

In The Matter of the Application of San Diego Gas
& Electric Company (U 902 G) and Southern
California Gas Company (U 904 G) for a Certificate
of Public Convenience and Necessity for the Pipeline
Safety & Reliability Project

Application 15-09-013

Application: A.15-09-013
Exhibit No.: _____
Witness: Casey W. Butler

CHAPTER IV
PREPARED PHASE 2 DIRECT TESTIMONY OF
CASEY W. BUTLER
ON BEHALF OF
SAN DIEGO GAS & ELECTRIC COMPANY
AND
SOUTHERN CALIFORNIA GAS COMPANY

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

August 12, 2020

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1 **I. PURPOSE AND SUMMARY**

2 The purpose of this prepared direct testimony on behalf of San Diego Gas & Electric
3 Company (SDG&E) and Southern California Gas Company (SoCalGas) (collectively, the
4 Utilities) is to present an illustrative revenue requirement associated with the forecast costs of
5 implementing the 19 independent projects (Line 1600 projects) included in the September 26,
6 2018 Line 1600 Test or Replacement Plan, approved by the Safety and Enforcement Division
7 (SED) of the California Public Utilities Commission (Commission or CPUC) on January 15,
8 2019 (Line 1600 Plan).

9 In Decision (D.) 20-02-024, the Commission stated: “This decision does not grant cost
10 recovery in this phase; reasonableness review of the cost forecast established in this phase will
11 occur in later General Rate Case proceedings.” The Utilities do not expect Phase 2 of this
12 proceeding to approve a revenue requirement. Nonetheless, D.20-02-024 states that the Utilities
13 “must demonstrate that the forecast costs and associated revenue requirements proposed for
14 executing the 19 segment projects on Line 1600 are just and reasonable.”¹ Therefore, my
15 testimony presents an illustrative revenue requirement based on the forecasted costs.

16 The forecasted revenue requirement for the Line 1600 Projects is \$1.8 billion over the
17 years 2014 through 2097. Since this proposal includes costs above and beyond those authorized
18 by the Commission in SDG&E’s most recent General Rate Case (GRC), all costs associated with
19 the Line 1600 Projects are incremental, and thus are additive to any currently authorized levels of
20 revenue requirement.

¹ D.20-02-024 at 15; *see also id.* at 16, 40.

1 **II. CAPITAL AND OPERATIONS AND MAINTENANCE (O&M) COSTS**

2 Table 4-1 below summarizes the direct costs described in the Phase 2 direct testimony of
3 Norm G. Kohls (Chapter I)². These costs do not yet reflect the impact of loaders, escalation,
4 allowance for funds used during construction (AFUDC), or capitalized property tax.

5 **Table 4-1: Direct Costs**
6 *(In Millions, 2020\$)*

	2019 & Prior	2020	2021	2022	2023	2024	Total
Capital	\$40	\$122	\$153	\$101	\$65	\$9	\$490
O&M	\$3	\$0	\$0	\$5	\$23	\$17	\$48
Total	\$43	\$122	\$153	\$106	\$88	\$26	\$538

7 **A. Overhead Allocations**

8 Overhead allocations (also referred to as “indirect costs”) are directly associated with
9 project costs and are used to account for costs that cannot be economically direct-charged, such
10 as payroll taxes and administrative and general costs. Overhead allocations are added to project
11 costs, consistent with those costs’ classification as company labor, contract labor, or purchased
12 services and materials. Overhead loaders used to develop this revenue requirement for the Line
13 1600 Projects are for illustrative purposes only and subject to change. These overhead
14 allocations adhere to the methodology established by the Federal Energy Regulatory
15 Commission (FERC)³ and were derived using the same methodology used in SDG&E’s 2019
16 GRC filing.⁴ Only overhead allocations considered incremental to the Line 1600 Projects are
17 applied in the determination of the illustrative revenue requirement.

² Prepared Direct Testimony of Norm G. Kohls at Table 1-2. References to “testimony” herein are to the prepared direct testimony served by the Utilities in Phase 2 of this proceeding, unless otherwise indicated.

³ FERC guidelines reference the Statement of Federal Financial Accounting Standards 4: Managerial Cost Accounting Standards and Concepts.

⁴ Application (A.) 17-10-007/-008 (cons.), Second Revised SoCalGas/SDG&E Direct Testimony of James Vanderhye (Shared Services & Shared Assets Billing, Segmentation & Capital Reassignments), Ex. SCG-34-2R/SDG&E-32-2R (April 6, 2018).

1 **B. Escalation**

2 Escalation is applied to direct costs to properly account for inflation. SDG&E applied the
3 indices published in IHS Global Insight’s 1st Quarter 2020 Utility Cost Forecast for this
4 illustrative revenue requirement.

5 **C. AFUDC and Capitalized Property Tax**

6 SDG&E is authorized to apply AFUDC on capital as it is spent and remains in
7 Construction Work in Progress (CWIP). Similarly, capitalized property tax represents property
8 tax incurred during the Line 1600 Project’s development period prior to each Project being
9 placed in service. Both AFUDC⁵ and capitalized property tax⁶ are included as part of the total
10 capital cost of the Line 1600 Projects.

11 **D. Total Capital and O&M**

12 Table 4-2 below summarizes the total amount of capital forecast for the Line 1600
13 Projects, as well as the total loaded and escalated O&M cost. The capital costs include
14 escalation, overhead loaders, AFUDC, and capitalized property tax.

⁵ Consistent with prior SDG&E rate case proceedings, SDG&E utilizes the AFUDC formula mandated by FERC’s Uniform System of Accounts (USofA) [18 Code of Federal Regulations (CFR) Part 101, Electric Plant Instructions, Components of construction cost 3(A)17 and 18 CFR Part 201, Gas Plant Instructions, Components of construction cost 3(A)17.]. Consistent with prior SDG&E rate case proceedings before the CPUC, including Decision D.16-06-054, SDG&E typically uses its authorized Rate of Return as a reasonable proxy for estimating AFUDC applied to CWIP.

⁶ See D.13-05-010.

Table 4-2: Total Capital and O&M
(In Millions, includes escalation, overheads, AFUDC, and capitalized property tax)

	2019 & Prior	2020	2021	2022	2023	2024	Total
Capital	\$62	\$142	\$181	\$117	\$75	\$7	\$584
O&M	\$3	\$0	\$0	\$6	\$27	\$20	\$56
Total⁷	\$65	\$142	\$181	\$123	\$102	\$27	\$640

III. ILLUSTRATIVE REVENUE REQUIREMENT

The illustrative revenue requirement consists of the total O&M and capital costs stated above, as well as SDG&E’s return on investment, federal and state income taxes, property taxes, working cash, and franchise fees and uncollectibles (FF&U).⁸ The sections below cover these components in greater detail.

A. O&M Expenses

The loaded and escalated O&M expenses shown in Table 4-2 above are included as a component of the total revenue requirement.

B. Working Cash

Working cash is “the funding supplied by investors to meet day-to-day utility operational requirements, and to cover the time that expenditures are made for services until the time revenues are collected for those services.”⁹ It is included as a component of the total revenue requirement.

⁷ Excludes removal costs for existing assets of \$13.0M; not part of basis for calculating revenue requirement.

⁸ The revenue requirement components and the rate base calculations are computed based on the same standard, Commission-approved methodology used in the 2019 GRC and other incremental applications.

⁹ A.17-10-007/-008 (cons.), Second Revised SDG&E Direct Testimony of Steven P. Dais (Working Cash), Ex. SDG&E-36-2R (April 6, 2018) at SPD-2.

1 **E. Income Tax, Property Tax, and FF&U**

2 The revenue requirement includes costs related to the payment of income taxes, property
3 taxes, and FF&U. Federal income tax expense is based on the current corporate federal income
4 tax rate of 21.00 percent. State income tax expense is based on the current California Franchise
5 Tax rate of 8.84 percent. Property tax expense is based on SDG&E’s current average system-
6 wide rate of 1.610 percent. FF&U covers payments made to counties and incorporated cities
7 pursuant to local ordinances granting right of way access, as well as uncollectible expenses
8 incurred by SDG&E.¹³

9 **F. Forecasted Revenue Requirement**

10 Table 4-4 below illustrates the final forecasted revenue requirement for the Proposed
11 Project.

12 **Table 5-4: Forecasted Revenue Requirement Summary¹⁴**
13 *(In Millions)*

	2019 and Prior	2020	2021	2022	2023	2024 - 2097	Total
Revenue Requirement	\$3	\$4	\$25	\$57	\$95	\$1,589	\$1,773

14 The above illustrative revenue requirement is based on the forecasted costs provided in
15 the Phase 2 direct testimony of Norm G. Kohls (Chapter I). The illustrative revenue requirement
16 is not being proposed to be included in Rates, as reasonableness review of the actual costs and
17 associated revenue requirement for future cost recovery will occur in a future General Rate Case.
18 SDG&E will determine the actual capital and any applicable O&M costs of implementing the
19 Line 1600 Plan as it is completed and will calculate the actual revenue requirements associated

¹³ FF&U multipliers used for these revenue requirements are consistent with those supported in D.19-09-051.

¹⁴ The revenue requirement excludes \$8,625 of forecasted capital disallowance for the Black Mountain project scheduled to NOP Q4 2020. See Mr. Kohl’s Testimony Chapter I for discussion on Disallowed Costs.

1 with those costs for future review and cost recovery in rates. Details on cost tracking and
2 regulatory account treatment of the actual revenue requirement are discussed in the Chapter III
3 testimony of Claire Olegario.

4 This concludes my prepared direct testimony.

1 **IV. STATEMENT OF QUALIFICATIONS**

2 My name is Casey W. Butler. My business address is 8330 Century Park Court, San
3 Diego, California 92123. I am employed by SDG&E as a Manager in Financial & Business
4 Planning. I am responsible for managing the operating cost and capital budgets for SDG&E. I
5 have held this position since July of 2020. Prior to this position, I was the Financial and
6 Strategic Analysis Manager at SDG&E for nearly two years. In that position, I was responsible
7 for overseeing the financial analysis and development of revenue requirements for SDG&E
8 projects and programs. I have been employed by SDG&E and/or Sempra Energy since January
9 2006. In addition to the positions that I have listed above, I have served as a Project Controls
10 Manager at Sempra Energy, Business Planning Manager in SDG&E's Major Projects Budgets
11 and Accounting group, a Principal Business Analyst on SDG&E's Sunrise Powerlink Project,
12 and a Principal Business Analyst in SDG&E's Financial Planning organization. In addition, I
13 have also been a lead planner for multiple SDG&E General Rate Case applications.

14 I received a Bachelor of Science Degree in Accounting from Bentley University in May
15 of 1998.

16 I have previously testified before the Commission.