

Application of SOUTHERN CALIFORNIA GAS)
COMPANY (U 904 G) for Authorization to (1))
issue debt securities in an aggregate principal)
amount of up to \$2,800,000,000; (2) include)
certain features in debt securities or enter into)
certain derivative transactions; (3) hedge)
issuances of debt securities; and (4) take all other)
necessary, related actions.)
_____)

Application No. 15-08-____

Application No. 15-08-____
Exhibit No. SCG-01

**PREPARED DIRECT TESTIMONY OF
GARRY G. YEE
ON BEHALF OF SOUTHERN CALIFORNIA GAS COMPANY**

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

August 25, 2015

PREPARED DIRECT TESTIMONY OF

GARRY G. YEE

ON BEHALF OF SOUTHERN CALIFORNIA GAS COMPANY

1 **What is the purpose of your testimony?**

2 The purpose of my testimony is to sponsor Schedules I through XIII, which are attached to this
3 testimony. Mr. Gary H. Hayes is also sponsoring testimony in support of this Application. His
4 testimony addresses the features of the long-term financing securities that Southern California
5 Gas Company (SoCalGas) seeks authority to issue in this Application.

6 **How much long-term financing authority is SoCalGas requesting?**

7 SoCalGas is requesting a total long-term financing authority of an aggregate principal amount
8 not to exceed, \$2.80 billion, in addition to previously authorized amounts. SoCalGas has \$150.0
9 million in long-term financing authority remaining from the \$1.118 billion authorized in
10 Decision 13-05-002. Therefore SoCalGas is requesting additional authority of \$2.65 billion, for
11 a total long-term financing authority of \$2.80 billion.

12 **Please describe Schedules I through XIII.**

13 Schedules I through XIII provide various financial data for use by the California Public Utilities
14 Commission (CPUC or Commission) in assessing this long-term financing Application. The
15 format and content of the schedules are generally similar to those that accompanied SoCalGas'
16 previous long-term financing applications. As in previous applications, this Application reflects
17 annual ranges of the estimated capital expenditures to project SoCalGas' financing needs.

1 Schedule I is a three-year forecast (2016 – 2018) of SoCalGas’ capital expenditures. Included in
2 this forecast are the following projects: Advanced Meter Infrastructure roll-out, Pipeline Safety
3 Enhancement Plan and North-South Pipeline project, as referenced in the Application.

4 Schedules II through X summarizes additional financial information related to this Application
5 as noted on the heading of each schedule.

6 Schedule XI presents in pro-forma fashion how SoCalGas’ maximum requested long-term
7 financing would affect SoCalGas’ capital structure. The resulting ratios reflect the hypothetical
8 change assuming all the requested financing in this Application was issued in one day –
9 December 31, 2015. This scenario is not representative of SoCalGas’ plan as shown in Schedule
10 III. Instead, the actual planned debt ratios are much lower since it includes the new equity that is
11 inflowing in the form of net income, which offsets a significant portion of the new planned
12 annual debt issuances.

13 Schedule XII provides a detailed calculation of the application fee required by Public Utilities
14 Code §1904(b), and Schedule XIII details SoCalGas’ long-term debt portfolio as projected
15 through the end of December 31, 2015.

16 **Does this complete your testimony?**

17 Yes.

STATEMENT OF QUALIFICATIONS

1 **By whom are you employed and what is your current position?**

2 I am employed by SoCalGas as a Financial Services Manager.

3 **What are your principal responsibilities?**

4 My principal responsibilities include Treasurer and Finance support, rate base and depreciation
5 planning, forecasting and financial analysis.

6 **Please describe your educational background and professional experience.**

7 I received a Bachelor of Science degree in Accounting from Loyola Marymount University. I
8 am a Certified Public Accountant and a Certified Global Management Accountant and I continue
9 to maintain my licenses in active status through continuing professional education. I have held a
10 variety of financial, accounting and Treasury positions in SoCalGas and Pacific Enterprises (then
11 parent company of SoCalGas) for over 32 years.

12 **Have you previously testified before the CPUC?**

13 Yes, I have testified before the Commission in various proceedings including general rate cases.

Schedule I
Southern California Gas Company
Estimated Capital Expenditures for Years 2016 to 2018
(\$ in Millions)

| | 2016 | 2017 | 2018 |
|---|----------------------|----------------------|----------------------|
| Gas Distribution | 435 - 445 | 445 - 455 | 445 - 455 |
| Gas Transmission and Storage | 230 - 240 | 215 - 225 | 210 - 220 |
| Advanced Meter Infrastructure (AMI) | 90 - 95 | 30 - 35 | - - - |
| Pipeline Safety Enhancement Plan (PSEP) | 400 - 410 | 460 - 470 | 300 - 310 |
| North-South Pipeline Project | 25 - 30 | 195 - 200 | 165 - 175 |
| Other | 180 - 190 | 160 - 170 | 125 - 135 |
| Total cash required for construction expenditures | 1,360 - 1,410 | 1,505 - 1,555 | 1,245 - 1,295 |

Schedule II
Southern California Gas Company
Monthly Cash Flow Projection for Years 2016 to 2018
(\$ in Millions)

| <u>2016</u> | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
|---|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Cash (short-term debt) beginning balances | (214) | (306) | 22 | 219 | 39 | 114 | 946 | 623 | 426 | 395 | 75 | 33 |
| Change in Cash Flow ¹ | (92) | 328 | 197 | (180) | 82 | (68) | (324) | (197) | 19 | (320) | (42) | (97) |
| Preferred Stock | (0) | - | - | (0) | - | - | (0) | - | - | (0) | - | - |
| Common Stock | - | - | - | - | - | - | - | - | (50) | - | - | - |
| Long-Term Debt - Maturity | - | - | - | - | (7) | - | - | - | - | - | - | - |
| Long-Term Debt - New Issuances | - | - | - | - | - | 900 | - | - | - | - | - | - |
| Cash (short-term debt) ending balances | (306) | 22 | 219 | 39 | 114 | 946 | 623 | 426 | 395 | 75 | 33 | (64) |
| <u>2017</u> | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
| Cash (short-term debt) beginning balances | (64) | (165) | 195 | 412 | 214 | 304 | 1,130 | 775 | 559 | 530 | 178 | 132 |
| Change in Cash Flow ¹ | (101) | 360 | 217 | (197) | 91 | (74) | (355) | (216) | 21 | (351) | (47) | (106) |
| Preferred Stock | (0) | - | - | (0) | - | - | (0) | - | - | (0) | - | - |
| Common Stock | - | - | - | - | - | - | - | - | (50) | - | - | - |
| Long-Term Debt - Maturity | - | - | - | - | - | - | - | - | - | - | - | - |
| Long-Term Debt - New Issuances | - | - | - | - | - | 900 | - | - | - | - | - | - |
| Cash (short-term debt) ending balances | (165) | 195 | 412 | 214 | 304 | 1,130 | 775 | 559 | 530 | 178 | 132 | 25 |
| <u>2018</u> | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
| Cash (short-term debt) beginning balances | 25 | (32) | 173 | 297 | (66) | (14) | 694 | 490 | 366 | 328 | 127 | 101 |
| Change in Cash Flow ¹ | (58) | 206 | 124 | (113) | 52 | (42) | (203) | (124) | 12 | (201) | (27) | (61) |
| Preferred Stock | (0) | - | - | (0) | - | - | (0) | - | - | (0) | - | - |
| Common Stock | - | - | - | - | - | - | - | - | (50) | - | - | - |
| Long-Term Debt - Maturity | - | - | - | (250) | - | (250) | - | - | - | - | - | - |
| Long-Term Debt - New Issuances | - | - | - | - | - | 1,000 | - | - | - | - | - | - |
| Cash (short-term debt) ending balances | (32) | 173 | 297 | (66) | (14) | 694 | 490 | 366 | 328 | 127 | 101 | 40 |

¹Projections based on current estimates and are subject to change.

Schedule III
Southern California Gas Company
Statement of Cash Requirements for Years 2016 to 2018
(\$ in Millions)

| | <u>2016</u> | <u>2017</u> | <u>2018</u> |
|--|--------------------|------------------|------------------|
| Funds for construction (capital expenditures) | (1,387) | (1,532) | (1,271) |
| Maturing long-term debt ¹ | (7) | - | (500) |
| Beginning of year cash (short-term debt) balance | <u>(214)</u> | <u>(64)</u> | <u>25</u> |
| Subtotal | (1,608) | (1,597) | (1,746) |
| Less: Estimated cash from internal sources | <u>695</u> | <u>773</u> | <u>837</u> |
| External funds (required) | (913) | (823) | (909) |
| External funds provided: | | | |
| Common stock | (50) | (50) | (50) |
| Preferred stock | (1) | (1) | (1) |
| Long-term debt ² | <u>900</u> | <u>900</u> | <u>1,000</u> |
| End of year cash (short-term debt) balance | <u><u>(64)</u></u> | <u><u>25</u></u> | <u><u>40</u></u> |

¹ See schedule IV for detailed breakdown.

² Amount ultimately raised will be a function of the Company's access to long-term capital markets at the time funds are required and the updated cash flow forecast.

Schedule IV
Southern California Gas Company
Maturing Long-Term Debt for Years 2016 to 2018
(\$ in Millions)

| | <u>2016</u> | <u>2017</u> | <u>2018</u> |
|--------------------------|-------------|-------------|-------------|
| Maturing long-term debt: | | | |
| Swiss Francs Bond | 7 | 0 | 0 |
| Series HH Bond | 0 | 0 | 250 |
| Series QQ Bond | 0 | 0 | 250 |
| | <hr/> | | |
| Total | <u>7</u> | <u>0</u> | <u>500</u> |

Schedule V
Southern California Gas Company
Amount and Percentage of Internal Funds Provided for Years 2016 to 2018
(\$ in Millions)

| <u>Year</u> | <u>Internal Sources</u> | <u>Internal Sources as Percent of Construction Expenditures</u> |
|-------------|-------------------------|---|
| 2016 | 695 | 50% |
| 2017 | 773 | 50% |
| 2018 | 837 | 66% |

Schedule VI
Southern California Gas Company
Statement of Unreimbursed Construction - Projected to December 31, 2015
(\$ in Millions)

| | | |
|--|----------------|---------------------|
| Net utility plant | | 6,583 |
| Net proceeds from securities: | | |
| Preferred stock | (22) | |
| Common stock | (866) | |
| Long-term debt | <u>(2,505)</u> | |
| Total net proceeds | | (3,393) |
| Advances for construction | | <u>(101)</u> |
| Total deductions | | <u>(3,494)</u> |
| Unreimbursed construction projected to December 31, 2015 | | <u><u>3,088</u></u> |

Schedule VII
Southern California Gas Company
2015 Projected Revenue Data
(\$ in Millions)

| | |
|---|-------|
| Company operating revenues | 4,221 |
| California operating revenues | 4,221 |
| California operating revenue percent of company | 100% |
| Company net income before preferred dividend requirements | 378 |

Schedule VIII
Southern California Gas Company
2015 Historical Financing Data

| <u>Date</u> | <u>Transaction</u> | <u>Principal Amount</u> |
|---------------|--------------------------------------|-------------------------|
| June 18, 2015 | Issued first-mortgage bond Series QQ | \$250 million |
| June 18, 2015 | Issued first-mortgage bond Series RR | \$350 million |

Schedule IX
Southern California Gas Company
2016 Projected Financing

| <u>Date</u> | <u>Transaction</u> | <u>Principal Amount</u> |
|------------------|--------------------------|----------------------------|
| 2nd quarter 2016 | New first-mortgage bonds | \$900 million ¹ |

¹Amount ultimately raised will be a function of the Company's access to long-term capital markets at the time funds are required.

Schedule X
Southern California Gas Company
Short-Term Financing in Excess of CPUC Code §823 (c) Allowance¹
(\$ in Thousands)

| | Projected December 31, 2015 |
|--|--|
| Common stock issued | 866,062 |
| Preferred stock | 21,551 |
| Long-term debt (excluding capital leases) | <u>2,505,419</u> |
| Projected capitalization as of December 31, 2015 | <u><u>3,393,032</u></u> |
| 5% allowed by CPUC Code §823 (c) | 169,652 |
| Maximum anticipated amount of short-term debt needed | <u>169,652</u> |
| Additional financing authority requested in this application | <u><u>-</u></u> |

¹ This schedule is filed in accordance with the requirements of the Commission Advisory and Compliance Division. Notwithstanding that, the applicant is not subject to the provision of §823(c) of the Public Utilities Code.

Schedule XI
Southern California Gas Company
Capital Ratios ¹
(\$ in Thousands)

| | <u>Projected December 31, 2015</u> | | <u>Pro-forma, showing the effect of requested authority</u> | |
|--|------------------------------------|---------------|---|---------------|
| | <u>\$</u> | <u>%</u> | <u>\$</u> | <u>%</u> |
| Long-term debt | | | | |
| Long-term debt | 2,512,476 | | 2,512,476 | |
| Additional long-term borrowing | - | | 2,292,524 | |
| Less: Unamortized expenses and discounts | (7,056) | | (7,056) | |
| Total long-term debt | <u>2,505,419</u> | <u>44.4%</u> | <u>4,797,944</u> | <u>60.5%</u> |
| Short-term debt | | | | |
| Short-term borrowings under PUC Code §823(c) | - | | - | |
| Current portion of long-term debt | - | | - | |
| Total short-term debt | <u>-</u> | <u>0.0%</u> | <u>-</u> | <u>0.0%</u> |
| Total debt | <u>2,505,419</u> | <u>44.4%</u> | <u>4,797,944</u> | <u>60.5%</u> |
| Preferred stock | | | | |
| Current balance | 21,551 | | 21,551 | |
| Additional preferred stock | - | | - | |
| Total preferred stock | <u>21,551</u> | <u>0.4%</u> | <u>21,551</u> | <u>0.3%</u> |
| Common equity | | | | |
| Common equity held by Sempra Corp. | 3,110,194 | 55.2% | 3,110,194 | 39.2% |
| Total capitalization | <u>5,637,164</u> | <u>100.0%</u> | <u>7,929,689</u> | <u>100.0%</u> |

¹ The above pro forma ratios demonstrate how SoCalGas' maximum requested long-term financing would affect the Company's capital structure if it were all issued on December 31, 2015. This scenario is not representative of SoCalGas's plans as shown in Schedules II and III. Additionally, SoCalGas's planned debt ratios are much lower, since the actual capital structure will also include new equity from net income generated during 2016 - 2018 which is not reflected in the ratios above.

Schedule XII
Southern California Gas Company
Computation of Fee

| Item | Amount |
|---------------------------|-------------------------|
| Total Authority Requested | \$ 2,800,000,000 |
| Remaining Authority | 150,000,000 |
| New Authority Requested | <u>\$ 2,650,000,000</u> |

| Item | Amount | Rate | Fee |
|--|-------------------------|---------------------|--------------------|
| \$ 2.65 billion of long-term borrowing authority | \$ 1,000,000 | \$2 per thousand | \$ 2,000 |
| | 9,000,000 | \$1 per thousand | 9,000 |
| | <u>2,640,000,000</u> | \$0.50 per thousand | <u>1,320,000</u> |
| | <u>\$ 2,650,000,000</u> | Subtotal | <u>\$1,331,000</u> |
| Less \$7 million earmark to retire Swiss Francs Bond in 2016 | 7,475,533 | \$0.50 per thousand | 3,738 |
| Less \$250 million earmark to retire Series HH debt in 2018 | 250,000,000 | \$0.50 per thousand | 125,000 |
| Less \$250 million earmark to retire Series QQ debt in 2018 | <u>250,000,000</u> | \$0.50 per thousand | <u>125,000</u> |
| | <u>\$ 2,142,524,467</u> | Total Fee Required | <u>\$1,077,262</u> |

Schedule XIII
Southern California Gas Company
Debt Outstanding Projected To December 31, 2015
(\$ in Millions)

| No. | Type ¹ | Bond | Maturity | Principal |
|--|-------------------|--------------------------------|----------|-----------|
| 1 | FMB | Series HH | 04/15/18 | 250.0 |
| 2 | FOR | Swiss Francs Bond ² | 05/14/16 | 7.5 |
| 3 | MTN | Medium-Term Note | 01/18/28 | 5.0 |
| 4 | FMB | Series KK | 11/15/35 | 250.0 |
| 5 | FMB | Series MM | 11/15/40 | 300.0 |
| 6 | FMB | Series NN | 09/21/42 | 350.0 |
| 7 | FMB | Series OO | 03/15/44 | 250.0 |
| 8 | FMB | Series PP | 09/15/24 | 500.0 |
| 9 | FMB | Series QQ | 06/15/18 | 250.0 |
| 10 | FMB | Series RR | 06/15/25 | 350.0 |
| No activity projected for July through December 2015 | | | | - |
| Total projected as of December 31, 2015 | | | | 2,512.5 |

¹ "FMB" = First Mortgage Bonds
"FOR" = Foreign-currency Bonds
"MTN" = Medium-Term Notes

² Bonds denominated in Swiss Francs; perpetual; puttable or callable once every ten years on May 14.