

ORA DATA REQUEST
ORA-SDGE-021-FH2
SDG&E 2019 GRC – A.17-10-007
SDG&E RESPONSE
DATE RECEIVED: NOVEMBER 17, 2017
DATE RESPONDED: DECEMBER 5, 2017

Exhibit Reference: SDG&E-31

SDG&E Witness: Sandra K. Hrna

Subject: Accounting & Finance / Legal / Regulatory Affairs / External Affairs

Please provide the following:

1. Referring to Ex. SDG&E-31, page SKH-11, lines 5-11 please indicate whether SDG&E has carried out costs related to an SAP accounting system upgrade and safety events. If yes, provide supporting documentation which reflects this and provides details such as when the SAP accounting system upgrade and safety events were implemented. If no, explain why the SAP accounting system upgrade and safety events have not occurred yet.

SDG&E Response 1:

SAP Accounting System:

SDG&E enhances and upgrades its accounting systems as necessary to ensure accurate accounting and effective business controls. SDG&E enhanced its accounting system with the implementation of the SAP Governance, Risk and Control (GRC) module. The GRC module is a comprehensive solution that provides an overarching governance process with customized business rules to systematically manage user access in the accounting systems on a daily basis. The GRC module also provides preventative and automated business controls to reduce the possibility of risks of fraud and errors. The enhancement and upgrade costs were incurred primarily as a result of hiring an external third-party expert to assist with the implementation and upgrade. The third-party expert was KPMG and the project was titled SAP Upgrade and Targeted Security Redesign Project. Supporting documentation of the costs incurred are attached in file "ORA-SDGE-021-FH2 - Question 1 KPMG Invoices.pdf".

Year 2014	\$138,698
Year 2015	\$407,860
Year 2016	\$ 14,741

Safety Events:

Please see the attached document "ORA CH021-FH2-01 Safety Events.pdf" for safety event details.

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2. Referring to Ex. SDG&E-31, page SKH-36, lines 26-28, please provide quantifiable and measurable data and explanations behind the forecast of External Affairs Division that pertains to "...the personnel and materials necessary for communicating safety and reliability programs for projects that are in construction or soon to be in construction." Provide supporting documentation, if available.

SDG&E Response 2:

As explained in the Direct Testimony of Ms. Hrna, a five-year methodology was used to calculate the 2019 forecast (see page SKH-3 Section B.). Therefore, the quantifiable and measurable data exists only in that 5-year forecast, which is shown in the workpapers of Ms. Sandra Hrna (SDG&E-31-WP) and also in the prepared direct testimony of Ms. Sandra Hrna (SDG&E-31). The line item isolated in the question (line 26-28 on page SKH-36) is part and parcel to the entire Section 2 on that page that describes the types of costs that are included in this section. Because a 5-year average was performed to drive the forecast, no supporting documentation beyond the workpapers is available.

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3. Referring to Ex. SDG&E-31, page SKH-12, lines 14-18, please provide explanations and quantifiable data to explain how implementing new accounting and regulatory reporting standards increase labor costs. Provide supporting documentation, if available.

SDG&E Response 3:

The Federal Accounting Standards Board (FASB) has been actively reviewing and issuing updated accounting standards. The FASB activity is substantially more complex as compared to prior years. As disclosed in the Securities and Exchange Commission (SEC) Form 10-K, Note 2, as of December 31, 2016, a listing of applicable new accounting standards that will have an impact on our financial statement reports is attached (please see “ORA-SDGE-021-FH2- Question 3 New Accounting Standards-1.pdf”). To research, analyze and implement the new accounting standards requires additional labor hours, company personnel and third-party experts, as well as accounting process and system changes. The timeline from FASB pronouncement of the new standard to full implementation can span several years. These new pronouncements apply to the financial statements of both SDG&E and SoCalGas filed with the SEC (Forms 10-Q and 10-K) and other regulatory agencies such as the CPUC (FERC Forms 1 and 2, New Accountability Reporting). The FASB is reviewing all accounting standards and will continue issuing updated accounting standards.

Among the accounting changes identified in the 10-K, here are several examples:

- 1- Pension Accounting Standards Update (ASU)-the Company is evaluating new processes to identify and separately track non-service cost components, which are now required to be accounted for differently. The Company is configuring its accounting system to gather the data for analysis and proper recording on the books and records and financial statement disclosure.
- 2- Revenue ASU-the Company is evaluating new processes to monitor and categorize every revenue categories to comply with the new accounting guidance for recording and reporting revenues. This analysis includes the tracking of all existing and new contracts to ensure proper recording on the books and records and financial statement disclosure.
- 3- Leases ASU-the Company is evaluating all existing (known lease contracts and existing transactions now considered a lease contract) and all future contracts for proper application of the lease ASU. This ASU also requires new processes be implemented for ongoing monitoring, including checklists and additional review of existing contracts that may result in lease accounting. The disclosure requirements under this accounting standard will increase significantly, resulting in numerous new disclosures that will take labor hours to build and report on, many of which are qualitative in nature requiring more manual processes.