

Company: San Diego Gas & Electric Company (U 902 M)
Proceeding: Wildfire Interim Rate Relief Mechanism
Application: A.21-07-XXX
Exhibit No.: SDG&E-02

**SAN DIEGO GAS & ELECTRIC COMPANY
PREPARED DIRECT TESTIMONY
OF ERIC DALTON
(WILDFIRE INTERIM RATE RELIEF MECHANISM)**

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



JULY 30, 2021

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1 **PREPARED DIRECT TESTIMONY**
2 **OF ERIC DALTON**
3 **(WILDFIRE INTERIM RATE RELIEF MECHANISM)**

4 **I. INTRODUCTION**

5 The purpose of my testimony is to propose San Diego Gas & Electric Company's
6 ("SDG&E" or "Company") interim rate relief mechanism to be applied to wildfire-related
7 mitigation costs recorded in the Wildfire Mitigation Plan Memorandum Account ("WMPMA").¹
8 My testimony describes the background associated with this interim mechanism, including the
9 California Public Utilities Commission's ("CPUC" or "Commission") applicable precedent set
10 forth in Decision ("D.") 16-08-003 for SDG&E's Pipeline Safety Enhancement Plan ("PSEP")
11 and reiterated in D.20-02-024.² In addition, my testimony provides an overview of the WMPMA
12 and explains how the proposed interim rate relief mechanism would be applied to the WMPMA.

13 The policy testimony of Jonathan Woldemariam (Exhibit SDG&E-01) describes the
14 significant ramp up SDG&E anticipates in the coming years to further reduce the risk of wildfire
15 and minimize the use of Public Safety Power Shutoff. Mr. Woldemariam also addresses why a
16 mechanism comparable to the Commission-approved PSEP interim cost recovery mechanism
17 should be used in the context of wildfire mitigation costs. My testimony is focused on the
18 mechanics of the interim rate relief mechanism.

¹ WMPMA Preliminary Statements: http://regarchive.sdge.com/tm2/pdf/ELEC_ELEC-PRELIM_WMPMA.pdf and http://regarchive.sdge.com/tm2/pdf/GAS_GAS-PRELIM_WMPMA.pdf.

² D.20-02-024 for PSEP Line 1600 Phase 2 references D.16-08-003 in discussing the current PSEP cost recovery mechanism.

1 **II. OVERVIEW OF PSEP INTERIM COST RECOVERY MECHANISM**

2 SDG&E currently has an interim rate relief mechanism for its PSEP Safety Enhancement
3 Capital Cost Balancing Account (“SECCBA”)³ and its Safety Enhancement Expense Balancing
4 Account (“SEEBA”).⁴ D.16-08-003⁵ authorized the following elements:

- 5 • Interim rate recovery of 50% of the adjusted recorded balance;
- 6 • Adjusted recorded balance excludes amortization amount remaining for the year;
- 7 • Amortized in rates through the Annual Regulatory Account Update Tier 2 advice
8 letter submitted to the Commission’s Energy Division in October;
- 9 • Amortization effective January 1 of the following year; and
- 10 • Subject to audit, verification and adjustment refund.

11 SDG&E’s original PSEP proposal requested authorization for interim cost recovery of
12 100% of the properly recorded amount.⁶ SDG&E justified the 100% recovery by noting that it
13 would “avoid the accumulation of large under-collections in the PSEP regulatory accounts,
14 which would be both burdensome and unfair to customers.”⁷

15 In response to this original proposal, the Commission Staff recommended approval of a
16 50% interim rate relief mechanism. Staff reasoned that its proposal represented a compromise
17 measure that reduced the number of reasonableness reviews from the annual filings requested by
18 the applicants while providing some cost recovery. Staff was concerned that the delay in

³ SECCBA Preliminary Statement: http://regarchive.sdge.com/tm2/pdf/GAS_GAS-PRELIM_SECCBA.pdf

⁴ SEEBA Preliminary Statement http://regarchive.sdge.com/tm2/pdf/GAS_GAS-PRELIM_SEEBA.pdf

⁵ D.16-08-003, Ordering Paragraph (“OP”) 3 at 15-16.

⁶ *Id.* at 8-9.

⁷ *Id.* at 8.

1 recovering millions of dollars of costs could lead to rate shock for customers when those costs
2 were ultimately incorporated into rates. Staff concluded that authorizing the applicants to
3 recover 50% of their recorded costs in rates, subject to reasonableness review and possible
4 refund, would reduce the potential for rate shock.

5 “The other parties emphasized that interim cost recovery would not create any
6 presumptions or inferences for the subsequent reasonableness review and that the applicants
7 would be required to justify each project or refund to customers amounts collected.”⁸

8 The Commission concluded:

9 We find that the Staff Proposal for interim recovery, subject to refund, of
10 50% of the revenue requirements associated with properly recorded
11 Pipeline Safety Enhancement costs reasonably balances the objective of
12 mitigating sharp rate increases with the need for Commission review of
13 utility costs prior to collection from ratepayers.⁹

14 This interim rate relief mechanism has been in place since 2016. From my perspective, it has
15 achieved the balance between Company and ratepayer interests that the Commission sought to
16 achieve.

17 **III. OVERVIEW OF WILDFIRE-RELATED MEMORANDUM ACCOUNTS**

18 **A. Wildfire Mitigation Plan Memorandum Account**

19 SDG&E’s WMPMA was established pursuant to D.19-05-039 as a direct result of Public
20 Utilities (“P.U.”) Code Section 8386.4(a), as modified by Assembly Bill (“AB”) 1054. This
21 account records costs incurred to implement SDG&E’s Commission-approved Wildfire
22 Mitigation Plan; and its balance reflects those costs net of or beyond the revenue requirement
23 authorized in SDG&E’s General Rate Case (“GRC”) (or other proceedings in which such costs

⁸ D.16-08-003 at 10.

⁹ *Id.*

1 may be authorized). This account does not include costs recorded to other memorandum
2 accounts, such as SDG&E’s Fire Risk Mitigation Memorandum Account (“FRMMA”), Tree
3 Trimming Balancing Account (“TTBA”), Liability Insurance Premiums Balancing Account
4 (“LIPBA”), Fire Hazard Prevention Memorandum Account (“FHPMA”) and Catastrophic Event
5 Memorandum Account (“CEMA”) or other cost recovery mechanisms. The WMPMA took
6 effect on May 30, 2019.

7 In addition, AB 1054 includes a provision that prohibits SDG&E from including its
8 allocated share of fire risk mitigation capital expenditures in equity rate base. SDG&E filed
9 Advice Letter (“AL”) 3488-E¹⁰ to implement the equity rate base exclusion. The Commission
10 approved SDG&E’s AL in Resolution E-5071. SDG&E will make the approved accounting
11 adjustment to the base margin to reflect the AB 1054 equity exclusion as approved in Resolution
12 E-5071. This adjustment to base margin is outside of the WMPMA and will not impact the
13 WMPMA balance.

14 **B. Other Wildfire Regulatory Accounts**

15 The FRMMA¹¹ records costs associated with fire risk mitigation work that is not
16 otherwise covered in SDG&E’s authorized revenue requirements or in an approved Wildfire
17 Mitigation Plan. The FRMMA costs will be transferred to the WMPMA per the FRMMA
18 Preliminary Statement, which notes a credit entry to transfer costs and interest to the WMPMA
19 for activities once those activities are approved in a decision on an SDG&E Wildfire Mitigation
20 Plan. This account, per its Preliminary Statement, does not include costs recorded to other

¹⁰ AL 3488-E was filed on December 30, 2019. Supplemental ALs 3488-E-A was filed on March 4, 2020 and AL 3488-E-B was filed on July 10, 2020. The CPUC approved these ALs on September 1, 2020.

¹¹ FRMMA Preliminary Statement: http://regarchive.sdge.com/tm2/pdf/ELEC_ELEC-PRELIM_FRMMA.pdf

1 memorandum accounts, such as SDG&E’s CEMA, FHPMA, WMPMA, or other cost recovery
2 mechanisms. The FRMMA took effect on January 16, 2019.

3 The TTBA¹² records authorized revenues or expenses associated with tree trimming
4 necessary to comply with both existing and new state and regulatory rules, less revenues and
5 expenses for brush management approved in D.19-09-051. Tree trimming costs primarily
6 include expenses for crews, tree removals, mulching, and information systems support, among
7 others. The TTBA took effect on January 1, 1999.

8 The LIPBA¹³ records the difference between the authorized revenue requirement adopted
9 in D.19-09-051, specific to liability insurance premiums charge to SDG&E from Sempra Energy
10 (parent company of SDG&E) and the actual expenses incurred and charged to SDG&E, which
11 includes premiums paid for Wildfire Insurance. The LIPBA took effect on January 1, 2019.

12 The FHPMA¹⁴ records all costs associated with the implementation of regulations and
13 requirements adopted in Rulemaking (“R.”) 15-05-006 that supersedes R.08-11-005 that have
14 not been previously authorized for recovery in SDG&E’s GRC or any other regulatory
15 proceedings. These costs may include: (1) expenses associated with increasing trim clearance of
16 vegetation (interim revisions to General Order (“GO”) 95); (2) expenses associated with
17 increased maintenance and inspection/patrolling requirements to all electric transmission and
18 distribution utility lines and communication infrastructure providers’ (“CIP”) facilities located on

¹² TTBA Preliminary Statement: http://regarchive.sdge.com/tm2/pdf/ELEC_ELEC-PRELIM_TTBA.pdf

¹³ LIPBA Preliminary Statement: electric- http://regarchive.sdge.com/tm2/pdf/ELEC_ELEC-PRELIM_LIPBA.pdf and LIPBA Preliminary Statement: gas-
http://regarchive.sdge.com/tm2/pdf/GAS_GAS-PRELIM_LIPBA.pdf

¹⁴ FHPMA Preliminary Statement: http://regarchive.sdge.com/tm2/pdf/ELEC_ELEC-PRELIM_FHPMA.pdf

1 poles owned by SDG&E (changes to GO 165); (3) expenses incurred in design, construction, and
2 maintenance of facilities to mitigate fire hazard in high speed wind areas; and (4) any other
3 expenses incurred in implementing this order. The FHPMA took effect on August 20, 2009.

4 The CEMA records all costs associated with the restoration of service and SDG&E
5 facilities affected by a catastrophic event declared a disaster or state of emergency by competent
6 federal or state authorities.

7 Again, SDG&E is not proposing to include costs included in these other wildfire-related
8 regulatory accounts in the proposed interim rate relief mechanism. Rather, the proposed
9 mechanism is limited to costs recorded to the WMPMA.

10 **C. Wildfire Mitigation Plan Memorandum Account Recorded Balances**

11 The WMPMA electric and gas recorded balances through March 2021 are provided in
12 Table 2-1 below.¹⁵

13 **Table 2-1**

| San Diego Gas & Electric Company | |
|--|-----------------|
| Wildfire Mitigation Plan Memorandum Account | |
| Under / (Over) Collection (\$million) | |
| | Mar 2021 |
| Electric | 106.2 |
| Gas | 1.0 |
| Total | <u>107.2</u> |

14
¹⁵ While the WMPMA was effective as of May 2019, SDG&E did not receive approval to establish the WMPMA until January 2020. Accordingly, SDG&E recorded costs to the WMPMA beginning in 2020 with accounting adjustments back to May 2019.

1 **IV. SDG&E'S PROPOSED INTERIM RATE RELIEF MECHANISM FOR THE**
2 **WMPMA COSTS**

3 In this Application, SDG&E proposes to recover, on an annual basis subject to refund,
4 50% of the actual recorded WMPMA balance. The balance would comprise the balance
5 available at the time of filing SDG&E's Annual Regulatory Account update of electric and gas
6 advice letter submittals. These annual updates are submitted as Tier 2 advice letters (effective
7 upon CPUC staff approval) in October of each year for amortization of certain regulatory
8 account balances in rates effective January 1 of the following year. Those balances that are
9 recovered via the Annual Regulatory Account update filing are subject to audit, verification, and
10 adjustment.

11 SDG&E proposes that the ultimate reasonableness review of costs booked to the
12 WMPMA would occur in a future GRC or through a separate cost recovery application. In other
13 words, once the costs in the WMPMA are reviewed for reasonableness in a future GRC (or in a
14 separate application), SDG&E would recover the remaining balances. If, in the course of that
15 reasonableness review, the Commission determines that costs recorded to the WMPMA were
16 unreasonable, SDG&E will refund those costs to customers.

17 As discussed above, the WMPMA records revenue requirement for wildfire mitigation
18 authorized in the Test Year 2019 General Rate Case. Revenue requirement (O&M and capital-
19 related costs) incurred by SDG&E to implement its Wildfire Mitigation Plan are also recorded to
20 the account. The balance of the WMPMA therefore reflects the net or incremental amount
21 (incurred revenue requirement minus authorized revenue requirement) for wildfire mitigation
22 related to the WMP. SDG&E witness Casey Butler (Exhibit SDG&E-03) provides illustrative
23 balances in the WMPMA through 2023. Using those figures from Mr. Butler's testimony, Table

2-2 presents an example of how SDG&E’s proposed interim rate relief mechanism would work on an annual basis.

Table 2-2

| San Diego Gas & Electric | | | | | | | | |
|---|---|-------------|-------------|-------------|-------------|---------------------------|---|--|
| Wildfire Mitigation Plan Memo Account (WMPMA) | | | | | | | | |
| Electric and Gas | | | | | | | | |
| Under / (Over) Collection (\$million) | | | | | | | | |
| ILLUSTRATIVE SUMMARY | | | | | | | | |
| <u>Line</u> | <u>2019</u> | <u>2020</u> | <u>2021</u> | <u>2022</u> | <u>2023</u> | <u>2024</u> ^{4/} | <u>Total</u> | |
| 1 Revenue | (23.6) | (68.5) | (76.4) | (82.4) | (88.4) | 0.0 | (339.3) | |
| 2 Total O&M and Capital-Related Costs | 44.4 | 140.6 | 224.0 | 307.4 | 356.6 | 0.0 | 1,073.0 | |
| 3 Net Cost / (Revenue) | 20.8 | 72.1 | 147.6 | 225.0 | 268.2 | 0.0 | 733.7 | |
| 4 Interest | 0.0 | 0.2 | 0.2 | 0.4 | 0.8 | 0.0 | 1.6 | |
| 5 Net Activity | 1/ 20.8 | 72.3 | 147.8 | 225.4 | 269.0 | 0.0 | 735.3 | |
| 6 Cumulative Balance without Relief | 20.8 | 93.1 | 240.9 | 466.3 | 735.3 | 735.3 | | |
| | | | | | | | Remaining balance by Activity Year | |
| | Requested Interim Rate Relief Impact | | | | | | | |
| 7 Beginning Balance | 0.0 | 20.8 | 93.1 | 240.9 | 414.7 | 441.9 | | |
| 8 Net Activity | 1/ 20.8 | 72.3 | 147.8 | 225.4 | 269.0 | 0.0 | | |
| 9 50% Amortization upon Implementation approval | 2/ 0.0 | 0.0 | 0.0 | (51.6) | (68.9) | 0.0 | | |
| 10 50% Amortization (2019 - 2021) | 3/ 0.0 | 0.0 | 0.0 | 0.0 | (60.2) | (30.1) | 30.1 | |
| 11 50% Amortization (2022) | 3/ 0.0 | 0.0 | 0.0 | 0.0 | (112.7) | (56.4) | 56.4 | |
| 12 50% Amortization (2023) | 3/ 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | (134.5) | 134.5 | |
| 13 Cumulative Balance with Relief | 20.8 | 93.1 | 240.9 | 414.7 | 441.9 | 221.0 | 221.0 | |
| Total Amortization by Year | | | | (51.6) | (241.8) | (221.0) | | |
| Total Cumulative Amortization | | | | (51.6) | (293.4) | (514.4) | | |
| 1/ From Witness Casey Butler Testimony, Table 3-4 | | | | | | | | |
| 2/ Assuming an April 1, 2022 implementation with amortization through December 31, 2023 | | | | | | | | |
| 3/ Amortization calculated on 2022 balance net of 2023 implementation amortization | | | | | | | | |
| 4/ 2024 revenue requirement will be addressed in the TY2024 GRC. | | | | | | | | |

Assuming Commission approval of a 50% interim rate relief mechanism, in this example, SDG&E would recover \$52 and \$69 million in 2022 and 2023, respectively, for the first-year implementation as shown in Table 2-2 above. In addition, the 50% of the 2022 balance less the remaining first-year implementation amortization would be \$173 million in 2023. Accordingly, the total amortization in 2023 would be \$242 million. For 2024 amortization, 50% of the 2023 balance would be \$221 million. This annual recovery would contribute to rate stability for SDG&E customers, rather than SDG&E recovering larger balances plus the potential for

1 additional costs associated with financing, as explained by Mr. Butler, should SDG&E wait until
2 the next GRC to implement such balances in rates.

3 Because SDG&E's proposal is for an annual interim rate relief mechanism, but General
4 Rate Cases are now every four years, SDG&E proposes to update the authorized revenue
5 requirement in the WMPMA for the funding approved in SDG&E's future GRCs.¹⁶ For
6 example, in SDG&E's next GRC, Test Year 2024, SDG&E will forecast wildfire mitigation
7 costs for future years, 2022 through 2024. The Commission will authorize a revenue
8 requirement related to wildfire mitigation for future years in the Test Year 2024 GRC. The
9 remaining balances in the WMPMA will also be contemplated in the Test Year 2024 GRC.

10 SDG&E proposes to implement this interim rate relief mechanism beginning on the first
11 of the month following the effective date of a final decision, through a Tier 1 advice letter, using
12 the recorded balance in the WMPMA available at that time. During the first year
13 implementation, SDG&E proposes to amortize 50% of the available balance through the end of
14 the following year. After the interim rate relief mechanism is initially established, SDG&E
15 proposes to incorporate this mechanism in rates each year thereafter through its Annual
16 Regulatory Account update advice letter process discussed above.

17 **V. CONCLUSION**

18 SDG&E seeks Commission approval to establish a WMPMA interim rate relief
19 mechanism, modeled after the PSEP interim cost recovery mechanism adopted in D.16-08-003.
20 SDG&E proposes to recover, on an annual basis, subject to refund, 50% of the WMPMA
21 adjusted balance as submitted in October in SDG&E's Annual Regulatory Account Update Tier

¹⁶ The adjustments to authorized revenue requirement would also include SDG&E's Petition for Modification of D.19-09-051 in A.17-10-007, which requested the Commission establish revenue requirements for additional attrition years 2022 and 2023.

1 2 advice letter for rates effective January 1 of the following year. The Annual Regulatory
2 Account Update balances, authorized by the Commission Energy Division for recovery, are
3 subject to audit, verification, and adjustment.

4 Recovery of the remaining balance and the reasonableness review associated with the
5 costs in the WMPMA would occur in future GRCs. SDG&E respectfully requests that the
6 Commission adopt these recommendations for inclusion in rates the month following the
7 effective date of a final decision.

8 This concludes my prepared direct testimony.

1 **VI. STATEMENT OF QUALIFICATIONS**

2 My name is Eric Dalton. I am employed by SDG&E as the Regulatory Reporting and
3 Accounts Manager in the Controller’s Division. My business address is 8330 Century Park
4 Court, San Diego, California 92123. My current responsibilities include managing the process
5 for the development, implementation, analysis and accounting for regulatory balancing and
6 memorandum accounts. I assumed my current position in August 2014 as the Regulatory
7 Reporting Manager and assumed the Regulatory Accounts Manager position in July 2019.

8 I received a Bachelor of Science in Accounting in 1999 from the University of Kansas. I
9 am a Certified Public Accountant (“CPA”) licensed in the State of California since 2003.

10 I have been employed with SDG&E since 2006. In addition to my current position in
11 Regulatory Reporting & Accounts, I have held various other positions increasing in
12 responsibility since September 2006. I served as the Billable Project Supervisor in Plant
13 Accounting (January 2013 – August 2014), Bank Reconciliation Supervisor (July 2011 –
14 December 2012), and Financial Accounting Senior and Principal Accountant (September 2006 -
15 June 2011).

16 I have previously testified before this Commission.