

**DRA DATA REQUEST**  
**DRA-SDG&E-DR-003**  
**SDG&E 2012 COST OF CAPITAL – A.12-04-016**  
**SDG&E RESPONSE**  
**DATE RECEIVED: AUGUST 31, 2012**  
**DATE RESPONDED: SEPTEMBER 12, 2012**

1. With respect to the rebuttal testimony of Dr. Morin, please provide: (1) copies of all source documents, articles, pages from books, investment reports, credit rating agency reports, regulatory decisions, work papers, and other sources used in the development and preparation of the testimony; and (2) an index with testimony page number, the document that is being provided, the file name of the provided document, and page or tab numbers associated with the materials provided in (1).

**SDG&E Response:**

A list of responsive documents is provided here. The non-proprietary or copyrighted materials are included on an accompanying CD. Page references as follows:

Page(s)	Document
10, 86	Interest rate forecasts: Value Line, Global Insight
12	D.96-11-060
13, 46, 59	Morningstar (Ibbotson) extracts
20, 22	AUS Utility Report
21	Morgan Stanley June 26 2012 reference
24, 25	SNL Regulatory Research Associates July 2012
26, Attach B	Fitch Report Aug 2012
36	Value Line Timeliness Rank – VL Subscriber Guide
36	Cragg & Malkiel article
36	VanderWeide & Carleton article
36, 37	Timme and Eiseman article
39, 88	Brealey & Myers text extract
40	Woolridge SourceGas testimony
41	Dimson, Risk and Return, Business Strategy Review
42	Mehra article Equity Premium Retrospect
42	Constantinides article
42	Kaplan & Ruback article
43	Schwert article
44	Jorion & Goetzman article
44	Dimson article 2006
45	Fernandez 2011 survey
45	Mehra & Prescott review of theoretical lit on MRP
8, 46-48, 93	Morin: <u>The New Regulatory Finance</u> 2006
60	Morningstar (Ibbotson) extract 2009
63	Lys & Sohn article

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63	Easterwood & Nutt article
83	D. 07-12-049 Cost of Capital 2007 re: pension fund
93	Morin: Reg Fin: Utilities' Cost of Capital 1994
General	VL Sempra

Chapters 4, 6, and 12 from Dr. Morin's book The New Regulatory Finance can be obtained by purchasing Dr. Morin's book via the Public Utility Reports Inc. or Amazon web sites and cannot be disseminated without violating copyright protection. This book is also available in several university libraries.

The below referenced document is confidential proprietary and cannot be provided to third parties without requisite permission.

Confidential Pre-Filed Direct Testimony and Exhibits of J.Randall Woolridge (January 31, 2012).

The below referenced documents are considered proprietary or copyrighted materials and therefore cannot be provided to third parties, except in some instances by permission. SDG&E is willing to make the following books and reports available at its offices for visual examination by requesting third parties to this proceeding.

AUS Monthly Utility Report – Aug 2012  
Constantinidis JF\_2002  
Morin: The New Regulatory Finance 2006  
Morin: Regulatory Finance: Utilities' Cost of Capital 1994  
Kaplan & Ruback article  
Cragg and Malkiel article  
Dimson Marsh Staunton Worldwide MRP 2006  
Easterwood and Nutt  
Jorion Goetzman JF 2002  
Lys Sohn\_Association Between  
MehraPrescott 2003  
Morgan Stanley 06-26-12  
RRA July 2012  
Timme  
VL Econ Fest May2012  
VL Sempra

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2. With reference to page 23, lines 19-23 of Dr. Morin's SDG&E Rebuttal Testimony, please: (1) indicate the presumed growth rate of the U.S. economy, and copies of all studies relied upon to support the presumed growth rate of the U.S. economy; and (2) copies of all empirical studies that demonstrate the relationship between the growth rate of the U.S. economy and the growth rate of dividends and earnings for electric utilities.

**SDG&E Response:**

With respect to the growth of the U.S. economy, Dr. Morin relied on the comprehensive information provided in DRA witness Woolridge's testimony regarding the historical and projected growth in the U.S. economy. This information appears on Attachment JRW-14 pages 1, 2, and 3. Page 1 calculates a historical GDP growth rate of 6.8% over the 1960-2011 period, page 3 displays the data in graphical form. Page 3 displays historic GDP growth rates of 6% over successively longer periods. Page 3 also displays GDP forecast of nearly 5% by the Congressional Budget Office, Survey of Financial Forecasters, and the Energy Information Administration.

Attachment JRW-11 Page 9 shows an expected short-term inflation rate of over 3%. Assuming a real GDP growth rate of 3.24% based on the real GDP growth rate of 3.24% for the period 1929-2011, the implied nominal growth rate of the US economy is above 6%.

Another way to estimate long-term inflation is to subtract the current yield on inflation-adjusted 30-year Treasury bonds which is currently 0.6% from the current yield on 30-year Treasury bonds which is currently close to 3% to produce an inflation estimate of 2.4%. Adding the real GDP growth rate of 3.24% to the inflation estimate of 2.4% produces a nominal GDP growth rate of 5.6%.

Dr. Morin is unaware of published empirical studies published in academic journals linking the growth of the U.S. economy and the growth rate of electric utility dividends and earnings. DRA witness Woolridge cites a study by Harris on page A-5 which does conclude that a superior long-run method to forecast long-term EPS growth is to assume that all companies (which presumably include utilities) will have an earnings growth rate equal to historic GDP growth.

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3. Please quantify all balancing account disallowances for the past five year, by date, balancing account, recovery amount requested, recovery amount authorized, and recovery amount disallowed

**SDG&E Response:**

The term disallowance in the Cost of Capital Application (A.12-04-016) refers to cost recovery asked for but not granted, whether because it was struck down by the Commission, settled upon, asked for as part of the program and not granted or exceed authorized spending caps. Therefore, the answer to this data request will incorporate this definition. All amounts include interest.

In 2012, we asked for and were not granted recovery of central air conditioning furnace clean and tuning arrived at in a CPUC audit of \$1,041,751 in the Low Income Energy Efficiency Balancing Account and \$177,471 in the Post-2005 Gas Low Income Energy Efficiency Balancing Account and therefore had to remove those costs from the balancing accounts.

On March 8, 2012, D.12-03-014 disallowed \$371,413 related to a SONGS Unit 2 outage from December 28, 2008. The expense was recorded in ERRA in 2009 and the disallowance was part of the 2009 ERRA Compliance decision.

In 2011, our one-way balancing accounts for Distribution Integrity Management Program, Research, Development and Demonstration, and Tree Trimming exceeded their specified one-way balancing account caps of \$586,052, \$395,291, and \$2,828,158, respectively. That amount had to be removed from the balancing account and written off.

In D.10-10-004, SDG&E asked for CEMA 2003 recovery of \$32,186,000 and received an after-settlement decision of \$25,440,000, including FF&U. The difference between the ask and the grant was primarily due to the removal of O&M costs done in the context of the settlement.

In 2010, our one-way balancing account for Tree Trimming exceeded its specified one-way balancing account caps by \$4,147,885. That amount had to be excluded from the balancing account and written off.

Also in 2010, we had a write-off of auction costs in our Generation Divestiture Memo Account of \$129,145 from auctions in 1999-2001.

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In 2009, our one-way balancing account for Tree Trimming exceeded its specified one-way balancing account caps by \$5,673,546. That amount had to be excluded from the balancing account and written off.

In 2008, the Low Income Energy Efficiency Balancing Account exceeded its specified cap by \$103,549. That amount had to be excluded from the balancing account and written off.

Further, we are waiting to hear from the Commission on a dispute surrounded Least Cost Dispatch at the Palomar Plant in 2010. DRA recommended a disallowance of \$7.2 million. This is part of the ERRA Compliance Proceeding for 2010 (A.11-06-003).