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April 25, 2012

Kimberly D. Bose, Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

**Re: San Diego Gas & Electric Company, Docket No. ER11-4318-00_ ;
Responses to Deficiency Letter on Compliance Filing**

Dear Secretary Bose:

San Diego Gas & Electric Company (“SDG&E”), pursuant to Section 205 of the Federal Power Act and Part 35 of the regulations of the Federal Energy Regulatory Commission (“Commission”), here provides its response to the Deficiency Letter, dated February 24, 2012 (“Deficiency Letter”). By Notice of Extension of Time, dated March 26, 2012, the Commission extended the due date for providing the response to and including April 25, 2012.

I. INTRODUCTION

The responses, set forth in Attachment 1, hereto, address Questions 1.a. through 1.f. of the Deficiency Letter pertaining to the Compliance Filing that SDG&E submitted herein on November 14, 2011, as directed in *Order on Annual Formula Rate Filing, Directing Accounting Change and Establishing Hearing and Settlement Judge Procedures* (“Order”).¹

More specifically, the Order, among other things, directed SDG&E to file revised worksheets recording uninsured wildfire-related losses in Account 925 of the Uniform System of Accounts instead of in Account 350, Account 360 and Account 404, as SDG&E had originally proposed in its Informational Filing on August 15th.

II. DEFICIENCY LETTER RESPONSE

The Deficiency Letter seeks information regarding SDG&E’s rationale and support for capitalizing a portion of the wildfire property losses recorded in Account 925 as construction overheads. The Deficiency Letter observes:

¹ *San Diego Gas & Electric Company*, 137 FERC ¶61,041 (2011).

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SDG&E explains in its compliance filing that since wildfire property losses are to be recorded as an administrative and general expense in Account 925, Injuries and Damages, \$4.8 million of the total \$44.5 million of wildfire property losses must be capitalized. SDG&E proposes to capitalize the wildfire property losses to future construction projects through the implementation of construction overhead rates.

SDG&E believes that the responses in Attachment 1, hereto, provide the requisite information to allow the Commission to determine that SDG&E's proposed accounting treatment complies with the Uniform System of Accounts, the Order's directive and SDG&E's currently-effective Transmission Owner Formula. Further, the responses demonstrate that the currently-effective rates, which are being collected subject to refund, are unaffected by whether or not construction overhead costs associated with the wildfire property losses are capitalized or expensed. That issue will, of course, have rate implications for subsequent rates that will become effective September 1, 2013, subject to refund.

III. EFFECTIVE DATE

SDG&E respectfully requests that, following the Commission's review of this response to the Deficiency Letter, the Commission will assign a filing date to the Compliance Filing and approve it as filed, as promptly as possible.

IV. SERVICE AND FILING

SDG&E is filing this response and serving it on the Parties to this proceeding. Pursuant to the instructions in the Deficiency Letter, SDG&E will also submit seven (7) copies of its response to the Commission.

V. CONCLUSION

Given the foregoing and the information contained in Attachment 1, hereto, SDG&E requests the Commission to find that the Compliance Filing is consistent with the Order's directive and the Commission's regulations and approve it as filed.

Respectfully submitted,

/s/ GEORGETTA J. BAKER

Georgetta J. Baker

James F. Walsh

Attorneys for San Diego Gas & Electric Company

San Diego Gas & Electric Company
TO3 Cycle 5 Transmission Formula Filing, Docket No. ER11-4318
(Compliance Filing- Deficiency Letter Response)

Question #1a:

Provide a written explanation to support SDG&E's position that \$4.8 million of wildfire property losses should be capitalized as construction costs. Also, explain the methodology used to determine how much wildfire property losses were assignable to transmission, distribution, and other construction projects. If wildfire property losses were not capitalized for projects other than transmission projects, please explain. Please provide all supporting analysis and other documents supporting SDG&E's determinations.

Explanation Supporting Capitalizing \$4.8 Million of Wildfire Property Losses as Construction Costs

Overview

- SDG&E's proposed capitalization of a portion of wildfire property losses as Administrative and General ("A&G") costs that are in part recorded to Account 925, is based on the following criteria: plant accounting guidelines as set forth in the Uniform System of Accounts ("USofA"); the Commission's directive in the "Order on Annual Formula Rate Filing; Directing Accounting Change and Establishing Hearing and Settlement Judge Procedures" ("Order") in this proceeding,¹ SDG&E's historical accounting for all Injuries and Damages recorded in Account 925, and that costs included in SDG&E's TO3 Formula should adhere to the guidelines as prescribed by the USofA.
- SDG&E's intention in applying the Inverse Condemnation principle, which the Commission rejected, was to provide a means of directly assigning the wildfire property losses using cost causation principles. The Order rejected that proposal and instead directed SDG&E to record those costs to Account 925 and allocate them using labor ratios, as required by SDG&E's current Formula.

¹ 137 FERC ¶61,041 (2011).

- SDG&E's Compliance Filing follows the above rationale for the capitalization of wildfire property losses which is consistent with the USofA, and SDG&E's historical accounting treatment for A&G costs recorded to Account 925 as previously reflected in its TO3 formula. SDG&E intends to recover its wildfire property losses under the California Public Utilities Commission ("CPUC") jurisdiction, *i.e.*, non-transmission.

Background

The Commission rejected SDG&E's proposed Inverse Condemnation proposal because it found that:

SDG&E's proposal to book the Wildfire Property Costs to Account 350 and Account 360, and amortize these costs through Account 404 and Account 111 in the same month is inconsistent with the [USofA]. The Commission finds that the Wildfire Property Costs are properly recorded in Account 925. This account shall include the cost of insurance premiums to protect the utility against injury and damages claims, losses not covered by insurance, and expenses incurred in the settlement of such claims. The inverse condemnation claims involve a liability imposed on SDG&E because of fires related to its ownership of transmission and distribution lines in California. As a result, third parties have filed claims against SDG&E for real property damage caused by wildfires originating from SDG&E's power lines. These types of costs fall squarely under Account 925.

(Order, Paragraph 21) In footnote 3, the Commission described A&G expenses as "those operating expenses which are generally attributable to all operating functions and not directly associated with the provision of a service or production of goods."

In finding that SDG&E improperly capitalized costs that should have been charged to Account 925, the Commission determined that "In so doing, SDG&E bypassed using the labor ratio allocation required by its current formula, and therefore failed to charge the rate on file with the Commission." (Order, Paragraph 20).

Compliance Filing

SDG&E did not interpret the Commission's finding that SDG&E improperly capitalized costs to Accounts 350 and 360 and then amortized those costs 100% to Operation and Maintenance ("O&M") Account 404 in the same month to mean that SDG&E was precluded from capitalizing a portion of its uninsured wildfire damage claims costs. Rather, by directing SDG&E to first charge these costs to Account 925 and then apply the labor ratio allocations required by SDG&E's current Formula, the Commission's directive resulted in a portion of the total costs being allocated to capital. This is because the extent to which SDG&E's labor force works on transmission capital projects is reflected in the labor ratio allocations provided for in SDG&E's current Formula.

SDG&E's compliance filing also conforms to the Commission's accounting regulations in 18 C.F.R. Part 101, Operating Expense Instructions, Operation and Maintenance Expense Accounts, 925 Injuries and Damages. Specifically, Part 101, Operation and Maintenance Expense Accounts, 925, Injuries and Damages, Note B (discussed more fully in response to Question 1b)) expressly requires that "the cost of injuries and damages or reserve accruals capitalized shall be charged to construction directly or by transfer to construction work orders from this account." SDG&E followed Note B in recording the Wildfire Property Costs to Account 925, then capitalizing the appropriate amount based on the labor ratio allocation.

SDG&E acknowledges that the Order noted that "SDG&E improperly capitalized costs that should have been expense[d] to Account 925" in its original filing. The Order then directed SDG&E to comply by following the method of accounting for Injuries and Damages required by its current formula, which is to charge Account 925 and allocate costs to transmission O&M and

capital based on labor ratios, in compliance with USofA, Part 101, Operation and Maintenance Expense Accounts, 925, Injuries and Damages, Note B.

SDG&E also notes that its Compliance Filing is not only consistent with the Order, it is also consistent with SDG&E's historical accounting for all Injuries and Damages costs. As per USofA Electric Operating Instruction 4, Overhead Construction Costs, SDG&E agrees that labor ratios are a reasonable basis for applying Injuries and Damages costs to transmission capital. SDG&E also agrees that all Injuries and Damages costs, including liability insurance premiums, related legal expenses, liability insurance deductibles, and uninsured (self-insured) liability claims costs, are A&G costs. They support all of the activities performed by the business, enabling the business to function as a going concern, and therefore should be allocated equitably to all segments of the business using a suitable rational methodology. SDG&E has historically used this labor ratio allocation, which is consistent with the Commission preferred method and with SDG&E's TO3 Formula.

Methodology

Attached to this response is a spreadsheet illustrating the methodology SDG&E uses to determine how much wildfire property losses were assignable to transmission, distribution and other construction projects. SDG&E's labor ratios reflect total company labor reported annually in FERC Form 1, pages 354 and 355, "Distribution of Salaries and Wages." Pursuant to accounting regulations in 18 C.F.R. Part 101 as described in Response 1b and indicated in the attached file, Line 6, column A, 16.49% of SDG&E's 2010 labor was billed to affiliates, of which 15.99% was billed to SoCalGas and 0.5% Sempra. Line 10, column A shows 35.75% of SDG&E's 2010 labor was charged to capital, of which 10.21% was charged to gas projects and 89.79% was charged to electric projects. In turn, Line 14, column E indicates 33.96% of electric

capital was charged to electric transmission projects. Accordingly, Line 14, column G illustrates the derivation of 10.90% ($35.75\% * 89.79\% * 33.96\%$) that was charged to electric transmission capital projects. Line 17, column A shows 47.76% of SDG&E's 2010 labor was charged to O&M, of which 26.49% was charged to gas and 73.51% to electric. In turn, Line 21, column E indicates 15.18% of electric O&M was charged to electric transmission. Accordingly, Line 21, column G illustrates the derivation of 5.33% ($47.76\% * 73.51\% * 15.18\%$) that was charged to electric transmission O&M.

For the total wildfire property losses of \$44.5 million recorded at SDG&E in 2010, \$4.8 million or 10.90% was charged to electric transmission capital projects, \$2.4 million or 5.33% was charged to electric transmission O&M, and the remaining \$37.3 million was charged to electric distribution O&M.

Non-Transmission Projects

Wildfire property losses were not capitalized for non-transmission projects, *i.e.*, distribution projects, because of the CPUC ratemaking convention authorizing SDG&E to track all wildfire property loss costs not recovered from insurance or transmission customers in the Wildfire Expense Memorandum Account.



DR#1a_Support

	A	B	C	D	E	F	G	H	I	J	K	L	M	
1	TO3-C5 Uninsured Wildfire Damage Claims													
2	Allocated on the Basis of 2010 FERC Form 1 Labor Ratios													
3														
4					Labor Ratios - IC/Cap/O&M	Allocation Step 1		Labor Ratios - E/G	Allocation Step 2		Labor Ratios - ET/ED	Allocation Step 3	Labor Ratio Summary	Allocation Summary
5					(A)	(B)		(C)	(D)		(E)	(F)	(G)	(H)
6	Inter-Company				16.49%	7,336,274.52								
7		SCG					96.97%	7,113,828			7,113,828		15.99%	7,113,828
8		Non-Reg Affiliates					3.03%	222,446			222,446		0.50%	222,446
9														
10	Capital				35.75%	15,904,900.80								
11		Capital Gas					10.21%	1,623,857			1,623,857		3.65%	1,623,857
12		Capital Electric					89.79%	14,281,044						
13		Electric Distribution								66.04%	9,431,718		21.20%	9,431,718
14		Electric Transmission								33.96%	4,849,326		10.90%	4,849,326 * (1)
15														
16														
17	O&M				47.76%	21,248,057.68								
18		O&M Gas					26.49%	5,627,888			5,627,888		12.65%	5,627,888
19		O&M Electric					73.51%	15,620,170						
20		Electric Distribution								84.82%	13,248,894		29.78%	13,248,894
21		Electric Transmission								15.18%	2,371,276		5.33%	2,371,276 *
22	Total					44,489,233.00		44,489,233.00			44,489,233.00		100.00%	44,489,233.00
23														
24	* FERC jurisdictional costs based on labor ratios. All other costs charged to Electric Distribution O&M for recovery in the CPUC's Wildfire Expense Memo Account (WEMA) which will be recovered through Electric Distribution rates.													
25														
26	(1)	Overhead recovery pursuant to 18 C.F.R. Part 101, Electric Plant Instructions, 4, Overhead Construction Costs.												

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Question #1b

Explain the basis for capitalizing wildfire property losses based on the Commission's accounting regulations in 18 C.F.R. Part 101. Also, explain SDG&E's internal procedures for capitalizing injuries and damages to construction projects. Provide a copy of the internal procedures for capitalizing construction costs.

Response

BASIS FOR CAPITALIZING WILDFIRE PROPERTY LOSSES

Please refer to the response to Question #1a for a more conceptual explanation of the basis for SDG&E's capitalizing of a certain percentage of its wildfire property losses based on FERC Order ER11-4318-000 and the Commission's accounting regulations in 18 C.F.R. Part 101. The specific C.F.R. guidance supporting that position is as follows.

Part 101, **General Instructions**, 10. *Payroll Distribution*: "Underlying accounting data shall be maintained so that the distribution of the cost of labor charged direct to the various accounts will be readily available. Such underlying data shall permit a reasonably accurate distribution to be made of the cost of labor charged initially to clearing accounts so that the total labor cost may be classified among construction, cost of removal, electric operating functions and nonutility operations."

The results of this accounting requirement are summarized each year in FERC Form 1 on pages 354 and 355. From that data, labor ratios are calculated which indicate what proportion of the company's labor effort was related to various business functions, including electric and gas capital, electric and gas O&M, and support of affiliates.

Part 101, **Electric Plant Instructions**, 3. *Components of construction cost*, A.: "For Major utilities, the cost of construction properly includible in the electric plant accounts shall include, where applicable, the direct and overhead cost as listed and defined hereunder: (8) *Injuries and damages* includes expenditures or losses in connection with construction work on account of injuries to persons and damages to the property of others; also the cost of investigation of and

defense against actions for such injuries and damages. Insurance recovered or recoverable on account of compensation paid for injuries to persons incident to construction shall be credited to the account or accounts to which such compensation is charged. Insurance recovered or recoverable on account of property damages incident to construction shall be credited to the account or accounts charged with the cost of the damages.”

In SDG&E’s Compliance Filing, all wildfire insurance premiums, damage claims, and litigation related costs are properly classified as Injuries and Damages. Further, SDG&E incurs direct labor dollars in constructing both electric and gas facilities as well as incurring direct labor dollars that are expensed to operate and maintain both its electric and gas facilities. Pursuant to this process and based upon the above FERC’s Plant General Instruction, SDG&E allocates A&G expenses, including damages to third parties based upon these direct labor dollars. As such, some portion of third-party damages are allocated to SDG&E’s electric division Account 925, (Injuries and Damages) and some of the third party damages are capitalized to both the electric and gas divisions. In its Compliance filing, SDG&E basically capitalized wildfire damages by following FERC general plant instructions.

Part 101, **Electric Plant Instructions**, 4. *Overhead Construction Costs*, A.: “All overhead construction costs, such as engineering, supervisions, general office salaries and expenses, construction engineering and supervisions by others than the accounting utility, law expenses, insurance, injuries and damages, relief and pensions, taxes and interest, shall be charged to particular jobs or units on the basis of the amounts of such overheads reasonably applicable thereto, to the end that each job or unit shall bear its equitable proportion of such costs and that the entire cost of the unit, both direct and overhead, shall be deducted from the plant accounts at the time the property is retired.”

Labor ratios are SDG&E’s historically consistent chosen reasonable methodology of charging construction jobs an appropriate share of Injuries and Damages costs. SDG&E incurs labor dollars in constructing both electric and gas facilities. SDG&E also incurs labor dollars to operate and maintain both its electric and gas facilities. SDG&E allocates Injuries and Damages A&G expenses, including damages to third parties, based upon these labor dollars. As such, some portion of third-party damages are allocated to SDG&E’s electric division Account 925,

(Injuries and Damages) and some of the third party damages are capitalized to the electric division.

Part 101, Operating Expense Instructions, Operation and Maintenance Expense Accounts, 925 Injuries and damages. A.: “This account shall include the cost of insurance or reserve accruals to protect the utility against injuries and damages claims of employees or others, losses of such character not covered by insurance, and expenses incurred in settlement of injuries and damages claims. ... B. Reimbursements from insurance companies or others for expenses charged hereto on account of injuries and damages and insurance dividends or refunds shall be credited to this account. ITEMS, 2. Losses not covered by insurance or reserve accruals on account of injuries or deaths to employees or others and damages to the property of others. 3. Fees and expenses of claim investigators. NOTE B: The cost of injuries and damages or reserve accruals capitalized shall be charged to construction directly or by transfer to construction work orders from this account (emphasis added).”

Since the majority of injury and damage costs typically relate to numerous lower dollar incidents, SDG&E does not try to evaluate and charge each cost directly to expense, capital, etc. This would prove to be administratively very costly. Instead SDG&E uses a generally acceptable accounting practice of allocating the costs charged to Account 925 in a rational manner. The best correlation that we have is the activities of our employees; therefore, we utilize labor ratios. In this specific case, SDG&E transfers Injuries and Damages costs to construction work orders from Account 925 using an overhead pool mechanism, which allocates the costs on the basis of labor ratios, as reported in FERC Form 1.

In evaluating the specific costs associated with wildfire costs in excess of our insurance coverage, we see no difference to costs (insurance deductibles) incurred prior to our insurance coverage kicking in. Therefore, we believe that this accounting not only complies with generally accepted accounting principles but also complies with the Commission’s accounting regulations in 18 C.F.R. Part 101.

INTERNAL PROCEDURES FOR CAPITALIZING INJURIES AND DAMAGES TO CONSTRUCTION PROJECTS

Non-Wildfire Injuries and Damages

For non-wildfire Injuries and Damages, SDG&E uses the same methodology for allocating costs to every area of the business based on labor ratios as was ordered by the Commission for the wildfire Injuries and Damages themselves. As already discussed, all Injuries and Damages costs are charged to FERC Account 925, then allocated to all of the Company's various business activities in proportion to the labor ratios reported in FERC Form 1. For example, the attachment to Response 1 a) illustrates SDG&E's 2010 labor ratios.

Wildfire Injuries and Damages

As explained in Response 1f), SDG&E books all distribution-related costs to the Wildfire Expense Memorandum Account, consistent with the ratemaking directive of the California Public Utilities Commission. As illustrated in the attachment to response 1a), transmission O&M expenses are recorded to Account 925 and the transmission capital portion is charged to electric transmission capital projects using a transmission specific overhead pool. See response 1e) for the journal entries associated with this process.

Please see the attached excerpt from SDG&E's capitalization policy, which provides direction on capitalizing overhead construction costs, including Injuries and Damages.



general_capitalization_policy_narrative_r

GENERAL CAPITALIZATION POLICY

In general, costs of new additions of plant, property and equipment that have a useful life of more than one year are to be capitalized. New additions include any costs incurred to construct, install and/or prepare plant, property, and equipment for its intended use. The purpose of capitalizing these costs (as opposed to charging them to operation and maintenance (O&M) expense) is to allocate (depreciate or amortize) the total costs over the life of the capital asset. In concept, the cost of a capital asset needs to be allocated to match the benefits it generates. When the company incurs certain costs from which the benefits are anticipated to last less than 12 months, these costs are recognized as O&M expense immediately.

All capitalized plant, property, and equipment are categorized as Retirement Units. Retirement Units are also referred to as “Units of Property.” See the Asset Category section for the complete listing of Retirement Units.

In accordance with FERC, SDG&E and SoCalGas maintains a listing of Retirement Units for use in accounting for additions and retirements of plant, property, and equipment, and applies the listing consistently.

The addition and replacement of Retirement Units should be charged to capital. If the item is not a Retirement Unit, commonly referred to as a minor item of property, the addition and replacement should be charged to the appropriate maintenance account. There are two exceptions to this rule; when the result is either a Substantial Addition or a Substantial Betterment. (Refer to the Substantial Additions and Betterments section for more information.)

Capitalization Thresholds

The following thresholds for qualifying expenditures have been set for capitalization purposes:

General Plant: \$5,000 – The minimum threshold for a portable item commonly referred to as general plant (e.g. computers, handheld meter reading devices).

Substantial Addition/Betterment: \$10,000 – The minimum threshold for the addition of minor items of property to existing assets/retirement units (referred to as a substantial addition), and the minimum difference between replacing a minor item of property and repairing the minor item with no betterment (referred to as a substantial betterment).

Computer Software: \$500,000 – The minimum threshold for eligible costs for capitalization of computer software.

Fully Loaded Cost

In order to accumulate expenditures when incurred during acquisition or construction of an asset for routine utility capital construction activity and to meet the thresholds for capitalization, with the exception of portable general plant items and software, the unit cost of an asset is made up of the following components of construction cost (either direct or as an overhead):

1. Contract work
2. Payroll and payroll related costs (including any form of compensation includable as taxable income to the employee).
3. Labor of construction crews and engineers, including meals and travel time
4. Materials and supplies, including shipping and sales tax
5. Transportation
6. Special machine service
7. Shop service
8. Protection
9. Injuries and damages
10. Privileges and permits
11. Rents
12. Engineering and supervision
13. A&G
14. Engineering services
15. Insurance
16. Law expenditures
17. Taxes
18. Allowance for funds used during construction
19. Earnings and expenses during construction
20. Training costs (new or not conventional)
21. Studies
22. Asset retirement costs
23. Contributions in the form of money or its equivalent (credit)

Refer to Plant Instruction 3 of the Code of Federal Regulations for a complete description of the components.

Note:

1. Since employee spot cash or non-cash awards are included within the employee's W-2 and it is directly associated with the work performed on the construction project, the expenditure can be included as a component of construction cost. However, since internal pre-established milestone celebrations and general celebration costs are not classified as part of the employee's pay, and it does not directly factor into rendering the asset used and useful, these expenditures should be expensed as incurred.

General Plant: Portable general plant includes the following to determine its unit price: purchase price, sales, duties and excise taxes, and shipping and handling.

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Question #1c:

Please indicate over what period of time the capitalized amounts would go into service and over what period of time the capitalized amounts would be depreciated.

Response:

Background

The amount identified to be capitalized to Electric Transmission (ET) Capital projects is based on labor ratios. Once the appropriate amount to be capitalized to ET Capital projects has been determined, the amount is initially recorded into an ET Capital Wildfire Pool. This pool then attempts to allocate approximately one twelfth every month over a period of twelve months to ET Capital projects through an overhead process. The \$4.8 million of \$44.5 million (see Response to Question 1a)) of wildfire property losses was recorded in the fourth quarter of 2011 into the ET Capital Wildfire Pool. This amount represents the 10.9 percent of the total incurred wildfire property losses, which is the labor ratio percentage to be assigned to Electric Transmission Capital. In December 2011 \$0.3 million was allocated to ET Capital projects using the overhead process. It is anticipated that the balance of this amount will be allocated to ET Capital projects through November 2012.

In Service Dates

The ET Capital projects that receive these overheads have various in-service dates, however most projects are completed and placed in service within 12 to 18 months of commencing the project. This means most of the projects that receive this overhead this year will be placed in service later this year or in 2013.

Depreciation

The estimated service life varies depending on the Electric Transmission asset that receives this overhead charge.

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Question #1d:

Please provide the following information pertaining to the wildfires: a) date wildfire started, b) date wildfire ended, c) cause of the wildfires (e.g., environmental phenomenon, equipment failure, or other), d) cost incurred, e) location of construction projects to which wildfire property losses were assigned, and f) proximity of these construction projects to the damaged property.

Response:

- a) The Witch fire started on October 21, 2007. The Rice and Guejito fires started on October 22, 2007.
- b) The Witch and Guejito fires were contained on October 31, 2007. The Rice Fire was contained on November 5, 2007.
- c) Reports issued by the California Department of Forestry and Fire Protection (“Cal Fire”) concluded that the Witch and Rice fires were SDG&E “power line caused,” citing to apparent arching, faulting and high wind speeds. With respect to the Witch Fire, the Cal Fire Report concluded:

[H]ot particles were created when the lines faulted and came in contact with each other. These hot particles...were created during this fault, separating from the line, becoming Wind borne and landing in the light grassy fuels....These fuels ignited, and the fire spread with the wind in a westerly direction.^[1]

The Cal Fire Report concluded that a third fire, the Guejito fire, occurred when a wire securing a Cox Communications fiber optic cable came into contact with an SDG&E power line “causing an arc and starting the fire.”^[2]

- d) As of March 31, 2011 SDG&E has incurred total costs related to both the FERC and CPUC jurisdictions of \$44.5 million that were in excess of third party insurance reimbursements. Based upon the labor statistics \$7.2 million were charged to the FERC jurisdiction. Please see further cost charging information in the response to question 1a.

^[1] See Cal Fire Report (Investigation Report, Witch Fire, Case No. 07-CDF-570, available at http://www.fire.ca.gov/fire_protection/downloads/redsheets/CA-MVU-010432_complete.pdf.) (Mimeo at 19). See also www.fire.ca.gov/fire_protection/downloads/redsheets/CA-MVU-010502_complete.pdf (Rice Fire).

^[2] www.fire.ca.gov/fire_protection/downloads/redsheets/CA-MVU-010484_complete.pdf (Mimeo at 17).

- e) Wildfire property losses are charged to FERC accounts pursuant to FERC accounting guidance as described in the response to Question 1b. Based upon this accounting guidance, approximately 10.9 percent or \$4.8 million of wildfire property losses will be capitalized. The \$4.8 million will be applied to all SDG&E Electric Transmission construction projects, regardless of location, via the overhead process until fully absorbed. Note, however, that none of these capitalized costs are reflected in the TO3 Cycle 5 filing, which is the subject of the Compliance Filing.

- f) The construction projects absorbing capitalized wildfire property losses may or may not be located near the damaged property.

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Question #1e:

Provide all the journal entries and supporting documentation initially recording wildfire property losses. Also, provide all the journal entries and supporting documentation for wildfire property losses that were reclassified and/or transferred after such losses were initially recorded in SDG&E's books and records. For each reclassification and/or transfer, provide an explanation to support the accounting basis for such reclassification and/or transfer.

Response:

- Legal expenses and claims payments were initially recorded in an insurance receivable account, starting in late 2007 after the wildfire event.
- In December 2010, \$3 million for SDG&E's insurance deductibles related to the wildfire event was expensed to the Public Liability/Property Damage overhead pool, which spread the costs based on company-wide labor ratios as described in Response 1.b. The insurance deductibles reflect the insurance companies' determination that there were three separate fires, each subject to a \$1 million deductible, or \$3 million in total.
- In December 2010 SDG&E recorded \$41.5 million in wildfire damage claims settlements and associated legal costs in an insurance receivable account.
- In March 2011, the insurance deductibles were reclassified, \$2 million to FERC account 588, Miscellaneous distribution expenses, and \$1 million to FERC account 566, Miscellaneous transmission expenses because SDG&E determined it was more appropriate to directly assign 2007 wildfire costs between the CPUC and FERC jurisdictions as retained O&M than to allocate these costs on the basis of labor ratios, which would result in allocations to capital and intercompany billing. The direct assignment of deductibles expenses was based on CalFire's determination that one of the three insured fires was started by a transmission line and the other two were started by distribution lines.
- In March 2011 SDG&E determined that its insurance coverage was exhausted and \$41.5 million previously recorded as an insurance receivable should be expensed, \$22.8 million to FERC account 588 and \$18.7 million to FERC account 566. Costs were directly assigned to distribution and transmission based upon actual claims incurred by specific fire.

- SDG&E continued to hold the view that the most appropriate accounting for these costs was by direct assignment to the CPUC and FERC jurisdictions as expense, not capital or intercompany. Therefore, since the costs were incurred as a result of inverse condemnation, \$24.8 million was reclassified to FERC account 360, Distribution land and land rights, and \$19.7 million was reclassified to FERC account 350, Transmission land and land rights. Those costs were simultaneously amortized to FERC account 404, Amortization of limited term electric plant, with an offsetting credit to FERC account 111, Accumulated provision for amortization of electric utility plant.
 - In the Suspension Order in this case, issued October 14, 2011, SDG&E was ordered to reverse those accounting entries and allocate the FERC jurisdiction's share of all wildfire property losses on the basis of labor ratios. Accordingly, a new overhead pool was established called the ET Capital Pool, which spread costs on transmission capital projects only, and FERC 925 subaccounts were established for electric distribution and electric transmission. The ET capital pool and 925 transmission subaccount were charged \$4.8 million and \$2.4 million respectively based upon 2010 SDG&E labor ratios, with the remaining \$37.3 million charged to the 925 distribution subaccount for recovery from CPUC customers via the WEMA. See response #1f.

See attached file for a summary of SDG&E's recorded costs by month.



DR_#1e_Support

San Diego Gas & Electric
Accounting Summary - Wildfire Property Losses

	Time Period	ET 404402E	ED 404401E	O&M 566	O&M 588	ED O&M 925401E	ET O&M 925402E	PLPD pool Allocations			ET Cap Pool 107	Ins rcvbl 143800C	Reg Asset 182300C	Liab / Cash
								O&M 925C	I / C 146	Cap 107				
Legal expenses subject to insurance deductibles	Late 2007													
Expense insurance deductibles	Dec-10						3.0				3.0		(3.0)	
PLPD pool allocation	Dec-10						(3.0)				(3.0)			
Initial accrual - uninsured claims	Dec-10							1.5	0.5	1.0				
Reclass insurance deductibles	Mar-11			1.0	2.0		(3.0)				41.5		(41.5)	
PLPD pool allocation	Mar-11						3.0	(1.5)	(0.5)	(1.0)				
Reclass uninsured claims	Mar-11			18.7	22.8						(41.5)			
reclass to 404 via inverse condemnation	Mar-11	19.7	24.8	(19.7)	(24.8)									
reclass claims to 925401, 925402, and ET Cap Pool	Sep-11	(18.7)	(22.8)			34.8	2.2			4.5				
reclass deductibles to 925401, 925402, and ET Cap Pool	Oct-11	(1.0)	(2.0)			2.5	0.2			0.3				
Balance		-	-	-	-	37.3	2.4	-	-	4.8	-	-	-	(44.5)

San Diego Gas & Electric Company
TO3 Cycle 5 Transmission Formula Filing, Docket No. ER11-4318
(Compliance Filing- Deficiency Letter Response)

Question #1f:

How are wildfire property losses accounted for and recovered in rates for retail purposes?

Response:

For retail purposes, SDG&E books all wildfire property losses in excess of insurance coverage to its Wildfire Expense Memorandum Account (WEMA). The WEMA does not guarantee recovery in rates of any of the recorded costs prior to CPUC review and approval. SDG&E proposed to use this interim ratemaking (*i.e.* the WEMA) until such time as the CPUC authorizes the establishment of the Wildfire Expense Balancing Account (WEBA). Once the WEBA has been established, SDG&E proposes to transfer any balance recorded in the WEMA to the WEBA and will seek recovery of the amounts recorded in the WEBA that are not recovered via transmission rates, consistent with the proposal for recovering costs recorded in the WEBA set forth in A.09-08-020.

CERTIFICATE OF SERVICE

I hereby certify that I have this day served an electronic copy of the foregoing document upon each person designated on the official service list compiled by the Secretary in Docket No. ER11-4318-000.

Dated at San Diego, California, this 25th day of April, 2012.

/s/ JOEL DELLOSA

Joel Dellosa

Document Content(s)

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