Application of San Diego Gas & Electric Company (U902M) for Authority, Among Other Things, to Increase Rates and Charges for Electric and Gas Service Effective on January 1, 2012.	A.10-12-005 (Filed December 15, 2010)
Application of Southern California Gas Company (U904G) for authority to update its gas revenue requirement and base rates effective on January 1, 2012.	A.10-12-006 (Filed December 15, 2010)

Application: A.10-12-005/A.10-12-006
Exhibit No.: SDG&E-232/SCG-226

PREPARED REBUTTAL TESTIMONY OF

GARRY G. YEE

ON BEHALF OF SAN DIEGO GAS & ELECTRIC COMPANY

AND

SOUTHERN CALIFORNIA GAS COMPANY

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

OCTOBER 2011

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PREPARED REBUTTAL TESTIMONY OF

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I. INTRODUCTION

The following rebuttal testimony regarding rate base (except working cash) addresses the intervener testimony dated September 2011 of:

- Division of Ratepayer Advocates ("DRA") in Exhibits DRA-35 (Rate Base and Working Cash), DRA-36 (Depreciation), and DRA-50 (Results of Examination); and
- The Utility Reform Network ("TURN") in the Prepared Testimony of William B. Marcus.

This rebuttal testimony addresses the issues raised by DRA and TURN regarding the forecasted rate base of San Diego Gas & Electric Company ("SDG&E") and Southern California Gas Company ("SCG"). DRA's analysis of my direct testimony appears in Exhibit DRA-35. However, DRA also proposes substantial rate base adjustments as part of its depreciation showing as well as its auditor's recommended changes to computing allowance for funds used during construction ("AFUDC"). These specific DRA proposals are more fully addressed in rebuttal by other witnesses (as described later); however, my rebuttal provides additional perspective on how DRA's rate base adjustments are being erroneously applied to the rate base forecasts for SDG&E and SCG.

Section II addresses DRA's proposals regarding (A) fuel in storage; (B) customer advances for construction (i.e., the depreciation issue); and (C) AFUDC. Section III addresses TURN's proposals regarding (A) new business forfeitures and (B) regulator purchases.

II. REBUTTAL TO DRA

A. Fuel in Storage (SDG&E Gas Rate Base Adjustment)

SDG&E requests in its gas rate base $358,000 for fuel in storage (i.e., line pack gas) for Test Year ("TY") 2012. DRA proposes the cost of that line pack gas be removed from rate base.[1] DRA further recommends that the recovery of carrying cost be made at the short-term rate of debt and be addressed in the Biennial Cost Allocation Proceeding ("BCAP"), consistent with the recovery of other fuel related items.[2] DRA suggests this is consistent with the SCG application in this case, and treatment for the other California utilities.[3]

The Commission should reject DRA's recommendation as SDG&E has been authorized to include fuel in storage in rate base going back at least to its TY 1982 General Rate Case ("GRC") in D.93892. Fuel in Storage (line pack) represents permanent fuel inventory, as it is defined as the minimum amount that must be maintained over the long-term to assure continuing and reliable operations. The inclusion in rate base is consistent with the nature of the other rate base inventory assets and similar to the financing of other utility inventories such as materials and supplies. As recently as SDG&E's TY 2008 GRC, DRA made this same proposal but ultimately conceded this issue in the adopted GRC settlement.[4]

DRA claims that PG&E in its TY 2011 GRC application (A.09-12-020) did not include fuel in storage (line pack gas) in rate base calculations.[5] However, PG&E submitted testimony in its GRC that states that in developing the WAVG (weighted average) rate base shown in work

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[1] See Exhibit DRA-35, p. 4, lines 10–11.
[2] See Id at 4, lines 11–12; and 5, line 1.
[3] See Id. at 5, lines 1–6.
[4] See A.06-12-009, Exhibit SDG&E-301, Joint Settlement Comparison Exhibit, p. 250.
[5] See Exhibit DRA-35 at 5, lines 2–3.

paper Tables RB-1 through RB-4, forecasts for the WAVG cost of nuclear fuel and fuel oil inventory are included.[6]

If the Commission accepts DRA's recommendation to allow recovery of only carrying costs in SDG&E's next Triennial Cost Allocation Proceeding ("TCAP"), the timing of which has replaced BCAP, SDG&E would be unfairly denied of any cost recovery until 2013, the earliest new rates can be implemented assuming a TCAP filing by December 2011. DRA was party to SDG&E's last BCAP (A.08-02-011) and had ample opportunity to make proposals subject to that proceeding at that time. DRA also joined the BCAP Phase 1 settlement, adopted in D.08-12-020, as well as the BCAP Phase 2 settlement, adopted in D.09-11-006. By making the same proposal in this instant GRC, and proposing to address cost recovery in the next TCAP, DRA in effect is proposing that SDG&E be denied a fair recovery of its costs in TY 2012 without providing any evidence that such a reduction is appropriate. This is an unreasonable proposal and should be rejected.

To address DRA's recommendation of $3.081 million for Working Capital for SDG&E's TY 2012,[7] this amount reflects DRA's proposal for SDG&E's Gas Rate Base only. DRA makes no disallowance for Electric Rate Base Working Capital.

In conclusion, SDG&E asks the Commission to continue the existing practice of including line pack in its rate base, in the proposed amount of $358,000.

B. Customer Advances for Construction ("CAC")

SDG&E and SCG both provide 2012 forecasts for CAC in their direct testimonies (see Exhibits SDG&E-32-R and SCG-26-R). DRA's Rate Base testimony (Exhibit DRA-35) does not make any recommendations regarding CAC. However, DRA's Depreciation testimony

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[6] See A.09-12-020, PG&E 2011 GRC, Exhibit PG&E-2, Chapter 14, p. 4, lines 19–21.
[7] See Exhibit DRA-35 at 5, line 10.

(Exhibit DRA-36) contains a proposal to reduce rate base in the amount of $123 million at SDG&E and $10 million at SCG for what it contends is a reasonable adjustment for improper accounting treatment on the part of the utilities for third party reimbursements ("TPR").[8] This proposed rate base adjustment is improper, poorly supported, and lacking in any precedent or authority, as fully addressed in the rebuttal testimony of Steven Dais and Pat Moersen (see Exhibit SDG&E-256/SCG-246). Furthermore, DRA's faulty TPR proposal is being used to improperly reduce depreciation expense (as addressed in the rebuttal testimonies of Bob Wieczorek in Exhibits SDG&E-233 and SCG-227) and to adjust CAC in the Results of Operations ("RO") model (as addressed in the rebuttal testimony of Deborah Hiramoto in Exhibit SDG&E-245/SCG-238). Therefore, this rebuttal testimony does not specifically address DRA's TPR proposal, as TPRs are unrelated to CAC and should not be used to adjust the CAC forecasts.

C. Allowance for Funds Used During Construction ("AFUDC")

DRA's Results of Examination testimony (Exhibit DRA-50) contains a proposal recommending that AFUDC rates should be computed using short-term financing rates (i.e., 3-month commercial paper rates) rather than the authorized rates of return for SDG&E and SCG.[9] DRA's proposed AFUDC rates are significantly lower because the short-term rates that DRA uses to compute AFUDC (0.23% in 2010, 0.34% in 2011, and 1.76% in 2012) is a fraction of the authorized rates of return ("ROR") for SDG&E (8.40%) and SCG (8.68%) which is used in their AFUDC rate calculation.[10] The utilities' use of the authorized ROR in calculating AFUDC is appropriate and approximates actual calculated AFUDC. This is evidenced in Attachments 1 and

[8] See Exhibit DRA-36, p. 12, line 20; and p. 14, lines 1–2.
[9] See Exhibit DRA-50, p. 50-17, lines 20–22.
[10] See Id. at 50-18, Tables 3-2a and 3-2b.

2, which provide historic recorded AFUDC rates for SDG&E and SCG, respectively. When one compares actual recorded AFUDC rates to DRA's proposed rates, DRA's rates are predictably a miniscule fraction and are unrealistic, unsound, and not in line with recorded past AFUDC. Because AFUDC is a component of rate base, DRA's proposal results in significant reductions to rate base. On DRA's AFUDC rate calculation itself, the rebuttal testimony of Gary H. Hayes (Exhibit SDG&E-254/SCG-244) specifically addresses why DRA's calculation is contrary to FERC guidance, why DRA's use of short-term rates is contrary to prudent financing, and the harmful impacts on the utilities' ability to attract capital financing.

My testimony addresses the shortcomings of how DRA proposes to apply its proposed AFUDC rates. DRA recommends applying its proposed AFUDC rate to the Construction Work-In-Progress ("CWIP") balances for the 2010 and 2011 forecast years, which will then have a cumulative effect on TY 2012 rate base. If DRA has developed what it believes is a more appropriate AFUDC rate, it should only be applied to 2012 balances moving forward, not retroactively to 2011 and 2010. SDG&E and SCG's estimate of their AFUDC rates for 2010 and 2011 are reasonable and closely aligns with historic rates. Therefore, irrespective of the issue of whether DRA's proposed AFUDC rate for 2012 is valid or supportable, DRA's application of that proposed rate to 2010 and 2011 CWIP is completely inappropriate.

DRA claims its AFUDC rate proposal will result in a $44.3 million reduction to SDG&E's rate base and a $50.6 million reduction to SCG's rate base.[11] In other words, DRA's singular proposal to compute AFUDC rates using a short-term commercial paper rate would result in a significant reduction to rate base at each utility. However, DRA materially understates the rate base impact by ignoring the cumulative impact of applying its proposed

[11] See Id. at 50-19 and 50-20, Tables 3-3a and 3-3b, which were corrected/revised through a data request response. See Attachment 3.

AFUDC rates to 2010 and 2011 CWIP balances. Tables 1 and 2 show the true cumulative impact of DRA's proposal, revealing that SDG&E's rate base would be reduced by $64.7 million (not $44.3 million), and SCG's rate base would be reduced by $76.5 million (not $50.6 million).

Table 1 - AFUDC Comparison Between DRA and SDG&E ($'000)

	2010	2011	2012	Total
AFUDC per RO Model @ 8.40% ROR	$20,208	$23,530	$25,401	$69,139
AFUDC per DRA @ Global Insight Rates[1]	428	702	3,293	4,423
Impact of Proposed DRA Adjustments	19,780	22,828	22,108	64,716
DRA Calculated Savings Based on Rate Differential[2]	15,204	16,634	12,425	44,263
Difference Not Addressed By DRA[3]	4,576	6,194	9,683	20,453
Impact of Proposed DRA Adjustments	$19,780	$22,828	$22,108	$64,716

(1) Summary of Exhibit DRA 51, Chapter 3.

(2) DRA-50, Table 3-3b, as corrected/revised.

(3) DRA's method of calculating AFUDC was flawed and did not reveal the true impact of its recommendation. SDG&E disagrees with DRA's proposal to use rates based on GI and to apply for all years.

Table 2 - AFUDC Comparison Between DRA and SCG ($'000)

	2010	2011	2012	Total
AFUDC per RO Model @ 8.68% ROR	$25,514	$29,628	$25,713	$80,855
AFUDC per DRA @ Global Insight Rates[1]	501	832	2,994	4,327
Impact of Proposed DRA Adjustments	25,013	28,796	22,719	76,528
DRA Calculated Savings Based on Rate Differential[2]	18,402	20,415	11,772	50,589
Difference Not Addressed By DRA[3]	6,611	8,381	10,947	25,939
Impact of Proposed DRA Adjustments	$25,013	$28,796	$22,719	$76,528

(1) Summary of Exhibit DRA 51, Chapter 3.

(2) DRA-50, Table 3-3a, as corrected/revised.

(3) DRA's method of calculating AFUDC was flawed and did not reveal the true impact of its recommendation. SCG disagrees with DRA's proposal to use rates based on GI and to apply for all years.

As shown above, the manner in which DRA would apply its proposed AFUDC rate significantly increases the impact to rate base beyond what even DRA calculates. This is an onerous and unfair result, and at a minimum, DRA should correct the manner in which it proposes to apply its AFUDC rate in this GRC by reflecting SDG&E's and SCG's estimated AFUDC rates in 2010 and 2011.

In summary, the rebuttal testimony of Mr. Hayes describes why DRA's proposed AFUDC rate calculation is flawed and contrary to FERC guidance. This rebuttal testimony reveals the true impact of DRA's AFUDC proposal, caused by DRA's improper inclusion of its own proposed AFUDC rates to 2010 and 2011 CWIP. For these reasons, DRA's AFUDC proposal should be rejected in total, and SDG&E's and SCG's proposed AFUDC rates, which are reasonable and aligned with historical rates, should be adopted.

III. REBUTTAL TO TURN

A. New Business Forfeitures

SCG forecasts 2012 new business forfeitures of ($4,856,000).[12] TURN's forecast is ($7,691,000).[13] TURN uses a three-year average (2008-2010) where SCG uses a five-year average (2005-2009). The main reason why TURN's forecast is significantly higher is its use of 2010 data, which for reasons provided throughout this testimony, should not be allowed. However, more directly problematic is TURN's use of 2010 data that is not comparable to 2005-2009 data. TURN shows a 2010 figure that does not represent a "direct cost equivalent amount," adjusted downward by an overhead factor whereas the 2005-2009 amounts in TURN's table are direct cost equivalent amounts adjusted downward by an overhead factor. Further, the 2010 figure includes Federal and State taxes whereas the 2005-2009 amounts do not. Advances collected for Federal and State taxes are not capitalized nor offset to plant when forfeited but

[12] See Exhibit SCG-02-CWP-R, p. GOM-CWP-4-R.
[13] See TURN testimony (Marcus), p. 21, Table 14.

recorded as tax liabilities. Thus the 2010 data as TURN presents it in relation to 2005-2009 data is not reliable and should not be used in forecasting this account.

Table 3 below shows an apples-to-apples presentation of forfeitures data for 2005-2010, shown as recorded data (which is unadjusted by the overhead factor). As Table 3 clearly shows, 2010 data is more in line with 2005-2009 data, contrary to what's presented in TURN's Table 14. SCG disputes TURN's selective use of 2010 data, but even if 2010 data was to be used, TURN should have used comparable 2010 data.

TURN justifies its selection of a three-year average (2008-2010) by stating that "[t]he poor economy in 2010 also assured that more of the 1999 contributions expired. Thus a five year average is not reasonable."[14] TURN is wrong. By definition, new business forfeitures occur over a three-to-ten year period: three years for gas service extensions and ten years for gas main extensions, based on Tariff Rules 21 and 20, respectively. A five-year average is reasonable because the timing and amount of forfeitures are associated with throughput over a one-to-ten year period. Use of a three-year average skews the results and would not sufficiently account for fluctuations that may occur over a total ten-year period, due to many factors, including economic conditions.

[14] Id.

Table 3: Revisions to TURN's Table 14 ($'000)

	Historical Data(1)	Recorded Data(2)
2005	$ (4,859)	$ (7,659)
2006	$ (3,882)	$ (6,119)
2007	$ (4,797)	$ (7,562)
2008	$ (4,807)	$ (7,577)
2009	$ (5,935)	$ (9,355)
2010	$ (12,331)	$ (9,820)
SoCalGas 2005-2009 average	$ (4,856)	$ (7,654)
TURN 2008-2010 average	$ (7,691)	$ (8,917)
SoCalGas Forecast		SoCalGas RO Model(3)
2010	$ (4,856)	$ (8,407)
2011	$ (4,856)	$ (8,392)
2012	$ (4,856)	$ (8,534)
TURN Forecast		
2010	$ (12,331)	$ (9,820)
2011	$ (7,691)	$ (8,917)
2012	$ (7,691)	$ (8,917)
TURN Exceeds SoCalGas		
2010	$ (7,475)	$ (1,413)
2011	$ (2,835)	$ (525)
2012	$ (2,835)	$ (383)

(1) 2005-2009 are calculated direct cost equivalents, and 2010 is not a calculated direct cost equivalent and includes taxes.
(2) Recorded Forfeitures not adjusted by overhead factor and exclusive of Federal and State taxes.
(3) SoCalGas forfeitures reflected in Results of Operation (RO) Model.

For these reasons, SCG's 2012 forecast of new business forfeitures is reasonable and sound compared to TURN's forecast, and should be adopted.

B. Regulator Purchases

When discussing the Regulator replacement program (100,000 units) with respect to Gas Distribution (Budget 163), TURN claims, "there is an accounting problem. According to SoCal, 78.87% of the cost of those regulators will close to plant in service in 2012 (TURN DR 17-01) even though SoCal admits that the meters are specifically not needed in 2012 at all. Those extra regulators should be deemed to be purchased in 2013 – outside the test year for ratemaking purposes."[15]

The rebuttal testimony of Gina Orozco-Mejia (Exhibit SCG-202) explains why this is not the case. Ms. Orozco-Mejia explains that to avoid an unplanned surge in replacements as units decline in effectiveness, SCG is instituting a systematic approach to replacing regulators in 2012. In 2013, SCG plans to address over 300,000 meter locations. The forecasted expenditure is to secure sufficient inventory ahead of these anticipated change-outs. SCG disagrees with TURN that every regulator unit purchased in 2012 must be installed in that year with no inventory carry-over.

Contrary to TURN's opinion, there is no accounting problem. The accounting and ratemaking treatment of capitalizing regulator purchases in 2012 supports SCG's operational plan, as briefly discussed above. In fact, SCG conservatively closed to plant in service (i.e., rate based) these routine regulator purchases based on the use of a five-year historical average of 78.87% as opposed to a 100% factor which is typical for these kinds of inventory asset purchases. TURN's forecast does not reflect sound ratemaking. Therefore, SCG's forecast for this account is reasonable and should be adopted.

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[15] Id. at 23.

IV. SUMMARY AND CONCLUSION

The weighted-average rate base forecasts presented by SDG&E and SCG are reasonable and supported by the evidence presented in testimonies and workpapers. DRA and TURN do not present credible arguments supporting their proposed adjustments to rate base. In particular, DRA's AFUDC and TPR driven adjustments, which amount to substantial reductions to rate base, are fundamentally flawed and inappropriately administered, and should be rejected in total.

This concludes my prepared rebuttal testimony.

ATTACHMENT 1

SDG&E AFUDC RATES
2005 - 2009

Month	Year 2005	2006	2007	2008	2009
January	8.43%	8.18%	8.14%	8.41%	8.48%
February	8.45%	8.21%	8.18%	8.43%	8.49%
March	8.46%	8.15%	8.16%	8.51%	8.51%
April	8.41%	8.12%	8.17%	8.49%	8.38%
May	5.61%	7.49%	8.20%	8.36%	8.31%
June	8.13%	8.32%	8.20%	8.39%	8.20%
July	7.98%	8.19%	8.21%	8.38%	8.29%
August	8.15%	8.20%	8.26%	8.43%	8.31%
September	8.16%	8.21%	8.27%	8.45%	8.31%
October	8.22%	8.02%	8.16%	8.54%	8.33%
November	8.24%	8.03%	8.18%	8.56%	8.36%
December	8.01%	8.16%	8.16%	8.46%	8.37%

2010 Recorded
AFUDC Rates

January	8.40%
February	8.48%
March	8.50%
April	7.84%
May	8.52%
June	8.38%
July	8.39%
August	8.39%
September	8.11%
October	8.13%
November	8.15%
December	8.15%

ATTACHMENT 2

SCG AFUDC RATES
2005 – 2009

	Year				
Quarter	**2005**	**2006**	**2007**	**2008**	**2009**
Quarter 1	8.4745%	8.2987%	8.4957%	8.4476%	8.2843%
Quarter 2	8.3684%	8.3849%	8.4859%	8.3978%	8.2682%
Quarter 3	8.5293%	8.3897%	8.5447%	8.3625%	8.2966%
Quarter 4	8.5536%	8.4842%	8.5804%	8.4313%	8.3324%

2010 Recorded AFUDC Rates

Quarter	2010
Quarter 1	8.5676%
Quarter 2	8.6419%
Quarter 3	8.5777%
Quarter 4	8.7458%

ATTACHMENT 3

DRA's Response to SDG&E/SCG Data Request 14, Question 2.

(relevant portion reproduced)

Origination Date: September 12, 2011

Due Date: September 26, 2011

Response Date: September 23, 2011

Data Request No: SDG&E/SCG Data Request 14

Exhibit Reference: DRA-50-Results of Examination

Subject: AFUDC Proposal

The following is DRA's response to SEMPRA's data request. If you have any questions, please contact the responder at the phone number and/or email address shown above.

Q.2 Please provide the electronic file with working formulas of the calculations performed to arrive at the amounts shown in Exhibit DRA-50, Tables 3-3a and 3-3b, and workpaper page 5.2. Are there any assumptions behind these calculations that are not noted in testimony or workpapers? If so, what are they?

A.2 The workpaper page 5.2 was outdated and inadvertently provided to Sempra. The current/correct electronic file is attached herein as an Excel document. The correct figures that are different are bold with cells shaded. Some of the updated figures will result in some minor revisions to Exhibit DRA-50 and Tables 3-2a, 3-2b, 3-3a, and 3-3b. DRA will provide Errata to testimony along with the current/correct workpaper page 5.2. The minor revisions will affect neither DRA's R/O model nor DRA's conclusion that, "if the Commission adopts DRA's recommended AFUDC rates, the dollar savings over the period 2010 through 2012 will total approximately $50.6 million and $44.3 million for SCG and SDG&E, respectively." All assumptions behind DRA's calculations are noted in testimony or workpapers.