

Application: A.19-10-_____

Exhibit No.: SDG&E-_____

Witness: Casey W. Butler_____

PREPARED DIRECT TESTIMONY OF
CASEY W. BUTLER
ON BEHALF OF SAN DIEGO GAS & ELECTRIC COMPANY
CHAPTER 5 – REVENUE REQUIREMENT



BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

OCTOBER 28, 2019

TABLE OF CONTENTS

I.	PURPOSE AND SUMMARY	1
II.	CAPITAL AND Operations and Maintenance (“O&M”) COSTS.....	1
	A. Overhead Allocations.....	2
	B. Escalation.....	2
	C. AFUDC and Capitalized Property Tax	2
	D. Total Capital and O&M	3
III.	REVENUE REQUIREMENT	3
	A. O&M Expenses	4
	B. Working Cash	4
	C. Rate Base (Return of Capital).....	4
	D. SDG&E’s Authorized Capital Structure and Rate of Return (“ROR”)	5
	E. Income Tax, Property Tax, and FF&U	5
	F. Forecasted Revenue Requirement.....	5
IV.	STATEMENT OF QUALIFICATIONS	7

1
2
3
4
5
6
7
8
9
10
11
12

**PREPARED DIRECT TESTIMONY OF
CASEY W. BUTLER
CHAPTER 5 – REVENUE REQUIREMENT**

13
14

I. PURPOSE AND SUMMARY

15
16
17
18

The purpose of this prepared direct testimony on behalf of San Diego Gas & Electric Company (“SDG&E”) is to present the revenue requirement associated with the Power Your Drive Extension Program (“PYD Extension Program” or “Program”). The forecasted revenue requirement for this program is \$125.6 million over the years 2021 through 2084. Since this proposal includes costs above and beyond those authorized by the California Public Utilities Commission (“Commission” or “CPUC”) in SDG&E’s most recent General Rate Case (“GRC”), all costs associated with this program are incremental, and thus are additive to any currently authorized levels of revenue requirement.

19
20

II. CAPITAL AND OPERATIONS AND MAINTENANCE (“O&M”) COSTS

21
22
23
24

Table 5-1 below summarizes the direct costs described in the testimony of John Black.¹ These costs do not reflect the impact of escalation, loaders, allowance for funds used during construction (“AFUDC”), or capitalized property tax.

25
26

**Table 5-1: Direct Costs
(In Millions, 2019\$)**

	2021	2022	2023	2024	Total
Capital	\$4.1	\$20.3	\$10.2	\$0.0	\$34.7
O&M	\$0.3	\$2.8	\$2.6	\$0.0	\$5.7
Total Implementation	\$4.4	\$23.1	\$12.8	\$0.0	\$40.4
Ongoing O&M	\$0.3	\$0.9	\$1.0	\$1.0	\$3.1
Total Request	\$4.7	\$24.0	\$13.8	\$1.0	\$43.5

27
28

¹ Prepared Direct Testimony of John Black at Table 3-5. References to “testimony” herein are to the prepared direct testimony served in support of this application, unless otherwise indicated.

1 **A. Overhead Allocations**

2 Overhead allocations are directly associated with program costs and are used to account
3 for costs that cannot be economically direct-charged, such as payroll taxes and administrative
4 and general costs. Overhead allocations are added to program costs, consistent with those costs'
5 classification as company labor, contract labor, or purchased services and materials. Overhead
6 loaders used to develop the revenue requirement for the Program are for illustrative purposes and
7 subject to change. The overhead allocations in this application adhere to the methodology
8 established by the Federal Energy Regulatory Commission (“FERC”)² and were derived using
9 the same methodology used in SDG&E’s 2019 GRC filing.³ Only overhead allocations
10 considered incremental to the program are applied in the determination of the revenue
11 requirement.

12 **B. Escalation**

13 Escalation is applied to direct costs to properly account for inflation. SDG&E applied the
14 indices published in IHS Global Insight’s 1st Quarter 2019 Utility Cost Forecast for this
15 application.

16 **C. AFUDC and Capitalized Property Tax**

17 SDG&E is authorized to apply AFUDC rates on capital as it is spent and remains in
18 Construction Work in Progress (“CWIP”). Similarly, capitalized property tax represents
19 property tax incurred during the program development period prior to the program being placed

² FERC guidelines reference the Statement of Federal Financial Accounting Standards 4: Managerial Cost Accounting Standards and Concepts.

³ Application (“A.”) 17-10-007/-008 (cons.), Second Revised SoCalGas/SDG&E Direct Testimony of James Vanderhye (Shared Services & Shared Assets Billing, Segmentation & Capital Reassignments), Ex. SCG-34-2R/SDG&E-32-2R (April 6, 2018).

1 in service. Both AFUDC⁴ and capitalized property tax⁵ are included as part of the total capital
2 cost of the program.

3 **D. Total Capital and O&M**

4 Table 5-2 below summarizes the total amount of capital for the PYD Extension Program,
5 as well as the total loaded and escalated O&M cost. The capital costs include escalation,
6 overhead loaders, AFUDC, and capitalized property tax.

7 **Table 5-2: Total Capital and O&M**
8 *(In Millions, includes escalation, overheads, AFUDC, and capitalized property tax)*

	2021	2022	2023	2024	Total
Capital	\$5.8	\$25.9	\$13.8	\$0.0	\$45.5
O&M	\$0.4	\$3.5	\$3.1	\$0.0	\$7.0
Total Implementation	\$6.2	\$29.4	\$16.9	\$0.0	\$52.5
Ongoing O&M	\$0.5	\$1.6	\$1.9	\$1.9	\$5.9
Total Request	\$6.7	\$31.0	\$18.8	\$1.9	\$58.4

9
10 **III. REVENUE REQUIREMENT**

11 The revenue requirement consists of the total O&M and capital costs stated above, as
12 well as SDG&E’s return on investment, federal and state income taxes, property taxes, working
13 cash, and franchise fees and uncollectibles (“FF&U”).⁶ The sections below cover these
14 components in greater detail.

⁴ Consistent with prior SDG&E rate case proceedings, SDG&E utilizes the AFUDC formula mandated by FERC’s Uniform System of Accounts (“USofA”) [18 Code of Federal Regulations (“CFR”) Part 101, Electric Plant Instructions, Components of construction cost 3(A)17 and 18 CFR Part 201, Gas Plant Instructions, Components of construction cost 3(A)17.]. Consistent with prior SDG&E rate case proceedings before the CPUC, including Decision (“D.”) 16-06-054, SDG&E typically uses its authorized Rate of Return as a reasonable proxy for estimating AFUDC applied to CWIP.

⁵ See D.13-05-010.

⁶ The revenue requirement components and the rate base calculations are computed based on the same standard, Commission-approved methodology used in the 2019 GRC and other incremental applications.

1 **D. SDG&E’s Authorized Capital Structure and Rate of Return (“ROR”)**

2 SDG&E’s authorized capital structure is comprised of common equity, long-term debt,
3 and preferred stock. The Cost of Capital proceeding is the regulatory forum that establishes
4 SDG&E’s capital structure and its authorized costs of financing. SDG&E’s current authorized
5 rate of return based on its weighted capital structure is 7.55 percent.¹⁰ SDG&E’s weighted
6 average rate of return is multiplied by rate base to determine the amount of funds required for the
7 revenue requirement.

8 **E. Income Tax, Property Tax, and FF&U**

9 The revenue requirement includes costs related to the payment of income taxes, property
10 taxes, and FF&U. Federal income tax expense is based on the current corporate federal income
11 tax rate of 21.00 percent. State income tax expense is based on the current California Franchise
12 Tax rate of 8.84 percent. Property tax expense is based on SDG&E’s current average system-
13 wide rate of 1.569 percent. FF&U covers payments made to counties and incorporated cities
14 pursuant to local ordinances granting right of way access, as well as uncollectible expenses
15 incurred by SDG&E.¹¹

16 **F. Forecasted Revenue Requirement**

17 Table 5-4 below illustrates the final forecasted revenue requirement for the PYD
18 Extension Program.

¹⁰ SDG&E’s current authorized ROR is 7.55% per Advice Letter 3120-E/2611-G, approved October 26, 2017 and effective January 1, 2018 at 3.

¹¹ FF&U multipliers used for these revenue requirements are consistent with those supported in D.16-06-054.

1
2

Table 5-4: Forecasted Revenue Requirement Summary
(In Millions)

	2021	2022	2023	2024	2025	2026-2084	Total
CPUC	\$1.0	\$7.5	\$10.9	\$8.5	\$6.4	\$88.7	\$123.0
FERC	0.0	0.2	0.3	0.3	0.3	1.5	2.6
Revenue Requirement	\$1.0	\$7.7	\$11.2	\$8.8	\$6.7	\$90.2	\$125.6

3
4
5
6
7
8
9

The above revenue requirement is based on the forecasted costs provided in this application. SDG&E will determine the actual capital and any applicable O&M costs of the PYD Extension Program as it is completed and will calculate the actual revenue requirements associated with those costs for recovery in rates. Details on cost recovery of the actual revenue requirement are discussed in the testimony of Jenny Phan. Details of the rate impacts of the revenue requirement are discussed in the testimony of Jennifer Montanez.

This concludes my prepared direct testimony.

1 **IV. STATEMENT OF QUALIFICATIONS**

2 My name is Casey W. Butler. My business address is 8330 Century Park Court, San
3 Diego, California 92123. I am employed by SDG&E as a Manager in Financial & Strategic
4 Analysis. I am responsible for overseeing the financial analysis and development of revenue
5 requirements for SDG&E projects and programs. I have held this position since January of
6 2019. Prior to this position, I was the Project Controls Manager for Major Project Controls &
7 Analysis at Sempra Energy for three years. In that position, I was responsible for leading a
8 corporate organization which provided oversight and governance for large construction projects
9 and programs across the Sempra Energy family of companies. I have been employed by
10 SDG&E and/or Sempra Energy since January 2006. In addition to the positions that I have listed
11 above, I have served as a Business Planning Manager in SDG&E's Major Projects Budgets and
12 Accounting group, a Principal Business Analyst on SDG&E's Sunrise Powerlink Project, and a
13 Principal Business Analyst in SDG&E's Financial Planning organization. In addition, I have
14 also been a lead planner for multiple SDG&E General Rate Case applications.

15 I received a Bachelor of Science Degree in Accounting from Bentley University in May
16 of 1998.

17 I have not previously testified before the California Public Utilities Commission.