

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE  
SAN FRANCISCO, CA 94102-3298



October 30, 2017

**Advice Letter 5192-G**

Ronald van der Leeden  
Director, Regulatory Affairs  
Southern California Gas  
555 W. Fifth Street, GT14D6  
Los Angeles, CA 90013-1011

**SUBJECT: Update to Authorized Rate of Return on Ratebase Pursuant to Decision  
(D.) 17-07-005, Effective January 1, 2018**

Dear Mr. van der Leeden:

Advice Letter 5192-G is effective as of January 1, 2018.

Sincerely,

A handwritten signature in cursive script that reads "Edward Randolph".

Edward Randolph  
Director, Energy Division



**Ronald van der Leeden**  
Director  
Regulatory Affairs

555 W. Fifth Street, GT14D6  
Los Angeles, CA 90013-1011  
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[RvanderLeeden@semprautilities.com](mailto:RvanderLeeden@semprautilities.com)

September 29, 2017

Advice No. 5192  
(U 904 G)

Public Utilities Commission of the State of California

**Subject: Update to Authorized Rate of Return on Ratebase Pursuant to Decision (D.) 17-07-005, Effective January 1, 2018**

Southern California Gas Company (SoCalGas) hereby submits for approval by the California Public Utilities Commission (CPUC or Commission) revisions to its authorized Return on Ratebase, applicable to January 1, 2018 rates.

### **Purpose**

This filing revises SoCalGas' gas rates effective January 1, 2018 to implement the Cost of Capital adjustments pursuant to Ordering Paragraph (OP) 2 and Appendix A approved in Commission D.17-07-005, addressing SoCalGas' Rate of Return on Ratebase.

### **Discussion**

SoCalGas, along with Pacific Gas and Electric Company (PG&E), Southern California Edison Company (SCE), San Diego Gas & Electric Company (SDG&E) (collectively the Utilities), Office of Ratepayer Advocates (ORA), and The Utility Reform Network (TURN) (collectively the Joint Petitioners) filed a Petition for Modification (PFM) on February 7, 2017 to seek a two-year extension in the filing of the Utilities' next Cost of Capital applications, along with a modification to true up the authorized cost of debt and preferred equity, to lower the Return on Common Equity (ROE), and to suspend the Cost of Capital Mechanism (CCM) for one year.

On July 17, 2017, the CPUC issued D.17-07-005, approving most of the PFM's requested relief, and adding additional requirements for the next Cost of Capital filing.

**Background**

In D.12-12-034, the Commission adopted the authorized Cost of Capital for test year 2013 for each of the Utilities, including factors for long-term debt, preferred stock, and common equity. D.13-03-015, issued on April 2, 2013, expanded the scope of the CCM to include SoCalGas, and required the Utilities to file test year 2016 Cost of Capital applications on April 20, 2015 to set the authorized Cost of Capital for 2016. By the letter dated December 24, 2014, the Commission's Executive Director extended the filing date to April 20, 2016, for a 2017 test year. By the letter dated November 25, 2015, the Executive Director granted a further extension to April 2017, for a 2018 test year. D.16-02-019, issued February 26, 2016, modified D.13-03-015 to confirm the April 20, 2017 filing date and suspend the CCM for 2017.

Pursuant to the PFM, the Joint Petitioners requested: (1) the reduction of the authorized ROE for each utility for test year 2018, as specified in OP 2 and Appendix A of D.17-07-005; (2) to reset of each utility's authorized cost of long-term debt and cost of preferred stock (if applicable) in 2018; and (3) the extension of the filing of the next Cost of Capital applications to April 22, 2019. In all other respects, under the Joint Petitioners' request, D.12-12-034 and D.13-03-015 remain in effect. The CCM will not operate in 2017 but could operate in 2018 to change the adopted Cost of Capital effective for 2019.

D.17-07-005 approved the PFM, specifically, adopted modifications to:

- (a) extend the date of the Utilities' next Cost of Capital application filing from April 22, 2017, to April 22, 2019;
- (b) reduce the authorized ROE as requested by the parties, as specified in Table 1 below;
- (c) reset the authorized costs of long-term debt and preferred stock beginning in test year 2018 for each utility, as requested by the parties; and
- (d) require testimony on specified factual questions to be provided in the Utilities' next round of Cost of Capital filings.

Therefore, herein SoCalGas is showing its authorized cost of debt, authorized cost of preferred stock, authorized ROE, and authorized capital structure to be in place from January 1, 2018 until a new Cost of Capital is approved, presumably in a decision on an application to be filed on April 22, 2019.

**Authorized Cost of Debt**

According to D.17-07-005, "Long-term debt [is] ... based on actual, or embedded, costs. Future interest rates must be anticipated to reflect projected changes in a utility's cost caused by the issuance and retirement of long-term debt... during the year."<sup>1</sup> Further, that decision states, "[t]he Joint Petitioners request to reset each

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<sup>1</sup> D.17-07-005, pp. 8-9.

utility's authorized cost of long-term debt for 2018. The reset will reflect actual August 2017 month-end embedded costs and forecasted interest rates for variable long-term debt and new long-term debt expected to be issued in the remainder of 2017 and all of 2018."<sup>2</sup>

Therefore, SoCalGas is resetting its authorized Cost of Debt, based on August 2017 actuals and a forecast for debt issuances from September 2017 through December 2018, at an authorized interest rate of 4.33%. This embedded cost of debt will be in place until a new Cost of Capital is approved. SoCalGas is currently forecasting new debt issuances totaling \$1 billion in 2018 at a forecasted interest rate of 4.88%.<sup>3</sup> Any actual debt redemption or issuance will be a function of SoCalGas' access to long-term capital markets at the time funds are required and are subject to management discretion.

### **Authorized Cost of Preferred Equity**

Per D.17-07-005, the cost of preferred stock will be reset "if there are any new preferred stock issuances since January 1, 2013 or new preferred stock forecast to be issued in 2017 and 2018."<sup>4</sup> SoCalGas had no new issuances since January 1, 2013 and does not anticipate issuing any preferred stock in 2017 or 2018. Therefore, no change to its existing authorized cost of preferred stock is being made. SoCalGas will continue an authorized cost of preferred equity of 6.00%.

### **Authorized ROE**

In accordance with D.17-07-005, SoCalGas' authorized ROE is as follows (shown in comparison with what was authorized in D.12-12-034):

**Table 1 - ROE Authorized**

Utility	ROE Authorized Per D.12-12-034	ROE Authorized in D.17-07-005	
		2018 Test Year	Total Reduction
<b>SoCalGas</b>	10.10%	<b>10.05%</b>	0.05%

<sup>2</sup> *Id.* at 9.

<sup>3</sup> 4.88% is the assumed Interest on the 2018 forecasted issuances based on the Global Insights September 2017 report, US Treasury 30-Year Bond Yield, and includes a credit spread of 1.15% ("115 basis points").

<sup>4</sup> D.17-07-005 at 9.

### **Authorized Capital Structure**

In accordance with D.17-07-005, no change was made to the authorized capital structure of any of the Utilities. As such SoCalGas will continue with the following capital structure:

Long-Term Debt	45.60%
Preferred Equity	2.40%
Common Equity	<u>52.00%</u>
	100.00%

### **Rate of Return on Ratebase**

Given the calculation on the new authorized costs of long-term debt, preferred equity, and common equity and in conjunction with the authorized capital structure, also shown above, the following Rate of Return on Ratebase on CPUC jurisdictional assets is requested for January 1, 2018:

	<b>Capital Structure effective 1/1/2018</b>		
	Cap Ratio	Auth Cost	Wt Cost
Long Term Debt	45.60%	4.33%	1.97%
Preferred Stock	2.40%	6.00%	0.14%
Common Equity	52.00%	10.05%	<u>5.23%</u>
			<u>7.34%</u>

### **2018 Revenue Requirement Changes**

In D.17-07-005, the Commission directs the Utilities to each consolidate their respective revenue requirement changes being authorized in this decision with revenue changes from any other relevant applications to become effective January 1, 2018.<sup>5</sup> The 2018 authorized Cost of Capital, as set forth in this advice filing, is estimated to impact the revenue requirement in rates as of January 1, 2018, by \$35.1 million. Actual impacts will be reflected in the Consolidated Gas Rate Changes Effective January 1, 2018, expected to be filed on or around December 28, 2017.

### **Protest**

Anyone may protest this Advice Letter to the Commission. The protest must state the grounds upon which it is based, including such items as financial and service impact, and should be submitted expeditiously. The protest must be made in writing and received within 20 days of the date this Advice Letter was filed with the Commission, which is October 19, 2017. There is no restriction on who may file a protest. The address for mailing or delivering a protest to the Commission is:

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<sup>5</sup> *Id.* at Appendix A.

CPUC Energy Division  
Attention: Tariff Unit  
505 Van Ness Avenue  
San Francisco, CA 94102

Copies of the protest should also be sent via e-mail to the attention of the Energy Division Tariff Unit ([EDTariffUnit@cpuc.ca.gov](mailto:EDTariffUnit@cpuc.ca.gov)). A copy of the protest should also be sent via both e-mail and facsimile to the address shown below on the same date it is mailed or delivered to the Commission.

Attn: Ray B. Ortiz  
Tariff Manager - GT14D6  
555 West Fifth Street  
Los Angeles, CA 90013-1011  
Facsimile No. (213) 244-4957  
E-mail: [ROrtiz@SempraUtilities.com](mailto:ROrtiz@SempraUtilities.com)

### **Effective Date**

SoCalGas believes this Advice Letter is subject to Energy Division disposition and should be classified as Tier 2 (effective after staff approval) pursuant to General Order (GO) 96-B. SoCalGas respectfully requests that this Advice Letter be approved October 29, 2017, which is thirty (30) calendar days after the date filed, for implementation in rates effective January 1, 2018.

### **Notice**

A copy of this Advice Letter is being sent to SoCalGas' GO 96-B service list and the Commission's service list in A.12-04-017. Address change requests to the GO 96-B service list should be directed by electronic mail to [tariffs@socalgas.com](mailto:tariffs@socalgas.com) or call 213-244-2837. For changes to all other service lists, please contact the Commission's Process Office at 415-703-2021 or by electronic mail at [Process\\_Office@cpuc.ca.gov](mailto:Process_Office@cpuc.ca.gov).

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Ronald van der Leeden  
Director, Regulatory Affairs

# CALIFORNIA PUBLIC UTILITIES COMMISSION

## ADVICE LETTER FILING SUMMARY ENERGY UTILITY

MUST BE COMPLETED BY UTILITY (Attach additional pages as needed)

Company name/CPUC Utility No. **SOUTHERN CALIFORNIA GAS COMPANY (U 904G)**

Utility type:

ELC

GAS

PLC

HEAT

WATER

Contact Person: Ray B. Ortiz

Phone #: (213) 244-3837

E-mail: [ROrtiz@semprautilities.com](mailto:ROrtiz@semprautilities.com)

EXPLANATION OF UTILITY TYPE

ELC = Electric

GAS = Gas

PLC = Pipeline

HEAT = Heat

WATER = Water

(Date Filed/ Received Stamp by CPUC)

Advice Letter (AL) #: 5192

Subject of AL: Update to Authorized Rate of Return on Ratebase Pursuant to Decision (D.) 17-07-005,

Effective January 1, 2018

Keywords (choose from CPUC listing): Compliance

AL filing type:  Monthly  Quarterly  Annual  One-Time  Other \_\_\_\_\_

If AL filed in compliance with a Commission order, indicate relevant Decision/Resolution #:

D.17-07-005

Does AL replace a withdrawn or rejected AL? If so, identify the prior AL: No

Summarize differences between the AL and the prior withdrawn or rejected AL<sup>1</sup>: N/A

Does AL request confidential treatment? If so, provide explanation: No

Resolution Required?  Yes  No

Tier Designation:  1  2  3

Requested effective date: 10/29/17

No. of tariff sheets: 0

Estimated system annual revenue effect (%): N/A

Estimated system average rate effect (%): N/A

When rates are affected by AL, include attachment in AL showing average rate effects on customer classes (residential, small commercial, large C/I, agricultural, lighting).

Tariff schedules affected: N/A

Service affected and changes proposed<sup>1</sup>: N/A

Pending advice letters that revise the same tariff sheets: N/A

**Protests and all other correspondence regarding this AL are due no later than 20 days after the date of this filing, unless otherwise authorized by the Commission, and shall be sent to:**

**CPUC, Energy Division**

**Attention: Tariff Unit**

**505 Van Ness Ave.,**

**San Francisco, CA 94102**

[EDTariffUnit@cpuc.ca.gov](mailto:EDTariffUnit@cpuc.ca.gov)

**Southern California Gas Company**

**Attention: Ray B. Ortiz**

**555 West 5<sup>th</sup> Street, GT14D6**

**Los Angeles, CA 90013-1011**

[ROrtiz@semprautilities.com](mailto:ROrtiz@semprautilities.com)

[Tariffs@socalgas.com](mailto:Tariffs@socalgas.com)

<sup>1</sup> Discuss in AL if more space is needed.