TURN DATA REQUEST-065
SDG&E-SOCALGAS 2019 GRC – A.17-11-007/8
SDG&E_SOCALGAS RESPONSE
DATE RECEIVED: APRIL 26, 2018
DATE RESPONDED: MAY 10, 2018

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

1. Re. p. DSR-12, lines 10-12 and Response to DR 005-07:
   a. Please explain what is meant by "up to a dollar limit," providing specific numerical limits where appropriate.
   b. Please calculate the "cap" for SDG&E and SCG for 2017, 2018 and 2019, based on the actual and forecast number of participants.
   c. Is the "unfunded liability" (DR 005-07) equal to the "shortfall." If not, please explain what is the "unfunded liability" and provide the numbers for SDG&E and SoCalGas for 2019.
   d. Please provide the 2019 payment to the PBGC due to "premiums and higher accrued interest costs" for SoCalGas and SDG&E (separately) given the forecasts potential level of unfunded liability and/or or the number of participants presented in the applicants' proposals. Please explain which cap would apply – the cap based on the unfunded liability or the number of participants, for calculating the premiums.
   e. Please provide the approximate PBGC premiums (dollar amount) for 2019-2023, separately for SDG&E and SCG, assuming i) the proposed 7-year amortization of the shortfall; and 2) assuming no amortization of the shortfall.

Utility Response 1:

The following information is intended to answer all items above.

PBGC premium rates are set by statute (most recent change from the Bipartisan Budget Act of 2015). Annual PBGC premiums are equal to sum of 1. and 2.:

1. A per participant flat rate premium. For example, for 2017, the flat rate premium is $69 per participant. The flat premium rate increases every year (it is $74 for 2018).
2. A variable rate premium ("VRP"). VRP is equal to the lesser of a. and b.:
   a. A percentage of unfunded liabilities (where liabilities are based on PBGC statutory assumptions). For 2017, the percentage was 3.40%, and it increases every year (it is 3.8% for 2018)
   b. A per participant VRP dollar cap. For 2017, the per participant VRP cap is $517, and it also increases every year (it is $523 for 2018).

The attached table shows detailed premium estimates based on new funding policy and prior funding policy. 2017 amounts are actual, 2018 – 2023 are projected. Shaded cells indicate years in which the VRP cap is projected to apply.

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2. Please provide, for the years 2019-2021 forecasted pension expense with the same actuarial assumptions that WTW used to prepare the forecasts on page 12 of 26 of the workpapers for DSR 29/31.

Utility Response 2:

This information is included as "FAS Cost (baseline)" on page 11 of the Workpapers SCG-31-WP and SDGE-29-WP.

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3. Please provide, for the years 2019-2021 forecasted pension expense with the same actuarial assumptions that WTW used to prepare the forecasts on page 12 of 26 workpapers DSR 29/31, with the exception that the expected rate of return on plan assets is 10%.

Utility Response 3:

Forecasts under alternative assumption sets are not presently available. That said, we are providing TURN with an electronic version of the existing forecast results in Attachments "TURN-SEU-065-Q3 SDGE GRC Pension WP" and "TURN-SEU-065-Q3 SCG GRC Pension WP", which may assist in estimating the impact of the above assumption change on the forecasts.

Please note that our response to question 34 of Data Request TURN-SEU-005 provided the basis for the assumed investment returns of 6.5%. Per the table included in that response, and given the asset allocation and current/ expected long-term economic environment, an annual return of 10% over a period of 10 years falls well above the 90th percentile (which renders a return of 9.3%). This means that the probability of such an outcome is less than 10%, and therefore very unlikely.

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4. Please provide the estimated value of the prepaid pension asset and the associated deferred tax benefit for the years 2019-2025 under the Company's current proposal to contribute 1/7 of the PBO shortfall over each of the next 7 years.

Utility Response 4:

There is no prepaid pension asset and associated deferred tax benefit.

To determine the the tax treatment of the prepaid pension assets (liability) arising from the difference between the pension expense and actual contributions, the offsetting deferred regulatory pension liability (asset) must also be included because they are not decoupled for book and tax purposes. The reason for including the deferred regulatory pension liability (asset) in the calculation of tax impact of the prepaid pension asset is as follows:

For book purposes there is regulatory pension asset on the balance sheet that equals the net pension liability. This is dictated by GAAP ASC 980, because

(1) recovery of pension expense is subject to 2-way balancing, and

(2) all pension expense (i.e., contributions) are 100% ratepayer funded.

Also, under GAAP ASC 980, the annual pension expense is equal to the pension contributions and not the pension expense calculated under GAAP ASC 715. There is a regulatory adjustment reflected in the companies' 10-Q and 10-K employee benefit disclosure that adjusts the ASC 715 expense to the ASC 980 expense. The treatment is the same for tax purposes.

Because the prepaid pension asset (net pension liability) equals the deferred regulatory pension liability (which reflects future income tax on pension recovery revenue), they are netted together for tax purposes and the net amount is zero.