

Company: San Diego Gas & Electric Company (U 902 M)
Proceeding: 2019 General Rate Case
Application: A.17-10-_____
Exhibit: SDG&E-39

SDG&E

DIRECT TESTIMONY OF SCOTT R. WILDER

(COST ESCALATION)

October 6, 2017

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



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SUMMARY

- Cost escalators are used to adjust for inflation the utility's labor, materials, and services costs from Base Year 2016 nominal dollars into Test Year 2019 nominal dollars.
- IHS/Markit Global Insight is used to forecast external national/regional-level utility industry cost inputs (with the exception of represented labor costs, which use the utility's actual union contract escalations).
- To aggregate escalators, inputs are weighted based on the utility's actual Base Year 2016 expenses.

**SOCALGAS 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) 2019 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 2019 revenue requirement and annual post-test-year (PTY) adjustments.

Per the Commission's Rate Case Plan, Decision (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 2019

SDG&E requests to include in its revenue requirement what expenses it expects to incur in 2019 for labor, materials, and services. It is necessary to account for the effects of inflation on SDG&E's expenses between 2016 and 2019. Cost escalators were used to adjust for inflation the costs from 2016 nominal dollars into TY 2019 nominal dollars, using various escalation series from IHS/Markit Global Insight's (Global Insight) Utility Cost Information Service (UCIS). The SDG&E forecast incorporates escalators from Global Insight's First Quarter 2017 Power Planner Forecast released in May 2017.¹ 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. See Ex.39-WP SDG&E/Wilder.

¹ IHS/Markit Global Insight is an internationally recognized econometric forecasting firm. The firm's forecasts have been used in many regulatory proceedings, including SDG&E's TY 2016 GRC.

1 **A. Labor O&M Escalation**

2 SDG&E’s labor escalation index is a weighted average of three Global Insight wage and
3 salary cost indexes: CEU4422000008, “Utility Service Workers” (weighted 29.400%);
4 ECIPWMBFNS, “Managers and Administrators” (weighted 24.879%); and ECIPWPARNS,
5 “Professional and Technical Workers” (weighted 45.721%). The weightings are based on
6 recorded 2016 labor earnings for the three corresponding categories of SDG&E employees:
7 represented employees; non-represented supervisory employees including managers, directors,
8 and executives; and non-represented, non-supervisory employees. The utility service workers’
9 portion incorporates wage increases already stipulated by labor contract for SDG&E’s
10 represented employees for 2009 through 2019.

11 **B. Non-Labor O&M Escalation**

12 In the 2008 GRC Decision, D.08-07-046, SDG&E was ordered to file the next GRC
13 using the then-current “cost center” system of internal accounting and control rather than convert
14 and allocate the O&M data to approximate the FERC accounts.² To be consistent with the cost-
15 center presentation requirements, SDG&E combined various weighted Global Insight utility cost
16 series to develop single escalation indexes for non-labor O&M gas and non-labor O&M electric
17 expenses, labeled as “JGTOTALMSX_SD” and “JETOTALMSX_SD,” respectively. These
18 indexes’ component weights are based on SDG&E’s recorded Base Year 2016 expenses. Table
19 SRW-1 shows components’ weightings in JETOTALMSX_SCG and JGTOTALMSX_SD, their
20 series names, and descriptions.

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² D.08-07-046, at 11 and Ordering Paragraph 22 at 106.

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**Table SRW-1
Global Insight Series Components In San Diego Gas & Electric Company's
Non-Labor O&M Cost Indexes**

<u>Weight</u>	<u>Series Name</u>	<u>Description</u>
100.00%	JETOTALMSX_SD	SDG&E Composite Electric Non-Labor O&M Index
5.69%	JEFOMMS	Electric Steam Generation
15.92%	JEOOMMS	Electric Other Generation
40.23%	JEDOMMS	Electric Distribution
7.98%	JECAOMS	Electric Customer Accounts
4.69%	JECSIOMS	Electric Customer Service & Information
25.49%	JEADGOMMS_X926	Electric Administrative & General, excluding Pensions & Benefits
100.00%	JGTOTALMSX_SD	SDG&E Composite Gas Non-Labor O&M Index
12.14%	JGTOMMS	Gas Transmission
36.03%	JGDOMMS	Gas Distribution
10.51%	JGCAOMS	Gas Customer Accounts
4.43%	JGCSIOMS	Gas Customer Service & Information
36.89%	JGADGOMMS_X926	Gas Admin & General, excluding Pensions & Benefits

4 All of the component cost escalators in Table SG&E-SRW-1 come from Global Insight's
5 utility O&M cost model, with the exception of the Administrative & General (A&G) series.
6 Most of SDG&E's pensions and benefits costs (FERC Account 926) are treated separately and
7 are therefore excluded from regular cost escalations. Pensions have separate balancing account
8 treatment, as discussed in the Corporate Center – Pensions and PBOPs testimony of Debbie
9 Robinson (Exhibit SCG-31/SDG&E-29). Employee medical expenses (in FERC Account 926.3)
10 are also treated separately and are discussed in the Corporate Center – Compensation and
11 Benefits testimony of Debbie Robinson (Exhibit SCG-30/SDG&E-28). The Pensions and
12 Benefits cost component was removed from Global Insight's two utility A&G cost series
13 JEADGOMMS and JGADGOMMS. The resulting adjusted series JEADGOMMS_X926 and

1 JGADGOMMS_X926 were used to escalate SDG&E's non-labor, non-FERC Account 926
2 A&G electric and gas costs, respectively.

3 The single cost escalation series for SDG&E's shared services and working cash was
4 based on a weighted average of labor and non-labor O&M indexes. Weights were based on
5 actual 2016 SDG&E shared-service cost charges by FERC account to labor (weighted 49.42%)
6 and to the non-labor cost categories (weighted an aggregate total of 50.58%) described above in
7 Table SRW-1.

8 **C. Capital Cost Escalation**

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

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

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

16 The escalation series for Electric Plant was calculated as a weighted average of the three
17 Global Insight indexes "Electric Distribution Plant" (JUEPD@PCF), "Steam Production Plant"
18 (JUEPPF@PCF), and "Other Production Plant" (JUEPPO@PCF). The weightings are based on
19 SDG&E's 2016 ratebase for electric distribution (83.54%) and for total electric generation
20 (16.46%). Ratebase was not split by generation type, so the generation weighting was split
21 evenly between "Steam" and "Other" production plant (8.23% each).

22 The escalation index for common plant (that includes both electric and gas assets) was
23 developed using a weighted average of JUG@PCF (25.38%), JUEPD@PCF (61.55%), and
24 Global Insight's construction cost index for electric transmission plant JUEPT@PCF (13.07%).
25 The weights are SDG&E's common-plant allocation factors based on actual 2016 cost data.

26 For electric generation, combined-cycle plant construction cost escalation is applied to
27 the Palomar Generating Facility (Palomar) expenditures. This escalator is a weighted average of
28 the two Global Insight series JUEPPF@PCF (weighted 68.8%) and JUEPPO@PCF (weighted
29 31.2%) - defined as Pacific Region plant construction cost indexes for "Total Steam Production"
30 and "Total Other Production," respectively. The weightings are based on SDG&E Accounting
31 Operations' calculated acquisition values of Palomar's asset classes.

1 **III. POST-TEST-YEAR COST ESCALATORS**

2 Beyond TY 2019, SDG&E proposes that its base margin revenue requirements be
 3 updated each year according to the PTY ratemaking mechanism described in the Post-Test Year
 4 Ratemaking testimony of Ken Deremer (Exhibit SDG&E-43).

5 A gas and electric O&M utility input price index (GEOMPI) is calculated and used to
 6 adjust O&M expenses to reflect the expected cost inflation of goods and services comprising
 7 inputs that SDG&E will use to serve its customers. The GEOMPI's underlying PTY escalation
 8 indexes are the same O&M indexes described in Section II for escalations from 2016 to TY
 9 2019. Based on SDG&E's recorded 2016 expenses, the O&M labor index is weighted 59.78%,
 10 the non-labor gas O&M cost index JGTOTALMSX_SD is weighted 7.98%, and the non-labor
 11 electric O&M cost index JETOTALMSX_SD is weighted 32.24% to form a single GEOMPI.
 12 For implementation and ease of calculation in PTY adjustments, the values of GEOMPI and its
 13 component indexes will be re-based from BY 2016 = 1.0000 to TY 2019 = 1.0000.

14 Table SRW-2 shows annual percentage changes for each cost escalator.

15 **Table SRW-2**
 16 **San Diego Gas & Electric Company**
 17 **Summary of Cost Escalation Indexes**

Annual Percent Changes	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Shared Services	2.00%	1.79%	1.71%	1.74%	1.64%	2.02%	2.42%	2.46%	2.48%	2.45%	2.39%
Operations & Maintenance											
Labor O&M Index	1.90%	2.18%	2.14%	2.27%	2.38%	2.59%	3.00%	3.01%	2.98%	2.95%	2.89%
Electric Nonlabor O&M Index	2.29%	1.20%	1.01%	-0.06%	0.09%	1.44%	1.64%	1.90%	2.14%	2.03%	1.97%
Gas Nonlabor O&M Index	2.28%	1.67%	1.71%	-0.05%	0.64%	1.99%	1.71%	1.99%	2.26%	2.12%	2.18%
Post-Test-Year GEOMPI	2.06%	1.81%	1.73%	1.31%	1.49%	2.17%	2.46%	2.58%	2.66%	2.59%	2.55%
Capital-Related											
Steam Production Plant	3.34%	1.38%	1.44%	4.56%	2.91%	2.60%	2.81%	2.20%	2.16%	2.10%	2.25%
Other Production Plant	7.41%	3.10%	3.38%	3.01%	3.66%	3.62%	2.52%	2.49%	2.60%	2.50%	2.37%
Electric Distribution Plant	3.46%	3.61%	3.08%	2.42%	1.39%	2.00%	2.42%	2.87%	3.00%	3.03%	3.03%
Electric Plant	3.76%	3.38%	2.97%	2.64%	1.70%	2.18%	2.46%	2.78%	2.89%	2.91%	2.91%
Total Gas Plant	7.93%	-0.58%	1.10%	-1.40%	-0.75%	3.62%	3.23%	2.97%	2.77%	2.37%	2.50%
Combined Cyle Plant	4.55%	1.91%	2.04%	4.07%	3.14%	2.92%	2.72%	2.29%	2.30%	2.23%	2.28%
Common Plant	4.35%	2.23%	2.38%	1.36%	0.93%	2.48%	2.59%	2.81%	2.88%	2.78%	2.81%

18 This concludes my prepared direct testimony.
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1 **IV. WITNESS QUALIFICATIONS**

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

5 I have held my current position since February 2004. Since 1993 I have been employed
6 at SoCalGas in various economic forecasting and analysis positions of increasing responsibility.
7 From 1986 to 1993, I was employed by Pacific Gas and Electric Company in San Francisco in
8 various positions involving demand and economic forecasting, planning, and analysis. From
9 1982 to 1984, I worked as a Development Project Manager with the Southern Baptist
10 International Mission Board, working with farmers and engineers to build irrigation aqueducts in
11 the Andes Mountains of Peru.

12 I received a Bachelor of Science degree in Agricultural & Managerial Economics from
13 the University of California at Davis in 1982 and a Master of Science degree in Agricultural
14 Economics from U.C. Davis in 1986.

15 I have previously testified before the California Public Utilities Commission.

LIST OF ACRONYMS

ACRONYM	DEFINITION
A&G	Administrative & General
CPUC	California Public Utilities Commission
FERC	Federal Energy Regulatory Commission
GOMPI	Gas O&M utility price index
GRC	General Rate Case
O&M	Operations and Maintenance
PBOP	Pensions and Benefits
PTY	Post-Test Year
SDG&E	San Diego Gas & Electric Company
TY	Test Year
UCIS	Utility Cost Information Service