Application: A.12-04-___

Exhibit No.: _____

Witness: Don Widjaja___

PREPARED DIRECT TESTIMONY OF
DON WIDJAJA
ON BEHALF OF SAN DIEGO GAS & ELECTRIC COMPANY

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

APRIL 20, 2012

TABLE OF CONTENTS

I. PURPOSE 1

II. OVERVIEW OF RISK PROFILE ANALYSIS 1

A. Business Risk 2

1. Elevated Level of Capital Investment 3

2. Unprecedented Changes in the Energy Industry 5

3. Increase in Utility-owned Electric Generation 11

4. Litigation Risk and Insufficient and/or Potential Loss of Insurance Coverage 13

B. Regulatory Risks 15

1. Authorized ROE 15

2. Cost Recovery 17

3. Regulatory Lag 19

C. Financial Risk 20

III. COMPARISON TO OTHER CALIFORNIA INVESTOR-OWNED UTILITIES 21

IV. SUMMARY AND CONCLUSION 22

V. STATEMENT OF QUALIFICATIONS 24

Attachment A - Proxy Group Comparison of Free Cash Flow to Total Book Capitalization For Year End 2010

Attachment B - RPS Goals by State

Attachment C - Proxy Group Comparison of Total Civil Cases

Attachment D - Revenue Requirements Recovered Through Balancing & Memorandum Accounts

Attachment E - Revenue Decoupling by State

PREPARED REBUTTAL TESTIMONY OF
DON WIDJAJA
ON BEHALF OF SAN DIEGO GAS & ELECTRIC COMPANY

I. PURPOSE

The purpose of my testimony is to provide an analysis of the investment risk faced by San Diego Gas & Electric Company ("SDG&E") that should be considered in determining SDG&E's authorized overall rate of return ("ROR"), including the proper risk-adjusted return on equity ("ROE"). SDG&E's proposed ROE is discussed in the testimony of SDG&E witnesses Robert Schlax and Dr. Roger Morin. In addition, I assess business risks across two proxy groups of utility companies based on available data in order to define SDG&E's risk profile as compared to these proxy groups.[1] Finally, I provide a comparison of SDG&E's risk profile to the other California investor-owned utilities ("IOUs").[2]

II. OVERVIEW OF RISK PROFILE ANALYSIS

It is necessary to assess a company's risk profile because the cost of capital ("COC") is a function of risk. Capital markets determine the price of investor capital (*i.e.*, the required return on stocks and bonds) based on the riskiness of a borrower in relation to other potential borrowers. Investors have many investment choices, including stocks, bonds, money funds, treasury securities and real estate. In order for SDG&E to attract the necessary funds to support an elevated number of capital projects, it must offer potential investors the prospect of earning a return on their investment that is at least equal to the potential returns offered by other investments of comparable risk. It is therefore imperative that the Commission provide

---

[1] The first proxy group consists of combination electric and gas utilities. The second proxy group consists of electric utilities that make up Value Line's Western Electric Utility group. Both proxy groups include Sempra Energy, the parent company of SDG&E. *See* Direct Testimony of Dr. Roger A. Morin for a detailed discussion regarding the selection of the proxy groups.

[2] The California IOUs include SoCalGas, Southern California Gas Company ("SoCalGas"), Pacific Gas and Electric Company ("PG&E"), and Southern California Edison Company ("SCE").

SDG&E's investors a return that is competitive with the return for investments of comparable risk. When the Commission approves an authorized ROE that is competitive, SDG&E's financial integrity remains intact and its ability to raise capital at a reasonable cost is preserved, which in turn reduces ratepayer costs in the long run.

A company's risk profile is mainly a qualitative assessment of the environment the company is affected by and operates in. Investors view a regulated utility's risk profile in three distinct categories: (1) business risk, (2) regulatory risk, and (3) financial risk.[3] As such, I will discuss these categories of risk as they relate to SDG&E and compare them to the proxy groups. The assessment indicates that SDG&E is perceived to be generally in the upper range of riskiness of the proxy groups by an investor.

A. Business Risk

The Commission has defined business risk as "pertain[ing] to uncertainties resulting from competition and the economy. That is, a utility that has the most variability in operating results has the most business risk."[4] Thus business risk is the exposure of investors' anticipated returns to the uncertainties of a company's day-to-day business activities. A company's business risk profile is essentially a qualitative assessment of the economic and business environment in which the company operates. DBRS, a North American credit rating agency explains that "[d]iffering business risk profiles impact the assessment of a company's financial risk profile, and thus, it is important to understand the extraneous influences and business factors a company is or could be affected by despite its financial strength."[5] Accordingly, business risk is an important factor in determining a fair ROR because the greater the level of business risk, the greater the ROE required by investors.

---

[3] James M. Coyne and John Trogonoski, *Autopilot Error; Why Similar U.S and Canadian Risk Profiles Yield Varied Rate-Making Results*, Pub. Util. Fortnightly, May 2010, at p. 1.

[4] D.07-12-049, *mimeo*, p. 29.

[5] "Methodology Rating North American Energy Utilities (Electric, Natural Gas, and Pipelines)", June 2010, at p. 2.

State policy initiatives and changing customer behaviors are affecting the energy industry in California and changing the way in which SDG&E provides reliable and safe energy services to its customers. This changing operating environment presents inherent business risks,including the need for a major capital spending program, uncertainty regarding energy supplies and transmission and distribution system operations, and implementation and ongoing management of new technologies. Collectively, these initiatives amplify the importance of regulatory consistency and maintenance of a strong financial balance sheet to preserve the creditworthiness of SDG&E.

SDG&E faces a number of significant business risks associated with the provision of gas and electric service in the current period and continuing past the 2013 Test Year, including:

1. Elevated level of capital investment;
2. Unprecedented changes in the energy industry;
3. Increase in utility-owned electric generation; and
4. Litigation risk and insufficient and/or potential loss of insurance coverage.

As I discuss in more detail below, these business risks have a unique impact on SDG&E in relation to similar utility service providers.

1. Elevated Level of Capital Investment

To provide safe and reliable service to its customers, SDG&E must undertake investments to maintain and upgrade its existing facilities. Over the next five years, SDG&E plans to invest approximately $5.8 billion in capital projects. Because SDG&E has accessed the capital markets in recent years in order to make prior substantial investments in capital projects – having invested $5.5 billion in capital projects during the 2007-2011 period – the need to access incremental capital beyond the current high levels will be even more challenging. SDG&E must continue to compete for new capital funding, not only with other utilities but also with the growing investments in global markets.

The current global financial crisis and increased regulation in the financial markets have resulted in fewer institutions being available to service the capital markets. In addition, there is a marked reduction in the amount of capital available in the financial markets caused by investors having become more risk-adverse. In the current environment, investors are highly selective and require higher risk premiums to compensate for the increased volatility in the financial markets.

In comparison to the proxy group, SDG&E has a comparatively high level of capital investment risk. To reasonably compare SDG&E's level of capital investments to the proxy group, I examined the ratio of free cash flow to book capitalization for each company. As shown in Attachment A, it is clear from an analysis of this data that SDG&E's relative level of capital investment is significantly above the average. In 2010, SDG&E had negative free cash flow of ($620) million (or 10.14% of its total book capitalization) compared to the proxy group's ($74.9) million (or 0.94% of its total book capitalization).[6] SDG&E's negative free cash flow trend is expected to continue into the future as the Company continues its planned $5.8 billion capital investment program.

From an investor's perspective, an elevated level of investment increases the risk of under-recovery, or delayed recovery of the invested capital. Credit rating agencies and investors consistently analyze and focus on the effect that elevated capital investments may have on cash flows and the corresponding pressure on credit metrics. Moody's Investors Service ("Moody's"), for example, recognized the risks associated with SDG&E's capital investment plan in its June 30, 2011, rating of the company. In its report, Moody's noted that SDG&E's credit metrics are expected to weaken due to the size of SDG&E's capital expenditure program.[7] Equity investors are similarly aware of the pressure on cash flows associated with a utility's

[6] Free cash flow is defined as cash flow from or used by operations and investment.
[7] Moody's Investors Service, Global Credit Research, Credit Opinion: San Diego Gas & Electric, June 30, 2011, at p.2.

elevated capital investments and the resultant effect on the cost of capital. Wachovia Capital Markets observes:

> The harsh reality is that the recession (or depression?) and concurrent bank turmoil is all happening in the midst of a major long-term building cycle for the industry, which in and of itself poses substantial financing and regulatory risks . . . The debt markets remain open, but there is a great deal of concern about maintaining credit quality as a move down the credit curve can result in substantial costs given large spread differentials.[8]

As such, Commission support for SDG&E's financial integrity and flexibility will be critical in order to attract the capital needed to fund these projects on reasonable terms and costs to ratepayers. To ensure that SDG&E has ready access to capital funding at a reasonable cost, SDG&E requires an adequate ROE.

2. Unprecedented Changes in the Energy Industry

SDG&E is facing major changes in the way that it provides reliable and safe energy services to its customers. While California has a tradition of public policy initiatives that embrace new technologies, the number of new technologies and programs being simultaneously implemented in the current period is without historical precedent. Below, I discuss a number of relatively new programs or technologies being implemented by SDG&E, and explain the business risk inherent in managing all of these major changes concurrently.

a) Aggressive RPS Program Requirements

Senate Bill ("SB") 2 (1x) ("SB 2")[9] was signed by the Governor in April, 2011, and became effective in December, 2011. SB 2 makes numerous modifications to the RPS Program, including replacing the prior requirement that retail sellers serve 20% of retail load with renewable energy by the end of 2010 with a requirement to serve 20% of retail load with

[8] Wachovia Capital Markets, LLC, Equity Research, *Takeaways from Platts Conference*, April 9, 2009, at p. 3.
[9] SB 2 (1X) (Stats. 2011, Ch. 1).

renewable energy by 2013, 25% by 2016 and 33% by 2020.[10] SB 2 also eliminates certain flexible compliance mechanisms available under the prior framework, such as deficit carry-forward provisions. The Commission has initiated a rulemaking to address implementation of the 33% RPS Program.[11] However, as California enters the second year of the first multi-year compliance period (2011-2014) established under SB 2, retail sellers remain uncertain as to how the Commission will interpret key provisions of SB 2 relating to compliance.

Failure to comply with RPS program requirements could subject SDG&E to a Commission-imposed penalty of 5 cents per kilowatt hour of renewable energy under-delivery (with maximum penalties of up to $25 million per year). While other states have similar renewable energy procurement mandates, those mandates are usually more modest, or are imposed in states that do not have populations on a comparable scale. The California IOUs are faced with supplying a significantly larger quantity of renewable energy from a limited number of in-state renewable energy resources, with limited ability to procure from out-of-state resources. A comparison of the three states with the highest RPS procurement requirements illustrates the unique challenge faced by the California IOUs. California has, far and away, the highest requirement, with 83.3 million MWh of renewable energy required annually, followed by New York and Ohio as distant second and third, with requirements of 34.4 million MWh and 32 million MWh respectively. Please refer to Attachment B for a state-by-state comparison of RPS compliance requirements.

California's comparatively ambitious RPS goals fuel the perception that the California IOUs are exposed to greater risk than utilities located in other states. This investor perception is solidified with headline news such as the Solyndra bankruptcy or delay in renewable projects due

[10] Public Utilities Code § 399.15(b).
[11] Rulemaking 11-05-005.

to environmental concerns.[12] Since the electric IOUs rely primarily on PPAs with third-party developers to meet RPS procurement requirements, delays in renewable projects coming online can have a detrimental financial impact on the California IOUs due to California's penalty structure for non-compliance with RPS mandates and yet. In the event a renewable project fails, sourcing replacement in-state renewable projects that are highly viable in a timely manner can be extremely difficult.

Some of the general challenges that the renewable energy industry faces that could ultimately impact the California IOUs include:

- Expiration of the Production Tax Credit ("PTC") in 2012 for wind projects;
- Difficulty experienced by renewable energy project developer in obtaining project financing and completing the permitting process;[13]
- Transmission and interconnection challenges;
- Successful development and implementation of renewable energy technologies;[14] and
- Timely regulatory approval of contracted renewable energy projects.

Government subsidies and loan guarantee programs play a critical role in encouraging investments in the renewable market segment given the high-risk nature of the industry. The expiration of the PTC in 2012 may further reduce investors' interest in renewable energy

---

[12] Calico Solar Project in the Pisgah Valley of the Mojave Desert was sued by the National Resources Defense Council claiming that the project would harm endangered species. (http://www.bloomberg.com/news/2012-04-02/environment-group-sues-u-s-over-mojave-solar-project.html).
Genesis Solar Energy Project located near Blythe, CA could be delayed or even cancelled following a deadly outbreak of distemper among kit foxes and the discovery of a prehistoric human settlement on the work site. (http://www.mercurynews.com/news/ci_19944266)

[13] For example, First Solar's Antelope Valley solar installation was in jeopardy of losing its US $646 million US DOE loan guarantee due to permitting issues (http://www.pv-tech.org/news/report_us_doe_to_release_loan_guarantee_for_first_solars_antelope_valley_pr)

[14] Solar Trust of America was initially planning to use solar troughs technology for its solar power project in the Mojave Desert and decided to switch to photovoltaic panels. Solar Trust filed for bankruptcy in April 2012. (http://www.forbes.com/sites/toddwoody/2012/04/03/collapse-of-german-solar-companies-threaten-californias-big-solar-projects/)

projects.[15] According to the American Wind Energy Association, the last time the PTC was allowed to expire at the end of 2003, U.S. annual wind installation in 2004 declined by 76% from the previous year.[16]

In addition, the high profile bankruptcy of Solyndra and several other recipients[17] of the U.S. Department of Energy ("DOE") loan guarantee program have put the DOE on the defensive, resulting in higher scrutiny of the loan program by legislators, which could lead to reduced funding for renewable projects. SDG&E's compliance with RPS program mandates is dependent on renewable energy developers' ability to bring plants online in a timely manner. Circumstances that hinder renewable energy development result in a greater level of business risk for SDG&E.

b) New Technology and Cyber Security Risk

SDG&E earned the title "The Nation's Most Intelligent Utility" for the third year in a row in 2011, in recognition of SDG&E's leadership role in the revolutionary deployment of the Smart Grid program.[18] Smart Meters are only one component of the Smart Grid infrastructure. With an increasing number of cyber assets dispersed over a broader geographic area, controlling more parts of the grid and communicating more data than ever before, the threat of a cyber security breach increases. Deployment of these new business technologies represents a new and large-scale opportunity for attacks on the information systems and integrity of the energy grid, which could have a material adverse effect on the business, financial conditions, and operations of the company.

---

[15] http://www.sfgate.com/cgi-bin/article.cgi?f=/c/a/2012/03/05/BUIO1NFA7G.DTL

[16] http://www.businessweek.com/news/2012-01-17/u-s-government-arranged-most-loans-for-clean-energy-in-2011.html

[17] Other recipients of the DOE loan guarantee program that filed for bankruptcy include Abound Solar, Ener1 and Beacon Power.

[18] UtilitiQ ranking by IDC Energy Insights and *Intelligent Utility* Magazine, March / April 2012 publication (http://www.intelligentutility.com/magazine/article/261485/san-diego-gas-electric).

The North American Electric Reliability Corporation ("NERC") and the DOE have noted that "on the high-impact end of the scale are highly-coordinated, well-planned attacks against multiple assets designed to disable the system."[19] According to the Center for Strategic & International Studies in Washington, D.C., "if there was a cyber attack, the electrical grid would be target number one" for terrorists.[20] As SDG&E evolves from a "traditional" electric and gas utility into a utility of the future through deployment of new Smart Grid technologies, investors' view on SDG&E business risk profile will also change – a modern utility with significant technology risk – and an appropriate ROE will be required to compensate for the increased risk.

c) Distributed Generation and Plug-in Electric Vehicle

The high adoption rate of rooftop solar[21] and plug-in electric vehicles ("PEVs")[22] in SDG&E's service territory means that SDG&E faces increased risk related to its operation of the electric distribution system as the grid experiences two-way energy flow from distributed generation and an unpredictable, growing, mobile load imposed by electric vehicle charging. Because its customers are early adopters of these newer technologies, SDG&E does not have the luxury to wait and learn from other utilities how to deal with the sea change resulting from wide-scale implementation of these technologies. This contributes to a perception of a higher risk profile for SDG&E.

---

[19] NERC-DOE High-Impact, Low-Frequency Event Risks to the North American Bulk Power System, June 2010, p.26. (http://www.nerc.com/files/HILF.pdf)

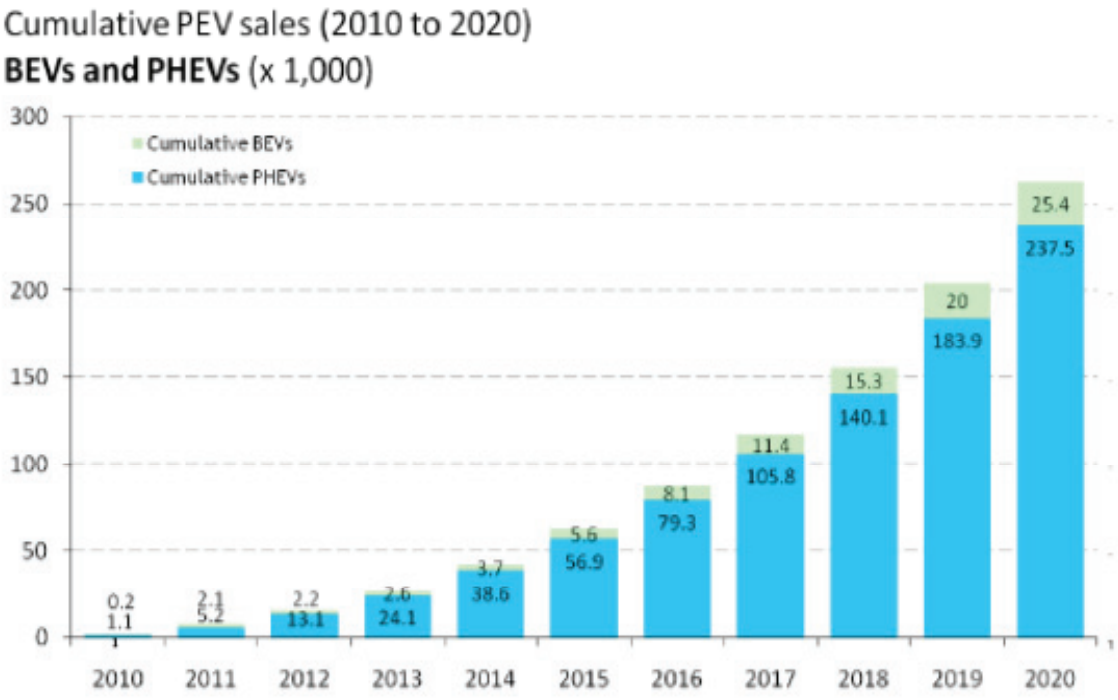
[20] http://www.bloomberg.com/news/2012-02-01/cyber-attack-on-u-s-power-grid-seen-leaving-millions-in-dark-for-months.html

[21] In a January, 2012 report by the Environment California Research & Policy Center, the city of San Diego was named "America's solar city" for having the most solar rooftop installations and solar capacity installed in the United States. As of August 2011, there were 4,507 solar rooftop installations for a total solar rooftop capacity of 37 MW in the city of San Diego, beating out larger cities such as Los Angeles and San Jose. C*alifornia's Solar Cities 2012: Leaders in the Race Toward a Clean Energy Future***,** January 24, 2012, http://www.environmentcalifornia.org/sites/environment/files/reports/California%27s%20Solar%20Cities%202012%20-%20Final.pdf

[22] The California Air Resources Board ("CARB") reported that in 2010-2011, 20% of the state's Clean Vehicle Rebate was issued in San Diego County. *Clean Vehicle Rebate Project: Fiscal Year 2009-2011 Final Report*, October 18, 2011, p. 7. http://www.arb.ca.gov/msprog/aqip/cvrp/CVRP_FinalReport_FY09-11.pdf. This is a significant number, especially when compared to San Diego's electric load, which makes up approximately 10% of the entire state electric load.

The shift to electric vehicles within SDG&E's service territory is real, as evidenced by SDG&E being selected to host a number of public and private programs promoting PEVs.[23] As shown in Figure 1 below, SDG&E forecasts the PEV population growing significantly over the period covered by this cost of capital application – from 7,300 in 2011 to 26,700 in test year 2013 and 62,500 in 2015 (the last proposed year of this cost of capital cycle).

Figure 1
Assessment of SDG&E Electric Vehicle Market Population



PEV is further categorized as Battery Electric Vehicles (BEVs) such as the Nissan Leaf, and Plug-in Hybrids Electric Vehicles (PHEVs) such as the Chevy Volt

The demand from PEVs on SDG&E's electric system could be enormous. Electric vehicles such as the Nissan Leaf draw 3.3 kilowatts of demand, but future releases (the 2012 or

[23] Including Daimler's Car2Go PEV car sharing pilot, the ECOTality network of approximately 1,500 public charging units, and more than 1,000 free, home-charging units going to Nissan Leaf and Chevrolet Volt buyers who qualified for a federally-funded study on consumer charging behavior.

2013 model year) could increase to 6.6 kilowatts,[24] exceeding the 5 to 5.5 kilowatts of demand of a typical San Diego home with central air conditioning. Areas with high concentration of PEVs pose significant risk to local distribution system reliability as transformers can become overloaded, leading to outages. In addition to the impact on reliability, the unexpected and potentially higher operations & maintenance ("O&M") costs related to transformer replacement introduces variability to SDG&E's earnings.

d) Systemic Risk

SDG&E faces significant challenges as it seeks to implement the aggressive 33% RPS mandate and deploy new technology in the Smart Grid program, while facing the prospect of increasing distributed generation and a growing PEV market, with the associated uncertainty of customer PEV charging behavior. When each factor is analyzed in isolation, it becomes clear that every factor poses a different type of risk to SDG&E. Because SDG&E must manage these major changes simultaneously, the risks are greatly amplified due to the interconnection and interdependency of the various factors, creating a systemic risk that is new, complex and difficult to track. As a seasoned risk manager, it is my professional judgment that complex systemic risk is more likely to produce unforeseen or unpredictable outcomes, and is likely to impact SDG&E's earnings. Therefore, reasonable investors would require an appropriate ROE to compensate for the increased risk profile caused by embedded systemic risk in SDG&E's business.

3. Increase in Utility-owned Electric Generation

As a result of California's energy deregulation, SDG&E was ordered to divest most of its generation assets and in 1999, substantially exited the electric generation business with the sale of the Encina and South Bay power plants. Following subsequent reforms, SDG&E reentered

[24] AutoTrader.com, "Nissan Updates Leaf for 2012, 2013", http://www.autotrader.com/research/article/car-news/110309/nissan-updates-leaf-for-2012-2013.jsp

the generation business in 2005, purchasing the 47 MW Miramar I Energy Peaking Facility and the 565 MW combined cycle power plant at the Palomar Energy Center. It is a fact that electric generation is a more volatile business than one limited to electric transmission and distribution ("T&D") services. The generation business brings with it substantially different risks than those that focuses on only T&D. These include: risk associated with operating modern and complex technology, the uncertainty of how the Commission will ensure full recovery of capital and operating costs, and the discrete and substantial risk related to generation investments of this size. For example, one minor event can cause expensive repairs and substantial downtime, and the associated replacement power costs.

Since 2008, SDG&E has added an additional 574 MW of capacity to its gas fired plant portfolio with the addition of the Miramar II, Desert Star and Cuyamaca generating facilities.

Table 1
SDG&E Gas Fired Plant Portfolio

Plant Name	Category**	Technology	Fuel	Location	UOG since	Capacity (MW)
Miramar I	UOG	Peaker	Gas	San Diego, CA	7/1/2005	47
Palomar Energy Center	UOG	Combined Cycle	Gas	Escondido, CA	4/1/2006	565
Miramar II	UOG	Peaker	Gas	San Diego, CA	8/1/2009	47
Desert Star (previously Sempra - El Dorado)	UOG	Combined Cycle	Gas	Boulder City, NV	10/1/2011	475
Cuyamaca (previously Cal Peak-El Cajon)	UOG	Peaker	Gas	El Cajon, CA	1/1/2012	52

** UOG : Utility Owned Generation

Time Period	Total Capacity (MW)
Prior to 2008	612
Since 2008	574

% Increase in UOG Capacity since 2008: 94%

SDG&E has essentially doubled its gas-fired plant capacity since 2008, which has undoubtedly increased investors' perception of SDG&E's business risk.

4. Litigation Risk and Insufficient and/or Potential Loss of Insurance Coverage

With the third highest number of civil cases in the United States, California is one of the most litigious regions in the country.[25] Among its proxy group, SDG&E ranks third (tied with PG&E and SCE) based on California's total number of state-wide civil cases for the 2008 – 2009 periods.[26] Higher litigation risks can result in increased legal and defense costs for SDG&E. The business risk posed by California's generally high rate of litigation is greatly exacerbated by California's interpretation of the "inverse condemnation" doctrine and its application to investor-owned utilities.

California courts have held that an investor-owned utility may be held strictly liable under the "inverse condemnation" doctrine for damage to private property when the source is a utility facility.[27] Under this doctrine, even if a utility is in full compliance with relevant safety regulations and/or there is no proof of negligence, if utility equipment or facilities start a fire, for example, the utility may be held liable for resulting damages, even where the damage results from third party negligence or actions. In addition, successful inverse condemnation plaintiffs are entitled to attorneys' fees and pre-judgment interest, which not only add to the total litigation cost, but also encourage plaintiffs to sue under this theory.

As a regulated utility required to provide electric and natural gas distribution services to all customers residing in its service territory, SDG&E faces inherent operational risk. Insurance carriers' negative perception of California's inverse condemnation doctrine, particularly in

---

[25] Based on data (through 2009) compiled by the Court Statistics Project: http://www.courtstatistics.org/. The Court Statistics Project is a component of the Bureau of Justice Statistics, the statistical arm of the Office of Justice Programs in the U.S. Department of Justice. *See* http://bjs.ojp.usdoj.gov/index.cfm?ty=dcdetail&iid=283.

[26] Please refer to Attachment C.

[27] *See Barham v. Southern California Edison Co.*, 74 Cal. App. 4th 744, 752 (1999) ("The fundamental policy underlying the concept of inverse condemnation is to spread among the benefiting community any burden disproportionately borne by a member of that community, to establish a public undertaking for the benefit of all.")

connection with the recent history of large wildfire claims against California utilities, have contributed to a reduction in available liability insurance and a significant increase in price over the past few years. The current difficulty in obtaining adequate liability insurance coverage creates reasonable investor concern regarding under-insurance or, potentially, an inability by SDG&E to obtain third party liability insurance at all.

While SDG&E has sought, in accordance with Commission policy, to secure all of the liability insurance coverage reasonably available in the global insurance markets,[28] it is potentially underinsured compared to the risk it undertakes in order to provide utility service to all of its customers. For example, SDG&E had over $1 billion in liability insurance coverage before the 2007 wildfires, but is facing claims of over $2 billion related to the wildfires. Thus, the approximately $1 billion in wildfire liability coverage and $822.5 million in general (non-wildfire) liability coverage SDG&E has in place today could be inadequate to cover another large wildfire or other major non-wildfire incident.[29] Moreover, the fact that insurance is available now is no guarantee that insurance will be continue to be available in the future. As SDG&E's post-wildfire insurance procurement has demonstrated, the insurance market is unstable and insurance availability can change quickly. The risk that SDG&E is potentially one wildfire or other major incident away from being uninsured is an obvious concern.

In sum, California's generally high rate of litigation, coupled with its unfavorable interpretation of the inverse condemnation doctrine, presents a significant business risk. As Mr. Schlax points out, California is generally viewed as having a "constructive regulatory environment" with a low perceived likelihood of credit-adverse behavior.[30] While this provides a degree of comfort to the investment community that the Commission will continue to act in a

---

[28] *See* SDG&E Advice Letter 2285-E filed September 9, 2011; *see also* D.10-12-053, *mimeo*, p. 32 ("In an effort to establish sound public policy, we agree that SDG&E's decision to obtain all the liability insurance that was reasonably available in the world insurance market was a prudent risk mitigation strategy.")

[29] *See id.* at pp. 3-4.

[30] Prepared Direct Testimony of Robert M. Schlax, Section IV.D.

manner that supports recovery of reasonable costs,[31] the possibility of uninsured liability in the event of a significant wildfire event or other major incident is, nevertheless, a serious cause for reasonable investor concern.

B. Regulatory Risks

Regulatory risk refers to new risks that investors may face from future regulatory actions.[32] In their analysis of utility debt and assessment of utility creditworthiness, credit rating agencies and investors place considerable emphasis on the regulatory environment in which companies operate. S&P, for example, notes that:

> The utility business is unique, in that in no other industry (with the possible exception of government finance) do legislative and regulatory pronouncements so significantly inform rating agency opinions. Indeed, Standard & Poor's views the regulatory and political environment in which a utility operates as one of the most significant factors in assessing the creditworthiness of regulated utilities.[33]

The regulatory risk analysis typically focuses on three areas: (i) authorized ROE; (ii) cost recovery; and (iii) regulatory lag. Each of these three factors is addressed below.

1. Authorized ROE

A key determinant of a supportive regulatory climate is an authorized ROE that provides adequate compensation for the risk that investors must assume.[34] Hence, the regulatory risk faced by SDG&E is primarily a function of the Commission's propensity to authorize an ROE that provides adequate compensation for investor risk. When the Commission approves an authorized ROE that is competitive, SDG&E's financial integrity remains intact and its ability to

---

[31] SDG&E notes that it has requested a defined mechanism for recovery of uninsured wildfire-related liability in Application 09-08-020. The mechanism, as proposed, would not cover uninsured liability for non-wildfire events.

[32] D.07-12-049, *mimeo*, p. 31.

[33] Standard & Poor's Ratings Direct *Influence Of Regulatory And Policy Decisions On Utility Credit Quality Deepens, Demanding Timely Assessments From Standard & Poor's*, May 15, 2007, at p.1.

[34] S&P's evaluation of regulation focuses on the ability of regulation to provide utilities with the opportunity to generate cash flow and earnings quality and stability adequate to meet investment needs, service debt and maintain a satisfactory rating profile, and generate a competitive rate of return to investors. *See* Standard & Poor's RatingsDirect, *Key Credit Factors: Business and Financial Risks in the Investor-Owned Utilities Industry*, November 28, 2008, at p.5.

raise capital at reasonable costs is preserved, which in turn could reduce costs to the ratepayers in the long run. The Commission has expressly acknowledged the importance of ROE stability observing that "our consistent practice has been to moderate changes in ROE relative to changes in interest rates in order to increase the stability of ROE over time."[35]

The Edison Electric Institute ("EEI") noted in February, 2009 that history suggests that the current heightened risk levels in the financial markets will bring even greater scrutiny from the credit rating agencies with regard to regulatory supportiveness, to ensure that utilities' financial strength is maintained.[36] Therefore, it is imperative for the Commission to approve SDG&E's recommended ROE, discussed in the testimony of SDG&E witness, Mr. Schlax. Lower authorized ROEs can impair utilities' credit profile and increase the cost of capital. Fitch explains:

> Lower authorized ROEs constrain profitability and limit financing flexibility, making the utilities more reliant on external financing sources and vulnerable to higher interest rates. Weak internal cash generation, higher interests costs, and weaker interest coverage measures can lead to lower credit ratings and poor market performance for utility debt.[37]

Investors pay close attention to a utility's regulatory environment when assessing investment opportunities. For instance, in an article regarding analysts' reaction to the January 2008 recommended decision by a New York administrative law judge to reduce Consolidated Edison's ROE to 9.10 percent, SNL Interactive commented:

> Regulation in New York continues to be troublesome with allowed ROEs well below national levels as a relatively new commission fails to strike a reasonable balance between ratepayer and shareholder interests . . . Returns on equity nationally have averaged about 10.5% to 11.5%, but returns in New York have been comparatively weak . . . The new commission appears to lack appreciation for the importance of access to capital (particularly in a deteriorating capital markets environment).[38]

---

[35] D.05-12-043, *mimeo*, Finding of Fact 24.

[36] Julie Cannell, *The Financial Crisis and Its Impact on the Electric Utility Industry*, Edison Electric Institute, Feb. 2009, at p.10.

[37] Fitch Ratings Ltd., "Fitch Evaluated Utility ROE Trends" *U.S. Utilities, Power, and Gas Special Report* (Aug. 17, 2011) at 3

[38] SNL Interactive, *Friday's Energy Stocks: Wall Street Tumbles; Analyst Warns about Con Edison Rate Case*, March 14, 2008. (citing KeyBanc Capital Markets).

Following the New York Public Service Commission's decision in that case, Fitch Ratings downgraded Consolidated Edison, determining that:

> The outcome of yesterday's rate decision by the New York Public Service Commission (NYPSC) will not produce cash flow credit measures consistent with the prior credit ratings . . . The authorized return on equity of 9.1% is below the average for utilities of comparable risk, and in Fitch's view is inconsistent with the heavy investment program and capital raising needs facing the utility.[39]

As noted above, California is generally perceived as having a constructive regulatory environment. However, this positive view of SDG&E's regulatory environment is dependent upon the Commissions adherence to its past practice of authorizing an ROE for SDG&E that is adequate given its risk.

2. Cost Recovery

The Commission has cited "potential disallowance of operating expenses" as a regulatory risk.[40] Moody's, similarly, recognized the risks associated with the ability to recover costs in its June 30, 2011 rating of SDG&E:

> Moody's believes that numerous challenges exist for electric utilities operating in the state. Among these challenges is the number of policy programs being introduced which will result in higher electric rates for all classes of customers. These programs, which result in rate base growth for SDGE and other California utilities, largely depends upon California regulators continuing to remain focused on clean energy expansion and incentivizing energy efficiency gains. However, the cost challenges are exacerbated by the current weak economy throughout the company's service territory, which may at some point impact SDGE and the other California utilities' ability to recover costs and earn an appropriate return on prudent investments.[41]

An example of cost recovery risk can be seen in PG&E's 2011 General Rate Case ("GRC"), where the Commission lowered the allowed cost of capital on meters already funded

---

[39] Fitch Ratings, Fitch *Downgrades Con Ed of NY & Con Ed Inc. to 'A' on Rate Decision; On Watch Negative*, March 20, 2008.

[40] D.07-12-049, *mimeo*, p. 31.

[41] Moody's Investors Service, Global Credit Research, Credit Opinion:San Diego Gas & Electric., June 30, 2011, p.2.

by company investment, but removed from service to make way for the deployment of Smart Meters.[42] The proposal to replace the existing electro-mechanical, or "legacy" meters was made pursuant to a Commission instituted Rulemaking (R.) 02-06-001 to initiate the advanced metering proposals.

SDG&E now faces proposals from interveners in its own pending GRC that are even more punitive. Interveners recommend, for example, disallowance of the recovery of any costs of capital (a zero percent rate of return) on SDG&E's replaced legacy meters, which involved significant capital investment. SDG&E has a Commission-approved settlement agreement dictating the terms of its Smart Meter program that explicitly provides for cost recovery for legacy meters, including the cost of capital.[43] In the event the Commission authorizes these intervener proposals, basically re-litigating past decisions and disrupting company and investor expectations regarding stranded cost recovery, it will have a negative impact on SDG&E's perceived regulatory risk.

SDG&E benefits from cost recovery mechanisms, such as decoupling and balancing accounts. Approximately, 59% of SDG&E's revenues are collected through balancing or memorandum accounts and the remainder of the revenues are still subject to variability.[44] Decoupling and balancing account mechanisms have become the status quo in the utility industry as, across the country, utilities have implemented various forms of revenue decoupling mechanisms.[45]

---

[42] *See* D.11-05-018, *mimeo*, Conclusion of Law 45. The return on equity was lowered from 11.35 percent to 6.55 percent.

[43] See D.07-04-043, pp. 2, 8 and 86 – 87, as well as Appendix A, p. 2. Also see Exhibit 22 of A.05-03-15, Chapter 2, "AMI Business Vision, Policy and Methodology," July 14, 2006 Amendment, Prepared Supplemental, Consolidating, Superseding and Replacement Testimony of Edward Fong, p. EF-26, lines 18-24.

[44] See attachment D. As opposed to the Authorized Base Margin, SDG&E's sales are insulated from throughput variations related to weather and other factors through its Electric and Gas Fixed Cost Account.

[45] The use of such structures has become so widespread that the vast majority of states have adopted some form of non-volumetric rate structure. *See* Attachment E

Accordingly, the fact that SDG&E has mechanisms such as decoupling and balancing accounts in place is in alignment with the utility industry and does not signify a decrease in its financial risks or a corresponding reduction in SDG&E's cost of capital. To date, there is no evidence to suggest that investors reduce their return requirements when decoupling structures are announced or implemented. A Brattle Group concluded, "Our statistical tests do not support the position that the cost of capital is reduced by the adoption of decoupling. If decoupling decreases the cost of capital, these tests strongly suggest that the effect must be minimal because it is not detectable statistically."[46] EEI cautioned that "adjustment mechanisms, like awarded rates, are subject to disallowances, and we caution that the decision to reduce return [on equity] when such mechanisms are employed may prove to be premature."[47]

3. Regulatory Lag

Another desirable regulatory attribute is timely decision-making – both in utility general rate cases as well as in issue-specific proceedings such as the Commission's pipeline safety enhancement plan ("PSEP") proceeding.[48] Fitch explains that regulatory lag is likely to take on added prominence in the present environment, as time (delays, protracted cases) means money (more required).[49] Likewise, S&P notes:

> So in general, a ruling that enhances a utility's ability to recover costs in a timely manner will positively affect its overall credit quality. A decision that impedes timely cost recovery will usually have a negative impact on overall credit quality. As commentators on creditworthiness, we have an obligation to make either situation clear to market participants.[50]

---

[46] Joseph B. Wharton, Michael J. Vilbert, Richard E. Goldberg, and Toby Brown1, *An Empirical Study of Impact of Decoupling on Cost of Capital*, at p.14. This study was also presented at the Summer 2011 National Association of Regulatory Utility Commissioners Conference on July 18, 2011.

[47] Edison Electric Institute Electric Perspectives, *Adjustment Mechanisms Drive Rate Cases*, May/June 2011, at p. 86.

[48] R.11-02-019.

[49] Fitch Ratings, *Fitch Evaluated Utility ROE Trends*, August 17, 2011, at p.11; *see also* Donald Murry, Michael Knapp and Zhen Zhu, *Allowed ROEs During Economic Crisis Often Fail The Equal Return For Equivalent Risk Standard*, International Association for Energy Economics, Second Quarter 2011, at p.28.

[50] Standard & Poor's RatingsDirect, *Influence of Regulatory And Policy Decisions On Utility Credit Quality Deepens, Demanding Timely Assessments From Standard & Poor's*, May 15, 2007, at p.1.

Although SDG&E benefits from regulatory accounts and revenue decoupling, it is nonetheless still adversely impacted by regulatory lag, because recent increases and overlaps of major proceedings have forced the Company to wait to make important business decisions. Regulatory lag would further add to SDG&E regulatory risk profile and the perceived riskiness of the California regulatory market as a whole.

C. Financial Risk

The Commission has explained that "[f]inancial risk is tied to the utility's capital structure," observing further that "[t]]he proportion of its debt to permanent capital determines the level of financial risk that a utility faces. As a utility's debt ratio increases, a higher return on equity may be needed to compensate for that increased risk."[51] Thus, generally speaking, companies that issue more debt instruments have higher financial risk than companies financed mostly or entirely by equity. When assessing the financial risk of a company, credit rating agencies and investors evaluate certain financial ratios, such as a company's capital structure, leverage, and cash flow adequacy.[52]

As discussed in the testimony of SDG&E witness Sandra Hrna, when SDG&E enters into long-term Power Purchase Agreements ("PPAs"), its credit ratio will be negatively impacted due to the credit rating agencies' treatment of PPAs as debt equivalence.[53] SDG&E's debt equivalence for PPAs is expected to increase from $182 million to $1.6 billion during the period covered by this cost of capital application.[54] With such high levels of debt equivalence, SDG&E's financial ratios, as calculated by the rating agencies, will deteriorate and thus, increases SDG&E's financial risk profile. In her testimony, Ms. Hrna also discussed the

---

[51] D.07-12-049, *mimeo*, p. 28.

[52] Standard & Poor's, Key Credit Factors, *Business and Financial Risks in the Investor-Owned Utilities Industry*, Nov. 26, 2008, at p.7.

[53] Debt equivalence is a concept used by credit rating agencies to describe the fixed financial obligations resulting from long term PPAs. Please refer to Appendix B in Sandra Hrna's testimony for further explanation of Debt Equivalence.

[54] Prepared Direct Testimony of Sandra Hrna, Table 4.

implication of Accounting Standard Codification 810 ("ASC 810") consolidation of certain PPAs into SDG&E's balance sheet, which further deteriorates SDG&E's credit ratio.[55]

The Commission has acknowledged that the impact of SDG&E's debt equivalence should be considered along with its other risks in setting a balanced capital structure and arriving at a fair and reasonable ROE.[56] Therefore, it is important for the Commission to adopt the capital structure as proposed by Ms. Hrna, as well as the ROE proposed by Mr. Schlax, in part to mitigate the effect of debt equivalence and ASC 810 consolidation, and preserve SDG&E's financial soundness and investment-grade credit ratings. This will allow SDG&E to continue to attract capital funding at a reasonable cost.

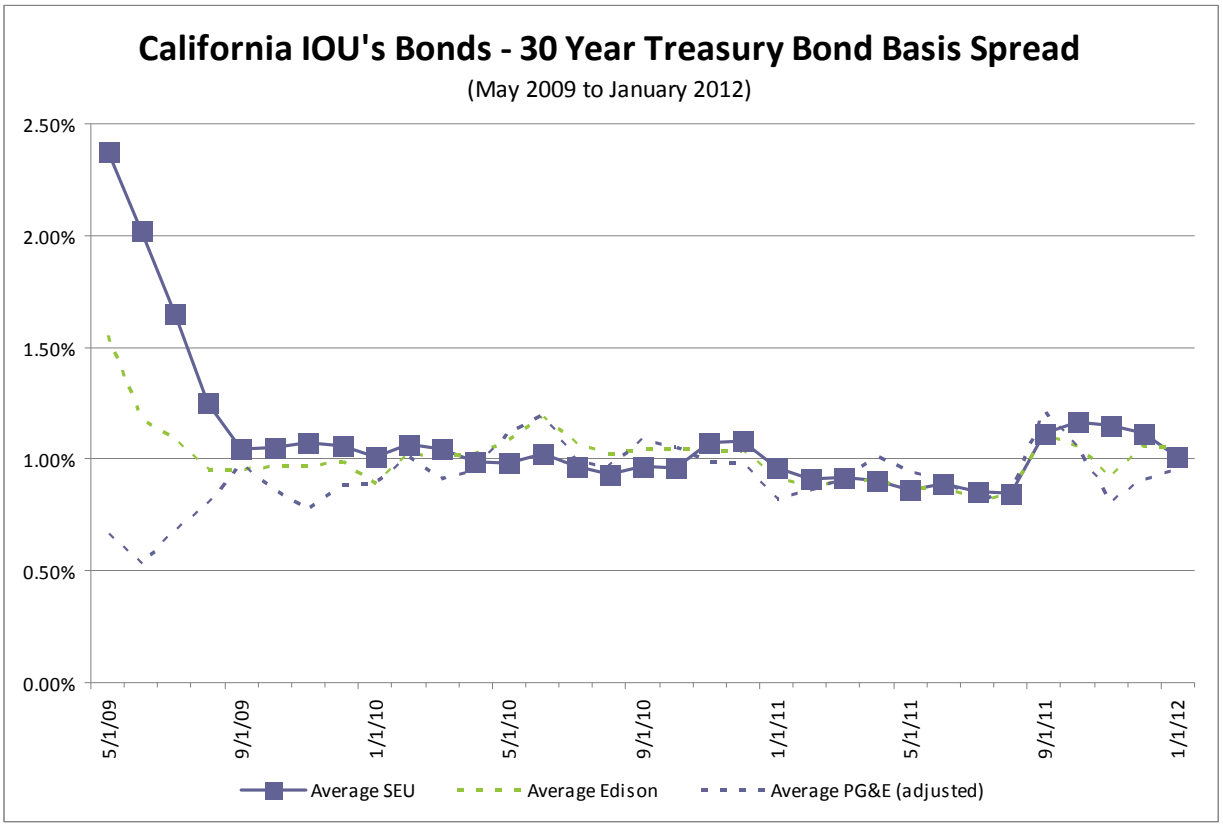
III. COMPARISON TO OTHER CALIFORNIA INVESTOR-OWNED UTILITIES

The market perspective is more pertinent when trying to determine the return on common equity that would be required by equity investors. Based on a comparison of the bond yields of the Sempra Energy utilities' (SoCalGas and SDG&E, together "SEU") versus the bond yields of PG&E and SCE, utility bond market investors, view SEU as having a level of risk very similar to that of the other California IOUs. This is evident based on the very narrow band in which similar long-term bonds for each company trade as shown in Figure 2 below.

[55] ASC 810 accounting rules requires SDG&E, when deemed as the primary beneficiary, to consolidate the financial statements of Variable Interest Entities, i.e. PPA counterparties, when filing reports with the SEC. Please refer to Appendix A in Sandra Hrna's prepared direct testimony for further definition and applicability of ASC 810.

[56] *See* D.05-12-043, *mimeo*, p.8.

Figure 2
Comparison of California IOUs bond basis spread



Source: Bloomberg

During this uncertain economy, the California IOUs are challenged with attracting investment, as investors place a premium on California investments. SDG&E competes in the same capital market as the other IOUs. Therefore, SDG&E requests an ROE and overall COC that is competitive to the other IOUs.

IV. SUMMARY AND CONCLUSION

This testimony highlights the heightened business, regulatory and financial risks experienced by SDG&E in the current environment. The business risks faced by SDG&E are primarily (i) the growth in capital programs; (ii) the challenge of managing an unprecedented transformation within the energy industry; (iii) the increase electric generation plants; and (iv) litigation risk and insufficient and/or potential loss of insurance coverage. While SDG&E operates in a supportive regulatory environment, it is experiencing increasing regulatory risks as

discussed above. Finally, its high levels of debt equivalence increases SDG&E's financial risk profile.

Each of these considerations has elevated the overall risk for SDG&E relative to its peers. Furthermore, in addition to the qualitative factors described herein, empirical data shows that SDG&E is at an equivalent level of risk with the other California utilities. These considerations are taken into account in SDG&E's overall ROE recommendation of 11.0%.

This concludes my prepared direct testimony.

V. STATEMENT OF QUALIFICATIONS

My name is Don Widjaja. I am employed by SDG&E as the Quantitative Risk and Controls Manager in the Risk Management Department. I have been in this position since I joined SDG&E in August 2008, and I am responsible for providing risk assessment on energy procurement activities, major projects and new business initiatives. My business address is 8330 Century Park Court, San Diego, California 92123-1530.

Prior to joining SDG&E, I was a Vice President with Credit Suisse in the Risk Measurement and Management Department from 2006 to 2008. Previously, I was a Senior Risk Management Specialist with Ameren Corporation.

I hold a Masters of Business Administration from Washington University in St Louis with an emphasis in finance, and a Bachelor of Science degree in Chemical Engineering from Purdue University.

ATTACHMENT A: PROXY GROUP COMPARISON OF FREE CASH FLOW TO TOTAL BOOK CAPITALIZATION FOR YEAR END 2010

Company Name	A Net Cash Flow from Operating Activities ($000)	B Net Cash Flow from Investing Activities ($000)	C = A + B FCF ($000)	D Total Capitalization, at Book Value ($000)	E = C/D FCF/Total Capitalization
CenterPoint Energy, Inc.	479,428	-1,068,155	-588,727	4,290,387	-13.72%
San Diego Gas & Electric Co.	693,408	-1,313,821	-620,413	6,118,331	-10.14%
Dominion Resources, Inc.	1,375,670	-2,370,819	-995,149	15,482,837	-6.43%
Public Service Enterprise Group Inc	805,003	-1,270,502	-465,499	8,708,564	-5.35%
Black Hills Corporation	101,197	-156,371	-55,174	1,162,750	-4.75%
OGE Energy Corp.	339,509	-525,445	-185,936	3,968,541	-4.69%
Xcel Energy Inc.	2,010,590	-2,729,752	-719,162	16,747,234	-4.29%
PG&E Corporation	3,288,311	-4,206,490	-918,179	23,922,497	-3.84%
Edison International	3,385,156	-4,005,333	-620,177	16,834,468	-3.68%
PPL Corporation	759,957	-1,044,706	-284,749	10,617,607	-2.68%
ALLETE, Inc.	214,792	-244,256	-29,464	1,778,737	-1.66%
NorthWestern Corporation	212,784	-240,677	-27,893	1,878,372	-1.48%
Pinnacle West Capital Corporation	658,149	-747,532	-89,383	7,221,190	-1.24%
PNM Resources, Inc.	201,474	-234,506	-33,032	2,954,248	-1.12%
Duke Energy Corporation	3,527,101	-3,836,002	-308,901	32,113,198	-0.96%
Wisconsin Energy Corporation	415,457	-461,615	-46,158	5,065,690	-0.91%
Portland General Electric Company	394,329	-423,987	-29,658	3,400,259	-0.87%
SCANA Corporation	629,839	-686,476	-56,637	6,595,968	-0.86%
Pepco Holdings, Inc.	702,503	-746,354	-43,851	6,379,945	-0.69%
Avista Corporation	187,503	-199,687	-12,184	2,273,688	-0.54%
CMS Energy Corporation	908,512	-895,415	13,097	8,620,373	0.15%
IDACORP, Inc.	325,913	-310,987	14,926	3,014,580	0.50%
Vectren Corporation	135,721	-123,956	11,765	1,352,207	0.87%
El Paso Electric Company	239,058	-224,358	14,700	1,548,639	0.95%
UIL Holdings Corporation	223,982	-211,753	12,229	1,278,883	0.96%
Alliant Energy Corporation	892,033	-837,446	54,587	5,586,280	0.98%
Consolidated Edison, Inc.	2,358,946	-2,134,472	224,474	21,172,275	1.06%
Entergy Corporation	2,342,055	-1,961,883	380,172	15,379,404	2.47%
UniSource Energy Corporation	320,580	-270,798	49,782	1,904,689	2.61%
DTE Energy Company	1,168,630	-946,086	222,544	8,168,449	2.72%
TECO Energy, Inc.	474,351	-336,001	138,350	3,726,574	3.71%
NV Energy, Inc.	876,207	-556,961	319,246	8,452,855	3.78%
Exelon Corporation	2,529,237	-1,742,348	786,889	17,502,549	4.50%
Ameren Corporation	1,743,589	-1,090,976	652,613	14,090,190	4.63%
NSTAR LLC	555,508	-321,452	234,056	3,803,699	6.15%
MGE Energy, Inc.	115,195	-57,439	57,756	880,409	6.56%
Integrys Energy Group, Inc.	278,801	-106,298	172,503	2,216,119	7.78%
Average for Proxy	**969,472**	**-1,044,354**	**-74,882**	**8,005,748**	**-0.94%**

Source: SNL Financial (2010 data was used because full year-end 2011 data was unavailable)
Note: Analysis based on a consolidated proxy group of combination electric and gas utilities and Value Line's Western Electric Utility group, with the exception of Hawaiian Electric where data is unavailable.

ATTACHMENT B: RPS GOALS BY STATE

Renewable & Alternative Energy Portfolio Standards					
State	2009 state retail deliveries (MWH)	Pct. Of state deliveries subject to RPS	RPS Pct. Goal	RPS Goal (MWH)	Year
California	257,507,000	98.0%	33.0%	83,277,764	2020
New York	139,758,000	82.0%	30.0%	34,380,468	2015
Ohio	146,151,000	87.6%	25.0%	32,007,069	2025
Pennsylvania	143,747,000	97.0%	18.0%	25,098,226	2020
Illinois	136,197,000	73.0%	25.0%	24,855,953	2025
Texas	338,678,000	76.0%	9.1%	23,422,970	2015
New Jersey	75,616,000	98.0%	22.5%	16,673,328	2021
North Carolina	127,658,000	100.0%	12.5%	15,957,250	2021
Minnesota	63,398,000	100.0%	25.0%	15,849,500	2025
Oregon	47,565,000	100.0%	25.0%	11,891,250	2025
Washington	90,165,000	81.0%	15.0%	10,955,048	2020
Michigan	97,701,000	100.0%	10.0%	9,770,100	2015
Colorado	50,837,000	94.0%	20.0%	9,557,356	2020
Maryland	62,589,000	73.0%	20.0%	9,137,994	2022
Missouri	79,667,000	70.0%	15.0%	8,365,035	2021
Nevada	34,252,000	87.7%	25.0%	7,509,751	2025
Connecticut	29,677,000	93.4%	27.0%	7,483,946	2020
Massachusetts	54,050,000	85.2%	15.0%	6,907,590	2020
Arizona	73,433,000	61.5%	15.0%	6,774,194	2025
Wisconsin	66,286,000	100.0%	10.0%	6,628,600	2015
Kansas	38,112,000	69.0%	20.0%	5,259,456	2020
Hawaii	10,126,000	100.0%	40.0%	4,050,400	2030
New Mexico	21,647,000	87.9%	20.0%	3,805,543	2020
New Hampshire	10,687,000	100.0%	23.8%	2,543,506	2025
District of Columbia	11,434,000	100.0%	20.0%	2,286,800	2020
Delaware	11,258,000	74.7%	20.0%	1,681,945	2019
Montana	14,326,000	69.2%	15.0%	1,487,039	2015
Rhode Island	7,617,000	99.0%	16.0%	1,206,533	2019
Maine	11,283,000	95.0%	10.0%	1,071,885	2017
Iowa	43,332,000	76.0%	0.7%	230,526	

Source: SNL Financial

ATTACHMENT C: PROXY GROUP COMPARISON OF TOTAL CIVIL CASES

Company Name	State(s) Company Operates in	Total Civil Incoming Cases*
Consolidated Edison Inc	New York	1,819,981
TECO Energy, Inc.	Florida	1,476,089
SDG&E	California	1,298,536
PG&E Corp	California	1,298,536
Edison International	California	1,298,536
Public Service Enterprise Group Inc	New Jersey	922,471
Vectren Utility Holdings, Inc.	Ohio	840,353
Dominion Resources	Virginia, North Carolina	800,041
DTE Enterprises, Inc.	Michigan	767,488
CMS Energy Corporation	Michigan	767,488
El Paso Electric	Texas, New Mexico	699,648
Duke Energy Corp	Ohio, North Carolina, South Carolina	593,271
Ameren Corp	Illinois, Missouri	502,119
NSTAR	Massachusetts	452,054
Integrys Energy Group, Inc.	Michigan, Wisconsin, Minnesota	431,688
Entergy Corp	Texas, Louisiana, Arkansas	416,626
PPL Corp	Pennsylvania	416,015
Exelon Corp	Pennsylvania	416,015
CenterPoint Energy	Texas, Minnesota, Arkansas	401,298
UniSource Energy Corporation	Arizona	376,615
Pinnacle West Capital	Arizona	376,615
SCANA Corp	South Carolina	334,305
Wisconsin Energy Corporation	Wisconsin	302,611
MGE Energy, Inc.	Wisconsin	302,611
Avista Utilities (E)	Washington	295,708
UIL Holdings Corporation	Connecticut	261,678
Northeast Utilities	Massachusetts, Connecticut, New Hampshire	256,116
ALLETE, Inc.	Minnesota	224,966
Xcel Energy Inc.	Colorado, Minnesota, New Mexico	218,613
Portland General	Oregon	202,283
NV Energy, Inc.	Nevada	188,743
Black Hills Utility Holdings Inc.	Colorado, Kansas, Iowa, Nebraska, South Dakota	181,033
OGE Energy Corp.	Arkansas	125,032
PNM Resources	New Mexico	100,759
IDACORP Inc.	Idaho	79,546
Pepco Holdings, Inc.	District of Columbia	68,460
NorthWestern Corporation	Montana	63,388
Hawaiian Electric	Hawaii	35,487
	Average for Proxy	516,127

* For Companies operating in multiple states, the average of the total civil incoming cases is used

Note: Analysis based on a consolidated proxy group of combination electric and gas utilities and Value Line's Western Electric Utility group

Source: www.courtstatistics.org (see footnote 25)

ATTACHMENT D: REVENUE REQUIREMENTS RECOVERED THROUGH BALANCING & MEMORANDUM ACCOUNTS

San Diego Gas and Electric Company
Percentage of 2011 Authorized Revenue Requirement
Recovered Through Balancing/Memorandum Accounts
($ in Thousands, excluding FF&U)

Line		2011
1	2011 Authorized Base Margin (1)	1,278,708
2	Adjust Items Excluded from General Rate Case Proceeding :	
3	Commodity (Excl. DWR) :	
4	Fuel (ERRA) (2)	746,597
5	Gas Purchase Cost	211,801
6	Non-Fuel (NGBA)	272,449
7	Total Commodity	1,230,847
8	Integrated Transmission (gas)	
9	Removal of Gas Transmission Costs	(39,982)
10	Integrated Transmission Costs	10,539
		(29,443)
11	Public Purpose Programs (PPP):	
12	Electric	128,033
13	Gas	45,583
14	Total Public Purpose Programs	173,616
15	Competition Transition Charge (CTC)	62,615
16	Nuclear Decommissioning	9,018
17	**Adjusted Revenue Requirement**	**2,725,361**
18	Revenue Requirements Recovered Through Bal/Memo Acct	
19	Total Commodity	1,230,847
20	Total Public Purpose Programs	173,616
21	Competition Transition Charge (CTC)	62,615
22	Integrated Transmission Costs	10,539
23	Advanced Metering	87,187
24	Tree Trimming (3)	19,652
25	Research Development and Demonstration (3)	2,556
26	Distribution Integrity Management Program (3)	4,011
27	Pension	29,560
28	PBOPs	9,511
29	**Total Balancing/Memorandum Accounts**	**1,630,094**
30	**Bal/Memo Account Recovery as % of Adjusted Rev Req**	**59.81%**
31	**Excl. Tree Trimming, Bal/Memo Account Recovery as % of Adjusted Rev Req**	**59.09%**

(1) Distribution &Transportation excluding SONGS & FERC amounts including Advanced Metering.
(2) Commodity revenue requirements authorized in D. 11-07-041.
(3) One-way balancing account.

ATTACHMENT E: REVENUE DECOUPLING BY STATE

States *with* Revenue Decoupling in place or pending	States *without* Revenue Decoupling in place or pending
Arkansas	Alabama
California	Arizona
Colorado	Iowa
Connecticut	Kansas
Delaware	Louisiana
District of Columbia	Maine
Florida	Nebraska
Georgia	New Hampshire
Hawaii	New Mexico
Idaho	Pennsylvania
Illinois	South Dakota
Indiana	Texas
Kentucky	West Virginia
Maryland	
Massachusetts	
Michigan	
Minnesota	
Mississippi	
Missouri	
Montana	
Nevada	
New Jersey	
New York	
North Carolina	
North Dakota	
Ohio	
Oklahoma	
Oregon	
Rhode Island	
South Carolina	
Tennessee	
Utah	
Vermont	
Virginia	
Washington	
Wisconsin	
Wyoming	

% of States *with* Revenue Decoupling in place or pending :	**74%**
% of States *without* Revenue Decoupling in place or pending :	**26%**

Source: Edison Electric Institute (EEI)