

Application No.: A.06-07-_____.

Exhibit No.: _____

Witness: Todd J. Cahill

Application of SAN DIEGO GAS & ELECTRIC COMPANY (U 902
E) for Recovery of Costs Related to the California Bark Beetle
Infestation under the Catastrophic Event Memorandum Account
(CEMA).

PREPARED DIRECT TESTIMONY OF

TODD J. CAHILL

SAN DIEGO GAS & ELECTRIC COMPANY

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA
July 18, 2006

1 Service / General Rate Case or other regulatory proceedings. Interest is accrued on the
2 average monthly CEMA balance at a rate equal to 1/12 the annual interest rate on the
3 three-month commercial paper as reported in the Federal Reserve Statistical Release H.15
4 or its successor.

5 **III. BARK BEETLE BACKGROUND INFORMATION**

6 On March 7, 2003, Governor Gray Davis issued a State of Emergency
7 Proclamation for the Counties of Riverside, San Bernardino, and San Diego because of
8 widespread Bark Beetle infestation. In response, the California Public Utilities
9 Commission (CPUC or Commission) issued Resolution E-3824 on April 3, 2003 which,
10 among other things, directed the affected utilities to invoke their CEMA to record Bark
11 Beetle costs. Pursuant to Commission Resolution E-3238, which originally adopted
12 SDG&E's CEMA tariff, SDG&E notified the Executive Director of the Commission by
13 letter dated May 8, 2003 that it was recording in its CEMA Bark Beetle-associated costs.
14 In accordance with SDG&E's adopted CEMA tariff, the letter stated that the event had
15 been declared a state of emergency by the state government. Upon the submittal of the
16 letter of notification, SDG&E was authorized to record to the CEMA the incremental
17 costs incurred as a result of the Bark Beetle infestation.

18 SDG&E filed Advice Letter 1623-E¹ on September 21, 2004 requesting recovery
19 of bark beetle costs incurred during the period April 3, 2003 through August 31, 2004.
20 The CPUC approved SDG&E's request and Bark Beetle CEMA costs totaling \$5.9
21 million were recovered in electric distribution rates over twelve months beginning in

¹ Advice Letter 1623-E was approved with modifications by Commission Resolution E-3904, dated January 13, 2005.

1 February, 2005. In addition to approving recovery of Bark Beetle CEMA costs for the
2 period April 3, 2003 through August 31, 2004 and SDG&E's proposed recovery method,
3 Commission Resolution E-3904 directed that requests for recovery of future Bark Beetle
4 costs be filed by Application rather than Advice Letter.

5 **IV. CURRENT BARK BEETLE CEMA REQUEST**

6 SDG&E requests approval to recover \$8.7 million in Bark Beetle costs recorded
7 to the CEMA during the period September 1, 2004 through June 30, 2006. These costs
8 are summarized by month in Exhibit A. This amount includes interest expense accrued
9 through June 30, 2006. Including interest expense through year-end 2006, the Bark
10 Beetle CEMA balance is forecast to total \$8.9 million. Interest is calculated on a
11 monthly basis using the three-month commercial paper rate as directed in SDG&E's
12 adopted CEMA tariff. All costs recorded to the Bark Beetle CEMA are incremental, as
13 they are not currently being recovered through SDG&E's electric rates. These costs were
14 not requested in SDG&E's last Cost of Service proceeding, nor should they have been.

15 As described in the Testimony of Timothy Knowd, SDG&E has only recorded to
16 the CEMA outside contractor costs, specifically hired for the Bark Beetle project.
17 SDG&E managed the project with no incremental internal labor costs charged to the
18 project. Two internal tracking orders (one for electric distribution and one for
19 transmission) were established to record incremental Bark Beetle CEMA costs. The Bark
20 Beetle internal tracking orders enable the project management team to differentiate Bark
21 Beetle costs from other tree trimming costs. Costs recorded to the Bark Beetle CEMA
22 related to electric distribution only. No transmission-related costs were incurred.
23 SDG&E has not incurred any Bark Beetle capital-related costs.

1 Tree trimming costs other than Bark Beetle CEMA related are subject to the Tree
2 Trimming Balancing Account (TTBA) mechanism². The purpose of the TTBA is to
3 record actual tree trimming costs and associated revenues. No incremental Bark Beetle-
4 related costs have been recorded to SDG&E's TTBA. As discussed in the Accounting
5 Treatment section of SDG&E's electric Preliminary Statement, a year-end overcollection
6 in the TTBA, if any, is returned to customers on an annual basis. The TTBA was
7 overcollected by \$8.8 million in 2005, the balance of which was returned to SDG&E
8 customers as part of SDG&E's annual regulatory account balance update filing.
9 Currently, the TTBA is forecasted to be overcollected by approximately \$4 million at
10 year-end 2006, with a similar overcollection expected at year-end 2007.

11 **V. RECOVERY METHOD**

12 SDG&E requests that the Bark Beetle CEMA balance of \$8.7 million be
13 transferred to the TTBA for recovery. SDG&E proposes to apply the forecasted
14 overcollections in the TTBA at year-end 2006 and year-end 2007 to offset the increase in
15 electric distribution rates that would otherwise occur if SDG&E were to immediately
16 begin collecting the \$8.7 million. The TTBA is expected to have an overcollection
17 sufficient to eliminate the Bark Beetle CEMA balance by year-end 2007³. Applying the
18 TTBA overcollection over a two-year period to the Bark Beetle CEMA balance, as
19 proposed, will remove any need for a related increase to SDG&E's electric distribution

² Commission Decision (D.) 98-12-038 in SDG&E's Distribution Performance-Based Ratemaking (PBR) Application (A.) 98-01-014 authorized the TTBA effective January 1, 1999. The TTBA was retained pursuant to D.04-12-015 in SDG&E's Cost of Service proceeding.

³ The use of TTBA overcollections to reduce undercollections existing in other regulatory accounts has been approved by the Commission in the past. Specifically, Commission Resolution E-3798 authorized SDG&E to apply annual TTBA overcollections as a reduction to the Assembly Bill (AB) 265 undercollection.

1 rates. If applying the TTBA overcollection is not sufficient to eliminate the Bark Beetle
2 CEMA balance by year-end 2007, SDG&E will recover any remaining balance through
3 electric distribution rates, implemented as part of its 2007 year-end annual regulatory
4 account balance update filing for rates effective January 1, 2008.

5 **VI. RECOVERY OF FUTURE BARK BEETLE COSTS**

6 Finding No. 8 of Resolution E-3904 directs SDG&E to file applications for
7 recovery of its Bark Beetle CEMA expenditures, to be filed as soon as practical after the
8 end of a calendar year. Following the instant application, which requests recovery of
9 expenditures through June 30, 2006, SDG&E does not expect additional costs to be
10 recorded to the Bark Beetle CEMA. Tree removal related to the Bark Beetle infestation
11 has diminished to the point where the remaining dead and dying trees will be removed as
12 part of SDG&E's normal tree trimming activities, recorded to SDG&E's TTBA.
13 Therefore, SDG&E filing a future application for CEMA recovery is not expected unless
14 a future large-scale Bark Beetle infestation occurs.

15 **VII. CONCLUSION**

16 SDG&E's request to apply the TTBA overcollection over a two-year period to the
17 Bark Beetle CEMA balance, as described above, is reasonable and removes the need for a
18 related increase to SDG&E's electric distribution rates. SDG&E's request should be
19 approved.

20 This concludes my testimony.

1 **QUALIFICATIONS**

2 My name is Todd J. Cahill. I am employed by the Sempra Energy Utilities, San
3 Diego Gas and Electric (SDG&E) and Southern California Gas Company (SoCalGas).
4 My business address is 8315 Century Park Court, San Diego, California 92123. I am
5 currently Senior Tariff Administrator in Tariffs and Regulatory Accounts at SDG&E. I
6 am responsible for the development of advice letters and tariffs for anticipated approval
7 by the Commission. My responsibilities include the drafting of advice letters, comments,
8 responses, and other documents covering a wide range of subject matter, including but
9 not limited to customer rates and regulatory accounts, that affect the Sempra Utilities. I
10 assumed my current position in January of 2005.

11 I received a Bachelor of Arts degree in Political Science from Brigham Young
12 University in 1998. I began my career in the Claims/Risk Management department of
13 Sempra Energy in 1999. In 2000, I began working in the Regulatory Affairs division and
14 have held positions of increasing responsibility within the division leading up to my
15 current position.

**EXHIBIT A
CATASTROPHIC EVENT MEMO ACCOUNT
BARK BEETLE - ELECTRIC**

MONTHS	REVENUE (1)	TOTAL MONTHLY EXPENSE (2)	AMOUNT (3)	1/2 CURRENT (4)	ADD PREVIOUS BALANCE (5)	INTEREST RATE (6)	INTEREST EXPENSE (7)	Under/(Over) BALANCE W/ INTEREST (8)	ACCOUNT BALANCE (10)
4/03-8/04		5,851,676	5,851,676				45,914	5,897,590	5,897.5
Sep-04		450,356	450,356	225,178	5,897,590	1.62%	8,266	458,622	6,356.2
Oct-04		264,193	264,193	132,097	6,356,212	1.75%	9,462	273,655	6,629.8
Nov-04		414,539	414,539	207,270	6,629,867	1.95%	11,110	425,649	7,055.5
Dec-04		666,253	666,253	333,127	7,055,516	2.18%	13,423	679,676	7,735.1
Jan-05		299,227	299,227	149,614	7,735,192	2.34%	15,375	314,602	8,049.7
Feb-05	(a)	379,258	(115,287)	(57,644)	8,049,794	2.53%	16,850	(98,437)	7,951.3
Mar-05		938,988	444,443	222,222	7,951,357	2.75%	18,731	463,174	8,414.5
Apr-05		735,511	240,966	120,483	8,414,531	2.82%	20,057	261,023	8,675.5
May-05		848,118	353,573	176,786	8,675,554	2.97%	21,910	375,483	9,051.0
Jun-05		1,455,518	960,973	480,487	9,051,037	3.09%	24,544	985,517	10,036.5
Jul-05		376,620	(117,925)	(58,963)	10,036,554	3.27%	27,189	(90,736)	9,945.8
Aug-05		447,510	(47,035)	(23,518)	9,945,818	3.47%	28,692	(18,343)	9,927.4
Sep-05		1,420,354	925,809	462,905	9,927,475	3.64%	31,517	957,326	10,884.8
Oct-05		(100,849)	(595,394)	(297,697)	10,884,801	3.72%	32,820	(562,574)	10,322.2
Nov-05		158,491	(336,054)	(168,027)	10,322,227	4.01%	33,932	(302,122)	10,020.1
Dec-05		(556,550)	(1,051,095)	(525,548)	10,020,105	4.23%	33,468	(1,017,627)	9,002.4
Jan-06		0	(494,545)	(247,273)	9,002,478	4.37%	31,884	(462,661)	8,539.8
Feb-06		2,055	(492,490)	(246,245)	8,539,817	4.48%	30,963	(461,527)	8,078.2
Mar-06		(4,699)	(499,244)	(249,622)	8,078,290	4.55%	29,684	(469,560)	7,608.7
Apr-06		(16,484)	(511,029)	(255,515)	7,608,730	4.76%	29,168	(481,861)	7,126.8
Adjustment	(b)	(1,483,635)	1,483,635		7,126,869		8,658	1,492,293	8,619.1
May-06		(14,586)	(14,586)	(7,293)	8,619,162	4.87%	34,950	20,364	8,639.5
Jun-06		1,557	1,557	779	8,639,526	5.01%	36,073	37,630	8,677.1
9/04-6/06	5,934,540	8,165,380	2,230,840				548,726	2,779,566	
Total (Inception-June '06)	5,934,540	14,017,056					594,640	8,677,156	
Total Expenses for recovery:		8,165,380					Total w/interest:	8,677,156	

(a) Per SDG&E A.L. 1658-E, SDG&E was authorized to recover \$5.935 million in distribution rates effective February 1, 2005.
(b) Adjustment to reflect termination of the amortization of \$5.935 million effective January 31, 2006.