Company: San Diego Gas & Electric Company (U 902 M)
Proceeding: 2016 General Rate Case
Application: A.14-11-___
Exhibit: SDG&E-23

SDG&E

DIRECT TESTIMONY OF DAVID SARKARIA

PENSION AND POSTRETIREMENT BENEFITS OTHER THAN PENSION

November 2014

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

A Sempra Energy utility®

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<u>**SUMMARY**</u>

O&M ($000)	Base Year 2013	Test Year 2016	Change
Pension	46,779	0	(46,779)
PBOP	14,193	9,550	(4,643)
Total	**60,972**	**9,550**	**(51,422)**

Summary of Requests

- Maintain Company's ability to attract and retain the best possible talent by offering a competitive total compensation package including pension and postretirement health and welfare benefits

- Continue to recover pension costs based on the greater of the annual ERISA minimum required contribution or the contribution required to maintain an 85% funding ratio

- Continue to recover postretirement health and welfare benefits expense based on costs determined pursuant to Financial Accounting Standard 715-60

- Maintain the long-standing use of the two-way balancing account mechanism for pension and PBOP expenses since expense variability is generally due to external economic and regulatory variables which are outside the control of the Company

SDG&E DIRECT TESTIMONY OF DAVID SARKARIA
PENSION AND POSTRETIREMENT BENEFITS OTHER THAN PENSION (PBOP)

I. INTRODUCTION

I sponsor the Test Year 2016 forecasts for pension and postretirement health and welfare benefits other than pension ("PBOP") of the qualified retirement benefit plans at San Diego Gas & Electric Company ("SDG&E" or "Company"). Pension and PBOP are key components of the total compensation package provided to SDG&E nonrepresented and represented employees. The Towers Watson Study includes a detailed analysis of "total compensation," including benefits, as discussed in the direct testimony of Debbie S. Robinson (Ex. SDG&E-22).

II. PENSION BENEFITS

A. Summary Description

1. Participant Demographics

The SDG&E Cash Balance Plan ("Pension Plan"), first established in 1941, provides benefits to approximately 4,900 active employees and 2,900 retirees, survivors, and terminated participants entitled to future benefits. The average age of active employees is 47.0 years with an average of 15.1 years of service. Retirees who are currently receiving benefits average 74.9 years of age while those with deferred benefits average 51.5 years of age.

2. SDG&E Employee Pension Benefit Prior to July 1, 2003

Prior to July 1, 2003, the SDG&E defined benefit pension plan (the "Traditional Plan") provided a retirement benefit based on final average earnings and years of service. The minimum service requirement for benefit vesting purposes was five years. The Traditional Plan provides normal retirement at age 65 and early retirement benefits at age 55 with at least one year of service. Employees who retire prior to attaining age 62 receive a reduced benefit.

The normal form of benefit is a lifetime annuity which is actuarially reduced to provide a 50% joint and survivor benefit to a surviving spouse. In addition, several other optional forms of benefit are available, including a lump sum option which is the most prevalent form of distribution. The Traditional Plan also has an annual cost-of-living adjustment equal to the change in the Consumer Price Index subject to an annual cap of 3%.

3. SDG&E Employee Pension Benefit After June 30, 2003

SDG&E employees began participating in the Cash Balance Pension Plan effective July 1, 1998 (November 1, 1998 for represented employees). Any non-represented employee hired prior to July 1, 1998 or represented employee hired prior to November 1, 1998 ("Grandfathered Employee") continued to accrue benefits under the "grandfathered" Traditional Plan (the "Grandfathered Plan") for a five-year transition period. Benefit accruals under the Grandfathered Plan were frozen as of June 30, 2003.

Participants in the Cash Balance Pension Plan receive retirement credits equal to 7.5% of eligible earnings and interest on their account balances up to the date of distribution. Interest credits are based on the 30-year U.S. Treasury bond rate, which changes annually based on the November average for the immediately preceding year. Special transition retirement credits and interest credits apply for a limited period to certain Grandfathered Employees.

Until March 1, 2007, Grandfathered Employees received benefits equal to the greater of the benefit calculated under the Grandfathered Plan or their benefit under the Cash Balance Plan. On or after March 1, 2007, a participant's benefit is the greater of (1) their Cash Balance Plan account balance or (2) their Grandfathered Plan benefit plus their Frozen Benefit Plus^{+} Account. The Frozen Benefit Plus^{+} Account is based on cash balance retirement and interest credits accrued beginning July 1, 2003 (after the Grandfathered Plan was frozen).

Effective January 1, 2008 (March 1, 2007 for represented employees), participants are 100% vested after three years of service. Although several forms of benefit payment are available, most participants elect a lump sum distribution.

B. Pension Cost Estimate

The Company's actuary, Towers Watson, provides an annual certified actuarial valuation of the Pension Plan that includes the value of benefit obligations and minimum required contributions. The valuations are performed in accordance with generally accepted actuarial principles and practices. Pension Plan expense, as shown in Table 1, is based on minimum required contributions in accordance with the Employee Retirement Income Security Act of 1974 ("ERISA") and as allowed by the Internal Revenue Code ("IRC").

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Table 1 – SDG&E Summary of 2013 vs. 2016 Pension Benefit Expenses

		In Thousands		
Cost Center	**Benefit Description**	**2013 Actual**	**2016 Budget[1]**	**2013-2016 Change**
2100-0375.000	**Pension**	**$ 46,779**	**$ -**	**$ (46,779)**

[1] Reflects current projected minimum pension contribution

C. Test Year Pension Expense

As discussed in the balance of this exhibit, pension contributions are difficult to project with certainty due to the impacts of numerous external variables. Consequently, the current estimated test year contribution of zero, which is based on the projected ERISA-required minimum, may change. Any 2016 variance between authorized and actual contributions would be subject to the current two-way balancing account mechanism, as proposed in the Direct Testimony of Norma Jasso (Ex. SDG&E-35).

D. ERISA Funding Requirements

1. Minimum Required Contributions

Under the Pension Protection Act of 2006 ("PPA"), the minimum required annual contribution is equal to the target normal cost plus amortization of any funding shortfall. The target normal cost is the present value of benefits expected to be earned by participants during the plan year. The PPA established a plan funding target equal to the present value of benefits accrued or earned as of the valuation date (January 1 for the Pension Plan). A funding shortfall occurs when the actuarial value of plan assets falls below the PPA funding target.

Beginning in 2006 Plan liabilities exceeded assets and a significant decline occurred in 2009 due to the financial market crisis. Chart 1 shows Plan assets and liabilities for the period 2003 through 2013. Since 2009 the market has significantly improved and increased contributions have been made to the plan such that the actuarial value of assets as of 2013 is $754 million, 96% of the liability.

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Chart 1 – SDG&E Pension Plan Assets vs. Liabilities: 2003 – 2013

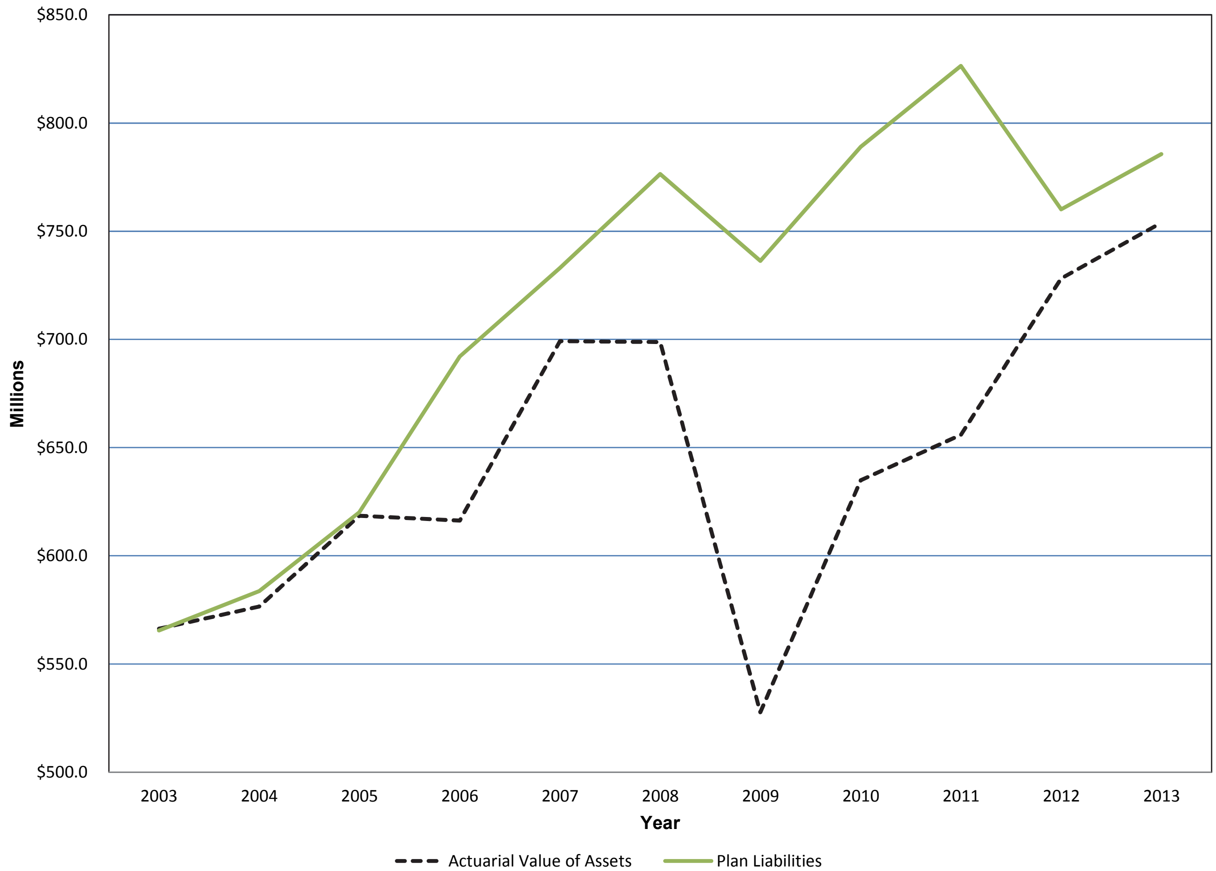

Chart 2 shows contributions and benefit payments during the period 2003 thru 2013. It is important to note how market returns have significantly contributed to the payment of benefit obligations. In eight of the last 11 years, benefit payments exceeded contributions and over the 11 year period, $419.3 million was contributed to the Pension Plan while over $644.2 million was distributed to participants.

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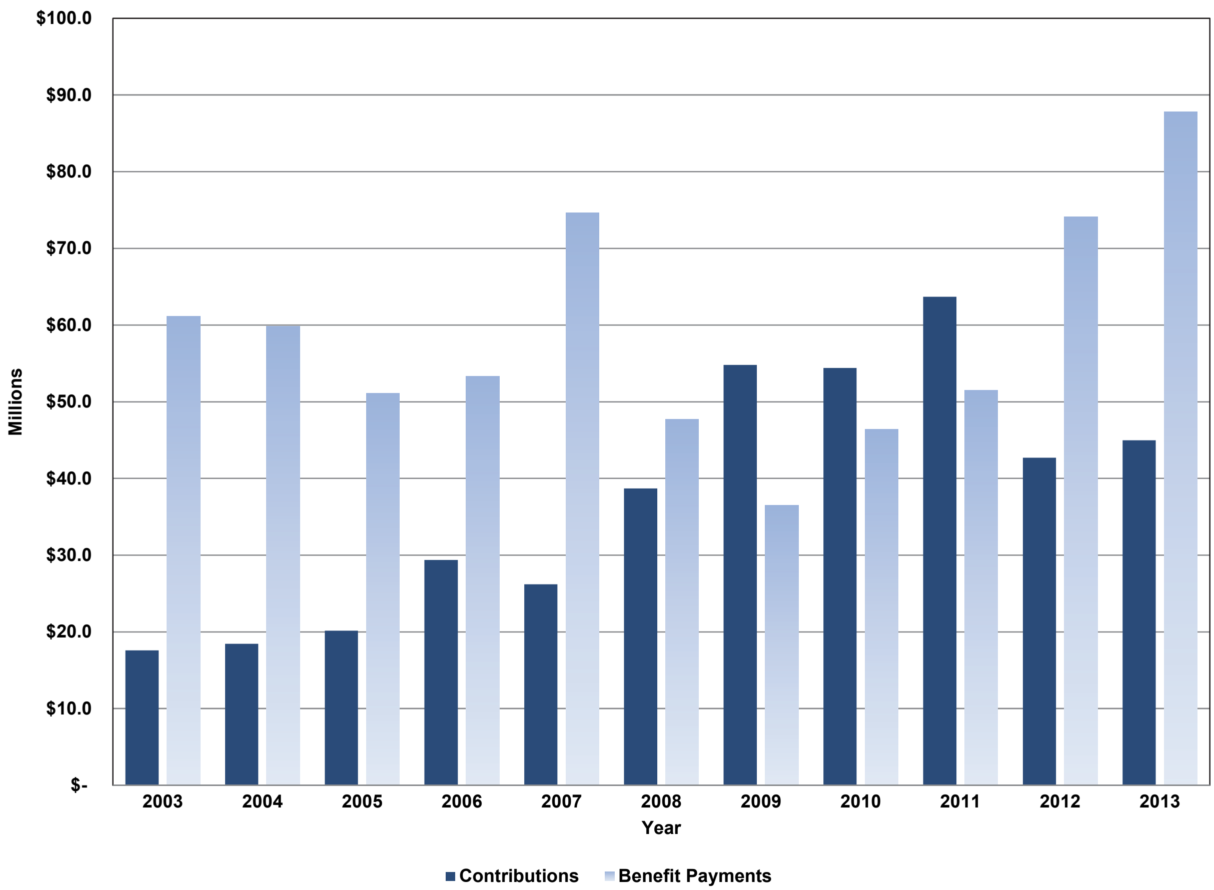
Chart 2 – SDG&E Pension Plan Contributions vs. Benefit Payments: 2003 – 2013



2. Discount Rates

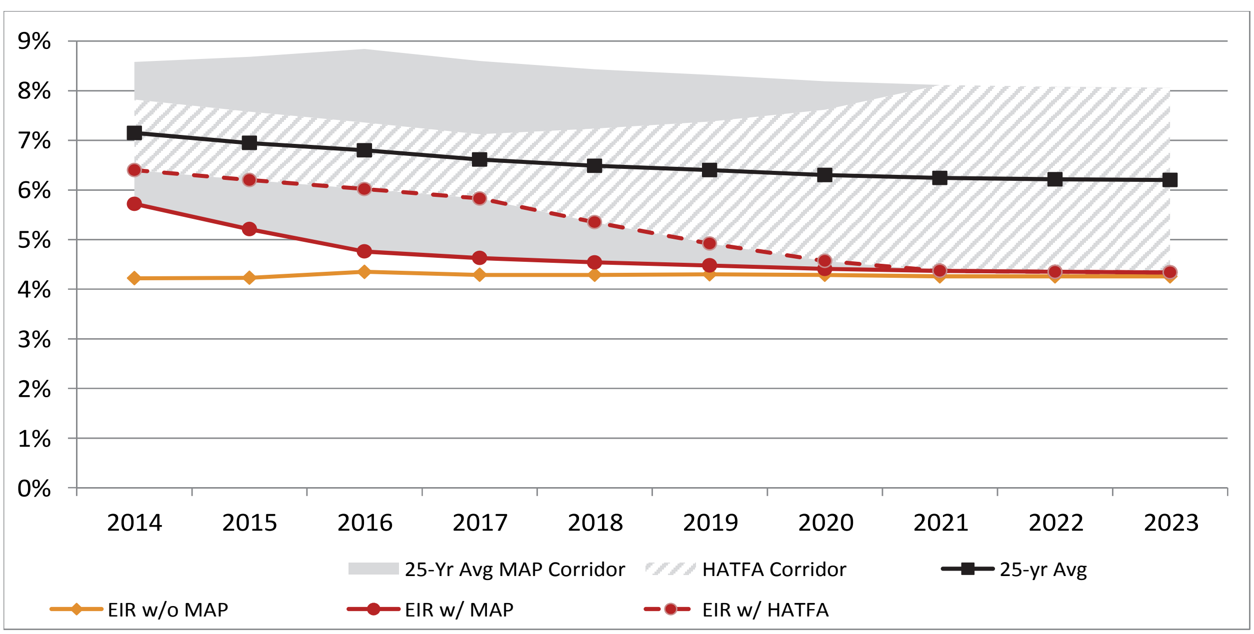
In addition to market returns, the discount rate used in determining the minimum required funding is another important variable. The Plan uses IRS-prescribed 24-month average segment rates. A new effective interest rate ("EIR") is determined each year, on January 1, based on the 24-month average of high-quality corporate bond rates as of the preceding September 1. Beginning in 2012, this 24-month average must fall within a specified range around the 25-year average of such segment rates as discussed in Section II.D.3. The EIR is the single interest rate that produces the same liability that results from using the three distinct segment rates. The IRS also allows an EIR determination using a one-month average yield curve; however, this method lacks the "smoothing" effect of the 24-month average.

3. Impact of Moving Ahead for Progress in the 21st Century and Highway and Transportation Funding Act

Congress enacted the Moving Ahead for Progress in the 21st Century Act ("MAP-21") which became law on July 6, 2012. The purpose of the legislation was to achieve pension stabilization using a funding interest rate corridor with both a cap and a floor. Given the continued decline in interest rates since MAP-21 was enacted in 2012, Congress enacted an extension of the funding stabilization provisions of MAP-21 in 2014 under the Highway and Transportation Funding Act (HATFA). This subsequent legislation,signed into law August 8, 2014, has the effect of increasing funding interest rates for the plan and either lowering or eliminating minimum contributions over the next few years.

Chart 3 shows the anticipated effect of MAP-21 and the extended effect of HATFA on the effective interest rates used to estimate minimum contributions in the SDG&E GRC pension benefit funding forecast discussed in Section G. MAP-21 modified the 24-month average segment rates beginning in 2012 and future plan years so that they will not fall outside a corridor (shown in gray on Chart 3) which surrounds the 25-year average of such segment rates. HATFA both extends the corridor and delays the widening of the corridor (shown in hatched lines on Chart 3). The MAP-21 corridor which started at 90% - 110% of the 25-year average in 2012 and expanded 5% per year to a corridor of 70% - 130% in 2016 and after, was revised under HATFA to remain at 90% - 110% through 2017 before increasing 5% per year to a corridor of 70% - 130% in 2021. Higher EIRs resulted in lower required minimum contributions for 2012 and 2013 as noted in Chart 4 below.

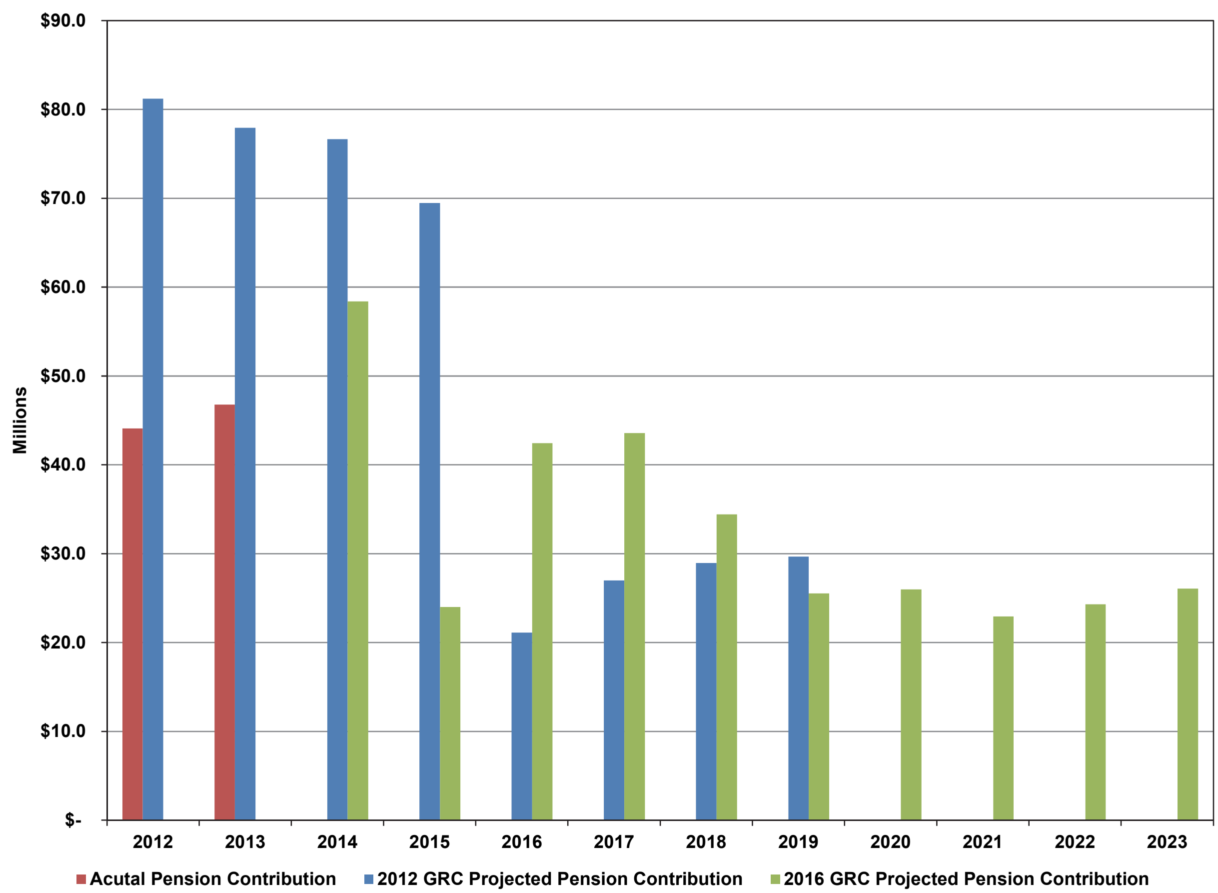
Chart 3 – SDG&E Pension Plan MAP-21 Effective Interest Rates



The 2013 EIR was 6.24%, which is only slightly higher than the projected 6.02% EIR for 2016 under HATFA. However, both are significantly higher than the projected 4.34% EIR in 2023. Assuming all other variables are constant, a reduction in EIR would increase minimum required contributions.

Chart 4 shows funding projections provided in the 2012 GRC compared to the 2016 GRC with updates for the effect of HATFA. The impact of MAP-21 followed by HATFA resulted in lower contributions than projected in the 2012 GRC. The actual contributions for plan years 2012 and 2013 were $44.1 million and $46.8 million compared to the projected amounts of $81.2 million and $77.9 million. The 2016 GRC projections as updated for HATFA show no minimum required contributions for 2015 and 2016, and then increasing contributions continuing thru 2021 as the impact of HATFA diminishes and full PPA funding levels are gradually attained.

Chart 4 – SDG&E Minimum Required Funding Projection: 2012 GRC vs. 2016 GRC

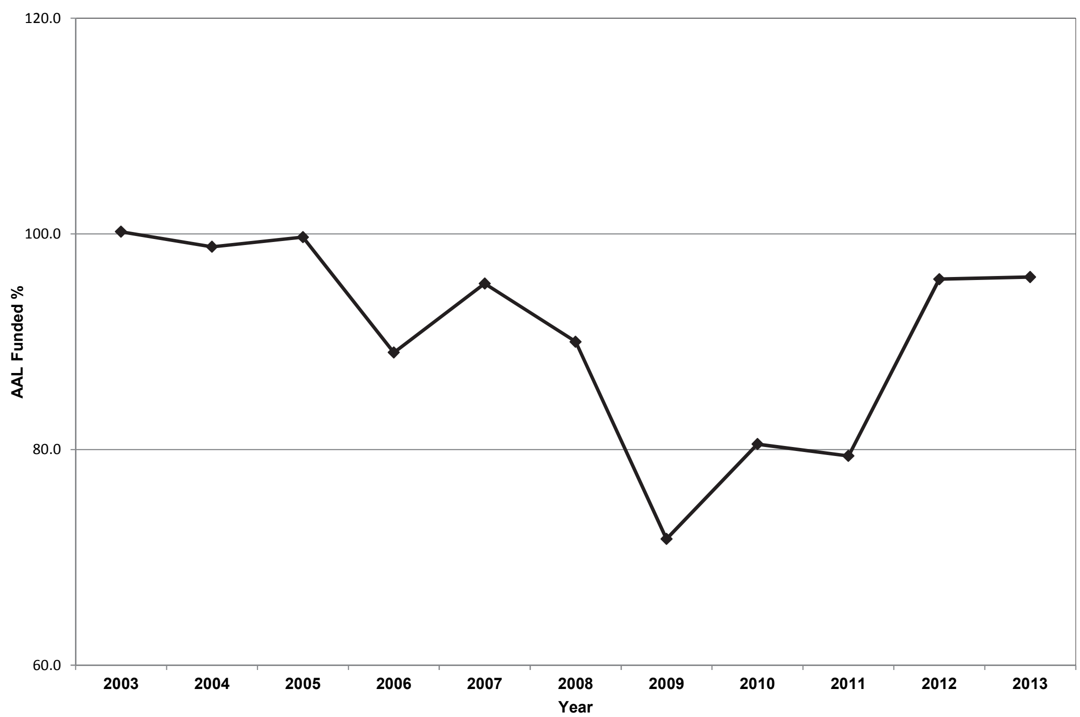


E. Benefit Limitation Threshold

In addition to the minimum required contributions under IRC § 412, the PPA also established benefit limitation criteria. If the plan's funded status falls below 80% (*i.e.*, the ratio of plan assets to the funding target equals 0.8 or less), the plan would be subject to certain benefit restrictions, potentially higher required minimum contributions, and higher Pension Benefit Guaranty Corporation premiums.

As can be seen in Chart 5, the Plan funded percentage ratio has increased from 71.7% in 2009 to 96.0% in 2013 as contributions were made and market performance continued to improve as discussed in Section II.F. Consequently, the benefit limitation threshold is not anticipated to trigger any incremental funding. However, consistent with the decision in the 2012 GRC, the Company requests that contributions be based on the ERISA minimum required amount or such amount as required to maintain an 85% funding ratio.

Chart 5 – SDG&E Pension Plan Actuarial Value of Assets as a Percentage of Funding Target: 2003 – 2013



F. Market Returns

Plan assets are managed through a master trust and invested in a diversified portfolio of equity and bond securities. As shown in Table 2, the Plan has experienced very positive returns for the period 2009 thru 2013. During the five-year period, the Plan's return exceeded the long-term actuarial assumption of 7% in all years except 2011.

Table 2 – Pension Plan Investment Returns: 2004 – YTD March 2014

Year	Investment Policy Benchmark	Master Trust Actual	S&P 500	Barclay's Aggregate Bond
2004	12.0%	13.0%	10.9%	4.3%
2005	9.0%	8.7%	4.9%	2.4%
2006	14.2%	14.9%	15.8%	4.3%
2007	8.6%	9.2%	5.5%	7.0%
2008	-27.6%	-26.1%	-37.0%	5.2%
2009	23.6%	22.2%	26.5%	5.9%
2010	13.8%	12.9%	15.1%	6.5%
2011	-0.2%	-0.8%	2.1%	7.8%
2012	15.1%	15.1%	16.0%	4.2%
2013	16.5%	16.4%	32.4%	-2.0%
YTD March 2014	2.5%	2.4%	1.8%	1.8%

For the period 2009 thru 2013, market performance improved with average returns for the Master Trust of 13.2% compared to 13.8% for the Plan's benchmark.

Table 3 shows the cumulative returns for 3-year, 5-year, and 10-year periods. After experiencing a significant market rebound beginning in 2009, the annualized 10-year return is now 7.5% compared to the actuarial target of 7.0%.

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Table 3 – Annualized Pension Plan Investment Returns

Year	Investment Policy Benchmark	Master Trust Actual	S&P 500	Barclay's Aggregate Bond	Actuarial Assumption
3 Years Ended 3-31-14	9.8%	9.6%	14.7%	3.8%	7.0%
5 Years Ended 3-31-14	15.2%	16.1%	21.2%	4.8%	7.0%
10 Years Ended 3-31-14	7.4%	7.5%	7.4%	4.5%	7.0%

The impact of improved post-2008 market returns has greatly improved the Plan's financial position. The Plan funded ratio is approaching fully funded status and continued positive performance should mitigate future minimum required contributions to the extent attributable to market fluctuation.

G. Pension Expense and Funded Percentage Projections

1. Pension Expense Projections

A projection of estimated minimum required contributions for the period 2014 through 2023 is shown in Chart 6. Actual contributions are also included for plan years 2012 and 2013. In addition, the maximum tax deductible amounts are included. Under the PPA, maximum contributions are generally equal to the sum of 150% of the funding target, the target normal cost, an allowance for future pay or benefit increases, less the actuarial value of assets. The deductible limit will not be less than the minimum required contribution.

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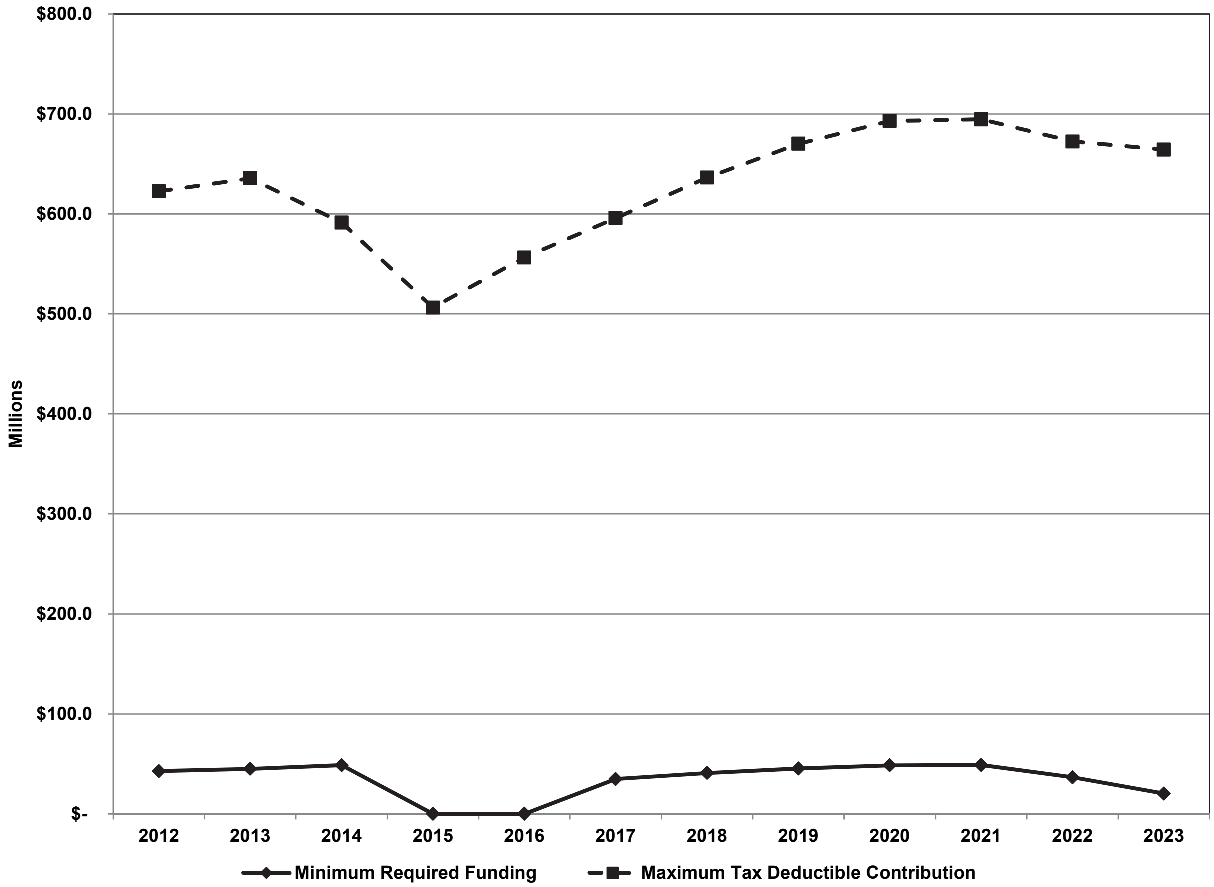
Chart 6 – SDG&E Pension Plan Projection of Minimum Required Funding vs Maximum Tax Deductible Contributions: 2012 – 2023

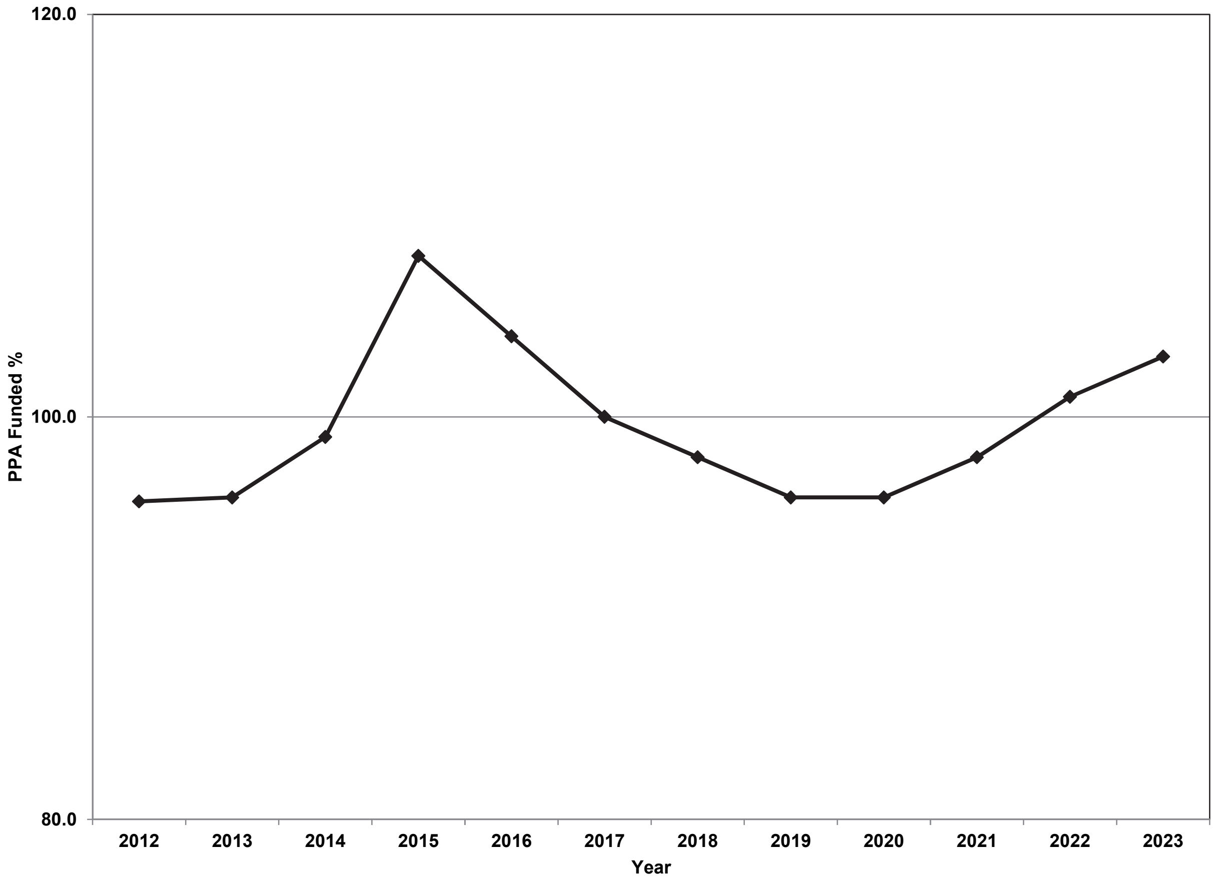


The projected minimum required contributions under HATFA are expected to be zero in 2015 and 2016 and then increase through 2021 as effective interest rates decrease. Then, as the overall PPA funding position improves, contributions will begin to decrease. The estimates are based on an assumed 7.0% investment return and effective interest rates trending downward from 6.24% in 2013 to 4.34% in 2023. Increases in either the effective interest rate or the actual investment returns would decrease the minimum funding requirement. Conversely, decreases in these variables would increase the funding requirement.

2. Funded Percentage Projections

As noted in Chart 7, the funded percentage has gradually improved to 96.0% in 2013. The Plan is projected to reach a sustained fully funded level by 2022.

Chart 7 – SDG&E Pension Plan Funded Percentage Projection: 2012 – 2023



The projections assume a 7.0% investment return and a 5.73% EIR in 2014 which gradually trends to 4.34% in 2023.

H. Regulatory Treatment

As discussed above, SDG&E is required to make minimum contributions to its pension trust in accordance with ERISA and the IRC. The amount of the required minimum contribution can fluctuate over time based on factors not subject to management control. The two-way balancing account allows SDG&E to recover required pension contributions based on prescribed actuarial calculations that consider external variables such as market return on invested assets, interest rates and federal legislative changes.

The Commission has consistently approved the use of a two-way balancing account as the mechanism for addressing the risk of variability in pension expense. In the SDG&E 2008 General Rate Case ("2008 GRC"), the Commission (in D.08-07-046) approved a settlement agreement ("Settlement Agreement") that provided for annual pension funding based on the minimum required contribution.

In response to a material change in circumstances related to the 2008 financial crisis, SDG&E filed a petition to modify D.08-07-046 to permit an annual balancing account true-up rather than the previously approved mechanism. In D.09-09-011, the Commission approved SDG&E's petition to modify the mechanism for recovery of pension expenses. The Settlement Agreement was "modified to allow the annual amortization of pension contributions recorded in the Pension Balancing Account incremental to the contributions included in the settlement revenue requirement."

Pacific Gas and Electric Company ("PG&E") has a similar pension cost recovery mechanism. In D.06-06-014, the Commission adopted an uncontested PG&E settlement that established a two-way Pension Contribution Balancing Account ("PCBA") to track any variations from authorized contributions. The PCBA would reflect any contributions that were lower than the authorized amount and any higher contributions that were required under federal law.

Like SDG&E, PG&E also experienced a decline in its pension plan asset values. Subsequent to the SDG&E's petition, PG&E requested a modification of its mechanism for recovery of pension expense (Application 09-03-003). PG&E proposed adjusting its pension contributions on an annual basis rather than waiting until the end of its three- to four-year general rate case cycle. PG&E stated that an annual true-up would permit a more timely response to financial market volatility and the impact on funded status.

In D.09-09-020, the Commission adopted the All-Party Settlement Agreement related to PG&E's pension cost recovery mechanism between PG&E, the Coalition of California Utility Employees, and the Division of Ratepayer Advocates. Specifically, the decision ordered PG&E to (1) retain its PCBA; (2) implement an annual true-up of the PCBA; and (3) recalculate its pension contribution and revenue requirements if and when the actual funded status falls below 85%.

Pursuant to D.09-09-011, SDG&E was authorized annual amortization of the Pension Balancing Account ("PBA") balance. Prior to D.09-09-020, the disposition of the PBA would occur at the end of the multi-year GRC cycle and be resolved in the next general rate case (D.08.07-046).

In SDG&E's 2012 General Rate Case decision (D.13-05-010), the Commission approved the Company's request to continue the two-way balancing account treatment and the annual amortization of the PBA based on the fact that the circumstances supporting such a mechanism had not changed which continues to be the case. The PBA is described in detail in the testimony of Regulatory Accounts Witness Norma Jasso (Ex. SDG&E-35), including the SDG&E proposal to continue the annual amortization of the PBA as adopted in D.09-09-11.

In conclusion, SDG&E proposes that the minimum required pension contribution and revenue requirement would continue to be based on the greater of ERISA minimum required annual contribution or such contribution as required to maintain the Plan's funded status is at least 85.0%. The Company's proposal is consistent with prior Commission decisions, including D.13-05-010, and continues to protect the ratepayers from potential variability in funded status due to multiple external factors.

III. POST-RETIREMENT BENEFITS OTHER THAN PENSION ("PBOP")

A. Summary Description

1. Participant Demographics

SDG&E provides post-retirement health and life insurance benefits, collectively referred to as PBOP or the PBOP Plan, to approximately 5,100 active employees and 1,300 retirees and survivors. The average age of active employees is 46.5 years with an average of 14.3 years of service. Retirees who are currently receiving benefits average 73.4 years of age.

2. SDG&E Union Employees

Represented SDG&E employees are eligible for the PBOP Plan upon retirement after age 55 with at least 5 years of service. The PBOP Plan has three benefit tiers and the benefit programs associated with each tier vary as to type of benefit and benefit cost. Retiree contributions for medical coverage vary depending on the date of retirement, age, and years of service.

Retirees can elect medical coverage from a number of plans offered through Kaiser, Anthem Blue Cross, or UnitedHealthcare. The Company also provides mental health, substance abuse, dental, vision and life insurance benefits. Eligible retirees pay a portion of dental premiums and can participate in a discount vision plan. Eligible retirees are also provided a retiree life insurance benefit that is solely paid by the Company.

Effective December 1, 2009, benefits include a health reimbursement account ("HRA"). Individual HRA accounts are established at the date of retirement and are available to reimburse retirees for qualified medical expenses during retirement. Opening account balances are based on the value of a percentage of unused sick leave and all unused vacation. HRA accounts receive monthly interest credits, on the unused balance, based on a 30-Year U.S. Treasury bond rate.

3. SDG&E Non-represented Employees

SDG&E non-represented employees who retired prior to January 1, 2006 generally participate in the same benefits provided to represented employees retiring prior to that date. Effective January 1, 2006, eligibility requirements were changed to retirement after age 55 with 10 years of service or age 62 with at least 5 years of service. The Company contributes a fixed contribution for medical and dental based on coverage level: retiree-only or retiree with one or more dependents. Mental health and substance abuse coverage is provided. A discount vision program is offered; however, the retiree pays all costs. Term retiree life insurance coverage of $10,000 is paid entirely by the Company. Non-represented employees are not eligible for the HRA benefit.

B. PBOP Cost Estimate

An annual certified actuarial valuation of the PBOP Plan is prepared by the Company's actuary that includes the value of benefit obligations and the annual PBOP cost which is the basis for minimum contributions to the plan. The valuations are performed in accordance with generally accepted actuarial principles and practices. PBOP expense includes both current retirees and an allocation of costs for current employees who are expected to access benefits in the future upon retirement. PBOP costs are determined pursuant to Financial Accounting Standard ("FAS") 715-60, a summary of which is provided in Table 4.

Table 4 - Summary of 2013 vs. 2016 PBOP Expense

		In Thousands		
Cost Center	**Benefit Description**	**2013 Actual**	**2016 Budget[1]**	**2013-2016 Change**
2200-8001.000	**PBOP**	**$ 14,193**	**$ 9,550**	**$ (4,643)**

[1] Reflects current projected PBOP contribution

Chart 8 illustrates the actual 2012 and 2013 FAS 715-60 expense and projected amounts for the period 2014 through 2023.

Chart 8 – SDG&E PBOP Expense: 2012 – 2023

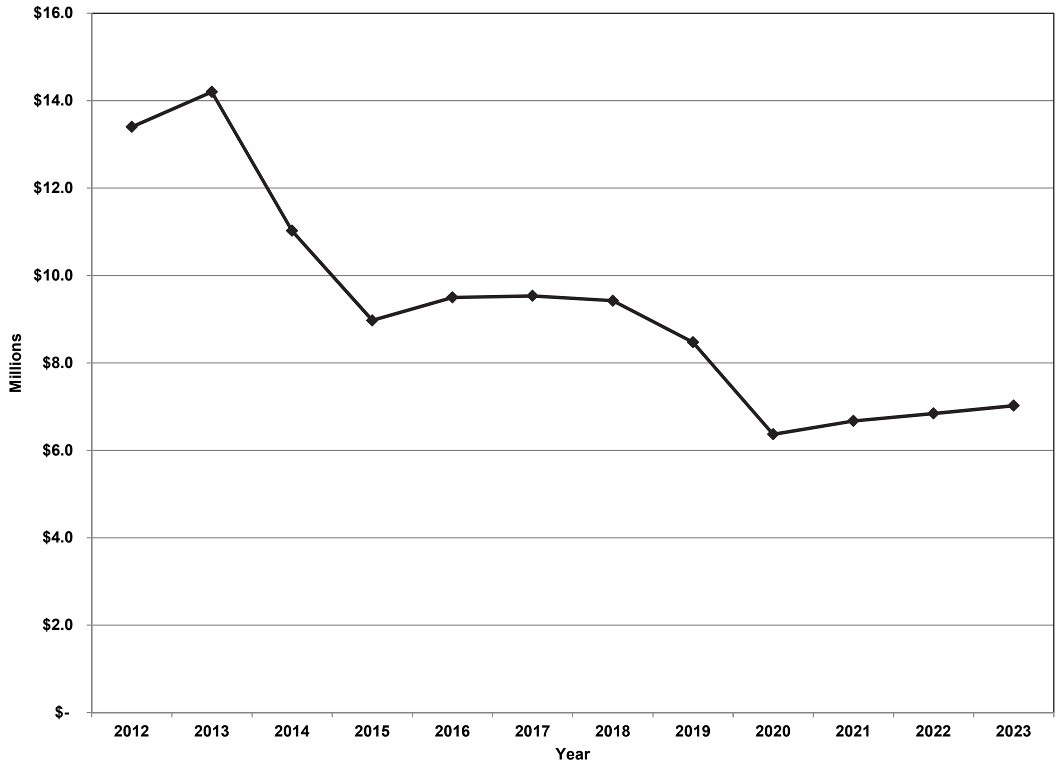


Chart 9 illustrates the projected PBOP expense in the 2012 GRC compared to the 2016 GRC. The decrease in PBOP expense from 2013 to 2016 is primarily attributable to a reduction in head count, recent asset returns higher than expected, recent claims experience which has been favorable and improved funding levels over the forecast period.

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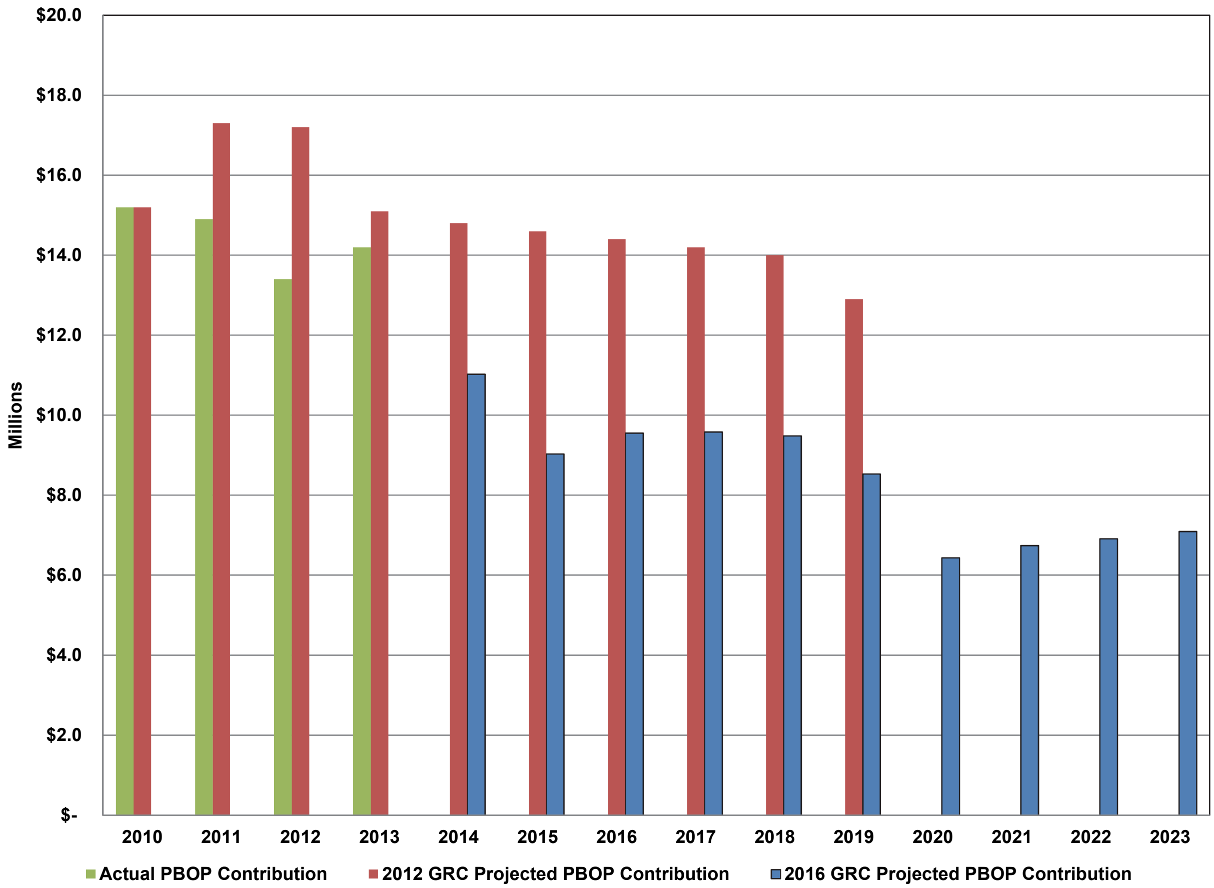
Chart 9 – SDG&E PBOP Actual vs. Projected Expense: 2010 – 2023



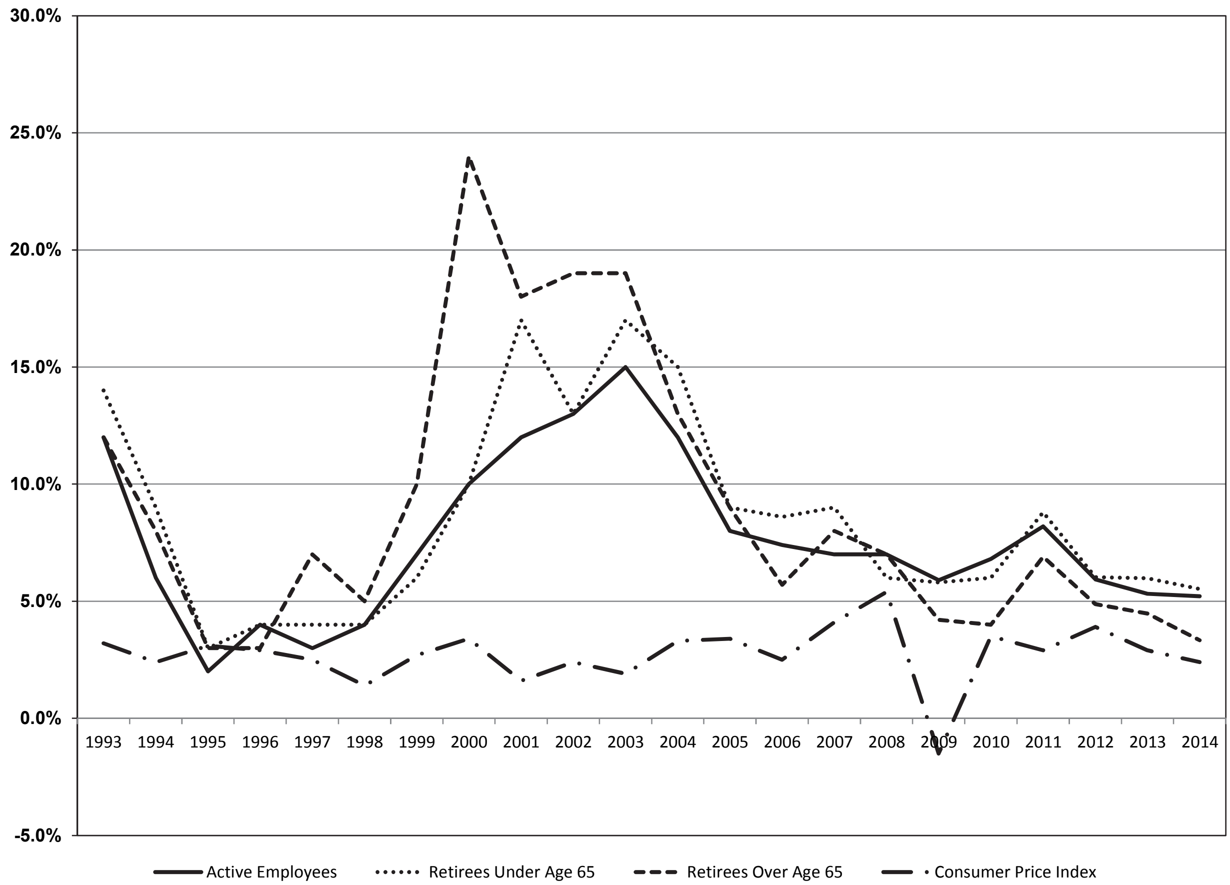
C. Test Year PBOP Expense

Similar to pension expense, PBOP expense is difficult to project with certainty due to the impacts of numerous variables including benefit utilization, healthcare escalation, asset returns and interest rates. Consequently, the current estimated test year contribution of $9.55 million is likely to change. The Company's actual contribution will be the FAS 715-60 expense. Any variance between authorized and actual contributions would be subject to the current PBOP two-way balancing account mechanism, as proposed in the Direct Testimony of witness Norma Jasso (Ex. SDG&E-35).

D. Health Care Cost Escalation

Medical benefit cost assumptions and trend rate have a significant impact on actual and projected plan expense. Historically, trend rates have exhibited a cyclical pattern. Chart 10 illustrates average medical cost increases for the period 1993 thru 2014, as reported by the Towers Watson Health Care Cost Survey. The comparison to the Consumer Price Index shows the significance of medical care cost increases and its relative value compared to other non-health related goods and services.

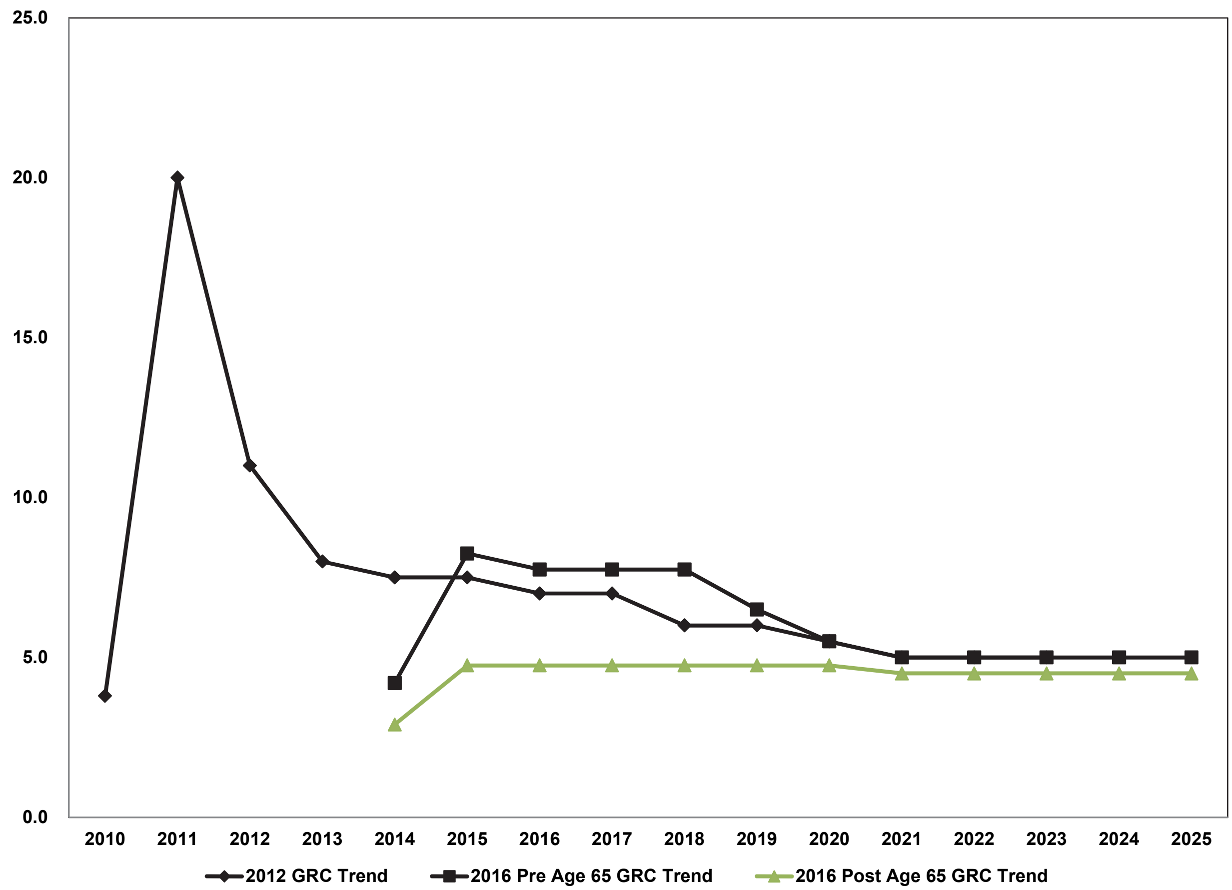
Chart 10 – Average Medical Cost Increases: 1993 – 2014



The projection of PBOP expense includes an actuarial projection of future health care escalation factors, both short-term and long-term. In the short term, trend rates reflect recent changes in annual increases due to health care cost increases and participant utilization levels. The ultimate trend is more indicative of general economic conditions.

As shown on Chart 11, the health trend assumptions are higher for the 2016 GRC compared to the 2012 GRC. The incremental increase in premium rates is due to multiple factors including participant demographics (i.e., age and number of dependents), increased paid claims, HMO capitation costs, and pharmacy benefit utilization. However, the impact of trend is not as significant in the SDG&E PBOP Plan due to its fixed contribution cost sharing design.

Chart 11 – Health Care Trend: 2012 GRC vs. 2016 GRC



The projected 8.3% aggregate increase for 2015 is based on renewal rates received from the Company's health insurance providers. The Company and its consultant, Towers Watson, continue to review the basis for medical premium cost increases including participant utilization, plan design, and the impact of the Patient Protection and Affordable Care Act on future health care trends as regulations and guidance continue to be issued by the various regulatory agencies.

E. PBOP Assets and Liabilities

PBOP plans are prefunded using a number of funded and flow-through voluntary employee benefit association trusts ("VEBAs") as well as a 401(h) trust. As with the pension trust, the funded VEBAs and 401(h) trust suffered significant declines in the market value of assets during the financial decline in 2008. Since then, the accumulated postretirement benefit obligation funded percentage continues to improve as shown in Chart 12. The 2009 funded percentage was 42.8% which improved to 65.6% in 2013 with projected post-2013 levels above 83%.

Chart 12 – SDG&E PBOP Funded Percentage: 2009 – 2023

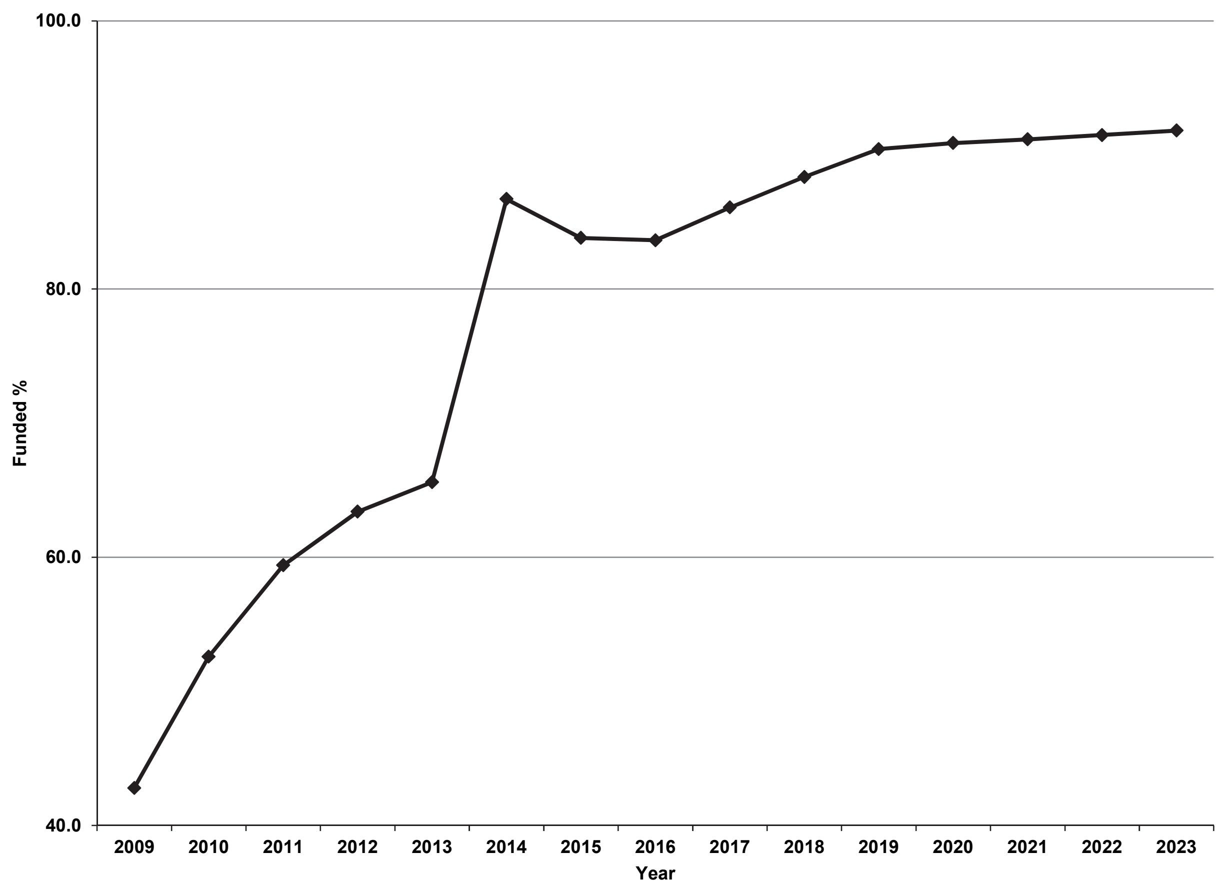


Chart 13 compares the 2012 GRC PBOP projected funded ratios to the latest 2016 GRC projection. The post-2013 funded ratios show the combined impact of the market recovery on Plan assets and other applicable drivers including reduction in headcount, recent asset returns higher than expected, recent claims experience which has been favorable and improved funding levels.

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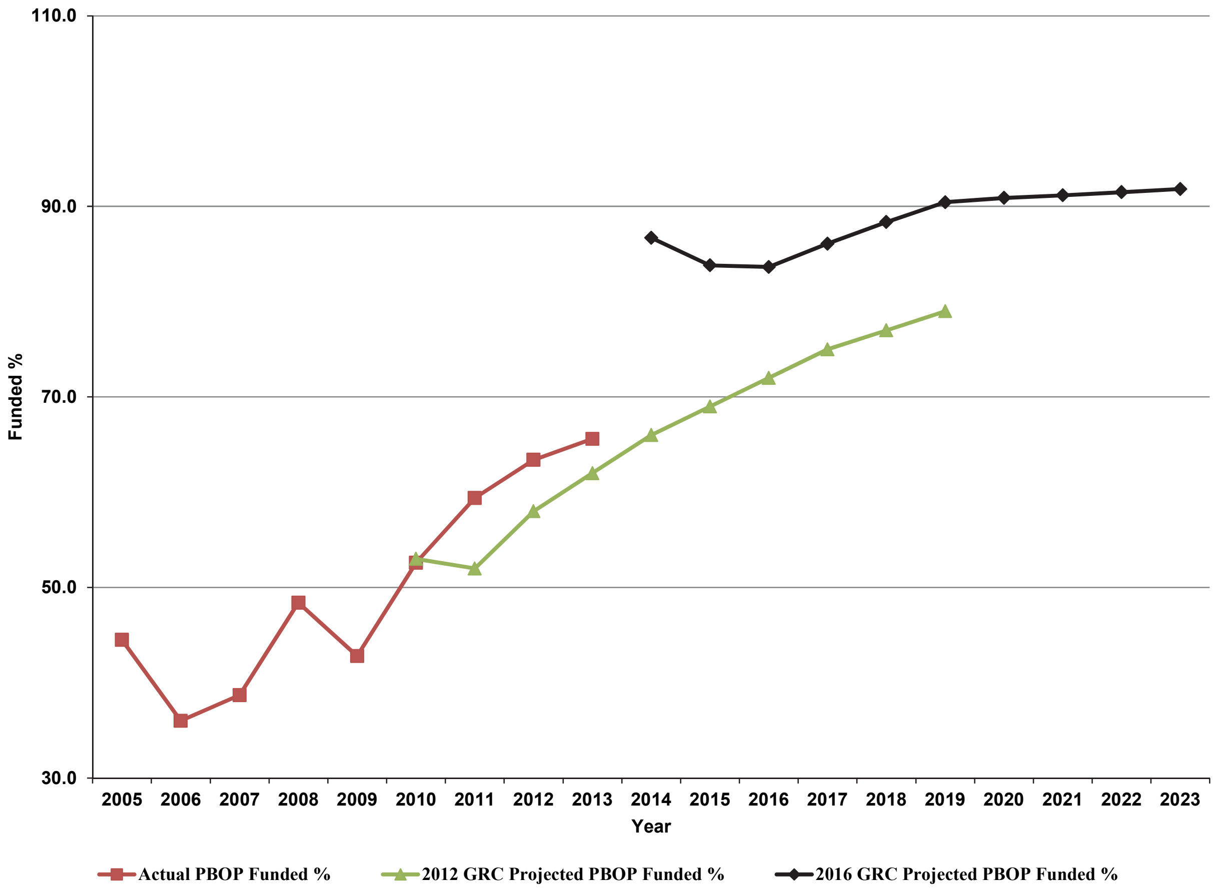
Chart 13 – SDG&E 2012 GRC vs. 2016 GRC PBOP Funded Percentage



F. Regulatory Treatment

Future PBOP expense levels are difficult to determine due to the numerous variables that affect the actual FAS 715-60 expense including the applicable discount rate, actual investment returns on plan assets, plan design features, demographic characteristics, health care inflation, claims experience, and legislative changes. In response to this forecasting challenge, the Commission has approved recovery of PBOP expenses subject to a two-way balancing account to adjust the revenue requirement to the FAS 715-60 costs actually incurred, as limited by the maximum tax deductible amount permitted by the IRC. This approach has been employed for all California utilities for almost 24 years (see D.92-12-015).

The Commission has consistently approved the use of a two-way balancing account mechanism for addressing the risk of variability in PBOP expense. In the 2008 GRC, the Commission in D.08-07-046, approved a settlement agreement ("Settlement Agreement") that provided for annual PBOP funding in rates based on an estimate of FAS 715-60 expense. Any increase or decrease in actual expense would be recorded as an adjustment to the Post-retirement Benefits Other than Pensions Balancing Account ("PBOPBA").

In conjunction with its request to modify the mechanism for recovery of pension expense, SDG&E also requested permission to implement an annual PBOPBA true-up rather than wait until the next scheduled general rate case. In D.09-09-011, the Commission approved SDG&E's petition to modify the mechanism for recovery of PBOP expenses as ordered in D.08-07-046 and "allow the annual amortization of Post-Retirement Benefits Other than Pensions recorded in the ("PBOPBA") incremental to the expenses included in the settlement revenue requirement."

As with pension benefits, SDG&E received approval from the Commission in D.13-06-010 to continue the two-way balancing account treatment and the annual amortization of the PBOPBA since the circumstances supporting such a mechanism had not changed. The impact of external factors in determining PBOP expense continues to effect the annual and projected determination of this expense. The PBOPBA is described in detail in the testimony of Regulatory Accounts Witness Norma Jasso (Ex. SDG&E-35), including the SDG&E proposal to continue the annual amortization of the PBA as adopted in D.09-09-11.

This concludes my prepared direct testimony.

IV. QUALIFICATIONS – WITNESS DAVID SARKARIA

My name is David Sarkaria. My business address is 101 Ash Street, San Diego, California. My current position is Senior Director Compensation and Benefits for Sempra Energy. The Compensation and Benefits department supports the Sempra Energy Corporate Center and Sempra Energy's other business units including San Diego Gas & Electric and the Southern California Gas Company.

My present responsibilities include managing Sempra Energy's overall compensation and benefit programs, including all benefits-related compliance activities.

I hold a Bachelor in Chemistry from California State University, Long Beach; a Master in Business Administration from California State Polytechnic University, Pomona; and a Juris Doctorate from Western State University College of Law, Fullerton, California. I am a licensed member of the California State Bar, Certified Internal Auditor, Certified Fraud Examiner, Certified Employee Benefits Specialist, Certified Compensation Professional, and Senior Professional in Human Resources.

I joined the Southern California Gas Company in 1994, moved to Sempra Energy in 1998 and have held various positions within the Accounting, Finance, and Human Resources areas. Prior to being employed by Southern California Gas Company, I was engaged in private law practice and prior to that was a tax counsel with Phillips Petroleum in Houston, Texas.

I am sponsoring the Pension and Postretirement Benefits Other Than Pension testimony in SDG&E's 2016 General Rate Case Application. I have previously testified before the California Public Utilities Commission.