

Company: Southern California Gas Company (U 904 G)/San Diego Gas and Electric  
Company (U 902 M)  
Proceeding: 2024 General Rate Case  
Application: A.22-05-\_\_\_\_\_  
Exhibit: SCG-26/SDG&E-30

**PREPARED DIRECT TESTIMONY OF**  
**PETER H. ANDERSEN**  
**(PENSION AND POSTRETIREMENT BENEFITS OTHER THAN PENSION)**

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



**May 2022**

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## SUMMARY<sup>1</sup>

### SoCalGas

<b>O&amp;M (\$000)</b>	<b>Base Year 2021</b>	<b>Test Year 2024</b>	<b>Change</b>
Pension	\$150,465	\$170,718	\$20,253
PBOP	0	0	0
<b>Total</b>	<b>\$150,465</b>	<b>\$170,718</b>	<b>\$20,253</b>

### SDG&E

<b>O&amp;M (\$000)</b>	<b>Base Year 2021</b>	<b>Test Year 2024</b>	<b>Change</b>
Pension	\$50,668	\$34,182	(\$16,486)
PBOP	0	347	347
<b>Total</b>	<b>\$50,668</b>	<b>\$34,529</b>	<b>(\$16,139)</b>

### Summary of Requests

- Maintain Southern California Gas Company's (SoCalGas) and San Diego Gas and Electric Company's (SDG&E) (collectively, the Companies) ability to attract, motivate, and retain a high-performing workforce by offering a competitive total compensation package including pension and postretirement health benefits.
- Recover pension costs based on the greater of: (i) the annual service cost plus a seven-year amortization of the forecasted Projected Benefit Obligation (PBO) shortfall/surplus as determined pursuant to Subtopic 715 of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC 715), the authoritative source of Generally Accepted Accounting Principles (GAAP), (ii) the annual ERISA minimum required contribution, or (iii) the contribution required to maintain an 85% Adjusted Funding Target Attainment Percentage (AFTAP). Annual contributions will be limited so that the contribution does not result in pension assets exceeding 110% of the PBO.

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<sup>1</sup> Forecasted TY 2024 costs exclude executive officer costs, as defined under Resolution E-4963 (December 13, 2018), pursuant to California Public Utilities Code Section 706 (as modified by Senate Bill 901). Base Year 2021 costs are based on contributions authorized in CPUC Decision (D.) 19-09-051 prior to removal of executive officer costs.

- Continue to recover for postretirement health and welfare benefits based on costs determined pursuant to Subtopic 715 in the FASB Accounting Standard Codification (ASC 715).
- Maintain the long-standing use of the two-way balancing account mechanism for pension and postretirement benefits, other than pension costs, since cost variability is generally due to external economic and regulatory variables outside the Companies' control.

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**PREPARED DIRECT TESTIMONY OF  
PETER H. ANDERSEN  
(PENSION AND POSTRETIREMENT BENEFITS OTHER THAN PENSION)**

**I. INTRODUCTION AND SCOPE OF TESTIMONY**

My prepared direct testimony provides an overview of the Test Year (TY) 2024 forecasts for pension and postretirement health and welfare benefits other than pension (PBOP) provided through the qualified retirement plans and the postretirement benefit plans at SoCalGas and SDG&E.<sup>2</sup> I also provide information on the Pension Plans' current funded levels, as requested in the Commission's TY 2019 General Rate Case (GRC) D.19-09-051 (the TY 2019 Decision).<sup>3</sup> Pension and PBOP are key components of a competitive total compensation program that enables the Companies to attract and retain a high-performing workforce.

As discussed in the prepared direct testimony of Debbie Robinson for Compensation and Benefits (Exhibit (Ex.) SCG-25/SDG&E-29), a comprehensive study of the Companies' compensation and benefit programs, the Willis Towers Watson Study (the WTW Study), found the Companies' total compensation to be at market. For purposes of the WTW Study, "total compensation" consisted of the aggregate value of annualized base pay, short-term incentive compensation and benefits programs, including pension and PBOP benefits. The WTW Study is included in the prepared direct testimony for Compensation and Benefits (Ex. SCG-25/SDG&E-29).

**II. SUMMARY OF REQUEST**

As set forth below, the Companies propose to continue the current funding policy while shortening the amortization period of the PBO shortfall/surplus from fourteen years to seven years (as originally proposed by the Companies in the TY 2019 GRC proceeding),<sup>4</sup> to further

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<sup>2</sup> The TY 2024 Compensation and Benefits forecast is based on current regulations. Future enactment of any legislation that significantly impacts future labor costs, e.g., California Assembly Bill (AB) 2932 or similar legislation, may impact several cost forecasts throughout the Companies' GRC testimony chapters and require additional regulatory relief.

<sup>3</sup> In the TY 2019 Decision, the CPUC instructed the Companies to "provide testimony in their next General Rate Cases on the current funding levels and outstanding balance of their Pension Benefit Obligations so the Commission can assess whether any modifications are needed." D.19-09-051, Ordering Paragraph (OP) 31 at 783.

<sup>4</sup> See Application (A.) 17-10-007/008 (cons), Application of SDG&E for Authority, Among Other Things, to Update its Electric and Gas Revenue Requirement and Base Rates Effective on January 1, 2019 (October 6, 2017).

1 improve and maintain a strong funded position, minimize long-term costs due to the PBO  
2 shortfall, and advance intergenerational equity among ratepayers. The currently approved  
3 methodology (adopted in the TY 2019 GRC Decision)<sup>5</sup> successfully improved the  
4 intergenerational burden on ratepayers and contributed to significant improvements in the  
5 Pension Plans' funding levels<sup>6</sup> by increasing contributions beyond the minimum ERISA-required  
6 contribution and targeting full funding within fourteen years. The Companies' proposal is  
7 designed to build upon the improvements made.

8 The Companies' projected TY 2024 costs are based on:

- 9 • Pension: Continuing to recover pension costs based on the structure of the TY  
10 2019 GRC Decision, with an adjustment to the PBO shortfall/surplus amortization  
11 period from fourteen to seven years.
- 12 • PBOP: Continuing to recover postretirement health and welfare benefits expense  
13 based on costs determined pursuant to Subtopic 715 in the FASB Accounting  
14 Standard Codification (ASC 715).
- 15 • Two-Way Balancing Accounts: Maintaining the long-standing use of the two-way  
16 balancing account mechanism for pension and postretirement benefits other than  
17 pension costs, since cost variability is generally due to external economic and  
18 regulatory variables, which are outside the control of the Companies.

19 As summarized in Table PA-1 below, projected TY 2024 costs are \$170.7 million for  
20 SoCalGas and \$34.2 million for SDG&E.

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<sup>5</sup> D.19-09-051 at 561-62.

<sup>6</sup> As determined pursuant to Subtopic 715 of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC 715), the authoritative source of Generally Accepted Accounting Principles (GAAP). *See, e.g.*, D.19-09-051 at 557-58.

1 **Table PA-1 – Summary of 2019 vs. 2024 Pension Benefit Cost<sup>7</sup>**

		<i>In Thousands</i>			
	<u>Cost Center</u>	<u>Benefit Description</u>	<u>2019 Actual</u>	<u>2024 Projected</u>	<u>2019-2024 Change</u>
SoCalGas	2200- 8001.000	Pension	\$ 150,465	\$ 170,718	\$ 20,253
SDG&E	2100- 0375.000	Pension	\$ 50,668	\$ 34,182	\$ (16,486)

2  
3 **III. PENSION BENEFITS**

4 SoCalGas and SDG&E pension benefits include traditional final average pay and cash  
5 balance defined benefit plans, as further detailed in Appendix B. Pension benefits are an  
6 important component of the total compensation that not only attracts high-performing employees  
7 but acts as a retention mechanism to maintain a productive workforce. The elements of this  
8 section outline how the pension forecast is generated, an overview of the current funding policy,  
9 including current funding levels, and details for the proposed adjustment to the funding policy.

10 **A. Pension Cost Estimate**

11 The Companies’ actuary, Willis Towers Watson (or WTW), provides an annual certified  
12 actuarial valuation of the Pension Plans that includes the value of benefit obligations and  
13 minimum required contributions. The valuations are performed in accordance with generally  
14 accepted actuarial principles and practices, and the demographics and provisions of the Pension  
15 Plans are summarized in Appendix B. The projected pension benefit cost shown above in Table  
16 PA-1 is the annual contribution to the Pension Plans, as determined by the proposed pension  
17 funding methodology, which is the same for both Companies. Per the proposed policy, the cost is  
18 equal to the projected service cost plus one year of a seven-year amortization of the Pension

<sup>7</sup> Forecasted TY 2024 costs exclude executive officer costs, as defined under Resolution E-4963, pursuant to California Public Utilities Code Section 706 (as modified by Senate Bill 901). Base Year 2021 costs based on contributions authorized in D.19-09-051 prior to removal of executive officer costs.



1 Plans' projected unfunded/overfunded PBO, which is defined under GAAP in Subtopic 715 of  
2 the FASB Accounting Standards Codification (ASC 715), as of January 1, 2024. Unless  
3 otherwise noted in the testimony, the tables and figures are based on ASC 715 and contain  
4 information for all participants under the Pension Plans, including executive officers classified  
5 under California Public Utilities Code Section 706 (as modified by Senate Bill 901). As  
6 discussed below in this prepared direct testimony, the proposed policy completes the alignment  
7 with the amortization period originally set by the Pension Protection Act of 2006 (PPA),<sup>8</sup>  
8 accelerates full funding of the pension deficit, and continues to improve intergenerational equity  
9 by limiting the share of past period costs to be paid for by future customers. At the same time,  
10 using an amortization period over seven years ensures that current ratepayers are not made fully  
11 responsible for pension deficits that occurred over time. The recent strong financial performance  
12 of the Pension Plans, which the TY 2019 GRC Decision supported, allows for this adjustment  
13 while minimizing the rate impact resulting from the adjustment.

14 The pension cost for SoCalGas and SDG&E will remain constant under the proposed  
15 policy, which builds upon the funding policy approved in the TY 2019 GRC that has been  
16 successful in strengthening the Pension Plans' funded position, throughout the four-year rate  
17 case period at the amount calculated for the 2024 Test Year, unless any of the following apply  
18 (collectively, Alternative Funding Triggers):

- 19 (1) the minimum required contribution for either of the Pension Plans, determined in  
20 accordance with the Employee Retirement Income Security Act of 1974 (ERISA),  
21 is a higher amount, or
- 22 (2) a higher amount is needed to maintain an 85% AFTAP, which is necessary to  
23 avoid legal restrictions on the ability to make payments to participants in line with  
24 plan provisions.
- 25 (3) Furthermore, the actual contribution will be reduced by the amount that would  
26 cause the fair value of the Pension Plan assets to exceed 110% of the PBO (the  
27 contribution cannot be less than \$0).

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<sup>8</sup> 26 U.S. Code § 430(c)(2)(A), (“The shortfall amortization installments are the amounts necessary to amortize the shortfall amortization base of the plan for any plan year in level annual installments over the 7-plan-year period beginning with such plan year.”), *available at* [26 U.S. Code § 430 - Minimum funding standards for single-employer defined benefit pension plans | U.S. Code | US Law | LII / Legal Information Institute \(cornell.edu\)](#).

1 Any variance between authorized and actual contributions would be subject to the  
2 current two-way balancing account mechanism, as discussed in the Regulatory Accounts Direct  
3 Testimonies of Jason Kupfersmid (Ex. SDG&E-43) and of Rae Marie Yu (Ex. SCG-38).

4 **B. Current Funding Policy**

5 The Companies' current plan funding policy, authorized in the TY 2019 Decision,  
6 reflected significant changes in the pension landscape from the previous CPUC-authorized  
7 policy, which had been "based on costs for the minimum required contributions calculated in  
8 accordance with the Employee Retirement Income Security Act of 1974 (ERISA), the Pension  
9 Protection Act of 2006 (PPA), and as allowed by the Internal Revenue Code," and which had  
10 "led to a significant shortfall with respect to the amount of benefit payments that are actually  
11 made versus employe[r] contributions for benefit payments."<sup>9</sup> In the TY 2019 GRC proceeding,  
12 the Companies had proposed "a new funding policy that will fully fund pension benefits within  
13 seven years."<sup>10</sup> The TY 2019 Decision authorized the current funding policy based on the  
14 projected service cost for the test year and a 14-year amortization of the PBO shortfall/surplus at  
15 the beginning of the test year, adjusted for interest, subject to two-way balancing account  
16 treatment.<sup>11</sup> Further, the current funding policy provides for a base (or layer) to be established  
17 each test year that amortizes the difference between the projected shortfall/surplus and the

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<sup>9</sup> D.19-09-051 at 557. (The quoted passage appears to contain a typographical error that is corrected herein to read "employer" instead of "employee.") The pension shortfall is based on the PBO used for GAAP purposes. The TY 2019 Decision described the Companies' previously authorized plan funding policy as follows:

The current [now former] funding policy plans for both utilities are based on costs for the minimum required contributions calculated in accordance with the Employee Retirement Income Security Act of 1974 (ERISA), the Pension Protection Act of 2006 (PPA), and as allowed by the Internal Revenue Code. According to Applicants however, the current funding methodology has led to a significant shortfall with respect to the amount of benefit payments that are actually made versus employe[r] contributions for benefit payments. From 1999 to 2016, benefit payments exceeded contributions by approximately \$1,820 million for SoCalGas and \$690 million for SDG&E. Applicants also state that this shortfall increases long-term costs due to higher Pension Guaranty Corporation premiums and higher accrued interest costs. *Id.* (citation omitted).

<sup>10</sup> *Id.*

<sup>11</sup> For a more complete discussion of the Companies' TY 2019 GRC proposal and the currently authorized policy, *see discussion in* D.19-09-051 at 557-62.

1 present value of remaining installments on bases established in prior test years, in alignment with  
2 the mechanics of the ERISA minimum required contribution under PPA.<sup>12</sup>

3 In adopting the current funding policy, the CPUC thus adopted the Companies' proposal  
4 to increase funding above the ERISA minimum – with the intention of reducing long-term costs,  
5 improving intergenerational equity, and eliminating the PBO shortfall – but over a period of time  
6 the Commission determined to be reasonable:

7 [We] find it prudent and necessary to address the pension shortfall to ensure that  
8 Applicants' pension plans have sufficient funding to meet pension needs, to  
9 minimize long-term costs of funding the pension plans, and to establish a stable  
10 contribution pattern that keeps Applicants' pension plans fully funded. ...

11 [W]hile we find it necessary to develop a funding mechanism that will address the  
12 PBO shortfall, we must also ensure that costs are reasonable and that rates remain  
13 affordable. Thus, we find it more appropriate to spread out the costs of funding  
14 the PBO shortfall over a longer period of time.<sup>13</sup>

15  
16 The TY 2019 Decision based its decision to eliminate the PBO shortfall “within 14 years  
17 instead of seven years [by] using the average age SoCalGas and SDG&E retirement plan  
18 participants are expected to retire.”<sup>14</sup> The Commission also “[found] that current ratepayers  
19 should not be made fully responsible for a pension deficit that occurred over time.”<sup>15</sup> The  
20 Commission also “direct[ed] SoCalGas and SDG&E in its next GRC application to provide  
21 testimony on the current funding levels and the outstanding balance of the PBO so we can assess  
22 whether any modifications to the timing require adjustment.”<sup>16</sup>

23 The resulting impacts of the Commission's decision to fund the Companies' plans above  
24 the ERISA minimum required contribution and address the PBO shortfall thus far have been  
25 significant – which is a credit to the Commission for recognizing the inherent problems with the

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<sup>12</sup> 26 U.S.C. § 430(c)(3) (“... For purposes of this section, the shortfall amortization base of a plan for a plan year is— (A) the funding shortfall of such plan for such plan year, minus (B) the present value (determined using the segment rates determined under subparagraph (C) of subsection (h)(2), applied under rules similar to the rules of subparagraph (B) of subsection (h)(2)) of the aggregate total of the shortfall amortization installments and waiver amortization installments which have been determined for such plan year and any succeeding plan year with respect to the shortfall amortization bases and waiver amortization bases of the plan for any plan year preceding such plan year.”).

<sup>13</sup> D.19-09-051 at 559-61.

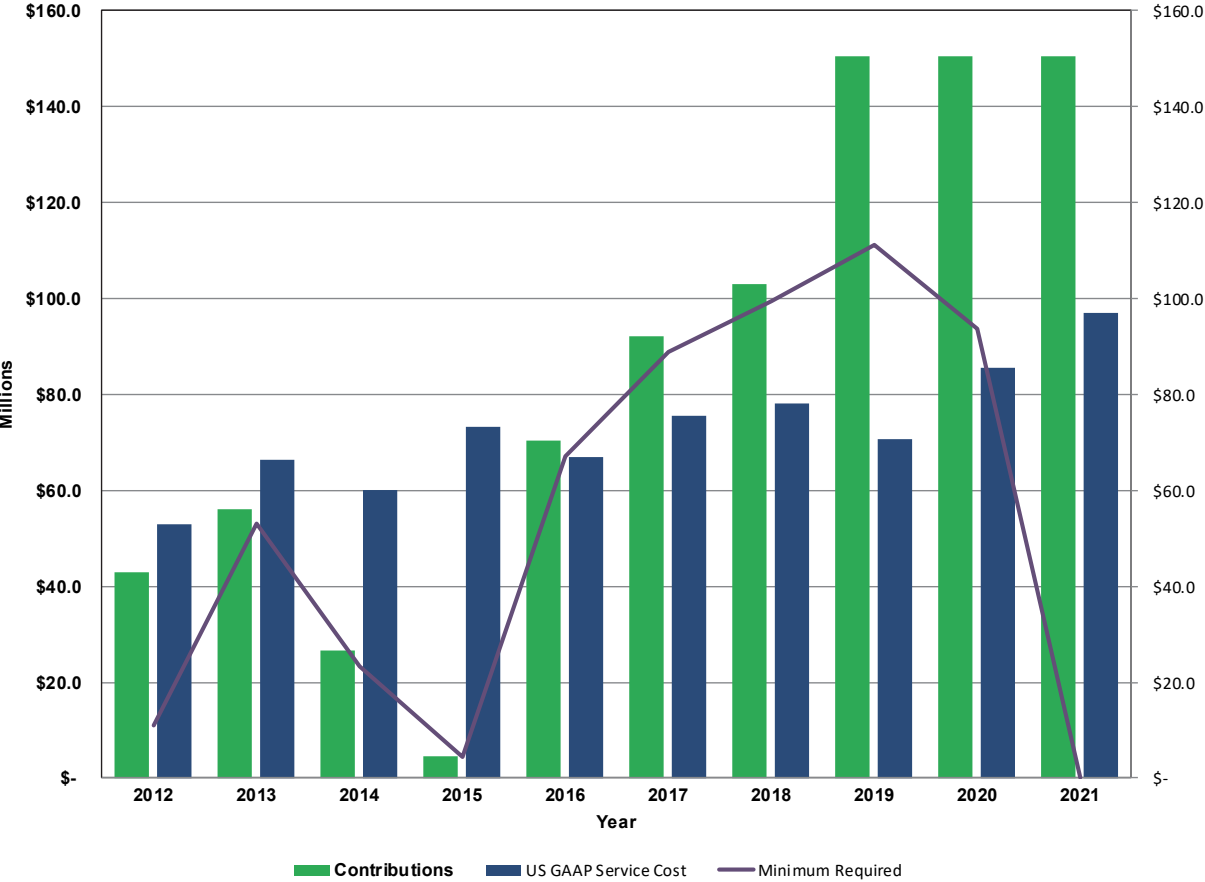
<sup>14</sup> *Id.* at 561.

<sup>15</sup> *Id.* at 562.

<sup>16</sup> *Id.*

1 prior funding policy and approving the change – particularly given recent, continued legislative  
 2 changes to reduce minimum funding requirements, as discussed further below. Figures PA-1 and  
 3 PA-2 below show actual contributions (reflecting the current funding policy starting in 2019),  
 4 and the service costs (value of new benefit earned by participants for the year) during the ten-  
 5 year period 2012 through 2021. For comparison, the charts also show the minimum required  
 6 contributions. Over the period leading to the policy change in 2019, benefits accrued by plan  
 7 participants have exceeded contributions by over \$77 million and \$11 million for SoCalGas and  
 8 SDG&E, respectively, increasing the pension shortfall dollar for dollar as a result. This illustrates  
 9 how, prior to the funding policy update, not only were minimum required contributions  
 10 reflecting funding relief insufficient to cover new benefits, but those contributions provided  
 11 nothing to fund any of the historical shortfall, causing intergenerational inequities.

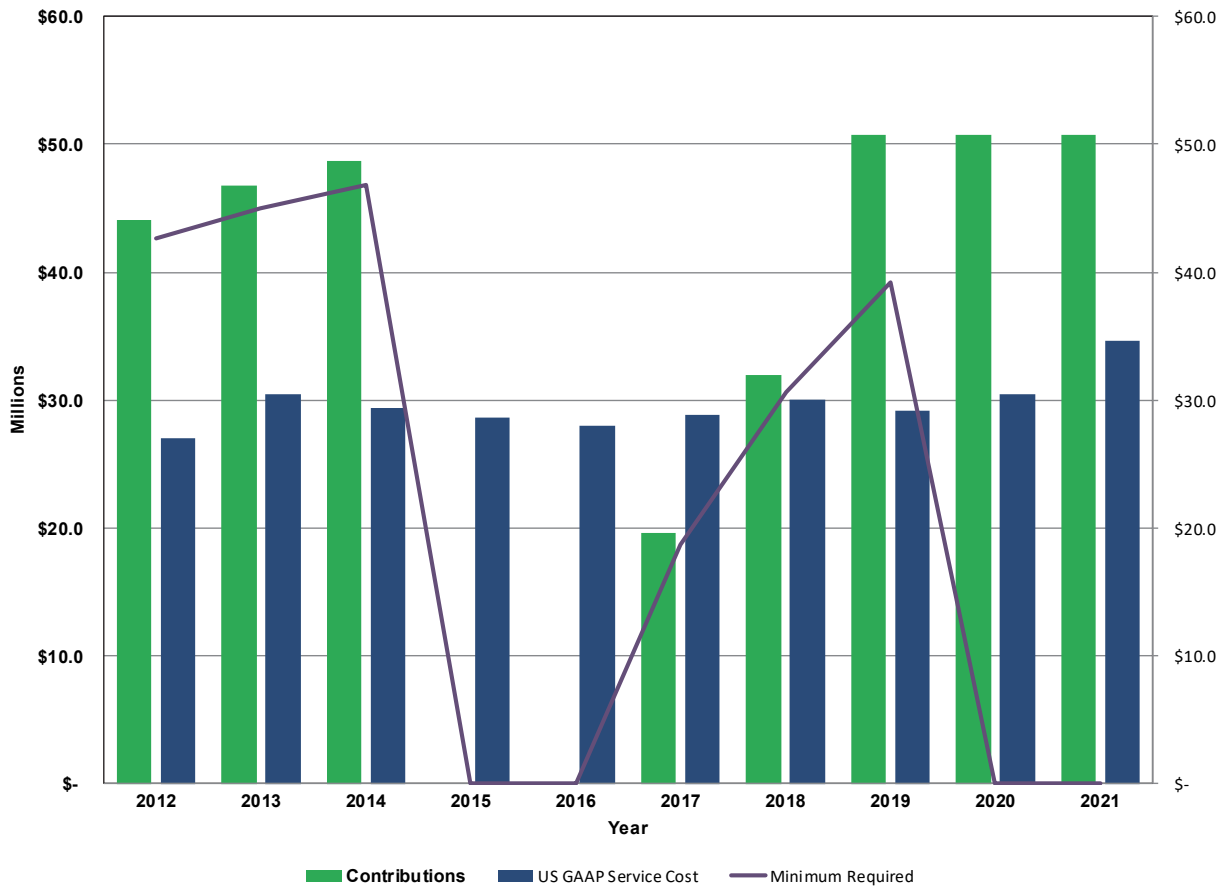
12 **Figure PA-1 – SoCalGas Pension Plan Contributions vs. Benefit Accruals: 2012 – 2021**



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**Figure PA-2 – SDG&E Pension Plan Contributions vs. Benefit Accruals: 2012 – 2021**



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**1. Additional Changes to Minimum Funding Requirements**

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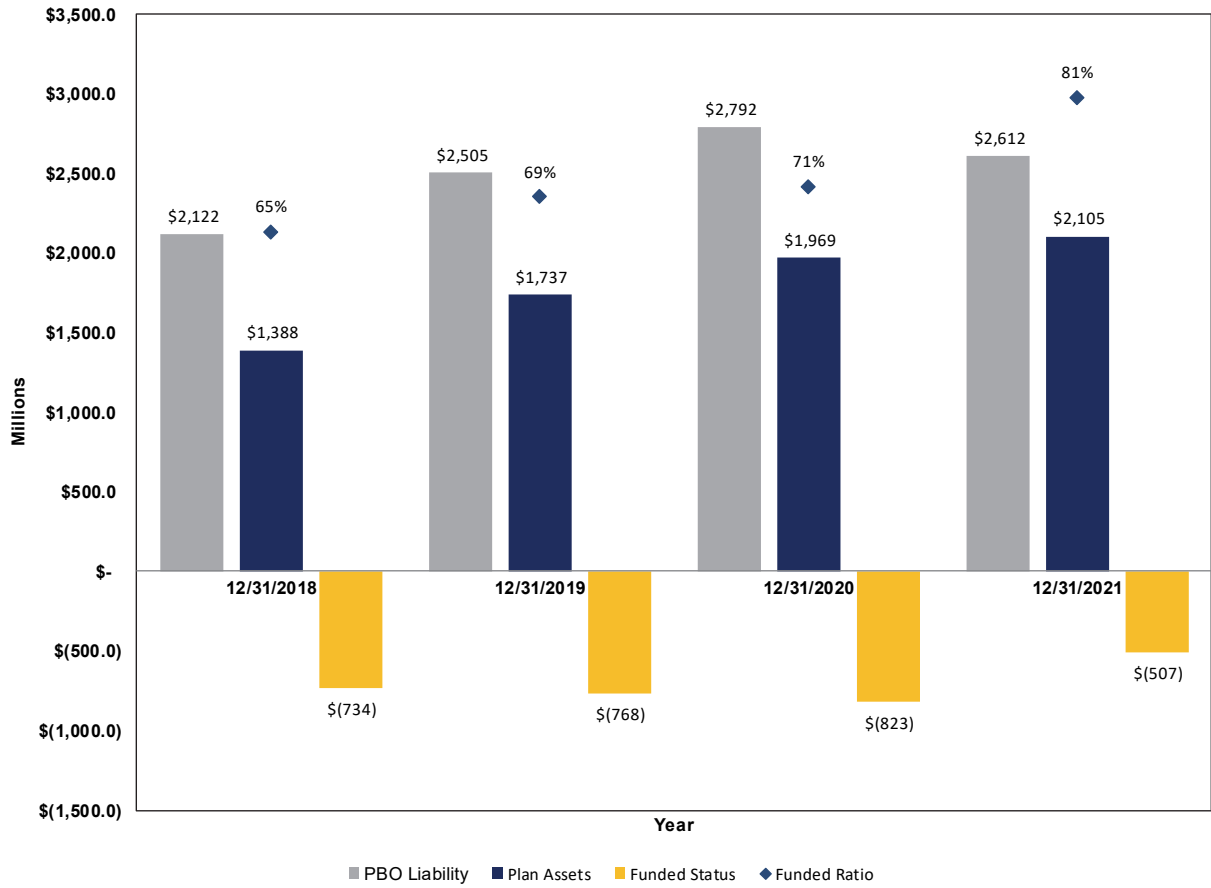
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Since the TY 2019 GRC Decision, Congress has enacted additional legislation that has further reduced funding requirements, weakening even further the appropriateness of the minimum required contribution as a funding policy. The Coronavirus Aid, Relief, and Economic Security (CARES) Act of 2020, the American Rescue Plan Act of 2021 (ARPA), and the Infrastructure Investment and Jobs Act (IIJA) combined to allow sponsors to delay near term funding contributions, significantly extend the horizon over which sponsors can use above-market interest rates in measuring the benefit obligations, and more than double the period over which pension shortfalls must be funded. See Appendix C for more details about the additional legislative changes, as well as the cumulative impact of funding relief on the Pension Plan’s funded position.



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**Figure PA-3 – SoCalGas 3-Year Change in GAAP Funded Status**

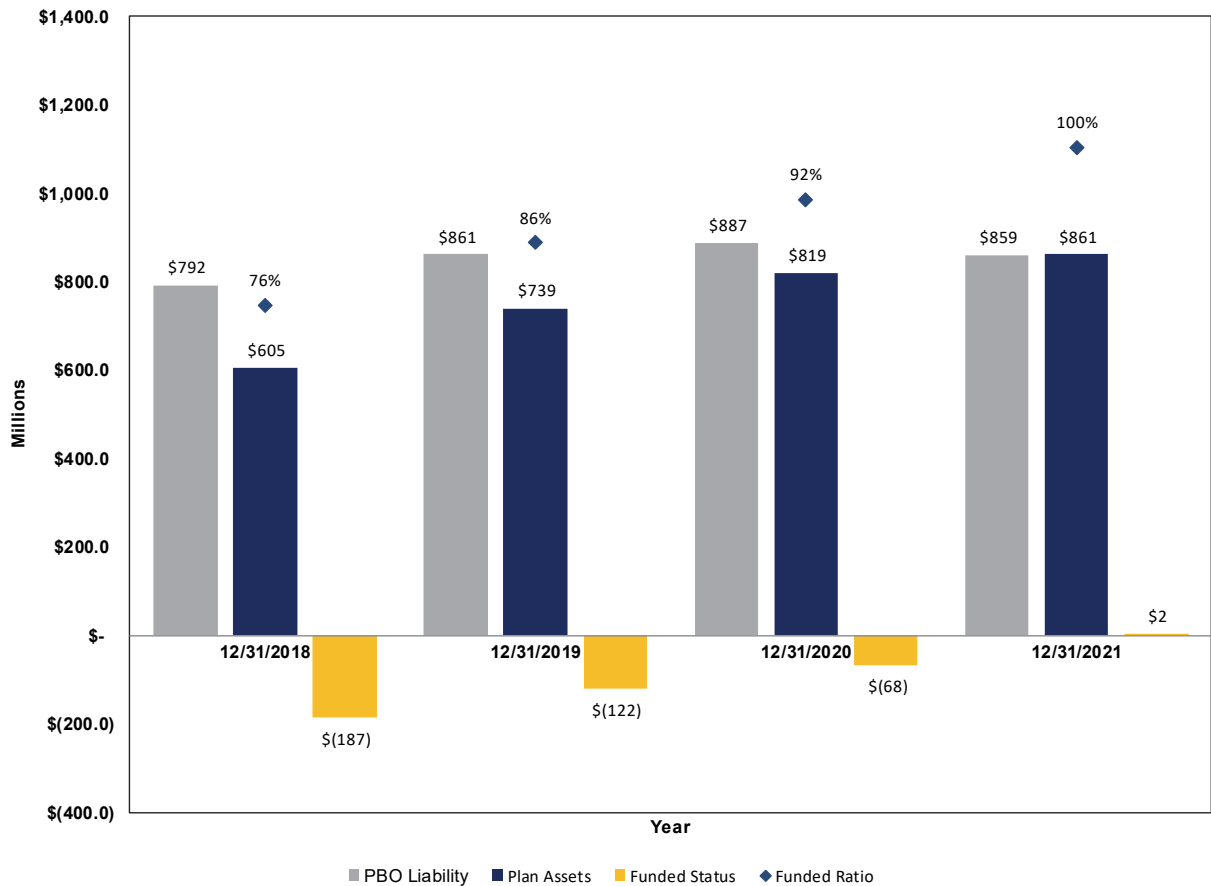


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Figure PA-4 – SDG&E 3-Year Change in GAAP Funded Status



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Several factors contribute to changes in the Companies' PBO funded positions:

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- **Contributions.** Contributing above the benefit accruals reduces the deficit and improves the funded positions.

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- **Asset Returns.** Return on assets that exceed the interest on the PBO reduce the deficit and improve the funded positions. The better funded the pension plan (*e.g.*, as a result of contributions), the more impactful asset returns are on the funded position. Because SoCalGas's funded position was lower than SDG&E's as of December 31, 2018, asset returns did not deliver the same relative improvement over this 3-year period, in which returns were very strong.

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- **Discount Rates.** Lower discount rates result in an increase in the PBO and diminish the funded position. During this 3-year period the discount rate decreased from 4.30% to 3.05% for SoCalGas and 4.30% to 3.00% for SDG&E. It is important to note that the impact of a lower discount rate is much more

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pronounced for SoCalGas, because a larger portion of the obligation is for grandfathered collectively bargained benefits that continue to provide a traditional pension benefit. Cash balance benefits, which are the benefits for a majority of current employees and offered to all new employees of both SoCalGas and SDG&E (as further detailed in Appendix B), are much less impacted by changes in discount rates. Cash balance benefits represent a larger portion of SDG&E's pension obligation.

Tables PA-2 and PA-3 below quantify the impact of each component on the Pension Plans' funded positions between December 31, 2018, and December 31, 2021.

**Table PA-2 – SoCalGas 3-Year Attribution of Change in PBO Funded Status**

<i>Rounded to Nearest \$10 million</i>	<u>Funded Status</u>
<b>12/31/2018</b>	<b>\$ (730)</b>
Contributions over Service Cost	\$ 200
Asset Returns over Interest Cost	\$ 560
Interest Rate Changes	\$ (560)
Other	\$ 20
<b>12/31/2021</b>	<b>\$ (510)</b>

**Table PA-3 – SDG&E 3-Year Attribution of Change in PBO Funded Status**

<i>Rounded to Nearest \$10 million</i>	<u>Funded Status</u>
<b>12/31/2018</b>	<b>\$ (190)</b>
Contributions over Service Cost	\$ 60
Asset Returns over Interest Cost	\$ 220
Interest Rate Changes	\$ (90)
Other	\$ -
<b>12/31/2021</b>	<b>\$ -</b>

1 Both SoCalGas’s and SDG&E’s Pension Plans have seen similar improvements in  
2 funded position in dollar terms; however, because of the more pronounced impact of discount  
3 rate declines on SoCalGas’s pension obligation and the lower relative starting point of  
4 SoCalGas’s PBO funded position, the relative improvement for the SoCalGas plan is less  
5 pronounced. This illustrates the financial benefit of a stronger funded position from lower  
6 interest on the PBO shortfall. As a result, achieving full funding sooner provides additional  
7 financial benefit, which supports approving the shorter shortfall amortization period.

### 8 **C. Proposed Funding Policy Adjustment**

9 Considering the benefits of improved funding outlined above, the Companies propose  
10 that the funding policy structure remain mostly unchanged from the TY 2019 GRC Decision,  
11 except that the PBO shortfall/surplus amortization period be reduced to seven years (based on the  
12 original amortization period set by the PPA) from fourteen years (which was based on average  
13 number of working years until retirement for plan participants back in 2017). This change builds  
14 upon the intergenerational equity improvements seen since the TY 2019 GRC by limiting the  
15 share of past period costs to be paid for by future customers. Moving to a seven-year  
16 amortization period avoids unduly deferring contributions to future customers (which increases  
17 overall plan costs) without making current customers fully responsible for a deficit that occurred  
18 over time. The Pension Plans’ strong financial performance since 2019 allows for this adjustment  
19 while minimizing the rate increase resulting from the change.

#### 20 **1. Details of Proposed Adjusted Funding Policy**

21 The objectives of the Companies’ proposed adjustment to the funding policy are the  
22 same as those described in the TY 2019 GRC proceeding and are as follows:

- 23 • fully fund the Pension Plans over a reasonable period;
- 24 • minimize long term costs of funding the Pension Plans by addressing the PBO  
25 shortfall;
- 26 • provide a stable contribution pattern; and
- 27 • improve intergenerational ratepayer equity.

28 The proposed funding policy would be applied as follows:

- 29 i) The initial annual funding amount is equal to the projected TY  
30 2024 ASC 715 annual service cost (the value of benefits expected  
31 to accrue during the year) for the Pension Plan, plus an amount that

1 would be sufficient to fully fund the initial projected PBO shortfall  
2 (*i.e.*, the PBO in excess of the fair value of the Pension Plan’s  
3 assets) at the beginning of TY 2024, over seven years, adjusted for  
4 interest (the Policy Base Amount). Because of the change in  
5 amortization period from fourteen to seven years, the Companies  
6 propose the entire PBO shortfall (or surplus) be re-amortized as a  
7 one-time transition. This means that the remaining nine  
8 installments of the base established in TY 2019 will be removed  
9 and a new base will be established for TY 2024, which reflects a 7-  
10 year amortization of the projected shortfall/surplus.

11 ii) This amount will remain constant throughout the TY 2024 GRC  
12 period, unless the Alternative Funding Triggers apply. The  
13 proposed policy maintains the Alternative Funding Triggers under  
14 the current policy.

15 iii) As in the current funding policy, any variance between authorized  
16 and actual contributions as a result of the application of Alternative  
17 Funding Triggers would be subject to the current two-way  
18 balancing account mechanism.

## 19 **2. Justification for the Proposed Adjustment to the Current Funding** 20 **Policy**

21 The Companies propose a 7-year period to amortize the Pension Plan’s unfunded PBO, as  
22 the Companies proposed in the TY 2019 GRC. The TY 2019 GRC Decision based the  
23 amortization period on the “...average age SoCalGas and SDG&E retirement plan participants  
24 are expected to retire...,” which resulted in a 14-year period. While logical arguments can be  
25 made to support this basis, it has several flaws. First, this basis can be volatile as changes occur  
26 in the workforce. Second, pension deficits fund pensions for both current and former employees,  
27 and for services performed in the past, which negates the link to the future working lifetime of  
28 existing employees. In addition, as illustrated above, it is more difficult for a plan with a  
29 significant deficit (*e.g.*, SoCalGas’s) to recover quickly under the lengthier 14-year period,  
30 therefore increasing the amount of interest that customers will eventually have to pay on the  
31 deficit. Ultimately, a fixed 7-year period is stable, conforms to the period originally set by the  
32 PPA (and the original basis of the funding policy in effect before 2019), restores full funding

1 more quickly (thereby generating long-term savings) while also protecting current customers  
2 from the full burden of deficits resulting from the past.<sup>17</sup>

3 In the TY 2019 GRC Decision, the Commission stated that its basis for modifying the  
4 Companies' proposed 7-year amortization period to 14 years was to achieve a compromise  
5 between the need to fully fund the pension obligation over a reasonable period while managing  
6 the cost impact and maintaining reasonable rates:

7 As stated above, while we find it necessary to develop a funding mechanism that  
8 will address the PBO shortfall, we must also ensure that costs are reasonable and  
9 that rates remain affordable. Thus, we find it more appropriate to spread out the  
10 costs of funding the PBO shortfall over a longer period of time.<sup>18</sup>

11 The Commission agreed that it is "prudent and necessary to address the pension shortfall  
12 to ensure that [the Companies'] pension plans have sufficient funding to meet pension needs, to  
13 minimize long-term costs of funding the pension plans, and to establish a stable contribution  
14 pattern that keeps [the Companies'] pension plans fully funded."<sup>19</sup> The question is how quickly  
15 to achieve full funding while balancing the rate impact. A shorter amortization period furthers  
16 intergenerational equity for customers by better aligning pension costs with the customers who  
17 benefited from the services and reduces long-term costs by decreasing interest on the PBO deficit  
18 versus a longer amortization period.

19 Figures PA-5 and PA-6 below show actual pension contributions made since the TY  
20 2019 GRC Decision, funding projections provided in the TY 2019 GRC proceeding, and an  
21 updated forecast based on the proposed adjusted funding policy. Contributions made for the  
22 2019-2021 period exactly matched the amounts authorized and included in rates, demonstrating  
23 the effectiveness of the new funding policy at providing cost stability. Under the proposed  
24 funding policy, contributions are forecasted to be relatively level throughout the projection  
25 period for both Pension Plans. Figures PA-5 and PA-6 show that the projected TY 2028  
26 amounts for each of the plans reflect the establishment of bases in 2028 that amortize the  
27 difference between the projected 2028 shortfall/surplus and the present value of the remaining  
28 installments on the base established in TY 2024 (with the TY 2019 base having been removed as

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<sup>17</sup> A 7-year period is also consistent with the period approved for Pacific Gas and Electric Company (PG&E) under an All-Party Settlement Agreement approved by the Commission in D.09-09-020.

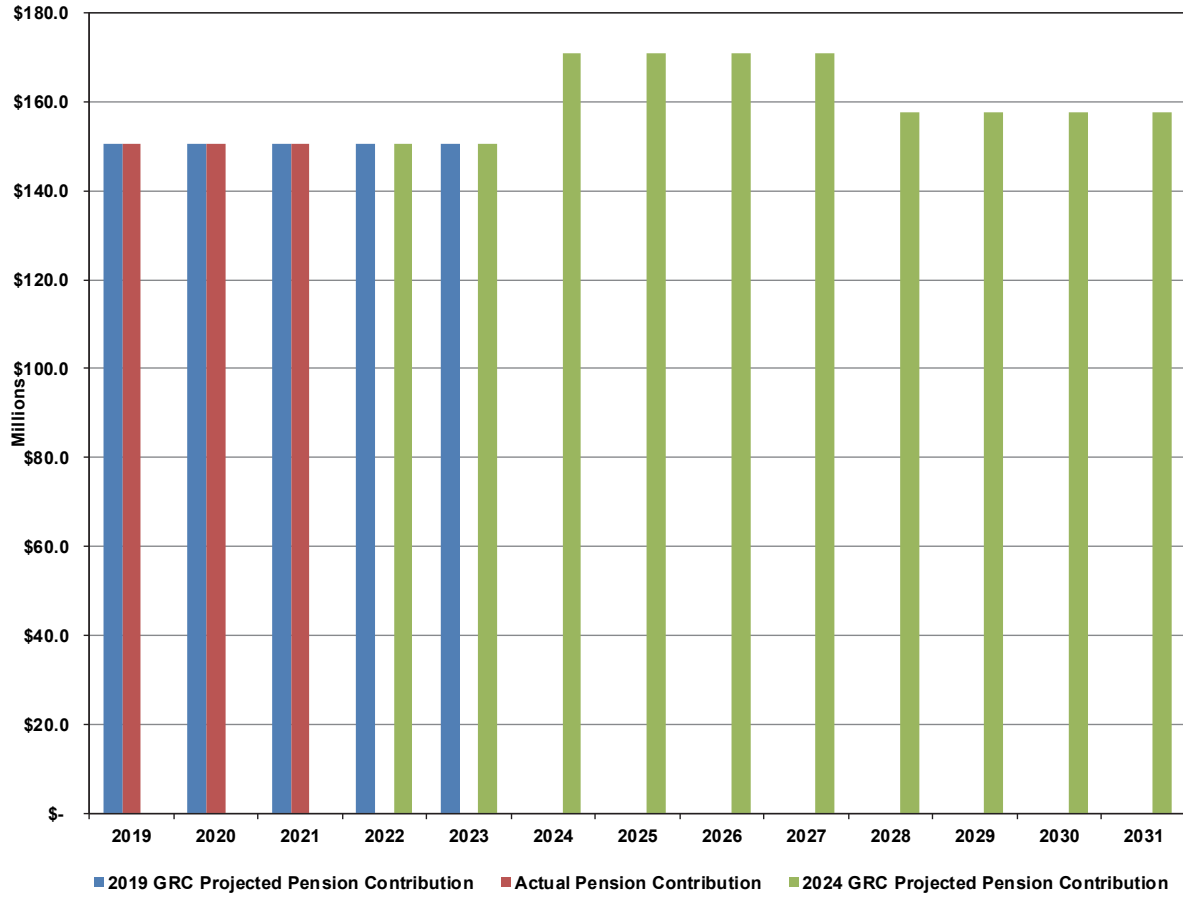
<sup>18</sup> D.19-09-051 at 560-61.

<sup>19</sup> D.19-09-051 at 559.

1 part of the proposed funding policy's one-time re-amortization, when changing from fourteen to  
2 seven years).

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**Figure PA-5 – SoCalGas Pension Plan Funding Projections**

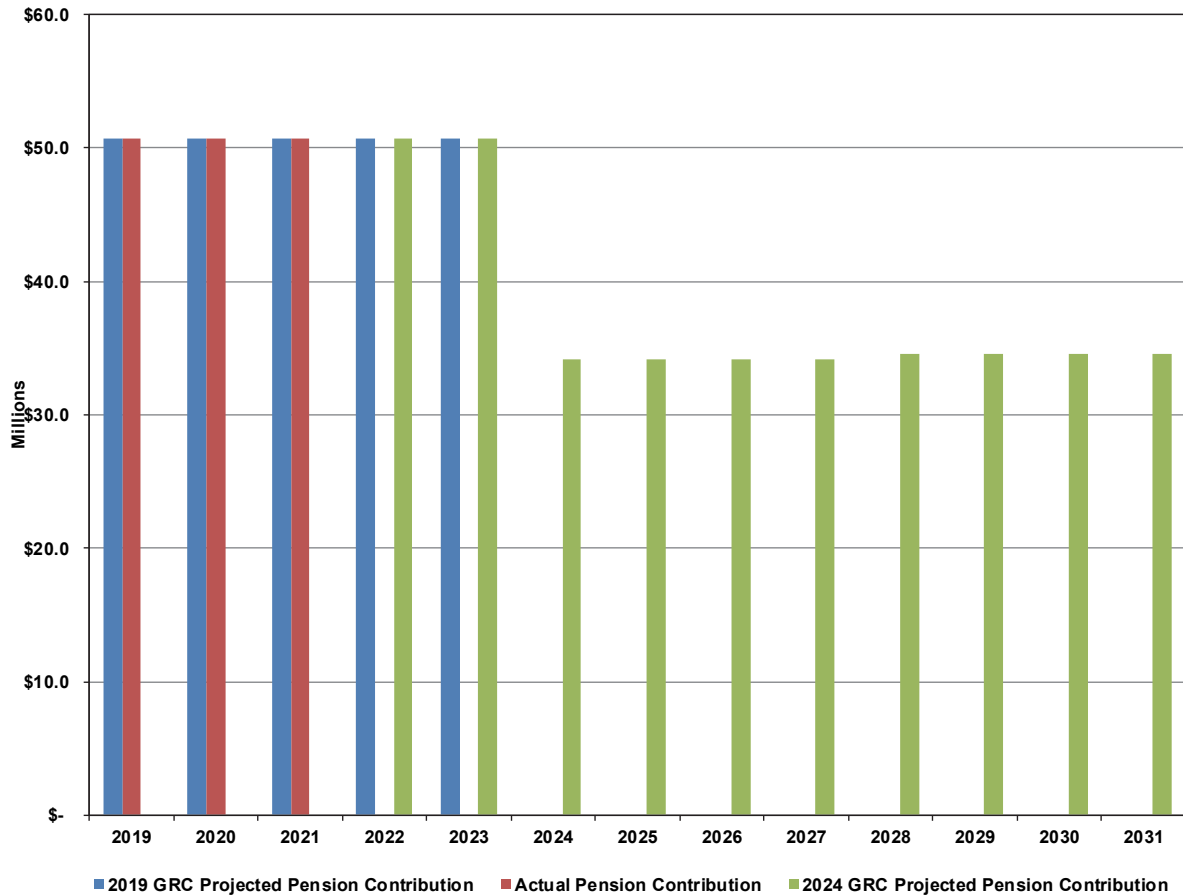


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**Figure PA-6 – SDG&E Pension Plan Funding Projections**



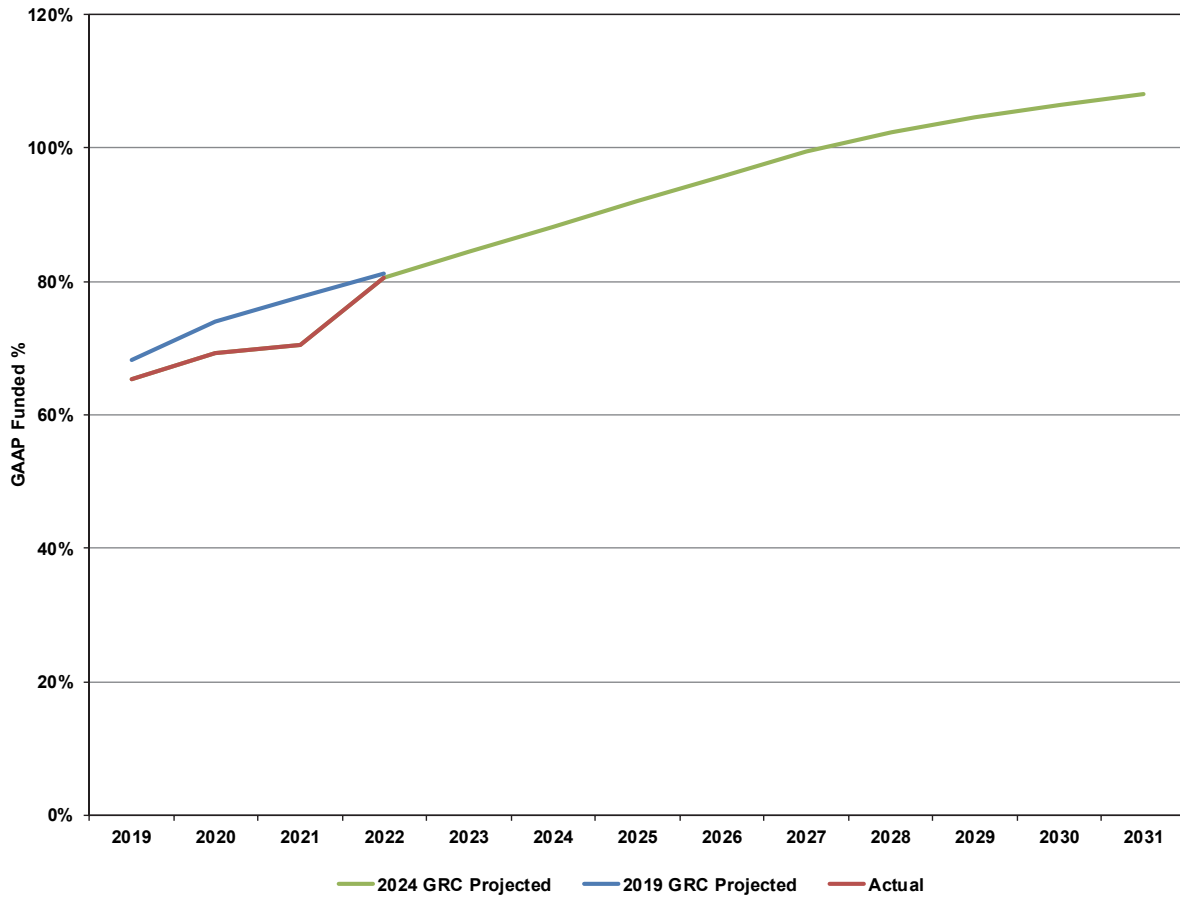
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3 Figures PA-7 and PA-8 below show actual PBO funded status under GAAP since 2019,  
 4 the PBO funded status projections provided in the 2019 GRC, and an updated forecast based on  
 5 the proposed adjusted funding policy. SDG&E’s funded status has improved more than  
 6 previously projected, which contributes to the reduction in the proposed contribution from 2024.  
 7 Modest additional improvements in funded status are projected before it stabilizes between 100%  
 8 and 110% funded. As discussed previously, the lower interest rate environment that has emerged  
 9 impacted SoCalGas more significantly than SDG&E, and so the GAAP funded status remained  
 10 considerably below 100%, but the future contributions under the proposed adjustment are  
 11 projected to rectify the situation and result in significant improvements to funded status.

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**Figure PA-7 – SoCalGas Pension Plan GAAP Funded Status Projections**

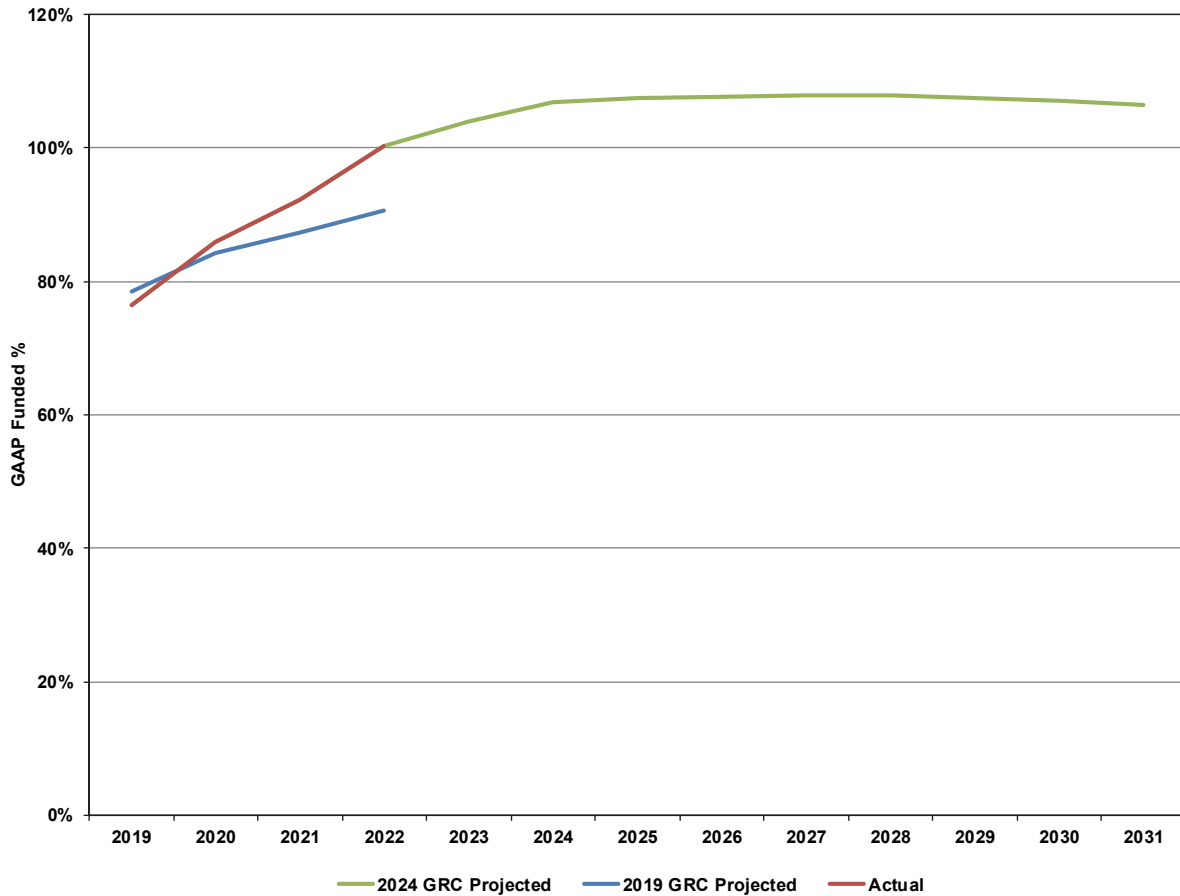


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**Figure PA-8 – SDG&E Pension Plan GAAP Funded Status Projections**



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3 Another significant benefit of funding the pension shortfall faster is the ability to further  
 4 reduce risks to customers resulting from volatility in the financial markets. A fully or nearly fully  
 5 funded pension plan is in a better position to utilize risk management techniques, such as asset  
 6 and liability matching, that would protect the plan funded position from significant deterioration  
 7 resulting from market corrections.

8 Finally, because the pension cost is set through the GRC process and is currently in effect  
 9 for four years,<sup>20</sup> the Companies’ proposal included protection against overfunding in the event of  
 10 favorable experience (such as strong asset returns). Therefore, each year, the Companies will  
 11 continue to review the funded position of the plan calculated in the annual certified actuarial

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<sup>20</sup> See D.20-01-002, Conclusion of Law 4 at 75, OP 2 at 77, and Appendix B (decision modifying the Commission’s rate case plan for energy utilities, extending the GRC cycle from three to four years). The Companies are proposing a four-year GRC cycle be applied to the decision in this proceeding, with the next test year in 2028 (see the prepared direct Post-Test Year Ratemaking testimonies of Khai Nguyen (Ex. SCG-40) and Melanie E. Hancock (Ex. SDG&E-45).



1 valuation of the Pension Plans prepared by the Companies' actuary, Willis Towers Watson, and  
2 if necessary, will reduce the actual contribution, so that the fair value of the Pension Plans' assets  
3 does not exceed 110% of the PBO as a result of the contribution. The continuation of the  
4 balancing account treatments will show these adjustments and will adjust for any over or under  
5 collections through its normal process (see the prepared direct Regulatory Accounts testimonies  
6 of witnesses Rae Marie Yu (Ex. SCG-38) and Jason Kupfersmid (Ex. SDG&E-43).

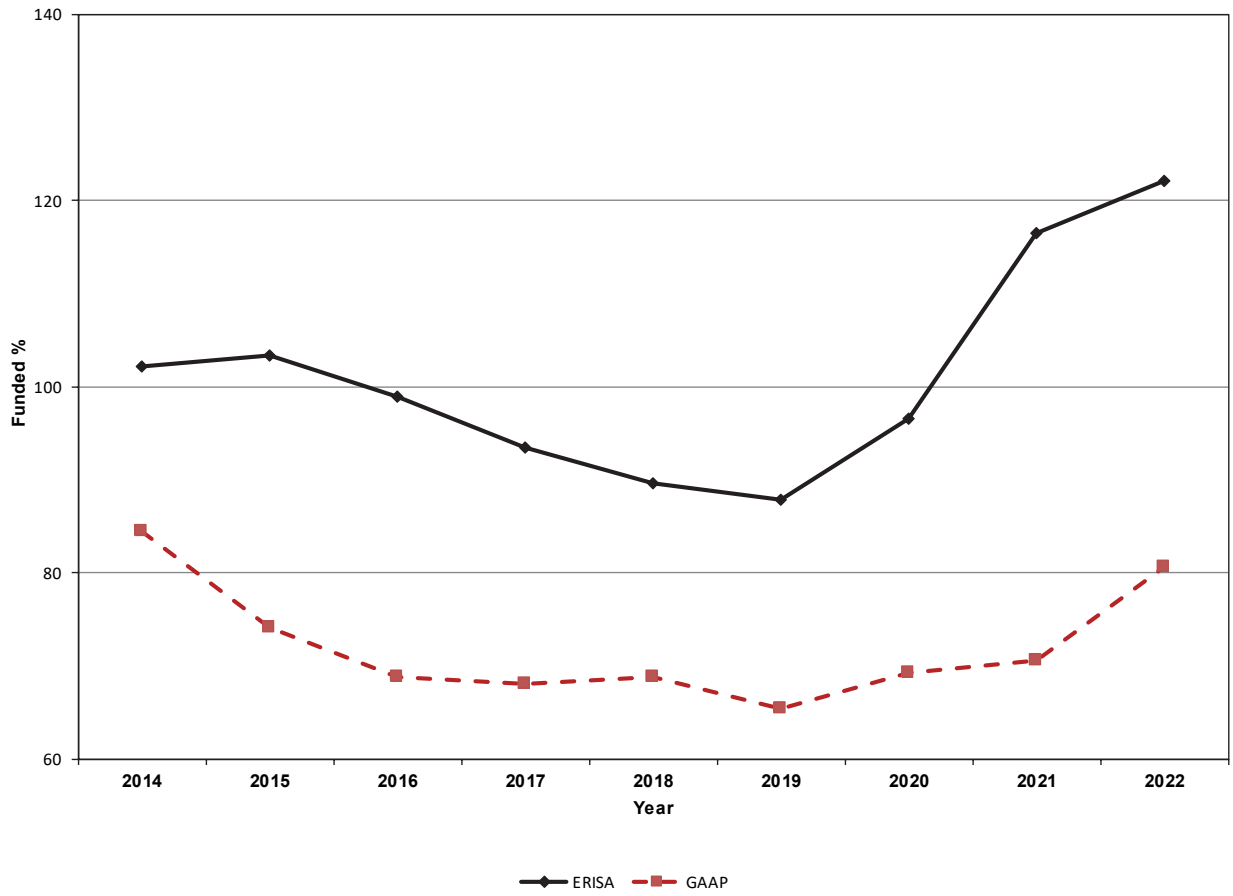
7 **D. Benefit Limitation Threshold**

8 In addition to the minimum required contributions under Internal Revenue Code (IRC)  
9 section (§) 412 (pre-2008) and IRC § 430 (post-2007), the PPA also established benefit  
10 limitation criteria. If the pension plan's AFTAP falls below 80% (*i.e.*, the ratio of pension plan  
11 assets to the funding target is less than 0.8), the pension plan would be subject to certain benefit  
12 restrictions and potentially higher required minimum contributions and PBGC premiums.

13 As shown in Figures PA-9 and PA-10 below, the Pension Plans have maintained an  
14 ERISA funded percentage ratio well above 80% for both SoCalGas and SDG&E (in large part  
15 due to interest rate stabilization), well above the benefit limitation threshold for both Pension  
16 Plans. The Figures also illustrate the Plans' PBO funded status under GAAP; which, as discussed  
17 above, is the best estimate of the Plans' liability under current market conditions.

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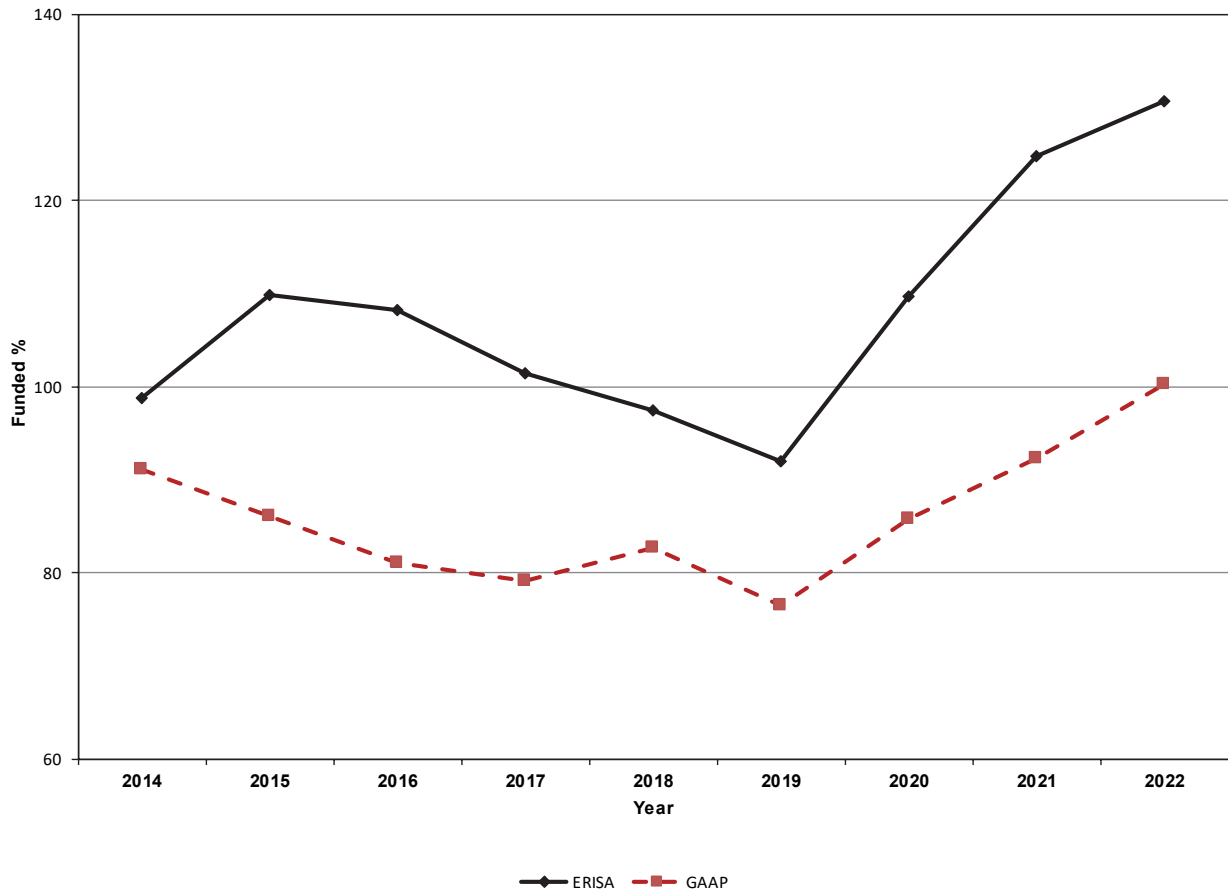
**Figure PA-9 – SoCalGas Pension Plan Actuarial Value of Assets as a Percentage of Funding Target: 2014 – 2021**



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**Figure PA-10 – SDG&E Pension Plan Actuarial Value of Assets as a Percentage of Funding Target: 2014 – 2021**



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5 Given the current state of the Pension Plans, the benefit limitation threshold is unlikely to  
6 impact the distribution of benefits to plan participants in the foreseeable future. However,  
7 consistent with the TY 2019 GRC Decision, the Companies request that the Alternative Funding  
8 Triggers continue to include amounts as required to maintain an 85% AFTAP.

9 **E. Market Returns and Discount Rate**

10 **1. Market Returns**

11 Pension Plan assets are invested in a diversified portfolio of return-seeking securities  
12 (including equities) and risk-mitigating securities (including bonds), which consider the interest  
13 rate sensitivities of the respective obligations of the Pension Plans, as well as the funded status.  
14 As shown in Tables PA-4 and PA-5 below, the Pension Plans have experienced very positive  
15 returns for the period 2009 through 2021.

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**Table PA-4 – Pension Plans SoCalGas Investment Returns: 2007 – 2021**

<b>Year</b>	<b>Investment Policy Benchmark</b>	<b>Plan Actual</b>	<b>S&amp;P 500</b>	<b>Barclay's Aggregate Bond</b>
2007	8.6%	9.2%	5.5%	7.0%
2008	-27.6%	-26.1%	-37.0%	5.2%
2009	23.6%	22.2%	26.5%	5.9%
2010	13.8%	12.9%	15.1%	6.5%
2011	-0.2%	-0.8%	2.1%	7.8%
2012	15.1%	15.1%	16.0%	4.2%
2013	16.5%	16.4%	32.4%	-2.0%
2014	7.9%	8.3%	13.7%	6.0%
2015	-2.3%	-2.4%	1.4%	0.6%
2016	9.0%	9.3%	12.0%	2.7%
2017	19.0%	18.8%	21.8%	3.5%
2018	-6.9%	-6.8%	-4.4%	0.0%
2019	24.9%	24.6%	31.5%	8.7%
2020	14.5%	15.0%	18.4%	7.5%
2021	11.5%	12.3%	28.7%	-1.5%

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**Table PA-5 – Pension Plans SDG&E Investment Returns: 2007 – 2021**

<b>Year</b>	<b>Investment Policy Benchmark</b>	<b>Plan Actual</b>	<b>S&amp;P 500</b>	<b>Barclay's Aggregate Bond</b>
2007	8.6%	9.2%	5.5%	7.0%
2008	-27.6%	-26.1%	-37.0%	5.2%
2009	23.6%	22.2%	26.5%	5.9%
2010	13.8%	12.9%	15.1%	6.5%
2011	-0.2%	-0.8%	2.1%	7.8%
2012	15.1%	15.1%	16.0%	4.2%
2013	16.5%	16.4%	32.4%	-2.0%
2014	7.9%	8.3%	13.7%	6.0%
2015	-2.3%	-2.4%	1.4%	0.6%
2016	9.0%	9.3%	12.0%	2.7%
2017	19.0%	18.8%	21.8%	3.5%
2018	-6.9%	-6.8%	-4.4%	0.0%
2019	24.9%	24.6%	31.5%	8.7%
2020	14.5%	15.0%	18.4%	7.5%
2021	11.5%	8.4%	28.7%	-1.5%

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Tables PA-6 and PA-7 below show the cumulative returns for 3-year, 5-year, 10-year, and 15-year periods. Both Plans have experienced very strong returns over the last three years, both in absolute and relative terms. Returns over longer horizons are also positive, despite these periods including significant market corrections (notably in 2008 and at the onset of the COVID-19 pandemic).

1

**Table PA-6 – SoCalGas Annualized Pension Plans Investment Returns**

<b>Year</b>	<b>Investment Policy Benchmark</b>	<b>Plan Actual</b>	<b>S&amp;P 500</b>	<b>Barclay's Aggregate Bond</b>
3 Years Ended 12-31-21	16.8%	17.2%	26.1%	4.8%
5 Years Ended 12-31-21	12.0%	12.2%	18.5%	3.6%
10 Years Ended 12-31-21	10.5%	10.7%	16.6%	2.9%
15 Years Ended 12-31-21	7.6%	7.7%	10.7%	4.1%

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**Table PA-7 – SDG&E Annualized Pension Plans Investment Returns**

<b>Year</b>	<b>Investment Policy Benchmark</b>	<b>Plan Actual</b>	<b>S&amp;P 500</b>	<b>Barclay's Aggregate Bond</b>
3 Years Ended 12-31-21	16.8%	15.8%	26.1%	4.8%
5 Years Ended 12-31-21	12.0%	11.5%	18.5%	3.6%
10 Years Ended 12-31-21	10.5%	10.3%	16.6%	2.9%
15 Years Ended 12-31-21	7.6%	7.5%	10.7%	4.1%

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**2. Discount Rate**

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In addition to market returns, the discount rate used in determining pension plan liabilities is another important variable. As discussed above, legislation enacted by Congress in recent years has distorted the interest rates used to calculate the minimum required contribution,

1 by inflating the segment rates above the true underlying market corporate bond yields. On the  
2 other hand, the discount rate used under ASC 715 (which has been the basis for the funding  
3 policy since the TY 2019 GRC) is based on actual corporate bond yields as of the measurement  
4 date.

#### 5 **F. Two-Way Balancing Account Treatment**

6 The Companies' proposal to continue two-way balancing account treatment for pension  
7 costs in each utility's respective Pension Balancing Account (PBA)<sup>21</sup> is consistent with prior  
8 Commission decisions approving two-way balancing of pension costs for all California investor-  
9 owned utilities in recent years.<sup>22</sup> The PBA balances the difference between the forecasted and  
10 actual contributions to the Companies' Pension Plans. Two-way balancing is meant to protect the  
11 Companies' ratepayers from potential variability in funded status due to multiple external factors  
12 affecting pensions that are difficult to predict and outside the Companies' control.

13 The Companies' two-way balancing accounts allow SoCalGas and SDG&E to recover  
14 required pension contributions based on prescribed actuarial calculations that consider external  
15 variables, such as market return on invested assets, interest rates, and federal legislative changes,  
16 should it exceed the Policy Base Amount. The Companies' proposed funding policy is largely  
17 consistent with the currently authorized funding policy, as described above, and will be held  
18 constant at the Policy Base Amount throughout the TY 2024 GRC cycle through January 1,  
19 2028, or until the effective implementation date of the final TY 2024 GRC decision, unless the  
20 Policy Base Amount triggers two-way balancing in any year that the Alternative Funding  
21 Triggers would apply. The Alternative Funding Triggers, namely the amount of the required  
22 minimum contribution, the amount to maintain an 85% AFTAP, and the funding level of a  
23 pension plan can fluctuate over time based on factors beyond management control.

24 The Commission has approved the Companies' requests to continue two-way balancing  
25 account treatment and the annual amortization of the respective PBAs because circumstances  
26 supporting such a mechanism have not changed. Specifically, "pension costs are difficult to

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<sup>21</sup> SoCalGas's and SDG&E's currently effective PBA tariffs, respectively, *available at*  
<https://tariff.socalgas.com/regulatory/tariffs/tm2/pdf/PBA.pdf> and  
[https://tariff.sdge.com/tm2/pdf/ELEC\\_ELEC-PRELIM\\_PBA.pdf](https://tariff.sdge.com/tm2/pdf/ELEC_ELEC-PRELIM_PBA.pdf).

<sup>22</sup> *See, e.g.*, D.19-09-051 at 562-63 and D.16-06-054 (for SoCalGas and SDG&E); D.09-09-020 (for PG&E); and D.15-11-021 at 269-70, D.19-05-020 at 189-90, and D.21-08-036 at 468 (for Southern California Edison Company).

1 predict and costs are subject to variables that are beyond [the Companies’] control.”<sup>23</sup> The PBA  
2 is described in detail in the prepared direct testimony of Regulatory Accounts witnesses Rae  
3 Marie Yu (Ex. SCG-38) and Jason Kupfersmid (Ex. SDG&E-43), including SoCalGas’s and  
4 SDG&E’s proposal to continue the annual amortization of the PBA as adopted in D.09-09-011.

#### 5 **IV. POSTRETIREMENT BENEFITS OTHER THAN PENSION**

6 SoCalGas and SDG&E postretirement benefits other than pension include health and life  
7 insurance benefits, as further detailed in Appendix B. Along with the Companies’ Pension Plans,  
8 the Companies’ PBOP Plans are a key component of a competitive total compensation program  
9 that enables SoCalGas and SDG&E to attract and retain a high-performing workforce. The  
10 elements of this section outline how the PBOP test year forecast is generated, an overview of  
11 assumptions, including health care trends and projected funding levels, and details on  
12 maintaining two-way balancing.

##### 13 **A. PBOP Cost Estimate**

14 The Companies’ actuary, WTW, prepares an annual certified actuarial valuation of the  
15 PBOP Plans, which includes the value of benefit obligations and costs. The valuations are  
16 performed in accordance with generally accepted actuarial principles and practices. PBOP cost  
17 includes both current retirees and an allocation of costs for current employees who are expected  
18 to access benefits in the future upon retirement. PBOP costs are determined pursuant to ASC  
19 Topic 715, but are limited to the amount the Companies can contribute on a tax-deductible basis.  
20 Also, previously funded amounts cannot be refunded until all obligations have been fully  
21 satisfied. Table PA-8 below provides a summary of the PBOP cost based on ASC 715. Unless  
22 otherwise noted in the testimony, the tables and figures are based on ASC 715 and contain  
23 information for all participants under the Pension Plans, including executive officers classified  
24 under California Public Utilities Code Section 706 (as modified by Senate Bill 901).

25  

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<sup>23</sup> D.19-09-051 at 562.



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**Table PA-8 – Summary of 2019 vs. 2024 PBOP Cost<sup>24</sup>**

		<i>In Thousands</i>			
	<u>Cost Center</u>	<u>Benefit Description</u>	<u>2019 Actual</u>	<u>2024 Projected</u>	<u>2019-2024 Change</u>
<b>SoCalGas</b>	<b>2200-8001.001</b>	<b>PBOP</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>SDG&amp;E</b>	<b>2100-0375.001</b>	<b>PBOP</b>	<b>\$ -</b>	<b>\$ 347</b>	<b>\$ 347</b>

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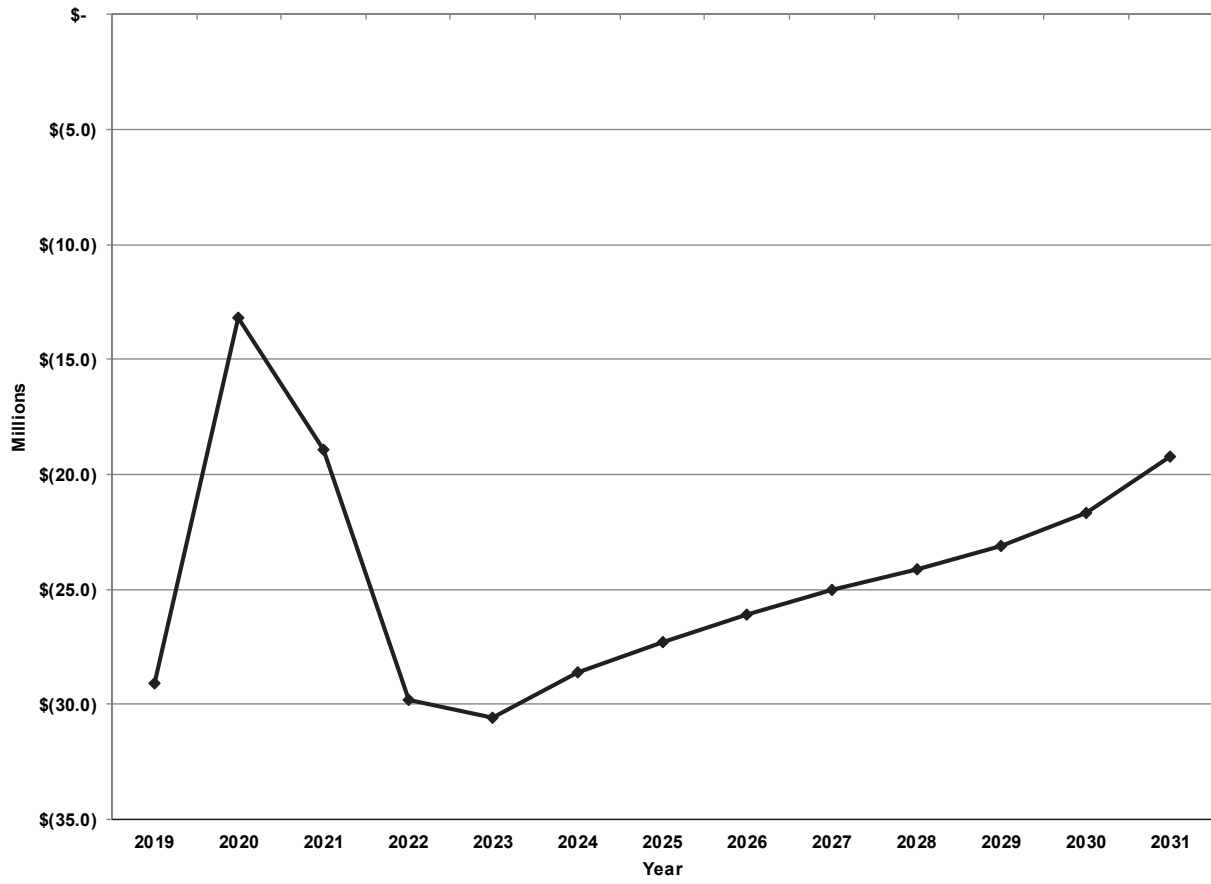
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Figures PA-11 and PA-12 below illustrate the actual 2019 through 2021 ASC 715 expense and projected amounts for the period 2022 through 2031. For most of the PBOP Plans’ participants, the maximum tax-deductible contributions are based on the difference between the present value of projected benefits and the market value of PBOP assets. In 2021, the ASC 715 credit for SoCalGas was approximately \$18.9 million compared to a maximum tax-deductible amount of \$0.8 million, and for SDG&E it was \$1.6 million compared to a maximum deductible contribution of \$2.3 million.

<sup>24</sup> Forecasted TY 2024 costs exclude executive officer costs, as defined under Resolution E-4963, pursuant to California Public Utilities Code Section 706 (as modified by Senate Bill 901). Base Year 2021 costs based on contributions authorized in D.19-09-051 prior to removal of executive officer costs.

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**Figure PA-11 – SoCalGas PBOP ASC 715 Expense: 2019 – 2031**



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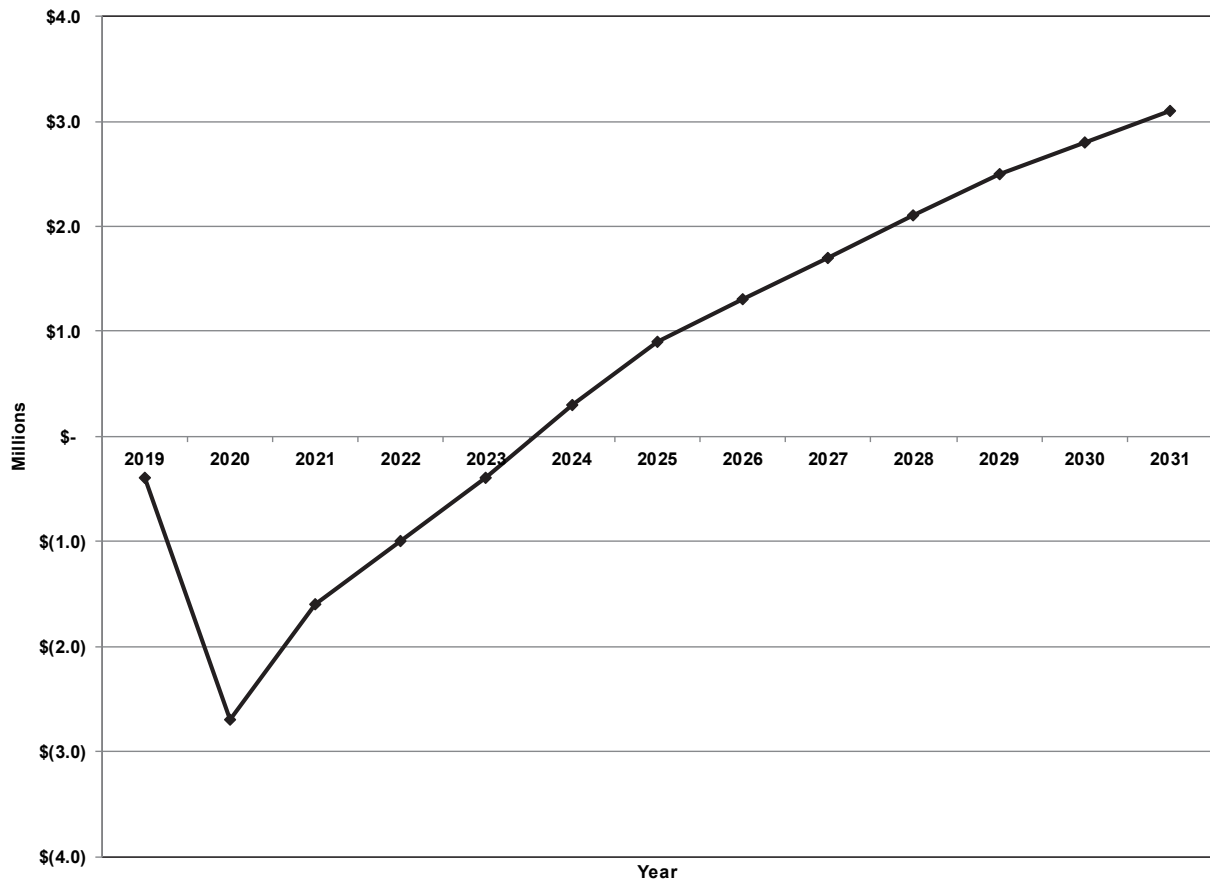
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**Figure PA-12 – SDG&E PBOP ASC 715 Expense: 2019 – 2031**

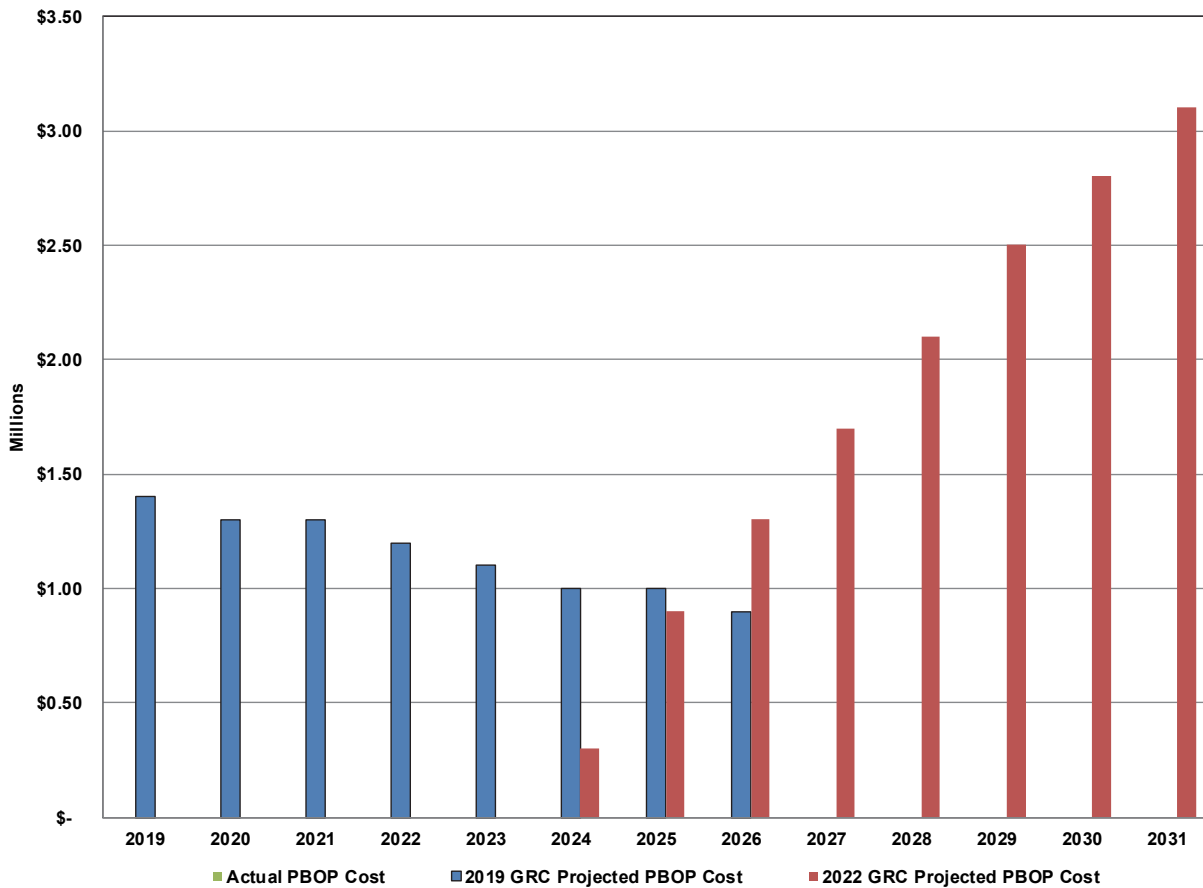


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3 Figure PA-13 below provides a comparison of the projected SDG&E PBOP cost in the  
4 TY 2019 GRC compared to the TY 2024 GRC forecast, which is initially lower than the prior  
5 projection as of 2024 and increases thereafter. For SoCalGas, the PBOP cost remains at zero  
6 from 2019 to 2031 under both the TY 2019 GRC and TY 2024 GRC projections, due to strong  
7 asset returns, among other factors.

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**Figure PA-13 – SDG&E PBOP Actual vs. Projected Cost: 2019 – 2031**



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**B. Test Year PBOP Cost**

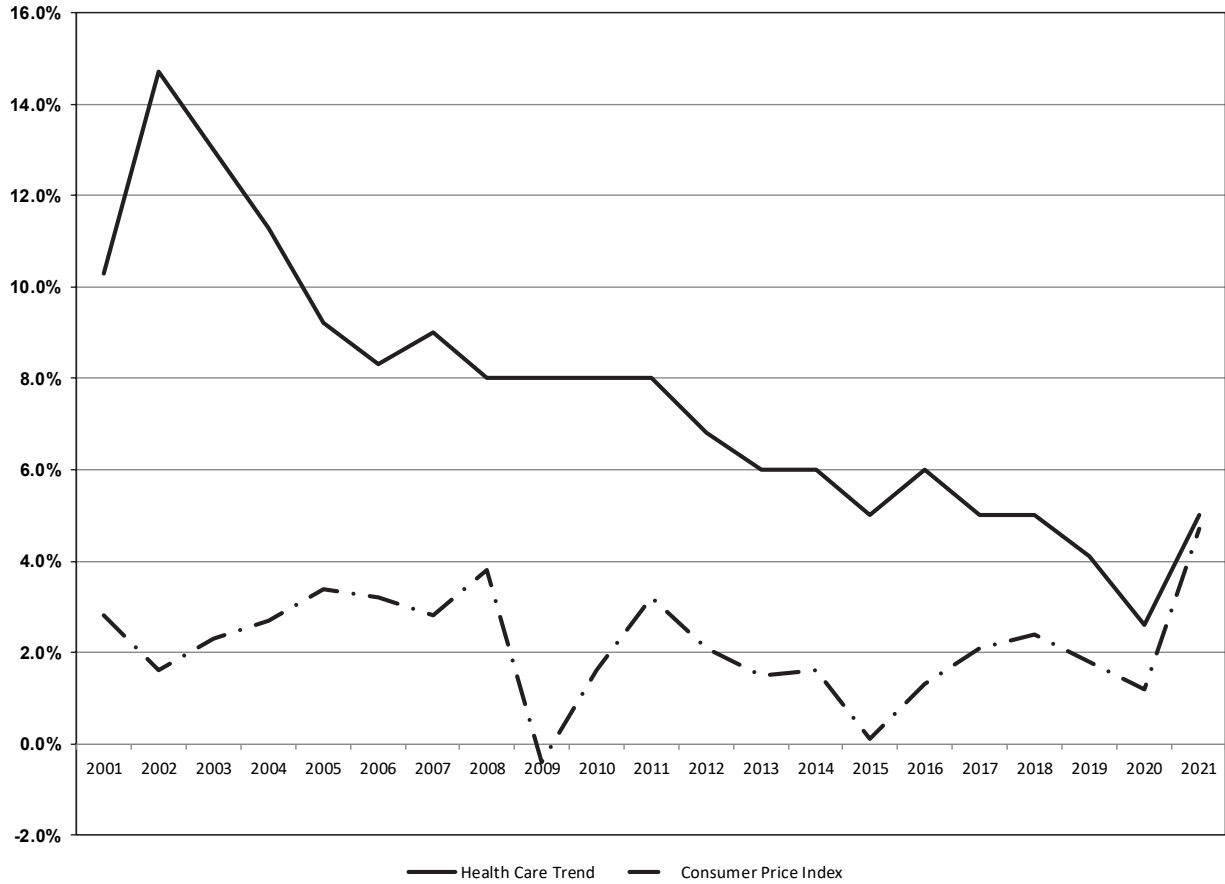
3 PBOP costs are difficult to project with certainty due to the impacts of numerous  
 4 variables, including benefit utilization, healthcare cost escalation, PBOP Plan asset returns,  
 5 interest rates, and plan design. Given this variability, the currently estimated test year  
 6 contribution of \$0 for SoCalGas and \$0.3 million for SDG&E is likely to change. As discussed  
 7 below, the Companies propose continuing two-way balancing of variances between authorized  
 8 and actual contributions to the PBOP Plan, as discussed below in Section IV.G and in the  
 9 prepared direct Regulatory Accounts testimonies of witnesses Rae Marie Yu (Ex. SCG-38) and  
 10 Jason Kupfersmid (Ex. SDG&E-43).

**C. Health Care Cost Escalation**

11 Medical benefit cost assumptions and trend rates have a significant impact on actual and  
 12 projected PBOP costs. Figure PA-14 below illustrates the average medical cost increases for the  
 13 period 2001 thru 2021, as reported by the 2021 Willis Towers Watson Best Practices in Health  
 14  
 15

1 Care Employer Survey. The comparison to the Consumer Price Index shows the significance of  
2 medical care cost increases and their relative value compared to other non-health-related goods  
3 and services.

4 **Figure PA-14 – Average Medical Cost Increases: 2001 – 2021**



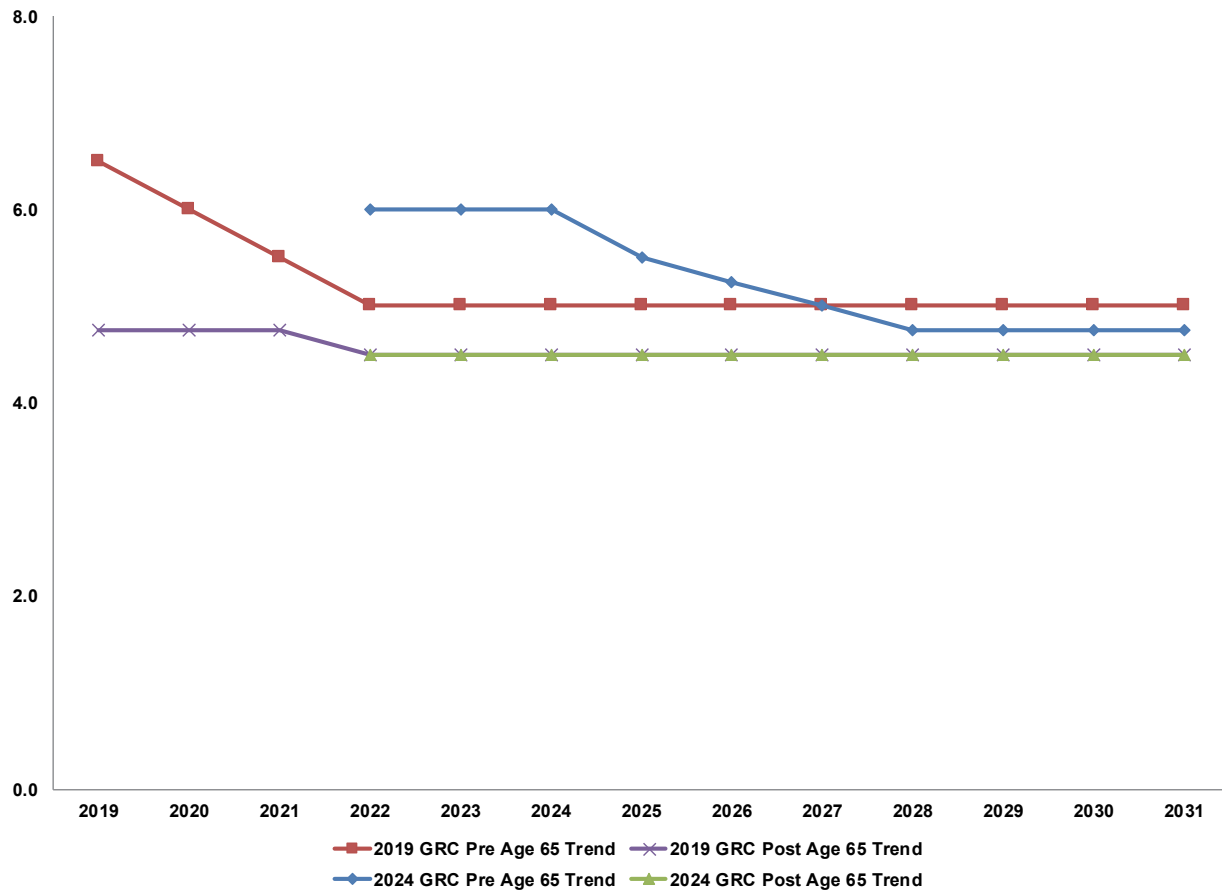
5 \* Health Care Trend for 2021 is expected

6 The projection of PBOP cost includes an actuarial projection of future health care  
7 escalation factors, both short-term and long-term. In the short term, trend rates reflect recent  
8 changes in annual increases due to health care cost increases and participant utilization levels.  
9 The ultimate trend is more indicative of general economic conditions.

10 As shown in Figure PA-15 below, the pre-age 65 health trend assumptions for the period  
11 2022 through 2031 has been refined since the TY 2019 GRC (trend rates are initially higher, but  
12 the ultimate trend rate is lower), while the post-age 65 health trend assumption is unchanged.

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**Figure PA-15 – Medical Health Care Trend Assumptions: 2019 GRC vs. 2024 GRC**



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**D. PBOP Assets and Liabilities**

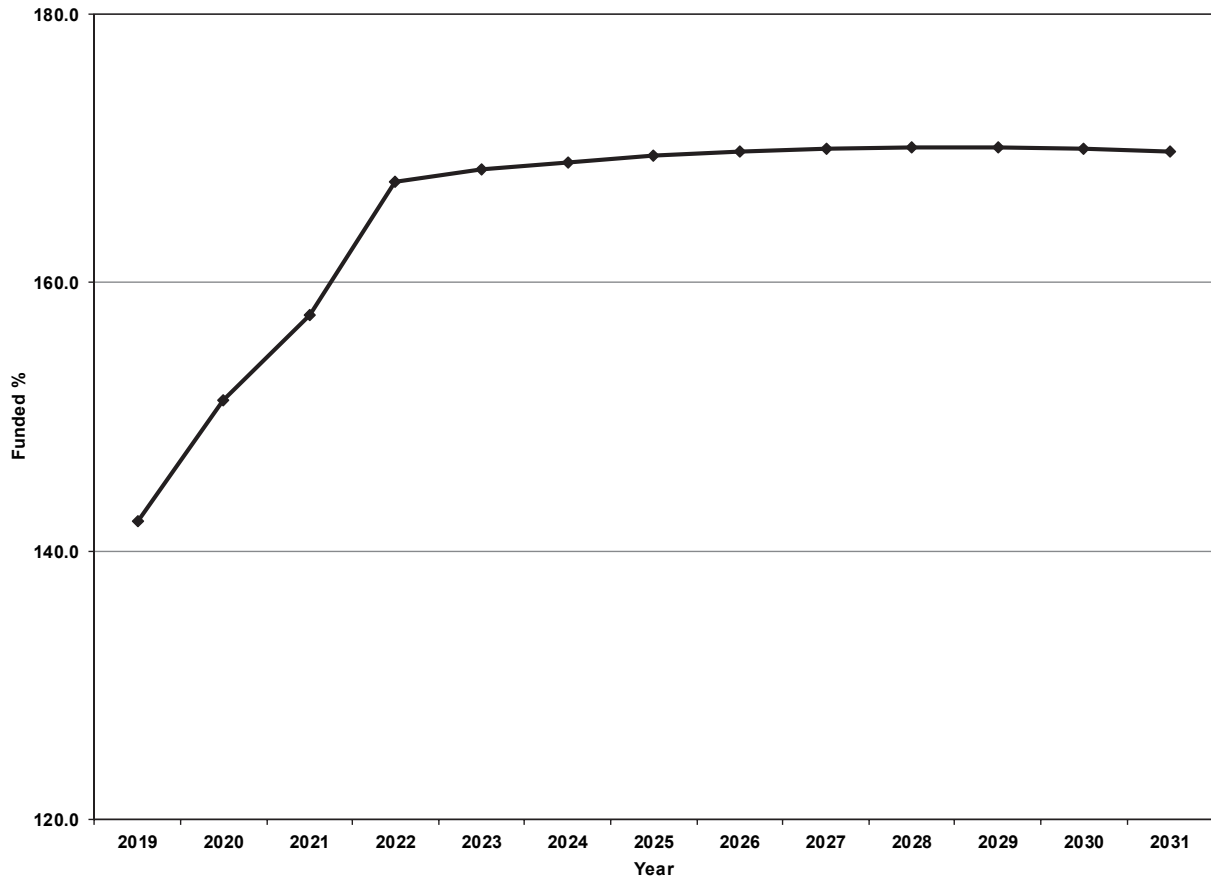
PBOP Plans are prefunded using a number of funded and flow-through voluntary employee benefit association trusts (VEBAs) and 401(h) accounts. As shown in Figures PA-16 and PA-17 below, the accumulated postretirement benefit obligation funded percentage has continued to improve in recent years due to strong asset returns, among other factors. For SoCalGas, the funded percentage increased from 142% in 2019 to 168% in 2022, and it is projected to remain close to 170% through 2031. For SDG&E, the funded percentage increased from 103% in 2019 to 113% in 2022 and is projected to remain above 100% through 2031.

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**Figure PA-16 – SoCalGas PBOP Funded Percentage: 2019 – 2031**

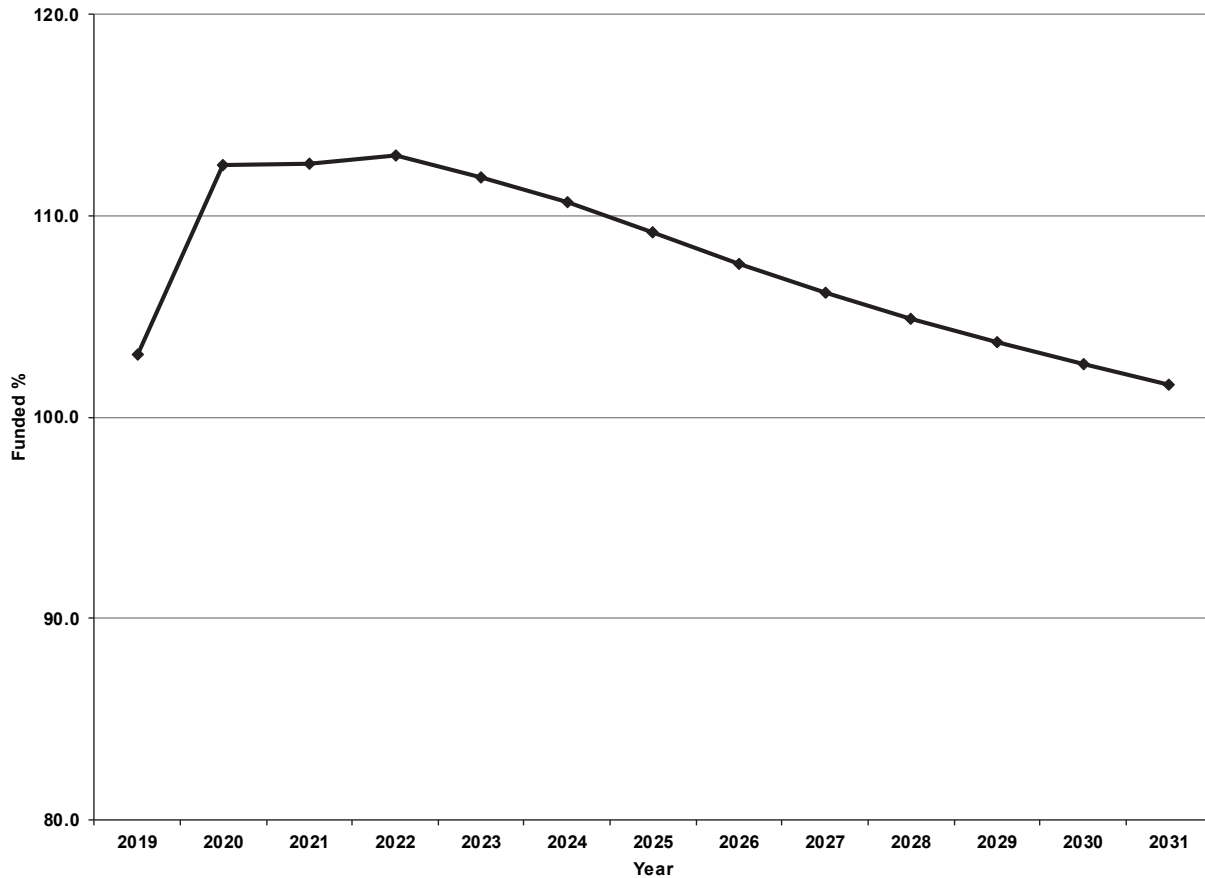


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**Figure PA-17 – SDG&E PBOP Funded Percentage: 2019 – 2031**



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**E. Two-Way Balancing Account Treatment**

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4 As with pension costs, the Commission has consistently approved the use of a two-way  
5 balancing account mechanism for addressing the risk of variability in PBOP cost in GRCs.<sup>25</sup> In  
6 the TY 2019 Decision, both SoCalGas and SDG&E were authorized to balance the difference  
7 between the annual PBOP costs embedded in authorized rates and the actual tax-deductible  
8 contributions to the PBOP Plans in a postretirement benefits other than pension two-way  
9 balancing account (PBOPBA).<sup>26</sup>

10 The future costs related to PBOP are difficult to determine due to the numerous variables  
11 that affect the actual ASC 715 expense, including the applicable discount rate, actual investment

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<sup>25</sup> See, e.g., D.19-09-051 at 564-65, D.16-06-054 at 21, and D.13-05-010; see also discussion in III.J, *supra*.

<sup>26</sup> SoCalGas’s and SDG&E’s respective currently effective PBOPBA tariffs, available at <https://tariff.socalgas.com/regulatory/tariffs/tm2/pdf/PBOPBA.pdf> and [https://tariff.sdge.com/tm2/pdf/ELEC\\_ELEC-PRELIM\\_PBOPBA.pdf](https://tariff.sdge.com/tm2/pdf/ELEC_ELEC-PRELIM_PBOPBA.pdf).



1 returns on plan assets, plan design features, demographic characteristics, health care inflation,  
2 claims experience, and legislative changes. In response to this forecasting challenge, the  
3 Commission has approved the recovery of PBOP costs subject to a two-way balancing account to  
4 adjust the revenue requirement to the ASC 715 costs actually incurred, limited by the maximum  
5 tax-deductible amount allowed by the IRC. This approach has been employed for all California  
6 utilities for decades (*see, e.g.*, D.92-12-015).

7       As with pension benefits, SoCalGas and SDG&E received approval from the  
8 Commission in the TY 2019 Decision to continue the two-way balancing account treatment and  
9 the annual amortization of the PBOPBA, since the circumstances supporting such a mechanism  
10 had not changed.<sup>27</sup> As the impact of external factors in determining PBOP cost continues to  
11 affect the annual and projected determination of this cost, SoCalGas and SDG&E propose to  
12 continue the same balancing account treatment through the PBOPBA throughout the TY 2024  
13 GRC cycle through January 1, 2028, or until the effective implementation date of the next GRC  
14 decision.

15       The PBOPBA is described in detail in the prepared direct testimony of Regulatory  
16 Accounts witnesses Rae Marie Yu (Ex. SCG-38) and Jason Kupfersmid (Ex. SDG&E-43),  
17 including SoCalGas's and SDG&E's proposal to continue the annual amortization of the PBA as  
18 adopted in D.09-09-011.

19       This concludes my prepared direct testimony.

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<sup>27</sup> D.19-09-051 at 564-65.

1 **V. WITNESS QUALIFICATIONS**

2 My name is Peter H. Andersen. My business address is 488 8th Avenue, San Diego,  
3 California. My current position is Director – Benefits for Sempra Energy (Sempra). My present  
4 responsibilities include managing Sempra’s active and retiree benefit programs.

5 Sempra’s Benefits department supports the Sempra Corporate Center and Sempra’s  
6 business units, including SoCalGas and SDG&E.

7 I have a Bachelor of Science degree in Mathematics/Economics with a Specialization in  
8 Computing from the University of California, Los Angeles.

9 I hold licenses from the California Department of Insurance for Accident and Health and  
10 Life-Only.

11 I joined Sempra in 2018 as the Director - Benefits. For 15 years prior to being employed  
12 by Sempra, I consulted large employers, including Sempra, on active and retiree benefits  
13 programs at Willis Towers Watson.

14 I have not previously testified before the California Public Utilities Commission.

**APPENDIX A**  
**Glossary of Terms**

## APPENDIX A – GLOSSARY OF TERMS

<b>Acronym</b>	<b>Definition</b>
AFTAP	Adjusted Funding Target Attainment Percentage
ARPA	American Rescue Plan Act of 2021
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
BBA	Bipartisan Budget Act of 2015
CARES	Coronavirus Aid, Relief, and Economic Security Act of 2020
CPUC	California Public Utilities Commission
D.	Decision
DDB	Defined Dollar Benefit
EIR	Effective Interest Rates
ERISA	Employee Retirement Income Security Act of 1974
FASB	Financial Accounting Standards Board
GAAP	Generally Accepted Accounting Principles
GRC	General Rate Case
HATFA	Highway and Transportation Funding Act
HRA	Health Reimbursement Account
IJA	Infrastructure Investment and Jobs Act
IRC	Internal Revenue Code
MAP-21	Moving Ahead for Progress in the 21st Century Act
PBA	Pension Balancing Account
PBGC	Pension Benefit Guaranty Corporation
PBO	Projected Benefit Obligation
PBOP	Postretirement Health and Welfare Benefits Other than Pension
PBOPBA	Post-Retirement Benefits Other than Pensions Balancing Account
PCBA	Pension Contribution Balancing Account
PG&E	Pacific Gas and Electric Company
PPA	Pension Protection Act of 2006
SB	Senate Bill
SCE	Southern California Edison Company
SDG&E	San Diego Gas and Electric Company
SoCalGas	Southern California Gas Company
TY	Test Year
VEBA	Voluntary Employee Benefit Association Trusts
VREP	Voluntary Retirement Enhancement Program
WTW	Willis Towers Watson
WTW Study	Willis Towers Watson Total Compensation Study

## **APPENDIX B**

### **Summary of Plan Descriptions**

## APPENDIX B – SUMMARY OF PLAN DESCRIPTIONS

### A. Pension Plans

#### 1. Participant Demographics

The SoCalGas Pension Plan, which was first established in 1932, provides benefits to approximately 7,700 active employees and 3,500 retirees, survivors, and terminated participants entitled to future benefits. The average age of active employees is 44.5 years, with an average of 14.7 years of service. Retirees who are currently receiving benefits average 76.1 years of age, while those with deferred benefits average 52.6 years of age.

The SDG&E Cash Balance Plan (SDG&E Pension Plan), first established in 1941, provides benefits to approximately 4,200 active employees and 1,700 retirees, survivors, and terminated participants entitled to future benefits. The average age of active employees is 46.2 years, with an average of 14.2 years of service. Retirees who are currently receiving benefits average 79 years of age, while those with deferred benefits average 51.6 years of age.

The SoCalGas and SDG&E Cash Balance Plans will be referred to collectively as “the Pension Plans,” where appropriate, in the remainder of this exhibit.

#### 2. SDG&E Employee Pension Benefit Prior to July 1, 2003

Prior to July 1, 2003, the SDG&E-defined benefit pension plan (the SDG&E Traditional Plan) provided a retirement benefit based on final average earnings and years of service. The minimum service requirement for benefit vesting purposes was five years. The SDG&E Traditional Plan provides normal retirement at age 65 and early retirement benefits at age 55 with at least one year of service. Employees who retire prior to attaining age 62 receive a reduced benefit.

The normal form of benefit is a lifetime annuity, which is actuarially reduced to provide a 50% joint and survivor benefit to a surviving spouse. In addition, several other optional forms of benefit are available, including a lump sum option, which is the most prevalent form of distribution. The SDG&E Traditional Plan also has an annual cost-of-living adjustment equal to the change in the Consumer Price Index, subject to an annual cap of 3%.

#### 3. SDG&E Employee Pension Benefit After June 30, 2003

SDG&E employees began participating in the SDG&E Cash Balance Pension Plan effective July 1, 1998 (November 1, 1998, for represented employees). Any non-represented employee hired prior to July 1, 1998, or represented employee hired prior to November 1, 1998,

(SDG&E Grandfathered Employee) continued to accrue benefits under the “grandfathered” SDG&E Traditional Plan (the SDG&E Grandfathered Plan) for a five-year transition period. Benefit accruals under the SDG&E Grandfathered Plan were frozen as of June 30, 2003.

Participants in the SDG&E Cash Balance Pension Plan receive retirement credits equal to 7.5% of eligible earnings and interest on their account balances up to the date of distribution. Interest credits are based on the 30-year U.S. Treasury bond rate, which changes annually based on the November average for the immediately preceding year. Special transition retirement credits and interest credits apply for a limited period to certain SDG&E Grandfathered Employees.

Until March 1, 2007, SDG&E Grandfathered Employees received benefits equal to the greater of the benefit calculated under the SDG&E Grandfathered Plan or their benefit under the SDG&E Cash Balance Plan. On or after March 1, 2007, a participant’s benefit is the greater of (1) their SDG&E Cash Balance Plan account balance or (2) their SDG&E Grandfathered Plan benefit plus their Frozen Benefit Plus<sup>+</sup> Account. The Frozen Benefit Plus<sup>+</sup> Account is based on cash balance retirement and interest credits accrued beginning July 1, 2003 (after the SDG&E Grandfathered Plan was frozen).

Effective January 1, 2008 (March 1, 2007, for represented employees), participants are 100% vested after three years of service. Although several forms of benefit payment are available, most participants elect a lump-sum distribution.

#### **4. SoCalGas Union Employees**

The defined benefit plan for represented employees (the SoCalGas Traditional Plan) provides a retirement benefit based on final average earnings and years of service. The minimum service requirement for benefit vesting purposes is five years. The SoCalGas Traditional Plan provides normal retirement at age 65 with five or more years of service and early retirement benefits at age 55 with at least 15 years of service. SoCalGas employees who retire prior to attaining age 62 receive a reduced benefit unless the sum of their age and credited service equal a minimum of 90.

The normal form of benefit is a lifetime annuity, which is actuarially reduced to provide a 50% joint and survivor benefit to a surviving spouse. In addition, several other optional forms of the benefit are available, including a lump sum option, which is the most prevalent form of distribution.

Effective March 1, 2012, all employees who became subject to the collective bargaining agreement on or after January 1, 2012, became participants in the SoCalGas Cash Balance Plan, the same plan provided to non-represented employees. SoCalGas Union employees who were covered by the collective bargaining agreement and who were hired on or before December 31, 2011, are grandfathered and continue to accrue and receive benefits under the SoCalGas Traditional Plan.

#### **5. SoCalGas Non-Represented Employees**

Prior to July 1, 1998, SoCalGas non-represented employees participated in the same plan design as the SoCalGas union employees. Effective July 1, 1998, non-represented employees began participating in the SoCalGas Cash Balance Plan. Any employee hired prior to July 1, 1998 (SoCalGas Grandfathered Employee) continued to accrue benefits under the “grandfathered” SoCalGas Traditional Plan (the SoCalGas Grandfathered Plan) for a five-year transition period. Benefit accruals under the SoCalGas Grandfathered Plan were frozen as of June 30, 2003.

Participants in the SoCalGas Cash Balance Plan receive retirement credits equal to 7.5% of eligible earnings and interest on their account balances up to the date of distribution. Interest credits are based on the 30-year U.S. Treasury bond rate, which changes annually based on the November average for the immediately preceding year. Special transition retirement credits and interest credits apply for a limited period to certain SoCalGas Grandfathered Employees.

Until March 1, 2007, SoCalGas Grandfathered Employees received benefits equal to the greater of the benefit calculated under the SoCalGas Grandfathered Plan or their benefit under the SoCalGas Cash Balance Plan. On or after March 1, 2007, a SoCalGas Grandfathered Employee’s benefit is the greater of (1) their SoCalGas Cash Balance Plan account balance or (2) their SoCalGas Grandfathered Plan benefit plus their Frozen Benefit Plus<sup>+</sup> Account. The Frozen Benefit Plus<sup>+</sup> Account is based on retirement and interest credits accrued beginning July 1, 2003 (after the SoCalGas Grandfathered Plan was frozen).

Effective January 1, 2008, participants are 100% vested after three years of service. Although several forms of benefit payment are available, most participants elect a lump-sum distribution.



## **B. PBOP Plans**

### **1. Participant Demographics**

SoCalGas provides postretirement health and life insurance benefits, collectively referred to as the “SoCalGas PBOP” or the “SoCalGas PBOP Plan,” to approximately 7,900 active employees (4,400 represented and 3,500 non-represented) with an average age of 44.1 years and an average of 15.4 years of vesting service for represented and 13.4 years of credited service for non-represented. There are approximately 6,000 retirees and survivors. Retirees who are currently receiving benefits average 74.0 years of age.

SDG&E provides postretirement health and life insurance benefits, collectively referred to as the “SDG&E PBOP” or the “SDG&E PBOP Plan,” to approximately 4,700 active employees and 2,300 retirees and survivors. The average age of active employees is 45.1 years, with an average of 12.8 years of service. Retirees who are currently receiving benefits average 71.9 years of age.

Cost projections for the SoCalGas and SDG&E PBOP Plans, collectively referred to as the “PBOP Plans,” consider the future cost of providing benefits to active employees.

### **2. SDG&E Union Employees**

Represented SDG&E employees are eligible for the SDG&E PBOP Plan upon retirement after age 55 with at least five years of service. The SDG&E PBOP Plan has three benefit tiers, and the benefit programs associated with each tier vary as to type of benefit and benefit cost. Retiree contributions for medical coverage vary depending on the date of retirement, age, and years of service.

Retirees can elect medical coverage from a number of plans offered through Anthem Blue Cross, Kaiser, or UnitedHealthcare. SDG&E also provides mental health, substance abuse, dental, vision, and life insurance benefits. Eligible retirees pay a portion of dental premiums and can participate in a discount vision plan. Eligible retirees are also provided a retiree life insurance benefit that is solely paid by SDG&E.

Effective December 1, 2009, benefits include a health reimbursement account (HRA). Individual HRAs are established at the date of retirement and are available to reimburse retirees for qualified medical expenses during retirement. Opening account balances are based on the value of a percentage of unused sick leave and all unused vacation. HRAs receive monthly interest credits, on the unused balance, based on a 30-Year U.S. Treasury bond rate.

In 2016, SDG&E offered a Voluntary Retirement Enhancement Program (VREP) to certain eligible represented employees. For those employees who accepted the offer, an individual HRA was established at the date of retirement and is available to reimburse retirees for qualified medical expenses during retirement. These HRAs were credited with an opening account balance. No additional accruals or interest credits will be applied to these accounts.

### **3. SDG&E Non-Represented Employees**

SDG&E non-represented employees who retired prior to January 1, 2006, generally participate in the same benefits provided to represented employees retiring prior to that date. Effective January 1, 2006, eligibility requirements were changed to retirement after age 55 with ten years of service or age 62 with at least five years of service. SDG&E contributes a fixed contribution for medical and dental based on coverage level: retiree-only or retiree with one or more dependents. Mental health and substance abuse coverage is provided. A discount vision program is offered; however, the retiree pays all costs. Term retiree life insurance coverage of \$10,000 is provided by SDG&E. Non-represented employees are not eligible for the HRA benefit.

In 2013, 2016, and 2018, SDG&E offered a VREP to certain eligible non-represented employees. For those employees that accepted the offer, an individual HRA was established at the date of retirement and is available to reimburse retirees for qualified medical expenses during retirement. These HRAs were credited with an opening account balance. No additional accruals or interest credits will be applied to these accounts.

### **4. SoCalGas Union Employees**

Represented SoCalGas employees are eligible for PBOP upon retirement after age 55 with 15 years of service or after age 65 with five years of service. Eligible retirees can elect medical coverage from a number of plans offered through Anthem Blue Cross, Kaiser, or UnitedHealthcare. SoCalGas also provides mental health, substance abuse, dental, and life insurance benefits. Retiree life insurance coverage is equal to final base pay until the retiree reaches age 65. At age 65 and age 68, the coverage level drops to 50% and 25%, respectively, of final base pay. Access to a discount vision program is provided; however, the retiree pays all costs.

Retiree contributions for medical coverage vary depending on the date of retirement, age, and years of service. Retirees pay a portion of dental premiums; however, life insurance is solely paid by the Company.

Effective December 1, 2009, benefits include an HRA. Individual HRAs are established at the date of retirement and are available to reimburse retirees for qualified medical expenses during retirement. Opening account balances, which are determined at the date of retirement, are based on the value of a percentage of unused sick leave and all unused vacation. HRA receive monthly interest credits, on the unused balance, based on a 30-Year U.S. Treasury bond rate.

Effective March 1, 2012, represented SoCalGas employees who had 15 or more years of service as of July 1, 2012, were provided a one-time election to continue in the existing postretirement medical plan insurance premium cost-sharing structure or elect a defined dollar benefit (DDB) premium cost-sharing structure. Under the DDB cost-sharing structure, SoCalGas provides a fixed contribution toward the cost of medical coverage and the retired employee pays the difference. Relative cost depends on the selected health insurance plan and coverage level: retiree only or retiree with one or more dependents. Employees with less than 15 years of service as of July 1, 2012 will receive the DDB cost-sharing structure at retirement.

In 2017, SoCalGas offered a VREP to certain eligible represented employees. For those employees that accepted the offer, an individual HRA was established at the date of retirement and are available to reimburse retirees for qualified medical expenses during retirement. These HRAs were credited with an opening account balance. No additional accruals or interest credits will be applied to these accounts.

## **5. SoCalGas Non-Represented Employees**

SoCalGas non-represented employees who retired prior to January 1, 2006, generally participate in the same pre-2012 PBOP provided to represented employees. Effective January 1, 2006, eligibility requirements were changed to retirement after age 55 with ten years of service or age 62 with at least five years of service. SoCalGas contributes a DDB amount for medical and dental benefits based on coverage level: retiree-only or retiree with one or more dependents. Mental health and substance coverage is also included. Access to a discount vision program is provided; however, the retiree pays all costs. Term retiree life insurance coverage of \$25,000 is provided by SoCalGas. Non-represented employees are not eligible for the HRA benefit.

In 2013, 2016, and 2018, SoCalGas offered a VREP to certain eligible non-represented employees, and for those employees that accepted the offer, individual HRAs were established at the date of retirement and are available to reimburse retirees for qualified medical expenses during retirement. These HRAs were credited with an opening account balance. No additional accruals or interest credits will be applied to these accounts.

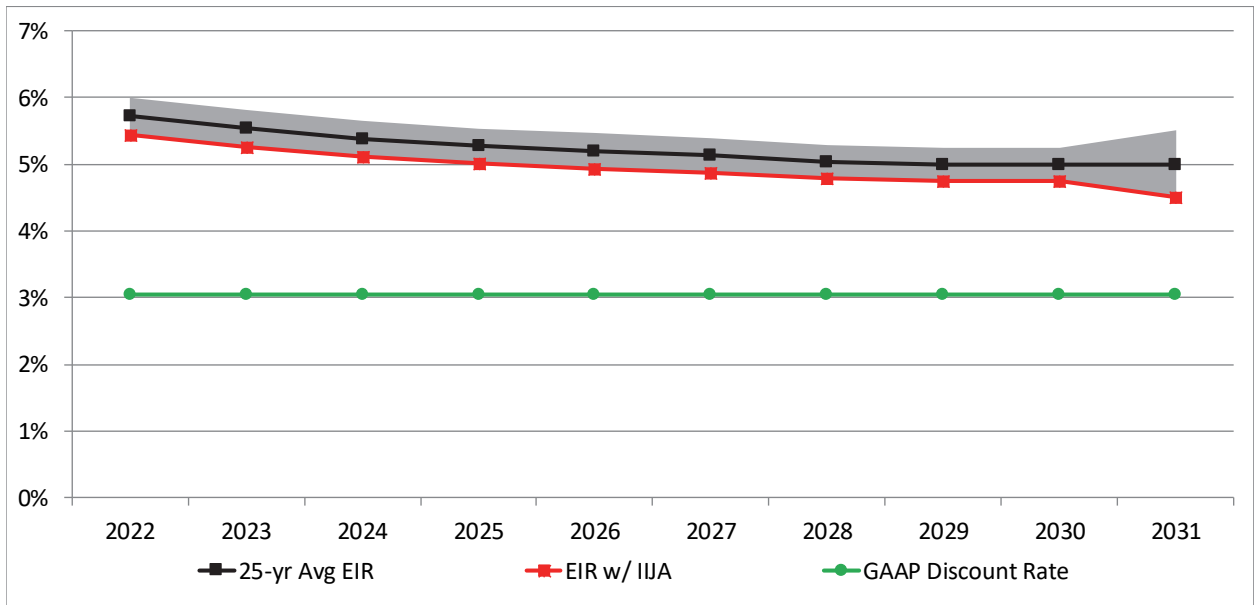
## **APPENDIX C**

### **ARPA, IIJA, and Cumulative Impact of Funding Relief**

**APPENDIX C – ARPA, IJJA, AND CUMULATIVE IMPACT OF FUNDING RELIEF**

Figure PA-18 below shows the anticipated effect of ARPA and IJJA on the effective interest rates (EIR) used to estimate minimum contributions. ARPA modified the 24-month average segment rates beginning in 2019, 2020, or 2021 (the plan sponsor has the option to select the effective year) and future plan years so that they will not fall outside a corridor and IJJA extends the relief by delaying the widening of the interest rate corridor (shown in gray below), which surrounds the 25-year average of such segment rates. The IJJA corridor now remains at 95% - 105% of the 25-year average until 2031 and starts expanding at 5% per year until it reaches 70% - 130% from 2035. In addition, the 25-year average cannot be less than 5% for any individual segment rate, which means that the EIR can never be less than 4.75% through 2031 (and never less than 3.5% forever).

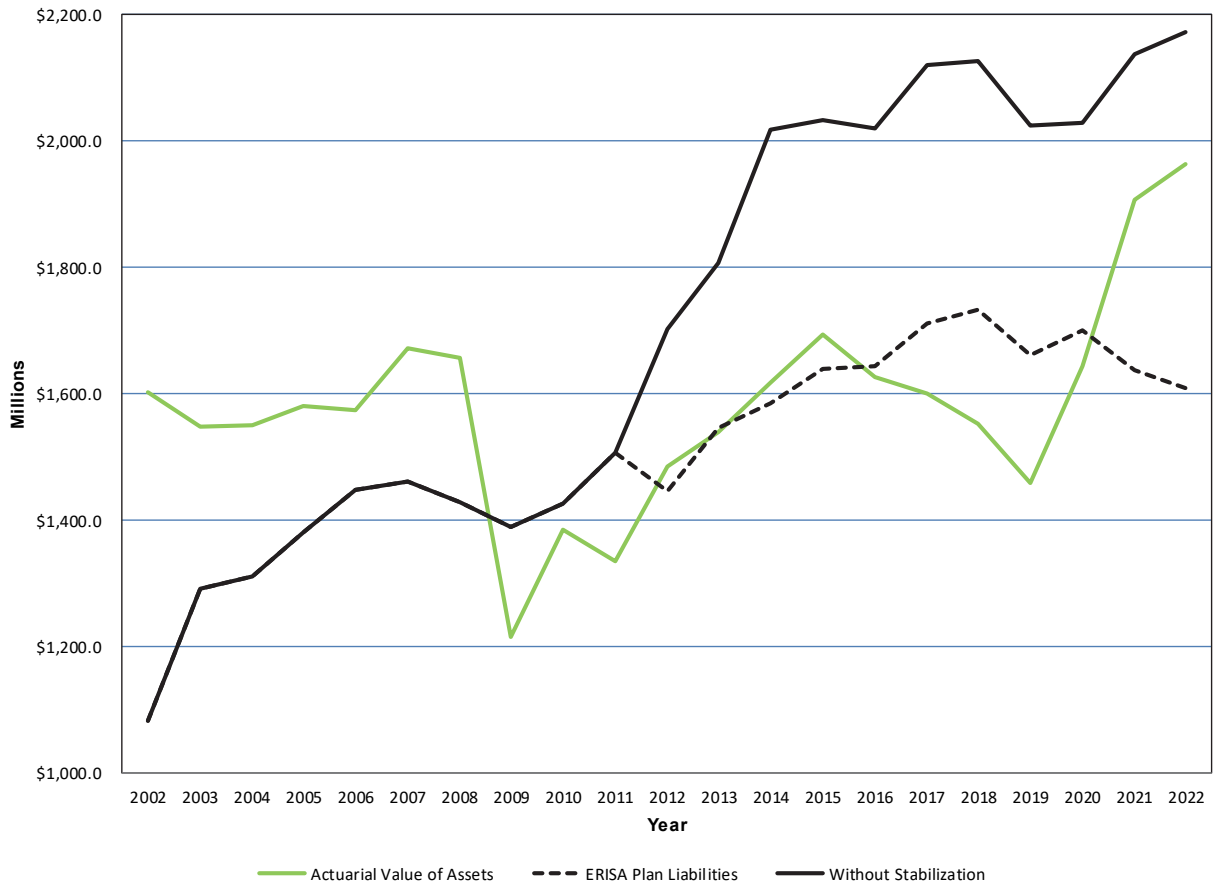
**Figure PA-18 – Effective Interest Rates**



While the legislative actions referenced above provide stabilization of employer contributions in the event of short-term deviations of interest rates from historical levels, the prolonged low interest rate environment resulted in a significant underfunding of the Pension Plans. Figures PA-19 and PA-20 below show that since interest rate stabilization came into effect in 2012, the liability determined under PPA that is used to calculate minimum required contributions is significantly understated when compared to the market liability (without stabilization). Figures PA-19 and PA-20 below also show that by only funding the minimum

required contribution, until the 2019 update, Pension Plan assets have grown significantly below the actual Pension Plan liabilities (as measured without stabilization), and only since the adoption of the current funding policy in 2019 have the Pension Plans resumed their progress towards addressing the pension deficits.

**Figure PA-19 – SoCalGas Pension Plan Assets vs. Liabilities: 2002 – 2022**



**Figure PA-20 – SDG&E Pension Plan Assets vs. Liabilities: 2002 – 2022**

