Company:	San Diego Gas & Electric Company (U902M)
Proceeding:	2019 General Rate Case
Application:	A.17-10-007/-008 (cons.)
Exhibit:	SDG&E-240

SDG&E

REBUTTAL TESTIMONY OF ERIC DALTON

(MISCELLANEOUS REVENUES)

JUNE 18, 2018

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

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SDG&E REBUTTAL TESTIMONY OF ERIC L. DALTON
(MISCELLANEOUS REVENUES)

I. SUMMARY OF DIFFERENCES

Table ED-1

Comparison of SDG&E and Intervenors TY 2019 Estimated Total Miscellaneous Revenues

TOTAL MISCELLANEOUS REVENUES - Constant 2016 ($000)			
	Base Year 2016	**Test Year 2019**	**Change**
SDG&E	**17,120**	**17,496**	**376**
ORA	**17,120**	**33,997**	**16,877**

II. INTRODUCTION

A. ORA

The Office of Ratepayer Advocates (ORA) issued its report on Miscellaneous Revenues on April 13, 2018.[1] The following is a summary of ORA's position(s):

- ORA's proposed miscellaneous revenues for Test Year (TY) 2019 are $16.5 million greater than my TY 2019 forecast of $17.496 million.[2]
- ORA uses a version of a 5-year average forecast methodology as the basis for proposing an increase in Electric and Gas Shared Asset Revenue.[3] This approach, however, does not take into account the current assumptions that are derived from the Results of Operations (RO) model.
- ORA is recommending the addition of the Income Tax Component of Contribution in Aid of Construction (ITCC).[4] This approach would unfairly give back the revenues that are structured to offset the costs in income tax expense.

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[1] April 13, 2018, Report on the Results of Operations for San Diego Gas & Electric Company and Southern California Gas Company, Test Year 2019 General Rate Case, Customers and Miscellaneous Revenues (Exhibit ORA-29).
[2] *Id.* at 3.
[3] *Id.* at 11-12.
[4] *Id.* at 12-14.

III. REBUTTAL TO PARTIES' MISCELLANEOUS REVENUE PROPOSALS

A. ORA

1. Shared Asset Miscellaneous Revenues

Table ED-2

Comparison of SDG&E and ORA TY 2019 Estimated Shared Asset Miscellaneous Revenues

Constant 2016 ($000)			
	Base Year 2016	**Test Year 2019**	**Change**
SDG&E – Electric	**4,043**	**3,335**	**(708)**
ORA - Electric	**4,043**	**5,818**	**1,775**
SDG&E – Gas	**1,581**	**1,342**	**(239)**
ORA – Gas	**1,581**	**2,394**	**813**

ORA states the following, "ORA's TY electric Shared Assets revenues forecast of $5,818,000 is based on a five-year average."[5]

SDG&E disagrees with ORA's methodology because it takes the historical average for a five-year period, which in this case does not capture the most accurate view of the Shared Asset revenue. The forecast for Shared Assets, which is based on the RO model,[6] takes into account the most recent data. As stated in my Direct Testimony, "The portion of the shared asset costs allocated to SDG&E, SECC [Sempra Energy Corporate Center] and its unregulated affiliates is based on methodologies used to measure utilization. For each type of shared asset, an assignment of a causal/beneficial relationship is determined (e.g., number of users, square footage, etc.). The asset is then allocated to affiliates based on their share of the benefit from that asset according to the applicable utilization methodology."[7] The RO model is structured to take on multiple calculations to forecast and allocate the Shared Asset Revenue. Due to the complex nature of Shared Asset Revenues, it is appropriate to use the forecast that is derived

[5] Ex. ORA-29 (Kanter) at 11.
[6] The RO model is discussed in the Second Revised Direct Testimony on Summary of Earnings, Exhibit SDG&E-42-2R (Ryan Hom), dated April 6, 2018.
[7] April 6, 2018, Second Revised Direct Testimony on Miscellaneous Revenues, Exhibit SDGE-40-2R (Eric Dalton) at ED-13.

from current assumptions from the RO model (Ex. SDG&E-42-2R), rather than take a straight five-year average as recommended by ORA.

ORA also states the following, "SDG&E's testimony refers to the testimony of James Vanderhye (Ex. SDG&E-32), but Table JV-7 of page JV-21 of that testimony gives a TY estimate $5.938 for SDG&E Electric Shared Asset revenues. Based on SDG&E's confusion regarding this issue, a five-year average is appropriate."[8] The difference between Table JV-7 and Exhibit SDG&E-40 was an inadvertent error. This error was corrected in the Second Revised Shared Services & Shared Assets Billing, Segmentation & Capital Reassignments Testimony of James Vanderhye to reflect $5,386,000 on April 6, 2018.[9] Also, this inadvertent (and subsequently corrected) error between Exhibit SDG&E-32 (Vanderhye) and Exhibit SDG&E-40 (Dalton) does not require the adoption of a different forecasting methodology. In addition, as stated by Mr. Vanderhye (Ex. SDG&E-32-2R) on page JV-21, "the miscellaneous revenue generated from depreciation of Common shared assets billed to affiliates will contain a portion of revenue related to Electric Transmission. For TY 2019 this amounts to a reduction of $709,000 from $5,386,000." The reduction of transmission equals the total electric and gas portion of $4,677,000 in Shared Asset Revenue and is consistent with my testimony.

In summary, SDG&E requests that the Commission reject ORA's arguments for an increase in the Miscellaneous Revenues forecast for the Shared Asset Revenues based on the above Rebuttal Testimony and adopt SDG&E's TY 2019 forecast of $3.335 million and $1.342 million for Electric and Gas, respectively.

2. Income Tax Component of Contributions-in-Aid-of-Construction (ITCC)

Table ED-3

Comparison of SDG&E and ORA TY 2019 Estimated ITCC Miscellaneous Revenues

Constant 2016 ($000)			
	Base Year 2016	**Test Year 2019**	**Difference versus SDG&E**
SDG&E - Elec	**0**	**0**	**0**
ORA - Elec	**0**	**10,892**	**10,892**
SDG&E – Gas	**0**	**0**	**0**
ORA - Gas	**0**	**2,075**	**2,075**

[8] Ex. ORA-29 (Kanter) at 11-12.
[9] Ex. SDG&E-32-2R (Vanderhye) at JV-21.

ORA is recommending the addition of ITCC to SDG&E miscellaneous revenue.[10] ORA asserts that SDG&E should add ITCC because SoCalGas adds ITCC. However, SDG&E and SoCalGas treat ITCC differently. As explained in the Second Revised Taxes Testimony of Ragan Reeves (Exhibit SDG&E-35-2R), "The CPUC proposed [either] the Maryland Method or Method 5 as acceptable alternatives for the ratemaking treatment of CIAC in D.87-09-026. SDG&E elected the Maryland Method to account for the tax impacts of CIAC and the related income tax component of CIAC (ITCC) as required by the [Tax Reform Act of 1986]. **Under the Maryland Method, the utility shareholders bear the impact of any shortfall between the tax liability and the tax gross-up ITCC collected from the contributor. The shareholders recover the shortfall through the tax depreciation benefits on the constructed property. Accordingly, there is no impact on rate base under the Maryland Method.**"[11] The ITCC gross-up that is amortized over the life of the asset is used to offset the impact to shareholders. The SDG&E ratepayers do not bear any risk for ITCC and therefore ITCC should not be included in SDG&E's miscellaneous revenues.

In contrast to SDG&E, SoCalGas engages in a different approach for CIAC (ITCC). As explained in Mr. Reeves' SoCalGas testimony (Exhibit SCG-37-2R), "SoCalGas elected Method 5 to account for the tax impacts of CIAC, and the related income tax component of the CIAC (ITCC) as required by the [Tax Reform Act of 1986]. **In accordance with D.87-09-026, SoCalGas has increased rate base for the tax paid on the CIAC and its related ITCC received subsequent to February 10, 1987.**"[12] The ratepayers at SoCalGas bear the impact of ITCC through rate base and therefore SoCalGas' ITCC in miscellaneous revenues are given back to the ratepayers through miscellaneous revenues and reflected in SoCalGas' Miscellaneous Revenues forecast.[13]

[10] Ex. ORA-29 (Kanter) at 13-14.
[11] Ex. SDG&E-35-2R at RGR-21 to 22 (emphasis added and internal citations omitted).
[12] Ex. SCG-37-2R at RGR-20 (emphasis added).
[13] April 6, 2018, Second Revised Direct Testimony Miscellaneous Revenues, Exhibit SCG-41-2R (Annette Steffen) at AMS-10.

ORA states, "However, the advice letters filed by SCG (Advice Letter 4735) and SDG&E (Advice Letter 2686-E/2350-G), which each include a sample calculation of ITCC on the last page, show identical calculations and results for the two methods. Hence it seems that SDG&E's tax treatment of CIAC contributions is the same as SCG's, and thus SDG&E, as well as SCG, should declare ITCC as part of its Miscellaneous Revenues."[14]

The sample calculations referred to by ORA are the calculations to come up with the amount of ITCC, as prescribed in Decision (D.)87-09-026, which states "Respondents adopting Method 5 or the Maryland Method shall compute the federal tax portion of the contribution or refundable advance using the respondent's incremental federal tax rate, as determined on a ratemaking basis and using either a 12% discount rate or the respondent's last authorized rate of return. Respondents selecting 12% as a discount rate shall also use 17% as the pre-tax rate of return in their Method 5 calculation. Such choice shall be reflected in the tariff filing pursuant to Ordering Paragraph 2."[15] Therefore, the gross-up calculations are the same for both utilities as both have elected the Method 5 and the Maryland Method. However, these calculations do not mean that both SDG&E and SoCalGas have the same impacts between shareholders and ratepayers.

ORA states "ITCC is included as a reduction to rate base and is amortized to Miscellaneous Revenue over the tax life of the constructed property, as ordered in D.87-09-026."[16] ITCC is not included as a reduction to rate base in the Maryland Method utilized by SDG&E as the utility shareholders, not the ratepayers, bear the impact of any shortfall between the tax liability and the tax gross-up ITCC collected from the contributor and there is no impact to rate base.

In addition, ORA is proposing to increase the miscellaneous revenues for electric ITCC by $10.892 million and gas ITCC by $2.075 million. Based on the recorded history, these amounts are not grounded in data and are not reasonable. Table ED-4 below represents the amount of ITCC for electric and gas from 2012-2016.

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[14] Ex. ORA-29 (Kanter) at 12.
[15] D.87-09-026 at Ordering Paragraph (OP) 3a.
[16] Ex. ORA-29 (Kanter) at 13.

Table ED-4

SDG&E Historical Recorded ITCC

RECORDED ITCC						
	2012	**2013**	**2014**	**2015**	**2016**	**Average**
ITCC - Electric	5,925	5,595	5,877	6,033	6,391	5,964
ITCC - Gas	1,105	785	826	858	928	1,705

In summary, SDG&E requests that the Commission reject ORA's arguments for increasing the Miscellaneous Revenues forecast for the ITCC based on the above rebuttal testimony and not add ITCC to the SDG&E TY2019 Miscellaneous Revenue forecast.

IV. CONCLUSION

To summarize, based on the above discussion and analysis, SDG&E requests that the Commission reject ORA's forecasts for Electric and Gas Shared Asset Revenues and use the RO model in calculating the forecast based on current assumptions as being more accurate. In addition, the inclusion of the ITCC in SDG&E's miscellaneous revenues is not supported and runs contrary to the prescribed methodology of the Maryland Method as discussed above and in D.87-09-026. SDG&E requests that the Commission adopt SDG&E's forecast as reasonable.

This concludes my prepared rebuttal testimony.