

PUBLIC ADVOCATES OFFICE DATA REQUEST
PubAdv-SDG&E-DR-001
SDG&E 2020 COST OF CAPITAL
DATE RECEIVED: JUNE 11, 2019
DATE RESPONDED: JUNE 28, 2019

I. GENERAL OBJECTIONS

1. SDG&E objects generally to each request to the extent that it seeks information protected by the attorney-client privilege, the attorney work product doctrine, or any other applicable privilege or evidentiary doctrine. No information protected by such privileges will be knowingly disclosed.
2. SDG&E objects generally to each request that is overly broad and unduly burdensome. As part of this objection, SDG&E objects to discovery requests that seek “all documents” or “each and every document” and similarly worded requests on the grounds that such requests are unreasonably cumulative and duplicative, fail to identify with specificity the information or material sought, and create an unreasonable burden compared to the likelihood of such requests leading to the discovery of admissible evidence. Notwithstanding this objection, SDG&E will produce all relevant, non-privileged information not otherwise objected to that it is able to locate after reasonable inquiry.
3. SDG&E objects generally to each request to the extent that the request is vague, unintelligible, or fails to identify with sufficient particularity the information or documents requested and, thus, is not susceptible to response at this time.
4. SDG&E objects generally to each request that: (1) asks for a legal conclusion to be drawn or legal research to be conducted on the grounds that such requests are not designed to elicit facts and, thus, violate the principles underlying discovery; (2) requires SDG&E to do legal research or perform additional analyses to respond to the request; or (3) seeks access to counsel’s legal research, analyses or theories.
5. SDG&E objects generally to each request to the extent it seeks information or documents that are not reasonably calculated to lead to the discovery of admissible evidence, or where the burden, expense, or intrusiveness of the request clearly outweighs the likelihood that the information sought will lead to the discovery of admissible evidence.
6. SDG&E objects generally to each request to the extent that it is unreasonably duplicative or cumulative of other requests.
7. SDG&E objects generally to each request to the extent that it would require SDG&E to search its files for matters of public record such as filings, testimony, transcripts, decisions, orders, reports or other information, whether available in the public domain or through FERC or CPUC sources.
8. SDG&E objects generally to each request to the extent that it seeks information or documents that are not in the possession, custody or control of SDG&E.
9. SDG&E objects generally to each request to the extent that the request would impose an

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undue burden on SDG&E by requiring it to perform studies, analyses or calculations or to create documents that do not currently exist.

10. SDG&E objects generally to each request that calls for information that contains trade secrets, is privileged or otherwise entitled to confidential protection by reference to statutory protection. SDG&E objects to providing such information absent an appropriate protective order or non-disclosure agreement.

11. SDG&E objects to any request that states that it is ongoing or that requires subsequent, supplemental information.

12. SDG&E objects to any requests that purports to require SDG&E to provide information or produce documents on behalf of third parties, including for “affiliates,” “parents,” “successors,” “predecessors,” or “assigns” or other entities not under the control of SDG&E.

II. EXPRESS RESERVATIONS

1. No response, objection, limitation or lack thereof, set forth in these responses and objections shall be deemed an admission or representation by SDG&E as to the existence or nonexistence of the requested information or that any such information is relevant or admissible.
2. SDG&E reserves the right to modify or supplement its responses and objections to each request, and the provision of any information pursuant to any request is not a waiver of that right.
3. SDG&E reserves the right to rely, at any time, upon subsequently discovered information.
4. These responses are made solely for the purpose of this proceeding and for no other purpose.

III. OBJECTIONS TO INSTRUCTIONS

1. SDG&E objects to the instructions to the extent it purports to require the individual(s) responsible for providing the response and/or designate the proper witness to cross-examine concerning the response. The responses reflect SDG&E’s response as a Company to the requests and not the work of any one individual.
2. SDG&E objects to the instructions to the extent that it states that the requests are ongoing in nature or require subsequent, supplemental information

Subject to the foregoing general objections and express reservations, SDG&E responds as follows:

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1. Please provide a copy of the bond indentures of all currently active bond indentures for the debt issuances of SDG&E and for the debt issuances of Sempra.

Objections: SDG&E objects to this request on the grounds set forth in General Objections Nos. 2, 5, 8, and 11. Subject to the foregoing objection, SDG&E responds as follows.

SDG&E Response 1:

The prospectus/prospectus supplements that are filed with the Securities and Exchange Commission (SEC) provide detailed information with respect to SDG&E's active debt issuances. All prospectus filings can be found at:

<https://www.sec.gov/cgi-bin/browse-edgar?company=San+Diego+Gas&owner=exclude&action=getcompany>

Note: With respect to each bond issuance listed on the website, there are three filings: 424B2, 424B5, and FWP. The relevant and informative document filing is the 424B2, which is the prospectus/prospectus supplement. The filing 424B5 is only a preliminary shell of the 424B2 filing. The FWP filing is a summary-level Final Term Sheet, which may also contain relevant information.

Bond indenture documents may be old and do not contain the detailed information contained in the prospectus/prospectus supplement filings. Two documents related to the Industrial Development Revenue Refunding (IDB) bonds that are not filed under SDG&E in the Edgars online system are attached separately.

For the reasons stated in Objection 12, Sempra Energy is a third-party that is not a party to this proceeding. Sempra Energy's bond documents are not subject to SDG&E's possession or control.

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2. Are the cash flows generated by SDG&E important to its parent Sempra from the perspective of it being able to service its interest payment obligations? If not, please explain why not.

Objections: SDG&E objects to this request on the grounds set forth in General Objections Nos. 2, 3, 4, 5, 8 and 12. Subject to the foregoing objections, SDG&E responds as follows.

SDG&E Response 2:

For the reasons laid out in the objections, Sempra Energy is a third-party that is not a party to this proceeding. SDG&E cannot speak to what is “important” to Sempra regarding “being able to service its interest payment obligations.”

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3. Page 106 of the Sempra Energy 2018 Form 10-K shows that the debt to capitalization ratio of SDG&E is 52%.

a. Please explain why this is a different percentage of debt than the 44% debt recommended by Ms. Mekitarian.

b. Please provide a reconciliation between the two debt ratio numbers showing how much is different because of the forecast between the 2018 actual and the forecasted 2020 test year. In your reconciliation, explain both what items make up the difference between this 2018 actual number and the amount recommended by Ms. Mekitarian, and the amount of each.

Objections: SDG&E objects to this request on the grounds set forth in General Objections Nos. 2 and 3. Subject to the foregoing objections, SDG&E responds as follows.

SDG&E Response 3:

Recorded long-term debt is not the same long-term debt used for SDG&E's ratemaking capital structure.

The 2018 actual debt to capitalization ratio for regulatory capital structure purposes was 44%, which is the ratio recommended by Ms. Mekitarian. Please see the separately attached Excel spreadsheet "PubAdv SDGE-DR01 Responses.xlsx" for a reconciliation between the 52% debt to capitalization ratio shown in the 2018 Form 10-K and the 44% debt to capitalization ratio for regulatory capital structure purposes.

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4. Page 106 of the Sempra 2018 Form 10-K shows that the total capitalization of Sempra Energy Consolidated is \$44,611 million. It also shows that the total capitalization of SDG&E is \$12,625 million, and \$7,944 million for SoCalGas.

- a. Is it correct that subtracting the capitalization of SDG&E and the capitalization of SoCalGas from the total Sempra Energy Consolidated capital leaves \$24,042 million of Sempra Energy capital, net of what has been allocated to SDG&E and SoCalGas? If this is not correct, please explain why.
- b. Again, referring to page 106 of the 2018 Sempra 10-K, if we separately multiply the total capitalization shown for Sempra Energy Consolidated, SDG&E, and SoCalGas by the percentage “Debt-to-capitalization ratio,” as shown on page 106 of the 10-K, we obtain \$25,428 million of debt for Sempra Energy Consolidated, \$6,565 million of debt for SDG&E, and \$3,654 million for SoCalGas, correct? If this is incorrect, please explain why.
- c. Referring to the debt numbers computed in part b of this question, if we subtract the debt of SDG&E and the debt of SoCalGas from the total debt of Sempra Energy, we obtain \$15,209 million of debt of Sempra Energy, net of the debt of SDG&E and SoCalGas, correct? If this is not correct, please explain why.
- d. Is any of the debt of either SDG&E or SoCalGas that is part of the debt used to arrive at the numbers on page 106 of the Sempra 10-K not included in the development of the Sempra Energy Consolidated results? If there is some, please specify what is not included, how much is not included, and why it is not included.
- e. If we compare the total capital of Sempra Energy that is net of the amounts shown on the books of SDG&E and SoCalGas [per part a of this question] and the debt of Sempra Energy not allocated to SDG&E or SoCalGas, we can compare the total capital of Sempra Energy not allocated to SDG&E of \$24,042 million of capitalization to the \$15,209 million of debt also **not** allocated to SDG&E or to SoCalGas. The ratio of \$15,209/\$24,042 produces a Sempra Energy capital structure, net of amounts allocated to SDG&E or to SoCalGas, of 63.3% debt, correct? If this not correct, please state what is correct and why.
- f. The equity of Sempra Energy that is not on the books of either SDG&E or SoCalGas consists of both common equity and preferred equity, correct?
- g. What is the balance of preferred stock expected for Sempra Energy for the 2020 test year?

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QUESTION 4 - CONTINUED

h. What is the expected embedded cost of preferred stock of Sempra for the 2020 test year? Please provide schedules showing how the embedded cost rate for preferred stock was determined.

i. What is the projected capital structure for Sempra Energy, consolidated, both in dollar amounts and in percentages for the 2020 test year?

Objections: SDG&E objects to this request on the grounds set forth in General Objections Nos. 2, 5, 8 and 12. Subject to the foregoing objection, SDG&E responds as follows.

SDG&E Response 4:

For the reasons provided in the objections, Sempra Energy is a third-party that is not a party to this proceeding. SDG&E does not possess Sempra Energy's expected cost of preferred stock or projected capital structure for the 2020 test year.

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SDG&E Response 5:-Continued

Utility Sector Link:

[https://www.spratings.com/en_US/u.s.-public-finance?p_p_id=122_INSTANCE_GA3DTNLq5ZQX&p_p_lifecycle=0&p_p_state=normal&p_p_mode=view&p_p_col_id=column-1&p_p_col_count=2&p_r_p_564233524_resetCur=true&p_r_p_564233524_categoryId=88380,](https://www.spratings.com/en_US/u.s.-public-finance?p_p_id=122_INSTANCE_GA3DTNLq5ZQX&p_p_lifecycle=0&p_p_state=normal&p_p_mode=view&p_p_col_id=column-1&p_p_col_count=2&p_r_p_564233524_resetCur=true&p_r_p_564233524_categoryId=88380)
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6. Why is it considered appropriate for the consolidated capital structure of Sempra Energy to contain a higher percentage of debt than the capital structure of SDG&E?

Objections: SDG&E objects to this request on the grounds set forth in General Objections Nos. 2, 3, 5, 8, and 12. Subject to the foregoing objections, SDG&E responds as follows.

SDG&E Response 6:

For the reasons laid out in the objections above, Sempra Energy is a third party that is not a party to this proceeding. SDG&E cannot speak to what is “considered appropriate” for Sempra Energy. SDG&E and Sempra Energy are separate companies with separate capital structures facing a separate range of risks. As explained further in SDG&E’s application and supporting testimony, SDG&E’s proposed capital structure reflects the necessities of SDG&E’s business and financial risks. SDG&E is a California investor-owned utility facing unprecedented risks from California’s wildfire liability regime. As a result, SDG&E’s credit ratings have been downgraded two notches each by S&P and Moody’s, with a negative outlook from both. SDG&E’s requested capital structure reflects SDG&E’s actual capital structure and an attempt to prudently manage SDG&E’s unique, asymmetric risks, given that a higher equity ratio reduces financial risks.

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7. Why is it considered appropriate for Sempra Energy to have a portion of its equity investment sourced from preferred stock, when no preferred stock is expected to be used by SDG&E in the test year?

Objections: SDG&E objects to this request on the grounds set forth in General Objections Nos. 2, 3, 5, 8, and 12. Subject to the foregoing objections, SDG&E responds as follows.

SDG&E Response 7:

For the reasons laid out in the objections above, Sempra Energy is a third party that is not a party to this proceeding. SDG&E cannot speak to what is “considered appropriate” for Sempra Energy. SDG&E and Sempra Energy are separate companies with separate capital structures facing a separate range of risks.

SDG&E explained its position on preferred stock in its application and supporting testimony as follows:

For the preferred stock component of the capital structure, SDG&E recommends reducing it from 2.75% to 0%. This too reflects SDG&E's actual capital structure. SDG&E has not issued preferred stock since 1993, redeemed all issued and outstanding shares of its preferred stock in 2013, and does not plan to issue this type of financing in the near future. A significant divergence exists in the relative financing costs between preferred stock and long-term debt that makes the latter a more cost-effective means of financing the Company's business. Despite a downward trend in bond rates, the relative cost of preferred stock has increased significantly in recent years. The preferred stock market has been challenged by a shrinking buyer base that has severely limited demand for traditional institutional utility preferred stock. And the relative cost of preferred stock has risen sharply. By contrast, SDG&E has been successful at issuing debt at low bond rates to fund its large capital investment plan, further supporting reducing the preferred stock component. (Exhibit SDG&E-02 (Mekitarian) at 6).

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8. For each of the last ten years, please show the equity investments made by Sempra Energy into SDG&E, the dividends paid to Sempra Energy from SDG&E, and the total net proceeds dollar amount of net new common equity sold by Sempra Energy.

Objections: SDG&E objects to this request on the grounds set forth in General Objections Nos. 2, 3, 5, 8, and 12. Subject to the foregoing objections, SDG&E responds as follows.

SDG&E Response 8:

Please see the separately attached Excel spreadsheet “PubAdv SDGE-DR01 Responses.xlsx” for the equity investments made by Sempra Energy into SDG&E and the dividends paid to Sempra Energy from SDG&E for each of the last ten years.

For the reasons laid out in the objections above, Sempra Energy is a third party that is not a party to this proceeding. Sempra Energy is the appropriate source for information regarding the total net proceeds of new common equity sold by Sempra Energy.

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9. With reference to page A-2 of the appendix to the testimony of Ms. Mekitarian: this page shows the embedded cost of debt computation.

- a. Is it correct that the net proceeds amount shown in column (7) have not added back any accumulated amortization of either the “discount” in column (9), as is proposed to be charged to ratepayers, or the “expense” as shown in column (10), as is also proposed to be charged to ratepayers?
- b. If this accumulated amortization has not been added back, please explain why not.
- c. If the accumulated amortization has not been added back, please provide a version of schedule A-2 with the accumulated amortization added back.

Objections: SDG&E objects to this request on the grounds set forth in General Objection Nos. 2 and 3. Subject to the foregoing objection, SDG&E responds as follows.

SDG&E Response 9:

It is correct that “the net proceeds amount shown in column (7) have not added back any accumulated amortization of either the ‘discount’ in column (9), as is proposed to be charged to ratepayers, or the ‘expense’ as shown in column (10), as is also proposed to be charged to ratepayers.” Accumulated amortization of the discount and expense are not “added back” to the net proceeds because it is not the method of calculating the embedded cost of debt as outlined in “An Introduction to Utility Cost of Capital” published by the California Public Utilities Commission Policy and Planning Division on April 18, 2017. The embedded cost of debt is calculated as follows:

$$\text{Embedded cost of debt} = \frac{\text{Annual costs}}{\text{Net proceeds}}$$

The annual costs include the annual interest cost (calculated as the coupon rate multiplied by the principal amount of the bond) and the annual amortization of any financing charges. Net proceeds are equal to the total long-term debt outstanding minus any financing changes.

Please also refer to the separately attached spreadsheet “PubAdv SDGE-DR01 Embedded Cost of Debt Workpapers.xlsx.”

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10. Please explain why short-term debt was not included in the capital structure recommended by Ms. Mekitarian for use in computing the overall cost of capital in this proceeding.

- a. What is the current cost of short-term debt to both SDG&E and Sempra Energy?
- b. For both SDG&E and Sempra Energy, please explain how the cost of short-term debt is determined (e.g., a certain percentage over the LIBOR rate).
- c. Please provide the average amount of short-term debt that was used by both SDG&E and Sempra Energy for each of the three years ended 2018 and forecast for the 2020 Test Year.
- d. For each of the periods provided in part c of this question, please state how much of that short-term debt was allocated to the AFUDC rate being charged for CWIP.

Objections: SDG&E objects to this request on the grounds set forth in General Objection Nos. 3, 4, 8, and 12. Subject to the foregoing objection, SDG&E responds as follows.

SDG&E Response 10:

SDG&E's capital structure for ratemaking purposes includes common equity, long-term debt and preferred stock. As stated in D.12-12-034 at 5, "Debt due within one year, short-term debt, is excluded" from the ratemaking capital structure. There is no "authorized" short-term debt component in the authorized capital structure because SDG&E finances its capital investments with long-term debt and equity. This is consistent with prudent financial management whereby long-lived assets such as plant and equipment are financed with long-term borrowing and equity.

For the reasons stated in objection 12, Sempra Energy is a third-party that is not a party to this proceeding, and is the appropriate source for the requested information.