

Company: Southern California Gas Company (U 904 G)  
Proceeding: 2028 General Rate Case  
Application: A.26-06-\_\_\_\_\_  
Exhibit: SCG-23

**PREPARED DIRECT TESTIMONY OF PATRICK D. MOERSEN**

**(RATE BASE)**

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



**June 2026**

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## SUMMARY

- My testimony presents Southern California Gas Company's (SoCalGas) weighted average rate base for recorded year 2025, estimated years 2026 and 2027, and Test Year (TY) 2028.
- My testimony describes the development of SoCalGas's rate base and its components including the various methodologies used to derive the TY 2028 rate base of \$17.9 billion.
- In addition, my testimony describes the methodology used by SoCalGas to prepare its working cash request in compliance with California Public Utilities Commission (CPUC or Commission) Standard Practice (SP) U-16-W.

**PREPARED DIRECT TESTIMONY  
OF PATRICK D. MOERSEN  
(RATE BASE)**

**I. PURPOSE**

My testimony supports Southern California Gas Company's (SoCalGas) 2028 general rate case (GRC) and presents the development of rate base and its components, including its working cash requirement, for recorded year 2025, estimated years 2026 and 2027, and Test Year (TY) 2028 rate base forecast of \$17.9 billion.

**II. SUMMARY OF REQUEST**

Table SCG-PDM-01 below presents SoCalGas's total weighted average rate base request for TY 2028.

**Table SCG-PDM-01**  
Weighted Average Depreciated Rate Base  
(Thousands of Dollars)

Line No.	Account Description	Recorded Year 2025	Estimated Year 2026	Estimated Year 2027	Test Year 2028
<b>Fixed Capital</b>					
1	Plant In Service	25,965,938	27,889,100	29,968,608	32,190,730
2	Work-In-Progress (non-interest bearing) <sup>1</sup>	4,345	124	-	-
3	<b>Total Fixed Capital</b>	<b>25,970,283</b>	<b>27,889,224</b>	<b>29,968,608</b>	<b>32,190,730</b>
<b>Working Capital</b>					
4	Materials & Supplies	141,314	138,258	138,205	138,435
5	Working Cash <sup>2</sup>	53,282	54,880	56,527	348,842
6	<b>Total Working Capital</b>	<b>194,595</b>	<b>193,138</b>	<b>194,731</b>	<b>487,277</b>
<b>Other</b>					
7	Customer Advances For Construction	(129,575)	(117,643)	(101,693)	(85,743)
8	Deferred Revenue - ITCC	(93,306)	(97,310)	(105,624)	(114,605)
9	Repair Deductions Rate Base Adjustment (2016 - 2038) <sup>3</sup>	(8,450)	(7,800)	(7,150)	(6,500)
10	<b>Total Other</b>	<b>(231,331)</b>	<b>(222,753)</b>	<b>(214,467)</b>	<b>(206,848)</b>
<b>Deductions For Reserves</b>					
11	Accumulated Deferred Taxes - 2017 Tax Cuts & Jobs Act Adj	463,202	454,094	444,183	433,470
12	Accumulated Depreciation Reserve	10,616,079	11,401,895	12,310,326	13,214,947
13	Accumulated Deferred Taxes - Plant	1,135,650	1,160,577	1,154,637	1,189,285
14	Accumulated Deferred Taxes - CIAC	(216,523)	(261,014)	(280,175)	(299,086)
15	<b>Total Deductions For Reserves</b>	<b>11,998,408</b>	<b>12,755,551</b>	<b>13,628,971</b>	<b>14,538,616</b>
16	<b>Weighted Average Depreciated Rate Base</b>	<b>13,935,140</b>	<b>15,104,058</b>	<b>16,319,901</b>	<b>17,932,543</b>

<sup>1</sup> Non-Interest Bearing CWMP will not be included in Test Year 2028 forecast.

<sup>2</sup> 2025 to 2027 Working Cash based on TY 2024 GRC Decision (D.24-12-074)

<sup>3</sup> D. 16-06-054 p.192

1 **III. METHODOLOGY**

2 Rate base is defined as the net investment of property, plant, equipment, and other assets  
3 that SoCalGas has acquired or constructed to provide utility services to its customers. The  
4 weighted average rate base is calculated using a 13-month average (the sum of the monthly  
5 balances from December of the prior year through December of the current year, less one-half of  
6 each December balance, divided by 12). The weighted average balance method has been an  
7 accepted industry practice for all California utilities and is a California Public Utilities  
8 Commission (Commission or CPUC) approved methodology as adopted in prior rate-setting  
9 proceedings including SoCalGas’s 2024 GRC proceeding.<sup>1</sup>

10 The four major components of rate base are Fixed Capital, Working Capital, Other  
11 Deductions, and Deductions for Reserves. This section describes the methodology used to  
12 forecast plant-in-service, which is included in Fixed Capital and is the largest component of  
13 weighted average rate base.

14 As with other rate base components, plant-in-service is computed based on original cost  
15 and is shown on a weighted average basis. The plant-in-service component of rate base is based  
16 on the projected plant expenditures as provided by the capital witnesses. Specifically:

- 17 • Gas plant balances are developed using estimated in-service dates for non-routine  
18 projects;
- 19 • Plant additions on routine projects are based on historical experience from 2021  
20 to 2025; and
- 21 • Projected plant retirements are based on historical experience from 2021 to 2025.

22 Capital witnesses provide a forecast of in-service dates for non-routine projects based on  
23 the witnesses’ knowledge and experience. The application of historical experience to forecast  
24 plant additions for routine projects is reasonable due to the nature of the projects and is  
25 consistent with past Commission rate-setting applications including SoCalGas’s 2024 GRC  
26 proceeding.<sup>2</sup>

27 As shown in the Fixed Capital section of Table SCG-PDM-01 above, SoCalGas’s TY  
28 2028 plant-in-service is projected to increase, reflecting higher capital expenditures in 2028 as

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<sup>1</sup> Decision (D.) 24-12-074.

<sup>2</sup> *Id.*

1 compared to previous years. The major drivers for the increase in capital expenditure levels are  
2 described in detail in the testimonies of SoCalGas’s respective capital witnesses: Gas  
3 Engineering and System Integrity (Exhibit (Ex.) SCG-03); Gas Distribution (Ex. SCG-04); Gas  
4 Transmission and Storage (Ex. SCG-05); Gas Major Projects (Ex. SCG-06); Information  
5 Technology (Ex. SCG-10/SDGE-14); Cybersecurity (Ex. SCG-11/SDGE-15); and Operations  
6 Support (Ex. SCG-12).

#### 7 **IV. ACCOUNTING CHANGES**

8 SoCalGas is proposing a change to its capitalization threshold for gas distribution pipe  
9 replacement from forty feet to one foot. This change will align SoCalGas’s distribution pipe  
10 replacement with SoCalGas’s threshold for gas transmission pipe replacement of one foot.  
11 SoCalGas’s existing capitalization threshold is also inconsistent with other utilities per a 2021  
12 Capitalization Survey conducted by the American Gas Association. Accordingly, SoCalGas will  
13 revise the threshold for replaced gas distribution pipe to one foot with the 2028 GRC. Refer to  
14 the Gas Distribution testimony (Ex. SCG-04) for additional information.

#### 15 **V. COMPONENTS OF RATE BASE**

##### 16 **A. Fixed Capital**

##### 17 **1. Plant-In-Service**

18 Plant-in-service represents gross fixed assets used in utility operations with an expected  
19 economic and physical life greater than one year from the date placed in service. As shown in  
20 Table SCG-PDM-01, weighted average plant-in-service is projected to increase by  
21 approximately \$6,225 million, or ~ 24%, when comparing recorded year 2025 to TY 2028. The  
22 plant-in-service forecast is based on forecasted capital expenditures. Capital expenditures are  
23 escalated and fully loaded with overheads by project by capital witness in the Results of  
24 Operations (RO) model. The escalation factors applied are sponsored in the Escalation and Gas  
25 Customer Forecast testimony (Ex. SCG-20/SDGE-24). The capital overhead pools for  
26 engineering and department overheads are sponsored in the Gas Engineering and System  
27 Integrity and Gas Distribution testimonies (Ex. SCG-03 and Ex. SCG-04, respectively). For all  
28 remaining overheads assigned to capital, such as pension and benefits, workers compensation,  
29 administrative and general, etc., the costs are sponsored by various witnesses and forecasted in

1 cost centers as directed in SoCalGas’s 2008 GRC Decision.<sup>3</sup> The cost center expenses have been  
2 mapped to the FERC accounts as explained in the Summary of Earnings testimony (Ex. SCG-  
3 27), while the factors that are used to produce operations and maintenance (O&M) to capital  
4 reassignment rates are sponsored in the Shared Services testimony (Ex. SCG-22/SDGE-27).

5 An offsetting component to capital expenditures prior to being recorded to plant-in-  
6 service is contributions in aid of construction (CIAC). CIAC are non-refundable contributions  
7 collected from utility customers in the form of money—or its equivalent—toward the  
8 construction of plant, such as customer-requested relocations. CIAC amounts collected or  
9 received are a direct reduction of fully loaded (*i.e.*, including overhead costs) capital  
10 expenditures (if any) prior to being added to rate base.

## 11 **2. Allowance for Funds Used During Construction**

12 A component of plant-in-service is allowance for funds used during construction  
13 (AFUDC). Accruing for AFUDC is a generally accepted regulatory accounting procedure to  
14 capitalize the cost of debt and equity funds used to finance capital additions. Consistent with  
15 decisions in prior SoCalGas rate case proceedings before this Commission, including D.24-12-  
16 074, SoCalGas typically uses its authorized Rate of Return (ROR)<sup>4</sup> as a reasonable proxy for  
17 estimating AFUDC applied to construction work in progress (CWIP) in the RO model. Other  
18 than the authorized ROR, there is no separate forecast of debt and equity in developing AFUDC  
19 rates for the GRC period.

### 20 **B. Working Capital**

#### 21 **1. Materials and Supplies**

22 Materials and supplies (M&S) represent the cost of purchased materials primarily used as  
23 current inventory for construction, operation, maintenance, and contract work. While SoCalGas  
24 does not anticipate significant changes from its current inventory level for operational needs, the  
25 future costs of M&S are assumed to change at the projected rate of capital inflation. As a result,  
26 the weighted average for estimated years 2026 (\$138.3 million), 2027 (\$138.2 million), and TY  
27 2028 (\$138.4 million) are calculated beginning with the recorded 2025 weighted average balance

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<sup>3</sup> D.08-07-046 at 106 (Ordering Paragraph (OP) 22).

<sup>4</sup> SoCalGas’s current authorized ROR is 7.52% per SoCalGas Advice Letter 6590-G pursuant to D.25-12-043.

1 of \$141.3 million and applying an annual factor for capital inflation, which is sponsored in the  
2 Escalation and Gas Customer Forecast testimony (Ex. SCG-20/SDGE-24). Please see my  
3 supporting work papers for the detailed computation.

## 4 **2. Working Cash**

5 Working Cash represents cash requirements resulting from a lead-lag study and  
6 operational working capital contributed by investors. Working cash is included in rate base to  
7 compensate investors for the funds advanced to operate the business. These funds are used to  
8 pay for operating expenses in advance of receiving customer revenues and for day-to-day  
9 operational working fund requirements. For TY 2028, SoCalGas proposes a working cash  
10 forecast of \$348.8 million. Refer to the detailed descriptions in Section VII of this testimony for  
11 detailed analysis and support.

### 12 **C. Other Deductions**

#### 13 **1. Customer Advances for Construction**

14 Customer advances for construction (CAC) represent refundable cash advances for  
15 construction paid by third parties and/or customers who have requested the installation of new  
16 business mains and services. These cash advances are subject to refund when new customers  
17 and/or appliances are added to these lines as mandated by the Commission and described in  
18 SoCalGas Tariff Rules 20 and 21. With the CPUC decision “Phase III Decision Eliminating Gas  
19 Line Extension Allowances, Ten-Year Refundable Payment Option, and Fifty Percent Discount  
20 Payment Option Under Gas Line Extension Rules” D.22-09-26, only projects for which  
21 applications were received prior to July 1, 2023 qualify for the CAC process. With the  
22 elimination of refundable cash advances, the CAC balance will decline over time as these pre-  
23 July 1, 2023 projects are completed and the CAC balance is either refunded or forfeited.

24 The estimated years 2026 and 2027, and TY 2028 balances are forecasted based on a  
25 historical trend of CAC balances from the initiation date of July 2023 to December 2025. This  
26 trend was used to incorporate the CPUC decision D.22-09-26. The CAC balances include both  
27 the receipts of cash advances, which are recorded as increases, and refunds/forfeitures, which are  
28 recorded as decreases. Please see my supporting work papers for the detailed computation.

#### 29 **2. Deferred Revenue for Income Tax Component of Contribution**

30 Deferred revenue for income tax component of contribution (ITCC) represents the tax  
31 gross-up for CIAC, which became taxable under the Tax Reform Act of 1986. These tax gross-

1 up amounts reflect the present value of the future tax benefits and are included as a reduction to  
2 rate base as ordered in D.87-09-026.<sup>5</sup> This rate base component is sponsored in the Tax  
3 testimony (Ex. SCG-25/SDGE-30).

### 4 **3. Repairs Deduction Rate Base Adjustment (2016 – 2038)**

5 The repairs deduction rate base adjustment represents the reduction to rate base as  
6 ordered in D.16-06-054, which was re-calculated in SoCalGas's 2019 GRC proceeding to reflect  
7 the impact of the TCJA (*i.e.*, the reduction of federal corporate income tax rate from 35% to  
8 21%, effective January 1, 2018). The repairs deduction rate base adjustment is discussed in the  
9 Tax testimony (Ex. SCG-25/SDGE-30).

#### 10 **D. Deductions for Reserves**

##### 11 **1. Accumulated Depreciation Reserve**

12 Accumulated depreciation reserve represents a weighted average accumulated book  
13 depreciation reserve, which includes a summation of depreciation accrual charges, plant  
14 retirements, net salvage, and other adjustments or transfers as prescribed by FERC's Uniform  
15 System of Accounts (USofA). The amount is based on the recorded depreciation reserve as of  
16 December 31, 2025, and forecasted net activity (depreciation, retirements, and net salvage) for  
17 years 2026 through 2028. Depreciation testimony is (Ex. SCG-24).

##### 18 **2. Accumulated Deferred Taxes – Plant**

19 Accumulated deferred taxes arise from the tax normalization requirements pursuant to the  
20 Economic Tax Recovery Act of 1981 (ERTA). These requirements provide that the federal tax  
21 basis of 1981 and future years' plant additions be depreciated for ratemaking tax purposes using  
22 book lives on a straight-line remaining life basis. The tax effect of the difference between this  
23 normalized depreciation method and the accelerated depreciation methods allowed for federal  
24 tax return purposes is treated as a reduction to rate base. This tax treatment is thus reflected as a  
25 benefit for the ratepayer.

26 SoCalGas has computed deferred tax balances in accordance with the normalization  
27 requirements of the Internal Revenue Code. The deferred tax balance that reduces rate base is  
28 the weighted average at the beginning of the period and end of period (derived using a pro rata

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<sup>5</sup> *Re Tax Reform Act of 1986 (D. 87-09-026)*, 1987 Cal. PUC LEXIS 195; 25 CPUC 2d 299 (1987).

1 portion of the projected increase during the period). The derivation of the deferred tax balance is  
2 sponsored in the Tax testimony (Ex. SCG-25/SDGE-30).

### 3 **3. Accumulated Deferred Taxes – 2017 Tax Cuts & Job Acts Adj (TCJA)**

4 TCJA was enacted on December 22, 2017 (Pub. L. No. 115-97). The TCJA made  
5 comprehensive changes to federal tax law. The changes affecting SoCalGas include: (1) a  
6 reduction of the federal corporate tax rate from 35% to 21%, effective beginning in 2018; (2) the  
7 elimination of the bonus depreciation deduction for regulated utilities; and (3) a requirement to  
8 return plant-related excess deferred taxes created by the reduction in the corporate tax rate to  
9 ratepayers ratably using the Adjusted Rate Assumption Method (ARAM) as described in the  
10 TCJA. Refer to the Tax testimony (Ex. SCG-25/SDGE-30) for further discussion regarding  
11 TCJA and the derivation of the deferred tax balance.

### 12 **4. Accumulated Deferred Taxes – CIAC**

13 Accumulated Deferred Taxes – CIAC represents the amount of federal income taxes paid  
14 on contributions and advances received subsequent to February 10, 1987, which are taxable  
15 income under the Tax Reform Act of 1986. As provided in D.87-09-026, the utilities are  
16 permitted to include this component in their rate base. The derivation of the accumulated  
17 deferred taxes is sponsored in the Tax testimony (Ex. SCG-25/SDGE-30).

## 18 **VI. SHARED ASSET RATE BASE**

19 In April 2002, as part of the Commission-approved integration of SoCalGas and San  
20 Diego Gas and Electric Company (SDG&E) (*see* D.01-09-056), certain utility capital assets were  
21 deemed to be shared by both utilities. These shared assets included structures and  
22 improvements, computer equipment, computer software, and telecommunications equipment.  
23 An inter-company billing process was developed for the associated revenue requirements to  
24 appropriately bill for these assets across the utilities.

25 The rate base calculation for both the shared assets that are recorded in SoCalGas plant  
26 balances, and future forecasted shared assets is computed in accordance with the same Commission-  
27 approved methodologies as described in Section III above. The details for SoCalGas's shared assets  
28 are included in the Shared Services testimony (Ex. SCG-22/SDGE-27).

1 **VII. WORKING CASH**

2 **A. Purpose and Determination of Working Cash Under SP U-16-W**

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

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

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

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<sup>6</sup> CPUC, *Standard Practice U-16-W, Determination of Working Cash Allowance (S PU-16-W)*, Ch. 1, § A(4) (Mar. 2006), available at: <https://docs.cpuc.ca.gov/published/REPORT/83068.htm> (defining working capital as “an allowance for the amount of money which the utility has furnished from its own funds for the purpose of enabling it to satisfy ordinary requirements for minimum bank balances and to bridge the gap between the time expenses of rendering utility service are paid and the time revenues from the same service are collected. This definition includes both materials and supplies and working cash in working capital.”).

<sup>7</sup> *Id.* at Ch. 3, § A(1), (stating that “[t]he detailed basis of determining working cash allowance is normally referred to as the ‘weighted average or lead-lag days’ method. Fundamentally, the same principles apply for the detailed basis as for the simplified basis. That is, first the operational requirement is determined and then amounts of monies available through tax accruals and other funds not supplied by the investor are deducted from the operational requirement.”).

1 SoCalGas’s working cash allowance is based on 2025 recorded costs and Test Year 2028  
2 forecasts. Based on SP U-16-W guidance, SoCalGas requests a total 2028 working cash request  
3 of \$348.8 million, as shown in Table PDM-02 below.

4 **TABLE PDM-02**  
5 **Test Year 2028 Summary of SoCalGas Working Cash Requirement**  
6 **(\$ in millions)**

Operational Cash Requirement	\$ 199.8	
Lead-Lag Working Cash Requirement	\$ 328.2	
Total Working Cash Requirement		\$ 528.0
Working Cash Provided by Non-Investors		\$ (179.2)
<b>Net Working Cash Requirement</b>		<b>\$ 348.8</b>

7  
8 **B. SoCalGas’s Working Cash Determination**

9 **1. Working Cash Requirement for Balance Sheet Accounts**

10 Working cash requirements for the in-scope balance sheet accounts (*see* Table PDM-05,  
11 below) were quantified by calculating the weighted-average 2025 account balances and then  
12 escalating to 2028 dollars. Specific account balances were identified that 1) are necessary for the  
13 utility to operate economically and efficiently, and 2) do not bear interest or other carrying costs  
14 recovered elsewhere from customers. SoCalGas then calculated the sum of the monthly ending  
15 balances from December 2024 through December 2025, less one-half of each December balance,  
16 divided by 12. This practice of averaging month-end balances for determining the balance sheet  
17 related working cash allowance is consistent with Chapter 3 of SP U-16-W. These balances were  
18 escalated to 2028 dollars using the shared services escalation factor index, which reflects the  
19 weighted-average of labor and non-labor Operations and Maintenance (O&M) indexes, as  
20 included in the Escalation and Gas Customer Forecast testimony (Ex. SCG-20/SDGE-24).

21 **2. Working Cash Requirements for Income Statement Accounts**

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

25 **Revenue lag** is the average number of days between the midpoint of all utility customers’  
26 monthly service periods and receipt of payment by SoCalGas (Refer to line 1 of Table PDM-04,  
27 below). Because SoCalGas customers pay for all their categories of service with a single bill, the  
28 lead-lag study uses a single value for revenue lag days.

1           **Expense lag** is the number of days between the time the utility incurs its expenses and  
2 the time it pays its suppliers (Refer to columns a and b of Table PDM-03, below). Because  
3 SoCalGas pays separately for each expense category, each category has its own value for lead-  
4 lag days. The expense lag analysis reflects 2025 recorded expenses and the associated average  
5 expense lag days. To determine the number of expense lag days, SoCalGas analyzed 12 months  
6 of invoices from 2025 for the types of expenses forecasted in the GRC (*e.g.*, accounts payable  
7 records, O&M expenses, payroll expense, taxes, and benefits).

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

- 11           • For the total population of invoices for 2025, identified the lag days for each  
12 expense category by comparing the service date (defined as either the date service  
13 was provided or the midpoint of the service period) to the date cash payment was  
14 made;
- 15           • For each category, the lag days were multiplied by the associated dollar amount of  
16 the payment. This resulted in “dollar-days;” and
- 17           • Summed the dollar-days for each category and divided the subtotal by the total of  
18 the 2025 payment amounts.

19           The overall weighted-average number of expense lag days for all non-commodity  
20 account categories was calculated, and applied to the total 2028 O&M costs forecasted in the  
21 GRC, using the following steps:

- 22           • Multiplied total 2025 expenses for each category by total lag days, generating  
23 dollar-days (Refer to column c in Table PDM-03, below);
- 24           • Summed dollar-days and total expenses for all categories (except commodities);  
25 and
- 26           • Divided total dollar-days by total expenses to determine non-commodity  
27 weighted-average lag days (Refer to line 18 of Table PDM-03, below).

28           Non-commodity weighted-average lag days were multiplied by total forecasted 2028  
29 O&M costs, plus forecasted deferred taxes, franchise fees on commodities, pass-through taxes,  
30 and program costs proposed to be recorded to regulatory accounts (balancing or memorandum  
31 accounts), again generating dollar-days (Refer to “All Other Expenses” on line 4 of Table PDM-

1 04, below). For commodity purchases, specific, rather than weighted-average expense lag days  
2 were applied to the forecasted dollars to generate dollar-days.

3 The total of Commodity and All Other Expenses dollar-days was divided by total  
4 forecasted expenses to determine overall weighted-average expense lag days (Refer to line 5 of  
5 Table PDM-04, below).

6 In the last step of the lead-lag study, the overall weighted-average expense lag days were  
7 subtracted from revenue lag days to get net revenue lag days (Refer to line 6 of Table PDM-04,  
8 below), representing the average number of days between payment of expenses and collection of  
9 revenue. This value was then multiplied by total forecasted expenses and divided by 365 days to  
10 determine the total working cash requirement associated with revenue and expenses (Refer to  
11 line 7 of Table PDM-04, below).

### 12 **3. Derivation of the Total Working Cash Requirement**

13 The total working cash allowance was determined by adding the balance sheet related  
14 working cash requirements to the lead-lag related (*i.e.*, income statement related) working cash  
15 requirements (Refer to line 10 of Table PDM-05, below).

### 16 **C. Summary Reports**

17 Table PDM-03 summarizes 2025 expense lag days, commodity expenses, non-  
18 commodity expenses, and associated dollar-days by expense category. SoCalGas's overall 2025  
19 weighted-average non-commodity expense lag days are 25.8 days. These values were developed  
20 to apply against 2028 expense forecasts.

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**TABLE PDM-03**  
**2025 Expense Lag Days, Recorded Expenses, and Dollar-Days (\$000)**

Line No.	Description	[ a ] Expense (Lead) / Lag Days	[ b ] Total 2025 Company Expenses	[ c ] Total Company Dollar-Days [ a ] * [ b ]
1	PURCHASED COMMODITIES--GAS	39.19	\$1,151,025	\$45,108,656
2	PAYROLL EXPENSE	13.16	\$741,727	\$9,762,466
3	F.I.C.A. & MEDICARE EXPENSE	12.42	57,768	717,661
4	FEDERAL & STATE UNEMPLOYMENT INSURANCE	76.05	1,038	78,964
5	INCENTIVE COMPENSATION PLAN	256.5	63,642	16,324,237
6	EMPLOYEE BENEFITS	22.77	350,613	7,983,451
7	OTHER GOODS & SERVICES	32.15	875,526	28,148,175
8	PAYMENTS BY CORPORATE CENTER	22.8	162,763	3,710,385
9	REAL ESTATE RENTAL	(24.52)	21,397	(524,649)
10	MATERIALS ISSUED FROM STORES	0	23,707	0
11	PROPERTY/AD VALOREM, FRANCHISE TAXES & PASS-THROUGH TAXES	72.65	521,655	37,898,214
12	FEDERAL INCOME TAXES--CURRENT	(11.32)	20,653	(233,798)
13	CALIFORNIA CORPORATE FRANCHISE TAXES	(1.92)	48,797	(93,691)
14	INCOME TAXES--DEFERRED	0	55,395	0
15	DEPRECIATION & AMORTIZATION	0	1,008,199	0
16	AMORTIZATION OF INSURANCE PREMIUMS	0	<u>72,024</u>	<u>0</u>
17	<b>TOTAL NON-COMMODITY EXPENSES</b>		<b><u>\$4,024,905</u></b>	<b><u>\$103,771,415</u></b>
18	<b>WEIGHTED AVERAGE NON-COMMODITY EXPENSE LAG DAYS</b>	<b>25.78</b>		

Note: Total may not foot due to rounding

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Table PDM-04 summarizes 2025 revenue lag days; weighted-average expense lag days for energy commodity and non-commodity expense categories; 2028 forecasted commodity and non-commodity expenses; associated dollar-days; overall weighted-average expense lag days; net revenue lag days; and the resulting total 2028 lead-lag working cash requirement of \$328.3 million.

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**TABLE PDM-04**  
**Test Year 2028 Summary of Lead-Lag Study**  
**(\$000)**

Line No.	Description	[ a ] 2025 Lag Days	[ b ] 2028 Expense Forecast	[ c ] 2028 Calculated Dollar-Days [ a ] * [ b ]
1	REVENUE	47.34		
2	EXPENSES			
3	PURCHASED COMMODITIES--GAS	39.19	\$1,465,964	\$57,451,136
4	ALL OTHER EXPENSES	25.78	5,003,429	129,000,042
5	<b>TOTAL EXPENSES - a/c/b; b&amp;c (3+4)</b>	<b>28.82</b>	<b>\$6,469,394</b>	<b>\$186,451,177</b>
6	<b>NET REVENUE LAG DAYS [1a-5a]</b>	<b>18.52</b>		
7	<b>TOTAL LEAD-LAG WORKING CASH REQUIREMENT [5b*6a/365]</b>		<b>\$328,270</b>	

Note: Total may not foot due to rounding

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Table PDM-05 summarizes 2025 and forecasted 2028 balance sheet sources and uses of working cash, lead-lag working cash requirements, and total working cash requirements of \$348.8 million.

**TABLE PDM-05**  
**Test Year 2028 Summary of Working Cash Requirements**  
**(\$000)**

LINE No.	DESCRIPTION	2025 AS RECORDED	2028 REQUIREMENT*
<b>Balance Sheet Account Uses of Working Cash</b>			
1	CASH BALANCES	\$-	\$-
2	OTHER RECEIVABLES	122,786	133,358
3	PREPAYMENTS	35,075	38,094
4	DEFERRED DEBITS	26,078	28,323
5	Sub-Total Balance Sheet Account Uses of Working Cash	\$ 183,939	\$ 199,776
<b>Balance Sheet Account Sources of Working Cash</b>			
6	EMPLOYEES WITHHOLDING	(1,592)	(1,729)
7	CURRENT AND ACCRUED LIABILITIES	(163,405)	(177,474)
8	Sub-Total Balance Sheet Account Sources of Working Cash	(164,997)	(179,204)
9	Net Balance Sheet Account Working Cash Requirement [5+8]	\$ 18,942	\$ 20,572
<b>Lead/Lag Working Cash Requirement**</b>			\$ 328,270
10	<b>Total Working Cash Requirement</b>		<b>\$ 348,842</b>

\* Proposed 2028 amount is derived by escalating the 2025 recorded value using the shared service index.

\*\* Proposed 2028 working cash requirement is from Table SCG-PDM-04

Note: Total may not foot due to rounding

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1           **D.     Working Cash Details**

2           This section contains additional details about each account used in the development of  
3 SoCalGas’s 2028 GRC working cash request.

4                   **1.     Balance Sheet Accounts**

5           These categories provide an overview of the main components of each operational  
6 working cash requirement. For a full list of all the components, see my workpapers (Ex. SCG-  
7 23-WP, Volume 2, Schedule P and Schedule P Detail).

8                   **2.     Operational Cash Requirements**

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

11                          **a.     Cash Balance**

12           SoCalGas has excluded cash balance from its working cash study pursuant to D.19-09-  
13 051 at 652 - 656. (Refer to line 1 of Table PDM-05.)

14                          **b.     Other Receivables**

15           This category includes sundry billing, Accounts Receivable (A/R) gas sales hub & swap,  
16 and other third-party receivables (including claims) and miscellaneous receivables, such as A/R  
17 from new business, customer unallocated collections, miscellaneous sales, rentals and jobbing,  
18 and unallocated charges, as well as receivables from other services. (Refer to line 2 of Table  
19 PDM-05.) SoCalGas does not charge interest on the following receivables:

- 20           •     SoCalGas’s sundry billing process which addresses customer-requested  
21                   construction projects, governmental programs, and marketing services.
- 22           •     A/R Gas Sales Hub & Swap contains pending receivables from Hub & Swap  
23                   transactions.

24                          **c.     Prepayments**

25           This category includes accounts that SoCalGas uses to make prepayments. These  
26 accounts include prepaid insurance and prepaid postage. SoCalGas does not earn interest on the  
27 balances. (Refer to line 3 of Table PDM-05.)

1 **d. Deferred Debits**

2 These accounts include survey and investigation costs (costs incurred on potential capital  
3 projects before they are added to construction work in progress and earn Allowance for Funds  
4 Used During Construction (AFUDC)). (Refer to line 4 of Table PDM-05.)

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

6 The following accounts represent cash supplied by sources other than utility investors,  
7 and thereby reduce the working cash requirement.

8 **a. Employee Withholdings**

9 This category includes the employee-paid portion of benefits costs and taxes. (Refer to  
10 line 6 of Table PDM-05.)

11 **b. Current and Accrued Liabilities**

12 These accounts include workers' compensation reserves, the invoice received clearing  
13 account, accrued vacation, and CPUC fees, as further described below. (Refer to line 7 of Table  
14 PDM-05.)

- 15 • Workers' compensation reserves represent estimated future costs payable to  
16 employees for work-related injuries incurred. This amount was tax effected at a  
17 rate of 27.98% to reflect the fact that the revenues collected are taxed in the year  
18 received, and only a portion of this is available as working cash.
- 19 • The invoice received clearing account includes accounts payable for purchased  
20 materials that have been received and will be capitalized, but for which the  
21 company has not yet received a corresponding invoice.
- 22 • Accrued vacation was included as a reduction in accordance with Chapter 3,  
23 Section C, Paragraph 25 of SP U-16-W.
- 24 • CPUC fees are the unpaid amounts owed to the CPUC.
- 25 • Customer Deposits are excluded as a working cash item because the utility pays  
26 interest on these balances. This treatment is consistent with SoCalGas's previous  
27 GRC decision<sup>8</sup> and with SP U-16-W whereby interest-bearing accounts are  
28 excluded from working cash. SoCalGas is applying the same methodology it has  
29 advocated in past GRCs. SP U-16-W states under the Customers' Deposits

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<sup>8</sup> D.24-12-074.

1 heading that “[o]nly noninterest-bearing customer deposits are to be considered.”<sup>9</sup>  
2 Furthermore, the Customer Deposit balance can fluctuate depending upon the  
3 economy and building demand, and these balances do not have the same  
4 characteristics as permanent sources of financing.

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

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

12 The Income Statement accounts, as described below, consist of the following primary  
13 components that make up the lead-lag working cash requirement: (1) revenue lag, (2) expense  
14 lag, and (3) Test Year 2028 forecast expense. For a full list of all the components and how they  
15 are calculated, see my workpapers at Ex. SCG-23-WP, Volume 2, Schedules C through O-3 and  
16 Schedule Q.

#### 17 **1. Revenue Lag Categories**

18 This is found on line 1 of Table PDM-04 above, and Schedule C of the workpapers. The  
19 year 2025 actual of 47.34 lag days is comprised of the following:

##### 20 **a. Meter reading lag**

21 Meter reading lag (15.21) is calculated from the midpoint of each month’s consumption  
22 to when the meter is read. Meters are read 12 times a year, resulting in an average time between  
23 the meter reading periods of 30.4 days (365/12). This study assumes that service is rendered  
24 evenly before and after the meter is read, which results in an average lag of 15.21 days.

##### 25 **b. Billing lag**

26 Billing lag (3.59 days) reflects the time from the date the meter is read until the time the  
27 bill is prepared and mailed to the customer. SoCalGas performed a detailed query of all meters  
28 read in 2025, which resulted in 3.59 lag days.

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<sup>9</sup> SP U-16-W, Ch. 3, § C(22).

1 **c. Collection lag**

2 Collection lag (27.79 days) is based on the accounts receivable turnover for 2025, which  
3 is calculated by dividing annual revenues by the adjusted average monthly accounts receivable  
4 balance. Revenue collection lag is equal to 365 days divided by the average annual accounts  
5 receivable turnover.

6 **d. Bank lag**

7 Bank lag (0.8 days) describes the number of days between the in-flow of funds and when  
8 those funds are made available.

9 **2. Expense Lag Categories**

10 This is found on lines 2 to 5 of Table PDM-03 above, and Schedule D through Schedule  
11 O-3 of the workpapers. The year 2025 actual of 25.8 lag days is comprised of the following:

12 **a. Purchased Commodities, Gas<sup>10</sup>**

13 The ratemaking mechanisms associated with these costs presume collection of revenues  
14 as supply is consumed and payment of expenses when supply is delivered. The 2025 purchased  
15 gas costs include the net payments made each month for transportation payments, California  
16 payments, interstate payments, and secondary market services.<sup>11</sup> Lag days reflect the weighted-  
17 average of all net gas commodity payments. Each category has the total invoice amounts and its  
18 corresponding dollar weighted days. These dollar-days were calculated by multiplying the  
19 invoice amount by the number of lag days. The total dollar-days for all the categories were  
20 divided by the total invoice amounts to determine the number of lag days for this category. Refer  
21 to line 1 of Table PDM-03 for summarized information.

22 **b. Payroll Expense**

23 This category includes O&M and the O&M portion of clearing and balanced labor costs.  
24 Payroll expenses are incurred every other Friday and have 12.5 lag days. Withholding taxes are

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<sup>10</sup> As approved by the Commission in D.24-12-074, SoCalGas will unbundle the commodity-related working cash from distribution to sales for rate recovery purposes.

<sup>11</sup> Transportation payments include capacity and transportation costs from several pipelines to transport gas to SoCalGas's system. California payments include payments to California producers that supply gas from oil productions. Interstate payments include proceeds and expenditures from out-of-state gas suppliers for SoCalGas and SDG&E core customers. For Secondary Market Services, see SoCalGas, *Gas Acquisition - Secondary Market Services*, available at: <https://www.socalgas.com/for-your-business/energy-market-services/secondary-market-services>.

1 paid the day before payday to the outsourcing company that makes all tax payments on behalf of  
2 SoCalGas, and therefore the resulting net lag is 13.2 lag days. Refer to line 2 of Table PDM-03.

3 **c. Federal Insurance Contributions Act Tax (FICA)**

4 As with the tax portion of payroll expenses above, FICA (which includes Old-Age,  
5 Survivor's, and Disability Insurance [OASDI] and Medicare) expenses are paid the day before  
6 payday to SoCalGas's payroll outsourcing company. Refer to line 3 of Table PDM-03.

7 **d. Federal Unemployment Tax Act (FUTA) and State**  
8 **Unemployment Insurance (SUI)**

9 These costs are paid electronically to SoCalGas's payroll outsourcing company one  
10 month after each quarter end. This study reflects both FUTA and SUI, net of capital. Refer to  
11 line 4 of Table PDM-03.

12 **e. Incentive Compensation Plan (ICP)**

13 This compensation is earned and reflected as an expense in the recorded year (2024) but  
14 paid out in the following year, 2025. Please refer to the Compensation and Benefits testimony  
15 (Ex. SCG-16/SDGE-20) for a description of ICP and benefits. Refer to line 5 of Table PDM-03.

16 **f. Employee Benefits**

17 This category includes health, welfare, retirement, and other benefits offered to  
18 employees. Refer to line 6 of Table PDM-03.

19 **g. Goods and Services**

20 Goods and Services expenses include expenses that have not been identified separately  
21 on the lead-lag study, such as inventory, small price difference, and goods received/invoice  
22 received. Refer to line 7 of Table PDM-03.

23 **h. Payments by Corporate Center**

24 As described in the Corporate Center Administration testimony (Ex. SCG-14/SDGE-18),  
25 SoCalGas pays for its share of expenses incurred by Corporate Center on behalf of the utility.  
26 The lead-lag days from corresponding expense categories in this lead-lag study are applied to  
27 Corporate Center payments to calculate overall lag days. Refer to line 8 of Table PDM-03.

28 **i. Real Estate Lease Payments**

29 Leases are paid in advance. The overall expense lag is negative because payments are  
30 made prior to the midpoint of the occupancy period. Refer to line 9 of Table PDM-03.

1 **j. Materials Issued from Stores**

2 This category includes materials issued for O&M, such as tools, pipes and other  
3 materials. Refer to line 10 of Table PDM-03.

4 **k. Property/Ad Valorem/Pass-through Taxes**

5 This category includes property/ad valorem taxes, franchise fees, and pass-through taxes  
6 collected on behalf of government agencies.<sup>12</sup> Most of these payments are made electronically.

7 Although pass-through taxes do not flow through the income statement, they are a source  
8 of working cash and are appropriately included in the lead-lag study pursuant to SP U-16-W.<sup>13</sup>  
9 The taxes are collected from ratepayers, and payments are made later to taxing authorities. Refer  
10 to line 11 of Table PDM-03.

11 **l. Federal Income Taxes, Current**

12 Tax expense lags are based on statutory due dates: April 15 of each year for the first  
13 quarter, June 15 for the second quarter, September 15 for the third quarter, and December 15 for  
14 the fourth quarter. The tax lag days of each payment are calculated between the midpoint of the  
15 year and the wire payment date. Refer to line 12 of Table PDM-03.

16 **m. California Corporate Franchise Taxes, Current**

17 Tax expense lags are based on statutory due dates of April 15, June 15, and December 15.  
18 The method of calculating the lag days is the same as federal income taxes, although the dollar  
19 weighting is different. Refer to line 13 of Table PDM-03.

20 **n. Depreciation**

21 Depreciation represents the expense allocation of the capital investment over the life of  
22 the investment. Including depreciation expense as a component of working cash captures the  
23 impact of reducing rate base by depreciation expense prior to receiving the cash revenue from  
24 customers.

25 Through depreciation, the utility recovers through rates the costs it incurs to buy, install,  
26 and remove assets over the useful life of the assets. This is a mechanism for customers to pay  
27 through rates the portion of the assets' cost from which they receive benefit. Plant in service is  
28 reduced by depreciation expense in the calculation of rate base, but the cash provided by investors

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<sup>12</sup> A description of taxes is provided in the Tax testimony (Ex. SCG-25/SDGE-30).

<sup>13</sup> SP U-16-W, Ch. 3, § C(27).

1 for the plant in service investments is not recovered until the cash relating to the depreciation  
2 expense is collected from customers. This results in a revenue lag between the recording of  
3 depreciation expense (resulting in lower rate base, and therefore lower return on rate base) and the  
4 cash received. This lag is captured as part of the revenue lag forecast. *See* line 15 of Table PDM-  
5 03, or my workpaper for more detail. (Ex. SCG-23-WP, Volume 2, Schedule O-2.)

6 Investors should earn a return on their invested capital until the cash is returned to them,  
7 and this shortfall is addressed by including depreciation expense in the lead-lag component of  
8 working cash and setting the lag equal to zero days is consistent with CPUC SP U-16-W.<sup>14</sup>

9 In recent CPUC GRC's, intervenors have presented the argument that depreciation  
10 expense does not impact cash. However, this argument does not address the issue that  
11 depreciation expense is the mechanism to recover the capital provided by investors which cannot  
12 be returned to investors until the cash is received. Working cash is not just the sum of cash  
13 items; its purpose is to connect rate base as an accrual accounting process to a cash process.

14 SoCalGas's inclusion of depreciation expense as part of working cash is consistent with  
15 CPUC SP U-16-W, which states twice that depreciation expense should be included in the  
16 computation of the working cash allowance. Refer to line 14 of Table PDM-03.

17 **o. Amortization of Insurance Premiums**

18 Amortization is weighted at zero days recognizing that investor funding has occurred but  
19 has not yet been recovered. Refer to line 16 of Table PDM-3.

20 **p. Federal/State Income Taxes, Deferred**

21 This amount reflects the change of deferred federal and state taxes in 2025. Accumulated  
22 deferred income taxes (ADIT) are deducted from rate base as cost-free funds available for  
23 investment. However, the financial recording of deferred income taxes does not produce cost-  
24 free capital and the funds do not become available until customers pay their bills. Therefore, the  
25 recorded amount of ADIT overstates the actual amount of cost-free funds that are available. The  
26 inclusion of deferred income taxes at zero lag days in the overall expense lag weighted-average  
27 corrects this condition by increasing net revenue lag, in the same manner as depreciation,  
28 described above. Refer to line 14 of Table PDM-03.

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<sup>14</sup> SP U-16-W, Ch. 3, § F(40) (stating, “[s]ince book depreciation expense is occurring uniformly day by day and accumulated depreciation is deducted from the rate base, the practice is to include depreciation provisions at zero lag days.”).

1                                   **3.       TY 2028 Forecasted Expense Components**

2                   Forecasted expenditures for commodity costs, O&M non-commodity costs, franchise fees  
3 on commodity costs, pass-through taxes, and balancing account costs are utilized in the working  
4 cash computation. Refer to line 5 of Table PDM-04.

5                                   **a.       TY Forecasted Commodity Costs**

6                   For commodity costs, 2025 actual weighted-average number of lag days is applied to  
7 forecasted 2028 costs. Forecasted gas costs are computed by multiplying the forecasted 2028  
8 monthly demand by the monthly weighted-average cost of gas (WACOG). The monthly  
9 WACOG reflects purchase and interstate transportation costs. Refer to line 3, column b of Table  
10 PDM-04.

11                                   **b.       Other TY Non-Commodity Costs**

12                   The 2025 overall weighted-average number of lag days for expenses excluding  
13 commodities is applied to projected test year O&M expenses. This category includes non-  
14 commodity O&M expenses, deferred income taxes, franchise fees on commodity, pass-through  
15 taxes, and balanced program costs. Refer to line 4, column b of Table PDM-04.

16 **VIII. CONCLUSION**

17                   The foregoing describes the methodology used by SoCalGas to arrive at a Weighted  
18 Average Rate Base for TY 2028. SoCalGas requests that the Commission adopt as reasonable all  
19 components of Weighted Average Rate Base, as summarized in Table SCG-PDM-01 for TY 2028.

20                   This concludes my prepared direct testimony.

1 **IX. WITNESS QUALIFICATIONS**

2 My name is Patrick D. Moersen. My business address is 555 West 5th Street, Los  
3 Angeles, CA 90013-1011. I am employed by SoCalGas as the Asset and Project Accounting  
4 Manager overseeing the rate base, depreciation, and project accounting in the SoCalGas  
5 Accounting Operations department.

6 I received a Bachelor of Science degree in Business with an emphasis in Finance from  
7 California State University, Northridge, in 1981. I received a Master of Business Administration  
8 with an emphasis in Finance from California Lutheran University in 1998.

9 I have been employed by SoCalGas in various positions and with varying responsibilities  
10 since 1994. My experience has included positions in Internal Audit, Financial Planning,  
11 Accounts Payable, Treasury, Cash Management, and Financial and Regulatory Forecasting. My  
12 current responsibilities include managing the rate base and depreciation functions including  
13 General Rate Case support, and Project Accounting functions for SoCalGas.

14 I have previously testified before this Commission.

**APPENDIX A**  
**GLOSSARY OF TERMS**

## APPENDIX A - Glossary of Terms

ACRONYM	DEFINITION
ADIT:	Accumulated Deferred Income Taxes
AFUDC:	Allowance for Funds Used During Construction
A/R:	Accounts Receivable
CA:	California
CAC:	Customer Advances for Construction
CFR:	Code of Federal Regulations
CIAC:	Contribution in Aid of Construction
CPUC:	California Public Utilities Commission
CWIP:	Construction Work-in-Progress
D.	Decision
ERTA:	Economic Tax Recovery Act of 1981
FERC:	Federal Energy Regulatory Commission
FICA:	Federal Insurance Contributions Act
FUTA:	Federal Unemployment Tax Act
GRC:	General Rate Case
ICP:	Incentive Compensation Plan
ITCC:	Income Tax Component of Contribution in Aid of Construction
M&S:	Materials & Supplies
OASDI:	Old Age, Survivors, and Disability Insurance
O&M:	Operations and Maintenance
PLPD:	Public Liability and Property Damage
RO:	Results of Operations
ROR:	Rate of Return
SDG&E:	San Diego Gas & Electric Company
SCG/SoCalGas:	Southern California Gas Company
SP:	Standard Practice
SUI:	State Unemployment Insurance
TY:	Test Year
USofA:	Uniform System of Accounts
WACOG:	Weighted Average Cost of Gas
WP:	Workpaper