

Application No.: A.16-12-xxx
Exhibit No.: SDG&E-01
Witnesses: Tracy Dalu
Norma Jasso
Lisa L. Browy

PREPARED DIRECT TESTIMONY

ON BEHALF OF

SAN DIEGO GAS & ELECTRIC COMPANY

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

December 1, 2016

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**PREPARED DIRECT TESTIMONY
ON BEHALF OF SDG&E**

I. Summary of SDG&E’s Request (T. Dalu)

In the *Joint Application of Southern California Edison Company (U 338-E) and San Diego Gas & Electric Company (U 902-E) for Cost Recovery of The Wheeler North Reef Expansion Project Marine Mitigation Costs* (“Joint Application”), San Diego Gas & Electric Company (“SDG&E”) requests:

- Approval to recover costs incurred on or after January 1, 2017 for SDG&E’s 20% share of the Wheeler North Reef (“WNR”) Expansion Project, currently estimated at \$33 million (100%; 2016\$), plus associated costs;
- Authorization to include in generation rates SDG&E’s WNR Expansion Project revenue requirement effective 2018 or when applicable depending on the timing of the Commission decision; and
- Expedited review and approval of SDG&E’s request to modify the Marine Mitigation Memorandum Account (“MMMA”) to include a sub-account for the WNR Expansion Project costs incurred on or after January 1, 2017.¹

II. Background of SDG&E and SONGS Marine Mitigation (T. Dalu)

As explained in detail in Southern California Edison Company’s (“SCE”) testimony served in support of this Joint Application, since the 1970s the California Coastal Commission (“CCC”) has required that SCE engage in various projects to mitigate the impact of ocean water intake and discharge for SONGS on the local marine environment. These requirements were captured in the coastal development permits (“CDPs”) and the amended CDPs issued by the CCC. The California Public Utilities Commission (“Commission”) Commission has determined

¹ Contemporaneously with the Joint Application and this testimony, SDG&E has filed its *Motion Of San Diego Gas And Electric Company (U 902-E) To Amend Its Memorandum Account For Marine Mitigation And Record Wheeler North Reef Expansion Project Marine Mitigation Costs Starting January 1, 2017*.

that costs related to SONGS Marine Mitigation projects required by the CCC's amended CPD for SONGS 2&3 is a required cost of service properly paid by SCE's and SDG&E's customers.²

As a minority owner of SONGS, SDG&E has been and continues to be responsible for 20% of Marine Mitigation costs, which it pays monthly to SCE. SDG&E has no operational control or approval powers over SONGS Marine Mitigation. SDG&E traditionally receives an authorized revenue requirement for 20% of the Marine Mitigation revenue requirement authorized in the SCE general rate cases.³ SDG&E then increases its revenue requirement authorized in its own general rate case with this authorized Marine Mitigation revenue requirement, plus any additional costs (i.e., SCE contractual overheads; Franchise Fees and Uncollectibles ("FF&U")).⁴ SDG&E's current Marine Mitigation revenue requirement, which is for monitoring and maintenance costs associated with the WNR and a wetlands project, was approved by the Commission in D.15-11-021 (SCE's Test Year ("TY") 2015 General Rate Case ("GRC")) and D.16-06-054⁵ (SDG&E's TY2016 GRC), and is for 2015 through 2017. SDG&E collects its Marine Mitigation revenue requirement in its generation rates and records it in Non-Fuel Generation Balancing Account ("NGBA"). SDG&E's current Marine Mitigation revenue requirement authorized in the SCE GRC is refundable.

For SONGS-related matters, including Marine Mitigation, SCE bills SDG&E at the end of the month following the month costs are incurred. In addition to 20% of the project costs, SCE includes contractual overheads, such as a 1% non-labor A&G rate, in its bills to SDG&E.⁶ Generally SDG&E has 10 calendar days to pay the invoices, resulting in SDG&E recording its share of the costs two months after SCE's original recording of the costs. SDG&E has no approval authority regarding the expenditure of these costs.⁷ SDG&E anticipates that the bills for the WNR Expansion Project will follow the same composition, timing and format as the other SONGS Marine Mitigation costs bills issued by SCE.

² See Decision ("D.") 15-11-021 at 288 (stating that "compliance with the CDP is a required cost of service.").

³ See, e.g., D.15-11-021 at OP 11.

⁴ See, e.g., D.16-06-054 at OP 6.

⁵ D.16-06-054 at COL 11, as amended by D.16-09-043 (corrected typographical errors in D.16-06-054 regarding marine mitigation costs and revenue requirements).

⁶ This A&G overhead rate is contractually billed to SDG&E pursuant the Second Amended San Onofre Operating Agreement, which continues to govern the treatment of "SONGS legacy costs," such as Marine Mitigation, which stem from SONGS' operations and are not decommissioning costs.

⁷ The Second Amended SONGS Operating Agreement continues to govern the treatment of "SONGS legacy costs," such as Marine Mitigation.

SDG&E receives a monthly bill from SCE for Marine Mitigation costs regardless of whether it has an approved revenue requirement. In the most recently concluded SCE general rate case (TY2015 GRC; A.13-11-003), it became apparent at the end of 2014 that a final decision would not be issued in that proceeding by January 1, 2015. Until such a decision was issued, SDG&E's 2015 revenue requirement for Marine Mitigation would be \$0.00 (zero);⁸ however, it would continue to record Marine Mitigation costs billed by SCE. To remedy the situation, the Commission approved SDG&E's request to create a Marine Mitigation Memorandum Account ("MMMA") to track costs associated with marine mitigation projects against the authorized revenue requirement, once approved.⁹

III. SDG&E and the Wheeler North Reef Expansion Project and Costs (T. Dalu)

As explained in detail in SCE's testimony, while SCE has completed most of the Marine Mitigation projects to the CCC's satisfaction, it has not been able to achieve the absolute fish biomass requirement for the WNR needed to meet the requirements of the amended CDP. As a result, SCE has informed SDG&E that the CCC is now requiring SCE to expand the WNR. As described in SCE's testimony, SCE is proposing to undertake the WNR Expansion Project starting in 2017. SDG&E will be responsible for 20% of the WNR Expansion Project's costs and any associated costs (i.e., SCE contractual overheads) billed by SCE. SDG&E expects to begin receiving bills for the WNR from SCE in early 2017.

As the WNR Expansion Project manager, SCE has proposed a scope of work, schedule and forecast of costs. This information is provided in SCE testimony served in support of the Joint Application. SDG&E was not involved in the development of the proposed scope of work, schedule or forecast of costs. All of the WNR Expansion Project costs are to be categorized as Operations & Maintenance ("O&M"), as required by D.16-06-054.

⁸ See SDG&E Advice Letter 2672-E, *Implementation of Order Instituting Investigation (I.12-10-013) Amended and Restated Songs Settlement Agreement Revenue Requirement Pursuant To D.14-11-040*, filed November 26, 2014 (approved by disposition letter March 10, 2015; effective January 1, 2015), states that upon its approval, SDG&E's 2015 non-fuel capital-related revenue requirement, which stems from SCE GRC and includes Marine Mitigation costs, would be \$0.00 (zero).

⁹ A.13-11-003, Administrative Law Judge ("ALJ") Kevin R. Dudney's E-Mail Ruling dated December 22, 2014 ("ALJ Dudney Ruling"); SDG&E AL 2687-E (Modifications to San Diego Gas & Electric's Preliminary Statement to Create the Marine Mitigation Memorandum Account) was granted by disposition letter February 23, 2015, effective January 1, 2015.

The forecasted WNR Expansion Project costs have not been included in the pending SCE TY2018 GRC.¹⁰ In addition, because WNR Expansion Project costs, like all Marine Mitigation costs, are not decommissioning costs, they may not be paid with Nuclear Decommissioning Trust funds and are not at issue in the pending (or any future) Nuclear Decommissioning Cost Triennial Proceedings.¹¹ Therefore, SDG&E is requesting cost recovery for its WNR Expansion Project costs through the Joint Application.

A. SDG&E's Forecasted Costs for the Wheeler North Reef Expansion Project (T. Dalu)

In this proceeding, SDG&E is seeking authorization to recover in rates its WNR Expansion Project costs incurred on or after 2017. As the 20% minority owner of SONGS, SDG&E is responsible for 20% of Marine Mitigation costs, including the WNR Expansion Project.

SDG&E's forecasted costs were derived from information provided by SCE, in which estimated the total WNR Expansion Project costs at the 100% level to be \$36.273 million, including non-labor escalation of \$3.338 million.¹² To calculate SDG&E's estimated costs, this total (also shown below in Table 1) was then multiplied by SDG&E's 20% ownership share. Then contractual overheads billed by SCE (including a 1% non-labor A&G rate)¹³ were added to arrive at SDG&E's forecasted WNR Program Expansion costs from 2017 through 2020.

SDG&E provides its forecasted costs for the WNR Expansion Project (2017-2020) in Table 1 below.

¹⁰ See A.16-09-001 at SCE-07 Volume 2 (D. Neal).

¹¹ See generally A.16-03-004.

¹² SCE-01 at Table IV-3.

¹³ This A&G overhead is contractually billed to SDG&E under the Second Amended Operating Agreement.

TABLE 1
SDG&E WNR Expansion Project
Forecast O&M Expenses
(\$000)

Line No.	Description	2017	2018	2019	2020	Total Cost (\$)*
1	Total WNR Expansion Project Forecast (100%)	770	660	15,670	15,835	32,935
2	Escalation	23	39	1395	1,881	3,338
3	Subtotal Costs incl. Escalation (100%)	793	699	17,065	17,716	36,273
5	SDG&E 20% Share of Billed Costs w/out overheads	159	140	3,413	3,543	7,255
6	Non-Labor A&G 1%	2	1	34	35	73
7	SDG&E 20% Share w/ overheads (O&M)	160	141	3,447	3,579	7,327

** Totals may not add due to rounding.*

SDG&E anticipates that the costs forecasted in Table 1 will likely change over the life of the WNR Expansion Project based on the CCC’s instructions regarding the WNR Expansion Project’s schedule and scope, and the involvement of other state agencies and the results of any California Environmental Quality Act or National Environmental Protection Act reviews. To keep its forecasts current and to keep the Commission apprised of any updated forecasts, SDG&E will file its annual NGBA advice letter in November with the most current forecast of its WNR Expansion Project revenue requirement for the upcoming year. This approach for the WNR Expansion Project is consistent with SDG&E’s current treatment of other forecasted Marine Mitigation costs and revenue requirements, which are also included in SDG&E’s annual NGBA advice letter.¹⁴ Additional details about this proposal are below in Section IV.A.

SDG&E has only forecast, and seeks recovery herein, for WNR Expansion Project costs recorded 2017 through 2020. If the WNR Expansion Project continues past 2020, SDG&E will

¹⁴ See, e.g., SDG&E 2989-E, *Annual Non-Fuel Generation Balancing Account Update* (filed November 8, 2016).

seek cost recovery of those forecasted costs in the appropriate general rate case or in a separate application, as directed by the Commission. If new or additional maintenance and monitoring responsibilities for the expanded WNR emerge after the WNR Expansion Project is complete, SDG&E will seek cost recovery for those new or incremental costs with the other ongoing Marine Mitigation costs in the appropriate general rate case or in a separate application, as directed by the Commission.

IV. SDG&E Ratemaking Proposal for the WNR Expansion Project (N. Jasso)

In this proceeding, SDG&E requests authorization to recover in its generation rates its costs for the WNR Expansion Project incurred 2017 through 2020. As explained above, traditionally SDG&E requests, and receives, an authorized revenue requirement for SONGS Marine Mitigation costs based on SCE's request, usually in SCE's general rate cases. In those proceedings, as the majority owner and operator of SONGS, SCE sponsors SONGS costs at a 100% level in its GRC. SDG&E then submits its own testimony, seeking to establish and recover its 20% portion of SONGS costs sponsored by SCE. SDG&E's authorized revenue requirement also covers additional costs associated with its 20% share, such as SCE's contractual overheads billed to SDG&E and FF&U.

SDG&E has approached its request for rate recovery of the WNR Expansion Project costs in this proceeding in the same way. After applying the same steps outlined above and demonstrated in Table 1, SDG&E arrived at its forecasted costs for each year from 2017 through 2020. To these amounts, SDG&E added FF&U, as shown in Table 2 below.

TABLE 2
SDG&E WNR Project Revenue Requirement
(\$000)

Line No.	Description	2017	2018	2019	2020
1	SDG&E 20% share w/ overheads (O&M)	160	141	3,447	3,579
2	SDG&E 20% Share Revenue Requirement with FF&U	162	143	3,489	3,622

SDG&E is requesting cost recovery of its WNR Expansion Projects starting in 2017. However, based on the timing of this Joint Application filing, SDG&E anticipates that a final decision will not be issued, and no revenue requirement will be authorized, until mid to late 2017 or later. Therefore, SDG&E expects that upon Commission approval, it will implement the 2017 and 2018 revenue requirement in rates effective 2018 or when applicable, depending on the timing of the Commission decision.

A. SDG&E’s WNR Expansion Project Cost Recovery Proposal (N. Jasso)

SDG&E will recover the revenue requirement associated with the WNR Expansion Project through its NGBA. The NGBA provides recovery of approved electric generation non-fuel costs not being recovered by another component of SDG&E’s rates and applies to bundled service customers. Every November, SDG&E files a Tier 2 advice letter requesting Commission approval of its NGBA revenue requirement as well as forecasted year-end balances for amortization January 1 of the following year. Recovering SDG&E’s WNR Expansion Project costs in its NGBA would be consistent with SDG&E’s recovery of its other Marine Mitigation O&M revenue requirement approved in general rate cases,¹⁵ which is also recovered in SDG&E’s NGBA.¹⁶

¹⁵ Approved in D.16-06-054 at OP 6, which authorizes SDG&E to recover its 20% share of these costs established in SCE’s TY15 GRC, D.15-11-021 at OP 11.

¹⁶ See, e.g., SDG&E 2989-E, *Annual Non-Fuel Generation Balancing Account Update* (filed November 8, 2016).

Additionally, as described in the following section, SDG&E proposes to record WNR costs in the MMMA to track the difference between the approved revenue requirement, the amount of revenue billed, and actual project costs. In this way, SDG&E's ratepayers will be responsible only for actual WNR Project Expansion costs incurred by SDG&E.

B. SDG&E Marine Mitigation Memorandum Account – WNR Expansion Project Sub-account (N. Jasso)

Concurrently with the Joint Application, SDG&E has filed its *Motion Of San Diego Gas And Electric Company (U 902-E) To Amend Its Memorandum Account For Marine Mitigation And Record Wheeler North Reef Expansion Project Marine Mitigation Costs Starting January 1, 2017*. As explained above, as a minority owner of SONGS, SDG&E is responsible for 20% of SONGS related costs, including Marine Mitigation costs. SCE bills SDG&E monthly for Marine Mitigation costs. SDG&E receives its authorized revenue requirement for those costs through SCE's general rate case. However, the timing for approval of the SCE general rate case has not been certain and sometimes would not occur in time for SDG&E to continue collecting in rates for Marine Mitigation costs as it is billed by SCE for the same costs. For this reason, the Commission previously authorized SDG&E to establish the MMMA to track costs associated with Marine Mitigation projects between January 1, 2015 and the effective date of rates adopted for SDG&E as part of SCE's 2015 GRC.¹⁷

SDG&E is faced with the same situation for WNR Expansion Project costs. SDG&E has been informed by SCE that work on the WNR Expansion Project will occur in 2017, and SDG&E expects it will be billed by SCE for those costs starting in 2017. SDG&E has no control over the WNR Expansion Project activities or any official ability to influence the timing or amount of costs incurred. SDG&E will not have an authorized revenue requirement for the costs until the conclusion of this proceeding, however, which will almost certainly be after SDG&E starts recording WNR Expansion Project costs.

Therefore, SDG&E is requesting Commission authorization to (1) modify the MMMA to add a WNR Expansion Project Sub-account, and (2) begin tracking WNR Expansion Project costs that SDG&E incurs on or after January 1, 2017 in the Sub-account.

¹⁷ ALJ Dudney Ruling.

The WNR Sub-account would serve two purposes. First, it would track the difference between SDG&E's share of the authorized revenue requirement¹⁸ for WNR costs for the period January 1, 2017 until the effective date of rates adopted for SDG&E in this proceeding, and SDG&E's revenue requirement included in rates. Second, it would track the difference between SDG&E's share of the authorized revenue requirement beginning in January 1, 2017 and the actual WNR costs incurred or recorded by SDG&E for WNR costs beginning January 1, 2017. The MMMA year-end balance will be transferred to the NGBA and will be identified in the annual NGBA advice letter filing. The MMMA mechanism ensures that SDG&E does not incur potential losses from the adopted revenue based solely on the timing of a decision in this proceeding. In addition, the WNR Expansion Project Sub-account would ensure that SDG&E ratepayers are responsible only for actual WNR costs and that SDG&E collects no more and no less than its actual costs of the WNR Expansion Project.

C. WNR Expansion Project Rate Impact (L. Browy)

Based on SDG&E's estimated 2017-2020 WNR Expansion Project revenue requirements provided above in Table 2, the rate impact is a 0.01% system average rate increase relative to current rates for 2018¹⁹, an estimated 0.10% system average rate increase for 2019, and an estimated 0.11% system average rate increase for 2020. The rate impacts by class are summarized in Table 3 below:

¹⁸ Plus interest as applicable.

¹⁹ Assumes 2017 and 2018 revenue requirement will be recovered through rates in 2018.

TABLE 3***WNR Expansion Project Rate Impact***

Customer Class	Class Average Rates Effective 08/01/16 ²⁰	Class Average Rates including 2017 & 2018 Revenue Requirement ²¹	% Rate Increase 2018 ²²	Class Average Rates including 2019 Revenue Requirement	% Rate Increase 2019 (compared to 08/01/16)	Class Average Rates including 2020 Revenue Requirement	% Rate Increase 2020 (compared to 08/01/16)
Residential	22.644	22.646	0.01%	22.665	0.09%	22.666	0.10%
Small Commercial	22.511	22.513	0.01%	22.530	0.08%	22.531	0.09%
Medium and Large C&I ²³	18.749	18.751	0.01%	18.770	0.11%	18.770	0.11%
Agricultural	16.544	16.546	0.01%	16.562	0.11%	16.563	0.11%
Lighting	18.778	18.780	0.01%	18.793	0.08%	18.793	0.08%
System Total	20.524	20.526	0.01%	20.545	0.10%	20.546	0.11%

A typical non-CARE residential customer living in the inland climate zone and using 500 kilowatt-hours per month could see a monthly winter bill increase of 0.01%, or \$0.01, from a typical current monthly bill of \$111.54 to \$111.55 for 2018, an increase of 0.09%, or \$0.10, from a typical current monthly bill of \$111.54 to \$111.64 for 2019 and, an increase of 0.09%, or \$0.10, from a typical current monthly bill of \$111.54 to \$111.64 for 2020.

²⁰ Rates effective August 1, 2016 per SDG&E Advice Letter 2996-E (pending approval).

²¹ Assumes 2017 and 2018 revenue requirement will be recovered through rates in 2018.

²² Assumes 2017 and 2018 revenue requirement will be recovered through rates in 2018.

²³ "C&I" is Commercial and Industrial.

WITNESS QUALIFICATIONS

Witness Qualifications of Tracy Dalu

My name is Tracy M. Dalu and my business address is 8330 Century Park Court, San Diego, California 92123. I am employed by SDG&E as a CPA and am the SONGS Nuclear Decommissioning Fiscal Manager. My primary responsibilities are to provide oversight and proper fiscal management of SDG&E's 20% ownership interest in SONGS and to provide financial information to support legal and regulatory filings. I have been in my current role since April of 2016. Prior to my current role, I was the Generation Accounting Supervisor for SDG&E where my primary responsibilities were to account for and report on all SDG&E owned generation facilities, including SONGS. I was also responsible for the accounting and financial reporting of SDG&E's asset retirement obligations and ensuring that SDG&E was in compliance with Securities Exchange Commission ("SEC") and regulatory reporting requirements. I began work at Sempra Energy in May 2002 as an accountant for Sempra Energy's Global division and was responsible for the financial reporting of their generation fleet. My responsibilities included preparing financial statements, consolidations, cash flows, variance analysis and ensuring compliance with SEC reporting. Prior to my career at SDG&E I spent three years working as an auditor for PriceWaterhouse Coopers. I graduated from San Diego State University in 1994 with a Bachelor of Science in Business Administration (Accounting emphasis) and obtained my CPA license in 2001.

The purpose of my testimony in this proceeding is to describe SDG&E's Wheeler North Reef costs, as billed by SCE, and explain SDG&E's accounting and tracking of 2014 SONGS costs. I am sponsoring Chapter 1 in Ex. SDGE-01 and Chapter 5 in Ex. SDGE-02 in support of the Application. This material was personally reviewed by me and I believe it to be correct that it is factual in nature. Insofar as the material is in the nature of opinion or judgment, it represents my best judgment.

I have previously testified before this Commission.

Witness Qualifications of Lisa Browy

My name is Lisa L. Browy and my business address is 8330 Century Park Court, San Diego, California 92123. I am employed by SDG&E as a Customer Pricing Project Manager in the Customer Pricing Department. My primary responsibilities include planning, development, and implementation of rate related proceedings and preparation of various regulatory filings.

I have been employed with SDG&E and Sempra Energy since 1999. In addition to my current position in Customer Pricing, I have held various positions with increasing responsibility including Project Manager II in SDG&E Clean Transportation and Policy Initiatives, Sr. Energy Programs Advisor in the SDG&E Sustainable Communities Program, Principal Regulatory Account Analyst in SDG&E Regulatory Affairs, Regulatory Case Administrator in SDG&E Regulatory Affairs, Sr. Business Analyst in the Sempra Energy Affiliate Compliance Department, Sr. Accountant in SDG&E Cost Accounting, and Sr. Accountant in Sempra Energy Affiliate Accounting. Prior to joining SDG&E, I was employed by the Illinois Commerce Commission as an auditor from 1992 - 1999.

I graduated from the University of Illinois in 1991 with a Bachelor of Science degree in Accountancy. In 1992 I received Master of Science in Accountancy from the University of Illinois. I am a Certified Public Accountant, licensed in the state of Illinois.

I have previously submitted testimony before the before the California Public Utilities Commission. In addition, I have previously submitted testimony and testified before the Illinois Commerce Commission.

Witness Qualifications of Norma Jasso

My name is Norma G. Jasso. I am employed by SDG&E, as the Regulatory Accounts Analysis Manager in the Financial Analysis Department. My business address is 8330 Century Park Court, San Diego, California 92123. My current responsibilities include managing the process for the development, implementation, and analysis of regulatory balancing and memorandum accounts. I assumed my current position in July 2013.

I earned a Bachelor of Business Administration degree with an emphasis in Accounting from the University of San Diego in 1981. I earned a Masters of Business Administration from the University of Phoenix in 1996. I have been employed by SDG&E and Sempra Energy since December, 1997. Other positions I have held include Sundry Services Policy and Compliance Project Manager II, Affiliate Compliance Manager, Senior Business Analyst, and Accounting Systems Analyst.

This material was personally reviewed by me and I believe it to be correct and that it is factual in nature. Insofar as the material is in the nature of opinion or judgment, it represents my best judgment.

I have previously testified before this Commission.