

**DRA DATA REQUEST
DRA-SCG-114-MRK
SOCALGAS 2012 GRC – A.10-12-006
SOCALGAS RESPONSE
DATE RECEIVED: JUNE 28, 2011
DATE RESPONDED: JULY 20, 2011**

Exhibit Reference: SCG-27

Subject: Depreciation

Please provide the following:

1. In response to DRA SCG-91-MRK, SCG provided page 190 from NARUC Public Utility Depreciation Practices which gave more details on the formula for prospective theoretical reserve

$$TR = (100\% - FNS) - [(100\% - NS)/ASL] \times ARL.$$

SCG argued in its response to Question 6 of the MDR that the prospective theoretical reserve (TR) was equal to the book reserve (BR), under the assumption that future net salvage (FNS) is equal to average net salvage (NS). (See the last equation TR=BR in response to Question 6 of the MDR.) SCG's response to DRA SCG-91-MRK did not clarify whether it still maintained the validity of the equation TR=BR under this condition. SCG stated that the substitution of the "Whole Life" formula with the "Remaining Life" in the formula for TR was not proper to do. However, that substitution led to SCG's last equation that TR=BR. Therefore does SCG no longer claim that TR=BR under the condition that future net salvage is equal to average net salvage, as it did in its response to MDR question 6? Does SCG claim that TR=BR under any condition?

SoCalGas Response 01:

SoCalGas objects to the question as it mischaracterizes SoCalGas' response to DRA-SCG-091-MRK, Question 2, which states: "The substitution was not done because it is proper or not proper to do so." Without waiving its objection, SoCalGas provides the following response:

The prospective approach is calculated by subtracting the remaining depreciation (plant balance times remaining life times depreciation rate) from the total depreciation (plant balance less net salvage). Inherent in this formula is the assumption that whole life depreciation rates are utilized. The calculation is not meaningful when remaining life rates are utilized, because remaining life rates amortize over the remaining life any differences between book reserves and theoretical reserves based on whole life rates. Therefore, with remaining life rates there are no reserve differences.

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2. Can SCG provide or point DRA to any spreadsheets where it used a formula for TR similar to the one above to calculate TR (with or without the assumption that FNS=NS) for FERC accounts for any historical year in the period 2005 to 2010?

SoCalGas Response 02:

As shown in multiple data request responses and as identified in testimony, SoCalGas complies with U-4 Standard Practice guidance by using remaining life methodology in all their 2012 GRC FERC account calculations as well as historical periods 2005 to 2010. Inherent in the Remaining Life methodology and calculation is the application of the future net salvage (FNS) for those plant assets still remaining on the books. While future net salvage (FNS) is generated against the existing/remaining plant balance, recorded net salvage relates to assets retired from the plant books.

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3. Can SCG provide or point DRA to any spreadsheets where it used a formula for TR similar to the one above to calculate TR (with or without the assumption that FNS=NS) for FERC accounts for any future year in the period 2011 to 2012?

SoCalGas Response 03:

As shown in multiple data request responses and as identified in testimony, SoCalGas complies with U-4 Standard Practice guidance by using remaining life methodology in all their 2012 GRC FERC account calculations (including 2011 to 2012).

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4. Can SCG provide any FERC account data to justify its assertion that TR is equal or is close to being equal to BR?

SoCalGas Response 04:

See responses to Questions 1 through 3 above.

As shown in multiple data request responses and as identified in testimony, SoCalGas complies with U-4 Standard Practice guidance by using the remaining life methodology in all their GRC calculations for FERC account data. Again, as stated within both the U-4 Standard Practice and NARUC, the remaining life methodology results in a smoothing of the reserve ensuring that no imbalance occurs.

Standard Practice U-4-W, dated January 3rd, 1961, Chapter 2, page 5 section 9 states “Thus the reappraisals indicate that unless the original estimate of total life proves entirely accurate the total life concept fails to accomplish the solution of the basic problem of charging the cost of fixed capital (less estimated net salvage) to expense over its useful life, and deficits or excesses can arise by reason of changes in service life characteristics or changes in causes of retirement.” Then section 10 of the same publication states “The remaining life straight-line depreciation method is designed to ratably recover the cost of plant, less net salvage and less depreciation reserve, over the remaining life of plant.”

The “Public Utility Depreciation Practices” authored by NARUC, August 1996, in the Whole Life section on page 63 states “Whole life depreciation results in the allocation of a gross plant base over the total life of the investment. However, to the extent that the estimated average service life assigned turns out to be incorrect, (and precision in these estimates cannot reasonably be expected), the Whole Life technique will result in a depreciation reserve imbalance.” NARUC goes on to say on page 65 of the same publication that “The desirability of using the remaining life technique is that any necessary adjustments of depreciation reserves, because of changes to the estimates of life on net salvage, are accrued automatically over the remaining life of the property.”

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5. Can SCG provide or point DRA to any spreadsheets that demonstrates how SCG calculates average net salvage (NS) for FERC accounts for any historical year in the period 2005 to 2010?

SoCalGas Response 05:

Actual recorded net salvage (equal to gross salvage less cost of removal as a percentage of retired plant cost) for the past 15 years (1995 through 2009) was analyzed in determining the proposed future net salvage (FNS) for each appropriate FERC Account. Please see testimony pages SCG-BW-6 and BW-7 and work papers SCG-WP-328 through SCG-BW-371.

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6. In its response to Question 6 of the MDR, SCG states that “Using the typical assumption that future net salvage equals average net salvage the formula (for TR) becomes:

$$TR = (100\% - NS) - [(100\% - NS)/ASL] \times ARL. ”$$

Can SCG provide any FERC account data to justify its assertion that FNS is equal or close to being equal to NS, or in any other way to justify this “typical” assumption?

SoCalGas Response 06:

Actual recorded net salvage (equal to gross salvage less cost of removal as a percentage of retired plant cost) for the past 15 years (1995 through 2009) was analyzed in determining the proposed future net salvage (FNS) for each appropriate FERC Account.

Inherent in the Remaining Life methodology and calculation is the application of the future net salvage (FNS) for those plant assets still remaining on the books. While future net salvage (FNS) is generated against the existing/remaining plant balance, recorded net salvage relates to assets retired from the plant books.

The SoCalGas work papers BW-WP-328 through BW-WP-371 show the net salvage rate study results used to determine future net salvage (FNS) rates proposed for the Test Year 2012. Adhering to the U-4 format, SoCalGas has based the studies on the most recent fifteen years of historical retirements, cost of removal and gross salvage data.