

Company: San Diego Gas & Electric Company (U 902 M)
Proceeding: 2024 General Rate Case
Application: A.22-05-_____
Exhibit: SDG&E-41

PREPARED DIRECT TESTIMONY OF
SCOTT WILDER
(COST ESCALATION)

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA



May 2022

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APPENDIX A – Glossary of Terms SRW-A-1

SUMMARY

- Cost escalators are used to adjust for inflation the utility's labor, materials, and services costs from Base Year 2021 nominal dollars into Test Year 2024 nominal dollars, and for annual post-test year (PTY) adjustments.
- IHS/Markit Global Insight is used to forecast external national/regional-level utility industry cost inputs (except for represented labor costs, which use the utility's actual union contract escalations).
- To aggregate escalators, inputs are weighted based on the utility's actual Base Year 2021 expenses.

1 capital cost annual escalators are summarized in Table SRW-2 in Section III of my testimony.

2 **A. Labor O&M Escalation**

3 SDG&E’s labor escalation index is a weighted average of three Global Insight wage and
4 salary cost indexes: CEU4422000008, “Utility Service Workers” (weighted 31.293%);
5 ECIPWMBFNS, “Managers and Administrators” (weighted 25.266%); and ECIPWPARNNS,
6 “Professional and Technical Workers” (weighted 43.441%). The weightings are based on latest
7 recorded year 2021 labor earnings for the three corresponding categories of SDG&E employees:
8 represented employees; non-represented supervisory employees including managers, directors,
9 and executives; and non-represented, non-supervisory employees. The utility service workers’
10 portion incorporates wage increases already stipulated by labor contract for SDG&E’s
11 represented employees for 2009 through 2022.

12 **B. Non-Labor O&M Escalation**

13 In the 2008 GRC Decision, D.08-07-046, SDG&E was ordered to file the next GRC
14 using the then-current “cost center” system of internal accounting and control rather than convert
15 and allocate the O&M data to approximate the FERC accounts.² To be consistent with the cost-
16 center presentation requirements, SDG&E combined various weighted Global Insight utility cost
17 series to develop single escalation indexes for non-labor O&M gas and non-labor O&M electric
18 expenses, labeled as “JGTOTALMSX_SD” and “JETOTALMSX_SD,” respectively. These
19 indexes’ component weights are based on SDG&E’s recorded Base Year 2021 expenses. Table
20 SRW-1 shows components’ weightings in JETOTALMSX_SCG and JGTOTALMSX_SD, their
21 series names, and descriptions.

² D.08-07-046, at 11 and Ordering Paragraph 22 at 106

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**Table SRW-1
Global Insight Series Components in San Diego Gas & Electric Company's
Non-Labor O&M Cost Indexes**

<u>Weight</u>	<u>Series Name</u>	<u>Description</u>
100.00%	JETOTALMSX_ SD	SDG&E Composite Electric Non-Labor O&M Index
3.71%	JEFOMMS	Electric Steam Generation
5.68%	JEOOMMS	Electric Other Generation
59.16%	JEDOMMS	Electric Distribution
3.98%	JECAOMS	Electric Customer Accounts
15.03%	JECSIOMS	Electric Customer Service & Information
12.44%	JEADGOMMS_X 926	Electric Administrative & General, excluding Pensions & Benefits
100.00%	JGTOTALMSX_ SD	SDG&E Composite Gas Non-Labor O&M Index
17.89%	JGTOMMS	Gas Transmission
25.07%	JGDOMMS	Gas Distribution
7.88%	JGCAOMS	Gas Customer Accounts
16.51%	JGCSIOMS	Gas Customer Service & Information
32.65%	JGADGOMMS_ X926	Gas Admin & General, excluding Pensions & Benefits

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All the component cost escalators in Table SG&E-SRW-1 come from Global Insight's utility O&M cost model, except for the Administrative & General (A&G) series. Most of SDG&E's pensions and benefits costs (FERC Account 926) are treated separately and are therefore excluded from regular cost escalations. Pensions have separate balancing account treatment, as discussed in the Corporate Center – Pensions and Postretirement Benefits Other than Pension testimony of Peter Andersen (Ex. SCG-26/SDG&E-30). Employee medical

1 expenses (in FERC Account 926.3) are also treated separately and are discussed in the Corporate
2 Center - Compensation and Benefits testimony of Debbie Robinson (Ex. SCG-25/SDG&E-29).
3 The Pensions and Benefits cost component was removed from Global Insight's two utility A&G
4 cost series JEADGOMMS and JGADGOMMS. The resulting adjusted series
5 JEADGOMMS_X926 and JGADGOMMS_X926 were used to escalate SDG&E's non-labor,
6 non-FERC Account 926 A&G electric and gas costs, respectively.

7 The single cost escalation series for SDG&E's shared services and working cash was
8 based on a weighted average of labor and non-labor O&M indexes. Weights were based on
9 actual 2021 SDG&E shared-service cost charges by FERC account to labor (weighted 38.73%)
10 and to the non-labor cost categories (weighted an aggregate total of 61.27%) described above in
11 Table SRW-1.

12 C. Capital Cost Escalation

13 The construction cost indexes used by SDG&E and forecasted by Global Insight are
14 based on recorded Handy-Whitman³ cost series for the Pacific Region (encompassing the states
15 of California, Oregon, and Washington). The forecasted Global Insight utility construction cost
16 series JUG@PCF, "Total Gas Plant, Pacific Region," was used to escalate SDG&E gas-related
17 construction costs. SDG&E's electric distribution construction costs were escalated using the
18 index JUEPD@PCF, "Total Electric Distribution Plant, Pacific Region."

19 The escalation series for Electric Plant was calculated as a weighted average of the three
20 Global Insight indexes "Electric Distribution Plant" (JUEPD@PCF), "Steam Production Plant"
21 (JUEPPF@PCF), and "Other Production Plant" (JUEPPO@PCF). The weightings are based on
22 SDG&E's 2020 Rate Base⁴ for electric distribution (88.57%) and for total electric generation
23 (11.43%). Rate Base was not split by generation type, so the generation weighting was split
24 evenly between "Steam" and "Other" production plant (5.715% each).

25 The escalation index for common plant (that includes both electric and gas assets) was
26 developed using a weighted average of JUG@PCF (25.33%), JUEPD@PCF (60.62%), and

³ Handy-Whitman indexes track recorded cost trends for different types of utility construction. They are updated and published every six months by the firm of Whitman, Requardt and Associates (WRA) of Baltimore, Maryland.

⁴ Final 2021 rate base and common plant data were not yet available in time for this testimony's cost escalation calculation requirements, so 2020 data were used.

1 Global Insight’s construction cost index for electric transmission plant JUEPT@PCF (14.05%).
2 The weights are SDG&E’s common-plant allocation factors based on actual 2020 cost data.

3 For electric generation, combined-cycle plant construction cost escalation is applied to
4 the Palomar Generating Facility (Palomar) expenditures. This escalator is a weighted average of
5 the two Global Insight series JUEPPF@PCF (weighted 68.8%) and JUEPPO@PCF (weighted
6 31.2%) - defined as Pacific Region plant construction cost indexes for “Total Steam Production”
7 and “Total Other Production,” respectively. The weightings are based on SDG&E Accounting
8 Operations’ calculated acquisition values of Palomar’s asset classes.

9 **III. POST-TEST YEAR COST ESCALATORS**

10 Beyond TY 2024, SDG&E proposes that its base margin revenue requirements be
11 updated each year according to the PTY ratemaking mechanism described in the Post-Test Year
12 Ratemaking testimony of Melanie E. Hancock (Ex. SDG&E-45).

13 A gas and electric O&M utility input price index (GEOMPI) is calculated and used to
14 adjust O&M expenses to reflect expected cost inflation of goods and services comprising inputs
15 that SDG&E will use to serve its customers. The GEOMPI’s underlying PTY escalation indexes
16 are the same O&M indexes described in Section II for escalations from 2021 to TY 2024. Based
17 on SDG&E’s recorded 2021 expenses, the O&M labor index is weighted 48.56%, the non-labor
18 gas O&M cost index JGTOTALMSX_SD is weighted 7.33%, and the non-labor electric O&M
19 cost index JETOTALMSX_SD is weighted 44.11% to form a single GEOMPI. For
20 implementation and ease of calculation in PTY adjustments, the values of GEOMPI and its
21 component indexes will be re-based from BY 2021 = 1.0000 to TY 2024 = 1.0000. Table SRW-
22 2 shows escalators’ annual percentage changes.

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Table SRW-2
San Diego Gas & Electric Company
Summary of Cost Escalation Index

Annual Percent Changes	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
<u>Shared Services</u>	2.03%	2.34%	1.36%	4.15%	2.78%	2.13%	2.03%	2.02%	2.12%	2.20%
<u>Operations & Maintenance</u>										
Labor O&M Index	2.78%	2.63%	2.54%	3.20%	3.81%	3.14%	2.87%	2.82%	2.87%	2.90%
Electric Nonlabor O&M Index	3.39%	2.48%	-0.18%	8.18%	5.23%	-1.19%	-0.53%	0.38%	1.27%	1.57%
Gas Nonlabor O&M Index	2.80%	2.07%	-0.33%	6.62%	3.88%	0.47%	0.87%	1.31%	1.66%	1.80%
Post-Test Year GEOMPI	3.05%	2.52%	1.14%	5.59%	4.44%	1.02%	1.25%	1.67%	2.11%	2.26%
<u>Capital-Related</u>										
Steam Production Plant	3.36%	2.39%	3.31%	10.87%	3.85%	-1.76%	0.46%	0.95%	1.19%	1.62%
Other Production Plant	4.85%	3.81%	5.41%	6.36%	5.48%	5.80%	3.09%	1.40%	0.66%	0.50%
Electric Distribution Plant	4.91%	3.96%	4.90%	4.57%	3.87%	4.25%	2.82%	1.25%	1.64%	2.11%
Electric Plant	4.82%	3.87%	4.84%	5.02%	3.96%	3.99%	2.71%	1.25%	1.56%	1.99%
Total Gas Plant	5.91%	4.77%	4.99%	15.04%	7.58%	-4.98%	-3.40%	-0.89%	1.71%	2.24%
Combined Cycle Plant	3.82%	2.84%	3.97%	9.42%	4.36%	0.62%	1.33%	1.10%	1.01%	1.24%
Common Plant	5.16%	3.99%	4.44%	6.77%	4.92%	1.59%	1.13%	0.71%	1.61%	2.08%

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This concludes my prepared direct testimony

1 **IV. WITNESS QUALIFICATIONS**

2 My name is Scott R. Wilder. I am employed by Southern California Gas Company
3 (SoCalGas) as a Business/Economics Advisor in the Gas Regulatory Affairs Department for
4 SoCalGas and SDG&E. My business address is 555 West Fifth Street, Los Angeles, California
5 90013-1011. I have held my current position since February 2004. Since 1993 I have been
6 employed at SoCalGas in various forecasting and analysis positions of increasing responsibility.
7 From 1986 to 1993, I was employed by Pacific Gas and Electric Company in San Francisco in
8 various positions involving demand and economic forecasting, planning, and analysis. From
9 1982 to 1984, I worked as a Development Project Manager with the Southern Baptist
10 International Mission Board, working with farmers and engineers to build irrigation aqueducts in
11 the Andes Mountains of Peru. I received a Bachelor of Science degree in Agricultural &
12 Managerial Economics from the University of California at Davis in 1982 and a Master of
13 Science degree in Agricultural Economics from U.C. Davis in 1986.

14 I have previously testified before the California Public Utilities Commission.

APPENDIX A
GLOSSARY OF TERMS

**APPENDIX A
GLOSSARY OF TERMS**

Acronym	Definition
A&G	Administrative & General
BY	Base Year
CPUC	California Public Utilities Commission
FERC	Federal Energy Regulatory Commission
GEOMPI	Gas and Electric O&M Price Index
GRC	General Rate Case
O&M	Operations and Maintenance
PBOP	Post-Retirement Benefits Other Than Pensions
PTY	Post-Test Year
SDG&E	San Diego Gas & Electric Company
TY	Test Year
UCIS	Utility Cost Information Service