Company: San Diego Gas & Electric Company (U 902 M)
Proceeding: 2016 General Rate Case
Application: A.14-11-____
Exhibit: SDG&E-33

SDG&E

DIRECT TESTIMONY OF SCOTT R. WILDER

(COST ESCALATION)

November 2014

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

SDGE
A Sempra Energy utility®

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SUMMARY

- Cost escalators are to inflation-adjust the utility's labor, materials, and services costs from Base Year 2013 nominal dollars into Test Year 2016 nominal dollars.
- Uses forecasted external national/regional-level utility industry cost inputs from IHS Global Insight (with the exception of represented labor costs, which use the utility's actual union contract escalations).
- Inputs are weighted to aggregate escalators using weightings based on the utility's actual Base Year 2013 expenses.

SDG&E DIRECT TESTIMONY OF SCOTT R. WILDER
(COST ESCALATION)

I. SCOPE AND PURPOSE

My prepared direct testimony presents the cost escalation factors used to reflect the effect of external inflation in San Diego Gas & Electric Company's ("SDG&E's") labor operations and maintenance ("O&M"), non-labor O&M, and capital-related costs in its Test Year ("TY") 2016 General Rate Case ("GRC") Application. The purpose of my testimony is to present these escalations as reasonable forecasts that should be adopted by the California Public Utilities Commission ("CPUC" or "Commission") for use in determining SDG&E's TY 2016 revenue requirement and annual PTY adjustments.

Per the Commission's Rate Case Plan, D.07-07-004, the escalation factors discussed in this testimony will be updated after hearings and before implementation, based on the same indexes used in original presentation during hearings.

II. COST ESCALATION METHODOLOGY TO TEST YEAR 2016

SDG&E requests the CPUC to include in its revenue requirement the expenses it expects to incur in 2016 for labor, materials, and services. It is necessary to account for the effects of inflation on SDG&E's expenses between 2013 and 2016. Cost escalators were used to inflation-adjust costs from 2013 nominal dollars into TY 2016 nominal dollars, using escalation series from Global Insight's Utility Cost Information Service ("UCIS"). The SDG&E forecast incorporates escalators from IHS Global Insight's 4th Quarter 2013 Power Planner forecast released in February 2014[1]. These Global Insight escalators are based on recorded utility cost data gathered by the Federal Energy Regulatory Commission ("FERC") according to its Uniform System of Accounts ("FERC accounts"), then forecasted by Global Insight by functional categories (e.g., gas distribution, customer services, etc.) of grouped FERC accounts. Further details of data and weighting calculations are in the workpapers for this testimony.

A. Labor O&M Escalation

SDG&E's labor escalation index is a weighted average of three Global Insight wage and salary cost indexes: CEU4422000008, "Utility Service Workers" (weighted 27.184%); ECIPWMBFNS, "Managers and Administrators" (weighted 24.739%); and ECIPWPARNS,

[1] IHS Global Insight is an internationally recognized econometric forecasting firm. The firm's forecasts have been used in many regulatory proceedings.

"Professional and Technical Workers" (weighted 48.077%). The weightings are based on recorded 2013 labor earnings for the three corresponding categories of SDG&E employees: represented employees; non-represented supervisory employees including managers, directors, and executives; and non-represented, non-supervisory employees. The utility service workers' portion incorporates wage increases already stipulated by labor contract for SDG&E's represented employees for 2009 through 2014.

B. Non-Labor O&M Escalation

In the 2008 GRC Decision, D.08-07-046, SDG&E was ordered to file the next GRC using the then-current "cost center" system of internal accounting and control rather than convert and allocate the O&M data to approximate the FERC accounts.[2] To be consistent with the cost-center presentation requirements, SDG&E combined various weighted Global Insight utility cost series to develop single escalation indexes for non-labor O&M gas and non-labor O&M electric expenses, "JGTOTALMSX_SD" and "JETOTALMSX_SD", respectively. Their components' weights are based on SDG&E's recorded Base Year 2013 expenses. Table SDG&E-SRW-1 shows components' weightings in JETOTALMSX_SCG and JGTOTALMSX_SD, their series names and descriptions.

TABLE SDG&E-SRW-1: GLOBAL INSIGHT SERIES COMPONENTS IN SAN DIEGO GAS & ELECTRIC COMPANY'S NON-LABOR O&M COST INDEXES

Weight	Series Name	Description
100.00%	**JETOTALMSX_SD**	SDG&E Composite Electric Non-Labor O&M Index
8.64%	**JEFOMMS**	Electric Steam Generation
23.30%	**JEOOMMS**	Electric Other Generation
33.48%	**JEDOMMS**	Electric Distribution
7.46%	**JECAOMS**	Electric Customer Accounts
6.58%	**JECSIOMS**	Electric Customer Service & Information
20.54%	**JEADGOMMS_X926**	Electric Administrative & General, excluding Pensions & Benefits
100.00%	**JGTOTALMSX_SD**	SDG&E Composite Gas Non-Labor O&M Index
17.71%	**JGTOMMS**	Gas Transmission

[2] D.08-07-046, pp. 11 and Ordering Paragraph 22.

30.00%	**JGDOMMS**	Gas Distribution
11.14%	**JGCAOMS**	Gas Customer Accounts
10.20%	**JGCSIOMS**	Gas Customer Service & Information
30.95%	**JGADGOMMS_X926**	Gas Admin & General, excluding Pensions & Benefits

All of the component cost escalators in Table SG&E-SRW-1 come from Global Insight's utility O&M cost model, with the exception of the Administrative & General ("A&G") series. Most of SDG&E's pensions and benefits costs (FERC Account 926) are treated separately and are therefore excluded from regular cost escalations. Pensions have separate balancing account treatment, as discussed in Exhibit SDG&E-23 -- the Pensions and PBOPS testimony of witness Mr. David I. Sarkaria. Employee medical expenses (in FERC Account 926.3) are also treated separately and are discussed in Exhibit SDG&E-22 -- the Compensation and Benefits testimony of witness Ms. Debbie S. Robinson. The Pensions and Benefits cost component was removed from Global Insight's two utility A&G cost series JEADGOMMS and JGADGOMMS. The resulting adjusted series JEADGOMMS_X926 and JGADGOMMS _X926 were used to escalate SDG&E's non-labor, non-FERC Account 926 A&G electric and gas costs, respectively.

The single cost escalation series for SDG&E's shared services and working cash was based on a weighted average of labor and non-labor O&M indexes. Weights were based on actual 2013 SDG&E shared-service cost charges by FERC account to labor (weighted 43.36%) and to the non-labor cost categories (weighted an aggregate total of 56.64%) described above in Table SDG&E-SRW-1.

C. Capital Cost Escalation

The construction cost indexes used by SDG&E and forecasted by Global Insight are based on recorded Handy-Whitman cost series for the Pacific Region (encompassing the states of California, Oregon, and Washington).

The forecasted Global Insight utility construction cost series JUG@PCF, "Total Gas Plant—Pacific Region" was used to escalate SDG&E gas-related construction costs.

SDG&E's electric distribution construction costs were escalated using the index JUEPD@PCF, "Total Electric Distribution Plant, Pacific Region".

The escalation series for Electric Plant was calculated as a weighted average of the three Global Insight indexes "Electric Distribution Plant" (JUEPD@PCF), "Steam Production Plant"

(JUEPPF@PCF), and "Other Production Plant" (JUEPPO@PCF). The weightings are based on SDG&E's 2013 ratebase for electric distribution (80.86%) and for total electric generation (19.14%). Ratebase was not split by generation type, so the generation weighting was split evenly between "Steam" and "Other" production plant (9.57% each).

The escalation index for common plant (that includes both electric and gas assets) was developed using a weighted average of JUG@PCF (25.18%), JUEPD@PCF (62.49%), and Global Insight's construction cost index for electric transmission plant JUEPT@PCF (12.33%). The weights are SDG&E's common-plant allocation factors based on actual 2013 cost data.

For electric generation, combined-cycle plant construction cost escalation is applied to the Palomar Generating Facility ("Palomar") expenditures. This escalator is a weighted average of the two Global Insight series JUEPPF@PCF (weighted 68.8%) and JUEPPO@PCF (weighted 31.2%) -- defined as Pacific Region plant construction cost indexes for "Total Steam Production" and "Total Other Production", respectively. The weightings are based on SDG&E Accounting Operations' calculated year-end 2013 acquisition values of Palomar's asset classes.

III. POST-TEST-YEAR COST ESCALATORS

Beyond TY 2016, SDG&E proposes that its base margin revenue requirements be updated each year according to the Post-Test-Year (PTY) ratemaking mechanism described in Exhibit SDG&E-37, the testimony of Ms. Sandra Hrna.

For capital costs, appropriate capital construction escalators are applied to corresponding types of plant additions as described in Ms. Hrna's testimony.

A gas and electric O&M utility input price index ("GEOMPI") is calculated and used to adjust O&M expenses to reflect the expected cost inflation of goods and services comprising inputs that SDG&E will use to serve its customers. The GEOMPI's underlying PTY escalation indexes are the same O&M indexes described in Section II for escalations from 2013 to TY 2016. Based on SDG&E's recorded 2013 expenses, the O&M labor index is weighted 60.45%, the non-labor gas O&M cost index JGTOTALMSX_SD is weighted 7.13%, and the non-labor electric O&M cost index JETOTALMSX_SD is weighted 32.42% to form a single GEOMPI. For implementation in PTY adjustments, the values of GEOMPI and its component indexes will be re-benched to TY 2016 = 1.0000.

Table SDG&E-SRW-2 shows annual percentage changes for each cost escalator.

TABLE SDG&E-SRW-2: SAN DIEGO GAS & ELECTRIC COMPANY
SUMMARY OF COST ESCALATION INDEXES

Annual Percent Changes	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Shared Services	0.95%	2.25%	3.06%	2.13%	1.73%	2.05%	2.24%	2.46%	2.46%	2.40%
Operations & Maintenance										
Labor O&M Index	2.09%	2.11%	2.15%	1.90%	2.16%	2.14%	2.35%	2.65%	2.71%	2.62%
Electric Nonlabor O&M Index	0.15%	2.25%	4.11%	2.30%	1.51%	1.71%	2.17%	2.45%	2.39%	2.24%
Gas Nonlabor O&M Index	-0.18%	2.39%	3.70%	2.23%	1.78%	1.71%	2.15%	2.26%	2.27%	2.18%
Post-Test-Year GEOMPI	1.30%	2.18%	2.89%	2.05%	1.92%	1.97%	2.28%	2.55%	2.58%	2.46%
Capital-Related										
Steam Production Plant	-0.60%	4.40%	3.63%	3.34%	4.49%	1.01%	2.01%	1.96%	2.42%	2.54%
Other Production Plant	7.00%	4.91%	3.57%	7.41%	3.31%	1.60%	2.21%	1.69%	2.27%	3.50%
Electric Distribution Plant	2.31%	4.15%	4.30%	3.46%	2.39%	1.53%	2.25%	2.12%	2.34%	3.08%
Electric Plant	2.42%	4.24%	4.17%	3.81%	2.67%	1.49%	2.23%	2.06%	2.34%	3.07%
Total Gas Plant	-1.05%	4.29%	9.46%	7.93%	-0.32%	1.38%	1.52%	1.80%	2.10%	1.54%
Combined Cyle Plant	1.61%	4.56%	3.61%	4.58%	4.12%	1.19%	2.08%	1.88%	2.38%	2.84%
Common Plant	0.90%	4.06%	5.39%	4.29%	1.68%	1.51%	2.03%	2.01%	2.29%	2.65%

This concludes my prepared direct testimony.

IV. WITNESS QUALIFICATIONS

My name is Scott R. Wilder. I am employed by SoCalGas as a Business/Economics Advisor in the Gas Regulatory Affairs Department for SoCalGas and SDG&E. My business address is 555 West Fifth Street, Los Angeles, California 90013-1011.

I have held my current position since February 2004. Since 1993 I have been employed at SoCalGas in various economic forecasting and analysis positions of increasing responsibility. From 1986 to 1993, I was employed by Pacific Gas and Electric Company in San Francisco in various positions involving economic forecasting, planning and analysis. From 1982 to 1984, I worked as a Development Project Manager with the Southern Baptist International Mission Board, working with farmers and engineers to build irrigation aqueducts in the Andes Mountains of Peru.

I received a Bachelor of Science degree in Agricultural & Managerial Economics from the University of California at Davis in 1982, and a Master of Science degree in Agricultural Economics from U.C. Davis in 1986. I have previously testified before the California Public Utilities Commission.