

Application: A.17-04-027

Exhibit No.: SDG&E-16

Witness: Woodruff

PREPARED REBUTTAL TESTIMONY OF
MICHAEL R. WOODRUFF
ON BEHALF OF SAN DIEGO GAS & ELECTRIC COMPANY
CHAPTER 16



BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

November 13, 2017

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**REBUTAL TESTIMONY OF
MICHAEL R. WOODRUFF
CHAPTER 7**

I. INTRODUCTION

The purpose of my rebuttal testimony is to respond to the prepared direct testimony submitted by intervening parties in San Diego Gas & Electric Company's ("SDG&E's") Customer Information System ("CIS") Replacement Program Application ("A.") 17-04-027. In my rebuttal testimony, I will address recommendations presented by Utility Consumers' Action Network's ("UCAN's") witness, Garrick Jones' testimony,¹ addressing issues in relation to the CIS Replacement Program revenue requirement. My testimony also provides two corrections to SDG&E's originally-filed CIS revenue requirement testimony,² and provides clarification on UCAN's Table 1: Costs and Benefits on Nominal and Present Value Bases.³

II. REVENUE REQUIREMENT UPDATE

While preparing rebuttal to UCAN's testimony, SDG&E discovered that software assets in FERC account C-303 are exempt from property taxation under California Revenue and Taxation Code Section 995.⁴ Thus, SDG&E has adjusted its CIS revenue requirement costs and benefits to remove property tax for these assets. The impacts to the revenue requirements are as follows:

¹ Exhibit ("Ex.") UCAN-1, *Testimony of Garrick F. Jones in San Diego Gas and Electric's Customer Information System Replacement Application* (October 20, 2017) ("Jones Testimony").

² Direct Testimony of Michael R. Woodruff and James G. Vanderhuy Jr. at 2 (Table 2: Fully Loaded and Escalated Costs and Benefits Summary) and 4 (Table 3: Forecasted Revenue Requirement Summary).

³ Jones Testimony at 5, Table 1.

⁴ State of California Revenue and Taxation Code, Section 995 states, in relevant part, that "computer programs shall not be valued for purpose of property taxation."

1 (1) The originally filed revenue requirement costs of \$996.6 million are reduced to \$965.4
2 million for the period 2017 to 2042.

3 (2) The originally filed revenue requirement benefits of \$1,289.6 million are reduced to
4 \$1,268.7 million for the period 2022 to 2042.

5 (3) The above changes create a revenue requirement reduction to costs of \$31.1 million,
6 and a revenue requirement reduction to benefits of \$20.9 million. The net benefit to
7 ratepayers is \$10.2 million.

8 Original Table 3 from my prepared direct testimony (Chapter 7) and Revised Table 3, below,
9 itemize these adjustments by year.

10 **Original Table 3, filed on April 28, 2017:** with property tax included for software.
11 (in millions)
12

COSTS	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027-2042	Total
CPUC -Gas	(0.5)	1.7	(7.1)	(2.3)	18.9	19.5	20.6	17.7	18.2	17.7	164.2	268.7
CPUC -Electric	(1.5)	2.4	(20.1)	(12.2)	42.1	47.0	49.9	42.7	43.9	42.7	391.4	628.3
FERC -Electric	(0.5)	(0.6)	(5.2)	(6.0)	5.4	8.2	8.9	7.5	7.8	7.5	66.4	99.6
Total	(2.5)	3.6	(32.4)	(20.6)	66.4	74.8	79.4	67.9	69.9	68.0	622.1	996.6

BENEFITS	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027-2042	Total
CPUC -Gas	-	-	-	-	-	5.0	10.6	14.0	17.6	20.7	305.5	373.6
CPUC -Electric	-	-	-	-	-	6.7	19.7	28.1	37.0	44.7	682.7	818.8
FERC -Electric	-	-	-	-	-	(2.0)	0.1	1.7	3.3	4.8	89.3	97.1
Total	-	-	-	-	-	9.7	30.4	43.8	58.0	70.2	1,077.5	1,289.6

1 **Revised Table 3:** with no property tax included for software.
 2 (in millions)
 3

COSTS	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027-2042	Total
CPUC -Gas	(0.5)	1.7	(7.1)	(2.3)	18.8	19.0	19.7	16.9	17.4	17.1	160.3	261.0
CPUC -Electric	(1.5)	2.4	(20.1)	(12.2)	41.7	45.7	47.7	40.7	42.0	41.0	381.4	608.8
FERC -Electric	(0.5)	(0.6)	(5.2)	(6.0)	5.3	8.0	8.5	7.1	7.4	7.2	64.4	95.6
Total	(2.5)	3.6	(32.4)	(20.6)	65.7	72.6	76.0	64.8	66.9	65.3	606.1	965.4

BENEFITS	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027-2042	Total
CPUC -Gas	-	-	-	-	-	5.0	10.6	13.9	17.4	20.5	301.1	368.5
CPUC -Electric	-	-	-	-	-	6.7	19.6	27.7	36.4	44.0	671.3	805.7
FERC -Electric	-	-	-	-	-	(2.0)	0.1	1.6	3.2	4.6	87.0	94.5
Total	-	-	-	-	-	9.7	30.2	43.2	57.1	69.1	1,059.3	1,268.7

4
 5 The adjustment reflected in Revised Table 3 is solely to remove property tax from the
 6 revenue requirement calculation for software assets. There is no impact to the direct costs
 7 presented in witness Atkinson’s direct testimony (Chapter 4).

8 **III. COMMENTS ON UCAN’S TABLE 1**

9 SDG&E agrees with UCAN’s present value of revenue requirement calculation, as stated
 10 in UCAN’s Table 1, which results in a \$22.7 million net revenue requirement savings on a Net
 11 Present Value (“NPV”) basis, with a positive 1.05 benefit to cost ratio.⁵ However, as stated in
 12 Section II above, SDG&E has adjusted its revenue requirement calculation for a property tax
 13 issue. For comparison, the present value of the adjusted revenue requirements is reflected in the
 14 Revised Present Value Revenue Requirement (“PVR”) table below.⁶ The updated net revenue
 15 requirement savings are \$30.3 million on an NPV basis, with a positive 1.08 benefit to cost ratio.

⁵ Jones Testimony at 5, Table 1.

⁶ Updated revenue requirements from Section II of this testimony were used in the revised PVR calculation; all other assumptions remained unchanged.

1 **Revised PVRR**
 2 (in millions)
 3

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027-2042	Total
Costs	(2.4)	3.2	(26.7)	(16.0)	46.7	48.0	46.6	36.8	35.3	31.9	198.3	401.7
Benefits	-	-	-	-	-	6.4	18.5	24.5	30.0	33.7	318.8	432.0
Net Rev Req	(2.4)	3.2	(26.7)	(16.0)	46.7	41.6	28.1	12.3	5.2	(1.8)	(120.5)	(30.3)

4
 5 SDG&E notes that the present value of direct costs, as shown in UCAN’s Table 1, is not
 6 an appropriate metric for assessing CIS Replacement Program costs and benefits. The direct
 7 costs shown in UCAN Table 1 are stated in 2017 dollars. Discounting these costs is
 8 inappropriate and inaccurate, as the costs are already presented in nominal, present-day dollars.⁷
 9 A more appropriate metric would be to calculate the present value of fully loaded and escalated
 10 costs included in Table 2 of my direct testimony (Chapter 7).⁸ The correct direct costs and
 11 benefits, on a nominal and present-value basis, are shown in the table below.

Direct Costs & Benefits on Nominal & Present-Value Basis
 (\$million)

Category	Fully Loaded & Escalated Direct Costs (\$millions)		Revenue Requirement (\$millions)	
	SDG&E (Nominal)	SDG&E (Present Value)	SDG&E (Nominal)	SDG&E (Present Value)
Total Costs	676.0	389.7	965.4	401.7

⁷ Jones Testimony at 5, Table 1. While not impacting any calculations in Jones’ testimony, Table 1, footnote 1 of Jones’ testimony incorrectly references “Chapter 7, p. 12 (Table LDA-4)” as the source for the direct cost information listed in Table 1. The correct citation of direct costs described in Chapter 7 is in Table 1 at page 1.

Also of note, the discount rate listed in Jones’ Table 1, footnotes 2 and 4, is 7.9%. However, SDG&E’s authorized CPUC weighted average cost of capital is 7.79%. It appears UCAN used the correct discount rate of 7.79% when discounting SDG&E revenue requirements to arrive at \$22.7 million in savings.

It its November 9, 2017 response to SDG&E Data Request 01, Question 2, UCAN has indicated that it will be amend and correct the testimony reference and discount rate utilized in its testimony by filing an erratum.

⁸ Direct Testimony of Michael R. Woodruff and James G. Vanderhye Jr. at 2-3 (Table 2: Fully Loaded and Escalated Costs and Benefits Summary).

Total Benefits	1,063.9	421.9	1,268.7	432.0
Benefit-to-Cost Ratio	1.57	1.08	1.31	1.08

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IV. DESCRIPTION UPDATE

In my prepared direct testimony (Chapter 7) on page 2, lines 10-12, the description of Table 2 incorrectly states that “capitalized property tax and Allowance for Funds Used During Construction (‘AFUDC’)” are included in Table 2. Table 2 includes direct costs, escalation, and loaders. Table 2 does not include capitalized property tax and AFUDC. Also of note, capitalized property tax and AFUDC were included in the original filing as part of the total revenue requirement calculation in Table 3. Listed below is the revision to Table 2 of my direct testimony (Chapter 7):

Original Table 2 Description, filed on April 28, 2017

“Table 2 below summarizes the fully loaded and escalated costs and benefits of the CIS Replacement Program, including capitalized property tax and Allowance for Funds Used During Construction (‘AFUDC’).”

Revised Table 2 Description

“Table 2 below summarizes the fully loaded and escalated costs and benefits of the CIS Replacement Program, ~~including capitalized property tax and Allowance for Funds Used During Construction (‘AFUDC’).~~”

V. CONCLUSION

This concludes my rebuttal testimony.