TURN DATA REQUEST-032
SDG&E-SOCALGAS 2019 GRC – A.17-11-007/8
SDG&E_SOCALGAS RESPONSE PARTIAL #1
DATE RECEIVED: MARCH 19, 2018
DATE RESPONDED: APRIL 4, 2018

Data Requests: Regarding Pensions (Exh. SCG-31)

1. RE: p. DSR-2:
    a. When did the Company start funding to the AFTAP/ minimum ERISA?
    b. RE: DSR-2: Prior to funding to the AFTAP/ERISA minimum, what did the Company fund to?

Utility Response 01:

a) The Company pension plans became subject to the minimum funding standards of the Employee Retirement Income Security Act of 1974 (ERISA) in 1976.

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

   The Adjusted Funding Target Attainment Percentage (AFTAP) was one of the changes included in the Pension Protection Act of 2006. The Company's actuary, Willis Towers Watson, files an annual AFTAP certification showing the plan's percentage of assets compared to liabilities. Benefit restrictions apply should the AFTAP fall below 80%.

b) The Company does not have pre-ERISA historical records.

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SDG&E_SOCALGAS RESPONSE PARTIAL #2
DATE RECEIVED: MARCH 19, 2018
DATE RESPONDED: APRIL 4, 2018

Data Requests: Regarding Pensions (Exh. SCG-31)

2. Please provide all presentations or reports that Towers Watson provided or made to the Company in 2002, 2004, 2006, and 2017.

Utility Response 02:

In addition to preparation of financial reporting schedules related to pension benefits, as reflected in the Company's financial statements, the Company's actuary (Willis Towers Watson) generally prepares the following reports on an annual basis:

1. Assumption report prior to completion of the final actuarial valuation reports
2. Pension and postretirement health plan valuations [see response to TURN-SEU-DR-005-Q1]
3. Pension Plan Funding Notice (since 2009)
4. AFTAP certifications

In addition, other nonrecurring retirement-related reports are prepared by the actuary for the Company's plans.

The following attachments are provided:

1. TURN-SEU-DR-032_Q2 2006 Actuarial Assumption Review
2. TURN-SEU-DR-032_Q2 2017 Actuarial Assumption Review
3. TURN-SEU-DR-032_Q2 2017 SCG Annual Funding Notice
4. TURN-SEU-DR-032_Q2 2017 SDG&E Annual Funding Notice
5. TURN-SEU-DR-032_Q2 2017 AFTAP Certification – SDG&E
6. TURN-SEU-DR-032_Q2 2017 AFTAP Certification – SCG
7. TURN-SEU-DR-032_Q2 2017 Funding Policy Discussion [2017]

3. Please provide all presentations to the Board of Directors and/or to shareholders which relate to pensions from 2002 to present.

Utility Response 03:

SoCalGas and SDG&E object to this request on the grounds that it is overbroad, unduly burdensome, out of scope, not reasonably tailored to lead to the discovery of admissible evidence, and on grounds that the burden, expense and intrusiveness of the request outweighs the likelihood that it will lead to the discovery of admissible evidence. SoCalGas and SDG&E also object to the extent that this request seeks information that would affect employee privacy and confidentiality rights. SoCalGas and SDG&E note that pension information is reported in the Company's quarterly and annual financial statements which are available to all shareholders. SoCalGas and SDG&E also provide extensive information regarding their pension and PBOPs policies via the Direct Testimony of Debbie Robinson (SCG-31/SDG&E-29), and have provided TURN with their annual actuarial valuation reports for the identified years, in their response to Data Request TURN-SEU-DR-005 Q1.

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DATE RESPONDED: APRIL 4, 2018

4. Please provide the average age of pension beneficiaries for each year 2000-2017.

Utility Response 04:

Annual actuarial valuation reports for Plan Years 1999 thru 2017 were previously provided in the Company's response to Data Request TURN-SEU-DR-005 Q1. Each actuarial valuation report includes a detail schedule of plan participants including average ages.

5. A description of the maximum contribution is included starting at line 4 of page DSR-23 of SCG-31/SDG&E-29- The company states that "as this amount is extraordinarily large for both Pension Plans.... It is not relevant...:" Does the Company have the authority to authorize a contribution equal to the magnitude of "this amount". If not, why not? Please specify the policy restricting the company.

Utility Response 05:

The Company's long-standing funding policy reflects the minimum funding standards under ERISA. Pursuant to this policy, and the applicable regulatory decisions issued by the CPUC, funding at levels in excess of the ERISA minimum have not been implemented.

6. Please verify that the Company has been funding to the 85% target based on the accumulated benefit obligation (please specify the period of time that this practice has been in place).

   a. Please explain why the company chose the 85% target

   b. Please explain why the company did not choose to fund to a PBO target (TURN understands that a PBO target is part of the current proposal)

Utility Response 06:

As a point of clarity, the 85% target is not the accumulated benefit obligation (ABO), but rather, the Funding Target Liability as defined by the IRS for funding purposes. As a result of the recent rounds of funding relief (see response to Q6b) below), the funding target liability is significantly lower than the ABO used for U.S. GAAP purposes.

a) The Company chose a funding target of 85% to ensure benefit restrictions would not impact benefit distributions to retiring employees.

b) The Company maintained its long-standing policy of funding based on the minimum ERISA standard. In the absence of federal legislation (i.e., 2012 Moving Ahead for Progress in the 21st Century Act, the Highway and Transportation Funding Act of 2014 and the Bipartisan Budget Act of 2015) that delayed attaining full funding status under the Pension Protection Act of 2006, the minimum required contribution would have significantly increased the funding levels in the plans.

7. Please explain any differences between Chart DSR-12 and Chart DSR-20, and between Chart DSR-13 and Chart DSR-21, other than the fact that 12&13 are pension and 20&21 are PBOP.

Utility Response 07:

There are no other differences except as noted (some charts are pension, some are PBOP). The charts show the historical and projected funded percentage of the plans, that is, the ratio of fair value of assets to US GAAP benefit obligations.

8. It is TURN's understanding that Charts DSR 11 and DSR 12 are contingent on the funding target percentage and the assumed obligation (i.e. ABO vs PBO).

   a. Please confirm that DSR-11 and DSR-12 assumes 85% ABO funding target

   b. Please provide the analogous graph with 100% PBO funding target.

Utility Response 8:

a. No, as clarified in response to Q6, none of the charts reflect contributions to maintain a funding level of 85% ABO, but rather, existing recovery provisions through 2018 and proposed recovery provisions for 2019 onward.

b. Charts DSR-11 and DSR-12 do reflect a contribution pattern targeting attaining 100% PBO funded status (over a 7-year period).

9. For Towers Watson:

   a. Please provide alternate actuarial forecasts analogous to p. 15, 16, 25 out of 26 for workpapers SDG&E WP/Witness D. Robinson for the following two scenarios, separately each for SoCalGas and SDG&E:

      i. Assume 90% PBO funding target (that is the shortfall to 90% PBO is made up in one year, the company maintains 90% PBO funding)

      ii. Recover the shortfall over 7 years to 90% PBO plus the annual service cost for 90% PBO funding.

Utility Response 9:
SoCalGas and SDG&E object to this request as seeking additional analysis and information that does not exist, rather than discoverable information, and on grounds that the burden and expense of the request outweighs the likelihood that it will lead to admissible evidence. Subject to and without waiving this objection, SoCalGas and SDG&E state as follows:
The Company will request a quote from Willis Towers Watson so that TURN can decide whether to incur the cost of providing these alternate actuarial forecasts.

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SDG&E-SOCALGAS 2019 GRC – A.17-11-007/8
SDG&E_SOCALGAS PARTIAL RESPONSE #3
DATE RECEIVED: MARCH 19, 2018
DATE RESPONDED: APRIL 11, 2018

Data Requests: Regarding Pensions (Exh. SCG-31)

10. How is the risk free rate of return set?

a) For example, on the Excel version of the 2014 year end 10-k in table 154.

b) Is that the same return and methodology that is set for the pension balancing account? Please explain why or why not?

Utility Response 10:
SoCalGas and SDG&E object to this request, to the extent that it assumes incorrect facts and seeks information that is outside the scope of testimony, publicly available in the referenced documents and equally available to TURN. Subject to and without waiving this objection, SoCalGas and SDG&E state as follows:

SoCalGas and SDG&E understand the "risk-free rate of return" to be a theoretical rate of return on an investment with zero risk; i.e., a risk-free rate of return that does not exist. SoCalGas and SDG&E believe that this request means to ask for the assumed rate of return under both (a) and (b) scenarios, and have assumed this meaning for the purpose of the responses below.

a) The description of the methodology used to determine the Rate of Return Assumption for U.S. GAAP purposes is provided on page 330 (in the pdf pagination) in Note 7 of the Sempra Energy 10k filing and is as follows.

Rate of Return Assumption

The expected return on assets in our pension plans and other postretirement benefit plans is based on the weighted-average of the plans' investment allocations to specific asset classes as of the measurement date. We arrive at a 7 percent expected return on assets by considering both the historical and forecasted long-term rates of return on those asset classes. We expect a return of between 7 percent and 9 percent on return-seeking assets and between 3 percent and 5 percent for risk-mitigating assets. Certain trusts that hold assets for the SDG&E … other postretirement benefit plans are subject to taxation, which impacts the expected after-tax return on assets in these plans.The expected return on assets in our pension and PBOP plans is based on the weighted-average of the plans' investment allocations to specific asset classes as of the measurement date. We arrive at a 7 -percent expected return on assets by considering both the historical and forecasted long-term rates of return on those asset classes. We expect a return of between 7 percent and 9 percent on return-seeking assets and between 3 percent and 5 percent for risk-mitigating assets.

Utility Response 10 Continued:

b) No. Interest on balancing accounts are not calculated the same way as the Pension fund rate. As explained in the approved and authorized tariff for the Pension Balancing Account, the interest rate is equal to one-twelfth of the interest rate on three-month Commercial Paper for the previous month, as reported in the Federal Reserve Statistical Release, H.15, or its successor publication. The dollar value for interest is calculated on the average of the balance at the beginning of the month and the balance after the monthly entries are made times the interest rate. The rate of return assumption used for determing pension and PBOP costs for U.S. GAAP purposes is determined according to the parameters defined by U.S. GAAP.

12. Re. Excel 10K, Table 147: Please describe what the actuarial gain/loss reflects. For example, in the Excel version of the 10k, year end 2015, table 147. Please provide a calculation of the actuarial loss in that table, if possible.

Utility Response 12:
SoCalGas and SDG&E object to this request, to the extent that it seeks information that is outside the scope of testimony, publicly available in the referenced documents and equally available to TURN. Subject to and without waiving this objection, SoCalGas and SDG&E state as follows:

As a point of clarity, actuarial gains/losses reported for U.S. GAAP purposes had no impact on pension costs for rate recovery purposes.

The description of the Actuarial (gain) loss for the SDG&E PROJECTED BENEFIT OBLIGATION, FAIR VALUE OF ASSETS AND FUNDED STATUS in table 147 of the excel version of Sempra Energy 2015 10k filing below is provided on pages 175 and 176 of the pdf version of that filing.

New mortality table studies were released by the Society of Actuaries during 2014 that significantly increased life expectancy assumptions, and during 2015 that consisted of a new mortality improvement projection scale. We have incorporated these assumptions, adjusted for the Sempra Energy companies. actual mortality experience, in our calculations for each of those years.

In 2015, the actuarial gains for pension plans were primarily due to:

- *an increase in weighted-average discount rates;*
- *changes in salary scale at SoCalGas;*
- *updated mortality rates;*
- *a change in the rate used to convert annuity benefits to lump sums; and*
- *the impact of updated census data at SDG&E;* ***offset by***
- *the impact of updated census data at Sempra Energy Consolidated and SoCalGas; and*
- *changes in anticipated retirement rates.*

In 2015, the actuarial gains for other postretirement benefit plans were primarily due to:

- *the impact of updated census data;*
- *changes in termination and retirement rates;*
- *an increase in weighted-average discount rates;*
- *a decrease in the actual versus expected 2016 claims costs; and*
- *updated mortality rates;* ***offset by***
- *changes in health care cost trend rates; and*
- *changes in salary scale at SoCalGas.*

Utility Response 12 Continued:
In 2014, the actuarial losses for pension plans were primarily due to:
- *a decrease in weighted-average discount rates;*
- *updated mortality rates; and*
- *a change in the rate used to convert annuity benefits to lump sums at SoCalGas;* ***offset by***
- *the impact of updated census data at SoCalGas; and*
- *a decrease in the cash balance interest crediting rate.*

In 2014, the actuarial losses for other postretirement benefit plans were primarily due to:
- *a decrease in weighted-average discount rates;*
- *updated mortality rates; and*
- *the impact of updated census data at SDG&E and SoCalGas;* ***offset by***
- *a decrease in anticipated retiree and spousal participation rates.*

Utility Response 12 Continued:

The amount of the components of the Actuarial (gains) loss described above for SDG&E in Table 147 for the years 2015 and 2014 are provided below (in $millions).

Pension Benefits	2015	2014
Increase (decrease) in Actuarial Loss		
Census Update and Noninvestment Experience	$ (9)	$ (3)
Change in Discount Rate	(33)	61
Change in Cash Balance Crediting Rate	-	(18)
Change in Lump Sum Conversion Rate	(5)	8
Change in Mortality	(6)	50
Other changes	1	3
Total (decrease) increase in Actuarial Loss	$ (52)	$ 101

Other Postretirment Benefits	2015	2014
Increase (decrease) in Actuarial Loss:		
Census Data and Noninvestment Experience (1)	$ (11)	$ 5
Change in Discount Rate/Cash balance interest credits (2)	(8)	21
Change in Trend Rate Assumption	2	-
Change in 2016 and 2015 Claims Costs (3)	(11)	(2)
Change in Termination and Retirement Rates	(14)	-
Change in Participation Assumption	-	(8)
Change in Spousal Coverage Assumption	-	(5)
Change in Mortality Tables	(1)	4
Total (decrease) increase in Actuarial Loss	$ (43)	$ 15

(1) 2015 Includes update for actual 2016 and 2014 Includes update for actual 2016 claims costs, premiums, and retiree contributions
(2) For SDG&E and SoCal PBOPs, this assumption is used to credit interest to the HRA accounts that accumulate interest.
(3) 2015 is based on 2016 and 2014 is based on 2015 composite renew al premium rates

The amounts of the components of the actuarial gain (loss) above were calculated by our actuaries using their proprietary models and it is threfore it is not possible to provide their calculation.

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SDG&E_SOCALGAS RESPONSE
DATE RECEIVED: MARCH 19, 2018
DATE RESPONDED: APRIL 12, 2018

Data Requests: Regarding Pensions (Exh. SCG-31)

13. Please provide for 2002-present, the deferred income benefit (liability) of

  a. The pension balancing account

  b. The post retirement benefit account

.

Utility Response 13:

SoCalGas and SDG&E object to this question on the grounds that it is vague, ambiguous and unintelligible; and on grounds that it is out of scope and not likely to lead to the production of admissible evidence in this proceeding. Balancing account balances for pension and for post retirement benefits is not a subject under review in this proceeding, and the historical balances dating back to 2002 were not used in developing the revenue requirement ask in this proceeding. Further, balancing account balances are subject to Commission review and approval annually during the year-end advice letter process and are not subject to review in this proceeding. Notwithstanding and without waiving these objections, SoCalGas and SDG&E respond as follows:

In response to SoCalGas and SDG&E's request for clarification regarding the meaning of "deferred income benefit," TURN responded as follows:

> It is our understanding that the Company reports pension expense on its balance sheet. We am trying to ascertain whether contributions are recognized at all in addition to expense, and if this is all dealt with on the balance sheet or the income statement as well. That is, say over the past 10 years if the company made a total of $200 million in contributions but collected a total of $150 million from ratepayers for pension costs, how would this show up?
>
> (1) would just the $200 million show up as an offset against income on the income statement
> (2) would a $50 million amount show up on the income statement? (and later show up as revenue)
> (3) would the $50 million dollar show up as a deferred asset (i.e. the company plans to recover it: recognized $150 as revenue today, $200 million today and $50 million as a deferred asset?)
> (4) none of it? its all only on the balance sheet, not on the income statement?

Utility Response 13 Continued:

SDG&E understands that this question may be asking for the balancing account mechanism for hypothetical situations in order to garner and understanding of how the accounts "work." Based on this assumption, SDG&E provides the following examples:

In a hypothetical and extremely simplified situation, a utility gets approval for an authorized $200 revenue requirement in the pension balancing account. In that same year, that company funds the pension account at $150, based on requirements and funding requirements. The company would book to their financial income statement $200 in revenues (a credit), $150 in pension expenses (a debit) and a deferred revenue of $50 (a debit) such that total reveneus would be $150 credit and total expenses would be $150 debit. In other words, income would be "neutral" - $150 in revenues compared to $150 in expenses. On the balance sheet, that company would book a $50 credit (the opposite of the $50 deferred revenue) to the balancing account and a $50 regulatory asset. This balancing account would be in an "over-collected" position of $50. In layman terms, this means the company would owe ratepayers $50 to be returned in the next applicable rate cycle.

The exact balances, or over- and under-collections, for the mentioned balancing accounts can be found in the Regulatory Account Update Advice Letter filings filed in the 4th quarter of each year. Those advice letters are available to the public on the SDG&E and SoCalGas company websites.

14. Re: 2017 10k p. F-83:

a. Was the VERP authorized by the CPUC? If yes, please provide the citation to the authorizing decision.

b. Did the CPUC authorize the company to book the settlement charges as regulatory assets? If yes, please cite to the authorizing decision.

c. Please explain the basis or authority for the company to recover the settlement charges related to the special terminations of 2016 and 2017 from ratepayers, given that they were unplanned consequences of the companies' "Voluntary Retirement Enhancement Program" (VERP).

Utility Response 14:

a. No.

b. No.

c. The 2016 and 2017 Voluntary Retirement Enhancement Programs (VREPs) relate to the Company's postretirement health and welfare benefits for which the Company is not seeking recovery in the 2019 General Rate Case.

Company manages its benefit portfolio in the context of its total rewards approach to employee compensation and benefits as reported in the Total Compensation Study (SDG&E-28/SCG-30, Appendix A). It continually monitors and exercises prudent oversight of its retirement plan designs and benefit expense to maintain a competitive position in the market.

The VREPs were carefully planned and designed to facilitate workforce planning, organizational changes and retirement transition for longer service employees.

17. Regarding the VERP:

a. Please confirm that the company incurred a charge of $30 million dollars for SoCal Gas in 2017 and a charge of $16 million for SDG&E in 2016;

b. Please explain how these charges supported the interests of customers and the company, and provide any relevant accounting explanation.

c. In particular, please provide the accounting that demonstrates a decrease in future pension liability in excess of these amounts (beyond the $175 million and $75 million which had a corresponding reduction in assets)

Utility Response 17:

a. Confirmed that there were incurred charges of the cited amounts; however, the charges are unrelated to the VREPs. These charges are required U.S. GAAP settlement costs, attributable to the pension plans, as required under U.S. GAAP due to the high volume of lump sum pension benefits paid.

   Note that pension settlement costs have no bearing on pension costs for rate recovery purposes.

b. See response to Q14(c).

c. As a point of clarity, the amounts noted are the aggregate lump sum pension benefits paid for the applicable fiscal year from the pension plans, which reduce U.S. GAAP benefit obligation and fair value of assets equally.

18. Please explain why, for 2016 and 2017 10Ks, the costs incurred (and mentioned above) for the VERP were not included in the special termination benefits line item on the OCI or, for example in 2017 the PBO p. F85, F89. In particular, TURN notes that the costs for the cost incurred for the transition - of other post retirement benefits - were included in special termination benefits. TURN also understands that the Company claims that the large unanticipated financial impact triggered settlement accounting. If this is related, please explain how that threshold is triggered, and what that means for these costs as related to recovery, shareholder equity and/or tax purposes.

Utility Response 18:

As a point of clarity, the $30M SoCalGas and $16M SDG&E charges noted in Q17 are pension settlement costs under U.S. GAAP and not special termination benefit charges. Under U.S. GAAP, settlement accounting is triggered when settlements during the fiscal year exceed the sum of the service cost and interest cost components of net benefit cost. The settlement charges noted in Q17 have no bearing on pension costs for recovery purposes.

19. Re. 2017 10K: Please provide the number of "$100,000 payments" for early retirement that were made for each SDGE and SoCal Gas for both 2017 and 2016.

Utility Response 19:
SDG&E and SoCalGas object to this request on grounds that it assumes mistaken facts and is therefore unintelligible. Subject to and without waiving this objection, SDG&E and SoCalGas respond as follows:
As a point of clarity, the SDG&E and SoCal Gas made no "$100,000 payments" related to the 2016 and 2017 VREPs.

The VREPs provided a $100,000 retirement health benefit by establishing notional retiree accounts with an opening balance of $100,000. The benefit is tax-free to the retiree and can only be used for reimbursement of retiree/dependent qualified health expenses. As reimbursements are made to the retiree, the balance gradually declines. Consequently, the benefit occurs over a long period of time (estimated 10-20 years).

The number of VREP participants is as follows:

SDG&E:

2016 - 204

2017 - 0

SoCal Gas:

2016 - 162

2017 - 289

20. Re 2017 10k F83: Please explain how the company arrived at $175 million for SoCal Gas in 2017 and $75 million for SDG&E in 2016: In particular, please confirm or refute and explain the following understanding. The Company paid out $75 million to new retirees, and this amount included some number (N) of $100,000 payouts in addition to some number (N) lump sum retirement packages. The dollar amount for a similar process totaled $175 million for SoCal gas. This action relieves the Company of a future obligation (liability). TURN understands the reduction of pension assets by the amount of this payout. Please explain how the reduction, in liability, came to be exactly the same amount.

Utility Response 20:
SDG&E and SoCalGas object to this request on grounds that it assumes mistaken facts and is therefore unintelligible. Subject to and without waiving this objection, SDG&E and SoCalGas respond as follows:

The amounts noted are the aggregate lump sum benefit payments from the normal operations of the pension plans for the noted fiscal year, see response to Q17.

21. Re 2017 10k F86. Please explain why SDG&E does not use asset smoothing, and what the impact is.

Utility Response 21:

SDG&E does not have the historical information related to the use of asset smoothing. Asset smoothing has no impact on pension costs for recovery purposes.

22. Please explain why, in the asset smoothing program for SoCalGas, 3 years was chosen.

Utility Response 22:

SoCal Gas does not have the historical information related to the selected period of asset smoothing.