Application of San Diego Gas & Electric Company (U902M) for Authority, Among Other Things, to Increase Rates and Charges for Electric and Gas Service Effective on January 1, 2012.	A.10-12-005 (Filed December 15, 2010)
Application of Southern California Gas Company (U904G) for authority to update its gas revenue requirement and base rates effective on January 1, 2012.	A.10-12-006 (Filed December 15, 2010)

Application 10-12-006
Exhibit No.: (SCG-29-R)

REVISED

PREPARED DIRECT TESTIMONY OF

JACK S. LEWIS

ON BEHALF OF SOUTHERN CALIFORNIA GAS COMPANY

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

JULY 2011

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REVISED PREPARED DIRECT TESTIMONY OF
JACK S. LEWIS
ON BEHALF OF SOUTHERN CALIFORNIA GAS COMPANY
(WORKING CASH)

I. INTRODUCTION & OVERVIEW

This testimony reflects Southern California Gas Company's ("SCG's") working cash requirements of $42.5 million to compensate investors for providing funds that are committed to the business for paying operating expenses in advance of receipt of the offsetting revenues from its customers. Although this is the amount that SCG would normally include in its TY 2012 GRC request, SCG has elected to request $0 for SCG's 2012 GRC working cash requirement (see testimony of witness Anne Smith in Exhibit SCG-1). Consequently, this testimony is provided to reflect and document SCG's working cash study and the resulting test year 2012 working cash requirements that would have resulted without this change.

Generally, customer rates are calculated based upon an authorized revenue requirement. Rate structures assume that revenues are collected as soon as services are rendered, and expenses are paid when incurred. In reality, however, customers pay their bills after they receive services, and on average SCG pays its suppliers after expenses are incurred. The net outcome of the timing of these transactions results in SCG's average revenue lag being greater than its average expense lag. Consequently, SCG's investors fund the operating cash required during the net lag days (i.e., the gap in time before the revenues are collected). First, the operational cash requirement is determined by examining certain current asset accounts on the balance sheet and then deductions are made for certain current liabilities like tax accruals and other funds which represent cash provided from sources other than investors. Then, SCG prepared the lead/lag study which focuses on the income statement. The total of the operational (balance sheet) requirement is added to the lead/lag study requirement to produce the total working cash requirement. SCG's investors who fund this total working cash requirement receive an authorized rate of return on their investment to fund SCG's cash requirements.[1] This testimony

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

describes the methodology and components for forecasting the working cash requirement for test year 2012 in the General Rate Case ("GRC").

II. SUMMARY OF RESULTS

SCG's 2009 working cash study resulted in a 2012 forecasted working cash requirement of $42.5 million. The forecast is based upon a comprehensive analysis of recorded information, and is prepared in compliance with the Commission's Standard Practice SP U-16, as described in detail in this testimony and the accompanying work papers.

III. METHODOLOGY

As noted above, working cash is the capital supplied by shareholders to meet day-to-day utility operational requirements, which provides the bridge from the time that expenditures are made for services until the time revenues are collected for those services. SCG's determination of working cash consists of a detailed analysis normally referred to as the "weighted average or lead-lag days" method.[2]

SCG's working cash allowance is comprised of items related to the income statement and items related to the balance sheet. The requested working cash allowance for income statement items quantifies the timing lag between when revenues and expenses are recognized in the GRC's summary of earnings for ratemaking purposes, compared to when revenues are actually collected and expenses are actually paid. Balance sheet items include accounts funded with cash supplied by investors, such as other receivables and prepaid expenses (e.g., prepaid rent and insurance) as well as accounts that offset working cash requirements because they are funded with cash supplied by others (e.g., employee withholdings and other liabilities funded by ratepayers). SCG's requested balance sheet-related working cash allowance is based on the sum of the monthly balances from December 2008 through December 2009, less one-half of each December balance, divided by 12 (i.e., a mid-month convention), and then escalated into 2012 dollar terms. This practice of averaging month-end balances for determining the balance sheet-related working cash allowance is outlined in Chapter 3 of SP U-16.

Table SCG-JSL-3 summarizes the net working cash capital required for recorded year 2009 and forecast year 2012. Expenses charged to and forecasted for balancing accounts

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[2] As defined in CPUC Standard Practices U-16-W, March, 2006. The detailed basis of determining working cash allowance is normally referred to as the "weighted average or lead-lag days" method. Fundamentally, the same principles apply for the detailed basis as for the simplified basis. That is, first the operational requirement is determined and then amounts of monies available through tax accruals and other funds not supplied by the investor are deducted from the operational requirement.

authorized by the CPUC for energy commodities and customer service programs that have no separate provision for working cash of their own are also included as part of the lead/lag study. This is appropriate because interest is not applied to balancing accounts during the net revenue lag period.

IV. WORKING CASH DETERMINATION

The following narrative generally describes the steps used to prepare the working cash study that determined SCG's 2012 request. More details on each account category and specifics relevant to each step in the process are provided later in this testimony, as well as in the accompanying workpapers.

A. Working Cash Requirement for Balance Sheet Accounts

Working cash requirements for balance sheet accounts that require and provide working cash were quantified using 2009 as-recorded account balances and a mid-month convention as described above, to determine weighted-average annual account balances (see Table SCG-JSL-3). These balances were escalated to 2012 dollars using the shared services escalation factor index, which reflects the weighted-average of labor and non-labor O&M indexes, as noted in the escalation testimony of Scott R. Wilder (Exh. SCG-31).

B. Working Cash Requirements for Income Statement Accounts

Working cash requirements for income statement accounts were determined by performing a lead/lag study. The lead lag study consists of two major components: (1) revenue lag and (2) expense lag.

1. Revenue lag is the average number of days for all utility customers between the mid-point of their monthly service and receipt of payment by SCG (line 1 of Table SCG-JSL-2). Because SCG customers pay for all categories of service with a single bill, the lead/lag study uses a single value for revenue lag days, unlike expense lag which have unique values for the various cost categories.
2. The expense lag analysis reflects 2009 as-recorded expenses (column b of Table SCG-JSL-l) and the associated average expense lag days (column a of Table SCG-JSL-l). To determine the number of expense lag days, SCG analyzed 12 months of invoices from the most recent calendar year for

account categories which represent the types of expenses forecasted in the GRC (e.g., accounts payable records, operations and maintenance expenses, payroll expense, taxes, and benefits, among others). The weighted-average number of expense lag days for each category was derived by the following:

(a) identifying the lag days for each payment within the total population of invoices for 2009 by comparing the service date (defined as either the date service was provided or the midpoint of the service period) to the date cash payment was made;

(b) multiplying the lag days for each payment by the dollar amount of each payment to get "dollar days"; and

(c) summing the dollar days for each payment and dividing that total by the total of the 2009 payment amounts (the same approach for calculating expense lag was also used for commodity purchases, which have no provision for working cash in their specific tariffs).

3. The overall weighted-average number of expense lag days for all non-commodity account categories was calculated, and applied to the total 2012 O&M costs forecasted in the GRC, using the following steps:

(a) annual 2009 expenses for each account category were multiplied by total lag days, generating dollar-days (column c in Table JSL-SCG-1);

(b) dollar-days and total expenses for all account categories except commodities were summed; and

(c) total dollar-days were divided by total expenses to determine non-commodity weighted average lag days (line 18 of Table SCG-JSL-1).

4. Non-commodity weighted-average lag days were multiplied by total 2012 O&M costs forecasted in the GRC, plus forecasted deferred taxes, franchise fees on commodities, pass-through taxes, and refundable program costs, again generating dollar-days (All Other Expenses on line 4 of Table SCG-JSL-2). For commodity purchases, specific, rather than weighted-average expense lag days were applied to the forecasted dollars to generate dollar-days.

5. The total of Commodity and All Other Expenses dollar-days were divided by total forecasted expenses to determine overall weighted-average expense lag days (line 5 of Table SCG-JSL-2).

6. In the last step of the lead lag study, overall weighted-average expense lag days were subtracted from revenue lag days to get net revenue lag days (line 6 of Table SCG-JSL-2), which is the average number of days between payment of expenses and collection of revenue. This value was then multiplied by total forecasted expenses and divided by 365 days to determine the total working cash requirement associated with revenue and expenses (line 7 of Table SCG-JSL-2).

C. Derivation of the Total Working Cash Requirement

The final working cash allowance was determined by adding the balance sheet related working cash requirements to the lead-lag related working cash requirements (line 10 of Table SCG-JSL-3).

V. SUMMARY REPORTS

Table SCG-JSL-1 summarizes 2009 expense lag days, commodity expenses, non-commodity expenses, and associated dollar-days by account category. The overall 2009 weighted-average non-commodity expense lag days are 26.5 days. These values were developed to apply to 2012 expense forecasts.

Table SCG-JSL-1
Southern California Gas Company
2009 Expense Lag Days, As-Recorded Expenses, and Dollar-Days
($000)

Line No.	Description	[a] Expense Lag Days	[b] Total Company Expenses	[c] Total Company Dollar-Days [a]*[b]
	Commodity Expense:			
1	Purchased Gas Costs	41.99	$ 1,367,207	$ 57,409,034
	Non-Commodity Expense:			
2	Payroll Expense	12.22	$ 413,924	$ 5,057,124
3	F.I.C.A.	11.42	32,145	367,200
4	Federal/State Unemployment Insurance	76.05	965	73,355
5	Incentive Compensation Plan	256.09	35,453	9,079,122
6	Employee Benefits	4.22	206,183	870,092
7	Goods & Services	34.05	406,345	13,836,064
8	Payments by Corporate Center	26.47	79,333	2,100,057
9	Real Estate Rental	(18.69)	37,553	(701,858)
10	Materials Issued from Stores	-	10,398	-
11	Property/Ad Valorem/Pass-Through Taxes	116.34	261,397	30,410,966
12	Federal Income Taxes--Current	4,819.18	(1,848)	(8,905,845)
13	CA Corporate Franchise Taxes	(67.45)	22,000	(1,483,900)
14	Depreciation Provision	-	290,215	-
15	Amortization of Insurance Premiums	-	12,968	-
16	Federal Income Taxes - Deferred	-	107,487	-
17	**Total Non-Commodity Expenses**		**$ 1,914,518**	**$ 50,702,378**
18	**Weighted Average Non-Commodity Expense Lag Days**		**26.48**	[17c/17b]

Note: Values may not add to totals due to rounding.

Table SCG-JSL-2 summarizes 2009 revenue lag days; weighted-average expense lag days for energy commodity and non-commodity account categories; 2012 forecasted commodity and non-commodity expenses; associated dollar-days; overall weighted-average expense lag days; net revenue lag days; and the resulting total 2012 lead/lag working cash requirement of $76.6 million.

Table SCG-JSL-2

Southern California Gas Company

Lead-Lag Study Summary

($000)

Line No.	Description	[a] 2009 Expense Lag Days	[b] 2012 Expense Forecast	[c] 2012 Calculated Dollar-Days
				[a]*[b]
1	**Revenue**	40.41		
2	**Expenses**			
3	Commodity Purchases - Core Gas	41.99	$ 2,426,798	$ 101,901,252
4	All Other Expenses	26.48	2,283,656	60,478,318
5	Total Expenses - a: c/b; b&c: (3+4)	34.47	$ 4,710,454	$ 162,379,570
6	**Net Revenue Lag Days** [1a-5a]	5.93		
7	**Total Lead-Lag Working Cash Requirement** [5b*6a/365]		**$ 76,566**	

Note: Values may not add to totals due to rounding.

Table SCG-JSL-3 summarizes 2009 and forecasted 2012 balance sheet sources and uses of working cash, lead/lag working cash requirements, and total working cash requirements of $42.5 million.

Table SCG-JSL-3

Southern California Gas Company

Working Cash Summary

($000)

Line No.	Description	2009 As-Recorded	2012 Requirement
	Balance Sheet Account Uses of Working Cash		
1	Cash Balances	$ 1,977	$ 2,127
2	Other Receivables	30,199	32,494
3	Prepayments and Current Assets	10,153	10,924
4	Deferred Debits	1,308	1,408
5	Sub-total Balance Sheet Account Uses of Working Cash	43,637	46,953
	Balance Sheet Account Sources of Working Cash		
6	Employee Withholdings	(954)	(1,026)
7	Current and Accrued Liabilities	(74,309)	(79,956)
8	Sub-total Balance Sheet Account Sources of Working Cash	(75,263)	(80,982)
9	Net Balance Sheet Account Working Cash Requirement [5+8] *	$ (31,626)	$ (34,029)
	**Lead/Lag Working Capital Requirement ** **		$ 76,566
10	**Total Working Cash Requirement**		**$ 42,537**

* Proposed 2012 amount is derived by escalating the 2009 recorded value using the shared service index.

** Proposed 2012 working cash requirement is from the previous table (Table SCG-JSL-2).

VI. WORKING CASH DETAILS

This section contains further details about each account category utilized in the development of SCG's 2012 GRC working cash request.

A. Balance Sheet Accounts

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

1. Operational Cash Requirements

a. **Cash Balance** (line 1 of Table SCG-JSL-3) – 2009 average actuals of $2.0 million.

b. **Other Receivables** (line 2 of Table SCG-JSL-3) – 2009 average actuals of $30.2 million. This category includes:

- Sundry billing – $10.8 million. SCG's sundry billing process addresses customer requested construction projects, governmental programs, and marketing services. Receivables for such activity remain on the books until payment is received from a third party. SCG does not charge interest on the balances.
- A/R Gas Sales Hub & Swap – $10.3 million. This account contains pending receivables from Hub & Swap transactions. SCG does not charge counterparties interest on accounts receivable balances.
- Other receivables from third parties (non-customer) – $0.6 million. This balance includes claims for amounts that SCG has not collected from outside parties for their damages to utility property.
- Other receivables – $8.5 million due to A/R from new business, customer unallocated collections, Miscellaneous Sales, Rentals and Jobbing, and Unallocated Charges, as well as receivables from other services.

c. **Prepayments and Current Assets** (line 3 of Table SCG-JSL-3) – 2009 average actuals of $10.2 million. This category includes accounts that SCG uses to make prepayments, which do not earn interest on the balances. These accounts include:

- Prepaid insurance premiums – $3.5 million.
- Miscellaneous prepayments – $3.0 million. This account primarily reflects prepayments for software contracts.
- Miscellaneous deferred debit sundry (current portion) – $0.6 million. Balances reflect the current portion of unbilled work performed on behalf of third parties.
- Deferred charge – emission credits (current portion) – $0.4 million. SCG buys emission credits on behalf of its ratepayers.

d. **Deferred Debits** (line 4 of Table SCG-JSL-3) – 2009 average actuals of $1.3 million. These accounts include:

- Deferred charge – emission credits (deferred portion) – $0.9 million. This balance reflects the non-current portion of SCG emission credits purchased.
- Preliminary survey and investigation – $0.4 million. This balance reflects costs incurred on potential capital projects, before they are added to rate base.

2. Working Capital Not Supplied by Investors

These accounts represent sources of working cash supplied by other than utility investors, which thus reduce the working cash requirement.

a. Employee Withholdings (line 6 of Table SCG-JSL-3) – 2009 average actuals of ($1.0) million. This category includes the employee paid portion of benefits costs and taxes.

b. Current and Accrued Liabilities (line 7 of Table SCG-JSL-3) – 2009 average actuals of ($74.3) million.

- Workers' compensation reserves – ($35.2) million. This liability account represents estimated future costs payable to employees for work related injuries already incurred. This amount was tax effected at a rate of 40.75% to reflect the fact that the revenues collected are taxed in the year received, and only a portion of this is available as working cash.

- Invoice Received Clearing Account – ($2.1) million. This category includes accounts payable that are not included in the goods and services category of the lead/lag study.
- Accrued Vacation – ($34.9) million. This account was added in order to be in accordance with the deductions outlined in Chapter 3 of SP U-16. However, SCG does not agree with the inclusion that is outlined by SP U-16. This is because no funding is requested in the GRC for accrued vacation. GRC forecasted total labor expenses are based on actual productive labor plus an overhead rate that is determined solely from actual expenses, not liability accruals. Liabilities are maintained on the balance sheet for financial reporting purposes, but only actual expenses are proposed in the GRC forecast. Employees are paid for 2,080 working hours per year whether they take vacation or not and that is what is in rates; therefore, there is no working cash benefit being derived.
- Customer Deposits are excluded as a working cash item because the utility pays interest at the Federal Reserve published prime non-financial 3-month commercial paper rate. This treatment is consistent with SP U-16 and previous rate cases whereby interest bearing accounts are excluded from working cash. SCG is applying the same methodology it has advocated in past GRCs. SP U-16 states under the Customers' Deposits heading that "Only non-interest bearing customer deposits are to be considered" (see Chapter 3, pg. 16). Furthermore, the customer Deposit balance can decrease depending upon the economy and building demand, and these balances do not have the same characteristics as permanent sources of financing.

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

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

1. Revenue Lag (line 1 of Table SCG-JSL-2 and Schedule C of the workpapers) **–** Year 2009 actual of 40.41 lag days.

The table below illustrates how the revenue lag days were derived:

• Collection Lag	20.92 days
• Meter Reading Lag	3.35 days
• Billing Lag	15.21 days
• Bank Lag	.92 days
• Total Revenue Lag	40.41 days

a. Collection lag days are based upon an analysis of A/R balances and revenues for 2009. Annual revenues divided by the average monthly accounts receivable balance results in the average number of accounts receivable turnovers per year. Revenue collection lag is equal to 365 days divided by the average number of accounts receivable turnovers per year.

b. Meter reading lag reflects the lag from the date the meter is read until the time the bill is prepared and mailed to the customer. SCG performed a detailed query of all meters read in 2009 that resulted in 3.35 lag days.

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

2. **2009 Expense Lag Categories**

a. Purchased Commodities, Gas (line 1 of Table SCG-JSL-1) – 2009 actuals of $1,367.2 million, 42 lag days. The ratemaking mechanisms associated with these costs presume collection of revenues as supply is consumed and payment of expenses when supply is delivered. Therefore, this line item is necessary in order to recover a working cash allowance for the net revenue lag associated with commodity purchases. The 2009 purchased gas costs were derived by summing the net payments made each month for Transportation payments, California payments, Interstate Payments, and Secondary Market Services. Lag days reflect the weighted-average of all net gas commodity payments. Each category has the total invoice amounts and its corresponding dollar weighted days. These dollar days were calculated by multiplying the invoice amount by the number of lag days. The total dollar days for all the categories were divided by the total invoice amounts to come up with the number of lag days for this category. Please see my workpaper Schedule D for more detail.

b. Payroll Expense (line 2 of Table SCG-JSL-1) – 2009 actuals of $413.9 million, 12.2 lag days. This category includes O&M and the O&M portion of clearing and refundable labor costs. Payroll expenses are incurred every other Friday and have 12.4 lag days. This filing has updated the payroll expense calculation to take into account holidays, which results in early payroll moving the lag days down. Withholding taxes are paid the day before payday to the outsourcing company that makes all tax payments on behalf of SCG, and therefore the resulting net lag is 12.2 lag days. Please see my workpaper Schedule E for more detail.

c. Federal Insurance Contributions Act Tax ("FICA") (line 3 of Table SCG-JSL-1) – 2009 actuals of $32.1 million, 11.4 lag days. As with the tax portion of payroll expenses above, FICA (which includes Old-Age, Survivor's, and Disability Insurance ["OASDI"] and Medicare) expenses are paid the day before payday to SCG's payroll outsourcing company. Please see my workpaper Schedule F for more detail.

d. Federal Unemployment Tax Act ("FUTA") and State Unemployment Insurance ("SUI") (line 4 of Table SCG-JSL-1) – 2009 actuals of $1.0 million, 76.1 lag days. These costs are paid electronically to SCG's payroll outsourcing company one month after each quarter end. This study reflects both FUTA and SUI, net of capital. Please see my workpaper Schedule F for more detail.

e. Incentive Compensation Plan ("ICP") (line 5 of Table SCG-JSL-1) – 2009 actuals of $35.5 million, 256.1 lag days. This compensation is earned and reflected as an expense in the preceding year (2009), but paid out in 2010. Please see my workpaper Schedule G for more detail.

f. Employee Benefits (line 6 of Table SCG-JSL-1) – 2009 actuals of $206.2 million, 4.2 lag days. Please see my workpaper Schedule H for more detail.

- Pension – SCG's pension plan required contributions in 2009 of $75.1 million, 0 lag days. Ratepayers are compensated for the actual payment lags since this account is balanced. It is a long-established working cash principle that a zero lag day is proper in the case of accrued expenses for which interest is paid on the accumulated balance.
- PBOPs- $25.9 million, 0 lag days. PBOPs are now balanced and treatment is consistent with Pension (above).
- Disability Plan- $4.1 million, 12.4 lag days
- Retirement Savings Plan- $12.4 million, 12.4 lag days
- Life Insurance - $1.5 million, 6 lag days
- Dental and Vision - $5.9 million, 5.9 lag days
- Health Insurance - $64.5 million, 6 lag days
- Workers' Compensation- $15.3 million, 9 lag days
- Benefit Fees and Services - $1.4 million, 68.1 lag days

g. **Goods and Services** (line 7 of Table SCG-JSL-1) – 2009 expense of $406.3 million, 34.1 lag days. The Goods and Services expense amount includes all other expenses that have not been indentified separately on the lead lag study. The total of the lead lag study expense amount agrees to the total O&M cost reported on FERC Form 2, pg. 114. Please see my workpaper Schedules I and R for more detail.

h. **Payments by Corporate Center** (line 8 of Table SCG-JSL-1) – 2009 actuals of $79.3 million, 26.5 lag days. SCG pays for its share of expenses incurred by Corporate Center on behalf of the utility. The lead/lag days from corresponding expense categories in this lead/lag study are applied to Corporate Center payments to calculate overall lag days. Please see my workpaper Schedule J for more detail.

i. **Real Estate Lease Payments** (line 9 of Table SCG-JSL-1) – 2009 actuals of $37.6 million, (18.7) lead days. Leases are paid in advance. Overall expense lag is negative because payments are made prior to the midpoint of the occupancy period. Please see my workpapers Schedule K-1, K-2 and K-3 for more detail.

j. **Materials Issued from Stores** (line 10 of Table SCG-JSL-1) – 2009 actuals of $10.4 million, 0.0 lag days. This category includes materials issued for O&M. Please see my workpaper Schedule L for more detail.

k. **Property/Ad Valorem/Pass-through Taxes** (line 11 of Table SCG-JSL-1) – 2009 actuals of $261.4 million, 116.3 lag days. Most of these payments are made electronically. Please see my workpaper Schedules Ma and Mb for more detail. Three types of tax payments are included:

- Property/Ad Valorem Taxes – $39.4 million. Ad Valorem taxes are a function of assessed value of property and the tax rate applied to that value.
- Franchise Fees – $56.6 million. Includes payments made to counties and incorporated cities pursuant to local ordinances

granting a franchise to the company to place utility property in the public right-of-way.

- Pass-through taxes collected on behalf of other government agencies – Although pass-through taxes do not flow through the income statement, they are a source of working cash and are appropriately included in the lead/lag study. The taxes are collected from ratepayers, and payments are made later to taxing authorities. These pass-through taxes include:

- Municipality Surcharges – $48.4 million. These fees replace franchise fees lost by municipalities due to deregulation in the energy industry. The surcharge is imposed on end users of energy transported through the utility's system but purchased from third-party suppliers.

- Utility Users Taxes – $110.6 million. These are taxes imposed by municipalities on end users and collected by the utility.

- SCG's Municipal Transport Tax payments – $6.5 million. This category includes taxes imposed by the City of Los Angeles on end users of gas transported through SCG's system, but purchased from third-party suppliers.

l. **Federal Income Taxes, Current** (line 12 of Table SCG-JSL-1) **–** 2009 actuals of ($1.8) million, 4,819 lag days. Tax expense lags are based on statutory due dates: April 15 of each year for the first quarter, June 15 for the second quarter, September 15 for the third quarter, and December 15 for the fourth quarter. The tax lag days of each payment are calculated between the midpoint of the year and the wire payment date. Federal Income Taxes also include tax refunds from previous periods which result in negative lag days. Tax refunds of $23.2 million and 2008 extension of $17 million were received in 2009 with (256) days of lag associated with them, which result in negative lag days noted above. These were funds held by the IRS instead of SCG and therefore result in negative lag days. Additionally, SCG has included the impact of Bonus Depreciation stemming from the December 17, 2010 Tax Relief Act (TRA). The inclusion of TRA resulted in a $36.8 million decrease to SCG's current Federal Income Taxes and an increase to SCG's deferred Federal Income Taxes by the same amount. The number of lags days increased from (212) to 4,819 due to the significantly decreased tax payment amount that is used as the denominator to calculate lag days and also due to the $1.5 billion increase in weighted lag dollar days that is used as the numerator for calculated lag days. The overall change to working cash is an $8 million increase to working cash. Please see my workpaper Schedule N-1 for more detail.

m. **California Corporate Franchise Taxes, Current** (line 13 of Table SCG-JSL-1) – 2009 actuals of $22.0 million, (67.5) lag days. Statutory due dates are the same as noted above for Federal Income Taxes, and the method of calculating the lag days is the same, although the dollar weighting is different. California Franchise Taxes also include tax refunds of $6.6 million and a 2008 extension of $2 million with negative lag days of 256. Please see my workpaper Schedule N-2 for more detail.

n. **Depreciation** (line 14 of Table SCG-JSL-1) – 2009 actuals of $290.2 million, 0.0 lag days. When properties are built, the cash cycle begins with cash outlays by investors and ends with cash recovery by investors through depreciation expense. In the interim, such funding is part of SCG's rate base. Depreciation expense reduces rate base, but SCG's recovery is delayed for the duration of the billing or revenue lag. Weighting these dollars at zero expense lag recognizes that the investor funding has occurred, but it has not been recovered.[3] Please see my workpaper Schedule O-2 for more detail.

o. **Amortization of Insurance Premiums** (line 15 of Table SCG-JSL-1) – 2009 actuals of $13.0 million, 0.0 lag days. Amortization is weighted at zero expense lag for the same reason as previously described

[3] Expense lag for capital purchases is credited to customers through Current and Accrued Liabilities in the balance sheet section of the working cash study.

under Depreciation. Please see my workpaper Schedule O-3 for more detail.

p. **Federal/State Income Taxes, Deferred** (line 16 of Table SCG-JSL-1) – 2009 actuals of $107.5 million, 0.0 lag days. This amount reflects the change of deferred federal and state taxes in 2009. Accumulated deferred income taxes ("ADIT") are deducted from rate base as cost-free funds available for investment. However, the financial recording of deferred income taxes does not produce cost-free capital and the funds do not become available until customers pay their bills. Therefore, the recorded amount of ADIT overstates the actual amount of cost-free funds that are available. The inclusion of deferred income taxes at zero lag days in the overall expense lag weighted-average corrects this condition by increasing net revenue lag, in the same manner as Depreciation, described above. Please see my workpaper Schedule O-1 for more detail.

3. **TY 2012 Forecasted Expense Components** (line 5 of Table SCG-JSL-2 and workpaper B-1) – TY 2012 forecast of $4,710.5 million. Forecasted expenditures for commodity costs, O&M non-commodity costs, franchise fees on commodity costs, pass-through taxes, and balancing account costs are utilized in the working cash computation.

a. **TY Forecasted Commodity Costs** (line 3b of Table SCG-JSL-2) – $2,426.8 million. For commodity costs, 2009 actual weighted-average lag days are applied to forecasted 2012 costs. Forecasted gas costs are computed by multiplying the forecasted 2012 monthly demand by the monthly weighted-average cost of gas ("WACOG"). The monthly WACOG reflects purchase and interstate transportation costs.

b. **Other TY Non-Commodity Costs** (line 4b of Table SCG-JSL-2) – $2,283.7 million, 26.5 lag days. The 2009 overall weighted-average number of lag days for expenses excluding commodities is applied to projected test year O&M expenses:

- O&M Expenses Excluding Commodities – $1.8 billion. These O&M and tax expenses were forecasted and supplied to the SCG Results of Operations model ("RO model") by other witnesses in this GRC filing.
- Deferred Income Taxes – $0.126 million. These costs were forecasted by SCG's Tax Department.
- Franchise Taxes on Commodity – $35.4 million. This category was derived by applying the forecasted commodity franchise tax rate filed in this GRC to the forecasted TY commodity costs described earlier in item TY Forecasted Commodity Costs above.
- Pass-Through Taxes – $178.2 million. This category was forecasted based upon 2009 actual payments, escalated to 2012 dollars using shared service escalation factors provided by escalation witness Scott R. Wilder (Exh. SCG-31).
- Refundable Program Costs – $147.7 million. TY costs were forecasted for each refundable program. RD&D, Pension, and PBOPs were excluded because they are reflected earlier in Other Expenses Excluding Commodities above.

VII. CONCLUSION

The foregoing testimony describes the methodology used by SCG to prepare its GRC request for working cash in compliance with CPUC SP U-16, based on 2009 as-recorded costs and 2012 GRC test year forecasts. This effort resulted in a total 2012 working cash request requirement for SCG of $42.5 million (Table SCG-JSL-3). This testimony focuses on the major drivers and relies on SP U-16 as guide to construct and present SCG's working cash requirements. My testimony also shows how balance sheet items are forecasted to provide a net deduction of working cash in 2012 of $34.0 million. Additionally, my testimony shows that lead/lag categories with expense lags less than revenue lag consume working cash. Accordingly, as shown above, in the lead/lag study they lower the overall weighted average for expense lag days and increase net revenue lag days. Such items in the SCG 2009 study include payroll expense, FICA and Medicare expense, employee benefits, goods and services, corporate charges, real estate rental, materials issued from stores, federal and state income taxes, depreciation, and amortization, and income taxes deferred. Lead/lag categories with expense lags greater than revenue lag provide working cash. These items raise the overall weighted average for expense lag days and decrease net revenue lag days. Such items in SCG's 2009 study include purchased commodities-gas, federal/state unemployment insurance, incentive compensation plan, and property/ad valorem/franchise taxes. Ultimately, SCG's lead/lag study calculated an overall 2009 net revenue lag of 5.93 days.

For all of the reasons stated above, SCG's total 2012 working cash requirement of $42.5 million is reasonable and appropriate. However, as described in the introduction of this testimony, SCG has elected to forego the $42.5 million of working cash requirements that is reflected above in this testimony and is requesting working cash of $0 for its TY 2012 GRC request.

This concludes my revised prepared direct testimony.

VIII. WITNESS QUALIFICATIONS

My name is Jack S. Lewis. I am employed by Sempra Energy Utilities as the Financial Services Manager in the Regulatory and Finance Department. My business address is 8330 Century Park Court, San Diego, California 92123.

My principal responsibilities include Treasurer, Regulatory and Finance support, business planning, forecasting and financial analysis.

I possess a Bachelor of Science degree in Business Administration from San Diego State University and a Master of Science from San Diego State University. I worked for the public accounting firm of Coopers & Lybrand from 1986 until 1988 where I acquired my CPA license. I have held a variety of financial and Treasury positions at Sempra Energy and Sempra Energy Utilities.

I have previously testified before the Commission.

CHANGE LOGS

SoCalGas 2012 GRC Testimony Errata Log

Exhibit	Witness	Page	Line	Errata Item
SCG-29	Jack Lewis	JSL-1	8	Change from “$34.3” to “$34.0” million
SCG-29	Jack Lewis	JSL-2	5	Change from “$34.3” to “$34.0” million
SCG-29	Jack Lewis	JSL-7	5	Change from “$68.3” to “$68.1” million
SCG-29	Jack Lewis	JSL-7	6-10	Replace Table SCG-JSL-2
SCG-29	Jack Lewis	JSL-8	4	Change from “$34.3” to “$34.0” million
SCG-29	Jack Lewis	JSL-8	5-9	Replace Table SCG-JSL-3
SCG-29	Jack Lewis	JSL-18	17	Change from “$4,615.3” to “$4,608.9” million
SCG-29	Jack Lewis	JSL-18	29	Change from “$2,188.5” to “$2,182.1” million
SCG-29	Jack Lewis	JSL-19	5	Change from “$21.0” to “$20.0” million
SCG-29	Jack Lewis	JSL-19	23	Change from “$34.3” to “$34.0” million
SCG-29	Jack Lewis	JSL-20	7	Change from “$34.3” to “$34.0” million
SCG-29	Jack Lewis	JSL-20	9	Change from “$34.3” to “$34.0” million

SoCalGas 2012 GRC Testimony Tax Relief Act Change Log

Exhibit	Witness	Page	Line	Errata Item (Interim Step)	Tax Relief Act Item (Final)
SCG-29	Jack Lewis	JSL-1	8	Change from “$34.3” to “$34.0” million	Change from “$34.0” to “$42.5” million
SCG-29	Jack Lewis	JSL-2	5	Change from “$34.3” to “$34.0” million	Change from “$34.0” to “$42.5” million
SCG-29	Jack Lewis	JSL-5	18	N/A	Change from “27.3” to “26.5” days
SCG-29	Jack Lewis	JSL-6	1-7	N/A	Revised Table SCG-JSL-1 (Tax Relief Act version)
SCG-29	Jack Lewis	JSL-7	5	Change from “$68.3” to “$68.1” million	Change from “$68.1” to “$76.6” million
SCG-29	Jack Lewis	JSL-7	6-10	Replace Table SCG-JSL-2 (Errata version)	Revised Table SCG-JSL-2 (Tax Relief Act version)
SCG-29	Jack Lewis	JSL-8	4	Change from “$34.3” to “$34.0” million	Change from “$34.0” to “$42.5” million
SCG-29	Jack Lewis	JSL-8	8-9	Replace Table SCG-JSL-3 (Errata version)	Revised Table SCG-JSL-3 (Tax Relief Act version)
SCG-29	Jack Lewis	JSL-16	20	N/A	Changed from “35.0” to “($1.8)” million
SCG-29	Jack Lewis	JSL-16	20	N/A	Changed from “212.1” to “4,819” lag days

Exhibit	Witness	Page	Line	Errata Item (Interim Step)	Tax Relief Act Item (Final)
SCG-29	Jack Lewis	JSL-16-17	30-8	N/A	Inserted explanation "Additionally, SCG has included the impact of Bonus Depreciation stemming from the December 17, 2010 Tax Relief Act (TRA). The inclusion of TRA resulted in a $36.8 million decrease to SCG's current Federal Income Taxes and an increase to SCG's deferred Federal Income Taxes by the same amount. The number of lag days increased from (212) to 4,819 due to the significantly decreased tax payment amount that is used as the denominator to calculate lag days and also due to the $1.5 billion increase in weighted lag dollar days that is used as the numerator for calculated lag days. The overall change to working cash is an $8 million increase to working cash."
SCG-29	Jack Lewis	JSL-18	4	N/A	Changed "70.6" to "$107.5" million
SCG-29	Jack Lewis	JSL-18	17	Change from "$4,615.3" to "$4,608.9" million	Change from "$4,608.9" to "$4,710.5" million
SCG-29	Jack Lewis	JSL-18	29	Change from "$2,188.5" to "$2,182.1" million	Change from "$2,182.1" to "$2,283.7" million
SCG-29	Jack Lewis	JSL-18	29	N/A	Changed from "27.3" to "26.5" lag days

Exhibit	Witness	Page	Line	Errata Item (Interim Step)	Tax Relief Act Item (Final)
SCG-29	Jack Lewis	JSL-19	5	Change from “$21.0” to “$20.0” million	Change from “$20.0” to “$0.126” million
SCG-29	Jack Lewis	JSL-19	23	Change from “$34.3” to “$34.0” million	Change from “$34.0” to “$42.5” million
SCG-29	Jack Lewis	JSL-20	6	N/A	Change from “5.4” to “5.93” days
SCG-29	Jack Lewis	JSL-20	7	Change from “$34.3” to “$34.0” million	Change from “$34.0” to “$42.5” million
SCG-29	Jack Lewis	JSL-20	9	Change from “$34.3” to “$34.0” million	Change from “$34.0” to “$42.5” million