Company: San Diego Gas & Electric Company (U 902 M)
Proceeding: 2019 General Rate Case
Application: A.17-10-007/008 (cons.)
Exhibit: SDG&E-233

SDG&E

REBUTTAL TESTIMONY OF R. CRAIG GENTES

(RATE BASE)

JUNE 18, 2018

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

A Sempra Energy utility®

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SOCALGAS/SDG&E REBUTTAL TESTIMONY OF R. CRAIG GENTES (RATE BASE)

I. INTRODUCTION

This rebuttal testimony regarding SDG&E's rate base (except working cash, which is addressed in Steve Dais's Rebuttal Testimony)[1] addresses the following testimony:

- The Office of Ratepayer Advocates (ORA), as submitted by Christian F. Lambert (Exhibit ORA-26), dated April 13, 2018.
- The Utility Reform Network (TURN), as submitted by William Perea Marcus (Exhibit TURN-03), dated May 14, 2018.
- The Federal Executive Agencies (FEA), as submitted by Ralph C. Smith, CPA (Exhibit FEA-1), dated May 14, 2018.

As a preliminary matter, the absence of a response to any particular issue in this rebuttal testimony does not imply or constitute agreement by SDG&E with the proposal or contention made by these or other parties. The forecasts contained in SDG&E's direct testimony are based on sound estimates of its revenue requirements at the time of testimony preparation.

This rebuttal testimony addresses: ORA's recommendations regarding Customer Advances for Construction (CAC) and gas fuel in storage; TURN's recommended changes to the rate for allowance for funds used during construction (AFUDC) and the materials and supplies (M&S) escalation calculation in the rate base forecast; and FEA's recommendations regarding Plant Held for Future Use (PHFU).

A. ORA

ORA submitted Rate Base testimony on April 13, 2018.[2] The following is a summary of ORA's positions:

1. The Commission should adopt a forecast of $48.801 million for electric CAC, rather than SDG&E's proposed $33.343 million.

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[1] June 18, 2018, SDG& Rebuttal Testimony of Steve Dais, Ex. SDG&E-236.

[2] April 13, 2018, Prepared Testimony of Christian F. Lambert, *Report on the Results of Operations for San Diego Gas & Electric Company-Southern California Gas Company Test Year 2019 General Rate Case*, Exhibit ORA-26 (Ex. ORA-26(Lambert)) at 6 (Electric CAC), 8 (Gas Fuel in Storage), and 10 (Gas CAC).

2. The Commission should adopt a forecast of $2.717 million for gas CAC, rather than SDG&E's proposed $2.079 million.

3. The Commission should deny the inclusion of gas fuel in storage within rate base. The carrying cost of this fuel inventory should be addressed in SDG&E's next Energy Resource Recovery Account (ERRA) proceeding.

B. TURN

TURN submitted Rate Base testimony on May 14, 2018.[3] The following is a summary of TURN's positions:

1. TURN recommends that the actual AFUDC rate for 2017 (or the arithmetic average if figures can only be input on an annual basis) be substituted for the Companies' authorized rates of return for 2017 in the Results of Operation (RO) model. TURN also recommends that the AFUDC rate used in 2018 and 2019 be set as 41 basis points below the authorized return for SDG&E.

2. Recorded M&S inventory in 2016 was $101.671 million. SDG&E forecast a 13% increase to $114.891 million. TURN's forecast is a 4.3% decrease to $97.284 million. TURN's decrease largely arises because TURN argues that $30 million of generation M&S should not be escalated – and $20 million of that generation M&S will in fact be used during 2019 – reducing average year inventory levels by $10 million.

C. FEA

FEA submitted testimony on May 14, 2018.[4] The following is a summary of FEA's position: FEA recommended that the Ocean Ranch Substation Land and the Oceanside Substation Land be excluded from rate base under PHFU until they are used and useful.

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3 May 14, 2018, Direct 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 [2019] Test Year General Rate Cases*, Exhibit TURN-03 (Ex. TURN-03 (Marcus)) at 72 (AFUDC) and 102 (M&S).

4 May 14, 2018, Direct Testimony of Ralph C. Smith, CPA, *On behalf of The Federal Executive Agencies* (FEA), Exhibit FEA-1 (Ex. FEA-1 (Smith)) at 60.

II. REBUTTAL TO ORA, TURN AND FEA'S RECOMMENDATIONS

A. ORA

1. Electric CAC

SDG&E proposed a forecast of $33.343 million for electric CAC. ORA has recommended that the Commission adopt a forecast of $48.801 million. The Commission should reject ORA's recommendation because it uses a five-year (2013-2017) linear regression of historical monthly balances. This five-year forecast only uses the most recent data of the current expansion phase of the business cycle. It is not representative of the four phases of a business cycle (expansion, peak, recession, and trough). The linear regression assumes the current expansion phase will remain unchanged and excludes the other business cycle phases from the forecast. So it overestimates the forecasted CAC balance.

By contrast, SDG&E's forecast of $33.343 million for electric CAC is based on a five-year historical average of recorded CAC net activity for routine projects and recorded activity for planned major projects based on estimated construction costs for individual projects. The use of five-year recorded CAC activity incorporates the more recent data of the current expansion phase of the business cycle, while normalizing the year-to-year variability in the CAC balance. Additionally, the use of five years of historical data is consistent with the current methodology used by capital and O&M witnesses in their forecasts in this SDG&E General Rate Case (GRC) proceeding, as well as in prior SDG&E rate case proceedings before this Commission. If the Commission believes that a five-year recorded average is not an appropriate method, as an alternative SDG&E proposes to use a customer growth factor to forecast the Test Year (TY) 2019 electric CAC balance.

2. Gas CAC

SDG&E proposed a forecast of $2.079 million for gas CAC. ORA has recommended that the Commission adopt a forecast of $2.717 million. The Commission should reject ORA's recommendation for the same reasons described above for the electric CAC balance – namely, that a five-year historical average of recorded CAC net activity normalizes short-term volatility and is the current method used by witnesses in this GRC, as well as in prior SDG&E rate case proceedings before this Commission. If the Commission believes that a five-year recorded average is not an appropriate method, as an alternative SDG&E proposes to use a customer growth factor to forecast the TY 2019 gas CAC balance.

3. Gas Fuel in Storage

SDG&E requests in its gas rate base $285,000 for fuel in storage (*i.e.*, line pack gas) for TY 2019. ORA recommends that the Commission should exclude this amount of gas fuel in storage from rate base and address the carrying cost of this line pack in SDG&E's next ERRA proceeding. ORA further states that, although the Commission has previously allowed SDG&E to claim its gas fuel in storage as rate base, this practice is not appropriate.

The Commission should reject ORA's recommendation. SDG&E has been authorized to include fuel in storage in rate base since at least its TY 1982 GRC.[5] In SDG&E's TY 2012 GRC, ORA similarly proposed to exclude fuel in storage. The Commission rejected this argument. The Commission first observed SDG&E's position that "fuel in storage represents permanent fuel inventory maintained over the long term to assure continued and reliable operations."[6] The Commission then ruled in favor of SDG&E, stating that "[w]e agree with SDG&E that since fuel in storage has been included in SDG&E's gas rate base in the past, [] the same treatment should apply in this GRC."[7] In the SDG&E TY 2016 GRC, ORA did not object to SDG&E including fuel in storage in its gas rate base.

The inclusion of fuel in storage in rate base is also consistent with the nature of the other rate base inventory assets. It is similar to the financing of other utility inventories, such as materials and supplies. Fuel in storage represents permanent fuel inventory. It is defined as the minimum amount that must be maintained over the long-term to assure continuing and reliable operations. This line pack, when initially installed in a gas pipeline, allows the pipeline to be a used and useful asset.

In ORA's current testimony they have offered no new rationale for why this long-term, ongoing Commission-approved practice should be changed. SDG&E thus asks the Commission to continue the existing practice of including line pack in its rate base, in the proposed amount of $285,000.

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5 D.93892 at 165.

6 D.13-05-010 at 902 – 903.

7 *Id.* at 903.

B. TURN

1. AFUDC Rate

In TURN's testimony, Mr. Marcus proposes that the average actual AFUDC rate for 2017 should be used in the RO model, instead of SDG&E's 2017 authorized rate of return. The Commission should reject TURN's recommendation to use the actual AFUDC rate for 2017 in the RO model. It is not normal practice to continually update forecasts to reflect actual rates during a GRC proceeding. Nor is it prudent to selectively choose specific rates to update. The use of the authorized rate of return is consistent with prior SDG&E GRC proceedings before the Commission, including the TY 2016 GRC.[8] The rates in the RO model are estimates and, therefore, will always be different from the actuals, with some lower and some higher.

Mr. Marcus also proposed that "the AFUDC rate used in 2018 and 2019 be set as . . . 41 basis points below the authorized return for SDG&E."[9] TURN's proposal is based on its calculation of SDG&E's actual average AFUDC rate for 2017 of 7.38%, compared to SDG&E's 2017 authorized rate of return of 7.79%. However, the RO model for 2018 and 2019 already reflects a lower AFUDC rate. As noted in footnote 6 of the direct testimony, SDG&E's authorized rate of return is 7.55%, effective January 1, 2018.[10] This is the rate used in the RO model for 2018 and 2019. TURN's testimony does not indicate that its proposal factors into the newly authorized rate of return. Therefore, no adjustment is necessary to the AFUDC rate for 2018 and 2019, since it already reflects the lower rate that would result from TURN's proposed basis point reduction.

2. M&S Inventory

SDG&E accepts TURN's forecast of TY 2019 M&S inventory of $97.284 million.

C. FEA

FEA challenges SDG&E's PHFU proposal. SDG&E included $5,653,864 in PHFU, in the TY 2019 GRC proposal.[11] The above amount is comprised of the following items:

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[8] D.16-06-054 at 216.

[9] Ex. TURN-03 (Marcus) at 73.

[10] Ex. SDG&E-33-R (Gentes) at RCG-5.

[11] For ratemaking: half of the cost is allocated to electric transmission (FERC) and half of the cost is allocated to electric distribution (CPUC).

- $6,005,098 Salt Creek Substation Land (estimated in service date: December 2017);
- $4,941,794 Ocean Ranch Substation Land (estimated in service date: May 2019);
- $360,835 Oceanside Substation Land (estimated in service date: March 2019).

FEA acknowledges that the Salt Creek Substation was already in service as of the date of SDG&E's response to FEA-01-34. But FEA argues that the Ocean Ranch Substation land and the Oceanside Substation land should be excluded from rate base until they are used and useful. The decision of the California Public Utilities (CPUC) in D.87-12-066, issued in response to Southern California Edison's (SCE) TY 1988 GRC, provides guidelines to judge the reasonableness of including or maintaining assets in PHFU. These same guidelines were subsequently reaffirmed in SDG&E's TY 1993 GRC settlement.[12] These rules apply to all utility assets except electric transmission, which are regulated under Federal Energy Regulatory Commission (FERC) jurisdiction. The guidelines state that all assets in PHFU must have a specific plan for use and provide a maximum time-period for maintaining any asset in PHFU prior to the assets' inclusion in a construction budget.

For Electric Distribution property, the maximum period an asset can remain in PHFU is five years – or until such time that it is included in a construction budget. Subsequently, the maximum forecast period for a project not in a construction budget will be no more than five years.

The Oceanside Substation Land was purchased in 2012. It was transferred to a construction project in August of 2017. The estimated completion date of substation expansion is March 2019. This is within the five-year recommended time-period for construction, issued by the CPUC.

Similarly, the Ocean Ranch Substation Land was purchased in 2013 and transferred to a construction project in May of 2018. The estimated completion date of the substation is now August 29, 2019. This also falls within the CPUC guidelines' five-year recommended time-period for construction.

[12] D.92-12-019 at 66.

III. CONCLUSION

The Commission should reject ORA's forecast of $48.801 million for the electric CAC balance. ORA's forecast uses a five-year linear regression that assumes the current expansion phase will remain unchanged and excludes the other business cycle phases in the forecast, thereby overestimating the forecasted CAC balance. SDG&E asks the Commission to adopt SDG&E's forecast of $33.343 million for the electric CAC balance. SDG&E's forecast uses five-years of recorded CAC activity, capturing the current expansion phase of the business cycle and so normalizing the year-to-year variability in CAC balance. Additionally, the use of five years of historical data is consistent with the current methodology used by capital and O&M witnesses in their forecasts, as well as in prior SDG&E rate case proceedings before this Commission.

The Commission should reject ORA's forecast of $2.717 million for the gas CAC balance. Like electric CAC, ORA uses a five-year linear regression that excludes the other business cycles in the forecast, thereby overestimating the forecasted CAC balance. The Commission should adopt SDG&E's forecast of $2.079 million, which captures the current business cycle, normalizes year-to-year variability, and is the same method that was used in prior GRC proceedings.

The Commission should reject ORA's recommendation to exclude gas fuel in storage from rate base. The Commission has authorized SDG&E to include its gas fuel in storage in rate base since at least its TY 1982 GRC. The Commission has declined previous attempts to exclude gas fuel in storage from rate base. ORA has not provided a new rationale for why it should be excluded now. Therefore, SDG&E asks the Commission to continue the existing practice of including gas fuel in storage in rate base, in the proposed amount of $285,000.

There is no need to adopt TURN's position and modify the current AFUDC rates in the RO model. SDG&E used its authorized rate of return as a reasonable proxy for estimating AFUDC applied to construction work in progress in the RO model. This is consistent with prior SDG&E rate case proceedings before the Commission, including SDG&E's TY 2016 GRC. The rate in the RO model for 2018 and 2019 reflects the new authorized rate of return, which became effective January 1, 2018. It is not common practice to selectively choose rates to update to actuals in the RO model. Actual rates will normally vary from the rates estimated in the model. Therefore, TURN's proposal to use actual rates should be rejected. SDG&E accepts TURN's recommendation that the average 2016 M&S balance should be escalated instead of using the 2016 year-ending balance.

The Commission should reject FEA's recommendation to remove both the Oceanside Substation Land and the Ocean Ranch Substation Land from PHFU. SDG&E is in full compliance with the current CPUC recommended guidelines for PHFU. It should be allowed rate base treatment for these assets.

This concludes my prepared rebuttal testimony.

APPENDIX A

GLOSSARY OF TERMS

AFUDC	Allowance for Funds Used During Construction
CAC	Customer Advances for Construction
CPUC	California Public Utilities Commission
ERRA	Energy Resource Recovery Account
FEA	The Federal Executive Agencies
FERC	Federal Energy Regulatory Commission
GRC	General Rate Case
M&S	Materials and Supplies
ORA	The Office of Ratepayer Advocates
PHFU	Plant Held for Future Use
RO	Results of Operation
SCE	Southern California Edison
TURN	The Utility Reform Network
TY	Test Year