Company: San Diego Gas & Electric Company (U 902 M)
Proceeding: 2024 General Rate Case
Application: A.22-05-016
Exhibit: SDG&E-38-R

REVISED

PREPARED DIRECT TESTIMONY OF

JACK M. GUIDI

(WORKING CASH)

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

August 2022

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SUMMARY

- Describes the methodology used by San Diego Gas & Electric Company (SDG&E) to prepare its working cash request in compliance with California Public Utilities commission (CPUC or Commission) Standard Practice (SP) U-16-W.
- Requests adoption of a Test Year (TY) 2024 working cash of $302.1 million.

PREPARED REVISED DIRECT TESTIMONY OF JACK M. GUIDI (WORKING CASH)

I. INTRODUCTION

A. Summary of Proposals

I sponsor the Test Year 2024 General Rate Case (GRC) working cash requirement. My direct testimony describes the methodology used by SDG&E to prepare its working cash request and provides the facts supporting a working cash requirement. Based on SDG&E's working cash study,[1] and consistent with the CPUC's SP U-16-W, the resulting TY 2024 working cash requirement is $302.1 million, as shown in Table JG-1 below. The working cash request is an increase from the 2019 GRC application,[2] driven primarily by an increase in the prepaid cost to secure wildfire insurance and an increase in the amount of damage claims (*i.e.,* amounts SDG&E collects from third parties for damage to utility property) and sundry billings.

TABLE JG-1
Test Year 2024 Summary of SDG&E Working Cash Requirement
($ in millions)

Operational Cash Requirement	$186.5	
Lead-Lag Working Cash Requirement	$217.0	
Total Working Cash Requirement		$403.5
Working cash provided by non-investors		($101.4)
Net Working Cash Requirement[3]		**$302.1**

[1] SDG&E's working cash study is comprised of an analysis of its balance sheet and income statement items and is described in SP U-16-W. Balance sheet items quantify the daily cash requirements needed to run the business economically and efficiently. These items include accounts funded with cash supplied by investors, offset by items funded with cash supplied by others. The analysis of the balance sheet accounts is supplemented by an analysis of the income statement items, which quantify the timing between when revenues are collected and when expenses are paid. The results of SDG&E's working cash study are included in our workpapers.

[2] A.17-10-007/008 (cons.), Exhibit SDG&E-36-2R, SDG&E Direct Tesitmony of Steven P. Dais, Working Cash (April 6, 2018) at SPD-1.

[3] SDG&E believes it has identified an immaterial error during the finalization of this testimony after the point at which it could be corrected prior to filing. The error results in a $3,000 increase in the 2024 net working cash requirement. The corresponding calculation will be revised at another available opportunity.

B. Organization of Testimony

My testimony is organized as follows:

- Sections II – describes the purpose of working cash and the methodology under SP U-16-W to determine the working cash allowance.
- Section III and IV – describe the steps that SDG&E used to prepare its working cash study and provide summary reports.
- Section V – provides details of each account category used in the development SDG&E's TY 2024 working cash request.
- Sections VI and VII – offers concluding remarks and my witness qualifications.

II. PURPOSE AND DETERMINATION OF WORKING CASH UNDER SP U-16-W

The following describes the general steps used to prepare the working cash study that determined SDG&E's TY 2024 request. More details on each account category and specifics relevant to each step in the process are provided later in this testimony, as well as in the accompanying workpapers (Ex. SDG&E-38-WP-R).

Working cash is a component of rate base under SP U-16-W, and its purpose is to compensate investors for funds supplied them for the purpose of meeting meet day-to-day utility operational expenses in advance of receipt of offsetting revenues from the utility's customers.[4] When practical, SP U-16-W calls for a detailed analysis of working cash referred to as the "weighted average or lead-lag days" method.[5] SDG&E employs this method for calculating its working cash allowance.

As described in SP U-16-W, the working cash allowance is comprised of balance sheet and income statement items. Balance sheet items quantify the daily cash requirements needed to run the business economically and efficiently. These items include accounts funded with cash

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[4] Determination of Working Cash Allowance, SP U-16-W (March, 2006) at Chapter 1, Section D, Paragraph 6 ("Its purpose is to compensate investors for funds provided by them which are permanently committed to the business for the purpose of paying operating expenses in advance of receipt of offsetting revenues from its customers and in order to maintain minimum bank balances.").

[5] *See* SP U-16-W at Chapter 3, Section A, Paragraph 1 ("The detailed basis of determining working cash allowance is normally referred to as the 'weighted average or lead-lag days' method. Fundamentally, the same principles apply for the detailed basis as for the simplified basis. That is, first the operational requirement is determined and then amounts of monies available through tax accruals and other funds not supplied by the investor are deducted from the operational requirement.")

supplied by investors, offset by items funded with cash supplied by others. The analysis of the balance sheet accounts is supplemented by an analysis of the income statement items, which quantify the timing between when revenues are collected and when expenses are paid.

For SDG&E, the net outcome of the timing of these transactions results in its average revenue lag (the time between when utility services are rendered and when revenue is received for those services) being greater than its average expense lag (the time between when suppliers render services to SDG&E and when SDG&E pays for those services). Consequently, SDG&E's investors are required to fund the operating cash needed during the net lag days (net of revenue and expense lags). The sum of the net operational cash requirement and the lead-lag requirement results in the total working cash allowance.

III. SDG&E'S WORKING CASH DETERMINATION

A. Working Cash Requirement for Balancing Sheet Accounts

SDG&E's requested balance sheet related working cash allowance is based on the sum of the monthly balances from December 2020 through December 2021, less one-half of each December balance, divided by 12 (i.e., a mid-month convention), and then escalated into 2024 dollars. This practice of averaging month-end balances for determining the balance sheet-related working cash allowance is outlined in Chapter 3 of CPUC SP U-16-W.

Working cash requirements for balance sheet accounts that require or provide working cash were quantified using 2021 as-recorded account balances and a mid-month convention as described above, to determine weighted-average annual account balances (*see* Tables JG-6, JG-7, and JG-8). These balances were allocated between electric distribution, gas service, and generation based on the allocation percentages described in the Shared Services & Shared Assets Billing, Segmentation, & Capital Reassignments testimony of Angel Le and Paul Malin (Ex. SCG-30/SDG&E-34). The 2021 electric distribution, gas service, and generation average balances were then escalated to 2024 dollars using the shared services escalation factor index (1.0710), which reflects the weighted average of labor and non-labor Operations & Maintenance (O&M) indexes, as presented in the Cost Escalation testimony of Scott R. Wilder (Ex. SDG&E-41).

B. Working Cash Requirement for Income Statement Accounts

The working cash allowance for income statement items involved performing a lead-lag study. This study quantifies the timing difference between revenue lag and expense lag, using 2021 recorded revenues and expenses.

1. Revenue Lag

For all utility customers, revenue lag is the average number of days between the mid-point of their monthly service and receipt of payment for that monthly service by SDG&E (line 1 of Tables JG-3, JG-4, and JG-5). Because most SDG&E customers pay for all categories of service (both electric distribution and gas service) with a single bill, the lead/lag study uses a single value for revenue lag days.

2. Expense Lag

Expense lag is the number of days between the time the utility's expenses are incurred and the time SDG&E pays its suppliers (column a of Table JG-2). Because SDG&E pays separately for each category of service, each expense category has its own value for lead/lag days. The expense lag analysis reflects 2021 as-recorded expenses and the associated average expense lag days. To determine the number of expense lag days, SDG&E analyzed 12 months of invoices from calendar year 2021 for account categories that represent the types of expenses forecasted in the GRC (e.g., accounts payable records, O&M expenses, payroll expense, taxes, and benefits, among others). The weighted-average number of expense lag days for each category was derived by the following:

- For the total population of invoices for 2021, determine lag days for each expense category by comparing the service date (either the date service was provided or the midpoint of the service period) to the date cash payment was made;
- For each category, multiplying the lag days by the associated dollar amount for the payment, deriving "dollar-days"; and
- Summing the dollar-days for each payment and dividing that total by the total of the 2021 payment amounts to derive the average expense lag.

  (Note: the same approach for calculating expense lag was also used for energy commodity purchases, which have no provision for working cash in their specific tariffs).

The account category totals were associated with electric distribution, gas service, and generation based on the segmentation factors described Ms. Le's and Mr. Malin's testimony.

The overall weighted-average number of expense lag days for electric distribution, gas service, and generation for all non-commodity expense categories was calculated, and applied to the total 2021 O&M costs forecasted in the GRC using the following steps:

- Annual 2021 electric distribution, gas service, and generation expenses for each account category were multiplied by total lag days, generating dollar-days (*see* columns c, e, and g in Table JG-2);
- Dollar-days and total expenses for all account categories except commodities were summed; and
- Total dollar-days were divided by total expenses to determine non-commodity weighted-average lag days (*see* lines 21b, 21d, and 21f of Table JG-2).

To generate dollar-days on non-commodity expenses, SDG&E used weighted-average lag days and multiplied them by the sum of the total 2024 O&M costs forecasted in the GRC, forecasted deferred taxes, franchise fees on commodities, pass-through taxes, and balanced program costs (represented as All Other Expenses on line 6 of Tables JG-3, JG-4, and JG-5). For commodity expenses, specific, rather than weighted-average, expense lag days were applied to the forecasted dollars to generate dollar-days. Commodity expenses were separated to not dilute the weighted average of other expense categories.

The sum of the Commodity and All Other Expenses dollar-days were divided by total forecasted expenses to determine overall weighted-average expense lag days (*see* line 7 of Tables JG-3, JG-4, and JG-5).

In the last step of the lead/lag study, the overall weighted-average expense lag days for electric distribution, gas service, and generation were subtracted from revenue lag days to produce net revenue lag days (*see* line 8 of Tables JG-3, JG-4, and JG-5, below), which is the average number of days between payment of expenses and collection of revenue. This value was then multiplied by total forecasted expenses and divided by 365 days to determine the total working cash requirement associated with revenue and expenses (*see* line 9 of Tables JG-3, JG-4, and JG-5, below).

C. Derivation of the Total Working Cash Requirement

The total working cash allowance was determined by adding the balance sheet related

working cash requirements to the lead/lag related working cash requirements for electric distribution, gas service, and generation (*see* line 10 of Tables JG-6, JG-7, and JG-8, below).

IV. SUMMARY REPORTS

Table JG-2 summarizes 2021 expense lag days, commodity expenses, non-commodity expenses, and associated dollar-days by account category for electric distribution, gas service, and generation. The overall 2021 weighted-average non-commodity expense lag days are 20.90 days for electric distribution, 24.26 days for gas service, and 16.04 days for generation. These values were developed to apply to 2024 expense forecasts.

Table JG-2
San Diego Gas & Electric Company
2021 Expense Lag Days Summary - Electric Distribution, Gas Service, and Generation
($000)

Line No.	Description	[a] Expense Lag Days	[b] Total Company Electric Distribution Expenses	[c] Total Company Electric Distribution Dollar-Days [a]*[b]	[d] Total Company Gas Service Expenses	[e] Total Company Gas Service Dollar-Days [a]*[d]	[f] Total Company Generation Expenses	[g] Total Company Generation Dollar-Days [a]*[f]
	Commodity Expense:							
1	Purchased Electric Costs	40.89	$ 1,139,837	$ 46,604,718	-	-	-	-
2	Purchased Gas Costs	39.60	-	-	$ 199,868	$ 7,915,669	-	-
3	Purchased Generation Costs	36.99	-	-	-	-	$ 171,767	$ 6,354,322
	Non-Commodity Expense:							
4	Payroll Expense	13.18	197,000	2,595,971	87,287	1,150,229	12,420	163,669
5	F.I.C.A. & Medicare Expense	12.46	17,557	218,785	7,779	96,940	1,107	13,794
6	Federal/State Unemployment Insurance	76.05	322	24,480	143	10,847	20	1,543
7	Incentive Compensation Plan	252.00	21,213	5,345,776	9,399	2,368,619	1,337	337,037
8	Employee Benefits	25.32	77,179	1,953,870	34,197	865,725	4,866	123,186
9	Goods & Services	28.05	141,838	3,978,792	62,846	1,762,932	8,942	250,852
10	Payments by Corporate Center	7.37	191,694	1,412,330	84,936	625,779	12,086	89,044
11	Real Estate Rental	(4.99)	11,756	(58,687)	5,209	(26,003)	741	(3,700)
12	Materials Issued from Stores	-	5,060	-	1,226	-	142	-
13	Property/Ad Valorem/Pass-Through Taxes	76.73	211,316	16,214,769	93,631	7,184,477	13,323	1,022,297
14	Federal Income Taxes--Current	2.98	26,289	78,458	11,648	34,763	1,657	4,947
15	CA Corporate Franchise Taxes	9.48	12,522	118,671	5,548	52,581	789	7,482
16	Federal Income Taxes - Deferred	-	15,811	-	(1,010)	-	(614)	-
17	Depreciation Provision	-	452,984	-	116,387	-	59,525	-
18	Amortization of Insurance Premiums	-	142,646	-	63,204	-	8,993	-
19	**EXPENSES EXCLUDING COMMODITY**		**$ 1,525,187**	**$ 31,883,214**	**$ 582,429**	**$ 14,126,888**	**$ 125,337**	**$ 2,010,150**
20	**TOTAL EXPENSES INCLUDING COMMODITY**		**$ 2,665,025**	**$ 78,487,932**	**$ 782,297**	**$ 22,042,557**	**$ 297,104**	**$ 8,364,472**
21	**Weighted Average Non-Commodity Expense Lag Days**		**20.90**	[19c/19b]	**24.26**	[19e/19d]	**16.04**	[19g/19f]
22	**Weighted Average Expense Lag Days (including Commodity)**		**29.45**	[20c/20b]	**28.18**	[20e/20d]	**28.15**	[20g/20f]

Note: Values may not add to totals due to rounding.

Tables JG-3, JG-4, and JG-5 summarize the calculations of the 2024 lead/lag working cash requirements of $152.4 million for electric distribution, $41.9 million for gas service, and $22.7

million for generation. As demonstrated in Tables JG-3 through JG-5, the calculation is based on 2021 lag days and forecasted 2024 revenues and expenses to determine our 2024 working cash requirement.

Table JG-3
San Diego Gas & Electric Company
Lead-Lag Study Summary - Electric Distribution
($000)

Line No.	Description	[a] 2021 Expense Lag Days	[b] 2024 Expense Forecast	[c] 2024 Calculated Dollar-Days [a]*[b]
1	**Revenue**	48.60		
2	**Expenses**			
3	Commodity Purchases - Electric	40.89	$ 636,395	$ 26,020,373
4	Commodity Purchases - Core Gas	39.60	-	-
5	Commodity Purchases - Generation Fuel	36.99	-	-
6	All Other Expenses	20.90	1,830,817	38,272,228
7	Total Expenses - a: c/b; b&c: (3+4+5+6)	26.06	$ 2,467,211	$ 64,292,601
8	**Net Revenue Lag Days** [1a-7a] *	22.54		
9	**Total Lead-Lag Working Cash Requirement** [8a*7b/365]		**$ 152,352**	

Note: Values may not add to totals due to rounding.
* Represents 2024 net revenue lag days based on 2024 expense forecasts.

Table JG-4
San Diego Gas & Electric Company
Lead-Lag Study Summary - Gas Service
($000)

Line No.	Description	[a] 2021 Expense Lag Days	[b] 2024 Expense Forecast	[c] 2024 Calculated Dollar-Days [a]*[b]
1	**Revenue**	48.60		
2	**Expenses**			
3	Commodity Purchases - Electric	40.89	-	-
4	Commodity Purchases - Core Gas	39.60	195,950	7,760,500
5	Commodity Purchases - Generation Fuel	36.99	-	-
6	All Other Expenses	24.26	555,826	13,481,620
7	Total Expenses - a: c/b; b&c: (3+4+5+6)	28.26	$ 751,776	$ 21,242,120
8	**Net Revenue Lag Days** [1a-7a] *	20.34		
9	**Total Lead-Lag Working Cash Requirement** [8a*7b/365]		**$ 41,898**	

Note: Values may not add to totals due to rounding.
* Represents 2024 net revenue lag days based on 2024 expense forecasts.

Table JG-5
San Diego Gas & Electric Company
Lead-Lag Study Summary - Generation
($000)

Line No.	Description	[a] 2021 Expense Lag Days	[b] 2024 Expense Forecast	[c] 2024 Calculated Dollar-Days [a]*[b]
1	**Revenue**	48.60		
2	**Expenses**			
3	Commodity Purchases - Electric	40.89	-	-
4	Commodity Purchases - Core Gas	39.60	-	-
5	Commodity Purchases - Generation Fuel	36.99	166,944	6,175,915
6	All Other Expenses	16.04	195,427	3,134,258
7	Total Expenses - a: c/b; b&c: (3+4+5+6)	25.69	$ 362,371	$ 9,310,173
8	**Net Revenue Lag Days** [1a-7a] *	22.91		
9	**Total Lead-Lag Working Cash Requirement** [8a*7b/365]		**$ 22,741**	

Note: Values may not add to totals due to rounding.
* Represents 2024 net revenue lag days based on 2024 expense forecasts.

Tables JG-6, JG-7, and JG-8 summarize 2021 and forecasted 2024 balance sheet sources and uses of working cash and add the lead/lag working cash requirements to derive the total working cash requirements of $228.7 million for electric distribution, $44.9 million for gas service, and $28.5 million for generation.

Table JG-6
San Diego Gas & Electric Company
Working Cash Summary – Electric Distribution
($000)

Line No.	Description	2021 As-Recorded	2024 Requirement
	Balance Sheet Account Uses of Working Cash		
1	Cash Balances	$ -	$ -
2	Other Receivables	48,796	52,261
3	Prepayments	80,804	86,541
4	Deferred Debits	4,537	4,859
5	Sub-total Balance Sheet Account Uses of Working Cash	134,137	143,661
	Balance Sheet Account Sources of Working Cash		
6	Employee Withholdings	(5,974)	(6,398)
7	Current and Accrued Liabilities	(56,877)	(60,915)
8	Sub-total Balance Sheet Account Sources of Working Cash	(62,851)	(67,313)
9	**Net Balance Sheet Account Working Cash Requirement** [5+8] *	$ 71,286	$ 76,348
	Lead/Lag Working Capital Requirement **		$ 152,352
10	**Total Working Cash Requirement**		**$ 228,700**

* Proposed 2024 amount is derived by escalating the 2021 recorded value using the shared service index.
** Proposed 2024 working cash requirement is from the previous table (Table JG-3).
Note: Values may not add to totals due to rounding.

Table JG-7
San Diego Gas & Electric Company
Working Cash Summary – Gas Service
($000)

Line No.	Description	2021 As-Recorded	2024 Requirement
	Balance Sheet Account Uses of Working Cash		
1	Cash Balances	$ -	$ -
2	Other Receivables	21,621	23,156
3	Prepayments	7,054	7,555
4	Deferred Debits	2,010	2,153
5	Sub-total Balance Sheet Account Uses of Working Cash	30,685	32,864
	Balance Sheet Account Sources of Working Cash		
6	Employee Withholdings	(2,647)	(2,835)
7	Current and Accrued Liabilities	(25,201)	(26,990)
8	Sub-total Balance Sheet Account Sources of Working Cash	(27,848)	(29,825)
9	**Net Balance Sheet Account Working Cash Requirement** [5+8] *	$ 2,837	$ 3,039
	Lead/Lag Working Capital Requirement **		$ 41,898
10	**Total Working Cash Requirement**		**$ 44,937**

* Proposed 2024 amount is derived by escalating the 2021 recorded value using the shared service index.
** Proposed 2024 working cash requirement is from the previous table (Table JG-4).
Note: Values may not add to totals due to rounding.

Table JG-8
San Diego Gas & Electric Company
Working Cash Summary – Generation
($000)

Line No.	Description	2021 As-Recorded	2024 Requirement
	Balance Sheet Account Uses of Working Cash		
1	Cash Balances	$ -	$ -
2	Other Receivables	3,076	3,294
3	Prepayments	5,969	6,393
4	Deferred Debits	286	306
5	Sub-total Balance Sheet Account Uses of Working Cash	9,331	9,993
	Balance Sheet Account Sources of Working Cash		
6	Employee Withholdings	(377)	(404)
7	Current and Accrued Liabilities	(3,586)	(3,841)
8	Sub-total Balance Sheet Account Sources of Working Cash	(3,963)	(4,245)
9	**Net Balance Sheet Account Working Cash Requirement** [5+8] *	$ 5,368	$ 5,748
	Lead/Lag Working Capital Requirement **		$ 22,741
10	**Total Working Cash Requirement**		**$ 28,489**

* Proposed 2024 amount is derived by escalating the 2021 recorded value using the shared service index.
** Proposed 2024 working cash requirement is from the previous table (Table JG-5).
Note: Values may not add to totals due to rounding.

V. WORKING CASH DETAILS

This section contains additional details about each account used in the development of SDG&E's 2024 GRC working cash request.

A. Balance Sheet Accounts

These categories provide an overview of the main components of each operational cash requirement. For a full list of all the components, please see my workpapers (Ex. SDG&E-38-WP-R, Schedules P and Schedule P Detail).

1. Operational Cash Requirements

These accounts represent cash supplied by investors, and establish the operational working cash requirement.

a. Cash Balance – This represents a reasonable bank balance for SDG&E to operate economically and efficiently. SDG&E excluded cash balance from its working cash study pursuant to Decision (D.) 19-09-051.[6] (See line 1 of Tables JG-6, JG-7, and JG-8)

b. Other Receivables - This category includes Sundry Billing, Damage Claims Receivables, and Miscellaneous Receivables. (*See* line 2 of Tables JG-6, JG-7, and JG-8.) Some additional information on Sundry Billings and Damage Claims Receives are as follows:

- SDG&E's Sundry Billings process addresses customer requested construction projects, governmental programs, and marketing services. SDG&E does not charge interest on the balances.
- Damage Claims Receivables represent the amount that SDG&E has not collected from third parties for damage to utility property, such as power poles or gas pipelines.

c. Prepayments - This category includes accounts that SDG&E uses to make prepayments, which do not earn interest. These accounts include Prepaid General and Fire Insurance Premiums and Miscellaneous Payments. (*See* line 3 of Tables JG-6, JG-7, and JG-8.)

[6] *See* D.19-09-051 at 652-654.

d. Deferred Debits - This category reflects preliminary survey and investigation costs (costs incurred on potential capital projects, before they are added to construction work in progress and earn Allowance for Funds Used During Construction (AFUDC)), as well as other non-current prepaid items. (*See* line 4 of Tables JG-6, JG-7, and JG-8.)

2. Working Capital Not Supplied by Investors

The following accounts represent working cash supplied by sources other than utility investors, and thus reducing the total working cash requirement.

a. Employee Withholdings - This category includes the employee paid portion of benefit costs and taxes. (*See* line 6 of Tables JG-6, JG-7, and JG-8.)

b. Current and Accrued Liabilities - These accounts include the following items, among others (*see* line 7 of Tables JG-6, JG-7, and JG-8):

- Workers' Compensation Reserves represent estimated future costs payable to employees for work-related injuries already incurred. This amount was tax effected at a rate of 27.98% to reflect the fact that the revenues collected are taxed in the year received, and only a portion of this is available as working cash.
- Accrued Vacation was added to be in accordance with the deductions outlined in Chapter 3, section 25 of SP U-16-W.
- Goods Received and Invoices Received Clearing Accounts contain amounts that are payable to suppliers on purchases that will eventually be capitalized and included in rate base. Prior to being capitalized these purchases flow through these accounts and are therefore appropriately reflected within these payables accounts and captured for working cash purposes. This does not include accounts payable for O&M expenses, which are instead included in the lead/lag study.
- CPUC fees are included in workpaper SDG&E-38-WP-R, Schedule P-5.1, and average $4.2 million.
- Customer Deposits are excluded as a working cash item because the utility pays interest at the Federal Reserve published prime non-financial 3-month commercial paper rate. This treatment is consistent with SDG&E's previous GRC

decision[7] and with SP U-16-W whereby interest-bearing accounts are excluded from working cash. SDG&E is applying the same methodology it has advocated in past GRC's. SP U-16-W states under the Customers' Deposits heading that "[o]nly non-interest-bearing customer deposits are to be considered."[8]. Furthermore, the Customer Deposit balance can fluctuate depending upon the economy and building demand, and these balances do not have the same characteristics as permanent sources of financing.

- Customer Advances for Construction (CAC) are excluded because these amounts are already deducted from rate base; consequently, they are appropriately excluded from working cash.

B. Income Statement Accounts (Lead/Lag Working Cash Requirements)

The Income Statement accounts, as described below, consist of the following primary components that make up the lead-lag working cash requirement: (1) revenue lag, (2) expense lag, and (3) Test Year 2024 forecast expense. For a full list of all the components and how they are calculated, see my workpapers at Exhibit SDG&E-38-WP-R, Schedules C through O-3.

1. Revenue Lag (*See* line 1 of Tables JG-3, JG-4, and JG-5)

Revenue lag is included in SDG&E's income statement accounts (i.e. lead/lag working cash requirements). The 2021 actual for revenue lag was 48.60 days. Overall, revenue lag increased, primarily due to an increase in collection lag. The collection lag is shown on workpaper SDG&E-38-WP-R, Schedule C, and uses the "accounts receivable" (A/R) method as outlined in Chapter 3 of SP U-16-W. Table JG-9 below illustrates how total revenue lag days were derived:

Table JG-9 – Total Revenue Lag

Meter Reading Lag	15.21 days
Billing Lag	3.40 days
Collection Lag	29.18 days
Bank Lag	0.81 days
Total Revenue Lag	**48.60 days**

[7] D.19-09-051 at 655 and 661.

[8] SP U-16-W at Chapter 3, Section C, Paragraph 22.

a. Collection lag days are based upon an analysis of A/R balances and revenues for 2021. Annual revenues divided by the adjusted average monthly accounts receivable balance results in the average number of accounts receivable turnovers per year. Revenue collection lag is equal to 365 days divided by the average number of accounts receivable turnovers per year.

b. Billing lag reflects the lag from the date the meter is read until the time the bill is prepared and mailed to the customer. SDG&E performed a detailed query of all meter reads in 2021, which resulted in 3.40 lag days.

c. Meter reading lag is calculated from the midpoint of each month's consumption to when the meter is read. This study assumes that service is rendered evenly before and after the meter is read, which results in an average lag of 15.21 days.

d. Bank lag reflects the amount of days from the bank inflow until those funds become available, which results in 0.81 lag days.

2. Expense Lag Categories

Expense lag categories are included in SDG&E's income statement accounts (i.e. lead/lag working cash requirements). The 2021 actual for expense lag was 29.45 days for electric distribution, 28.18 days for gas service, and 28.15 days for generation, and is comprised of the following:

a. Purchased Commodities, Electric Generation – The ratemaking mechanisms associated with these costs presume collection of revenues as supply is consumed and payment of expenses when supply is delivered. *See* line 1 of Table JG-2 for summarized information, or see my workpaper (Ex. SDG&E-38-WP-R, Schedule D-1), for more detail. Components include:

- Electric Purchases (Non-California Independent System Operator [Non-CAISO]): 43.0 days and reflect electric purchases outside of CAISO.
- Electric Purchases (CAISO): 31.1 days based on the CAISO calendar. These are payments for purchases of electricity from CAISO. The days were calculated by subtracting the payment due date minus the service period midpoint. The average days were then calculated for all the service period days. Please *see* my workpaper (Ex. SDG&E-38-WP-R), Schedule D, for more detail.

b. Purchased Commodities, Core Gas – As with purchased electric costs, the ratemaking mechanisms associated with these costs presume collection of revenues as supply is consumed and payment of expenses when supply is delivered. The 2021 purchased gas costs were derived by summing the payments made each month. Lag days reflect the weighted-average of all core gas commodity payments. Each category has the total invoice amounts and its corresponding dollar weighted days. These dollar-days were calculated by multiplying the invoice amount by the number of lag days. The total dollar-days for all the categories were divided by the total invoice amounts to come up with the number of lag days for this category. *See* line 2 of Table JG-2 or my workpaper (Ex. SDG&E-38-WP-R, Schedule D-2), for more detail.

c. Purchased Commodities, Generation Fuel – As with purchased electric and gas costs, the ratemaking mechanisms associated with these costs presume collection of revenues as supply is consumed and payment of expenses when supply is delivered. The 2021 purchased generation costs were derived by summing the payments made each month. Lag days reflect the weighted-average of all core gas commodity payments. Each category has the total invoice amounts and its corresponding dollar weighted days. These dollar-days were calculated by multiplying the invoice amount by the number of lag days. The total dollar-days for all the categories were divided by the total invoice amounts to come up with the number of lag days for this category. *See* line 3 of Table JG-2 or my workpaper (Ex. SDG&E-38-WP-R, Schedule D-3), for more detail.

d. Payroll Expense – This category includes O&M and the O&M portion of clearing and balanced labor costs as detailed in the first three lines of workpaper (Ex. SDG&E-38-WP-R), Schedule E, and further described below. Payroll expenses are incurred every other Friday and withholding taxes are paid the day before payday to the outsourcing company that makes all tax payments on behalf of SDG&E; therefore, the resulting net lag is 13.2 lag days. *See* line 4 of Table JG-2 or my workpaper (Ex. SDG&E-38-WP-R, Schedule E), for more detail.

e. Federal Insurance Contributions Act Tax (FICA) – As with the tax portion of payroll expenses above, FICA (which includes Old-Age, Survivor's, and Disability Insurance ["OASDI"] and Medicare) expenses are paid the day before payday to SDG&E's payroll outsourcing company. *See* line 5 of Table JG-2 or my workpaper (Ex. SDG&E-38-WP-

R, Schedule F), for more detail.

f. Federal Unemployment Tax Act (FUTA) and State Unemployment Insurance (SUI) – These costs are paid electronically to SDG&E's payroll outsourcing company one month after each quarter end. This study reflects both FUTA and SUI, net of capital. *See* line 6 of Table JG-2 or workpaper (Ex. SDG&E-38-WP-R, Schedule F), for more detail.

g. Variable Pay / Incentive Compensation Plan (ICP) – This compensation is earned and reflected as an expense in the preceding year (2021), but paid out in the following year (2022). Please refer to the Compensation and Benefits testimony of SoCalGas and SDG&E witness Debbie Robinson (Exhibit SCG-25/SDG&E-29) for a description of ICP and benefits. *See* line 7 of Table JG-2 or workpaper (Ex. SDG&E-38-WP-R, Schedule G), for more detail.

h. Employee Benefits – This category includes health, welfare, retirement and other benefits offered to employees. *See* line 8 of Table JG-2 or my workpaper (Ex.SDG&E-38-WP-R, Schedule H), for more detail.

i. Goods and Services -The Goods and Services expense amount includes other expenses that have not been identified separately on the lead/lag study. *See* line 9 of Table JG-2 or workpaper (Ex. SDG&E-38-WP-R, Schedule I), for more detail.

j. Payments by Corporate Center – As described in the Corporate Center – General Administration testimony of Derick Cooper (Exhibit SCG-23/SDG&E-27), SDG&E pays for its share of expenses incurred by Corporate Center on behalf of the utility. The lead/lag days from corresponding expense categories in this lead/lag study are applied to Corporate Center payments to calculate overall lag days. *See* line 10 of Table JG-2 or workpaper (Ex. SDG&E-38-WP-R, Schedule J), for more detail.

k. Real Estate Lease Payments – Real Estate Leases are typically paid in advance and include such leases as office space, easements, and communication sites. Most of the 2021 lease payment dollars were paid monthly. The overall expense lag is negative because payments are made prior to the midpoint of the occupancy period. See line 11 of Table JG-2 or workpaper (Ex. SDG&E-38-WP-R, Schedule K), for more detail.

l. Materials Issued from Stores – This category includes materials issued for O&M, such as tools, pipes and other material. *See* line 12 of Table JG-2 or workpaper

(Ex. SDG&E-38-WP-R, Schedule L), for more detail.

m. Property/Ad Valorem/Pass-through Taxes – This category includes property/ad valorem taxes, franchise fees, and pass-through taxes collected on behalf of government agencies.[9]

Although pass-through taxes do not flow through the income statement, they are a source of working cash and are appropriately included in the lead/lag study. The taxes are collected from ratepayers, and payments are made later to taxing authorities. Most of these payments are made electronically. *See* line 13 of Table JG-2 or workpaper (Ex. SDG&E-38-WP-R, Schedule M-1 and M-2), for more detail.

n. Federal Income Taxes, Current – Federal tax expense lags are based on statutory due dates: April 15 of each year for the first quarter, June 15 for the second quarter, September 15 for the third quarter, and December 15 for the fourth quarter. The tax lag days of each payment are calculated between the midpoint of the year and the wire payment date. *See* line 14 of Table SDG&E-JG-2 or workpaper (Ex. SDG&E-38-WP-R, Schedule N-1), for more detail.

o. California Corporate Franchise Taxes, Current – State tax expense lags are based on statutory due dates of April 15, June 15, and December 15. The method of calculating the lag days is the same as for federal tax expenses. *See* line 15 of Table JG-2 or workpaper (Ex. SDG&E-38-WP-R, Schedule N-2), for more detail.

p. Federal/State Income Taxes, Deferred – This amount reflects any increase or decrease in deferred federal and state taxes that occurred in 2021. Accumulated deferred income taxes (ADIT) are deducted from rate base as cost-free funds available for investment. However, the financial recording of deferred income taxes does not produce cost-free capital and the funds do not become available until customers pay their bills. Therefore, the recorded amount of ADIT overstates the actual amount of cost-free funds that are available. The inclusion of deferred income taxes at zero lag days in the overall expense lag weighted-average corrects this condition, in the same manner as depreciation, described below. *See* line 16 of Table JG-2 or workpaper (Ex. SDG&E-38-WP-R, Schedule O-1), for more detail.

[9] A description of taxes is provided in the testimony of SDG&E witness Ragan Reeves (Exhibit SDG&E-37).

q. Depreciation – When properties are built, the cash cycle begins with cash outlays by investors and ends with cash recovery by investors through depreciation expense. In the interim, such funding is part of SDG&E's rate base. Depreciation expense reduces rate base, but SDG&E's recovery is delayed for the duration of the billing or revenue lag.[10] Weighting these dollars at zero expense lag recognizes that the investor funding has occurred, but it has not been recovered and, consistent with SP U-16-W, depreciation expense is given 0 lag days.[11] *See* line 17 of Table JG-2 or my workpaper (Ex. SDG&E-38-WP-R, Schedule O-2), for more detail.

r. Amortization of Insurance Premiums - SDG&E's insurance premiums are paid in advance and therefore result in a working cash need. Weighting these dollars at zero expense lag recognizes that the investor funding has occurred, but the funds have not been recovered. Amortization is weighted at zero expense lag for the same reason as previously described under depreciation. *See* line 18 of Table JG-2 or my workpaper (Ex. SDG&E-38-WP-R, Schedule O-3), for more detail.

3. TY 2024 Expense Components

TY 2024 Expense Components are included in SDG&E's income statement accounts (i.e., lead/lag working cash requirements). Forecasted expenditures for commodity costs, O&M non-commodity costs, franchise fees on commodity costs, pass-through taxes, and balancing account costs are utilized in the working cash computation. *See* line 7 of Tables JG-3, JG-4, and JG-5 or my workpaper (Ex. SDG&E-38-WP-R), Schedules B-1, B-2, and B-3, for more detail.

a. TY Forecasted Commodity Costs – For commodity costs, 2021 actual weighted-average lag days are applied to forecasted 2024 costs. See line 3b of Table JG-3, line 4b of Table JG-4, and line 5b of Table JG-5.

[10] A description of depreciation is provided in the testimony of SDG&E witness Dane A. Watson (Exhibit SDG&E-36).

[11] Expense lag for capital purchases is credited to customers through current and accrued liabilities in the balance sheet section of the working cash study. SP U-16-W, Chapter 3, Section F, Paragraph 40 ("Since 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.")

Those costs include:

- Forecasted gas service costs are computed by multiplying the forecasted 2024 monthly demand by the monthly weighted-average cost of gas (WACOG). The monthly WACOG reflects purchase and interstate transportation costs.
- Purchased electric costs are based on SDG&E's resource planning forecast.

b. Other TY Non-Commodity Costs - The 2021 overall weighted-average number of lag days for expenses excluding commodities is applied to projected test year O&M expenses. This category includes non-commodity O&M expenses, deferred income taxes, franchise fees on commodity, pass-through taxes, and balanced program costs. *See* line 6b of Tables JG-3, JG-4, and JG-5.

VI. CONCLUSION

The foregoing testimony describes the methodology used by SDG&E to prepare its GRC request for working cash in compliance with SP U-16-W, based on 2021 as-recorded costs and TY 2024 forecasts. This testimony relies on SP U-16-W as a guide to construct and present SDG&E's working cash requirements, and also presents the major drivers impacting the calculation.

My testimony demonstrates how balance sheet items contribute a total of $85.1 million and the lead/lag analysis contributes an additional $217.0 million towards SDG&E's forecasted 2024 working cash requirement. Finally, my testimony illustrates how the resulting working cash requirement is allocated between electric distribution, gas service, and generation.

This effort resulted in a total TY 2024 working cash request requirement for SDG&E of $302.1 million, which is reasonable and appropriate.

This concludes my prepared direct testimony.

VII. WITNESS QUALIFICATIONS

My name is Jack M. Guidi. My business address is 8330 Century Park Court, San Diego, California 92123.

I am employed by SDG&E as the Financial and Strategic Analysis Manager. My principal responsibilities include overseeing the financial analysis and development of revenue requirements for SDG&E projects and programs. I have held this position since July of 2020. Prior to this position, I was the Asset & Project Accounting Manager at SDG&E for three years. In that position, I was responsible for accounting for plant assets; billable projects (including new business accounting); development of rate base; capital expenditure planning; depreciation, and related policy and compliance. I have been employed by SDG&E and/or Sempra Energy since July 2007. In addition to the positions that I have listed above, I have served as Manager – Natural Gas Accounting at Sempra Infrastructure; Manager, Financial Reporting and Accounting Research at Sempra U.S. Gas & Power; Manager, SOX Compliance and Policies at SDG&E; and Manager, Accounting Research and Policies at Sempra Energy.

Prior to joining Sempra Energy, I was employed by PricewaterhouseCoopers, LLP as an Audit Manager. I am a Certified Public Accountant in the state of California. I continue to maintain an active status license by fulfilling the continuing professional education requirements.

I received a Bachelor of Science in Business Administration degree with an emphasis in Accounting from San Diego State University in December of 1999.

I have previously testified before the Commission.

APPENDIX A
GLOSSARY OF TERMS

APPENDIX A - Glossary of Terms

Acronym	Definition
ADIT:	Accumulated Deferred Income Tax
AFUDC:	Allowance for Funds Used During Construction
A/R:	Accounts Receivable
CA:	California
CAC:	Customer Advances for Construction
CAISO:	California Independent System Operator
CPUC:	California Public Utilities Commission
D.:	Decision
Ex.:	Exhibit
FICA:	Federal Insurance Contributions Act
FUTA:	Federal Unemployment Tax Act
GRC:	General Rate Case
ICP:	Incentive Compensation Plan
OASDI:	Old Age, Survivors, And Disability Insurance
O&M:	Operations and Maintenance
PBOPs:	Postretirement Benefits Other Than Pension
SDG&E:	San Diego Gas & Electric Company
SCG:	Southern California Gas Company
SP:	Standard Practice
SUI:	State Unemployment Insurance
TY:	Test Year
WACOG:	Weighted Average Cost of Gas
WP:	Workpaper

SDG&E 2024 GRC Testimony Revision Log –August 2022

Exhibit	Witness	Page	Line or Table	Revision Detail
SDG&E-38-R	Jack M. Guidi	JMG-ii	Second bullet	Changed “$302.9 million” to “$302.1 million”
SDG&E-38-R	Jack M. Guidi	JMG-1	Line 10	Changed “$302.9 million” to “$302.1 million”
SDG&E-38-R	Jack M. Guidi	JMG-1	Table JG-1	Revised table.
SDG&E-38-R	Jack M. Guidi	JMG-6	Line 7	Changed “20.91” to “20.90”
SDG&E-38-R	Jack M. Guidi	JMG-6	Table JG-2	Revised table.
SDG&E-38-R	Jack M. Guidi	JMG-6	Line 19	Changed “$153.0 million” to “$152.4 million” and “$42.1 million” to “$41.9 million”
SDG&E-38-R	Jack M. Guidi	JMG-8	Table JG-3	Revised table.
SDG&E-38-R	Jack M. Guidi	JMG-9	Table JG-4	Revised table.
SDG&E-38-R	Jack M. Guidi	JMG-10	Table JG-5	Revised table.
SDG&E-38-R	Jack M. Guidi	JMG-10	Line 13	Changed “$229.3 million” to “$228.7 million” and “$45.1 million” to “$44.9 million”
SDG&E-38-R	Jack M. Guidi	JMG-11	Table JG-6	Revised table.
SDG&E-38-R	Jack M. Guidi	JMG-12	Table JG-7	Revised table.
SDG&E-38-R	Jack M. Guidi	JMG-13	Table JG-8	Revised table.
SDG&E-38-R	Jack M. Guidi	JMG-22	Line 18	Changed “$217.8 million” to “$217.0 million”
SDG&E-38-R	Jack M. Guidi	JMG-22	Line 22	Changed “$302.9 million” to “$302.1 million”