

Company: Southern California Gas Company (U 904 G)  
Proceeding: 2019 General Rate Case  
Application: A.17-10-007/008 (cons.)  
Exhibit: SCG-235

**SOCALGAS**

**REBUTTAL TESTIMONY OF PATRICK D. MOERSEN**

**(RATE BASE)**

**JUNE 18, 2018**

**BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA**



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2   **(RATE BASE)**

3 **I. INTRODUCTION**

4           This rebuttal testimony regarding SoCalGas' rate base (except working cash, which is  
5 addressed in Karen Chan's Rebuttal Testimony)<sup>1</sup> addresses the following testimony:

- 6           •       The Utility Reform Network (TURN), as submitted by William Perea  
7                    Marcus (Exhibit TURN-03), dated May 14, 2018.

8           As a preliminary matter, the absence of a response to any particular issue in this rebuttal  
9 testimony does not imply or constitute agreement by SoCalGas with the proposal or contention  
10 made by these or other parties. The forecasts contained in SoCalGas' direct testimony are based  
11 on sound estimates of its revenue requirements at the time of testimony preparation.

12           This rebuttal testimony addresses TURN's recommended changes to the rate used for  
13 allowance for funds used during construction (AFUDC) and the materials and supplies (M&S)  
14 escalation calculation in the rate base forecast.

15 **II. REBUTTAL TO TURN'S RECOMMENDATIONS**

16           In TURN's Results of Examination testimony, Mr. Marcus proposes that the average  
17 actual AFUDC rate for 2017 should be used in the Results of Operation (RO) model instead of  
18 SoCalGas' 2017 authorized rate of return.<sup>2</sup> The Commission should reject TURN's  
19 recommendation to use the actual AFUDC rate for 2017 in the RO model. As noted in my direct  
20 testimony, SoCalGas uses its authorized rate of return as a reasonable proxy for estimating  
21 AFUDC applied to construction work in progress (CWIP) in the RO model.<sup>3</sup> This approach is  
22 consistent with how SoCalGas has estimated AFUDC in prior rate case proceedings before the  
23 Commission, including the 2016 GRC.<sup>4</sup> It is not common practice to continually update  
24 forecasts to reflect actual rates during the course of the GRC proceeding. Nor is it prudent to

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<sup>1</sup> June 18, 2018, SoCalGas Rebuttal Testimony of Karen C. Chan, Ex. SCG-238.

<sup>2</sup> May 14, 2018, Prepared Testimony of William Perea Marcus, Report on Various Results of Operations Issues in Southern California Gas Company's and San Diego Gas and Electric Company's [2019] Test Year General Rate Cases, Ex. TURN-03 (Ex. TURN-03 (Marcus)) at 72-73.

<sup>3</sup> April 6, 2018, Second Revised SoCalGas Direct Testimony of Patrick D. Moersen, Ex. SCG-35-2R, (Ex. SCG-35-2R (Moersen)) at 6.

<sup>4</sup> Decision (D) 16-06-054 at 288.

1 selectively choose specific rates to update. The rates in the RO model are estimates and  
2 therefore will always be different from the actuals, with some lower and some higher.

3 Mr. Marcus also proposed that “the AFUDC rate used in 2018 and 2019 be set as 62  
4 points below the authorized return for SoCal” for those years.<sup>5</sup> TURN’s proposal is based on its  
5 calculation of SoCalGas’ actual average AFUDC rate for 2017 of 7.36%, compared to  
6 SoCalGas’ 2017 authorized rate of return of 8.02%. However, the RO model for 2018 and 2019  
7 already reflects a lower AFUDC rate of 7.34%.<sup>6</sup> As noted in footnote 5 of my direct testimony,  
8 SoCalGas’ authorized rate of return is 7.34%, effective January 1, 2018.<sup>7</sup> This is the rate used in  
9 the RO model for 2018 and 2019. Mr. Marcus does not indicate that his proposal factors in the  
10 newly authorized rate of return. Therefore, no adjustment is necessary to the AFUDC rate for  
11 2018 and 2019, since it already reflects the lower rate that would result from TURN’s proposed  
12 basis point reduction.

13 Mr. Marcus also recommends in his testimony that the M&S forecast within the rate base  
14 forecast should be escalated from the average M&S balance for 2016, rather than the 2016 year-  
15 ending balance.<sup>8</sup> SoCalGas accepts this recommendation, which would reduce the 2019 M&S  
16 balance by \$835,000.<sup>9</sup>

### 17 **III. CONCLUSION**

18 To summarize, SoCalGas used its authorized Rate of Return as a reasonable proxy for  
19 estimating AFUDC applied to CWIP in the RO model. This is consistent with prior SoCalGas  
20 rate case proceedings before the Commission, including D.16-06-054. The rate in the RO model  
21 for 2018 and 2019 reflects the new authorized rate of return, which became effective January 1,  
22 2018. In addition, it is not common practice to selectively choose rates to update to actuals in the  
23 RO model. Actual rates will normally be higher or lower than the rates estimated in the model.  
24 Therefore, there is no need to modify the current AFUDC rates in the RO model.

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<sup>5</sup> Ex. TURN-03 (Marcus) at 72-73.

<sup>6</sup> Ex. SCG-35-2R (Moersen) at 6, n.5.

<sup>7</sup> *Id.*

<sup>8</sup> Ex. TURN-03 (Marcus) at 104.

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

1           SoCalGas accepts TURN's recommendation that the average 2016 M&S balance should  
2 be escalated instead of using the 2016 year-ending balance.  
3           This concludes my rebuttal testimony.

## **APPENDIX A – GLOSSARY OF TERMS**

|       |  |
|-------|--|
| AFUDC | Allowance for Funds Used During Construction |
| CWIP  | Construction Work in Progress                |
| D.    | Decision                                     |
| M&S   | Materials and Supplies                       |
| RO    | Results of Operations                        |
| TURN  | The Utility Reform Network                   |