

Application No: A.17-05-
Exhibit No.: _____
Witness: M. Woodruff, J. Vanderhye Jr.

Application of San Diego Gas & Electric Company
(U 902 M) for Approval To Extend the
Mobilehome Park Utility Upgrade Program.

Application 17-05-
(Filed May 5, 2017)

CHAPTER 5
REVENUE REQUIREMENT
PREPARED DIRECT TESTIMONY OF
MICHAEL R. WOODRUFF AND JAMES G. VANDERHYE JR.
ON BEHALF OF
SAN DIEGO GAS & ELECTRIC COMPANY

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

May 5, 2017

TABLE OF CONTENTS

I. PURPOSE1

II. REVENUE REQUIREMENT.....1

III. QUALIFICATIONS –MICHAEL R. WOODRUFF4

IV. QUALIFICATIONS –JAMES G. VANDERHYE JR.....4

1 **I. PURPOSE**

2 The purpose of our direct testimony on behalf of San Diego Gas & Electric Company
3 (“SDG&E”) is to present the revenue requirements resulting from the capital and operations and
4 maintenance (“O&M”) forecasts for the proposed Mobilehome Park (“MHP”) Program. The
5 forecasted revenue requirement is \$508 million for the period 2018 to 2095 (\$253 million for
6 gas-related work and \$255 million for electric-related work).

7 **II. REVENUE REQUIREMENT**

8 The revenue requirement associated with the MHP Program is based on the forecasted
9 incremental capital and O&M costs described in the Chapter 3 prepared direct testimony of
10 Hector Moreno. The capital and O&M costs presented in this Application include overhead and
11 escalation costs to support the investment during construction and over its useful life. A
12 summary of the fully loaded and escalated costs are shown in Table 1, and the illustrative
13 revenue requirements resulting from these costs are shown in Table 2.

14 The methodology to determine a revenue requirement involves several steps and
15 considerations. First, the incremental capital and O&M costs are adjusted to include overhead
16 allocations, consistent with their classification as company labor, contract labor, or purchased
17 services and materials. Overhead costs are those activities and services that are associated with
18 direct costs, such as payroll taxes and pension and benefits, or are costs that cannot be
19 economically direct-charged, such as administrative and general overheads. The overhead
20 allocations adhere to the methodology proposed by the Federal Energy Regulatory Commission
21 (FERC)¹ and were derived using the same methodology used in SDG&E’s most recent General
22 Rate Case (GRC) filing. SDG&E used December 2016 internal planning rates for illustrative

¹ FERC guidelines reference the Statement of Federal Financial Accounting Standards 4: Managerial Cost Accounting Standards and Concepts.

1 purposes in this Application; however, actual rates will be applied in the determination of the
2 actual revenue requirement to be implemented, and only overheads that are incremental to the
3 program will be included. Next, the overhead-loaded incremental capital and O&M costs are
4 escalated for inflation. SDG&E applied the indices published in IHS Global Insight's 4th Quarter
5 2016 Utility Cost Forecast for this Application.

6 The revenue requirement calculation assumes all capital costs, including direct costs,
7 overhead, escalation, Allowance for Funds Used During Construction (AFUDC) and future
8 removal costs, are recovered through depreciation over the current authorized book-life of the
9 assets. The forecasted capital costs do not include costs of removal associated with the existing
10 infrastructure. In addition to all incremental capital and O&M expenditures, the revenue
11 requirement includes the authorized return on investment, taxes, and franchise fees and
12 uncollectibles.² The revenue requirement calculation uses the current authorized rate of return of
13 7.79%.³

14 Table 1 below summarizes the fully loaded and escalated costs of the MHP Program,
15 including capitalized property tax and AFUDC.
16

² The revenue requirement components and the rate base calculations are computed based on the same standard, Commission-approved methodology used in the 2016 GRC and other incremental applications such as the Vehicle-Grid Integration, D.16-01-045.

³ SDG&E's rate of return was authorized in the company's 2013 Test Year Cost of Capital proceeding in Decision 12-12-034. A Petition for Modification (PFM) of D.12-12-034 and D.13-03-015 was filed on February 7, 2017, and is pending approval before the Commission. Similar to SDG&E's proposed treatment of overheads, SDG&E will apply the actual rate of return that is in effect when the actual revenue requirement is determined.

Table 1
Fully Loaded and Escalated Costs Summary
(In Millions of Dollars, Nominal)

	2018	2019	2020	2021	2022	2023	2024	Total
Gas	\$ 2.0	\$ 20.9	\$ 21.4	\$ 17.4	\$ 17.8	\$ 18.0	\$ 0.0	\$ 97.6
Electric	\$ 2.3	\$ 22.4	\$ 23.1	\$ 18.9	\$ 19.4	\$ 19.8	\$ 0.0	\$ 105.9
Total	\$ 4.3	\$ 43.3	\$ 44.5	\$ 36.3	\$ 37.2	\$ 37.8	\$ 0.1	\$ 203.5

Table 2 below summarizes the forecasted revenue requirement for SDG&E to execute the MHP Program. In addition to the fully loaded and escalated costs shown in Table 1, this revenue requirement captures other capital-related costs such as income taxes and return needed to support the investment for its useful life.

Table 2
Forecasted Revenue Requirement Summary
(In Millions of Dollars, Nominal)

	2018	2019	2020	2021	2022	2023	2024-2095	Total
Gas	0.1	1.2	4.7	8.1	10.9	13.6	214.4	252.86
Electric	0.1	1.3	5.1	8.9	12.0	15.1	212.5	255.07
Total	\$ 0.2	\$ 2.6	\$ 9.8	\$ 16.9	\$ 22.9	\$ 28.6	\$ 426.8	\$ 507.93

Consistent with the MHP Pilot approved in Decision (D.) 14-03-021, SDG&E will determine the actual capital and O&M costs of conversion as MHPs are completed, and will calculate the actual revenue requirements associated with those costs for recovery in rates. Further details of the regulatory accounting treatment of the actual revenue requirements associated with completed parks are discussed in the Chapter 4 prepared direct testimony of Reginald Austria.

SDG&E uses the forecasted revenue requirement for purposes of illustrating the potential rate impact as a result of the program continuation. The details of the illustrated electric and gas rate impacts are discussed in the Chapter 6 prepared direct testimony of Jenell McKay and the Chapter 7 prepared direct testimony of Marjorie Schmidt-Pines, respectively.

1 This concludes our direct testimony.

2 **III. QUALIFICATIONS –MICHAEL R. WOODRUFF**

3 My name is Michael R. Woodruff. My business address is 8330 Century Park Court, San
4 Diego, California 92123. I am employed by SDG&E as a Manager in Financial & Strategic
5 Analysis. I am responsible for overseeing the financial analysis and development of revenue
6 requirements for SDG&E projects.

7 I joined SDG&E in 2011. Prior to SDG&E, I was employed by Wells Fargo & Co. for
8 twelve years, six years as a Financial Analyst and six years as a Finance Manager. I received a
9 Bachelor of Science degree in Liberal Arts and Sciences from Iowa State University in 1994. I
10 received a Master’s of Business Administration degree with an emphasis in Finance from the
11 University of Iowa in 1999.

12 This material was personally reviewed by me and I believe it to be correct and that it is
13 factual in nature. Insofar as the material is in the nature of opinion or judgment, it represents my
14 best judgment. I have previously testified before this Commission. This concludes my direct
15 testimony.

16 **IV. QUALIFICATIONS – JAMES G. VANDERHYE, JR.**

17 My name is James G Vanderhye Jr. My business address is 8326 Century Park Court,
18 San Diego, California 92123. I am employed by SDG&E as the Supervisor, Affiliate Billing &
19 Costing. I am responsible for overseeing the application of SDG&E’s overhead/indirect cost
20 process. I joined SDG&E in 1993. I received a Bachelor of Science degree in Finance from San
21 Diego State University in 2003. I have not testified before this Commission. This concludes my
22 direct testimony.