Company: Southern California Gas Company (U904G)
Proceeding: 2016 General Rate Case
Application: A.14-11-004
Exhibit: SCG-229

# SOCALGAS

# REBUTTAL TESTIMONY OF MICHAEL W. FOSTER

# (WORKING CASH)

June 2015

**BEFORE THE PUBLIC UTILITIES COMMISSION**
**OF THE STATE OF CALIFORNIA**


Doc#297704

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# (WORKING CASH)

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Table 1 Summary of Differences

| **TOTAL OPERATIONAL CASH REQUIREMENT** – Test Year 2016 ($000) | | | | |
|---|---|---|---|---|
| | **Operational Cash Requirement** | **Working Cash Not Supplied by Investors** | **Lead/Lag working Capital Requirement** | **Total Working Cash Requirement** |
| SoCalGas | **83,272** | **(147,025)** | **143,631** | **79,879** |
| ORA | **78,000** | **(143,500)** | **63,365** | **(2,135)** |
| TURN | **83,010** | **(221,942)** | **59,702** | **(79,230)** |

## II. INTRODUCTION

### A. ORA

The Office of Ratepayer Advocates (ORA) issued its report on *Working Cash and Ratebase* on April 24, 2015.[1] The following is a summary of ORA's positions:

- Cash Balances: ORA recommends that cash balances be excluded from SoCalGas' Working Cash Calculation on the basis that it is not a "required bank deposit."
- Customer Deposits: ORA recommends that customer deposits be treated as long term debt.
- Revenue Lag: ORA recommends using a 5-year average (2009-2013) of revenue lag for TY 2016.
- Expense Lag: ORA recommends discarding actual state and federal income tax lag analysis in favor of a forecast based on the assumption that SoCalGas can perfectly estimate its 2016 tax obligations and pay that exact amount each quarter.

### B. TURN

The Utility Reform Network (TURN) submitted testimony on May 15, 2015.[2] The following is a summary of TURN's positions:

[1] Report on the Results of Operations for San Diego Gas & Electric Company Southern California Gas Company Test Year 2016 General Rate Case – Ex. ORA-22 (Testimony of ORA Witness K. McNabb).
[2] Testimony of William B. Marcus, on behalf of The Utility Reform Network (TURN), (Working Cash), May 15, 2015.

- TURN recommends increasing the goods and services lag by 7.4 days due to SoCalGas' new internal policy, changing its standard payment time to suppliers from 30 to 45 days.

- TURN recommends removing income taxes from the lead-lag study, claiming there is no basis for which to forecast income tax lead-lag.

- TURN recommends removing interest bearing customer deposits of $74,310,000 from rate base (2014 average year deposits) and allowing the actual customer deposit return on $74,310,000 as a charge into the core fixed cost account.

- TURN recommends Preliminary Surveys and Investigations Costs be excluded from the working cash study

- TURN recommends changes to commodity unbundling related to commodity working cash.

## III. REBUTTAL TO PARTIES' OPERATIONAL CASH PROPOSALS

### A. Cash Balances

#### 1. Cash Balances

##### a. ORA

ORA has recommend $0 cash for SoCalGas' operational cash balances. Cash is required in SoCalGas' bank accounts in order to facilitate efficient operation of its various accounts and to sustain strong banking relationships, which benefits all stakeholders. ORA appears to base their recommendation on a partial reading of SP U-16 along with prior Commission decisions. ORA used italics on the first portion of a statement that ORA chose to highlight while ignoring the integral last clause in the same statement: "and reasonable amounts of working funds."[3]

While recent PG&E and SCE decisions have resulted in $0 cash outcomes, it remains apparent that $0 cash is not a reasonable amount to efficiently operate a business bank account. If a business endeavored to keep $0 cash in its accounts, that practice would result in significant recurring overdraft fees, and degradation in the banking relationships. Additionally, each day checks are presented, but funds are not all immediately available. In many cases, float days are assigned to check deposits (i.e., those funds are not yet available to use). The amount of float that is assigned each day is not known to SoCalGas until the next business day. For 2013, our average 1-day float was approximately $5 million.

[3] CPUC Standard Practice U-16 (SP U-16), Chapter 3, Section - Cash 10.

The goodwill SoCalGas has created with its banking would also be jeopardized if SoCalGas refused to keep a cash balance on hand in its banking accounts. SoCalGas receives end-of-day deposit activities each business day and also pays the checks that have been presented each business day. All of the day's activities that affect cash balances are not completely known during that respective day, since this process is dependent upon various external stakeholders' behaviors and timing. Consequently, it is not practical to expect a perfect estimate or forecast of each day's cash activities. That means there needs to be some cash on hand to facilitate over $8.7 billion[4] of outflows and an approximately equal amount of inflows during the year. $3.356 million of (total) monthly cash deposits (which is what SoCalGas is seeking as part of its working cash request) represents a .21%[5] ratio of cash to total monthly cash inflows and outflows that occur in these accounts. Although relatively small, such a balance assists in avoiding overdraft fees and the potential degradation of banking relationships.

In summary, while there is no specific "required minimum cash balance," there is a "reasonable amount of working funds" (this is language in SP U-16) required to operate a large utility with multiple banking accounts/relationships. ORA has provided no evidence that SoCalGas' proposed .21% ratio of cash is not a reasonable amount of working funds. A $0 cash balance, on the other hand, would be unreasonable. Accordingly, SoCalGas' $3.356 million cash balance request should be adopted for Test Year 2016.

#### b. TURN

TURN does not contest the inclusion of cash balances in the working cash study.

## B. Interest Bearing Customer Deposits

### 1. Interest Bearing Customer Deposits

#### a. ORA

"ORA recommends that the Commission treat Customer Deposits as a source of long-term debt,"[6] resulting in a $3.072 million reduction to SoCalGas' Revenue Requirement, which ORA claims is consistent with the 2014 PG&E GRC result. While PG&E did receive this

[4] 2013 Union Bank, Mellon Bank, and Bank of America outflows were $8.7 billion.
[5] .21% is derived by dividing the 2013 average cash balance of $3.130M (2013 $) by 2013 average monthly inflows & outflows of $1.459 billion.
[6] Ex. ORA-22, p. 20, line 19-20 (Testimony of K. McNabb).

treatment in its 2014 GRC decision, it should be noted the Commission also stated within the same decision that, "We have not always adopted identical treatment of customer deposits among utilities or for the same utility over time. The treatment of customer deposits adopted for PG&E here is based on circumstances before us which leave discretion to tailor the adopted ratemaking treatment accordingly…."[7]

The Commission went on to say, "We decline to apply customer deposits as a rate base offset as proposed by TURN. PG&E has a legal obligation to refund customer deposits recorded as an interest bearing liability on the balance sheet, the same as other debt obligations. Customer deposits are not equity. These facts do not support treating customer deposits as a form of equity to apply in reducing rate base, as TURN proposes. We find that TURN's proposed treatment of customer deposits deviates from Commission SP U-16 which excludes interest bearing customer deposits from working cash, and only includes non-interest-bearing customer deposits."[8]

*SP U-16 & Precedence Exclude Interest Bearing Accounts From Working Cash*

SoCalGas excluded interest bearing accounts from its working cash requirements as specifically directed by SP U-16: "CUSTOMER DEPOSITS 22. This account represents monies advanced by the customer as security for the payment of utility bills. Only noninterest-bearing customer deposits are to be considered."[9] The Commission has also stated that "balancing accounts and customer deposits should both earn the short term debt rate."[10] These accounts are similar in that both accounts (balancing accounts, including Public Purpose Program-related remittances and customer deposits) represent funds that are either from or due to ratepayers. There is no reason why these similar accounts should not both earn the same short-term debt rates of return. The Commission also pointed out that, "We agree that it is more appropriate to treat customer deposits as financing these undercollections first, financed at short term interest rates, rather than applying these deposits against rate base earning the full rate of return."[11] Consequently, the Commission has recently agreed (once again) that customer deposits should not be a rate base offset.

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[7] PG&E D.14-08-032 p. 628 August 2014.
[8] PG&E D.14-08-032 p. 627 August 2014.
[9] CPUC Standard Practice U-16 (SP U-16), Chapter 3, Section –C Part 22, page 1-8.
[10] PG&E D.14-08-032, pg. 630, which further references D.91269 (OII 56), 3 CPUC2d 197, 204; D.92496 (OII 56), 4 CPUC2d 693, 705.
[11] PG&E D.14-08-032, pg. 630.

Interest bearing customer deposits should not be viewed as a source of long-term debt. Long-term debt is used to finance rate base and has a specific term and known duration as compared to interest bearing customer deposits, which can vary depending upon economic cycles and customer behavior and has a much shorter duration than SoCalGas' average long-term debt portfolio that finances long-term assets. In 2014, the Commission stated that customer deposits should earn a short-term debt rate[12]; therefore, the Commission effectively distinguished this shorter-term liability from long-term liabilities which receive long-term rates of return. Common financial principles hold that long-term liabilities (debt) finance long-term assets (rate base) while short-term liabilities (customer deposits) finance short-term assets (deposit money).

*Customer Deposits Have Similar Characteristics as SoCalGas' Public Purpose Program Obligations and other Balancing Accounts*

Customer Deposits are not permanent sources of capital just as balancing accounts are not permanent sources of cash. SoCalGas has significant short-term, ratepayer-related assets in the form of revenue remittances related to Public Purpose Programs and undercollected balancing accounts that also earn the same short-term rate of return that interest bearing customer deposits earn – the three-month commercial paper rate. If ORA's recommendation to treat interest bearing customer deposits as a long-term source of debt financing was implemented (thereby reducing revenue requirements by the difference between the short-term rate and SoCalGas' authorized cost of debt), then SoCalGas would expect a similar (symmetrical) and equitable treatment would be provided for SoCalGas' obligations to the Public Purpose Programs, and balancing account undercollections. Both represent short term customer-related capital commitments.

*Customer deposits should offset SoCalGas' Public Purpose Program.*

Pursuant to P.U. Code 890, which established the Natural Gas Surcharge, CPUC-regulated natural gas utilities remit Public Purpose Program surcharge revenues to the State Board of Equalization (BOE) for deposit in the Gas Consumption Surcharge Fund.[13] Under this program, SoCalGas is obligated to remit to the BOE revenues related to public purpose program

[12] PG&E D.14-08-032, pg. 630, which further references D.91269 (OII 56), 3 CPUC2d 197, 204; D.92496 (OII 56), 4 CPUC2d 693, 705.
[13] P.U. Code 890-900 establishes the Natural Gas Surcharge. P.U. Code 892-892.2 define Remittance, Due Date and Return requirements of program revenues.

spending, and then receives back from the BOE reimbursements, less any program expenses they withhold. Thus, each quarter, SoCalGas must make remittances to the BOE. These remittances are materially comparable in size to the amount of interesting bearing customer deposits the company holds, with the largest being $125.6 million and the smallest being $53.0 million.

Table 2 – 2013 Public Purpose Program Remittance Activity:

| | Q4 2012 | Q1 2013 | Q2 2013 | Q3 2013 |
|---|---|---|---|---|
| Remittance to BOE | 69,673,326 | 130,275,965 | 66,068,903 | 55,299,262 |
| Date | 1/31/2013 | 04/30/13 | 07/31/13 | 10/31/13 |
| | | | | |
| Reimbursement from BOE | 66,637,622 | 125,584,371 | 63,896,034 | 53,010,230 |
| Date | 4/17/2013 | 06/20/13 | 11/04/13 | 12/27/13 |

For Measurement Year 2013, this resulted in annualized committed capital of $56.7 million, and for the 5-year period ending in 2014, the average annual committed capital related to Public Purpose Programs was $64.9 million (see Attachment 1).

Table 3 – Annual capital committed to Public Purpose Programs

| | 2010 | 2011 | 2012 | 2013 | 2014 | 5-year average |
|---|---|---|---|---|---|---|
| Annualized Committed Capital | 51,659,447 | 70,023,603 | 97,954,195 | 56,713,821 | 48,321,684 | 64,934,550 |

Interest bearing customer deposits should be used to offset these obligations before receiving treatment which deviates from SP U-16.

*Customer deposits should offset SoCalGas' deposits in its community banking program.*

In support of the goals of GO 156, SoCalGas created a community banking deposit program in which it deposits funds into local Diversified Business Enterprise (DBE) banking institutions. SoCalGas maintains a constant amount of capital committed to this program. At year-end 2013, these deposits totaled approximately $11 million, and SoCalGas expects this amount to stay constant over time.

Interest bearing customer deposits should be used to offset deposits in the community banking program before receiving treatment which deviates from SP U-16.

*Balancing account Undercollections*

SoCalGas had net over-collections at year-end 2013 of $25.3 million; however by year-end 2014 they had reversed and grown to a $230.1 million net undercollected position.[14] Consequently, if the Commission chooses to alter SoCalGas' customer deposits treatment, SoCalGas recommends equitable treatment for the funds SoCalGas' investors have provided to ratepayers in order to fund Public Purpose Program obligations and the net undercollections in SoCalGas' balancing accounts. Interest bearing customer deposits should be netted against any regulatory account undercollections before receiving treatment which deviate from SP U-16.

In sum, if ORA's customer deposits proposal is adopted (which is something SoCalGas opposed), then both interest bearing customer deposit accounts and net balancing account amounts should be treated consistently and adjusted at SoCalGas' authorized weighted average cost of capital, which is currently 8.02%. This would be consistent with SoCalGas' Cost of Capital, and net funds from customers would then get adjusted at SoCalGas' respective Cost of Capital and net funds from investors would receive the same rate. This would result in an overall equitable outcome for both ratepayers and investors.

[14] Regulatory account over and under collections amounts are shown net of Public Purpose Program related balances with the BOE, discussed separately.

**b. TURN**

TURN argues that interest bearing "customer deposits represent a source of capital that the utility has on a permanent basis"[15] and therefore should offset ratebase as a source of capital not provided by investors. As noted above, interest bearing customer deposits, however, are not a long-term source of funds. The fact that there is a regular year-end balance in this account does not render it a "long-term" source of funds. In characterizing customer deposits as long-term, one could logically then characterize many working capital accounts as long-term. Receivables and inventories are common examples of working capital accounts, and will typically have a permanent balance on a company's balance sheet. This is exactly the same as the interest bearing customer deposits in question.

TURN also argues that since year-end customer deposit balances have "varied in a tight range between $73 million and $76 million" they are a "long-term source of funds."[16] Again, it is not unusual for working capital items to have a perpetual year-end balance on a company's balance sheet.

TURN also points out that the 3-year commercial paper rate is currently very low, not exceeding 0.25% in the past 3 years.[17] But commercial paper rates are volatile and are forecast to rise as high as 3.85% by 2018[18], likely within the adopted attrition period of this GRC. However, this again emphasizes that the interest bearing customer deposits are not long-term in nature as long-term financing is typically not exposed to these short term rate fluctuations. Within 2 years of the test year, the rates could be over 15x their current level based on the Global Insight June Forecast.[19] For the purpose of forecasting goods and services lag, TURN is interested in attempting to predict the future instead of relying on the base year 2013 results. But when it comes to interest rates, TURN does not examine any interest rate forecasts into the 2016 test year, which are readily available. Further, this is the same rate of return SoCalGas is authorized recover when it commits short term capital in the Public Purpose Program and other balancing account undercollections.

[15] Testimony of William B. Marcus (Working Cash), May 15, 2015, page 38.
[16] Testimony of William B. Marcus (Working Cash), May 15, 2015, page 40.
[17] Testimony of William B. Marcus (Working Cash), May 15, 2015, page 39.
[18] Global Insight June Forecast.
[19] Global Insight June Forecast.

In an effort to undermine SP U-16, TURN relies on the fact that Ronald Reagan was the governor of California when SP U-16 was written. SoCalGas concedes that fact. However, TURN provides no evidence to suggest that the general nature of interest bearing customer deposits has change or why the age of SP U-16 would render it useless in this case. Indeed, one could argue that the longevity of SP U-16 is a testament to its accuracy and broad applicability.

TURN claims, "The inclusion of customer deposits as a rate base offset effectively reduces the amount of equity in the utility's capital structure by about $36 million for SDG&E and $39 million for SoCalGas, but this does not create a financial risk."[20] I assume that TURN's estimate of $39 million was generated by simply multiplying $74.9 million[21] by SoCalGas' authorized equity of 52%. However, it is not the case that SoCalGas' equity would be reduced by $39 million. In other words, departing from SP U-16 for the treatment of SoCalGas' interest bearing customer deposits does not somehow create an additional $74.9 million in capital for SoCalGas' use (for example, to shed equity, and by extension, reduce debt obligations).

Instead, TURN's proposal would directly impact the company's interest coverage ratio. The interest coverage ratio is calculated as earnings before interest and tax divided by interest expense in a given period. This measures how much earnings are available to support a company's interest expense burden. TURN recommends treating interest bearing customer deposits as capital not provided by investors. This would lower authorized revenues (relative to treating interest bearing customer deposits as prescribe in SP U-16) and put downward pressure on earnings before interest and tax. However, the interest expense burden would remain unchanged. Essentially, the company would have less authorized revenue in which to support the same levels of debt, equity and customer deposits, putting downward pressure on interest coverage ratios. As stated above, SoCalGas believes that if the Commission is to examine the question of treating customer deposits as long term debt, the Cost of Capital proceeding is the appropriate venue, where credit rating agency perspectives on capital structure are examined in depth.

In sum, TURN does not provide compelling arguments as to why the Commission should deviate from SP U-16 for SoCalGas. Customer deposits are a working capital item and not a long-term source of capital. If the Commission agrees that interest bearing customer deposits do

[20] Testimony of William B. Marcus (Working Cash), May 15, 2015, page 42.
[21] Testimony of William B. Marcus (Working Cash), May 15, 2015, page 29, table 11 – Customer Deposits shown as $74.917 million.

constitute a source of long-term debt, SoCalGas believes the Cost of Capital proceeding is the appropriate venue in which to examine the impact on credit metrics. Further, if the Commission does ultimately agree with TURN that interest bearing customer deposits should be netted against rate base, then any such reduction should be offset by adding to rate base any amounts SoCalGas has committed to accounts that earn the same or similar short term rates, including funds committed to Public Purpose Programs, SoCalGas' community banking deposit program as well as any other balancing account undercollections.

## B. Preliminary Surveys and Investigations Costs

### 1. Preliminary Surveys and Investigations Costs

#### a. ORA

ORA does not contest the inclusion of Preliminary Surveys and Investigations Costs in the working cash study.

#### b. TURN

SoCalGas includes cash outlays made to fund Preliminary Surveys and Investigations Costs in working cash because these deferred debits reflect cash that has been tied up for prospective ratepayer beneficial programs in future periods. Consequently, there is a real carrying cost of these balances that are not earning a current return and they are not interest bearing. Again, interest bearing accounts per SP U-16 are to be excluded. However, these costs are not interest bearing nor are they earning Allowance For Funds Used During Construction (AFUDC) or a return on rate base. The balance in this account represents a portfolio of costs, some of which will be costs that end up not coming to full viability and some project costs will be developed into a viable long-term project that eventually moves into rate base. Until the point in time when it is determined a project will move forward or not, they are accounted for within this account. The total included in working cash (in 2013 dollars) is $245,185 (a 13-month average as of December 31, 2013).

TURN objects to these costs being included in working cash. TURN states that, "Projects that should be assigned to CWIP immediately instead end up in this account and, whether intentionally or not, make an end-run around the prohibition on CWIP in rate base."[22] As TURN notes, these are not in CWIP; therefore they are not earning either an AFUDC return nor earning

[22] Testimony of William B. Marcus (Working Cash), May 15, 2015, on page 32.

a return on rate base. Whether it becomes viable or not, the expenditure's carrying cost should be recognized as a cost of doing business. These costs were appropriately reflected in this account during the 2013 base year that the working cash study is based on. Thus, SoCalGas disagrees with TURN's objection to these items because these items receive neither CWIP nor rate base returns, but reflect an actual cash outlay that should be recognized as a working cash item.

## IV. REBUTTAL TO PARTIES' LEAD/LAG PROPOSALS

### A. Revenue Lag

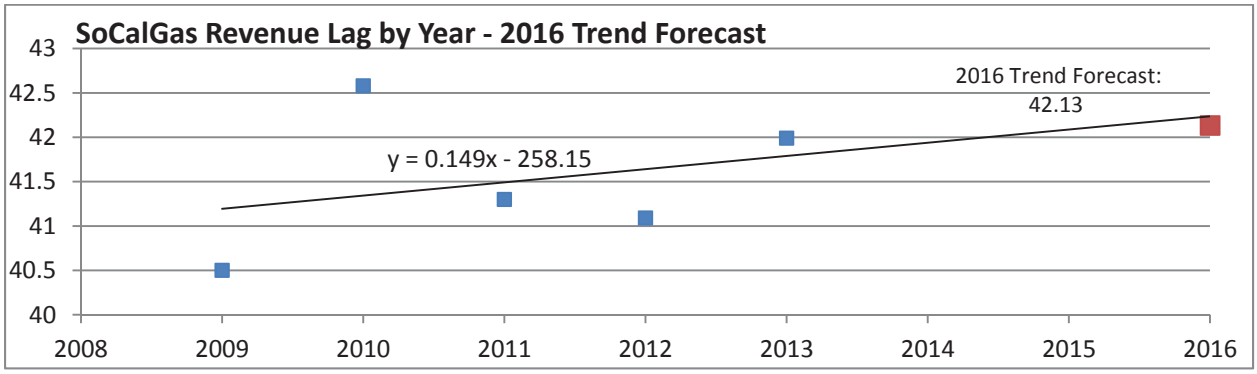
#### 1. ORA

ORA recommends using 41.55 revenue lag days for TY 2016 as opposed to SoCalGas' recommendation of 41.99 days. ORA cites a "fluctuation of revenue Lag Days over the last five years."[23] SoCalGas does not dispute that there have been fluctuations in the revenue lag days since 2009.

Table 4 – Historic Revenue Lag

| | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|
| Revenue Lag Days | 40.50 | 42.58 | 41.30 | 41.09 | 41.99 |

However, a best fit linear trend-line derived from the historical data indicates an upward trend over time, especially apparent over the 2011-2013 time period. Extrapolating that trend to 2016 would yield a revenue lag of 42.13 days.




[23] Ex. ORA-22, p. 21, line 19 Testimony of K. McNabb.

As it pertains to revenue lag day determination, SoCalGas disagrees with ORA's proposal of using a 5-year average and instead recommends employing the common practice of adopting the 2013 measurement period revenue lag days as a proxy for the 2016 test year revenue lag days. ORA has not presented any compelling arguments as to why that typical methodology should be abandoned in this case, or why their proposed 5-year average represents a superior forecast for 2016. Further, a 5-year average is being pulled down by the oldest data point, ignoring any recent upward trending. Accordingly, SoCalGas believes the 2013 revenue lag of 41.99 is appropriate. However, if the Commission finds that the 2013 point estimate for revenue lag days is not an appropriate proxy for 2016 revenue lag days, then SoCalGas recommends adopting the 2016 forecast of 42.13 days based on a 5-year linear regression analysis.

**2. TURN**

TURN does not contest SoCalGas' proposed revenue lag.

**B. Goods and Services Lag**

**1. ORA**

ORA does not contest SoCalGas' Recommended Goods and Services Lag

**2. TURN**

TURN recommends increasing SoCalGas' goods and services lag by 7.4 days from 34.0 days to 41.4 days, stating that, "Edison, unlike the Sempra utilities, did the right thing in its last rate case. When Edison proposed to pay its suppliers later, Edison made the change in its rate case, increasing goods and services lag days from 39.54 days to 49.24 days for the approximately 90% of its goods and services subject to purchase orders."[24]

SoCalGas does not dispute that it has proposed to extend its payment terms from 30 days to 45 days. However, at the point of Edison's rate case, Edison had more than just proposed extending its payment terms. It had successfully negotiated with many of its purchase order (PO) suppliers by the time they filed their general rate case application (See Attachment 2):

> Additionally, the goods and services lag was adjusted to reflect PO payment term improvement driven by the Operational Excellence Initiative. As part of this initiative, SCE negotiated improved standard terms with many of its PO suppliers.[25]

[24] Testimony of William B. Marcus (Working Cash), May 15, 2015, on page 33.
[25] Workpapers to Southern California Edison 2015 General Rate Case Application, SCE 10, volume 2, Chapter V, page 150. Referenced in TURN Report on Various Results of Operations Issues in Southern

At the time SoCalGas filed this GRC application, it had only recently implemented extension in payment terms and they were only applicable to a small percentage of existing POs. While SoCalGas implemented new payment terms in 2014, it has not yet realized material improvements to goods and services lag, comparable to those identified by Edison and referenced by TURN. Further, there are policy exceptions for Diverse Business Entities and other small business suppliers on a case-by-case basis.

In proposing an increase in the goods and services lag of 7.4 days, TURN erroneously assumes that SoCalGas had already negotiated favorable terms with "many of its PO suppliers" and without basis that SoCalGas will realize improvements to goods and services lag of 4 and 12 days for transaction with lags up to 10 days and over 10 days respectively.[26]

For these reasons, SoCalGas believes it is appropriate in its case to employ the measurement period goods and services lag. No change in this methodology is warranted at this time because SoCalGas is doing the right thing in taking steps to attempt to increase its goods and services lag for the benefit of SoCalGas ratepayers. However, it should not be penalized for trying to improve its goods and services lag by prematurely assigning benefits to ratepayers before there is evidence they have or will materialize.

### C. Federal Income Tax and State Income Tax Lead

#### 1. ORA

ORA takes issue with method SoCalGas' proposed method for calculating state and federal income tax lead/lag days. SoCalGas recommends using measurement year 2013 lead lag days for both state and federal income tax.

ORA recommends 37.5 as the federal income tax (FIT) lag days and 20.6 as the California corporate franchise taxes (CCFT) lag days. For the FIT lead/lag day calculation, ORA proposes employing a methodology "based on actual quarterly due dates for SoCalGas' estimated tax payments and the percentages that are due each quarter (25%)."[27] This assumes that SoCalGas is able to perfectly forecast taxable income as each quarterly tax payment is coming due. Recent history of long income tax-related lead times does not support this

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California Gas Company's and San Diego Gas and Electric Company's 2015 Test Year General Rate Cases, Attachment 9.

[26] Testimony of William B. Marcus (Working Cash), May 15, 2015, on page 33 Mr. Marcus outlines his proposed methodology for adjusting goods and services lag.

[27] Ex. ORA-22, pp. 23, line 3-4 Testimony of K. McNabb.

assumption. ORA does not however provide any explanation or empirical evidence as to why this would create a better forecast of 2016 FIT lead/lag days than the typically employed method of using 2013 measurement year figures as a forecast for 2016. ORA also ignores the historical recorded data for 2009-2013 where each year, SoCalGas had negative lag, or lead days associated with federal income tax payments. This means that for each year going back to 2009 SoCalGas had net excess capital being held by the Internal Revenue Service instead of available for use by the Company. This is shown in Table 5:

Table 5 - SoCalGas Historical FIT (Lead)/Lag Days

| 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|
| (41.45) | (235.97) | (110.20) | (2593.02) | (724.93) |

ORA further states, "There does not seem to be any 'typical' year for SoCalGas when associated with tax lag days."[28] However, what is clear is that SoCalGas typically has a lead associated with federal income tax payments, and ORA ignores this clear trend.

For CCFT lead/lag days, ORA proposes a forecast "based on a CCFT Lag Day calculation using the three annual due dates for SoCalGas' estimated tax payments and the percentages that are due on each payment date"[29] As with federal income taxes, this assume that SoCalGas is able to perfectly forecast taxable income as each tax payment is coming due. Again, ORA provides no explanation or empirical evidence as to why this would create a better forecast of 2016 CCFT lead/lag days. And, similar to federal income taxes, the recorded data for 2009-2013 show that in each year except 2011 SoCalGas had negative lag, or lead days associated with state income tax payments. This means that for each year going back to 2009 except 2011 SoCalGas had net excess capital being held by the California Franchise Tax Board instead of available for use by the Company. This is shown in Table 6:

Table 6 SoCalGas Historical CCFT (Lead)/Lag Days

| 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|
| (24.96) | (2.92) | 41.12 | (96.80) | (573.92) |

[28] Ex.ORA-22, p. 22, line 13-14 Testimony of K. McNabb.
[29] Ex.ORA-22, p. 24, line 7-9 Testimony of K. McNabb.

ORA also rejects the use of 2013 recorded leads days stating, "This amount of Lag Days is based on 2013 actuals, which appear extreme when compared to SoCalGas' historical data."[30] While SoCalGas' recommendation of using measurement year 2013 results in selecting a data point at the end of the range of 5-year data, ORA again ignores that SoCalGas typically had a lead associated with state income taxes.

For both federal and state income tax lead/lag days, ORA suggests there is no consistency in the historical data, and that it should all therefore be ignored. ORA then goes on to propose a method that is not at all based on historical recorded information. SoCalGas disagrees there is no consistency in the historical data, as it clearly shows a consistent trend of lead days associated with income tax payments. Even if one concludes that the data lacks consistency, the immediate rejection of the data is not warranted. Methods exist to draw conclusion from data that may at first glance appear inconsistent. Taking a simple average of the data is one such method, which ORA proposes in other instances. In fact, in the most recent GRCs for PG&E and Edison, ORA recommends using a simple average of historic data to determine federal and state income tax lead/lag days. In Edison's case, ORA recommended using a 3-year average for both federal and state lead/lag days, using the years 2008, 2009, and 2011, excluding 2010 as an outlier. In PG&E's Case, ORA recommended using a four year average of recorded lead/lag days for state income tax, using the years 2008-2011. There was no FIT data available for 2008-2010, so ORA recommended using estimates from PG&E's previous GRC.

In this case, SoCalGas recommends using the measurement year 2013 lead/lag days for both state and federal, consistent with the rest of the lead lag study. However, if the Commission feels the single year point value is not the best forecast for 2016, SoCalGas recommends using a 4-year average of historical data. Using a 4-year average method for determining federal and state income tax lead/lag days in this case would result in a lead of 682.3 days for federal income taxes and a lead of 100.6 for state income taxes.

**2. TURN**

TURN proposes that all consideration of income taxes be removed from the lead-lag study. Similar to ORA, TURN states "there is no credible basis for making any forecast for either federal or state income taxes for SoCal or California state franchise taxes for either SoCal

[30] Ex. ORA-22, p. 23, line 15-16 Testimony of K. McNabb.

or SDG&E for 2016. Certainly, there is no basis to forecast a lead in excess of a year."[31] Examining the 10 data points (representing the 5 years of historical income tax lead lag) shows only a single year where SoCalGas had a lag related to income tax payments (Lag of 41.12 in 2011 for state taxes, see tables 5 and 6 above).

Regarding SoCalGas' treatment of income taxes for purposes of the lead-lag study, TURN states, "The problem with this mechanism is that it assumes that continual congressional upheaval will continue into the 2016 test year."[32] SoCalGas' lead-lag mechanism does not assume that congressional upheaval will continue through 2016. Instead, SoCalGas' lead-lag mechanism assumes that SoCalGas will again in 2016 receive a true-up related to overpayments in previous years, as is consistent with the historical data shown tables 5 and 6 above.

TURN argues that a "problem with SoCalGas' income tax lead-lag study is that 2013 contains a larger repair deduction which is flowed through on both federal and state returns…."[33] SoCalGas does not contest this point. However, SoCalGas recognized that the true-up amount for 2013 was anomalous and opted to replace the 2013 true-up amount with the 5-year average true-up amount, which reduced the amount used in the lead-lag study by $80 million dollars. As per my direct testimony:

> A federal tax true up of $100.9 million was received in 2013. SoCalGas believes the size of this true-up to be anomalous, so instead used the average of the last 5 years' federal true-ups. The 5-year average federal true-up of $20.8 was assumed instead of $100.9 million, giving the lag days noted above and significantly reducing the company's working cash request.[34]

## V. RESPONSE TO TURN'S COMMENTS ON UNBUNDLING

TURN states, "SoCal Gas projects $1.343 billion in commodity costs in 2016. It includes cash working capital associated with those costs (with 38.59 lag days or a net lead of 3.4 days) in gas distribution rates where the residential class picks up about 80% of the costs. This $1.343 billion in costs should be included as commodity costs, changing the classification and unbundling of $12,512,000 of rate base from distribution to sales."[35]

SoCalGas does not contest this point and agrees to the proposed change.

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[31] Testimony of William B. Marcus (Working Cash), May 15, 2015, on page 35.
[32] Testimony of William B. Marcus (Working Cash), May 15, 2015, on page 34.
[33] Testimony of William B. Marcus (Working Cash), May 15, 2015, on page 34.
[34] Ex. SDG&E-29, p. MWF-14, lines 9-13.
[35] Testimony of William B. Marcus (Working Cash), May 15, 2015, on page 38.

## VI. CONCLUSION

As shown above, there are several reasons why the proposals of ORA and TURN should be rejected, and the Commission should adopt SoCalGas' proposed working cash of $79.9 million. Regarding the tax lead issue, SoCalGas has a long history of being in a lead position in regards to income tax payments, and neither ORA nor TURN provide compelling arguments as to why the common method of using a 2013 measurement year to forecast the 2016 test year should be abandoned.

Regarding the revenue lag issue, SoCalGas' revenue lag has been trending upward and believes the 2013 measurement year is a reasonable forecast.

Regarding the goods and services lag, SoCalGas is making efforts to improve its goods and services lag for the benefit of ratepayers, however, it should not be asked to return benefits to ratepayers that have not yet materialized. For this reason, the 2013 measurement year makes a reasonable forecast.

Regarding interest bearing customer deposits, both ORA and TURN recommend a significant departure from SP U-16. While the Commission has elected to depart from SP U-16 guidance in relation to customer deposit treatment for Edison and PG&E, its reasons were based on the unique circumstances presented in each of their respective GRCs. If interest bearing customer deposits are to be considered a source of permanent capital (different than what is required by SP U-16), then equity demands that both interest bearing customer deposit accounts and SoCalGas' Public Purpose Program remittances and other net balancing account amounts be treated consistently. Further, SoCalGas believes deposits in community banks should be netted against any interest bearing customer deposits that receive treatment different than SP U-16. For these reasons, SoCalGas believes SP U-16 offers the most reasonable guidance for treating interest bearing customer deposits.

This concludes my prepared rebuttal testimony.

# Attachment 1

Calculation of Annualized Committed Capital related to Public Purpose Programs

**Southern California Gas Company**
**Summary of Public Purpose Program Remittances and Reimbursements and Calculation of Annualized Committed Capital**

| Beg Period | Ending Period | ( a ) Payments to BOE | ( b ) Less: RDD and CPUC/BOE Admin Costs | ( c ) Additional RDD Costs | ( d ) Reimbursements from BOE | (e) = [prior bal] + (a) - (b) - ( c) - (d) Pending Fund Deposits with BOE | (f) No. of Days | (g) = sumproduct((e),( f)) for each year Dollar Days for Year | (h) = (g)/365 Annualized Committed Capital |
|---|---|---|---|---|---|---|---|---|---|
| January 1, 2010 | January 28, 2010 | - | | | | 207,344 | 28 | 18,855,698,128 | 51,659,447 |
| January 29, 2010 | March 31, 2010 | 63,863,751 | 2,897,193 | 147,391 | | 61,026,511 | 62 | | |
| April 1, 2010 | April 18, 2010 | | | | | 61,026,511 | 18 | | |
| April 19, 2010 | April 26, 2010 | - | | | 60,819,167 | 207,344 | 8 | | |
| April 27, 2010 | June 27, 2010 | 99,801,060 | 4,883,328 | | - | 95,125,076 | 62 | | |
| June 28, 2010 | June 30, 2010 | | | | 94,917,732 | 207,344 | 3 | | |
| July 1, 2010 | July 21, 2010 | - | | | - | 207,344 | 21 | | |
| July 22, 2010 | September 30, 2010 | 61,793,113 | 2,829,417 | | | 59,171,040 | 71 | | |
| October 1, 2010 | October 21, 2010 | | | | | 59,171,040 | 21 | | |
| October 22, 2010 | November 2, 2010 | 49,515,666 | 2,081,655 | | | 106,605,051 | 12 | | |
| November 3, 2010 | November 30, 2010 | | | | 58,963,696 | 47,641,355 | 28 | | |
| December 1, 2010 | December 31, 2010 | | | | 47,434,011 | 207,344 | 31 | | |
| | | | | | | | | | |
| January 1, 2011 | January 23, 2011 | | | | | 207,344 | 23 | 25,558,614,994 | 70,023,603 |
| January 24, 2011 | March 31, 2011 | 70,944,509 | 3,271,394 | | - | 67,880,459 | 67 | | |
| April 1, 2011 | April 26, 2011 | | | | | 67,880,459 | 26 | | |
| April 27, 2011 | June 30, 2011 | 103,865,706 | 4,882,453 | | - | 166,863,712 | 65 | | |
| July 1, 2011 | July 4, 2011 | | | | | 166,863,712 | 4 | | |
| July 5, 2011 | July 27, 2011 | | | | 166,656,367 | 207,345 | 23 | | |
| July 28, 2011 | September 30, 2011 | 69,952,209 | 2,906,993 | | | 67,252,561 | 65 | | |
| October 1, 2011 | October 4, 2011 | | | | | 67,252,561 | 4 | | |
| October 5, 2011 | October 31, 2011 | | | | 67,045,216 | 207,345 | 27 | | |
| November 1, 2011 | December 31, 2011 | 52,226,696 | 1,998,413 | | | 50,435,628 | 61 | | |
| | | | | | | | | | |
| January 1, 2012 | January 30, 2012 | | | | | 50,435,628 | 30 | 35,753,281,028 | 97,954,195 |
| January 31, 2012 | March 31, 2012 | 77,205,397 | 3,329,985 | | | 124,311,040 | 61 | | |
| April 1, 2012 | April 29, 2012 | | | | | 124,311,040 | 29 | | |
| April 30, 2012 | May 13, 2012 | 109,872,071 | 4,646,492 | | | 229,536,619 | 14 | | |
| May 14, 2012 | May 30, 2012 | | | | 94,383,965 | 135,152,654 | 17 | | |
| May 31, 2012 | June 30, 2012 | | | | 80,952,917 | 54,199,737 | 31 | | |
| July 1, 2012 | July 30, 2012 | | | | | 54,199,737 | 30 | | |
| July 31, 2012 | September 26, 2012 | 72,396,658 | 2,733,822 | | | 123,862,573 | 58 | | |
| September 27, 2012 | September 30, 2012 | | | | 53,057,047 | 70,805,526 | 4 | | |
| October 1, 2012 | October 30, 2012 | | | | | 70,805,526 | 30 | | |
| October 31, 2012 | November 19, 2012 | 54,661,791 | 1,896,368 | | | 123,570,949 | 20 | | |
| November 20, 2012 | December 30, 2012 | | | | 70,598,183 | 52,972,766 | 41 | | |
| December 31, 2012 | December 31, 2012 | | | | 52,765,423 | 207,343 | 1 | | |
| | | | | | | | | | |
| January 1, 2013 | January 30, 2013 | | | | | 207,343 | 30 | 20,700,544,762 | 56,713,821 |
| January 31, 2013 | March 31, 2013 | 69,673,326 | 2,621,093 | 414,611 | | 66,844,965 | 60 | | |
| April 1, 2013 | April 16, 2013 | | | | | 66,844,965 | 16 | | |
| April 17, 2013 | April 29, 2013 | - | | | 66,637,622 | 207,343 | 13 | | |
| April 30, 2013 | June 19, 2013 | 130,275,965 | 4,691,594 | | | 125,791,714 | 51 | | |
| June 20, 2013 | June 30, 2013 | | | | 125,584,371 | 207,343 | 11 | | |
| July 1, 2013 | July 30, 2013 | - | | | | 207,343 | 30 | | |
| July 31, 2013 | September 30, 2013 | 66,068,903 | 2,172,869 | | | 64,103,377 | 62 | | |
| October 1, 2013 | October 30, 2013 | | | | | 64,103,377 | 30 | | |
| October 31, 2013 | November 3, 2013 | 55,299,262 | 1,721,505 | 567,527 | - | 117,113,607 | 4 | | |
| November 4, 2013 | December 26, 2013 | | | | 63,896,034 | 53,217,573 | 53 | | |
| December 27, 2013 | December 31, 2013 | | | | 53,010,230 | 207,343 | 5 | | |
| | | | | | | | | | |
| January 1, 2014 | January 30, 2014 | | | | | 207,343 | 30 | 17,637,414,779 | 48,321,684 |
| January 31, 2014 | March 31, 2014 | 79,522,984 | 2,641,469 | 405,391 | | 76,683,467 | 60 | | |
| April 1, 2014 | April 16, 2014 | | | | | 76,683,467 | 16 | | |
| April 17, 2014 | April 29, 2014 | | | | 76,476,124 | 207,343 | 13 | | |
| April 30, 2014 | June 30, 2014 | 95,426,812 | 3,927,299 | | - | 91,706,856 | 62 | | |
| July 1, 2014 | July 23, 2014 | | | | | 91,706,856 | 23 | | |
| July 24, 2014 | July 30, 2014 | - | | | 91,499,514 | 207,342 | 7 | | |
| July 31, 2014 | September 2, 2014 | 57,890,090 | 2,377,619 | | | 55,719,813 | 34 | | |
| September 3, 2014 | September 30, 2014 | | | | 55,512,471 | 207,342 | 28 | | |
| October 1, 2014 | October 30, 2014 | | | | | 207,342 | 30 | | |
| October 31, 2014 | December 15, 2014 | 48,099,562 | 1,860,759 | 919,962 | | 45,526,183 | 46 | | |
| December 16, 2014 | December 31, 2014 | | | | 45,318,840 | 207,343 | 16 | | |
| January 1, 2015 | | | | | - | | | | |

**Attachment 2**

Excerpt from workpapers to SCE-10, Vol. 2 Ch. 5.

SOUTHERN CALIFORNIA
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(U 338-E)

**2015 General Rate Case**
**APPLICATION**

# Workpapers

***Results of Operations (RO)***
***Plant, Taxes, Depreciation Expense and Reserve,***
***Rate Base, and Productivity***
***SCE-10 Volume 02, Chapter V***

**November 2013**

# WORKING CASH

## *LEAD-LAG STUDY*

## EXPENSE LAGS

### ***GOODS & SERVICES***

NOTES TO WORKPAPERS

The expense lag for Goods & Services represents the time lag between invoice received date and the payment of such costs. The determination was based on the review of Goods & Services invoices paid from January 2012 through December 2012.

Additionally, the Goods & Services lag was adjusted to reflect PO payment term improvements driven by the Operational Excellence Initiative. As part of this initiative, SCE negotiated improved standard payment terms with many of its PO suppliers. As a result, SCE expects to experience longer PO payment terms, on average, over its previous norm during the rate case period.