Application No: A.13-12-013
Exhibit No.: ________________
Witness: Garry G. Yee

Application of Southern California Gas Company (U 904 G) and San Diego Gas & Electric Company (U 902 G) For Authority To Recover North-South Project Revenue Requirement In Customer Rates And For Approval Of Related Cost Allocation And Rate Design Proposals)))))))	A.13-12-013 (Filed December 20, 2013)

PREPARED REBUTTAL TESTIMONY ON RATESETTING AND SAFETY OF

GARRY G. YEE

SAN DIEGO GAS & ELECTRIC COMPANY

AND

SOUTHERN CALIFORNIA GAS COMPANY

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

June 12, 2015

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PREPARED REBUTTAL TESTIMONY ON RATESETTING AND SAFETY OF GARRY G. YEE

I. PURPOSE

The purpose of my rebuttal testimony on behalf of Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E) is to address accounting issues raised by the Office of Ratepayer Advocates (ORA), The Utility Reform Network (TURN) and the Southern California Generation Coalition (SCGC) in their May 8, 2015 testimony regarding ratesetting and safety issues relative to the North-South Project (Project) that impact the Project's revenue requirement. The accounting topics I will address include the following:

- Cost exclusions and limitations;
- Capitalization methodology; and
- Transparency of costs incurred.

II. INTERVENOR COST EXCLUSIONS AND LIMITATIONS

A. Limited and/or Deferred Cost Recovery is Unwarranted and May Have Unintended Consequences

ORA and TURN argue a cost cap should be placed on the total Project to limit ratepayer exposure to rising construction costs.[1] SCGC supports the deferral of cost recovery until the Project undergoes a reasonableness review in the next General Rate Case (GRC) following project completion.[2] Alternatively, presuming the Commission permits charging of interim rates,

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[1] Prepared Testimony of Office of Ratepayer Advocates, dated May 8, 2015, page 75, Prepared Direct Testimony of Herbert Emmrich on Cost Allocation and Rates on behalf of The Utility Reform Network, dated May 8, 2015, page 2.

[2] Direct Testimony of Catherine E. Yap on behalf of Southern California Generation Coalition, dated May 8, 2015, page 14 and 15.

SCGC argues a cap should be placed on the annual revenue requirement amortized in rates, either limited to cost savings or by a pre-established amount.[3]

SoCalGas and SDG&E disagree with ORA and TURN's recommendation to assign a fixed cost to the Project. Some market factors, such as escalation and a steady supply of qualified vendors, are beyond the control of SoCalGas and SDG&E, and it would be unreasonable for shareholders to bear the risk of cost overruns attributed to these factors while ratepayers enjoy the benefits of the Project. Similarly, SoCalGas and SDG&E should not be required to forgo necessary expenditures in order to meet budgets, or have shareholder penalties be imposed for undertaking necessary costs. SoCalGas and SDG&E have previously demonstrated their prudence in managing project costs (e.g., Honor Rancho Expansion Project and Transmission Integrity Management Program (TIMP) Balancing Account).[4] Therefore, SoCalGas and SDG&E support full cost recovery of the Project's actual revenue requirement without a cost cap.

Additionally, SoCalGas and SDG&E disagree with SCGC's proposals to either defer cost recovery until the next GRC, or alternatively, to limit the actual annual revenue requirement that will be included in rates during the interim period until the Project is rolled into a GRC or other proceeding. Under such proposals, large undercollections could accumulate in the regulatory account proposed by Mr. Ahmed, thereby having a significant rate impact to customers in future periods.[5]

[3] Direct Testimony of Catherine E. Yap on behalf of Southern California Generation Coalition, dated May 8, 2015, page 18 and 20.
[4] *See* D.14-06-007 (Honor Rancho); Resolution G-3499 (TIMP).
[5] Rebuttal Testimony of S. Nasim Ahmed, dated June 12, 2015, page 2.

B. A Cost Cap, If Adopted, Should Be Placed on a Total Project Basis, With Excess Costs Subject to a Reasonableness Review

If contrary to SoCalGas and SDG&E's request, the Commission finds that a cost cap is appropriate for the Project, SoCalGas and SDG&E propose a cap equal to the Project's estimated fully loaded and escalated costs of $855.5 million.[6] The Commission should still authorize recovery in rates of the revenue requirement based on actual costs up to the cost cap. As discussed in Mr. Ahmed's rebuttal testimony, if actual costs exceed the cost cap, then the revenue requirement associated with those costs exceeding the cap should be recorded in a separate regulatory account subject to a reasonableness review in a future proceeding.

III. COSTS WILL BE CAPITALIZED AND EXPENSED IN COMPLIANCE WITH COMPANY POLICY

SCGC proposes the expenditures for office space and other office-related costs anticipated during the Project's construction be capitalized as a direct cost under "rents" or capitalized indirectly through the Administration & General (A&G) loader.[7] Additionally, SCGC argues expenditures for environmental monitoring anticipated after the Project is in-service should be expensed.[8]

SoCalGas and SDG&E disagree with SCGC's proposals as they are inconsistent with SoCalGas and SDG&E's capitalization policy, which conforms to the FERC Code of Federal Regulations – Uniform System of Accounts. In general, SoCalGas and SDG&E define capital costs as those costs with a useful life of more than one year and that are incurred to construct, install, or prepare plant, property, and equipment for its intended use. The office space and

[6] The Project's estimated costs are stated in nominal dollars with a base year of 2014.
[7] Direct Testimony of Catherine E. Yap on behalf of Southern California Generation Coalition, dated May 8, 2015, page 19.
[8] Direct Testimony of Catherine E. Yap on behalf of Southern California Generation Coalition, dated May 8, 2015, page 23.

office-related costs discussed in Mr. Buczkowski's Updated Direct Testimony are expected to be incurred by North-South Project back office employees rather than by North-South Project construction crews or by employees who provide general support to SoCalGas operations (the distinction is the latter can and should be capitalized), and therefore, would not be capitalized under company policy. Direct charging of these incremental O&M costs to the project as opposed to employing an allocation methodology such as an overhead rate is far superior as there is a direct cost causation that is specifically identifiable and traceable to a source. SCGC's recommendation to capitalize such period costs would simply increase rate base and the corresponding revenue requirement borne by ratepayers over the life of the asset.

Additionally, SoCalGas and SDG&E's capitalization policy calls for the capitalization of costs related to environmental permits, mitigation and restoration until the obligation to incur these costs is released by the appropriate agency. SoCalGas and SDG&E will be obligated to perform environmental monitoring as required by CEQA, NEPA, and other regulatory requirements as stated in Mr. Buczkowski's Updated Direct Testimony.[9] As such, the costs for this environmental monitoring should and will be appropriately capitalized and depreciated over the life of the asset. Furthermore, the existing capitalization policy has been used to support capital and O&M forecasts, and associated revenue requirement presented in previously approved general rate cases. There is no reason to change this standard treatment for the North-South Project's costs.

As stated in my Updated Direct Testimony, the fully loaded and escalated costs and resulting revenue requirement are for illustrative purposes and are based on estimates and

[9] Updated Direct Testimony of David Buczkowski, dated November 12, 2014, page 3.

assumptions generated in 2014.[10] SoCalGas will account for the actual costs of the Project in compliance with all accounting policies and procedures, including the capitalization policy.

IV. ACCOUNTING PROCEDURES WILL ENABLE COST TRANSPARENCY

ORA contends that if the Project is approved, "the Commission should be able to verify [certain] representations regarding the derivation of actual costs."[11] SoCalGas and SDG&E agree with having transparency for cost derivation. While projects are under construction, SoCalGas' accounting procedures use a structured hierarchy to distinguish between capital and O&M cost, and to provide specific line-item detail of sub-categories of direct and indirect costs (e.g., consulting services, materials, Allowance for Funds Used During Construction, overhead, etc.). Furthermore, once projects are completed, SoCalGas' accounting procedures for recording entries to the Commission-authorized regulatory accounts will identify the revenue requirement components (i.e., depreciation, taxes and return).

V. COST RECORDED TO THE PROPOSED REGULATORY ACCOUNT WILL REFLECT THE PROJECT'S ACTUAL REVENUE REQUIREMENT

SCGC asserts "the revenue requirement should be updated annually to reflect the depreciation of the capital investment."[12] SoCalGas and SDG&E agree that the actual capital-related costs (i.e., depreciation, taxes, and return) of the Project's actual revenue requirement should and will be recorded to the proposed North South Infrastructure Memorandum Account for amortization in rates until the Project's costs are included in a GRC. SoCalGas will use the most current Commission adopted depreciation parameters – average service lives and net

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[10] Updated Direct Testimony of Garry Yee, dated November 12, 2014, page 1.
[11] Prepared Testimony of Office of Ratepayer Advocates, dated May 8, 2015, page 27.
[12] Direct Testimony of Catherine E. Yap on behalf of Southern California Generation Coalition, dated May 8, 2015, page 24.

salvage values – for computing annual depreciation rates by FERC account. Rate base will decline annually as a result of depreciation. Therefore, as SCGC asserts, the revenue requirement associated with the decline in rate base will be appropriately computed and reflected in the NSIMA.

This concludes my prepared rebuttal testimony on ratesetting and safety issues.