**Pacific Gas and Electric Company Securitization**

**A. 20-04-023**

**TURN HEARING EXHIBIT**

**TURN-43**

Sempra Energy 2019 10k filing (excerpt)

Sempra Energy®

# 2019 FORM 10-K

### *Assumptions for Pension and Other Postretirement Benefit Plans*

*Benefit Obligation and Net Periodic Benefit Cost*

Except for the IEnova plans, we develop the discount rate assumptions using a bond selection-settlement portfolio approach. This approach develops a discount rate by selecting a portfolio of high quality corporate bonds that generate sufficient cash flows to provide for projected benefit payments of the plan. The selected bond portfolio is derived from a universe of corporate bonds with a Bloomberg Composite of AA or higher. After the bond portfolio is selected, a single interest rate is determined that equates the present value of the plans' projected benefit payments discounted at this rate with the market value of the bonds selected.

We develop the discount rate assumptions for the plans at IEnova by constructing a synthetic government zero coupon bond yield curve from the available market data, based on duration matching, and we add a risk spread to allow for the yields of high-quality corporate bonds. Such method is required when there is no deep market for high quality corporate bonds.

Long-term return on assets is based on the weighted-average of the plans' investment allocation as of the measurement date and the expected returns for those asset types.

Interest crediting rate is based on an average 30-year Treasury bond from the month of November of the preceding year.

We amortize prior service cost using straight line amortization over average future service (or average expected lifetime for plans where participants are substantially inactive employees), which is an alternative method allowed under U.S. GAAP.

The significant assumptions affecting benefit obligation and net periodic benefit cost are as follows:

**WEIGHTED-AVERAGE ASSUMPTIONS USED TO DETERMINE BENEFIT OBLIGATION AT DECEMBER 31**

| | Pension benefits | | Other postretirement benefits | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| **Sempra Energy Consolidated:** | | | | |
| Discount rate | 3.49% | 4.29% | 3.54% | 4.29% |
| Interest crediting rate[(1)(2)] | 2.28 | 3.36 | 2.28 | 3.36 |
| Rate of compensation increase | 2.70-10.00 | 2.00-10.00 | 2.70-10.00 | 2.00-10.00 |
| **SDG&E:** | | | | |
| Discount rate | 3.44% | 4.29% | 3.55% | 4.30% |
| Interest crediting rate[(1)(2)] | 2.28 | 3.36 | 2.28 | 3.36 |
| Rate of compensation increase | 2.70-10.00 | 2.00-10.00 | 2.70-10.00 | 2.00-10.00 |
| **SoCalGas:** | | | | |
| Discount rate | 3.50% | 4.30% | 3.55% | 4.30% |
| Interest crediting rate[(1)(2)] | 2.28 | 3.36 | 2.28 | 3.36 |
| Rate of compensation increase | 2.70-10.00 | 2.00-10.00 | 2.70-10.00 | 2.00-10.00 |

[(1)] *Interest crediting rate for pension benefits applies only to funded cash balance plans.*

[(2)] *Interest crediting rate for other postretirement benefits applies only to interest bearing health retirement accounts at SDG&E and SoCalGas.*

**WEIGHTED-AVERAGE ASSUMPTIONS USED TO DETERMINE NET PERIODIC BENEFIT COST YEARS ENDED DECEMBER 31**

| | Pension benefits | | | Other postretirement benefits | | |
|---|---|---|---|---|---|---|
| | 2019 | 2018 | 2017 | 2019 | 2018 | 2017 |
| **Sempra Energy Consolidated:** | | | | | | |
| Discount rate | 4.29% | 3.64% | 4.07% | 4.29% | 3.68% | 4.18% |
| Expected return on plan assets | 7.00 | 7.00 | 7.00 | 6.48 | 6.49 | 6.47 |
| Interest crediting rate(1)(2) | 3.36 | 2.80 | 2.86 | 3.36 | 2.80 | 2.86 |
| Rate of compensation increase | 2.00-10.00 | 2.00-10.00 | 2.00-10.00 | 2.00-10.00 | 2.00-10.00 | 2.00-10.00 |
| **SDG&E:** | | | | | | |
| Discount rate | 4.29% | 3.64% | 4.08% | 4.30% | 3.65% | 4.15% |
| Expected return on plan assets | 7.00 | 7.00 | 7.00 | 6.92 | 6.94 | 6.91 |
| Interest crediting rate(1)(2) | 3.36 | 2.80 | 2.86 | 3.36 | 2.80 | 2.86 |
| Rate of compensation increase | 2.00-10.00 | 2.00-10.00 | 2.00-10.00 | 2.00-10.00 | 2.00-10.00 | 2.00-10.00 |
| **SoCalGas:** | | | | | | |
| Discount rate | 4.30% | 3.65% | 4.10% | 4.30% | 3.70% | 4.20% |
| Expected return on plan assets | 7.00 | 7.00 | 7.00 | 6.38 | 6.38 | 6.37 |
| Interest crediting rate(1)(2) | 3.36 | 2.80 | 2.86 | 3.36 | 2.80 | 2.86 |
| Rate of compensation increase | 2.00-10.00 | 2.00-10.00 | 2.00-10.00 | 2.00-10.00 | 2.00-10.00 | 2.00-10.00 |

*(1) Interest crediting rate for pension benefits applies only to funded cash balance plans.*

*(2) Interest crediting rate for other postretirement benefits applies only to interest bearing health retirement accounts at SDG&E and SoCalGas.*

### *Health Care Cost Trend Rates*

Assumed health care cost trend rates have a significant effect on the amounts that we report for the health care plan costs. Following are the health care cost trend rates applicable to our postretirement benefit plans:

**ASSUMED HEALTH CARE COST TREND RATES AT DECEMBER 31**

| | Other postretirement benefit plans | | | | | |
|---|---|---|---|---|---|---|
| | Pre-65 retirees | | | Retirees aged 65 years and older | | |
| | 2019 | 2018 | 2017 | 2019 | 2018 | 2017 |
| Health care cost trend rate assumed for next year | 6.25% | 6.50% | 7.00% | 4.75% | 4.75% | 5.00% |
| Rate to which the cost trend rate is assumed to decline (the ultimate trend) | 4.75% | 4.75% | 5.00% | 4.50% | 4.50% | 4.50% |
| Year the rate reaches the ultimate trend | 2025 | 2025 | 2022 | 2022 | 2022 | 2022 |

## ***Plan Assets***

### *Investment Allocation Strategy for Sempra Energy's Pension Master Trust*

Sempra Energy's pension master trust holds the investments for our pension plans and a portion of the investments for our PBOP plans. We maintain additional trusts, as we discuss below, for certain of the California Utilities' PBOP plans. Other than through indexing strategies, the trusts do not invest in securities of Sempra Energy.

The current asset allocation objective for the pension master trust is to protect the funded status of the plans while generating sufficient returns to cover future benefit payments and accruals. We assess the portfolio performance by comparing actual returns with relevant benchmarks. Currently, the pension plans' target asset allocations are:

- 35% domestic equity
- 24% international equity
- 18% long credit
- 8% ultra-long duration government securities
- 5% global real estate investment trusts
- 5% return-seeking credit
- 5% real assets

The asset allocation of the plans is reviewed by our Plan Funding Committee and our Pension and Benefits Investment Committee (the Committees) on a regular basis. When evaluating strategic asset allocations, the Committees consider many variables, including:

- long-term cost
- variability and level of contributions
- funded status
- a range of expected outcomes over varying confidence levels

This allocation results in a 74% target allocation to return-seeking assets and a 26% target allocation to risk-mitigating assets. We maintain asset allocations at strategic levels with reasonable bands of variance.

In accordance with the Sempra Energy pension investment guidelines, derivative financial instruments may be used by the pension master trust's equity and fixed income portfolio investment managers to equitize cash, hedge certain exposures, and as substitutes for certain types of fixed income securities.

### *Rate of Return Assumption*

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% 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 5% and 9% on return-seeking assets and between 1% and 4% for risk-mitigating assets. Certain trusts that hold assets for the SDG&E other postretirement benefit plan are subject to taxation, which impacts the expected after-tax return on assets in the plan.

### *Concentration of Risk*

Plan assets are diversified across global equity and bond markets, and concentration of risk in any one economic, industry, maturity or geographic sector is limited.

### *Investment Strategy for SDG&E's and SoCalGas' Other Postretirement Benefit Plans*

SDG&E's and SoCalGas' PBOP plans are funded by cash contributions from SDG&E and SoCalGas and their current retirees. The assets of these plans are placed into the pension master trust and other Voluntary Employee Beneficiary Association trusts. Certain assets of SDG&E's and SoCalGas' PBOP plans are held in the pension master trust, which invests a portion of the assets in completion portfolios that aim to reduce interest rate risk, thereby resulting in an overall target allocation of 38% to return-seeking assets and 62% to risk-mitigating assets for these well-funded plans. Certain of SoCalGas' PBOP plans are held in a Voluntary Employee Benefit Association trust that also utilizes a completion portfolio, resulting in a target allocation of 25% to return-seeking assets and 75% to risk-mitigating assets. SDG&E's and SoCalGas' assets held in other Voluntary Employee Beneficiary Association trusts are invested in accordance with a de-risking glidepath that reduces the assets' exposure to risk as the trusts become better funded. These specific allocations are periodically reviewed to ensure that plan assets are best positioned to meet plan obligations.