Application No: A.18-11-010
Exhibit No:
Witness: E. J. Reyes

Application of Southern California Gas Company (U 904 G) and San Diego Gas & Electric Company (U 902 G) for Review of Costs Incurred in Executing Pipeline Safety Enhancement Plan	Application 18-11-010

CHAPTER XI

REBUTTAL TESTIMONY OF

EDWARD J. REYES

(REVENUE REQUIREMENTS)

ON BEHALF OF

SOUTHERN CALIFORNIA GAS COMPANY (U 904 G)

AND

SAN DIEGO GAS & ELECTRIC COMPANY (U 902 G)

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

October 21, 2019

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REBUTTAL TESTIMONY OF SOCALGAS AND SDG&E WITNESS
EDWARD J. REYES
(REVENUE REQUIREMENTS)

I. INTRODUCTION

Southern California Gas Company (SoCalGas) and San Diego Gas and Electric Company (SDG&E) propose to amortize operations and maintenance (O&M) and capital-related revenue requirements recorded in their respective Pipeline Safety Enhancement Plan (PSEP) balancing accounts over a twelve-month period upon approval of this application. Indicated Shippers (IS) incorrectly claims that cost recovery is being accelerated[1] and proposes the amortization of capital costs and O&M expenses be extended over twenty years and four years, respectively.

II. INDICATED SHIPPERS' PROPOSAL

This rebuttal testimony addresses the direct testimony of Mr. Maurice Brubaker on behalf of IS, dated June 3, 2019, regarding the timing of the recovery of PSEP revenue requirements in rates.

IS claims that O&M expenses in this proceeding are not routine, but instead are escalated to achieve certain milestones on the SoCalGas delivery system.[2] As such, IS recommends that the Commission "normalize" PSEP O&M cost recovery over a four-year period to moderate rate impacts to customers.[3] In addition, IS recommends capital cost amortization be extended over the remaining life of the individual asset, or twenty years, whichever is less.[4] IS appears to misunderstand the standard methodology for recovery of capital and O&M revenue requirements.

III. REBUTTAL TO INDICATED SHIPPERS' PROPOSALS

SoCalGas and SDG&E disagree with IS' recommendation to recover O&M costs over a four-year period. These O&M costs were incurred under SoCalGas and SDG&E's PSEP project implementation to provide safe and reliable service to customers. It is not reasonable to further

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[1] Indicated Shippers Direct Testimony (Brubaker) at ES-1 and 7.
[2] Indicated Shippers Direct Testimony (Brubaker) at ES-1.
[3] Indicated Shippers Direct Testimony (Brubaker) at 7.
[4] Indicated Shippers Direct Testimony (Brubaker) at ES-1 and 9.

delay the recovery SoCalGas and SDG&E's costs that, upon review in this proceeding, are deemed to be prudent and reasonable. The twelve-month amortization period is consistent with the amortization of other regulatory balancing accounts filed in connection with SoCalGas and SDG&E's annual regulatory account balance update filing. Adopting an annual amortization period for O&M cost recovery also avoids needless compounding of regulatory account interest charged to customers. It should also be noted that these costs are subject to 50% interim cost recovery subject to refund per Decision (D.)16-08-003 until a Commission decision is rendered in this application. Consistent with the intent of D.16-08-003, the 50% interim cost recovery already addresses potential concern of rate shock for customers when these costs are finally reviewed for reasonableness and incorporated into rates.

SoCalGas and SDG&E also disagree with IS' recommendation to recover capital-related costs over a twenty-year period. Particularly, SoCalGas and SDG&E disagree with IS' contention that:

> "the capital-related carrying charges and depreciation that accrue prior to the time that an investment is fully evaluated, included in rate base, and fully reflected in rates in a GRC should be considered as part of the cost of the asset, capitalized with it and amortized over a period longer than twelve months."[5]

Like O&M, these capital costs were incurred under the SoCalGas and SDG&E's PSEP projects to provide safe and reliable service to customers, and therefore recovery of the annual capital-related costs (i.e., depreciation, return and taxes) should not be further delayed beyond a twelve-month amortization period. Under basic principle of accounting, the cost of an asset is depreciated over its useful life once placed in service. Therefore, the intent of IS' proposal is unclear given that the project costs are already being proposed for recovery over the asset's useful life, consistent with standard ratemaking and cost recovery practices. IS' request that the capital-related costs incurred to-date be recovered over an additional twenty years is unreasonable, especially considering that the useful life of most PSEP assets is far greater than 20 years. It is also important to note that capital-related costs are also currently subject to 50% interim cost recovery. Therefore the Commission has already authorized, subject to refund upon

[5] Indicated Shippers Direct Testimony (Brubaker) at 8, lines 17-20.

reasonsableness review in this proceeding, recovery of a portion of the capital-related costs over a shorter period that IS recommends.

Again, the twelve-month amortization period is consistent with the amortization of other regulatory balancing accounts filed in connection with SoCalGas and SDG&E's annual regulatory account balance update filing. It is also consistent with the recovery of capital-related costs as previously approved by the Commission of SoCalGas' Tier 3 advice letter filings for its Transmission Integrity Management Program (TIMP) and Storage Integrity Management Program (SIMP)[6] and SoCalGas and SDG&E' 2016 PSEP application.[7] Providing a twelve-month amortization period, as opposed to IS' recommended twenty-year amortization period, also avoids additional compounding of regulatory account interest charged to customers.

IV. CONCLUSION

To summarize, IS recommends recovering capital-related costs and O&M expenses over a respective twenty year and four-year amortization period, purportedly to lessen rate impacts. The Commission should reject IS' recommendations. The amortization of O&M expenses and capital-related costs over a twelve-month period is fair for prudent and reasonable costs incurred under SoCalGas and SDG&E's Application and is consistent with the amortization period used for other balancing accounts.

This concludes my prepared rebuttal testimony.

[6] TIMP AL Nos. 4632, 4632-A, 4819, 4819-A and 5057; SIMP AL No. 5253.
[7] Application 16-09-005 approved by D.19-02-004 and incorporated in rates by AL 5443. Associated revenue requirements were grossed-up and incorporated in rates effective April 1, 2019 for recovery by the end of the year.