

**APPLICATION OF SOUTHERN CALIFORNIA GAS COMPANY &
SAN DIEGO GAS & ELECTRIC COMPANY FOR AUTHORITY TO REVISE THEIR
NATURAL GAS RATES AND IMPLEMENT STORAGE PROPOSALS EFFECTIVE
JANUARY 1, 2020 IN THE TRIENNIAL COST ALLOCATION PROCEEDING**

(A.18-07-024)

(DATA REQUEST TURN-SEU-01)

DATA RECEIVED: 11-29-18

DATE RESPONDED: 12-13-18

QUESTION 1:

Please provide 2016 and 2017 FERC Form 2 documents for SoCalGas and SDG&E.

RESPONSE 1:

See attached files.

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QUESTION 2:

Regarding the Sempra Utilities' transmission revenue requirement, are the utilities proposing that the embedded cost of transmission and storage be set for the entire 2020-2022 TCAP period based on 2016 embedded costs, and to the extent SoCalGas's and SDG&E's base margin for 2020-2022 is above the 2016 embedded costs of transmission and storage, the above-2016 embedded cost amount would be assigned to distribution rates of either SoCalGas or SDG&E respectively? If the Sempra Utilities are not proposing this treatment of transmission and storage costs, please explain in detail what is proposed.

RESPONSE 2:

Yes.

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QUESTION 3:

Please identify any other gas utility of which the Sempra Utilities are aware that unbundles costs for allocation and rate design purposes by fixing transmission and/or storage costs at one point in time while flowing all other revenue increases after that point in time into distribution costs for a number of years. For each utility identified by the Sempra Utilities, please provide citations to regulatory commission decisions supporting this practice, or to regulatory commission proceedings in which such practice was proposed.

RESPONSE 3:

Applicants have not undertaken a comprehensive or exhaustive research into how other utilities operate their business or allocate their costs. Applicants are not aware of any commission decision prohibiting their embedded cost methodology.

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QUESTION 4:

Do the Sempra Utilities believe that fixing transmission costs at one point in time and flowing all increases after that point in time into distribution rates provides a subsidy of the transmission system users by distribution system users. Please explain in detail if the answer is anything but an unqualified “yes.”

RESPONSE 4:

To the extent that embedded transmission costs related to authorized base margin are lower in years 2 and/or 3 of the TCAP period, the assertion that distribution rates would provide a subsidy of the transmission system users by distribution system users would not apply.

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QUESTION 5:

Please explain why SoCalGas and SDG&E each based the embedded costs for the 2020 TCAP on the mid-year 2016 rate base instead of the end-of-year 2016 rate base.

RESPONSE 5:

Applicants object to the question as vague, ambiguous, and potentially mischaracterizing Applicants' materials. Subject to and without waiving this objection, Applicants respond as follows. Applicants do not use a mid-year 2016 rate base figure. Applicants use weighted-average rate base. The weighted-average rate base is calculated using a 13-month average (the sum of the monthly balances from December of the prior year through December of the current year, less one-half of each December balance, divided by 12). The weighted average balance method has been an accepted industry practice for all California utilities.

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QUESTION 6:

Please explain why the Sempra Utilities filed a case in 2018 using embedded costs from the 2016 FERC Form 2 instead of embedded costs from the 2017 FERC Form 2. If the explanation is that the 2017 costs were not available early enough to include in the filing, please a) state the date when the 2017 costs became available, and 2) provide an explanation as to why the Sempra Utilities did not propose to update the 2016 costs to 2017 costs subsequent to the initial filing.

RESPONSE 6:

The 2016 FERC Form 2 was the most current and available Form 2 available when the study was performed. The 2017 FERC Form 2 was published in March 29, 2018 for SoCalGas and April 6, 2018 for SDG&E. The embedded cost study is complex, detailed, and time-consuming. Applicants did not start the study over again when 2017 FERC Form 2 data became available because Applicants believed they could not produce a study in time for the TCAP filing.

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QUESTION 7:

Please confirm that by not updating the case to the 2017 FERC Form 2, the Sempra Utilities calculated lower embedded costs of transmission than if they had made the update.

RESPONSE 7:

Applicants cannot confirm this question's assertion.

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QUESTION 8:

Please provide the Sempra Utilities' best estimate of the amount of time that it took the witness and all of the persons who worked under the witness' direction and supervision to prepare the embedded cost exhibit (Chapter 8) – both duration of the project in weeks or months and in person hours. Please also identify each person who worked on preparation of the embedded cost exhibit (by name for each person who is a witness in this TCAP, and by job title for all others).

RESPONSE 8:

Applicants object to this question as unduly burdensome and irrelevant in the level of detail it is requesting. Subject to and without waiving this objection, Applicants respond as follows. The embedded cost study was initiated on or about June of 2017 and was completed in time for inclusion in the application and supporting testimony (Chapter 8). Witness Sim-Cheng Fung is the sponsor and principal preparer of the 2020 TCAP study.

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QUESTION 9:

Please identify each individual in the Sempra Utilities' management who reviewed or approved the embedded cost study. Provide any documents given to each such person (other than the testimony itself) related to the approval of the study, and any documents provided by each such person with any results of the review or approval.

RESPONSE 9:

The embedded cost study itself did not undergo management-level review and approval.

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QUESTION 10:

Please provide the Sempra Utilities' best forecast of 2019 transmission costs for SoCalGas, storage costs for SoCalGas, and transmission costs for SDG&E consistent with its 2019 TY GRC filing. Provide supporting workpapers. If the utilities are unable to provide such an estimate for any of these categories, please provide a detailed narrative explanation as to why they cannot provide such an estimate using the 2016 FERC Form 2 or other documents in the Sempra Utilities' possession and using the forecast materials from their test year 2019 General Rate Case.

RESPONSE 10:

Applicants object to this question as being unduly burdensome and outside the scope of Applicants' prepared material. Subject to and without waiving this objection, Applicants respond as follows. The TCAP is not a cost forecasting proceeding, but a cost allocation proceeding. Applicants' 2019 GRC materials are readily accessible to TURN. Furthermore, these estimates are not available using FERC Form 2 for the following reasons:

These 2016 recorded costs are based on the FERC Uniform System of Accounts (USOA) shown in SoCalGas' Annual Report to the CPUC (also known as the FERC Form 2), which is the primary source (adjusted to reflect base margin and selected incremental costs) used for allocating costs since this report is publicly available to all interested parties.

SoCalGas does not use the FERC-USOA to manage and control operations – instead there is a cost control system based on areas of responsibility and function described internally as “cost centers.” Historically, it had been necessary to translate these operating cost center control accounts into FERC-USOA for the GRC application. This often led to significant adjustments. Even though the accounting system was able to generate a conversion, SoCalGas made numerous adjustments to “manually” reallocate many overhead accounts or activities to the FERC-USOA accounts for GRC presentation. Past experience showed that using the FERC-USOA format added an unnecessary level of complexity in the GRC that required conversion from the in-house accounting and management control system used in utility operations. As a result, D. 08-07-046, Ordering Paragraph 22, authorized SoCalGas to file the next GRC using the then-current “cost center” system of internal accounting and control rather than convert and allocate the data to approximate the FERC-USOA.¹

SDG&E faces similar challenges as those described above for SoCalGas

¹ *Id.* at 9, last paragraph.

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QUESTION 11:

Please provide charts for 2017 and the latest quarter available in 2018 in the same format as the “2016 SoCalGas NBV” and “2016 SDGE NBV” tabs in the “Fung 2020 TCAP Emb TS Final Workpaper.xls” workbook.

RESPONSE 11:

This data is not readily available. SoCalGas and SDG&E can supplement this data response on or around January 18, 2019 with the requested 2017 data. The 2018 data is unavailable because SoCalGas’ 2018 FERC Form 2 and SDG&E’s 2018 FERC Form 1 & 2 will not be available until early second quarter 2019.

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QUESTION 12:

Please provide charts for 2017 and the latest quarter available in 2018 in the same format as the “2016 SoCalGas Rate Base” and “2016 SDGE Rate Base” tabs in the “Fung 2020 TCAP Emb TS Final Workpaper.xls” workbook.

RESPONSE 12:

See Response 11.

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QUESTION 13:

Regarding Asset Retirement Obligations

- a. Please confirm that the net book value of Asset Retirement Obligations (AROs) contained in FERC Accounts 358, 372, 388 are not included in rate base for ratemaking purposes for either utility. If you cannot confirm this point, please provide a detailed explanation including quantitative information supporting your failure to confirm this point.
- b. Please confirm that the net book value of AROs do not earn a return for ratemaking purposes for either utility. If you cannot confirm this point, please provide a detailed explanation including quantitative information supporting your failure to confirm this point.
- c. Please refer to the workpapers to the prepared Testimony of Mr. Reeves for SoCalGas and SDG&E in the 2019 TY Sempra GRC regarding the calculation of property taxes and confirm that AROs are not included as part of the plant on which property taxes are calculated. If you cannot confirm this point, please provide a detailed explanation including quantitative information supporting your failure to confirm this point.
- d. Does Mr. Fung's analysis include Asset Retirement Obligations (AROs) in FERC Accounts 358, 372, and 388 in his calculations of net book value? If the answer is anything but an unqualified "yes," please provide a detailed explanation, including quantitative calculations and references to specific cells in Mr. Fung's workpapers that support the response.
- e. Does Mr. Fung's analysis allocate income taxes, property taxes, and return based on his calculation of net book value? If the answer is anything but an unqualified "yes," please provide a detailed explanation, including quantitative calculations and references to specific cells in Mr. Fung's workpapers that support the response.
- f. Please provide a detailed explanation as to why return and taxes should be allocated by Mr. Fung's method (including AROs in net book value).

RESPONSE 13:

- a. Confirmed.
- b. Confirmed.

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- c. Confirmed.
- d. Yes.
- e. Yes.
- f. It is reasonable to include Asset Retirement Obligation (ARO) in determining functional cost allocation factors because AROs are capitalized costs of a company's legal obligations resulting from the retirement of tangible long-lived assets. For fiscal years after June 15, 2002, the Financial Accounting Standards Board (FASB) issued Statement 143 to provide a mechanism to improve companies' balance sheets to more clearly reflect the economic realities of the retirement obligations associated with long-lived assets. The changes are particularly significant for capital-intensive companies such as SoCalGas and SDG&E. With the long-term business trend toward a more balance-sheet-oriented focus in accounting, FASB has fixed its attention on how entities account for obligations associated with the retirement of tangible long-lived assets. SDG&E and SoCalGas have complied with this accounting requirement in their FERC Forms 1 and 2, respectively. Therefore, the allocation factors used by SoCalGas and SDG&E are consistent with their annual reports filed with the CPUC.

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QUESTION 14:

Please divide the amount of flow-through tax deduction for the repair allowance that SoCal Gas and SDG&E would receive into gas transmission plant, gas storage plant, and gas distribution plant for each year from 2016-2019 forecast, consistent with the utilities' General Rate Case filing.

RESPONSE 14:

Applicants object to this question as being outside the scope of Applicants' prepared material.

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QUESTION 15:

Please identify the amount of gas transmission plant, gas storage plant and gas distribution plant added in each year from 2008-2017 for each of SoCalGas and SDG&E.

RESPONSE 15:

Applicants object to this question as being unduly burdensome and outside the scope of Applicants' prepared material. Subject to and without waiving this objection, Applicants respond as follows. Prior year FERC Forms 2 are posted on FERC's website. However, SoCalGas and SDG&E calculate embedded costs from the FERC Form 2 only for GRC authorized base margin and exclude selected incremental projects such as Pipeline Safety Enhancement Plan (PSEP), which are recovered through separate incremental revenue requirements outside of GRC Test Year 2016 base margin.

However, FERC Form 1 & 2 include **total** plant in service and operating and maintenance expenses for the entire utility. Therefore, FERC Form 1 & 2 data will show higher costs since **all** non-base margin costs are also included.

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QUESTION 16:

Please identify the amount of gas transmission plant, gas storage plant and gas distribution plant forecast to be added in each of 2018 and 2019 in the Sempra TY 2019 GRC for each of SoCalGas and SDG&E.

RESPONSE 16:

See Response 10.

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QUESTION 17:

Regarding the allocation of A&G and general plant:

- a. Please confirm that the Sempra Utilities assigned only 50% of A&G expenses and general plant (including pensions and benefits, payroll taxes, and workers' compensation expenses) that would be assigned by a pure labor allocator to transmission and storage, while reassigning the remaining 50% to distribution.
- b. Please explain why it is reasonable to assign only 50% of A&G expenses and general plant that would be assigned by a pure labor allocator to transmission and storage while reassigning the remaining 50% to distribution.
- c. Please explain why it is reasonable specifically to assign only 50% of expenses for pensions, benefits, workers compensation, and payroll taxes that would be assigned by a pure labor allocator to transmission and storage while reassigning the remaining 50% to distribution.

RESPONSE 17:

- a. Confirmed, however, the remaining was allocated to scalar, not distribution.
- b. This is consistent with D.09-11-006, 2009 BCAP Phase 2, Appendix A, Settlement Agreement, Section II.B.2.A. and D.14-06-007 and A.14-12-017, D.16-06-039.
- c. See Response 17(b).

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QUESTION 18:

Please identify by proceeding and decision number all decisions of the California Public Utilities Commission of which the Sempra Utilities are aware in which Administrative and General Costs are unbundled in any other way than with allocation factors that are not further adjusted with the 50% reduction the utilities propose here, when unbundling between gas transmission, storage, and distribution, or between electric generation, transmission, and distribution.

RESPONSE 18:

Applicants object to this question as unduly burdensome. Subject to and without waiving this objection, Applicants respond as follows. Applicants have not undertaken a comprehensive or exhaustive research into how other proceedings have addressed these costs.

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QUESTION 19:

Please confirm that SDG&E does not make a 50% reduction to the labor allocator it uses to allocate A&G and general plant costs to CPUC jurisdictional electric generation and distribution and to FERC jurisdictional electric transmission. If you cannot confirm this point, please provide a detailed explanation with numerical examples.

RESPONSE 19:

Applicants object to this question as outside the scope of this proceeding.

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QUESTION 20:

Regarding transmission compressor stations:

- a. Please explain why the Sempra Utilities functionalize compressor station O&M expenses for SoCal Gas to backbone and local transmission by the mileage of transmission lines, when they functionalize 100% of compressor station plant to backbone transmission.
- b. Do the Sempra utilities dispute that it would be reasonable to functionalize the station O&M expenses in the same way as the plant? If your answer is anything but an unqualified "yes," please explain in detail.

RESPONSE 20:

- a. The use of compression supports customers on both the backbone and local transmission systems. Therefore, the embedded cost study appropriately allocates O&M expenses to both.
- b. Yes, Sempra Utilities dispute that it would be reasonable to functionalize the station O&M expenses in the same way as the plant.