

**ORA DATA REQUEST  
ORA-SDGE-127-GAW  
SDG&E 2019 GRC – A.17-10-007  
SDG&E RESPONSE  
DATE RECEIVED: FEBRUARY 9, 2018  
DATE RESPONDED: FEBRUARY 27, 2018**

**Exhibit Reference:** SDG&E-14, Chapter IV. H, Pages AFC-57 - 67

**SDG&E Witness:** Alan F. Colton

**Subject:** Follow-Up to Questions 4 and 6 of SDG&E's Response to Data Request ORA-SDGE-087-GAW

ORA has reviewed and analyzed SDG&E's responses to Data Request ORA-SDGE-087-GAW. While most of SDG&E's responses have answered ORA questions, there are several questions for which ORA still seeks clarity. These following discovery questions mainly pertain to SDG&E's use of fully loaded costs to derive its forecasts, and how these fully loaded forecasts are converted to direct costs. These questions seem to mainly involve SDG&E's responses to Questions 4 and 6 of ORA-SDGE-087-GAW.

**Please provide the following:**

1. As a foundational question, ORA would like to precisely understand the meaning of the term "direct" cost. On page AFC-68 of Exhibit SDG&E-14, SDG&E states (on lines 9 and 10) that capital project costs in that testimony are presented in direct dollars. It has been ORA's assumption that the term "direct" dollars meant that the capital forecast did not contain any allocation having to do with Overhead Pool costs, as well as not including any type of allocation for pensions, benefits, etc.

- a. Is ORA's understanding of the term "direct" correct?
- b. If it is not correct, please give a correct definition and explanation of the term "direct."
- c. Is ORA correct in understanding that capital forecasts in the Results of Operations computer model are entered using "direct" dollars?

**SDG&E Response 01:**

a. Yes, ORA's understanding of 'direct cost' is correct. 'Direct' costs are the estimated labor and nonlabor costs prior to any addition of Overhead Pool costs, such as a share of the Local Engineering or Substation Engineering pools, as well as prior to the addition of any 'overheads' such as those for pension, benefits, worker's comp, warehousing and the like. A factor is added to direct labor for an aggregate average of Vacation & Sick Leave, at SDG&E this is 14.84%. All forecasts are in 2016\$.

b. Please see part a.

c. Yes, capital inputs to the RO model are in direct dollars, whereupon overheads and loaders including pool costs are added to the forecasted costs during the RO ratebase modeling process.

A discussion of the disposition of capital costs regarding ratebase is discussed in the testimony of Craig Gentes, Exhibit SDG&E-33, beginning at page RCG-5 and regarding electric plant-in-service again beginning at page RCG-8

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2. As a second foundational question, ORA would like to precisely understand the meaning of the term “fully loaded” cost. In its response to Question 6 in the previous data request, SDG&E provided an Excel spreadsheet titled “New Business Calculations.” That spreadsheet contained numerous tabs, each of which state that the recorded and forecast numbers are presented in “fully loaded” dollars. It has been ORA’s assumption that the term “fully loaded” dollars meant that the capital forecast did contain allocations having to do with Overhead Pool costs, as well as also including allocations for pensions, benefits, etc.

- a. Is ORA’s understanding of the term “fully loaded” correct?
- b. If it is not correct, please give a correct definition and explanation of the term “fully loaded.”

**SDG&E Response 02:**

a. Yes, ORA’s understanding is correct. ‘Fully Loaded’ estimates are direct costs plus additions for overheads (the aforementioned items such as pension, benefits, worker’s compensation and others mentioned in Question 1), as well as shares of the Local Engineering, Substation and Department Overhead pools as appropriate for each specific budget.

b. Please see part a.

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3. As a last foundational question, ORA would like to precisely understand the meaning of the term “adjusted recorded.” In its workpapers for Exhibit SDG&E-14, SDG&E frequently provides tables of recorded data (normally 2012 through 2016) that are labeled as being “Adjusted Recorded.” (As an example, please see workpaper page 279.)

- a. Please define the term “adjusted recorded.”
- b. Please explain how it differs from the terms “direct” and “fully loaded.”

**SDG&E Response 03:**

a. ‘Adjusted Recorded’ is the term used to identify historical (‘recorded’) costs after they have undergone review and any appropriate adjustments. They then become ‘adjusted recorded’ costs. The process is:

1. Historical costs are obtained from the SDG&E general ledger accounting system.
2. Costs not appropriate to the General Rate Case, such as Electric Transmission costs recoverable under the FERC rate case process, are removed. These are ‘recorded’ costs.
3. Those recorded costs are reviewed, and ‘adjustments’ may be made. These adjustments to historic, recorded costs are typically for items such as:
  - a. To demonstrate a change in organization structure, e.g., the combining or separation of cost centers over the historical period. This is accomplished by a ‘two-way’ adjustment whereby a cost credit is made at one area, and an equivalent debit is made at another. This can also occur for capital budgets, wherein two budgets may be combined, or a new budget may be separated from an existing one.
  - b. To remove non-CPUC jurisdiction costs that were not found during the initial screening in step 2, conversely to add costs that were inadvertently removed in step 2.
  - c. To remove, or normalize by spreading out, certain historical costs that represent anomalies, one-time costs, or valid utility costs that may occur cyclically over periods of more than one year, or that occur sporadically throughout the historic period.

Those adjustments are made as nominal\$ in each year, after which the resultant values are escalated to 2016\$, to match the forecasted values, which are also expressed in 2016\$. Both sets of values appear in workpapers. After the adjustment process is completed, these costs become ‘adjusted-recorded’ costs. They are now suitable for comparative use as well as to use as the basis for deriving a ‘base forecast’ using an average or trend if that type of forecast is to be used. Adjustments to O&M are necessary more frequently than adjustments to historical capital expenses.

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4. In Data Request ORA-SDGE-087-GAW, Question 4, ORA asked numerous questions regarding the derivation of various New Business capital forecasts. SDG&E responded to these questions, and also provided an Excel spreadsheet (New Business Calculations) to help explain its calculations. ORA has the following questions regarding SDG&E’s responses to Question 4.

- a. Using the response to Budget Code Project 235 as an example, SDG&E provided calculations showing how it derived the fully loaded amount of \$15,550,000. SDG&E then goes on to state that the resulting total is reduced to direct dollars in the workpapers. ORA was not able to find any workpapers showing how the fully loaded amount of \$15,550,000 was reduced to the direct amount of \$3,504,000. For Budget Code Project 235, as well as all other New Business capital projects, please provide detailed calculations showing how the fully loaded costs were converted to the direct costs.
- b. ORA has prepared a table (shown below) that seeks to compare direct costs and fully loaded costs for each of the New Business capital projects (with the exception of Budget Code Projects 204 and 15258). The costs shown in the columns labeled “Direct” came from the workpapers for Exhibit SDG&E-14; for example, for Budget Code Project 211, the “Direct” dollars came from workpaper page 279. The costs shown in the columns labeled “Fully Loaded” came from the various tabs that were included in the Excel workbook titled New Business Calculations, which was provided in response to data request ORA-SDGE-087-GAW. It is ORA’s understanding that the data presented in the following table are all presented in constant 2016 dollars.

**NEW BUSINESS CAPITAL EXPENDITURES  
 COMPARISON OF DIRECT VS. FULLY LOADED (2016 DOLLARS)**

Budget Code	2012			2013			2014			2015			2016		
	Direct	Fully Loaded	Δ	Direct	Fully Loaded	Δ	Direct	Fully Loaded	Δ	Direct	Fully Loaded	Δ	Direct	Fully Loaded	Δ
211	\$1,399	\$1,478	(\$79)	\$820	\$1,762	(\$942)	\$1,973	\$960	\$1,013	\$2,167	\$1,757	\$410	\$1,932	\$1,200	\$732
215	\$399	\$426	(\$27)	\$384	\$367	\$17	\$484	\$574	(\$90)	\$500	\$626	(\$126)	\$373	\$280	\$93
216	\$782	\$1,006	(\$224)	\$792	\$1,011	(\$219)	\$464	\$678	(\$214)	\$445	\$666	(\$221)	\$513	\$355	\$158
217	\$3,514	\$5,378	(\$1,864)	\$3,774	\$6,336	(\$2,562)	\$4,035	\$6,517	(\$2,482)	\$5,943	\$9,291	(\$3,348)	\$6,798	\$9,025	(\$2,227)
218	\$2,854	\$2,948	(\$94)	\$2,557	\$3,424	(\$867)	\$3,151	\$3,746	(\$595)	\$3,815	\$4,800	(\$985)	\$3,604	\$4,410	(\$806)
219	\$4,233	\$4,963	(\$730)	\$4,571	\$5,946	(\$1,375)	\$4,119	\$4,791	(\$672)	\$6,908	\$8,199	(\$1,291)	\$6,296	\$5,000	\$1,296
224	\$3,711	\$5,292	(\$1,581)	\$3,848	\$5,135	(\$1,287)	\$3,989	\$5,443	(\$1,454)	\$4,412	\$5,890	(\$1,478)	\$4,746	\$6,840	(\$2,094)
225	\$7,711	\$9,807	(\$2,096)	\$8,482	\$10,141	(\$1,659)	\$9,655	\$9,026	\$629	\$12,637	\$10,293	\$2,344	\$11,868	\$9,025	\$2,843
235	\$5,525	\$17,732	(\$12,207)	\$4,129	\$14,428	(\$10,299)	\$4,223	\$14,792	(\$10,569)	\$4,578	\$14,734	(\$10,156)	\$3,527	\$14,250	(\$10,723)

It was ORA’s expectation that fully loaded costs would always be greater than the corresponding direct costs. However, as can be seen in the above table, there appears to be 10 instances where direct costs exceed the corresponding fully loaded costs.

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**Question 4 Continued:**

- i. Please provide a detailed explanation as to how direct costs can be larger than fully loaded costs.
- ii. Even in those instances where the fully loaded costs are larger than the direct costs, the percentage by which the fully loaded amount exceeds the direct amount appears to vary greatly. For example, the amount that the fully loaded costs for Budget Code Project 235 exceeds the direct costs appear to be multiple times larger than the direct costs themselves; this does not appear to be the case for any other budget code project. For those instances where the fully loaded costs exceed the direct costs, please explain why the percentage by which the fully loaded amount exceeds the direct amount varies so greatly.

**SDG&E Response 04:**

- i. The New Business Calculations spreadsheet shows how the construction unit forecast was implemented for these budget codes. The budget code owners originally develop estimates based on fully loaded costs that only incorporate *net* expenditures needed to complete a project. The fully loaded costs represented in the spreadsheets do not include contributions in aid of construction (CIAC) dollars, which are funds deposited by developers up front for their projects that fall within one of these budget code categories. These projects may not be completed in the same calendar year as the CIAC funds are received and thus are often not matched in time.

The direct actual dollars that are presented for 2012 through 2016 do include CIAC dollars, and in those instances where the direct costs exceeded the fully loaded costs for the same year, it can be attributed to a large volume of CIAC funds received for projects that weren't completed until the following year thus artificially inflating the direct costs in the year the CIAC funds were deposited.

- ii. The CIAC dollars also contribute to the variance of the fully loaded costs in the instances where they are higher in comparison to the direct costs. Years where there are low CIAC deposits in comparison to construction completed would amplify the difference between the direct costs and the fully loaded costs shown.

For Budget Code 235, the capital dollars associated with this budget code are a small portion of the total budget. The bulk of the budget is comprised of indirect dollars and some O&M that are not reflected in the capital dollars represented in the direct costs. The 235 budget code captures the annual scrapping of PCB's, handling and loading of scrap material, miscellaneous distribution switching, the sale of old transformers, and the installation and removal of transformers and meters. The capitalized portion of this work is the labor and transportation associated with the installation and removal of transformers and meters. The non-labor portion associated with the transformers and meters are capitalized on their own respective budgets and not as part of 235.