

Company: San Diego Gas & Electric Company (U 902 M)
Proceeding: 2016 General Rate Case
Application: A.14-11-XXX
Exhibit: SDG&E-41

SDG&E

**DIRECT TESTIMONY OF JEFF STEIN
(SEGMENTATION & REASSIGNMENT RATES)**

November 2014

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



A  Sempra Energy utility®

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1 **SDG&E DIRECT TESTIMONY OF JEFF STEIN**
2 **(SEGMENTATION & REASSIGNMENT RATES)**
3

4 **I. INTRODUCTION**

5 **A. Summary of Proposals**

6 I sponsor the Test Year (“TY”) 2016 Segmentation and Reassignment Rates subject area.
7 The purpose of this testimony is to describe how San Diego Gas & Electric Company
8 (“SDG&E”) proposes to allocate common costs to its Electric, Electric Generation, and Gas
9 Services Departments (collectively “Business Segments”) for rate recovery (also referred to as
10 “segmentation”) and to describe the reassignment of certain costs to capital to recognize that
11 those costs are incurred in support of construction efforts. “Common costs” are defined as those
12 costs that have not been directly assigned to a particular Business Segment, but instead have
13 been charged to a common account of the Federal Energy Regulatory Commission (“FERC”)
14 Uniform System of Accounts, pending an allocation to the various Business Segments. The
15 range of common accounts expenses includes Customer Accounts (account numbers 901-905),
16 Customer Service & Information (account numbers 907-910), Administrative & General
17 (“A&G”) expenses (account numbers 920-935) and Clearing Accounts (account numbers 163
18 and 184). Common plant expenses include FERC Account Nos. 303, 389, 390, 391, 392, 393,
19 394, 395, 396, 397 and 398. The segmentation of these costs is addressed in Section II.B of my
20 testimony.

21 In this General Rate Case (“GRC”), the TY2016 operations and maintenance (“O&M”)
22 costs are forecasted by cost center. This was ordered in the 2008 GRC Decision (“D.”) 08-07-
23 046 at Ordering Paragraph 22. In order to segment the costs and utilize the reassignment rates,
24 which are prepared by FERC accounts, the 2013 recorded O&M cost center data was mapped to
25 FERC accounts. The Results of Operations Model (“RO Model”) applies the segmentation rates
26 proposed in this testimony to the costs associated with the FERC accounts. For a detailed
27 discussion about the mapping process, see the Summary of Earnings testimony of Khai Nguyen
28 (Exhibit SDG&E-36). The RO model also applies the reassignment rates as described in my
29 testimony to the costs associated with the FERC accounts, which is in compliance with the
30 Electric and Gas Plant Instruction in Parts 101 and 201 of the Federal Regulations adopted by the
31 California Public Utilities Commission (“CPUC”). The total forecasted O&M to be reassigned

1 to capital from each FERC account has been combined and shown in aggregate. The calculation
2 and derivation of the various reassignment rates for each category are discussed in Section III of
3 my testimony.

4 **B. Organization of Testimony**

5 For this proceeding, SDG&E engages in four steps to categorize its common costs for
6 rate setting purposes.

7 1. The first step in allocating costs to the Business Segments is to determine
8 the segmentation percentages for each FERC account for the Electric, Electric
9 Generation, and Gas Departments.

10 2. The second step is to determine the reassignment to capital percentages for
11 certain O&M, A&G and clearing expenses (e.g., warehousing, purchasing, fleet
12 costs) to recognize they are incurred in support of construction efforts.

13 3. The third step is to determine the allocation percentages for the Electric
14 Department costs further between the Electric Distribution and Electric
15 Transmission service functions for both O&M and capital.

16 4. Finally, in the RO Model, the above factors are applied to the forecasted
17 costs that are mapped from the cost centers to the O&M, A&G and clearing
18 FERC accounts to determine the segmentation and reassignment amounts.

19 The above segmentation and reassignment process and steps are illustrated in Appendix I.

20 The Electric Distribution, Electric Generation and Gas Service Departments costs are
21 subject to CPUC jurisdiction and presented for approval pursuant to this proceeding. The
22 Electric Transmission Department costs are subject to FERC jurisdiction, and are identified
23 separately because such charges are removed from SDG&E's revenue requirement proposal for
24 consideration in this proceeding.

25 All calculations and studies were performed using 2013 actual data, except where noted.

26 **II. BUSINESS SEGMENTATION ALLOCATION**

27 **A. General Discussion**

28 For SDG&E, the FERC series of Clearing Accounts, Customer Accounts, Customer
29 Service and Information, and A&G expenses that are specifically related to the Electric, Electric
30 Generation, or Gas Departments are directly assigned to the appropriate department. The general

1 expenses that are not directly chargeable to the departments are common costs that must be
2 allocated between the three operating functions for rate setting purposes.

3 In addition, only the Electric Department expenses attributable to Electric Distribution
4 and Generation are recoverable in customer rates authorized by the CPUC. Therefore, Electric
5 Department expenses were further allocated to Distribution and Transmission, as discussed
6 below. The summary of segmentation rates is shown in Appendix II.

7 **B. Allocation to Electric, Electric Generation & Gas Departments**

8 The first step in the business segmentation is to separate common expenses between the
9 Electric, Electric Generation, and Gas Departments. The methods used to calculate the
10 allocation percentages are determined according to the nature (i.e., type of costs) inherent to each
11 FERC Account.

12 **1. Clearing Accounts**

13 The Electric, Electric Generation and Gas segmentation for Clearing Account costs,
14 which include Accounts 163.1 - Warehouse, 163.2 - Purchasing, 184.2 - Fleet, 184.3 – Shop
15 Order, 184.6 - Exempt Material, and 184.7 - Small Tools, were calculated based on the 2013
16 actual recorded costs and by determining what percentages are booked to Electric, Electric
17 Generation, and Gas accounts. For the derivation of the rates pertaining to these accounts, see
18 Exhibit SDG&E-41-WP-4.

19 **2. Customer Accounts**

20 Common Customer Accounts costs are booked to FERC Accounts 901 - 905. These
21 charges are allocated between Electric and Gas based on the number of customers because these
22 costs are incurred to support our customer base. These costs include activities such as meter
23 reading and billings. See Exhibit SDG&E-41-WP-5 for line number references. This process
24 first uses the number of 2013 average annual Electric customers and Gas customers (Ex.
25 SDG&E-41-WP-5 at Line 2). The number of total Gas customers is then subtracted from total
26 Electric customers to determine the number of Electric-only customers (Ex. SDG&E-41-WP-5 at
27 Line 4). To properly weight the services customers receive, combined service customers are
28 given a weight of 2, (Ex. SDG&E-41-WP-5 at Line 8), and Electric-only customers are given a
29 1-1/3 weighting, (Ex. SDG&E-41-WP-5 at Line 10).

30 The allocation of costs to Electric is determined using one combined service customer
31 weighting plus the Electric-only service weighting (Ex. SDG&E-41-WP-5 at Lines 15 & 16).

1 The Gas customers in the allocation are based on the one weighting of combined service
2 customers (Ex. SDG&E-41-WP-5 at Line 15). The resulting weighted customer counts
3 determine the final allocation percentages (Ex. SDG&E-41-WP-5 at Line 20). This methodology
4 has been accepted in the prior GRCs by the Commission, including the 2012 GRC decision
5 (D.13-05-010).

6 **3. Customer Services & Information**

7 Customer Services & Information costs are booked in the 907-910 range of FERC
8 Accounts. Most Customer Services & Information costs are either directly charged 100% to
9 Electric or Gas or are allocated based on a specific percentage, depending on the nature of the
10 program/activity that is incurring the costs. Some costs are charged to common accounts,
11 however, and must be segmented. The common Customer Services & Information accounts are
12 allocated between Electric and Gas based on the level of directly assigned Electric and Gas costs
13 for the entire series of accounts, as reported for 2013 in SDG&E's FERC Form 1 and 2 Annual
14 Reports to the CPUC. For the derivation of the rates pertaining to these accounts, see Exhibit
15 SDG&E-41-WP-6.

16 **4. A&G and Common Plant**

17 **i. FERC Accounts 920 (in part) 921-923, 928-935 and Common** 18 **Plant**

19 SDG&E charges common A&G to FERC Account Nos. 920 (in part), 921-923, and 928-
20 935. SDG&E charges common plant primarily to FERC Account Nos. 303, 389, 390, 391, 392,
21 393, 394, 395, 396, 397, and 398. Common A&G and common plant are costs that are shared
22 between SDG&E's Electric and Gas functions. SDG&E uses labor ratios to segment these costs
23 between the Electric and Gas functions. Use of the labor ratio to segment common costs was
24 previously accepted by the Commission in the 2012 GRC for SDG&E and has also been
25 accepted as applicable to Pacific Gas and Electric Company in its GRCs.¹

26 The labor ratios are prepared based on payroll. Total payroll is retrieved from the 2013
27 SDG&E Annual FERC Form 1, Distribution of Salaries & Wages, which is provided in Exhibit
28 SDG&E-41-WP-18 and 19. The amount of A&G labor is then excluded from the Electric,
29 Electric Generation and Gas totals that make up the denominator of the ratio calculation.
30 Account 931- Rents is allocated between the Electric and Gas departments only because SDG&E

¹ See, e.g., Exhibit PG&E-2 submitted in A.12-11-009.

1 does not have any rent expense relating to its Electric Generation facilities. For the derivation of
2 the rates pertaining to these accounts, see Exhibit SDG&E-41-WP-8.

3 Ultimately, the forecasted costs based on the mapping of cost center to FERC for these
4 accounts are multiplied by the labor ratios to determine the amounts included in the Electric,
5 Electric Generation or Gas services tables of the RO Model.

6 **ii. FERC Account 924- Property Insurance**

7 FERC Account 924 – Property Insurance costs are dependent on plant balances since the
8 company is insuring its plant assets. The allocation of property insurance is based on the plant-
9 in-service balances of Electric, Electric Generation and Gas plant excluding Miscellaneous
10 Intangible Plant as these are non-insurable under property insurance policy. In addition, the San
11 Onofre Nuclear Generating Station (“SONGS”) is excluded from this GRC and recovery for
12 SONGS property insurance will be addressed in other regulatory forums before the CPUC. The
13 segmentation percentages for FERC Account 924 are derived by plant ratios² that have been
14 adopted by FERC and the CPUC for rate setting purposes in prior GRCs, including SDG&E’s
15 2012 GRC decision.³ The adoption of this method by SDG&E ensures consistency between state
16 and federal regulatory jurisdictions for the allocation of common expenses and is consistent with
17 SDG&E’s 2012 decision. For the derivation of the rates pertaining to these accounts, see Exhibit
18 SDG&E-41-WP-9.

19 **iii. FERC Accounts 920.4 / 925 (in part) / 926 – Variable Pay Plan**
20 **/ Injuries & Damages / Pension & Benefits**

21 Account 920.4 – Variable Pay Plan,⁴ Account 925 - Injuries and Damages and Account
22 926 - Pension and Benefits (“P&B”), are allocated based on labor ratios. Total payroll is
23 retrieved from the 2013 SDG&E Annual FERC Form 1, Distribution of Salaries & Wages
24 (Exhibit SDG&E-41-18 to 19). The amount of A&G labor is excluded from the Electric,
25 Electric Generation and Gas totals. For the derivation of the rates pertaining to these accounts,
26 see Exhibit SDG&E-41-WP-8.
27

² ER13-941-000, ER13941-001 and ER13-941-002 at 1.3.2.

³ D.13-05-010.

⁴ Variable pay plans are commonly referred to as the Incentive Compensation Plan (“ICP”).

1 **iv. FERC Account 184.8 - Wildfire Insurance**

2 This account was created for the sole purpose of facilitating the allocation of wildfire
3 liability insurance premium costs between Electric and Gas segments. Once the Electric and Gas
4 allocation factors were determined, a portion of the electric cost is further assigned to the FERC
5 jurisdiction that is excluded from this GRC. Wildfire insurance is charged 100% to the Electric
6 Department and 0% to the Gas Department because the recent wildfire claims and the reason for
7 the increase in the insurance premiums have been related to electric lines rather than natural gas
8 facilities. Based on this historical experience, the risk associated with providing natural gas
9 service was not deemed by SDG&E to be a material factor in the current wildfire liability
10 premium increases. Total Wildfire Insurance Premiums costs are sponsored by Corporate
11 Insurance witness Katherine Carbon (Ex. SDG&E-21).

12 **III. REASSIGNMENT TO CAPITAL**

13 **A. General Discussion**

14 Some Clearing Account, A&G, and Labor Overhead costs support the construction
15 efforts of SDG&E. After SDG&E has determined the portion of costs associated with Electric,
16 Electric Generation and Gas services, it begins the capital reassignment process, which is in
17 compliance with the Plant Instructions of the Code of Federal Regulations.⁵ The costs that are
18 reassigned to capital become part of the rate base. The total amounts to be reassigned to capital
19 from each category are discussed in aggregate, as opposed to being deducted from each
20 applicable Clearing or A&G FERC Account.

21 For TY2016, the Electric Distribution Department O&M reassignment is a credit of
22 approximately \$94,689,000, the Electric Generation Department O&M reassignment is a credit
23 of approximately \$3,357,000, and the Gas Department O&M reassignment is a credit of
24 approximately \$30,165,000, all three consisting of expenses that are being transferred to
25 construction projects. Expense categories that are reassigned and capitalized are indicated
26 below, in Section III.B.

27
28
29

⁵ 18 C.F.R. § 101 (Uniform System of Accounts Prescribed for Public Utilities and Licensees Subject to the Provisions of the Federal Power Act).

1 **B. Categories / Accounts Subject to Reassignment**

2 The following categories displayed in Table SDG&E-JS-1 of costs are subject to
3 capitalization via a reassignment from Labor Overheads, O&M or the Clearing Accounts, and
4 further discussed in detail below.

5 **TABLE SDG&E-JS-1**
6 **Summary of Reassignments to Capital**

Category	Reassignment %
Labor Overheads	38.0%
A&G Costs	10.6%
Warehousing	89.8%
Purchasing	66.1%
Fleet	48.9%
Shop	42.2%
Exempt Material	89.1%
Small Tools	41.8%

7 **C. Discussion of Reassignment Percentage Derivation**

8 **1. Labor Overheads**

9 Labor Overheads subject to capitalization are variable pay costs,⁴ public liability and
10 property damage (“PLPD”) costs, workers’ compensation costs, and P&B costs. These are
11 considered indirect costs related to company labor, and accumulated each month in individual
12 Clearing Accounts and then dispersed through overhead loading rates applied on company labor.

13 In deriving the percentage of Labor Overheads that should be reassigned to capital, labor
14 cost data from 2013 base year was used from 2013 SDG&E Annual FERC Form 1, Distribution
15 of Salaries & Wages (Exhibit SDG&E-41-18 & 19). The total labor charged to Electric and Gas
16 plant and to Electric and Gas plant removal was divided by the total salaries and wages as
17 retrieved from the Distribution of Salaries & Wages resulting in a capital reassignment rate of
18 38.0%. For the derivation of the rate, see Exhibit SDG&E-41-WP-10.

19 **2. A&G Costs**

20 A percentage of certain A&G direct costs in FERC Accounts 920 - A&G Salaries, and
21 921 - Office Supplies & Expenses, and shared service costs in FERC Account 923 - Outside
22 Services Employed, are reassigned to construction each year in accordance with the Electric
23 Plant Instructions (Part 101) and Gas Plant Instructions (Part 201) of the Code of Federal
24 Regulations. In SDG&E’s previous filings, the reassignment rate to construction projects was

1 determined by an A&G effort study.⁶ In the A&G effort studies, various A&G cost center
2 managers were surveyed to provide an allocation percentage for their work that should be
3 applied to construction jobs.

4 In this GRC, SDG&E proposes to derive the A&G reassignment rate by utilizing the
5 actual 2013 A&G costs assigned to capital instead of the A&G effort study. To use this method,
6 the applicable A&G costs are mapped from Cost Centers to FERC Accounts 920, 921, and 923.
7 Utilizing the subset of A&G FERC Accounts, the capital reassignment rate of 10.6% was
8 calculated by taking the actual 2013 A&G costs assigned to capital projects and dividing it by
9 actual 2013 total A&G costs.

10 Adopting the use of actual costs reassigned to capital to derive the reassignment rate to
11 capital will provide consistency with other categories (Warehousing, Purchasing, Shop, Exempt
12 Materials, Small Tools) discussed in my testimony because those categories also use actual costs
13 for the derivation of the reassignment to capital. This actual cost method is a more inclusive and
14 complete method of reassignment rate derivation in comparison to the former A&G effort study
15 method as it is predicated on actual recorded amounts rather than estimates. SCG is also
16 proposing this approach to ensure consistency between SCG and SDG&E utilities (Exhibit SCG-
17 38). For the derivation of the rates pertaining to these accounts, see Exhibit SDG&E-41-WP-11.

18 **3. Warehousing**

19 Warehousing costs are charged to a Clearing Account that is mapped from the cost center
20 to FERC account 163.1. See Appendix B to testimony of Summary of Earnings witness Khai
21 Nguyen, Exhibit SDG&E-36. These costs are dispersed as an overhead loading applied on
22 warehouse issues. The capital reassignment rate of 89.8% was calculated by taking the actual
23 2013 warehouse issuance costs assigned to capital projects and dividing it by actual 2013 total
24 warehouse issuance costs. For the derivation of the rate pertaining to this account, see Exhibit
25 SDG&E-41-WP-12.

26 **4. Purchasing**

27 Purchasing costs are charged to a Clearing Account that is mapped from the cost centers
28 to FERC Account 163.2 (see Appendix B to Khai Nguyen's Summary of Earnings testimony at
29 Exhibit SDG&E-36). These costs are dispersed as an overhead loading applied on all material

⁶ See A.10-12-005, Ex. SDG&E-43-R (TY2012 GRC Segmentation and Reassignment testimony of SDG&E witness Rajan Agarwal).

1 and services costs. The capital reassignment rate of 66.1% was calculated by taking the actual
2 2013 purchasing overheads assigned to capital projects and dividing it by actual 2013 total
3 purchasing overheads. For the derivation of the rate pertaining to this account, see Exhibit
4 SDG&E-41-WP-12.

5 **5. Fleet**

6 Fleet expenditures are posted to a Clearing Account by specific vehicle class based on
7 vehicle type. Fleet expenditures are mapped from the cost centers to FERC account 184.2 (see
8 Appendix B to Khai Nguyen's Summary of Earnings testimony at Exhibit SDG&E-36). The
9 costs in the Clearing Account are then allocated based on an hourly utilization rate recorded
10 against each vehicle in the fleet. Vehicle utilization can be recorded based on hourly usage or a
11 100% assignment as stated in the Fleet organization's transportation system for vehicles assigned
12 to an individual or a department. The utilization is charged to various O&M accounts and capital
13 jobs. The capital reassignment rate for TY2016 in this GRC is 48.9%, and was calculated by
14 taking the actual 2013 Fleet overheads assigned to capital projects and dividing it by actual 2013
15 total fleet overheads. For the derivation of the rate pertaining to this account, see Exhibit
16 SDG&E-41-WP-12.

17 **6. Shop**

18 Shop costs are charged to a Clearing Account and dispersed as an overhead loading
19 applied on all labor costs. Shop costs are mapped from the Cost Centers to FERC account 184.3
20 (see Appendix B to Khai Nguyen's Summary of Earnings testimony at Exhibit SDG&E-36).
21 The capital reassignment rate of 42.2% was calculated by taking the actual 2013 shop overheads
22 assigned to capital projects and dividing it by actual 2013 total shop overheads. For the
23 derivation of the rate pertaining to this account, see Exhibit SDG&E-41-WP-12.

24 **7. Exempt Material**

25 Exempt Material costs are also charged to a Clearing Account. These costs are for bulk
26 type materials, such as nuts and bolts, that are not individually inventoried or managed by the
27 warehouses and are restocked onto service trucks as needed. Exempt Material costs are
28 dispersed as an overhead loading applied to warehouse issuances. Exempt Materials costs are
29 mapped from the Cost Centers to FERC account 184.6 (see Appendix B to Khai Nguyen's
30 Summary of Earnings testimony at Exhibit SDG&E-36). The capital reassignment rate of 89.1%
31 was calculated by taking the actual 2013 exempt material costs assigned to capital projects and

1 dividing it by actual 2013 total exempt material costs. For the derivation of the rate pertaining to
2 this account, see Exhibit SDG&E-41-WP-12.

3 **8. Small Tools**

4 Small Tools costs are charged to a Clearing Account and dispersed as an overhead
5 loading applied on all labor costs. Small Tools costs are mapped from the Cost Centers to FERC
6 account 184.7 (see Appendix B to Khai Nguyen’s Summary of Earnings testimony at Exhibit
7 SDG&E-36). The capital reassignment rate of 41.8% was calculated by taking the actual 2013
8 small tools overheads assigned to capital projects and dividing it by actual 2013 total small tools
9 overheads. For the derivation of the rate pertaining to this account, see Exhibit SDG&E-41-WP-
10 12.

11 **9. Wildfire Insurance**

12 Wildfire liability coverage is associated 100% with fire risk and not with the construction
13 or development of capital projects. Therefore, in accordance with current accounting rules (i.e.,
14 Generally Accepted Accounting Principles or “GAAP”), SDG&E has allocated wildfire
15 premiums 100% to O&M expense and 0% to capital.

16 **IV. ALLOCATION TO ELECTRIC FUNCTIONS**

17 **A. General Discussion**

18 Electric Transmission costs are under the jurisdiction of the FERC, and thus the costs
19 allocated to Electric Transmission are excluded from this GRC. This section discusses the
20 process used to allocate Electric Transmission costs to be excluded from this GRC. To allocate
21 Electric Department expenses between the Electric Distribution and Transmission functions,
22 SDG&E used an allocation method based on labor charges for all O&M accounts other than
23 Account 924 - Property Insurance. For capital reassignment and Clearing Accounts, SDG&E
24 used actual 2013 data as described below.

25 The labor ratio method has been adopted by FERC and the CPUC for rate setting
26 purposes in prior GRCs, including SDG&E’s 2012 GRC Decision D.13-05-010. The adoption of
27 this method by SDG&E ensures consistency between state and federal regulatory jurisdictions
28 for the allocation of common Electric Department expenses.

29 The 2013 SDG&E Annual FERC Form 1, Distribution of Salaries & Wages pages 354-
30 355 (see Exhibit SDG&E-41-WP-18 to 19) are used for the labor ratio calculations, since this is
31 also filed with the FERC as part of SDG&E’s FERC Form 1. The information presented on the

1 Distribution of Salaries & Wages pages is based on detailed analysis of how labor costs were
2 charged to the various functional areas for 2013.

3 **B. Electric Transmission Allocation**

4 Costs that have been allocated to Electric Transmission have been excluded from this
5 GRC. The summary of Electric Transmission related factors are reflected on Exhibit SDG&E-
6 41-WP-3. For TY2016, the total O&M amount that is allocated to Electric Transmission and
7 excluded from this GRC is approximately \$60,767,000. The different categories and process are
8 described below.

9 **1. A&G Costs and Common Plant**

10 All Electric A&G accounts, including labor overheads (except for Account 924 -
11 Property Insurance, Account 184.8 - Wildfire Insurance) and Common Plant are allocated based
12 on the labor ratio method. The labor ratio is calculated by taking the transmission function direct
13 labor divided by the net of total direct Electric excluding (1) Electric Generation O&M labor and
14 (2) A&G labor for 2013. The resulting rate of 17.4% is applied to all Electric A&G (except
15 Accounts 924 and 184.8) and Common Plant with the result being excluded from this GRC. For
16 the derivation of the rates pertaining to these accounts, see Exhibit SDG&E-41-WP-15.

17 **2. FERC Account 924 – Property Insurance**

18 For Account 924 - Property Insurance, the FERC has established a different allocation
19 methodology for setting Electric Transmission customer rates. This methodology is based on the
20 ratio of total Electric Transmission Plant to Electric Plant excluding Miscellaneous Intangible
21 Plant because intangible assets are non-insurable under property insurance policy. In addition,
22 SONGS property insurance is now excluded from the GRC and recovery of SONGS' property
23 insurance will now be addressed in other regulatory forums before the CPUC. The resulting rate
24 is 40.3%. This rate has been applied to the Electric Account 924 expenses with the result being
25 excluded from this GRC. For the derivation of the rate pertaining to this account, see Exhibit
26 SDG&E-41-WP-16.

27 **3. FERC Account 184.8 - Wildfire Insurance**

28 As stated above, this account was created for the sole purpose of facilitating the
29 allocation of costs between the electric and gas segments and then a portion of the electric cost is
30 allocated to the FERC jurisdiction. On October 8, 2010, FERC issued an Order⁷ in SDG&E's

⁷ *San Diego Gas and Electric Company*, 133 FERC ¶ 61,016 (2010).

1 Transmission Owner3 (“TO3”) Cycle 4 proceeding requiring the allocation of Wildfire insurance
 2 costs using labor ratios. As such, in compliance with the FERC Order, the SDG&E wildfire-
 3 related insurance costs allocation factors are based upon the labor ratio method. The labor ratio
 4 is calculated by taking the transmission function direct labor divided by the net of total direct
 5 Electric O&M labor and A&G labor for 2013. This results in a FERC allocation factor of 16.5%
 6 of wildfire premium costs. Costs allocated to FERC jurisdiction are excluded from this filing.
 7 For the derivation of the rate pertaining to this account, see Exhibit SDG&E-41-WP-15.

8 **4. A&G Reassignment to Capital**

9 Once the reassignment of Electric A&G to capital is determined, a portion is allocated to
 10 Electric Transmission. This Electric Transmission capital allocation rate is calculated by taking
 11 the actual 2013 direct Electric Transmission labor assigned to capital projects and dividing it by
 12 actual 2013 total direct Electric labor for capital projects and removal costs excluding Electric
 13 Generation assigned to capital. The resulting rate is 32.0%. This rate has been applied to Electric
 14 A&G reassigned to capital with the result being excluded from this GRC. For the derivation of
 15 the rates pertaining to these accounts, see Exhibit SDG&E-41-WP-17.

16 **5. Clearing Account Costs**

17 Direct Electric O&M and capital related to Electric Transmission has been excluded from
 18 this GRC. It is also necessary to exclude a portion of the O&M associated with Clearing
 19 Accounts, and also for the O&M reassigned to capital.

20 The O&M exclusion rates for the various Clearing Accounts have all been calculated by
 21 dividing actual Electric Transmission O&M by total Electric O&M costs excluding Electric
 22 Generation. For the derivation of the rates pertaining to these accounts, see Exhibit SDG&E-41-
 23 WP-13.

24
 25 **TABLE SDG&E-JS-2**
 26 **Summary of Electric Transmission O&M Allocation Rates**

Category	%
Warehousing	3.3%
Purchasing	13.0%
Fleet	22.8%
Shop	17.3%
Exempt Material	9.0%
Small Tools	17.2%

1 The capital exclusion rates for the various Clearing Accounts have all been calculated by
2 dividing actual Electric Transmission capital by total Electric capital costs excluding generation.
3 For the derivation of the rates pertaining to these accounts, see Exhibit SDG&E-41-WP-14.

4
5 **TABLE SDG&E-JS-3**
6 **Summary of Electric Transmission Capital Allocation Rates**

Category	%
Warehousing	3.5%
Purchasing	62.4%
Fleet	21.4%
Shop	26.8%
Exempt Material	60.5%
Small Tools	27.5%

7 **V. CONCLUSION**

8 The methods described above for the allocation of common costs between Electric,
9 Electric Generation, and Gas services, and the reassignment of costs to capital are appropriate
10 and reasonable. SDG&E believes that the concept of segmenting and reassigning of the common
11 costs is consistent with FERC guidelines. SDG&E also believes the methods and process
12 proposed in this testimony accurately reflect the nature of SDG&E's business practices.
13 Accordingly, these methods should be adopted by the Commission to determine SDG&E's
14 TY2016 revenue requirement.

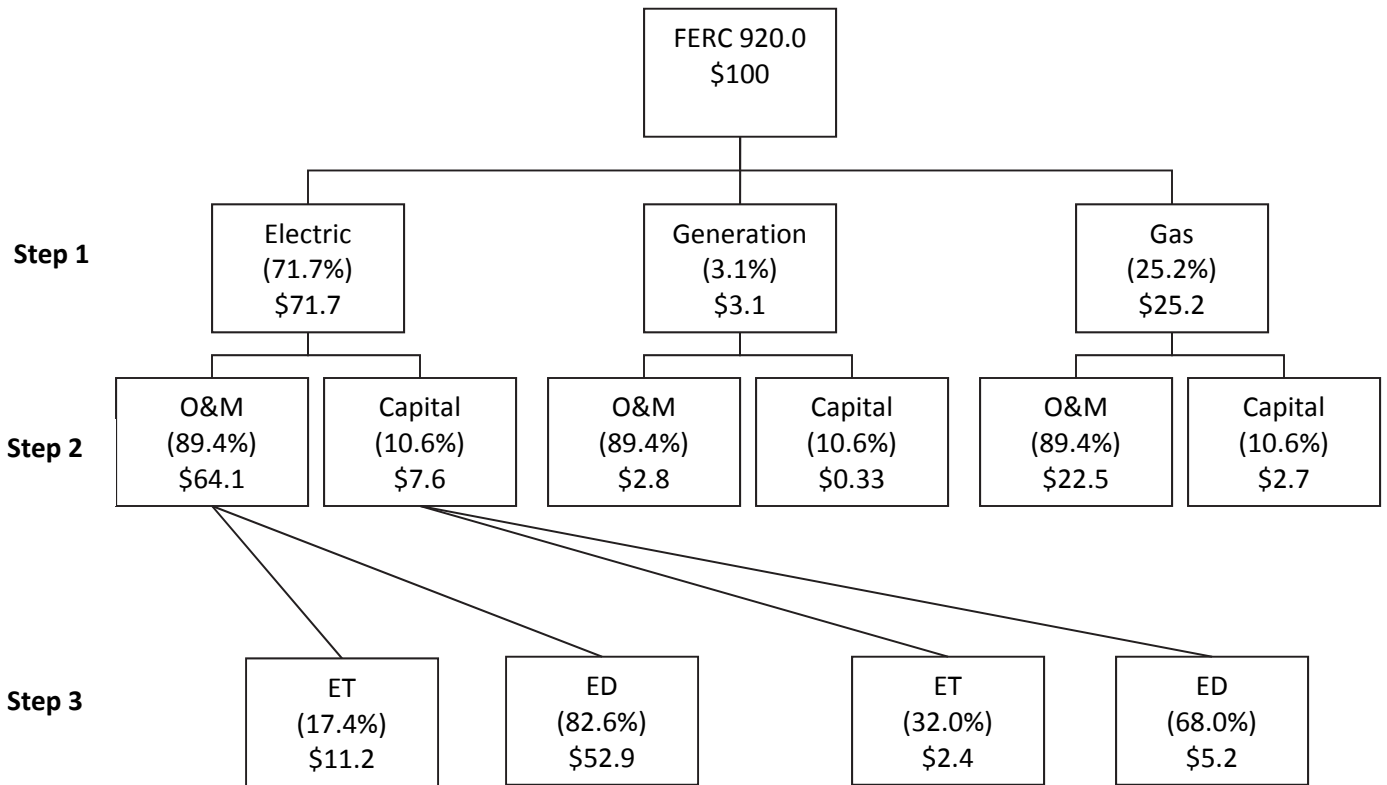
15 This concludes my prepared direct testimony.

1 **VI. WITNESS QUALIFICATIONS**

2 My name is Jeff Stein and I am currently employed by SDG&E as the Transmission
3 Revenue Manager and I am responsible for the oversight of the annual FERC transmission
4 revenue filings. My business address is 8315 Century Park Ct., San Diego, CA 92123.

5 I received a Bachelor of Science degree in Business Administration with an emphasis in
6 Accounting from San Diego State University. Upon receiving my Bachelor's degree, I was
7 employed by KPMG, advisory services firm, as an auditor. After 2 years of public accounting, I
8 joined Sempra Energy in 2006 and have held various positions of increasing responsibilities in
9 Sempra Energy's Internal Audit Department, SDG&E's Business Controls Department, and
10 SDG&E Plant Accounting. I am a Certified Public Accountant in the state of California and I
11 continue to maintain an active status license with practice rights by fulfilling the continuing
12 professional education requirements. I have not previously testified before the Commission.

Appendix I
TABLE SDG&E-JS-4
San Diego Gas and Electric Company
2016 General Rate Case
Segmentation, Capital Reassignment and Electric Transmission
Carve Out Process
For Illustrative Purposes Only – Uses Example of FERC 920



Steps:

1. Segmentation
2. Reassignments
3. O&M and Capital Electric Transmission Carve out

APPENDIX II

TABLE SDGE-JS-5

2016 General Rate Case
San Diego Gas & Electric
Segmentation, Capital Reassignment and Electric Transmission Curve Out Rates
Based on January - December 2013 Data

Line #	FERC Account	Account Description	Segmentation			ET Curve Out		
			Electric	Generation	Gas	Capital	O&M	Capital
1	Clearing:							
2	163.1	Warehousing	80.2%	4.7%	15.1%	89.8%	3.3%	3.5%
3	163.2	Purchasing	81.2%	6.1%	12.7%	66.1%	13.0%	62.4%
4	184.2	Fleet	78.2%	0.3%	21.5%	48.9%	22.8%	21.4%
5	184.3	Shop Order	76.5%	0.1%	23.4%	42.2%	17.3%	26.8%
6	184.6	Exempt Materials	75.5%	2.0%	22.5%	89.1%	9.0%	60.5%
7	184.7	Small Tools	76.7%	0.1%	23.2%	41.8%	17.2%	27.5%
8								
9	Wildfire Insurance							
10	184.8	Wildfire Insurance	100.0%	0.0%	0.0%	0.0%	16.5%	0.0%
11								
12	Customer Accounts and Collections							
13	901.0	Supervision	64.8%	0.0%	35.2%	0.0%	0.0%	0.0%
14	902.0	MRDG - General Exp	64.8%	0.0%	35.2%	0.0%	0.0%	0.0%
15	902.1	MRDG - Training & Other Exp	64.8%	0.0%	35.2%	0.0%	0.0%	0.0%
16	902.2	MRDG - Meas Data Ops Exp	64.8%	0.0%	35.2%	0.0%	0.0%	0.0%
17	902.5	Meter Reading Exp	64.8%	0.0%	35.2%	0.0%	0.0%	0.0%
18	903.0	Customer Records & Collection Exp	64.8%	0.0%	35.2%	0.0%	0.0%	0.0%
19	903.1	Customer Records & Collection Exp - Customer Contac	64.8%	0.0%	35.2%	0.0%	0.0%	0.0%
20	903.3	Customer Records & Collection Exp - Collections	64.8%	0.0%	35.2%	0.0%	0.0%	0.0%
21	903.4	Customer Records & Collection Exp - Pymt Processin	64.8%	0.0%	35.2%	0.0%	0.0%	0.0%
22	903.5	Customer Records & Collection Exp - Cust Billing &	64.8%	0.0%	35.2%	0.0%	0.0%	0.0%
23	903.7	Customer Records & Collection Exp - Postage	64.8%	0.0%	35.2%	0.0%	0.0%	0.0%
24	903.8	Customer Records & Collection Exp - Energy Theft	64.8%	0.0%	35.2%	0.0%	0.0%	0.0%
25	905.0	Miscellaneous Customer Accounts Expenses	64.8%	0.0%	35.2%	0.0%	0.0%	0.0%
26	907.0	Supervision	85.0%	0.0%	15.0%	0.0%	0.0%	0.0%
27	908.0	Customer Assistance Exp	85.0%	0.0%	15.0%	0.0%	0.0%	0.0%
28	909.0	Informational & Instructional Exp	85.0%	0.0%	15.0%	0.0%	0.0%	0.0%
29	910.0	Misc Customer Svc & Info Exp	85.0%	0.0%	15.0%	0.0%	0.0%	0.0%
30								
31	A&G:							
32	920.0	Admin & General Salaries - Non-Sr. Management	71.7%	3.1%	25.2%	10.6%	17.4%	32.0%
33	920.1	Admin & General Salaries - Sr. Management	71.7%	3.1%	25.2%	10.6%	17.4%	32.0%
34	920.2	Administrative & General - HR	71.7%	3.1%	25.2%	10.6%	17.4%	32.0%
35	920.4	Administrative & General - ICP	71.7%	3.1%	25.2%	38.0%	17.4%	32.0%
36	920.5	Admin & General Salaries - RPA	71.7%	3.1%	25.2%	10.6%	17.4%	32.0%
37	921.0	Office Supplies & Exp - Non-Sr. Management	71.7%	3.1%	25.2%	10.6%	17.4%	32.0%
38	921.2	Administrative & General - HR	71.7%	3.1%	25.2%	10.6%	17.4%	32.0%
39	921.5	Admin Expenses Transferred - Credit	71.7%	3.1%	25.2%	10.6%	17.4%	32.0%
40	923.0	Outside Services Employed - Outside Vendors	71.7%	3.1%	25.2%	10.6%	17.4%	32.0%
41	923.1	Outside Services Employed - SECC	71.7%	3.1%	25.2%	10.6%	17.4%	32.0%
42	923.2	Outside Services Employed - BUCU's	71.7%	3.1%	25.2%	10.6%	17.4%	32.0%
43	923.3	Outside Services Employed - Shared Assets	71.7%	3.1%	25.2%	0.0%	17.4%	0.0%
44	923.4	Outside Services Employed - Depreciatbn/ROR	71.7%	3.1%	25.2%	0.0%	17.4%	0.0%
45	924.0	Property Insurance	78.8%	8.5%	12.7%	0.0%	40.3%	0.0%
46	925.0	Injuries & Damages PLPD Claims	71.7%	3.1%	25.2%	38.0%	17.4%	32.0%
47	925.1	Injuries & Damages - Workers Comp	71.7%	3.1%	25.2%	38.0%	17.4%	32.0%
48	925.2	Safety & Emergency Services & EMF	71.7%	3.1%	25.2%	0.0%	17.4%	0.0%
49	925.3	Injuries & Damages - Liability Insurance	71.7%	3.1%	25.2%	0.0%	17.4%	0.0%
50	926.0	Employee Pensions & Benefits - Other	71.7%	3.1%	25.2%	38.0%	17.4%	32.0%
51	926.1	Employee Pensions & Benefits - Pension	71.7%	3.1%	25.2%	38.0%	17.4%	32.0%
52	926.2	Employee Pensions & Benefits - PBOPs	71.7%	3.1%	25.2%	38.0%	17.4%	32.0%
53	926.3	Employee Pensions & Benefits -Medical	71.7%	3.1%	25.2%	38.0%	17.4%	32.0%
54	926.4	Employee Pensions & Benefits - Retirement Savings	71.7%	3.1%	25.2%	38.0%	17.4%	32.0%
55	926.5	Employee Pensions & Benefits - Benefit Fees, Educ, Transport, Etc.	71.7%	3.1%	25.2%	38.0%	17.4%	32.0%
56	928.0	Regulatory Commission Exp	71.7%	3.1%	25.2%	0.0%	17.4%	0.0%
57	930.1	General Advertising Expenses	71.7%	3.1%	25.2%	0.0%	17.4%	0.0%
58	930.2	Miscellaneous General Expenses	71.7%	3.1%	25.2%	0.0%	17.4%	0.0%
59	931.0	Rents	74.8%	0.0%	25.2%	0.0%	17.4%	0.0%
60	931.6	Rents	74.8%	0.0%	25.2%	0.0%	17.4%	0.0%
61	935.0	Maintenance of General Plant	71.7%	3.1%	25.2%	0.0%	17.4%	0.0%
62	935.1	Maintenance of General Plant	71.7%	3.1%	25.2%	0.0%	17.4%	0.0%
63	935.6	Maintenance of General Plant	71.7%	3.1%	25.2%	0.0%	17.4%	0.0%