

Company: San Diego Gas & Electric Company (U 902 M)  
Proceeding: 2019 General Rate Case  
Application: A.17-10-007/008 (cons.)  
Exhibit: SDG&E-216

**SDG&E**

**REBUTTAL TESTIMONY OF DANIEL S. BAERMAN  
AND GREGORY SHIMANSKY**

**(ELECTRIC GENERATION)**

**JUNE 18, 2018**

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



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### APPENDIX A – GLOSSARY OF TERMS

**SDG&E REBUTTAL TESTIMONY OF DANIEL S. BAERMAN  
AND GREGORY SHIMANSKY  
(ELECTRIC GENERATION)**

**I. SUMMARY OF DIFFERENCES**

The Office of Ratepayer Advocates (ORA), The Utility Reform Network (TURN) and Protect Our Communities Foundation (POC) recommend that the Commission address the revenue requirement associated with SDG&E’s anticipated acquisition of the Otay Mesa Energy Center (OMEC) in 2019 – which the Commission approved in Decision (D.) 06-09-021 – in a future Tier 1 Advice Letter,<sup>1</sup> “another phase of this or another case,”<sup>2</sup> or not approved at all.<sup>3</sup> Both ORA and TURN also made specific recommendations regarding O&M and capital expenses in SDG&E’s Electric Generation forecasts, including some for the OMEC plant. ORA and TURN also made recommendations regarding the O&M and capital funding for OMEC (and other plant expenses in the Electric Generation testimony SDG&E-16).

For this reason, the summary tables below show the aggregate impacts of those recommendations, firstly showing SDG&E’s position under the scenario under which OMEC remains in the case, and secondly under the scenario recommended by ORA, TURN and POC that OMEC is removed from this GRC, with the relevant recommendations by those parties.

<b>TOTAL O&amp;M - Constant 2016 (\$000) with OMEC in the GRC</b>			
	<b>Base Year 2016</b>	<b>Test Year 2019</b>	<b>Change</b>
SDG&E	37,182	63,411	26,229

The table above shows the values supported by SDG&E with OMEC in the GRC.

<sup>1</sup> April 13, 2018, Testimony of Scott J. Logan, Report on the Results of Operations for San Diego Gas & Electric Company, Southern California Gas Company, Test Year 2019 General Rate Case, SDG&E – Electric Generation, Ex. ORA-08 (Logan) at 1:26-29.

<sup>2</sup> May 14, 2018, Prepared Direct Testimony of Kevin Woodruff, Addressing the Proposals of San Diego Gas & Electric Company and Southern California Gas Company in Their Test Year 2019 General Rate Case Related to Otay Mesa Energy Center, Ex. TURN-02 (Woodruff) at 2:8-9.

<sup>3</sup> May 14, 2018, Direct Testimony of Bill Powers, P.E. on Behalf of Protect Our Communities Foundation, POC (Powers) at 2:5-8.

<b>TOTAL O&amp;M - Constant 2016 (\$000) with OMEC removed from the GRC</b>			
	<b>Base Year 2016</b>	<b>Test Year 2019</b>	<b>Change</b>
ORA	37,182	40,615	3,433
TURN	37,182	38,951	1,769
POC	NA	NA	NA

The table above shows ORA's and TURN's positions with OMEC removed from this GRC. POC made no recommendations regarding non-OMEC O&M costs.

Similarly, as shown above for O&M, the following two tables illustrate the aggregate impacts of party recommendations, firstly showing SDG&E's position under the scenario under which OMEC remains in the case, and secondly under the scenario recommended by ORA, TURN and POC that OMEC is removed from this GRC

<b>TOTAL CAPITAL - Constant 2016 (\$000) with OMEC in the GRC</b>					
	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>Total</b>	<b>Variance</b>
SDG&E	13,314	292,826	17,371	323,511	

The table above shows the values supported by SDG&E with OMEC in the GRC.

<b>TOTAL CAPITAL - Constant 2016 (\$000) with OMEC removed from the GRC</b>					
	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>Total</b>	<b>Variance<sup>4</sup></b>
ORA	12,807	12,826	12,020	37,653	-285,858
TURN	13,314	12,826	12,020	38,160	-285,351
POC	NA	NA	NA	NA	NA

The table above shows ORA's and TURN's positions with OMEC removed from this GRC. POC made no recommendations regarding non-OMEC capital costs.

## **II. INTRODUCTION**

This rebuttal testimony<sup>5</sup> regarding SDG&E's request for Electric Generation addresses the following testimony from other parties:

- ORA, as submitted by Mr. Scott Logan (Exhibit ORA-08), dated April 13, 2018.

<sup>4</sup> Variances are shown in comparison to SDG&E's original request.

<sup>5</sup> Gregory Shimansky will be sponsoring section V.A. of this rebuttal testimony. Daniel Baerman will be sponsoring all other sections.

- TURN, as submitted by Mr. Kevin Woodruff and Mr. William Perea Marcus (Exhibits TURN-02 and TURN-03, respectively), dated May 14, 2018.
- POC, Direct and Supplemental Testimony of Bill Powers, P.E., dated May 14, 2018 and June 11, 2018, respectively.

Please note that the fact that we may not have responded to every issue raised by others in this rebuttal testimony does not mean or imply that SDG&E agrees with the proposal or contention made by these other parties. The forecasts contained in SDG&E's direct testimony, performed at the project level, are based on sound estimates of its revenue requirements at the time of testimony preparation.

**A. ORA**

ORA issued its report on Electric Generation on April 13, 2018.<sup>6</sup> The following is a summary of ORA's position(s):

- ORA recommends adoption of SDG&E's 2017 adjusted-recorded capital expenses for 2017 over SDG&E's forecasted capital expenditures for that year, a decrease of \$507,000 from SDG&E's originally requested \$13.314 million.
- For the most part, ORA accepts SDG&E's electric generation O&M and 2018-2019 capital forecasts with one major exception, which is the costs associated with acquiring and operating OMEC, which ORA recommends be removed from this GRC and addressed at a later time through an Advice Letter filing. ORA removes \$22.796 million of annual O&M, \$280 million of capital acquisition costs, and an additional \$5.351 million of ongoing capital expense from SDG&E's request, all related to OMEC.
- ORA also recommends, when its proposed Advice Letter filing is made, that an adjustment for "Contracting/Procurement Efficiencies" similar to an adjustment made by SDG&E to its Desert Star plant in the amount of \$1.1 million be also applied to OMEC. This results in a revised O&M

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<sup>6</sup> Ex. ORA-08 (Logan) at 1.

1 forecast for OMEC from \$22.796 million to \$21.696 million at the time  
2 the Advice Letter filing is made.

- 3 • These recommendations result in a reduction of \$285.858 million in  
4 capital over the three years 2017-2019 and \$22.796 million in O&M  
5 expense from SDG&E's test year 2019 forecast.

6 **B. TURN**

7 TURN submitted testimony on May 14, 2018.<sup>7</sup> The following is a summary of TURN's  
8 position(s):

- 9 • TURN recommends a reduction of \$1,878,000 (-3.1%) to SDG&E's 2019  
10 O&M adjusted forecast of Electric Generation expenses of \$60,840,000  
11 for Non-Shared Services. The primary reasons for the reduction is the use  
12 of different historical periods than SDG&E for calculation of the average  
13 year cost used for the base forecasts amounts.
- 14 • TURN recommends a reduction of \$279,000 (-25.5%) to SDG&E's 2019  
15 O&M adjusted forecast of Resource Planning Director of \$1,095,000 for  
16 Shared Services.
- 17 • TURN did not directly address SDG&E's 2019 O&M forecast of  
18 \$1,476,000 for SONGS – Marine Mitigation & Workers Comp. expenses.
- 19 • TURN recommends no adjustments to future non-OMEC Generation  
20 capital costs for: year 2017 of \$13,314,000; year 2018 of \$12,826,000;  
21 and, year 2019 of \$12,020,000. TURN recognizes that actual costs may  
22 be higher and lower in various years compared to the SDG&E forecasted  
23 costs that is based on a five-year average.
- 24 • TURN identifies two capital projects that were disallowed in the 2012  
25 Test Year GRC that should be removed and refunded.
- 26 • TURN agrees with SDG&E that Calpine is likely to “put” the OMEC  
27 plant to SDG&E in 2019, per Decision (D.) 06-09-021, but recommends

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<sup>7</sup> May 14, 2018, Prepared Testimony of William Perea Marcus, Report on Various Results of Operations Issues in Southern California Gas Company's and San Diego Gas and Electric Company's 2016 Test Year General Rate Cases, Ex. TURN-03 (Marcus) at55-66; Ex. TURN-02 (Woodruff).

1 that the Commission should defer consideration of the revenue  
2 requirement that will be necessary to support SDG&E's ownership and  
3 operation of OMEC until such time as plant ownership is transferred.

- 4 • For OMEC, the TURN recommended reduction of \$1,878,000 stated  
5 above includes a \$493,000 reduction in SDG&E's O&M request of  
6 \$22,796,000. TURN did not address SDG&E's going forward capital  
7 request for OMEC of \$5,351,000.

### 8 C. POC

9 The POC submitted testimony on May 14, 2018<sup>8</sup> and supplemental testimony on June 11,  
10 2018.<sup>9</sup> The following is a summary of POC's position(s):

- 11 • POC questions whether Calpine will exercise the option the Commission  
12 approved in D.06-09-021 for Calpine to "put" OMEC to SDG&E in 2019  
13 and argues that the Commission should not allow the transfer to go  
14 forward.

## 15 III. REBUTTAL TO PARTIES' O&M PROPOSALS

### 16 A. Non-Shared Services O&M

NON-SHARED O&M - Constant 2016 (\$000) with OMEC costs in the GRC			
	Base Year 2016	Test Year 2019	Change
SDG&E	36,435	62,316	25,881

17 The table above shows the values supported by SDG&E with OMEC in the GRC.  
18

NON-SHARED O&M - Constant 2016 (\$000) with OMEC costs removed from the GRC			
	Base Year 2016	Test Year 2019	Change
ORA	36,435	39,520	3,085
TURN	36,435	38,136	1,701
POC	NA	NA	NA

19 The table above shows ORA's and TURN's positions with OMEC removed from this  
20 GRC. POC made no recommendations regarding non-OMEC O&M costs.

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<sup>8</sup> POC (Powers).

<sup>9</sup> June 11, 2018, Supplemental Testimony of Bill Powers, P.E. on Behalf of Protect Our Communities.

1                   **1.     ORA**

2                   ORA issued its report on Electric Generation on April 13, 2018.<sup>10</sup> The following is a  
3 summary of ORA’s position(s) that have not already been identified in the preceding section:

- 4                   •       ORA does not dispute SDG&E’s requested Test Year O&M funding of  
5                   \$1.476 million in SONGS costs requested for marine mitigation and  
6                   workers’ compensation.<sup>11</sup>
- 7                   •       ORA recommends that the SONGS Balancing Account (SONGSBA)  
8                   continue.<sup>12</sup>
- 9                   •       In addition, ORA proposed no disallowances to the \$1.095 million in  
10                  Resource Planning shared expenses requested.<sup>13</sup>
- 11                  •       ORA proposed no disallowance to SDG&E’s proposed Electric  
12                  Generation Administration and Electric Project Development expense  
13                  forecast of \$469,000.<sup>14</sup>
- 14                  •       ORA’s proposals with respect to SDG&E’s acquisition of OMEC are  
15                  addressed in Section V. below.

16                   **2.     TURN**

17                   **a.     Electric Generation Power Plants**

18                  TURN takes issue with the SDG&E Test Year O&M forecasts of the Electric Generation  
19 Power Plants, including Palomar, Desert Star, Miramar and Cuyamaca, principally focusing on  
20 SDG&E’s use of a five-year historical period of 2012-2016 for developing average amounts used  
21 for most of the base forecasts. TURN argues for use of six-year historical period, using years  
22 2012-2017, that reflects lower 2017 costs.

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<sup>10</sup> April 13, 2018, ORA Report on the Results of Operations for San Diego Gas & Electric Company, Southern California Gas Company, Test Year 2019 General Rate Case (SDG&E – Electric Generation), Ex. ORA-08 (S. Logan).

<sup>11</sup> Ex. ORA-08 (Logan) at 12.

<sup>12</sup> *Id.*, at 13.

<sup>13</sup> *Id.*, at 15.

<sup>14</sup> *Id.*, at 11.



1 Consistent with the Rate Case Plan, SDG&E has prepared most of its forecasts using five  
 2 years of historical data, 2012-2016. SDG&E continues to support adoption of those forecasts for  
 3 the Test Year 2019 for the SDG&E power plants as the amounts needed by SDG&E to operate  
 4 and maintain the power plants in a safe and reliable manner.

5 Below is a discussion by power plant of SDG&E’s position on TURN’s  
 6 recommendations.

7 • **Palomar**

8 The table below of Palomar Power Plant forecasted costs shows the TURN forecast  
 9 amount of \$18,063,000 using a six-year averaging methodology. Compared with the SDG&E  
 10 forecast amount of \$18,556,000 using a five-year averaging methodology, the difference is a  
 11 reduction of \$493,000 from the SDG&E forecast.

12 SDG&E agrees with TURN’s position that a portion (\$119,000) of the crane costs should  
 13 be removed from the SDG&E base forecast as these costs will no longer occur due to the  
 14 installation of the Palomar steam turbine gantry crane and Palomar combustion turbine bridge  
 15 crane costs. Removal of the crane costs results in a revised SDG&E Forecast of \$18,437,000  
 16 that is a reduction of \$375,000 compared to the TURN Forecast. SDG&E supports the revised  
 17 SDG&E forecast of \$18,437,000.

<b>Palomar Power Plant</b>				
<b>(\$ Thousands)</b>	<b>Test Year 2019</b>	<b>Test Year 2019</b>	<b>Test Year 2019</b>	<b>Test Year 2019</b>
	<b>Labor Forecast</b>	<b>Non-Labor Forecast</b>	<b>NSE</b>	<b>Total Forecast</b>
TURN	3,929	13,987	146	18,063
SDG&E	4,076	14,334	146	18,556
Difference	(147)	(347)	-	(493)

19 • **Desert Star**

20 The table below of Desert Star Power Plant forecasted costs shows the TURN forecast  
 21 amount for labor and non-labor of \$9,807,000 using a six-year averaging methodology.  
 22 Compared to the SDG&E forecast amount of \$10,211,000 using a five-year averaging  
 23 methodology, the difference is a reduction of \$404,000 from the SDG&E forecast. SDG&E  
 24 continues to support the labor and non-labor forecasted amount of \$10,211,000. SDG&E also  
 25 disputes the \$5,000 reduction in the TURN non-labor forecast for Boulder City Chamber of  
 26 Commerce dues reflected in 2016 historical costs. This charge should remain as it is for

1 supporting Boulder City business and maintaining and fostering positive relationships with the  
 2 community where Desert Star is located, and in which SDG&E employees live and work.

3 The table below also shows the TURN non-standard escalation (NSE) forecast for long-  
 4 term service agreement (LTSA) expenses of \$5,151,000 and the SDG&E NSE forecast of  
 5 \$5,350,000, a reduction of \$200,000 from the SDG&E forecast. SDG&E disputes TURN's use  
 6 of a two-year averaging methodology (2016 and 2017) for estimating the Test Year 2019 base  
 7 forecast. SDG&E believes that using Base Year 2016 as the basis for the forecast submittal is  
 8 the most reasonable method for forecasting future LTSA expenditures for Desert Star, and  
 9 supports the NSE forecast amount of \$5,350,000.

10 The net resulting TURN Total Forecast of Labor, Non-Labor and NSE costs is  
 11 \$14,962,000 compared to the SDG&E Total of \$15,561,000, which is a reduction of \$604,000.  
 12 SDG&E supports the SDG&E Total Forecast of \$15,561,000.

<b>Desert Star Power Plant</b>					
(\$ Thousands)	Test Year 2019	Test Year 2019	Test Year 2019	Test Year 2019	Test Year 2019
	Labor Forecast	Non-Labor Forecast (1)	Labor & Non-Labor Forecast	NSE	Total Forecast
TURN	2,687	7,120	9,807	5,151	14,962
SDG&E (1)	2,713	7,498	10,211	5,350	15,561
Difference	(26)	(378)	(404)	(200)	(604)

14 • **Miramar**

15 The table below of Miramar Power Plant forecasted costs shows the TURN forecast  
 16 amount of \$2,265,000 using a six-year averaging methodology. Compared to the SDG&E  
 17 forecast amount of \$2,380,000 using a five-year averaging methodology, the difference is a  
 18 reduction of \$115,000 from the SDG&E forecast. SDG&E continues to support the forecasted  
 19 amount of \$2,380,000.

<b>Miramar Power Plant</b>				
(\$ Thousands)	Test Year 2019	Test Year 2019	Test Year 2019	Test Year 2019
	Labor Forecast	Non-Labor Forecast	NSE	Total Forecast
TURN	334	1,931	-	2,265
SDG&E	356	2,024	-	2,380
Difference	(22)	(93)	-	(115)

1           •       **Cuyamaca**

2           The table below of Cuyamaca Power Plant forecasted costs shows the TURN forecast  
 3 amount of \$992,000 using a 2013-2017 five-year average methodology for labor and a 2012-  
 4 2017 six-year average methodology for non-labor. Compared to the SDG&E forecast amount of  
 5 \$1,078,000 using a 2012-2016 five-year averaging methodology, the difference is a reduction of  
 6 \$86,000 from the SDG&E forecast. SDG&E continues to support the forecasted amount of  
 7 \$1,078,000.

<b>Cuyamaca Power Plant</b>				
(\$ Thousands)	Test Year 2019	Test Year 2019	Test Year 2019	Test Year 2019
	Labor Forecast	Non-Labor Forecast	NSE	Total Forecast
TURN	187	805	-	992
SDG&E	216	862	-	1,078
Difference	(29)	(57)	-	(86)

8  
 9           •       **Otay Mesa**

10          SDG&E addresses ORA’s and TURN’s recommendations with respect to SDG&E’s  
 11 O&M forecasts for OMEC in Section V. below.

12                           **b.       General Plant Administration**

13          The table below shows a General Plant Administration Test Year 2019 forecast of  
 14 \$258,000 for TURN and \$349,000 for SDG&E, a difference of \$91,000. TURN’s lower forecast  
 15 is due to the use of a three-year average (2015-2017) compared to the SDG&E’s forecast based  
 16 on the Base Year 2016 costs.

17          SDG&E believes year 2016 expenses are a reasonable basis for the forecasted costs as it  
 18 includes costs for the approximate two FTEs in the organization, including a Director and  
 19 Principal Business Analyst. The Principal Business Analyst position was vacant in 2017 and is  
 20 currently vacant but is planned to be filled soon. This position is necessary for required  
 21 budgeting, accounting and supply management activities of generation power plants, which is  
 22 currently being provided though borrowed labor. Therefore, SDG&E believes that the SDG&E  
 23 forecast of \$349,000 is reasonable.

<b>Generation Plant Administration</b>				
(\$ Thousands)	Test Year 2019	Test Year 2019	Test Year 2019	Test Year 2019
	Labor Forecast	Non-Labor Forecast	NSE	Total Forecast
TURN	250	8	-	258
SDG&E	340	9	-	349
Difference	(90)	(1)	-	(91)

**c. Electric Project Development**

TURN's testimony accepted the SDG&E forecasted amount for the Electric Project Development costs of \$121,000 shown in the below table.

<b>Electric Project Development</b>				
(\$ Thousands)	Test Year 2019	Test Year 2019	Test Year 2019	Test Year 2019
	Labor Forecast	Non-Labor Forecast	NSE	Total Forecast
TURN	116	5	-	121
SDG&E	116	5	-	121
Difference	-	-	-	-

**d. SONGS – Marine Mitigation & Workers Comp**

TURN's testimony did not address the SDG&E forecasted amount for the SONGS – Marine Mitigation & Workers Comp costs of \$1,476,000 shown in the below table.

<b>SONGS - Marine Mitigation &amp; Workers Comp</b>				
(\$ Thousands)	Test Year 2019	Test Year 2019	Test Year 2019	Test Year 2019
	Labor Forecast	Non-Labor Forecast	NSE	Total Forecast
SDG&E	-	-	1,476	1,476

**e. Resource Planning Director (shared services)**

The table below of Resource Planning Director forecasted labor and non-labor costs shows TURN's forecast amount of \$815,000 and the SDG&E forecast amount of \$1,094,000, and the difference/reduction of \$279,000 from the SDG&E forecast.

TURN disputes the SDG&E labor forecast of \$833,000, which is based on a five-year average and adjusted additions for a Resource Planning Manager FTE position and a different workforce composition.

SDG&E disagrees with TURN's recommendation, which fails to consider the additional activities SDG&E will need to be actively engaged in as the Commission moves from individual procurement proceedings to an Integrated Resource Planning (IRP) process, as required in SB

350. The SDG&E forecast also reflects staffing needed to meet greenhouse gas (GHG) target and reliability needs, which is incremental work. SDG&E continues to believe the complexity of the new IRP process requires additional effort and a greater skill set than was required in the past. The IRP has the potential to produce commodity cost savings for ratepayers but it will require incremental management expense. Failing to properly support the planning process could result in overall higher commodity costs. Additionally, the incremental manager position of IRP, included in the forecast adjustment, was delayed but has since been filled as of May 2018.

<b>Resource Planning Director</b>				
(\$ Thousands)	Test Year 2019	Test Year 2019	Test Year 2019	Test Year 2019
	Labor Forecast	Non-Labor Forecast	NSE	Total Forecast
TURN	523	292	-	815
SDG&E	833	261	-	1,094
Difference	(310)	31	-	(279)

#### IV. REBUTTAL TO PARTIES' CAPITAL PROPOSALS

The below table shows Electric Generation Years 2017-2019 Forecasted Capital costs for SDG&E and parties, followed by a discussion of the Parties' position of the forecasted costs.

<b>TOTAL CAPITAL - Constant 2016 (\$000) with OMEC in the GRC</b>					
	2017	2018	2019	Total	Variance
SDG&E	13,314	292,826	17,371	323,511	

The table above shows the values supported by SDG&E with OMEC in the GRC.

<b>TOTAL CAPITAL - Constant 2016 (\$000) with OMEC removed from the GRC</b>					
	2017	2018	2019	Total	Variance <sup>15</sup>
ORA	12,807	12,826	12,020	37,653	-285,858
TURN	13,314	12,826	12,020	38,160	-285,351
POC	NA	NA	NA	NA	NA

The table above shows ORA's and TURN's positions with OMEC removed from this GRC. POC made no non-OMEC capital recommendations.

<sup>15</sup> Variances are shown in comparison to SDG&E's original request.

1           **A.     ORA**

2           ORA issued its report on Electric Generation – Capital on April 13, 2018.<sup>16</sup> The  
3 following is a summary of ORA’s position.

4           •        ORA recommends Year 2017 recorded capital costs of \$12.807M be adopted in  
5 comparison to SDG&E Year 2017 forecasted capital cost of \$13.314M.<sup>17</sup> SDG&E accepts  
6 ORA’s recommendation.

7           •        ORA does not dispute SDG&E’s requested Year 2018 and 2019 Capital  
8 forecasted amounts of \$12.826M and \$12.020M, respectively, for generation power plants  
9 excluding OMEC.<sup>18</sup>

10          •        SDG&E addresses ORA’s recommendations with respect to SDG&E’s capital  
11 forecasts for OMEC in Section V. below.

12           **B.     TURN**

13          TURN issued its report on Electric Generation – Capital on May 14, 2018.<sup>19</sup> The  
14 following is a summary of TURN’s position.

15          •        TURN made no proposed adjustments to SDG&E’s requested Capital forecasted  
16 costs for Years 2017 – 2019, excluding OMEC.<sup>20</sup>

17          •        TURN identified two projects at Palomar that were disallowed in the 2012 Test  
18 Year rate case that were inadvertently included in the revenue requirement beginning in 2016.<sup>21</sup>  
19 SDG&E agrees with TURN that the revenue requirement associated with these two projects  
20 should be removed (retroactive to 2016) and any overcollections returned to ratepayers.

21          •        SDG&E addresses TURN’s recommendations with respect to SDG&E’s capital  
22 forecasts for OMEC in Section V. below.

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<sup>16</sup> Ex. ORA-08 (Logan).

<sup>17</sup> *Id.*, at 18-19.

<sup>18</sup> *Id.*, at 19.

<sup>19</sup> Ex. TURN-03 (Marcus).

<sup>20</sup> *Id.*, at 65.

<sup>21</sup> *Id.*

1 **V. OMEC**

2 **A. This GRC Proceeding is the Time and Place to Establish SDG&E’s Revenue**  
3 **Requirement for OMEC<sup>22</sup>**

4 In their opening testimony, ORA and TURN concur with SDG&E that it is likely that the  
5 OMEC will exercise the option the Commission approved in 2006 in D. 06-09-021 to “put” the  
6 Otay Mesa plant to SDG&E in 2019:

- 7 • ORA: “ORA concurs with SDG&E that it is reasonable to expect Calpine to  
8 exercise its put option, and SDG&E will own the OMEC sometime in the 2019  
9 timeframe.”<sup>23</sup>
- 10 • TURN: “I agree with SDG&E that Calpine will likely exercise the Put Option  
11 and sell the plant to SDG&E . . .,”<sup>24</sup> and “To be clear, I agree with SDG&E that it  
12 is highly likely that Calpine will exercise its Put Option.”<sup>25</sup>

13 ORA and TURN argue, however, that the Commission should delay consideration of the  
14 revenue requirement that will be necessary to support SDG&E’s ownership and operation of  
15 OMEC until such time as OMEC actually exercises its put option and/or plant ownership is  
16 transferred.<sup>26</sup> In support of their argument, ORA and TURN assert that it is necessary to delay

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<sup>22</sup> Gregory Shimansky sponsors this section of this testimony. Daniel Baerman sponsors all other sections of this testimony.

<sup>23</sup> Ex. ORA-08 (Logan) at 7.

<sup>24</sup> Ex. TURN-02 (Woodruff) at 2.

<sup>25</sup> *Id.* at 4. In support of its statement that “I agree with SDG&E that it is highly likely that Calpine will exercise its Put Option,” TURN further explains: “The general complaints gas generators have expressed with electricity market conditions in California might by themselves encourage Calpine to exercise its Put Option. In addition, SDG&E believes that Calpine will also need to refinance about \$280 million of debt on OMEC in 2019, as shown in Attachment C, SDG&E’s response to the 6<sup>th</sup> Question of TURN’s 23<sup>rd</sup> Data Request. If Calpine exercises the Put Option and closes the transaction, it could presumably more readily pay off this amount.” *Id.* at 4.

<sup>26</sup> If OMEC decides to exercise its Put Option, which SDG&E expects, OMEC must provide notice to SDG&E no later than April 1, 2019. Under ORA’s proposal, SDG&E would file a Tier 1 advice letter seeking recovery of its proposed revenue requirement sometime after it receives this notice but before the transfer in ownership occurs. Ex. ORA-08 at 9. Under TURN’s proposal, SDG&E would not even seek review of its proposed revenue requirement until *after* the transfer in ownership occurs. Ex. TURN-02 at 7).

1 consideration of SDG&E’s proposed OMEC revenue requirement to protect ratepayers against  
2 any potential overcollection of costs.<sup>27</sup>

3         ORA and TURN seem to ignore that a key purpose of the OMEC balancing account  
4 SDG&E has proposed in this GRC proceeding is to ensure that *any* overcollection of costs  
5 related to the transfer of the plant to SDG&E is returned to ratepayers. As SDG&E explained in  
6 its opening testimony, “[t]o help ensure that ratepayers only pay SDG&E for the plant  
7 (depreciation, taxes, and return, otherwise known as ‘capital-related costs’) when and if the  
8 ownership of the plant shifts to SDG&E, SDG&E is proposing to track the revenue requirement  
9 for this particular asset in a balancing account . . . ”<sup>28</sup> In its opening testimony, SDG&E also  
10 explained that its balancing account proposal “also would protect ratepayers in the unlikely event  
11 that the plant is not put to SDG&E and the [existing] PPTA merely expires (which SDG&E does  
12 not expect).”<sup>29</sup>

13         If the Commission does not establish a revenue requirement for OMEC in this GRC  
14 proceeding, as ORA and TURN propose, SDG&E is concerned that it will be unfairly denied an  
15 opportunity to recover the revenue requirement necessary to own and operate the Otay Mesa  
16 plant during this 2019 GRC cycle. SDG&E’s opening testimony explains that “The annual  
17 revenue requirement is necessary to provide SDG&E with the necessary revenue requirement for  
18 the OMEC plant when the transfer occurs [2019] *and for the attrition years beyond it* . . . ”<sup>30</sup>  
19 (emphasis added). Delaying the Commission’s consideration of SDG&E’s proposed revenue

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<sup>27</sup> Ex. ORA-08 (Logan) at 7); Ex. TURN-02 (Woodruff) at 3).

<sup>28</sup> October 6, 2017, Direct Testimony of Daniel S. Baerman (Electric Generation), Ex. SDG&E-16 (Baerman) at 6. In response to data requests, SDG&E has clarified that the proposed OMEC balancing account would track the revenue requirement for *both* capital *and* Operations & Maintenance (O&M) costs.

<sup>29</sup> *Id.* Contrary to the assertion of POC in its opening testimony (*see* POC (Powers) at 3), SDG&E has never stated that it is a certainty that OMEC will exercise its Put Option; rather, SDG&E has said that it is likely that OMEC will do so and, as such, SDG&E should plan for that eventuality and track its costs in its proposed OMEC balancing account.

<sup>30</sup> *Id.*, at 6.



1 requirement for OMEC, as ORA and TURN propose, could result in SDG&E not having  
2 sufficient funds to own and operate the plant during this 2019 GRC cycle.<sup>31</sup>

3 Thus, contrary to ORA’s and TURN’s assertions, *this* GRC proceeding is the time and  
4 place to establish SDG&E’s revenue requirement for the Otay Mesa plant, subject of course to  
5 true up in the OMEC balancing account. The Commission already has approved the \$280  
6 million purchase price for the plant<sup>32</sup> and ORA has “verified that this price is consistent with the  
7 terms and conditions of the agreement approved by D.06-09-021.”<sup>33</sup> To the extent that  
8 SDG&E’s final due diligence of the plant results in any adjustments to the \$280 million set price,  
9 as TURN contends,<sup>34</sup> SDG&E proposes to change its OMEC balancing account proposal to  
10 include a provision that would allow a true-up of that revenue requirement variance by making  
11 an adjustment in the balancing account. The adjusted revenue requirement, including revised  
12 values (capital related costs of depreciation, taxes, and return, and O&M, should the ultimate  
13 purchase price be different than \$280 million), would be shown as an attachment in the Annual

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<sup>31</sup> ORA has proposed that SDG&E file a Tier 1 advice letter after OMEC notifies SDG&E of its intent to exercise the Put Option, which notification is due to SDG&E no later than April 1, 2019. Ex. ORA-08 (Logan) at 9. TURN’s proposal is to address the revenue requirement for OMEC “in a separate application dedicated to reviewing the Put Option transaction, a separate phase of this docket or SDG&E’s next General Rate Case, or a dedicated phase of a future SDG&E Energy Resource Recovery Account (ERRA) proceeding.” Ex. TURN-02 (Woodruff) at 7).

<sup>32</sup> In D.06-09-021, the Commission stated that “The Put Option, exercisable at OMEC’s sole discretion at the end of the ten-year PPA, would require SDG&E to purchase the Otay Mesa plant at a set price.” D.06-09-021 at 5. At the time the Commission issued D.06-09-021, the price of the Put Option (\$280 million) was subject to the Commission’s confidentiality rules, but has since been made public. In D.06-09-021, the Commission also stated that “Pursuant to the terms of the Put Option, *there would be no additional Commission review or approval required before OMEC’s potential exercise of the option.*” (emphasis added). *Id.* Finally, in D.06-09-021, the Commission also expressly found that “It is reasonable to approve the acquisition by SDG&E of the Otay Mesa plant at the end of the ten-year PPA if OMEC exercises the Put Option.” *Id.*, at Finding of Fact 18). In D.06-09-021, the Commission also granted SDG&E a Call Option – at a set price of \$377 million – but SDG&E has decided *not* to pursue its Call Option. *Id.*, at 5. In contrast to the procedural for the Put Option, had SDG&E decided to exercise the higher-priced Call Option, the Commission would have required SDG&E to “seek further Commission review and approval prior to exercising that option.” *Id.* At the time the Commission issued D.06-09-021, the price of the Call Option (\$377 million) was subject to the Commission’s confidentiality rules, but the pricing has since been made public.

<sup>33</sup> Ex. ORA-08 (Logan) at 20 (the purchase price that the Commission set in D.06-09-021 is \$280 million, not the \$282 million ORA references). *Id.*

<sup>34</sup> Ex. TURN-02 (Woodruff) at 5-7.

1 Non-Fuel Generation Balancing Account advice letter, or another Tier 2 advice letter. Those  
2 adjustments for the updated revenue requirement would be shown in the OMEC balancing  
3 account, and subject to the Commission’s and parties’ standard review, just like any other  
4 balancing account.

5 With respect to SDG&E’s 2019 forecasted going-forward O&M and capital costs for  
6 OMEC, ORA and TURN (and all parties) have had an opportunity in this GRC proceeding to  
7 review and comment on SDG&E’s forecasts, and ORA and TURN have done so. For example,  
8 in its testimony, ORA has proposed a \$1.1 million reduction in SDG&E’s 2019 O&M forecast  
9 for OMEC<sup>35</sup> (which SDG&E addresses below), but “accepts” SDG&E’s \$5.351 million capital  
10 forecast for OMEC.<sup>36</sup> In its testimony, TURN proposed a \$493,000 reduction in SDG&E’s  
11 2019 O&M forecast for OMEC<sup>37</sup> (which SDG&E also addresses below), and did not address  
12 SDG&E’s proposed capital forecast with respect to OMEC.

13 In summary, the CPUC should review and approve SDG&E’s revenue requirement for  
14 the Otay Mesa plant in this pending GRC proceeding.

15 **B. ORA’s and TURN’s Proposed O&M Adjustments to OMEC**

16 **1. ORA’s Proposed \$1.1 million adjustment to OMEC O&M**

17 The table below of OMEC Power Plant 2019 Forecasted costs shows the ORA Forecast  
18 of \$21,696,000 compared to the SDG&E Forecast of \$22,796,000 and the difference of  
19 \$1,100,000.

20 ORA recommends that SDG&E’s proposed O&M expense for the operation and  
21 maintenance of OMEC be adjusted downward by \$1.1 million for “Contracting/Procurement  
22 Efficiencies” by the same amount as a similar adjustment made by SDG&E to its Desert Star  
23 plant. SDG&E opposes this recommendation. The OMEC plant is currently owned and  
24 operated by Calpine. It is SDG&E’s position that it is unreasonable to expect that such a large  
25 reduction in O&M costs would be secured immediately upon a change of ownership. Given the  
26 nature of procurement for electric generation facilities, finding opportunities for sizeable  
27 discounts on parts and services has always been a challenge. SDG&E uses trade union labor for

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<sup>35</sup> Ex. ORA-08 (Logan) at 7-8.

<sup>36</sup> *Id.* at 20.

<sup>37</sup> Ex. TURN-03 (Marcus) at 63.

1 most plant maintenance and replacement parts for equipment are highly specialized and available  
 2 only through a small number of suppliers or solely from the original equipment manufacturer.  
 3 SDG&E will need time to familiarize itself with the operation and maintenance of the plant  
 4 before it can know what, if any, efficiencies can be achieved. If OMEC is removed from this  
 5 GRC, this adjustment is moot (for purposes of the GRC revenue requirement).  
 6

<b>Otay Mesa Power Plant</b>			
<b>(\$ Thousands)</b>	<b>Test Year 2019 Base Forecast</b>	<b>Test Year 2019 Forecast Adjustments</b>	<b>Test Year 2019 Total Forecast</b>
<b>ORA</b>		<b>21,696</b>	<b>21,696</b>
<b>SDG&amp;E</b>		<b>22,796</b>	<b>22,796</b>
<b>Difference</b>		<b>(1,100)</b>	<b>(1,100)</b>

7  
8  
9 **2. TURN’s Proposed \$493,000 adjustment to OMEC O&M**

10 The table below of OMEC Power Plant 2019 Forecasted costs shows the TURN Forecast  
 11 of \$22,303,000 compared to the SDG&E Forecast of \$22,796,000 and the difference of  
 12 \$493,000.

13 TURN proposes a \$493,000 reduction in SDG&E’s 2019 O&M forecast for OMEC.<sup>38</sup>  
 14 TURN argues that because SDG&E based its forecast for OMEC on Palomar, and TURN is  
 15 proposing a \$493,000 reduction in SDG&E’s 2019 O&M forecast for Palomar, the Commission  
 16 should adopt the same reduction for OMEC.

17 SDG&E disagrees with TURN’s recommendation. Of TURN’s \$493,000 proposed  
 18 reduction, \$375,000 is due to TURN’s use of a six-year historical average instead of the five-  
 19 year average that SDG&E supports. The remaining \$119,000 of the \$493,000 is for a TURN  
 20 reduction for Palomar historical crane costs, which is not applicable to OMEC. It is not known if  
 21 fixed cranes exist at the OMEC plant, and if they do exist, their physical location and installation  
 22 date is also unknown. For these reasons, it would not be appropriate to reduce the OMEC  
 23 Forecast by \$493,000. IF OMEC is removed from this GRC, this adjustment is moot (for  
 24 purposes of the GRC revenue requirement).

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<sup>38</sup> Ex. TURN-03 Marcus) at 63.

<b>Otay Mesa Power Plant</b>			
<b>(\$ Thousands)</b>	<b>Test Year 2019</b>	<b>Test Year 2019</b>	<b>Test Year 2019</b>
	<b>Base Forecast</b>	<b>Forecast Adjustments</b>	<b>Total Forecast</b>
TURN		<b>22,303</b>	<b>22,303</b>
SDG&E		<b>22,796</b>	<b>22,796</b>
Difference	-	<b>(493)</b>	<b>(493)</b>

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**VI. CONCLUSIONS**

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To summarize, SDG&E requests that the Commission adopt its proposal for Test Year

4

2019 forecasts for Electric Generation.

5

This concludes my prepared rebuttal testimony.

1 **VII. WITNESS QUALIFICATIONS**

2 My name is Gregory D. Shimansky. My business address is 8330 Century Park Court,  
3 San Diego, California 92123. I am employed by SDG&E as the GRC Program Manager for both  
4 SDG&E and Southern California Gas Company (“SoCalGas”) covering various GRC chapters  
5 and the companies’ Cost of Capital proceedings. I have held this position since June of 2013.  
6 Prior to this position I was the Regulatory Accounts and Financial Services Manager at SDG&E  
7 in the Financial Analysis Department for 3 years. In that position, I was responsible for  
8 managing the process for the development, implementation, and analysis of regulatory balancing  
9 and memorandum accounts as well as supervising the treasury function at SDG&E. I have been  
10 employed with SDG&E, SoCalGas and Sempra Energy since June 30, 2003. In addition to my  
11 current position in the GRC organization, I served as the Financial Planning Manager for Sempra  
12 Energy, the Regulatory Reporting Manager at SDG&E/SoCalGas, and from June 2003 through  
13 August 2008, I worked for SDG&E in utility planning.

14 I earned a Bachelor of Science degree in Economics from the University of California,  
15 Los Angeles in June 1993. I also earned a Master of Science in Management, with  
16 concentrations in Finance and Marketing, from Purdue University in May 1998.

17 I have previously provided testimony to the California Public Utilities Commission

## **APPENDIX A - GLOSSARY OF TERMS**

D	Decision
ERRA	Energy Resource Recovery Account
FTE	Full-Time-Equivalent
IRP	Integrated Resource Planning
OMEC	Otay Mesa Energy Center
ORA	Office of Ratepayer Advocates
POC	Protect Our Communities Foundation
SONGSBA	SONGS Balancing Account
TURN	The Utility Reform Network