

Company: San Diego Gas & Electric Company (U902M)  
Proceeding: 2016 General Rate Case  
Application: A.14-11-003  
Exhibit: SDG&E-235

**SDG&E**

**REBUTTAL TESTIMONY OF NORMA G. JASSO**

**(REGULATORY ACCOUNTS)**

June 2015

**BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA**





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**SDG&E REBUTTAL TESTIMONY OF NORMA G. JASSO  
(REGULATORY ACCOUNTS)**

**I. SUMMARY OF DIFFERENCES**

|       | <b>PBA &amp; PBOPBA</b>  | <b>TIMPBA</b>  | <b>Post-2011<br/>DIMPBA</b>  | <b>Overloaded-Pole<br/>Replacement</b>                                      |
|-------|--|--|--|---|
| SDG&E | <ul style="list-style-type: none"> <li>• Include income taxes as part of capital-related costs to recover</li> </ul> | <ul style="list-style-type: none"> <li>• 2-way balancing account</li> <li>• Undercollection recovery via tier 2 advice letter</li> </ul>                             | <ul style="list-style-type: none"> <li>• 2-way balancing account</li> <li>• Undercollection recovery via tier 2 advice letter</li> </ul>                             | <ul style="list-style-type: none"> <li>• No balancing</li> </ul>            |
| FEA   | <ul style="list-style-type: none"> <li>• Exclude income taxes as part of capital-related costs to recover</li> </ul> |  |  |   |
| UCAN  |  | <ul style="list-style-type: none"> <li>• 1-way balancing account</li> <li>• If 2-way balancing account, undercollection recovery via tier 3 advice letter</li> </ul> | <ul style="list-style-type: none"> <li>• 1-way balancing account</li> <li>• If 2-way balancing account, undercollection recovery via tier 3 advice letter</li> </ul> |   |
| CCUE  |  |  |  | <ul style="list-style-type: none"> <li>• 2-way balancing account</li> </ul> |

**II. INTRODUCTION**

**A. FEA**

Federal Executive Agencies (FEA) submitted testimony on May 15, 2015.<sup>1</sup> FEA recommends that SDG&E should not recover income taxes associated with the unamortized balance of pension and post-retirement benefits other than pension (PBOP) costs.

<sup>1</sup> Confidential Direct Testimony And Exhibit Of Ralph C. Smith, CPA, On Behalf Of The Department Of Defense And All Other Federal Executive Agencies (FEA/Smith).

1           **B.     UCAN**

2           The Utility Consumers’ Action Network (UCAN) submitted testimony on May 15,  
3 2015.<sup>2</sup> UCAN objects to SDG&E’s request for continued two-way balancing account treatment  
4 for Transmission Integrity Management Program (TIMP) costs and Post-2011 Distribution  
5 Integrity Management Program (Post-2011 DIMP) costs, asserting these costs should be one-way  
6 balanced. UCAN also objects to SDG&E’s proposal to seek recovery of undercollections in the  
7 TIMP balancing account (TIMPBA) and DIMP balancing account (DIMPBA) via tier 2 advice  
8 letter if those accounts remain two-way, asserting that the tier 3 advice letter is more appropriate.

9           **C.     CCUE**

10          The Coalition of California Utility Employees (CCUE) submitted testimony on May 15,  
11 2015.<sup>3</sup> CCUE proposes that the Commission establish a new two-way balancing account for  
12 overloaded-pole replacement costs.

13          **D.     ORA**

14          The Office of Ratepayer Advocates (ORA) supports full funding of SDG&E’s SONGS-  
15 related request<sup>4</sup> but incorrectly describes the regulatory treatment of the SONGS Balancing  
16 Account (SONGSBA) for Unit 1 spent fuel storage costs and Marine Mitigation capital costs.

17  
18 **III.    REBUTTAL TO PARTIES’ PROPOSALS**

19          **A.     Recovery of Income Taxes as a Capital-Related Cost in the Pension**  
20                **Balancing Account (PBA) and PBOP Balancing Account (PBOPBA)**

21          FEA takes issue with SDG&E’s proposal to modify the PBA and PBOPBA to include  
22 recovery of income taxes as a capital-related cost associated with the unamortized balance of  
23 capitalized pension and PBOP costs.<sup>5</sup> FEA indicates they could not find evidence of other  
24 California utilities recovering income taxes as part of their pension cost balancing accounts by  
25 reviewing Pacific Gas & Electric Company’s and Southern California Edison Company’s

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<sup>2</sup> Testimony of Briana Kobor, Laura Norin, and Mark Fulmer on behalf of the Utility Consumers’ Action Network Concerning Sempra’s Revenue Requirement Proposals for San Diego Gas & Electric and SoCalGas (UCAN/Fulmer), page 58-75.

<sup>3</sup> Testimony of David Marcus on behalf of the Coalition of California Utility Employees (CCUE/Marcus) at 10 and 49-51.

<sup>4</sup> Exhibit ORA-8; Testimony of M. Loy, Report on the Results of Operations for San Diego Gas & Electric Company Southern California Gas Company Test Year 2016 General Rate Case SDG&E Electric Generation and SONGS (ORA-8).

<sup>5</sup> FEA/Smith at 32 lines 13-14.

1 (SCE's) preliminary statements.<sup>6</sup> FEA also argues that adding another layer of costs to the  
2 balancing accounts would complicate its review.<sup>7</sup>

3         Currently, SDG&E includes only the difference between actual and authorized  
4 depreciation and return capital-related cost components in its PBA and PBOPBA. SDG&E  
5 incurs income taxes on the recovery of the revenue requirement associated with the unamortized  
6 pension and PBOP costs capitalized to rate base. SDG&E witness, Khai Nguyen, states in his  
7 direct testimony (Ex. SDG&E-36-R), "Total O&M and capital-related costs necessary to support  
8 SDG&E's rate base is called revenue requirement... Capital-related costs include depreciation,  
9 income taxes, ad valorem taxes, and return on investment."<sup>8</sup> By not including the income tax  
10 component of capital-related costs in the balancing accounts for both authorized and actual costs,  
11 as FEA recommends, SDG&E is not balancing the full revenue requirement related to pension  
12 and PBOP costs.

13         The Commission has authorized the recovery of income taxes as a capital-related cost in  
14 other balancing accounts, such as TIMPBA and Post-2011 DIMPBA.<sup>9</sup> SDG&E's preliminary  
15 statements for both the TIMPBA and Post-2011 DIMPBA state that entries to the balancing  
16 accounts will include "a debit entry equal to the actual capital-related costs (depreciation, taxes,  
17 and return) related to SDG&E's" TIMPBA and Post-2011 DIMPBA.<sup>10</sup> In the same manner that  
18 SDG&E is allowed to record income taxes as a capital-related cost to the TIMPBA and Post-  
19 2011 DIMPBA, the Commission should also authorize the inclusion of income taxes to the PBA  
20 and PBOPBA.

## 21           **B.       TIMPBA and Post-2011 DIMPBA**

### 22                   **1.       Two-Way Balancing**

23         UCAN objects to SDG&E's proposal to continue the TIMPBA and Post-2011 DIMPBA  
24 as two-way balancing accounts for the 2016 GRC cycle. UCAN states that both TIMPBA and  
25 Post-2011 DIMPBA should be converted to one-way balancing accounts. Because SDG&E has  
26 had time through the 2012 GRC cycle to adjust to new regulations and gain more experience in

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<sup>6</sup> FEA/Smith at 32 lines 1-6.

<sup>7</sup> FEA/Smith at 32 lines 20-21.

<sup>8</sup> Ex. SDG&E-36-R at KN-5.

<sup>9</sup> D.13-05-010, Ordering Paragraph 16. "...authorized to establish a two-way balancing account to recover the operations and maintenance costs, and capital expenditures costs." Further, in the Commission-approved Advice Letter, 2204-G-A, SDG&E was authorized the implementation of the TIMPBA to record "...capital-related (depreciation, taxes, and return) costs."

<sup>10</sup> SDG&E's Preliminary Statement, Part IV. Balancing Accounts, TIMPBA and Post-2011 DIMPBA.

1 performing work needed to comply with these new regulations, SDG&E should be able to  
2 develop and be held to reliable estimates.<sup>11</sup>

3 SDG&E's witness Maria Martinez addresses UCAN's assertions and why two-way  
4 balancing of TIMP and DIMP costs continues to be appropriate (see Ex. SDG&E-207). In  
5 addition, two-way balancing is necessary to record and recover the actual capital-related costs  
6 associated with accumulated capital additions from prior years within the GRC cycle, which I  
7 described in my direct testimony (Ex. SDG&E-35). UCAN appears to acknowledge this  
8 phenomenon, when it states that two-way balancing is appropriate to fully capture any shortfalls  
9 in recovering the capital-related revenue requirement related to pre-GRC projects.<sup>12</sup> However,  
10 UCAN's recommendation to allow two-way balancing of existing TIMP and DIMP capital-  
11 related costs does not allow for recovery of the shortfall that will result in this GRC cycle as  
12 related to new TIMP and DIMP capital additions. Further, it makes little practical sense to  
13 continue a two-way balancing account to capture this shortfall, and adopt a one-way balancing  
14 account to capture the rest of TIMP and DIMP O&M costs.

15 UCAN's opinion that a two-way balancing account essentially amounts to a "blank  
16 check"<sup>13</sup> is not substantiated by facts. Witness Maria Martinez can address SDG&E's  
17 commitment to pipeline integrity work through its TIMP and DIMP programs, under which a  
18 significant scope of work has been completed and is projected to take place in this GRC cycle.  
19 Projects are certainly subject to changes in priority, timing, and scope; however, SDG&E would  
20 disagree with any notion that its investments and work on pipeline integrity provide opportunity  
21 or incentive to be imprudent or excessive.

## 22 **2. Undercollection Recovery Via Tier 2 Advice Letter**

23 UCAN did not agree with SDG&E's proposal to request recovery of an undercollected  
24 balance in the TIMPBA and Post-2011 DIMPBA through a tier 2 advice letter rather than a tier 3  
25 advice letter if a two-way balancing account is approved. UCAN argues that a tier 2 advice letter  
26 would not provide the necessary scrutiny needed to review the excess costs recorded to the  
27 balancing accounts.<sup>14</sup>

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<sup>11</sup> UCAN/Fulmer at 62-63.

<sup>12</sup> UCAN/Fulmer at 67.

<sup>13</sup> UCAN/Fulmer at 67 line 8.

<sup>14</sup> UCAN/Fulmer at 68.

1 SDG&E does not agree with this argument. While SDG&E has not yet filed a tier 3  
2 advice letter to request recovery of an undercollected balance in the TIMPBA or Post-2011  
3 DIMPBA, SoCalGas has already filed a tier 3 advice letter to request recovery of the  
4 undercollected balance recorded in SoCalGas' TIMPBA as of December 31, 2013.<sup>15</sup> Both  
5 SDG&E's and SoCalGas' Pipeline Integrity programs are managed by the same organization;  
6 therefore, the type of costs recorded by SoCalGas and SDG&E are generally similar. SDG&E  
7 agrees with SoCalGas witness, Reginald Austria's rebuttal testimony of why a tier 2 advice letter  
8 is appropriate and reasonable to adopt in this GRC cycle (see Ex. SCG-233).

### 9 C. CCUE

10 The CCUE proposes that the Commission establish a two-way balancing account to allow  
11 recovery of overloaded-pole replacement costs from 2017-2018.<sup>16</sup> CCUE claims that because  
12 the duration of pole replacement is not yet known and the actual replacement would not begin  
13 until the post-test-year part of the GRC, a balancing account would be the appropriate  
14 mechanism.<sup>17</sup> CCUE implies that authorizing two-way balancing of these expenditures will  
15 cause SDG&E to be undeterred from making them in the first place.<sup>18</sup> While SDG&E agrees in  
16 principle that adequate funding for these types of programs aligns with SDG&E's efforts to  
17 enhance safety and reliability of its electric system, SDG&E does not support the proposal for a  
18 two-way balancing account for these expenditures. SDG&E disagrees with the inference that  
19 absent a two-way balancing account, SDG&E may be deterred from maintaining a safe and  
20 reliable system. Given SDG&E's review of CCUE's testimony, CCUE's proposed treatment of  
21 these costs are no more reasonable or compelling than SDG&E's pole replacement proposal and  
22 associated cost forecasts, as sponsored by Electric Distribution Capital testimony (Ex. SDG&E-  
23 09-R).

### 24 D. San Onofre Nuclear Generating Station (SONGS) Balancing Account

25 ORA addresses SONGS costs requested in the GRC in Ex. ORA-8. While ORA agrees  
26 with SDG&E's requested SONGS costs, ORA's discussion of the SONGS Balancing Account  
27 (SONGSBA) is not correct in the following ways:

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<sup>15</sup> SoCalGas Advice Letter No. 4632 was filed on April 11, 2014.

<sup>16</sup> CCUE/Marcus at 50 lines 18-22 continuing to 51 lines 1-4.

<sup>17</sup> CCUE/Marcus at 10 lines 14-17.

<sup>18</sup> CCUE/Marcus at 51.



- 1 • Costs recorded in SDG&E’s SONGSBA which are subject to refund are not subject to a
- 2 future reasonableness review;
- 3 • Workers’ Compensation Insurance costs are tracked in the SONGSBA, but Unit 1 Offsite
- 4 Spent Fuel Storage O&M costs are not; and
- 5 • Marine Mitigation Capital Expenditures are not part of the SONGSBA.

6 ORA suggests that SDG&E’s request for SONGS expenses in this GRC is “unnecessary  
7 because actual costs are being tracked subject to refund.”<sup>19</sup> Further, “ORA recommends any rate  
8 recovery for O&M expenses be tracked and made subject to refund pursuant to a future  
9 reasonableness review of SDG&E’s San Onofre Nuclear Generation Station Balancing  
10 Account.”<sup>20</sup> The Commission originally authorized SONGSBA in D.06-11-026 allowing  
11 SDG&E full recovery of SONGS Unit 2 & 3 O&M billed costs from SCE, for SDG&E’s 20%  
12 portion of SCE’s GRC SONGS-related O&M costs. As a two-way balancing account, the  
13 SONGSBA mechanism also provides for the return of overcollections to ratepayers. There is no  
14 reasonableness review directly associated with SONGSBA and no reasonable review should now  
15 be imposed. A reasonableness review for costs recorded in SONGSBA, as suggested by ORA,  
16 would unnecessarily impose an additional layer of review for SDG&E’s minority (20%) share of  
17 SONGS O&M costs that are originated by SCE over which SDG&E has no control.

18 SDG&E confirms ORA’s understanding that Workers’ Compensation costs are eligible to  
19 be tracked in the SONGSBA because they meet that account’s criteria noted above: (1) they are  
20 O&M costs (2) billed by SCE for (3) costs related to Units 2 and 3. However, Unit 1 Spent Fuel  
21 Storage Costs do not meet the SONGSBA requirements and are currently recovered through the  
22 Nuclear Decommissioning Adjustment Mechanism account (NDAM), not the SONGSBA.

23 Finally, ORA suggest that any Marine Mitigation capital expenditures be tracked and  
24 made subject to refund pursuant to a future reasonableness review of the SONGSBA. As  
25 described above, the SONGSBA only addresses O&M costs invoiced from SCE. While “ORA  
26 recommends any rate recovery for capital expenditures be tracked and made subject to refund  
27 pursuant to a future reasonableness review of SDG&E’s San Onofre Nuclear Generation Station  
28 Balancing Account,”<sup>21</sup> the SONGSBA does not balance capital expenditures or capital-related

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<sup>19</sup> ORA-8 at 3 line 13.

<sup>20</sup> ORA-8 at 3 lines 14-16.

<sup>21</sup> ORA-8 at 4 lines 1-3.

1 costs at all. Therefore, SDG&E's Marine Mitigation capital costs being requested in this GRC  
2 do not meet the SONGSBA requirements. The revenue requirement for Marine Mitigation  
3 capital costs will continue to be recovered through SDG&E's Non-Fuel Generation Balancing  
4 Account (NGBA).

5 SDG&E's SONGS-related proposals are consistent with its approved tariff for the  
6 SONGSBA, whereas ORA's recommendations for the SONGSBA are not. Please see Mr. De  
7 Marco's rebuttal testimony (Ex. SDG&E-212) for additional discussion regarding SDG&E's  
8 requested SONGS costs.

#### 9 10 **IV. CONCLUSION**

11 FEA's recommendation to deny recovery of income taxes associated with the  
12 unamortized balance of pension and PBOP costs should be rejected because without this  
13 modification to the PBA and PBOPBA, SDG&E is not balancing the full revenue requirement  
14 related to pension and PBOP costs.

15 UCAN's objection to two-way balancing of TIMP and Post-2011 DIMP costs does not  
16 outweigh the reasons why these programs should be two-way balanced. SDG&E maintains that  
17 a tier 2 process for TIMPBA and Post-2011 DIMPBA would not weaken the Commission's  
18 ability to scrutinize and review undercollections recorded in the balancing accounts, but instead  
19 would facilitate the timely conclusion of that review without having to put forth a resolution  
20 requiring a full Commission vote.

21 CCUE's proposal for a new balancing account for overloaded-pole replacement and other  
22 safety and reliability programs is not sufficiently supported or more reasonable than SDG&E's  
23 proposal for its pole replacement program.

24 Finally, SDG&E's SONGS-related proposals are reasonable, given SDG&E's  
25 clarification of ORA's understanding of SONGS-related costs and the SONGSBA.

26 This concludes my prepared rebuttal testimony.