TURN DATA REQUEST-038
SDG&E-SOCALGAS 2019 GRC – A.17-11-007/8
SDG&E_SOCALGAS RESPONSE PARTIAL #1
DATE RECEIVED: MARCH 28, 2018
DATE RESPONDED: APRIL 25, 2018

Data Requests: Regarding Pensions (Exh. SCG-31/SDG&E-29)

1. Please confirm that in the Towers Watson Actuarial reports, for example, 2016 SCG Company Pension Plan the "target normal cost" under funding, on page 3, Section 1, refers to an 85% funded ABO target.

Utility Response 01:

DO NOT ANSWER PER TURN'S EMAIL DATED APRIL 2, 2018.

Data Requests: Regarding Pensions (Exh. SCG-31/SDG&E-29)

2.1 Page 4 of the 2016 TW report SCG Company Pension states

> *Sempra Energy's funding policy is to contribute the minimum required contribution. Sempra Energy may increase its contribution above this amount if appropriate to its tax and cash position and the plan's funded status. We understand the sponsor may deviate from this policy based on cash, tax or other considerations.*
>
> *The minimum required contribution includes a contribution to cover the benefits expected to accrue in the coming year plus expenses expected to be paid from the trust in the coming year (target normal cost), as well as a 7-year amortization (with a somewhat longer amortization period for shortfall amortization bases established in any year for which funding relief was elected) of any funding shortfall (amortization installments) (See Section 2.4 for a break-down of the minimum required contribution into target normal cost and amortization installments). Thus, assuming that all actuarial assumptions are realized and do not change and the plan sponsor contributes the minimum required contribution each year (target normal cost plus amortization installments), the plan would generally be expected to be fully funded in 7 years, and the minimum required contribution would be expected to drop to target normal cost.*

b) Was this funding policy explicitly authorized by the CPUC? If yes, please provide the citation to the CPUC decision.

Utility Response 02.1:

b) The approved tariff for the Pension Balancing Account explicitly states: "Pursuant to D.16-06-054, SoCalGas will continue to adjust its future funding amounts for pension benefits based on the greater of the ERISA minimum required contribution or the amount necessary to maintain an 85% funding level." That tariff can be found online at: https://www.socalgas.com/regulatory/tariffs/tm2/pdf/PBA.pdf.

Utility Response 02.1 Continued:

As stated in the Direct Testimony of Debbie Robinson (Exhibit SCG-31/SDG&E-29) on page DSR-7, "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." The citation to the Companies' TY 2012 decision is D.13-05-010.

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2.1 Page 4 of the 2016 TW report SCG Company Pension states

Sempra Energy's funding policy is to contribute the minimum required contribution. Sempra Energy may increase its contribution above this amount if appropriate to its tax and cash position and the plan's funded status. We understand the sponsor may deviate from this policy based on cash, tax or other considerations.

The minimum required contribution includes a contribution to cover the benefits expected to accrue in the coming year plus expenses expected to be paid from the trust in the coming year (target normal cost), as well as a 7-year amortization (with a somewhat longer amortization period for shortfall amortization bases established in any year for which funding relief was elected) of any funding shortfall (amortization installments) (See Section 2.4 for a break-down of the minimum required contribution into target normal cost and amortization installments). Thus, assuming that all actuarial assumptions are realized and do not change and the plan sponsor contributes the minimum required contribution each year (target normal cost plus amortization installments), the plan would generally be expected to be fully funded in 7 years, and the minimum required contribution would be expected to drop to target normal cost.

a) How long has this been the Company's funding policy?

b) Was this funding policy explicitly authorized by the CPUC? If yes, please provide the citation to the CPUC decision.

c) It is TURN's understanding that normal cost (related to ABO) is the pension cost of service accrued during a particular year with the assumption that wages for all employees will remain flat until retirement, while service cost (related to PBO) is additional pension expense accrued during a particular year of service, taking into account actuarial assumptions, including wage escalation. Is this understanding correct? If not, please explain the difference between the normal cost and the service cost with respect to wage escalation.

d) Does TW incorporate wage escalation into its actuarial forecasts? If so, please explain this seeming discrepancy, with the statement that after 7 years the plan would be fully funded.

e) Please provide any wage escalation rates used to calculate the the revenue requirement for pensions from historical wage data?

f) For which years did the Company fund to the prescribed policy quoted above.

Utility Response 02.1:

a) The Company pension plans became subject to the minimum funding standards of the Employee Retirement Income Security Act of 1974 (ERISA) in 1976, which was later modified by the Pension Protection Act of 2006 (PPA).

   Based on historical information, funding was based on the minimum ERISA funding standards since 1986.

b) To be provided when complete.

c) In the paragraphs referenced above, "Target normal cost" refers to the present value of the benefit expected to accrue in the following year under the PPA funding rules and is not related to the ABO liability under GAAP. It does include the impact of wage increases for the following year. It is also calculated using discount rates that also reflect the stabilization legislation described in SCG-31/SDGE-29 on pages DSR-9 to DSR-13, which are currently significantly higher than market interest rates, resulting in an understatement of the value of benefits provided.

d) The forecasts assume that the Salary Scale assumptions used for the valuation are realized during the projection period. Given that there is a wage increase component to the "Target normal cost" under the PPA funding rules, we are unsure as to the nature of the 'discrepancy' that is being described. However, it is important to note that the "fully funded" reference in the paragraph above refers to Funding Target Liability which also reflects interest rate stabilization, and is materially below the market value of the liability. As discussed in SCG-31/SDGE-29, this is the main reason why the current funding policy should be updated.

e) Salary Scale assumptions are described starting on page 30 and again starting on page 39 of the Southern California Gas Company Pension Plan actuarial valuation report for 2016.

f) See response to a) above.

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2.2 The Company states on page 6 of the TW 2016 SCG Company Pension Plan report that in 2015, there was a funding surplus of $55.34 million. Does this mean that the plan was fully (overfunded by $55.34 million) funded in 2015? If not, please explain, what this means, and the impact on the pension request.

Utility Response 2.2:

While there was a surplus on a PPA Funding basis in 2015, this is based on interest rates under the stabilization legislation described in SCG-31/SDGE-29 on pages DSR-9 to DSR-13. The effect of this legislation is to artificially inflate interest rates well above market rates, which significantly understate the liabilities when compared to the market liability (without stabilization). The Funded Position reconciliation on page 10 of the same report reflects the funded position on a GAAP basis, which a better measure of the actual (market) funded position of the plan. This shows that the deficit increased from $644.4 million to $720.4 million during 2015, an underfunding of the plan.

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3) RE: 2016 TWT SCG Company Pension Plan report -Please explain the difference between the calculation of actuarial value of assets and the fair value of assets? (AVA: $1,626,526,741 and FVA: $1,537,099,076

Utility Response 03:

The development of the 2016 actuarial value of assets is shown on page 17 of the report, and a written description of the method is included on pages 34 and 35. A side-by-side comparison provides the different elements and assumptions used in the two different methodologies.

4) RE: 2016 TWT SCG Company Pension Plan report pg 3 (ASC 960)– What is the difference between the Plan accounting discount rate (6.50%) and the discount rate (4.10%) on page f-91 of the Company's 10k?

Utility Response 04:

The development of the 2016 actuarial value of assets is shown on page 17 of the report, and a written description of the method is included on pages 34 and 35. A side-by-side comparison provides the different elements and assumptions used in the two different methodologies.

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5) RE: 2016 TWT SCG Company Pension Plan report pg 3: Where is the accounting for the VERP incentive and payout on page 3. Please provide detail (dollars, year, category, charge, amortization component – if any).

Utility Response 05:

The Voluntary Retirement Enhancement Program of 2016 (VREP) established Healthcare Reimbursement Accounts (HRAs) in the amount of $100,000 under the Southern California Gas Company Postretirement Welfare Plan for the 163 employees who accepted the program. VREP did not impact the amount of benefit provided under the Southern California Gas Company Pension Plan.

6) RE: 2016 TWT SCG Company Pension Plan report pg 3: Why is pension cost of $82 million different from service cost of $67 million 2017 10k pg F 86. If there are multiple components, please detail.

Utility Response 6:

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7) RE: 2016 TWT SCG Company Pension Plan report pg 6: Please explain "unexpected – non investment experience", both the number $19,571,153, and the interpretation of the category.

Utility Response 7:

Actuarial liabilities are based on various demographic and economic assumptions, as documented on page 30 through page 34 of the report. To the extent that actual experience differs from such assumptions, there are actuarial gains/losses which are typically captured annually when updated census data is collected.

For example, one main assumption is mortality. If fewer individuals die than was expected in the valuation, this creates a demographic loss as benefits continue to be paid to those participants (vs. expectations that benefits would stop). Other assumptions include rates of termination, retirement, disability and salary scale.

8) RE: 2016 TWT SCG Company Pension Plan report pg 26: What is a "VCP filing"?

Utility Response 8:

The IRS has a Voluntary Correction Program (VCP), which provides an avenue for Plan Sponsors to make the IRS aware of plan documentation or administrative issues, and to propose/agree upon correction methods to avoid plans losing their tax-favored status. More information is available at: https://www.irs.gov/retirement-plans/voluntary-correction-program-general-description

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9) RE: 2016 TWT SCG Company Pension Plan report pg 6: Please explain the rationale for the 10% corridor policy in footnote ** and provide any relevant order that allows it.

Utility Response 9:

We believe this question refers to the footnote on page 26 of the report (and not page 6), and as such are answering the question based on that assumption.

The amortization method described (also on page 43 of the report) represents the minimum gain/loss amortization from accumulated other comprehensive income required under US GAAP rules. It can also be found in ASC 715-30-35-24.

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10) For the past 10 years, please provide the amount of

a) Executive compensation included in pension service cost and

b) Board of directors' compensation included in pension service cost

Utility Response 10:

a) Executives participant in the qualified pension plans under the jurisdiction of the Employment Retirement Income Security Act (ERISA) guideline as any other employee, and no special executive benefits are provided through the plan. Annual compensation used in determining benefits payable from the plan for all employees including executives is limited by Section 401(a)(17) of the Internal Revenue Code. This limit is $275,000 for 2018.

b) Members of the Board of Directors are not eligible for the plan, unless they are also a regular employee of the Company, and benefit in the same manner as any other employee.

11) RE: SDGE -29-WP: Please explain how the FAS cost (eg. p. 11, $29.05 million for 2019) and service cost (pg 12 @ $31.7 million for 2019) fundamentally and technically differ.

Utility Response 11:

The service cost is just one component of pension costs under GAAP. Please refer to page 22 of the 2016 SDG&E Company Cash Balance Plan actuarial valuation report for a list of the various components of total pension cost under GAAP (FAS cost).

12. For both SDGE, SoCal, please provide:

a) Annual balances in the Pension Balancing Account, total (electric and gas) for each company for each year since the inception of the PBA through 2017

b) Pension amount approved in rates for pensions for each year 2002-2017.

c) Amount contributed for Plan year for each year 2002-2017. (For example: it is TURN's understanding that the Company may have up to September 2017 to make contributions for 2016. If that is true, please align the contributions with the Plan year. If that is incorrect, please correct TURNs understanding.)

d) Advice letters analogous to 2017 SDG&E AL 3137-E (including, in particular, attachment C) for each year since the inception of the PBA through 2017

Utility Response 12:

a) For SDG&E, see attachment "TURN DR 38 Q12a SDG&E Pension Balancing Account balances.xlsx"

For SoCalGas annual balances are found on the "ending Balance" line in each of the respective attachments:

SCG OCT 15 2010 AL_2010 PBA_Attach E.xls

SCG OCT 15 2011 AL_2011 PBA_Attach E.xls

SCG OCT 15 2012 AL_2012 PBA_Attach E.xls

SCG OCT 15 2013 AL_2013 PBA_Attach E.xls

SCG OCT 15 2014 AL_2014 PBA_Attach E.xls

SCG OCT 15 2015 AL_2015 PBA_Attach D.xls

SCG OCT 15 2016 AL_2016 PBA_Attach D.xls

SCG OCT 15 2017 AL_2017 PBA_Attach D.xls

b) For SDG&E, see attachment "TURN DR 38 Q12 SDG&E Pension Balancing Accounts 2005-2017.xlsx"

For SoCalGas, please refer to the attachments provided above in the resonse to 12.a. In those attachments there is a line item called "Authorized Cost" that reflects the annual authorized approved.

c) Previously responded.

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DATE RESPONDED: MAY 4, 2018

Utility Response 12 Continued:

d) Advice letters containing the "Attachment C" as referenced in the question are only available for the years 2009 forward. In D.09-09-011 The Pension Balancing Account was granted authority to be recovered via this advice letter process. Prior to this authority, this attachment was not included. Please see the following attachments:

<u>SDG&E:</u>

2009 2119-E

2009 1896-G

2010 2201-E

2010 1985-G

2011 2298-E

2011 2067-G

2012 2412-E

2012 2146-G

2013 2532-E

2013 2237-G

2014 2664-E

2014 2332-G

2015 2807-E

2015 2428-G

2016 2988-E

2016 2523-G

2017 3137-E

2017 2619-G

Utility Response 12 Continued:

SCG:

2009 4025-A

2010 4156-A

2011 4287

2012 4411

2013 4550

2014 4700

2015 4877

2016 5054

2017 5202

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12) For both SDGE, SoCal, please provide:

a) Annual balances in the Pension Balancing Account, total (electric and gas) for each company for each year since the inception of the PBA through 2017

b) Pension amount approved in rates for pensions for each year 2002-2017.

c) Amount contributed for Plan year for each year 2002-2017. (For example: it is TURN's understanding that the Company may have up to September 2017 to make contributions for 2016. If that is true, please align the contributions with the Plan year. If that is incorrect, please correct TURNs understanding.)

d) Advice letters analogous to 2017 SDG&E AL 3137-E (including, in particular, attachment C) for each year since the inception of the PBA through 2017

Utility Response 12:

a) To be provided when complete.

b) To be provided when complete.

c) While it is true that the Company has up to September following the Plan Year to make the contributions for that Plan Year, the Company has historically made all Plan Year contributions within the Plan Year itself. Because contributions made to the plans equal the amount recoverable (including any adjustment via the Balancing Acocunt), amounts recovered during a calendar year are also contributed to the trust in that calendar year.

The following table shows contributions for the requested periods (in $ million):

Year	SDG&E	SoCalGas
2002	0.0	0.0
2003	17.2	1.3
2004	18.4	0.0
2005	20.1	0.0
2006	29.3	0.0
2007	26.2	0.0
2008	36.5	0.0
2009	56.8	75.1

2010	56.4	69.3
2011	67.5	89.1
2012	44.1	42.8
2013	46.8	56.1
2014	48.7	26.6
2015	0.0	4.7
2016	0.0	70.4
2017	19.6	92.2

d) To be provided when complete.

13) In 2017 SDG&E AL 3137-E, attachment C

a) please explain the meaning of "authorized cost" and "recorded cost" and explain why they are different

b) is the interest assumption, at the bottom of the table the interest on the balancing account, that which is credited to either ratepayers or the Company, depending on the sign of the balance account?

c) Is the interest assumption, at the bottom of the table, an annual or monthly percentage?

Utility Response 13:

DO NOT ANSWER PER TURN'S EMAIL DATED APRIL 2, 2018.

14) Please provide the Attachment C to SDG&E AL 3137-E, and equivalent attachments for all gas and electric advice letters of SDG&E and SoCalGas from 2006-2017, in electronic spreadsheet format if available.

Utility Response 14:

See attachments in the response to 12 a.

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15) Re. SDG&E-29, pg DSR 4, the Company states: "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." Does the Company include this 7.5% of eligible earnings in its revenue requirement? That is, if eligible earnings were $100,000/yr for a particular employee would the revenue requirement for that FTE include also $7,500, or something similar? Alternatively, is that a deferred expense, or amortized expense that is collected through the revenue requirement annually in pension expense only? Please explain fully how the Company recovers that amount, in full, or in part, and provide references to where that is accounted for.

Utility Response 15:

The Cash Balance benefits referred to above are valued as part of the actuarial valuation of the respective defined benefit program. While the benefit is defined in terms of an account, individual participant accounts do not exist, and the plan has a pool of investable assets consistent with a traditional qualified defined benefit plan.

The Cash Balance benefits are part of the benefit formulas prescribed by the Plan Documents, and are reflected when determining projected benefits payments from the Plan. These expected benefit payments are discounted to determine liabilities and costs of accruals, which in turn feed into the calculation of the minimum required contribution (as discussed in question 2).

Therefore, the Cash Balance credit ($7,500 in the example from the question) is not included as an additional revenue requirement as it is reflected pension plan obiligation that is funded by the requested pension contribution amount.

16) Is the Company required, by law, to report:

a) Service cost to its investors on its
   - i) Balance sheet
   - ii) 10k in a footnote

b) Normal cost on its
   - i) Balance sheet
   - ii) 10k in a footnote

c) Shareholder contribution on its
   - i) On its balance sheet
   - ii) 10k in a footnote

d) Pension cost on its
   - i) balance sheet
   - ii) 10k in a footnote

Utility Response 16:

SoCalGas and SDG&E object to this request to the extent it seeks a legal conclusion. Subject to and without waiving this objection, SoCalGas and SDG&E state as follows:

Assuming that "by law" also includes financial statement requirements (such as SEC requirements), then

a) i) No, ii) Yes

b) Interpreting the question to mean the Funding Target Normal Cost (see question 2.1), i) No, ii) No

c) Total contributions are shown in a footnote to 10k filing.

d) i) No, ii) Yes

Note that in the footnote to the 10k, amounts may be aggregated with other plans of the same nature.

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SDG&E_SOCALGAS RESPONSE PARTIAL 2
DATE RECEIVED: MARCH 28, 2018
DATE RESPONDED: MAY 4, 2018

17) Re. pg 14 of D.13-05-010 (Sempra TY 2012 rate case decision):

> *The Applicants propose that any shortfall or surplus from the 2009 recorded level of* ***expense*** *will be recorded in the pension and/or PBOP balancing accounts for recovery in the subsequent year. This second proposal will have the effect of keeping pensions and PBOP at 2009 levels, which will delay for at least one year the recovery of the projected $35 million pension funding increase and $16 million PBOP funding increase.*

Please confirm and explain:

(1) is this "expense" the pension expense that is recorded in the balancing account advice letter. Please identify where, i.e. the line item

(2) is this expense reported in the Company's 10-k?

(3) is this expense always equal to the Company's contribution?

(4) For 2016, would this number be equal to or related to the amount of $82 million 2016 TWT SCG Company Pension Plan report pg 3

Utility Response 17:

1) "Expense" in this context means the amount of allowable cost for each plan.

   For pension, it is the minimum required contribution, but no less then the amount needed to maintain an 85% AFTAP. This corresponds to the actual contribution amount made by the Company for the period.

   For PBOP, it is the ASC 715-60 expense, limited by the maximum deductible amount, but no less than $0.

   The expense booked to the balancing accounts can be found in the attachments provided in the response to question 12 above.

2) Previously responded

3) Previously responded

4) Previously responded

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17) Re. pg 14 of D.13-05-010 (Sempra TY 2012 rate case decision):

> *The Applicants propose that any shortfall or surplus from the 2009 recorded level of **expense** will be recorded in the pension and/or PBOP balancing accounts for recovery in the subsequent year. This second proposal will have the effect of keeping pensions and PBOP at 2009 levels, which will delay for at least one year the recovery of the projected $35 million pension funding increase and $16 million PBOP funding increase.*

Please confirm and explain:

(1) is this "expense" the pension expense that is recorded in the balancing account advice letter. Please identify where, i.e. the line item

(2) is this expense reported in the Company's 10-k?

(3) is this expense always equal to the Company's contribution?

(4) For 2016, would this number be equal to or related to the amount of $82 million 2016 TWT SCG Company Pension Plan report pg 3

Utility Response 17:

1) To be provided when complete.

2) Yes, in footnotes, although multiple plans may be aggregated.

3) Yes.

4) No. It would be the $70.4 million from page 5 (sum of all four amounts).

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18) Re. SDG&E-29, pg DSR 4:

> *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. (emphasis added)*

It is TURN's understanding that: (1) the target normal cost referenced here is not disclosed to the company's shareholders, either voluntarily or due to any legal or financial accounting requirement, on the 10-k or any other disclosure ; (2) the funding shortfall refers to any funded level below the 85% ABO target.
Please confirm or refute and explain these two understandings.

Utility Response 18:

DO NOT ANSWER PER TURN'S EMAIL DATED APRIL 2, 2018.

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DATE RESPONDED: MAY 7, 2018

Data Requests: Regarding Pensions (Exh. SCG-31/SDG&E-29)

19) Re. SDG&E-29, pg DSR 33: The company states: 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.

a) When Towers Watson provides annual actuarial forecasts and reports to the Company, does it provide data/charts similar to this?

b) Please provide analogous charts/excel spreadsheets for each of the past 10 years (i.e. 10 year service cost forecasts).

c) Please provide the 10 year normal cost forecasts from each of the past 10 years (in other words, the 10-year forecast of vintages 2007-2017).

Utility Response 19:

a) No, those charts are only provided every three years for purposes of GRC proceedings.

b) The charts provided in the 2008, 2012, and 2016 GRC filings are provided and the related data are provided in attachment “TURN-DR-038 Q19b - SDGE 2008-2012-2016 GRC Proj PBOP Exp.xlsx” and “TURN-DR-038 Q19b - SCG 2008-2012-2016 GRC Proj PBOP Exp.xlsx”.

c) This information is not readily available. Only total expenses are available and service costs are not broken out separately.

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19) Re. SDG&E-29, pg DSR 33: The company states: 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.

a) When Towers Watson provides annual actuarial forecasts and reports to the Company, does it provide data/charts similar to this?

b) Please provide analogous charts/excel spreadsheets for each of the past 10 years (i.e. 10 year service cost forecasts)

c) Please provide the 10 year normal cost forecasts from each of the past 10 years (in other words, the 10-year forecast of vintages 2007-2017).,.

Utility Response 19:

a) Those charts are only provided every three years for purposes of GRC proceedings.

b) To be provided when complete.

c) This information is not readily available. Only total expenses are available and service costs are not broken out separately.