

Application No.: A.05-06-_____
Exhibit No.: _____
Witness: John Killmer

**PREPARED DIRECT TESTIMONY OF JOHN KILLMER
ON BEHALF OF SAN DIEGO GAS AND ELECTRIC COMPANY
AND
SOUTHERN CALIFORNIA GAS COMPANY**

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

SEPTEMBER 14, 2005

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**PREPARED DIRECT TESTIMONY
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ON BEHALF OF SAN DIEGO GAS & ELECTRIC COMPANY AND
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I. Introduction

A. Purpose of Testimony and Summary of Recommendations

The purpose of my testimony is to set forth the joint proposals of San Diego Gas & Electric Company ("SDG&E") and Southern California Gas Company ("SoCalGas") relative to the determination of the appropriate residential line extension allowances and ownership charges in response to Resolution E-3921, issued on June 16, 2005 by the California Public Utilities Commission ("Commission").

With respect to residential line extension allowances, I recommend:

- a. There is no need for special allowances in areas of SDG&E's and SoCalGas' service territories that may be adjacent to competing municipal utilities.
- b. SDG&E's and SoCalGas' method of calculating residential line extension allowances, as contained herein, should be adopted.
- c. SDG&E and SoCalGas should review their residential line extension allowances annually and if, as a result of the updated inputs, the allowance changes by more than 5% the allowance should be updated and filed with the Commission for approval.

With respect to ownership charges, used in conjunction with the rules for extension of service, I recommend:

1 a. SDG&E's and SoCalGas' method of calculating ownership charges, as
2 contained herein, should be adopted.

3 b. SDG&E and SoCalGas should review their factor for calculating
4 ownership charges annually and, if as a result of the updated inputs, the
5 factor changes by more than 5%, the factor used to calculate ownership
6 charges should be updated and filed with the Commission for approval.

7 Finally, with respect to determining the revenue impact associated with the
8 preceding recommendations, I recommend that a periodic update to the residential line
9 extension allowances or the ownership charge should have no revenue impact because
10 they only reflect variations to revenues and costs which are already built into the current
11 rates.

12 **B. How the Residential Extension Allowance Is Applied**

13 A residential line extension allowance is provided to each residential applicant
14 seeking to connect to the utility's system. Where the cost of the residential line extension
15 is anticipated to exceed the allowance, the applicant is required to advance that amount to
16 the utility. The advance will be subject to refund for 10 years, based on new customer
17 load, which produces additional revenues to the utility.

18 For example, SDG&E's current approved electric residential extension allowance
19 is \$1,774 per customer. If SDG&E's estimated installed cost is equal to or less than,
20 \$1,774 for the service and line extension facilities, the applicant will not incur any
21 additional cost from SDG&E for connecting to SDG&E's system. To the extent that
22 SDG&E's estimated installed cost exceeds \$1,774, the applicant is responsible for the
23 additional cost.

1 For gas main extensions, the allowances are based on the customer installation of
2 specific appliances. The allowances are applied to the line extension costs as outlined in
3 the above electric example.

4 **C. How the Ownership Charge Is Applied**

5 When any portion of a refundable advance has not qualified for a refund at the
6 end of 12 months (electric) and 36 months (gas), the applicant will pay to the utility an
7 ownership charge on the remaining refundable balance. Monthly ownership charges are
8 in addition to the refundable amount and will be accumulated and deducted from the
9 refunds due the applicant. Any non-refunded amount remaining at the end of the 10-year
10 period shall become the property of the utility.

11 **II. RESIDENTIAL LINE EXTENSION ALLOWANCES**

12 **A. Residential Line Extension Allowance**

13 SDG&E and SoCalGas propose the continuation of the calculation of line
14 extension allowances based on the formula approved in Decision 99-12-046, and
15 reflected in both utilities' current tariffs. That formula is as follows:

16
$$\text{ALLOWANCE} = \text{NET REVENUE/COST OF SERVICE FACTOR}^1$$

17 In addition, SDG&E and SoCalGas recommend the continued use of both the
18 single allowance factor for electric service and the allowance by appliance for gas
19 service. This recommendation is consistent with the utility's current tariffs as approved
20 in Decision 04-12-015. Detailed examples of the electric and gas calculations are found
21 in Attachments A, B and C to this testimony.

¹ SDG&E Electric Rule 15 C.2.c, SDG&E Gas Rule 15 C.2.c., SoCalGas Rule 20 C.2.c.

1 **B. Methodology to Determine Net Revenue**

2 The Net Revenue that SDG&E and SoCalGas use to determine the residential line
3 extension allowance is the revenue associated with distribution services that the utility
4 provides. Thus, for electric service it would exclude such rate components as
5 Transmission, Nuclear Decommissioning, Public Purpose Programs, Competition
6 Transition Charges, Reliability Services and Commodity Charges. For gas service it
7 excludes the Transmission and Commodity Charges. SDG&E and SoCalGas recommend
8 that the process of calculating Net Revenue should be based on prior Commission-
9 approved methodologies adopted in previous decisions where practical.

10 The electric Net Revenue should be equal to the last adopted Residential
11 Distribution Revenues, less the last adopted Residential Revenue Cycle Service Credits,
12 divided by the number of Residential Customers corresponding to the approved
13 Residential Distribution Revenues.

14 The gas Net Revenue by appliance should be equal to the last adopted average
15 residential distribution rate, multiplied by the estimated usage of each appliance. The
16 basis for the estimated usage should be a recent conditional demand analysis (CDA)
17 similar to the one recently completed by the CEC using the 2003 California Statewide
18 Residential Appliance Saturation Survey (RASS). The RASS survey is implemented at
19 the direction of the CEC for the purpose of determining appliance saturations and usage
20 for each of the participating utilities (SDG&E, SoCalGas, Pacific Gas and Electric
21 Company, Southern California Edison and Los Angeles Department of Water and
22 Power). Title 20 of California calls for the RASS and subsequent analysis to be repeated
23 in 2007 and every four years thereafter.

1 **C. Methodology to Determine the Cost of Service Factor**

2 The Cost of Service ("COS") factor is comprised of a weighted average Levelized
3 Annual Capital Cost ("LACC") component associated with distribution plant
4 installations, plus a weighted average annual Operating and Maintenance ("O&M") cost
5 component, expressed as a percent of the original installed plant cost. Also included are
6 an Administrative and General ("A&G") cost component and a Franchise Fees and
7 Uncollectible ("FF&U") cost component, each expressed as a percent of the original
8 installed plant cost.

9 The LACC cost component is derived from individual LACC factors calculated
10 for each of the distribution plant accounts. It includes all the carrying costs of a capital
11 investment, including book depreciation, return on rate base, income and property taxes,
12 and salvage. Individual LACC factors are weighted by approved plant balances and
13 averaged to yield the LACC cost component. The LACC cost component is updated
14 periodically to reflect current authorized rate of return, book lives, and tax treatments.

15 The O&M cost component is derived from individual percentages calculated for each of
16 the distribution plant accounts, based on approved O&M expenses and plant balances.

17 The individual O&M percentages are weighted by approved plant balances and averaged
18 to yield the O&M cost component.

19 The A&G cost component is allocated from total A&G in the same proportion as
20 distribution O&M. The FF&U cost component is allocated from total FF&U in the same
21 proportion as distribution O&M. If approved O&M expenses or plant balances are not
22 available, 5-year historical averages can be substituted, based on expenses and plant

1 balances reported annually to the Commission formatted consistently with the Federal
2 Energy Regulatory Commission's Forms 1 and 2.

3 **III. OWNERSHIP CHARGES**

4 **A. Description of the Ownership Charge**

5 The ownership charge serves to recover the utility's cost of operating,
6 maintaining, and possibly replacing line extension facilities that are not fully utilized.
7 When any portion of a refundable advance has not qualified for a refund at the end of 12
8 months (electric) and 36 months (gas), the ownership charge begins accumulating. The
9 ownership charge is deducted from any future refunds due the applicant.

10 The components and use of the ownership charge derive from the utility's
11 accounting for its costs of constructing, maintaining and possibly replacing the extension
12 during the 10-year refund period, if it is not being fully utilized. When the extension goes
13 into service, the utility is responsible for operating, maintaining and if necessary,
14 repairing or replacing the entire extension. At the point that the extension is actually
15 serving customer load, that share of the utility's costs will be added to rate base, where it
16 will be recovered through rates.

17 The unused portion of the extension still presents various costs to the utility, in
18 the form of property tax, O&M, A&G, FF&U, as well as a risk that sometime during the
19 useful life of the extension, it will need to be replaced by the utility. This unused part of
20 the extension cannot yet be added to rate base nor have its costs recovered through rates.
21 The replacement component of the ownership charge need not cover the cost of replacing
22 the whole extension, since the part that was added to rate base is already collecting its
23 likely replacement cost through book depreciation. However, the portion not yet added

1 to rate base also carries that same probability of replacement, which increases throughout
2 the useful life of the extension. The provision for possible replacement is accomplished
3 by using a sinking fund factor, included in the ownership charge. This is a conventional
4 way of accounting for the costs of possibly replacing any capital asset during its useful
5 life. In this case, the burden of probable replacement cost for the unused portion of the
6 extension is bourn by the utility and paid for through the ownership charge deduction
7 until the conclusion of the 10-year refund period, when the utility can finally add any
8 remaining non-refunded balance to its rate base.

9 **B. The calculation of the monthly ownership charge**

10 The ownership charge factor is calculated as:

- 11 • O&M cost component (weighted average for distribution plant)
- 12 • A&G cost component (allocated for distribution plant)
- 13 • FF&U cost component (allocated for distribution plant)
- 14 • Property Tax Effect component (weighted average for distribution plant)
- 15 • Replacement component (weighted average sinking fund for distribution
16 plant)

17 See Attachments A, B, and C for examples of the ownership charge calculations.

18 **C. Ownership Charges and Rule 2 Perpetuity Charge**

19 The ownership charge factor described above, which serves to recover the cost of
20 operating and maintaining customer-financed facilities not fully utilized, is different than
21 the perpetual finance factor referenced in Rule 2, which is charged to the applicant for
22 utility-financed special facilities. This concludes my prepared direct testimony.

1 **QUALIFICATIONS**

2 My name is John D. Killmer. I am a Business/Economic Advisor in the
3 Regulatory Strategies Group of San Diego Gas & Electric Company (SDG&E). My
4 Business address is 8306 Century Park Court, San Diego, CA 92123.

5 I support the operating and administrative departments of SDG&E and Southern
6 California Gas Company (SoCalGas) in their discounted cash flow and revenue
7 requirement analysis of prospective capital projects. I also review and update the
8 residential Line Extension Allowances, the Ownership Charge and the Cost of Service
9 factors for both utilities. I have been employed by SDG&E since 1978, holding various
10 positions in the system forecasting and marketing groups, before assuming my current
11 position in 1998.

12 I received a Bachelor of Science degree in Statistics from Colorado State
13 University and a Master of Science degree in Systems Management from the University
14 of Southern California. I have previously testified before the California Public Utilities
15 Commission and the California Energy Commission