

ORA DATA REQUEST
ORA-SCG-110-CL8
SOCALGAS 2019 GRC – A.17-10-008
SOCALGAS RESPONSE
DATE RECEIVED: JANUARY 30, 2018
DATE RESPONDED: FEBRUARY 13, 2018

Exhibit Reference: SCG-38-WP-R
SCG Witness: Karen Chan
Subject: Working Cash

Please provide the following:

1. Please provide an explanation of the following, with respect to current and non-current greenhouse gas (GHG) California Carbon Allowances (CCAs) and California Carbon Offsets (CCOs), as included in the working cash determination in Schedule P:

- a. Please explain why the monthly balances of general ledger account #1131109 (current CCAs/CCOs in inventory) equal the correspondent balances of account #2197231 (current GHG emissions liability) for the months of 2016 but not for the month of December 2015.
- b. Please provide a reconciliation of the difference identified *supra* in (a).
- c. Please explain why the monthly balances of general ledger account #1360085 (noncurrent CCAs/CCOs in inventory) exceed the correspondent balances of account #2540036 (noncurrent GHG emissions liability) for the months of December 2015 through December 2016.
- d. Please provide a reconciliation of the differences identified *supra* in (c).

SoCalGas Response 1:

In its working cash workpapers, SoCalGas made some errors in its monthly General Ledger (G/L) balances related to GHG accounting. After correction of these errors, SoCalGas' working cash requirement for TY2019 is lower by \$1.5 million. Please see Excel attachment "Schedule P Corrections (Confidential)" for details. This attachment is considered **Confidential and Protected Materials Pursuant to PUC Section 583, GO 66-D, and D.17-09-023.**

- a. The monthly balance of general ledger account #1131109 does not equal the corresponding balance of account #2197231 for the month of December 2015 because of an inadvertent accounting error that was subsequently corrected by month-end February 2016.
- b. Please see requested reconciliation in Excel attachment "ORA Working Cash DR Response 1b (Confidential)". This attachment is considered **Confidential and Protected Materials Pursuant to PUC Section 583, GO 66-D, and D.17-09-023.**
- c. The monthly balances of general ledger account #1360085 (noncurrent CCAs/CCOs in inventory) exceed the correspondent balances of account #2540036 (noncurrent GHG emissions liability) for the months of December 2015 through December 2016, as is typical for these two accounts, because SoCalGas purchases compliance instruments ratably for a compliance period but charges emissions expense and accrues an offsetting liability as monthly GHG emissions occur.

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SoCalGas Response 1.c:

As an example, SoCalGas may purchase 100 MTCO₂e of compliance instruments during a month (which are recorded as inventory), but GHG emissions for the month may equal only 30 MTCO₂e (recorded as a charge to emissions expense and offset to a liability).

The result would be at month-end, a larger balance in the inventory account compared to the liability account. The remaining 70 MTCO₂e of compliance instruments are held in inventory and will be used to meet future month emissions.

- d. Please see requested reconciliation in Excel attachment “ORA Working Cash DR Response 1d (Confidential)”. This attachment is considered **Confidential and Protected Materials Pursuant to PUC Section 583, GO 66-D, and D.17-09-023.**

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2. Please provide an explanation of how the monthly balances of general ledger account #1360020 (deferred charge – emissions credit) account for a “true-up” “based on upcoming years’ forecast of emission credits,” according to the workpaper, “Schedule P Detail Support,” provided in response to data request ORA-SCG-024-CL8.

SoCalGas Response 2:

SoCalGas may purchase emissions credits in advance of when they are used to offset its emissions. For proper financial statement presentation, the emissions credits are classified as current or noncurrent assets. The emissions credits classified as current assets represent credits that are forecasted to be used within the next year. Remaining credits that are not forecasted to be used within the next year are classified as noncurrent assets. Account #1360020 is used to capture the adjustments, or true-ups, recorded to ensure the current balances are stated properly, that is, emissions credits balances are moved from current to noncurrent, or vice versa, as needed.

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3. Please provide an explanation as to how SoCalGas amortizes the costs of its GHG allowances and offsets. Include a description of the accounting of this amortization.

SoCalGas Response 3:

For Regulatory Accounting purposes, as SoCalGas emits GHG and incurs an emissions liability to the California Air Resources Board (CARB), SoCalGas also recognizes an expense based upon the cost of GHG compliance instruments held in inventory. As stated in the preliminary statement for the Greenhouse Gas Balancing Account (GHGBA), SoCalGas records an allocation of the cost of Cap-and-Trade allowances and/or offsets purchases based on GHG emissions associated with SoCalGas' covered facilities, end-users, and lost and accounted for gas (LUAF) for future recovery from ratepayers. See link to GHGBA Preliminary Statement for details: <https://www.socalgas.com/regulatory/tariffs/tm2/pdf/GHGBA.pdf>

The journal entries related to GHG emissions expensed and subsequently balanced in the GHGBA are as follows (debit - Dr. / credit - Cr):

Dr. Compliance Instrument Inventory
 Cr. Cash
To record compliance instrument purchases.

Dr. GHG Emissions Expense
 Cr. CARB Emissions Compliance Liability
To record GHG emissions expense as GHG is emitted.

Dr. Balancing Account Asset
 Cr. Regulatory Revenues
To balance GHG emissions expense.

Dr. CARB Emissions Compliance Liability
 Cr Compliance Instrument Inventory
To retire compliance instruments with CARB.