Investigation No.:	I.12-10-013
Exhibit No.:	SDGE-05
Witness:	Robert Schlax

PREPARED REBUTTAL TESTIMONY OF

ROBERT SCHLAX

ON BEHALF OF

SAN DIEGO GAS & ELECTRIC COMPANY

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

April 22, 2013

PREPARED REBUTTAL TESTIMONY

OF

ROBERT SCHLAX

I. INTRODUCTION

The purpose of this rebuttal testimony is to respond to recommendations included in the testimony of witness W.B. Marcus on behalf of The Utility Reform Network ("TURN") regarding 1) cash working capital, 2) accounting adjustments for Allowance for Funds Used During Construction ("AFUDC"), and 3) Materials and Supplies ("M&S") for San Diego Gas & Electric ("SDG&E" or the "Company").

II. CASH WORKING CAPITAL

Mr. Marcus proposes that "the Commission should require Edison to calculate cash working capital for SONGS as a whole."[1]

SDG&E proposed in its 2012 GRC a one-time, non-precedential $0 funding level for total company cash working capital in recognition of the economic downturn and its impact on customers, making TURN's proposal a moot point. Had SDG&E included a specific request for SONGS cash working capital, SDG&E agrees with Southern California Edison ("SCE") that an allocation of SONGS-specific cash working capital would be burdensome and inaccurate given the current time constraints.

III. AFUDC

Witness Marcus recommends "…that the Commission order Edison to stop accruing AFUDC on capital projects currently in CWIP that have been suspended due to the need to address team generator problems first… This suspension of AFUDC should

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[1] Prepared testimony of William B. Marcus on behalf of The Utility Reform Network dated March 29, 2013 ("Marcus Testimony"), Section VI, page 6.

be retroactive to the date of suspension of construction and should include a write-off of AFUDC from the date of suspension to the date of the Commission's order… The suspension of AFUDC accrual is reasonable on both policy and accounting grounds… [as] Statement of Financial Accounting Standards (SFAS) No. 34 requires that capitalization of interest cease when a construction project is suspended voluntarily by the company."[2] Mr. Marcus then recommends that SDG&E "…adopt the same accounting adjustments."[3]

The reason AFUDC exists on capital projects it to allow a utility to recover the full burden of its cash paid out while an asset is under construction. The capital costs associated with financing longer term assets would otherwise not be picked up and would in effect be borne by the shareholder. Therefore, forcing the utility to stop accruing AFUDC on its SONGS asset would improperly force the shareholder to forego recovering the financing costs incurred while a decision is still being made on what to do with the asset. In other words, stopping the AFUDC accrual would prejudge the outcome of the SONGS case. Because AFUDC is not in current rates, forcing a stoppage of the accrual of AFUDC would not affect current rates but would affect the utilities ability to be made whole on its investment.

SDG&E agrees with the rebuttal testimony of SCE witnesses Fisher/Hunt regarding accounting standards as they apply to the accrual of AFUDC.[4]

For these reasons, the Commission should reject Mr. Marcus' proposal.

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[2] *Id*., Section VI, page 10.
[3] *Id*., Section VI, page 12.
[4] *See* Exhibit SCE-8.

IV. REMOVAL OF 50% MATERIALS & SUPPLIES COSTS

Mr. Marcus proposes for SCE, that "[t]he Commission should allow only 50% of CPUC-authorized Materials and Supplies inventory in rate base."[5] Mr. Marcus then recommends for SDG&E that "[t]hey are the same as for Edison."[6]

SDG&E included $7.1 million in its 2012 GRC forecasts for M&S. SDG&E agrees with SCE that the total amount of M&S cannot be accurately allocated between Units and common SONGS plant. Further, the SDG&E forecast of $7.1 million was based on SDG&E's recorded 2009 M&S and not on a 20% allocation of SCE's 100% forecasted M&S. Therefore if a 50% reduction were to be applied based on SCE's share, the resulting reduction at SDG&E would exceed its current forecasts and create a negative balance in M&S. For these reasons, SDG&E opposes TURN's recommendation to remove 50% of M&S.

This concludes my prepared rebuttal testimony.

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[5] Marcus Testimony, Section VI, page 6.
[6] *Id*., Section VI, page 12.