Company:	San Diego Gas & Electric Company (U902M)
Proceeding:	2016 General Rate Case
Application:	A.14-11-003
Exhibit:	SDG&E-217

SDG&E

REBUTTAL TESTIMONY OF JAMES CARL SEIFERT

REAL ESTATE AND FACILITIES

June 2015

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

A Sempra Energy utility®

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SDG&E REBUTTAL TESTIMONY OF JAMES CARL SEIFERT
REAL ESTATE AND FACILITIES

I. SUMMARY OF DIFFERENCES

TOTAL O&M - Constant 2013 ($000)			
	Base Year 2013	**Test Year 2016**	**Change**
SDG&E	**35,672**	**40,301**	**4,629**
ORA	**35,672**	**38,273**	**2,601**

TOTAL CAPITAL - Constant 2013 ($000)			
	2014	**2015**	**2016**
SDG&E	**19,460**	**38,452**	**42,930**
ORA[1]	**21,017**	**29,000**	**29,000**

II. INTRODUCTION

The Office of Ratepayer Advocates (ORA) was the only party to challenge SDG&E's O&M-related requests for Real Estate and Facilities. ORA and the Federal Executive Agencies (FEA) challenged portions of SDG&E's capital-related requests. As shown below, the ORA and FEA challenges are flawed.

III. REBUTTAL TO PARTIES' O&M PROPOSALS

RELF 2009 -2016 Non Shared and Shared Recorded and Forecast (in Thousands)									
	Recorded						Forecast		
	2009	2010	2011	2012	2013	2014	SDGE 2016	ORA 2016	Variance
Non Shared	18,629	18,141	17,839	19,436	20,212	20,935	24,021	22,744	(1,277)
Shared	14,154	12,802	12,574	12,433	13,447	11,526	16,280	15,529	(751)
Total	34,792	32,953	32,424	33,881	35,672	34,475	40,301	38,273	(2,028)

A. ORA

The following is a summary of ORA's O&M positions:

- ORA recommends a 5% reduction from our SDG&E non-shared O&M forecast, or $1.3 million less than the $24 million requested. A similar reduction was made to shared O&M, a reduction of $751k from our requested $16.3 million. Of note:

[1] FEA has the same position as ORA with respect to its recommendation on Capital, see DIRECT TESTIMONY AND EXHIBIT OF RALPH C. SMITH, CPA ON BEHALF OF THE DEPARTMENT OF DEFENSE AND ALL OTHER FEDERAL EXECUTIVE AGENCIES, May 15, 2015, at page 22 line 11

- ORA did not contest the forecast for Facility Operations or Land Services.

- ORA recommended reductions to rents, adopting a 5% increase over 2012 as its forecast.

B. Non-Shared Services O&M

NON-SHARED O&M - Constant 2013 ($000)			
	Base Year 2013	**Test Year 2016**	**Change**
SDG&E	**20,212**	**24,021**	**3,809**
ORA	**20,212**	**22,744**	**2,532**

Overview of SDG&E's Non-Shared Expenses Request

SDG&E is requesting total Non-Shared REL&F O&M expenses of $24.021 million for TY 2016 which is $3.809 million or 18.8 percent above 2013 recorded O&M expenses. SDG&E's Non-Shared REL&F O&M costs consist of costs for Facility Operations, Land Services, and Rents and Operating Expenses.

- ORA does not oppose SDG&E's Non-Shared expense request for Facilities Operations or Land Services.

- ORA contests SDG&E's forecast for Rents and Operating Expense, recommending a reduction of $1.277 million from SDG&E's forecast of $17.631 million based on a 5% annual increase.

Non- shared Rents and Operating Expense

SDG&E is requesting $17.631 million for TY 2016, which is $3.504 million or 24.8 percent above 2013 recorded expenses for Rents and Operating Expense. ORA is recommending $16.354 million for TY 2016 which is $1.277 million or 7.2 percent less than SDG&E's request for Rents and Operating Expenses.

RELF 2009 -2016 Non Shared Rents & Operating Expenses (in Thousands)									
	Recorded						**Forecast**		
	2009	**2010**	**2011**	**2012**	**2013**	**2014**	**SDGE 2016**	**ORA 2016**	**Variance**
Rents & Operating Expenses	11,479	11,705	11,497	13,502	14,127	14,159	17,631	16,354	(1,277)

ORA is recommending a 5 percent increase per year from 2013 to 2016. SDG&E disagrees with ORA recommendation. ORA states in its testimony that a 5% increase per year from 2013 – 2016 is similar to SDG&E request. ORA's forecasting method, however, is not similar. In particular, as stated in my direct testimony, SDG&E uses a blend of zero based contractual increases in base rents, and then applies a 5% annual increase on the separate operating expenses over which it has limited control.[2] SDG&E's use of zero-based estimates for known, contractual increases is more accurate than an estimate based on historical costs. On the other hand, with respect to estimates of non-fixed operating costs, SDG&E's use of the 5% per year increase based on a five year average is appropriate. ORA's method relies wholly on arithmetic averaging, while SDG&E's method relies in large measure on known contractual future costs.

For these reasons, SDG&E recommends the Commission disregard ORA's recommendations and adopt SDG&E's test year forecast for non-shared Rents and Operating Expenses.

C. Shared Services O&M

SHARED O&M - Constant 2013 ($000)			
	Base Year 2013	**Test Year 2016**	**Change**
SDG&E	**13,447**	**16,280**	**2,833**
ORA	**13,447**	**15,529**	**2,082**

Overview of SDG&E's Shared Expenses Request

SDG&E is requesting $16.280 million for TY 2016 which is $2.833 million or 21 percent above 2013 recorded for Shared Real Estate, Land Services and Facilities Expenses. ORA is recommending $15.529 million for TY 2016 which is $751,000 or 4.6 percent less than SDG&E's request for Shared Real Estate, Land Services and Facilities Expenses. ORA's recommendation is $2.082 million or 15.5 percent above 2013 recorded expenses for Shared Real Estate, Land Services and Facilities.

ORA does not oppose SDG&E's Shared expense request for:

- Facilities Operations Manager;
- RB Data Center & Annex;
- Real Estate –Administration;
- Real Estate – Planning;
- Real Estate – Resources; and
- Headquarter Rents and Maintenance.

[2] Ex. SDG&E -17, p.JCS-10, lines 19-27.

Facility Corporate Center Utilities Shared Expense

SDG&E is requesting $1.384 million for TY 2016 which is $274,000 or 24.7 percent above 2013 recorded expenses for Facility Corporate Center Utilities. SDG&E used a five-year average to forecast the Facility Corporate Center Utilities expenses for TY 2016.

RELF 2009-2016 Shared Facility Corporate Center Utilities
(in Thousands)

	Recorded						Forecast		
	2009	2010	2011	2012	2013	2014	SDGE 2016	ORA 2016	Variance
Facility Corporate Center Utilities	1,698	1,555	1,368	1,191	1,110	865	1,384	1,110	(274)

ORA is recommending $1.110 million for TY 2016, which is $274,000 or 24.7 percent less than SDG&E's request for the Facility Corporate Center Utilities expenses. ORA is recommending using the 2013 recorded year to forecast the Facility Corporate Center Utilities expenses for TY 2016. ORA argues that during the last three recorded years the level of expenses stayed constant during 2012 and 2013, but declined in 2014.[3] Therefore, according to ORA, the 2013 recorded expense fairly represents the current operations of the Facility Corporate Center Utilities for TY 2016.

SDG&E disagrees with ORA's methodology and recommendation, mainly because beginning in 2012, SDG&E, on behalf of Sempra Energy, subscribed to a demand-response electric utility rate, which lowered overall costs and resulted in a one-time rebate. The consumption in kilowatt hours has remained relatively flat, but as SDG&E's rate structure has escalated, even for demand-response level rates, the actual incurred costs for the Corporate Center facilities is also projected to escalate. Given the anticipated rate increase for this customer class, using a five year average is more appropriate as rates will continue to rise. Accordingly, SDG&E recommends the Commission disregard ORA's recommendation and adopt SDG&E's forecast for Facility Corporate Center Utilities Shared Expense.

Capital Programs-Administration

SDG&E is requesting $656,000 for TY 2016 based on the five-year average of recorded expenses for Shared Capital Programs-Administration expenses.

[3] Ex. ORA-14, p. 27, lines 3-11.

RELF 2014-2016 Shared Capital Programs Expenses (in Thousands)									
	Recorded						Forecast		
	2009	2010	2011	2012	2013	2014	SDGE 2016	ORA 2016	Variance
Capital Programs	1,510	1,005	374	160	233	143	656	179	(477)

ORA is recommending $179,000 for TY 2016 which is $477,000 less than SDG&E's forecast for Shared Capital Programs-Administration expenses. ORA's recommendation is based on the three-year average (2012 to 2014) of recorded expenses for Shared Capital Programs-Administration. SDG&E accepts ORA's methodology.

IV. REBUTTAL TO PARTIES' CAPITAL PROPOSALS

Overview of SDG&E's Capital Request

RELF 2014-2016 Capital Forecast (in Thousands)				
	2014	2015	2016	Total
SDGE	19,460	38,452	42,930	100,842
ORA	21,017	29,000	29,000	79,017
Difference	**1,557**	**(9,452)**	**(13,930)**	**(21,825)**

A. ORA

ORA recommends a 22% reduction from the REL&F Capital forecast, or $22 million less than the $101 million requested for these capital categories for 2014-2016 inclusive. On a per year basis, ORA is recommending $21.017 million in 2014, $29 million in 2015, and $29 million in 2016. As explained below, this was accomplished by adopting the 2014 values, and reforecasting after removing "emergent" projects and any project without "executive approval", to arrive at a starting figure of $28.93 million which ORA rounded to $29.00 million.

According to its testimony, ORA then "allocates its 2015 and 2016 capital expenditures forecasts to the capital categories based on the ratio of the capital expenditure of each category to total capital expenditures in SDG&E's 2015 and 2016 forecasts. ORA used SDG&E's 2016 forecast of $42.930 million as the starting point to re-forecast the 2015 and 2016 capital expenditures."[4] This simply means that ORA used the fraction that an individual budget represented of the total that SDG&E had requested (for example the Environmental/Safety

[4] ORA-14 at pg. 36 beginning at line 26.

Blanket at $8.848 million represents 20.61% of the total capital requested by SDG&E of $42.930), and applied that to ORA's 'starting point' of $29.0 million. From this example, then, ORA's recommended value of $5.977 is derived.

SDG&E disagrees with this methodology as ORA allocates its 2015 and 2016 capital expenditures based on arithmetic percentages, and not based upon the merits of the individual projects. ORA's 2015 and 2016 capital expenditures starting point' forecast of $29 million is also based on removing $10 million of proposed capital expenditures that SDG&E terms as "emergent and as-yet unspecific projects," and $4 million of capital projects that have not received Executive Management approval, including the Rancho Bernardo Data Center (RBDC) Server Room Expansion project. Such reductions are unreasonable because they would significantly reduce funding available to comply with the Municipal Separate Storm Sewer System Permit (MS4) requirements,[5] for which SDG&E requested $6.348 million within its 2016 capital request of $42.930 million.[6] SDG&E has provided a reasonable methodology to base its estimates and the supporting documentation as to how MS4 costs are calculated.[7] SDG&E's capital expenditure estimates for MS4 provide for a capital project that supports the intent of the MS4 permit to reduce discharge of pollutants in storm water, as specific requirements are being defined by local jurisdictions. In addition, SDG&E's proposal to include these MS4 costs into the two-way balancing account, New Environmental Regulatory Balancing Account (NERBA), would result in returns of any overestimation of funds to ratepayers. Please see the testimony of Scott Pearson (SDG&E-18) and related rebuttal for a description and justification of SDG&E's compliance to MS4.

Moreover, regarding emergent projects, SDG&E used the most accurate data available when developing its capital forecasts. Due the inherent timing of the regulatory process, including the fact that capital requests are presented years in advance of the actual project start dates, GRC forecasting for capital projects is difficult. Accordingly, it is unrealistic to conclude that SDG&E would have complete data for projects that are just emerging or are in the early

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[5] Please see the testimony of Mr. Scott Pearson, Ex. SDG&E-18 at page RSP-9 where the revised requirements of the San Diego Regional Water Quality Control Board (RWQCB) MS4 Permit are described at length, in order "to reduce the discharge of pollutants in storm water to the "Maximum Extent Practicable" through requirements for construction activities and for areas of existing development (e.g., commercial 10 and industrial facilities)."

[6] Ex. ORA-14, p. 38 at line 11.

[7] SDG&E-17-CWP, p. 29; FEA-DR-02 Q30 Attachment 1 & 2.

stages of development. For example, SDG&E is contemplating a master planning process for its Kearny facility (a major operations and maintenance center in the urban San Diego area) where some pre-existing and old small "peaker" gas turbine power plants are located. The peaker units were scheduled to be de-commissioned and approximately 5 acres of land returned to SDG&E for its use. Due to generation resource constraints in the area, the planning process to redevelop cannot begin until the existing peaker units are allowed to be retired and decommissioned. Draft plans to redevelop the property for utility use have been developed, but complete information about the project cannot be provided at this time and it remains a project that is classified as emergent.

Regarding executive approval specifically, there are approximately $8.2 million in 2015 and $8.530 million in 2016 in proposed capital expenditures for capital projects that have not yet been approved by Executive Management. ORA recommends a disallowance of 50 percent for the proposed capital expenditures for capital projects that have not yet received final approval. Such an arbitrary reduction is inappropriate because executive management approval cannot be obtained until more details are known, typically 1-2 years in advance or less, when authorizations for expenditure and to proceed with construction are routinely obtained. ORA does not provide a rationale for the selection of 50%, and does not evaluate the merits of the capital projects themselves. The amount of each request for capital projects that have yet to receive management approval is necessarily based upon knowledge of the upcoming business requirements, typical levels of construction activity, historical costs, and general direction from executive management to deliver cost effective projects that are in the best interests of ratepayers. SDG&E uses this information to objectively evaluate projects, and given the maturing state of facilities and changing regulations for energy, water consumption and the like, believes its requests to fund projects that have yet to receive executive management approval (because they are in the early stages) are reasonable.

Regarding the RB Data Center, SDG&E disagrees that the costs associated for upgrades should be disallowed because, according to ORA, they were intended to benefit an unregulated affiliate.[8] This argument is without merit. SDG&E's Affiliate Transaction[9] rules clearly establish transaction accounting by which an unregulated affiliate may occupy space and must reimburse the ratepayers for any incremental costs associated with that occupancy. Thus, the occupancy is without cost or subsidy impact to ratepayers. In any event, as circumstances have developed since the filing of this GRC, that affiliate is no longer scheduled to occupy the data center space. Therefore, ORA's challenge is now moot.

B. FEA

SDG&E proposed that $6.348 million of its capital request be directed toward compliance with Municipal Separate Storm Sewer System Permit (MS4) requirements.[10] FEA agrees with ORA's proposed reductions to SDG&E's capital expenditures to meet those requirements. For the same reasons that SDG&E disagrees with ORA's proposed capital reductions, SDG&E also disagrees with FEA's proposed reduction of costs for MS4 compliance. As noted above, please see the testimony of Scott Pearson (SDG&E-18) and related rebuttal for response to FEA's recommended reduction of MS4 permit costs.

V. CONCLUSION

For the reasons discussed in this rebuttal, SDG&E recommends the Commission disregard ORA's and FEA's recommendations where those differ from SDG&E, and adopt SDG&E's forecasts for Rents and Operating Expenses, and capital expenses in Real Estate, Land and Facilities.

This concludes my prepared rebuttal testimony.

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[8] Ex. ORA-14, p. 40 Line 18.

[9] D.06-12-029, OPINION ADOPTING REVISIONS TO (1) THE AFFILIATE TRANSACTION RULES AND (2) GENERAL ORDER 77-L, AS APPLICABLE TO CALIFORNIA'S MAJOR ENERGY UTILITIES AND THEIR HOLDING COMPANIES. See http://www.cpuc.ca.gov/PUC/energy/Retail+Electric+Markets+and+Finance/Electric+Markets/affiliate.htm

[10] DIRECT TESTIMONY AND EXHIBIT OF RALPH C. SMITH, CPA ON BEHALF OF THE DEPARTMENT OF DEFENSE AND ALL OTHER FEDERAL EXECUTIVE AGENCIES, May 15, 2015, at p. 22, lines 11.