

Company: San Diego Gas & Electric Company
Application No.: A.22-10-021
Proceeding: Catastrophic Expense Memorandum Account (CEMA)
Exhibit No.: _____
Witness: R. Craig Gentes

**PREPARED REBUTTAL TESTIMONY OF
R. CRAIG GENTES
ON BEHALF OF
SAN DIEGO GAS & ELECTRIC COMPANY**

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**



July 21, 2023

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**PREPARED REBUTTAL TESTIMONY OF
R. CRAIG GENTES
ON BEHALF OF
SAN DIEGO GAS & ELECTRIC COMPANY**

I. OVERVIEW OF SDG&E’S REQUEST

San Diego Gas & Electric Company (SDG&E) submits this Rebuttal Testimony in response to the June 30, 2023 testimony from the Public Advocates Office at the California Public Utilities Commission (Cal Advocates),¹ submitted in response to SDG&E’s October 31, 2022 Application in this proceeding, requesting that the Commission authorize SDG&E to recover costs recorded in SDG&E’s Catastrophic Event Memorandum Account (CEMA) for incremental disaster-related expenses and capital costs incurred in responding to eight catastrophic events (CEMA Events):

- 2014 Emergency Drought
- January 2017 Storms
- 2017 Lilac Fire
- 2018 West Fire
- 2019 Winter Storms
- 2020 COVID-19 Pandemic
- August 2020 Extreme Heat Event
- September 2020 Extreme Heat and Valley Fire Event

Pursuant to California Public Utilities (Pub. Util.) Code Section 454.9, SDG&E is requesting that it recover costs that SDG&E incurred to: (1) restore service to customers, (2)

¹ Report on the Results of Examination for San Diego Gas & Electric Company’s Application for Authorization to Recover Costs of Several Catastrophic Events Recorded in Its Catastrophic Event Memorandum Account, dated June 30, 2023 (hereafter, Cal Advocates’ Testimony).

1 repair, replace or restore damaged facilities, and/or (3) comply with governmental agency orders
2 in connection with events declared disasters by competent state or federal authorities. The costs
3 requested for these emergency events are incremental because they have not been sought for
4 recovery in any previous or pending cost recovery proceeding, they were not forecasted in any
5 previous or pending proceeding, and they were incurred specifically to restore distribution
6 service to SDG&E customers due to the stated emergency.

7 Specifically, to return SDG&E and its distribution customers to normalized distribution
8 service due to these eight emergency events, SDG&E incurred \$65.971 million of costs that were
9 tracked and recorded in the respective CEMA accounts, and which would not have been
10 recorded and tracked but for those emergency events. Of that sum, SDG&E is requesting that
11 the Commission authorize through this proceeding the recovery of \$42.954 million in Operation
12 and Maintenance (O&M) expenses and \$8.439 million in capital costs, for a total of \$51.393
13 million. None of these costs in SDG&E's instant Application have previously been requested or
14 recovered in any General Rate Case (GRC) or other SDG&E proceeding.

15 **II. CAL ADVOCATES' TESTIMONY AREAS OF AGREEMENT**

16 As indicated in Cal Advocates' Testimony, Cal Advocates agrees that SDG&E should
17 recover its entire request of \$42.954 million of O&M expenses incurred in the CEMA Events.
18 Cal Advocates also recommends the recovery of \$6.368 million of direct capital costs.² Pub.
19 Util. Code Section 454.9(b) states that: "The [C]ommission shall hold expedited proceedings in
20 response to utility applications to recover costs associated with catastrophic events."

² Cal Advocates' Testimony at 4.

1 **III. AREA OF DISAGREEMENT**

2 Cal Advocates’ Testimony “recommends an adjustment of \$2.071 million” for overhead
3 costs associated with capital work on the grounds that “Cal Advocates considers overheads
4 already recovered in rates as part of SDG&E’s General Rate Case’s (GRC’s) previously
5 authorized funding levels and should not be considered incremental.”³ SDG&E strongly
6 disagrees with this wholly unsupported and unexplained conclusion.

7 Cal Advocates’ recommended adjustment is comprised of:

8 (1) capital labor overheads that reflect payroll taxes and incentive compensation
9 plan (ICP); (2) other common overhead for non-labor portion of capital work for
10 contract administration, shop order, small tools and purchasing and warehouse;
11 and (3) additional overheads related to non-labor portion of capital work for
12 engineering, department overheads and administrative and general expenses. Cal
13 Advocates disagrees with SDG&E’s determination that overhead costs associated
14 with the non-labor portion of the capital work is incremental. Cal Advocates
15 considers overheads already recovered in rates as part of SDG&E’s GRC’s
16 previously authorized funding levels and should not be considered incremental.⁴

17 **IV. SDG&E’S REBUTTAL**

18 SDG&E’s CEMA Application requests no costs that were either recovered or requested
19 for recovery in any other Commission proceeding, including its pending GRC proceeding.⁵
20 While Cal Advocates may want “proof” of no double-counting, Cal Advocates’ Testimony fails
21 to state how any party can prove that costs sought for recovery in a CEMA application were not
22 sought in another proceeding, such as a GRC, when in fact no such “evidence” in another case
23 exists, because the costs were not actually included in the GRC. Cal Advocates’ Testimony does
24 not explain how SDG&E could conceivably “prove” the “non-existence” of double-counting

³ *Id.* at 10.

⁴ *Id.*

⁵ *Id.*; see e.g., Prepared Direct Testimony of R. Craig Gentes on Behalf of SDG&E (October 31, 2022) (Gentes Direct Testimony) at 2.

1 when the costs at issue were not included in SDG&E’s GRC, as Cal Advocates’ Testimony
2 claims. Aside from this flaw, SDG&E can offer four other types of “evidence” sufficient to
3 foreclose any doubt about double-counting.

4 Cal Advocates also stated,

5 Consequently, SDG&E is unable to substantiate that these CEMA event costs are
6 not already covered through authorized revenues and rates. Based on SDG&E’s
7 responses, it did not provide sufficient support and analysis to compare what was
8 collected in authorized GRC authorized rates for overheads and what was
9 expended for overheads in routine work as part of normal operations in order to
10 substantiate that the overheads requested for the CEMA Events are incremental.
11 Consequently, SDG&E fails to meet its burden to justify the incremental nature of
12 these overhead costs.⁶

13 Cal Advocates is wrong.

14 First, as stated above in Section I, SDG&E can state here for the record with no
15 uncertainty that the instant CEMA case requests no costs that SDG&E has previously sought or
16 is currently seeking in any other proceeding or venue, nor will it do so.

17 Second, this point was made clear in Cal Advocates’ discovery in this proceeding. As
18 SDG&E stated in its responses to Cal Advocates data request, PubAdv-SDGE-CEMA-Audit-
19 SWC-006,⁷ questions 2, 3 and 8 and PubAdv-SDGE-CEMA-Audit-SWC-007, questions 1, 2 and
20 3, cost recovery of these capital overheads related to CEMA-related incremental work was not
21 included in SDG&E’s request for GRC funds or elsewhere.⁸ As each GRC witness reviews
22

⁶ Cal Advocates’ Testimony at 17-18.

⁷ As noted in Cal Advocates’ Testimony at 12-15, nn. 40, 42, 44, 46 and 48, SDG&E’s response to data request PubAdv-SDGE-CEMA-Audit SWC-006 is mislabeled as response to PubAdv-SDGE-CEMA-Audit-SWC-004.

⁸ Cal Advocates’ Testimony at 12-17; *see e.g.*, SDG&E’s response to data request PubAdv-SDGE-CEMA-Audit-SWC-006 (questions 2, 3 and 8), attached as Attachment A; and SDG&E’s response to data request PubAdv-SDGE-CEMA-Audit-SWC-007 (questions 1, 2 and 3), attached as Attachment B.

1 historical costs, overtime labor and non-labor costs associated with each CEMA event are
2 excluded to present a history of normal ongoing activities.

3 Third, as stated in my direct testimony, “Regular work was merely deferred until a later
4 time, but still completed, because all available resources were utilized to restore and repair
5 damaged facilities.”⁹

6 Fourth, if there were any validity to Cal Advocates’ claim that these costs were
7 previously sought for recovery, Cal Advocates’ Testimony could have simply pointed them out.
8 However, Cal Advocates’ Testimony offers no support, much less proof, for its assertion that
9 these costs were recovered in SDG&E’s GRC. If there were such evidence, Cal Advocates
10 surely would have referenced it.

11 **V. SDG&E’S CEMA APPLICATION REQUESTS ONLY INCREMENTAL COSTS**
12 **DIRECTLY INCURRED DUE TO THE CEMA EVENTS.**

13 SDG&E adopted a narrow view of costs recoverable via a CEMA application: Capital
14 overhead costs that are more fixed in nature and forecastable were not considered by SDG&E to
15 be incremental and therefore would not be recoverable. Therefore, such costs were not included
16 in SDG&E’s CEMA Application because they would have been forecasted and included in a
17 GRC. For example, the Engineering Labor overhead costs include the costs associated with
18 SDG&E employees that perform engineering, design, project planning and project management.
19 Due to the shorter duration of a CEMA event, SDG&E would not hire additional employees to
20 do this work. Therefore, the labor costs included in the Engineering Labor overhead would not
21 vary or increase due to the CEMA event and are included in our GRC requests. SDG&E did not
22 include such costs in this Application.

⁹ Gentes Direct Testimony at 6.

1 As another example, the Payroll Taxes overhead on straight-time labor is forecastable
2 based upon the straight-time labor included in the GRC request, and therefore it is not considered
3 incremental. Since these types of capital overhead costs do not vary or increase when a CEMA
4 event occurs, SDG&E does not consider them incremental, and therefore these costs are not
5 included in this CEMA Application.

6 As displayed in Exhibit 10 of my direct testimony,¹⁰ SDG&E incurred \$5.687 million of
7 total capital overhead costs related to these CEMA events, and \$3.616 million was considered
8 more fixed in nature and considered non-incremental. Accordingly, even though these costs
9 were CEMA-related, SDG&E did not include them in this Application. However, in contrast,
10 capital overhead costs that do vary and increase due to CEMA event activities are, in fact,
11 incremental to a GRC (and not covered in SDG&E's GRC or other cost recovery proceedings),
12 and therefore SDG&E appropriately included them in this Application for recovery.

13 And yet, Cal Advocates' Testimony recommends that the following costs should not be
14 considered incremental.¹¹

Type of Overhead:	Requested Dollars:
Engineering Non-Labor	\$1.512 million
Payroll Taxes on Overtime	\$0.231 million
Small Tools Non-Labor	\$0.082 million
Incentive Compensation Plan on Overtime	\$0.033 million
Others	\$0.213 million
Total	\$2.071 million

¹⁰ *Id.* at Exhibit 10.

¹¹ Cal Advocates' Testimony at 11-12.

1 Cal Advocates' "incrementality analysis" for each of these requested costs is simply
2 incorrect.

3 The Engineering Non-Labor overhead costs of \$1.512 million are the payments to third-
4 party vendors that perform engineering, design, project planning and project management on
5 GRC and CEMA capital projects. As previously stated, the CEMA portion of these costs were
6 not forecasted in SDG&E's GRC and do indeed vary and increase when CEMA capital work is
7 performed. Therefore, these costs are incremental to the GRC funding and appropriately
8 included for recovery in SDG&E's CEMA Application.

9 The payroll taxes overhead costs of \$0.231 million on overtime pay is incremental to the
10 GRC request because these costs did increase above the amount requested in SDG&E's GRC.
11 Likewise, overtime labor is incremental to SDG&E GRC and therefore the associated payroll
12 taxes paid by the company is also incremental and recoverable in this CEMA Application.

13 SDG&E's CEMA Application requests Small Tools Non-Labor overhead costs of \$0.082
14 million, which are the costs of small tools used on all capital work. Although SDG&E may not
15 actually buy more tools to perform the CEMA related capital work, these small tools are utilized
16 and therefore experience additional, or incremental, wear and tear because of the additional
17 CEMA capital work.

18 The ICP overhead costs on overtime pay of \$0.033 million is incremental to the GRC
19 request because the ICP paid does increase when additional overtime is paid to employees.
20 Since these CEMA events' go back to 2014, all of these incremental capital overheads have been
21 excluded from our GRC requests as they have been captured in the CEMA internal orders.
22 These costs are thus incremental and appropriately included for recovery in this CEMA
23 Application.

1 **VI. CONCLUSION**

2 SDG&E appreciates Cal Advocates’ review of SDG&E’s CEMA Application and its
3 finding that SDG&E’s request of \$42.954 million in O&M costs is fully recoverable. The
4 Commission should authorize that recovery in SDG&E rates to take effect on January 1, 2024,
5 consistent with the statutory mandate that the Commission expeditiously resolve CEMA
6 applications such as SDG&E’s instant Application.

7 With respect to Cal Advocates’ recommended adjustment of \$2.071 million, as indicated
8 above, Cal Advocates offers no support whatsoever for this adjustment other than its allegation
9 that those costs were recovered in SDG&E’s GRC. However, as my rebuttal testimony points
10 out, this allegation is wholly unsupported factually and otherwise. Moreover, SDG&E hereby
11 states, for the record, that all of its requested CEMA costs, the incurrence of which to address a
12 CEMA emergency went unchallenged, were in fact neither sought for recovery nor recovered in
13 any other proceeding, including SDG&E’s pending GRC proceeding.

	Electric	Gas	Total
Uncontested O&M Costs	\$33.819 million	\$9.135 million	\$42.954 million
Uncontested O&M Savings ¹²	(\$8.820) million	(\$2.712) million	(\$11.532) million
Uncontested Net O&M Costs	\$24.999 million	\$6.423 million	\$31.422 million
Uncontested Capital Costs	\$6.368 million		\$6.368 million
Contested Capital Costs	\$2.071 million		\$2.071 million

14 Accordingly, the sum total of SDG&E’s CEMA-related costs that are recoverable is
15 comprised of the Uncontested O&M Costs (\$42.954 million), plus the Uncontested Capital costs

¹² Gentes Direct Testimony at 48-50.

1 (\$6.368 million), plus the “Contested” Capital Costs (\$2.071 million), summing to a total of
2 \$51.385 million. The revenue requirements necessary to recover for which SDG&E seeks
3 recovery consists of that sum, less the Uncontested O&M Savings (\$11.532 million), resulting in
4 SDG&E’s full electric distribution revenue requirement request of \$29.3 million and gas
5 distribution revenue requirement of \$7.0 million. SDG&E respectfully requests that these
6 amounts be determined to be authorized and recoverable in rates beginning January 1, 2024.¹³

7 This concludes my prepared rebuttal testimony.

¹³ *Id.* at 2.

ATTACHMENT A

SDG&E's response to data request PubAdv-SDGE-CEMA-Audit-SWC-006 (questions 2, 3 and 8)

**THE PUBLIC ADVOCATES OFFICE DATA REQUEST:
PUBADV-SDGE-CEMA-AUDIT-SWC-004
SDG&E RESPONSE**

**Date Received: April 27, 2023
Date Submitted: May 11, 2023**

RESPONSES

Please provide the following:

QUESTION 2

Please provide the reasons/justification as to why the labor overheads for payroll taxes and ICP payout assigned to overtime labor associated with capital labor are considered incremental but all overheads associated with O&M labor are considered non-incremental in recovery of CEMA costs.

RESPONSE 2

As SDG&E was drafting this CEMA filing, the conclusion was that the labor overheads for payroll taxes and ICP payout assigned to overtime labor for both O&M and capital should be considered incremental. However, when SDG&E reviewed the historical amounts balanced in the various CEMA accounts only the labor overheads for payroll taxes and ICP payout on capital overtime labor were balanced. The labor overheads for payroll taxes and ICP payout on O&M overtime labor had not been balanced. Therefore, a determination was made just for this filing to not correct the amount of unbalanced incremental labor overheads for payroll taxes and ICP payout on O&M overtime labor. Instead, the wording quoted above in Question 1 of Mr. Gentes' testimony on page 7 was modified to state that, "all overheads associated with O&M labor are considered non-incremental" just for this filing to match the requested costs.

**THE PUBLIC ADVOCATES OFFICE DATA REQUEST:
PUBADV-SDGE-CEMA-AUDIT-SWC-004
SDG&E RESPONSE**

**Date Received: April 27, 2023
Date Submitted: May 11, 2023**

QUESTION 3

Please provide the reasons/justification as to why the overhead costs for the non-labor portion of contract administration, shop order, small tools and purchasing and warehouse are considered incremental for capital but are considered non-incremental for O&M costs in recovery of CEMA costs.

RESPONSE 3

As SDG&E was drafting this CEMA filing, the conclusion was that the non-labor portion of contract administration, shop orders, small tools and purchasing and warehouse for both O&M and capital should be considered incremental. However, when SDG&E reviewed the historical amounts balanced in the various CEMA accounts only these overheads on capital costs were balanced. These overheads on O&M costs had not been balanced. Therefore, a determination was made just for this filing to not correct the amount of unbalanced incremental overheads for these overheads on O&M costs. Instead, the wording quoted above in Question 1 of Mr. Gentes' testimony on page 7 was modified to state that, "Other common incremental overheads include the non-labor portion of contract administration, shop order, small tools and purchasing and warehouse. For O&M these overheads are considered non-incremental but for capital they are incremental." just for this filing to match the requested costs.

**THE PUBLIC ADVOCATES OFFICE DATA REQUEST:
PUBADV-SDGE-CEMA-AUDIT-SWC-004
SDG&E RESPONSE**

**Date Received: April 27, 2023
Date Submitted: May 11, 2023**

QUESTION 8

Please provide the reasons/justification as to why additional overheads for engineering, department overheads and administrative and general for the non-labor portion associated with capital work are considered incremental.

RESPONSE 8

The non-labor portion of these overheads includes external costs incurred that vary with the work being performed. Therefore, when SDG&E is performing incremental work caused by a CEMA event additional non-labor costs that go into these pools also are incurred. The labor portion of these overheads includes SDG&E employee labor which is being recovered via the General Rate Case funding and is therefore considered non-incremental.

ATTACHMENT B

SDG&E's response to data request PubAdv-SDGE-CEMA-Audit-SWC-007 (questions 1, 2 and 3)

**THE PUBLIC ADVOCATES OFFICE DATA REQUEST:
PUBADV-SDGE-CEMA-AUDIT-SWC-007
SDG&E RESPONSE**

**Date Received: May 16, 2023
Date Submitted: May 25, 2023**

RESPONSES

Please provide the following:

QUESTION 1

In response to data request, PubAdv-SDGE-CEMA-Audit-SWC-006, question 3, SDG&E states, “As SDG&E was drafting this CEMA filing, the conclusion was that the non-labor portion of contract administration, shop orders, small tools and purchasing and warehouse for both O&M and capital should be considered incremental. However, when SDG&E reviewed the historical amounts balanced in the various CEMA accounts only these overheads on capital costs were balanced. These overheads on O&M costs had not been balanced.”

- a. Please provide the analysis that SDG&E performed to conclude that the non-labor portion of contract administration, shop orders, small tools and purchasing and warehouse for capital are incremental to funds already authorized through the General Rate Case (GRC).

RESPONSE 1

CEMA-related incremental work is not contemplated in SDG&E’s request for GRC funds. As each GRC witness reviews historical costs, overtime labor and non-labor costs associated with each CEMA event are excluded to present a history of normal, ongoing activities. As stated in my testimony, at page 6, “Regular work was merely deferred until a later time, but still completed, because all available resources were utilized to restore and repair damaged facilities.”

The straight-time labor portions of contract administration, shop orders, small tools and purchasing and warehouse are contemplated in the GRC. Although it is possible that overtime labor was incurred in these overheads due to these CEMA events, SDG&E decided to not pursue recovery of these overtime costs and therefore is considering any such overhead costs as non-incremental. However, the non-labor portions of contract administration, shop orders, small tools and purchasing and warehouse costs include external costs from third parties do increase as CEMA activities occur, similarly to the increased incremental direct charges on capital restoration work to address the emergency event. Therefore, these specific non-labor overhead costs are incremental to the GRC and therefore recoverable.

**THE PUBLIC ADVOCATES OFFICE DATA REQUEST:
PUBADV-SDGE-CEMA-AUDIT-SWC-007
SDG&E RESPONSE**

**Date Received: May 16, 2023
Date Submitted: May 25, 2023**

QUESTION 2

In response to data request, PubAdv-SDGE-CEMA-Audit-SWC-006, question 8 regarding the incremental overheads for engineering, department overheads, and A&G, SDG&E states, “The non-labor portion of these overheads includes external costs incurred that vary with the work being performed. Therefore, when SDG&E is performing incremental work caused by a CEMA event additional non-labor costs that go into these pools also are incurred.”

- a. Please provide the analysis that SDG&E performed to conclude that the non-labor portion associated with engineering, department overheads, and A&G for capital are incremental to funds already authorized through the General Rate Case (GRC).

RESPONSE 2

CEMA-related incremental work is not contemplated in SDG&E’s request for GRC funds. As each GRC witness reviews historical costs, overtime labor and non-labor costs associated with each CEMA event are excluded to present a history of normal ongoing activities. As stated in my testimony, at page 6, “Regular work was merely deferred until a later time, but still completed, because all available resources were utilized to restore and repair damaged facilities.”

The straight-time labor portions of engineering, department overheads, and A&G are contemplated in the GRC. Although it is possible that overtime labor was incurred in these overheads due to these CEMA events, SDG&E decided to not pursue recovery of these costs and therefore is considering any such overhead costs as non-incremental. However, the non-labor portions of engineering, department overheads, and A&G costs include external costs from third parties do increase as CEMA activities occur, similarly to the increased incremental direct charges on capital restoration work to address the emergency event. Therefore, these specific non-labor overhead costs are incremental to the GRC and therefore are recoverable.

**THE PUBLIC ADVOCATES OFFICE DATA REQUEST:
PUBADV-SDGE-CEMA-AUDIT-SWC-007
SDG&E RESPONSE**

**Date Received: May 16, 2023
Date Submitted: May 25, 2023**

QUESTION 3

Please provide all analysis that SDG&E performed to compare what was collected in authorized General Rate Case (GRC) authorized rates for overheads and what was expended for overheads in routine work as part of normal operations so that SDG&E can substantiate that the overheads requested for the CEMA Events are incremental.

RESPONSE 3

As stated in the first paragraph, above, in the responses to questions 1 and 2: the costs for CEMA-related incremental work are not included in SDG&E's request for GRC funds. As each GRC witness reviews historical costs, overtime labor and non-labor costs associated with a CEMA event are excluded to present a history of normal ongoing activities. As stated in my testimony, at page 6, "Regular work was merely deferred until a later time, but still completed, because all available resources were utilized to restore and repair damaged facilities."

The overheads that SDG&E lists as non-incremental in Exhibit 11 of R. Craig Gentes' testimony generally do not fluctuate with increased work, such as the incremental work caused by a CEMA event. However, in contrast, the overheads listed in that testimony as incremental do increase as incremental work is performed caused by a CEMA event. For example, the non-labor portion of the engineering overhead will include the additional costs associated with additional purchased engineering services to handle the additional engineering work added to the normal work caused by the CEMA event.

END OF REQUEST

All responses were prepared by Craig Gentes, Director Accounting Operations