Company:	San Diego Gas & Electric Company (U 902 M)
Proceeding:	2019 General Rate Case
Application:	A.17-10-007/008 (cons.)
Exhibit:	SDG&E-236

SDG&E

REBUTTAL TESTIMONY OF STEVEN P. DAIS

(WORKING CASH)

JUNE 18, 2018

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

A Sempra Energy utility®

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SDG&E REBUTTAL TESTIMONY OF STEVEN P. DAIS

(WORKING CASH)

I. SUMMARY OF DIFFERENCES

TOTAL OPERATIONAL CASH REQUIREMENT – Test Year 2019 ($000)				
	Operational Cash Requirement	**Working Cash Not Supplied by Investors**	**Lead/Lag Working Capital Requirement**	**Total Working Cash Requirement**
SDG&E	**97,024**	**(56,318)**	**130,020**	**170,726** [1]
ORA	**65,308**	**(56,318)**	**62,582**	**71,572** [2]
TURN				
FEA				

II. INTRODUCTION

This rebuttal testimony regarding San Diego Gas and Electric Company's (SDG&E's) Working Cash request addresses the following testimony from other parties except as it concerns the subject of Director and Officer insurance, which is discussed in the Rebuttal Testimony of Neil Cayabyab (Exhibit SCG-229/SDG&E227):

- The Office of Ratepayer Advocates (ORA) as submitted by Mr. Christian Lambert.[3]
- The Utility Reform Network (TURN), as submitted by Mr. William Perea Marcus.[4]

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[1] SDG&E's 2019 working cash request, as filed April 6, 2018, was approximately $171 million. Reflecting adjustments stemming from the discovery process, please refer to the "SDG&E 2019 GRC Working Cash Errata Table" found at the back of this testimony.

[2] April 13, 2018, Prepared Direct Testimony of Christian Lambert, Report on the Results of Operations for San Diego Gas & Electric Company, Southern California Gas Company, Test Year 2019 General Rate Case, Rate Base and Working Cash, Confidential Version, Ex. ORA-26-C at 12.

[3] Ex. ORA-26-C (Lambert).

[4] May 14, 2018, Prepared Direct Testimony of William Perea Marcus, Report on Various Operations Issues in Southern California Gas Company's and San Diego Gas and Electric Company's 2016 [2019] Test Year General Rate Cases, Ex. TURN-03.

- TURN as submitted by Mr. Eric Borden.[5]
- The Federal Executive Agencies (FEA), as submitted by Ralph C. Smith.[6]

Please note that the fact that I may not have responded to every issue raised by others in this rebuttal testimony does not mean or imply that SDG&E agrees with the proposal or contention made by these or other parties.

A. ORA

ORA issued its report on Working Cash on April 13, 2018.[7] The following is a summary of ORA's position(s):

- Recommends that SDG&E update its lead-lag methodology for subsequent GRC's to link individual expense lags to individual forecast expense items.
- Recommends excluding all cash balances ($4.452 million) from SDG&E's working cash requirements on the basis that this amount is not a required bank deposit.
- Recommends excluding prepayments associated with net greenhouse gas (GHG) emissions compliance instruments from SDG&E's working cash requirements.
- Recommends that SDG&E's customer deposits be treated as a source of long-term debt and recommends a $1.633 million reduction in the revenue requirements as a result.
- Recommends using a five-year average for SDG&E's revenue lag-days and recommends adjusting SDG&E's revenue lag down 2.02 days, from 42.81 days to 40.79 days.

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[5] May 14, 2018, Prepared Direct Testimony of Eric Borden, Addressing the Proposals of San Diego Gas and Electric Company and Southern California Gas Company in Their Test Year 2019 General Rate Case Related to Electric Distribution Capital, Gas Transmission Operation, Gas Major Projects, Cash Working Capital, and Customer Forecast, Ex. TURN-01.

[6] May 14, 2018, Prepared Direct Testimony of Ralph C. Smith, On behalf of The Federal Executive Agencies, Ex. FEA-1.

[7] Ex. ORA–26–C (Lambert).

- Recommends an increase of 24.26 expense lag days for employee benefits, from SDG&E's 4.50 days to ORA's 28.76 days.
- Recommends an increase of 0.9 expense lag days for goods and services, from 33.1 days to 34.0 days.
- Proposes a different methodology for arriving at the Federal Income Tax (FIT) lag by moving from actual base-year 2016 results of (86.38) days to ORA's calculated recommendation of 37.00 days. ORA also recommends changing the California Corporate Franchise Tax (CCFT) lag days from actual base-year results of (115.04) days to ORA's calculated recommendation of 20.10 days.

B. TURN

TURN submitted testimony on May 14, 2018.[8] The following is a summary of TURN's position(s):

- Recommends reducing ratebase by the balance of customer deposits.
- Recommends excluding "non-cash items," specifically depreciation and deferred taxes, from the working cash study.
- Recommends changing SDG&E's revenue lag for GHG credits applied against customer bills.
- Recommends changing SDG&E's Goods and Services lag to correct a timing issue relating to credit card payments.
- Recommends changing the allocation of purchased power between distribution and generation.
- Recommends changes to balance sheet items relating to prepaid interest on commercial paper, prepaid director and officer liability insurance, prepayment of ad valorem taxes, prepayment of preliminary surveys and investigations costs, and a deferred lease incentive liability.
- Supports ORA's proposed changes relating to income tax lag.

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[8] Ex. TURN-03 (Marcus); Ex. TURN-01 (Borden).

C. FEA

FEA submitted testimony on May 14, 2018.[9] The following is a summary of FEA's positions:

- Recommends excluding all cash balances ($4.452 million) from SDG&E's working cash requirements on the basis that it is not a "required bank deposit."
- Recommends excluding GHG prepayments on the basis that the amounts are already recovered through balancing accounts.
- Recommends reducing ratebase by the balance of customer deposits.

III. REBUTTAL

A. Methodology

ORA takes issue with SDG&E's methodology in determining the working cash requirement, asserting SDG&E's methodology is susceptible to the incorrect weighting of expenses, and therefore recommends individual expense lags should be linked to their corresponding individual test year expense forecasts.

SDG&E disagrees with ORA; SDG&E's holistic methodology determines working cash from an unbiased position. As stated in my direct testimony,[10] SDG&E uses 2016 recorded data as the proxy for test-year 2019. While 2019 expense lags may be different from those of 2016, not all 2019 expense lags will be longer, and thus require a lower working cash requirement. In reality, some expense lags may be longer while others may be shorter, potentially offsetting each other. By applying a uniform approach using 2016 recorded data, SDG&E does not cherry-pick items for its study, and therefore produces an impartial, neutral result that is most likely to correctly weigh expenses. ORA's approach, in contrast, appears to adjust expense lag items for the primary purpose of generating lower working cash requirements for SDG&E. Because SDG&E evaluates all expenses using the same approach, that is, by using 2016 actual expense lag as a basis for test-year 2019, SDG&E's methodology is more reasonable than ORA's.

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[9] Ex. FEA-1 (Smith).

[10] April 6, 2018, Second Revised SDG&E Direct Testimony of Steven P. Dais (Working Cash), Ex. SDG&E-36-2R.

In any event, ORA's recommendation to link individual expense lags to their corresponding individual test year expense forecasts in the Results of Operations (RO) Model is unnecessary - it will produce the same mathematical result as SDG&E's current approach. As stated in my direct testimony, SDG&E computes one Overall Weighted Average Expense Lag for base year 2016, and then applies this one weighted average lag to one Total Forecasted Expense (summation of the individual test year expense forecasts) for test year 2019.[11]

In addition, ORA's recommendation to break out the individual expenses from the total and compute the individual working cash requirement for each expense item is impractical. The RO Model is structured to facilitate the computation of revenue requirement for the entire company, not just for working cash, and thus does not contain the break down for each of the working cash components. For example, Goods and Services expenses cannot be specifically quantified in the RO Model, as they are embedded in various functional areas.

Thus, ORA's recommendations regarding SDG&E's expense lag are flawed and should not be adopted.

B. Cash Balances

ORA's recommendation of $0 cash for SDG&E's operational cash balances appears based on a partial reading of California Public Utilities Commission (Commission or CPUC) Standard Practice U-16 (SP U-16),[12] and references to recent Southern California Edison Company (SCE) decisions that are based on the same partial reading.[13] This is evident in ORA's use of italics on the first portion of a statement taken from SP U-16, ignoring the integral last clause in the same statement, which refers to "reasonable amounts of working funds."[13] The SCE decisions referenced by ORA indicated that the conclusions were based on a *strict interpretation of SP U-16*.[14] However, a strict interpretation of SP U-16 provides for a reasonable amount of working funds, as noted above. Further, and as explained in more detail

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[11] Ex. SDG&E-36-2R(Dais) at SPD-4.

[12] California Public Utilities Commission, Water Division, *Determination of Working Cash Allowance, Standard Practice U-16* (SP U-16) (March 2006) at 1-4, *available at* http://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M055/K059/55059235.PDF.

[13] Ex. ORA-26-C (Lambert) at 15.

[14] *Id*.

below, $0 cash is not a reasonable amount to efficiently operate multiple business bank accounts funding billions of annual cash activity.

If an individual or business endeavored to keep $0 cash in their accounts, that practice would result in recurring overdraft fees and degradation of banking relationships. Additionally, each day checks are presented at the bank, funds are not all immediately available because float days are assigned on some check deposits, meaning those funds are not available to use that day. SDG&E's assigned float for 2016 (one and two-day float) was over $5.3 million per a review of SDG&E's banking activity. The total amount of float that is assigned each day is not known to SDG&E until the next business day. Therefore, SDG&E's 2016 actual cash balances maintained were lower (about 85%) than the 2016 float assigned.[15]

SDG&E receives its end-of-day deposit activities each business day and also pays the checks that have been presented each business day. All of the day's activities that affect cash balances are not completely known during that respective day since this process is dependent upon various external stakeholders' behaviors and timing. Consequently, it is not practical to expect a perfect estimate or forecast of each day's cash flows and float assignments. That means that there needs to be some cash on hand to facilitate the more than $8.6 billion[16] of outflows and an approximately equal amount of inflows during the year. SDG&E forecasts needing $4.159 million (actual 2016 $) or $4.452 million (total 2019 escalated $) monthly cash deposits on hand to facilitate the operation of SDG&E's multiple bank accounts, which in the context of the $8.6 billion of outflows/inflows is reasonable.

In addition, SDG&E has created strong ties over time with its banking partners. ORA's recommendation would jeopardize this goodwill by risking systematic overdrafts. Indeed, a 0.31%[17] cash balance, as requested by SDG&E, assists in avoiding overdraft fees and the potential degradation of the banking relationships. This cash balance is prudent and efficient, as evidenced by this small ratio.

[15] $4.452MM (escalated $) 2019 Cash $ requested / 2016 Mellon Bank and Union Bank Float of $5.3 million = 84%.

[16] 2016 Union Bank and Mellon Bank outflows were $8.6 billion.

[17] 0.31% is derived by dividing the requested (unescalated) 2016 cash amount of $4.159MM by 2016 average monthly inflows and outflows of $1.346 billion.

In summary, while there is not a specific "required minimum cash balance," there is a "reasonable amount of working funds" required to operate a large utility with multiple banking accounts/relationships and billions of annual inflow/outflows. ORA has provided no empirical evidence that SDG&E's cash balance-related working cash request is not a reasonable amount of working funds, and ORA's $0 cash is unreasonable given SDG&E's obligations outlined above. Therefore, SDG&E's $4.452 million (escalated) 2019 cash balance working cash component should be adopted for Test Year 2019 because 1) it is reasonable, and 2) it fosters productive banking relationships, which benefits ratepayers over the long-term.

C. Net Prepayments for GHG Compliance Instruments

1. ORA

ORA states the net balance associated with GHG compliance instruments should be excluded from the working cash determination because they receive balancing account treatment that "removes any risk associated with the relevant asset."[18] ORA's alternative proposal for GHG activities, if permitted into the working cash study, is to require SDG&E to show that its inventory levels of compliance instruments are economic and efficient.[19]

Compliance instruments can be lawfully purchased in advance of when they are needed to offset emissions. SDG&E's inclusion of these items in its working cash request to compensate investors for providing this flexibility and upfront funding, which allows SDG&E to comply with Cap-and-Trade regulations, is reasonable and *not* risk-free. Contrary to ORA's assertion, SDG&E is not incentivized to hoard compliance instruments.[20] First, SDG&E complies with holding limits as defined by Title 17 of the California Code of Regulations (CCR), and it is subject to penalties for violations.[21] SDG&E, as a prudent operator, does not subject itself to unnecessary penalties. Second, it is nonsensical for SDG&E to tie up its limited funds in purchases that only have a *chance* at earning a return. As evidenced by the very existence of this proceeding, working cash is not guaranteed.

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[18] Ex. ORA-26-C (Lambert) at 17-19.

[19] *Id.* at 19.

[20] *Id*. at 18-19.

[21] California Code of Regulations, *Title 17, Section 95920(b), Trading, Application of the Holding Limit*.

However, SDG&E agrees conceptually with ORA that an investor who provides upfront funding should be compensated for the time value of money. Although Decision (D.) 14-12-040 and D.15-10-032 address matters of calculating forecasted and recorded natural gas-related GHG allowance proceeds and GHG costs, they are silent on the treatment of the carrying costs associated with GHG instruments. Because compensation for this item is not addressed in the GHG decisions nor in any other proceeding, it is reasonable to consider the item within the working cash study. Should the Commission not find it reasonable for the carrying costs associated with GHG instruments to be addressed through working cash, SDG&E requests the Commission to clarify what the appropriate venue should be to seek recovery for this item.

Notwithstanding the above scoping clarification, SDG&E's working cash request for GHG instruments is reasonable. Current Cap-and-Trade regulations show a declining supply of compliance instruments; therefore, it is reasonable for SDG&E to anticipate basic market response and price economics and acquire instruments at a lower cost before the shortened supply of instruments impacts the market. As shown on Table 6-1 and Table 6-2 of Title 17 of the CCR, the annual allowance budget will decrease every year,[22] and as shown in Table 9-5 and Table 9-6 of Title 17 of the CCR, consignment requirements will increase each year.[23] The requirements of a reduced allowance budget and an increased consignment will drive SDG&E to go to market to acquire the compliance instruments needed to ensure it has adequate compliance instruments to meet future emission obligations. As the Cap-and-Trade regulations apply to other covered and opt-in entities as well, SDG&E will be in a competitive market for the limited amount of compliance instruments.

Furthermore, SDG&E is subject to punitive penalties if it fails to acquire the necessary amount of compliance instruments for the compliance period: "The entity's compliance obligation for untimely surrender is calculated as four times the entity's excess emissions."[24] As a prudent operator, SDG&E avoids incurring penalties, especially those that are quadruple the

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[22] California Code of Regulations, *Title 17, Section 95841, Annual Allowance Budgets for Calendar Years 2013-2050* at Table 6-1; Table 6-2.

[23] California Code of Regulations, *Title 17, Section 95893, Allocation to Natural Gas Suppliers for Protection of Natural Gas Ratepayers* at Table 9-5; Table 9-6.

[24] California Code of Regulations, *Title 17, Section 95857(b)(2), Untimely Surrender of Compliance Instruments by a Covered Entity.*

cost of compliance, and takes steps to mitigate this risk. In the case of GHG instruments, SDG&E acquires compliance instruments to meet its obligations, and like any other sound business decision, SDG&E considers current and future market conditions to acquire what it needs to ensure compliance with regulations, and to avoid incurring large penalties. As outlined by Title 17 of the CCR, participants will face a lower allowance budget and higher consignment obligations, which in turn also increases their demand for compliance instruments; yet at the same time, holding limits under Section 95920 still apply. Translated into price economics, these requirements may impact traditional supply curves, potentially driving a higher future price for compliance instruments. Therefore, the acquisition of instruments at today's lower prices is reasonable, the asset and liability accounts associated with GHG should be included in the working cash study, and investors should be compensated for providing upfront funding.

Regarding ORA's alternative recommendation for increased transparency related to SDG&E's compliance instrument purchases, ORA fails to recognize that processes are already established to provide ORA with insight into these activities. First, SDG&E files its confidential Greenhouse Gas Annual Report with the CPUC Energy Division and with ORA. This report provides transactional details of the GHG activities that SDG&E engaged in during the year, and is provided in compliance with D.14-12-040, which directs SDG&E to provide a confidential annual report "listing its purchases and sales of all natural gas supplier compliance instruments including greenhouse gas allowances, allowance futures and forwards, and offsets and offset forwards, carbon allowance derivatives, and any agreements with counterparties to purchase compliance instruments in the future. The report must list the quantity, source, clearing mechanism, and price of natural gas supplier compliance instruments purchased by the utility and the quantity, buyer, clearing mechanism, and price of all natural gas supplier compliance instruments sold by the utility."[25] Moreover, in compliance with D.18-03-017, SDG&E provides details of its recorded GHG costs in its annual rate update filings,[26] as captured recently in Advice Letter (AL) 2673-G-A.[27] Outside of these formal avenues, SDG&E also conducts biweekly meetings with ORA and Energy Division personnel to discuss SDG&E' compliance

[25] D.14-12-040, Appendix A at 10.

[26] D.18-03-017 at Ordering Paragraph (OP) 7 and OP 10.

[27] AL 2673-G-A, pending (awaiting Commission approval).

instrument activities. Since multiple avenues are already available to ORA to monitor SDG&E's GHG activities, and since ORA has shown no evidence that these existing processes are ineffective, ORA's proposal of requiring additional transparency into these otherwise confidential activities should be dismissed.

2. FEA

FEA suggests that GHG compliance instruments should not be included in SDG&E's working cash request because "GHG credits are already addressed in a balancing account."[28] As explained in the response to data request (DR) ORA-SDGE-112-CLB Q.4, the balance that SDG&E is including in its working cash study is the balance of GHG compliance instruments that *are not yet* recorded into (and thus not already addressed through) the balancing account.

D. Customer Deposits

ORA suggests SDG&E should treat customer deposits like long-term debt to ensure consistency with the precedent that the Commission adopted for Pacific Gas & Electric Company (PG&E),[29] and proposes a reduction of $1.663 million to SDG&E's revenue requirement to reflect the difference between SDG&E's long-term cost of debt and ORA's forecasted 2019 3-month commercial paper rate.

TURN and FEA both suggest that the Commission should ignore the explicit guidance provided in SP U-16, and consider customer deposits as a reduction to ratebase. TURN acknowledges that "the 1969 Standard Practice U-16 provides that interest-bearing items are not included in working capital," but argues that the Commission should ignore this guidance.[30] FEA takes a similar approach, acknowledging that "SP U-16 excludes interest bearing customer deposits from working cash and only includes non-interest bearing customer deposits," but then arguing against that very rule.[31]

ORA, TURN and FEA generally center their argument on their assessments that the interest rate paid on customer deposits, which is the 3-month commercial paper rate, is low. They also reference other rate cases in which customer deposits were used to offset rate base.

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[28] Ex. FEA-1 (Smith) at 66.

[29] Ex. ORA-26-C (Lambert) at 20-22.

[30] Ex. TURN-03 (Marcus) at 118.

[31] Ex. FEA-1 (Smith) at 69.

The proposals brought forth by ORA, TURN, and FEA rely upon incomplete and flawed analysis, as outlined below.

SDG&E disagrees with ORA's recommendation that PG&E's rate case, or TURN's reference to decisions in other states, established a precedent applicable to SDG&E. Although ORA cites D.14-08-032 to support its arguments, the same decision states: "We have not always adopted identical treatment of customer deposits among utilities or for the same utility over time. The treatment of customer deposits adopted for PG&E here is based on the circumstances before us which leave discretion to tailor the adopted ratemaking treatment accordingly."[32] Additionally, the Commission stated its preference for consistency under SP U-16: "As a general matter, however, we presume that ratemaking treatment consistent with SP U-16 should be deemed reasonable, especially where there are no special circumstances that justify a deviation."[33] SDG&E's working cash request properly excludes the interest-bearing customer deposit accounts, which is a directive specified by SP U-16: "This account represents monies advanced by the customer as security for the payment of utility bills. Only noninterest-bearing customer deposits are to be considered."[34]

TURN comments that SDG&E's only argument for excluding customer deposits is "the trivial interest rate paid on deposits."[35] This argument implies that ratepayer money (customer deposits) should be included as a reduction to rate base (or a source of long-term financing, in the case of ORA), but that substantially larger amounts of *shareholder*-provided balances (net balancing account undercollections), *which receive the same interest rate,* should continue to be excluded from working cash (and rate base). TURN recommends removing $69 million from rate base, based on the year-end 2017 balance.[36] As of that date, net balancing account undercollections for SDG&E were $322 million. In other words, TURN selectively picks which accounts to include in the working cash study, and which accounts to exclude, without regard to the guidance provided by SP U-16, in order to reduce the ultimate working cash requirement.

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[32] D.14-08-032 at 628.

[33] *Id*.

[34] SP U-16 at 1-8.

[35] Ex. TURN-03 (Marcus) at 118.

[36] *Id.* at 120.

TURN should not be allowed to pick and choose one interest-bearing account (customer deposits) for which it requests an exception from SP U-16, without also providing the same treatment for other interest-bearing accounts (i.e. balancing account undercollections). That these accounts receive *the same interest rate* demonstrates the unreasonableness of TURN's cherry-picking.

Further, TURN's contention that the "small amount of interest" justifies including customer deposits in the working cash computation begs the question, *what interest rate would TURN deem satisfactory to accept SP U-16's guidance?* Indeed, their argument suggests that the Commission should vacillate in its treatment of customer deposits in response to interest rate fluctuations.

SDG&E's proposal, simply stated, is that the guidance in SP U-16 should be upheld and consistently applied. SDG&E is not requesting rate base treatment of its balancing account undercollections, and similarly requests that Customer Deposits be excluded as well.

E. Revenue Lag – 2016 vs. 5-Year Average

1. ORA

ORA recommends that the five-year (2012-2016) average revenue lag of 40.79 days be adopted in lieu of SDG&E's calculated 2016 revenue lag of 42.81 days.[37]

ORA provides no rationale to support this proposed deviation from SP U-16 practice, aside from stating that it "is a moderate alternative that appropriately reflects the significant uncertainty regarding test year conditions."[38] However, ORA is vague as to what "significant uncertainty" it is referencing. In fact, ORA's own testimony states that "SDG&E's collection lag increased steadily from 20.38 days in 2012 to 24.55 days in 2016"[39] (referencing data provided in SDG&E's supplemental response to a discovery question found in ORA-SDG&E-054-CL8).[40] Based on ORA's statement regarding the trending increase in revenue lag, SDG&E's utilization

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[37] Ex. ORA-26-C (Lambert) at 22-23.

[38] *Id*. at 25.

[39] *Id*. at 23.

[40] ORA-SDG&E-DR-054-CL8, Question 1, attached in Appendix A. "Between 2013 and 2016, SDG&E's Collection Lag increased by 2.68 days mainly driven by customers that qualify for the California Alternate Rate for Energy (CARE) Program taking longer to pay and due to an increase in customers adopting solar during the same period."

of actual 2016 data is a *conservative* estimation of 2019 revenue lag, should collection lag continue to steadily increase along a similar path.

Regarding the trending increase, ORA notes that the successor Net Energy Metering (NEM) tariff "*may* result in different payment patterns for *new* NEM customers" and "[c]ollection lag for NEM customers will not *continue to grow* at its current pace *if* the nonbypassable charges prompt a higher proportion of new NEM customers to make monthly payments."[41] While it is possible that payment lag *may* not continue to trend upward, this does not refute SDG&E's consistent usage of the 2016 lag in the lead-lag study.[42]

To summarize, ORA provides no evidence to support its contention that the 2012-2016 average lag represents a more accurate estimation of 2019 revenue lag than does the actual 2016 revenue lag. Further, NEM customers not on the successor tariff are grandfathered under the original tariff, which reduces the potential for the successor tariff to alter payment patterns going forward. Therefore, SDG&E's proposed revenue lag of 42.81 days should be adopted.

F. Revenue Lag – Greenhouse Gas Credit Application

1. TURN

TURN proposes a reduction to revenue lag relating to the date in which climate credits are applied against customer bills, which it claims reduces the lag relating to "that portion of the bill."[43] Cash received through customer collections and the non-cash climate credit applied to customer bills are two district items, and should not be comingled. SDG&E agrees with TURNS's statement that the climate credits are effectively applied to customer bills at a lag of 17.40 days.[44] However, this is incorporated into balance account interest calculations and should not be reapplied here.

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[41] Ex. ORA-26-C (Lambert) at 25 (emphasis added).

[42] As a matter of clarification, ORA states, in regard to the increase in collection lag between 2013 and 2016, that "SDG&E provides no evidence explaining why NEM customers in 2016 were more likely to pay on an annual basis than NEM customers in 2013." Ex. ORA-26-C (Lambert) at 23. To clarify, SDG&E's statement relates to an increase in the sheer number of NEM customers during this time period; the statement was not in relation to changes in payment patterns.

[43] Ex. TURN-03 (Marcus) at 106.

[44] *Id*.

In a Data Request,[45] TURN asked "whether the 'sales' figures…are net of GHG payments to customers or whether they are gross figures before offset by GHG credits." Based on this line of questioning, TURN may have assumed that SDG&E had grossed-up revenues to include climate credits as part of its revenue lag calculation. If this were the case, SDG&E agrees that this would have resulted in an overstatement of the collection lag component of the overall revenue lag, which is calculated by dividing total revenues by the average A/R balance. However, this is not the case, and thus, SDG&E's revenue lag is not overstated.

G. Non-Cash Items – Depreciation and Deferred Taxes

1. TURN

TURN acknowledges that SP U-16 specifically allows for the inclusion of depreciation and deferred taxes in working cash studies, and directs that they be included at 0 lag days.[46] However, TURN proposes that the inclusion of these expenses is based on "outdated constructs," which should be viewed with an eye toward "what it means for ratemaking today, rather than what was set as a ratemaking process 50 years ago."[47] Yet, TURN does not provide any evidence of any germane changes in the ratemaking process that would support its allegation that this guidance is no longer relevant, and SDG&E is unaware of any. Instead, TURN bases its contention on the general statement that "ratepayer funding of cash working capital should involve 'cash.'"[48] What TURN is missing is that depreciation and deferred taxes, in the context of the working cash study, *do in fact involve cash*. One need only look at the mechanics of the lead-lag calculation to see that this is the case.

Both depreciation and deferred taxes are genuine, cash-related expenses. Depreciation expense, for example, records the degradation in usefulness and in cash value that impacts physical assets over time. Depreciation reduces rate base and the initial cash invested in the asset is recovered through customer rates. Deferred taxes result from adjustments to the company's cash tax liability resulting from differences in book versus tax treatment of expenses. Changes to deferred taxes also impact rate base.

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[45] TURN-SDG&E-SOCALGAS-DR-052, Question 5a.

[46] Ex. TURN-01 (Borden) at 50.

[47] *Id.*

[48] Ex. TURN-01 (Borden) at 49.

The lead-lag portion of the working cash study derives the difference between revenue lags and expense lags and then multiplies this difference by the total expenses included in the study. SP U-16 appropriately includes depreciation and deferred tax expenses in this calculation, as these expenses comprise a portion of SDG&E's revenue requirement; because "book depreciation expense is occurring uniformly day by day and accumulated depreciation is deducted from the rate base, the practice is to include depreciation provisions at zero lag days."[49] If depreciation expense were not included as part of total expenses in this calculation, then this lag in revenue collection versus rate base impact would be missed. In short, the purpose of including depreciation expense and deferred taxes in the study is to appropriately compute the lag in revenue collection. Therefore, TURN's position that depreciation and deferred taxes are non-cash expenses is irrelevant, as cash comes into play through the collection of revenues from customers rather than through the expenses themselves.

Aside from the above, TURN's calculated reduction of $67 million is incorrect. While this is the impact reflected in schedule B-4,[50] after incorporating the allocation to transmission and applying the lead-lag to the total expenses in the RO model, the net impact of removing depreciation and deferred taxes from the lead-lag study would be $29.7 million, rather than the $67 million referenced by TURN.

H. Changes to Federal Income Tax (FIT) and California Corporate Franchise Tax (CCFT) Expense Lags

1. ORA

ORA recommends a weighted average expense lag based on quarterly payment due dates of SDG&E's state and federal taxes, asserting that basing SDG&E's lead days on 2016 recorded information is not reflective of TY 2019 conditions due to the volatility of factors impacting tax payments.

SDG&E disagrees with ORA's approach, which is based on the installment dates and percent installment of the quarterly payments. This approach assumes SDG&E will be able to perfectly forecast its tax payments upon each due date, and yet, ORA acknowledged the litany of factors that can impact tax payments:

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[49] SP U-16 at 1-15.

[50] SDG&E-36-WP SDais (confidential) at 10.

> Actual lag days for FIT payments are subject to the potential occurrence of refunds, extensions, true-ups, or net operating losses (i.e., no FIT payments), which increase the volatility of recorded lag days for FIT.[51]

> Actual lag days for CCFT payments are subject to the potential occurrence of refunds, extensions, true-ups, or other irregularities, which increase the volatility of recorded lag days for CCFT.[52]

As ORA acknowledges, tax payments are impacted by income estimates, and the exact amount of total taxes due is not known until the fiscal year is complete. In addition, ORA argues SDG&E's use of 2016 recorded payments is not reflective of TY 2019 conditions. SDG&E disagrees, as it is not uncommon for SDG&E to have tax refunds, thus generating a historic trend of *lead* days for state and federal tax expense. As a prudent operator, with a strong desire to comply with tax regulations, SDG&E adopts a conservative approach in paying its estimated tax payments. That is, a conservative enterprise like SDG&E will, more likely than not, pay more than what is required to avoid penalties, and this approach may result in tax refunds, thus generating lead days. ORA, however, ignores this reasonable, common behavior. Despite ORA's assertion, SDG&E is compliant with SP U-16 in estimating TY 2019 payments by acknowledging the relative frequent occurrence of historic refunds, which supports SDG&E's position that a refund in TY 2019 is likely to occur, and that lead days can be expected.

I. Changes to other Operating Cash items

1. TURN

1) Prepaid Interest on Commercial Paper – SDG&E does not oppose this change.[53]
2) Prepayment of Ad Valorem taxes – SDG&E does not oppose this change.[54]
3) Prepayment of Surveys and Investigation Costs – SDG&E does not oppose this change relating to the Manzanita Wind project.[55]
4) Prepaid Director and Officer Liability Insurance – refer to Neil Cayabyab's rebuttal testimony (Exhibit SCG-229/SDG&E-227)

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[51] Ex. ORA-26-C (Lambert) at 45.

[52] *Id*. at 46-47.

[53] *See* errata table, below.

[54] *See id*.

[55] *See id*.

5) Deferred Lease Incentive Liability

As previously described, SDG&E applies a consistent, unbiased approach in using 2016 recorded information as a proxy for 2019, and does not selectively apply alternative calculations, as ORA does with its proposal. ORA's suggestion that the 2016 year-end balance in this account will follow a known amortization schedule, is correct. However, ORA's logic overlooks that further lease incentives may occur in future years. Because of uncertainties regarding future events, which may either increase or reduce SDG&E's working cash requirement, utilizing a holistic, 2016-actuals based approach provides a more reasonable, accurate estimation than would result from cherry-picking certain accounts for alternative treatment.

J. Changes to Goods & Services Lag

1. ORA

ORA recommends 34.0 lag days for Goods and Services, compared to SDG&E's proposal of 33.1 lag days.[56] ORA's recommendation is based on the incorporation of check clearing lag. SDG&E does not dispute ORA's proposal.

2. TURN

TURN recommends an increase of 0.66 lag days to incorporate a longer delay for credit card purchases. SDG&E does not dispute ORA's proposal.

Combining TURN's proposal to increase Goods and Services lag by 0.66 days with ORA's proposal to increase Goods and Services lag by 0.9 days, Goods & Services lag would increase by a total of 1.56 days, from 33.1 days to 34.66 days.

K. Changes to Employee Benefit Expense

1. ORA

1) Worker's Compensation payments – SDG&E does not oppose this change.[57]

2) Post-Retirement Benefits Other than Pension – SDG&E does not oppose this change.[58]

3) Pension Payments

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[56] Ex. ORA-26-C (Lambert) at 2.

[57] *See* errata table, below.

[58] *See id.*

As previously described, SDG&E applies a consistent approach in using 2016 recorded information as a proxy for 2019, and does not selectively apply alternative calculations, as ORA would do. For pension expense lag, SDG&E consistently used 2016 recorded information, as with all the other items captured in its working cash study. SDG&E's approach is reasonable, as actual lag days for individual items in TY 2019 may differ, both higher and lower, than the recorded lag days observed in 2016. Because SDG&E took a comprehensive, consistent approach to its working cash determination, based on 2016 recorded data, its analysis is impartial and balanced, and therefore is a more reasonable approach than ORA's approach that cherry-picks certain items to artificially derive a lower working cash requirement for SDG&E.

IV. ADDITIONAL ITEMS

SDG&E 2019 GRC Working Cash Errata Table

SDG&E's 2019 working cash request as filed April 6, 2018 was approximately $171 million. Reflecting adjustments stemming from the discovery process, SDG&E's working cash request would have been approximately $161 million.

TOTAL OPERATIONAL CASH REQUIREMENT – Test Year 2019 ($000)					
	Operational Cash	**Working Cash Not Supplied**	**Lead/Lag Working**	**Total Working Cash**	**Citation**
SDG&E Working Cash Requirement	**97,024**	**(56,318)**	**130,020**	**170,726**	
Worker's Comp Reserves (Update tax rate from 40.75% to 27.98%)	(2,055)				SDG&E-36-2R, SPD-13 footnote
Remove Prepaid Commercial Paper Interest	(211)				SDG&E response to data request to TURN-SEU DR 53-01f
Remove Prepaid Ad Valorem Taxes	(2,783)				SDG&E response to data request TURN-SEU DR 53-01d.
Remove Manzanita Wind Farm from Prelim Survey and Investigation	(1,267)				JOINT MOTION FOR ADOPTION OF SETTLEMENT AGREEMENTS for Application No. 14-11-003 (Filed November 14, 2014)
Update Worker's Comp Lag Days			(144)		SDG&E response to data request ORA-SDG&E-039-CL8, Question 5(b).
Update PBOP payment Lag Days			(827)		SDG&E response to data request ORA-SDG&E-039-CL8, Question 6.
Update Goods & Services Lag to add Check Clearing Lag			(1,459)		SDG&E Response to data request ORA-SDGE-097-CL8, Question 1(b).
Update Goods & Services Lag for Credit Cards			(1,071)		SDG&E response to data request to TURN-SEU DR 52-15.
SDG&E Working Cash Request - Net of Adjustments	**90,708**	**(56,318)**	**126,519**	**160,909**	

V. CONCLUSION

To summarize, SDG&E used a holistic approach to determine its working cash requirement for test year 2019. A consistent approach was applied in the analysis of working cash items, and SDG&E considered the nature of its operations, per SP U-16, to determine a reasonable request. SDG&E concedes that certain adjustments to the working cash request as originally submitted. are warranted, which are addressed in this testimony. However, after incorporating these adjustments, the resulting working cash request is both reasonable and equitable.

In contrast, each of ORA's, TURN's, and FEA's remaining recommendations are based upon flawed, inconsistent logic and require deviation from SP U-16. Accordingly, SDG&E requests that each of these recommendations be dismissed.

This concludes my prepared rebuttal testimony.

APPENDIX A

DISCOVERY RESPONSES

ORA DATA REQUEST
ORA-SDGE-054-CL8
SDG&E 2019 GRC – A.17-10-007
SDG&E SUPPLEMENTAL RESPONSE
DATE RECEIVED: DECEMBER 8, 2017
DATE RESPONDED: JANUARY 4, 2018

Exhibit Reference: SDG&E-36 and SDG&E-36-WP-C
SDG&E Witness: Steven P. Dais
Subject: Working Cash

Please provide the following:

1. Page 11 of the workpapers (Ex. SDG&E-36-WP-C) shows a calculation for total revenue lag of 42.81 days.

   a. Please provide 5-years recorded data (2009-2013) for:

      i. Meter Reading Lag

      ii. Billing Lag

      iii. Collection Days Lag

      iv. Bank Lag

      v. Total Revenue Lag

   b. Please provide an explanation of how billing lag was calculated.

   c. Please provide an explanation of how bank lag was calculated.

SDG&E Supplemental Response 1:

A) Please refer to the table below, which addresses the periods 2012-2016:

	2012	2013	2014	2015	2016
Meter Reading Lag	15.25	15.21	15.21	15.21	15.21
Billing Lag [1]	2.39	2.39	2.19	2.19	2.19
Collection Lag	20.38	21.87	22.16	23.22	24.55
Bank Lag	0.89	0.88	0.85	0.85	0.86
Total Revenue Lag	38.91	40.35	40.41	41.47	42.81

1) Billing lag in 2014-2015 is assumed to be consistent w ith 2016 recorded for illustrative purposes.

ORA DATA REQUEST
ORA-SDGE-054-CL8
SDG&E 2019 GRC – A.17-10-007
SDG&E SUPPLEMENTAL RESPONSE
DATE RECEIVED: DECEMBER 8, 2017
DATE RESPONDED: JANUARY 4, 2018

SDG&E Supplemental Response 1 Continued:

B & C) Explanations of the calculations of each of the above items are shown below.

Meter Reading Lag – is essentially a half-month. The combination of Billing Lag and Meter Reading Lag encompasses the total lag between the mid-point of the billing period to the issuance of bills to customers.

Billing Lag – is derived by calculating billing dollar-days (by customer class), and then dividing that amount by total billings. Billing dollar-days is calculated by multiplying total billings by the number of days to mail the bills (by customer class).

Collection Lag - is calculated by dividing 365 days by Accounts Receivable turn-over.

Bank Lag - is derived by calculating bank lag dollar-days (by payment type), and then dividing that amount by total payments received. Bank lag dollar-days is calculated by multiplying total payments received by the number of days to process payments (by payment type).

Total Revenue Lag – is the summation of the Meter Reading Lag, Billing Lag, Collection Lag, and Bank Lag. Accordingly, Total Revenue Lag encompasses the total time lapse between the mid-point of the service period to when payments are available for use.

APPENDIX B

GLOSSARY OF TERMS

AL	Advice Letter
CCFT	California Corporate Franchise Tax
CCR	California Code of Regulations
Commission/CPUC	California Public Utilities Commission
D	Decision
DR	Data Request
FIT	Federal Income Tax
FEA	The Federal Executive Agencies
GHG	Greenhouse Gas
NEM	Net Energy Metering Tariff
ORA	Office of Ratepayer Advocates
PG&E	Pacific Gas and Electric Company
RO	Results of Operations
SCE	Southern California Edison Company
SDG&E	San Diego Gas & Electric Company
SP U-16	Standard Practice U-16
TURN	The Utility Reform Network