BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Application of SOUTHERN CALIFORNIA GAS COMPANY (U 904 G) for Authority to Establish Its Authorized Cost of Capital for Utility Operations for 2023 and to Reset the Annual Cost of Capital Mechanism.	A.22-04-____ (Filed April 20, 2022)

TEST YEAR 2023 COST OF CAPITAL APPLICATION OF SOUTHERN CALIFORNIA GAS COMPANY (U 904 G)

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April 20, 2022

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I. INTRODUCTION

In accordance with the California Public Utilities Commission's (Commission) Rules of Practice and Procedure, and Commission decisions (D.) 12-12-034, D.13-03-015 (as modified by D.16-02-019, D.17-07-005, and D.18-01-001) and D.19-12-056, Southern California Gas Company (SoCalGas) hereby submits its Cost of Capital application to establish its authorized Cost of Capital for Test Year 2023, and to revise its gas rates accordingly. SoCalGas also requests that the Commission reset its currently authorized Cost of Capital Mechanism, with proposed modifications.

II. BACKGROUND

In Application (A.) 19-04-018, SoCalGas filed its last Cost of Capital application for Test Year 2020. The Commission consolidated the filed Cost of Capital applications filed by the four major California gas/electric utilities: Southern California Edison Company (SCE), San Diego Gas & Electric Company (SDG&E), SoCalGas, and Pacific Gas and Electric Company (PG&E) (collectively, California IOUs).

In the 2020 Cost of Capital Proceeding, the Commission adopted the following with respect to SoCalGas in its decision:[1]

Test Year 2020			
Component	**Capital Ratio**	**Cost**	**Weighted Cost**
Long-Term Debt	45.60%	4.23%	1.93%
Preferred Equity	2.40%	6.00%	0.14%
Common Equity	52.00%	10.05%	5.23%
Rate of Return (ROR)	100.00%		7.30%

The Commission also ordered that the Cost of Capital Mechanism shall continue to be in effect through the 2020 Cost of Capital cycle for the California IOUs.[2] In that decision, the Commission reiterated that the California IOUs were to file their next Cost of Capital on April 20, 2022.[3]

III. LEGAL STANDARDS

The legal standard for setting a fair rate of return has been established by the United States Supreme Court in the <u>Bluefield</u> and <u>Hope</u> cases.[4] According to the <u>Bluefield</u> decision:

> A public utility is entitled to such rates as will permit it to earn a return upon the value of the property which it employs for the convenience of the public equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding risks and uncertainties . . . The return should be reasonably sufficient to assure confidence in the financial soundness of the utility, and should be adequate, under efficient and economical management, to maintain and support its credit, and enable it to raise the money necessary for the proper discharge of its public duties.[5]

The <u>Hope</u> decision reinforces principles articulated in the <u>Bluefield</u> decision:

> From the investor or company point of view it is important that there be enough revenue not only for operating expenses but also for the capital costs of the business. These include service on the debt and dividends on the stock . . . By that standard the return to the equity owner should be commensurate with the

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1 *See* D.19-12-056 p. 55 (Ordering Paragraph 5).
2 D.19-12-056, p.56 (Ordering Paragraph 7).
3 D.19-12-056 at p.44.
4 *See* D.12-12-034 at 17.
5 Bluefield Water Works Co. v. Public Serv. Comm'n, 262 U.S. 679, 692 (1923).

> returns on investments in other enterprises having corresponding risks. That return, moreover, should be sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and attract capital.[6]

The Commission stated, "in applying these parameters, we must not lose sight of our duty to utility ratepayers to protect them from unreasonable risks including risks of imprudent management."[7] In addition to Bluefield and Hope, the Duquesne decision stands for the guiding principle that the Constitution protect utilities from being limited to a charge for their property serving the public which is so unjust as to be confiscatory.[8] If "the rate does not afford sufficient compensation, the State has taken the use of utility property without paying just compensation and so violated the Fifth and Fourteenth Amendments."[9]

IV. SUMMARY OF PROPOSALS

A. Test Year 2023 Cost of Capital and Rate of Return

In this application, SoCalGas is requesting the Commission adopt a Test Year 2023 Cost of Capital, as shown below.

Test Year 2023			
Component	**Capital Ratio**	**Cost**	**Weighted Cost**
Long-Term Debt	45.60%	3.89%	1.77%
Preferred Equity	0.40%	6.00%	0.02%
Common Equity	54.00%	10.75%	5.81%
Rate of Return (ROR)	100.00%		7.60%

SoCalGas' proposed Cost of Capital, if adopted, would result in no change in the Long-Term Debt ratio, a decrease in the Preferred Equity ratio of 200 basis points[10], and commensurate increase in the Common Equity ratio of 200 basis points. In addition, SoCalGas is requesting (1)

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6 Federal Power Comm'n v. Hope Natural Gas Co., 320 U.S. 591, 603 (1944).
7 *See* D.12-12-034 at 17.
8 *See* Duquesne Light Co. v. Barasch, 488 U.S. 299, 307 (1989).
9 Id. at 308.
10 One basis point = 0.01%. Ten basis points = 0.10%. One hundred basis points = 1.0%.

a decrease of embedded costs for Long-Term Debt from 4.23% to 3.89%, (2) to maintain its embedded costs for Preferred Equity of 6.00%, and (3) an increase in its currently authorized Return on Equity from 10.05% to 10.75%. On a weighted cost basis, SoCalGas' proposed Cost of Capital structure would result in a Rate of Return of 7.60%, which represents a 30 basis point increase from its currently authorized 7.30%.

This increase in Rate of Return, if adopted, would equate to an expected increase in overall transportation revenues of $51.8 million for 2023 (or 1.3%). A typical residential customer using 35 therms of gas per month will see a $0.63 monthly bill increase in 2023 (or 1.1%).

B. Authorized Capital Structure

The Long-Term Debt ratio of a utility's authorized ratemaking capital structure represents a measurement of a company's financial leverage. A high Long-Term Debt ratio increases the debt repayment risk to lenders and, all other things being equal, will result in higher costs of capital over the long-term since the utility will not be as competitive in issuing new Long-Term Debt at low cost. Conversely, too low of a Long-Term Debt ratio is not preferred as it does not take advantage of a tax-deductible source of financing, resulting in lower cost than equity.

Preferred Equity is a source of capital that is issued in shares and pays dividends, like Common Equity, but Preferred Equity dividends are paid at an agreed upon amount at regular intervals. Preferred Equity generally has a lower cost than Common Equity, but higher cost than Long-Term Debt. Credit rating agencies generally treat Preferred Equity as a hybrid of debt and equity, assigning a percentage of equity content in accordance with the security's features.

The Common Equity component represents the amount of capital funded by shareholders. The Common Equity ratio reflects how a company is financing its cash needs and shows the percentage of assets on which the shareholders have a claim. A high Common Equity ratio lowers financial risk by reducing the reliance on Long-Term Debt.

In terms of SoCalGas' authorized capital structure, the company's proposal is closely aligned with its actual capital structure experience over the past five years. From 2017 to 2021, SoCalGas' recorded capital structure ratios were as follows:[11]

Recorded	2017	2018	2019	2020	2021	2017-2021 Average	Proposed 2023
Long-Term Debt	43.47%	44.80%	44.50%	48.05%	46.65%	45.49%	**45.60%**
Preferred Equity	0.31%	0.28%	0.25%	0.22%	0.21%	0.25%	**0.40%**
Common Equity	56.22%	54.92%	55.25%	51.73%	53.14%	54.25%	**54.00%**

In prior decisions, the Commission adopted authorized capital structures which closely aligned with a utility's actual capital structures. In the California IOUs' Test Year 2013 Cost of Capital case (A.12-04-015 et al.), for example, the Commission approved San Diego Gas & Electric Company's (SDG&E) requested Common Equity ratio because it was consistent with their actual Common Equity ratio.[12] In addition, in the 2017 proceeding for large California water utilities,[13] the utilities requested capital structures that were slightly higher than their average historical capital structures. Ultimately, the Commission adopted the utilities' proposals, stating that their request was not materially different than the recent historical actual capital

11 *See* Exhibit SCG-02 (Arazi), pp. 7, 15, 17, and Appendix C (figures are rounded to the hundredth decimal point. If percentages do not sum to 100.00%, it is due to rounding).

12 *See* D.12-12-034 at 11.

13 A.17-04-001 et al.

structures proposed by the Office of Ratepayer Advocates (now identified as California Public Advocates).[14]

SoCalGas' comprehensive authorized capital structure proposal more closely aligns with SoCalGas' actual capital structure levels and is one the company can manage and maintain for the next Cost of Capital cycle. The Commission's adoption of this capital structure will support SoCalGas' ability to maintain a solid credit rating, and its ability to moderate financial risk.

C. Return on Equity (ROE)

James Coyne sponsors SoCalGas' authorized ROE proposal of 10.75%. He examined the company's risks and concluded that its risk environment exceeds the natural gas utility industry average. Mr. Coyne employed the traditional Cost of Capital estimating methodologies which assume business-as-usual circumstances. His ROE recommendation is derived from Cost of Capital studies that he performed using the financial models (*i.e.*, Discounted Cash Flow, Capital Asset Pricing Model, Risk Premium, and Expected Earnings), as well as his application of professional judgment to the results, to a group of investment-grade natural gas distribution utilities. He also surveyed and analyzed the historical risk premiums in the utility industry and risk premiums allowed by regulators as indicators of the appropriate risk premium for the utility industry. Mr. Coyne selected an ROE above the average results obtained from the various methodologies in order to account for SoCalGas' higher than average investment risk compared to other natural gas utilities.

Mr. Coyne concludes that his recommended ROE of 10.75% is required in order for SoCalGas to: (i) attract capital on reasonable terms, (ii) maintain its financial integrity, and (iii) earn a return commensurate with returns on comparable risk investments.

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14 *See* D.17-04-001, *mimeo*, p. 21.

D. Cost of Capital Mechanism (CCM)

SoCalGas is also requesting that the Commission extend its current CCM, which functions to automatically adjust the authorized Cost of Capital based on material bond rate fluctuations. The current CCM is fundamentally simple in its construction and consists of (i) a benchmark interest rate (based on Moody's "A" Utility Bond Index) and (ii) a 100 basis point dead band around that benchmark, which determines whether the CCM will trigger. If bond rates fluctuate in either direction beyond the dead band during a CCM measurement period, the CCM will automatically trigger, thereby causing several components of the authorized Cost of Capital to be adjusted (*i.e.*, the ROE, embedded costs of Long-Term Debt and Preferred Equity), and an updated Cost of Capital (Rate of Return) will become effective on January 1 of the following year.

The Commission recognized the benefits of the CCM when it adopted it for the California energy IOUs in the 2012 Cost of Capital (Phase 2) proceeding:

> This CCM streamlines the major energy utilities' COC process while providing greater predictability of the utilities' COC by eliminating the use of interest rate forecasts and disputes concerning interest rate levels and trends, as well as uncertainties associated with conflicting perceptions of financial markets and the return requirements of investors. Hence, shareholders and ratepayers alike share the burden and benefits of market changes, while eliminating the burden of annual COC applications. The CCM also enables the utilities, interested parties, and Commission staff to reduce and reallocate their respective workload requirements for litigating annual COC proceedings.[15]

In addition, credit rating agencies and banks have indicated their preference for the automatic rate-setting mechanism, since it provides greater clarity and transparency in understanding changes to a utility's ROE compared to the uncertainty of trying to predict the

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15 *See* D.13-03-015, *mimeo*, p. 7.

outcome of litigation. This in turn promotes a degree of stability; and financial markets generally respond favorably to stability.

However, based on the assessment of recent rating agency information and actions, SoCalGas proposes certain enhancements to the current CCM to make the mechanism more appropriate and functional based on the changing credit ratings landscape. These enhancements include: (1) applying a utility's median credit rating to choose the applicable Moody's utilities index when a utility has split ratings, (2) allowing a utility to change the applicable index when the utility's credit ratings change during CCM years, and (3) specifying the CCM Benchmark index and rate applicable for each applicant in the Commission's final decision and what index applies at the time of the decision.

V. SUPPORTING TESTIMONY

SoCalGas' Cost of Capital application is accompanied by prepared direct testimonies from five witnesses, as summarized below:

1. **Exhibit SCG-01, Policy Overview (witness: Mia DeMontigny)**. This testimony provides an overview of SoCalGas' Cost of Capital proposals for the Test Year 2023 and the period until the Cost of Capital is next updated by application.

2. **Exhibit SCG-02, Authorized Capital Structure and Embedded Cost of Debt and Preferred (witness: Shirley Arazi)**. This testimony presents SoCalGas' authorized capital structure proposal. Ms. Arazi presents evidence of SoCalGas' historical recorded capital structure levels. As she shows, SoCalGas has relied on Common Equity relative to Long-Term Debt and Preferred Equity over the past five years, which has helped SoCalGas manage the financial risk of being over-leveraged. SoCalGas is proposing an updated authorized capital structure

comprised of 45.60% Long-Term Debt, 0.40% Preferred Equity, and 54.00% Common Equity. Ms. Arazi also performs and presents an embedded cost analysis for Long-Term Debt and Preferred Equity, which are applied to the capital ratios to yield a weighted cost of Long-Term Debt and Preferred Equity.

3. **Exhibit SCG-03, Company Risk (witness: Deana Ng)**. This testimony describes SoCalGas' business, financial, and regulatory risk, operating as a regulated, gas-only utility in California. Her testimony provides justification and additional qualitative support for SoCalGas' Return on Equity proposal presented in Exhibit SCG-04 (Coyne), and authorized capital structure proposal presented in Exhibit SCG-02 (Arazi). Ms. Ng supports her analysis with official company disclosures and information from three prominent rating agencies: Moody's, Standard and Poor's (S&P), and Fitch. SoCalGas faces unique risks as a gas-only utility operating in California and in today's political and regulatory climate. Indeed, natural gas and natural gas storage have increasingly been the subject of political and public scrutiny, including a desire by some to reduce or eliminate reliance on natural gas as an energy source. Ms. Ng explains that these risks should be appropriately reflected in SoCalGas' authorized Cost of Capital.

4. **Exhibit SCG-04, Return on Equity (witness: James Coyne)**. This testimony presents SoCalGas' authorized ROE proposal of 10.75%, as discussed earlier.

5. **Exhibit SCG-05, Cost of Capital Mechanism (witness: Patrick Billings)**. This testimony presents SoCalGas' CCM analysis and proposal. Mr. Billings describes how the CCM works, how it has performed since being adopted, and the benefits of continuing the mechanism for the upcoming Cost of Capital cycle. His

testimony also presents the history of SoCalGas' credit ratings, the factors that have led to recent ratings actions, and the proposed enhancements to the current CCM to make the mechanism more appropriate and functional based on the changing credit ratings landscape (as discussed above).

VI. RELIEF REQUESTED

SoCalGas respectfully requests that the Commission take the following actions:

1. adopt the proposed Test Year 2023 comprehensive Cost of Capital request, which yields an updated Rate of Return of 7.60%;
2. adopt an authorized capital structure with the following ratios: Long-Term Debt of 45.60%, Preferred Equity of 0.40%, and Common Equity of 54.00%;
3. adopt an authorized ROE of 10.75%;
4. adopt the embedded cost calculations for Long-Term Debt and Preferred Equity, as presented in this application (to be updated during the course of this proceeding); and
5. authorize the extension of SoCalGas' current Cost of Capital Mechanism with the enhancements identified herein.

VII. STATUTORY AND PROCEDURAL REQUIREMENTS

A. Rule 2.1

This application is made pursuant to Sections 451, 454, 489, 491, 701, 728, and 729 of the Public Utilities Code of the State of California, the Commission's Rules of Practice and Procedure, and relevant decisions, orders, and resolutions of the Commission.

1. Rule 2.1 (a) – Legal Name

SOUTHERN CALIFORNIA GAS COMPANY is a public utility corporation organized and existing under the laws of the State of California. SoCalGas' principal place of business and mailing address is 555 West Fifth Street, Los Angeles, CA 90013.

2. Rule 2.1 (b) – Correspondence

Correspondence and communications should be addressed to:

Lisa Browy
GRC Program Manager
c/o SOUTHERN CALIFORNIA GAS COMPANY
8330 Century Park Court
San Diego, CA 92123
Telephone: (619) 676-7009
E-mail: lbrowy@sdge.com

A copy should also be sent to:

Jeffrey B. Fohrer
Southern California Gas Company
555 West Fifth Street, Ste. 1400
Los Angeles, CA 90013
Email: jfohrer@socalgas.com

3. Rule 2.1 (c)

a. Proposed Category of Proceeding

SoCalGas proposes that this proceeding be categorized as "ratesetting" under Rule 1.3(e) because they propose to modify or establish customer cost allocations and to modify the rates charged for these services.

b. Need for Hearings

SoCalGas expect hearings will be necessary in this proceeding and have proposed dates in the procedural schedule below.

c. Issues to be Considered and Relevant Safety Considerations

The scoping memo and ruling from the prior consolidated Cost of Capital proceeding[16] provides a helpful framework for listing the primary issues to be considered in this application:

- The appropriate capital structure;
- The appropriate cost of Long-Term Debt;
- The appropriate cost of Preferred Stock;
- The appropriate cost of Common Equity;
- Additional risk factors, including financial, business, and regulatory risks, that should be considered in setting the utilities' authorized return on equity;
- The appropriate rate of return on the utility rate base;
- The appropriateness of continuing the Cost of Capital Mechanism, and whether SoCalGas' proposed enhancements are reasonable.

SoCalGas does not expect there to be specific safety-related issues or considerations that will need to be addressed by the Commission in this proceeding.

d. Proposed Schedule

SoCalGas proposes the following schedule for this application:

EVENT	DATE
Application/Testimony	April 20, 2022
Responses/Protests	within 30 days of Daily Calendar notice
Reply to Responses/Protests	within 10 days (see Rule 2.6)
Prehearing Conference	by June 10, 2022
Intervenor testimony	July 27, 2022
Rebuttal testimony	August 19, 2022
Evidentiary hearings	August 29 – September 2, 2022

16 *See* A.19-04-014 et al., Assigned Commissioner's Scoping Memo and Ruling (July 2, 2019), p. 2-3.

Embedded Cost Update	September 14, 2022
Opening briefs	September 27, 2022
Reply briefs	October 12, 2022
Proposed Decision	November 1, 2022
Commission Decision	December 1, 2022

B. Rule 2.2 – Articles of Incorporation

SoCalGas previously filed a certified copy of its Restated Articles of Incorporation with the Commission on October 1, 1998, in connection with A.98-10-012, and these articles are incorporated herein by reference.

C. Rule 3.2

1. Rule 3.2(a)(1) – Balance Sheet and Income Statement

The most recent updated balance sheet and income statements for SoCalGas are attached to this application as Attachment A.

2. Rule 3.2(a)(2) and (3) – Statement of Present and Proposed Rates

The rate changes that will result from this application are described in Attachment B.

3. Rule 3.2(a)(4) – Description of Applicant's Property and Equipment

General descriptions of SoCalGas' property and equipment were previously filed with the Commission on May 3, 2004 in connection with A.04-05-008, and are incorporated herein by reference. Statements of Original Cost and Depreciation Reserve as of are included as Attachment C.

4. Rules 3.2(a) (5) and (6) – Summary of Earnings

The summary of earnings for SoCalGas is included herein as Attachment D.

5. **Rule 3.2(a)(7) – Depreciation**

For financial statement purposes, depreciation of utility plant has been computed on a straight-line remaining life basis at rates based on the estimated useful lives of plant properties. For federal income tax accrual purposes, SoCalGas generally computes depreciation using the straight-line method for tax property additions prior to 1954, and liberalized depreciation, which includes class life and Asset Depreciation Range Systems, on tax property additions after 1954 and prior to 1981. For financial reporting and rate-making purposes, "flow through accounting" has been adopted for such properties. For tax property additions in years 1981 through 1986, SoCalGas has computed its tax depreciation using the Accelerated Cost Recovery System. For the years after 1986, SoCalGas has computed its tax depreciation using the Modified Accelerated Cost Recovery Systems and, since 1982, has normalized the effects of the accelerated depreciation differences in accordance with the Economic Recovery Tax Act of 1981,the Tax Reform Act of 1986, and the Tax Cuts and Jobs Act of 2017.

6. **Rule 3.2(a)(8) – Proxy Statement**

A copy of the most recent proxy statement, dated April 27, 2021, was mailed to the Commission on April 27, 2021, and is incorporated herein by reference.

7. **Rule 3.2(a)(10) – Pass Through of Cost**

This application both reallocates costs among customer classes as well as passes through to customers of SoCalGas the costs for the services provided as authorized by the Commission.

8. **Rule 3.2(b) - (d) – Service and Notice**

SoCalGas is serving this application and testimony (via filed and served notice of availability) on all parties to A.19-04-018, as well as A.17-10-007/008. Within 20 days of filing, SoCalGas will mail notice of this application to the State of California and to cities and counties served by SoCalGas, and will post the notice in their offices and publish the notice in newspapers of general circulation in each county in their service territories. In addition, SoCalGas will, within 45 days after filing this application, include notices with the regular bills mailed to all customers affected by the proposed rate changes.

VIII. CONCLUSION

SoCalGas respectfully requests that the Commission grant the relief requested in this application.

Respectfully submitted,

By: *<u>/s/ Mia DeMontigny</u>*

Mia DeMontigny
Chief Financial Officer and Controller
SOUTHERN CALIFORNIA GAS COMPANY

By: *<u>/s/ Jeffrey B. Fohrer</u>*

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April 20, 2022

VERIFICATION

I am an officer of Southern California Gas Company and am authorized to make this verification on behalf of Southern California Gas Company. The matters stated in the foregoing application are true to my own knowledge, except as to matters that are stated therein on information and belief, and as to those matters I believe them to be true.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Executed this 20th day of April, 2022, at Los Angeles, California.

By:__________*/s/ Mia DeMontigny*_________
MIA DEMONTIGNY

Mia DeMontigny
Chief Financial Officer and Controller
SOUTHERN CALIFORNIA GAS COMPAN

ATTACHMENT A

Balance Sheet and Income Statement

SOUTHERN CALIFORNIA GAS COMPANY
BALANCE SHEET
ASSETS AND OTHER DEBITS
SEPTEMBER 30, 2021

	1. UTILITY PLANT	2021
101	UTILITY PLANT IN SERVICE	$21,157,681,282
102	UTILITY PLANT PURCHASED OR SOLD	-
105	PLANT HELD FOR FUTURE USE	-
106	COMPLETED CONSTRUCTION NOT CLASSIFIED	-
107	CONSTRUCTION WORK IN PROGRESS	1,323,271,593
108	ACCUMULATED PROVISION FOR DEPRECIATION OF UTILITY PLANT	(6,908,067,192)
111	ACCUMULATED PROVISION FOR AMORTIZATION OF UTILITY PLANT	(119,316,903)
117	GAS STORED-UNDERGROUND	61,422,045
	TOTAL NET UTILITY PLANT	15,514,990,825

2. OTHER PROPERTY AND INVESTMENTS

121	NONUTILITY PROPERTY	44,743,497
122	ACCUMULATED PROVISION FOR DEPRECIATION AND AMORTIZATION OF NONUTILITY PROPERTY	(15,608,887)
123	INVESTMENTS IN SUBSIDIARY COMPANIES	-
	NONCURRENT PORTION OF ALLOWANCES	-
124	OTHER INVESTMENTS	13,979
125	SINKING FUNDS	-
128	OTHER SPECIAL FUNDS	250,000
175	LONG TERM PORTION OF DERIVATIVE ASSETS	132,980
	TOTAL OTHER PROPERTY AND INVESTMENTS	29,531,569

Data from SPL as of February 9, 2022.

SOUTHERN CALIFORNIA GAS COMPANY
BALANCE SHEET
ASSETS AND OTHER DEBITS
SEPTEMBER 30, 2021

3. CURRENT AND ACCRUED ASSETS

		2021
131	CASH	226,263,744
132	INTEREST SPECIAL DEPOSITS	-
134	OTHER SPECIAL DEPOSITS	-
135	WORKING FUNDS	124,064
136	TEMPORARY CASH INVESTMENTS	-
141	NOTES RECEIVABLE	-
142	CUSTOMER ACCOUNTS RECEIVABLE	586,248,247
143	OTHER ACCOUNTS RECEIVABLE	37,891,527
144	ACCUMULATED PROVISION FOR UNCOLLECTIBLE ACCOUNTS	(85,081,176)
145	NOTES RECEIVABLE FROM ASSOCIATED COMPANIES	-
146	ACCOUNTS RECEIVABLE FROM ASSOCIATED COMPANIES	(3,143,341)
151	FUEL STOCK	-
152	FUEL STOCK EXPENSE UNDISTRIBUTED	-
154	PLANT MATERIALS AND OPERATING SUPPLIES	64,914,198
155	MERCHANDISE	-
156	OTHER MATERIALS AND SUPPLIES	-
158	GHG ALLOWANCE	646,393,192
	(LESS) NONCURRENT PORTION OF ALLOWANCES	-
163	STORES EXPENSE UNDISTRIBUTED	(1,509,301)
164	GAS STORED	109,820,195
165	PREPAYMENTS	80,868,372
171	INTEREST AND DIVIDENDS RECEIVABLE	808,230
173	ACCRUED UTILITY REVENUES	-
174	MISCELLANEOUS CURRENT AND ACCRUED ASSETS	15,830,833
175	DERIVATIVE INSTRUMENT ASSETS	4,069,977
176	LONG TERM PORTION OF DERIVATIVE ASSETS	(132,980)
	TOTAL CURRENT AND ACCRUED ASSETS	1,683,365,781

4. DEFERRED DEBITS

181	UNAMORTIZED DEBT EXPENSE	29,783,363
182	UNRECOVERED PLANT AND OTHER REGULATORY ASSETS	3,783,406,539
183	PRELIMINARY SURVEY & INVESTIGATION CHARGES	1,739,264
184	CLEARING ACCOUNTS	1,858,699
185	TEMPORARY FACILITIES	-
186	MISCELLANEOUS DEFERRED DEBITS	962,968,419
188	RESEARCH AND DEVELOPMENT	-
189	UNAMORTIZED LOSS ON REACQUIRED DEBT	587,614
190	ACCUMULATED DEFERRED INCOME TAXES	970,372,792
191	UNRECOVERED PURCHASED GAS COSTS	-
	TOTAL DEFERRED DEBITS	5,750,716,690
	TOTAL ASSETS AND OTHER DEBITS	$ 22,978,604,865

Data from SPL as of February 9, 2022.

SOUTHERN CALIFORNIA GAS COMPANY
BALANCE SHEET
LIABILITIES AND OTHER CREDITS
SEPTEMBER 30, 2021

5. PROPRIETARY CAPITAL

		2021
201	COMMON STOCK ISSUED	(834,888,907)
204	PREFERRED STOCK ISSUED	(21,551,075)
207	PREMIUM ON CAPITAL STOCK	-
208	OTHER PAID-IN CAPITAL	-
210	GAIN ON RETIRED CAPITAL STOCK	(9,722)
211	MISCELLANEOUS PAID-IN CAPITAL	(831,306,680)
214	CAPITAL STOCK EXPENSE	143,261
216	UNAPPROPRIATED RETAINED EARNINGS	(3,586,664,230)
219	ACCUMULATED OTHER COMPREHENSIVE INCOME	29,208,723
	TOTAL PROPRIETARY CAPITAL	(5,245,068,630)

6. LONG-TERM DEBT

221	BONDS	(4,450,000,000)
224	OTHER LONG-TERM DEBT	(309,338,770)
225	UNAMORTIZED PREMIUM ON LONG-TERM DEBT	-
226	UNAMORTIZED DISCOUNT ON LONG-TERM DEBT	7,455,469
	TOTAL LONG-TERM DEBT	(4,751,883,301)

7. OTHER NONCURRENT LIABILITIES

227	OBLIGATIONS UNDER CAPITAL LEASES - NONCURRENT	(90,943,710)
228.2	ACCUMULATED PROVISION FOR INJURIES AND DAMAGES	(115,611,384)
228.3	ACCUMULATED PROVISION FOR PENSIONS AND BENEFITS	(821,171,423)
228.4	ACCUMULATED MISCELLANEOUS OPERATING PROVISIONS	-
245	NONCURRENT DERIVATIVE INSTRUMENT LIABILITIES	-
230	ASSET RETIREMENT OBLIGATIONS	(2,434,557,127)
	TOTAL OTHER NONCURRENT LIABILITIES	(3,462,283,644)

Data from SPL as of February 9, 2022.

SOUTHERN CALIFORNIA GAS COMPANY
BALANCE SHEET
LIABILITIES AND OTHER CREDITS
SEPTEMBER 30, 2021

8. CURRENT AND ACCRUED LIABILITES

		2021
231	NOTES PAYABLE	-
232	ACCOUNTS PAYABLE	(2,539,328,818)
233	NOTES PAYABLE TO ASSOCIATED COMPANIES	-
234	ACCOUNTS PAYABLE TO ASSOCIATED COMPANIES	(30,996,307)
235	CUSTOMER DEPOSITS	(14,904,698)
236	TAXES ACCRUED	(36,136,924)
237	INTEREST ACCRUED	(35,416,195)
238	DIVIDENDS DECLARED	(323,265)
241	TAX COLLECTIONS PAYABLE	(14,461,602)
242	MISCELLANEOUS CURRENT AND ACCRUED LIABILITIES	(665,451,923)
243	OBLIGATIONS UNDER CAPITAL LEASES - CURRENT	(26,690,357)
244	DERIVATIVE INSTRUMENT LIABILITIES	(34,354,404)
245	DERIVATIVE INSTRUMENT LIABILITIES - HEDGES	
	TOTAL CURRENT AND ACCRUED LIABILITIES	(3,398,064,493)

9. DEFERRED CREDITS

252	CUSTOMER ADVANCES FOR CONSTRUCTION	(121,737,483)
	OTHER DEFERRED CREDITS	(350,160,156)
254	OTHER REGULATORY LIABILITIES	(3,608,639,756)
255	ACCUMULATED DEFERRED INVESTMENT TAX CREDITS	(7,125,787)
257	UNAMORTIZED GAIN ON REACQUIRED DEBT	-
281	ACCUMULATED DEFERRED INCOME TAXES - ACCELERATED	-
282	ACCUMULATED DEFERRED INCOME TAXES - PROPERTY	(1,447,456,278)
283	ACCUMULATED DEFERRED INCOME TAXES - OTHER	(586,185,337)
	TOTAL DEFERRED CREDITS	(6,121,304,797)
	TOTAL LIABILITIES AND OTHER CREDITS	$ (22,978,604,865)

Data from SPL as of February 9, 2022.

SOUTHERN CALIFORNIA GAS COMPANY
STATEMENT OF INCOME AND RETAINED EARNINGS
NINE MONTHS ENDED SEPTEMBER 30, 2021

1. UTILITY OPERATING INCOME

400	OPERATING REVENUES		3,721,827,028
401	OPERATING EXPENSES	3,619,388,469	
402	MAINTENANCE EXPENSES	307,830,644	
403-7	DEPRECIATION AND AMORTIZATION EXPENSES	532,543,194	
408.1	TAXES OTHER THAN INCOME TAXES	120,039,180	
409.1	INCOME TAXES	557,281,267	
410.1	PROVISION FOR DEFERRED INCOME TAXES	126,396,711	
411.1	PROVISION FOR DEFERRED INCOME TAXES - CREDIT	(578,967,595)	
411.4	INVESTMENT TAX CREDIT ADJUSTMENTS	(734,913)	
411.6	GAIN FROM DISPOSITION OF UTILITY PLANT	-	
411.7	LOSS FROM DISPOSITION OF UTILITY PLANT	-	
	TOTAL OPERATING REVENUE DEDUCTIONS		4,683,776,957
	NET OPERATING INCOME		(961,949,929)

2. OTHER INCOME AND DEDUCTIONS

415	REVENUE FROM MERCHANDISING, JOBBING AND CONTRACT WORK	-	
417	REVENUES FROM NONUTILITY OPERATIONS	-	
417.1	EXPENSES OF NONUTILITY OPERATIONS	(8,905,101)	
418	NONOPERATING RENTAL INCOME	573,867	
418.1	EQUITY IN EARNINGS OF SUBSIDIARIES	-	
419	INTEREST AND DIVIDEND INCOME	509,948	
419.1	ALLOWANCE FOR OTHER FUNDS USED DURING CONSTRUCTION	36,634,862	
421	MISCELLANEOUS NONOPERATING INCOME	(966,776)	
421.1	GAIN ON DISPOSITION OF PROPERTY	0	
	TOTAL OTHER INCOME	27,846,800	
421.2	LOSS ON DISPOSITION OF PROPERTY	(5,641)	
425	MISCELLANEOUS AMORTIZATION	-	
426	MISCELLANEOUS OTHER INCOME DEDUCTIONS	(11,378,322)	
		(11,383,964)	
408.2	TAXES OTHER THAN INCOME TAXES	(145,623)	
409.2	INCOME TAXES	441,954,327	
410.2	PROVISION FOR DEFERRED INCOME TAXES	(52,410,717)	
411.2	PROVISION FOR DEFERRED INCOME TAXES - CREDIT	49,472,204	
420	INVESTMENT TAX CREDITS	-	
	TOTAL TAXES ON OTHER INCOME AND DEDUCTIONS	438,870,191	
	TOTAL OTHER INCOME AND DEDUCTIONS		455,333,027
	INCOME BEFORE INTEREST CHARGES		(506,616,902)
	NET INTEREST CHARGES*		117,816,055
	NET INCOME		($624,432,957)

**NET OF ALLOWANCE FOR BORROWED FUNDS USED DURING CONSTRUCTION. ($36,634,861.36)*

Data from SPL as of February 9, 2022.

STATEMENT OF INCOME AND RETAINED EARNINGS
NINE MONTHS ENDED SEPTEMBER 30, 2021

3. RETAINED EARNINGS

RETAINED EARNINGS AT BEGINNING OF PERIOD, AS PREVIOUSLY REPORTED	$4,212,066,985
NET INCOME (FROM PRECEDING PAGE)	(624,432,957)
DIVIDEND TO PARENT COMPANY	-
DIVIDENDS DECLARED - PREFERRED STOCK	(969,798)
OTHER RETAINED EARNINGS ADJUSTMENT	-
RETAINED EARNINGS AT END OF PERIOD	$3,586,664,230

ATTACHMENT B

Summary of Rate Impacts - SCG

SoCalGas Bill Impact

Customer Class	Present 3/1/2022 Rates (¢/therm)	Proposed Total Rates for 2023 (¢/therm)	Rate Change (¢/therm)	Rate Change %
Residential (Core)	109.0	110.8	1.8	1.6%
Average Residential Bill $/month	$58.75	$59.37	$0.63	1.1%
Commercial/Industrial (Core)	63.1	64.0	0.8	1.3%
Commercial/Industrial (Noncore Distribution Level Service)	18.2	18.3	0.2	0.9%
Electric Generation (Noncore Distribution Level Service)	15.6	15.7	0.1	0.9%
Transmission Level Service	3.1	3.1	0.0	0.1%
Backbone Transmission Service	36.8	36.8	0.0	0.0%
System Total	**43.2**	**43.8**	**0.6**	**1.3%**

ATTACHMENT C

Statements of Original Cost and Depreciation Reserve

SOUTHERN CALIFORNIA GAS COMPANY
Plant Investment and Accumulated Depreciation
As of September 30, 2021

ACCOUNT NUMBER	DESCRIPTION	ORIGINAL COSTS	ACCUMULATED RESERVE	NET BOOK VALUE
INTANGIBLE ASSETS				
301	Organization	76,457	-	76,457
302	Franchise and Consents	587,060	-	587,060
303	Cloud Compute	-	-	-
	Total Intangible Assets	663,517	-	663,517
PRODUCTION:				
325	Other Land Rights	-	-	-
330	Prd Gas Wells Const	-	-	-
331	Prd Gas Wells Eqp	-	-	-
332	Field Lines	-	-	-
334	FldMeas&RegStnEquip	-	-	-
336	Prf Eqpt	-	-	-
	Total Production	-	-	-
UNDERGROUND STORAGE:				
350	Land	4,539,484	-	4,539,484
350SR	Storage Rights	19,069,515	(17,569,840)	1,499,675
350RW	Rights-of-Way	25,354	(18,677)	6,677
351	Structures and Improvements	123,983,603	(34,234,043)	89,749,560
352	Wells	573,805,983	99,733,912	673,539,895
353	Lines	189,486,023	(62,153,785)	127,332,238
354	Compressor Station and Equipment	466,651,101	(97,384,843)	369,266,258
355	Measuring And Regulator Equipment	18,390,763	(4,259,420)	14,131,343
356	Purification Equipment	164,922,327	(91,717,958)	73,204,369
357	Other Equipment	91,483,725	(27,531,850)	63,951,875
	Total Underground Storage	1,652,357,879	(235,136,504)	1,417,221,375
TRANSMISSION PLANT- OTHER:				
365	Land	7,466,461	-	7,466,461
365LRTS	Land Rights	129,194,889	(20,392,947)	108,801,943
366	Structures and Improvements	110,464,803	(21,700,222)	88,764,581
367	Mains	2,848,345,428	(770,162,746)	2,078,182,682
368	Compressor Station and Equipment	425,327,303	(104,831,301)	320,496,002
369	Measuring And Regulator Equipment	301,034,004	(48,497,795)	252,536,209
370	Communication Equipment	78,371,917	(15,539,440)	62,832,476
371	Other Equipment	9,947,237	(4,664,466)	5,282,771
	Total Transmission Plant	3,910,152,041	(985,788,916)	2,924,363,125

SOUTHERN CALIFORNIA GAS COMPANY
Plant Investment and Accumulated Depreciation
As of September 30, 2021

ACCOUNT NUMBER	DESCRIPTION	ORIGINAL COSTS	ACCUMULATED RESERVE	NET BOOK VALUE
DISTRIBUTION PLANT:				
374	Land	29,737,007	-	29,737,007
374LRTS	Land Rights	2,890,157	(2,224,824)	665,333
375	Structures and Improvements	350,103,515	(96,535,284)	253,568,231
376	Mains	6,021,129,647	(2,781,887,798)	3,239,241,849
378	Measuring And Regulator Equipment	150,464,369	(86,822,424)	63,641,945
380	Services	3,494,115,622	(2,250,215,370)	1,243,900,252
381	Meters	981,063,184	(307,360,914)	673,702,270
382	Meter Installation	633,410,842	(224,607,012)	408,803,830
383	House Regulators	186,925,150	(84,032,209)	102,892,941
387	Other Equipment	76,713,122	(29,773,339)	46,939,784
	Total Distribution Plant	11,926,552,616	(5,863,459,174)	6,063,093,442
GENERAL PLANT:				
389	Land	1,342,839	-	1,342,839
389LRTS	Land Rights	74,300	(43,462)	30,838
390	Structures and Improvements	256,402,038	(195,527,385)	60,874,653
391	Office Furniture and Equipment	1,651,611,629	(1,171,998,959)	479,612,670
392	Transportation Equipment	149,370	(73,280)	76,090
393	Stores Equipment	112,635	(80,143)	32,491
394	Shop and Garage Equipment	113,624,948	(32,570,721)	81,054,227
395	Laboratory Equipment	8,273,506	(1,870,209)	6,403,297
396	Construction Equipment	1,124	1,865	2,989
397	Communication Equipments	213,961,002	(85,344,307)	128,616,695
398	Miscellaneous Equipment	985,530	(260,534)	724,995
	Total General Plant	2,246,538,920	(1,487,767,136)	758,771,784
	Subtotal	**19,736,264,974**	**(8,572,151,730)**	**11,164,113,243**
121	Non-Utility Plant	32,518,285	(14,395,560)	18,122,725
117GSUNC	Gas Stored Underground - NonCurrent	61,422,045	-	61,422,045
GCL	GCT - Capital Lease	-	-	-
	Total Other - Non-Utility Plant	93,940,330	(14,395,560)	79,544,770
	Total-Reconciliation to Asset History Totals	19,830,205,304	(8,586,547,290)	11,243,658,013
	Sept 2021 Asset 1020 Report	19,830,205,304	(8,586,547,290)	11,243,658,013
	Difference	(0)	0	(0)

ATTACHMENT D

Summary of Earnings

SOUTHERN CALIFORNIA GAS COMPANY
SUMMARY OF EARNINGS
NINE MONTHS ENDED SEPTEMBER 30, 2021
(DOLLARS IN MILLIONS)

Line No.	Item	Amount
1	Operating Revenue	$3,722
2	Operating Expenses	4,684
3	Net Operating Income	($962)
4	Weighted Average Rate Base	$9,197
5	Rate of Return*	7.30%
	*Authorized Cost of Capital	