ORA DATA REQUEST
ORA-SDG&E-DR-002-CKT
SDG&E 2019 GRC – A.14-10-007
SDG&E RESPONSE
DATE RECEIVED: OCTOBER 24, 2017
DATE RESPONDED: NOVEMBER 7, 2017

Subject: Post-Test Year Ratemaking

Exhibit Reference: SDG&E-43 and SDG&E-43-WP

Please provide the following:

1. In Ex. SDG&E-43, page KJD-5, lines 12-16, SDG&E states: "The Commission's Rate Case Plan, D.07-07-004, requires SDG&E to update its cost escalation forecasts (as part of the GRC Update Testimony) within 280 days of its Application filing. SDG&E therefore proposes that the latest IHS Markit Global Insight forecast available in June 2018 be used to determine the TY 2019 labor and non-labor O&M escalation indexes and will continue into the Post Test Year period."

    a. Please discuss in detail what SDG&E proposes for the post-test years when it refers to the Global Insight available in June 2018 being "…used to determine the TY 2019 labor and non-labor O&M escalation indexes and will continue into the Post Test Year period."

        i. For instance, is SDG&E proposing to use the June 2018 Global Insight to develop labor and non-labor O&M escalation indices for 2019, 2020, 2021, and 2022, and then use those specific indices as fixed numbers in the SDG&E annual post-test year advice letter filings throughout this GRC term?

        ii. Or, is SDG&E proposing to use the June 2018 Global Insight to develop the labor and non-labor O&M escalation indices for 2019, the June 2019 Global Insight be used to develop the labor and nonlabor O&M escalation indices for 2020, etc., and then use the annually developed indices in the SDG&E annual post-test year advice letter filings throughout this GRC term?

    b. In reference to (a), above, please provide an illustrative example.

SDG&E Response 1:

    a. As stated in Ken Deremer's testimony, in accordance with D.07-07-004, SDG&E is required to update its cost escalation forecasts (as part of the GRC Update Testimony) within 280 days of its Application filing. SDG&E uses a gas and electric O&M utility input price index ("GEOMPI") to escalate the 2019 TY O&M forecast to the 2020-2022 post-test year period. SDG&E is proposing to do a one-time update of the GEOMPI index based on the Global Insight data available in June of 2018.

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SDG&E Response 1a:-Continued-

The updated escalation factors will be used to develop a revised O&M attrition request for 2020, 2021 and 2022 post-test years. These amounts will be locked in for the GRC term and will be reflected in SDG&E's annual post-test year advice letter filings. Post Test Year capital forecasts will also be subject to the escalation update in a similar fashion.

      i. Yes, we are only requesting to update the O&M escalation factors one time, not annually.

     ii. No, our proposal is consistent with what is outlined in 1.a.i.

b. A detailed illustration of O&M escalation is provided below:

	a	b	c	d	e	f	g	h	i	j
	TY			PTY			PTY			PTY
($ in millions)	2019	Escalation		2020	Escalation		2021	Escalation		2022
Escalatable O&M Margin	$ 812	2.66%	$ 21.6	$ 834	2.59%	$ 21.6	$ 855	2.55%	$ 21.8	$ 877
		a * b	a + c		d * e	d + f		g * h	g + i	

As described above in the response to question 1a, SDG&E proposes to do a one-time update of the O&M escalation factors (item b, e and h in the illustration) based on the June 2018 Global Insights report. This will revise the O&M attrition (items c, f and i in the illustration), which will then remain fixed for the GRC term.

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2. Please provide a working Excel spreadsheet (i.e., which includes active links and working formulas) which contains all of the calculations presented in Ex. SDG&E-43-WP.

SDG&E Response 2:

In response to ORA's request, SDG&E submitted its workpapers in an excel format on 10/30/2017 (called "SDG&E-43_KDeremer_PTY_Workpaper.xlsx"). That excel file contains the calculations presented in Ex. SDG&E-43-WP.

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3.   Please provide a separate working Excel spreadsheet (i.e., which includes active links and working formulas) which contains all of the calculations presented in Ex. SDG&E-43-WP, but modified to include recorded capital additions from 2013 and 2014 in order to calculate and reflect a 7-year averaging methodology of capital additions which could be used as a proxy for the post-test year capital additions (instead of the 5-year averaging methodology which SDG&E proposes). This spreadsheet should also include the underlying data from the additional two years, such as the recorded 2013 and 2014 capital additions and capital retirements, the corresponding relevant capital escalation rates, and the escalated 2013 and 2014 capital additions and capital retirements expressed in 2019$ which are used in the averaging methodology.

SDG&E Response 3:

Please see attachment "ORA-SDGE-002-CKT_PTY_Hypothetical 7 Year Average.xlsx" for the post-test year model updated to reflect a hypothetical scenario that uses a seven-year averaging methodology of capital additions, capital retirements, and corresponding relevant capital escalation rates. However, as stated in Ken Deremer's testimony, SDG&E believes a five-year average of capital additions is more appropriate for the post-test year mechanism as it better captures the current utility business environment (refer to page 7 of the testimony).