

Application: A.12-04-\_\_\_\_\_

Exhibit No.: \_\_\_\_\_

Witness: Robert M. Schlax

**PREPARED DIRECT TESTIMONY OF  
ROBERT M. SCHLAX  
ON BEHALF OF SAN DIEGO GAS & ELECTRIC COMPANY**

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

**APRIL 20, 2012**



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1 **PREPARED DIRECT TESTIMONY OF**

2 **ROBERT M. SCHLAX**

3 **ON BEHALF OF SAN DIEGO GAS & ELECTRIC COMPANY**

4 **I. INTRODUCTION**

5 The purpose of my policy testimony in this proceeding is to summarize and to present the  
6 proposals of San Diego Gas & Electric Company (“SDG&E” or the “Company”) regarding the  
7 return on equity (“ROE”), capital structure, and overall rate of return (“ROR”) to be applied to  
8 the Company’s California Public Utilities Commission (“Commission” or “CPUC”) regulated  
9 operations in test year 2013. These operations are principally SDG&E’s electric distribution, gas  
10 distribution and gas transmission businesses together with the electric generation and the electric  
11 and natural gas procurement functions.<sup>1</sup> In addition, I summarize the Company’s proposals for  
12 an adjusted ratemaking capital structure and a modified cost of capital adjustment mechanism  
13 (“CCM”).

14 As the Controller and Chief Financial Officer (“CFO”) of SDG&E, it is my duty to act as  
15 the financial steward and general expert in finance as it relates to the Company. In my  
16 professional opinion, the proposals set forth in this application are balanced, reasonable, and  
17 appropriate given current market conditions, the significant change in SDG&E’s operating  
18 environment and SDG&E’s \$5.8 billion capital investment plan over the next five years.

19 SDG&E’s proposed capital structure, ROE and overall ROR will enable the Company to  
20 raise the significant amount of capital required to further its efforts to maintain a safe, reliable  
21 and modern natural gas and electric distribution and electric generation system. Ensuring that  
22 SDG&E is capitalized as an “A”-rated investment will result in a lower cost of capital that will  
23 benefit ratepayers for years to come. Prudent financial management of long-term costs will

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<sup>1</sup> For purposes of this proceeding, the return on electric transmission is not included since its governing regulatory agency is the Federal Energy Regulatory Commission (“FERC”).

1 continuously benefit ratepayers because once long-term debt instruments or preferred stock is  
2 issued, the associated service costs remain with the Company for many years. In order for  
3 SDG&E to finance its investments at a lower overall cost of capital, which ultimately benefits  
4 ratepayers, investors need to perceive SDG&E as a safe place to invest with a return that is  
5 competitive with similar investment options. If, on the other hand, SDG&E does not maintain its  
6 high standing in the investment community, the Company may not have the same access to low-  
7 cost debt that it does today, and ratepayers will feel the impact for years to come. The proposals  
8 in this application establish a framework that is equitable to all stakeholders.

9       The proposals made in this application will also enable the Company to continue to have  
10 ready access to debt markets. The testimony of Ms. Sandra Hrna provides details of the  
11 Company's proposed capital structure and the reasonableness of this structure. Dr. Roger Morin  
12 provides an ROE recommendation that meets the criteria set out by the *Hope* and *Bluefield*  
13 cases,<sup>2</sup> is based on current peer-company observations and remains very close to what is  
14 currently authorized by the Commission for SDG&E. The proposed cost of capital is also  
15 reasonable given the Company's changing risk profile and its significant capital investments to  
16 expand transmission capacity, to integrate advanced electric grid technology in order to develop  
17 a smart-grid system, and to provide access to renewable energy resources to comply with the  
18 State's requirements.

19       The proposed cost of capital will enable SDG&E to achieve the underlying objective of  
20 these extensive capital investments: meeting customer demands for electricity and gas at  
21 reasonable rates, and using a technologically advanced and efficient system while satisfying the  
22 State's laudable environmental requirements. Mr. Don Widjaja explains SDG&E's company-  
23 specific investment risks. In addition, Mr. Kenneth Deremer describes SDG&E's proposal to

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<sup>2</sup> *Federal Power Comm'n v. Hope Natural Gas Co.*, 320 U.S. 391 (1944); *Bluefield Waterworks & Improvement Co. v. W. Va. Pub. Serv. Comm'n*, 262 U.S. 679 (1923).

1 modify its CCM by adding an off-ramp provision similar to that which the Commission  
 2 previously approved in the context of SDG&E’s Market Indexed Capital Adjustment Mechanism  
 3 (“MICAM”).

4 SDG&E respectfully requests that the Commission adopt its cost of capital proposals for  
 5 the reasons set forth in the Application and supporting testimony.

6 **II. SUMMARY RECOMMENDATIONS**

7 To maintain its single “A” credit rating, which will enable SDG&E to obtain adequate  
 8 funding at reasonable rates to support its large expected capital investment program, SDG&E  
 9 proposes the cost of capital structure shown below:

10 **SDG&E’s Proposed TY 2013 COC Structure**

<b>Component</b>	<b>Capital Ratio</b>	<b>Cost</b>	<b>Weighted Cost</b>
Long-Term Debt	45.25%	5.09%	2.30%
Preferred Stock	2.75%	6.35%	0.18%
Common Equity	52.00%	11.00%	5.72%
<b>Rate of Return (ROR)</b>			<b>8.20%</b>

11  
 12 If adopted, this cost of capital structure will decrease the Company’s ROR by 0.20%,  
 13 which will result in a revenue requirement decrease of \$6.90 million for electric ratepayers and  
 14 \$0.76 million for gas ratepayers. SDG&E’s currently authorized cost of capital structure is  
 15 shown below:

16 **SDG&E’s Currently Authorized COC Structure**

<b>Component</b>	<b>Authorized Capital Ratio</b>	<b>Authorized Cost</b>	<b>Weighted Cost</b>
Long-Term Debt	45.25%	5.62%	2.54%
Preferred Stock	5.75%	7.25%	0.42%
Common Equity	49.00%	11.10%	5.44%
<b>Rate of Return (ROR)</b>			<b>8.40%</b>

1  
2 The proposed reductions and adjustments to SDG&E's capital structure better reflect  
3 current industry and operating risks and provide a structure that will enable the Company to  
4 access capital markets on an as-needed basis in order to finance its large capital investments at  
5 rates beneficial to ratepayers in the near- and long-term. This capital structure will help to lower  
6 overall investment risk and should result in lower long-term debt rates, now and in the future.  
7 Therefore, SDG&E requests that the Commission authorize the cost of capital proposed above,  
8 effective January 1, 2013.

### 9 **III. FACTORS SUPPORTING THE COMPANY'S PROPOSALS**

#### 10 **A. Reasonable ROE**

11 Dr. Morin's testimony provides market-based assessments of the risks associated with the  
12 Company's equity and determines the investor-required return commensurate with those risks.  
13 Through the use of certain statistical methods to estimate required equity returns, generally  
14 referred to as the discounted cash flow ("DCF"), historical risk premium ("HRP"), and capital-  
15 asset pricing models ("CAPM"), Dr. Morin demonstrates the reasonableness of SDG&E's ROE  
16 proposal.

17 Dr. Morin's statistical analyses and other considerations of risk result in a  
18 recommendation of an ROE of at least 10.9% for the Company's combined natural gas and  
19 electric utility operations (Dr. Morin notes that this 10.9% recommendation is a *minimum*  
20 allowed ROE for SDG&E, which does not reflect the policy considerations I discuss herein).  
21 My testimony will build upon Dr. Morin's results by addressing policy considerations that factor  
22 into the Company's overall ROE recommendation.

#### 23 **B. Risk Analysis**

24 The testimony of Mr. Widjaja explains various aspects of SDG&E's investment risk  
25 profile. SDG&E faces significant challenges as it seeks to implement the aggressive Renewable

1 Portfolio Standard (“RPS”) program goal of 33% renewable procurement by 2020 and deploy  
2 new technology in the Smart Grid program, while facing the prospect of increasing distributed  
3 generation and a growing Plug-in Electric Vehicle market. Because SDG&E must manage these  
4 major changes simultaneously, the risks are greatly amplified due to the interconnection and  
5 interdependency of the various factors, creating a systemic risk that is new, complex and difficult  
6 to track.

7 Mr. Widjaja also discusses the fact that SDG&E has essentially doubled its gas-fired  
8 plant capacity since 2008, which increases the perception of SDG&E’s business risk since  
9 electric generation is a more volatile business than electric transmission and distribution  
10 business. He notes further that SDG&E operates in a challenging legal environment when  
11 compared to the proxy group, and faces concerns regarding under-insurance or, potentially, loss  
12 of insurance. Lastly, SDG&E’s high levels of debt equivalence negatively impacts SDG&E’s  
13 financial ratios, which increases SDG&E’s financial risk profile. As Mr. Widjaja explains, this  
14 combination of factors will subject SDG&E’s earnings and cash flows to greater risk than those  
15 of similar utilities not facing such risks, further supporting the reasonableness of SDG&E’s  
16 11.0% ROE recommendation.

### 17 **C. Capital Structure and Embedded Costs**

18 The testimony of Ms. Hrna recommends a modified capital structure for SDG&E. Since  
19 1999, the Company has based its rates on common and preferred-stock components that  
20 respectively comprised 49% and 5.75% of the capital structure. Because of SDG&E’s  
21 continuing large capital investment program to ensure a safe and reliable system, the need to  
22 align actual and authorized equity levels enabling favorable credit ratings and low cost of capital,  
23 and the impact on rating agency evaluations of growing PPA debt equivalence, the Company  
24 proposes to reduce the preferred stock component to 2.75% and increase the common-equity

1 element to 52.00% of the overall capital structure. Ms. Hrna also calculates embedded debt and  
2 preferred costs of 5.09% and 6.35%, respectively, for test year 2013.

### 3 **D. Cost of Capital Adjustment Mechanism**

4 Since 2008, SDG&E has operated under the CCM adopted by the Commission in  
5 Decision (“D.”) 08-05-035. Company witness, Mr. Deremer, testifies that as currently  
6 structured, the CCM strikes a reasonable balance between triggering too often and too  
7 infrequently; however, enhancing the CCM with an off-ramp provision will provide a safeguard  
8 against extreme changes in market conditions during times of great financial or economic  
9 upheaval. Mr. Deremer therefore recommends including a provision that allows SDG&E to  
10 voluntarily suspend the CCM should the yield on single-“A” rated utility bonds move by more  
11 than 250 basis points from the benchmark during the record period.

## 12 **IV. A COST OF CAPITAL TO SUPPORT THE COMPANY’S FINANCING NEEDS**

13 The cost of capital proposals set forth in Section II are necessary to ensure SDG&E’s  
14 continued ability to access the capital markets on as as-needed basis. SDG&E has shown that  
15 even in extremely volatile financial markets, it has the ability to secure low-cost financing. I  
16 support the analysis presented by the witnesses in support of SDG&E’s Application and propose  
17 a 10 basis point addition to Dr. Morin’s ROE assessment to arrive at a comprehensive ROE  
18 proposal of 11.0%. In my opinion, this addition is necessary to account for the circumstances  
19 discussed further below.

20 Various factors demonstrate the need for SDG&E to establish an appropriate capital  
21 structure and overall ROR to maintain an “A” credit rating, enabling as-needed access to the  
22 capital markets to meet the Company’s ongoing financing requirements. This will promote  
23 continued safe and reliable operations, while implementing SDG&E’s required large capital  
24 investments and supporting the Company’s transition from a traditional distribution utility to a  
25 technologically-advanced energy company. Emerging technologies are creating significant



1 change at SDG&E, and it is imperative that SDG&E have continued access to capital markets to  
2 preserve its high standards of service and to fund the programs that are transforming the  
3 Company.

#### 4 **A. Changing Business Conditions and Capital Investment Needs**

5 In recent years, the Company has installed 2.2 million SmartMeters – devices which  
6 provide customers the ability to monitor real-time energy use. These new meters are just one  
7 facet of SDG&E’s ongoing development of the Company’s Smart Grid, which will allow for  
8 more efficient load balancing and energy procurement, and will enhance customer programs for  
9 energy conservation. The transition to this technologically-advanced distribution system will  
10 present challenges and uncertainties that cannot be measured by the standards of the past.

11 Adding to the challenge of a system revamp is the Company’s growing mandate to support  
12 California’s environmental initiatives. State law requires that, by 2020, 33% of SDG&E’s  
13 energy portfolio must consist of power from renewable resources. Additionally, through its  
14 various agencies, California seeks to ensure public safety in the area of natural-gas pipelines.  
15 From a practical standpoint, meeting these new requirements will present an unprecedented  
16 challenge, entailing complex contracting, incremental construction, new system-rebalancing  
17 requirements, and revised operational techniques. The uncertainty surrounding the Company’s  
18 new, unfolding business model is best mitigated by a supportive ROE.

#### 19 **B. Changing Capital Investment Levels**

20 Equally significant is the Company’s large and ongoing capital expenditure program.  
21 The electric side of SDG&E’s business is transitioning from traditional power plant and energy  
22 supply assets to those including renewable energy generation and supply, smart technology, and  
23 electric vehicles. The transformation to this new “hybrid” type of utility business model will  
24 pose risks different than the traditional business model and will impose new challenges that can  
25 impact reliability. Add to that new requirements associated with pipeline safety for the gas

1 system, and one can see that SDG&E is a company whose business profile is changing; a new  
2 future lies ahead. SDG&E's success during this transition will depend upon its ability to  
3 maintain its strong financial position and obtain access to capital markets when needed. In order  
4 to ensure these projects' timely construction and placement into service, the Company plans to  
5 raise a significant amount of capital. To ensure continued access to the capital markets at  
6 reasonable rates, the Company will require a competitive ROE and appropriate capital structure.  
7 This will reassure the investment community that SDG&E will retain its ability to service a  
8 growing debt level over the long term while also providing the Company with the financial  
9 wherewithal to cope with the uncertainties posed by the changes described above.

### 10 **C. Maintaining a Strong Credit Rating**

11 The investment community has held the Company in high regard over the last several  
12 years. Equity analysts are enthusiastic about the progressive direction of SDG&E's investments.

13 Bank of America observes:

14 In our view, SRE is a well-run diversified utility with two premier electric  
15 and gas utilities in California that have strong growth profiles, driven by a  
16 regulatory environment that supports renewable investments leading to  
17 above average rate base growth (10%+).<sup>3</sup>

18  
19 Analysts further believe the Company's general rate case ("GRC") will conclude  
20 satisfactorily:

21 We continue to expect a constructive outcome in the GRCs and think  
22 there's a good chance for a settlement to be reached.<sup>4</sup>

23 The rating agencies currently assign SDG&E high investment-grade ratings – "A2", "A",  
24 and "A+" by Moody's, Standard & Poor's, and Fitch, respectively – and in January 2012,  
25 Standard and Poor's rated SDG&E the 7<sup>th</sup> strongest U.S. combined utility out of a field of 173,  
26 based on credit ratings and financial outlooks. This positive perception has resulted in excellent

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<sup>3</sup> Bank of America Merrill Lynch, *Like the Chargers, has good pieces; initiate at Neutral*, August 29, 2011.

<sup>4</sup> Wells Fargo Securities, *SRE: Reiterating Ests and Market Perform Rating after Q3 Call*, November 4, 2011.

1 market access over the last several years: since the conclusion of the prior Cost of Capital  
2 proceeding, SDG&E was able to raise, in support of its Sunrise Powerlink and SmartMeter  
3 projects, new debt of \$1.9 billion which featured interest rates near or equal to the record low at  
4 the time of each offering.

5 SDG&E believes that maintaining its strong single-“A” credit rating is an essential goal,  
6 for such a rating ensures confidence in the utility’s financial strength while simultaneously  
7 balancing the interests between shareholders, bondholders and ratepayers. Studies have shown  
8 that utilities targeting a single-“A” rating tend to achieve the lowest possible cost of capital by  
9 steering a course between the revenue increases that would be needed to achieve higher ratings  
10 and the distress costs associated with ratings below single-“A”.<sup>5</sup> During times of market stress,  
11 firms rated lower than single-“A” find that their access to capital is reduced, and end up paying  
12 relatively higher rates on what they are able to raise.<sup>6</sup>

13 Over the last twenty years, the Commission has indicated its support of single-“A” credit  
14 ratings as reasonable,<sup>7</sup> but has resisted attempts to endorse ratings higher than that.<sup>8</sup> Moreover,  
15 during Pacific Gas & Electric’s (“PG&E”) bankruptcy, the Commission established that  
16 ratepayers benefit from a lower cost of debt, lower transaction costs, and reduced working-  
17 capital requirements in its adoption of a single-“A” target as the basis for PG&E’s post-  
18 bankruptcy ratemaking.<sup>9</sup>

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<sup>5</sup> See, e.g., Morin, Roger A., *New Regulatory Finance*, (Vienna, VA: Public Utilities Reports Inc., 2006), or Brigham, Gapenski, and Aberwald, “Effects of Capital Structure on Utilities’ Cost of Capital and Revenue Requirements,” Public Utility Research Center, University of Florida, June 1986.

<sup>6</sup> The Company observed the phenomenon first hand at the height of the financial crisis in 2008, when its “BBB”-rated parent company, Sempra Energy, sold debt with greater difficulty and at a substantially higher cost than SDG&E’s affiliate, SoCalGas (with a single-“A” credit rating), which had sold debt that same week.

<sup>7</sup> See, e.g., D.94-11-076, *mimeo*, p. 35; D.96-11-060, *mimeo*, pp. 17–18; D.07-12-049, *mimeo*, p. 43.

<sup>8</sup> See, e.g., D.89-11-068, *mimeo*, FOF 60-62, p. 88; D.92-11-047, *mimeo*, p. 54.

<sup>9</sup> D.03-12-035, *mimeo*, pp. 41–44 and Appendix C, p. 11.

1           **D.     Importance of Continued Supportive Regulatory Environment**

2           Underlying these positive sentiments – and the Company’s market access – is the  
3 investor community’s perception of the CPUC itself. Over the last several years, Wall Street  
4 analysts have viewed the Commission in a favorable light. The following comment is typical:

5                     The regulatory environment in California remains balanced and  
6                     constructive . . . The California legislature, governor and commission  
7                     appear to be aligned, including the continuing commitment to the 33%  
8                     RPS by 2020.<sup>10</sup>

9           At this time, equity analysts assign a very low likelihood to investor- or utility-adverse  
10 rulings by the Commission. This is summarized nicely by Oppenheimer:

11                    Given the constructive regulatory environment for the past decade, an  
12                    adverse decision [on SEU’s GRC] would be a negative surprise.  
13                    However, we place a low probability on an adverse decision given the  
14                    continuing stability in California due to the election of Jerry Brown as the  
15                    next governor.<sup>11</sup>

16           The rating agencies perceive the CPUC as being supportive of strong, stable credit ratings  
17 for the utilities it regulates, and they anticipate no credit-adverse behavior from the Commission.

18 According to Moody’s:

19                    Since the energy crisis, the CPUC’s regulatory orders have been generally  
20                    credit supportive and more predictable...we observe that rate case  
21                    decisions in California continue to be credit supportive and observe no  
22                    meaningful change in the regulatory supportiveness in recent decisions  
23                    following the change in personnel at the CPUC.<sup>12</sup>

24           Standard & Poor’s puts it this way:

26                    We deem regulation in California as exceptionally supportive of credit  
27                    quality, which allows us to notch up our corporate credit ratings on  
28                    SDG&E and SoCalGas from those on the parent and its unregulated  
29                    subsidiaries.<sup>13</sup>

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10 BMO Capital Markets, *Sempra Energy*, October 9, 2011.

11 Oppenheimer, *Sempra Energy: Strong Utility Story But Pressure on Gas Segment; Initiate with Perform Rating*, December 9, 2010.

12 Moody’s Investor Service, *Credit Opinion: San Diego Gas & Electric Company*, June 30, 2011.

13 Standard & Poor’s, *San Diego Gas & Electric Co.*, May 31, 2011.

1 It is extremely important for the Commission to understand that these positive investor  
2 perceptions, and SDG&E's resulting financing ability, have the potential to change in the face of  
3 the numerous new risks confronting the Company. Even though the investment community is  
4 upbeat at this time, it still reserves judgment. J.P. Morgan points out:

5 Three new commissioners were appointed to the CPUC earlier this year  
6 and it remains unclear how constructively they may treat the utilities.  
7 Following our trip to the West Coast, we believe the CPUC may be  
8 balanced in its treatment of the utilities, but this remains uncertain.<sup>14</sup>

9 Citibank seconds this note of caution by adding:

10 According to SRE, the CA political climate is not as bad as people might  
11 be speculating . . . However the ultimate conclusion to this debate will be  
12 how the two rate cases at SRE get concluded and the pace at which the  
13 CPUC approves new renewable power contracts.<sup>15</sup>

14 The Commission plays an important role in signaling to the investment community that it  
15 will mitigate uncertainty related to the industry changes that may impact SDG&E's risk profile.

#### 16 **E. Keeping Financing Rates Low**

17 The cost of capital authorized in this proceeding will impact customer rates for years to  
18 come. Hence, the Commission should assess the long-term customer benefits of SDG&E's  
19 proposed cost of capital structure. As SDG&E carries out its large capital expenditure program –  
20 almost \$6 billion over the next five years - the capital required to fund this program is serviced  
21 over many years, sometimes decades. Interest will accrue on long-term bonds and dividends will  
22 be paid on preferred stock, year in and year out. A forward-looking decision today by the  
23 Commission to reinforce the financing of SDG&E's infrastructure buildout, system-reliability  
24 initiatives, and service expansions with a credit-enhancing ROE and capital structure will ensure

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<sup>14</sup> J.P. Morgan, *CA Investor Tour: CA Regulatory Uncertainty Remains; Resuming Coverage of SRE with a Neutral Rating and a \$58 PT*, June 2, 2011.

<sup>15</sup> Citigroup Global Markets, *Alert: Sempra Energy Analyst Day – Top 10 Takeaways; Buy Rated*, March 23, 2011.

1 that the Company's customers enjoy the benefits of a twenty-first century gas and power  
2 distribution system, while continuing to pay reasonable rates.

3           Conversely, a decision today to set the ROE below what I propose here – whether to  
4 realign with other jurisdictions, incorporate changes in interest rates, or simply provide near-term  
5 rate relief – could increase the cost of financing required to support SDG&E's large capital  
6 program. This cost will ultimately end up being borne by ratepayers in higher rates for years to  
7 come. An ROE that will provide long-term credit support must take into consideration how  
8 much of the Company's future is simply unknown; as discussed in testimony submitted in  
9 support of the Application, SDG&E must tackle substantial uncertainties during the foreseeable  
10 future.

#### 11           **F.       Development of 11.0% ROE**

12           To bring about a comprehensive ROE analysis, I apply my informed judgment as an  
13 experienced finance executive. I concur with the witnesses in this application and believe  
14 everything they have attested to is true, accurate, and reasonable. In my opinion as a seasoned  
15 financial officer, 10 basis points is a reasonable and appropriate addition to Dr. Morin's  
16 recommendation of an ROE of at least 10.9%, producing a complete ROE proposal of 11.0%.

17           There remain unknowns in the Company's future – not based on a single issue, but  
18 general conditions that support the addition of 10 basis points to Dr. Morin's recommendation.  
19 These include the uncertainties described above and potential accounting changes that could  
20 have material impact upon the business. While SDG&E has made every attempt to specifically  
21 identify the risks associated with its operations and the unknowns in the Company's future that  
22 would factor into the consideration of risk by the investment community, it believes that given  
23 the micro changes at SDG&E (such as emerging technologies and our robust capital investment  
24 program) as well as macro changes to the economy in a global sense, adding 10 basis points  
25 adjusts the ROE to a level that is needed to be comparable to other investments of similar risk, at

1 similar time and location – consistent with the guidance from the *Hope* and *Bluefield* cases. This  
2 recommendation is made with the intent of maintaining an “A” rating with the credit rating  
3 agencies, which SDG&E believes is key to the success of attaining a lower cost of capital in the  
4 future. The Company believes that this result will ensure that SDG&E’s financial strength and  
5 creditworthiness is maintained during the transformative years ahead, thereby balancing the  
6 interests of customers and investors over the decades to come.

7 **V. CONCLUSION**

8 After taking into consideration the analysis presented by the SDG&E witnesses in  
9 support of the Company’s cost of capital application, as well as the Company’s goals and the  
10 continuing significant capital investments projected to meet those goals and to maintain a safe  
11 and reliable natural gas and electric distribution infrastructure, I respectfully request that the  
12 Commission adopt a Test Year 2013 cost of capital for SDG&E as summarized in the table  
13 below:

14 **SDG&E’s Proposed TY 2013 COC Structure**

<b>Component</b>	<b>Capital Ratio</b>	<b>Cost</b>	<b>Weighted Cost</b>
Long-Term Debt	45.25%	5.09%	2.30%
Preferred Stock	2.75%	6.35%	0.18%
Common Equity	52.00%	11.00%	5.72%
<b>Rate of Return (ROR)</b>			<b>8.20%</b>

15  
16 In addition, I recommend that the Commission adopt an off-ramp to the CCM, as  
17 proposed in the testimony of Kenneth Deremer.

18 This concludes my prepared direct testimony.  
19

1 **VI. STATEMENT OF QUALIFICATIONS**

2 My name is Robert M. Schlax. I am the Vice President, Controller and CFO and  
3 Treasurer of SDG&E and SoCalGas. I joined the company in 2005 as Vice President and  
4 Controller of SDG&E and SoCalGas. In October 2008, I was additionally appointed CFO. In  
5 my expanded position, I oversee all of the financial planning and budgeting, energy risk  
6 management, financial reporting, debt management, utility accounting, and affiliate compliance  
7 for SDG&E and SoCalGas.

8 I have a Bachelor's Degree in Accountancy from the University of Illinois and a Master's  
9 Degree in Business Administration from Pepperdine University.

10 Prior to joining the Company, I served as CFO, Treasurer and Vice President of Finance  
11 at Mercury Air Group, Inc. from 2002 to 2005. Before 2002, I held various management  
12 positions of increasing responsibilities within the accounting and finance departments at Unocal  
13 Corporation.

14 I have previously testified before this Commission.