DRA DATA REQUEST
FEA-SCG-DR-002
SOCALGAS 2012 COST OF CAPITAL – A.12-04-017
SOCALGAS RESPONSE
DATE RECEIVED: JUNE 5, 2012
DATE RESPONDED: JUNE 19, 2012

FEA-SoCalGas-02-01 Please provide the per books capital structure of Sempra Energy and Southern California Gas at December 31, 2010, and March 31, June 30, September 30, December 31, 2011 and March 31, 2012. For the purposes of this data request, please provide the information as follows:

a) Long-term Debt (including that maturing within one year);
b) Short-term Debt;
c) Other Debt (specify);
d) Preferred or Preference Stock;
e) Common Stock;
f) Additional Paid-in Capital;
g) Retained Earnings; and
h) Total Common Equity (please identify any common equity attributable to unregulated operations, if any).

Also, please also provide quarterly balance sheet support published with the Securities and Exchange Commission for each of the above-requested capital structures. If any of the balances reported in this data response are different from those published by the S.E.C., please explain why.

SoCalGas Response:

SoCalGas objects to this question as Sempra Energy is not party to this proceeding, the information requested is not relevant to the utility's cost of capital proposal, and is outside the scope of this proceeding.

Regarding SoCalGas, the information requested above for SoCalGas is available at the Securities and Exchange Commission's (SEC's) website, EDGAR, by following this hyperlink:

http://www.sec.gov/cgi-bin/browse-edgar?company=southern+california+gas&CIK=&filenum=&State=&SIC=&owner=exclude&action=getcompany

DRA DATA REQUEST
FEA-SCG-DR-002
SOCALGAS 2012 COST OF CAPITAL – A.12-04-017
SOCALGAS RESPONSE
DATE RECEIVED: JUNE 5, 2012
DATE RESPONDED: JUNE 19, 2012

FEA-SoCalGas-02-02 For the same time periods referenced in the preceding interrogatory, please provide the following information for Southern California Gas:

a) Embedded cost rates for long-term debt, short-term debt, other debt and preferred or preference stock;
b) Computation of embedded cost rates of long-term debt;
c) Computation of embedded cost rates of short-term debt; and
d) Computation of embedded cost rates of preferred or preference stock.

Note: Schedules should include date of issue, maturity date, dollar amount, coupon rate, net proceeds, annual interest paid and balance of principal, where applicable.

SoCalGas Response:

In response to FEA DR-01, SoCalGas submitted public versions of its workpapers in both PDF and Excel format via CD on May 29, 2012. FEA has since signed and returned the nondisclosure agreement in this proceeding and therefore SoCalGas will provide the confidential workpapers in both PDF and Excel format via CD in a supplemental response to FEA DR-01.

Please refer to workpaper pages 1-2 for the calculation of the 2011-2013 embedded long-term cost of debt and preferred. The pertinent assumptions for these calculations are outlined in the workpapers.

The 2010 embedded cost rate computation for long-term debt and preferred stock is presented in the attached file. The workpapers and the attached file are responsive to this request.

EMBDec10SCGactual.XLS

Response sponsor: Michael Foster

DRA DATA REQUEST
FEA-SCG-DR-002
SOCALGAS 2012 COST OF CAPITAL – A.12-04-017
SOCALGAS RESPONSE
DATE RECEIVED: JUNE 5, 2012
DATE RESPONDED: JUNE 19, 2012

FEA-SoCalGas-02-03 Please provide the per books capital structure of Sempra Energy and Southern California Gas at December 31, 2007, 2008, and2009. For the purposes of this data request, please provide the information as follows:

a) Long-term Debt (including that maturing within one year);
b) Short-term Debt;
c) Other Debt (specify);
d) or Preference Stock;
e) Common Stock;
f) Additional Paid-in Capital;
g) Retained Earnings; and
h) Total Common Equity (please identify any common equity attributable to unregulated operations, if any).

Also, please also provide annual balance sheet support published with the Securities and Exchange Commission for each of the above-requested capital structures. If any of the balances reported in this data response are different from those published by the S.E.C., please explain why.

SoCalGas Response:

See response to question 1.

DRA DATA REQUEST
FEA-SCG-DR-002
SOCALGAS 2012 COST OF CAPITAL – A.12-04-017
SOCALGAS RESPONSE
DATE RECEIVED: JUNE 5, 2012
DATE RESPONDED: JUNE 19, 2012

FEA-SoCalGas-02-04 Please provide a consolidating (not consolidated) balance sheet for Sempra Energy at December 31, 2011, or the most recent date available.

SoCalGas Response:

SoCalGas objects to this question as Sempra Energy is not party to this proceeding, the information requested is not relevant to the utility's cost of capital proposal, and is outside the scope of this proceeding.

DRA DATA REQUEST
FEA-SCG-DR-002
SOCALGAS 2012 COST OF CAPITAL – A.12-04-017
SOCALGAS RESPONSE
DATE RECEIVED: JUNE 5, 2012
DATE RESPONDED: JUNE 19, 2012

FEA-SoCalGas-02-05 Please provide a copy of the most recent bond rating agency (Standard & Poor's, Moody's, Fitch) report on Sempra Energy and Southern California Gas. [Note: The report provided should be most recent in-depth report, not a one or two-page update.]

SoCalGas Response:

SoCalGas objects to this question as Sempra Energy is not party to this proceeding, the information requested is not relevant to the utility's cost of capital proposal, and is outside the scope of this proceeding.

With respect to SoCalGas, credit rating agency reports are copyrighted materials available to paid subscribers and copies therefore cannot be provided to third parties, except in some instances by permission. Upon request, SoCalGas will make available copies of its credit reports from the major credit rating agencies published since January 1, 2010 for *in camera* viewing at SoCalGas' offices.

DRA DATA REQUEST
FEA-SCG-DR-002
SOCALGAS 2012 COST OF CAPITAL – A.12-04-017
SOCALGAS RESPONSE
DATE RECEIVED: JUNE 5, 2012
DATE RESPONDED: JUNE 19, 2012

FEA-SoCalGas-02-06 Please provide a complete transcription of the most recent analysts' earnings presentation made by Sempra Energy.

SoCalGas Response:

SoCalGas objects to this question as Sempra Energy is not party to this proceeding, Sempra Energy information is not relevant to the utility's cost of capital proposal, and is outside the scope of this proceeding. Without waiving this objection, which applies to portions of the transcript that do not pertain to the utility's earnings, attached is Sempra Energy's last quarterly earnings call covering SoCalGas, which took place on May 3, 2012. The transcript is provided below.

Q1-12 Transcript.pdf

DRA DATA REQUEST
FEA-SCG-DR-002
SOCALGAS 2012 COST OF CAPITAL – A.12-04-017
SOCALGAS RESPONSE
DATE RECEIVED: JUNE 5, 2012
DATE RESPONDED: JUNE 19, 2012

FEA-SoCalGas-02-07 Please provide the following:

a) The monthly short-term debt balances for Southern California Gas for each month from January 2010 through the most recent month available. Please explain how the monthly short-term debt balance is calculated (e.g., month-ending balance, average daily balance), and provide a sample calculation.
b) For each month, the monthly cost-rate of short-term debt for Southern California Gas, and a sample calculation showing how that monthly cost rate is derived.
c) A narrative description of Southern California Gas's short-term debt financing arrangements, as well as inter-company borrowing arrangements between Sempra Energy, its divisions and subsidiaries.

SoCalGas Response:

a) SoCalGas' short-term debt is not part of the currently authorized or the proposed capital structure and is not appropriate to use as a long-term financing source, and is therefore not relevant to determine SoCalGas cost of capital. Notwithstanding, SoCalGas has not used any short term debt during the time period in question.

b) See response to a.

c) SoCalGas objects on the basis that the information requested is not relevant for the reasons set forth in a. and seeks information that is highly sensitive materials, confidential, and proprietary.

Response sponsor: Michael Foster

DRA DATA REQUEST
FEA-SCG-DR-002
SOCALGAS 2012 COST OF CAPITAL – A.12-04-017
SOCALGAS RESPONSE
DATE RECEIVED: JUNE 5, 2012
DATE RESPONDED: JUNE 19, 2012

FEA-SoCalGas-02-08 Please provide a copy of the Southern California Gas's most recent five-year financial forecast (or most similar document).

SoCalGas Response:

The most recent five-year financial forecast was presented at the March 29th, 2012 Analyst Conference, as provided below.

2012 Analyst Conf SCG Slides.pdf

DRA DATA REQUEST
FEA-SCG-DR-002
SOCALGAS 2012 COST OF CAPITAL – A.12-04-017
SOCALGAS RESPONSE
DATE RECEIVED: JUNE 5, 2012
DATE RESPONDED: JUNE 19, 2012

FEA-SoCalGas-02-09 Please provide a copy of Southern California Gas's five-year capital budget forecast for each of the following years: 2007, 2008, 2009, 2010, and 2012.

SoCalGas Response:

The information provided is confidential PROTECTED MATERIAL subject to the terms of the executed Nondisclosure Agreement and Certificates.

ATTACHMENT REMOVED DUE TO CONFIDENTIALITY

DRA DATA REQUEST
FEA-SCG-DR-002
SOCALGAS 2012 COST OF CAPITAL – A.12-04-017
SOCALGAS RESPONSE
DATE RECEIVED: JUNE 5, 2012
DATE RESPONDED: JUNE 19, 2012

FEA-SoCalGas-02-10 On pages 137 and 141 of Sempra Energy's 2011 Annual Report, the company indicates that the expected long-term return on Southern California Gas's retirement plan assets is 7.00% and, the asset mix of that retirement investment portfolio is approximately 65% equities, 35% fixed income securities at y ear-end 2011.

a) Please provide the expected long-term return assessment, including long-term expectations for each class of asset in the portfolio, showing that the weighted average after-tax return from those investments approximates 7.00%.

b) Please provide any internal documents prepared by the Company, or its pension fund investment advisors, which support the long-term equity return expectations.

SoCalGas Response:

SoCalGas objects to this question as Sempra Energy is not party to this proceeding, the information requested is not relevant to the utility's cost of capital proposal, and is outside the scope of this proceeding.

DRA DATA REQUEST
FEA-SCG-DR-002
SOCALGAS 2012 COST OF CAPITAL – A.12-04-017
SOCALGAS RESPONSE
DATE RECEIVED: JUNE 5, 2012
DATE RESPONDED: JUNE 19, 2012

FEA-SoCalGas-02-11

a) A complete listing of each of Southern California Gas's balancing accounts.

b) The percentage of its total 2011 jurisdictional revenues that were provided through balancing accounts. Please provide that same information for 2009 and 2010.

SoCalGas Response:

a) A complete listing of each of Southern California Gas Company's balancing accounts are detailed in the following website: http://socalgas.com/regulatory/tariffs/tariffs-prelim.shtml

b) Detailed in the table below are the percentages of SoCalGas jurisdictional revenues provided through balancing accounts for years 2009 through 2011.

FEA Data Request Response 02-11

Response sponsor: Cheryl Shepherd

DRA DATA REQUEST
FEA-SCG-DR-002
SOCALGAS 2012 COST OF CAPITAL – A.12-04-017
SOCALGAS RESPONSE
DATE RECEIVED: JUNE 5, 2012
DATE RESPONDED: JUNE 19, 2012

QUESTIONS FOR COMPANY WITNESS SCHLAX

FEA-SoCalGas-02-12 If the Company's requested return on common equity were to change by 10 basis points, what dollar impact would that have on the Company's rates? Please provide all relevant support for your response (i.e., assumptions regarding capital structure/common equity ratio, overall tax rate, and rate base).

SoCalGas Response:

A 10 basis point change in the ROE would result in a change to revenue collected in gas transportation rates of approximately $2.59 million with a corresponding rate change of $0.00027 per therm.

The above assumes:
- Ratebase: $2,947.8 million (2011 recorded)
- State Income Tax Rate: 8.84%
- Federal Income Tax Rate: 35.0%
- Capital structure as proposed: 45.6% Debt, 2.4% Preferred, 52% Equity.

Response sponsor: Robert Schlax

DRA DATA REQUEST
FEA-SCG-DR-002
SOCALGAS 2012 COST OF CAPITAL – A.12-04-017
SOCALGAS RESPONSE
DATE RECEIVED: JUNE 5, 2012
DATE RESPONDED: JUNE 19, 2012

FEA-SOCAL GAS 02-13 For *each* witness testifying on behalf of Southern California Gas in this proceeding, please provide: a) complete copies of any articles, treatises, reports, or chapters of texts cited in their Direct Testimony, b) native electronic copies of the schedules accompanying the testimony in either Word or Excel format, with cells unlocked and all original data available (e.g., if the schedule spreadsheet references data on a separate spreadsheet, please also provide the referenced spreadsheet.)

SoCalGas Response:

SoCalGas objects to this question to the extent it requests copies of all Commission regulatory decisions and other filed Commission documents used in the development and preparation of the application and testimony on the grounds that these documents are publicly available to FEA. SoCalGas relied on all relevant law and precedent in the development and preparation of its application, including, but not limited to, the regulatory decisions cited therein. SoCalGas will provide all legal arguments and citations in briefs.

SoCalGas also objects to this question to the extent it requests documents and information that are copyrighted and proprietary in nature. Website citations have been provided for copyrighted information that is available online. Cited reference materials not within SoCalGas' control and possession have not been provided.

Credit rating agency reports are copyrighted materials available to paid subscribers and copies therefore cannot be provided to third parties, except in some instances by permission. SoCalGas is willing to make the credit reports from the major credit rating agencies published since January 1, 2010 on SoCalGas available at its offices for visual examination by requesting third parties to this proceeding.

The responsive documents have been provided in an accompanying CD.

DRA DATA REQUEST
FEA-SCG-DR-002
SOCALGAS 2012 COST OF CAPITAL – A.12-04-017
SOCALGAS RESPONSE
DATE RECEIVED: JUNE 5, 2012
DATE RESPONDED: JUNE 19, 2012

Response of FEA—DR-02-13 (Continued)

Schlax

DRA DR-002 Q3
index Schlax SCG.xls

Foster

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SCG-Foster Citations_

Shepherd

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DRA DR-002 Q2,3
index Morin SCG.xls

DRA DATA REQUEST
FEA-SCG-DR-002
SOCALGAS 2012 COST OF CAPITAL – A.12-04-017
SOCALGAS RESPONSE
DATE RECEIVED: JUNE 5, 2012
DATE RESPONDED: JUNE 19, 2012

FEA-SoCalGas-02-14 [Ref. Schlax Direct, p. 3, ll. 1-3]

a) Please provide the analytical support for the statement that a 26 basis point reduction in ROR will result in an annual rate reduction of $1.43 million for gas ratepayers.
b) How much more ratepayers will be paying annually for an increased common equity ratio? (Please provide support for your response.)
c) What was SoCalGas' average common equity ratio during the time that debt costs declined from 6.96% (currently authorized) to 5.72% (projected)? (Please provide supporting data.)

SoCalGas Response:

a) Please see attached.

20120608091140.pdf

b) SoCalGas has not performed the requested computation.

c) The question does not specify whether or how "average common equity ratio" is computed. However, since SoCalGas' currently authorized debt rate of 6.96% has not changed since 2003, below is a summary of common equity ratios for year-end 2003 to 2011.

Common Equity Ratio
As of December 31

2003	55.6%
2004	58.2%
2005	52.4%
2006	53.8%
2007	53.4%
2008	49.0%
2009	55.2%
2010	52.9%
2011	62.2%

Response sponsor: Robert Schlax

DRA DATA REQUEST
FEA-SCG-DR-002
SOCALGAS 2012 COST OF CAPITAL – A.12-04-017
SOCALGAS RESPONSE
DATE RECEIVED: JUNE 5, 2012
DATE RESPONDED: JUNE 19, 2012

FEA-SoCalGas-02-15 [Ref. Schlax Direct, p. 3]

Mr. Schlax indicates that SoCalGas needs to increase its common equity ratio in order to "enable the company to access the capital markets." Please describe in detail the most recent event in which the Company (not its parent company, Sempra), with a 48% common equity ratio, was unable to access capital markets in order to meet its infrastructure needs.

SoCalGas Response:

The question is leading, therefore SoCalGas does not agree with the call of the question. Notwithstanding, the portion of Mr. Schlax' testimony referred to by this question reads in its entirety,

> SoCalGas' proposed COC structure better reflects current business risks and provides the financial position to enable the Company to access capital markets to finance its large capital investments at beneficial rates in the near and long-term.

Taken as a whole, this statement is addressing the Company's changing profile on a *forward-looking* basis, and is not making any claim – as implied by the question above – that the Company has experienced market-access difficulties in the recent past.

Mr. Schlax' analysis is forward looking for several important reasons. As explained in Section V of his direct testimony, SoCalGas' business is in transition. Starting in 2012, the Company expects to invest $5 billion implementing its AMI program, carrying out expansive pipeline safety enhancements, and completing other modernizations. At the same time, the Company will be attempting to best mitigate the risk associated with customer bypass, stringent SCAQMD air-quality mandates, and a greater-than-average likelihood of litigation in the State of California. Mr. Schlax summarizes the upshot of all this at page 10:

> The overall COC structure is intended to instill investor confidence that SoCalGas not only has the capacity to service its significant new debt obligations, but also the financial wherewithal to cope with the uncertainties posed by changes in its business climate.

In order to maintain market access during this transitional time, the Company seeks to retain its "A" credit rating, which will allow the Company to steer a course between additional revenue increases needed to achieve a rating higher than "A" and the distress costs associated with ratings lower than "A". As Mr. Schlax points out, however, this cannot be achieved with yesterday's ratemaking:

(Continued response FEA-SoCalGas-02-15)

In this proceeding, it is critical that the Commission reinforce today's positive investor perceptions and SoCalGas' capital-market access, especially in light of the Company's changing business profile and considerable financing needs, for investors are still reserving their judgment. (Schlax, p. 11.)

In light of Mr. Schlax' broader testimony, a reader may reasonably conclude that avoiding *future* financing difficulties is the salient issue before the Commission, not ameliorating prior difficulties, as suggested by the question above.

Response sponsor: Robert Schlax

DRA DATA REQUEST
FEA-SCG-DR-002
SOCALGAS 2012 COST OF CAPITAL – A.12-04-017
SOCALGAS RESPONSE
DATE RECEIVED: JUNE 5, 2012
DATE RESPONDED: JUNE 19, 2012

FEA-SoCalGas-02-16 [Ref. Schlax Direct, p. 7, ll. 7-9]

a) Please list all the gas utilities in the U.S. that have higher bond ratings than SoCalGas.
b) When bond rating agencies assess the bond ratings for any utility company do they consider business, financial and regulatory risks? What risks do they ignore, and why would they do so?
c) What bond ratings do S&P, Moody's and Fitch currently provide for SoCalGas' first mortgage bonds? Please provide support for your response.

SoCalGas Response:

a) In its January 11, 2012 report, "U.S. Regulated Natural Gas Utilities, Strongest to Weakest," Standard & Poor's lists four utilities with higher ratings than SoCalGas:

Company	Corporate credit rating
Washington Gas Light Co.	A+
WGL Holdings Inc.	A+
Northwest Natural Gas Co.	A+
NSTAR Gas Co.	A+
Southern California Gas Co.	A

SoCalGas is not aware of whether the other credit rating agencies have similar reports, and not all rating agencies would necessarily provide consistent ratings to companies. Therefore, the information above is not intended to represent an exhaustive or singular list.

b) The rating agencies consider business risk and financial risk in their assessment of SoCalGas. Each risk category is itself comprised of a multitude of smaller factors, which basically give the agencies sufficient leeway to arrive at what they believe a proper rating to be.

In clarifying business risk, S&P makes the following observation:

> What typically distinguishes one vertically integrated utility's business profile score from another is the quality of regulation and management, which are the two leading drivers of credit quality.[1]

[1] Standard & Poor's, *Key Credit Factors: Business and Financial Risks in the Investor-Owned Utilities Industry*, November 26, 2008.

Response to FEA-02-16 (Continued)

Financial risk, according to S&P, can be measured along the following lines: accounting adequacy; financial philosophy; cash flow adequacy; capital structure; and bank-line adequacy. As S&P summarizes it, "Our analysts review projections of future capex, debt, and FFO levels to make a determination of the likely level of leverage and debt over the medium term, and the companies' ability to sustain them."[2] This is also true for the other rating agencies.

In the end, the rating agencies present their assessments and reasoning in their published reports. Generally these reports do not itemize each and every risk considered or ignored, nor do the rating agencies inform Company management about risks "ignored" during the course of a ratings review.

c) Bond ratings for SoCalGas' secured debt are:

S&P	A+
Moody's	Aa3
Fitch	AA-

Credit rating agency reports are copyrighted materials available to paid subscribers and copies of these reports generally cannot be provided to third parties, except in some instances by permission. Notwithstanding, SoCalGas is willing to make copies of the credit reports from the major credit rating agencies available at its offices in Los Angeles or San Francisco for visual examination by requesting third parties to this proceeding who have signed a Nondisclosure Agreement.

Response sponsor: Robert Schlax

[2] *Ibid.*

DRA DATA REQUEST
FEA-SCG-DR-002
SOCALGAS 2012 COST OF CAPITAL – A.12-04-017
SOCALGAS RESPONSE
DATE RECEIVED: JUNE 5, 2012
DATE RESPONDED: JUNE 19, 2012

FEA-SoCalGas-02-17 [Ref. Schlax Direct, p. 8, ll. 11-18]

a) What event in 2012 triggered the MICAM?
b) Under the MICAM, as it currently exists, what would be the adjustment to the Company's ROE in 2013?
c) Is it true that the Company's participation in this proceeding will effectively avoid the return on equity reduction required under MICAM? If not, please explain why not.

SoCalGas Response:

a) The MICAM identifies two conditions for determining whether a change in the authorized rate of return is required. Both conditions are based on the 30-year Treasury bond yields – one being the most recent trailing 12-month rolling average yield and the second being the corresponding 12-month forward forecast yield as published by Global Insight. If both conditions fall outside a range of 3.88 percent (MICAM floor) to 6.88 percent (MICAM ceiling) in a given month, SoCalGas' authorized ROE would be adjusted, upward or downward, by one-half of the difference between the trailing 12-month rolling average yield and 5.38 percent (SoCalGas' MICAM benchmark interest rate), effective January 1 following the year in which both conditions were exceeded. In January 2012, the historical rolling average yield for the 30-year Treasury bonds of 3.79 percent fell below the MICAM floor of 3.88 percent. Correspondingly, the Global Insight 12-month forward forecasted yield of 3.48 percent published in early February 2012 also fell below the MICAM floor. As a result, the MICAM calls for an adjustment of the company's ROE and authorized recovery for the cost of debt and preferred stock to their actual weighted average cost to be effective on January 1, 2013.

b) Under the MICAM, SoCalGas' ROE would be reduced from 10.82% to 10.02% effective January 1, 2013.

c) The question is leading, therefore SoCalGas does not agree with the call of the question. Notwithstanding, SoCalGas notified the Commission in its 2012 General Rate Case (A.10-12-006) of its intent to address the MICAM in the next state-wide utility COC proceeding. Because the other California IOUs were directed to file their respective COC Applications in 2012, SoCalGas also filed an Application in accordance with its stated intention. The fact that the MICAM triggered in the same year as our COC application is coincidental. However, the Company expects the results of this proceeding to supersede the ROR impact caused by the MICAM trigger. Also see response to FEA-SoCalGas-02-42.

Response sponsor: Herbert Emmrich

DRA DATA REQUEST
FEA-SCG-DR-002
SOCALGAS 2012 COST OF CAPITAL – A.12-04-017
SOCALGAS RESPONSE
DATE RECEIVED: JUNE 5, 2012
DATE RESPONDED: JUNE 19, 2012

FEA-SoCalGas-02-18 [Ref. Schlax Direct, p. 13, l. 13]

At the cited portion of Mr. Schlax's testimony he states that the 10.9% equity return request, 40 basis points above the cost of capital estimate of Dr. Morin, is "my…ROE proposal." Please respond to the following questions:

a) Is Mr. Schlax the witness responsible for determining that SoCalGas' current cost of equity is 40 basis points above the Company's cost of capital expert's estimate of 10.5%? If so, please so state; if not, please explain why Mr. Schlax references the 10.9% as "my proposal."
b) Please provide the objective, analytical basis for increasing the requested return on equity, for each area of risk not assessed by Dr. Morin.
c) Please explain why and how the Company is able to discern and assess risks that its cost of capital witness is not.
d) Please explain why the additional 40 basis points of requested return is not redundant in light of the 40 basis points Dr. Morin added to his 10.1% cost of equity estimate.
e) Please provide an analysis to show that the additional costs imposed on ratepayers by awarding a return on equity 80 basis points above the cost of equity of similar-risk companies will be cost-effective for ratepayers.

SoCalGas Response:

a) Yes.

b) – d) The questions are leading; therefore, SoCalGas does not agree with the call of the questions. Notwithstanding, Mr. Schlax bases his 40 basis points proposal on his informed judgment as the CFO for SoCalGas. Unlike an ROE witness, who would rely largely on specific data series and well-defined modeling approaches, a utility financial officer exercises judgment and would consider day-to-day operational inputs, longer-term business developments, and policy considerations which cannot always be reduced to mathematical formulae. SoCalGas has an obligation to provide safe and reliable service to its customers, and (i) taking into account changing capital investment needs and levels, (ii) maintaining a strong credit rating, (iii) parity with other California IOUs, and (iv) keeping financing rates low, are all reasonable factors that merit consideration. Further, the Company's ROE proposal is one facet of a comprehensive proposed COC structure which must be viewed in its entirety, and will better position SoCalGas to meet its obligations.

Response to FEA- 02-18 (Continued)

e) No specific analysis was performed. However, as explained at page 4 of the COC Application and at page 3 of Mr. Schlax's direct testimony, the Company's overall proposal will reduce its ROR by 0.26%, resulting in a $1.43 million reduction in customer rates if adopted by the Commission.

Response sponsor: Robert Schlax

DRA DATA REQUEST
FEA-SCG-DR-002
SOCALGAS 2012 COST OF CAPITAL – A.12-04-017
SOCALGAS RESPONSE
DATE RECEIVED: JUNE 5, 2012
DATE RESPONDED: JUNE 19, 2012

FEA-SoCalGas-02-19 [Ref. Shepherd Direct, p. 1, ll. 13-16]

Company witness Shepherd lists six factors that impact the Company investment risk. For each factor (capital investment needs, global uncertainty, competition, environmental compliance, industry changes, and regulatory considerations), please explain why those specific risks would not be incorporated into the market prices investors are willing to provide. Also, please provide any available objective support to show that those risks are not incorporated in to stock prices.

SoCalGas Response:

The factors listed are reflective of business risk impacting the Company that investors would expect are taken into account by the Commission via a risk premium when determining an appropriate Return on Equity. The current regulatory framework including market expectations around the expected authorized return on equity for a regulated business unit should be incorporated into stock prices.

Response sponsor: Cheryl Shepherd

DRA DATA REQUEST
FEA-SCG-DR-002
SOCALGAS 2012 COST OF CAPITAL – A.12-04-017
SOCALGAS RESPONSE
DATE RECEIVED: JUNE 5, 2012
DATE RESPONDED: JUNE 19, 2012

FEA-SoCalGas-02-20 [Ref. Shepherd Direct, p. 1, ll. 13-16]

a) Does Ms. Shepherd agree that bond rating agencies take into account business, financial and regulatory risk when determining a firm's bond rating? If not, please explain why not and provide any available evidence that would support such a position.

b) Does Ms. Shepherd agree that, when determining the bond rating for SoCalGas, bond rating agencies take into account the Company's capital investment needs, global uncertainty, competition, environmental compliance, industry changes, and regulatory considerations? If not, please explain why not and provide any available evidence that would support such a position.

SoCalGas Response:

a) Yes, credit rating agencies take into account business, financial and regulatory risk, when determining a company's bond rating. Credit rating agencies also pay significant attention to a company's accounting considerations and corporate governance, emphasizing on cash flow adequacy and liquidity, as well as incorporating many subjective judgments when determining the riskiness of lending to a company as a debt holder.[3] Please see witness Schlax' response to FEA-SoCalGas-02-16(b) for further details.

b) It is my understanding that many factors are considered when determining a bond rating; knowing which specific business risk factors are taken into account is proprietary to each rating agency and not known by SoCalGas. However, it should be noted that bond holders (debt holders) and equity holders (the stakeholders discussed in my testimony) have different risk exposures to different risk factors. As dividends fluctuate (unlike defined bond coupon payments), bond holders have first claim while common stock holders have a residual claim. Further, stock returns tend to be more volatile as equity holders are generally more exposed to business risks than bond holders.

Response sponsor: Cheryl Shepherd

[3] Standard & Poor's Corporate Rating Criteria 2008, page 18

DRA DATA REQUEST
FEA-SCG-DR-002
SOCALGAS 2012 COST OF CAPITAL – A.12-04-017
SOCALGAS RESPONSE
DATE RECEIVED: JUNE 5, 2012
DATE RESPONDED: JUNE 19, 2012

FEA-SoCalGas-02-21 [Ref. Shepherd Direct, p. 3, ll. 10-12]

a) Is it true, as Mr. Schlax testifies, that SoCalGas was able to issue $250 million of debt "with minimal difficulty" in November 2008—the height of the financial crisis? If not, please explain why not.
b) What was the Company's capital structure in November 2008?

SoCalGas Response:

a) Mr. Schlax' testimony is true. On November 18, 2008, just two months following Lehman Brothers' bankruptcy filing, Southern California Gas Company offered $250 million of first mortgage bonds. Despite a wide reoffer spread and a shorter-than-desired tenor – both reflecting market stresses at the time – the Company's underwriters reported total investor orders of $562 million in a conventional one-day underwriting process.

   As Mr. Schlax testifies (Schlax, pp. 11 – 12), the Company was able to complete this offering during a time of significant market strain because of favorable investor perceptions--instilled in large part by supportive CPUC ratemaking.

b) In November 2008, SoCalGas' actual capital structure was:

51.4 %	Common Equity
3.4 %	Preferred Stock
45.2 %	Long-Term Debt
100.0 %	**Total**

Response sponsor: Cheryl Shepherd

DRA DATA REQUEST
FEA-SCG-DR-002
SOCALGAS 2012 COST OF CAPITAL – A.12-04-017
SOCALGAS RESPONSE
DATE RECEIVED: JUNE 5, 2012
DATE RESPONDED: JUNE 19, 2012

FEA-SoCalGas-02-22 [Ref. Shepherd Direct, p. 5, ll. 1-2]

a) Please provide any evidence to show that either SoCalGas or any other A-rated electric utility has had difficulty issuing long-term debt (e.g., a debt issuance that was undersubscribed).

b) Assume SoCalGas' debt capital needs are equal to ½ of future $5.0 billion in capital projects (i.e., $2.5 billion, or $500 million per year). What percentage would $500 million represent compared to all of the investment-grade debt issued in the U.S. over a one-year period? If Ms. Shepherd is unable to answer that question, please explain on what evidence she bases her belief that the debt market may be constrained with regard to SoCalGas' future needs.

SoCalGas Response:

a) While SoCalGas has not had any difficulty with recent debt issuances, SoCalGas cannot address if any A-rated electric utility has had difficulty because subscription levels and allocations of other companies' bond deals are not usually publically disclosed nor compiled in a centralized database. For this same reason, neither can SoCalGas address if any A-rated natural gas utility has had difficulty with recent debt issuances.

b) SoCalGas objects to this request because compiling the data over a one-year period for all U.S. debt issuances is overly burdensome. Additionally, my testimony discusses the equity markets, not the debt markets.

Response sponsor: Cheryl Shepherd

DRA DATA REQUEST
FEA-SCG-DR-002
SOCALGAS 2012 COST OF CAPITAL – A.12-04-017
SOCALGAS RESPONSE
DATE RECEIVED: JUNE 5, 2012
DATE RESPONDED: JUNE 19, 2012

FEA-SoCalGas-02-23 [Ref. Shepherd Direct, p. 6, Figure 2]

a) Please provide a complete copy of the source document and source data from which the graph is produced.
b) How if the projected capital budgets of each of the other gas utilities were added to the 2011 expenditures, how would that impact the comparison? If Ms. Shepherd has not undertaken that analysis, please so state and explain why not.

SoCalGas Response:

a) Please see the response to FEA-SoCalGas-02-13(b).

b) Capital budgets are confidential internal documents. As such, SoCalGas does not have access to the 2011 capital budgets of other gas utilities and is unable to perform this analysis. The purpose of this figure is to show the expected increased, sustained level of SoCalGas capital expenditures in relation to last year's actual spend by the proxy utilities.

Response sponsor: Cheryl Shepherd

DRA DATA REQUEST
FEA-SCG-DR-002
SOCALGAS 2012 COST OF CAPITAL – A.12-04-017
SOCALGAS RESPONSE
DATE RECEIVED: JUNE 5, 2012
DATE RESPONDED: JUNE 19, 2012

FEA-SoCalGas-02-24 [Ref. Shepherd Direct, p. 4, ll. 7-8]

a) Please explain why, if the Company expects to borrow significantly to fund future capital projects, dividing current free cash flow by current book value represents expected investment risk.

b) Please provide a copy of or cite to any investor advisory publication that indicates free cash flow divided by book value is a reliable measure of capital investment risk for an A-rated electric utility company.

c) In Ms. Shepherd's experience, is it unusual for a company that is in a capital expansion project to have negative free cash flow?

SoCalGas Response:

My testimony does not use current free cash flow divided by current book value. Accordingly, SoCalGas objects to this question because it is not within the scope of my testimony.

Response sponsor: Cheryl Shepherd

DRA DATA REQUEST
FEA-SCG-DR-002
SOCALGAS 2012 COST OF CAPITAL – A.12-04-017
SOCALGAS RESPONSE
DATE RECEIVED: JUNE 5, 2012
DATE RESPONDED: JUNE 19, 2012

FEA-SoCalGas-02-25 [Ref. Shepherd Direct, pp. 7-8]

a) Please list all gas distributors that do not face bypass risks of the type outlined by Ms. Shepherd.
b) Please provide a recent internal study by the Company that assesses its bypass risks in California and outlines contingencies to deal with those risks, should they arise. If no such study or studies exist, please so state and explain why.

SoCalGas Response:

a) SoCalGas objects to this request on the grounds that it is overly burdensome to research the competitive challenges of all gas utilities.

b) SoCalGas has not recently completed a study to assess bypass risks in California; however, in the past SoCalGas has experienced bypass and has continued to experience it in various areas of its service territory, as related in my testimony.

Response sponsor: Cheryl Shepherd

DRA DATA REQUEST
FEA-SCG-DR-002
SOCALGAS 2012 COST OF CAPITAL – A.12-04-017
SOCALGAS RESPONSE
DATE RECEIVED: JUNE 5, 2012
DATE RESPONDED: JUNE 19, 2012

FEA-SoCalGas-02-26 [Ref. Shepherd Direct, p. 9, ll. 14, 15]

In each of the past three years (2009, 2010, 2011) what percentage of SoCalGas' operating expenses were the result of civil litigation? Please provide support for your response.

SoCalGas Response:

Below, SoCalGas provides a chart of its 2009-2011 civil litigation expenses as a percentage of total operating expenses. It is important to note that it is not necessarily incurred civil litigation expenses that create investor uncertainty; investor uncertainty results from the potential for large claims. As seen below, civil litigation claims paid out by SoCalGas increased over the last three years. While insurance reimbursements reduced the total net civil litigation expense incurred by SoCalGas, as discussed on pages 9-10 of the prepared direct testimony of Cheryl A. Shepherd, the availability and price of insurance for utilities for third-party claims is currently a risk. Additionally, as civil litigation has increased in significance and potential risk, SoCalGas has been compelled to assume a higher self- insurance retention (from $1 million to $4 million), thus retaining more of the current and future losses.

SoCalGas Civil Litigation Expenses and Operating Expenses			
(in $ millions)	**2009**	**201**	**2011**
Civil Litigation Claims	8	12	18
Insurance Reimbursement	-8	-4	-16
Align Reimbursement with Expense	7	0	0
Recovery Expense	0	0	0
Civil Litigation Expenses	7	8	2
Operating Expenses	2,879	3,306	3,330
Percentage	0.26%	0.35%	0.55%

Response sponsor: Cheryl Shepherd

DRA DATA REQUEST
FEA-SCG-DR-002
SOCALGAS 2012 COST OF CAPITAL – A.12-04-017
SOCALGAS RESPONSE
DATE RECEIVED: JUNE 5, 2012
DATE RESPONDED: JUNE 19, 2012

FEA-SoCalGas-02-27 [Ref. Shepherd Direct, p. 11, ll. 2, 3]

a) If taxes are passed through to consumers, please explain how that increases the Company's business risk.
b) Please list all taxes paid by SoCalGas in the past three years that have not been passed through to consumers and recovered in rates or through a balancing account. Please provide supporting documentation.

SoCalGas Response:

a) Utility taxes are passed through to customers upon Commission approval. As mentioned in my testimony, California's tax environment affects SoCalGas' shareholders in three ways:
    1) California is viewed as a difficult state to do business in.
    2) Additional taxes raise the overall cost of living and hence, required wages, which in turn raises the operating costs for businesses in California.
    3) Having entities other than government agencies collect these fees raises the perceived cost of goods and services provided by these entities to customers.

    Item 1 creates challenges and uncertainty in executing business strategies. Items 2 and 3 increase customer bill perceptions and may incentivize customers to bypass SoCalGas or switch to alternative fuel sources (see pages 7-8 "Competition" in my testimony).

b) SoCalGas does not maintain a list of every instance where taxes have not been recovered in rates or through a balancing account.

Response sponsor: Cheryl Shepherd

DRA DATA REQUEST
FEA-SCG-DR-002
SOCALGAS 2012 COST OF CAPITAL – A.12-04-017
SOCALGAS RESPONSE
DATE RECEIVED: JUNE 5, 2012
DATE RESPONDED: JUNE 19, 2012

FEA-SoCalGas-02-28 [Ref. Shepherd Direct, p. 13, ll. 8-11]

Please provide a list of every instance over the past ten years in which the California Commission has failed to allow recovery of costs incurred by the Company as the result of a mandate by another governmental agency. Please provide the dollar amounts not recovered and the percentage of total Company revenues represented by that under-recovery.

SoCalGas Response:

SoCalGas does not maintain a list of every instance where cost recovery has been disallowed.

Response sponsor: Cheryl Shepherd

DRA DATA REQUEST
FEA-SCG-DR-002
SOCALGAS 2012 COST OF CAPITAL – A.12-04-017
SOCALGAS RESPONSE
DATE RECEIVED: JUNE 5, 2012
DATE RESPONDED: JUNE 19, 2012

FEA-SoCalGas-02-29 [Ref. Shepherd Direct, p. 14, ll. 6-8]

Please explain why reduction in customer demand is a risk to the company with rates that are decoupled from sales volumes.

SoCalGas Response:

As mentioned on page 8 of my testimony, reduced customer demand increases rates and increases the potential for stranded assets.

To elaborate, SoCalGas embarks on capital investments in order to provide safe, reliable service to our customers. These capital investments are long-term in nature and as such, provide benefits and recovery over many years. If customer demand is reduced, the customer base to pay for these assets is reduced which increases the rates to all customers. This increase in rates may incentivize customers to further reduce demand which further perpetuates a declining customer base and increasing rates. Eventually, if enough customer demand is reduced some assets may be viewed as not being used and useful and a stranded asset may occur. A stranded asset may no longer be eligible for recovery and will become an expense that shareholders will bear.

Response sponsor: Cheryl Shepherd

DRA DATA REQUEST
FEA-SCG-DR-002
SOCALGAS 2012 COST OF CAPITAL – A.12-04-017
SOCALGAS RESPONSE
DATE RECEIVED: JUNE 5, 2012
DATE RESPONDED: JUNE 19, 2012

FEA-SoCalGas-02-30 [Ref. Shepherd Direct, p. 21, ll. 9, 10]

a) If fixed cost margin accounts were included along with balancing accounts, what percentage of the Company's revenues would be recovered through those mechanisms? Please provide supporting calculations.
b) What percent of other gas utilities' revenues are provided through balancing accounts and other automatic cost recovery mechanisms?
c) If Ms. Shepherd has not compared the level of automatic cost recovery between SoCalGas and other gas utilities used to estimate the cost of capital how is she able to discern that there is no risk difference related to the automatic recovery of costs?

SoCalGas Response:

a) If fixed cost margin accounts were included along with balancing accounts, 99.75 % of SoCalGas' revenues would be recovered through these balancing account mechanisms. See attached file below.

FEA Data Request
Response 2-30

b) SoCalGas objects to this request on the grounds that it is overly burdensome.

c) Please see the sources cited on pages 19-21 ("Cost Recovery") of my testimony.

Response sponsor: Cheryl Shepherd

DRA DATA REQUEST
FEA-SCG-DR-002
SOCALGAS 2012 COST OF CAPITAL – A.12-04-017
SOCALGAS RESPONSE
DATE RECEIVED: JUNE 5, 2012
DATE RESPONDED: JUNE 19, 2012

FEA-SoCalGas-02-31 [Ref. Shepherd Direct, pp. 21, footnote 51]

If the factors that reduce SoCalGas' operating risk (e.g., balancing accounts) are "already reflected in the analytical results" for the proxy companies (the cost of equity capital), please explain why the factors that increase the Company's risk are not also already accounted for? Please provide any objective, analytical support for your response.

SoCalGas Response:

The purpose of my testimony is to present an overview of SoCalGas' business and regulatory risks and evaluate some of these risks across a proxy group of natural gas utility companies and to the other California IOUs. When information was available to benchmark a risk factor within the proxy group or California IOUs, I presented it. Please see my testimony's figures and citations to access the analytical evidence that demonstrates how the risk factors are perceived by investors in relation to the proxy group and California IOUs.

Response sponsor: Cheryl Shepherd

DRA DATA REQUEST
FEA-SCG-DR-002
SOCALGAS 2012 COST OF CAPITAL – A.12-04-017
SOCALGAS RESPONSE
DATE RECEIVED: JUNE 5, 2012
DATE RESPONDED: JUNE 19, 2012

FEA-SoCalGas-02-32 [Ref. Shepherd Direct, p. 23, ll. 9, 10]

Please explain, in as much detail as possible, why the Company "expects that the Commission will allow SoCalGas to fully recover its PSEP costs."

SoCalGas Response:

SoCalGas' PSEP proposal is currently pending before the Commission. SoCalGas expects a decision on Phase 1 of the PSEP in the first quarter of 2013. While SoCalGas cannot predict the final outcome, its expectation is that the Commission will grant SoCalGas' proposal based on the evidence presented in that proceeding. SoCalGas' PSEP is a plan designed to comply with the significant new safety standards the Commission ordered in June 2011 to have all natural gas transmission lines pressure tested to modern standards. It is our expectation that the Commission will provide the funding necessary to meet these new standards.

Response sponsor: Cheryl Shepherd

DRA DATA REQUEST
FEA-SCG-DR-002
SOCALGAS 2012 COST OF CAPITAL – A.12-04-017
SOCALGAS RESPONSE
DATE RECEIVED: JUNE 5, 2012
DATE RESPONDED: JUNE 19, 2012

FEA-SoCalGas-02-33 [Ref. Shepherd Direct, p. 24, ll. 19-21]

Please explain why "all IOUs face similar…risks."

SoCalGas Response:

Because investor-owned utilities must provide safe and reliable services under a regulatory compact, they are subject to similar business risks such as economy-related risks, capital investment risks, and environmental risks. As noted in my testimony, while these risks may be similar, where each company falls in the spectrum of perceived risk exposure for each factor varies. As expected, utilities operating under the same regulatory Commission and economy have investor-perceived risk profiles that are very similar.

Response sponsor: Cheryl Shepherd

DRA DATA REQUEST
FEA-SCG-DR-002
SOCALGAS 2012 COST OF CAPITAL – A.12-04-017
SOCALGAS RESPONSE
DATE RECEIVED: JUNE 5, 2012
DATE RESPONDED: JUNE 19, 2012

FEA-SoCalGas-02-34 [Ref. Shepherd Direct, p. 27, Figure 5]

Please list all the bonds used to calculate the yield spread shown in Figure 5 and, for each bond for each company, please provide the coupon yield and the term of each bond.

SoCalGas Response:

Please see the response to FEA-SoCalGas-02-13(b).

Response sponsor: Cheryl Shepherd

DRA DATA REQUEST
FEA-SCG-DR-002
SOCALGAS 2012 COST OF CAPITAL – A.12-04-017
SOCALGAS RESPONSE
DATE RECEIVED: JUNE 5, 2012
DATE RESPONDED: JUNE 19, 2012

QUESTIONS FOR COMPANY WITNESS FOSTER

FEA-SoCalGas-02-35 [Ref. Foster Direct, Attachment A]

a) With regard to the projected embedded cost of debt (5.72%) shown on Attachment A, for each debt issue shown, please provide: 1) the date of issuance, 2) the term of the issuance, and 3) the coupon rate of each issuance.
b) For each projected debt issuance ($500 million in 2012 and $350 million in 2013), please provide the basis for the assumed coupon rate.
c) When the $250 million 30-year debt is issued in the second quarter of 2012, please provide a complete copy of the final prospectus for that debt issuance.

SoCalGas Response:

In response to FEA DR-01, SoCalGas submitted public versions of its workpapers in both PDF and Excel format via CD on May 29, 2012. FEA has since signed and returned the nondisclosure agreement in this proceeding and therefore SoCalGas will provide the confidential workpapers in both PDF and Excel format via CD in a supplemental response to FEA DR-01. The workpapers are responsive to this request.

Please refer to workpaper pages 1-2 for the calculation of the proposed long-term debt cost rate. The pertinent assumptions for projected long term debt issuances are outlined in the workpapers.

Response sponsor: Michael Foster

DRA DATA REQUEST
FEA-SCG-DR-002
SOCALGAS 2012 COST OF CAPITAL – A.12-04-017
SOCALGAS RESPONSE
DATE RECEIVED: JUNE 5, 2012
DATE RESPONDED: JUNE 19, 2012

FEA-SoCalGas-02-36 [Ref. Foster Direct, p. 4, ll. 3-8]

a) Please provide a complete copy of the April 2012 Global Insight publication cited.
b) Please provide a complete copy of the April 2011 Global Insight publication?
c) In Mr. Foster's experience, how accurate are the Global Insight forecasts for T-Bonds? Please provide support for your response, if available.

SoCalGas Response:

a) Global Insight's service agreement restricts Sempra Energy companies from disseminating to third parties Global Insight's proprietary forecasts unless they are used in public regulatory proceedings. Therefore, the "complete copy" is not provided, but attached is the complete April 2012 Global Insight forecast of 30-year Treasury Bond yields which SoCalGas used in this proceeding.

b) Global Insight's service agreement restricts Sempra Energy companies from disseminating to third parties Global Insight's proprietary forecasts unless they are used in public regulatory proceedings. SoCalGas did not use the April 2011 Global Insight report so support this testimony.

c) Mr. Foster expresses no opinion on the accuracy of Global Insight's forecasts, but understands that the CPUC has accepted the use of Global Insight forecasts in proceedings.

Response sponsor: Michael Foster

DRA DATA REQUEST
FEA-SCG-DR-002
SOCALGAS 2012 COST OF CAPITAL – A.12-04-017
SOCALGAS RESPONSE
DATE RECEIVED: JUNE 5, 2012
DATE RESPONDED: JUNE 19, 2012

FEA-SoCalGas-02-37 [Ref. Foster Direct, p. 5, ll. 17-19]

a) Please provide a year-end comparison, from 1997 forward, between the Authorized capital structure for SoCalGas and the Company's actual capital structure. Please also provide published balance sheet support for the annual capital structures provided.
b) What was the Company's bond rating, each year, from 1997 forward?

SoCalGas Response:

a) Data is available and provided for 2002 to current. SoCalGas objects to providing data for 1997 to 2001 as it is overly burdensome and is not readily available.

2011	*Authorized*	*Actual*		2010	*Authorized*	*Actual*		2009	*Authorized*	*Actual*
Equity	48.0%	62.2%		Equity	48.0%	52.9%		Equity	48.0%	55.2%
Preferred	6.4%	0.6%		Preferred	6.4%	2.9%		Preferred	6.4%	3.4%
Debt	45.6%	37.2%		Debt	45.6%	44.2%		Debt	45.6%	41.4%
2008	*Authorized*	*Actual*		**2007**	*Authorized*	*Actual*		**2006**	*Authorized*	*Actual*
Equity	48.0%	49.0%		Equity	48.0%	53.4%		Equity	48.0%	53.8%
Preferred	6.4%	3.6%		Preferred	6.4%	4.0%		Preferred	6.4%	3.9%
Debt	45.6%	47.4%		Debt	45.6%	42.6%		Debt	45.6%	42.3%
2005	*Authorized*	*Actual*		**2004**	*Authorized*	*Actual*		**2003**	*Authorized*	*Actual*
Equity	48.0%	52.5%		Equity	48.0%	58.2%		Equity	48.0%	55.7%
Preferred	6.4%	4.0%		Preferred	6.4%	4.5%		Preferred	6.4%	4.4%
Debt	45.6%	43.5%		Debt	45.6%	37.3%		Debt	45.6%	39.9%
2002	*Authorized*	*Actual*								
Equity	48.0%	57.7%								
Preferred	6.4%	4.7%								
Debt	45.6%	37.6%								

b) Data is available and provided for 1997 to current.

DRA DATA REQUEST
FEA-SCG-DR-002
SOCALGAS 2012 COST OF CAPITAL – A.12-04-017
SOCALGAS RESPONSE
DATE RECEIVED: JUNE 5, 2012
DATE RESPONDED: JUNE 19, 2012

Response to FEA-SoCalGas-02-37 (Continued)

Current Rating	S&P	Moody's	Fitch
Long Term Issuer	A	A2	A
Unsecured Debt	A	A2	A+
Secured Debt	A+	Aa3	AA-
Preferred Stock	BBB+	Baa1	A-

2011	S&P	Moody's	Fitch
Long Term Issuer	A	A2	A
Unsecured Debt	A	A2	A+
Secured Debt	A+	Aa3	AA-
Preferred Stock	BBB+	Baa1	A-

2010	S&P	Moody's	Fitch
Long Term Issuer	A	A2	A
Unsecured Debt	A	A2	A+
Secured Debt	A+	Aa3	AA-
Preferred Stock	BBB+	Baa1	A-

2009	S&P	Moody's	Fitch
Long Term Issuer	A	A2	A+
Unsecured Debt	A	A2	AA-
Secured Debt	A+	Aa3	AA
Preferred Stock	BBB+	Baa1	A+

2008	S&P	Moody's	Fitch
Long Term Issuer	A	A2	A+
Unsecured Debt	A	A2	AA-
Secured Debt	A+	A1	AA
Preferred Stock	BBB+	Baa1	A+

2007	S&P	Moody's	Fitch
Long Term Issuer	A	A2	A+
Unsecured Debt	A-	A2	AA-
Secured Debt	A+	A1	AA
Preferred Stock	BBB+	Baa1	A+

2006	S&P	Moody's	Fitch
Long Term Issuer	A	A2	A+
Unsecured Debt	A-	A2	AA-
Secured Debt	A+	A1	AA
Preferred Stock	BBB+	Baa1	A+

2005	S&P	Moody's	Fitch
Long Term Issuer	A	A2	A+
Unsecured Debt	A-	A2	AA-
Secured Debt	A+	A1	AA
Preferred Stock	BBB+	Baa1	A+

2004	S&P	Moody's	Fitch
Long Term Issuer	A	A2	A+
Unsecured Debt	A-	A2	AA-
Secured Debt	A+	A1	AA
Preferred Stock	BBB+	Baa1	A+

2003	S&P	Moody's	Fitch
Long Term Issuer	A	A2	A+
Unsecured Debt	A-	A2	AA-
Secured Debt	A+	A1	AA
Preferred Stock	BBB+	Baa1	A+

2002	S&P	Moody's	Fitch
Long Term Issuer	A+	A2	A+
Unsecured Debt	A	A2	AA-
Secured Debt	A+	A1	AA
Preferred Stock	A-	Baa1	A+

2001	S&P	Moody's	Fitch
Long Term Issuer	AA-	A2	A+
Unsecured Debt	A+	A2	AA-
Secured Debt	AA-	A1	AA
Preferred Stock	A	Baa1	A+

2000	S&P	Moody's	Fitch
Long Term Issuer	AA-	A2	A+
Unsecured Debt	A+	A2	AA-
Secured Debt	AA-	A1	AA
Preferred Stock	A	a2	A+

1999	S&P	Moody's	D & P
Long Term Issuer	AA-	A2	A+
Unsecured Debt	A+	A2	AA-
Secured Debt	AA-	A1	AA
Preferred Stock	AA-	a2	A+

1998	S&P	Moody's	D & P
Long Term Issuer	AA-	A2	A+
Unsecured Debt	A+	A2	AA-
Secured Debt	AA-	A1	AA
Preferred Stock	AA-	a2	A+

1997	S&P	Moody's	D & P
Long Term Issuer	AA-	A2	A+
Unsecured Debt	A+	A2	A+
Secured Debt	AA-	A1	AA-
Preferred Stock	AA-	a2	A+

*Highlighted field indicates change of rating.

Response sponsor: Michael Foster

DRA DATA REQUEST
FEA-SCG-DR-002
SOCALGAS 2012 COST OF CAPITAL – A.12-04-017
SOCALGAS RESPONSE
DATE RECEIVED: JUNE 5, 2012
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FEA-SoCalGas-02-38 [Ref. Foster Direct, p. 8, ll. 16-18]

If the Company's cash flow to debt and cash flow coverages are "strong for the rating" with the current capital structure, why does the Company need to increase its common equity ratio?

SoCalGas Response:

As per the testimony of Mr. Foster, the Company believes it is prudent to target the currently authorized debt ratio of 45.6% because it supports an "A" credit rating.

In anticipation of a large capital spending program in the near to mid-term, SoCalGas has been limiting its use of debt at levels below authorized to ensure it has enough credit capacity to finance its capital program at reasonable costs of debt.

As a result, the Company's credit ratios *are* strong for the rating, because of our low use of debt (37.2% at end of 2011). But, the Company anticipates ramping up to its currently authorized debt levels within the next 2-3 years. This will put pressure on the Company's credit metrics. As we increase debt levels over the next 2-3 years to our authorized levels.

Response sponsor: Michael Foster

DRA DATA REQUEST
FEA-SCG-DR-002
SOCALGAS 2012 COST OF CAPITAL – A.12-04-017
SOCALGAS RESPONSE
DATE RECEIVED: JUNE 5, 2012
DATE RESPONDED: JUNE 19, 2012

FEA-SoCalGas-02-39 [Ref. Foster Direct, p. 8, ll. 20, 21]

Please provide a copy of any rating agency report, memo or letter to the Company that states, with any specificity, that an interest coverage ratio is 5.2 to 5.9 times and a FFO/debt ratio of 26% to 29% is "necessary for SoCalGas to maintain an "A" bond rating."

SoCalGas Response:

SoCalGas objects to the question as it misquotes Mr. Foster's testimony. Without waiving this objection, SoCalGas responds as follows:

See Exhibit SCG-2, pp. 8 (ln. 2) to 9 (ln. 1).

Response sponsor: Michael Foster

DRA DATA REQUEST
FEA-SCG-DR-002
SOCALGAS 2012 COST OF CAPITAL – A.12-04-017
SOCALGAS RESPONSE
DATE RECEIVED: JUNE 5, 2012
DATE RESPONDED: JUNE 19, 2012

FEA-SoCalGas-02-40 [Ref. Foster Direct, p. 13, ll. 6-8]

The Company's projected debt ratio is the same as the currently authorized capital structure, however, in its projected capital structure the Company has elected to finance its operations with more common equity and less preferred stock.

a) Please explain how financing with common equity versus preferred stock will improve cash flow coverage of interest costs. If it will not, please so state.
b) If financing with common equity versus preferred equity will not improve cash flow coverage of interest costs, please explain how it will enhance creditworthiness.
c) Please explain whether or not financing 3% of the Company's rate base with common equity versus preferred stock will be more costly for ratepayers.
d) Please provide any cost-benefit analyses undertaken by the Company that show financing with common equity versus preferred stock is cost effective.

SoCalGas Response:

a) All other things being equal, if the Commission authorizes higher equity levels as compared to preferred level, and if the authorized return on equity is higher than the authorized return on preferred, then the capital structure with less preferred and more equity would result in higher revenue, in turn increasing operating cash flow and interest-coverage ratios.

b) N/A.

c) All other things being equal, if the Commission authorizes higher equity levels as compared to preferred level, and if the authorized return on equity is higher than the authorized return on preferred, then the capital structure with less preferred and more equity would result in higher cost to customers in the short term. As per the testimony, the company believes its proposal supports its policy of targeting an "A" credit rating, which as stated by witness Schlax, will result in lower borrowing costs, and consequently lower overall capital costs to ratepayers over the long term than what would be achieved with a rating lower than "A".

d) To the best of Mr. Foster's knowledge, no such analyses have been prepared. Notwithstanding, in general, the Company conceives of preferred stock as a substitute for long term debt, not as an alternative to raising equity capital. Both preferred and long term debt carry a fixed payment obligation. As explained in testimony, the Company currently finds the preferred market a less-attractive source of long-term capital than the debt market.

Response sponsor: Michael Foster

DRA DATA REQUEST
FEA-SCG-DR-002
SOCALGAS 2012 COST OF CAPITAL – A.12-04-017
SOCALGAS RESPONSE
DATE RECEIVED: JUNE 5, 2012
DATE RESPONDED: JUNE 19, 2012

FEA-SoCalGas-02-41 [Ref. Foster Direct, p. 13, ll. 19-22]

a) Please explain why the Company believes that the capital structure awards of other ratemaking bodies provide evidence on which this Commission should rely, absent any showing that those companies are similar in risk to SoCalGas.
b) What was the return on equity awarded in each of the 18 decisions cited? Please provide supporting documentation.

SoCalGas Response:

a) Similar to how proxy groups are used to help determine appropriate ROE levels in CA COC proceedings, it is assumed that when viewed in aggregate, this 18 company proxy group will approximate the riskiness of SoCalGas. It is assumed that some companies in the group have higher risk levels and some will have lower risk levels than SoCalGas.

The *average* of the 18 recent awards is 52.07% shows that the resulting 52% equity level is not out of line with the rest of the industry. Further, the results of the trend analysis are clear. There is an industry wide trend of increasing authorized equity levels.

b) Mr. Foster did not extract and compile from the 18 decisions the information being requested. The Workpapers to Prepared Direct Testimony of Michael W. Foster, p. 22 contains the case identification for those 18 decisions, from which FEA can retrieve the information sought.

Response sponsor: Michael Foster

QUESTIONS FOR COMPANY WITNESS EMMRICH

FEA-SoCalGas-02-42 [Ref. Emmrich Direct, p. 8, ll. 3-13]

Would Mr. Emmrich agree that filing for a new ROE in this proceeding is a method by which the Company will be able to avoid the re-setting of its allowed ROE via the MICAM? If not, please explain why not.

SoCalGas Response:

The question is leading, therefore SoCalGas does not agree with the call of the question. Notwithstanding, as stated in Mr. Emmrichs' direct testimony, one of the facets in SoCalGas' comprehensive cost of capital proposal is a change of the current mechanism (i.e., MICAM) to more appropriately benchmark to Moody's A utility bonds and be more in line with the other California utilities' cost of capital mechanisms (CCMs). SoCalGas on two previous occasions petitioned to modify D.97-97-07-054 to suspend its MICAM and to re-evaluate the appropriate benchmark. Those petitions were denied; however, SoCalGas was not precluded from raising this issue in a different forum. Therefore, SoCalGas filed a cost of capital application (not a petition for modification) to present for consideration its CCM proposal, which can be reviewed in the context of this state-wide proceeding where all filing utilities' mechanisms will be reviewed. SoCalGas believes this proceeding is the proper forum to propose a newly constructed CCM.

If the Commission approves a new ROE for SoCalGas for test year 2013 in this proceeding, SoCalGas believes the newly authorized ROE would be implemented for 2013 instead of the ROE resulting from the January 2012 triggering event under the current MICAM. SoCalGas has therefore requested that the Commission instruct SoCalGas to forego filing an advice letter to implement the ROE resulting from the January 2012 MICAM triggering event.

Response sponsor: Herbert Emmrich

DRA DATA REQUEST
FEA-SCG-DR-002
SOCALGAS 2012 COST OF CAPITAL – A.12-04-017
SOCALGAS RESPONSE
DATE RECEIVED: JUNE 5, 2012
DATE RESPONDED: JUNE 19, 2012

FEA-SoCalGas-02-43 [Ref. Emmrich Direct, p. 12, ll. 13, 14]

Please explain why it would be beneficial to the company or its customers to reduce the triggering range from 150 to 100 basis points, thereby increasing the probability of a triggering event.

SoCalGas Response:

As discussed in Section IV of Mr. Emmrichs' direct testimony, SoCalGas recommends a 100 basis point deadband under a 12-month average measurement period to mitigate volatility of interest rates and strike a reasonable balance between triggering too often and not triggering enough. Choosing a deadband that is overly sensitive to interest rates would be disruptive to the mechanism's main objectives.

In the long-term, there is no specific benefit or detriment to ratepayers or shareholders for changing the triggering range from 150 to 100 basis points. In the short-term, if Utility Bond rates fall by 100 basis points (but less than 150 basis points), the triggering event would result in a downward adjustment to SoCalGas' ROE, which would lower rates. Conversely, if rates rise by 100 basis points (but less than 150 basis points), the triggering event would result in an upward adjustment to SoCalGas' ROE, which would increase rates. The realization of a potential benefit to the company or customers depends on how quickly and frequently rates rise or fall within the three-year proposed COC cycle. A change from a deadband of 150 to 100 basis points trigger would theoretically align SoCalGas more quickly with the real COC thereby giving better price signals to ratepayers and shareholders, as SoCalGas makes gas usage and infrastructure investment decisions. Moreover, the 100 basis points would better align SoCalGas' deadband with those being proposed by the other utility parties.

Response sponsor: Herbert Emmrich

DRA DATA REQUEST
FEA-SCG-DR-002
SOCALGAS 2012 COST OF CAPITAL – A.12-04-017
SOCALGAS RESPONSE
DATE RECEIVED: JUNE 5, 2012
DATE RESPONDED: JUNE 19, 2012

FEA-SoCalGas-02-44 [Ref. Morin Exhibits]

Please provide copies of all of Dr. Morin's supporting Exhibits (RAM-2 through RAM-8) in electronic format with cells unlocked, formulas and original data available.

SoCalGas Response:

The requested Exhibits are being provided in Excel format. As described in Dr. Morin's direct testimony and in the exhibit footnotes, the raw data on these exhibits were estimated using the Value Line Investment Analyzer and Zacks Investment Research software which are commercially available to investors on a paid subscription basis. Value Line and Zacks do not allow the electronic dissemination of their proprietary data for obvious copyright reasons.
Dr. Morin and/or his staff will be glad to make available for inspection proprietary copyrighted software materials at the Company's premises during normal working hours by arrangement upon reasonable prior notice. The formal Value Line copyright notification in the software reads as follows:

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Roger A. Morin

WARNING

This computer program is protected by copyright law and international treaties. Unauthorized reproduction or distribution of this program, or any portion of it, will result in severe civil and criminal penalties, and will be prosecuted to the maximum extent allowed under the law.

Dr. Morin notes that much of the information contained in the Value Line Investment Analyzer software is available in paper format from the latest edition of the traditional Value Line Investment Survey coinciding with the month of publication of the software version. Such reports are available at most university libraries in paper format.

The analyst growth rates in the DCF exhibits were obtained from the Zacks Investment Research Web site and are also available from the aforementioned Value Line software.

DRA DATA REQUEST
FEA-SCG-DR-002
SOCALGAS 2012 COST OF CAPITAL – A.12-04-017
SOCALGAS RESPONSE
DATE RECEIVED: JUNE 5, 2012
DATE RESPONDED: JUNE 19, 2012

Response FEA-SoCalGas-02-44 (Continued)

Morin_SCG_Exhibits.xls

Response sponsor: Dr. Roger A. Morin

DRA DATA REQUEST
FEA-SCG-DR-002
SOCALGAS 2012 COST OF CAPITAL – A.12-04-017
SOCALGAS RESPONSE
DATE RECEIVED: JUNE 5, 2012
DATE RESPONDED: JUNE 19, 2012

FEA-SoCalGas-02-45 [Ref. Morin Direct, p. 4, ll. 11, 12]

Please explain why your analysis of the market-based cost of equity does not account for all the risks that are pertinent to investors.

SoCalGas Response:

Capital market data (stock prices, bond ratings, betas, etc.) already account for all the risks that are pertinent to investors.

Response sponsor: Dr. Roger A. Morin

DRA DATA REQUEST
FEA-SCG-DR-002
SOCALGAS 2012 COST OF CAPITAL – A.12-04-017
SOCALGAS RESPONSE
DATE RECEIVED: JUNE 5, 2012
DATE RESPONDED: JUNE 19, 2012

FEA-SoCalGas-02-46 [Ref. Morin Direct, p. 5, ll. 6-8]

Please provide a list of the companies in your gas utility proxy group that have bond ratings higher than SoCalGas.

SoCalGas Response:

See attached spreadsheet for gas company bond ratings.

Response FEA 02-46.xlsx

Response sponsor: Dr. Roger A. Morin

DRA DATA REQUEST
FEA-SCG-DR-002
SOCALGAS 2012 COST OF CAPITAL – A.12-04-017
SOCALGAS RESPONSE
DATE RECEIVED: JUNE 5, 2012
DATE RESPONDED: JUNE 19, 2012

FEA-SoCalGas-02-47 [Ref. Morin Direct, p. 17, ll. 21-23]

Please provide support from the published work of Professor Myron Gordon, the originator of the DCF, to support Dr. Morin's statement that the "standard DCF model…assumes that dividends are paid at the end of each year…".

SoCalGas Response:

It is almost universally assumed that the standard Gordon DCF model assumes annual cash flows. Most, if not all, finance textbooks provide a derivation of the DCF model assuming annual end-of-year dividends. For example, see the widely used corporate finance textbook by Professor Brigham (Brigham, E. F. and Ehrhardt, M. C., Corporate Finance: A Focused Approach, 3rd ed., South-Western, 2008, Chapter 7, page 237).

Response sponsor: Dr. Roger A. Morin

DRA DATA REQUEST
FEA-SCG-DR-002
SOCALGAS 2012 COST OF CAPITAL – A.12-04-017
SOCALGAS RESPONSE
DATE RECEIVED: JUNE 5, 2012
DATE RESPONDED: JUNE 19, 2012

FEA-SoCalGas-02-48 [Ref. Morin Direct, p. 18, l. 1 through p. 21, l. 2] Regarding the sample groups selection:

a) Please explain why it is reasonable to assume that the investment risk of a firm that has 50% utility operations and 50% unregulated operations is the same as that of SoCalGas.
b) What is the percent of revenues from regulated gas operations for each of Dr. Morin's sample group of gas and electric companies? Please provide support for your response.
c) What percent of SoCalGas's revenues are provided by regulated operations?
d) What percent of SoCalGas's revenues are provided by electric utility operations?
e) What is the common equity ratio as a percent of total capital of each of the companies in Dr. Morin's sample groups? Please provide support for your response.

SoCalGas Response:

a) The 50% figure was used as a screening criterion rather than as a formal measure of risk. The construction of reference groups inevitably involves a tradeoff between statistical adequacy and scientific accuracy. On the one hand, the screening criteria have to be stringent enough so as to capture companies whose risk is the same as the target utility, but on the other they must be flexible enough to allow enough companies to survive for the analysis to be statistically meaningful. In Dr. Morin's opinion, the 50% screen optimizes the tradeoff between statistical reliability and economic relevance. In fact, the average percentage of revenues from regulated operations in Dr. Morin's sample of combination gas and electric utilities is 83% and 67% in the natural gas utility group.

b) See response to a).

c) SoCalGas objects to this question because the term "regulated operations" is vague. Notwithstanding this objection, SoCalGas responses as follows:

All or virtually all of SoCalGas' operations could be considered as "regulated."

d) SoCalGas objects to this question because the term "regulated operations" is vague. Notwithstanding this objection, SoCalGas responses as follows:

All or virtually all of SoCalGas' operations could be considered as "regulated."

e) See attached spreadsheet.

Response to FEA-SoCalGas-02-48 (Continued)

Attachment FEA
2-48 Com Equity Rati

Response sponsor: Dr. Roger A. Morin

DRA DATA REQUEST
FEA-SCG-DR-002
SOCALGAS 2012 COST OF CAPITAL – A.12-04-017
SOCALGAS RESPONSE
DATE RECEIVED: JUNE 5, 2012
DATE RESPONDED: JUNE 19, 2012

FEA-SoCalGas-02-49 [Ref. Morin Direct, p. 18, ll. 22-24]

How are the Value Line Investment Analyzer dividend yields calculated? Please provide support from Value Line for your response.

SoCalGas Response:

In the traditional paper version of the Value Line Investment Survey, the dividend yield (shown in the top right-hand corner of the Value Line page) is the estimated total of cash dividends to be declared over the next 12 months, divided by the recent price of the stock. In the software version of the Value Line Investment Analyzer, dividend yield is defined as the "current dividend yield".

The annual DCF model states very clearly that the expected rate of return on a stock is equal to the expected dividend at the end of the year divided by the current price of the stock, plus the expected growth rate.

Moreover, the basic annual DCF model ignores the time value of quarterly dividend payments and assumes dividends are paid once a year at the end of the year. Multiplying the spot dividend yield by (1 + g) is actually a conservative attempt to capture the reality of quarterly dividend payments and understates the expected return on equity. Use of this method is conservative in the sense that the annual DCF model ignores the more frequent compounding of quarterly dividends.

Response sponsor: Dr. Roger A. Morin

DRA DATA REQUEST
FEA-SCG-DR-002
SOCALGAS 2012 COST OF CAPITAL – A.12-04-017
SOCALGAS RESPONSE
DATE RECEIVED: JUNE 5, 2012
DATE RESPONDED: JUNE 19, 2012

FEA-SoCalGas-02-50 [Ref. Morin Direct, p. 21, ll. 7-10]

Please provide a complete copy of the "financial literature" to which Dr. Morin refers in the cited portion of his testimony.

SoCalGas Response:

Extensive academic research in the past two decades has documented and confirmed repeatedly the overwhelming superiority of analysts' earnings forecasts over the uni-variate time-series forecasts. This latter category includes many *ad hoc* forecasts from statistical models, ranging from the naive methods of simple averages, moving averages, etc. to the sophisticated time-series techniques such as the Box-Jenkins modeling techniques.

In other words, this literature suggests that analysts' earnings forecasts incorporate all the public information available to the analysts and the public at the time the forecasts are released. Furthermore, these forecasts are statistically more accurate than forecasts solely based on historical earnings, dividends, book value equity, and the like.

Important papers include Brown and Rozeff (1978), Cragg and Malkiel (1982), Harris (1986), Vander Weide and Carleton (1988), and Lys and Sohn (1990). The cited sources were consulted by Dr. Morin at the university library and are available from most university libraries. A summary of these papers follows.

Summary of Papers Reviewed

Lawrence D. Brown and Michael S. Rozeff, 1978, **The Superiority of Analyst Forecasts as Measures of Expectations: Evidence from Earnings**, *Journal of Finance*, Vol. XXXIII, No. 1, pp. 1 to 16

Using data (1951 to 1975) from 50 non-utility firms, the authors compared forecasting errors between forecasts reported in Value Line Investment Survey and forecasts from a sophisticated time-series methodology (Box-Jenkins). They concluded that "Value Line Investment Survey consistently makes significantly better earnings forecasts than the BJ [Box-Jenkins] and naive time series models." (p.13)

J. Cragg and B. G. Malkiel, **Expectations and the Structure of Share Prices**, National Bureau of Economic Research, University of Chicago Press, 1982

See quotation below from Harris (1986).

Robert S. Harris, 1986, **Using Analysts' Growth Forecasts to Estimate Shareholder Required Rates of Return**, *Financial Management*, Spring 1986, pp. 58 - 67

Response to FEA-SoCalGas-02-50 (Continued)

The main focus of this paper was to derive required return on equity using expected rather than historical earnings growth rates. Harris used IBES consensus earnings forecasts as a proxy for investor expectation. In his review of the literature on financial analysts' forecasts (FAF), Harris wrote:

> Moreover, a growing body of knowledge shows that analysts' earnings forecasts are indeed reflected in stock prices. Such studies typically employ a consensus measure of FAF calculated as a simple average of forecasts by individual analysts. Elton, Gruber, and Gultekin show that stock prices react more to changes in analysts' forecasts of earnings than they do to changes in earnings themselves, suggesting the usefulness of FAF as a surrogate for market expectations. In an extensive NBER study using analysts' earnings forecasts, Cragg and Malkiel conclude "the expectations formed by Wall Street professionals get quickly and thoroughly impounded into the prices of securities. Implicitly, we have found that the evaluations of companies that analysts make are the sorts of ones on which market valuation is based." (p.59, footnote omitted)

James H. Vander Weide and Willard T. Carleton, 1988, **Investor Growth Expectations: Analysts vs. History**, *The Journal of Portfolio Management*, Spring 1988, pp. 78 - 82

This paper updated the study by Cragg and Malkiel (1982), which suggests that the stock valuation process embodies analysts' forecasts rather than historically based growth figures such as the ten-year historical growth in dividends per share or the five-year growth in book value per share. (The Cragg and Malkiel study is based on data for the 1960s).
In this paper, the authors used data from 1971- 1983 for approximately sixty-five utility firms. They "found overwhelming evidence that the consensus analysts' forecasts of future growth is superior to historically oriented growth measures in predicting the firm's stock price." Their results "also are consistent with the hypothesis that investors use analysts' forecasts, rather than historically oriented growth calculations, in making stock buy-and-sell decisions." (p. 81)

Thomas Lys and Sungkyu Sohn, 1990, **The Association between Revisions of Financial Analysts' Earnings Forecasts and Security-Price Changes**, *Journal of Accounting and Economics*, vol. 13, pp. 341 - 363

Using virtually all publicly available analyst earnings forecasts for a sample of 58 companies in the 1980 - 86 period (over 23,000 individual forecasts by 100 analyst firms), the authors showed that stock returns responded to individual analyst earnings

Response to FEA-SoCalGas-02-50 (Continued)

> forecasts, even when they were closely preceded by earnings forecast made by other analysts or by corporate accounting disclosures.

Empirical studies have also been conducted showing that investors who rely primarily on data obtained from several large reputable investment research houses and security dealers obtain better results than those who do not.[4] Thus, both empirical research and common sense indicate that investors rely primarily on analysts' growth rate forecasts rather than on historical growth rates alone.

See attached reference list.

Analyst Forecasts References

Brown. L.D. and Rozeff, M.S. "The Superiority of Analyst Forecasts as Measures of Expectations: Evidence from Earnings." *Journal of Finance,* March 1978, 1-16.

Cragg, J.G. and Malkiel, B.G. "Expectations and the Structure of Share Prices." National Bureau of Economic Research. Chicago: University of Chicago Press, 1982.

Cragg, J.G. and Malkiel, B.G. "The Consensus and Accuracy of Some Predictions of the Growth of Corporate Earnings." *Journal of Finance,* March 1968, 67-84.

Easterwood, J. C. and Nutt, S. R., “Inefficiency in Analysts’ Earnings Forecasts: Systematic Misreaction or Systematic Optimism?” *Journal of Finance*, Vol. LIV, No. 5, 1999, pp. 1777-1797.

Elton, E.J., Gruber, M.J., and Gultekin, J. "Expectations and Share Prices." *Management Science,* September 1981, 975-981.

Fried, D. and Givoly, D., “Financial Analysts Forecasts of Earnings, A Better Surrogate for Market Expectations”, *Journal of Accounting and Economics,* Vol. 4, 1982.

Harris, R. S., “Using Analysts’ Growth Forecasts to Estimate Shareholder Required Rates of Return.” *Financial Management*, Spring 1986, pp. 58 – 67.

[4] Examples of these studies include Stanley, Lewellen & Schlarbaum (1981) and Touche Ross Co. (1982).

Response to FEA-SoCalGas-02-50 (Continued)

Harris, R. S., and Marston, F. C., "The Market Risk Premium: Expectational Estimtaes Using Analysts' Forecasts," *Journal of Applied Finance*, 11:6-16, 2001.

Lys, T. and Sohn, S., "The Association between Revisions of Financial Analysts' Earnings Forecasts and Security-Price Changes," *Journal of Accounting and Economics*, vol. 13, 1990, pp. 341 – 363.

Moyer, R. C., Chatfield, R. E., and Kelley, G. D., "The Accuracy of Long-Term Earnings Forecasts in the Electric Utility Industry," *International Journal of Forecasting* Vol. I, 1985.

Stanley, L., Lewellen, W., and Schlarbaum, G. "Further Evidence on the Value of Professional Investment Research," *Journal of Financial Research,* Spring 1981, 1-9.

Timme, S.G. and Eiseman, P.C. "On the Use of Consensus Forecasts of Growth in the Constant Growth Model: The Case of Electric Utilities." *Financial Management,* Winter 1989, 23-35.

Touche Ross Co. "Proxy Disclosures and Stockholder Attitude Survey." Washington DC: National Association of Corporate Directors, May 1982.

Vander Weide, J.H. and Carleton, W. T. "Investor Growth Expectations: Analysts vs. History." *The Journal of Portfolio Management,* Spring 1988, 78-87.

Response sponsor: Dr. Roger A. Morin

DRA DATA REQUEST
FEA-SCG-DR-002
SOCALGAS 2012 COST OF CAPITAL – A.12-04-017
SOCALGAS RESPONSE
DATE RECEIVED: JUNE 5, 2012
DATE RESPONDED: JUNE 19, 2012

FEA-SoCalGas-02-51 [Ref. Morin Direct, p. 26, ll. 5-19]

a) Is it Dr. Morin's position that all utilities are generally similar in risk? If so, please so state; if not, please explain why not.
b) Please explain why, if all utilities are generally similar in risk, Dr. Morin did not use the gas utility proxy group used in his testimony on behalf of SoCalGas as another similar-risk proxy in his SDG&E testimony.

SoCalGas Response:

a) Yes, utilities are generally comparable in risk, although not identical.

b) SDG&E is predominantly an electric utility while SoCalGas is principally a natural gas utility.

Response sponsor: Dr. Roger A. Morin

DRA DATA REQUEST
FEA-SCG-DR-002
SOCALGAS 2012 COST OF CAPITAL – A.12-04-017
SOCALGAS RESPONSE
DATE RECEIVED: JUNE 5, 2012
DATE RESPONDED: JUNE 19, 2012

FEA-SoCalGas-02-52 [Ref. Morin Direct, p. 33]

Please provide copies of the T-bond yield data from each source on which Dr. Morin relied for his CAPM risk-free rate, and also provide the most recent T-Bond yield data from the same sources.

SoCalGas Response:

As shown in the attachments, Global Insight and Value Line project higher long-term Treasury interest rates in 2013-2015 and beyond. These are the latest forecasts that were available to Dr. Morin when he prepared his testimony.

Attachment FEA
02-52 GI fin forecasts

Attachment FEA
02-52 VL Econ Fcts N

Response sponsor: Dr. Roger A. Morin

FEA-SoCalGas-02-53 [Ref Morin Direct, p. 34, ll. 8-14]

Does the fact that the average beta of the sample group of gas companies (0.68) is below the average beta of the sample group of combination electric and gas companies (0.73) indicate that the cost of equity for gas companies is lower than that of combination gas and electric companies? If so, please so state; if not, please explain why not.

SoCalGas Response:

Not necessarily because the average beta of the gas group is based on a very small group of companies and is therefore subject to measurement error. In contrast the average beta of the combination gas and electric group is based on a very large sample and not so much subject to measurement error. Moreover, the percentage of regulated revenues for the gas group is substantially less than the combination gas and electric group and, therefore, not as reliable a measure of risk.

Response sponsor: Dr. Roger A. Morin

DRA DATA REQUEST
FEA-SCG-DR-002
SOCALGAS 2012 COST OF CAPITAL – A.12-04-017
SOCALGAS RESPONSE
DATE RECEIVED: JUNE 5, 2012
DATE RESPONDED: JUNE 19, 2012

FEA-SoCalGas-02-54 [Ref. Morin Direct, p. 35, ll. 13-19]

Please provide a copy of the portion of the Morningstar publication cited, i.e., that containing the historical return differences between the earned return on stock and the earned return on bonds as well as Morningstar's explanation of why the difference between the earned return and the yield on bonds is preferable.

SoCalGas Response:

See attachments.

Attachment FEA 02-54 Ibbotson page

Attachment FEA 02-54 Ibbotson page

Response sponsor: Dr. Roger A. Morin

DRA DATA REQUEST
FEA-SCG-DR-002
SOCALGAS 2012 COST OF CAPITAL – A.12-04-017
SOCALGAS RESPONSE
DATE RECEIVED: JUNE 5, 2012
DATE RESPONDED: JUNE 19, 2012

FEA-SoCalGas-02-55 [Ref. Morin Direct, p. 36, ll. 6-11]

a) Please provide support for the statement that the average historical yield difference between 30-year and 20-year T-Bonds is "not material."
b) If the yield difference between 20-year and 30-year bonds is "not material" please explain whether the use of a current 20-year T-Bond yield as the risk-free rate in a CAPM analysis would be appropriate?

SoCalGas Response:

a) As shown on the attached spreadsheet, the difference in yield between 30-year and 20-year bonds was very close to zero and actually frequently negative over the period studied.

b) Yes, although as explained in Dr. Morin's testimony, the appropriate proxy for the risk-free rate in the CAPM is the return on the longest term Treasury bond possible. This is because common stocks are very long-term instruments more akin to very long-term bonds. The ideal estimate for the risk-free rate has a term to maturity equal to the security being analyzed. Since common stock is a very long-term investment because the cash flows to investors in the form of dividends last indefinitely, the yield on the longest-term possible government bonds, that is the yield on 30-year Treasury bonds, is the best measure of the risk-free rate for use in the CAPM.

Attachment FEA 02-55.xls

Response sponsor: Dr. Roger A. Morin

DRA DATA REQUEST
FEA-SCG-DR-002
SOCALGAS 2012 COST OF CAPITAL – A.12-04-017
SOCALGAS RESPONSE
DATE RECEIVED: JUNE 5, 2012
DATE RESPONDED: JUNE 19, 2012

FEA-SoCalGas-02-56 [Ref. Morin Direct, p. 41, ll. 15-20]

a) Is it true that Brealey & Meyer's 5% to 8% market risk premium is based on short-term Treasury securities as the risk free rate?
b) If the response to "a)," above is negative, please provide copies of the pertinent portions of the Brealey & Meyer's text to support that response.
c) If the response to "a)," above is positive, please explain why Dr. Morin did not discuss that fact in his testimony.
d) If Brealey & Meyer's 5% to 8% market risk premium were based on long-term Treasury bonds instead of short-term Treasury bonds, and the historical yield difference between T-bonds and T-Bills is 1.7%, what market risk premium range would result? Please explain your response.

SoCal Gas Response:

a & b) Yes.

c) Dr. Morin's market risk premium (MRP) estimate of 6.7% rests within that range even when adjusted for the maturity premium of 1%. Moreover, Dr. Morin's MRP does not rest solely on the Brealey-Myers estimate but also rests on the Ibbtson historical estimates of the MRP and also on his own survey of the MRP literature, which appears in Chapter 5 of his latest textbook, The New Regulatory Finance. Finally, Dr. Morin deems his MRP estimate of 6.7% conservative, given the continuing volatile conditions in the equity market.

d) Approximately 4% to 7%. See also response to c. above.

Response sponsor: Dr. Roger A. Morin

DRA DATA REQUEST
FEA-SCG-DR-002
SOCALGAS 2012 COST OF CAPITAL – A.12-04-017
SOCALGAS RESPONSE
DATE RECEIVED: JUNE 5, 2012
DATE RESPONDED: JUNE 19, 2012

FEA-SoCalGas-02-57 [Ref. Morin Direct, pp. 42-45]

a) Please provide a list of regulatory jurisdictions of which Dr. Morin is aware that have explicitly relied on the ECAPM to set the allowed return in a utility rate proceeding.
b) Please provide a list of regulatory jurisdictions of which Dr. Morin is aware that have explicitly rejected the ECAPM as a means to determine the allowed return in a utility rate proceeding.

SoCalGas Response:

a & b) Dr. Morin did not conduct any comprehensive survey of jurisdictions where the ECAPM is either endorsed or refuted explicitly. Regulatory commissions are naturally reluctant to divulge the computational details and the specifics of each methodology employed in arriving at their ROE determination. Understandably, they are reluctant to disseminate the details, methods, and assumptions underlying their determination. As a general rule, commissions are not dogmatic as to which method they adhere. Dr. Morin is not aware of any recent published survey of how regulatory commissions derive their estimate of the allowed ROE, and there are very few explicit references to the use or non-use of various ROE methodologies in the vast majority of rate orders. A NARUC survey of ROE methodologies indicated that the vast majority of regulatory commissions rely on a variety of methodologies.

Following the mammoth generic rate of return proceeding for electric utilities (Docket No. 91-M-0509), following countless testimonies filed by a myriad experts, including Dr. Morin, the New York Public Service Commission endorsed the validity of the ECAPM, which they referred to as the Morin CAPM and the "zero-beta" CAPM. The NYPSC routinely relies on the ECAPM in its generic rate of return formula. In past years, the Mississippi jurisdiction relied on the ECAPM in determining the benchmark ROE in its Performance Evaluation Plan (PEP) performance-based regime.

Response sponsor: Dr. Roger A. Morin

DRA DATA REQUEST
FEA-SCG-DR-002
SOCALGAS 2012 COST OF CAPITAL – A.12-04-017
SOCALGAS RESPONSE
DATE RECEIVED: JUNE 5, 2012
DATE RESPONDED: JUNE 19, 2012

FEA-SoCalGas-02-58 [Ref. Morin Direct, p. 59]

Please provide a copy of any other cost of capital testimony in which Dr. Morin has excluded the result of one of his equity cost estimation methods from his calculation of the average, midpoint, median and truncated average of those results.

SoCalGas Response:

Dr. Morin has been involved in over 220 rate proceedings in his career and does not archive the testimonies from these proceedings, and therefore does not possess the requested information. Dr. Morin has occasionally in the past ignored an outlying estimate in arriving at his final ROE recommendation.

Response sponsor: Dr. Roger A. Morin

DRA DATA REQUEST
FEA-SCG-DR-002
SOCALGAS 2012 COST OF CAPITAL – A.12-04-017
SOCALGAS RESPONSE
DATE RECEIVED: JUNE 5, 2012
DATE RESPONDED: JUNE 19, 2012

FEA-SoCalGas-02-59 [Ref. Morin Direct, pp. 61, 62]

Please explain why the allowed returns provided other gas utilities by other regulators, absent any showing of investment risk similar to SoCalGas, provides a reliable indication of a regulatory risk premium for SoCalGas.

SoCalGas Response:

Allowed returns are presumably based on the results of market-based methodologies (DCF, Risk Premium, CAPM, *etc.*) presented to regulators in rate hearings and provide relevant benchmarks for the utility industry as a whole. To the extent that the subject utility does not differ materially in risk from the industry average, allowed returns provide a useful benchmark. Moreover, historical allowed ROE data are readily available to investors and regulators over long periods, for example, from SNL, Value Line, and past commission decision archives.

Response sponsor: Dr. Roger A. Morin

DRA DATA REQUEST
FEA-SCG-DR-002
SOCALGAS 2012 COST OF CAPITAL – A.12-04-017
SOCALGAS RESPONSE
DATE RECEIVED: JUNE 5, 2012
DATE RESPONDED: JUNE 19, 2012

FEA-SoCalGas-02-60 [Ref. Morin Direct, p. 66]

If the utility in Dr. Morin's example (50/50 capital structure, cost of equity = 11%) were to experience a 5% reduction in its debt ratio, so that the common equity was 55% and the debt was 45% is it true that the cost of equity would decline by "about 55 basis points"? If not, please explain why not.

SoCalGas Response:

All else remaining constant, yes.

Response sponsor: Dr. Roger A. Morin