Company:	San Diego Gas & Electric Company (U 902 M)
Proceeding:	2019 General Rate Case
Application:	A.17-10-007/008 (cons.)
Exhibit:	SDG&E-231

SDG&E

REBUTTAL TESTIMONY OF SANDRA K. HRNA

(ACCOUNTING AND FINANCE/LEGAL/REGULATORY AFFAIRS/EXTERNAL AFFAIRS)

JUNE 18, 2018

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

A Sempra Energy utility®

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SDG&E REBUTTAL TESTIMONY OF FIRST SANDRA K. HRNA (ACCOUNTING AND FINANCE, LEGAL, REGULATORY AND EXTERNAL AFFAIRS)

I. SUMMARY OF DIFFERENCES

TOTAL O&M - Constant 2016 ($000)				
	Base Year 2016	**Test Year 2019**	**Change**	**Variance to SDG&E Ask**
SDG&E	**37,823**	**35,977**	**-1,846**	
ORA	**37,823**	**35,877**	**-1,946**	
TURN				**-403**[1]
UCAN				**0**[2]
FEA				**0**[3]

II. INTRODUCTION

This rebuttal testimony is regarding San Diego Gas & Electric Company's (SDG&E) request for Administrative & General (A&G) expenses associated with SDG&E's Accounting and Finance, Legal, Regulatory Affairs and External Affairs and it addresses the following testimony from other parties:

- The Office of Ratepayer Advocates (ORA), as submitted by Ms. Fransiska Hadiprodjo (Exhibit ORA-24), dated April 13, 2018.
- The Utility Reform Network (TURN), as submitted by Mr. William Perea Marcus (Exhibit TURN-03), dated May 14, 2018.
- Utility Consumer's Action Network (UCAN), as submitted by Brandon Charles, dated May 14, 2018.
- Federal Executive Agencies (FEA), as submitted by Ralph C. Smith (Exhibit FEA-1), dated May 14, 2018.

[1] Of TURN's recommended $402,632 disallowance, $183,000 is included in my forecast of costs for the External Affairs Division; the remaining amount ($219,632) is included in the overall company dollars, not in this testimony.

[2] UCAN proposed changes in the mechanism of SDG&E's Third-Party Claims Balancing Account (TPBCA). No numerical changes are associated with this proposal.

[3] FEA recommends that the request to establish a TPCBA be denied. No numerical changes are associated with this proposal.

As a preliminary matter, 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 or 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 A&G expenses on April 13, 2018.[4] The following is a summary of ORA's position(s):

- ORA recommends a $100,000 reduction of SDG&E's $200,000 Test Year (TY) 2019 forecast to address a Risk Assessment Mitigation Plan (RAMP) records management risk on the ground that SDG&E did not explain how it arrived at its forecast.
- ORA does not oppose SDG&E's request to establish a Third-Party Claims Balancing Account (TPBCA).

B. TURN

TURN submitted testimony on May 14, 2018.[5] The following is a summary of TURN's position(s):

- TURN recommends disallowance of $85,362 from base year 2016 for dues and donations.
- TURN recommends removal of $183,000 from Base Year 2016 for Charitable and Other Sponsorships on the ground that these expenses do not seem to support safety, energy efficiency, or customer programs.
- TURN recommends removal of $134,000 in Clothing and Other Gear containing the utilities' name and logo because they believe this involves largely promotional and image-building.

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[4] April 13, 2018, ORA submitted by Ms. Fransiska Hadiprodjo on Accounting and Finance/Legal/Regulatory Affairs/External Affairs, Exhibit ORA-24at pp, 12.

[5] May 14, 2018, TURN submitted by Mr. William Perea Marcus, Exhibit TURN-03, at pp. 75-78.

C. UCAN

UCAN submitted testimony on May 14, 2018.[6] The following is a summary of UCAN's position(s):

- The California Public Utilities Commission (CPUC or Commission) should reject SDG&E's proposed TPBCA and instead authorize a memorandum account to track third-party claims that exceed SDG&E's liability insurance coverage.
- SDG&E is already asking ratepayers to bear significant costs due to wildfire risk, which includes an increase in liability insurance costs as well as capital investments to mitigate certain risks.

D. FEA

The FEA submitted testimony on May 14, 2018.[7] The following is a summary of FEA's position(s):

- FEA recommends that the request to establish a TPCBA be denied.
  - o SDG&E has not demonstrated that it has a unique problem to warrant the creation of this account.
  - o The TPCBA could reduce incentives currently in place for SDG&E to prudently settle third-party claims.
- SDG&E has not explained the increase in claims expense in 2016 over the previous years.

III. REBUTTAL TO PARTIES' O&M PROPOSALS

A. Shared and Non-Shared Services O&M

NON-SHARED O&M - Constant 2016 ($000)			
	Base Year 2016	**Test Year 2019**	**Change**
SDG&E	**37,823**	**35,977**	**-1,846**
ORA	**37,823**	**35,877**	**-1,946**

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[6] May 14, 2018, UCAN as submitted by Brandon Charles.

[7] May 14, 2018, FEA as submitted by Ralph C. Smith, Exhibit FEA-1 at pp. 89-92.

1. Disputed Cost

a. ORA

ORA recommends a $100,000 reduction of SDG&E's $200,000 TY 2019 forecast to address a RAMP records management risk. ORA asserts that SDG&E failed to provide a working spreadsheet explaining how SDG&E arrived at its $200,000 forecast.[8]

The Commission should reject ORA's recommendation. In its opening testimony, SDG&E explained that "in order for our employees to follow leading record management practices we must first identify what these leading practices for utilities are and what we need to do to improve our practices" and "[t]o do this, the Companies will hire a third-party records management expert to conduct a gap assessment between current policies and practices and leading policies and practices, then provide recommendations on filling these gaps." During discovery, SDG&E explained to ORA that its $200,000 forecast was the average of a $100,000 - $300,000 estimated range and was based on the following information.

The low end of SDG&E's estimate ($100,000) was based on a records management project that was performed in 2007. In 2007, Sempra Energy engaged a third-party consultant to perform an assessment of the records management process. The project cost given in 2007 was approximately $75,000. SDG&E used an escalation factor to forecast the increase in the hourly costs for the 2019 General Rate Case (GRC) at approximately $100,000.

The high end of SDG&E's estimate ($300,000) reflected anticipated additional scope and other factors as follows:

1. Increased scope - SDG&E has more records than what was analyzed in the 2007 assessment. As such, SDG&E's 2019 RAMP project covers a larger number and a wider variety of records.
2. Increased expertise - The 2019 RAMP project will require more in-depth expertise, which will require specialized advisors and experts with experience in utility operations.
3. Increased hours and billable rates - The 2019 RAMP project will be performed in multiple phases over a longer period and will naturally require more consulting hours.

[8] Ex. ORA-24 (Hadiprodjo) at pp. 7, 21.

4. Increased Risk - The 2019 RAMP project expands beyond records management and includes the operational considerations for RAMP. Because the focus of the 2019 RAMP project is on operational records, it is even more important to ensure that the records are accurate and that they capture all relevant information. Additionally, operational records are not centralized like administrative records. Operational records are included across multiple systems, which require additional time and effort to maintain.

SDG&E believes it has provided appropriate justification for this important RAMP records management project and for its $200,000 mid-range forecast. SDG&E requests that the Commission adopt it.

b. TURN

TURN recommends a reduction to SDG&E's forecast of $85,362 for dues and donations.[9] SDG&E disputes this recommendation in part. SDG&E already had removed from its GRC request $74,000 of the $85,362 amount. As such, SDG&E overstated its GRC forecast for dues and donations by only $11,362, not $85,362.

Dues and Donations included in Rate Case	
Account 920	1,290
Account 921	10,072
Total	11,362
Dues and Donations excluded from Rate Case	
Account 546	5,000
Account 930	69,000
Total	74,000

TURN further has recommended the removal of $183,000 from SDG&E's Base Year 2016 for Charitable and Other Sponsorships.[10] SDG&E disagrees with TURN. In SDG&E's view, these sponsorships provide awareness and education of SDG&E programs supporting safety, energy efficiency, and other customer programs. As an example, an expense for $75,000

[9] Ex. TURN-03 (Marcus) at pp. 75-76.

[10] Ex. TURN-03 (Marcus) at pp. 77.

of this total was used to support an electric transportation campaign related to Commission programs to promote clean energy transportation throughout San Diego County, including disadvantaged communities. Educating the public on clean transportation, grid optimization and efficiency will promote broader customer benefits system wide. Other expenses in this total of $183,000 were used for outreach and education activities targeted to military customers, safety partners, underserved urban nonprofit organizations, and authorized CPUC programs. As such, these costs should remain in the case.

Lastly, TURN requests the removal of $134,000 for clothing and other gear with the utilities' name and logo in base year 2016, stating that these expenses are largely promotional and image-building.[11] SDG&E disagrees. These expenses help identify company employees at company-sponsored community events. In addition, company employees attend such events to promote safety (i.e., "call 811 before you dig"), service options and energy conservation. The giveaways remind customers of safety and Commission-approved programs such as energy efficiency, low income, medical baseline and clean transportation. The Commission should reject TURN's recommendation.

2. Other Disputed Items

a. UCAN

UCAN proposes that the Commission should reject SDG&E's proposed TPCBA and instead authorize SDG&E to establish a memorandum account to track third-party claims that exceed SDG&E's liability insurance coverage. UCAN also states that "the limited oversight would leave the utilities with less incentives to reduce costs and manage risk wisely."[12] UCAN errs in its view that there will be "limited [Commission] oversight." Per the direct testimony of Norma Jasso, "The TPCBA balance will be addressed in each GRC on a going forward basis" (Exhibit SDG&E-41, p. 13). Reviewing the TPCBA in the next GRC will provide UCAN and any other party appropriate oversight.

UCAN also argues that SDG&E is already asking ratepayers to bear significant costs due to wildfire risk, which includes an increase in liability insurance costs as well as capital

[11] Id. at pp. 77-78.

[12] May 14, 2018, UCAN's as submitted by Brandon Charles, at pp. 91.

investments to mitigate certain risks.[13] However, SDG&E's proposed changes in capital investment to address wildfire risk are in accordance with the Commission's new risk-informed safety directives. These investments should reduce the risk of incidents, which in turn would decrease the number and amounts of future claims. In addition, liability insurance costs are being driven by changing insurance market conditions, as described in the testimony of Neil Cayabyab (Exs. SDG&E-27 and SDG&E-227).

For these reasons, the Commission should reject UCAN's recommendation.

b. FEA

FEA also recommends that the Commission should reject SDG&E's request to establish a TPCBA. FEA asserts that SDG&E has not demonstrated that it has a unique problem to warrant the creation of this account.[14] FEA ignores the important reasons SDG&E seeks approval of the TPCBA. As SDG&E explained in its direct testimony, "[t]he balancing account is necessary due to the impossibility of predicting the number of claims and amounts" and to address "the mismatch experienced historically between third-party related claims to be paid versus the amount of available insurance at any given time."[15] SDG&E also explained that the "balancing account will see that customers are ultimately billed no more or no less than actual claims net payments" and that "[t]he balancing account protects both SDG&E and customers against the exposure to expenses that are predicated on a five-year history of events but may actually differ dramatically from such a forecast."[16]

FEA also asserts that the TPCBA could reduce incentives currently in place for SDG&E to prudently settle third-party claims and control costs.[17] FEA's speculation is unfounded. SDG&E currently manages claims prudently and will continue to do so. The establishment of the TPCBA will see that ratepayers are refunded revenues when actual claims expenses are below authorized. Claims are evaluated on a case-by-case basis taking into consideration the

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[13] UCAN (Charles) at pp. 92.

[14] FEA (Smith) at pp. 30.

[15] December 2017, Revised Direct Testimony of Sandra K. Hrna, Ex. SDG&E-31-R at pp. 26.

[16] *Id*.

[17] May 14, 2018, FEA as submitted by Ralph C. Smith, Exhibit FEA-1 at pp. 36.

allegation asserted, potential liability against the utility, and the measure of damages both from a property damage and bodily injury perspective. If liability against the utility is determined, this information is weighed to develop a settlement value or range for the case. Negotiations are initiated and settlement achieved either within the claims process or through litigation.

Lastly, FEA claims that SDG&E has not explained the increase in claims expense in 2016 over the previous years.[18] SDG&E's claim payments in any given year are dependent upon the number of claims and types of claims brought against the company. Each year and each case is unique in the dollars sought, complaint alleged, and time to resolve the matter through litigation in court or settlement. Recovery expenses are also dependent upon the same factors described for claims payments. In 2016, there was an increase in the amount paid for bodily injury claims and property damage claims. This increase caused claims payments for 2016 to be higher compared to claims payments and recovery expenses for 2014 and 2015. An increase in claims payments in 2016 is no reason to deny the establishment of the TPCBA. Rather, the increase in 2016 claims expenses demonstrates the variability of claims costs and reinforces the need for the TPCBA.

This concludes my prepared rebuttal testimony.

[18] May 14, 2018, FEA as submitted by Ralph C. Smith, Exhibit FEA-1 at pp. 35.

APPENDIX A

ERRATA

Exhibit	Witness	Page	Line	Revision Detail
Discovery	*S. Hrna*	*Data Request FEA-04 Question 13*		*Claims Recovery Expenses have been corrected and differ from the testimony and workpapers. Total variance is an increase of $89,595 for years 2012-2016. This amount understated the 2019 Forecast for the Legal Division by approximately $17,917.*

APPENDIX B

GLOSSARY OF TERMS

Commission or CPUC	California Public Utilities Commission
ORA	Office of Ratepayer Advocates
RAMP	Risk Assessment and Mitigation Phase
SDG&E	San Diego Gas & Electric Company
TURN	The Utility Reform Network
TY	Test Year
UCAN	Utility Consumers Action Network
A&G	Administrative & General
UCAN	Utility Consumer’s Action Network
FEA	Federal Executive Agencies
TPBCA	Third-Party Claims Balancing Account