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| 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<br>(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<br>(Filed December 15, 2010) |

Application: A.10-12-005/A.10-12-006
Exhibit No.: SDG&E-256/SCG-246

# PREPARED REBUTTAL TESTIMONY OF STEVEN DAIS AND PATRICK D. MOERSEN 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

**TABLE OF CONTENTS**

**PREPARED REBUTTAL TESTIMONY OF**

**STEVEN DAIS AND PATRICK D. MOERSEN**

**ON BEHALF OF SAN DIEGO GAS & ELECTRIC COMPANY**

**AND SOUTHERN CALIFORNIA GAS COMPANY**

## I. INTRODUCTION

The Division of Ratepayer Advocates ("DRA"), The Utility Reform Network ("TURN"), and Utility Consumers' Action Network ("UCAN") (jointly, "intervening parties") propose significant cost reductions directly to rate base as well as depreciation expense adjustments under the premise that SDG&E and SCG (jointly, "Applicants") have incorrectly accounted for third party reimbursements.

Applicants' depreciation witness, Bob Wieczorek, addresses the specific depreciation-related adjustments proposed by intervening parties (see Exhibits SDG&E-233 and SCG-227). This rebuttal testimony (1) describes Applicants' accounting treatment of Contributions In Aid of Construction ("CIAC"), which are payments received from specific customers for specific construction projects; (2) provide specific citations to the guidance from the Federal Energy Regulatory Commission ("FERC") and the National Association of Regulatory Utility Commissioners ("NARUC") that support Applicants' accounting; and (3) explains why DRA's attempt to quantify and impose a rate base reduction, as well as intervening parties' proposed adjustments to depreciation expense, are invalid, as they base their proposals on misinterpreted FERC and NARUC guidance addressing asset retirements. This rebuttal testimony concludes by recommending that all of intervening parties' proposed adjustments based on their third party reimbursements analysis be rejected in total.

## II. CIAC

### A. Overview

CIAC is money (or other consideration) received by a utility to install, improve, replace, or expand facilities other than those normally provided by the utility. CIAC payments may be received from companies, municipalities, states or other government entities, individuals, and others. The use of CIAC payments to cover construction costs associated with the requested facilities ensures that these construction costs are paid by the customer or entity requesting the facilities, rather than recovered through rates paid by ratepayers in general. The main types of CIAC projects requested of Applicants are for relocation and new facilities installation. New installation projects are where new facilities are installed for the specific benefit of a customer (e.g., a newly-built home needs installation of pipe and equipment to receive gas). Relocation projects involve facilities which are moved on behalf of a specific customer, for instance, if a business or residence wants a gas meter moved for functional or design purposes.

The customer is charged upfront for costs of the project including but not limited to, relocation, installation and cost of removal. When a customer requests SDG&E or SCG to undertake a project, the utility will outline the project description and provide an estimate of the total costs of the project. If the customer agrees with the specifications and costs, a contract between the customer and the utility is executed, and the contract will state that the customer is responsible for paying the actual costs of the project. SDG&E also offers customers the option of a fixed-cost pricing contract whereby the customer is responsible for paying the estimated cost upfront, and any cost overages or under-spends are assumed by SDG&E.

CIAC payments are recorded as received, and are offset by accounts that record the actual costs determined for the CIAC project. The accounting treatment of offsetting CIAC payments against actual project costs treats CIAC as an amount that does not increase or decrease Applicants' rate base.  There is a timing component whereby if one compares a utility's current CIAC balance against what is recorded for actual costs over a selected period of time, the CIAC payments balance could be greater or less than costs over the same period, depending on the timing of project construction and completion.

Because CIAC payments received from a customer in advance of the project's undertaking are based on an estimate developed before the project commences, the actual costs can exceed, fall short of, or exactly equal the estimated costs.  Rate base could be impacted upward or downward if a project's actual costs do not match estimated costs, depending on what type of contract a customer or entity has with the utility, and what the contract provides for in the event actual costs differ from estimated costs.  However, the amount of the CIAC payments themselves should not impact rate base because of Applicants' accounting treatment, which offsets CIAC payments with actual project costs.  In a situation where a CIAC payment more than covers the actual cost for the related project, and the contract states that the difference will not be refunded, then that difference will be credited to rate base (i.e., a reduction to rate base). In a situation where a CIAC payment is not enough to cover the actual cost for the related project, and the contract does not require additional CIAC payment from a customer (e.g., fixed-cost pricing contract), the CIAC payment booked is fully offset by the recorded project costs, and therefore, the CIAC payment does not impact rate base.  If the utility uses its own capital to make up the difference, that difference becomes a utility asset, and is included in plant, thereby increasing rate base.

Furthermore, as explained to DRA, while SDG&E and SCG use different accounts to record CIAC payments and corresponding actual project costs (which is not uncommon for different companies to have variations in the actual booking of debits and credits), their accounting treatment of CIAC is consistent.[1] As explained earlier, because CIAC payments and actual project costs are offset against each other in accordance with FERC and NARUC guidelines (discussed below), there should be no impact to plant and therefore, no impact on the depreciation study, which analyzes plant accounts.[2] What was also explained to DRA was that both the retirement and any net uncollectible portion of the removal costs associated with a CIAC project actually gets reflected in Applicants' depreciation studies (specifically the future net salvage portion of the studies).[3] In other words, if a CIAC payment does not cover all of the necessary removal costs for the related project, this net uncollectible portion will impact net salvage, and therefore rate base and the future net salvage calculation. Of course, outside of the aforementioned uncollected CIAC activity, retirements and gross salvage from those projects will always be a part of the future net salvage studies for both utilities.

### B. FERC and NARUC Guidance on CIAC

Applicants follow FERC's Uniform System of Accounts ("USoA") and NARUC's publication, *Public Utility Depreciation Practice* (August 1996) in accounting for CIAC. These sources should not be in dispute, as they are the very sources that intervening parties also reference and rely upon in their testimonies. The section of FERC's USoA quoted below specifically addresses how CIAC should be treated under utility accounting:

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[1] See Attachment 2, SDG&E response to DRA informal data request DRA-SDG&E-DR-014-MRK, Q3.
[2] See Attachment 2, SDG&E response to DRA data request DRA-SDG&E-119-MRK, Q1, and DRA informal data request DRA-SDG&E-DR-015-MRK, Qs 2 – 3, among others.
[3] See Attachment 2, SDG&E response to DRA data request DRA-SDG&E-059-MRK, Q2, and SCG response to DRA data request DRA-SCG-078-MRK, Q3 and DRA-SCG-141-MRK, Q2.

Gas Plant

The gas plant accounts shall not include the cost or other value of gas contributed to the company. **Contributions in the form of money or its equivalent toward the construction of gas plant shall be credited to the accounts charged with the cost of such construction.** Plant constructed from contributions of cash or its equivalent shall be shown as a reduction to gross plant constructed when assembling cost data in work orders for posting to plant ledger of accounts. The accumulated gross costs of plant accumulated in the work order shall be recorded as a debit in the plant ledger of accounts along with the related amount of contributions concurrently being recorded as a credit.[4] (emphasis added)

Electric Plant

The electric plant accounts shall not include the cost or other value of electric plant contributed to the company. **Contributions in the form of money or its equivalent toward the construction of electric plant shall be credited to accounts charged with the cost of such construction.** Plant constructed from contributions of cash or its equivalent shall be shown as a reduction to gross plant constructed when assembling cost data in work orders for posting to plant ledgers of accounts. The accumulated gross costs of plant accumulated in the work order shall be recorded as a

[4] Gas Plant Instructions 2, section D.

> debit in the plant ledger of accounts along with the related amount of contributions concurrently be recorded as a credit.[5] (emphasis added).

NARUC also specifically addresses the accounting treatment of CIAC:

> The plant accounts should not include the cost or other value of plant contributed to the company. **Contributions in the form of money or its equivalent toward the construction of plant should be credited to the accounts charged with the cost of such construction.** When assembling cost data in work orders for posting to plant ledgers of accounts, plant constructed from contributions of cash or its equivalent should be shown as a reduction to gross plant constructed. The accumulated gross costs of plant accumulated in the work order should be recorded as a debit in the plant ledger of accounts along with the related amount of contributions concurrently being recorded as a credit.[6] (emphasis added)

FERC and NARUC prescribe the same accounting treatment of CIAC; and, Applicants follow this consistent guidance whereby CIAC payments are credited (or offset) against the related projects' actual costs.

### C. Examples of Applicants' CIAC Accounting

To illustrate the practical application of the FERC and NARUC guidance, assume a customer asks SCG to relocate a distribution main underneath customer's property, a project SCG estimates will cost $10,000. SCG receives $10,000 from the customer and records the CIAC. The project ends up costing $12,000, which SCG also records to that same account. The customer will then be billed for the additional $2,000. Therefore, the final CIAC amount of

[5] Electric Plant Instructions 2, section D.
[6] NARUC Public Utility Depreciation Practice – August 1996, page 37.

$12,000 is completely offset by the actual project costs ($12,000) booked to that same account. If the project ends up costing $8,000 instead of the estimated $10,000 collected, SCG will refund $2,000 to the customer and reflect that in the account. In both cases, CIAC is completely offset, and has no impact on SCG's rate base.

Even though the CIAC payment itself has no rate base impact, when does a CIAC project impact plant and rate base? If during the course of the project, SCG removes and retires existing pipe that has a gross salvage value (e.g., $100), that gross salvage value is recorded in depreciation reserve. Rate base can also be impacted upward where actual costs exceed the estimated costs (and the CIAC collected in the amount of those estimated costs), and the customer contract does not require payment of that difference.

SDG&E would follow the same example (but would use different journal entries). Because SDG&E also offers the option of a fixed-cost pricing contract, if the project ends up costing $12,000, the CIAC of $10,000 would be completely offset by the actual project cost. The difference of $2,000 becomes a capital investment that SDG&E makes, and becomes part of plant, thereby increasing rate base. If the project ends up costing $8,000 and the customer has overpaid, the $10,000 CIAC is offset by the actual project cost of $8,000, and the difference of $2,000 is reflected as a reduction to rate base.

SCG's and SDG&E's treatment of CIAC is consistent with both FERC and NARUC guidance on CIAC. As discussed immediately below, Applicants' treatment of CIAC is also in harmony with the FERC and NARUC guidance on asset retirements, which is what intervening parties used as a basis for their positions.

## IV. REBUTTAL TO DRA

### A. Applicants follow FERC and NARUC Guidance

DRA claims to have found guidance from FERC and NARUC that demonstrates that Applicants have improperly accounted for CIAC payments. DRA's citation to the USoA Section B is as follows:

> B. At the time of retirement of depreciable gas utility plant, this account shall be charged with the book cost of the property retired and the cost of removal and shall be credited with the salvage value and any other amounts recovered, such as insurance.[7]

DRA's interpretation of this quote is that "that gross salvage and third party reimbursement be credited to depreciation reserve."[8] In other words, DRA believes that all CIAC payments should be booked to depreciation reserve, **and not against actual project costs**, as done by Applicants. However, this is not what the USoA prescribes in Section D, which specifically addresses CIAC. Section B of the USoA quoted by DRA deals with the situation **when an asset is retired, as evidenced in the phrase in the quote above "At the time of retirement of depreciable gas utility plant…".** In the example provided earlier, if during the course of a construction project, SCG removes its existing pipe, which has a gross salvage value of $100, SCG will record the $100 to a plant's depreciation reserve. Under DRA's proposal, they would also have the $10,000 CIAC payment posted to depreciation reserve instead of offsetting the construction costs in the account used, which Applicants represent as inappropriate because it would understate the cost of removal. Applicants follow the USoA's guidance on asset retirements and gross salvage. However, in terms of the CIAC payment, Section D of the

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[7] Exhibit DRA-36, p. 16, lines 4 – 7.
[8] *Ibid*, line 3.

USoA controls the proper accounting and instructs the payment is to be recorded in the same account as the construction costs.

DRA also cites to a 1981 NARUC publication:

> The cost of plant retired should be accounted for in accordance with the rules applicable thereto. The cost of the new plant should be included in the appropriate plant account at actual cost of construction. The reimbursement received shall be accounted for by (a) crediting operation and maintenance expenses to the extent of actual expenses occasioned by the plant changes and (b) crediting the remainder to the reserve for depreciation, unless contractual terms definitely characterize residual or specific amounts as applicable to the cost of replacement. In the latter even, appropriate credit should be entered into the plant accounts.[9]

NARUC is also describing an asset retirement situation, but does not describe how a CIAC payment should be treated for accounting purposes. Instead, here is what NARUC says about accounting for CIAC:

> Contributions-in-Aid of Construction ("CIAC") and Customer Advances reduce the rate base as a source of non-investor supplied capital. CIAC and Customer Advances are payments made by customers generally to fund plant additions for new or expanded service. CIAC are generally non-refundable, whereas Customer Advances often have a provision allowing for refunds under specified circumstances. For certain of the utility industries (e.g., water and wastewater), it is common for the CIAC and

[9] *Ibid*, lines 12 – 20.

Customer Advances to be contained in its own rate base account, **whereas for other industries (e.g., electric and gas) it is common for these items to be netted against the plant costs associated with their payment.**[10] (emphasis added)

In summary, Applicants' accounting treatment of CIAC is consistent with FERC and NARUC guidance, contrary to DRA's claim. Therefore, DRA is wrong in concluding that all CIAC payments (or third party reimbursements as DRA would consider CIAC) be credited to depreciation reserve. In both the FERC and NARUC guidance provided above they state that **"contributions in aid of construction"** should be recorded in the same account as the costs. The guidance interpretations discussed by DRA refer to reimbursements and provide no statement regarding **"contributions in aid of construction."** Using DRA's interpretation would record the costs and contributions in different accounts, which would significantly understate the actual cost of removal amounts incurred by the utilities. DRA is also wrong to imply that Southern California Edison Company ("SCE") supports DRA's position, because SCE has opposed DRA's third party reimbursements proposal in its own 2012 General Rate Case (see Attachment 1, excerpt from SCE's rebuttal testimony addressing DRA's third party reimbursements analysis).

### B. Applicants' Discovery Responses Do Not Support DRA's Proposal

DRA attempts to quantify what it believes is an appropriate CIAC adjustment to Applicants' rate base through the use of Applicants' data supplied during discovery. As a preliminary matter, Applicants dispute DRA's opinion of Applicants' responsiveness during the discovery process. Applicants made every good faith effort to respond to the numerous data

[10] Rate Case and Audit Manual Prepared by NARUC Staff Subcommittee on Accounting and Finance (2003).

requests and informal inquiries, in written responses, telephone calls, and even personal meetings. Applicants provided what information was available (and explained what data was not), described what the provided data represents, and conveyed the limitations of relying on that data for certain purposes. Therefore, to the extent DRA found Applicants' responses as unhelpful or contradictory, Applicants disagree. See Attachment 2 (which contains documentation of Applicants' responses to DRA's inquiries on third party reimbursements[11]).

For example, as explained earlier, if given a point in time (or time period like 2000-2010), comparing an account balance for CIAC customer payments against an account balance for actual project costs is not going to conclusively depict the offsetting of CIAC payments against actual costs. This is because CIAC payments are recorded when received, whereas actual costs may reflect the timing of construction and/or conclusion of the project. However, this information is what DRA appears to have used to derive its $133 million proposed reduction rate base ($123 million for SDG&E and $10 million for SCG).[12]

For SDG&E, the $123 million difference between CIAC collected during an 11-year period, and what was allocated to plant accounts for the corresponding project costs for that same period,[13] ***<u>does not represent</u>*** a cash inflow less outflow difference, but rather a timing difference between when CIAC payments are received and the allocation of those same payments to the plant accounts. As was explained to DRA, the reason for this $123 million difference, and the reason why this does not correspond to an actual cash difference, is that SDG&E does not

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[11] Applicants' data request responses include large embedded spreadsheets which are not being reproduced and attached as part of this testimony and are instead incorporated by reference. However, Applicants reserve the right to introduce contents from those spreadsheets during the course of this proceeding.

[12] Exhibit DRA-36, pp. 12 – 15.

[13] This is consistent with the information that DRA requested for both SDG&E and SCG. See Attachment 2 (responses to DRA-Informal-SDG&E-013-MRK, Q4 and DRA-Informal SCG-09-MRK, Q4).

allocate CIAC payments to plant accounts until the completion of projects. Accordingly, whereas the 2000-2010 data provided to DRA shows CIAC payments which were recorded in the year in which they were received, that same data does not show an offsetting allocation to plant accounts because several projects will be completed after 2010. Therefore, the allocation to plant accounts consists of a simple reclassification on SDG&E's accounting records, and does not reflect an actual movement of cash.

For example, a large project which was begun in 2008 and is 80% complete at the end of 2010 may have received a CIAC payment of $1 million in 2008, but the allocation of those projects costs to a plant account are not yet performed. Therefore, what DRA would have seen is a CIAC amount of $1 million with no corresponding and offsetting allocation to plant accounts at this point in time. This does not represent a basis to lower the utilities current plant that is used to provide services to its customer base.

For SCG, the $10 million difference in what SCG shows as recorded for CIAC versus what was recorded in its designated plant account for corresponding project costs relates to timing of contributions and construction costs. What the data reflects is the timing difference between the contributions and the construction costs of the project, as the payments are received in advance of construction costs being incurred and recorded. By looking at SCG's data, over half of the outstanding projects involve CIAC payments received in 2010, which means those payments would not show a corresponding offset until sometime after 2010, when those projects are completed. DRA did not comprehend this critical detail.

To summarize, it would be wholly inappropriate to authorize any reduction to rate base, as recommended by DRA, due to this misinterpretation of the CIAC information requested from and provided by Applicants. As described in Section II.A., CIAC payments are offset by costs and have no impact on rate base. Simply stated, DRA's misbegotten proposal is equivalent to removing something from rate base that was never there.

Applicants also dispute DRA's claim that explanations of how CIAC is treated were inconsistent or contradictory. As explained earlier, SDG&E and SCG may use different accounts to record CIAC transactions, however both companies follow the same FERC and NARUC process to treat CIAC.

Moreover, in terms of how reimbursements are treated in Applicants' depreciation studies, each utility explained that because CIAC payments are offset by actual construction costs, they do not impact the future net salvage analysis. SCG stated the following in a data request response:

> The net removal cost (less any positive salvage) applied against these retirements generating the historical FNS rates do not include those removal costs already paid and reimbursed by customers for the collectible work done. The removal costs associated with these customer reimbursements is not included in the Net Salvage Studies, thereby correctly lessening the impact on any proposed FNS rates.[14]

SDG&E stated the following in a data request response:

> Removal costs are charged to FERC 108, these costs are offset by net CIAC payments received as shown. Again, these two off-setting entries result in zero impact, and thus have no influence on the 2012 GRC Net Salvage Studies.[15]

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[14] See Attachment 1, response to DRA data request DRA-SCG-078-MRK, Q3.
[15] See Attachment 1, response to DRA informal data request DRA-Informal-SDG&E-013-MRK, Q1.

Thus, SDG&E and SCG do not contradict each other. Each company explained their respective accounting treatment, but they both reflect similar treatment of CIAC (specifically the cost of removal component) as offsets to actual project costs. While there are differences between the two utilities, both SDG&E and SCG follow FERC and NARUC guidance.

## IV. REBUTTAL TO TURN/UCAN

Like DRA, TURN/UCAN interprets FERC and NARUC to mean that CIAC should be treated as gross salvage.[16] For the reasons provided above, the TURN/UCAN interpretation of FERC and NARUC guidance is not supported by the more relevant portions of those resources that directly speak to the accounting treatment of CIAC. TURN/UCAN nonetheless propose significant reductions to Applicants' depreciation expense through adjustments to future net salvage rates for several plant accounts. While these adjustments are discussed in detail in the rebuttal testimony of Applicants' depreciation witness, this rebuttal testimony demonstrates that TURN/UCAN's adjustments are based on the faulty premise that Applicants have incorrectly accounted for CIAC. Therefore, these proposed adjustments to future net salvage rates should be rejected in total.

## V. SUMMARY AND CONCLUSION

Applicants conform to FERC and NARUC guidance on the treatment of CIAC, as well as asset retirements and gross salvage. Intervening parties take FERC and NARUC out of context and provide unsupportable arguments alleging improper accounting of CIAC by Applicants. Therefore, intervening parties' proposed adjustments lack support. Further, DRA's proposal to

[16] TURN Prepared Testimony of Jacob Pous, Report on Various Results of Operations Issues in Southern California Gas Company's 2012 General Rate Case, pp. 24 – 27, and also Report on Various Results of Operations Issues in San Diego Gas & Electric Company's 2012 General Rate Case, pp. 31 – 34.

reduce rate base by a combined $133 million reflects a misunderstanding of Applicants' data and is not credible.

This concludes our prepared rebuttal testimony.

## VI. WITNESS QUALIFICATIONS

My name is Steven Dais. My business address is 8330 Century Park Court, San Diego, California 92123. I am employed by San Diego Gas & Electric Company ("SDG&E") as a Billable Projects Accounting Supervisor, and have been in this position since 2009.

I received undergraduate degrees in Accounting and Economics from Luther College, and a Masters of Business Administration from the University of Iowa. I am a Certified Public Accountant. I have been employed by Sempra Energy and SDG&E in various positions and responsibilities since 1999. My experience includes Accounting Supervisor at Sempra Generation, and Principal Accountant for Generation Accounting at SDG&E. I have not previously testified before the Commission.

My name is Patrick D. Moersen. My business address is 555 W. Fifth Street, Los Angeles, California, 90013. I am employed by Southern California Gas Company ("SCG") as the Asset and Project Accounting Manager for SCG. I have been in this position since September 2005.

I received a Bachelor of Science degree in Business, with an emphasis in Finance from California State University of Northridge. I also received my Masters of Business Administration, with an emphasis in Finance from California Lutheran University. I have been employed by SCG in various positions and responsibilities since 1994. My experience includes Asset and Project Accounting (formerly known as Cost Accounting), Accounts Payable, Financial Planning and Internal Audit.

## ATTACHMENT 1

## EXCERPT FROM SCE'S 2012 GRC REBUTTAL TESTIMONY ADDRESSING THIRD PARTY REIMBURSEMENTS PROPOSALS FROM DRA AND TURN

## (A.10-11-015, EXHIBIT SCE-25, Vol. 3)

| | |
|---|---|
| Application No.: | A.10-11-015 |
| Exhibit No.: | SCE-25, Vol. 3 |
| Witnesses: | R. Bennett<br>R. Fisher |

SOUTHERN CALIFORNIA EDISON®

An *EDISON INTERNATIONAL®* Company

(U 338-E)

# 2012 General Rate Case

# Rebuttal Testimony

***SCE-25, Vol. 03***

***Results of Operations - Depreciation***

Before the

**Public Utilities Commission of the State of California**

Rosemead, California
July 5, 2011

### C. TURN And DRA Propose Unorthodox Accounting Changes That Have Been Addressed In Prior Proceedings

#### 1. Reimbursement Accounting

##### a) TURN And DRA Call For SCE To Return To Pre-2004 Reimbursement Accounting

TURN recommends that SCE be ordered to revert to pre-2004 accounting where TURN believes amounts received in associated with third-party reimbursements for replacement activity are treated as gross salvage rather than as contributions in aid of construction.[7] DRA proposal makes a similar recommendation, but argues that *all* third party reimbursements (not differentiating between replacements and non-replacements) be treated as gross salvage.[8] In this rebuttal, SCE demonstrates that its accounting for reimbursements adheres to FERC Uniform System of Accounts and that the other parties' recommendations do not.

##### b) Third Party Reimbursements

To understand third-party reimbursement accounting, it helps to be familiar with the circumstances, rationale, and cost elements that make up the transactions. The first party would be SCE and the second party would be general customers. Third-party reimbursements (or contributions) represent monies collected from third parties to offset retirement and construction-related expenditures. These reimbursements are for costs incurred from third-party damage claims, customer requested relocations of plant, and other construction and retirement-related requests. When a third party is accountable for the replacement of an existing asset, that party is billed for two elements: (1) the net salvage cost to remove and dispose of the old asset being retired; and (2) the cost of installing the new asset. Charging the third party to offset the incurred removal and construction costs eliminates the impact to the rate base components (i.e., plant and accumulated depreciation) leaving customers unaffected.

For example, consider the scenario of an automobile hitting an SCE distribution pole causing significant damage to the pole. In this situation, SCE would replace the pole and attempt to collect the replacement costs from the driver's insurance company. SCE cannot wait until the insurance

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[7] TURN's Report on Various Depreciation Issues, p. 4. It should be noted that SCE's pre-2004 accounting for reimbursements still had amounts applied to plant construction as contributions in aid of construction (see response to data request. TURN-SCE-054, Question 38).

[8] Exhibit DRA-17, p. 21.

proceeds, if any, are received to remove and replace the damaged pole. Before considering any reimbursement monies, the associated capital work order will capture the costs incurred by SCE. The retirement-related costs will consist of the cost to retire the old pole, its removal and disposal, less any gross salvage proceeds received. The construction-related costs will consist of the expenditures associated with the installation of the new pole.

Assume for purposes of this example that the utility incurs removal costs of $1,610 and receives gross salvage proceeds of $10. As shown in Table II-3 below, the net $1,600 of incurred retirement costs are recorded as a reduction (i.e., debit) to accumulated depreciation and the assumed installation cost of the new pole at $6,000 is recorded to plant-in-service. This is the proper accounting treatment, regardless of reimbursement. Before considering any third-party reimbursement, the pole replacement increases the rate base by a total of $7,600, as demonstrated in the incurred costs on Table II-3.

***Table II-3***
***FERC Accounting For Third Party Reimbursements***

| | FERC Account | Contribution Treatment | Incurred Cost<br>A | Third Party Contribution<br>B | Total Net Cost<br>C = A - B |
|---|---|---|---|---|---|
| **Retirement-Related Cost** (Old Asset) | | | | | |
| Removal Cost | Accum. Depr. | COR. | $1,610 | $(1,610) | $0 |
| Less: Gross Salvage | Accum. Depr. | COR. | (10) | 10 | 0 |
| **Construction-Related Cost** (New Asset) | | | | | |
| Plant Cost | Plant-In-Service | CIAC | 6,000 | (6,000) | 0 |
| **Total Costs** | | | $7,600 | $(7,600) | $0 |

SCE will attempt to collect the costs (installation labor and expenses, material and the cost to remove) from the driver's insurance company, offset the recorded removal and construction expenditures, and eliminate any ratepayer impacts in rate base. To properly account for this, the third-party reimbursement for construction-related costs must be recorded as a credit to Plant-In-Service as Contributions-In-Aid-of-Construction (CIAC). This offset removes the increase in plant balance in rate base caused by the incurred plant expenditure. The third-party reimbursement for retirement-related costs, by contrast, is properly recorded as a credit to accumulated depreciation and treated as cost of removal. This offset removes the accumulated depreciation impact to rate base caused by the incurred net salvage cost. This is what SCE does.

c) <u>DRA And TURN's Reimbursement Accounting Proposal Contradicts Requirements Of FERC's Uniform System Of Accounts</u>

DRA's and TURN's citations are pinpointed to single sources, ignore other provisions in the same sources, and taken out of context. For example, the FERC USofA sets forth the principle that "items relating to the retirements shall be kept separate from those relating to construction."[9] Contrary to DRA's assertion, the FERC USofA clearly provides that contributions for construction-related costs should be recorded as an offset to Plant-In-Service:

> The electric plant accounts shall not include the cost or other value of electric plant contributed to the company. Contributions in the form of money or its equivalent toward *the construction of electric plant* shall be credited to accounts charged with the cost of such construction. Plant constructed from contributions of cash or its equivalent shall be shown as a reduction to gross plant constructed when assembling cost data in work orders for posting to plant ledgers of accounts. The accumulated gross costs of plant accumulated in the work order shall be recorded as a debit in the plant ledger of accounts along with the related amount of contributions concurrently be recorded as a credit.[10]

FERC does not provide different accounting for construction related to replacement activity, or for new installations. Neither TURN nor DRA specifically explain how its treatment of third-party reimbursements would satisfy this FERC requirement; they merely provide a series of quotations from the FERC Gas Uniform System of Accounts and NARUC that address the treatment of third party reimbursements on for retirement activity, and ignore regulatory accounting requirements for construction-related activity.[11] DRA claims its proposed treatment of reimbursements is implied in the selective citations they offer, but has omitted citations regarding the treatment of reimbursements associated with plant in service.[12]

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[9] 18 CFR, Part 101.

[10] 18 CFR, Part 101 (*Emphasis Added*).

[11] Exhibit DRA-17, pp. 17-18.A.04-12-014, SCE-20, p. 27.

[12] *Id.*

## ATTACHMENT 2

## SDG&E AND SCG ISSUED DATA REQUEST RESPONSES REGARDING THIRD PARTY REIMBURSEMENTS INQUIRIES FROM DRA

**DRA DATA REQUEST**
**DRA-SDG&E-059-MRK**
**SDG&E 2012 GRC – A.10-12-005**
**SDG&E RESPONSE**
**DATE RECEIVED: MARCH 22, 2011**
**DATE RESPONDED: APRIL 11, 2011**

**Exhibit Reference:** SDG&E - 33
**Subject:** Depreciation

**Please provide the following:**

1. Please provide the following information re third party reimbursements:
   a. Provide a list and description of the major types of SDG&E's third party reimbursements, including "relocation", "damage/insurance", and any other types.
   b. Provide sufficient actual example from SDG&E's records of each of these categories of third party reimbursements to demonstrate all the various possibilities of how they could be booked plant in service, depreciation reserve, O&M expense, or elsewhere.
   c. Describe the method, rationale, and legal basis for how this was done in each case.

**SDG&E Response:**

a. **Major types of SDG&E's third party reimbursements**:

**Installations / Relocation Work** - The majority of third party reimbursements for capital activity are for new installation or relocation of electric or gas facilities. The payments received may be either refundable or nonrefundable. For nonrefundable projects, the customer payment is recorded to the general ledger as an offset to the costs (including removal costs, if any) incurred to install or relocate the electric or gas facilities. Any differences at the end of the job may be either refunded or billed to the customer (for actual cost billing jobs) or recorded to plant (for net contract price jobs). For refundable projects, the customer payment is recorded to a liability account as it is expected that the payment will be refunded at a later date. For any of the above project types, if existing facilities are removed the book value of the removed facilities as well as removal costs will be charged to accumulated depreciation, FERC 108 as prescribed by the FERC Uniform System of Accounts.

**Damage Claims** – Damage claims occur when someone damages company-owned property, for example, someone accidently damages a distribution main while digging. A minor repair to a pipeline would be expensed in accordance with our capitalization policy. Damage claim jobs are actual cost billing jobs. All costs associated with the job net of payment received from the damage claims would be charged to O&M. Any and all removal costs are reimbursed by the funds received for the damage claims and subsequently, no entries are made to FERC 108. Any equipment retired would be recorded to accumulated depreciation, FERC 108, as prescribed by the FERC Uniform System of Accounts.

**Response to Question 1 (Continued)**

**Generator Interconnection Studies** – Interconnection Feasibility Studies are performed for generation customers wishing to connect to the system. The costs associated with each study net of payments received are charged to expense. These studies are actual cost billing jobs and are performed in accordance with the Open Access Distribution Tariff.

**b.** Examples – see attached

DRA-SDGE-059
Q1b.xlsx

**c.** Method, rationale, legal basis for treatment

Guidance for the treatment of distribution line extensions is provided in CPUC Sheet Number 19758-E, *Rule 15 Distribution Line Extensions*, and guidance for the treatment of service line extensions is provided in CPUC Sheet Number 11233-E, *Rule 16 Service Line Extensions*. Generator Interconnection Studies are performed in accordance with the *Open Access Distribution Tariff, First Revised Volume No. 6.*

**DRA DATA REQUEST**
**DRA-SDG&E-059-MRK**
**SDG&E 2012 GRC – A.10-12-005**
**SDG&E RESPONSE**
**DATE RECEIVED: MARCH 22, 2011**
**DATE RESPONDED: APRIL 11, 2011**

2. Provide a simplified spreadsheet showing for each of the above examples, how the data was used in the calculation of historical and test year salvage rates. Describe the rationale and legal basis for how this was done in each case.

**SDG&E Response:**

The attachments provided in response to Question 1b contain simplified spreadsheets for each example that reflect how the removal cost data was used / not used in the calculation of historical and test year salvage rates. In simple terms, any removal cost that has been reimbursed by the customer is not recorded in FERC 108. Likewise, any non-collectible portion would be recorded in FERC 108.

In the "Actual Cost Billing, Non-Refundable, Capital Project" example, the detail provided at rows 16 thru 21 of the spreadsheet identify total project costs of $847,454, of which $48,272 was not recovered from the customer and was recorded to FERC 354. The removal cost of $297,854 was recovered from the customer therefore no amount was recorded to FERC 108.

In the "Net Contract Price, Non-Refundable, Capital Project" example, the detail provided at rows 39 thru 44 of the spreadsheet identify total project costs of $43,018 and only the non-collectible portion of the total removal cost was recorded to FERC 108. Those unreimbursed removal costs (see cell F38) totaled $7,809.

In the "Net Contract Price, Refundable, Capital Project" example, the detail provided at rows 61 thru 63 of the spreadsheet identify total estimate project costs of $111,301 which has been collected up front from the customer. Typically, these are new business construction and seldom involve removal and retirement of existing company facilities. For those limited situations where removal occurs, the removal costs would be charged to FERC 108.

In the "Actual Cost Billing, Non-Refundable, O&M Project" example, the detail provided at rows 81 thru 83 of the spreadsheet identifies total project costs of $11,456. Since the work involves O&M work, there are no retirements and/or removal costs associated with the activity, therefore no entries to FERC 108.

The SDG&E work papers (BW-WP-159 thru BW-WP-217) previously submitted with the application detailing the Future Net Salvage (FNS) calculation by FERC account contain the historical retirements for the most recent 15 year period, including any retirement activity referenced in the examples to question 1. The actual removal cost associated with any customer reimbursement has not been established nor recorded in FERC 108 and therefore, is not included in the SDG&E FNS calculations, thereby correctly lessening the impact on any requested FNS %.

**DRA DATA REQUEST**
**DRA-SDG&E-070-MRK**
**SDG&E 2012 GRC – A.10-12-005**
**SDG&E RESPONSE**
**DATE RECEIVED: APRIL 19, 2011**
**DATE RESPONDED: May 3, 2011**

**Exhibit Reference:** SDG&E – 33

**Subject:** Depreciation

**Please provide the following:**

1. Please provide the following information re third party reimbursements. Provide a working spreadsheet displaying all yearly activity related to third party reimbursements by FERC account for the years 2005 to 2010. The spread sheet should include all yearly totals for original book value of removed plant, yearly totals for net book value of removed plant, removal costs, gross salvage, net salvage, reimbursements, entries to FERC 108, entries to Accumulated Depreciation, entries to Plant in Service, and all other entries associated with third party reimbursements.

**SDG&E Response:**

There is no working spreadsheet containing the information being requested, as this information was neither used, nor relevant to, the GRC depreciation study, as explained below. Furthermore, the volume and type of information is not readily available and would be unduly burdensome to compile.

The 15 year historical studies used in determining the proposed SDG&E Future Net Salvage (FNS) rates in the 2012 GRC have captured the retirements by FERC account. The net removal cost (less any positive salvage) applied against these retirements generating the historical FNS rates do not include those removal costs already paid and reimbursed by customers for the collectible work done. The removal cost associated with these customer reimbursements is not included in the Net Salvage Studies, thereby correctly lessening the impact on any proposed FNS rates.

**DRA DATA REQUEST**
**DRA-SDG&E-076-MRK**
**SDG&E 2012 GRC – A.10-12-005**
**SDG&E RESPONSE**
**DATE RECEIVED: MAY 18, 2011**
**DATE RESPONDED: JUNE 7, 2011**

2. For the years 2000-2010, please provide (to the extent available) the following information by year and FERC account for all assets retired in connection with third party reimbursements:
    i. The average vintage of the retired assets.
    ii. The average removal cost of the retired assets.
    iii. The total number of retired assets.

**SDG&E Response:**

SDG&E has already responded to the DRA that this requested third party reimbursement detail is not available.

**DRA DATA REQUEST**
**DRA-SDG&E-119-MRK**
**SDG&E 2012 GRC – A.10-12-005**
**SDG&E RESPONSE**
**DATE RECEIVED: JULY 27, 2011**
**DATE RESPONDED: AUGUST 2, 2011**

**Data Request No:** DRA-SDG&E-119-MRK

**Exhibit Reference:** SDG&E-33

**Subject:** Depreciation

**Please provide the following:**

1. In response to DRA-SCG-53-MRK, SCG stated that "Since customers reimburse SOCalGas for the work performed, these costs are offset by customer payments and are not recorded to plant. Therefore, these costs are excluded from rate base." SDG&E's response to the same question in SDG&E-59-MRK was not as explicit in stating that there was no effect on rate base from the costs of work performed in connection with third party reimbursements. Please state explicitly whether the costs of work performed in connection with third party reimbursements are excluded from rate base by SDG&E's accounting system.

**SDG&E Response:**

Costs of work performed by SDG&E which are offset by customer reimbursements do not affect SDG&E's rate base.

**DRA DATA REQUEST**
**DRA-SDG&E-119-MRK**
**SDG&E 2012 GRC – A.10-12-005**
**SDG&E RESPONSE**
**DATE RECEIVED: JULY 27, 2011**
**DATE RESPONDED: AUGUST 2, 2011**

2. In response to DRA-SCG-53-MRK, SCG stated that "Any assets removed due to the activities described will be retired and its book value less any salvage credit will be recorded to accumulated depreciation, FERC 108." SDG&E's response to the same question in SDG&E-59-MRK was not as explicit. Please state explicitly if assets removed due to the activities in connection with third party reimbursements will all be retired and their book value less any salvage credit will be recorded to accumulated depreciation.

**SDG&E Response:**

Assets removed due to activities in connection with third party reimbursements will all be retired and their book value less any salvage credit will be recorded to accumulated depreciation on SDG&E's books.

**DRA DATA REQUEST**
**DRA-SDG&E-124-MRK**
**SDG&E 2012 GRC – A.10-12-005**
**SDG&E RESPONSE**
**DATE RECEIVED: AUGUST 11, 2011**
**DATE RESPONDED: AUGUST 17, 2011**

**Subject:** Depreciation

**Please provide the following:**

1. Pursuant to the conference call re DRA-Informal-SDG&E-013-MRK, please supply an amended version of the CD and spreadsheet sent in response. In the amended version please eliminate all projects that have not ended by 2010, and please include all projects starting since 1995, but exclude all projects starting in 1994 or earlier.

**SDG&E Response:**

SDG&E is unable to identify and exclude projects that have not ended by 2010 as we are unable to 'backdate' in SAP to determine the status of work orders as-of a time in the past. SDG&E was, however, able to identify and exclude work orders which remain in process as of 8/12/11.

C:DRA CIAC
Receipts Allocations:

This still leaves a continuing disparity between receipts and allocations. As an example, CIAC reimbursement dollars received for projects which have closed between 1/1/11 and 8/11/11 (this year) would more than likely have been included in the 2010 "CIAC Payments Received" number on the spreadsheet. While at the same time, the offsetting allocations settling to 101 and 108, as these same jobs are completed between 1/1/11 and 8/11/11, would obviously be included in the current year's 2011 "Allocations to FERC Plant Accounts" number.

Information on CIAC receipts or allocations for the period 1995 thru 2000 is unavailable.

**DRA INFORMAL DATA REQUEST**
**DRA-INFORMAL-SDG&E-013-MRK**
**SDG&E 2012 GRC – A.10-12-005**
**SDG&E RESPONSE**
**DATE RECEIVED: JUNE 16, 2011**
**DATE RESPONDED: JULY 1, 2011**

1. Provide total net CIAC payments collected and utilized for new construction costs during each year 2000 – 2010. If possible, provide receipts by workorder.

**SDG&E Response 01:**

The attached schedule summarizes activity posted to SDG&E's CIAC payment receipt accounts and activity posted to SDG&E's CIAC allocations to new construction cost accounts during the years 2000 through 2010. The available work order detail that was posted in these accounts is provided. Detail by FERC accounts is displayed. The amounts shown are in nominal dollars. Note that CIAC payment allocations to projects offset project costs incurred and therefore these payments and costs have zero impact on plant and removal balances. Because there is a zero impact, there is no influence on the SDG&E 2012 GRC Net Salvage Studies.

The attached file represents the following for SDG&E.

1. CIAC Payments Received and Used For New Construction: This section/row shows net CIAC received and used for new construction from customers during 2000 through 2010. The amounts shown are receipts less any amount refunded back to customers during each year. These net amounts are utilized for new construction. The cost for new construction has always been the essential factor in determining CIAC payments.

2. FERC Electric Transmission Plant Accounts 350 through 359: CIAC payments have been received and utilized for new electric transmission construction costs within FERC accounts 350 through 359. These CIAC allocations offset the actual construction costs charged to each of these FERC accounts. Because there is a zero impact, there is no influence on the SDG&E 2012 GRC Net Salvage Studies. FERC Transmission accounts are not included in the SDG&E 2012 GRC.

3. CPUC Gas Transmission/Distribution & Electric Distribution Plant Accounts (includes common): This section shows the allocation of the net CIAC dollars for new construction by FERC plant account during 2000 - 2010. These CIAC allocations offset the actual construction costs charged to each of these FERC accounts. Because there is a zero impact, there is no influence on the SDG&E 2012 GRC Net Salvage Studies.

108 Accumulated provision for depreciation of electric utility plant: Removal costs are charged to FERC 108, these costs are offset by net CIAC payments received as shown. Again, these two off-setting entries result in zero impact, and thus have no influence on the 2012 GRC Net Salvage Studies.

**DRA INFORMAL DATA REQUEST**
**DRA-INFORMAL-SDG&E-013-MRK**
**SDG&E 2012 GRC – A.10-12-005**
**SDG&E RESPONSE**
**DATE RECEIVED: JUNE 16, 2011**
**DATE RESPONDED: JULY 1, 2011**

**SDG&E Response 01-Continued:**

4. 143 Other accounts receivable, 242 Miscellaneous current and accrued liabilities, and 253 Other deferred credits: CIAC payments are not normally charged to these receivable and payable accounts. Adjustments and reclassifications are assigned to the original and appropriate postings.

5. 184 Clearing Accounts: Electric transformers are charged to new construction projects through FERC 184. These costs are offset by net CIAC payments received as shown, again resulting in zero impact, and thus have no influence on the 2012 GRC Net Salvage Studies.

6. Tabs 2000A through 2010A: Tabs 2000A though 2010A show transaction-level detail of postings to CIAC payment allocation accounts, summarized by FERC accounts, for the years 2000-2010.

7. Tabs 2000R through 2010A: Tabs 2000R through 2010R show transaction-level detail of postings to CIAC payment receipt accounts for the years 2000-2010.

**DRA INFORMAL DATA REQUEST**
**DRA-INFORMAL-SDG&E-013-MRK**
**SDG&E 2012 GRC – A.10-12-005**
**SDG&E RESPONSE**
**DATE RECEIVED: JUNE 16, 2011**
**DATE RESPONDED: JULY 1, 2011**

2. Provide total annual retirements for collectible projects for 2000 - 2010.

**SDG&E Response 02:**

Please see the response to data request DRA-SDG&E-76-MRK, Question 2. As explained, this information is not available.

**DRA INFORMAL DATA REQUEST**
**DRA-INFORMAL-SDG&E-013-MRK**
**SDG&E 2012 GRC – A.10-12-005**
**SDG&E RESPONSE**
**DATE RECEIVED: JUNE 16, 2011**
**DATE RESPONDED: JULY 1, 2011**

3. Provide allocations of CIAC receipts to FERC accounts for 2000 - 2010. Provide a spreadsheet listing project, year and the costs recorded. This will be the basis for a summary sheet.

**SDG&E Response 03:**

Please see response and attachment to DRA-Informal SDG&E-013-MRK, Q1.

**DRA INFORMAL DATA REQUEST**
**DRA-INFORMAL-SDG&E-013-MRK**
**SDG&E 2012 GRC – A.10-12-005**
**SDG&E RESPONSE**
**DATE RECEIVED: JUNE 16, 2011**
**DATE RESPONDED: JULY 1, 2011**

4. For each FERC Account in Item 3 above, the disbursement of the amounts to Plant Accounts (e.g., FERC 364, 365, 366).

**SDG&E Response 04:**

Please see response and attachment to DRA-Informal SDG&E-013-MRK, Q1.

**DRA INFORMAL DATA REQUEST**
**DRA-SDG&E-DR-014-MRK**
**SDG&E 2012 GRC – A.10-12-005**
**SDG&E RESPONSE**
**DATE RECEIVED: AUGUST 2, 2011**
**DATE RESPONDED: AUGUST 3, 2011**

1. Regarding the response to DRA-SDG&E-119-MRK, Q1, when you answer by saying that "Cost of work performed by SDG&E which are offset by customer reimbursements do not affect rate base," can DRA interpret that as saying that all of the approximately 0.46 billion dollars, assigned to various plant categories in the spreadsheet regarding CIAC receipts allocation (see DRA-Informal-SDG&E-013-MRK, Q1), are assigned as well to the Contributions in Aid of Construction account, thereby exactly zeroing out the amount assigned to plant balances? (i.e., is the first entry in the summary page of the spreadsheet, an amount of $396,275 for account E355 in the year 2000 exactly zeroed out by a corresponding entry to CIAC?)

**SDG&E Response:**

Costs incurred by SDG&E on construction projects are recorded as increases to construction work in progress. Reimbursements received of these costs (for example, Contributions in Aid of Construction, or CIAC) are recorded as reductions to construction work in progress. If the reimbursements exactly equal the construction costs then the asset resulting from the construction activity will be recorded to rate base at $0 cost. If on the other hand construction costs are different than the reimbursement (i.e., CIAC) then the asset resulting from the construction activity will be recorded to rate base at the net cost. The same is true for cost of removal – if costs equal reimbursements then there is no net effect on SDG&E's plant accounts, whereas if costs do not equal reimbursements, then there will be an effect on SDG&E's plant accounts.

For example, the $396,275 of CIAC payments recorded to plant account 355 in 2000 would exactly offset $396,275 of construction costs which also were recorded to plant account 355 in 2000. Actual construction costs charged to plant account 355 in 2000 for CIAC projects may have been less than or greater than $396,275. Furthermore, the $489,496,104 of total CIAC payment allocations shown for the years 2000-2011 would exactly offset $489,496,104 of construction costs, removal costs, and minor other costs as shown in the spreadsheet. Similarly the actual construction and removal costs for CIAC projects for the years 2000-2011 may have been less than or greater than $489,496,104.

**DRA INFORMAL DATA REQUEST**
**DRA-SDG&E-DR-014-MRK**
**SDG&E 2012 GRC – A.10-12-005**
**SDG&E RESPONSE**
**DATE RECEIVED: AUGUST 2, 2011**
**DATE RESPONDED: AUGUST 3, 2011**

2. Regarding the SDG&E data request response on third party reimbursements: "The actual removal cost associated with any customer reimbursement has not been established nor recorded in FERC 108 and therefore, is not included in the SDG&E FNS calculations, thereby correctly lessening the impact on any requested FNS %" (see DRA-SDG&E-59-MRK, Q2). This data request response seems inconsistent with your May 13 response to my May 12 e-mail which assured me that I was correct in assuming [the spreadsheet to be provided in response to DRA-Informal-SDG&E-013-MRK, Q1] that "the cost row for 108 will contain cost of removal and nothing else, the reason being that is the only cost you can provide for SDG&E account 108." The data request response [to DRA-SDG&E-59-MRK, Q2] seems to say that COR expenses associated with third party reimbursements are not recorded to Account 108? So the DR response makes me wonder how to interpret the 23 million dollars assigned to ACCT 108 in the spreadsheet sent regarding CIAC receipts allocation. Is the data request answer [to DRA-SDG&E-59-MRK, Q2] wrong?

**SDG&E Response:**

No, SDG&E's response to DRA-SDG&E-59, Q2 is not wrong. When the recorded accounting data was gathered for the 2012 GRC FNS study, the actual recorded CIAC entries are not displayed in that particular SAP report because those entries are completely offsetting.

This response clarifies the following statement in DRA-SDG&E-MRK-59, Q2: "The actual removal cost associated with any customer reimbursement has not been established nor recorded in FERC 108 and therefore, is not included in the SDG&E FNS calculations, thereby correctly lessening the impact on any requested FNS %."

**DRA INFORMAL DATA REQUEST**
**DRA-SDG&E-DR-014-MRK**
**SDG&E 2012 GRC – A.10-12-005**
**SDG&E RESPONSE**
**DATE RECEIVED: AUGUST 2, 2011**
**DATE RESPONDED: AUGUST 3, 2011**

3. With respect to the spreadsheets provided in response to DRA-Informal-SDG&E-013-MRK, Q1, and DRA-Informal-SCG-09-MRK, Q1, what portion of reimbursements is assigned to FERC Account 108 as a credit to Cost of Removal? Please indicate if this amount is not available.

**SDG&E Response:**

For SDG&E, the credit allocated to FERC Account 108 is $23,111,597 for the period 2000-2011 as shown on the SDGE CIAC Receipts schedule provided in response to DRA-Informal-SDG&E-013-MRK, Q1. See cell P49 of the "Summary" tab.

For SoCalGas, all costs which are reimbursed and the reimbursements are recorded to FERC Account 174. Therefore, for a project where a reimbursement is paid by a customer, any corresponding costs to remove are recorded to FERC Account 174. No reimbursed costs are recorded to FERC Account 108. Again, no CIAC entries occur within FERC account 108 because all offsetting entries are recorded in FERC Account 174.

The requested information regarding the portion of reimbursements credited to Cost of Removal in FERC Account 174 is not available. Please also see responses to DRA-Informal-SCG-09-MRK, Q2, and DRA-SCG-92-MRK, Question 2.

**DRA INFORMAL DATA REQUEST**
**DRA-SDG&E-015-MRK**
**SDG&E 2012 GRC – A.10-12-005**
**SDG&E RESPONSE**
**DATE RECEIVED: AUGUST 3, 2011**
**DATE RESPONDED: AUGUST 5, 2011**

1. In its response to Informal DR-14-MRK, SDG&E indicated that if costs do not equal reimbursements, then there will be an effect on SDG&E's plant accounts and rate base. Over the eleven year period, the difference is about $100 million dollars. Is it correct that rate base increased by that amount as well? Or did it decrease by that amount?

**SDG&E Response:**

The assumption in the question posed, that the schedule provided by SDG&E in response to Informal DR-13-MRK shows a difference over an eleven year period of $100 million between costs and reimbursements, is not accurate. Rather, the schedule shows total CIAC reimbursements of $585 million, and allocations of $489 million from those reimbursements (approximately a $100 million difference). The allocations have been used to offset construction costs and removal costs over the time period 2000-2010. The $100 million difference between the reimbursements received and the amounts allocated to offset construction costs and removal costs represents amounts which will be used to offset future construction costs and removal costs on the CIAC projects to which the reimbursements relate.

As previously explained, the differences between CIAC reimbursements received and CIAC allocations to offset construction costs and removal costs are due to timing differences between when payments are received and when costs are incurred. **Nothing on this schedule should be interpreted as indicating in any way that an increase or decrease in rate base has resulted from CIAC projects.**

**DRA INFORMAL DATA REQUEST**
**DRA-SDG&E-015-MRK**
**SDG&E 2012 GRC – A.10-12-005**
**SDG&E RESPONSE**
**DATE RECEIVED: AUGUST 3, 2011**
**DATE RESPONDED: AUGUST 5, 2011**

2. Similarly for SoCalGas, over the eleven year period, the difference is about $39.5 million dollars. Did rate base increase or decrease by that amount?

**SCG Response:**

The assumption in the question posed, that the schedule provided by SoCalGas in response to Informal DR-09-MRK shows a difference over an eleven year period of $39.5 million between costs and reimbursements, is not accurate. Rather, the schedule shows total CIAC reimbursements and ITCCA collections of $183 million, and allocations of $144 million from those reimbursements (approximately a $39.5 million difference). The allocations have been used to offset construction costs and removal costs over the time period 2000-2010. A portion of the $39.5 million difference between the CIAC reimbursements received and the amounts allocated to offset construction costs and removal costs is due to the inclusion of ITCCA in the collections line, but not in the costs line. The remaining difference represents amounts which will be used to offset future construction costs and removal costs on the CIAC projects to which the reimbursements relate.

As previously explained, the differences between CIAC reimbursements received and CIAC allocations to offset construction costs and removal costs is due to timing differences between when payments are received and when costs are incurred. **<u>Nothing on this schedule should be interpreted as indicating in any way that an increase or decrease in rate base has resulted from CIAC projects.</u>**

**DRA INFORMAL DATA REQUEST**
**DRA-SDG&E-DR-018-MRK**
**SDG&E 2012 GRC – A.10-12-005**
**SDG&E RESPONSE**
**DATE RECEIVED: AUGUST 9, 2011**
**DATE RESPONDED: AUGUST 18, 2011**

1. With respect to SDG&E I have seen no similar columns in the spreadsheet DRA-Informal-SDG&E-13-MRK. Please confirm.

**SDG&E Response:**

This is correct. Any CIAC receipts or allocations which occurred prior to 2000 are not reflected on the CIAC Receipts & Allocations spreadsheet provided by SDG&E.

**DRA DATA REQUEST**
**DRA-SCG-053-MRK**
**SOCALGAS 2012 GRC – A.10-12-006**
**SOCALGAS RESPONSE**
**DATE RECEIVED: MARCH 2, 2011**
**DATE RESPONDED: MARCH 18, 2011**

2. Further to Question 5, MDR Chapter 27- Depreciation, please provide the following information re: third party reimbursements:

   a. Provide a list and description of the major types of SCG's third party reimbursements, including "relocation", "damage/insurance", and any other types.
   b. Provide sufficient actual example from SCG's records of each of these categories of third party reimbursements to demonstrate all the various possibilities of how they could be booked plant in service, depreciation reserve, O&M expense, or elsewhere.
   c. Describe the method, rationale, and legal basis for how this was done in each case.

**SoCalGas Response:**

a. **Major types of SoCalGas' third party reimbursements**:

   **Installations / Relocation Work** - The majority of third party reimbursements for capital activity are for relocation of pipeline. For these projects, the customer payment is recorded to the general ledger and offsets the costs (including removal costs, if any) incurred to relocate the pipeline. Any differences at the end of the job are either refunded or billed to the customer. None of the costs are recorded to plant. If any pipe is removed, the book value of the pipe will be retired to accumulated depreciation, FERC 108 as prescribed by the FERC Uniform System of Accounts. There are some instances where we perform new capital installations for a customer. The accounting for these jobs is the same as the relocation work, where the customer payment offsets the costs incurred for the project. No costs are recorded to plant.

   **Services Alterations** - Customers request service alterations for many reasons such as remodeling and relocation of their gas meters. After exposing the service lines, in some instances the entire service may be replaced in lieu of alteration. The reasoning for the complete replacement is for safety purposes, especially when the service is in poor condition and it would be cost effective to replace when the lines are already exposed, instead of returning at a later date. The customer pays the cost of the alteration only, but is not charged for the entire replacement. All costs associated with the job are capitalized and the payment from the customer is an offset to capital.

   **Claims Damage** – Claims damages occur when someone damages company-owned property, for example, someone accidently damages a distribution main while digging. A minor repair to a pipeline, (replacement of same size pipe less than 40 feet) would be expensed in accordance with our capitalization policy. Any pipe retired would be recorded to accumulated depreciation, FERC 108, as prescribed by the FERC Uniform System of Accounts. All costs associated with the job and any proceeds received from the claims damage would be charged to O&M.

**Response to Question 2 (Continued)**

b. Installations / Relocations:

Relocation Example:

Microsoft Office
Excel Worksheet

Installation Example:

Microsoft Office
Excel Worksheet

Service Alterations:

Microsoft Office
Excel Worksheet

Claims Damage:

Microsoft Office
Excel Worksheet

c. Since customers reimburse SoCalGas for the work performed, these costs are offset by customer payments and are not recorded to plant. Therefore, these costs are excluded from rate base. Any assets removed due to the activities described will be retired and its book value less any salvage credit will be recorded to accumulated depreciation, FERC 108, as prescribed by the FERC Uniform System of Accounts.

**DRA DATA REQUEST**
**DRA-SCG-053-MRK**
**SOCALGAS 2012 GRC – A.10-12-006**
**SOCALGAS RESPONSE**
**DATE RECEIVED: MARCH 2, 2011**
**DATE RESPONDED: MARCH 18, 2011**

3. Provide a simplified spreadsheet showing for each of the above examples, how the data was used in the calculation of historical and test year salvage rates. Describe the rationale and legal basis for how this was done in each case.

**SoCalGas Response:**

The four attachments provided in response to Question 2b contain simplified examples within the spreadsheets that reflect how the removal cost data was used / not used in the calculation of historical and test year salvage rates. In simple terms, any removal cost that has been reimbursed by the customer is not recorded in FERC 108. Likewise, any non-collectible portion would be recorded in FERC 108.

In the "Relocation Example", which is provided at rows 94 – 102 of the spreadsheet, of the total project costs of $1,025,920.62, only the non-collectible portion of the removal costs was recorded to FERC 108. Those removal costs (see row 97) totaled $5,925.29.

In the "Installation Example", which is provided at rows 45 – 54 of the spreadsheet, embedded in the total project costs of $279,874.08 were the actual removal costs of $3,778.29 (see row 49) which was totally paid for / reimbursed by Occidental of Elk Hills, Inc. These removal costs were recorded to FERC 174 and not FERC 108.

In the "Service Alteration Example", which is provided at rows 33 – 39 of the spreadsheet, the scope of the alteration changed for company convenience to a total replacement. Of the total project costs of $6,103.99, the customer reimbursed the Company $1,477.82 which included removal costs of $14.78. Only the remaining non-collectible portion $46.27 (see cell R26 & row 36) of the total removal costs of $61.05 was recorded in FERC 108.

In the "Claims Damage Example", which is provided at rows 27 – 35 of the spreadsheet, all costs were recorded to FERC 892 (row 31) and no dollars were recorded in FERC 108 (see row 30).

The SoCalGas work papers (BW-WP-328 thru BW-WP-371) previously submitted with the application detailing the Future Net Salvage (FNS) calculation by FERC account contains the historical retirements for the most recent 15 year period, including any retirement activity referenced in the examples to question 2. The actual removal cost associated with any customer reimbursement has not been established nor recorded in FERC 108 and therefore, is not included in the SCG FNS calculations, thereby correctly lessening the impact on any requested FNS %.

**DRA DATA REQUEST**
**DRA-SCG-078-MRK**
**SOCALGAS 2012 GRC – A.10-12-006**
**SOCALGAS RESPONSE**
**DATE RECEIVED: APRIL 19, 2011**
**DATE RESPONDED: May 3, 2011**

**Exhibit Reference:** SCG-27 Depreciation

**Subject:** Depreciation

**Please provide the following:**

1. Please provide the following information re third party reimbursements:
   a. Provide a list and description of the major types of SCG's third party reimbursements, including "relocation", "damage/insurance", and any other types.
   b. Provide sufficient, actual examples from SCG's records of each of these categories of third party reimbursements to demonstrate all the various possibilities of how they could be booked plant in service, depreciation reserve, O&M expense, or elsewhere.
   c. Describe the method, rationale, and legal basis for how this was done in each case.

**SoCalGas Response:**

See previous response provided in data request DRA-SCG-053-MRK, Question 2.

**DRA DATA REQUEST**
**DRA-SCG-078-MRK**
**SOCALGAS 2012 GRC – A.10-12-006**
**SOCALGAS RESPONSE**
**DATE RECEIVED: APRIL 19, 2011**
**DATE RESPONDED: May 3, 2011**

2. Provide a simplified spreadsheet showing for each of the above examples, how the data was used in the calculation of historical and test year salvage rates. Describe the rationale and legal basis for how this was done in each case.

**SoCalGas Response:**

See previous response provided in data request DRA-SCG-053-MRK, Question 3.

**DRA DATA REQUEST**
**DRA-SCG-078-MRK**
**SOCALGAS 2012 GRC – A.10-12-006**
**SOCALGAS RESPONSE**
**DATE RECEIVED: APRIL 19, 2011**
**DATE RESPONDED: May 3, 2011**

3. Provide a working spreadsheet displaying all yearly activity related to third party reimbursements by FERC account for the years 2005 to 2010. The spread sheet should include all yearly totals for original book value of removed plant, yearly totals for net book value of removed plant, removal costs, gross salvage, net salvage, reimbursements, entries to FERC 108, entries to accumulated Depreciation, entries to Plant in Service, and all other entries associated with third party reimbursements.

**SoCalGas Response:**

There is no working spreadsheet containing the information being requested, as this information was neither used, nor relevant to, the GRC depreciation study, as explained below. Furthermore, the volume and type of information is not readily available and would be unduly burdensome to compile.

The 15 year historical studies used in determining the proposed SoCalGas Future Net Salvage (FNS) rates in the 2012 GRC have captured the retirements by FERC account. The net removal cost (less any positive salvage) applied against these retirements generating the historical FNS rates do not include those removal costs already paid and reimbursed by customers for the collectible work done. The removal cost associated with these customer reimbursements is not included in the Net Salvage Studies, thereby correctly lessening the impact on any proposed FNS rates.

**DRA DATA REQUEST**
**DRA-SCG-092-MRK**
**SOCALGAS 2012 GRC – A.10-12-006**
**SOCALGAS RESPONSE**
**DATE RECEIVED: MAY 18, 2011**
**DATE RESPONDED: JUNE 7, 2011**

2. For the years 2000-2010, please provide (to the extent available) the following information by year and FERC account for all assets retired in connection with third party reimbursements:
   a. The average vintage of the retired assets.
   b. The average removal cost of the retired assets.
   c. The total number of retired assets.

**SoCalGas Response:**

SoCalGas has already responded to the DRA that this requested third party reimbursement detail is not available.

**DRA DATA REQUEST**
**DRA-SCG-140-MRK**
**SOCALGAS 2012 GRC – A.10-12-006**
**SOCALGAS RESPONSE**
**DATE RECEIVED: AUGUST 11, 2011**
**DATE RESPONDED: AUGUST 25, 2011**

**Subject:** Depreciation

**Please provide the following:**

1. Pursuant to the Conference Call re DRA-SCG-Informal-09-MRK, please supply an amended version of the spreadsheet sent in response. In the amended version please eliminate all projects that have not ended by 2010, and please include all projects starting since 1995, but exclude all projects starting in 1994 or earlier.

**SoCalGas Response:**

Data going back to 1995 is not readily available. The original spreadsheet has been amended to eliminate all projects not closed by accounting as of the end of 2010. This spreadsheet is attached.

C:\Documents and Settings\TP1PDM\My

**DRA DATA REQUEST**
**DRA-SCG-141-MRK**
**SOCALGAS 2012 GRC – A.10-12-006**
**SOCALGAS RESPONSE**
**DATE RECEIVED: AUGUST 12, 2011**
**DATE RESPONDED: AUGUST 26, 2011**

**Exhibit Reference:** SCG-27

**Subject:** Depreciation

**Please provide the following:**

1. In response to DEF SDG&E-03-MRK Sempra provided a CD wherein net salvage rates were calculated in the spreadsheet SDG&E updated Final Electric 15yr.xls. Column N in that file computes the net salvage factor by dividing total net salvage for the fifteen year period by total retirements for that period. This is done by account. Please state whether all retirements associated with third party reimbursements have been included in the total retirement number including those when the reimbursements exceed the cost of the project. If not please explicitly describe what criteria were used to eliminate all or part of those retirements.

**SoCalGas Response:**

All retirements associated with third party reimbursements are included in the salvage study.

**DRA DATA REQUEST**
**DRA-SCG-141-MRK**
**SOCALGAS 2012 GRC – A.10-12-006**
**SOCALGAS RESPONSE**
**DATE RECEIVED: AUGUST 12, 2011**
**DATE RESPONDED: AUGUST 26, 2011**

2. Referring to question 1, please state whether all net salvage amounts associated with third party reimbursements have been included in the total salvage number including those when the reimbursements exceed the cost of the project. If not please explicitly describe what criteria were used to eliminate all or part of those net salvage amounts.

**SoCalGas Response:**

NET SALVAGE = (GROSS SALVAGE – COST OF REMOVAL)

Yes, all gross salvage including any gross salvage associated with reimbursed jobs is included in the total gross salvage numbers.

Yes, all removal costs including any removal costs associated with reimbursed jobs are included with the total removal costs identified within the salvage study. Because many of the removal costs from collectible jobs are reimbursed, only the net (uncollectible portion of the removal cost) is actually reflected in the salvage study. As stated in the gross salvage response, in those situations where reimbursements exceed the cost of the project, the situation does not change.

**DRA INFORMAL DATA REQUEST**
**DRA-INFORMAL SCG-09-MRK**
**SOCALGAS 2012 GRC – A.10-12-006**
**SOCALGAS RESPONSE**
**DATE RECEIVED: JUNE 16, 2011**
**DATE RESPONDED: JULY 1, 2011**

1. Provide total net CIAC payments collected and utilized for new construction costs by year, for the years 2000 – 2010. If possible, provide a schedule showing receipts by workorder.

**SoCalGas Response:**

The attached represents the following for SCG. Total CIAC payments collected from customers for new construction from 2000 - 2010. This is shown by year and by project. For SCG, all payments from customers for this new construction are recorded to account FERC 174. Included in the collections from customers is ITCCA. Also shown are the related construction costs for these projects from 2000 - 2010. All construction costs related to these collection projects for SCG are recorded to account FERC 174. The amounts shown are in nominal dollars. For SCG, any costs associated for removal are also recorded to FERC 174 and are not recorded separately from the other construction costs. Note that entries occurring during the CIAC process for new construction are not recorded into a plant account and therefore these costs have zero impact on plant and removal balances. Because there is a zero impact, there is no influence on the SCG 2012 GRC Net Salvage Studies.

**DRA INFORMAL DATA REQUEST**
**DRA-INFORMAL SCG-09-MRK**
**SOCALGAS 2012 GRC – A.10-12-006**
**SOCALGAS RESPONSE**
**DATE RECEIVED: JUNE 16, 2011**
**DATE RESPONDED: JULY 1, 2011**

2. Provide total annual retirements for collectible projects for 2000 - 2010.

**SoCalGas Response:**

Please see the response to data request DRA-SCG-92-MRK, Question 2. As explained, this information is not available.

**DRA INFORMAL DATA REQUEST**
**DRA-INFORMAL SCG-09-MRK**
**SOCALGAS 2012 GRC – A.10-12-006**
**SOCALGAS RESPONSE**
**DATE RECEIVED: JUNE 16, 2011**
**DATE RESPONDED: JULY 1, 2011**

3. Provide allocations of CIAC receipts to FERC accounts for 2000 - 2010. Provide a spreadsheet listing project, year and the costs recorded. This will be the basis for a summary sheet.

**SoCalGas Response:**

Please see response and attachment to DRA-Informal SCG-09-MRK, Q1.

**DRA INFORMAL DATA REQUEST**
**DRA-INFORMAL SCG-09-MRK**
**SOCALGAS 2012 GRC – A.10-12-006**
**SOCALGAS RESPONSE**
**DATE RECEIVED: JUNE 16, 2011**
**DATE RESPONDED: JULY 1, 2011**

4. For each FERC Account in Item 3 above, the disbursement of the amounts to Plant Accounts (e.g., FERC 364, 365, 366).

**SoCalGas Response:**

Please see the response to DRA-Informal SCG-09-MRK, Q1.

**DRA DATA REQUEST**
**DRA-INFORMAL SCG-013-MRK**
**SOCALGAS 2012 GRC – A.10-12-006**
**SOCALGAS RESPONSE**
**DATE RECEIVED: AUGUST 25, 2011**
**DATE RESPONDED: AUGUST 25, 2011**

1. In DR 140 (for SCG) I ask for data as far back as 1995. In the response to Informal-SCG-09-MRK there are data columns labeled "Pre 2000". With respect to SCG, all I'm asking is how far back is the "pre 2000 data" and how it was put together.

**SDG&E Response:**

This information is not readily available. The information in the "pre-2000" data column is at a summary level, and it does not distinguish the precise year the deposits goes back to for the projects contained in the requested analysis. The information was put together in a manner similar to the other data included in the requested spreadsheet, and as described to DRA on earlier occasions.