

Company: Southern California Gas Company (U 904 G)
Proceeding: 2024 General Rate Case
Application: A.22-05-015/-016 (cons.)
Exhibit: SCG-34-2R-E

SECOND REVISED
PREPARED DIRECT TESTIMONY OF
ALEXANDRA N. HORNBECK
(WORKING CASH)

ERRATA

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA



~~November 2022~~ May 2023

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APPENDIX A – GLOSSARY OF TERMS

[SoCalGas 2024 GRC Testimony Revision Log – November 2022](#)

SUMMARY

- Describes the methodology used by Southern California Gas Company (SoCalGas) to prepare its working cash request in compliance with California Public Utilities Commission (CPUC) Standard Practice (SP) U-16-W.
- Requests adoption of a Test Year (TY) 2024 working cash of \$167.~~5~~¹ million.

**ERRATA SECOND REVISED PREPARED DIRECT TESTIMONY OF
ALEXANDRA N. HORNBECK
(WORKING CASH)**

I. INTRODUCTION

A. Summary of Proposals

I sponsor the Test Year 2024 working cash requirement. My Direct Testimony describes the methodology used by SoCalGas to prepare its General Rate Case (GRC) request for working cash in compliance with the CPUC’s Standard Practice (SP) U-16-W, for determining working cash allowance, which is based on 2021 recorded costs and Test Year 2024 forecasts. Based on SP U-16-W guidance, SoCalGas requests a total 2024 working cash request of \$167.~~5~~⁴ million, as shown in Table AH-1 below.

**TABLE AH-1
Test Year 2024 Summary of SoCalGas Working Cash Requirement
(\$ in millions)**

Operational Cash Requirement	\$ 165.5	
Lead-Lag Working Cash Requirement	\$ 197.9	
Total Working Cash Requirement		\$ 363.3
Working Cash Provided by Non-Investors		\$ (195.8)
Net Working Cash Requirement		\$ 167.5

Note: Totals may not foot and may differ from Results of Operations model due to rounding.

Operational Cash Requirement	\$ 165.5	
Lead-Lag Working Cash Requirement	\$ 197.4	
Total Working Cash Requirement		\$ 362.9
Working Cash Provided by Non-Investors		\$ (195.8)
Net Working Cash Requirement		\$ 167.1

Note: Totals may not foot and may differ from Results of Operations model due to rounding.

B. Organization of Testimony

In Section II of my testimony, I describe the purpose of working cash¹ and the methodology used to determine the working cash allowance. Sections III and IV describe the

¹ See Commission Standard Practice (SP) U-16-W (March 2006), Chapter 1, Section A, Paragraph 4 (Working capital is defined as “an allowance for the amount of money which the utility has furnished from its own funds for the purpose of enabling it to satisfy ordinary requirements for minimum bank balances and to bridge the gap between the time expenses of rendering utility service are paid and the

1 steps that SoCalGas used to prepare its working cash study and provide summary reports.
2 Section V provides descriptions of the key accounts and activities that support SoCalGas’s TY
3 2024 request. Lastly, I put forth concluding remarks and my witness qualification in Sections VI
4 and VII.

5 **II. PURPOSE AND DETERMINATION OF WORKING CASH UNDER SP U-16-W**

6 Working cash is a component of rate base and is described as the funding supplied by
7 investors to meet day-to-day utility operational requirements and to cover the time that
8 expenditures are made for services until the time revenues are collected for those services.²
9 When practical, SP U-16-W calls for a detailed analysis of working cash referred to as the
10 “weighted average” or “lead-lag days” method.³

11 The working cash allowance is comprised of balance sheet and income statement items.
12 Balance sheet items quantify the daily cash requirements needed to run the business
13 economically and efficiently. These items include accounts funded with cash supplied by
14 investors, offset by items funded with cash supplied by others. The analysis of the balance sheet
15 accounts is supplemented by an analysis of the income statement items, which quantify the
16 timing between when revenues are collected and when expenses are paid.

17 For SoCalGas, the net outcome of the timing of these transactions results in its average
18 revenue lag (the time between when utility services are rendered and when revenue is received
19 for those services) being greater than its average expense lag (the time between when suppliers
20 render services to SoCalGas and when SoCalGas pays for those services). Consequently,
21 SoCalGas’s investors are required to fund the operating cash needed during the net lag days (net
22 of revenue and expense lags). The sum of the net operational cash requirement and the lead-lag
23 requirement results in the total working cash allowance.

time revenues from the same service are collected. This definition includes both materials and supplies and working cash in working capital.”)

² *See id.*

³ *See* SP U-16-W, Chapter 3, Section A, Paragraph 1 (“The detailed basis of determining working cash allowance is normally referred to as the ‘weighted average or lead-lag days’ method. Fundamentally, the same principles apply for the detailed basis as for the simplified basis. That is, first the operational requirement is determined and then amounts of monies available through tax accruals and other funds not supplied by the investor are deducted from the operational requirement.”)

1 Table AH-4, below, summarizes the working cash required for SoCalGas's recorded year
2 2021 and forecasted TY 2024.

3 **III. SOCALGAS'S WORKING CASH DETERMINATION**

4 **A. Working Cash Requirement for Balance Sheet Accounts**

5 Working cash requirements for the in-scope balance sheet accounts (*see* Table AH-4,
6 below) were quantified by calculating the weighted-average 2021 account balances using a mid-
7 month convention and then escalating to 2024 dollars. Specifically, SoCalGas identified those
8 account balances that 1) are necessary for the utility to operate economically and efficiently, and
9 2) do not bear interest or other carrying costs recovered elsewhere from customers. SoCalGas
10 then calculated the sum of the monthly ending balances from December 2020 through December
11 2021, less one-half of each December balance, divided by 12. SoCalGas's practice of averaging
12 month-end balances for determining the balance sheet related working cash allowance is
13 consistent with Chapter 3 of SP U-16-W. These balances were escalated to 2024 dollars using
14 the shared services escalation factor index, which reflects the weighted-average of labor and non-
15 labor Operations and Maintenance (O&M) indexes, as included in the Cost Escalation testimony
16 of SoCalGas witness Scott R. Wilder (Ex. SCG-36).

17 **B. Working Cash Requirements for Income Statement Accounts**

18 Working cash requirements for income statement accounts were determined by
19 performing a lead-lag study. The lead-lag study consists of two major components: revenue lag
20 and expense lag.

21 **1. Revenue Lag**

22 Revenue lag is the average number of days between the midpoint of all utility customers'
23 monthly service periods and receipt of payment by SoCalGas (*see* line 1 of Table AH-3, below).
24 Because SoCalGas customers pay for all categories of service with a single bill, the lead-lag
25 study uses a single value for revenue lag days.

26 **2. Expense Lag**

27 Expense lag is the number of days between the time the utility incurs its expenses and the
28 time it pays its suppliers (*see* columns a and b of Table AH-2, below). Because SoCalGas pays
29 separately for each expense category, each category has its own value for lead-lag days. The
30 expense lag analysis reflects 2021 recorded expenses and the associated average expense lag
31 days. To determine the number of expense lag days, SoCalGas analyzed 12 months of invoices

1 from 2021 for the types of expenses forecasted in the GRC (e.g., accounts payable records,
2 O&M expenses, payroll expense, taxes, and benefits).

3 The method described below applies to both non-commodity expenses and commodity
4 purchases. The weighted-average number of expense lag days for each category was derived by
5 the following process:

6 • For the total population of invoices for 2021, identified the lag days for
7 each expense category by comparing the service date (defined as either the date
8 service was provided or the midpoint of the service period) to the date cash
9 payment was made;

10 • For each category, multiplied the lag days by the associated dollar amount
11 of the payment. This resulted in “dollar-days;” and

12 • Summed the dollar-days for each category and divided the subtotal by the
13 total of the 2021 payment amounts.

14 The overall weighted-average number of expense lag days for all non-commodity
15 account categories was calculated, and applied to the total 2024 O&M costs forecasted in the
16 GRC, using the following steps:

17 • Multiplied total 2021 expenses for each category by total lag days,
18 generating dollar-days (see column c in Table AH-2, below);

19 • Summed dollar-days and total expenses for all categories (except
20 commodities); and

21 • Divided total dollar-days by total expenses to determine non-commodity
22 weighted-average lag days (see line 18 of Table AH-2, below).

23 Non-commodity weighted-average lag days were multiplied by total forecasted 2024
24 O&M costs, plus forecasted deferred taxes, franchise fees on commodities, pass-through taxes,
25 and program costs proposed to be recorded to regulatory accounts (balancing or memorandum
26 accounts), again generating dollar-days (see “All Other Expenses” on line 4 of Table AH-3,
27 below). For commodity purchases, specific, rather than weighted-average expense lag days were
28 applied to the forecasted dollars to generate dollar-days.

29 The total of Commodity and All Other Expenses dollar-days was divided by total
30 forecasted expenses to determine overall weighted-average expense lag days (see line 5 of Table
31 AH-3, below).

32 In the last step of the lead-lag study, the overall weighted-average expense lag days were
33 subtracted from revenue lag days to get net revenue lag days (see line 6 of Table AH-3, below),

1 representing the average number of days between payment of expenses and collection of
2 revenue. This value was then multiplied by total forecasted expenses and divided by 365 days to
3 determine the total working cash requirement associated with revenue and expenses (*see* line 7 of
4 Table AH-3, below).

5 **C. Derivation of the Total Working Cash Requirement**

6 The total working cash allowance was determined by adding the balance sheet related
7 working cash requirements to the lead-lag related (*i.e.* income statement related) working cash
8 requirements (*see* line 10 of Table AH-4, below).

9 **IV. SUMMARY REPORTS**

10 Table AH-2 summarizes 2021 expense lag days, commodity expenses, non-commodity
11 expenses, and associated dollar-days by expense category. SoCalGas's overall 2021 weighted-
12 average non-commodity expense lag days are 32.9 days. These values were developed to apply
13 against 2024 expense forecasts.

1
2

TABLE AH-2
2021 Expense Lag Days, Recorded Expenses, and Dollar-Days (\$000)

Line No.	Description	[a] Expense Lag Days	[b] Total Company Expenses	[c] Total Company Dollar-Days [a]*[b]
<u>Commodity Expense:</u>				
1	Purchased Gas Costs	42.00	\$ 1,529,423	\$ 64,235,761
<u>Non-Commodity Expense:</u>				
2	Payroll Expense	13.20	\$ 665,218	\$ 8,784,140
3	F.I.C.A.	12.46	\$ 49,698	619,320
4	Federal/State Unemployment Insurance	76.05	\$ 1,248	94,888
5	Incentive Compensation Plan	252.00	\$ 60,941	15,357,194
6	Employee Benefits	21.47	\$ 302,180	6,487,795
7	Goods & Services	34.95	\$ 836,046	29,219,754
8	Payments by Corporate Center	20.89	\$ 156,469	3,267,870
9	Real Estate Rental	(19.90)	\$ 24,383	(485,214)
10	Materials Issued from Stores	-	\$ 20,296	-
11	Property/Ad Valorem/Pass-Through Taxes	79.47	\$ 364,366	28,956,182
12	Federal Income Taxes--Current	96.86	\$ 165,278	16,008,859
13	CA Corporate Franchise Taxes	92.83	\$ 61,805	5,737,397
14	Depreciation Provision	-	702,956	-
15	Amortization of Insurance Premiums	-	61,650	-
16	Federal Income Taxes - Deferred	-	(4,261)	-
17	Total Non-Commodity Expenses		\$ 3,468,274	\$ 114,048,184
18	Weighted Average Non-Commodity Expense Lag Days		32.88	[17c/17b]

Note: Totals may not foot and may differ from Results of Operations model due to rounding.

3

Line No.	Description	[a] Expense Lag Days	[b] Total Company Expenses	[c] Total Company Dollar-Days [a]*[b]
<u>Commodity Expense:</u>				
1	Purchased Gas Costs	42.00	\$ 1,529,423	\$ 64,235,761
<u>Non-Commodity Expense:</u>				
2	Payroll Expense	13.20	\$ 665,218	\$ 8,784,140
3	F.I.C.A.	12.46	49,698	619,320
4	Federal/State Unemployment Insurance	76.05	1,248	94,888
5	Incentive Compensation Plan	252.00	60,941	15,357,194
6	Employee Benefits	21.47	302,180	6,487,795
7	Goods & Services	35.05	850,242	29,800,937
8	Payments by Corporate Center	20.91	156,469	3,271,534
9	Real Estate Rental	(19.90)	24,383	(485,214)
10	Materials Issued from Stores	-	20,296	-
11	Property/Ad Valorem/Pass-Through Taxes	79.47	364,366	28,956,182
12	Federal Income Taxes--Current	96.86	165,278	16,008,859
13	CA Corporate Franchise Taxes	92.83	61,805	5,737,397
14	Depreciation Provision	-	702,956	-
15	Amortization of Insurance Premiums	-	61,650	-
16	Federal Income Taxes - Deferred	-	(4,261)	-
17	Total Non-Commodity Expenses		\$ 3,482,470	\$ 114,633,031
18	Weighted Average Non-Commodity Expense Lag Days		32.92	[17c/17b]

Note: Totals may not foot and may differ from Results of Operations model due to rounding.

Table AH-3 summarizes 2021 revenue lag days; weighted-average expense lag days for energy commodity and non-commodity expense categories; 2024 forecasted commodity and non-commodity expenses; associated dollar-days; overall weighted-average expense lag days; net revenue lag days; and the resulting total 2024 lead-lag working cash requirement of \$197.94 million.

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2
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TABLE AH-3
Test Year 2024 Summary of Lead-Lag Study
(\$000)

Line No.	Description	[a] 2021 Expense Lag Days	[b] 2024 Expense Forecast	[c] 2024 Calculated Dollar-Days [a]*[b]
1	Revenue	<u>46.93</u>		
2	Expenses			
3	Commodity Purchases - Core Gas	42.00	\$ 1,316,738	\$ 55,302,976
4	All Other Expenses	<u>32.88</u>	<u>4,678,517</u>	<u>153,844,929</u>
5	Total Expenses - a: c/b; b&c: (3+4)	<u>34.89</u>	<u>\$ 5,995,254</u>	<u>\$ 209,147,905</u>
6	Net Revenue Lag Days [1a-5a]	<u>12.05</u>		
7	Total Lead-Lag Working Cash Requirement [5b*6a/365]		<u>\$ 197,851</u>	

4

Note: Totals may not foot and may differ from Results of Operations model due to rounding.

Line No.	Description	[a] 2021 Expense Lag Days	[b] 2024 Expense Forecast	[c] 2024 Calculated Dollar-Days [a]*[b]
1	Revenue	<u>46.93</u>		
2	Expenses			
3	Commodity Purchases - Core Gas	42.00	\$ 1,316,738	\$ 55,302,976
4	All Other Expenses	<u>32.92</u>	<u>4,678,517</u>	<u>154,003,492</u>
5	Total Expenses - a: c/b; b&c: (3+4)	<u>34.91</u>	<u>\$ 5,995,254</u>	<u>\$ 209,306,469</u>
6	Net Revenue Lag Days [1a-5a]	<u>12.02</u>		
7	Total Lead-Lag Working Cash Requirement [5b*6a/365]		<u>\$ 197,416</u>	

5

Note: Totals may not foot and may differ from Results of Operations model due to rounding.

1 Table AH-4 summarizes 2021 and forecasted 2024 balance sheet sources and uses of
 2 working cash, lead-lag working cash requirements, and total working cash requirements of
 3 \$167.54 million.

4 **TABLE AH-4**
 5 **Test Year 2024 Summary of Working Cash Requirements**
 6 **(\$000)**

Line No.	Description	2021 As-Recorded	2024 Requirement
<u>Balance Sheet Account Uses of Working Cash</u>			
1	Cash Balances	\$ -	\$ -
2	Other Receivables	89,346	95,832
3	Prepayments	30,516	32,732
4	Deferred Debits	34,415	36,914
5	Sub-total Balance Sheet Account Uses of Working Cash	154,277	165,478
<u>Balance Sheet Account Sources of Working Cash</u>			
6	Employee Withholdings	(1,347)	(1,445)
7	Current and Accrued Liabilities	(181,182)	(194,336)
8	Sub-total Balance Sheet Account Sources of Working Cash	(182,529)	(195,781)
9	Net Balance Sheet Account Working Cash Requirement [5+8] *	<u>\$ (28,253)</u>	<u>(30,303)</u>
<u>Lead/Lag Working Capital Requirement **</u>			197,851
10	Total Working Cash Requirement		<u>167,547</u>

Note: Totals may not foot and may differ from Results of Operations model due to rounding.
 * Proposed 2024 amount is derived by escalating the 2021 recorded value using the shared service index.
 ** Proposed 2024 working cash requirement is from the previous table (Table SCG-AH-3).

Line No.	Description	2021 As-Recorded	2024 Requirement
<u>Balance Sheet Account Uses of Working Cash</u>			
1	Cash Balances	\$ -	\$ -
2	Other Receivables	89,346	95,832
3	Prepayments	30,516	32,732
4	Deferred Debits	34,415	36,914
5	Sub-total Balance Sheet Account Uses of Working Cash	<u>154,277</u>	<u>165,478</u>
<u>Balance Sheet Account Sources of Working Cash</u>			
6	Employee Withholdings	(1,347)	(1,445)
7	Current and Accrued Liabilities	(181,182)	(194,336)
8	Sub-total Balance Sheet Account Sources of Working Cash	<u>(182,529)</u>	<u>(195,781)</u>
9	Net Balance Sheet Account Working Cash Requirement [5+8] *	<u>\$ (28,253)</u>	<u>(30,303)</u>
<u>Lead/Lag Working Capital Requirement **</u>			<u>197,416</u>
10	Total Working Cash Requirement		<u>167,112</u>
Note: Totals may not foot and may differ from Results of Operations model due to rounding.			
* Proposed 2024 amount is derived by escalating the 2021 recorded value using the shared service index.			
** Proposed 2024 working cash requirement is from the previous table (Table SCG-AH-3).			

1 **V. WORKING CASH DETAILS**

2 This section contains additional details about each account used in the development of
3 SoCalGas’s 2024 GRC working cash request.

4 **A. Balance Sheet Accounts**

5 These categories provide an overview of the main components of each operational
6 working cash requirement. For a full list of all the components, see my workpapers (Exhibit.
7 SCG-34-WP-2R-E, Schedule P and Schedule P Detail).

8 **1. Operational Cash Requirements**

9 These accounts represent cash supplied by investors and establish the operational
10 working cash requirement.

11 **a. Cash Balance** – This represents a reasonable bank balance for
12 SoCalGas to operate economically and efficiently. SoCalGas excluded cash balance from its
13 working cash study pursuant to Decision (D.) 19-09-051.⁴ (See line 1 of Table AH-4.)

14 **b. Other Receivables** – This category includes sundry billing,
15 Accounts Receivable (A/R) gas sales hub & swap, and other third party receivables (including
16 claims) and miscellaneous receivables, such as A/R from new business, customer unallocated
17 collections, miscellaneous sales, rentals and jobbing, and unallocated charges, as well as
18 receivables from other services. (See line 2 of Table AH-4.) Some additional information on
19 sundry billing and A/R gas sales hub & swap are as follows:

- 20 • SoCalGas’s sundry billing process addresses customer-requested
21 construction projects, governmental programs, and marketing services.
22 SoCalGas does not charge interest on the balances.
- 23 • A/R Gas Sales Hub & Swap contains pending receivables from Hub &
24 Swap transactions. SoCalGas does not charge interest on the balances.

25 **c. Prepayments** – This category includes accounts that SoCalGas
26 uses to make prepayments. These accounts include prepaid insurance and prepaid postage.
27 SoCalGas does not earn interest on the balances. (See line 3 of Table AH-4.)

28 **d. Deferred Debits** – These accounts include, for instance, survey
29 and investigation costs (costs incurred on potential capital projects before they are added to

⁴ See D.19-09-051 at 652-656.

1 construction work in progress and earn Allowance for Funds Used During Construction
2 (AFUDC)). (See line 4 of Table AH-4.)

3 **2. Working Capital Not Supplied by Investors**

4 The following accounts represent cash supplied by sources other than utility investors,
5 and thus reduce the working cash requirement.

6 **a. Employee Withholdings** – This category includes the employee-
7 paid portion of benefits costs and taxes. (See line 6 of Table AH-4.)

8 **b. Current and Accrued Liabilities** – These accounts include
9 workers’ compensation reserves, the invoice received clearing account, accrued vacation, and
10 CPUC fees, as further described below. (See line 7 of Table AH-4.)

- 11 • Workers’ compensation reserves represent estimated future costs payable
12 to employees for work-related injuries incurred. This amount was tax
13 effected at a rate of 27.98% to reflect the fact that the revenues collected
14 are taxed in the year received, and only a portion of this is available as
15 working cash.
- 16 • The invoice received clearing account includes accounts payable for
17 purchased materials that have been received and will be capitalized, but
18 for which the company has not yet received a corresponding invoice.
- 19 • Accrued vacation was included as a reduction in accordance with Chapter
20 3, Section C, Paragraph 25 of SP U-16-W.
- 21 • CPUC fees are the unpaid amounts owed to the CPUC.
- 22 • Customer Deposits are excluded as a working cash item because the utility
23 pays interest at the Federal Reserve published prime non-financial 3-
24 month commercial paper rate. This treatment is consistent with
25 SoCalGas’s previous GRC decision⁵ and with SP U-16-W whereby
26 interest-bearing accounts are excluded from working cash. SoCalGas is
27 applying the same methodology it has advocated in past GRC’s. SP U-16-
28 W states under the Customers’ Deposits heading that “[o]nly noninterest-

⁵ D.19-09-051 at 661.

1 bearing customer deposits are to be considered.”⁶ Furthermore, the
2 Customer Deposit balance can fluctuate depending upon the economy and
3 building demand, and these balances do not have the same characteristics
4 as permanent sources of financing.

- 5 • Customer Advances for Construction (CAC) are excluded because these
6 amounts are already deducted from rate base; consequently, they are
7 appropriately excluded from working cash.
- 8 • Public liability and property damage (PLPD) reserves are excluded as a
9 working cash item because SoCalGas is not requesting recovery of PLPD
10 reserves in the GRC.

11 **B. Income Statement Accounts (Lead-Lag Working Cash Requirement)**

12 The Income Statement accounts, as described below, consist of the following primary
13 components that make up the lead-lag working cash requirement: (1) revenue lag, (2) expense
14 lag, and (3) Test Year 2024 forecast expense. For a full list of all the components and how they
15 are calculated, see my workpapers at Exhibit SCG-34-WP-2R-E, Schedules C through O-3 and
16 Schedule Q.

17 **1. Revenue Lag Categories**

18 This is found on line 1 of Table AH-3 above, and Schedule C of the workpapers. The
19 year 2021 actual of 46.9 lag days is comprised of the following:

20 **a. Meter reading lag** (15.2 days) is calculated from the midpoint of
21 each month’s consumption to when the meter is read. Meters are read 12 times a year, resulting
22 in an average time between the meter reading periods of 30.4 days (365/12). This study assumes
23 that service is rendered evenly before and after the meter is read, which results in an average lag
24 of 15.2 days.

25 **b. Billing lag** (2.1 days) reflects the time from the date the meter is
26 read until the time the bill is prepared and mailed to the customer. SoCalGas performed a
27 detailed query of all meters read in 2021, which resulted in 2.1 lag days.

28 **c. Collection lag** (28.8 days) is based on the accounts receivable
29 turnover for 2021, which is calculated by dividing annual revenues by the adjusted average

⁶ SP U-16-W at Chapter 3, Section C, Paragraph 22.

1 monthly accounts receivable balance. Revenue collection lag is equal to 365 days divided by the
2 average annual accounts receivable turnover.

3 **d. Bank lag** (0.8 days) describes the number of days between the in-
4 flow of funds and when those funds are made available.

5 **2. Expense Lag Categories**

6 This is found on lines 2 to 5 of Table AH-3 above, and Schedule D through Schedule O-3
7 of the workpapers. The year 2021 actual of 34.9 lag days is comprised of the following:

8 **a. Purchased Commodities, Gas⁷** – The ratemaking mechanisms
9 associated with these costs presume collection of revenues as supply is consumed and payment
10 of expenses when supply is delivered. The 2021 purchased gas costs include the net payments
11 made each month for transportation payments, California payments, interstate payments, and
12 secondary market services.⁸ Lag days reflect the weighted-average of all net gas commodity
13 payments. Each category has the total invoice amounts and its corresponding dollar weighted
14 days. These dollar-days were calculated by multiplying the invoice amount by the number of lag
15 days. The total dollar-days for all the categories were divided by the total invoice amounts to
16 determine the number of lag days for this category. *See* line 1 of Table AH-2 for summarized
17 information, or my workpaper for more detail. (Ex. SCG-34-WP-2R-E, Schedule D.)

18 **b. Payroll Expense** – This category includes O&M and the O&M
19 portion of clearing and balanced labor costs. Payroll expenses are incurred every other Friday
20 and have 12.5 lag days. Withholding taxes are paid the day before payday to the outsourcing
21 company that makes all tax payments on behalf of SoCalGas, and therefore the resulting net lag
22 is 13.2 lag days. *See* line 2 of Table AH-2, or my workpaper for more detail. (Ex. SCG-34-WP-
23 2R-E, Schedule E.)

24 **c. Federal Insurance Contributions Act Tax (FICA)** – As with the
25 tax portion of payroll expenses above, FICA (which includes Old-Age, Survivor's, and

⁷ As approved by the Commission in D.16-06-054 and D.19-09-051, SoCalGas will unbundle the commodity-related working cash from distribution to sales for rate recovery purposes.

⁸ Transportation payments include capacity and transportation costs from several pipelines to transport gas to SoCalGas's system. California payments include payments to California producers that supply gas from oil productions. Interstate payments include proceeds and expenditures from out-of-state gas suppliers for SoCalGas and SDG&E core customers. For Secondary Market Services, see <https://www.socalgas.com/for-your-business/energy-market-services/secondary-market-services>.

1 Disability Insurance [OASDI] and Medicare) expenses are paid the day before payday to
2 SoCalGas’s payroll outsourcing company. *See* line 3 of Table AH-2, or my workpaper for more
3 detail. (Ex. SCG-34-WP-[2R-E](#), Schedule F.)

4 **d. Federal Unemployment Tax Act (FUTA) and State**
5 **Unemployment Insurance (SUI)** – These costs are paid electronically to SoCalGas’s payroll
6 outsourcing company one month after each quarter end. This study reflects both FUTA and SUI,
7 net of capital. *See* line 4 of Table AH-2, or my workpaper for more detail. (Ex. SCG-34-WP-
8 [2R-E](#), Schedule F.)

9 **e. Incentive Compensation Plan (ICP)** – This compensation is
10 earned and reflected as an expense in the recorded year (2021) but paid out in the following year,
11 2022. Please refer to the Compensation and Benefits testimony of SoCalGas and SDG&E
12 witness Debbie Robinson (Exhibit SCG-25/SDG&E-29) for a description of ICP and benefits.
13 *See* line 5 of Table AH-2, or my workpaper for more detail. (Ex. SCG-34-WP-[2R-E](#), Schedule
14 G.)

15 **f. Employee Benefits** – This category includes health, welfare,
16 retirement, and other benefits offered to employees. *See* line 6 of Table AH-2, or my workpaper
17 for more detail. (Ex. SCG-34-WP-[2R-E](#), Schedule H.)

18 **g. Goods and Services** – Goods and Services expenses include
19 expenses that have not been identified separately on the lead-lag study, such as inventory, small
20 price difference, and goods received/invoice received. Further, using the methodology proposed
21 by the CPUC’s Public Advocates Office (Cal Advocates) and The Utility Reform Network
22 (TURN), and agreed to by SoCalGas in its 2019 TY GRC, SoCalGas incorporated a check
23 clearing lag of 3.3 days to the Goods and Services lag.⁹ *See* line 7 of Table AH-2, or my
24 workpaper for more detail. (Ex. SCG-34-WP-[2R-E](#), Schedule I.)

25 **h. Payments by Corporate Center** – As described in the Corporate
26 Center – General Administration testimony of Derick Cooper (Exhibit SCG-23/SDG&E-27),
27 SoCalGas pays for its share of expenses incurred by Corporate Center on behalf of the utility.
28 The lead-lag days from corresponding expense categories in this lead-lag study are applied to

⁹ A.17-10-008, Ex. SCG-238 at KCC 14-15.

1 Corporate Center payments to calculate overall lag days. *See* line 8 of Table AH-2, or my
2 workpaper for more detail. (Ex. SCG-34-WP-2R-E, Schedule J.)

3 **i. Real Estate Lease Payments** – Leases are paid in advance. The
4 overall expense lag is negative because payments are made prior to the midpoint of the
5 occupancy period. *See* line 9 of Table AH-2, or my workpapers for more detail. (Ex. SCG-34-
6 WP-2R-E, Schedules K-1, K-2 and K-3.)

7 **j. Materials Issued from Stores** – This category includes materials
8 issued for O&M, such as tools, pipes and other materials. *See* line 10 of Table AH-2, or my
9 workpaper for more detail. (Ex. SCG-34-WP-2R-E, Schedule L.)

10 **k. Property/Ad Valorem/Pass-through Taxes** – This category
11 includes property/ad valorem taxes, franchise fees, and pass-through taxes collected on behalf of
12 government agencies.¹⁰ Most of these payments are made electronically.

13 Although pass-through taxes do not flow through the income statement, they are a source
14 of working cash and are appropriately included in the lead-lag study pursuant to SP U-16-W.¹¹
15 The taxes are collected from ratepayers, and payments are made later to taxing authorities. *See*
16 line 11 of Table AH-2, or my workpapers for more detail. (Ex. SCG-34-WP-2R-E, Schedules
17 Ma and Mb.)

18 **l. Federal Income Taxes, Current** – Tax expense lags are based on
19 statutory due dates: April 15 of each year for the first quarter, June 15 for the second quarter,
20 September 15 for the third quarter, and December 15 for the fourth quarter. The tax lag days of
21 each payment are calculated between the midpoint of the year and the wire payment date. *See*
22 line 12 of Table AH-2, or my workpaper for more detail. (Ex. SCG-34-WP-2R-E, Schedule N-
23 1.)

24 **m. California Corporate Franchise Taxes, Current** – Tax expense
25 lags are based on statutory due dates of April 15, June 15, and December 15. The method of
26 calculating the lag days is the same as federal income taxes, although the dollar weighting is
27 different. *See* line 13 of Table AH-2, or my workpaper for more detail. (Ex. SCG-34-WP-2R-E,
28 Schedule N-2.)

¹⁰ A description of taxes is provided in the testimony of SoCalGas witness Ragan Reeves (Exhibit SCG-33).

¹¹ SP U-16-W at Chapter 3, Section C, Paragraph 27.

1 **n. Depreciation** – When a capital investment is made, the expense of
2 the investment is allocated systematically and periodically over the life of the investment through
3 depreciation expense. Capital investments are included as rate base and therefore should not be
4 included as part of working cash. Depreciating an asset over its useful life allows the timing of
5 the expense recognition to closely match that of the use of the asset.¹² Therefore, the lag
6 associated with depreciation expense should be set to zero as it is assumed that depreciation
7 expense occurs when the use of the asset occurs. CPUC SP U-16-W endorses this treatment.¹³

8 Revenue lag exists between the time the depreciation is recognized and the time
9 customers’ revenue is received for that depreciation. This lag is captured as part of the revenue
10 lag forecast. *See* line 14 of Table AH-2, or my workpaper for more detail. (Ex. SCG-34-WP-
11 2R-E, Schedule O-2.)

12 **o. Amortization of Insurance Premiums** – Amortization is
13 weighted at zero days recognizing that investor funding has occurred but has not yet been
14 recovered. *See* line 15 of Table AH-2, or my workpaper for more detail. (Ex. SCG-34-WP-2R-
15 E, Schedule O-3.)

16 **p. Federal/State Income Taxes, Deferred** – This amount reflects the
17 change of deferred federal and state taxes in 2021. Accumulated deferred income taxes (ADIT)
18 are deducted from rate base as cost-free funds available for investment. However, the financial
19 recording of deferred income taxes does not produce cost-free capital and the funds do not
20 become available until customers pay their bills. Therefore, the recorded amount of ADIT
21 overstates the actual amount of cost-free funds that are available. The inclusion of deferred
22 income taxes at zero lag days in the overall expense lag weighted-average corrects this condition
23 by increasing net revenue lag, in the same manner as depreciation, described above.¹⁴ *See* line
24 16 of Table AH-2, or my workpaper for more detail. (Ex. SCG-34-WP-2R-E, Schedule O-1.)

¹² A description of depreciation is provided in the testimony of SoCalGas witness Dane Watson (Exhibit SCG-32).

¹³ *See* SP U-16-W at Chapter 3, Section F, Paragraph 40 (“Since book depreciation expense is occurring uniformly day by day and accumulated depreciation is deducted from the rate base, the practice is to include depreciation provisions at zero lag days.”)

¹⁴ *See* SP U-16-W at Chapter 3, Section F, Paragraph 45.

1 **3. TY 2024 Forecasted Expense Components**

2 Forecasted expenditures for commodity costs, O&M non-commodity costs, franchise fees
3 on commodity costs, pass-through taxes, and balancing account costs are utilized in the working
4 cash computation. See line 5 of Table AH-3, or my workpaper for more detail. (Ex. SCG-34-
5 WP-2R-E Schedule B-1.)

6 **a. TY Forecasted Commodity Costs** – For commodity costs, 2021
7 actual weighted-average number of lag days is applied to forecasted 2024 costs. Forecasted gas
8 costs are computed by multiplying the forecasted 2024 monthly demand by the monthly
9 weighted-average cost of gas (WACOG). The monthly WACOG reflects purchase and interstate
10 transportation costs. See line 3, column b of Table AH-3.

11 **b. Other TY Non-Commodity Costs** – The 2021 overall weighted-
12 average number of lag days for expenses excluding commodities is applied to projected test year
13 O&M expenses. This category includes non-commodity O&M expenses, deferred income taxes,
14 franchise fees on commodity, pass-through taxes, and balanced program costs. See line 4,
15 column b of Table AH-3.

16 **VI. CONCLUSION**

17 The foregoing testimony describes the methodology used by SoCalGas to arrive at a total
18 TY 2024 working cash request requirement of \$167.51 million. SoCalGas’s methodology of
19 determining the net operational cash needs and the lead-lag working cash requirements is
20 reasonable as it is based on the guidance outlined in SP U-16-W, is supported by a
21 comprehensive analysis of recorded information, and is consistent with the approach used by
22 SoCalGas and approved by the CPUC in past GRCs.

23 For all of the reasons stated above, SoCalGas’s total 2024 working cash requirement of
24 \$167.51 million is reasonable and appropriate.

25 This concludes my prepared direct testimony.

1 **VII. WITNESS QUALIFICATIONS**

2 My name is Alexandra N. Hornbeck, and my business address is 555 West 5th Street, Los
3 Angeles, CA 90013-1011. I am the Treasury and Finance Manager for SoCalGas.

4 I have been employed by SoCalGas since February 2013. I have been in the Treasury
5 department since December 2018 and am responsible for overseeing the forecasting and tracking
6 of the company's cash flows, credit metrics, debt issuances and other finance, investor, and
7 regulatory activities in support of Accounting and Finance. Prior to my current position, I was in
8 the Financial and Strategic Analysis department where I was responsible for overseeing the
9 financial analysis and development of revenue requirements in support of new investment
10 opportunities. My past experience also includes roles in Sempra Energy's Audit Services
11 Department and SoCalGas's Financial Planning Department.

12 I received a Bachelor of Science degree in Business Administration with an emphasis in
13 Finance from California State University, Dominguez Hills.

14 I have not previously testified before the Commission.

APPENDIX A - GLOSSARY OF TERMS

ACRONYMS USED IN THIS TESTIMONY

ADIT:	Accumulated Deferred Income Taxes
AFUDC:	Allowance for Funds Used During Construction
A/R:	Accounts Receivable
CA:	California
CAC:	Customer Advances for Construction
Cal Advocates	The Public Advocates Office
CPUC:	California Public Utilities Commission
D.	Decision
Ex.:	Exhibit
FICA:	Federal Insurance Contributions Act
FUTA:	Federal Unemployment Tax Act
GRC:	General Rate Case
ICP:	Incentive Compensation Plan
OASDI:	Old Age, Survivors, and Disability Insurance
O&M:	Operations and Maintenance
PLPD:	Public Liability and Property Damage
SDG&E:	San Diego Gas & Electric Company
SCG / SoCalGas:	Southern California Gas Company
SP:	Standard Practice
SUI:	State Unemployment Insurance
TURN:	The Utility Reform Network
TY:	Test Year
WACOG:	Weighted Average Cost of Gas
WP:	Workpaper

