Application No: A.13-12-013
Exhibit No.:
Witness: S. Nasim Ahmed

Application of Southern California Gas Company (U 904 G) and San Diego Gas & Electric Company (U 902 G) For Authority To Recover North-South Project Revenue Requirement In Customer Rates And For Approval Of Related Cost Allocation And Rate Design Proposals)	A.13-12-013 (Filed December 20, 2013)

PREPARED REBUTTAL TESTIMONY ON RATESETTING AND SAFETY OF

S. NASIM AHMED

SAN DIEGO GAS & ELECTRIC COMPANY

AND

SOUTHERN CALIFORNIA GAS COMPANY

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

June 12, 2015

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PREPARED REBUTTAL TESTIMONY OF S. NASIM AHMED ON RATESETTING AND SAFETY

I. PURPOSE

The purpose of my rebuttal testimony on behalf of Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E) is to address points raised by the Southern California Generation Coalition (SCGC) and the Office of Ratepayer Advocates (ORA) on May 8, 2015, pertaining to the regulatory accounting of the proposed North-South Infrastructure Memorandum Account (NSIMA) and the calculation of the North-South Project's (Project) first year revenue requirement for rate purposes. The topics I will address include the following:

- Intervenors' proposed cost exclusions and limitations;
- The regulatory accounting treatment of actual Project costs incurred;
- The amortization of the NSIMA; and
- Incorporation of the first year of Project costs into rates.

II. PROPOSED COST EXCLUSIONS AND LIMITATIONS

A. Greenhouse Gas Emission Fees to be Included in GHGBA

SCGC states that "SoCalGas should not be allowed additional O&M for GHG emission fees . . . and SoCalGas' Greenhouse Gas Balancing Account (GHGBA) provides balancing account protection to the extent that the company incurs GHG costs in excess of the amounts provided for in base rates."[1] SoCalGas and SDG&E agree that our proposal in this application to

[1] Direct Testimony of Catherine E. Yap on behalf of Southern California Generation Coalition, dated May 8, 2015, page 22.

treat GHG emissions fees as post-construction O&M costs[2] has been superseded by the Commission's guidance in D.14-12-020 directing us to establish the GHGBA for the purpose of recording costs associated with the California Air Resource Board's Cap-and-Trade program for SoCalGas' covered facilities with any corresponding revenues authorized by the Commission. These particular costs can be recorded in the GHGBA and their recovery dealt with along with the other costs recorded in that account.

B. Limited and/or Deferred Cost Recovery May Have Negative Consequences

As discussed in Mr. Yee's Rebuttal Testimony in response to intervenor arguments for a cost cap on the Project's total cost or deferral of cost recovery until a reasonableness review of the costs in a future proceeding, SoCalGas and SDG&E disagree with each of these recommendations due to the significant rate impact to customers in future periods.[3] In their 2016 General Rate Case (GRC) proceedings (Applications 14-11-004/14-11-003), SoCalGas and SDG&E proposed a three-year GRC period. Presuming Commission approval of that particular proposal, SoCalGas would need to file another GRC for the period of 2019 through 2021. With an estimated Project completion date of December 31, 2019, deferring recovery in rates of the Project's revenue requirement until the effective date of SoCalGas' next GRC would result in Project-related rate increase on January 1, 2022 of close to a $375 million.[4] Such a rate increase would be in addition to the impact on rates for implementing the 2022 GRC revenue requirement and could potentially create rate shock. SoCalGas and SDG&E support full cost recovery of the Project's actual revenue requirement without a cost cap.

[2] Updated Direct Testimony of David Buczkowski, dated November 12, 2014, page 17.
[3] Rebuttal Testimony of Garry Yee, dated June 12, 2015, page 2.
[4] Calculated as the sum of the projected revenue requirement for years 2014-2022 shown in Table 5 of Mr. Yee's Updated Direct Testimony dated November 12, 2014.

C. If a Cost Cap is Adopted, the Commission Should Authorize a Separate Regulatory Account to Record Costs in Excess of the Cap

As discussed in Mr. Yee's Rebuttal Testimony, SoCalGas and SDG&E do not see the need for a cost cap for the North-South Project. However, if the Commission determines that a cost cap for the Project is warranted, SoCalGas and SDG&E would propose a cap equal to the Project's fully loaded and escalated estimated costs.[5] Additionally, if actual costs exceed the cost cap, then SoCalGas and SDG&E propose that the revenue requirement associated with costs exceeding the cap be recorded in a separate regulatory account subject to a reasonableness review in a future proceeding. This methodology is consistent with the approach authorized by the Commission in D.10-04-034 for the Honor Rancho Expansion Project. For that project, SoCalGas was authorized to incorporate into rates a revenue requirement, up to the cap on capital costs, with the costs exceeding the cap recorded in a separate regulatory account subject to a reasonableness review.[6]

III. PROPOSED TREATMENT TO AMORTIZE THE NSIMA

SCGC states that to the extent that the Commission allows SoCalGas and SDG&E to charge interim rates to recover the Project's costs, the costs should be recovered through Backbone Transportation Service (BTS) rates.[7] In addition, SCGC states that SoCalGas and SDG&E should not be permitted to simply transfer the remainder of the NSIMA to the Backbone Transmission Balancing Account (BTBA) without specific Commission authorization.[8]

SoCalGas and SDG&E agree with SCGC that the Project's costs should be recovered in BTS rates. Since the costs recorded in the NSIMA are part of the Project, consistent with this

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[5] Rebuttal Testimony of Garry Yee, dated June 12, 2015, page 2.
[6] D.10.04-034, Ordering Paragraphs 5-8.
[7] Direct Testimony of Catherine E. Yap on behalf of Southern California Generation Coalition, dated May 8, 2015, page 25.
[8] Direct Testimony of Catherine E. Yap on behalf of Southern California Generation Coalition, dated May 8, 2015, page 25.

approach, the NSIMA balance should also be amortized in BTS rates. SoCalGas and SDG&E also agree that Commission approval is required prior to amortization of the NSIMA and the transfer of any residual balance. In my Updated Direct Testimony, I propose to amortize the NSIMA in BTS rates and transfer the residual balance to the BTBA once SoCalGas has been authorized to recover the balance.[9]

IV. CALCULATION OF THE FIRST YEAR'S REVENUE REQUIREMENT FOR RATE PURPOSES WILL REFLECT THE ACTUAL IN-SERVICE DATE

SCGC states that the Project's revenue requirement, if approved, should be adjusted for rate recovery purposes such that the first year's revenue requirement reflects a partial year of in-service if the Project is operational for only a portion of the first year.[10] SoCalGas and SDG&E agree that only the Project's actual revenue requirement should be recovered in rates, and that if the Project is operational for only a portion of the first year, the actual revenue requirement will reflect that fact.

As discussed in Mr. Bonnett's Updated Direct Testimony, if the Project becomes operational on a date other than the projected date of December 31, 2019, then the first year's revenue requirement will be adjusted to ensure it is fully collected over the remaining months of the year.[11] That is, if the Project's first year of revenue requirement represents a partial year, the partial revenue requirement will be grossed up to an annual amount for rate purposes, and then divided by an annual throughput. Although SCGC's proposed methodology of scaling down the annual throughput is mathematically equivalent to the gross-up of the partial year revenue requirement, SoCalGas and SDG&E prefer our gross-up approach because it is consistent with

[9] Updated Direct Testimony of S. Nasim Ahmed, dated November 12, 2014, page 2.
[10] Direct Testimony of Catherine E. Yap on behalf of Southern California Generation Coalition, dated May 8, 2015, page 24.
[11] Updated Direct Testimony of Jason Bonnett, dated November 12, 2014, page 2.

the approach used for other projects authorized by the Commission.[12] There is no reason to use a different methodology for the Project.

This concludes my prepared rebuttal testimony on ratesetting and safety issues.

[12] D.13-11-023.