. To find the total amount that has to be collected from ratepayers other operating revenues must be deducted from revenue requirement. Revenue requirement can be written as:

$$\text{Revenue Requirements} = \text{O\&M} + \text{Taxes} + \text{Depreciation} + \text{Rate Base} * r - \text{OR}$$

Where:

O&M = normal business expenses for running a utility company,
Taxes = Federal, state and local taxes,
Depreciation = accumulated depreciation of plants used to produce and deliver the utility's product,
Rate Base = net value of plant in service plus working capital,
r = rate of return on invested capital, and
OR = other operating revenue.

An important starting point for establishing revenue requirements is determining the test year or test period that are used as a means for evaluating a utility's cost of service. In what follows first the concept of test year is explained. Subsequently various components of revenue requirement are discussed.

There is generally three types of test-year periods; historical, forecasted, and pro forma.

A historical test-year period is based on the preceding 12-month period for which actual costs and data are available. A forecasted test period is future time period in which all of the costs and data are projected. Finally, a pro forma is a combination of the historical and forecasted test year. A pro forma test period begins with historical data and costs and then adjusts for costs or changes that are "known and measurable". The standards for known and measurable adjustments are set by the regulatory authority reviewing the study. In many cases, the utility must provide proof that the adjustment reflects a changed operating condition. Examples of known and measurable changes include a labor contract that specifies a certain percent adjustment to labor rates, or paid invoices for services rendered on new capital projects.

The disadvantage of the historical test year is that the utility's costs and data may lag behind current costs but the advantage is the use of actual costs and data. The disadvantage of a forecasted test period is that it may be difficult to forecast costs, and it lacks the certainty of a historical test year but the advantage is that costs for the test year will likely agree with the utility's budget or anticipated costs. The disadvantage of the pro forma test year is that it may not entirely capture changes in costs, but the advantage is that it has adjusted for only those costs that needed adjustment in the test year.

In California to develop rates that properly recover costs into the future a forecasted test period is used. Setting revenue requirement based on expected future inflation and anticipated higher utility costs allows utilities to recover those expected future costs. The use of a forecasted test period allows the revenue requirement to represent a forward-looking perspective.

Different components of revenue requirement are discussed in the following sections.

1. Operation and Maintenance Expenses

O&M expenses comprise a major part of revenue requirements. O&M expenses are incurred in the normal business of running a utility company. Since O&M expenses are incurred as part of providing utility services they are generally attributable to a specific function in the operation of producing or delivering electricity to customers

To record O&M expenses typically a system of accounts is used. A system of accounts enables the utility to record each transaction into the appropriate account within the system of accounts. In addition a system of accounts facilitates monitoring of each O&M expense item. To keep their records, utilities in California use the Uniform System of Accounts as recommended by the Federal Energy Regulatory Commission[6] and adopted by the California Public Utilities Commission.

Major categories of accounts and costs are as follows:

100 Series	Assets and other debits
200 Series	Liabilities and other credits
300 Series	Electric plant accounts
400 Series	Income, and revenue accounts
500 Series	Electric O&M expenses

[6] Code of Federal Regulations Title 18, Subchapter C, Part 101.

900 Series	Customer accounts, customer service and informational sales, and general and administrative expenses

Another consideration is that some expenditure that might normally be considered O&M expenses must be capitalized. For example salaries and wages of employees who devote time to a project that is a capital investment should be capitalized as a part of the cost of the project. When capitalized, such expenditures are accounted for in the same manner as other capitalized costs associated with the project and are not included as O&M expenses. Rather, these capitalized expenses are recovered over the operating life of the capital asset.

The list of operations and maintenance expenses include; purchased power and fuel expenses, other electric production O&M expense, electric transmission O&M expense, electric distribution O&M expense, customer accounts, services, and marketing expense, and administrative and general (A&G) expense.

In California purchased power and fuel costs are authorized annually through Energy Resource Recovery Account (ERRA) proceedings and not through GRCs. Although utilities have pre-approved authority to enter into long-term power purchase agreements, in ERRA proceedings they are required to justify contract administration, and compliance with upfront standards. In addition in California to forecast future O&M expenses, factors that will impact future expenses such as the number of customers served, demand, inflation, and operating conditions or maintenance are analyzed.

2. Depreciation

Depreciation is the loss in value of facilities, not restored by current maintenance, which occurs because of wear and tear, decay, inadequacy, and obsolescence. The annual depreciation expense allows the utility to recover its original capital investment over the useful life of the depreciable assets. Depreciation expense is borne by the customers who benefit from the use of an asset during the useful life of the asset.

Depreciation expense is typically recovered on an equal annual basis over the average service life of the asset (straight-line basis). The annual depreciation cost is thus calculated as the original cost of the asset, less the estimated net-salvage value, over the estimated average service life of that asset. The straight-line approach assesses depreciation cost equally each year to customers who benefit from the use of the asset during its entire life.

Currently in California many of the assets in service will cost more to retire than expected when they first were placed into service. For electric and gas utilities, the cost of retirement of assets leads to the need to collect more depreciation expense from utility ratepayers than the cost to build and install the capital asset. This circumstance leads to a “negative net-salvage” condition, and an increase in depreciation expense. In recent California GRCs this issue has been heavily litigated.

The annual depreciation cost can be written as:

Annual cost ($) = (Total asset value – Net salvage value)/Estimated service life

Under cost-of-service ratemaking, book depreciation is a cash item. Because depreciation expense is a noncash expense, the inclusion of book depreciation in calculating revenue requirements provides the utility with cash outlay necessary for the construction or installation of a long-lived asset. Depreciation expense is the lowest-cost source of funds because the utility does not have to re-enter the capital markets to finance new investments.

In addition utilities can take a tax deduction (tax depreciation) for book depreciation expense when the revenue is received. In other words, utilities can list tax depreciation as an expense on their tax return to reduce the amount of their taxable income. Book depreciation expense is taxable income without an offsetting deduction which stems from the tax depreciation.

3. Taxes

Investor-owned utilities are responsible for paying taxes to local, state, and federal authorities. Therefore, federal, state, or local income taxes are properly included in total revenue requirements.

Examples of local taxes include property taxes, which are based on the assessed value of utility property (i.e. rate base). Different states use various methods of assessing taxes, such as gross receipts taxes, franchise taxes, capital stock taxes, and income taxes. In California utilities pay franchise taxes that are based on the corporation’s allowable California taxable income. Finally federal taxable income is estimated by subtracting O&M expenses, tax depreciation expense (typically calculated at a higher rate than regulatory depreciation expense, over a shorter depreciable life), interest expense, different administrative expenses, and state and local taxes from revenues.

4. Other Operating Revenue

Other operating revenues include the amounts collected by a utility for services other than retail sales of electricity. An example of these revenue sources is when a utility allows space on its distribution poles for the use of cable television lines and receives payments for the service. These revenues must be deducted from the amount that has to be collected from ratepayers since the services are produced through the use of plant or utility personnel, the costs of which are borne by the utility’s retail service customers.

5. Rate Base

To determine the return on the capital provided by investors for the facilities, regulators generally multiply a utility's net plant investment (rate base) by an adopted rate of return. This multiplication results in a portion of the revenue requirement being designated as available to pay investors for the use of their funds. The earnings that the utility will be allowed to recover from customers are designed to provide a fair return on the capital for the rate base. The authorized return on capital is added to utilities' other expenses (O&M, depreciation, taxes, etc.) to determine overall revenue requirement. Rate base and its calculation are thus key components in the ratemaking process.

Rate base is defined as the remaining value of the assets on which investors are entitled to earn a return. Individual regulatory agencies have specific requirements concerning the items allowed in rate base. In general, rate base consists primarily of gross plant in service less accumulated depreciation (depreciated rate base), and working capital.

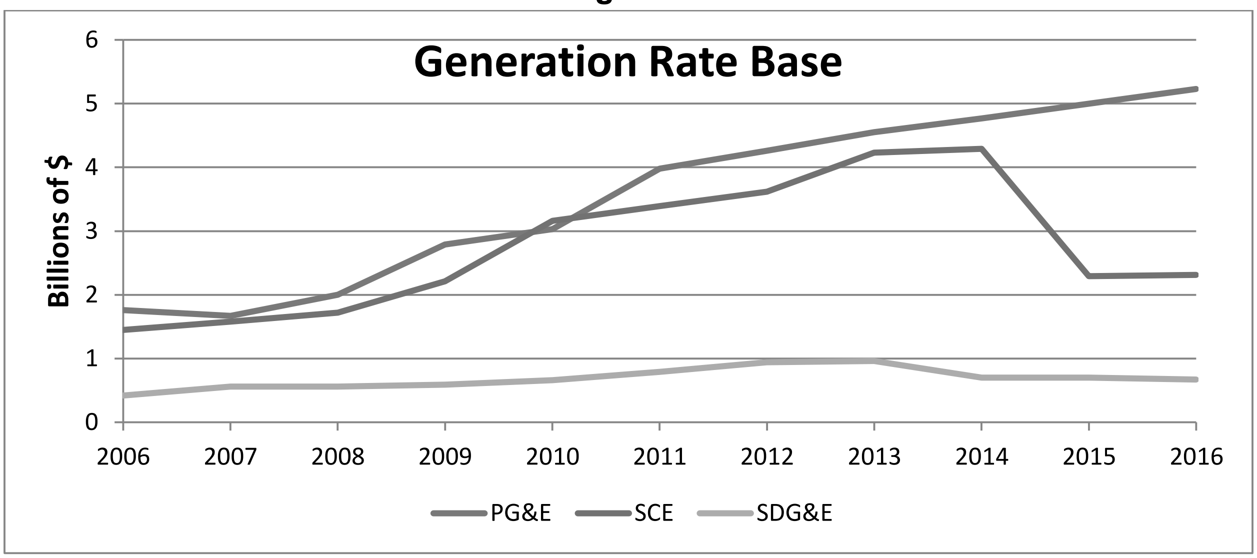
The Plant-In-Service accounts record the original cost of all utility investment still providing service. The accumulated book depreciation is subtracted from the plant in service balance, leaving rate base or remaining book value of the assets (i.e. the portion that still must be financed). To this balance is added working cash, which provides cash flow to finance lags between providing service and receiving payment. Rate Base is further reduced by the accumulated deferred taxes.

When the utility becomes entitled to a higher tax depreciation in a given year than the book depreciation collected, this creates a deferred tax. The phenomenon is often characterized as an "interest-free loan" from the federal government. Because the utility has the use of the book depreciation revenues without having to pay taxes in a given year, there is no need to finance that portion of rate base. Therefore deferred taxes are subtracted from the rate base. This phenomenon is strictly a timing issue, as the utility and its ratepayers will pay the same amount of taxes over the assets lives, the deferred tax will "unwind" over time, forcing the revenue requirement "gross-up" for taxes to increase in the latter years of an asset's operating life.

Examples of deferred tax deductions include accumulated deferred tax liabilities resulted from Accelerated Cost Recovery System and Modified Accelerated Cost Recovery System tax depreciation, deferred tax assets resulting from net operating losses, and deferred Investment Tax Credits. To estimate funds supplied by investors other items such as refundable contributions, and advances for constructions are also subtracted from the rate base.

Figure 1 show PG&E, SCE and SDG&E's generation rate base over time. As the Figure illustrate PG&E's generation rate base has been increasing overtime. But SCE and SDG&E's generation rate base has declined overtime. The decline for SCE is especially significant. Utilities in California have transitioned from owning and operating most of their electric generation needs to purchasing generation from other parties under purchase power agreements. As reflected by Figure 1 for SCE and SDG&E the substantial increase in the number of procurement transactions has dampened the investment in generation.

Figure 1



The decline in the generation rate base for SCE and SDG&E has been more than offset by the growth in distribution rate base. Figure 2 shows PG&E, SCE and SDG&E's generation and distribution rate base overtime. As Figure 2 illustrates when electric distribution rate base is added to generation rate base the trend is upward slopping for all three major IOUs in California.

Figure 2

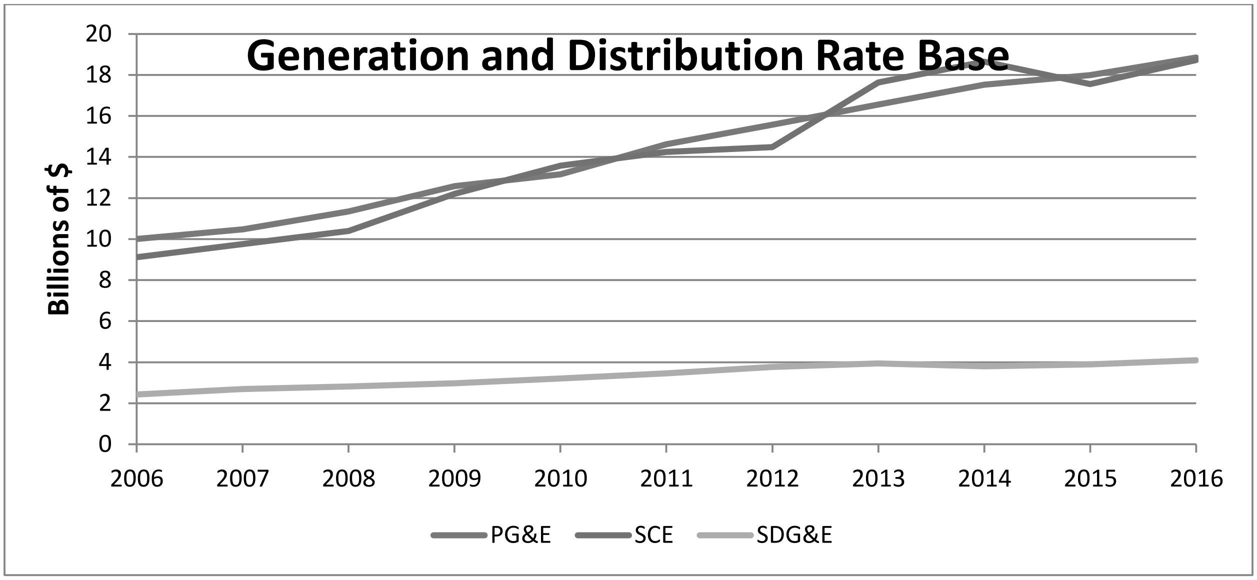
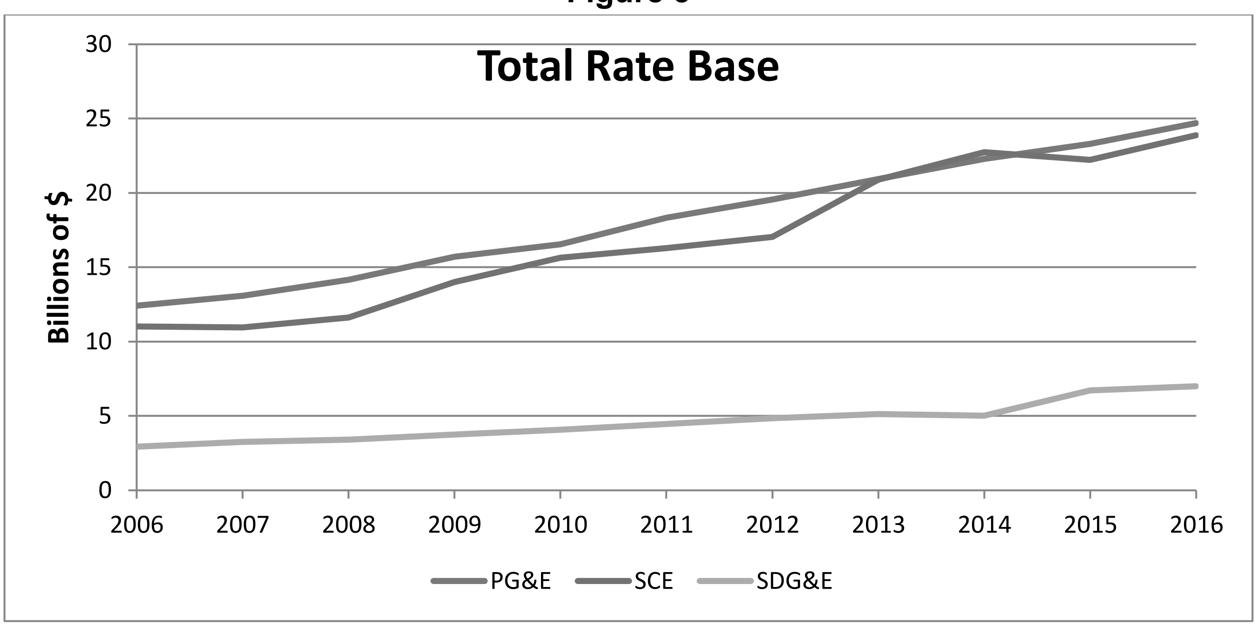


Figure 3 shows the total electric rate base, which includes transmission rate base. As the Figure illustrates the total electric rate base has a steeper upward slope for all the major IOUs in California.

Figure 3



Next we will discuss how rate base is estimated.

a. Gross Plant in Service

Gross plant in service is the starting point in estimating rate base. Rate base is estimated by deducting accumulated depreciation, and accumulated deferred taxes, and adding working cash to gross plant in service. Gross Plant is the total capital assets currently dedicated to utility service. Examples of gross plant in service include lands, buildings, equipment, structures, and other physical facilities used to serve customers. It also includes land and land rights acquired for future construction of utility facilities.

Gross plant in service is typically recorded using the original cost of the investment, which is the cost of a facility to the owner first putting it into public service. The original cost of the investment may be different from the current cost of replacing the asset. The Commission in California uses the original cost for valuation of the facilities and other items included in rate base. The primary issue related to plant in service is the used and useful standard.

The principle of used and useful is commonly applied to utility property. According to this principle a utility must demonstrate that the new plant is used and useful before being allowed to include the investment in its rate base. The used and useful standard has a twofold meaning. At the preliminary level it implies that the facility is built and provides service to customers. In addition the principal requires an examination of the utility's prudence in deciding to construct or purchase the utility plant.

In other words according to the used and useful standard to be included in the rate base the new asset must be required and operate in an effective and efficient manner. When the utility is found to be imprudent, assets are excluded from rate base, and the cost recovery for the remaining book value of the asset is denied. In those circumstances costs are borne by shareholders rather than ratepayers.

On the other hand, when assets are retired prematurely, for reasons other than imprudence, assets would be excluded from the rate base, which means the utility would not be permitted to earn a rate on return on assets, but the remaining book value of the asset will be amortized in customer rates. For example, in D.11-05-018 the Commission in California permitted rate recovery for PG&E's prematurely retired electro-mechanical meters and in D. 92-08-036 the Commission permitted cost recovery of the remaining investment in SONGS 1 after its early retirement.

b. Accumulated Depreciation

Accumulated depreciation represents the sum of all depreciation charges that a utility has expensed for a given asset included in gross plant in service. To find the net book value of a plant accumulated depreciation must be deducted from the original cost of the plant. The amount of accumulated depreciation depends on the methods used to calculate annual depreciation (e.g. straight line vs. accelerated basis).

c. *Working Capital*

The primary components of working capital are materials and supplies inventories and working cash. The inventory of materials and supplies are needed to support the maintenance and construction activities of utilities. Firms require working cash because normally there is a time lag between payment of expenses and collection of revenues. Including working capital in the rate base allows investors to earn a return for supplying the funds needed for investment in inventory of parts and supplies and day-to-day cash needs.

The average amount of funds supplied by investors depends on materials and supplies inventories, and the average days between the payment of expenses and collection of revenue. To find the length of time funds are tied up in working capital lead/lag studies are conducted. In California utilities are recommended to follow the Commission Standard Practice U-16 for determining their working cash requirement.[7]

In some regulatory jurisdictions funds used to finance the construction of new facilities, construction work in progress, CWIP, can be included in rate base during construction. A regulated utility can then recover its costs plus a reasonable return on investment during construction of new plants, before the facilities are included in rate base. The justification for including CWIP in the rate base is that it cushion against huge one-time increase in rates or rate shock when unusually large new facilities such as a major new power plant are put in to service. Including CWIP in rate base increases rates during the construction period, but rates after the project is completed are lower than when CWIP is not included in rate base.

California and number of other jurisdictions do not allow CWIP to be included in rate base and thus are not included in the estimation of a utility's allowed return. However, even in justifications where allowances for CWIP is permitted, since the plant is not yet used and useful, to include CWIP in the rate base regulators often require that work be completed within a specified time period, evidence that funds were borrowed to finance the construction, and improved quality of service. Never-the-less some states prevent or severely restrict the inclusion of CWIP in rate base because of the equity question raised by the inclusion of CWIP in rate base which is whether current ratepayers should provide a return on plant that does not provide service to them.

An alternative to including CWIP in rate base is capitalization of project financing costs, until the project is completed and entered onto the books. The Allowance for Funds Used During Construction (AFUDC) allows utilities to accumulate or accrue on their books their financing costs for future recovery. These funds could not be included in rate base until the facilities are deemed used and useful. Consequently the utility could

[7] The Commission’s position regarding Standard Practice U-16 is articulated in D.95-12-055.

not earn a return on its investment until the facilities are included in rate base. Utilities in California are allowed to accumulate financing cost through AFUDC for future recovery. Utilities recognize AFUDC when they report earnings to investors and the Security and Exchange Commission (SEC). However, since there are no concurrent revenues, for lengthy construction projects, AFUDC can become a substantial amount and may cause cash-flow problems for the utility.

d. Return on Rate Base

The return component of revenue requirement is intended to provide a return on capital employed to finance facilities used to provide service. Investors expect to earn a return on their capital. The Commission sets the authorized rate of return on capital (debt, preferred and common stocks) and the authorized capital structure (i.e. debt to equity ratio), which together determine rate of return on rate base. The return on rate base as well as utilities' other expenses (O&M, depreciation, taxes, etc.) makes-up the authorized revenue requirement.

For major investor-owned utilities, P&G, SCE, SDG&E, and SoCalGas, the Commission sets the authorized rate of return on capital in a separate proceeding called Cost of Capital proceeding. Major investor-owned utilities operating in California are required to file a Cost of Capital application with the Commission every 36 months (3 years).

In what follows first the legal standards for setting a rate of return as established by the United States Supreme Court in the Bluefield and Hope decisions[8]are explained. That is followed by a brief discussion of how authorized rate of return is set at the Commission.

e. Legal Standard for setting Return

The Bluefield decision states that a public utility should be provided an opportunity to earn a return necessary for it to provide utility service. The Court stated:

> "The return should be reasonably sufficient to assure confidence in the financial soundness of the utility, and should be adequate, under efficient and economical management, to maintain and support its credit and enable it to raise money necessary for the proper discharge of its public duties."

The Hope decision reinforces the Bluefield decision and it emphasizes that such returns should be commensurate with returns available on alternate investments of comparable risks. The idea is based on the basic principal in finance that rational investors will only invest in a particular investment opportunity if the expected return on that opportunity is equal to the return investors expect to receive on alternative investments of comparable risk. The Hope decision states:

[8] Bluefield Water Works & Improvement Co. vs Public Service Commission of West Virginia (1923) 262 U.S. 679. Federal Power Commission vs. Hope Natural Gas Co. (1944) 320 U.S. 591.

"The return to the equity owner should be commensurate with returns on investments in other enterprises having corresponding risks."

Two standards emerge from these decisions. First, return should be adequate to enable a utility to attract investors to finance the replacement and expansion of a utility's facilities to fulfill its public utility service obligation. Second, to attract capital a utility should be able to offer returns to investors comparable to those achieved on alternative investments of comparable risk. Utilities use long-term capital such as bonds, preferred stocks, and common equity to finance investment in physical plant and assets (rate base) needed to provide utility service. The return component of revenue requirement is intended to pay the interest on debt, the dividend on preferred stock and provide a fair rate of return on equity stock.

f. Weighted Average Cost of Capital

To estimate the overall rate of return (ROR) or cost of capital the weighted average cost of debt, preferred equity, and common equity, where the weights are the market-value percentages of debt, preferred equity, and common equity in a firm's capital structure is calculated. ROR or cost of capital, which is called the firm's weighted average cost of capital (WACC), is specified by the following formula:

$$WACC= w_d k_d + w_p k_p + w_c k_c$$

Where,
w_d = % of debt in capital structure,
w_c = % of equity in capital structure,
w_p = % of preferred stock in capital structure,
k_d = cost of debt,
k_s = cost of equity, and
k_p = cost of preferred stock.

To apply the formula, one must estimate the cost of debt, preferred stock and common equity using methodologies accepted by both financial economists and regulators. In addition, one must determine the appropriate capital structure mix of debt, preferred stock, and common equity. With these inputs, the Commission sets ROR using the above equation. To determine the weighting of debt, preferred and equity capital sometimes the actual capital structure of the utility is used. However, the capital structure can change over time. For that reason sometimes regulatory agencies set a hypothetical capital structure based on an examination of similar companies or industries. In addition if the utility is a subsidiary of another company, the parent company's capital structure may be used for the weighting of the costs of capital. In California a hypothetical capital structure, which is expected to approximate the actual capital structure of the utility over the long run is used.

Total rate of return is also affected by the return on different types of capital. Returns to debt and preferred Stock are more predictable than the return to common stocks. Return to bondholders, interest payment, is set by contract, therefore it is generally easy to predict. Preferred stock dividends are also set by contract, which make preferred stock similar to bonds. Measurement of return to common equity is involved since return to common equity is not contractual. Dividends to common stockholders depend on the firm's earnings- and thus are not known with certainty. Instead, the authorized return on equity must be estimated.

The estimation of return on equity is based on the principal that rational investors will only invest in a particular investment opportunity if the expected return on that opportunity is equal to the return investors expect to receive on alternative investments of comparable risk. In other words, for rational investors the expected return on alternative investments of commensurate risk sets the minimum return they would be willing to accept. Accordingly in cost of capital proceedings to estimate authorized return on equity (ROE) the expected return in capital markets on alternative investments of comparable risk are measured using accepted models.

To estimate cost of common equity, to reduce errors that may result from the application of any one model, several financial models accepted by both financial economists and regulators are employed. The three financial models the Commission uses to measure return on common equity are the Capital Asset Pricing Model (CAPM), Discounted Cash Flow (DCF) and Risk Premium (RP) Model. The Commission also considers additional risk factors not specifically included in the financial models such as financial, business and regulatory risk.

Business, financial, and regulatory risks are considered by rating agencies in setting utility bond ratings. Business risk refers to fluctuation in cash flows resulting from operations or regulatory decisions. Financial risk is determined by the amount of debt or financial leverage in a company's capital structure. The two main types of regulatory risks are regulatory lag risk (delay beyond the statutory period) and cost recovery risk (the ability of consistently recovering costs).

III. CONCLUSION

In this chapter revenue requirement determination was discussed. Revenue requirement determination is the first step in cost of service study. Subsequent steps in cost of service study allocate total revenue requirement to various customer classes. After cost of service study is performed, to develop rates for each customer class, rate design analysis is conducted.

APPENDIX I

March 14, 2023 Email from SoCalGas to Cal Advocates re: SAP Access

From: Tran, Johnny Q <JQTran@socalgas.com>
Sent: Tuesday, March 14, 2023 1:13 PM
To: Bone, Traci <traci.bone@cpuc.ca.gov>
Cc: Castello, Stephen <Stephen.Castello@cpuc.ca.gov>; Katzenberg, Benjamin <benjamin.katzenberg@cpuc.ca.gov>; Wuehler, James <James.Wuehler@cpuc.ca.gov>; Serizawa, Linda <linda.~~serizawa@cpuc.ca.gov>; Farrar~~, Darwin <darwin.farrar@cpuc.ca.gov>; C~~ampbell, Michael <Michael.Campb~~ell@cpuc.ca.gov>; ~~Deang, Paul I <PDeang@soca~~lgas.com>
Subject: RE: [EX~~TERNAL] SAP Access - Pri~~vilege Log and First~~ Amendment Protected~~ Vendor IDs

Traci,

SoCalGas disagrees with your characterization that there are “significant road blocks to Cal Advocates moving forward with its review of SoCalGas’ SAP system” or that Cal Advocates was provided “very limited access” to SoCalGas’s SAP system. Cal Advocates has access to all of the information in SAP except for the information that was removed based on SoCalGas’s First Amendment protection and the attorney client privilege and work product doctrine as affirmed by the Court of Appeal’s Opinion and Resolution ALJ-391, as modified by D.21-03-001. All other transactions can be accessed through one of the four views that have been provided to Cal Advocates. In addition, while we apologize for not being able to confirm this yesterday, most of the functionality and information that you are requesting is already available to Cal Advocates as noted below.

Specifically, you want the ability to search by Vendor ID or Vendor Name, Employee ID or Employee Name, contract number, and all FERC account numbers. To the extent certain functionality requested is unavailable, this is due to the necessary protections referenced above.

- Vendor ID or Vendor Name: SoCalGas confirms that Cal Advocates has the ability to search by Vendor ID. Due to system functionalities, SoCalGas is unable to provide Cal Advocates with the ability to search by Vendor Name as SAP preclude us from doing so while also excluding our First Amendment protected information and attorney client privilege and work product information as part of that search function. However, Cal Advocates can obtain the same information through the Vendor ID.
- Employee ID or Employee Name: SoCalGas confirms that Cal Advocates has the ability to search by Employee ID. Similar to the search by Vendor Name functionality, SoCalGas is unable to provide Cal Advocates with the ability to search by Employee Name as system functionalities preclude us from doing so while also excluding our First Amendment protected information and attorney client privilege and work product information as part of that search function. However, Cal Advocates can obtain the same information through the Employee ID.
- Contract Number: SoCalGas confirms that Cal Advocates has the ability to search by Contract Number.

- <u>Internal Order (from your 3/13 11:48 am email)</u>: This is one of the four views that was provided to Cal Advocates and Cal Advocates was trained on how to use this functionality.
- <u>Cost Centers (from your 3/13 11:48 am email)</u>: This is one of the four views that was provided to Cal Advocates and Cal Advocates was trained on how to use this functionality.

Cal Advocates can come into our San Francisco office this week and Alex can show you how to search by Vendor ID, Employee ID and Contract Number. Alternatively, Paul can help set up a TEAMS meeting as you are working remotely. Please let us know your preference. We can also provide a guide on how to search by Vendor ID, Employee ID, and contract number similar to the guides we provided to Cal Advocates yesterday.

As for the ability to search by all FERC account numbers SoCalGas specially provided Cal Advocates with the ability to view the FERC 900 series based on Cal Advocates' October 21, 2021 Motion to Compel Remote Access to FERC 901-935. SoCalGas clarifies that while the search function is limited to the FERC 900 series, the transactions for all FERC accounts is available. SoCalGas was unaware that Cal Advocates wanted to be able to search for all FERC account numbers (excluding FERC 426.4 as you stated in person). SoCalGas is agreeable to adding the ability to search for the additional FERC accounts (excluding FERC 426.4) to the FERC view at this time. We anticipate that this will be completed by today.

For your Request #3 (Journal Entries) and #4 (list of General Account Ledger), Cal Advocates already has the ability to see all journal entries in the views provided (excluding transactions that are protected by SoCalGas's First Amendment or the attorney client privilege and work product doctrine) and the list of General Ledger accounts is available in SAP. Alex can show you how to find the list of General Account ledgers in SAP.

For your Request #5 below, the prohibition on taking screenshots and photos with Cal Advocates' cell phone is intended to protect SoCalGas's confidential information as permitted under both Resolution ALJ-391, as modified by D.21-03-001 and the ALJ's February 14, 2023 Ruling in the GRC. My understanding is that Cal Advocates is requesting the ability to take screenshots in order to make it easier for Cal Advocates to accurately communicate what search queries it ran and to avoid errors in transcribing numbers when requesting the documents from SoCalGas. Based on this understanding, SoCalGas is agreeable to this request with the understanding that Cal Advocates will take screenshots only (no photos with cell phones) for the purposes of sending those screenshots to SoCalGas so that it can provide the documents or search queries to Cal Advocates, Cal Advocates will maintain the confidentiality of those screenshots, and Cal Advocates will destroy those screenshots once SoCalGas provides Cal Advocates with the confidentially marked documents. Please let us know if Cal Advocates is agreeable to this arrangement.

Lastly, you noted that Cal Advocates will work from its respective offices today and do not plan to come to SoCalGas's office at this time. Can you please clarify whether Cal Advocates intends to return to SoCalGas's San Francisco office this week? SoCalGas made arrangements for one of our employees from Southern California to be available in-person in our San Francisco office for this week to answer Cal Advocates' SAP navigational questions. If Cal Advocates does not intend to return to SoCalGas's office this week, please let us know so that we may excuse Alex to return home to Southern California. He will continue to be available during business hours to answer SAP navigational questions remotely. Please confirm whether Alex's in-person services will continue to be needed this week.

Johnny