

Company: San Diego Gas & Electric Company (U 902 M)
Proceeding: 2024 General Rate Case
Application: A.22-05-015/-016 (cons.)
Exhibit: SDG&E-236

REBUTTAL TESTIMONY
OF DANE A. WATSON
(DEPRECIATION)

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA



May 2023

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APPENDIX A – GLOSSARY OF TERMS

**REBUTTAL TESTIMONY OF
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(DEPRECIATION)**

I. SUMMARY OF DIFFERENCES

Table DAW-1

Summary of Differences - Electric Depreciation¹

| ELECTIC DEPRECIATION EXPENSE - Constant 2021 (\$000) | | | |
|---|---------------------------|---------------------------|-------------------|
| | Base Year 2021 | Test Year 2024 | Difference |
| SDG&E | 474,801 ² | 604,568 ³ | 129,767 |
| CAL ADVOCATES | 474,801 ⁴ | 591,192 ⁵ | 116,391 |
| TURN ⁶ | 458,935 | Not provided | |
| EDF ⁷ | NA | NA | NA |

¹ This table includes an allocation of common expense; it also reflects the most recently submitted RO model from the January 17, 2023 Updated Results of Operations Filing which included the impact of Wildfire Mitigation supplemental testimony that SDG&E filed leave to submit on October 28, 2022 and was approved by a January 24, 2023 ALJ Ruling.

² RO Model, rbSDGETotals file, EExpExhibit tab.

³ RO model rbSDGETotals file, EExpExhibit tab.

⁴ RO model CalPA submitted rbSDGETotals file, EExpExhibit tab.

⁵ RO model CalPA submitted rbSDGETotals file, EExpExhibit tab.

⁶ TURN Workpapers –Garret Workpapers; used Common allocation factors found in the RO model (rbSDGEDataInput, Common&ElectricAllocation% tab) to apply TURN’s Common proposal to Electric and Gas categories. TURN’s proposals are not comparable to SDG&E’s and Cal Advocates, since SDG&E and Cal Advocates used the RO model for its calculations, while TURN used the Appendix from Exhibit SDG&E-36R, which does not exclude balanced projects and out-of- scope projects, etc. TURN also included changes to electric and common in their proposal.

⁷ The Environmental Defense Fund did not provide depreciation rates or calculation depreciation expense.

1 **Table DAW-2**

2 **Summary of Differences - Gas Depreciation⁸**

| GAS DEPRECIATION EXPENSE - Constant 2021 (\$000) | | | |
|---|---------------------------|---------------------------|-------------------|
| | Base Year 2021 | Test Year 2024 | Difference |
| SDG&E | 107,821 ⁹ | 154,083 ¹⁰ | 46,262 |
| CAL ADVOCATES | 107,821 ¹¹ | 140,413 ¹² | 32,592 |
| TURN ¹³ | 91,269 | Not provided | |
| EDF ¹⁴ | NA | NA | NA |

3 **II. INTRODUCTION**

4 This rebuttal testimony regarding San Diego Gas & Electric Company’s (SDG&E or
5 Company) request for Depreciation addresses the following testimony:

- 6 • The Public Advocates Office of the California Public Utilities
7 Commission (Cal Advocates) as submitted by Witness Bernard Ayanruoh
8 (Ex. CA-17 (Ayanruoh)), dated March 2023.
- 9 • The Utility Reform Network (TURN), as submitted by David J. Garrett
10 (Ex. TURN-12 (Garrett)), dated March 2023.
- 11 • Environmental Defense Fund (EDF), as submitted by Witness Michael
12 Colvin, Richard McCann, Ph.D., Joon Hun Seong (Ex. EDF-01
13 (McCann/Seong)), dated March 2023.

⁸ This table includes an allocation of common expense; it also reflects the most recently submitted RO model from the January 17, 2023 Updated Results of Operations Filing which included the impact of Wildfire Mitigation supplemental testimony that SDG&E filed leave to submit on October 28, 2022 and was approved by a January 24, 2023 ALJ Ruling.

⁹ RO model rbSDGETotals file, GExpExhibit tab.

¹⁰ RO model rbSDGETotals file, GExpExhibit tab.

¹¹ RO model CalPA submitted rbSDGETotals file, GExpExhibit tab.

¹² RO model CalPA submitted rbSDGETotals file, GExpExhibit tab.

¹³ TURN Workpapers –Garret Workpapers; used Common allocation factors found in the RO model (rbSDGEDataInput, Common&ElectricAllocation% tab) to apply TURN’s Common proposal to Electric and Gas categories. TURN’s proposals are not comparable to SDG&E’s and Cal Advocates, since SDG&E and Cal Advocates used the RO model for its calculations, while TURN used the Appendix from Exhibit SDG&E-36R, which does not exclude balanced projects and out-of- scope projects, etc.

¹⁴ The Environmental Defense Fund did not provide depreciation rates or calculation depreciation expense.

1 As a reminder, I undertook a depreciation study for the proper service lives and net
2 salvage levels for all of SDG&E's assets, and sponsor SDG&E's gas plant depreciation
3 proposals. Bruce Folkmann (Exhibit SDG&E-01) sponsors SDG&E's common and electric plant
4 proposals. Depreciation and amortization expense resembles a thermostat in a building. It resets
5 capital recovery as facts and circumstances change.

6 California utilities can only reset depreciation rates every four years when they file their
7 General Rate Case (GRC). In its 2019 GRC, SDG&E was ordered to retain the depreciation
8 rates approved in its 2016 GRC. The current depreciation rates have been in place for eight
9 years and are overdue for a reset. SDG&E's depreciation rate freeze has exacerbated the gap
10 between the Company's actual life and net salvage experience and the amount authorized by the
11 California Public Utilities Commission (Commission or CPUC). Because of this, the Company
12 is behind in the recovery of the removal cost for its investment in property, plant, and equipment.

13 Many factors have changed since SDG&E's depreciation rates were last adjusted. New
14 programs have been implemented, new regulations have been put in place that have impacted
15 removal cost and required removal activities, and labor costs have changed. SDG&E has been
16 focused on a series of Integrity Management Programs (IMP) in recent years that impact various
17 functional groups: Facilities, Transmission, and Distribution. These IMP programs are ongoing
18 and will impact the life of various asset groups now and going forward, as briefly described
19 below.

20 **Transmission Integrity Management Program (TIMP):** The transmission function
21 assets in accounts 365 through 371 have been impacted by TIMP, which began around 2004.
22 TIMP is driven by Pipeline and Hazardous Materials Safety Administration (PHMSA)
23 regulations. Although some may be on a 5-year cycle, there is generally a 7-year cycle for
24 inspection, evaluation, and the like for most assets. There was a comprehensive retrofitting of
25 the system to be able to pig lines and a larger number of replacements in the Program's early
26 years. The assets will either get reconditioned (e.g., repaired and recoated) or replaced, with
27 replacements varying from a few feet to miles.

28 **Distribution Integrity Management Program (DIMP):** In natural gas operations,
29 SDG&E is focused on its Distribution Integrity Management Program (DIMP), which began
30 around 2011-2012. There is an active pipeline replacement program for medium pressure (<60
31 psig), which is replacing around 120 miles (30% steel and 70% plastic). The DIMP is targeting

1 plastic pipe prior to 1986 and steel prior to 1971. Including both mains and services, the
2 Company has roughly 42,000 miles of “modern” plastic and 24,000 miles of vintage plastic.

3 Additionally, the cost of removing natural gas assets from service has increased over
4 time. Factors such as gas main abandonment procedures increase removal cost. While gas
5 mains for distribution are usually abandoned in place, the following removal costs are incurred
6 per 49 Code of Federal Regulations Section 192.727 (entitled “Abandonment or deactivation of
7 facilities”).¹⁵

8 The cost of deactivation, abandon in place, or removal of gas assets has increased over
9 time due to several general factors, including:

- 10 • **Time Value of Money:** Many gas main assets have a life cycle of 60
11 years or more. Some of the assets being removed were installed nearly 60
12 years ago when materials, labor, and cost of goods were lower cost.
- 13 • **Urban Areas:** The majority of the construction and reconstruction
14 projects are in urban areas. Many cities require permits. These permits
15 may impose fees and certain limitations, such as the closure of roads
16 during high traffic times. These permits may also require construction to
17 occur in the evening or on weekends, which requires overtime of crews
18 and additional equipment. Some municipalities are increasingly requiring
19 companies to repave more of the road than just the paving disturbed by
20 excavation activity.
- 21 • **Contract Labor:** In the last decade, investment in utility gas main
22 renewal projects has increased substantially across the country. Because

¹⁵ 49 Code Federal Regulations Section 192.727 provides that: (a) Each operator shall
conduct abandonment or deactivation of pipelines in accordance with the requirements of
this section.

(b) Each pipeline abandoned in place must be disconnected from all sources and supplies of
gas; purged of gas; in the case of offshore pipelines, filled with water or inert materials; and
sealed at the ends. However, the pipeline need not be purged when the volume of gas is so
small that there is no potential hazard.

(c) Except for service lines, each inactive pipeline that is not being maintained under this
part must be disconnected from all sources and supplies of gas; purged of gas; in the case of
offshore pipelines, filled with water or inert materials; and sealed at the ends. However, the
pipeline need not be purged when the volume of gas is so small that there is no potential
hazard.

1 the same skills and resources are needed in the larger oil and gas industry,
2 this has created a high demand for the limited number of qualified
3 personnel available to construct the work. Therefore, the cost of external
4 contracts has increased due to supply and demand factors.

- 5 • **Safety Requirements:** The industry, and specifically SDG&E, strives to
6 provide a very high level of safe working practices. The equipment and
7 provisions required today have increased substantially from 50 years ago.
8 SDG&E uses work safety practices that align with modern industry
9 practice. These policies have increased the cost of doing business but are
10 an important part of the strong safety principles at SDG&E.

11 In my depreciation study, I have incorporated factors such as those described above, my
12 credentials as a professional engineer and a certified depreciation professional, and 38 years of
13 experience. Depreciation requires an ability to examine the facts behind the numbers and apply
14 professional judgment. It is more than a mathematical exercise to run life and net salvage
15 analyses.

16 As described in the direct and rebuttal testimony of Mr. Folkmann,¹⁶ SDG&E has
17 proposed a one-time, non-precedential maintenance of its common and electric plant
18 depreciation levels—despite the fact that SDG&E it may further exacerbate the gaps between
19 actual service lives and net salvage experience. Cal Advocates adopts SDG&E’s common and
20 electric plant depreciation proposal.¹⁷ Otherwise, the intervening parties in this case have all
21 unreasonably focused on a **reduction** of depreciation expense, regardless of if that reduction is
22 supported by depreciation analyses or other evidence.

- 23 • Cal Advocates rejects the possibility of an increase in depreciation expense out-
24 of-hand. Cal Advocates adopts SDG&E’s common and electric proposal, while
25 making a gas proposal to adopt longer lives and freeze net salvage at levels
26 approved in SDG&E’s 2016 GRC. Cal Advocates proposal is not based upon any
27 depreciation analysis but instead upon Cal Advocates’ policy goal of lowering
28 rates;
- 29 • TURN relies on mathematical fitting to lengthen lives of the Company’s largest
30 gas accounts, often cherry-picks my electric and common plant study
31 recommendations to use my proposals that would lengthen lives while not

¹⁶ Ex. SDG&E-01-R (Folkmann) at BAF-18; Ex. SDG&E-201 (Folkmann) at BAF-3.

¹⁷ Ex. CA-17 (Ayanruoh) at 15.

1 adopting my recommendations where shorter lives would be appropriate, and
2 misapplies the Commission's longstanding precedent on net salvage gradualism;¹⁸

- 3 • As addressed further in Mr. Folkmann's testimony (Exhibit SDG&E-201, Policy
4 Overview), EDF proposes a policy change and shift to accelerate the depreciation
5 of natural gas assets that is not compatible with current Commission precedent
6 and better addressed in other proceedings.

7 My depreciation study is a balanced review of the Company's life and net salvage
8 characteristics and is the only source in the record that accurately reflects the Company's current
9 facts and circumstances. In the next parts of my testimony, I discuss the recommendations of
10 each party and analyze the flaws in the intervenors' recommendations for both life and net
11 salvage.

12 As an example of how far an account can become out of synch with its needed capital
13 recovery if depreciation rates are not set properly and periodically updated, consider the
14 circumstances for Account G376, Transmission Mains. This is SDGE's largest account.

| Current Life | Proposed life | Current Net Salvage % | Proposed Net Salvage % |
|---------------------|----------------------|------------------------------|-------------------------------|
| 69 R3 | 69 R3 | -55% | -80% |

15 The Company has retained the same life parameter and net salvage parameter over two
16 GRC cycles. The three-year, five year, and 10 year moving averages show negative 345,
17 negative 324, and negative 242 percent, respectively. Based on judgment and Company
18 experience, this study recommends moving to negative 80 percent net salvage, consistent with
19 the CPUC's gradualism precedent.

20 To illustrate how far this account is from having funds to recover its cost of removal
21 obligations, the plant balance as of December 31, 2021, is \$1.5 billion and accumulated
22 depreciation is \$465 million. The Company has not recovered the retirement of plant or the
23 ongoing cost of removal. One benchmark that depreciation analysts use to measure how close an
24 account's accumulated depreciation is to where it should be is if the proposed life and net
25 salvage parameters used is the theoretical depreciation reserve.

26 Using the Company's proposed life and net salvage proposals the theoretical reserve for
27 this account is \$491 million. For this account, the reserve ratio (Accumulated depreciation
28 reserve/ Plant balance) is 30.9%. The ratio using the theoretical reserve and proposed

¹⁸ Ex. Cal-12 (Garrett) at 10.

1 depreciation parameters is 32.6%. That differential is \$25.5 million that the reserve should
2 contain to mirror the Company’s proposed depreciation parameters. This account shows that
3 capital recovery can become out of alignment in a short period of time when depreciation rates
4 are not set properly and periodically updated. This situation applies for most of SDG&E’s large
5 asset classes—the depreciation parameters are out of alignment. On an account-by-account
6 basis, the Company requests that the Commission reset the gas depreciation thermostat to
7 incorporate that reality.

8 **A. Cal Advocates**

9 As noted, for common and electric accounts, Cal Advocates adopts SDG&E’s one-time,
10 non-precedential proposal to leave current depreciation levels in place.¹⁹ For gas, Cal Advocates
11 recommends that:²⁰

- 12 • Longer service life parameters be adopted;
- 13 • Any proposal to shorten a service life be denied and the current service
14 life be retained;
- 15 • Any increase in negative net salvage parameters should be rejected; and
16 that
- 17 • If the Commission increases any depreciation parameters, that the costs be
18 prorated over various cycles.²¹

19 I disagree with Cal Advocates’ gas positions and recommendations. Cal Advocates fails
20 to provide any actuarial analysis that shows how actuarial company data compares to their
21 competing proposals. Instead, Cal Advocates position relies solely on its argument that “rates
22 are currently high and increasing,”²² and that the “country is again facing economic uncertainty,
23 inflation and high energy costs.”²³ By ignoring all depreciation analysis, Cal Advocates does not
24 follow the basic depreciation principle of allowing the recovering of the cost of the assets (and

¹⁹ Ex. CA-17 (Ayanruoh) at 15.

²⁰ *Id.* at 12-14.

²¹ *Id.* at 1.

²² *Id.* at 14.

²³ *Id.* at 29.

1 their removal cost) over the life of the assets. In fact, in some accounts where life has declined,
2 Cal Advocates ignores that fact.

3 Worse, Cal Advocates does not simply maintain the current gas depreciation parameters
4 that were approved in the 2016 GRC. Instead, Cal Advocates cherry picks, wanting to hold rates
5 constant where I recommend an increase, but adopting my recommended reductions.

6 In so doing, Mr. Ayanruoh has abandoned the Commission's stated goal of gradualism.
7 Specifically, in recent proceedings, the Commission has applied a principle of gradualism to
8 depreciation rates in response to concerns about growing cost burdens associated with increasing
9 cost trends for negative net salvage.²⁴ The Commission explained that:

10 [t]he principle of gradualism applies where there is a recognized
11 need to revise estimated parameters, but where the change is
12 allowed to occur incrementally over time rather than all at once.
13 Applying gradualism thus limits the approved increase that would
14 otherwise be warranted, all else being equal and mitigates the
15 short-term impact of large changes in depreciation parameters.
16 Also, it is advisable to be cautious in making large changes in
17 estimates of service lives and net salvage for property that will be
18 in service for many decades, as future experience may show the
19 current estimates to be incorrect.²⁵
20

21 Yet instead of gradualism being applied, in its 2019 GRC, SDG&E was ordered to retain
22 all depreciation rates and parameters from the 2016 GRC.²⁶ Because of this, the Company is
23 behind in the recovery of the removal cost for its investment in property, plant, and equipment.
24 The gradualism principle only exacerbates this issue.

25 Cal Advocates' proposed rates would take a one-sided approach to move life out—
26 extending the life for numerous larger accounts—(which has the effect of decreasing
27 depreciation expense) but freezing cost of removal at levels that have been in place for eight
28 years. The lack of any movement applied to net salvage is creating a shortfall in capital recovery
29 for some accounts. The reality is that the Company is incurring much more negative net salvage
30 than currently authorized and, in some cases, the lives experienced by the Company are
31 decreasing.

²⁴ Decision (D.) 14-08-032 at 598.

²⁵ *Id.*

²⁶ D.19-09-051 at 623.

1 Moreover, in Cal Advocates' RO model accrual rate computations, there are multiple
2 errors. Recommended life increases for accounts G381, G394.1, and G394.2 were discussed in
3 testimony but the recommended average remaining lives were not incorporated in the model
4 depreciation calculations.

5 **B. TURN**

6 As Mr. Folkmann describes, TURN is seemingly confused regarding SDG&E's proposal
7 to maintain current and electric depreciation rates.²⁷ TURN recommends:²⁸

- 8 • A longer life than my study proposes for Accounts E365, G367, G368,
9 G376, and G380.
- 10 • An increase in negative net salvage that is lower than what my study
11 shows is warranted for accounts: G366, G367, G368, G375, G376, G380,
12 G387.12, E361, E362, E363, E365, E366, E367, E368, E369.1, E369.2,
13 E371, E371.1, E373.2, E397.6 and C398.10 based on two different flawed
14 methods of computed net salvage.²⁹

15 There are multiple flaws in Mr. Garrett's recommendations. Although his approach at
16 times is not clear, for electric and common plant accounts he seems to have cherry-picked my
17 study—suggesting further depreciation reductions where I recommended longer common and
18 electric plant service lives for SDG&E's assets compared to current levels, while accepting
19 keeping lives current for common and electric plant accounts when my study recommended
20 shortening those lives.³⁰ On the gas life analysis side, he ignored a basic principle of actuarial
21 analysis by only using one placement and experience band (the full band), thereby failing to
22 analyze any changes in life that would naturally occur over time.

23 He discarded relevant data in analyzing his single band by using a novel (non-industry
24 standard or adopted) approach that he has created, without any peer review, that cut off and
25 ignored Company-specific experience. He ignored both Company-specific operational
26 information and reasonable engineering expectations for the life of assets. And relied heavily on

²⁷ Ex. SDG&E-201 (Folkmann) at BAF-4.

²⁸ Ex. TURN-12 (Garrett) at 3.

²⁹ While TURN presented two versions of net salvage proposals, my testimony rebuts their traditional net salvage proposal, which is more commonly used in CPUC proceedings.

³⁰ See Ex. TURN-12 (Garrett) at 10; Ex. SDG&E-236 (Watson)

1 mathematical fitting seeking to minimize the sum of squares difference between the Company's
2 data the proposed curve and life.

3 Visual matching is my preference in fitting historical data, because it allows the analyst
4 to see the underlying data that is used to create the single numerical statistic and better describes
5 how the "fit" is at various points in the life of the curve. I have used this methodology
6 consistently in performing depreciation studies throughout my career. Over my decades of
7 performing depreciation studies, I believe that visual fitting is a superior approach.

8 Mr. Garrett's recommendations are overly reliant on mathematical curve-fitting, which
9 results in unreasonable recommendations for certain accounts, especially when considering the
10 variety of assets in an account and how they are operated by the Company. In real-world
11 applications, theoretical statistical models are not always accurate due to the interrelationship of
12 the data in various *years* (e.g., storms would trigger common causes of retirement between
13 vintages, inflation would change the unit price from year to year, etc.). Visual matching does not
14 have this issue.

15 One of the most quoted treatises, *Depreciation Systems* cautions that "blind acceptance of
16 mechanical fitting processes will occasionally but consistently result in poor choices"³¹ and that
17 "... the results of mathematical fitting should be checked visually and the final determination of
18 best fit made by the analyst."³² Sound depreciation practice and authoritative guidance advise
19 that a recommended life curve needs to drop to take into account at least 50% of the life cycle
20 (*i.e.*, 50% of the historical experience) of the assets in the account to offer a fully predictive
21 analysis.³³

22 Sound depreciation practice and authoritative publications also advise that the analyst
23 focus on retirement experience within the middle section of the life curve (*i.e.*, 80% to 20%
24 surviving) because this portion of the experience is more reflective of the retirement
25 characteristics of the assets in the account:³⁴

26 The weight placed on those points will depend on the size of the
27 exposures. Often the middle section of the curve (that section

³¹ *Depreciation Systems*, Drs. F.K. Wolf and W.C. Fitch, Iowa State Press, 1994, p. 47.

³² *Id.* at 48.

³³ *Public Utility Depreciation Practices*, p 120 ("It is generally desirable to have the stub curve drop below 50%.").

³⁴ F.K. Wolf and W. C. Fitch, *Depreciation Systems*, 46-47 (1994) (Emphasis added).

1 ranging from approximately 80% to 20% surviving) is given more
2 weight than the first and last sections. This middle section is
3 relatively straight and is the portion of the curve that often best
4 characterizes the survivor curve.

5 Mr. Garrett seems to rely solely on overall placement and experience bands, rather than
6 looking at the best fit from a number of bands.³⁵ This is important because by looking at the
7 combination of retirement history over different periods of time, the analyst can discern patterns
8 that may influence his recommendation. The authoritative publications provide guidance as
9 follows:³⁶

10 The ultimate combination of bands is the overall band, which
11 combines all individual placement and experience bands into a
12 single, overall band. The major attribute of the survivor curve
13 obtained from this band is that it uses every available exposure and
14 retirement. On the other hand, this grand average obscures the
15 dynamic characteristics of the life characteristics of the property.
16 ... ***It is difficult to figure out the exact meaning of the overall***
17 ***band, and, in spite of the fact it does contain all the data points, it***
18 ***should be given limited significance.***

19 Mr. Garrett also fails to incorporate any information from Company experts related to the
20 actual operations of the assets in their life recommendations. Information provided by Company
21 subject matter experts on the specific plant and equipment being studied is of critical importance
22 in the depreciation study process. Understanding activity in the field is important for an analyst
23 to obtain a better understanding of the assets that are being studied and an understanding of the
24 work effort “behind” the accounting information being analyzed. In *Public Utility Depreciation*
25 *Practices*, NARUC advises against strict reliance on historical data and fitting, stating:

26 Depreciation analysts should avoid becoming ensnared in the
27 historical life study and relying solely on mathematical solutions.
28 The reason for making an historic life analysis is to develop a
29 sufficient understanding of history in order to evaluate whether it is
30 a reasonable predictor of the future. The importance of being
31 aware of circumstances having direct bearing on the reason for
32 making an historical life analysis cannot be understated. The
33 analyst should become familiar with the physical plant under study

³⁵ Ex. TURN-12-Atch1 (Garrett) at Exhibit DJG-6, Exhibit DJG-7, Exhibit DJG-8, and Exhibit DJG-9.

³⁶ F.K. Wolf and W. C. Fitch, *Depreciation Systems* at 46-47 (1994) (emphasis added).

1 and its operating environment, including talking with the field
2 people who use the equipment being studied.³⁷

3 Mr. Garrett suggests that I was “privy to pertinent information shared by Company
4 personnel that was not made available to TURN, it would suggest the Company withheld such
5 information in discovery.”³⁸ This is not true. I mentioned several critical factors for each
6 account in Exhibit SDG&E-36-R, my direct testimony, and provided my interview notes in
7 workpapers. Understanding activity in the field is important for an analyst to obtain a better
8 understanding of the assets that are being studied and an understanding of the work effort
9 “behind” the accounting information being analyzed.

10 Finally, Mr. Garrett’s net salvage proposals reflect that he “generally agree[s] with Mr.
11 Watson that the negative net salvage rates for the accounts at issue should increase (i.e., become
12 more negative); the technical analysis and data generally support such an increase.”³⁹ Yet he
13 misconstrues the Commission’s longstanding gradualism precedent in an attempt to effectively
14 limit an increase in negative net salvage to a six percent change if the applicant’s proposal is
15 already applying that gradualism directive by claiming that it limits adjustments to 25% of the
16 utility’s requested increase.⁴⁰ But the Commission’s direction on gradualism (and the application
17 by other California utilities of the gradualism concept) was to move net salvage factors by no
18 more than **25 basis points from the applicant’s current net salvage levels**—not to limit the net
19 salvage change **25% of the change** recommended by the Company.

20 Specifically, the Commission in D.14-08-032, instructed to “adopt no more than 25% of
21 the estimated net increase from *current* [net salvage] rates.”⁴¹ Appendix C, Table 12 of Decision
22 14-08-032 further underscores that the Commission’s gradualism doctrine means a change of 25
23 basis points in net salvage. For example, for Account 364, Poles Towers and Fixtures in D.14-
24 08-032, after PG&E proposed a -150% net salvage rate, the Commission approved net salvage of
25 -105% from a previously set -80%, or a change of 25 basis points change (-25% is the difference
26 between -105% and -80%).

³⁷ NARUC, *Public Utility Depreciation Practices*, at 126 (1996) (emphasis added).

³⁸ Ex. TURN-12 (Garrett) at 21.

³⁹ Ex. TURN-12 (Garrett) at 52.

⁴⁰ *Id.*

⁴¹ D.14-08-032 at 600.

1 In other words, if the negative net salvage rate was negative 75 percent, the Commission
2 would, under its gradualism concept, only allow a movement to a negative 100 percent net
3 salvage, or 25 basis points. Yet Mr. Garrett argues that gradualism limit a change in net salvage
4 to 25% of the change requested by the applicant. Nowhere does the Commission in D.14-08-032
5 state that its gradualism principle means limiting a change in net salvage to 25% of the
6 applicant's recommendation.

7 The reality is that my study recommendations are already applying the concept of
8 gradualism and for Mr. Garrett to apply his novel approach would double count the concept. For
9 example, the Company's actual incurred net salvage over a 10-year average for Account G376 –
10 Mains is a negative 265 percent net salvage.⁴² If the Company recommended the actual incurred
11 net salvage, the 25% cap on the change may be a reasonable approach. In that case, Mr.
12 Garrett's 25 percent change gradualism approach would recommend the Company move to a
13 negative 102 percent net salvage⁴³ instead of the negative 80 percent that was my actual
14 recommendation.

15 But my study already applied gradualism to this and every other account, and so
16 recommended less than 25 percent of the movement to the incurred net salvage. Yet Mr. Garrett
17 is only recommending 25 percent of my study's recommendation that already included the
18 concept of gradualism. In other words, Mr. Garrett's proposal would mean that there could only
19 be, at most, a six percent change in net salvage at any one time—25% of 25% if the Company is
20 seeking to abide by the Commission's gradualism precedent in its recommendations—
21 undermining the Commission's gradualism precedent. Yet ironically, by taking 25% of my
22 study's recommended increase in negative net salvage, TURN is often proposing to increase
23 electric and common plant negative net salvage rates relative to SDG&E's proposal to maintain
24 current electric and common plant levels.

25 Also of note, the tables presented in TURN's testimony contain errors and inaccurate
26 information. In Exhibit TURN-12: Table 2: SDG&E - Depreciation Rate and Accrual
27 Comparison, the columns for SDG&E and TURN's proposed accruals appear to be partially
28 transposed. The SDG&E Gas Storage, Gas Transmission, Gas Distribution, and Gas General

⁴² Ex. SDGE-36-R (Watson), Appendix D, Account 376.

⁴³ $243-55 \times 25\% = 47$ (10 year average – current net salvage parameter) $\times 25\%$ Proposed net salvage =
current net salvage + 25% of change = $55 + 47 = 102$

1 accruals are in the column for TURN and vice versa, so the totals are not valid. Also, the totals
2 are labelled as “Total Plant”, but should be labelled “Total Depreciation.” And the table does not
3 match the same table in the workpapers. The tables included in TURN’s testimony are thus not
4 accurate and should not be relied upon.

5 **C. ENVIRONMENTAL DEFENSE FUND**

6 EDF addresses only gas assets for its recommendations, does not quantify or explain
7 implementation of its depreciation proposals but makes the following recommendations:⁴⁴

- 8 • The use of sum of the year digits (SOYD) depreciation to compute
9 depreciation rates, or alternatively,
- 10 • The use of units of production methods that were proposed by Pacific Gas
11 & Electric Company (PG&E) in its 2023 GRC application.

12 I disagree with EDF’s recommendations for depreciation. EDF recommends alternative
13 rate making approaches which do not follow the Commission’s precedents for the use of straight-
14 line, average life group, remaining life depreciation system. This novel proposal does not
15 identify any specific depreciation rates, lives, and parameters to support EDF’s
16 recommendations. Hence, adoption of their recommendations is not possible based on the
17 limited information provided in EDF’s testimony.

18 Further, the CPUC has identified accelerated and alternative depreciation methods within
19 the scope of Rulemaking (R.) 20-01-007, Order Instituting Rulemaking to Establish Policies,
20 Processes, and Rules to Ensure Safe and Reliable Gas Systems in California and perform Long-
21 Term Gas System Planning.⁴⁵ SDG&E’s position on accelerated and alternative depreciation
22 proposals is discussed in Mr. Folkmann’s testimony (Exhibit SDG&E-201).

23 **III. REBUTTAL TO PARTIES’ PROPOSALS REGARDING LIFE FOR VARIOUS**
24 **NATURAL GAS ACCOUNTS**

25 In this section I reiterate the factors supporting my recommendation for each natural gas
26 account disputed by TURN and/or Cal Advocates and rebut the proposals put forth by the
27 intervening parties. My recommendation for all accounts can be found in my direct testimony,
28 Exhibit SDG&E-36-R.

⁴⁴ Ex. EDF-01 (McCann/Seong) at 54-60.

⁴⁵ See R.20-01-007, Assigned Commissioner’s Amended Scoping Memo and Ruling (January 5, 2022).

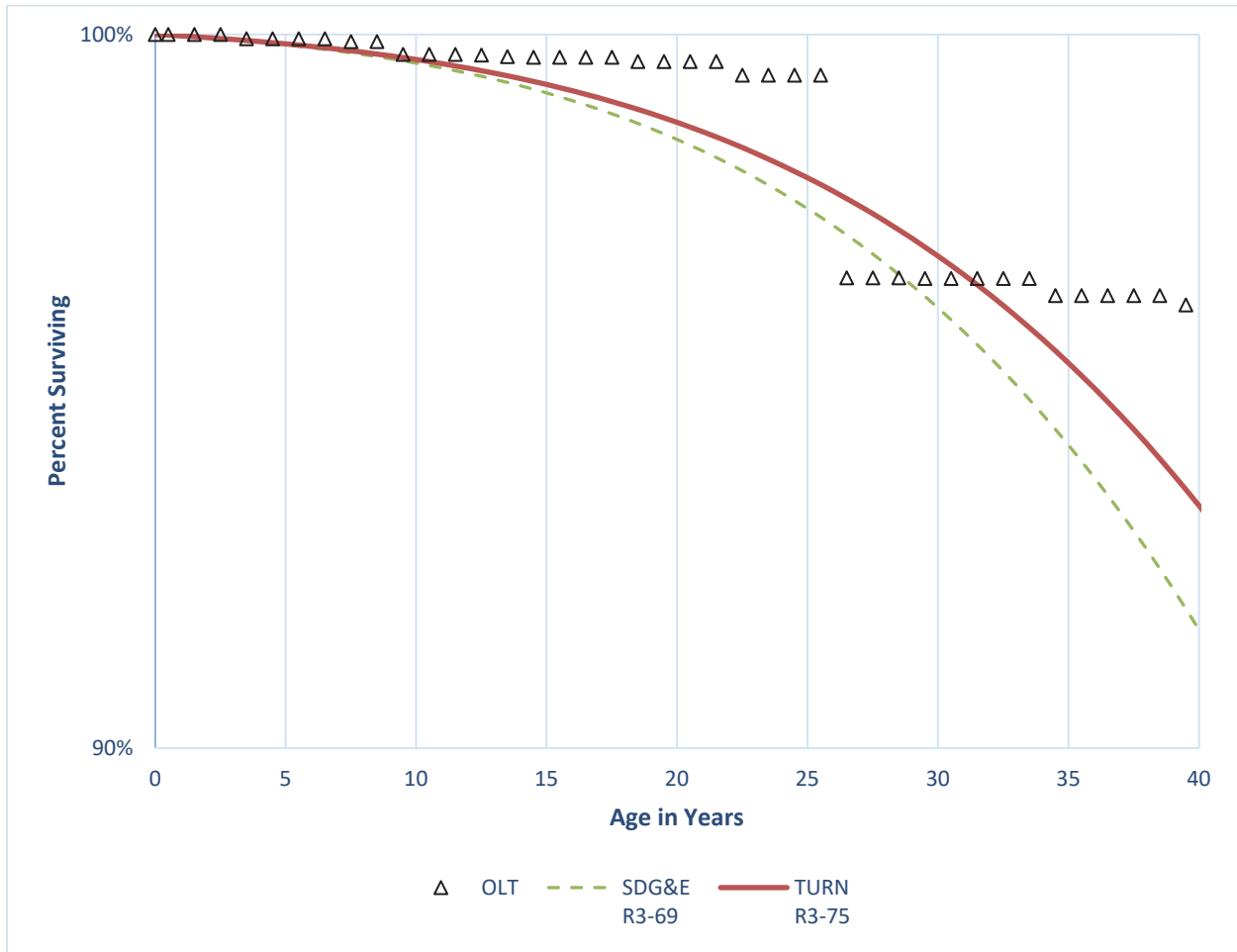
1 recommendation for this account on a single band that effectively ends at 92% is not reasonable
2 or representative for all investment in this account.

3 Neither recommendation fits well and the fit through age 30 would recommend a
4 nonsensical 85 to 96 year life. The Company's recommendation is moving the life 24 years.
5 There is no basis to move even further when there is no meaningful data for that decision. Mr.
6 Garrett's proposal would increase the current life 66.67%, based simply on one band and
7 mathematical fitting.

8 As noted, Mr. Garrett relies only on one poorly fitting band. He also ignores important
9 input from Company personnel, . failing to factor in key information related to SMEs on recent
10 and future changes in operations that should have moderated his choice of one of the longest
11 lives in the industry. To more clearly demonstrate the fit for the competing recommendations, I
12 changed the y-axis to cover from 90% to 100% and the x axis stops at age 40 on Mr. Garrett's
13 Figure 8. Those results are shown in the graph below in Figure DAW-1.

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Figure DAW-1
Account 367 - Placement Band 1949-2020 Experience Band 1999-2020



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This graph is derived from Mr. Garrett’s workpapers with the scales more narrow to show how close the observed data follows either proposed curve. In my opinion, the Company’s proposal is a better match than TURN’s and should be adopted.

B. Life Account G368 Compressor Station Equipment

This account includes the cost of compressor station equipment used in connection with transmission operations. The average age of survivors in this account is 19.58 years. The Company relies heavily on turbine compressors. Company personnel report that the Company has a modernization program driven by emissions compliance and decarbonization initiatives. Higher risk regulating stations are being targeted for replacement.

The requirements for stations have changed more than the regulations for mains and services. As a result, the Company has upgraded stations. Actuarial analysis is inconclusive.

1 Given the focus on the stations, the reliance on turbine compressors, and the characteristics of
2 the various assets in this account, my study recommends a slight increase in life to 40 years and
3 retaining the S3 dispersion.

4 A summary table of the different life recommendations is shown below in Table DAW-4.

5 **Table DAW-4**
6 **Account G368 Compressor Equipment**

| Party | Company Current | Company Proposed | Cal Advocates | TURN | EDF |
|--------------|------------------------|-------------------------|----------------------|-------------|------------|
| Curve/ Life | 35 S3 | 40 S3 | 40 S3 | 46 S3 | NA |

7
8 Cal Advocates recommends the same life for this account as the Company proposes.⁴⁸

9 TURN takes issue with the life for this account, noting that even though the amount of
10 retirements are limited, data is still relevant. Mr. Garrett presents a visual representation of the
11 two curves in his Figure 9. TURN examines only one band, the full placement band and
12 experience band of 1999-2020.⁴⁹

13 Mr. Garrett's curve shows the curves are indistinguishable until age 25. The plant
14 balance after age 25 uses data from vintage years from 1918 to year 1995 which makes up 18
15 percent of the current plant. Given that the average age of survivors is 19.58 years, basing the
16 recommendation for life in this account on a single band that ends at 64% is not typical for all
17 investment in this account.

18 The stub curve ends at 64% surviving for Mr. Garrett's proposal. But sound depreciation
19 practice and authoritative guidance advise that a recommended life curve needs to drop to take
20 into account at least 50% of the life cycle (*i.e.*, 50% of the historical experience) of the assets in
21 the account to offer a fully predictive analysis,⁵⁰ which Mr. Garrett does not do for this account..

22 Mr. Garrett's proposal would increase the current life 31.4 percent, based simply on one
23 band and mathematical fitting. My proposed 40 years moves in the direct of change with a 14.3
24 percent increase in life better conforming the facts and circumstances in this account. More
25 narrow placement bands do not have sufficient data to distinguish between these proposals.

⁴⁸ Ex. CA-17 (Ayanruoh) at 17.

⁴⁹ Ex. TURN-12 (Garrett) at 43.

⁵⁰ *Public Utility Depreciation Practices*, p 120 ("It is generally desirable to have the stub curve drop below 50%.").

1 Mr. Garrett also fails to factor in key information related to SMEs on recent and future
 2 changes in operations. In sum, Mr. Garrett ignores important input from Company personnel
 3 related to the assets in this account, relies on one band, and is overly dependent on mathematical
 4 fitting. His recommendation should be rejected.

5 **C. Life Account G376 Distribution Mains**

6 This account includes the cost of mains used in connection with distribution operations.
 7 The average age of survivors in this account is 13.58 years. Company operations personnel
 8 report that SDG&E’s Integrity Program is targeting replacing plastic prior to 1986 for both mains
 9 and services. There is around 1,600 miles of Aldyl-A that remain in the system.

10 There are three separate steel programs (pre-34, 34-65 and 65 and over) that are not part
 11 of DIMP. There are only 150 miles left in the system of pre-34 pipe. Most of the SDG&E
 12 system is from later than the 1950s, with most pipe having been added in the “boom” in the
 13 1970s and 1980s. The steel programs did not kick off until late 2019. It then ramped up in 2020,
 14 making the accelerated replacements not visible in the analysis. Some of the older steel pipe that
 15 is cathodically protected is being focused on but is not part of DIMP. This is in addition to
 16 normal replacements. The effect of these higher levels of retirements would be to shorten the
 17 life.

18 The planned replacement programs that are ranked by risk would signal that the pipe will
 19 be replaced sooner than it was in the past. Company experts feel from an operations perspective
 20 that life should decrease (at least in the short-term) with the level of retirements that are
 21 occurring. Given the uncertain future with California’s continued use of natural gas and input
 22 from operations personnel, my study recommends retaining the 69-year life and the R3
 23 dispersion. A summary table of the different life recommendations is shown below in Table
 24 DAW-5.

25 **Figure DAW-5**
 26 **Account G376 Distribution Mains**

| Party | Company Current | Company Proposed | Cal Advocates | TURN | EDF |
|-------------|-----------------|------------------|---------------|-------|-----|
| Curve/ Life | 69 R3 | 69 R3 | 69 R3 | 75 R3 | NA |

27
 28 Cal Advocates uses Company’s proposed life in making their depreciation accrual rate
 29 recommendations.

1 TURN takes issue with the life for this account, stating “Mr. Watson does not give
2 enough statistical credit to data between 40-60 years.”⁵¹ Mr. Garrett presents a visual
3 representation of the two curves in his Figure 10, where he examines only one band, the full
4 placement band and experience band of 1991-2020.⁵²

5 Mr. Garrett discusses the relevance of points from ages 40.5 to 60. Data from ages 40-60
6 consists of 5.6% of the plant in service. Data from ages 40.5-107 consists of 7.0% of the total
7 plant in this account. Given that the average age of survivors is 13.58 years, basing the
8 recommendation for life in this account on a single band encompassing experience as far back as
9 1915 is atypical for all investment in this account.

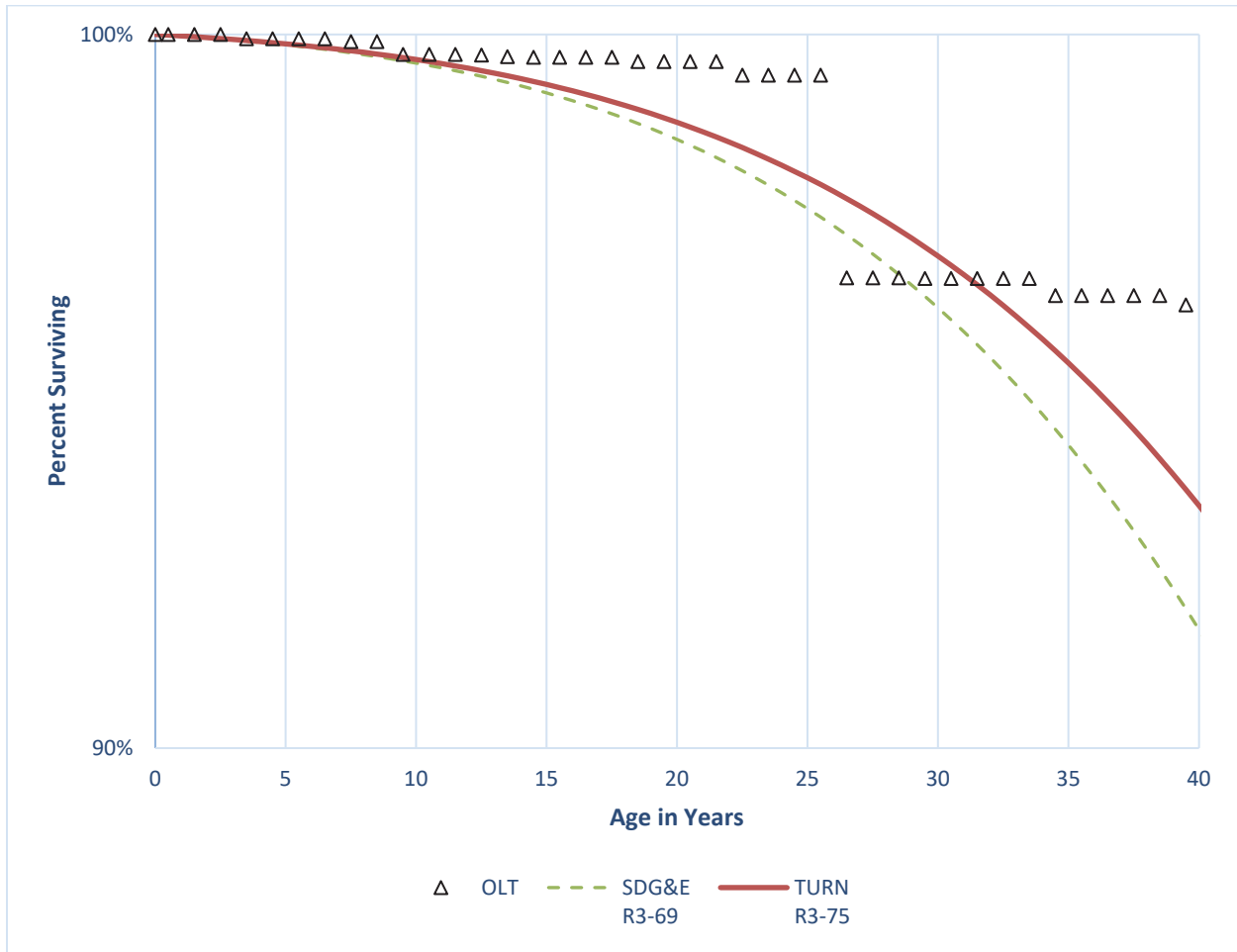
10 When examining Figure 10, I changed to y-axis to cover from 90% to 100% and the x
11 axis stops at age 40. Those results are shown in the graph below in Figure DAW-2.
12

⁵¹ Ex. TURN-12 (Garrett) at 46.

⁵² *Id.* at 45.

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Figure DAW-2
Account 376 - Placement Band 1915-2020 Experience Band 1991-2020



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This graph is derived from Mr. Garrett’s workpapers with the scales more narrow to show how close the observed data follows either proposed curve. In my opinion, the Company’s proposal is a better match than TURN’s and would not warrant an additional six year life increase.

Mr. Garrett ignores important input from Company personnel and the effect of the program just beginning, relies on one band, and is overly dependent on mathematical fitting and his proposal should be rejected.

D. Life Account G380 Distribution Services

This account consists of services used in gas distribution operations. The average age of survivors in this account is 19.04 years. The service rises above the ground for a portion of its

1 length. According to Company experts, the above ground portion is vulnerable, including weed
2 eaters, fertilizer, dig-ins by customers, and the abandonment of houses.

3 It is more likely that the Company would replace services than mains. If the main is
4 Aldyl-A, the Company would normally replace the service as well. If there is a cut, Company
5 personnel report that they generally repair the service. If a service has had a leak in the past,
6 they would likely replace the asset. If a steel main is replaced with plastic, the service would
7 normally be replaced. Company operations personnel feel that the life of services should have a
8 slightly shorter life than mains, since there are many factors that would retire a service earlier.
9 The higher focus on not stranding steel services would also be a factor in shortening the life of
10 services.

11 In some of the actuarial analysis, the average life is in the 90 plus year range. Company
12 experts state that services have a life closer to 50-60 years from an operations perspective.
13 Operationally, a life of 90 years does not seem consistent with Company or industry
14 expectations. Given the uncertain future with regulation and input from operations personnel,
15 my study recommends retaining the existing 65-year life with an R2.5 dispersion for this
16 account. Although the visual match is not as representative, input from Company personnel and
17 industry norms support this proposal.

18 A summary table of the different life recommendations is shown below in Table DAW-6.

19 **Table DAW-6**

20 **Account G380 Distribution Services**

| Party | Company Current | Company Proposed | Cal Advocates | TURN | EDF |
|--------------|----------------------------|-----------------------------|--------------------------|-------------|------------|
| Curve/ Life | 65 R2.5 | 65 R2.5 | 65 R2.5 | 72 R2.5 | NA |

21
22 Cal Advocates uses Company's proposed life in making their depreciation accrual rate
23 recommendations.

24 TURN takes issue with the life for this account, stating "I believe that Mr. Watson's
25 proposed curve downplays too much of the relevant data, and that my proposed curve more
26 appropriately balances the service life indicated by the OLT curve with issues raised in the

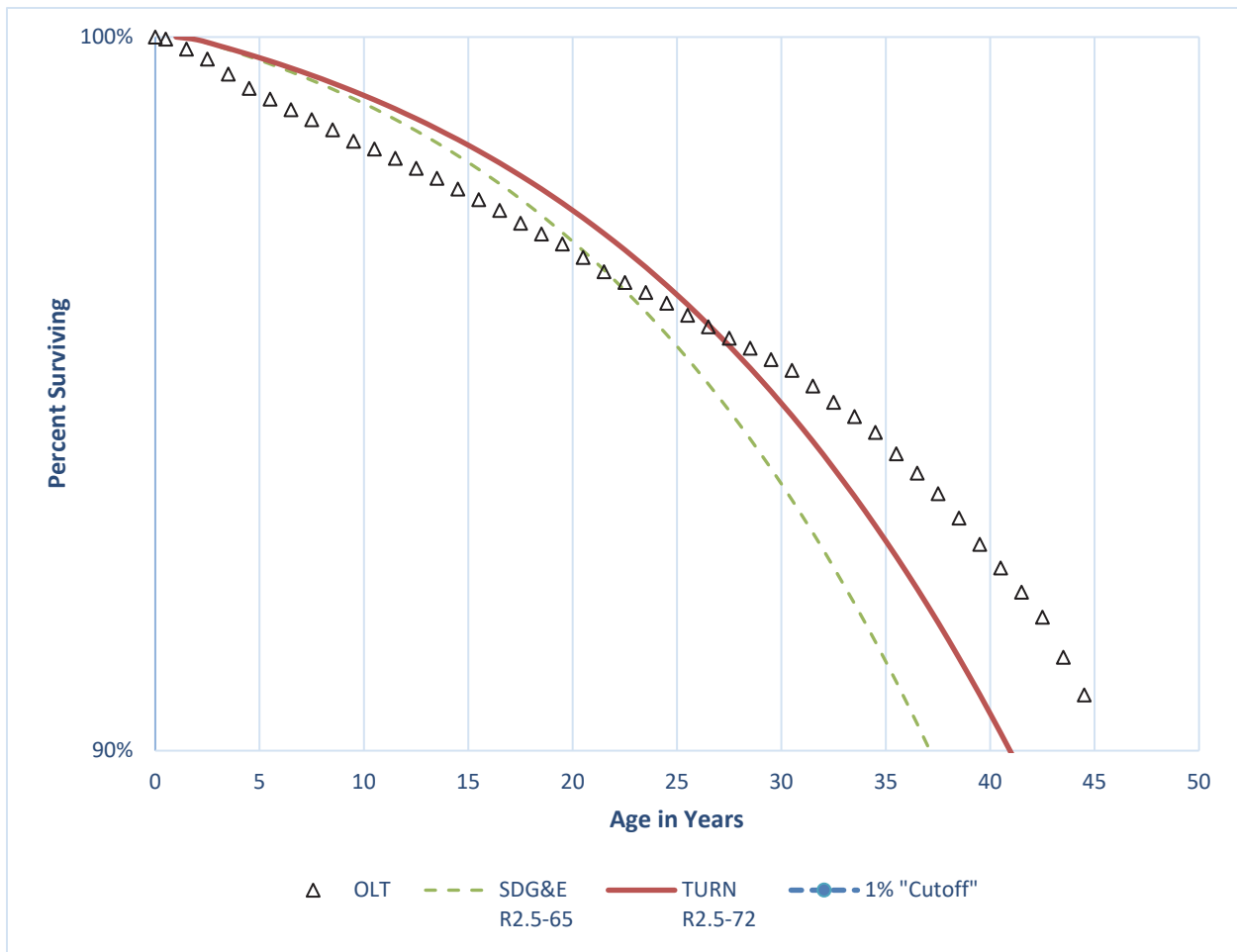
1 SDG&E depreciation study.”⁵³ Mr. Garrett presents a visual representation of the two curves in
2 his Figure 11.

3 In Figure 11, TURN examines only one band, the 1915-2020 placement band and the
4 1961-2020 experience band.⁵⁴ Given that the average age of survivors is 19.04 years, basing the
5 recommendation for life in this account on a single band encompassing experience as far back as
6 1915 is atypical for all investment in this account.

7 When examining Figure 11, I changed to y-axis to cover from 90% to 100% and the x
8 axis stops at age 40. Those results are shown in the graph below in Figure DAW-3.

9 **Figure DAW-3**

10 **Account 380 - Placement Band 1915-2020 Experience Band 1991-2020**



11

⁵³ Ex. TURN-12 (Garrett) at 48.

⁵⁴ *Id.* at 47.

1 Although neither curve matches well, I believe my 65 year recommendation is a better
2 match and better conforms to the facts and circumstances in this account. Mr. Garrett ignores
3 important input from Company personnel, relies on one band, and is overly dependent on
4 mathematical fitting.

5 **E. Life Account G381 Distribution Meters**

6 This account includes the cost of meters and regulators used in measuring gas to
7 residential customers. The average age of survivors in this account is 18.55 years.

8 Meters have traditionally lasted longer than they do now according to Company
9 operations personnel. Meter costs have escalated, as there are now only two-meter
10 manufacturers in US. Company operations personnel report that they still repair meters, but now
11 expense the repair.

12 From an operations perspective, a small decrease in life may be expected. Based on the
13 visual matching and input from operations personnel, my study recommends moving to 35 years
14 while retaining the L1.5 dispersion curve for this account. An observed life table is graphed with
15 the proposed life and dispersion curve. This account includes gross salvage and cost of removal
16 associated with the cost of meters and regulators used in measuring gas to residential customers.

17 A summary table of the different life recommendations is shown below.

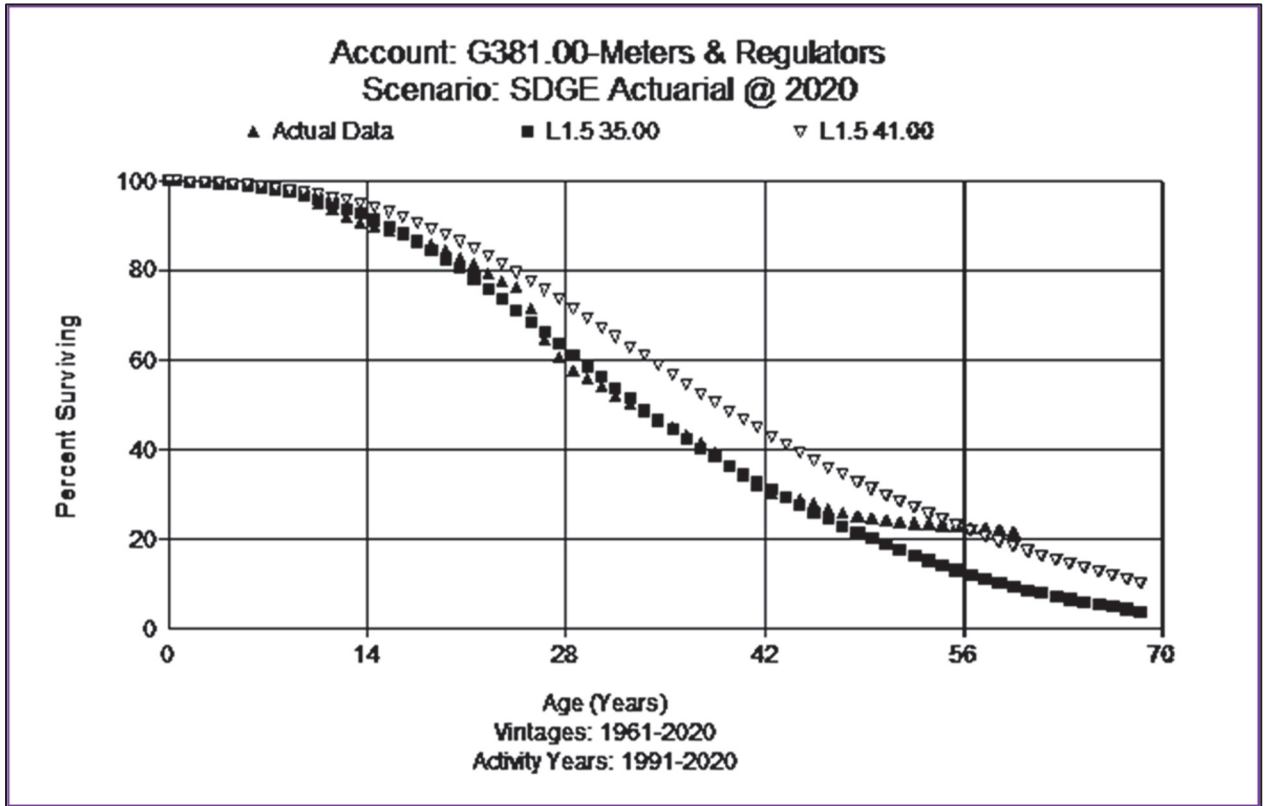
18 **Table DAW-7**
19 **Account G381 Distribution Meters**

| Party | Company Current | Company Proposed | Cal Advocates | TURN | EDF |
|-------------|-----------------|------------------|---------------|---------|-----|
| Curve/ Life | 41 L1.5 | 35 L1.5 | 41 L1.5 | 35 L1.5 | NA |

20
21 TURN uses the Company's proposed life in making their depreciation accrual rate
22 recommendations for Account G381. Although Cal Advocates rejected the Company's proposed
23 life parameter for this account as shown in Table 17-10, Cal Advocates has performed no
24 actuarial analysis, curve comparison, or even provide a basic explanation to support their
25 contention to retain the existing life. The graph below in Figure DAW-4 shows a comparison
26 between the Company's proposed life and the life recommended by Cal Advocates. The squares
27 represent the Company's proposal the triangles represent Cal Advocates' proposal. Clearly
28 circumstances have changed since SDG&E depreciation rates were set in the 2016 GRC, and a
29 shorter life is now appropriate.

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Figure DAW-4
Account G381 – Meters



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F. Life Account G394.1 Portable Tools

This account consists of various items or portable tools used in shop and garages such as air compressors, grinders, and mixers. Since the Company plans to continue using vintage group accounting for its common and electric general accounts, the same is proposed for the Company’s natural gas general plant. My study recommends moving to a 10-year life with an SQ dispersion for this account, consistent with Common and Electric function assets and the characteristic of assets that are in the account.

A summary table of the different life recommendations is shown below in table DAW-7.

13
14

Table DAW-7
Account G394.1 - Portable Tools Life

| Party | Company Current | Company Proposed | Cal Advocates | TURN | EDF |
|-------------|-----------------|------------------|---------------|-------|-----|
| Curve/ Life | 24 L5 | 10 SQ | 24 L5 | 10 SQ | NA |

15

TURN uses the same life parameter as the Company proposes in computing their depreciation accrual rate recommendations for Account G394.1. Cal Advocates takes issue with the life parameter for Account G394.1 Portable Tools that the Company proposes. Yet Cal Advocates has performed no actuarial analysis or curve comparison to support their contention to retain the existing life. There is no reason that the Company's gas assets in this account would have a life that was 14 years longer than the similar assets in other Electric and Common Assets. Cal Advocates one-sided approach to depreciation (extend life, hold net salvage at current levels based solely on its beliefs regarding rates) ignores the matching principle that regulators strive for and should be rejected.

G. Life Account G394.20 Shop Equipment

This account consists of large items or tools used in shop and garages such as hoists and cranes. Since the Company plans to continue using vintage group accounting for its common and electric general accounts, the same is proposed for the Company's natural gas general plant based on the similar characteristics of the assets in the accounts.

A summary table of the different life recommendations is shown below in Table DAW-8.

Table DAW-8

Account - G394.2 Shop Equipment Life

| Party | Company Current | Company Proposed | Cal Advocates | TURN | EDF |
|--------------|------------------------|-------------------------|----------------------|-------------|------------|
| Curve/ Life | 24 L1 | 10 SQ | 24 L1 | 10 SQ | NA |

TURN uses the same life parameter as the Company proposes in computing their depreciation accrual rate recommendations for Account G394. Cal Advocates takes issue with the life salvage parameter for Account 394.2 Shop Equipment that the Company proposes. In Table 17-11,⁵⁵ Cal Advocates shows a life proposed life of 24 years for the account.

Cal Advocates has performed no actuarial analysis or curve comparison to support their contention to retain the existing life. There is no reason that the Company's gas assets in this account would have a life that was nine years longer than similar assets in the other Electric and Common Assets. Cal Advocates one-sided approach to depreciation (extend life, hold net

⁵⁵ Ex. CA-17 (Ayanruoh) at 21.

1 salvage at current levels based on its beliefs regarding rates) ignores the matching principle that
2 regulators are stive for and should be rejected.

3 **IV. REBUTTAL TO PARTIES' PROPOSALS REGARDING NET SALVAGE FOR** 4 **VARIOUS NATURAL GAS ACCOUNTS**

5 Since PG&E's 2014 GRC proceeding, the Commission has applied a principle of
6 gradualism to depreciation rates in response to concerns about growing cost burdens associated
7 with increasing cost trends for negative net salvage, only allowing a maximum change of 25
8 basis points from the existing net salvage parameter for an account.⁵⁶ In other words, if the
9 negative net salvage rate was negative 75 percent, the Commission would, under its gradualism
10 concept, only allow a movement to a negative 100 percent net salvage. For example, for
11 Account 364, Poles Towers and Fixtures in D.14-08-032, the Commission approved net salvage
12 of -105% from a previously set -80%. That 25 basis point change is the difference between the
13 adopted and approved net salvage for this account(25%) = (105%) – (80%).

14 For the past two GRC cycles, SDG&E has been ordered to retain its existing net salvage
15 rates. I have followed Commission policy in recommending a maximum change of negative 25
16 percent for any account in this depreciation study. The Company's recommendations thus
17 already incorporate the Commission's gradualism policy.

18 TURN and Cal Advocates recommend positions would leave the Company in an
19 untenable position in terms of capital recovery. Mr. Garrett's net salvage proposals greatly
20 misconstrue the Commission's gradualism precedent. The Company here only proposes, at most,
21 a 25% change in net salvage for any account to comply with the Commission's gradualism
22 policy.

23 But Mr. Garrett argues that the Commission should limit a net salvage change to 25% of
24 an applicant's 25% (or less) proposal that is already following the Commission's gradualism
25 concept—meaning that, under Mr. Garrett's application, the maximum change for any account is
26 **six percent** of the Company's current net salvage if the Company's proposals are abiding by the
27 Commission's gradualism precedent (25% of 25%).⁵⁷ For example, the Company's actual

⁵⁶ D.14-08-032 at 597, and 600 (instructing to “adopt no more than 25% of the estimated net increase from *current* [net salvage] rates.”).

⁵⁷ 25% x .25%= 6.25%

1 incurred net salvage over a 10-year average for Account G376 – Transmission Mains is a
2 negative 243 percent net salvage.⁵⁸

3 If the Company recommended the actual incurred net salvage, the 25% cap on the change
4 may be a reasonable approach. In that case, Mr. Garrett’s 25 percent change gradualism
5 approach would recommend the Company move to a negative 102 percent net salvage,⁵⁹ instead
6 of the negative 80 percent that was the Company’s actual recommendation.

7 But consistent with Commission directives, the Company already recommended less than
8 25 percent of the movement to the incurred net salvage. Yet Mr. Garrett is only recommending
9 25 percent of Company’s recommendation that already included the concept of gradualism. Mr.
10 Garrett’s proposal thus would significantly alter the Commission’s gradualism requirement—
11 essentially **limiting a change in net salvage to six percent** in any proceeding if an applicant is
12 complying with the gradualism precedent in its recommendations. If Mr. Garrett’s
13 recommendations were followed, it would have the perverse effect of incentivizing applicants to
14 recommend a full change in net salvage even if it is not consistent with the Commission’s
15 gradualism precedent.

16 Cal Advocates’ proposal has flaws as well. They recommend a one-sided approach to
17 move life out (which has the effect of decreasing depreciation expense) but freeze cost of
18 removal at levels that were approved two GRCs ago based solely on Cal Advocates’ policy
19 argument that rates are too high. Yet Cal Advocates itself recently recognized the need to change
20 net salvage in Southern California Edison Company’s (SCE) 2021 GRC, where Cal Advocates
21 itself recommended net salvage changes.

22 Yet here, for SDG&E, they recommend no movement.⁶⁰ Despite that, the Commission
23 has continued to recognize the need to change net salvage rates, consistent with its gradualism
24 policy. Specifically in D.21-08-036, in SCE’s 2021 GRC, the Commission applied its gradualism
25 policy to increase net salvage up to 25 percent to balance equities between current and future
26 ratepayers.

⁵⁸ Ex. SDG&E-36-R (Watson), Appendix D, Account 376.

⁵⁹ $243 - 55 \times 25\% = 47$ (10 year average – current net salvage parameter) $\times 25\%$ Proposed net salvage =
current net salvage + 25% of change = $55 + 47 = 102$

⁶⁰ D.21-08-036 at 510 Accounts 354, 356, and 373 (Cal Advocates recommended increases in negative
net salvage for various accounts by as much as 20 percent).

1 To balance the customers' respective cost burned between current
2 and subsequent GRC cycle, the Commission found it reasonable in
3 PGE's 2014 to 'adopt no more than 25 percent of the estimated
4 increase for current [net salvage] rates.' ... We continue to endorse
5 the concepts of gradualism with respect to net salvage rates for this
6 rate case cycle.⁶¹

7 SDG&E faces the same situation that SCE faced in its GRC. The reality is that the
8 Company is incurring much more negative net salvage in removing assets from service than
9 currently authorized, and in some cases, the lives experienced by the Company are decreasing.
10 As an example, Account G376 Mains, where the plant balance for Account G376 as of
11 December 31, 2021, is \$1.5 billion and accumulated depreciation is \$465 million. Using the
12 Company's proposed life and net salvage proposals the theoretical reserve for this account is
13 \$491 million, a differential of \$25.5 million. The Company has not recovered that or the cost of
14 removal that accompanies removal of gas mains. Such situations could occur in other accounts if
15 the current depreciation rates and parameters remain at the same level as the 2016 GRC.

16 Moreover, Cal Advocates makes an additional statement that further demonstrates that
17 the Company is underfunded in its cost of removal. For Accounts G376 and G380, Cal
18 Advocates compares actual removal cost spending through removal cost collected in the
19 depreciation accrual over a four year period. For Account G376, Cal Advocates states "SDG&E
20 spend less than authorized cost of removal by \$14.726 million.⁶² For Account G380, "SDG&E
21 incurred exactly the same amount that was authorized by the Commission:" They argue that the
22 amount collected in rates is higher than the Company's actual expenditures, hence no change in
23 net salvage rates is justified.⁶³

24 This conclusion is incorrect, because the plant is in the early phases of its life cycle.
25 Based on the current proposed lives, some assets in these accounts will live up to 120 years. The
26 average age of survivors in those accounts is 13.58 years and 19.04 years, respectively. The
27 Company has to fund removal cost for all assets over the current average age, going out some
28 120 years. The reality is that cost recovery between these components is not a one-for one
29 relationship.

⁶¹ D.21-08-036 at 511-512 (citation omitted).

⁶² Ex. CA-17 (Ayanruoh) at 20.

⁶³ *Id.*

1 I have thus followed the Commission’s policy guidance for gradual changes to net
 2 salvage of not more than a25 percent change for any account. The Commission should apply
 3 that policy, balancing between current and future ratepayers, while rejecting Cal Advocates
 4 position of retaining current net salvage rates, and TURN’s flawed interpretation that would
 5 restrict the Company to a maximum increase in negative net salvage of six percent. The
 6 recommendations by Cal Advocates and TURN would exacerbate the Company’s underfunding
 7 of net salvage in its depreciation accrual rates.

8 Below, I reiterate the factors supporting my recommendation for each account disputed
 9 by TURN and/or Cal Advocates. As noted, for every account, Cal Advocates holds the position
 10 of retaining current net salvage rates, and TURN uses a flawed interpretation of the CPUC’s
 11 guidance on net salvage to restrict the Company to a maximum increase of six percent in
 12 negative net salvage. Both Cal Advocates and TURN’s positions should be rejected.

13 My recommendation for all accounts can be found in my direct testimony, Exhibit
 14 SDG&E-36-R.

15 **A. Account G366 Structures and Improvements Net Salvage**

16 This account includes the cost of structures and improvements such as buildings, gas
 17 pumping and regulating stations, and other items used in connection with distribution operations.
 18 A summary of various net salvage proposals for this account is shown below in Table DAW-9.

19 **Table DAW-9**

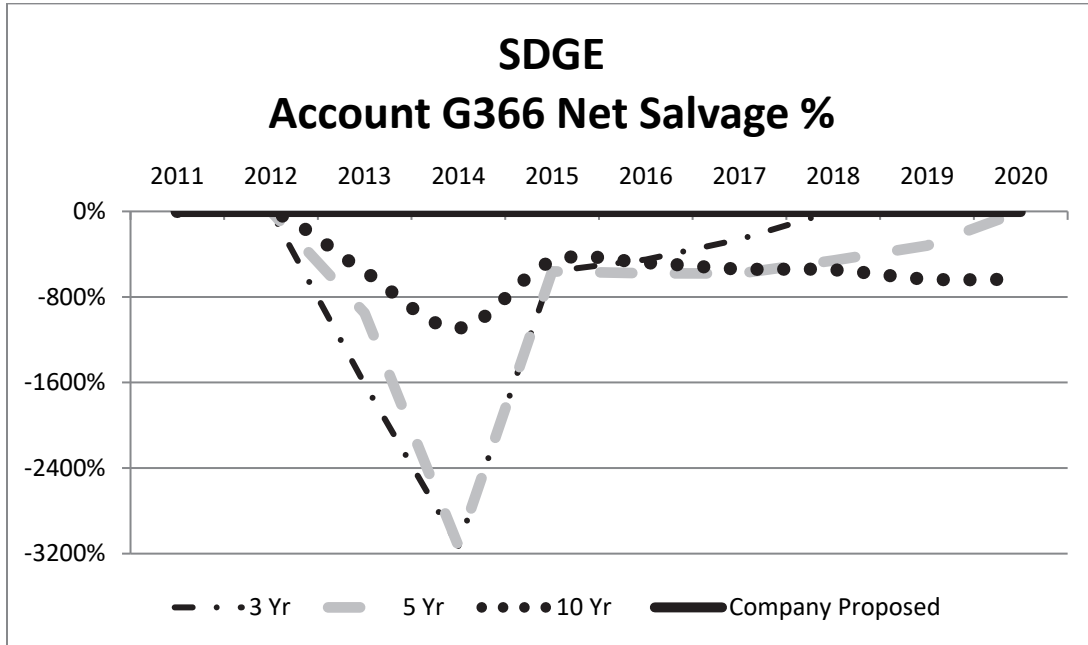
20 **Account G366 - Structures and Improvements**

| Party | Company Current | Company Proposed | Cal Advocates | TURN | EDF |
|---------------|------------------------|-------------------------|----------------------|-------------|------------|
| Net Salvage % | 0% | -5% | 0% | -1% | NA |

21 There have been no retirements since 2016 but removal cost has continued from 2016-
 22 2020. Based on judgment, my study recommends a slight change by moving to negative 5
 23 percent net salvage for this account to recognize that removal cost will be incurred in the future
 24 for this account. A chart showing moving averages from 2011-2020 for this account is shown
 25 below in Figure DAW-5.

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Figure DAW-5
Account G366 – Structures and Improvements



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B. Account G368 Compressor Equipment Net Salvage

This account includes the cost of compressor station equipment used in connection with transmission operations. A summary of various net salvage proposals for this account is shown below in Table DAW-10.

Table DAW-10
Account G368 - Compressor Equipment

| Party | Company Current | Company Proposed | Cal Advocates | TURN | EDF |
|---------------|-----------------|------------------|---------------|------|-----|
| Net Salvage % | -10% | -14% | -10% | -11% | NA |

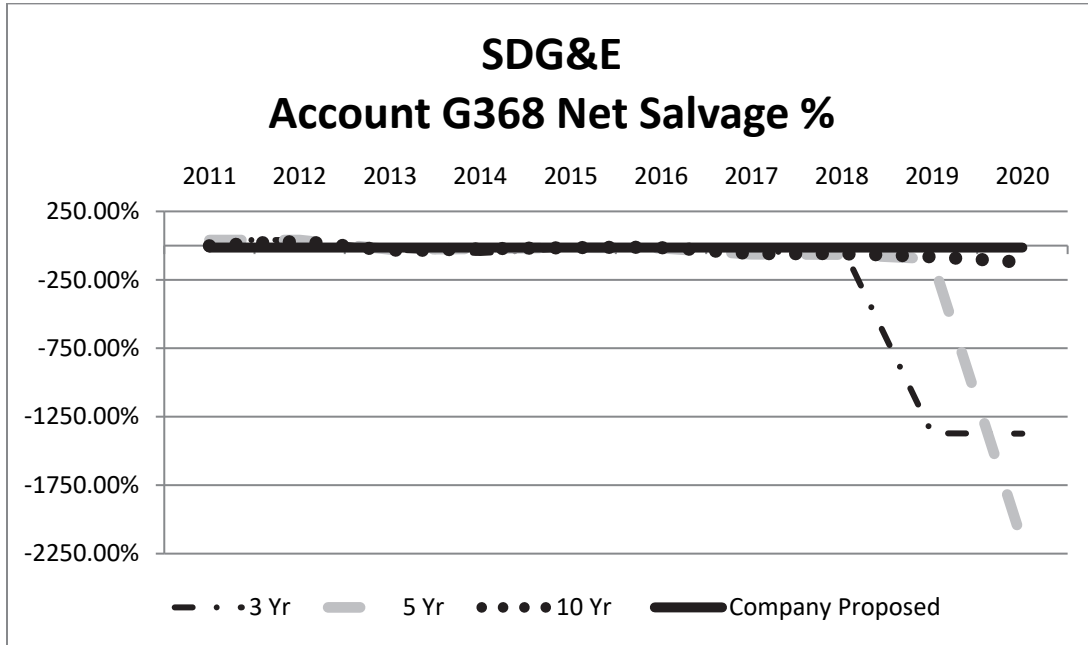
The five 10 year moving average shows negative 121 percent. Since retirements in 2016 have been much smaller than removal cost from 2016-2020, I recommend only a slight movement in net salvage. Based on judgment and Company history, my study recommends moving to negative 14 percent net salvage for this account, which reflect the Company’s experience during a period with higher levels of retirements.

A chart showing moving averages from 2011-2020 for this account is shown below.

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Figure DAW-6
Account G368 – Compressor Equipment



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C. G375 Structures and Improvements Net Salvage Parameter

This account includes the cost of structures and improvements used in connection with gas distribution operations. A summary of various net salvage proposals for this account is shown below in Table DAW-11.

Table DAW-11
Account G375 - Structures and Improvements

| Party | Company Current | Company Proposed | Cal Advocates | TURN | EDF |
|---------------|-----------------|------------------|---------------|------|-----|
| Net Salvage % | 0% | -5% | 0% | -1% | NA |

There have been no retirements over the period from 2002-2020, with a small amount of removal cost. There is expected to be a small amount of removal cost when the assets in this account are retired. Based on judgment, my study recommends moving to negative 5 percent net salvage.

15

D. Account G376 Distribution Mains Net Salvage

This account includes the cost of mains used in connection with distribution operations. A summary of various net salvage proposals for this account is shown below in Table DAW-12.

Table DAW-12

Account G376 – Distribution Mains

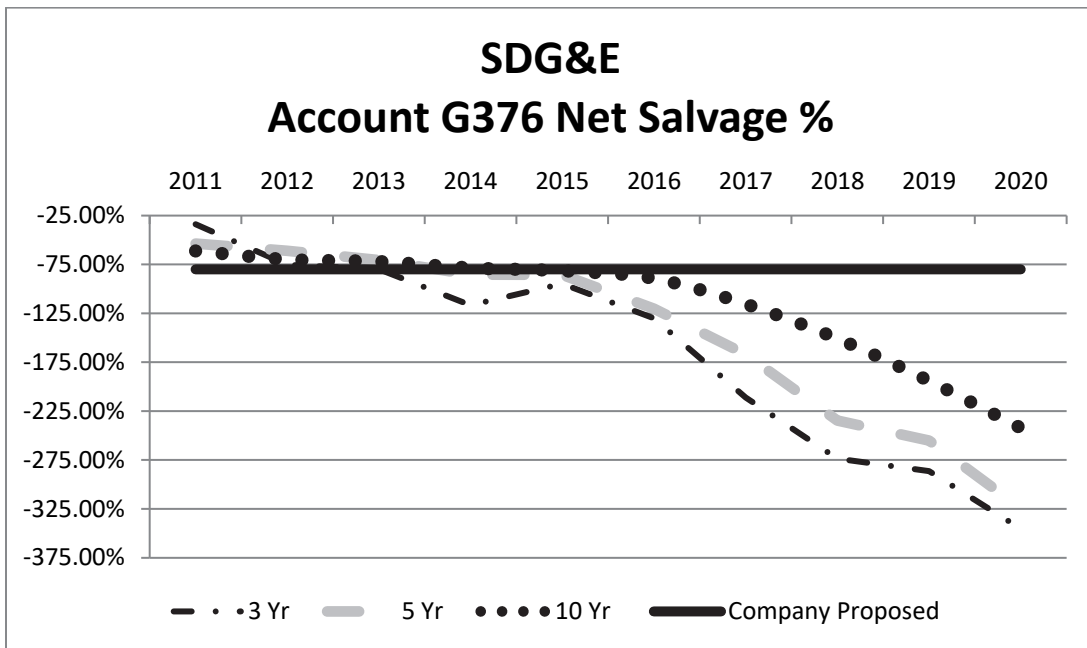
| Party | Company Current | Company Proposed | Cal Advocates | TURN | EDF |
|---------------|-----------------|------------------|---------------|------|-----|
| Net Salvage % | -55% | -80% | -55% | -61% | NA |

The three-year, five year, and 10 year moving averages show negative 345, negative 324, and negative 242 percent, respectively. To move in the direction of this trend, a higher (more negative) net salvage is recommended. Based on judgment and Company experience, my study recommends moving to negative 80 percent net salvage, which would remain consistent with the Commission’s gradualism precedent.

A chart showing moving averages from 2011-2020 for this account is shown below in Figure DAW-7.

Figure DAW-7

Account G376 – Distribution Mains

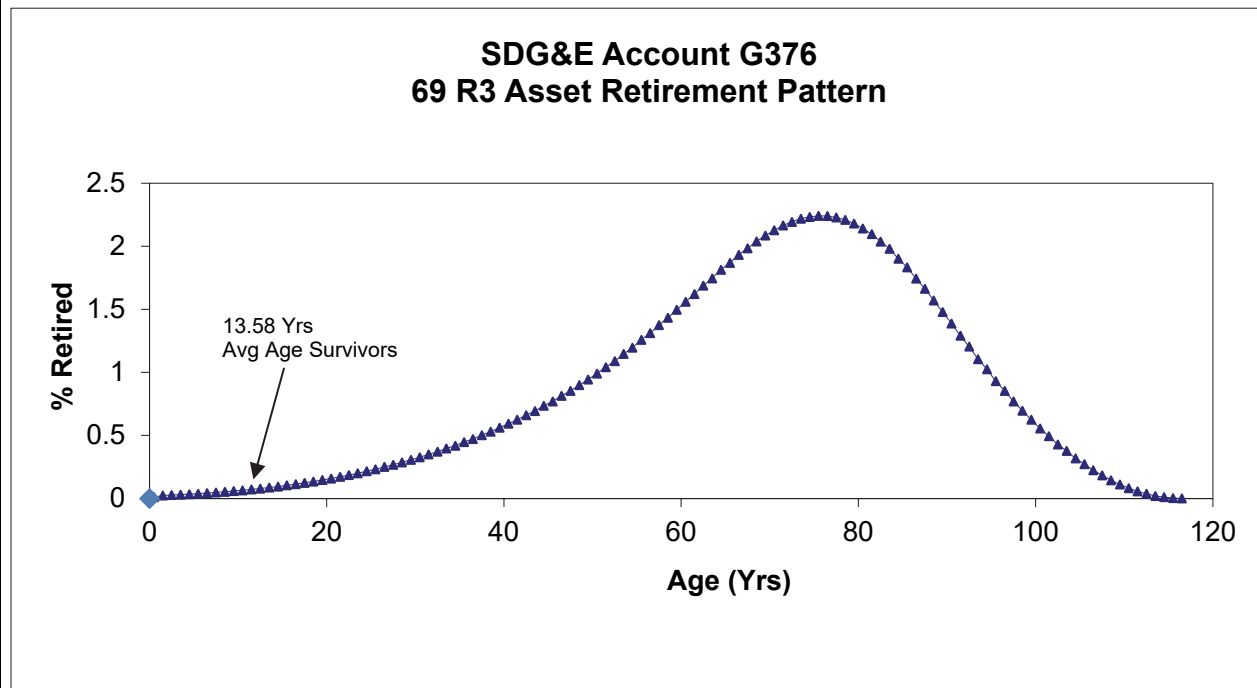


In holding its position throughout to retain current net salvage rates, Cal Advocates for this account confuses cost of removal expenditures and authorized cost of removal collected

1 from customer in the statement “[f]rom 2018 through 2021, SDG&E spent less than authorized
2 cost of removal by approximately \$14.726 million.”⁶⁴

3 The fact of the matter is that the life cycle of this account is up to 120 years, and the
4 average age of the plant is 13.58 years. Under accrual accounting, it should be expected that the
5 accrual would be larger than the amount used for removal in the early ages of an account. The
6 Company has to fund removal cost for all assets over the current average age, going out some
7 120 years. The asset retirement pattern for this account is shown in the graph below in Figure
8 DAW-8.

9 **Figure DAW-8**
10 **Account G376 – Distribution Mains**
11



12 Accrual for cost of removal is not a one-for-one with cost of removal expenditure that is
13 booked through the accumulated depreciation reserve. Holding cost of removal for this account
14 as the same level as the past two GRC will not allow the Company to recover its prudently
15 expended capital.
16

⁶⁴ Ex. CA-17 (Ayanruoh) at 19-20.

E. Account G380 Services Net Salvage

This account consists of services used in gas distribution operations. A summary of various net salvage proposals for this account is shown below in Table DAW-13.

Table DAW-13

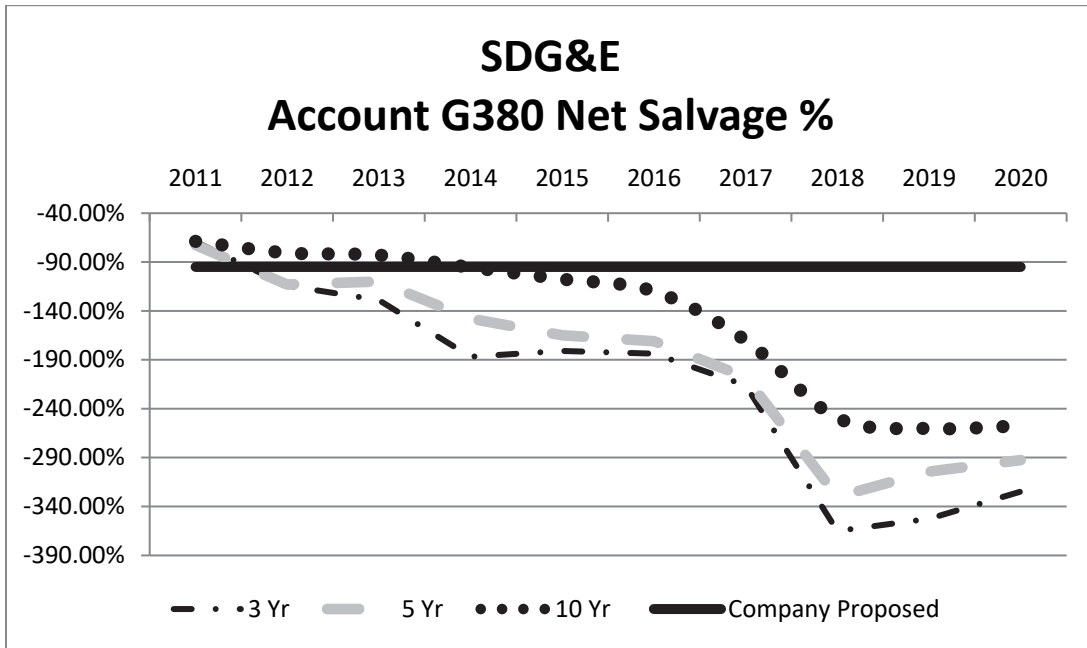
Account G380 - Distribution Services

| Party | Company Current | Company Proposed | Cal Advocates | TURN | EDF |
|---------------|-----------------|------------------|---------------|------|-----|
| Net Salvage % | -70% | -95% | -70% | -76% | NA |

The three-year, five year, and 10 year moving averages shows negative 324, negative 293, and negative 260 percent, respectively. Based on judgment and Company experience, my study recommends moving to negative 95 percent net salvage for this account, which remains consistent with the Commission’s gradualism precedent. A chart showing moving averages from 2011-2020 for this account is shown below in Figure DAW-9.

Figure DAW-9

Account G380 – Distribution Services

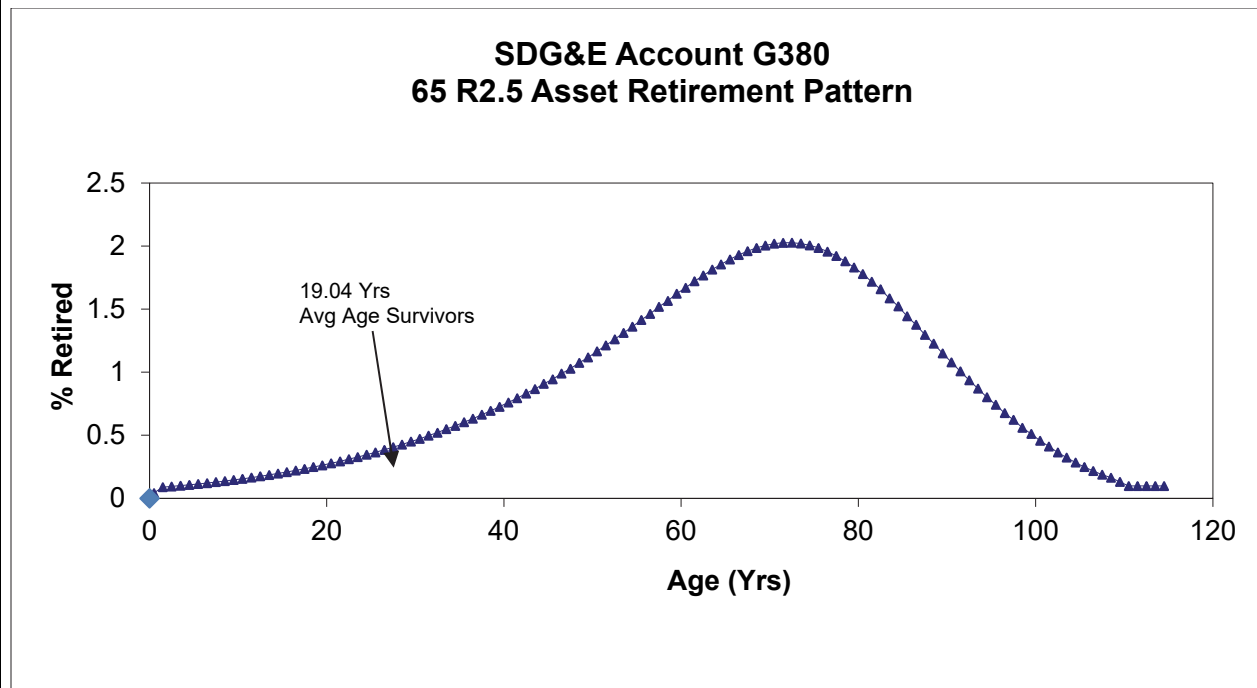


In holding its position throughout to retain current net salvage rates, Cal Advocates for this account, Cal Advocates confuses cost of removal expenditures and authorized cost of

1 removal collected from customer in the statement “[f]rom 2018 through 2021, SDG&E incurred
2 exactly the same amount that was authorized by the Commission.”⁶⁵

3 The fact of the matter is that the life cycle of this account is up to 120 years, and the
4 average age of the plant is 19.04 years. Under accrual accounting, it should be expected that the
5 accrual would be larger than the amount used for removal in the early ages of an account. The
6 Company must fund removal cost for all assets over the current average age, going out some 120
7 years. The asset retirement pattern for this account is shown in the graph below in Figure DAW-
8 10.

9 **Figure DAW-10**
10 **Account G380 – Distribution Services**



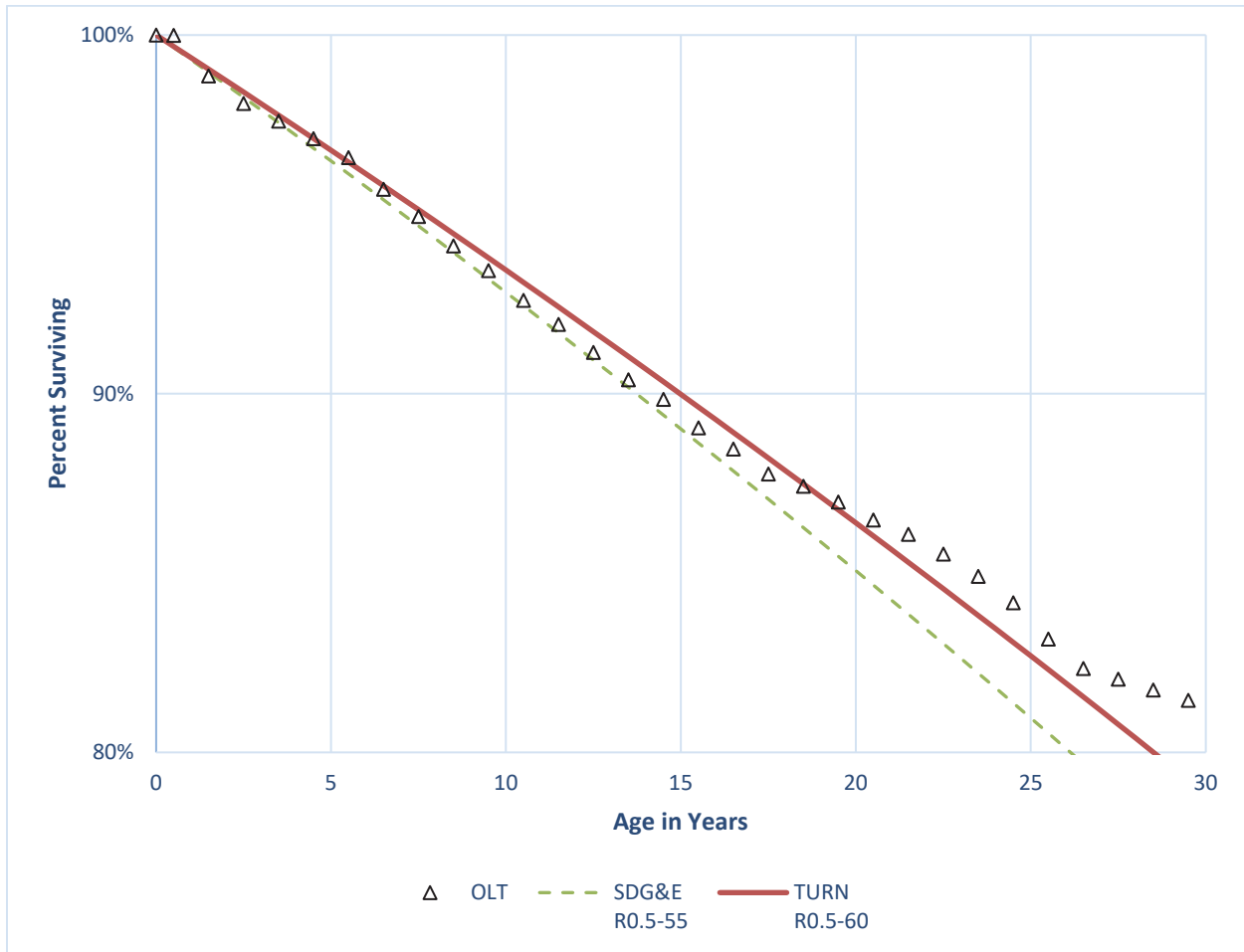
11 Accrual for cost of removal is not a one-for-one with cost of removal expenditure that is
12 booked through the accumulated depreciation reserve. Holding cost of removal for this account
13 as the same level as the past two GRCs will not allow the Company to recover its prudently
14 expended capital.
15

⁶⁵ *Id.*

1 When examining Figure 5, I changed to y -axis to cover from 80% to 100% and the x
2 axis stops at age 30. Those results are shown in the graph below in Figure DAW-11.

3 **Figure DAW-11**

4 **Account E365 Placement Band 1915-2020 Experience Band 1991-2020**



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7 Examining the graph with a different scale makes Mr. Garrett's proposal less attractive
8 from a visual matching perspective. His proposal would increase the current life 33.3 percent,
9 based simply on one band and mathematical fitting. My proposed 55 years moves in the
10 direction of change with a 22.2 percent increase in life better conforming the facts and
11 circumstances in this account. Mr. Garrett ignores important input from Company personnel,
12 relies on one band, and is overly dependent on mathematical fitting.

1 **B. Rebuttal to Parties Regarding Net Salvage for SDG&E Electric and**
2 **Common Plant Accounts**

3 As noted, SDG&E likewise proposes maintaining current common and electric
4 depreciation levels for net salvage,⁷⁰ with Cal Advocates supporting this approach.⁷¹ Only TURN
5 proposes changing common and electric net salvage recommendations for SDG&E, with Mr.
6 Garrett net salvage proposals reflecting him taking 25% of any net salvage change that I
7 recommended in my study.

8 In other words, as noted Mr. Garrett would incorrectly limit net salvage to a maximum
9 six percent change (25% of 25%) if I proposed a 25% change in my study to be consistent with
10 the Commission’s longstanding gradualism precedent. Yet Mr. Garret’s proposals in this
11 instance would generally increase SDG&E’s net salvage beyond the current levels supported by
12 SDG&E. Notably, Mr. Garrett “generally agree[s] with Mr. Watson that the negative net salvage
13 for the accounts at issue should increase (i.e., become more negative).”⁷²

14 **VI. CONCLUSION**

15 The determination of the life and net salvage parameters of assets is not simply done by
16 evaluating history. Recent history may not be fully reflected in the statistics and the past may
17 not always be the same as the future. The goal of determining the life and net salvage for an
18 account is to project as accurately as possible the future life and net salvage (*i.e.*, the life and net
19 salvage characteristics the assets will exhibit over their remaining lives), not simply the historical
20 activity. With that said, care must be given to ensure that the projection of recent and future
21 changes do not cross the line into speculation. In my depreciation study, I only used known
22 activities and facts to guide my recommendations, and I did not speculate on improbable future
23 outcomes to set depreciation rates. Intervenors Cal Advocates and TURN present proposals that
24 recommend a reduction in the Company’s proposed depreciation expense. Intervenor EDF does
25 not provide any quantifiable depreciation rates and parameters. Given that two GRC cycles have
26 held the Company’s rates constant a change, or reset, is in order in this GRC.

27 This concludes my prepared rebuttal testimony.

⁷⁰ Ex. SDG&E-01 (Folkmann) at BAF-18 – BAF-19.

⁷¹ Ex. CA-17 (Ayanruoh) at 15.

⁷² Ex. TURN-12 (Garrett) at 52.

APPENDIX A
GLOSSARY OF TERMS

| ACRONYM | DEFINITION |
|----------------|---|
| AR15 | FERC Accounting Release 15 |
| Cal Advocates | Public Advocates Office of the California Public Utilities Commission |
| Commission | California Public Utilities Commission |
| Company | San Diego Gas & Electric Company |
| CPUC | California Public Utilities Commission |
| D. | Decision |
| DIMP | Distribution Integrity Management Program |
| EDF | Environmental Defense Fund |
| EV | Electric Vehicle |
| IMP | Integrity Management Programs |
| OH | Overhead |
| PG&E | Pacific Gas & Electric Company |
| PHMSA | Pipeline and Hazardous Materials Safety Administration |
| SCE | Southern California Edison |
| SCADA | Supervisory Control and Data Acquisition |
| SDG&E | San Diego Gas & Electric Company |
| SMEs | Subject Matter Experts |
| SOYD | Sum of the Years Digits |
| SRPL | Sunrise Power Link |
| TIMP | Transmission Integrity Management Program |
| TURN | The Utility Reform Network |