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Witness: Michelle A. Somerville

SDG&E SOLAR ENERGY PROJECT
CHAPTER IV
COST RECOVERY
SAN DIEGO GAS & ELECTRIC COMPANY

Errata to

Prepared Direct Testimony
of
Michelle A. Somerville

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

January 7, 2009

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1 **I. INTRODUCTION**

2 The purpose of this chapter is to outline San Diego Gas & Electric Company’s
3 (“SDG&E”) proposal for recovery of costs associated with implementing the SDG&E Solar
4 Energy Project described in Chapters I - III. This chapter:

- 5 • Describes SDG&E’s proposal to recover incremental administrative expenses,
6 preliminary development expenses, capital expenses, and operation and maintenance
7 expenses of the SDG&E Solar Energy Project as proposed in Chapter II - III,
- 8 • Describes SDG&E’s proposal to balance authorized revenue requirements to recorded
9 expenses of the SDG&E Solar Energy Project, and
- 10 • Proposes a regulatory framework for Commission approval of each individual solar
11 installation prior to construction.

12 **II. REQUESTS FOR APPROVAL**

13 SDG&E requests Commission approval to:

- 14 • Recover initial administrative and preliminary development costs of \$214,000 in 2008
15 and of \$1,662,000 per year beginning in 2009 through the Non-fuel Generation Balancing
16 Account (“NGBA”);
- 17 • Recover capital-related and operations and maintenance (“O&M”) revenue requirements
18 for completed SDG&E Solar Energy Project installations through the NGBA;
- 19 • Create a new balancing account, the Solar Energy Project Balancing Account
20 (“SEPBA”), to balance the authorized revenue requirement for administrative and
21 preliminary development costs as requested in this application and authorized revenue
22 requirement for each SDG&E Solar Energy Project facility with the actual capital-related
23 revenue requirement and O&M expenses; and
- 24 • File a Tier 3 Advice Letter (“AL”) for Commission approval to construct each solar
25 generation asset and for recovery of the capital-related and O&M revenue requirements
26 associated with construction of that asset through the NGBA.

1 **III. RECOVERY OF EXPENSES**

2 The SDG&E Solar Energy Project encompasses the development and construction of
3 incremental generation facilities that were not contemplated prior to filing SDG&E’s 2008
4 General Rate Case (“GRC”) application are therefore not included in SDG&E’s generation
5 revenue requirement pending authorization in the GRC¹.

6 Costs of the SDG&E Solar Energy Project will include incremental administration and
7 preliminary development expenses to determine if specific solar installations are viable, capital
8 expenses to construct each solar facility, and ongoing O&M expenses after a solar facility begins
9 generating electricity. SDG&E proposes to recover the revenue requirement associated with
10 incremental administration and preliminary development costs as approved in this application as
11 well as the revenue requirement for approved and completed SDG&E Solar Energy Project
12 facilities in electric commodity rates via NGBA. The NGBA records the difference between
13 SDG&E authorized non-fuel generation revenue requirements and revenues received from the
14 non-fuel portion of electric commodity rates and is recovered through electric commodity rates
15 applied to bundled service customers.

16 In addition, SDG&E proposes to establish a new balancing account, the Solar Energy
17 Project Balancing Account (“SEPBA”), to record the difference between the authorized SDG&E
18 Solar Energy Project revenue requirement and the actual SDG&E Solar Energy Project O&M
19 and capital-related expenses.

20 **A. Authorized Incremental Administration and Preliminary Development Costs**

21 Upon approval of this application, authorized annual administration and preliminary
22 development costs as requested in Chapter II, direct prepared testimony of Mr. Frank Thomas,
23 will be recovered through the NGBA. SDG&E will include this revenue requirement as part its
24 electric generation base margin request in its next GRC², similar to other generation
25 administration and development costs.

26 _____
27 ¹ See draft decision (Agenda ID #7698) and alternate decision (Alternate Agenda ID #7699) of SDG&E’s 2008
GRC Application, A.06-12-009.

28 ² SDG&E’s next GRC will be a 2012 test year, see Post Test Year Ratemaking Settlement filed January 18, 2008
in A.06-12-009. Both the draft decision and alternate decision issued on June 10, 2008 propose adoption of this
settlement without modification.

1 **B. Capital and Operation & Maintenance Expenses**

2 Once a decision is made to move forward with a specific solar installation, all capital
3 costs associated with the facility will be recorded to SDG&E’s capital asset (general ledger)
4 generation accounts. When the asset begins generating electricity, the authorized capital-related
5 revenue requirement (depreciation, return, and taxes) and O&M expenses will be recorded to the
6 NGBA³. The authorized revenue requirement recorded to the NGBA once generation facilities
7 are placed into service will exclude those costs authorized and recovered separately as described
8 in Section III.A above.

9 SDG&E will include the SDG&E Solar Energy Project revenue requirements as part of
10 its electric generation base margin request in its next GRC⁴, similar to other SDG&E owned
11 generation assets.

12 **C. Balancing Account**

13 SDG&E proposes a new balancing account, the Solar Energy Project Balancing Account,
14 to balance both the authorized revenue requirement requested in this application for incremental
15 administrative and preliminary development costs as well as the authorized revenue requirement
16 for each individual SDG&E Solar Energy Project facility as requested in future Tier 3 Advice
17 Letter filings (see section IV of this testimony) against the actual capital-related revenue
18 requirement and O&M expenses for the SDG&E Solar Energy Project. Each month the
19 authorized and actual revenue requirement amounts for the SDG&E Solar Energy Project will be
20 recorded to SEPBA. As part of its annual NGBA Advice Letter filing, SDG&E will transfer the
21 balance in the SEPBA to the NGBA, and include the SEPBA amount in the NGBA revenue
22 requirement for recovery in rates.

23 The solar market is an emerging, evolving market. The SEPBA will allow SDG&E to
24 accelerate advantageous SDG&E Solar Energy Project installations or conversely wait for
25 improved technology or better sites for other facilities because the balancing account will capture

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27 ³ Revenue requirement assumptions are described in the direct prepared testimony of Christopher Yunker,
Chapter III.

28 ⁴ SDG&E’s next GRC will be a 2012 test year, see Post Test Year Ratemaking Settlement filed January 18, 2008
in A.06-12-009. Both the draft decision and alternate decision issued on June 10, 2008 propose adoption of this
settlement without modification.

1 any revenue requirement impacts of timing changes related to individual SDG&E Solar Energy
2 Project facilities. The SEPBA offers protection for both ratepayers and shareholders in that if
3 recorded amounts are below authorized, the difference will be refunded to ratepayers and if the
4 recorded amounts are above authorized, that difference will be recovered from ratepayers,
5 subject to the cost/kW limitations set forth in Section IV below. The SEPBA will be effective
6 until addressed in SDG&E's next GRC.

7 **IV. COMMISSION APPROVAL OF INDIVIDUAL INSTALLATIONS/FACILITIES**

8 SDG&E proposes to request approval for individual SDG&E Solar Energy Project
9 installations through advice letter filings to be approved by Commission Resolution. Each
10 SDG&E Solar Energy Project facility will have varying specific components (host partners,
11 contract terms, etc.). Therefore, SDG&E has chosen not to come forth in this application
12 requesting cost recovery for a specific facility (or groups of facilities) but instead a list of
13 technical and cost criteria in which each installation or facility will be evaluated against for
14 reasonableness and future cost recovery. For each SDG&E Solar Energy Project facility (or
15 group of facilities) that meets the technical and cost criteria described in Chapter II of this
16 application, the prepared direct testimony of Mr. Frank Thomas, SDG&E will file a Tier 3
17 Advice Letter seeking approval to construct a particular solar generation asset(s) and recover the
18 capital-related and O&M revenue requirements through the NGBA. Specifically, the AL will
19 include:

- 20 • A detailed description of the SDG&E Solar Energy Project facility, including site
21 location and configuration including an assessment of the technical and cost project
22 selection criteria as addressed in Chapter II of this application, direct prepared testimony
23 of Mr. Frank Thomas.
- 24 • Project schedule and proposed in service date.
- 25 • Project partner (if applicable).
- 26 • Projected cost, which is not to exceed \$7,000 per kW_{dc}.⁵

27 _____
28 ⁵ Key criteria for project reasonableness as discussed in Chapter II of this application, the prepared direct
testimony of Mr. Frank Thomas. The components of the \$7,000 per kW_{dc} are outlined in Chapter III of this
application, the prepared direct testimony of Mr. Christopher Yunker.

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- Revenue requirement calculation based on the assumptions described in Chapter III prepared testimony of Mr. Christopher Yunker filed as part of this application.

V. SUMMARY AND CONCLUSION

The cost recovery proposal for the SDG&E Solar Energy Project as described in this Chapter is reasonable and appropriate and should be approved by the Commission. Incremental funding is needed for the SDG&E Solar Energy Project since costs for solar generation were not included in SDG&E's pending GRC as discussed in Section III of this Chapter. The proposed AL process will allow the Commission the opportunity to assess and approve each individual SDG&E Solar Energy Project facility before it is constructed.

1 **VI. WITNESS QUALIFICATIONS**

2 My name is Michelle A. Somerville. I am employed by San Diego Gas & Electric
3 Company (SDG&E), as a Regulatory Accounts Manager in the Tariffs and Regulatory Accounts
4 Department. My business address is 8330 Century Park Court, San Diego, California 92123.
5 My current responsibilities include managing the process for the development, implementation,
6 and analysis of regulatory balancing and memorandum accounts. I assumed my current position
7 in June 2007.

8 I received a Bachelors in Business Administration degree with an emphasis in accounting
9 as well as a Masters in Professional Accounting from the University of Texas at Austin in 1992.
10 I have been a Certified Public Accountant (CPA), licensed in the State of Texas, since 1994.

11 I have been employed with SDG&E and Sempra Energy since 2000. In addition to my
12 current position in Regulatory Affairs, I served as the Capital Asset Management Supervisor
13 from March 2005 to May 2007 where I supervised the process of recording and accounting for
14 capital costs throughout the life of the asset including construction in process, asset
15 identification, depreciation, and removal/retirement. I have also held senior analyst positions in
16 the Business Planning Department at SDG&E (November 2002 – February 2004) and Internal
17 Audit Department at Sempra Energy’s corporate offices (April 2000 – November 2002).

18 I have ~~not~~ previously testified before this Commission.

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20 This concludes my testimony.
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