

Application: A.18-11-015

Exhibit No.: SDG&E-

Witness: Kristi Khong

UPDATED PREPARED DIRECT TESTIMONY OF
KRISTI KHONG
CHAPTER 5
ON BEHALF OF SAN DIEGO GAS & ELECTRIC COMPANY

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA



NOVEMBER 13, 2020

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**UPDATED PREPARED DIRECT TESTIMONY OF
KRISTI KHONG - CHAPTER 5**

I. INTRODUCTION

The purpose of my prepared direct testimony is to provide an update and supersede the prepared direct testimony filed on November 26, 2018 by Amanda D. White, which is necessitated by the passage of time that has elapsed since the Application and testimony was originally filed.¹ In that initial testimony, Ms. White presented San Diego Gas & Electric Company's ("SDG&E") revenue requirement associated with the click-through authorization process ("CTP") capital and operations and maintenance ("O&M") spend of \$1.5 million, over the period of 2019 to 2029. My testimony reflects a forecasted revenue requirement of \$1.6 million over the years of 2022 through 2030. This is an increase of slightly over \$0.1 million from Ms. Whites' testimony. Since this proposal includes costs above and beyond those authorized by the California Public Utilities Commission ("Commission" or "CPUC") in SDG&E's most recent General Rate Case ("GRC"), all costs associated with this project are incremental, and thus are additive to any currently authorized levels of revenue requirement.

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

Table KK-1 below summarizes the direct costs with overhead loaders ("OH") as shown in the testimony of Douglas S. White (Chapter 1).² These costs do not yet reflect the impact of escalation, allowance for funds used during construction ("AFUDC"), or capitalized property tax. These additional components are needed to convert the direct costs into revenue

¹ This update testimony has been authorized by the Assigned Commissioner's First Amended Scoping Memo and Ruling (October 23, 2020) at 6.

² Updated Prepared Direct Testimony of Douglas S. White at Table DW-1. References to "testimony" herein are to the updated prepared direct testimony served in support of this application, unless otherwise indicated.

1 requirement. The remainder of this section describes the components needed to calculate the
2 revenue requirement.

3 **Table KK-1: Proposed Budget Request - Direct Costs With OH**
4 *(In Thousands, 2020\$)*

	Yr.1	Yr.2	Yr.3	
	2022	2023	2024	Total
Capital	\$1,061.5	\$0	\$0	\$1,061.5
O&M	\$62.3	\$67.6	\$57.2	\$187.1
Total	\$1,123.8	\$67.6	\$57.2	\$1,248.6

5 *Figures may not sum due to rounding

6
7 **A. Overhead Allocations**

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

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

⁴ Application ("A") 17-10-007/008 (cons.), Ex. 324 (Ex. SCG-34-2R/SDG&E-32-2R) Second Revised SoCalGas/SDG&E Direct Testimony of James Vanderhye (Shared Services & Shared Assets Billing, Segmentation & Capital Reassignments), (April 6, 2018).

1 **B. Escalation**

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

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

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

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

12 Table KK-2 below summarizes the total, fully loaded capital and escalated O&M
13 amounts. The capital costs include overhead loaders, escalation, AFUDC, and capitalized
14 property tax.

15 **Table KK-2: Total Capital and O&M**
16 *(In Thousands, includes OH, escalation, AFUDC, and capitalized property tax)*

	Yr.1	Yr.2	Yr.3	
	2022	2023	2024	Total
Capital	\$1,119.5	\$0	\$0	\$1,119.5
O&M	\$64.6	\$71.2	\$61.6	\$197.5
Total	\$1,184.1	\$71.2	\$61.6	\$1,316.9

*Due to rounding, numbers presented may not add up precisely to the totals provided

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18

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

⁶ See D.13-05-010.

1 **III. REVENUE REQUIREMENT**

2 The revenue requirement consists of the total O&M and capital costs stated above, as
3 well as SDG&E’s return on investment, federal and state income taxes, property taxes, working
4 cash, and franchise fees and uncollectibles (“FF&U”).⁷ The sections below cover these
5 components in greater detail.

6 **A. O&M Expenses**

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

9 **B. Working Cash**

10 Working cash is “the funding supplied by investors to meet day-to-day utility operational
11 requirements, and to cover the time that expenditures are made for services until the time
12 revenues are collected for those services.”⁸ It is included as a component of the total revenue
13 requirement.

14 **C. Rate Base (Return of Capital)**

15 Rate base is defined as “the net investment of property, plant, equipment, and other assets
16 that SDG&E has acquired or constructed to provide utility services to their customers.”⁹ The
17 annual revenue requirement amount associated with the return of capital is equal to the amount
18 of capital that is depreciated each year. Consistent with the decision in SDG&E’s 2019 General

⁷ The revenue requirement components and the rate base calculations are computed based on the same standard, Commission-approved methodology used in the 2019 GRC and other incremental applications.

⁸ A.17-10-007/008 (cons.), Ex. 176 (Ex. SDG&E-36-2R) Second Revised SDG&E Direct Testimony of Steven P. Dais (Working Cash), (April 6, 2018) at SPD-2.

⁹ D.16-06-054 at 216.

1 Rate Case, SDG&E will utilize the following useful lives for each asset category presented in
2 Table KK-3 below.¹⁰ The useful lives are subject to revision in a future general rate case.

3 **Table KK-3: Capital – FERC Useful Life**

Asset Category (FERC Account)	Useful Life Years
E-303 – Computer Software	5
C-391.2 – Computer Equipment	5

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5 **D. SDG&E’s Authorized Capital Structure and Rate of Return (“ROR”)**

6 Pursuant to D.19-12-056, SDG&E’s authorized capital structure is comprised of 52
7 percent of common equity, 45.25 percent of long-term debt, and 2.75 percent of preferred stock.
8 SDG&E’s current authorized rate of return (“ROR”) based on its weighted capital structure is
9 7.55 percent.¹¹ SDG&E’s weighted average rate of return is multiplied by rate base to determine
10 the amount of funds required for the revenue requirement.

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

12 The revenue requirement includes costs related to the payment of income taxes, property
13 taxes, and FF&U. Federal income tax expense is based on the current corporate federal income
14 tax rate of 21.00 percent. State income tax expense is based on the current California Franchise
15 Tax rate of 8.84 percent. Property tax expense is based on SDG&E’s current average system-
16 wide rate of 1.610 percent. FF&U covers payments made to counties and incorporated cities

¹⁰ See A.17-10-007/008 (cons.), Ex. 388 (SDG&E-34) Direct Testimony of Matthew C. Vanderbilt (Depreciation) (October 6, 2017) at MCV-13 and MCV-26. See also D.19-09-051 Decision Addressing the Test Year 2019 General Rate Cases of San Diego Gas & Electric Company and Southern California Gas Company (October 1, 2019) at 757.

¹¹ SDG&E’s current authorized ROR is 7.55% per Advice Letter 3120-E/2611-G, approved October 26, 2017 and effective January 1, 2018.

1 pursuant to local ordinances granting right of way access, as well as uncollectible expenses
2 incurred by SDG&E.¹²

3 **F. Forecasted Revenue**

4 Table KK-4 below illustrates the final forecasted revenue requirement for the
5 enhancements.

6 **Table KK-4: Forecasted Revenue Requirement Summary**
7 *(In Thousands)*

	2022	2023	2024	2025	2026- 2030	Total
CPUC	(\$210.3)	\$449.0	\$379.9	\$298.2	\$454.7	\$1,371.5
FERC	(\$67.4)	\$90.4	\$76.1	\$71.9	\$109.5	\$280.4
Revenue Requirement	(\$277.7)	\$539.4	\$456.0	\$370.1	\$564.2	\$1,651.9

8 *Due to rounding, numbers presented may not add up precisely to the totals provided
9

10 The above revenue requirement is based on the forecasted costs provided in this
11 application. SDG&E will determine the actual capital and O&M costs associated with the
12 enhancements as it is completed and will calculate the actual revenue requirements associated
13 with those costs for recovery in rates. Details on cost recovery of the actual revenue requirement
14 are discussed in the testimony of Claire Olegario (Chapter 6). Details of the rate impacts of the
15 revenue requirement are discussed in the testimony of Jennifer Montanez (Chapter 7).

16 This concludes my prepared direct testimony.
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¹² FF&U multipliers used for these revenue requirements are consistent with those supported in D.19-09-051.

1 **IV. STATEMENT OF QUALIFICATIONS**

2 My name is Kristi Khong. I am employed with SDG&E. My business address is 8330
3 Century Park Court, San Diego, CA 92123. I am employed by SDG&E as a Principal Business
4 Analyst in Financial and Strategic Analysis. I am responsible for overseeing the financial
5 analysis and development of revenue requirements for SDG&E projects. I joined SDG&E in
6 2010. Prior to SDG&E, I was employed by Science Applications International Corporation for
7 12 years as a Project Control Analyst.

8 I received a Master of Business Administration Degree from the University of Redlands
9 in 2015.

10 I have not previously testified before the California Public Utilities Commission.

LIST OF ACRONYMS

AFUDC	Allowance for Funds Used During Construction
CTP	Click-Through Authorization Process
FERC	Federal Energy Regulatory Commission
GRC	General Rate Case
O&M	Operations and Maintenance
SDG&E	San Diego Gas & Electric Company