Company: San Diego Gas & Electric Company (U 902 M)
Proceeding: 2024 General Rate Case
Application: A.22-05-016
Exhibit: SDG&E-35-R

REVISED

PREPARED DIRECT TESTIMONY OF

STEVEN P. DAIS

(RATE BASE)

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

August 2022

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REVISED PREPARED DIRECT TESTIMONY OF STEVEN P. DAIS (RATE BASE)

I. INTRODUCTION

My testimony presents SDG&E's weighted average rate base for Electric and Gas operations for recorded year 2021, estimated years 2022 and 2023, and TY 2024. My testimony also describes the development of rate base and its components including the various methodologies used to derive the TY 2024 rate base of $6.6 billion for Electric and $2.3 billion for Gas.

II. SUMMARY OF REQUEST

Table SDGE-SPD-1 below presents SDG&E's total weighted average rate base request for combined Electric and Gas operations for TY 2024.

Table SDGE-SPD-1

San Diego Gas and Electric Company
WEIGHTED AVERAGE DEPRECIATED RATE BASE
Summary Total CPUC
(Thousands of Dollars)

Line No.	Account Description	Recorded Year 2021	Estimated Year 2022	Estimated Year 2023	Test Year 2024
	Fixed Capital				
1	Plant In Service	$ 13,745,524	$ 14,631,963	$ 15,597,791	$ 16,889,455
2	Total Fixed Capital	$ 13,745,524	$ 14,631,963	$ 15,597,791	$ 16,889,455
	Working Capital				
3	Fuel in Storage	$ 340	$ 339	$ 339	$ 339
4	Materials & Supplies	118,496	117,170	119,717	121,722
5	Working Cash*	109,204	109,204	109,204	302,125
6	Total Working Capital	$ 228,040	$ 226,713	$ 229,260	$ 424,187
	Other Deductions				
7	Repair Deductions Rate Base Adjustment (2016 - 2042)	$ (34,314)	$ (32,680)	$ (31,046)	$ (29,412)
8	Customer Advances For Construction	(22,429)	(23,219)	(22,008)	(20,375)
9	Total Other	$ (56,744)	$ (55,900)	$ (53,054)	$ (49,787)
	Deductions For Reserves				
10	Accumulated Deferred Taxes - 2017 Tax Cuts & Jobs Act	$ 273,410	$ 263,786	$ 253,738	$ 246,871
11	Accumulated Depreciation Reserve	5,586,887	5,936,771	6,353,097	6,779,988
12	Accumulated Amortization Reserve	635,053	666,043	779,293	909,910
13	Accumulated Deferred Taxes	523,582	517,790	502,001	485,654
14	Total Deductions For Reserves	$ 7,018,932	$ 7,384,390	$ 7,888,129	$ 8,422,424
15	Weighted Average Depreciated Rate Base	$ 6,897,888	$ 7,418,386	$ 7,885,868	$ 8,841,431

* 2021 to 2023 Working Cash based on TY 2019 GRC Decision (D.19-09-051)

III. METHODOLOGY

Rate base is defined as the net investment of property, plant, equipment, and other assets that SDG&E has acquired or constructed to provide utility services to its customers. The weighted average rate base is calculated using a 13-month average (the sum of the monthly balances from December of the prior year through December of the current year, less one-half of each December balance, divided by 12). The weighted average balance method has been an accepted industry practice for all California utilities and is a California Public Utilities Commission (Commission or CPUC) approved methodology as adopted in prior rate-setting proceedings.[1]

The four major components of rate base include Fixed Capital, Working Capital, Other Deductions, and Deductions for Reserves. This section provides a detailed description of the methodology used to forecast plant-in-service, which is included in Fixed Capital and is the largest component of weighted average rate base. As with other rate base components, plant-in-service is computed based on original cost and is shown on a weighted average basis. To determine the plant balances for the estimated years 2022 and 2023, and TY 2024, capital expenditure information was provided through the annual planning process as described below.

A. Capital Planning Process

The capital planning process is SDG&E's current process for prioritizing funding based on risk-informed priorities and input from operations.

Generally, during the third quarter of the year, SDG&E begins the capital planning process that leads to organizational budgets. Initial capital project costs are estimated for anticipated safety and reliability investments and are submitted by the operating organizations as part of SDG&E's Five-Year Planning process. For non-balanced base capital, the SDG&E Executive Finance Committee (EFC) establishes a total annual capital expenditure target consistent with SDG&E's authorized General Rate Case (GRC) funding for that period. From this total allocation, funding is prioritized based on risk-informed priorities and continuous input from operations.

Once the capital allocations are approved, each individual operating organization is chartered to manage its respective capital needs within their allotted capital. The real-time

[1] *See* Decision (D.)19-09-051.

prioritization of work within the context of the budget allocations is completed by the front-line and project managers on an ongoing and continuous basis. Regulatory compliance deadlines, customer scheduling requirements, and overall infrastructure condition are all factors taken into consideration as work elements are prioritized. Progress on existing capital projects is monitored and reviewed on a monthly basis by the EFC, and any new projects stemming from incremental Commission directives or changing business needs are evaluated and assessed throughout the year to determine whether current capital allocation should be reprioritized. Before starting a project or making any commitments, the project manager must secure specific project approval signatures in accordance with SDG&E's Internal Order process,[2] and SDG&E's approval and commitment policy.

B. Plant-In-Service

The plant-in-service projection includes forecasted non-routine and routine capital projects. The methodologies used to forecast plant-in-service differ somewhat between non-routine and routine projects as described below.

- For non-routine projects, forecasted project costs and completion dates are provided in the testimonies of capital witnesses;
- For routine projects, historical experience from 2017 to 2021 is applied to projected capital expenditures provided in the testimonies of capital witnesses to estimate plant additions.

The application of historical experience to forecast plant additions for routine projects is reasonable due to the nature of the projects and is consistent with past Commission rate-setting applications including SDG&E's 2019 rate case proceeding.[3] Plant-in-service balances are then developed for electric distribution, nuclear and non-nuclear generation, and gas based on the projected capital expenditures, retirements, and estimated project completion dates for non-routine and routine projects.

As shown in the Fixed Capital section of Table SDGE-SPD-1 above, SDG&E's TY 2024 plant-in-service is projected to increase, reflecting higher capital expenditures in 2024 as

[2] A Work Order Authorization form is used to document the approval authority of capital project expenditures. The appropriate level of approval authority required is based on pre-determined dollar thresholds, which vary with the level of capital expenditures.

[3] D.19-09-051.

compared to previous years. The major drivers for the increase in capital expenditure levels are described in detail in the testimonies of SDG&E's respective capital witnesses: Electric Distribution Capital – Olivia Reyes (Exhibit SDG&E-11); Gas Distribution – L. Patrick Kinsella (Exhibit SDG&E-04); Gas Engineering – Maria Martinez (Exhibit SDG&E-07); Gas Transmission Operations and Construction – Rick Chiapa, and Steve Hruby (Exhibit SDG&E-06); Pipeline Safety Enhancement Plan – Norm Kohls (Exhibit SDG&E-08); Information Technology – Ben W. Gordon, Tia L. Ballard, and William J. Exon (Exhibit SDG&E-25, Chapters 1 and 2); Cybersecurity – Lance Mueller (Exhibit SDG&E-26); Real Estate, Land Services, & Facilities – Dale Tattersall (Exhibit SDG&E-23); Electric Generation – Dan Baerman (Exhibit SDGE-14).

A component of plant-in-service is allowance for funds used during construction (AFUDC). Accruing for AFUDC is a generally accepted regulatory accounting procedure to capitalize the cost of debt and equity funds used to finance capital additions. SDG&E utilizes the AFUDC formula mandated by FERC's Uniform System of Accounts (USofA), which the CPUC has authorized SDG&E to follow.

Consistent with prior SDG&E rate case proceedings before this Commission, including in D.19-09-051, SDG&E typically uses its authorized Rate of Return (ROR),[4] established in SDG&E's cost of capital proceeding, as a reasonable proxy for estimating AFUDC applied to construction work in progress (CWIP) in the Results of Operations (RO) model. SDG&E has long used its authorized ROR for forecasting purposes, which reasonably approximates its actual AFUDC rates. Other than the authorized ROR, there is no separate forecast of debt and equity in developing AFUDC rates for the GRC period.

An offsetting component to capital expenditures prior to being recorded to plant-in-service is contributions in aid of construction (CIAC). CIAC are non-refundable contributions collected from utility customers in the form of money – or its equivalent – toward the construction of plant, such as customer-requested relocations. CIAC amounts collected or received are a direct reduction of fully-loaded (*i.e.*, including overhead costs) capital expenditures (if any) prior to being added to rate base.

[4] SDG&E's current authorized ROR is 7.55% per D.19-12-056.

IV. ACCOUNTING CHANGES

A. Implementation Costs for Cloud Computing

In December 2019, the FERC provided guidance that the implementation costs related to cloud computing service contract arrangements are similar to the costs incurred to develop internal-use software and should be accounted for on the same basis.[5] FERC indicated that jurisdictional entities have historically determined capitalizable internal-use software costs in a manner consistent with the requirements of Accounting Standards Codification (ASC) 350-40, which is an acceptable approach for accounting and financial reporting to the Commission. Based on this guidance, SDG&E is capitalizing the implementation costs for cloud computing service contracts and amortizing the costs over the term of the associated arrangement. Refer to Ben W. Gordon, Tia Ballard, and William J. Exon's testimony (Exhibit SDG&E-25, Chapters 1 and 2) for discussions related to SDG&E's transition to cloud and related cost forecasts.

B. Gas Transmission Safety Rules – Hydro Testing

In June 2020, FERC addressed the accounting of retesting costs incurred due to the issuance of the Pipeline and Hazardous Materials Safety Administration's (PHMSA) final rule.[6] That PHMSA rule addressed, among other items, safety of gas transmission pipelines, including actions an operator must take to reconfirm the maximum allowable operating pressure (MAOP) of natural gas pipelines not yet tested using the new federal safety regulations.

FERC states in its resulting Letter Order that, due to the new federal standards, if a utility is required to retest the pipeline so that its full capacities can be utilized, such first-time and one-time retesting costs can be capitalized. When such retesting costs are capitalized, all prior testing costs related to the specific property should be retired.

Based on this guidance, SDG&E is capitalizing the first-time and one-time retesting costs incurred due to the new Federal standards. Any prior testing that had been capitalized would be retired. Please refer to Amy Kitson and Travis Sera's Testimony (Exhibit SDG&E-09) for further discussion related to PHMSA/Gas Transmission Safety rules.

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[5] FERC Letter Order, Docket No. AI20-1-000 (December 20, 2019) Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract.

[6] FERC Letter Order, Docket No. AI20-3-000 (June 23, 2020), Accounting for Pipeline Testing Costs Incurred to Comply with New Federal Safety Standards at 2.

C. Prepaid Agreement Costs

Prepaid agreement costs associated with software and computer hardware are normally recorded as a prepaid expense and amortized as operating and maintenance expense (O&M) over the life of the software or hardware asset. These costs include Cloud Software as a Service (SaaS) license arrangements, reserved cloud capacity, and new software and hardware maintenance costs.

Beginning in 2024, SDG&E proposes to capitalize and amortize these costs for regulatory recovery as long as the contracts meet SDG&E's capitalization dollar thresholds. These services are integral to the successful operation of new hardware or software and should be considered an extension of the asset.

In a 2016 Decision, the New York Public Commission determined that these types of SaaS solution costs could be included in rate base. As stated in that decision, "[r]ather than developing their own software, many businesses find it more efficient to enter contracts to lease software services over extended periods, typically three to five years. To the extent that these leases are prepaid, the unamortized balance of the prepayment can be included in rate base and earn a return."[7]

The Commission should apply a similar treatment here. If the Commission does not adopt this position and approve the recording of prepaid contract costs as plant-in-service in this filing, SDG&E requests that these costs continue to be included in the Working Cash forecasts and amortized as O&M, similar to treatment in previous GRC forecasts. Please refer to the Summary of Earnings witness Ryan Hom's workpapers (Exhibit SDG&E-44) for further discussion.

V. ELECTRIC RATE BASE SUMMARY

Table SDGE-SPD-2 below presents SDG&E's total Electric weighted average rate base.

[7] New York Public Service Commission, Case 14-M-0101, Order Adopting a Ratemaking and Utility Revenue Model Policy Framework (May 19, 2016) at 104.

Table SDGE-SPD-2

San Diego Gas and Electric Company
WEIGHTED AVERAGE DEPRECIATED RATE BASE
Electric
(Thousands of Dollars)

Line No.	Account Description	Recorded Year 2021	Estimated Year 2022	Estimated Year 2023	Test Year 2024
	Fixed Capital				
1	Plant In Service	$ 10,610,136	$ 11,217,869	$ 11,888,353	$ 12,845,340
2	Total Fixed Capital	$ 10,610,136	$ 11,217,869	$ 11,888,353	$ 12,845,340
	Working Capital				
3	Materials & Supplies	$ 106,997	$ 104,799	$ 107,962	$ 110,367
4	Working Cash*	94,338	94,338	94,338	257,189
5	Total Working Capital	$ 201,335	$ 199,137	$ 202,300	$ 367,556
	Other Deductions				
6	Repair Deductions Rate Base Adjustment (2016 - 2042)	$ (34,314)	$ (32,680)	$ (31,046)	$ (29,412)
7	Customer Advances For Construction	(19,992)	(20,672)	(19,356)	(17,723)
8	Total Other	$ (54,306)	$ (53,352)	$ (50,402)	$ (47,135)
	Deductions For Reserves				
9	Accumulated Deferred Taxes - 2017 Tax Cuts & Jobs Act Adj	$ 228,051	$ 219,861	$ 211,335	$ 205,758
10	Accumulated Depreciation Reserve	4,369,802	4,651,260	4,989,150	5,326,244
11	Accumulated Amortization Reserve	503,328	530,665	614,233	711,422
12	Accumulated Deferred Taxes	395,144	387,107	368,607	349,338
13	Total Deductions For Reserves	$ 5,496,325	$ 5,788,893	$ 6,183,325	$ 6,592,763
14	Weighted Average Depreciated Rate Base	$ 5,260,839	$ 5,574,761	$ 5,856,926	$ 6,572,998

* 2021 to 2023 Working Cash based on TY 2019 GRC Decision (D.19-09-051)

A. Fixed Capital – Electric Plant-In-Service

Table SDGE-SPD-3

Fixed Capital - Electric
(Thousands of Nominal Dollars)

Line No.	Account Description	Recorded Year 2021	Estimated Year 2022	Estimated Year 2023	Test Year 2024
	Fixed Capital				
1	Plant In Service	$ 10,610,136	$ 11,217,869	$ 11,888,353	$ 12,845,340
2	Total Fixed Capital	$ 10,610,136	$ 11,217,869	$ 11,888,353	$ 12,845,340

Plant-in-service represents gross fixed assets used in utility operations with an expected economic and physical life greater than one year from the date placed in service. Electric plant-in-service is comprised of Electric Distribution Plant, Reclassified Transmission Plant to

Electric Distribution, Allocated Common Plant to Electric Distribution, Allocated Electric General Plant to Electric Distribution, and Non-Nuclear Generation.

Electric plant-in-service was developed in accordance with the definitions prescribed in SDG&E's FERC Transmission Owner Tariff filing in which FERC defined and approved the methodology by which SDG&E would unbundle its electric department. In order to fully assign SDG&E's plant to the appropriate departmental functions, reclassification of specific plant was made across traditional FERC functional categories. For example, SDG&E redefined certain "transmission" plant as distribution and some "distribution" plant as transmission in accordance with the FERC Transmission Access filing, and consistent with Commission filings since SDG&E's 1998 Cost of Service Application (A.) 98-01-014.

In this filing, SDG&E proposes using FERC's labor ratio allocation method to allocate Common Plant between Electric Transmission, Electric Distribution, and Gas, as well as allocate Electric General Plant assets between Electric Transmission and Electric Distribution, as sponsored in the testimony of the Shared Services Billing, Shared Assets Billing, Segmentation, and Capital Reassignments witnesses Angel N. Le and Paul D. Malin (Exhibit SCG-30/SDG&E-34). Allocating Common Plant using this methodology has been adopted by the Commission in prior rate cases.

As shown in Table SDGE-SPD-3 above, the recorded year 2021 weighted average plant-in-service for Electric Distribution and Generation is $10.6 billion. This amount includes $8.0 billion in Electric Distribution Plant (including redefined amounts as described above), $1.1 billion in Generation, $0.4 billion in Electric General Plant allocated to Electric Distribution, and $1.1 billion in Common Plant allocated to Electric Distribution, as shown in my work papers. The recorded year 2021 weighted average plant-in-service for Nuclear is zero.

The TY 2024 weighted average plant balance for Electric includes Electric Distribution, Electric General, and Common allocated to Electric and Generation and is based upon recorded plant data for 2021 and forecasted additions and retirements for 2022, 2023, and 2024. The weighted average plant balance for TY 2024 for Electric Distribution and Generation is $12.8 billion. This includes $9.5 billion in Electric Distribution Plant (including redefined amounts), $1.2 billion in Generation, $0.5 billion in Electric General Plant applicable to Electric Distribution, and $1.6 billion in Common Plant applicable to Electric Distribution, as shown in my work papers.

Forecasted Electric Distribution, Generation, and General direct capital expenditures, including an allocation of Common Plant, totaled $4.3 billion for years 2022 to 2024. As mentioned in Section III.B above, individual witnesses provide testimony regarding capital expenditures related to their organizations, as well as supporting documentation in their respective work papers. Capital expenditures are escalated and fully loaded with overheads by project by capital witness in the Results of Operations (RO) Model. The escalation factors applied are sponsored in the Cost Escalation testimony of Scott Wilder (Exhibit SDG&E-41).

The capital overhead pool amounts for local engineering, department overheads, and contract administration are sponsored in the Electric Distribution Capital testimony of Oliva Reyes (Exhibit SDG&E-11). For all remaining overheads assigned to capital such as pension and benefits, workers compensation, administrative and general and the like, the costs are sponsored by various witnesses and forecasted in cost centers as directed in SDG&E's 2008 GRC Decision.[8] The cost center expenses have been mapped to FERC accounts as explained in the Summary of Earnings testimony of Ryan Hom (Exhibit SDG&E-44), while the factors that are used to produce operations and maintenance (O&M) to capital reassignment rates are sponsored in the Shared Services Billing, & Shared Assets Billing, Segmentation, & Capital Reassignments witnesses Angel N. Le and Paul D. Malin (Exhibit SCG-30/SDG&E-34).

B. Working Capital – Electric

Table SDGE-SPD-4

Working Capital - Electric
(Thousands of Nominal Dollars)

Line No.	Account Description	Recorded Year 2021	Estimated Year 2022	Estimated Year 2023	Test Year 2024
	Working Capital				
3	Materials & Supplies	$ 106,997	$ 104,799	$ 107,962	$ 110,367
4	Working Cash*	94,338	94,338	94,338	257,189
5	Total Working Capital	$ 201,335	$ 199,137	$ 202,300	$ 367,556

* 2021 to 2023 Working Cash based on TY 2019 GRC Decision (D.19-09-051)

[8] D.08-07-046 at 106, Ordering Paragraph 22.

1. Materials and Supplies

Materials and supplies (M&S) represents the cost of purchased materials primarily used as current inventory for construction, operation, maintenance, and contract work. M&S includes items that are directly assignable to Electric Generation, Nuclear, and Electric Distribution, as well as an allocated portion of General and Common consistent with the labor ratio allocation methodology referred to in Section V.A above. Although SDG&E does not anticipate significant changes from its current inventory levels for operational needs, the future costs of M&S are assumed to increase at the projected rate of capital inflation. As a result, as sponsored in the testimony of the Cost Escalation witness Scott Wilder (Exhibit SDG&E-41), the weighted average for estimated years 2022 ($104.8 million), 2023 ($108.0 million), and TY 2024 ($110.4 million) are calculated beginning with the recorded 2021 weighted average balance of $107.0 million and applying an annual factor for capital inflation. Please see my supporting work papers for the detailed computation.

2. Working Cash

Working Cash represents cash requirements resulting from a lead-lag study and operational working capital contributed by our investors. Working cash is included in rate base to compensate SDG&E investors for the funds advanced to operate the business. These funds are used to pay for operating expenses in advance of receiving customer revenues and for day-to-day operational working fund requirements. For TY 2024, SDG&E proposes a working cash forecast for Electric of $257.2 million. The working cash study is sponsored in the testimony of Jack Guidi (Exhibit SDG&E-38).

C. Other Deductions - Electric

Table SDGE-SPD-5

Other Deductions - Electric
(Thousands of Nominal Dollars)

Line No.	Account Description	Recorded Year 2021	Estimated Year 2022	Estimated Year 2023	Test Year 2024
	Other Deductions				
6	Repair Deductions Rate Base Adjustment (2016 - 2042)	$ (34,314)	$ (32,680)	$ (31,046)	$ (29,412)
7	Customer Advances For Construction	(19,992)	(20,672)	(19,356)	(17,723)
8	Total Other	$ (54,306)	$ (53,352)	$ (50,402)	$ (47,135)

1. Repairs Deduction Rate Base Adjustment (2016-2042)

The repairs deduction rate base adjustment represents the reduction to rate base as ordered in D.16-06-054, which was re-calculated in SDG&E's 2019 GRC proceeding to reflect the impact of the TCJA (*i.e.*, the reduction of federal corporate income tax rate from 35% to 21%, effective January 1, 2018). The repairs deduction rate base adjustment is discussed in the testimony of the Tax witness Ragan Reeves (Exhibit SDG&E-37), served concurrently with this exhibit.

2. Customer Advances for Construction

Customer advances for construction (CAC) represents refundable cash advances for construction paid by third parties and/or customers who have requested the installation of new business mains and services. These cash advances are subject to refund when new customers and appliances are added to these lines as mandated by the Commission and described in SDG&E Tariff Rules 15 and 16.

SDG&E anticipates a decrease of $2.3 million in the average balance of electric CAC for new construction deposits and refunds in TY 2024 as compared to recorded year 2021. The forecast data begins with recorded December 2021 month-end balances, and then incorporates estimated activity for routine projects. Routine projects are projected based on nonfarm employment forecasts for San Diego County and estimated activity for planned major projects based on construction forecasts for individual projects. The CAC balances include the receipts of cash advances, which are recorded as increases, and refunds and/or forfeitures of cash advances, which are recorded as decreases. Please see supporting my work papers for the detailed computation.

D. Deductions for Reserves - Electric

Table SDGE-SPD-6

Deductions For Reserves - Electric
(Thousands of Nominal Dollars)

Line No.	Account Description	Recorded Year 2021	Estimated Year 2022	Estimated Year 2023	Test Year 2024
	Deductions For Reserves				
9	Accumulated Deferred Taxes - 2017 Tax Cuts & Jobs Act Adj	$ 228,051	$ 219,861	$ 211,335	$ 205,758
10	Accumulated Depreciation Reserve	4,369,802	4,651,260	4,989,150	5,326,244
11	Accumulated Amortization Reserve	503,328	530,665	614,233	711,422
12	Accumulated Deferred Taxes	395,144	387,107	368,607	349,338
13	Total Deductions For Reserves	$ 5,496,325	$ 5,788,893	$ 6,183,325	$ 6,592,763

1. Accumulated Depreciation Reserve – Electric

Accumulated depreciation reserve represents a weighted average accumulated book depreciation reserve, which includes a summation of depreciation accrual charges, plant retirements, net salvage, and other adjustments or transfers as prescribed by FERC's USofA. The amount is based on the recorded depreciation reserve as of December 31, 2021, and forecasted net activity (depreciation, retirements, and net salvage) of $1.0 billion for years 2022 through 2024. SDG&E's depreciation recommendations are sponsored in the testimony of Bruce Folkmann (Exhibit SDG&E-01) and Dane A. Watson (Exhibit SDG&E-36).

2. Accumulated Amortization Reserve - Electric

Accumulated amortization reserve represents weighted average accumulated of the provision and salvage costs less retirement and removal costs for land rights, software, and limited-term investments. The amount is based on the recorded amortization reserve as of December 31, 2021, and forecasted net activity (amortization, retirements and net salvage) of $271.8 million for years 2022 through 2024. SDG&E's amortization recommendations are sponsored in the Depreciation testimony of Bruce Folkmann (Exhibit SDG&E-01) and Dane A. Watson (Exhibit SDG&E-36).

3. Accumulated Deferred Taxes – Electric

Accumulated deferred taxes arises from the tax normalization requirements pursuant to the Economic Tax Recovery Act of 1981 (ERTA). These requirements provide that the federal tax basis of 1981 and future years' plant additions be depreciated for ratemaking tax purposes using book lives on a straight-line remaining life basis. The tax effect of the difference between this normalized depreciation method and the accelerated depreciation methods allowed for federal tax return purposes is treated as a reduction to rate base, thereby, reflecting this tax treatment as a benefit for the ratepayer.

SDG&E has computed deferred tax balances in accordance with the normalization requirements of Internal Revenue Code § 168(i)(9) and Treasury Regulation § 1.167(1)-(h)(6)(ii). The deferred tax balance that reduces rate base is the weighted average at the beginning of the period and end of period (derived using a pro rata portion of the projected increase during the period). The derivation of the deferred tax balance is sponsored in the testimony of the Tax witness Ragan Reeves (Exhibit SDG&E-37).

4. Accumulated Deferred Taxes – 2017 Tax Cuts & Job Acts Adj (TCJA) - Electric

TCJA was enacted on December 22, 2017 (Pub. L. No. 115-97). The TCJA made comprehensive changes to federal tax law. The changes affecting SDG&E include: (1) a reduction of the federal corporate tax rate from 35% to 21%, effective beginning in 2018; (2) the elimination of the bonus depreciation deduction for regulated utilities; and (3) a requirement to return plant-related excess deferred taxes created by the reduction in the corporate tax rate to ratepayers ratably using the Adjusted Rate Assumption Method (ARAM) as described in the TCJA. Refer to the testimony of the Tax witness Ragan Reeves (Exhibit SDG&E-37) for more discussions regarding TJCA and the determination of the deferred tax balance.

VI. GAS RATE BASE SUMMARY

Table SDGE-SPD-7 below presents SDG&E's total Gas weighted average rate base.

Table SDGE-SPD-7

San Diego Gas and Electric Company
WEIGHTED AVERAGE DEPRECIATED RATE BASE
Gas
(Thousands of Dollars)

Line No.	Account Description	Recorded Year 2021	Estimated Year 2022	Estimated Year 2023	Test Year 2024
	Fixed Capital				
1	Plant In Service	$ 3,135,388	$ 3,414,094	$ 3,709,438	$ 4,044,115
2	Total Fixed Capital	$ 3,135,388	$ 3,414,094	$ 3,709,438	$ 4,044,115
	Working Capital				
3	Fuel in Storage	$ 340	$ 339	$ 339	$ 339
4	Materials & Supplies	11,500	12,371	11,755	11,355
5	Working Cash*	14,866	14,866	14,866	44,937
6	Total Working Capital	$ 26,705	$ 27,576	$ 26,960	$ 56,631
	Other Deductions				
7	Repair Deductions Rate Base Adjustment (2016 - 2042)	$ -	$ -	$ -	$ -
8	Customer Advances For Construction	(2,437)	(2,548)	(2,652)	(2,652)
9	Total Other	$ (2,437)	$ (2,548)	$ (2,652)	$ (2,652)
	Deductions For Reserves				
10	Accumulated Deferred Taxes - 2017 Tax Cuts & Jobs Act Adj	$ 45,358	$ 43,925	$ 42,403	$ 41,113
11	Accumulated Depreciation Reserve	1,217,085	1,285,511	1,363,947	1,453,744
12	Accumulated Amortization Reserve	131,726	135,378	165,059	198,487
13	Accumulated Deferred Taxes	128,438	130,683	133,394	136,317
14	Total Deductions For Reserves	$ 1,522,607	$ 1,595,497	$ 1,704,804	$ 1,829,661
15	Weighted Average Depreciated Rate Base	$ 1,637,048	$ 1,843,625	$ 2,028,942	$ 2,268,433

* 2021 to 2023 Working Cash based on TY 2019 GRC Decision (D.19-09-051)

A. Fixed Capital – Gas Plant-In-Service

Table SDGE-SPD-8

Fixed Capital - Gas
(Thousands of Nominal Dollars)

Line No.	Account Description	Recorded Year 2021	Estimated Year 2022	Estimated Year 2023	Test Year 2024
	Fixed Capital				
1	Plant In Service	$ 3,135,388	$ 3,414,094	$ 3,709,438	$ 4,044,115
2	Total Fixed Capital	$ 3,135,388	$ 3,414,094	$ 3,709,438	$ 4,044,115

Plant-in-service represents gross fixed assets used in utility operations with an expected economic and physical life greater than one year from the date placed in service. Gas plant-in-service is comprised of Gas Distribution Plant and Allocated Common Plant to Distribution.

As discussed in Section V.A, SDG&E proposes applying the labor ratio allocation method to allocate Common Plant between Electric Transmission, Electric Distribution, and Gas, as sponsored in the testimony of the Shared Services Billing, & Shared Assets Billing, Segmentation, & Capital Reassignments witnesses Angel N. Le and Paul D. Malin (Exhibit SCG-30/SDG&E-34). Allocating Common Plant using this methodology has been adopted by the Commission in prior rate-setting proceedings.

As shown in Table SDGE-SPD-8 above, the recorded year 2021 weighted average plant-in-service for Gas is $3.1 billion. This amount includes $2.6 billion in Gas Plant and $0.5 billion in Common Plant allocated to Gas, as shown in my work papers.

The TY 2024 weighted average plant balance for Gas is based upon recorded plant data for 2021 and forecasted additions and retirements for 2022, 2023, and 2024. The weighted average plant balance for TY 2024 for Gas is $4.0 billion. This includes $3.4 billion in Gas Plant and $0.6 billion in Common Plant applicable to Gas, as shown in my work papers.

Forecasted Gas direct capital expenditures, including an allocation of Common Plant, totaled $1.2 billion for years 2022 to 2024. As mentioned in Section III.B above, specific witnesses provide testimony regarding capital expenditures related to their organizations, as well as supporting documentation in their respective work papers. Capital expenditures are escalated and fully loaded with overheads by project by capital witness in the RO Model. The escalation factors applied are sponsored in the Cost Escalation testimony of Scott Wilder (Exhibit SDG&E-41).

The capital overhead pool amounts for engineering, department overheads, and contract administration are sponsored in the Gas Distribution testimony of Pat Kinsella (Exhibit SDG&E- 04). For all remaining overheads assigned to capital such as pension and benefits, workers compensation, administrative and general, *etc.*, the costs are sponsored by various witnesses and forecasted in cost centers as directed in SDG&E's 2008 GRC Decision.[9] The cost center expenses have been mapped to FERC accounts as explained in the Summary of Earnings testimony of Ryan Hom (Exhibit SDG&E-44). And the factors that are used to produce operations and maintenance (O&M) to capital reassignment rates are sponsored in the Shared Services Billing, & Shared Assets Billing, Segmentation, & Capital Reassignments witnesses Angel N. Le and Paul D. Malin (Exhibit SCG-30/SDG&E-34).

B. Working Capital – Gas

Table SDGE-SPD-9

Working Capital - Gas
(Thousands of Nominal Dollars)

Line No.	Account Description	Recorded Year 2021	Estimated Year 2022	Estimated Year 2023	Test Year 2024
	Working Capital				
3	Fuel in Storage	$ 340	$ 339	$ 339	$ 339
4	Materials & Supplies	11,500	12,371	11,755	11,355
5	Working Cash*	14,866	14,866	14,866	44,937
6	Total Working Capital	$ 26,705	$ 27,576	$ 26,960	$ 56,631

* 2021 to 2023 Working Cash based on TY 2019 GRC Decision (D.19-09-051)

1. Fuel in Storage

Gas fuel in storage consists of gas line pack. Annually, the line pack values are computed based online pack volumes in therms, valued at the current weighted average cost of gas (WACOG). The monthly recorded December 2000 through December 2021 line pack values were used to develop the weighted average amount of included in Gas rate base, with no forecasted changes in value for 2022 to 2024.

[9] D.08-07-046 at 106, OP 22.

2. Materials and Supplies

M&S includes items that are directly assignable to Gas, as well as an allocated portion of Common consistent with the labor ratio allocation methodology referred to in Section IV.A above. Although SDG&E does not anticipate significant changes from its current inventory levels for operational needs, the future costs of M&S are assumed to decrease at the projected rate of capital inflation. As a result, the weighted average for estimated years 2022 ($12.4 million), 2023 ($11.8 million), and TY 2024 ($11.4 million) are calculated beginning with the recorded 2021 weighted average balance of $11.5 million and applying an annual factor for capital inflation which is sponsored in the testimony of the Cost Escalation witness Scott Wilder (Exhibit SDG&E-41). Please see my supporting work papers for the detailed computation.

3. Working Cash - Gas

For TY 2024, SDG&E proposes a working cash forecast for Gas of $44.9 million. The working cash study is sponsored in the testimony of Jack Guidi (Exhibit SDG&E-38).

C. Other Deductions - Gas

Table SDGE-SPD-10

Other Deductions - Gas
(Thousands of Nominal Dollars)

Line No.	Account Description	Recorded Year 2021	Estimated Year 2022	Estimated Year 2023	Test Year 2024
	Other Deductions				
7	Repair Deductions Rate Base Adjustment (2016 - 2042)	$ -	$ -	$ -	$ -
8	Customer Advances For Construction	(2,437)	(2,548)	(2,652)	(2,652)
9	Total Other	$ (2,437)	$ (2,548)	$ (2,652)	$ (2,652)

1. Repairs Deduction Rate Base Adjustment (2016-2042)

The repairs deduction rate base adjustment represents the reduction to rate base as ordered in D.16-06-054, which was re-calculated in SDG&E's 2019 GRC proceeding to reflect the impact of the TCJA (*i.e.*, the reduction of federal corporate income tax rate from 35% to 21%, effective January 1, 2018). The repairs deduction rate base adjustment is discussed in the testimony of the Taxes witness Ragan Reeves (Exhibit SDG&E-37), served concurrently with this exhibit.

2. Customer Advances for Construction

SDG&E anticipates an increase of $0.2 million in the average balance of gas CAC for new construction deposits and refunds in TY 2024 as compared to recorded year 2021. The forecast data begins with recorded December 2021 month-end balances, and then incorporates estimated activity for routine projects. Routine projects are projected based on nonfarm employment forecasts for San Diego County and estimated activity for planned major projects based on construction forecasts for individual projects. The CAC balances include the receipts of cash advances, which are recorded as increases, and refunds and/or forfeitures of cash advances, which are recorded as decreases. Please see supporting my work papers for the detailed computation.

D. Deductions for Reserves - Gas

Table SDGE-SPD-11

Deductions For Reserves - Gas
(Thousands of Nominal Dollars)

Line No.	Account Description	Recorded Year 2021	Estimated Year 2022	Estimated Year 2023	Test Year 2024
	Deductions For Reserves				
10	Accumulated Deferred Taxes - 2017 Tax Cuts & Jobs Act Adj	$ 45,358	$ 43,925	$ 42,403	$ 41,113
11	Accumulated Depreciation Reserve	1,217,085	1,285,511	1,363,947	1,453,744
12	Accumulated Amortization Reserve	131,726	135,378	165,059	198,487
13	Accumulated Deferred Taxes	128,438	130,683	133,394	136,317
14	Total Deductions For Reserves	$ 1,522,607	$ 1,595,497	$ 1,704,804	$ 1,829,661

1. Accumulated Depreciation Reserve - Gas

Accumulated depreciation reserve represents a weighted average accumulated book depreciation reserve, which includes a summation of depreciation accrual charges, plant retirements, net salvage, and other adjustments or transfers as prescribed by FERC's USofA. The amount is based on the recorded depreciation reserve as of December 31, 2021, and forecasted net activity (depreciation, retirements, and net salvage) of $253.9 million for years 2022 through 2024. SDG&E's depreciation recommendations are sponsored in the testimony of Bruce Folkmann (Exhibit SDG&E-01) and Dane Watson (Exhibit SDG&E-36).

2. Accumulated Amortization Reserve - Gas

Accumulated amortization reserve represents weighted average accumulated of the provision and salvage costs less retirement and removal costs for land rights, software, and

limited-term investments. The amount is based on the recorded amortization reserve as of December 31, 2021, and forecasted net activity (amortization, retirements and net salvage) of $93.6 million for years 2022 through 2024.

SDG&E's amortization recommendations are sponsored in the testimony of Bruce Folkmann (Exhibit SDG&E-01) and Dane Watson (Exhibit SDG&E-36).

3. Accumulated Deferred Taxes - Gas

Accumulated deferred taxes arises from the tax normalization requirements pursuant to the Economic Tax Recovery Act of 1981 (ERTA). These requirements provide that the federal tax basis of 1981 and future years' plant additions be depreciated for ratemaking tax purposes using book lives on a straight-line remaining life basis. The tax effect of the difference between this normalized depreciation method and the accelerated depreciation methods allowed for federal tax return purposes is treated as a reduction to rate base, thereby, reflecting this tax treatment as a benefit for the ratepayer.

SDG&E has computed deferred tax balances in accordance with the normalization requirements of Internal Revenue Code § 168(i)(9) and Treasury Regulation § 1.167(1)-(h)(6)(ii). The deferred tax balance that reduces rate base is the weighted average at the beginning of the period and end of period (derived using a pro rata portion of the projected increase during the period). The calculation of the deferred tax balance is sponsored in the testimony of the Tax witness Ragan Reeves (Exhibit SDG&E-37).

4. Accumulated Deferred Taxes – 2017 Tax Cuts & Job Acts Adj (TCJA) - Gas

As noted, the TCJA was enacted on December 22, 2017 and made comprehensive changes to federal tax law. The changes affecting SDG&E include: (1) a reduction of the federal corporate tax rate from 35% to 21%, effective beginning in 2018; (2) the elimination of the bonus depreciation deduction for regulated utilities; and (3) a requirement to return plant-related excess deferred taxes created by the reduction in the corporate tax rate to ratepayers ratably using the Adjusted Rate Assumption Method (ARAM) as described in the TCJA. Refer to the testimony of the Tax witness Ragan Reeves (Exhibit SDG&E-37) for further discussion of the TJCA and determination of the deferred tax balance.

VII. SHARED ASSET RATE BASE

In April 2002, as part of the Commission-approved integration of Southern California Gas Company (SoCalGas) and SDG&E (see D.01-09-056), certain utility capital assets were deemed to be shared by both utilities. These shared assets included structures and improvements, computer equipment, computer software, and telecommunications equipment. In order to recognize that ratepayers across both utilities are appropriately billed for the use of these assets, a process for inter-company billing of the associated revenue requirements was developed.

The rate base calculation for both the shared assets that are recorded in SDG&E plant balances, and future forecasted shared assets is computed in accordance with the same Commission-approved methodologies as described in Section III above. The Shared Services Billing, & Shared Assets Billing, Segmentation, & Capital Reassignments witnesses Angel N. Le and Paul D. Malin (Exhibit SCG-30/SDG&E-34) provides the details for SDG&E's shared assets.

VIII. CONCLUSION

SDG&E requests that the Commission adopt as reasonable all components of Weighted Average Rate Base, as summarized in Table SDGE-SPD-1 for TY 2024.

This concludes my prepared direct testimony.

IX. WITNESS QUALIFICATIONS

My name is Steven P. Dais. My business address is 8326 Century Park Court, San Diego, CA 92123. I am employed by San Diego Gas & Electric (SDG&E) as the Asset and Project Accounting Manager overseeing the rate base, depreciation, and project accounting functions in the SDG&E Accounting Operations department.

I received a Bachelor of Science degree in Accounting from Luther College in Decorah, Iowa in 1995. I also received a Master of Business Administration with an emphasis in Finance from University of Iowa in 1999.

I have been employed by SDG&E in various positions and responsibilities since 1999. My experience has included positions in Financial Accounting, Accounting Operations, and Financial Planning. My current responsibilities include managing the rate base and depreciation functions including General Rate Case support and Project Accounting functions for SDG&E.

I have previously testified before this Commission.

APPENDIX A

GLOSSARY OF TERMS

AFUDC:	Allowance for Funds Used During Construction
CAC:	Customer Advances for Construction
CFR:	Code of Federal Regulations
CIAC:	Contribution in Aid of Construction
CPUC:	California Public Utilities Commission
CWIP:	Construction Work-in-Progress
DIMP:	Distribution Integrity Management Program
EFC:	Executive Finance Committee
ERTA:	Economic Tax Recovery Act of 1981
FERC:	Federal Energy Regulatory Commission
GRC:	General Rate Case
ITCC:	Income Tax Component of Contribution in Aid of Construction
M&S:	Materials & Supplies
O&M:	Operations and Maintenance
RAMP:	Risk Assessment and Mitigation Phase
RO:	Results of Operations
ROR:	Rate of Return
SDG&E:	San Diego Gas & Electric Company
SCG/SoCalGas:	Southern California Gas Company
SIMP:	Storage Integrity Management Program
TIMP:	Transmission Integrity Management Program
TY:	Test Year
USofA:	Uniform System of Accounts

SDG&E 2024 GRC Testimony Revision Log –August 2022

Exhibit	Witness	Page	Line or Table	Revision Detail
SDG&E-35	Steven P. Dais	SPD-1	SPD-1	Revised table SDGE-SPD-1
SDG&E-35	Steven P. Dais	SPD-7	SPD-2	Revised table SDGE SPD-2
SDG&E-35	Steven P. Dais	SPD-7	SPD-3	Revised table SDGE-SPD-3
SDG&E-35	Steven P. Dais	SPD-9	SPD-4	Revised table SDGE-SPD-4
SDG&E-35	Steven P. Dais	SPD-10	20	Revised "$257.8" million with "$257.2" million
SDG&E-35	Steven P. Dais	SPD-11	SPD-6	Revised table SDGE-SPD-6
SDG&E-35	Steven P. Dais	SPD-13	SPD-7	Revised table SDGE-SPD-7
SDG&E-35	Steven P. Dais	SPD-14	SPD-8	Revised table SDGE-SPD-8
SDG&E-35	Steven P. Dais	SPD-15	SPD-9	Revised table SDGE-SPD-9
SDG&E-35	Steven P. Dais	SPD-16	12	Revised "$45.1" million with "$44.9" million
SDG&E-35	Steven P. Dais	SPD-17	SPD-11	Revised table SDGE-SPD-11
SDG&E-35	Steven P. Dais	SPD-17	19	Revised "$254.4" million with "$253.9" million