

Application: A.17-04-027

Exhibit No.: SDG&E-17

Witness: Jasso

**PREPARED REBUTTAL TESTIMONY OF
NORMA G. JASSO
ON BEHALF OF SAN DIEGO GAS & ELECTRIC COMPANY
CHAPTER 17**



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

November 13, 2017

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**PREPARED REBUTTAL TESTIMONY OF
NORMA G. JASSO
CHAPTER 17**

I. OVERVIEW AND PURPOSE

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. My testimony addresses the following recommendations presented by the intervening parties:

- Office of Ratepayer Advocates ("ORA") Witness Logan¹ – Proposed the adoption of a two-way balancing account with a cost recovery mechanism based on whether the balance in the account is positive or negative.
- Office of Ratepayer Advocates ("ORA") Witness Laserson² – Proposed a separate memorandum account for transitional staff costs.
- Utility Consumers' Action Network ("UCAN") Witness Jones³ - Proposed a one-way balancing account.;
- The Utility Reform Network ("TURN") Witness Finkelstein⁴ – Argues that the two-way balancing account is not reasonable.

My rebuttal testimony is organized as follows:

¹ Exhibit ("Ex.") ORA-1, *Report on San Diego Gas & Electric Company Implementation of Customer Information System Replacement Program* (October 20, 2017) ("Logan Testimony").

² Ex. ORA-3, *Report on San Diego Gas & Electric Company Implementation of Customer Information System Replacement Program* (October 20, 2017) ("Laserson Testimony").

³ 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").

⁴ *Prepared Testimony of Robert Finkelstein* (October 20, 2017) ("Finkelstein Testimony").

- 1 • Section II – A Two-Way Balancing Account Is A Reasonable Mechanism
- 2 • Section III – Response to Intervenor Positions
- 3 • Section IV – Summary and Conclusion

4 **II. A TWO-WAY BALANCING ACCOUNT IS A REASONABLE MECHANISM**

5 As discussed in my prepared direct testimony (Chapter 9), SDG&E requests to
6 establish a two-way balancing account for purposes of recording revenue and costs
7 associated with the CIS Replacement Program until the project is in service and submitted as
8 part of the base margin revenue requirement in a future General Rate Case (“GRC”). Utility
9 balancing accounts are typically used to track/record revenues reflecting authorized revenue
10 requirement as a credit to the account, and track/record authorized costs and expenses as a
11 debit to the account. These entries are recorded to the balancing account on a monthly basis,
12 and provide an ongoing picture of the account balance. A credit balance results when
13 costs/expenses are lower than revenue collected from ratepayers; on the other hand, a debit
14 balance indicates that costs/expenses are higher than collected revenues.

15 A two-way balancing account allows for the negative/positive balance to be resolved
16 in one of two ways: (1) a refund to ratepayers in the case of an overcollection (positive
17 balance) or (2) a payment by ratepayers in the case of an undercollection (negative balance).
18 This mechanism is appropriate in this proceeding, as SDG&E is embarking in a substantially
19 large investment to meet regulatory requirements, customer expectations, and business
20 needs.

21 In her direct testimony (Chapter 4), Laura Atkinson describes in detail the thorough
22 and methodical evaluation approach used by SDG&E to determine the need to replace the
23 current CIS system and to arrive at the proposed CIS Replacement Program costs. In their

1 direct testimony (Chapter 7) and rebuttal testimony (Chapter 16), Witnesses Woodruff and
2 Vanderhye describe the revenue requirement methodology and resulting total revenue
3 requirement for the new CIS. The revenue requirement forecast reflects the up-front
4 estimated tax benefits for self-developed software, resulting in a cumulative negative
5 revenue requirement from 2017 through 2020. Therefore, as stated in the direct testimony
6 of Lisa Browy and Marjorie Schmidt-Pines (Chapter 8), SDG&E proposes to begin cost
7 recovery in 2021.

8 Although SDG&E has presented its best cost forecast, a reasonable person would not
9 expect SDG&E to exactly foresee future costs for such a large and complex project. For this
10 reason, it is reasonable for SDG&E to require a two-way balancing account.

11 **III. RESPONSE TO INTERVENOR POSITIONS**

12 In direct testimony, ORA, UCAN, and TURN presented their positions regarding
13 SDG&E's proposed two-way balancing account.

14 **A. ORA**

15 **1. Two-Way Balancing Account Counterproposal**

16 ORA's Witness Logan recommends that SDG&E's two-way balancing account be
17 adopted, with the following conditions: First, if the implementation costs are at or below
18 SDG&E's forecast, SDG&E should submit a one-time Tier 3 advice letter to seek cost
19 recovery. However, if the implementation costs are above SDG&E's forecast, SDG&E
20 should be required to submit a new application to allow for the review of all costs booked to

1 the balancing account.⁵ Whether the balancing account has a positive or negative balance at
2 the end of the implementation period, all costs would be subject to review.⁶

3 SDG&E appreciates ORA's acknowledgment that it is appropriate to adopt a two-
4 way balancing account mechanism for the CIS Replacement Program. However, ORA's
5 two-tiered recommendation offers a process that subjects not only SDG&E but also the
6 Commission to an unnecessary, additional commitment of time and resources.

7 SDG&E disagrees with ORA's suggestion that at the end of the implementation
8 period, if the costs are at or below SDG&E's forecast, then SDG&E should submit a Tier 3
9 advice letter to seek recovery of costs, subject to review. This treatment would require
10 SDG&E to shoulder the cash outlay during the entire implementation period, with no
11 revenue collected from ratepayers until after the end of the implementation period. This
12 would put a strain on SDG&E's financial resources and is not a reasonable proposal for a
13 large project such as the CIS Replacement Program. Further, a Tier 3 advice letter would
14 involve a Commission resolution requiring a full Commission vote. This process could
15 potentially add another 12 to 18 months of work to already stretched Commission resources
16 and could further delay the start date for SDG&E's cost recovery timeline. SDG&E's
17 proposed cost recovery from ratepayers begins in 2021.

18 ORA's second suggestion is that, in the event costs are above SDG&E's forecast (at
19 the end of the implementation period), SDG&E should submit a new application for review
20 of all costs booked to the balancing account. ORA further states that because the balancing

⁵ Logan Testimony at 15:14-20.

⁶ *Id.* at 15:22-23.

1 account would be in place, SDG&E would not be precluded from spending above the
2 authorized revenue requirement in rates.⁷

3 SDG&E disagrees with ORA's recommendation. Filing a new application demands
4 considerable time and resources both from SDG&E and the Commission. Further, ORA
5 does not present any parameters for the material amount of costs over forecast that would
6 compel the Commission to require SDG&E to submit a new application for review of *all*
7 costs booked to the balancing account.

8 In both of ORA's proposed approaches described above, the process does not allow
9 for timely recovery of the necessary implementation costs. ORA's proposed additional costs
10 review, whether via a Tier 3 advice letter or a new application, is not necessary given the
11 detailed showing that SDG&E has made for the proposed costs subject to two-way
12 balancing accounts, which, like all regulatory accounts, are subject to review at any time by
13 the Commission.

14 **2. Memorandum Account to Transitional Staff Costs**

15 ORA's Witness Laserson recommends the establishment of a new memorandum
16 account for SDG&E to record transitional staff costs. Further, ORA states that SDG&E
17 could file an advice letter for recovery of these incremental costs after completion of the
18 project.⁸

19 SDG&E disagrees with ORA's recommendation for a separate memorandum
20 account because segregating one relatively small category of costs does not add much value
21 to the regulatory accounting record. Rather, SDG&E submits that all CIS related costs

⁷ *Id.* at 15:20-22.

⁸ *Id.* at 6:6-7; 6:15-16.

1 would be best identified as part of the CIS project by recording them in one balancing
2 account. The time and effort it takes to set-up, record, report and consolidate sub-parts of
3 the same program is not extreme; but it could open the door to inefficiencies that SDG&E
4 seeks to avoid. As outlined in my direct testimony (Chapter 9), SDG&E maintains that it
5 would be most appropriate to record all revenue and costs associated with the CIS
6 Replacement Program in one (two-way) balancing account.

7 Please refer to Witness Swartz’s rebuttal testimony (Chapter 14) for an explanation
8 of why SDG&E’s proposed transitional staff costs are necessary and reasonable.

9 **B. UCAN**

10 UCAN Witness Garrick Jones opines that the “preliminary” nature of SDG&E’s CIS
11 proposal should cause the Commission to impose a one-way, instead of a two-way,
12 balancing account.⁹ SDG&E disagrees with UCAN’s portrayal of the CIS Replacement
13 Program as preliminary in nature. As noted above, the program is thoroughly described in
14 Witness Atkinson’s direct testimony (Chapter 4), and includes a detailed description of the
15 evaluation process conducted by SDG&E as well as the program cost estimate. Moreover,
16 Witness Linder explains further in his rebuttal testimony (Chapter 15) that SDG&E’s project
17 planning team has already made key decisions and the project is not in flux.

18 UCAN also argues that a two-way balancing account “provides the company with a
19 blank check to spend whatever it wants to spend on this project.”¹⁰ UCAN does not
20 substantiate this argument with any facts. There is no evidence to support that SDG&E has
21 acted in an imprudent manner with respect to past two-way balancing accounts, or any basis

⁹ Jones Testimony at 25:3-5.

¹⁰ *Id.* at 24:6-9.

1 to believe that SDG&E would be incentivized to go over budget simply due to the
2 availability of a two-way balancing account. SDG&E does not implement projects
3 differently based on the type of regulatory account in effect; rather, what drives SDG&E is
4 the need to provide to ratepayers the service that is required at the lowest reasonable price.
5 As explained in Witness Atkinson’s direct testimony (Chapter 4), in addition to providing
6 substantial financial benefits (45 distinct benefits were identified across both the Customer
7 Service and Information Technology departments), the new CIS will enable SDG&E “to
8 transform its customer service business processes to be more proactive and better meet
9 consumer needs.”¹¹

10 **C. TURN**

11 TURN’s Witness Robert Finkelstein recommends that SDG&E’s ratemaking
12 proposal be rejected to the extent it seeks authorization now regarding future “actual” costs
13 that exceed the forecasted costs found reasonable here.¹² TURN argues that SDG&E’s
14 proposed ratemaking would permit the utility to recover all recorded costs, and makes no
15 mention of any further after-the-fact reasonableness review.¹³

16 In SDG&E’s view, its Application and the discovery presented in this proceeding
17 support the reasonableness of SDG&E’s proposed costs and serve as the primary method for
18 reasonableness approval. Moreover, all regulatory accounts, including two-way balancing
19 accounts, are subject to review by the Energy Division on an annual basis. Energy Division
20 and Audit Division staff are capable and well-positioned to conduct the review, should costs

¹¹ Direct Testimony of Laura Atkinson (Chapter 4) at 9:3-11:14.

¹² Finkelstein Testimony at 1:16-18.

¹³ *Id.* at 2:7-9.

1 exceed those projected in the Application. Thus, it is incorrect to say that there would be no
2 opportunity for an after-the-fact reasonableness review under SDG&E's proposal.

3 **IV. SUMMARY AND CONCLUSION**

4 In summary, my rebuttal testimony responds to the prepared direct testimony
5 submitted by intervening parties ORA, UCAN and TURN. For the reasons stated in this
6 rebuttal testimony, the Commission should:

- 7 1) Adopt SDG&E's proposal to establish electric and gas two-way balancing
8 accounts to record revenue and costs associated with the CIS Replacement
9 Program until the project is in service and submitted as part of base margin
10 revenue requirement in a future GRC; and reject the various parties' counter
11 proposals.

12 This concludes my prepared rebuttal testimony.