Company:	Southern California Gas Company (U 904 G) San Diego Gas and Electric Company (U 902 M)
Proceeding:	2019 General Rate Case
Application:	A.17-10-___
Exhibit:	SCG-31/SDG&E-29

SOCALGAS AND SDG&E

DIRECT TESTIMONY OF
DEBBIE ROBINSON

(PENSION AND POSTRETIREMENT BENEFITS OTHER THAN PENSION)

October 6, 2017

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

317241

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SUMMARY

SoCalGas

O&M ($000)	Base Year 2016	Test Year 2019	Change
Pension	$70,350	$202,830	$132,480
PBOPs	271	0	(271)
Total	**$70,621**	**$202,830**	**$132,209**

SDG&E

O&M ($000)	Base Year 2016	Test Year 2019	Change
Pension	$ 0	$63,970	$63,970
PBOPs	2,356	1,430	(926)
Total	**$2,356**	**$65,400**	**$63,044**

Summary of Requests

- Maintain the Companies' ability to attract and retain the best possible talent by offering a competitive total compensation package including pension and postretirement health benefits.
- Begin to recover pension costs based on the greater of: (i) the annual service cost plus a seven-year amortization of the Projected Benefit Obligation (PBO) shortfall as determined pursuant to Subtopic 715-30 of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC 715-30), the authoritative source of Generally Accepted Accounting Principles (GAAP), (ii) the annual ERISA minimum required contribution, or (iii) the contribution required to maintain an 85% Adjusted Funding Target Attainment Percentage (AFTAP). Annual contributions will be limited so that the contribution does not result in pension assets exceeding 110% of the PBO.
- Continue to recover postretirement health and welfare benefits expense based on costs determined pursuant to Subtopic 715-60 in the FASB Accounting Standard Codification (ASC 715-60).
- Maintain the long-standing use of the two-way balancing account mechanism for pension and postretirement benefit plans other than pension expenses since expense variability is generally due to external economic and regulatory variables which are outside the control of the Companies.

SOCALGAS AND SDG&E DIRECT TESTIMONY
OF DEBBIE ROBINSON
(PENSION AND POSTRETIREMENT BENEFITS OTHER THAN PENSION)

I. INTRODUCTION AND SCOPE OF TESTIMONY

I sponsor the Test Year (TY) 2019 forecasts for pension and postretirement health and welfare benefits other than pension (PBOP or PBOPs) provided through the qualified retirement plans and the postretirement benefit plans at Southern California Gas Company (SoCalGas) and San Diego Gas and Electric Company (SDG&E) (collectively, the Companies). Pension and PBOPs are key components of a competitive total compensation program that enables the Companies to attract and retain a high-performing workforce.

As discussed in my direct testimony for Compensation and Benefits (Exhibit SCG-30/SDG&E-28), a comprehensive study of the Companies' compensation and benefit programs, the Willis Towers Watson Study (WTW Study), found the Companies' total compensation to be at market. For purposes of the WTW Study, "total compensation" consisted of the aggregate value of annualized base pay, incentive compensation (short-term and long-term) and benefits programs, including pension and PBOP benefits. The WTW Study is included in my direct testimony for Compensation and Benefits (Exhibit SCG-30/SDG&E-28).

II. SUMMARY OF REQUEST

The Companies' projected TY 2019 costs are based on:

- Pension: Changing the methodology for recovery of pension costs, as described below.
- PBOPs: Continuing to recover postretirement health and welfare benefits expense based on costs determined pursuant to Subtopic 715-60 in the FASB Accounting Standard Codification (ASC 715-60).
- Balancing Accounts: Maintaining the long-standing use of the two-way balancing account mechanism for pension and postretirement benefit plans other than pension expenses since expense variability is generally due to external economic and regulatory variables, which are outside the control of the Companies.

The current and the proposed change in pension funding methodology is summarized below:

- Current methodology: Based on the minimum required contributions in accordance with ERISA and as allowed by the Internal Revenue Code, but no less than the amount required to maintain an 85% Adjusted Funding Target Attainment Percentage (AFTAP).
    - The Pension Protection Act of 2006 set minimum required contributions at a level designed to achieve full funding within seven years.
    - Subsequent legislation lowered the minimum required contributions. For SDG&E and SoCalGas, the growth in the pension liability has outpaced contributions, creating a significant funding shortfall.
    - This funding shortfall increases long-term costs to ratepayers due to higher Pension Benefit Guaranty Corporation premiums and higher accrued interest costs. In addition, deferring funding creates generational equity issues where future ratepayers will be asked to fund costs that benefited earlier generations.
- Proposed methodology: The proposed methodology stops the continued underfunding of the Projected Benefit Obligation (PBO)[1]and targets its full funding within seven years. Recovery is based on the greater of:
    (i) the annual service cost[2] plus a seven-year amortization of the Projected Benefit Obligation (PBO) shortfall,
    (ii) the annual ERISA minimum required contribution, or
    (iii) the contribution required to maintain an 85% AFTAP.

    Annual contributions will be limited so that the contribution does not result in pension assets exceeding 110% of the PBO.

As summarized below, projected TY 2019 costs are $65.4 million for SDG&E and $202.8 million for SoCalGas.

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[1] As determined pursuant to Subtopic 715-30 of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC 715-30), the authoritative source of Generally Accepted Accounting Principles (GAAP).

[2] Service cost refers to the present value of the projected retirement benefits earned by plan participants in the current period. Generally, a company's pension service cost is the amount it must set aside in the current period to match the retirement benefits accrued by plan participants during the year.

Table DSR-1 – Summary of 2016 vs. 2019 Pension Benefit Expense

			In Thousands		
	Cost Center	**Benefit Description**	**2016 Actual**	**2019 Budget[1]**	**2016-2019 Change**
SDG&E	**2100-0375.000**	**Pension**	**$ -**	**$ 63,970**	**$ 63,970**
SoCalGas	**2200-8001.000**	**Pension**	**$ 70,350**	**$202,830**	**$132,480**

[1] Reflects current projected service cost plus one year of a seven year amortization of the projected benefit obligation shortfall as of December 31, 2018.

III. PENSION BENEFITS

A. Summary Description

1. Participant Demographics

The SDG&E Cash Balance Plan (SDG&E Pension Plan), first established in 1941, provides benefits to approximately 4,000 active employees and 2,700 retirees, survivors, and terminated participants entitled to future benefits. The average age of active employees is 46.8 years with an average of 15.1 years of service. Retirees who are currently receiving benefits average 75.6 years of age, while those with deferred benefits average 52.2 years of age.

The SoCalGas Pension Plan, which was first established in 1932, provides benefits to approximately 8,200 active employees and 5,600 retirees, survivors and terminated participants entitled to future benefits. The average age of active employees is 44.0 years with an average of 14.5 years of service. Retirees who are currently receiving benefits average 75.9 years of age.

The SDG&E Cash Balance Plan and the SoCalGas Pension Plan will be referred to collectively as “the Pension Plans” where appropriate in the remainder of this exhibit.

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

Prior to July 1, 2003, the SDG&E defined benefit pension plan (the SDG&E 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 SDG&E 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 SDG&E 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 SDG&E 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 (SDG&E Grandfathered Employee) continued to accrue benefits under the "grandfathered" SDG&E Traditional Plan (the SDG&E Grandfathered Plan) for a five-year transition period. Benefit accruals under the SDG&E Grandfathered Plan were frozen as of June 30, 2003.

Participants in the SDG&E 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 SDG&E Grandfathered Employees.

Until March 1, 2007, SDG&E Grandfathered Employees received benefits equal to the greater of the benefit calculated under the SDG&E Grandfathered Plan or their benefit under the SDG&E Cash Balance Plan. On or after March 1, 2007, a participant's benefit is the greater of (1) their SDG&E Cash Balance Plan account balance or (2) their SDG&E 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 SDG&E 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.

4. SoCalGas Union Employees

The defined benefit plan for represented employees (the "SoCalGas Traditional Plan") provides a retirement benefit based on final average earnings and years of service. The minimum service requirement for benefit vesting purposes is five years. The SoCalGas Traditional Plan provides normal retirement at age 65 with five or more years of service and early retirement benefits at age 55 with at least 15 years of service. SoCalGas employees who retire prior to attaining age 62 receive a reduced benefit unless the sum of their age and credited service equal a minimum of 90.

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.

Effective March 1, 2012, all employees who became subject to the collective bargaining agreement on or after January 1, 2012 became participants in the SoCalGas Cash Balance Plan, the same plan provided to non-represented employees. SoCalGas Union employees who were covered by the collective bargaining agreement and who were hired on or before December 31, 2011 are grandfathered and continue to accrue and receive benefits under the SoCalGas Traditional Plan.

5. SoCalGas Non-Represented Employees

Prior to July 1, 1998 SoCalGas non-represented employees participated in the same plan design as the SoCalGas union employees. Effective July 1, 1998, non-represented employees began participating in the SoCalGas Cash Balance Plan. Any employee hired prior to July 1, 1998 (“SoCalGas Grandfathered Employee”) continued to accrue benefits under the “grandfathered” SoCalGas Traditional Plan (the “SoCalGas Grandfathered Plan”) for a five-year transition period. Benefit accruals under the SoCalGas Grandfathered Plan were frozen as of June 30, 2003.

Participants in the SoCalGas Cash Balance 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 SoCalGas Grandfathered Employees.

Until March 1, 2007, SoCalGas Grandfathered Employees received benefits equal to the greater of the benefit calculated under the SoCalGas Grandfathered Plan or their benefit under the SoCalGas Cash Balance Plan. On or after March 1, 2007, a SoCalGas Grandfathered

Employee's benefit is the greater of (1) their SoCalGas Cash Balance Plan account balance or (2) their SoCalGas Grandfathered Plan benefit plus their Frozen Benefit Plus^{+} Account. The Frozen Benefit Plus^{+} Account is based on retirement and interest credits accrued beginning July 1, 2003 (after the SoCalGas Grandfathered Plan was frozen).

Effective January 1, 2008, 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 Companies' actuary, Willis Towers Watson, provides an annual certified actuarial valuation of the Pension Plans that includes the value of benefit obligations and minimum required contributions. The valuations are performed in accordance with generally accepted actuarial principles and practices. The projected pension benefit expense shown below in Table DSR-1, is the annual contribution to the Pension Plans as determined by the proposed pension plan funding policy, which is the same for both Companies. Per the policy, the expense is equal to the service cost plus one year of a seven-year amortization of the Pension Plans' unfunded PBO, which is defined under GAAP in Subtopic 715-30 of the FASB Accounting Standards Codification (ASC 715-30), as of December 31, 2018. As discussed below in this exhibit, the proposed policy addresses issues caused by the current funding policy, which was impacted by recent changes to minimum funding rules adopted by Congress. The proposed policy addresses these issues by accelerating the funding of the Pension Plans, thereby reducing the long-term Pension Plan expense borne by ratepayers and improving generational equity for them.

Under the proposed policy, the pension benefit expense for SDG&E and SoCalGas will remain constant throughout the 3-year rate case period at the amount calculated for the Test Year, unless: (1) the minimum required contribution for either of the Pension Plans, determined in accordance with the Employee Retirement Income Security Act of 1974 (ERISA), is a higher amount, (2) a higher amount is needed to maintain an 85% AFTAP, or (3) if the Pension Plans were to become 110% funded. This will significantly reduce the potential for large annual fluctuations in rates inherent in the current funding policy.

C. Test Year Pension Expense

Under the proposed funding policy, contributions for both Companies in any year will be equal to the requested amount, unless a larger contribution is required to:

i) Satisfy the minimum required contribution under ERISA, or

ii) Maintain an 85% AFTAP.

Furthermore, the actual contribution will be reduced by the amount that would cause the fair value of the Pension Plan assets to exceed 110% of the PBO.

As discussed below in this exhibit, the pension contributions determined by the current funding policy were difficult to project with certainty due to the impacts of numerous external variables. As stated above, the proposed funding policy seeks to significantly reduce this variability by holding the current estimated test year contribution constant over the years covered by this application, unless a larger (or smaller) contribution is necessary due to the conditions above.

Any variance between authorized and actual contributions would be subject to the current two-way balancing account mechanism, as proposed in the Direct Testimonies of Norma Jasso (Ex. SDG&E-41) and of Rae Marie Yu (Ex. SCG-42).

D. Current Funding Policy

The current plan funding policy (used to determine the expense allowed by the settlement of the 2016 General Rate Case and the decision by the CPUC in the 2012 General Rate Case for both SDG&E and SoCalGas) is based on the minimum required contributions in accordance with ERISA and as allowed by the Internal Revenue Code (IRC), but no less than the amount sufficient to maintain an 85% Adjusted Funding Target Attainment Percentage.

The Pension Protection Act of 2006 (PPA) modified ERISA minimum funding requirements. Under PPA, the minimum required annual contribution is equal to the target normal cost plus amortization of any funding shortfall over seven years. The target normal cost is the present value of benefits expected to be earned by participants during the pension plan year. The PPA established a pension 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 pension plan assets falls below the PPA funding target.

Chart DSR-1 for SDG&E and DSR-2 for SoCalGas show contributions and benefit payments during the period 1999 through 2016. Over the 18-year period, benefit payments exceeded contributions by over $690 million and $1,820 million for SDG&E and SoCalGas, respectively.

Chart DSR-1 – SDG&E Pension Plan Contributions vs. Benefit Payments: 1999 – 2016

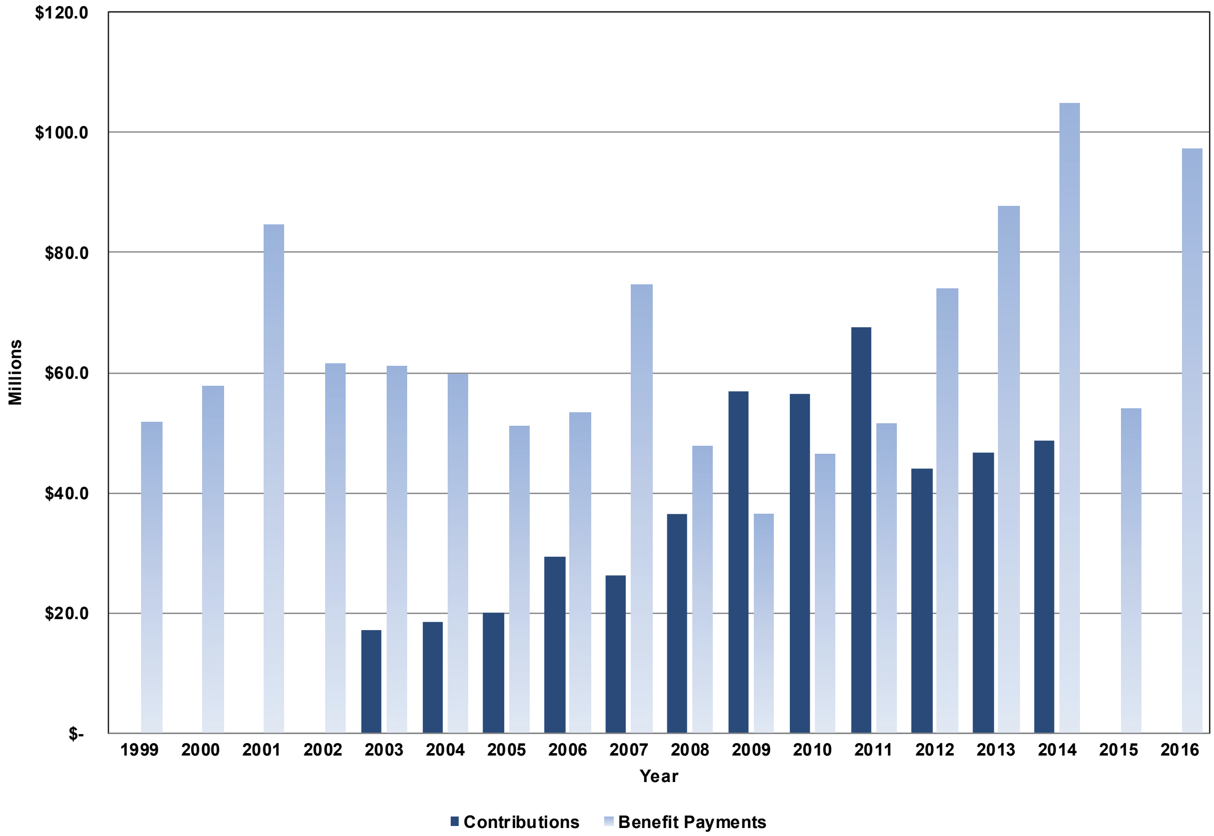

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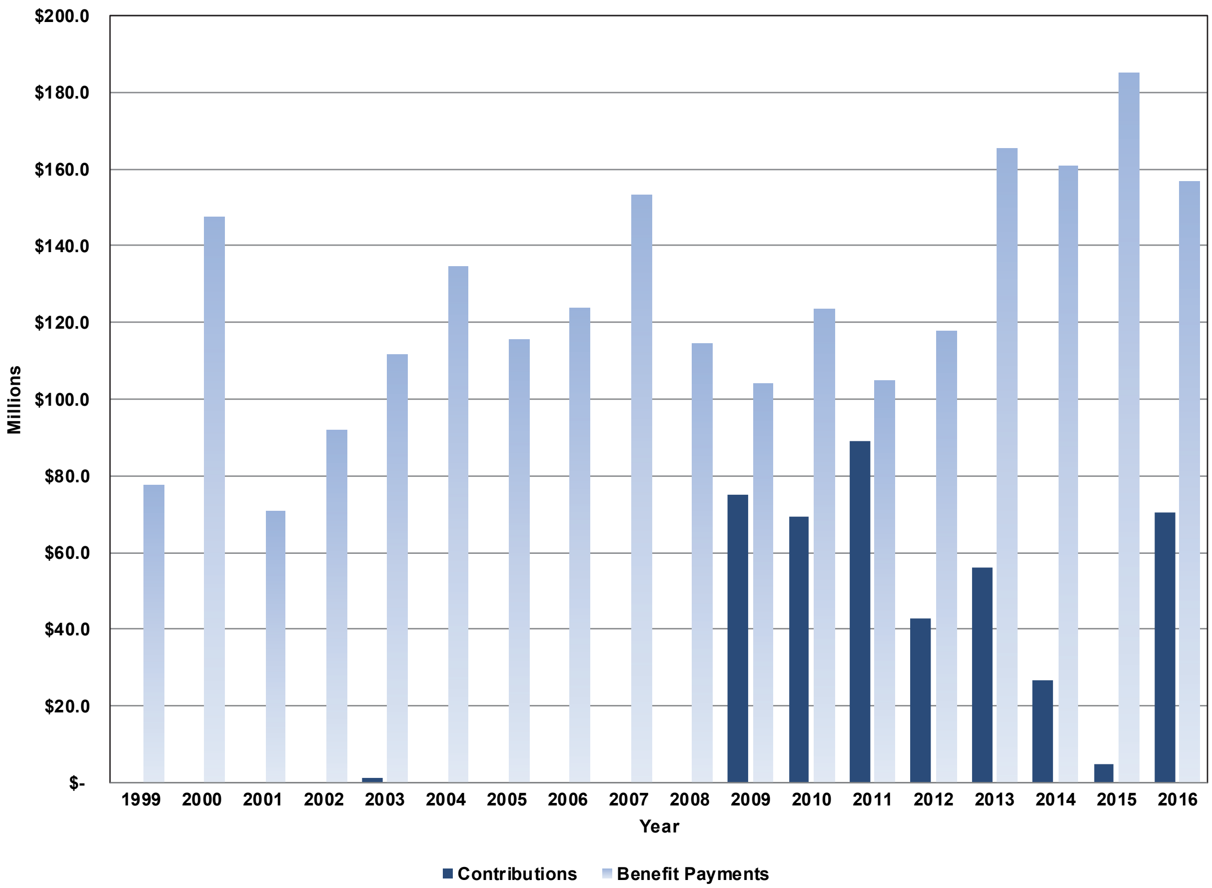
Chart DSR-2 – SoCalGas Pension Plan Contributions vs. Benefit Payments: 1999 – 2016

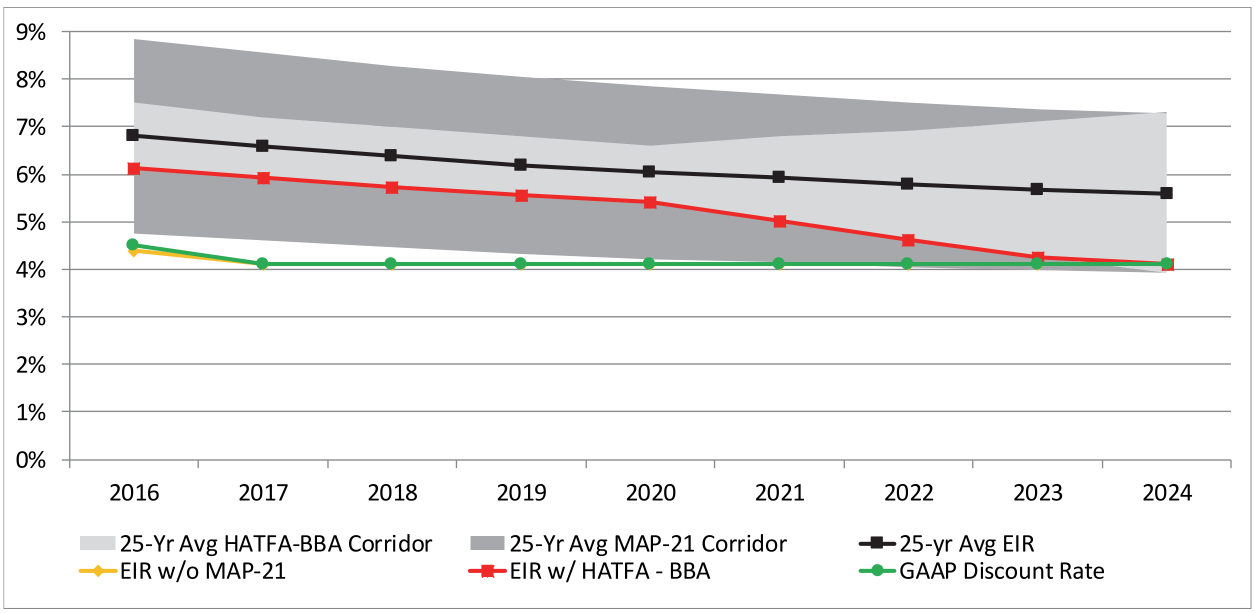


1. Impact of Moving Ahead for Progress in the 21st Century and Highway and Transportation Funding Act, as modified by The Bipartisan Budget Act

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 on August 8, 2014, had the effect of increasing funding interest rates for the plan and lowering minimum contributions over the next few years. In 2015, Congress extended the provisions of HATFA by enacting the Bipartisan Budget Act of 2015 (BBA), which was signed into law on November 2, 2015.

Chart DSR-3 shows the anticipated effect of MAP-21 and the extended effect of HATFA as modified by BBA on the effective interest rates (EIR) used to estimate minimum contributions. 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 dark gray below), which surrounds the 25-year average of such segment rates. HATFA, as modified by BBA, extends the corridor and delays the widening of the corridor (shown in hatched lines below). 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 as modified by BBA to remain at 90% - 110% through 2020, before increasing 5% per year to a corridor of 70% - 130% in 2024.

Chart DSR-3 – Effective Interest Rates



While the intent of the legislative actions referenced above was to provide stabilization of employer contributions in the event of short-term deviations of interest rates from historical levels, the prolonged low interest rate environment resulted in a significant underfunding of the Pension Plans. Charts DSR-4 and DSR-5 show that since interest rate stabilization came into effect in 2012, the liability determined under PPA that is used to calculate contributions is significantly understated when compared to the market liability (without stabilization). They also show that by only funding the minimum required contribution, Pension Plan assets are now significantly below the actual Pension Plan liabilities (as measured without stabilization).

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Chart DSR-4 – SDG&E Pension Plan Assets vs. Liabilities: 2002 – 2016

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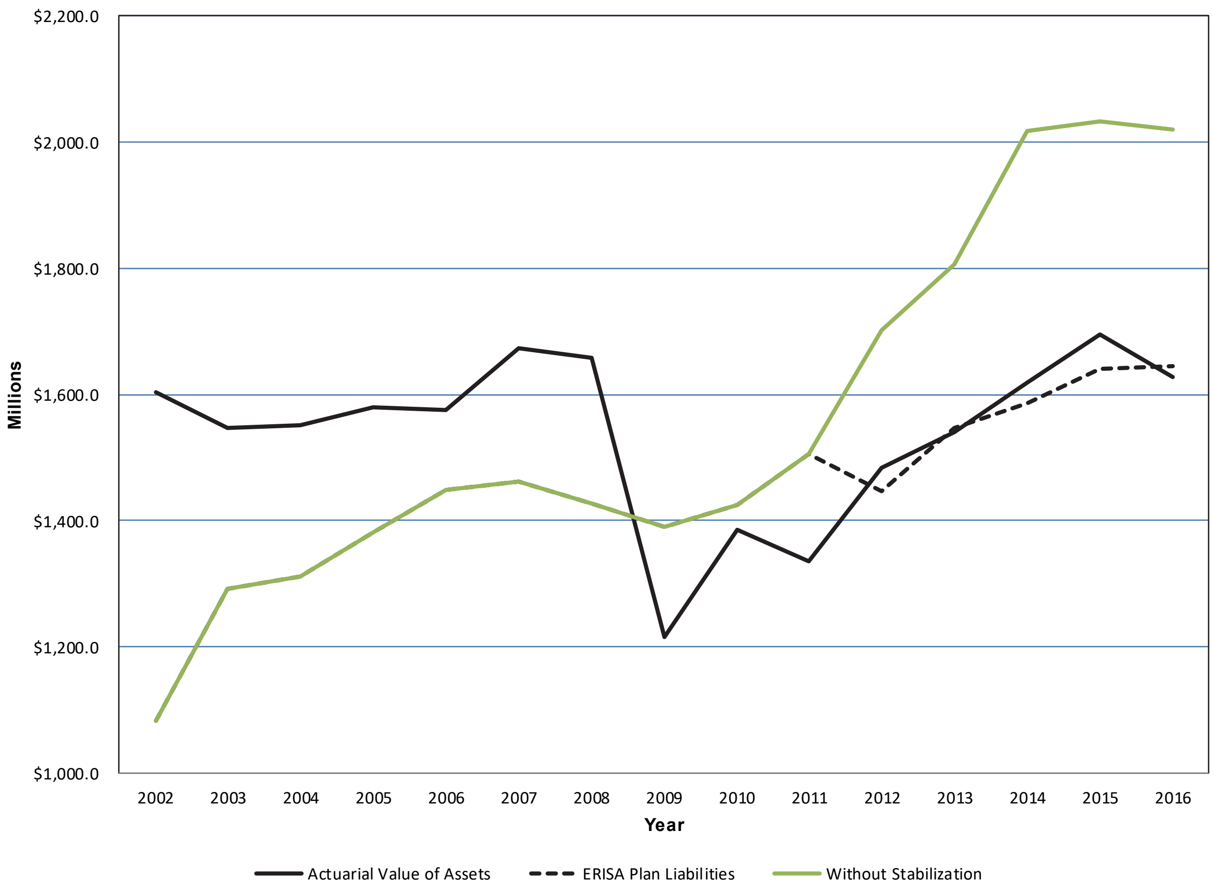
Chart DSR-5 – SoCalGas Pension Plan Assets vs. Liabilities: 2002 – 2016



When initially introduced, PPA intended for pension plans to achieve full funding over seven years. However, the three rounds of pension stabilization legislation discussed above and a funding policy of contributing only the minimum required resulted in significant underfunding (see Charts DSR-4 and DSR-5). After more than eight years of funding only PPA minimum requirements, at January 1, 2016, the SDG&E Pension Plan and the SoCalGas Pension Plan posted a $79 million and a $394 million deficit (when measuring liabilities without interest rate stabilization), respectively. This deficit creates the following issues:

- A significant unfunded liability increases Pension Benefit Guaranty Corporation (PBGC) variable rate premiums (which are calculated as a percentage of the unfunded liability, up to a dollar limit), ultimately increasing long term costs to ratepayers.
- Funding stabilization also increases the long-term costs to ratepayers because the plans accrue more interest on the larger unfunded liability resulting from the deferral of contributions.

- Deferring costs to future periods creates generational equity issues, whereby future ratepayers will be asked to pay for benefits related to services provided to earlier generations of customers.

For these reasons, the Companies believe it is in the best interest of all parties to modify the funding policy to accelerate pension funding and better align with the original intent of PPA of fully funding the Pension Plans over seven years.

E. Proposed Funding Policy Change

Due to issues discussed above, the current funding policy; as approved in prior General Rates Cases has resulted in a significant underfunding of the Pension Plans and a new funding policy is necessary so that the interests of either retirement system beneficiaries or future generations of ratepayers will not be jeopardized.

1. Details of Proposed Funding Policy

The objectives of the Companies' proposed change in funding policy are as follows:

- Fully fund the pension plan over a reasonable period
- Minimize long term costs of funding the pension plan
- Provide stable contribution pattern
- Limit ratepayer generational inequity

The proposed funding policy would be applied as follows.

i) The initial annual funding amount is equal to the ASC 715-30 annual service cost (value of benefits expected to accrue during the year) for the pension plan plus an amount that would be sufficient to fully fund the initial ASC 715-30 funding deficit (i.e., PBO in excess of the fair value of the Pension Plans assets) over seven years (Policy Base Amount).

ii) This amount will remain constant throughout the period covered by this General Rate Case, unless:

- the Company is required by law to contribute a higher amount (due to ERISA minimum required contribution),
- a higher contribution is necessary to maintain an 85% AFTAP and avoid benefit restrictions (see III.F. below), or
- contributions are limited to keep plan assets from exceeding 110% of the pension liability as a result of the contribution.

iii) As in the current funding policy, any variance between authorized and actual contributions as a result of adjustments to the projected amount for the reasons discussed above would be subject to the current two-way balancing account mechanism.

2. Justification for the Proposed Changes to the Funding Policy

a) Use of GAAP and not PPA to Determine Funded Status

To rectify the underfunding of the Pension Plans resulting from Congress' recent history of making changes to the PPA funding liability, the new policy uses the PBO, which is the Pension Plan's liability calculated according to GAAP, and not the liability calculated according to PPA, as the basis for the pension contribution. This decision was made for the following reasons:

- PPA funding liability is subject to the political process. The PPA funding liability has a history of being modified by Congress. To retain the primary objective of fully funding the plan over a reasonable period, many adjustments (such as removing the interest rate stabilization) would be necessary. Constant monitoring and possible methodology adjustment might be required (sometimes in between rate case proceedings) adding undue complexity to the process.
- PPA assumptions often lag the actual market. Regulations required to update certain assumptions used in calculating the PPA funding liability can take time, creating delay in reflecting key updates to the liability. A perfect example of this is updates in mortality assumptions to reflect evidence of longer life expectancy. While the Society of Actuaries published its update of mortality assumption in 2014, nearly three years later the IRS has yet to finalize regulations that would incorporate the new life expectancies in the PPA funding liability.
- The PBO is the best estimate of the plan's liability under current market conditions. It reflects current interest rate levels as well as any updated expectations about participants' longevity.
- The PBO already exists. Rather than creating a new metric (or adjustments to another measure), the PBO is readily available.

- The PBO receives external vetting. While key assumptions are selected by the Companies' management, they are subject to a thorough review from corporate auditors to make sure that assumptions selected are adequate and reasonable.
- The PBO is consistent with other measures already used. Expenses allowed for PBOPs are based on GAAP accounting costs, and therefore based on the retiree medical equivalent of the PBO. It is also the most common basis for determining recovery of pension costs in jurisdictions outside of California.

b) Use of 7-Year Period to Amortize PBO Underfunding

The proposed funding policy uses a seven-year period to amortize the Pension Plans' unfunded PBO which conforms to the period originally set by PPA (and the original intent of the prior funding policy). A 7-year period is also consistent with the period approved for Pacific Gas and Electric Company (PG&E) under an All-Party Settlement Agreement approved by the Commission on September 15, 2009 and effective January 1, 2011 (Decision (D.) 09-09-020).

Charts DSR-6 and DSR-7 below show funding projections provided in the 2016 GRC, an updated forecast assuming only the minimum required contributions which reflect the effect of HATFA as modified by BBA are made, and forecast contributions under the Companies' proposed funding policy. There were no actual contributions for plan years 2015 and 2016 for SDG&E and $4.65 million and $70.4 million for SoCalGas, compared to the projected amounts of $24.0 million and $42.4 million for SDG&E and $85.1 million and $113.7 million for SoCalGas. If only the minimum required contributions are made there is a gradual increase through 2023 and then continuing as the impact of HATFA as modified by BBA diminishes and full PPA funding levels are gradually attained, although projected contributions taper off in 2025 for SDG&E. Under the new funding policy, contributions are higher starting in 2019, but are relatively level through the following six years at which point the Pension Plans are nearly fully funded.

Chart DSR-6 – SDG&E Pension Plan Funding Projections: 2016 GRC vs. 2019 GRC

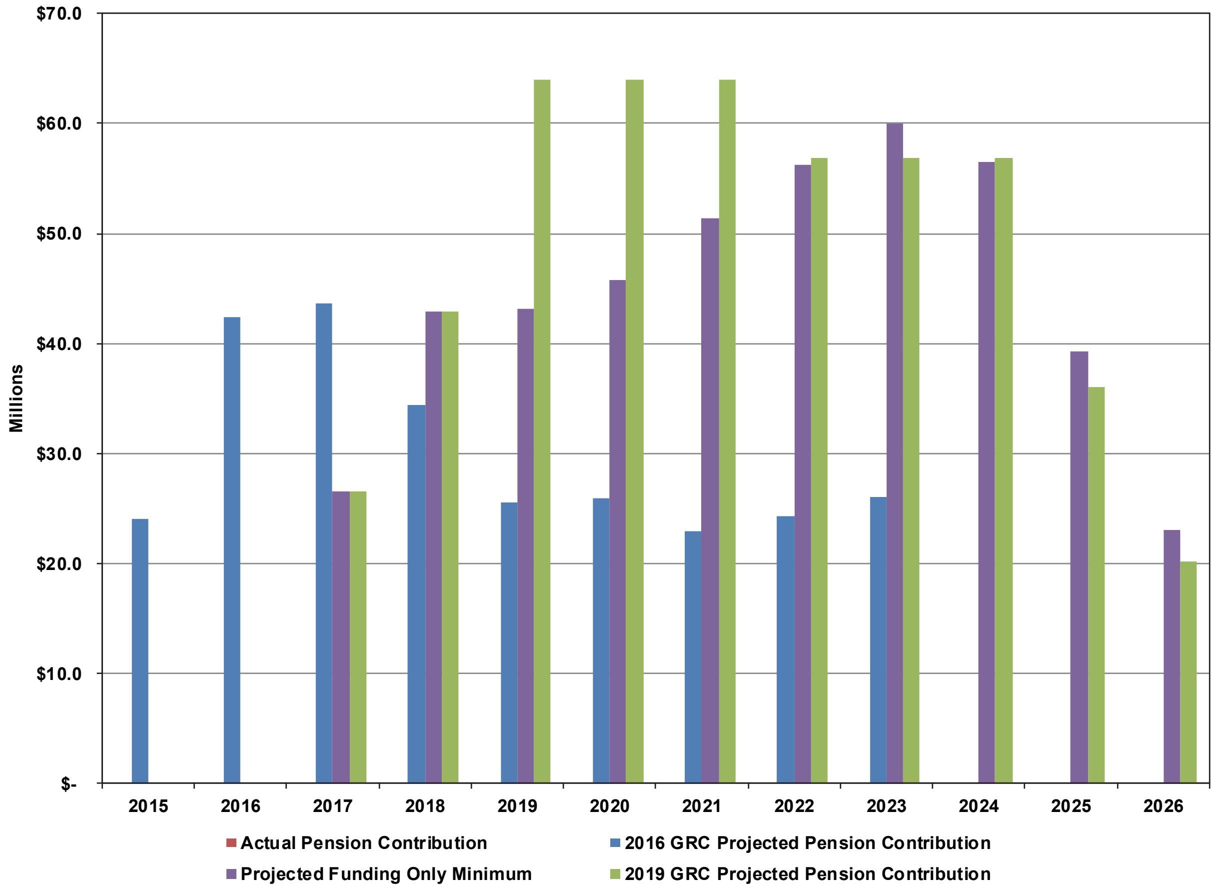


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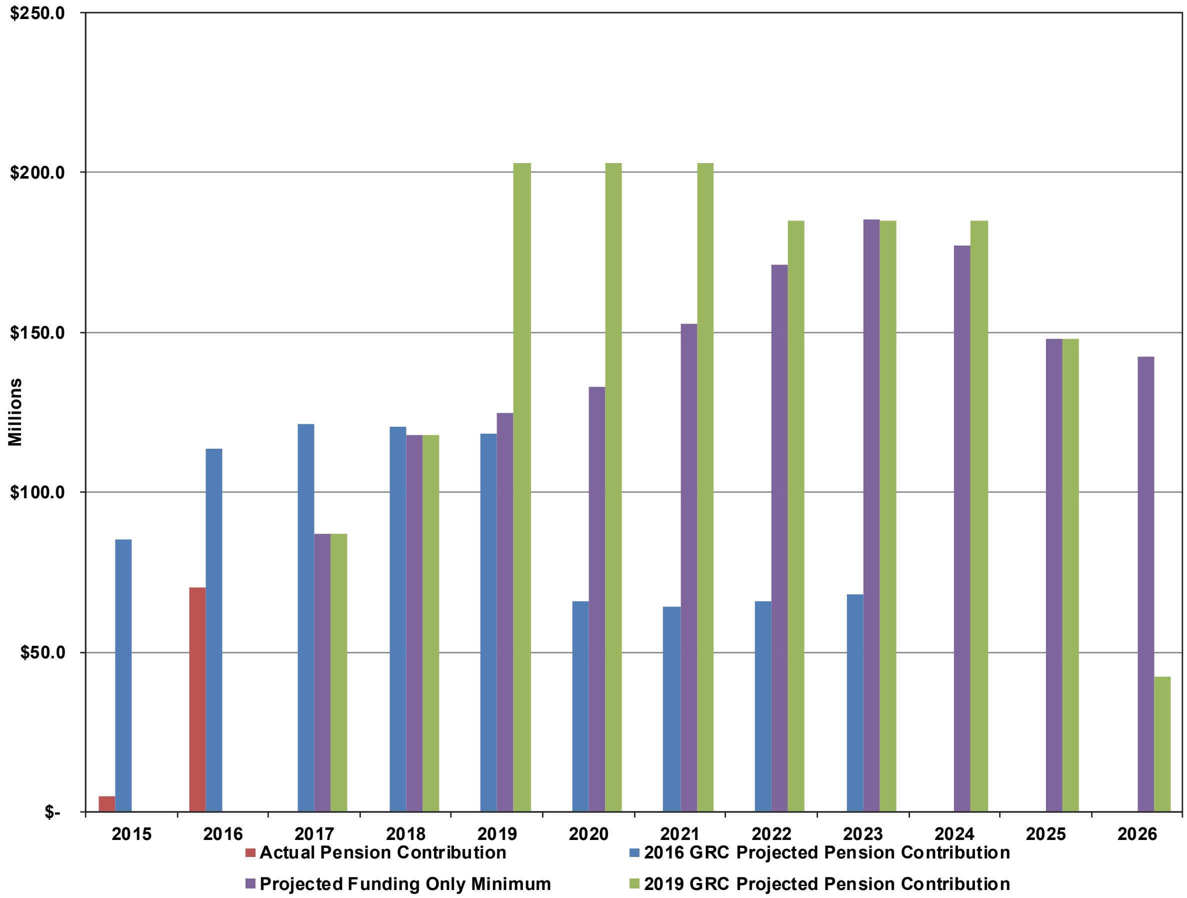
Chart DSR-7 – SoCalGas Pension Plan Funding Projections: 2016 GRC vs. 2019 GRC



By funding the pension shortfall faster, the proposed funding policy reduces long term costs, hence benefiting ratepayers in the long run. Over the next seven years, we estimate that the new funding policy will reduce plan costs by $27 million and $110 million for SDG&E and SoCalGas, respectively, when adjusting for the funded position at the end of the period.

Finally, because the pension expense is set through the General Rate Case process and is in effect for three years, the Companies felt it was important for the new funding policy to include protection against overfunding in the event of favorable experience (such as strong asset returns). Therefore, each year, the Companies will review the funded position of the plan calculated in the annual certified actuarial valuation of the Pension Plans prepared by the Companies' actuary, Willis Towers Watson, and if necessary, will reduce the actual contribution by the amount that would cause the pension plan assets to exceed 110% of the PBO. The extension of the balancing accounts will show this and return any over or under collections to ratepayers through its normal process (See the Direct Testimonies of witnesses Norma Jasso (Ex. SDG&E-41) and of Rae Marie Yu (Ex. SCG-42)).

F. Benefit Limitation Threshold

In addition to the minimum required contributions under IRC §412 (pre-2008) and IRC §430 (post-2007), the PPA also established benefit limitation criteria. If the pension plan's AFTAP falls below 80% (*i.e.*, the ratio of pension plan assets to the funding target equals is less than 0.8), the pension plan would be subject to certain benefit restrictions, and potentially higher required minimum contributions and PBGC premiums.

As shown in Charts DSR-8 and DSR-9, the Pension Plans have maintained an ERISA funded percentage ratio well above 80% for both SDG&E and SoCalGas until 2009, when the funded percentage dropped from 90% and 116% at January 1, 2008, for SDG&E and SoCalGas respectively, to 72 % and 87%, for SDG&E and SoCalGas respectively, at January 1, 2009. Since then, the ERISA funded ratio improved to 108% for SDG&E and 99% for SoCalGas, as of 2016 (in large part due to interest rate stabilization), well above the benefit limitation threshold for both Pension Plans.

Chart DSR-8 – SDG&E Pension Plan Actuarial Value of Assets as a Percentage of Funding Target: 2006 – 2016

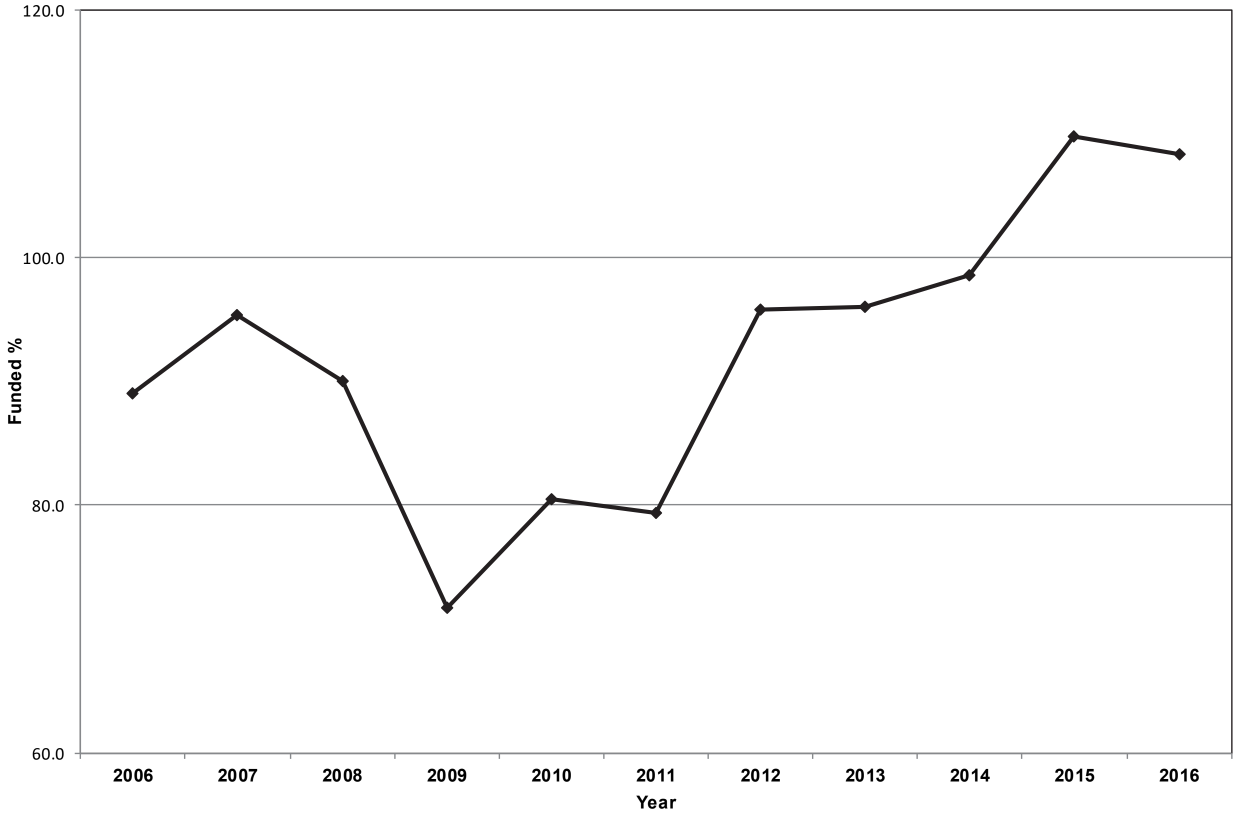


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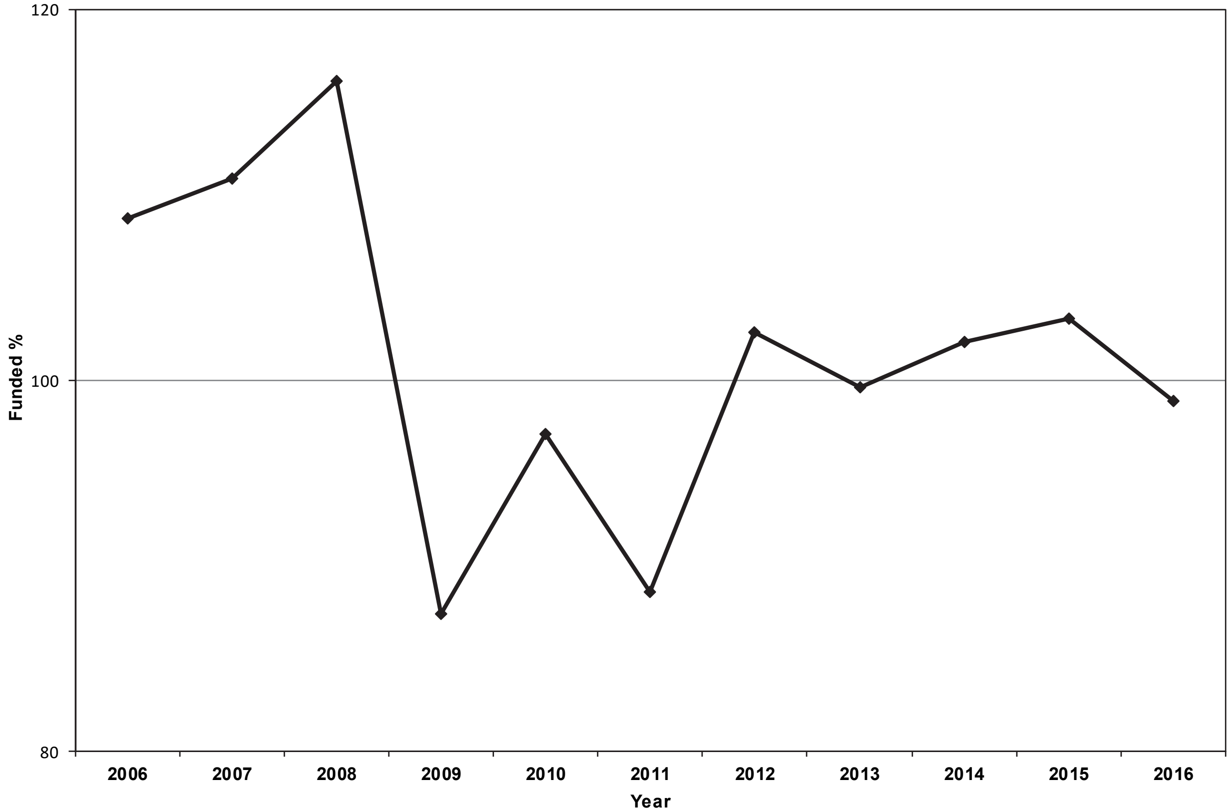
Chart DSR-9 – SoCalGas Pension Plan Actuarial Value of Assets as a Percentage of Funding Target: 2006 – 2016



Given the current state of the Pension Plans, the benefit limitation threshold will probably not impact the distribution of benefits to plan participants in the foreseeable future. However, consistent with the decision in the 2016 GRC, the Companies request that contributions to the Pension Plans be subject to a minimum required amount or such amount as required to maintain an 85% AFTAP.

G. Market Returns and Discount Rate

1. Market Returns

Pension plan assets are managed through a master trust and invested in a diversified portfolio of equity and bond securities. As shown in Table DSR-2, the Pension Plans have experienced very positive returns for the period 2009 through 2016. It is also important to note in Chart DSR-1 for SDG&E and Chart DSR-2 for SoCalGas above how market returns have significantly contributed to the payment of benefit obligations.

Table DSR-2 – Pension Plans Investment Returns: 2002 – YTD March 2017

Year	Investment Policy Benchmark	Master Trust Actual	S&P 500	Barclay's Aggregate Bond
2002	-9.4%	-11.2%	-22.1%	10.3%
2003	25.6%	24.6%	28.7%	4.1%
2004	12.0%	13.0%	10.9%	4.3%
2005	9.0%	8.8%	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%
2014	7.9%	8.3%	13.7%	6.0%
2015	-2.3%	-2.4%	1.4%	0.6%
2016	9.0%	9.3%	12.0%	2.7%
YTD March 2017	4.9%	5.0%	6.1%	0.8%

Table DSR-3 shows the cumulative returns for 3-year, 5-year, 10-year and 15-year periods. After experiencing a significant market rebound beginning in 2009, the annualized 15-year return is now 7.0% despite the large market correction of 2008.

Table DSR-3 – Annualized Pension Plans Investment Returns

Year	Investment Policy Benchmark	Master Trust Actual	S&P 500	Barclay's Aggregate Bond
3 Years Ended 3-31-17	5.6%	5.8%	10.4%	2.7%
5 Years Ended 3-31-17	8.2%	8.3%	13.3%	2.3%
10 Years Ended 3-31-17	5.8%	5.8%	7.5%	4.3%
15 Years Ended 3-31-17	7.2%	7.0%	7.1%	4.6%

2. Discount Rate

In addition to market returns, the discount rate used in determining pension plan liabilities is another important variable. To calculate the minimum required contributions, the Pension Plans use the IRS-prescribed 24-month average bond segment rates. A new effective 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 III.D.1 above. 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. Because of this it is unlikely discount rate changes would result in significant volatility over the period covered by this proceeding.

H. Pension Expense and Funded Percentage Projections per the Proposed Funding Policy

1. Pension Expense Projections

A projection of estimated contributions under the proposed funding policy as well as the underlying minimum required contributions (assuming proposed funding policy contributions are made) for the period 2019 through 2026 are shown in Chart DSR-10 and DSR-11. In addition, the actual 2015 and 2016, and projected 2017 and 2018 contributions made or to be made under the current funding policy are included in those charts for reference purposes. The projections include any changes in participant levels based on the headcount assumptions for the period 2016 thru 2019. The amount of the annual contribution ceiling under the proposed funding policy, 110% of PBO, is also included for reference purposes. 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. As this amount is extraordinarily large for both Pension Plans (for the year 2016, $569 million and $1,639 million for SDG&E and SoCalGas, respectively) it is not relevant and is therefore not included in Charts DSR-10 and DSR-11. By definition, the deductible limit will not be less than the proposed funding policy contribution.

Chart DSR-10 – SDG&E Pension Plan - Projected Funding per Proposed Policy vs. Minimum Required Funding and Proposed Policy Contribution Ceiling

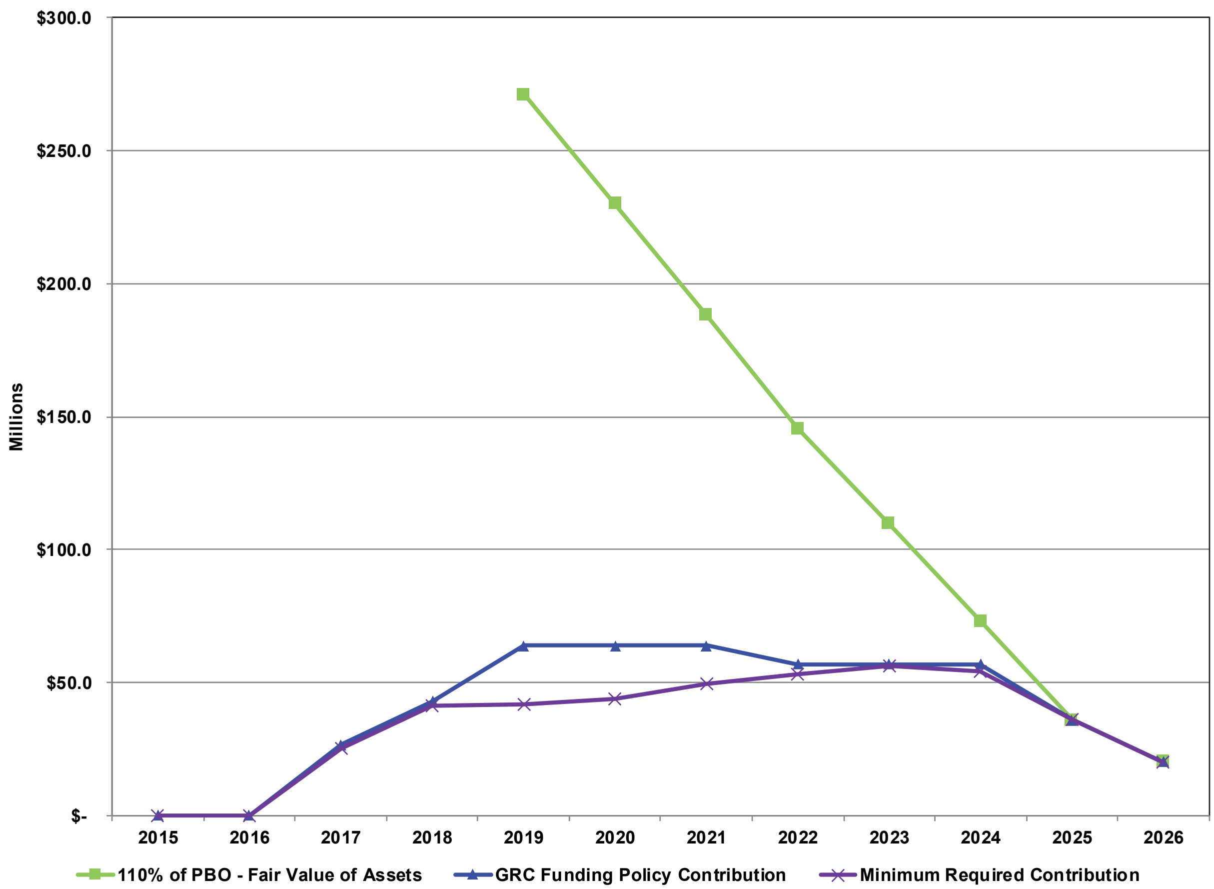


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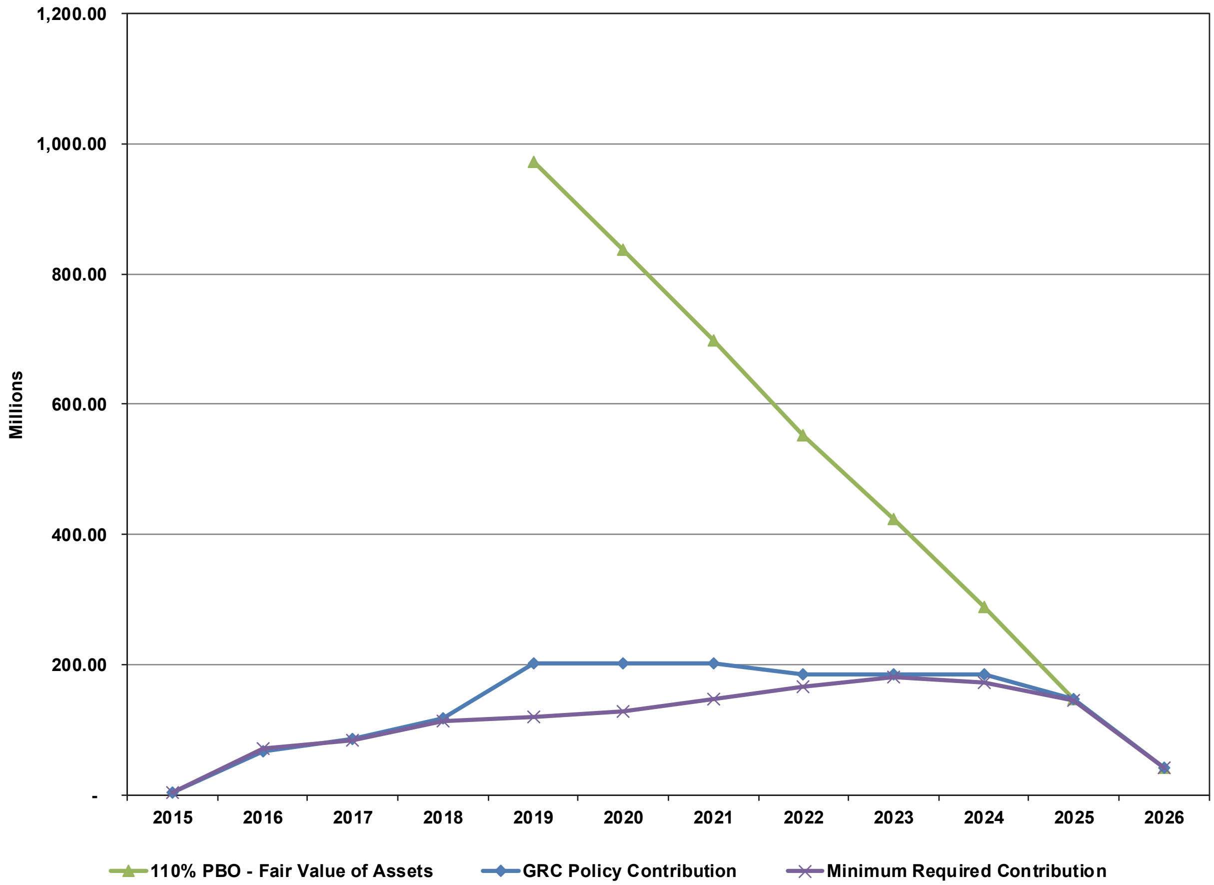
Chart DSR-11 – SoCalGas Pension Plan - Projection of Funding per Proposed Policy vs. Minimum Required Funding and Proposed Policy Contribution Ceiling



The projected funding policy contributions increase in 2019 due to the amortization of the large accumulated PBO shortfall and decrease after 2025 once the PBO shortfall is fully funded. The estimates are based on an assumed 6.5% investment return and a PBO discount rate of 4.10%. The minimum required contribution is based on a single effective interest rate in 2016 of 6.03% and 6.12% for SDG&E and SoCalGas, respectively, which gradually trends to 4.04% and 4.12% for SDG&E and SoCalGas in 2026. Increases in either the discount rate, effective interest rate or the actual investment returns decrease the PPA minimum funding requirement. Conversely, decreases in these variables would increase the PPA funding requirement.

2. Funded Percentage Projections

As noted in Chart DSR-12 for SDG&E and Chart DSR-13 for SoCalGas, as the funding policy is implemented in 2019 the funded percentage consistently increases until the Pension Plans reach full funding after 2024.

Chart DSR-12 – SDG&E Pension Plan GAAP Funded Percentage Projection: 2016 – 2026

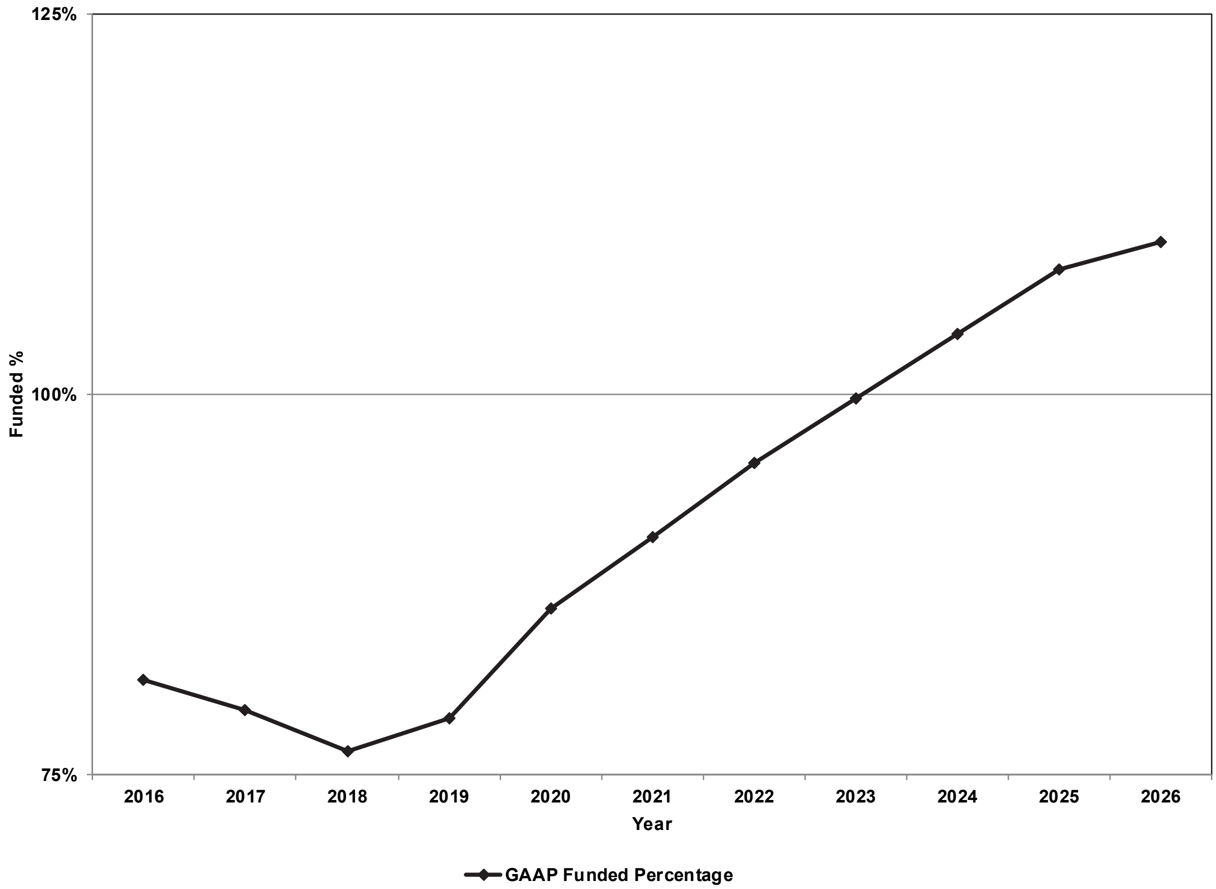


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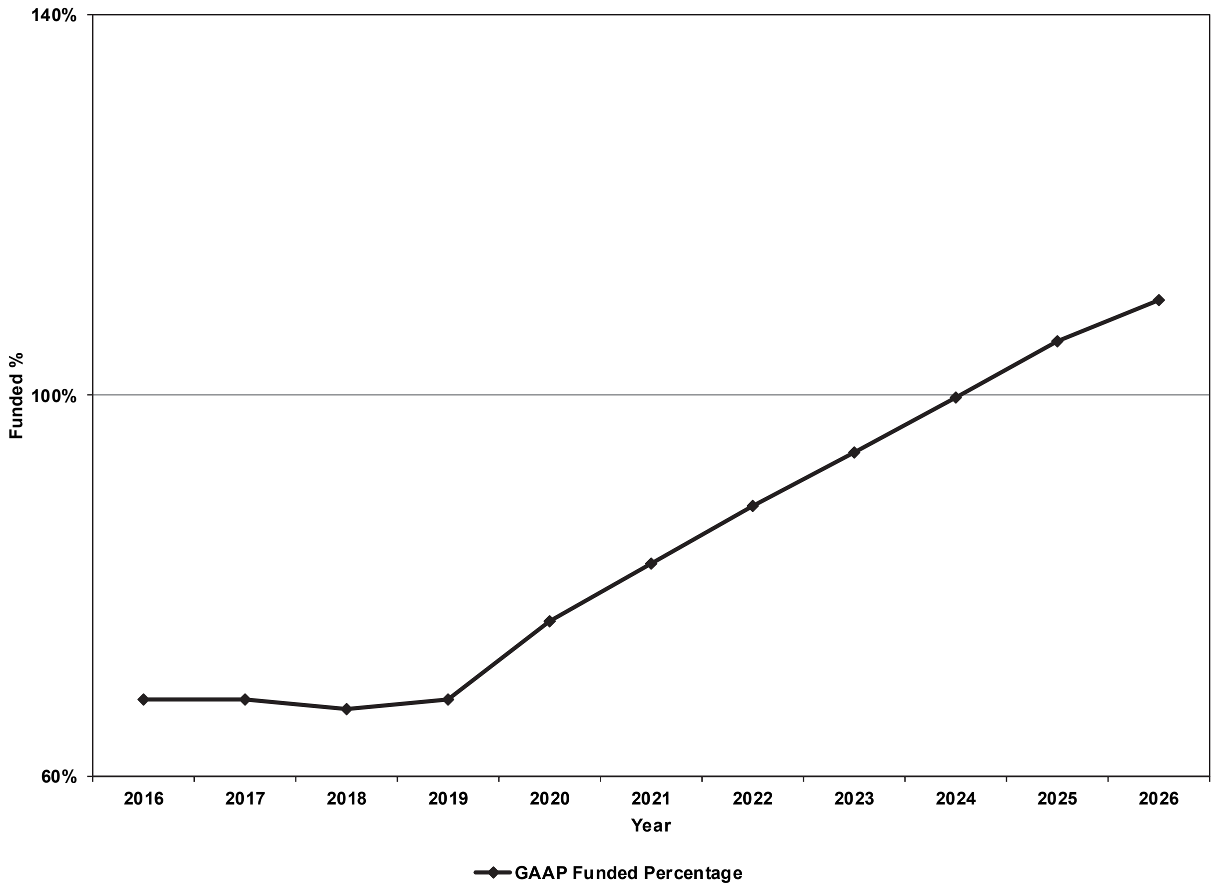
Chart DSR-13 – SoCalGas Pension Plan GAAP Funded Percentage Projection: 2016 - 2026



I. Changes to Accounting Standards

In March 2017, the FASB issued Accounting Standards Update (ASU) 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, which the Companies plan to adopt on January 1, 2018. This ASU requires employers to disaggregate and present separately the current service cost component from the other components of net pension and PBOP benefit costs within the consolidated statement of operations. It also requires that only the service cost component of net benefit (income) cost be eligible for capitalization. We do not believe that this change impacts the requested recovery of the cash contributions to the Pension Plans covered under this testimony as they are determined using the methodology described above which is based on the funded status of these plans. We may separately revisit this issue if new information to the contrary arises during the implementation of this ASU.

J. Regulatory Treatment

As discussed above, beginning in 2019 SDG&E and SoCalGas will begin to make contributions to their pension trusts per the proposed funding policy that seeks to protect the interests of the participants of the Pension Plans and future generations of ratepayers. The proposed policy is based on GAAP funded status as recommended by the Companies' actuary, Willis Towers Watson, and better protects these interests than the current approved policy that is based on ERISA and IRC minimum required funding. It does so by attempting to adequately fund the GAAP PBO of the Pension Plans, which is insulated from the artificially low funding requirements of ERISA created by ongoing legislative changes, over a reasonable period. This approach is consistent with the Commission approval of the pension funding policies of PG&E and Southern California Edison (SCE) in their respective proceedings (PG&E – D.09-09-020, SCE - D.06-05-016[3], affirmed in D.12.11.051 and D.15-11-021).

Under the proposed funding policy, the amount of the annual funding to the Pension Plans will be held constant for each year covered under this filing at the Policy Base Amount unless it is exceeded by the minimum required contribution in accordance with ERISA and the IRC, or the amount required to maintain an 85% AFTAP, and is limited by the amount that would cause the fair value of the Pension Plans' assets to exceed 110% of Pension Plans' PBO. The amount of the required minimum contribution to maintain an 85% AFTAP and funding level of a pension plan can fluctuate over time based on factors not subject to management control. The two-way balancing account allows SDG&E and SoCalGas 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, should it exceed the Policy Base Amount.

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 and SoCalGas 2008 General Rate Case (2008 GRC), the Commission (in D.08-07-046) approved a

[3] D.06-05-016 at 172-173. This decision cites the policy expressed in the 2003 GRC decision, stating: "If sound actuarial practice indicates a funding level above ERISA minimum funding requirements, we favor a conservative policy of authorizing expenses for that larger funding level to avoid potential under-funding that could jeopardize the interests of either retirement system beneficiaries or future generations of ratepayers." (citing D.04-07-022 at 219-220).

settlement agreement that provided for annual pension funding based on the minimum required contribution.

At the time of the settlement, the 2009 SoCalGas Plan contribution was projected to be $0. Because of the large decline in Plan asset values due to the world-wide financial crisis, the projected timing and level of required contributions dramatically changed. A minimum contribution of $75.1 million was required in 2009, a year earlier than expected and at a much higher level.

In response to the material change in circumstances, SDG&E and SoCalGas filed a petition to modify D.08-07-046 to permit an annual balancing account true-up rather than the currently approved mechanism. In D.09-09-011, the Commission approved SDG&E and SoCalGas' petition to modify the mechanism for recovery of pension expenses. The settlement agreement in D.08-07-046 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."

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 and SoCalGas, PG&E also experienced a decline in its pension plan asset values. Subsequent to SDG&E's and SoCalGas' 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 timelier 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 when the actual funded status falls below 85%.

Pursuant to D.08.07-046, the disposition of the Pension Balancing Account (PBA) would occur at the end of the 2008 GRC cycle and be resolved in the next general rate case; however, pursuant to D.09-09-11, SDG&E and SoCalGas were authorized annual amortization of the PBA balance.

In SDG&E's and SoCalGas' 2016 General Rate Case decision (D.16-06-054), the Commission approved the Companies' requests to continue the two-way balancing account treatment and the annual amortization of the respective PBA's because 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 Witnesses Norma Jasso (Ex. SDG&E-41) and of Rae Marie Yu (Ex. SCG-42), including SDG&E's and SoCalGas' proposal to continue the annual amortization of the PBA as adopted in D.09-09-011.

In conclusion, SDG&E and SoCalGas propose that the Pension Plans' contribution and revenue requirement be based on the proposed funding policy which is the greater of:

- the ASC 715-60 service cost plus one year of a 7-year amortization of the ASC 715-60 PBO shortfall, or
- the ERISA minimum required annual contribution or such contribution as required to maintain a Plan funded status that is at least 85.0% reduced by the amount that would cause the fair value of the pension plan's assets to exceed 110% of the PBO.

The Companies' proposal is consistent with prior Commission decisions, including SDG&E and SoCalGas D.16-06-054, PG&E D.09-09-020 and SCE D.15-11-021, and is meant to protect the ratepayers from potential variability in funded status due to multiple external factors.

IV. POST-RETIREMENT BENEFITS OTHER THAN PENSION

A. Summary Description

1. Participant Demographics

SDG&E provides post-retirement health and life insurance benefits, collectively referred to as the "SDG&E PBOP" or the "SDG&E PBOP Plan", to approximately 4,200 active employees and 2,000 retirees and survivors. The average age of active employees is 46.2 years with an average of 14.4 years of service. Retirees who are currently receiving benefits average 71.3 years of age.

SoCalGas provides post-retirement health and life insurance benefits, collectively referred to as the "SoCalGas PBOP" or the "SoCalGas PBOP Plan," to approximately 8,000 active employees (5,000 represented and 3,000 non-represented) with an average age of 44.2 years and an average of 15.2 years of service. There are approximately 5,600 retirees and survivors. Retirees who are currently receiving benefits average 73.2 years of age.

Cost projections for the SoCalGas and SDG&E PBOP Plans, collectively referred to as the "PBOP Plans", consider the future cost of providing benefits to active employees.

2. SDG&E Union Employees

Represented SDG&E employees are eligible for the SDG&E PBOP Plan upon retirement after age 55 with at least 5 years of service. The SDG&E 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 Anthem Blue Cross, Kaiser, or UnitedHealthcare. SDG&E 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 SDG&E.

Effective December 1, 2009, benefits include a health reimbursement account (HRA). Individual HRAs 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. HRAs receive monthly interest credits, on the unused balance, based on a 30-Year U.S. Treasury bond rate.

In 2016, SDG&E offered a Voluntary Retirement Enhancement Program (VREP) to certain eligible represented employees. For those employees who accepted the offer, an individual HRA was established at the date of retirement and is available to reimburse retirees for qualified medical expenses during retirement. These HRAs were credited with an opening account balance. No additional accruals or interest credits will be applied to these accounts.

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. SDG&E 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 SDG&E. Non-represented employees are not eligible for the HRA benefit.

In 2013 and 2016, SDG&E offered a VREP to certain eligible non-represented employees. For those employees that accepted the offer, an individual HRA was established at the date of retirement and is available to reimburse retirees for qualified medical expenses during retirement. These HRAs were credited with an opening account balance. No additional accruals or interest credits will be applied to these accounts.

4. SoCalGas Union Employees

Represented SoCalGas employees are eligible for PBOP upon retirement after age 55 with 15 years of service or after age 65 with 5 years of service. Eligible retirees can elect medical coverage from a number of plans offered through Anthem Blue Cross, Kaiser or UnitedHealthcare. SoCalGas also provides mental health, substance abuse, dental, and life insurance benefits. Retiree life insurance coverage is equal to final base pay until the retiree reaches age 65. At age 65 and age 68, the coverage level drops to 50% and 25%, respectively, of final base pay. Access to a discount vision program is provided; however, the retiree pays all costs.

Retiree contributions for medical coverage vary depending on the date of retirement, age, and years of service. Retirees pay a portion of dental premiums; however, life insurance is solely paid by the Company.

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

Effective March 1, 2012, represented SoCalGas employees who had 15 or more years of service as of July 1, 2012 were provided a one-time election to continue in the existing postretirement medical plan insurance premium cost-sharing structure or elect a defined dollar benefit (DDB) premium cost-sharing structure. Under the DDB cost sharing structure, SoCalGas provides a fixed contribution toward the cost of medical coverage and the retired employee pays the difference. Relative cost depends on the selected health insurance plan and coverage level: retiree only or retiree with one or more dependents. Employees with less than 15 years of service as of July 1, 2012 will receive the DDB cost sharing structure at retirement.

In 2017, SoCalGas offered a VREP to certain eligible represented employees. For those employees that accepted the offer, an individual HRA was established at the date of retirement and are available to reimburse retirees for qualified medical expenses during retirement. These HRAs were credited with an opening account balance. No additional accruals or interest credits will be applied to these accounts.

5. SoCalGas Non-Represented Employees

SoCalGas non-represented employees who retired prior to January 1, 2006 generally participate in the same pre-2012 PBOP provided to represented employees. 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. SoCalGas contributes a DDB amount for medical and dental benefits based on coverage level: retiree-only or retiree with one or more dependents. Mental health and substance coverage is also included. Access to a discount vision program is provided; however, the retiree pays all costs. Term retiree life insurance coverage of $25,000 is paid entirely by SoCalGas. Non-represented employees are not eligible for the HRA benefit.

In 2013 and 2016, SoCalGas offered a VREP to certain eligible non-represented employees and for those employees that accepted the offer, individual HRAs were established at the date of retirement and are available to reimburse retirees for qualified medical expenses during retirement. These HRAs were credited with an opening account balance. No additional accruals or interest credits will be applied to these accounts.

B. PBOP Cost Estimate

An annual certified actuarial valuation of the PBOP Plans is prepared by the Companies' actuary that includes the value of benefit obligations and minimum required contributions. 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 ASC Topic 715-60, but limited to the amount the Companies can contribute on a tax-deductible basis. Also, previously funded amounts cannot be refunded until all obligations have been fully satisfied. Table DSR-4 provides a summary of the PBOP expense based on ASC 715-60.

Table DSR-4 – Summary of 2016 vs. 2019 PBOP Expense

			In Thousands		
	Cost Center	**Benefit Description**	**2016 Actual**	**2019 Budget**[1]	**2013-2016 Change**
SDG&E	**2200-8001.000**	**PBOP**	**$ 2,356**	**$ 1,430**	**$ (926)**
SoCalGas	**2200-8001.000**	**PBOP**	**$ 271**	**$ -**	**$ (271)**

[1] Reflects current projected PBOP contribution

Charts DSR-14 and DRS-15 illustrate the actual 2015 through 2016 ASC 715-60 expense and projected amounts for the period 2017 through 2026. For most the PBOP Plans' population, the maximum tax deductible contributions are based on the difference between the present value of projected benefits and the market value of PBOP assets. In 2016, the ASC 715-60 cost for SDG&E was $17.3 million compared to a maximum deductible contribution of $2.4 million and for SoCalGas the ASC 715-60 credit was approximately $2.3 million compared to a maximum tax deductible amount of zero.

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Chart DSR-14 – SDG&E PBOP Expense: 2015 – 2026

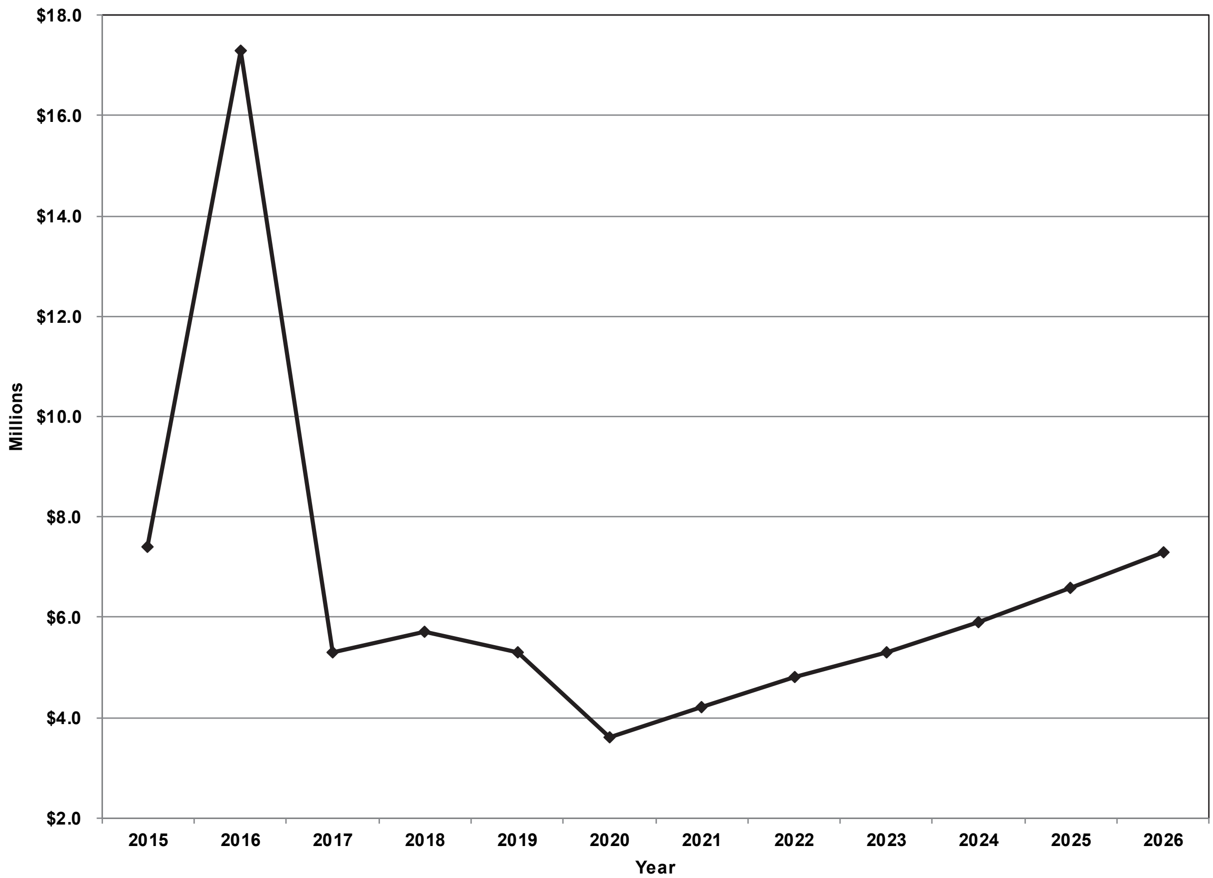

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Chart DSR-15 – SoCalGas PBOP Expense: 2015 – 2026

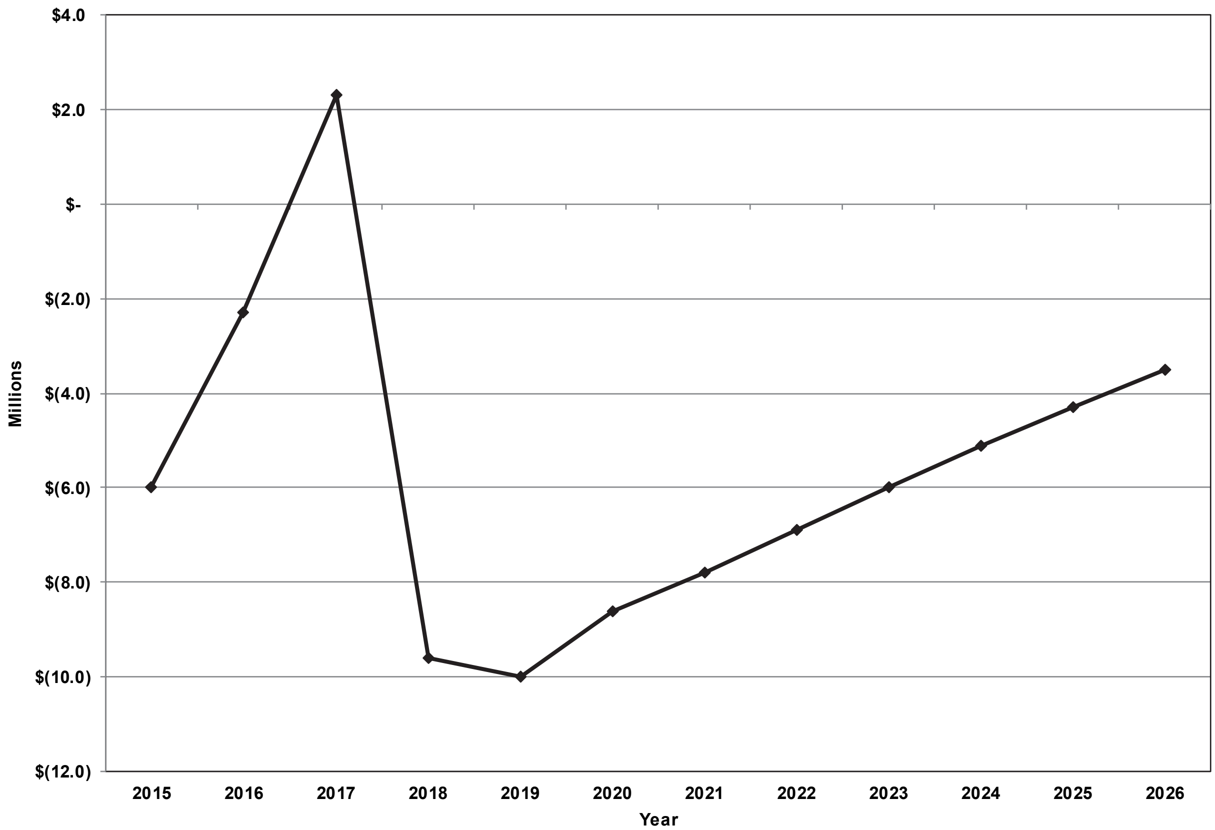

Chart DSR-16 and DSR-17 provides a comparison of the projected PBOP expense in the 2016 GRC compared to the 2019 GRC. For SDG&E, the PBOP expense is decreasing and for SoCalGas, the PBOP expense remains at zero from 2016 to 2019 due to the change in premium cost sharing structure for SoCalGas represented employees and a change in the delivery of benefits to PBOP plan participants that are over age 65 in 2017 for both PBOP Plans. Most employees, both represented and non-represented, now receive benefits under the DDB cost sharing structure which eliminates much of the volatility related to medical premium increases. In 2017 the PBOP Plans offered a new medical plan for participants over age 65 that significantly reduced the Plans' cost of providing this benefit.

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Chart DSR-16 – SDG&E PBOP Actual vs. Projected Expense: 2014 – 2026

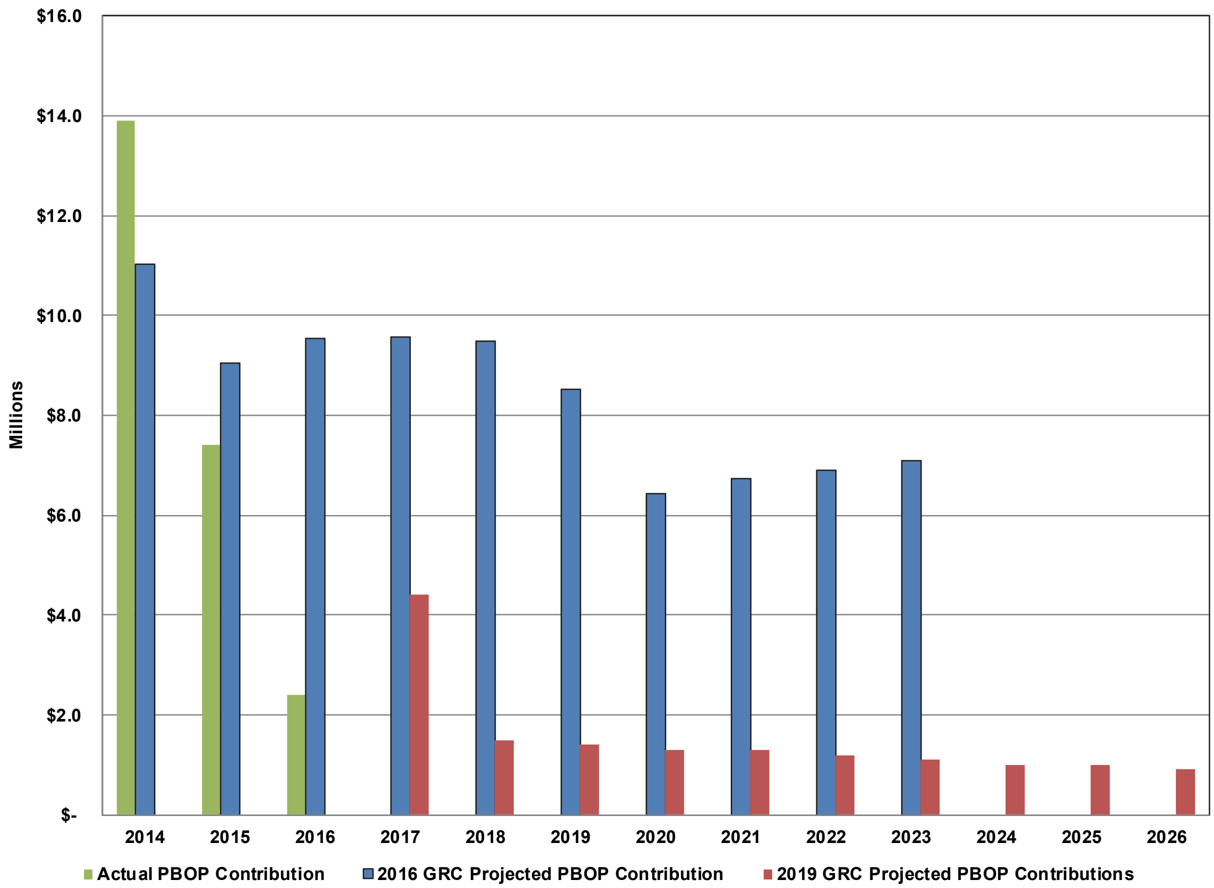

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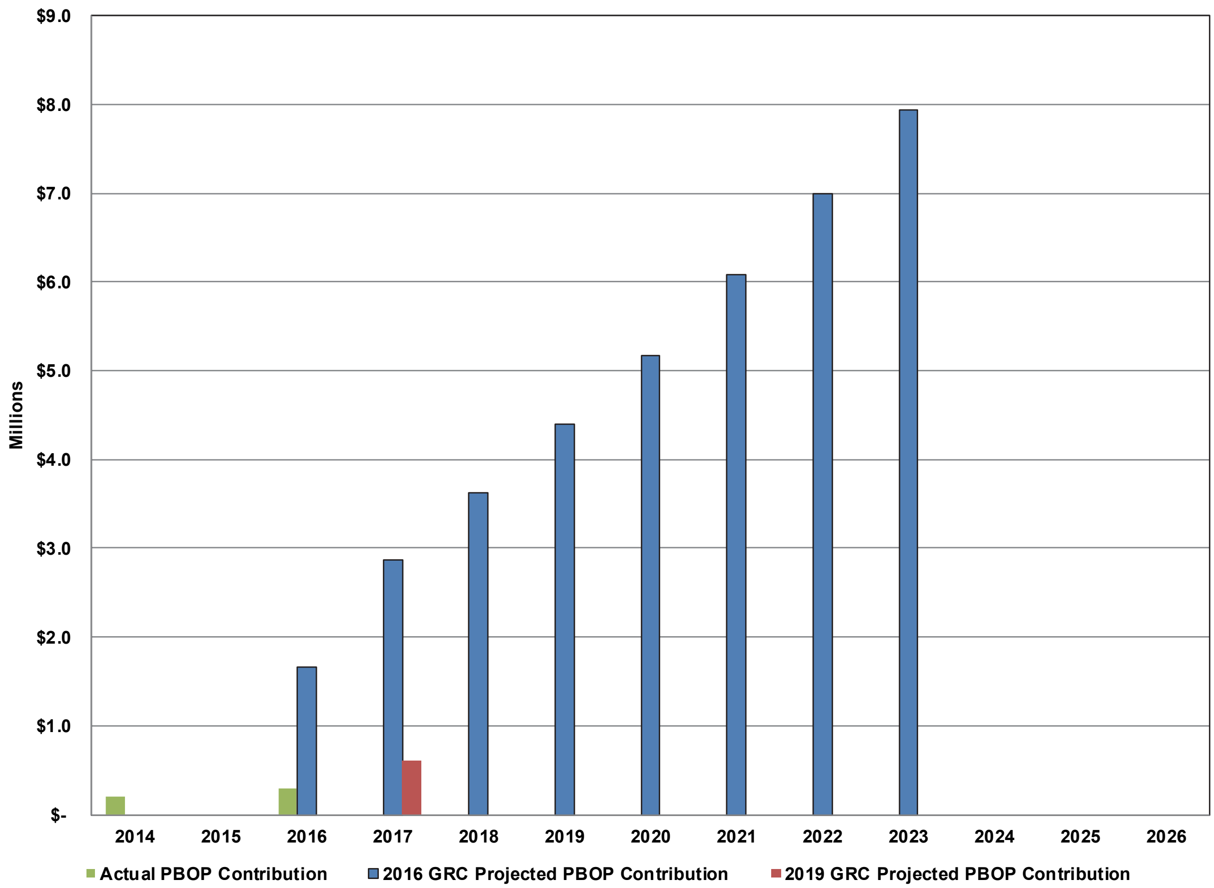
Chart DSR-17 – SoCalGas PBOP Actual vs. Projected Expense: 2014 – 2026



C. Test Year PBOP Expense

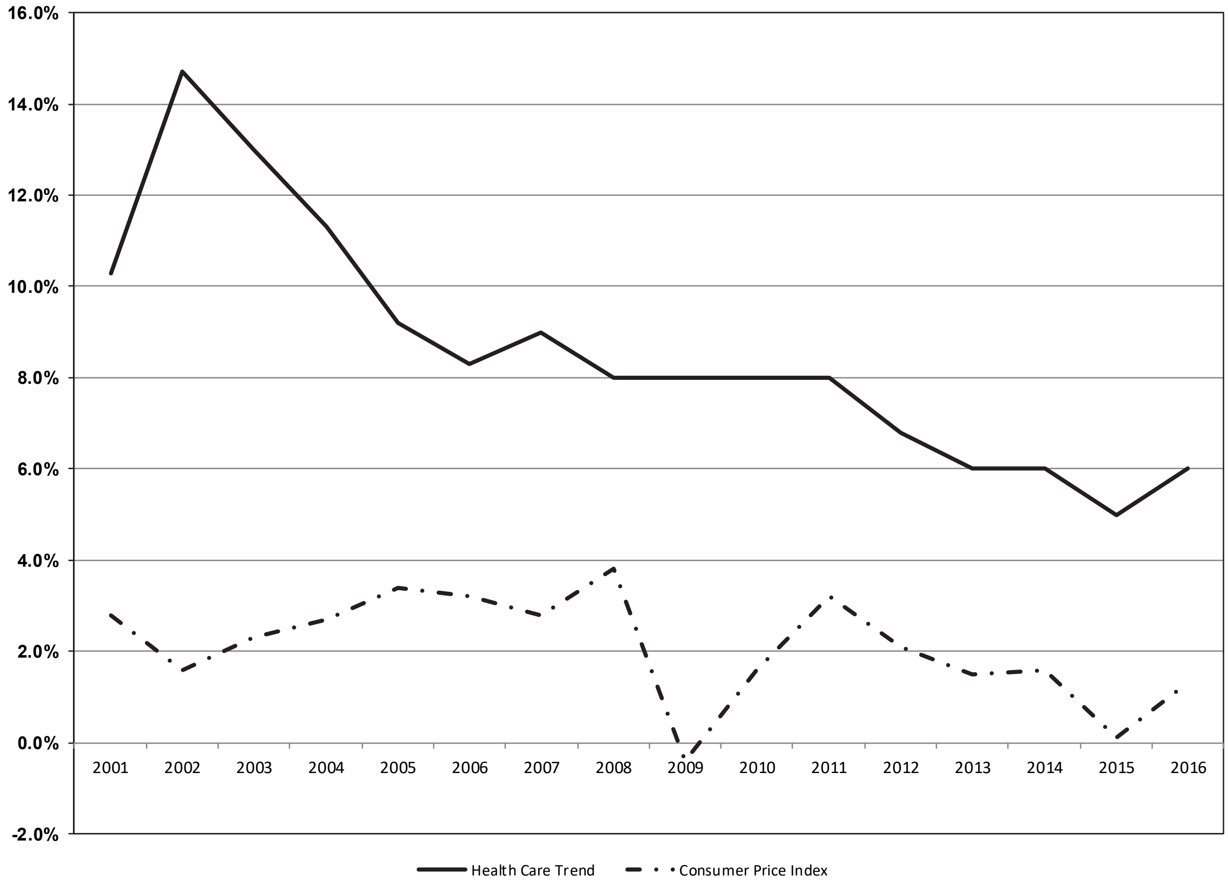
Similar to pension expense, PBOP expense is difficult to project with certainty due to the impacts of numerous variables including benefit utilization, healthcare cost escalation, PBOP Plan asset returns, interest rates, and plan design. Consequently, the current estimated test year contribution of $1.4 million for SDG&E and $0 for SoCalGas are likely to change. Any 2019 variance between authorized and actual contributions would be subject to the current PBOP two-way balancing account mechanism, as proposed in the Direct Testimonies of witnesses Norma Jasso (Ex. SDG&E-41) and of Rae Marie Yu (Ex. SCG-42).

D. Health Care Cost Escalation

Medical benefit cost assumptions and trend rates have a significant impact on actual and projected PBOP Plans expense. Historically, trend rates have exhibited a cyclical pattern. Chart DSR-18 illustrates average medical cost increases for the period 2001 thru 2016, as reported by the Willis 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.

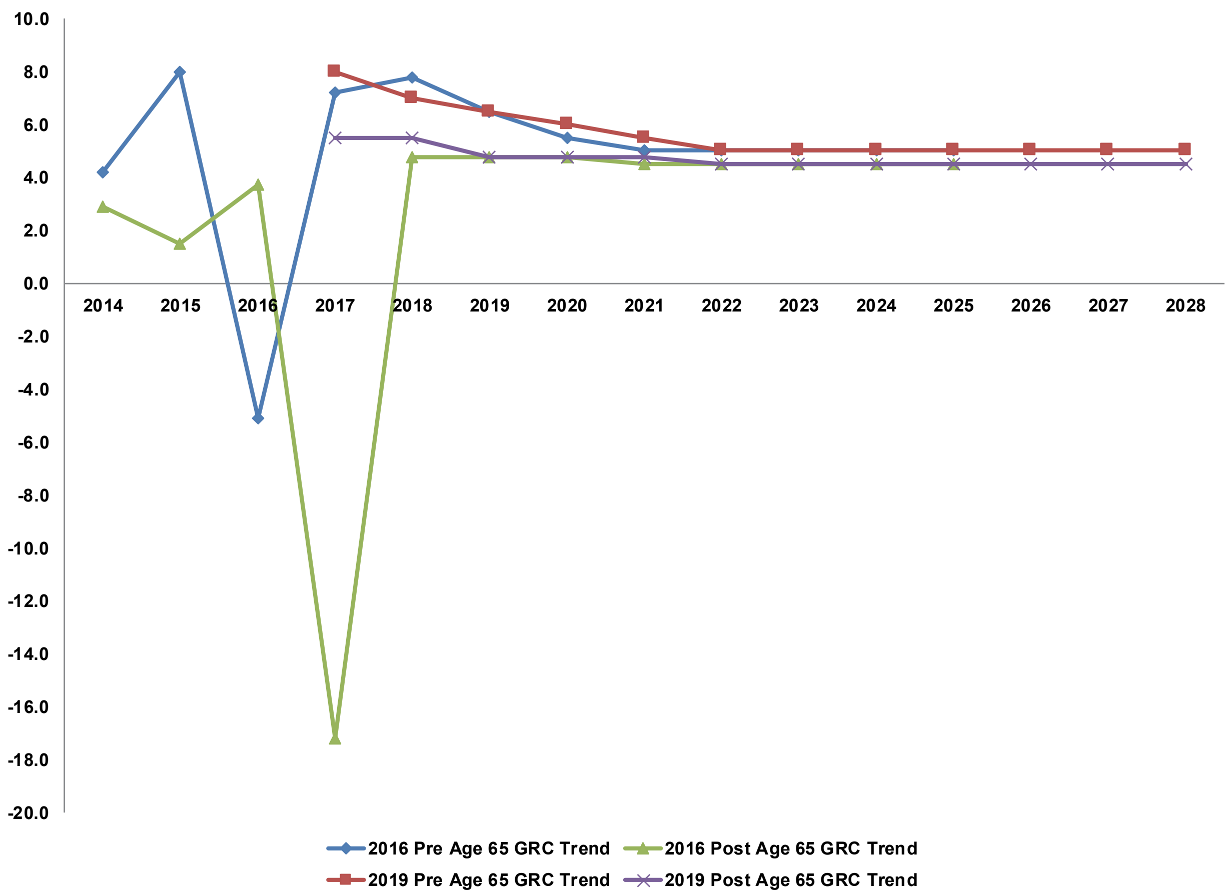
Chart DSR-18 – Average Medical Cost Increases: 2001 – 2016



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.

The decrease in PBOP expense from 2016 to 2019 is based primarily on the change in premium cost sharing structure for represented employees. However, the medical trend continues to impact the cost of benefits primarily for retirees and grandfathered represented employees where the cost sharing is not based on a DDB but rather a percentage cost sharing structure. As shown on Chart DSR-19, the GRC 2019 pre-age 65 health trend assumptions for the period 2017 through 2028 are similar to those projected in the 2016 GRC.

Chart DSR-19 – SDG&E and SoCalGas Medical Health Care Trend: 2016 GRC vs. 2019 GRC



The 7.2% increase for pre-age 65 and 17.2% decrease in post-age 65 participants in 2017 is based on the actual renewal rates received from the Companies' health insurance providers. The Companies and their consultant, Willis Towers Watson, continue to review the basis for any increase in medical cost, including participant utilization and the impact of the Patient Protection and Affordable Care Act.

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 has continued to improve as shown in Charts DSR-20 and DSR-21. For SDG&E, the 2012 funded percentage was 63.4%, which has now increased to 99.0% in

2016, with projected post-2017 levels trending from 89% in 2017 to 77% in 2026. For SoCal Gas, the 2012 funded percentage was 75.3%, which has now increased to 113.5% in 2016, with projected post-2017 levels above 100.0%.

Chart DSR-20 – SDG&E PBOP Funded Percentage: 2012 – 2026

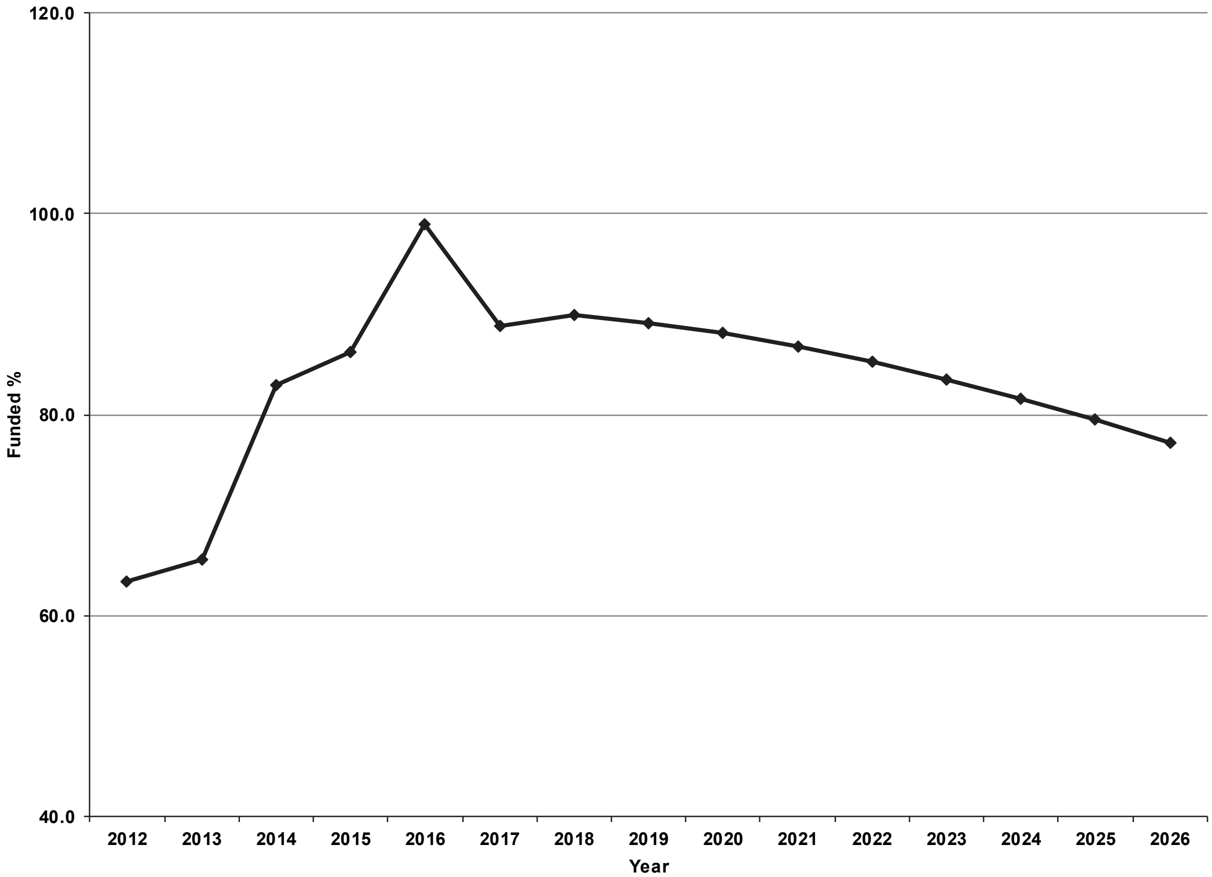
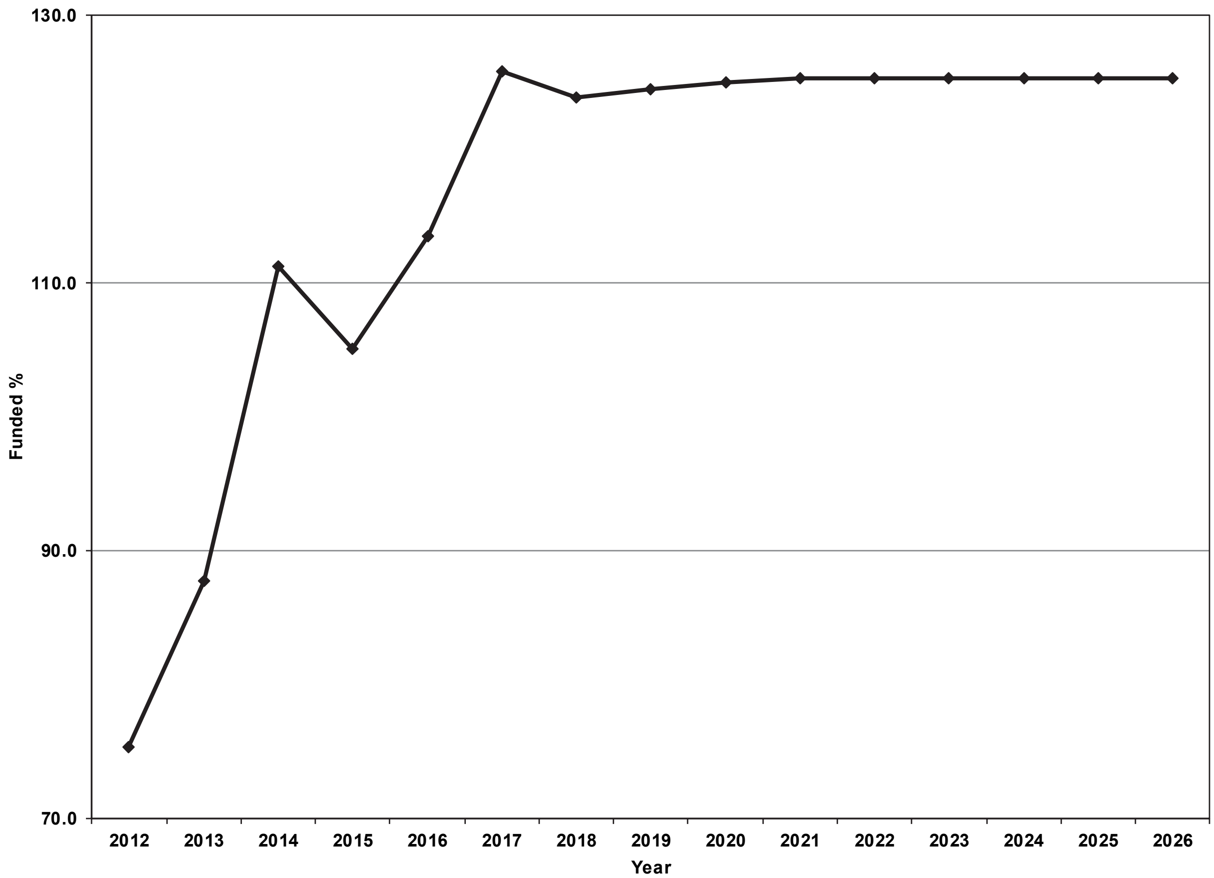


Chart DSR-21 – SoCalGas PBOP Funded Percentage: 2012 – 2026



Charts DSR-22 and DSR-23 compares the 2016 GRC PBOP Plan funded ratios to the latest 2019 GRC projection. The post-2013 funded ratios show the combined impact of the market recovery on Plan assets, discount rates and benefit premium cost sharing changes affecting the liability.

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Chart DSR-22– SDG&E PBOP Funded Percentage: 2016 GRC vs. 2019 GRC

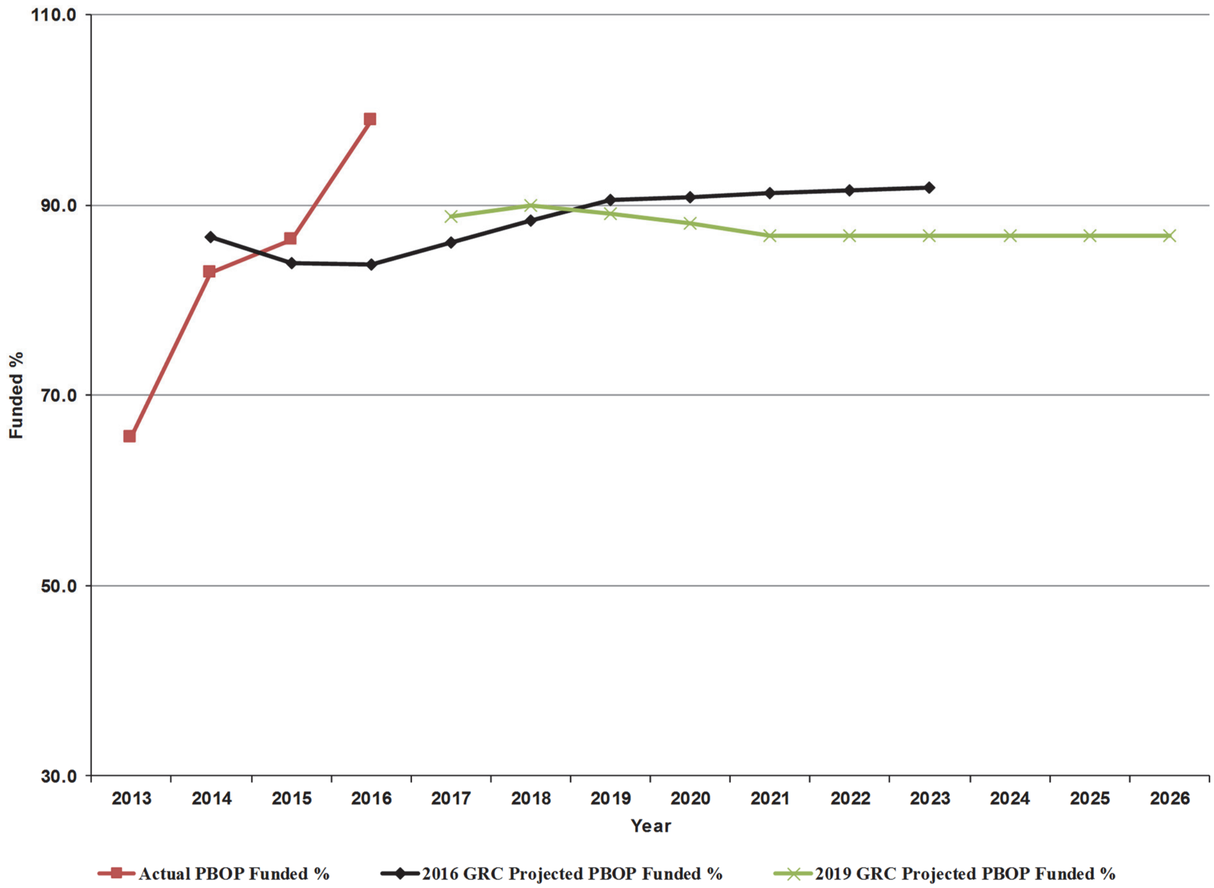

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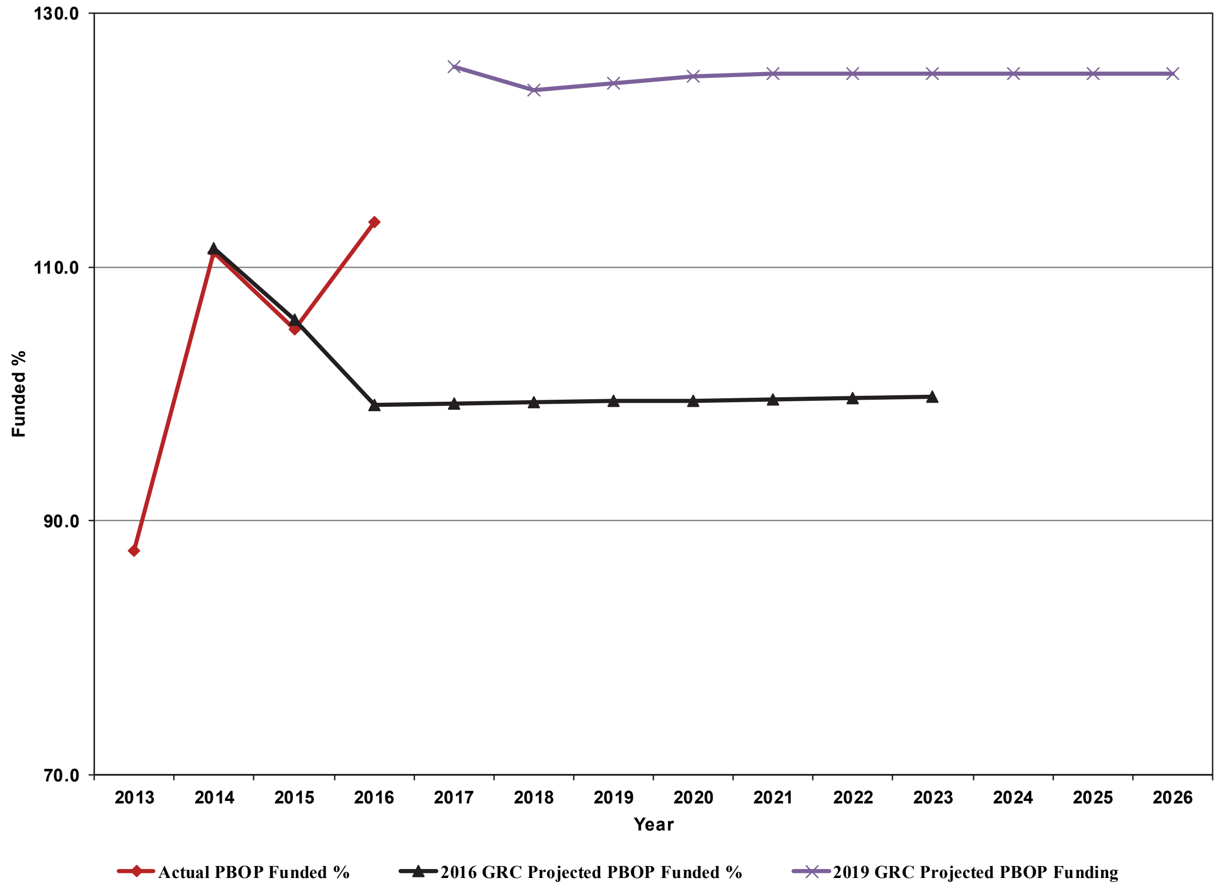
Chart DSR-23 – SoCalGas PBOP Funded Percentage: 2016 GRC vs. 2019 GRC



F. Changes to Accounting Standards

The Companies will adopt ASU 2017-07 as discussed in Section I

III.H above. We do not believe that this change impacts the requested recovery of the cash contributions to the PBOP Plans covered under this testimony which are determined as described above. We may separately revisit this issue if new information to the contrary arises during the implementation of this ASU.

G. Regulatory Treatment

The future costs related to PBOP are difficult to determine due to the numerous variables that affect the actual ASC 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 ASC 715-60 costs actually incurred, limited by the maximum tax deductible amount allowed by the IRC. This approach has been employed for all California utilities for almost 27 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 that provided for annual PBOP funding in rates based on an estimate of ASC 715-60 expense for SDG&E and SoCalGas. Any increase or decrease in actual expense, limited by the amounts permitted as deductible by the IRS, 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 and SoCalGas 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 and SoCalGas' 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 and SoCalGas received approval from the Commission in D.13-05-010 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 affect the annual and projected determination of this expense. The PBOPBA is described in detail in the testimony of Regulatory Accounts Witnesses Norma Jasso (Ex. SDG&E-41) and Rae Marie Yu (Ex. SCG-42), including SDG&E's and SoCalGas' proposal to continue the annual amortization of the PBA as adopted in D.09-09-011.

This concludes my prepared direct testimony.

V. QUALIFICATIONS – WITNESS DEBBIE S. ROBINSON

My name is Debbie S. Robinson. My business address is 488 8th Avenue, San Diego, California. My current position is Director - Compensation & Payroll Services for Sempra Energy. My present responsibilities include managing Sempra Energy's overall broad-based compensation programs, executive compensation and benefit programs, and interfacing with Sempra's outsourced payroll vendor. Prior to my current position, I was responsible for management of the companies' health and welfare benefit programs.

Sempra Energy's Compensation and Benefits department supports the Sempra Energy Corporate Center and Sempra Energy's business units, including SoCalGas and SDG&E.

I have Bachelor of Arts degrees in International Business, Spanish and French from Baker University in Baldwin City, Kansas. I also have an International Masters in Business Administration degree with a concentration in finance from the University of South Carolina in Columbia, South Carolina.

I hold the Certified Employee Benefits Specialist ("CEBS"), Certified Compensation Professional ("CCP"), Certified Benefits Professional ("CBP"), Global Remuneration Professional ("GRP"), and Senior Human Resources Professional ("SPHR") designations.

I joined Sempra Energy in 2000 and have held various positions within the Compensation and Benefits and Corporate Financial Planning areas. Prior to being employed by Sempra Energy, I held various finance and compensation positions with Sprint in Kansas City, Missouri. I have previously testified before the Commission.

APPENDIX
Glossary of Terms

AFTAP: Adjusted Funding Target Attainment Percentage

ASC: Accounting Standards Codification

ASU: Accounting Standards Update

BBA: Bipartisan Budget Act of 2015

DDB: Defined Dollar Benefit

EIR: Effective Interest Rates

ERISA: Employee Retirement Income Security Act of 1974

FASB: Financial Accounting Standards Board

GAAP: Generally Accepted Accounting Principles

HATFA: Highway and Transportation Funding Act

HRA: Health Reimbursement Account

IRC: Internal Revenue Code

MAP-21: Moving Ahead for Progress in the 21st Century Act

PBA: Pension Balancing Account

PBGC: Pension Benefit Guaranty Corporation

PBO: Projected Benefit Obligation

PBOP: Postretirement Health and Welfare Benefits Other than Pension

PBOPBA: Post-Retirement Benefits Other than Pensions Balancing Account

PCBA: Pension Contribution Balancing Account

PPA: Pension Protection Act of 2006

SDG&E: San Diego Gas and Electric Company

SoCalGas: Southern California Gas Company

VEBA: Voluntary Employee Benefit Association Trusts

VREP: Voluntary Retirement Enhancement Program