Company:	Southern California Gas Company (U 904 G)/San Diego Gas & Electric Company (U 902 M)
Proceeding:	2024 General Rate Case
Application:	A.22-05-015/-016 (cons.)
Exhibit:	SCG-40-S/SDG&E-45-S

SUPPLEMENTAL TESTIMONY OF

KHAI NGUYEN AND MELANIE E. HANCOCK

(POST-TEST YEAR RATEMAKING)

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

July 11, 2022

TABLE OF CONTENTS

SUPPLEMENTAL TESTIMONY OF KHAI NGUYEN AND MELANIE E. HANCOCK (POST-TEST YEAR RATEMAKING)

I. INTRODUCTION

On March 30, 2022, Commissioner Houck issued a ruling in Application (A.) 21-05-011/-014 (cons.)[1] requiring Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E) (collectively, the Companies) to submit supplemental testimony "calculating the expected risk reduction and the revised RSE values for the post-test years (2025-2027)" in their General Rate Case (GRC) Application proceedings, within eight weeks of filing their GRC Applications.[2] The concurrently served supplemental testimony of Gregory Flores and Scott Pearson (Exhibit (Ex.) SCG-03-S/SDG&E-03-S) provides the expected risk reduction and revised risk spend efficiency (RSE) values for the 2025 – 2027 post-test years, as required by the Ruling. The purpose of this supplemental testimony is to provide background supporting the post-test year (PTY) RSE calculations presented in the concurrently served supplemental testimony of Messrs. Flores and Pearson (Ex. SCG-03-S/SDG&E-03-S).

II. THE COMPANIES' PROPOSED PTY RATEMAKING MECHANISMS, UPON WHICH THE PTY RSEs ARE BASED, ALIGN WITH COMMISSION AND PUBLIC POLICY

Our prepared direct testimony (Exs. SCG-40 and SDG&E-45) supports the Companies' PTY ratemaking proposals to provide an appropriate level of authorized revenues in 2025, 2026, and 2027 (the PTY period). The PTY mechanism is designed to provide the Companies with sufficient revenues during the PTY period to continue providing safe and reliable service to their customers, while providing shareholders a reasonable opportunity to earn the rate of return (ROR) authorized by the California Public Utilities Commission (CPUC or Commission).

---

[1] A.21-05-011/-014 (cons.) is the consolidated application proceeding for SoCalGas and SDG&E to submit their 2021 Risk Assessment and Mitigation Phase (RAMP) Reports. SoCalGas's and SDG&E's RAMP Reports were submitted on May 17, 2021.

[2] A.21-05-011/-014 (cons.), Assigned Commissioner's Ruling Directing Sempra Utilities to Incorporate Staff Recommendations on their Risk Assessment and Mitigation Phase in the Upcoming 2024 General Rate Case Applications (March 30, 2022) at 3 (referred to herein as "Ruling"). SoCalGas and SDG&E timely filed their GRC Applications on May 16, 2022. This supplemental testimony is timely submitted on July 11, 2022, within eight weeks of the date SoCalGas's and SDG&E's GRC Applications were filed.

This supplemental testimony provides additional discussion of Commission policy and precedent that form the basis for developing the Companies' RSE values for the 2025-2027 post-test years, as shown in the concurrently served supplemental testimony of Messrs. Flores and Pearson (Ex. SCG-03-S/SDG&E-03-S). This testimony also explains how the Companies have aligned the calculation of PTY RSEs (shown in Ex. SCG-03-S/SDG&E-03-S) with the formula-based methodology by which the Companies are seeking PTY funding in this GRC.

A. Commission Policy and Precedent Regarding PTY Ratemaking

Over the past several years, the Commission created a comprehensive "risk-based decision-making framework [RDF] to evaluate safety and reliability improvements presented in General Rate Case (GRC) applications,"[3] in R.13-11-006. In the decision modifying the Rate Case Plan and closing R.13-11-006 (Decision (D.) 20-01-002, the Rate Case Plan Decision), the Commission confirmed that, under the RDF framework, a GRC decision continues to be based on an "extensive review of the test year forecasts" combined with a formulaic approach to determining post-test year revenue requirements:

> The Commission's decision is based on its extensive review of the test year forecasts. The post-test year revenue requirements are typically determined by: (1) escalating the test year O&M expenses, and (2) authorizing capital expenditures at a level determined by either (i) applying additional escalation factors, or (ii) further review of the applicant utility's actual capital budgets for those years.[4]

Thus, consistent with precedent, the Commission does not conduct an extensive review of forecasts in the post-test years to determine revenue requirements. Rather, the Commission has consistently favored a simpler, escalation-based approach whereby an index, such as IHS Markit Global Insight's Power Planner (Global Insight), is used to forecast future increases in utility costs. Such escalation-based mechanisms have been adopted over a capital budget-based approach to PTY ratemaking, a method that provides discrete project forecasts in the post-test years. The Commission has opined that "there is a fundamental problem with budget-based ratemaking that boils down to the fact that budgets are not always implemented as planned."[5]

---

[3] Rulemaking (R.) 13-11-006, Order Instituting Rulemaking to Develop a Risk-Based Decision-Making Framework to Evaluate Safety and Reliability Improvements and Revise the General Rate Case Plan for Energy Utilities (November 14, 2013) at 1 (stating the purpose of the Risk OIR).

[4] D.20-01-002 at 8.

[5] *See, e.g.*, D.12-11-051 at 606 (quoting D.09-03-025).

The final decision in Southern California Edison Company's (SCE) TY 2018 proceeding rejected SCE's budget-based capital addition forecast proposal for capital-related attrition, noting that the Commission also rejected similar approaches in SCE's GRCs for TY 2006, TY 2012, and TY 2015.[6]

The ratemaking mechanism approach for determining PTY revenue requirements is consistent with Commission guidance that GRC funding following a final Commission decision may be reprioritized in order to undertake incremental activities to meet emergent needs. For example, in the Rate Case Plan Decision, the Commission explained that it "has always acknowledged that utilities may need to reprioritize spending between GRCs. Now, given the evolving reality [of moving to a four-year GRC cycle], that necessity may even be growing."[7] The Commission has also explained that reprioritizing spending allows utilities to "[r]espond to immediate or short-term crises outside of the RAMP and GRC process."[8]

As the Commission has stated: "RAMP and GRCs…are not designed to address immediate needs; the utilities have responsibility for addressing safety regardless of the GRC cycle."[9] The revenue requirement increases that SoCalGas and SDG&E request in their post-test years are designed to allow SoCalGas and SDG&E to continue to invest in risk mitigation and safety-related activities. The post-test year proposals of SoCalGas and SDG&E therefore offer flexibility so that the Companies can adjust as needed to address risk priorities as they arise while holding the Companies accountable for risk spending.

The Commission's RDF provides that any changes occurring after the GRC decision would be reported through accountability reporting, both for the reprioritization to fund new activities as well as for risk mitigation programs that are deferred or canceled.[10] The fact that SoCalGas and SDG&E will have flexibility in the attrition years to implement emergent risk

---

6 D.19-05-020 at 283.

7 D.20-01-002 at 38.

8 D.18-04-016 at 6 (citing D.16-08-018 at 151-152).

9 D.16-08-018 at 152.

10 See accountability reporting requirements set forth in D.19-04-020 and D.14-12-025.

mitigation and safety-related activities is thus how the Commission's policy is designed to work, as described in the Rate Case Plan Decision.[11]

B. Forecasting Post-Test Years as Compared with RAMP and Test Years

In the Companies' prepared direct testimony (Exs. SCG-40 and SDG&E-45), SoCalGas and SDG&E forecast the revenue requirement required to operate the Companies safely, reliably, and sustainably in years 2025 – 2027. Revenue requirement is a ratemaking calculation that, when approved, is implemented in rates. It is not synonymous with projects and differs from the forecasted costs of performing projects. For capital forecasts in particular, revenue requirement represents capital-related costs (depreciation, taxes, and return) and not the capital costs the company incurs (capital expenditures). To determine the Companies' post-test year revenue requirement request, operations and maintenance (O&M) and capital are forecasted differently; however, both O&M and capital costs are used as a proxy to estimate future needs for the Companies. With limited exceptions, discrete projects are not forecasted in the post-test years. This means that while projects may be used to forecast the amount of funding needed in years 2025-2027, the projects used in such calculations may or may not continue in the post-test years. However, similar projects may be conducted. This provides SoCalGas and SDG&E flexibility to manage the Companies while at the same time relies on historical data to set a revenue requirement that the Companies will operate within.

In contrast, as explained in the concurrently served supplemental testimony of Gregory Flores and Scott Pearson (Ex. SCG-03-S/SDG&E-03-S), RAMP submissions are based on risk mitigation projects and programs.[12] In its decision closing the 2019 RAMP proceeding, the Commission explained how RAMP submissions feed into the extensive review of the GRC test year, which forms a basis for PTY ratemaking, under the RDF:

> As explained by TURN and SoCalGas and SDG&E, the risk-based decision making framework established in D.14-12-025, D.16-08-018, and D.18-12-014 require large energy utilities to file their RAMP submission prior to the filing of their next GRC application. This RAMP process then informs the safety-related requests made in the GRC. Specifically, key risks and proposed mitigations are presented, analyzed and reviewed in the RAMP process. SED and intervenors

---

[11] *See, e.g.,* D.20-01-002 at 33 (emphasizing the importance of "creat[ing] more time for the utilities to focus on day-to-day operations" and "implementing the new risk-mitigation and accountability structures" as "compelling reason[s]" for adopting four-year GRC cycles).

[12] D.18-12-014 (Settlement Decision), Attachment A (Settlement Agreement), Appendix A, at A-14 – A-17.

> provide comments, criticisms, and suggestions which the utilities incorporate into their GRC requests. RAMP-related requests are included in witness testimony in the GRC and funding for these programs and projects are requested in the GRC.
>
> In the GRC application, specific programs and projects as well as proposed funding are reviewed for the TY. For the PTYs, utilities ordinarily propose a ratemaking framework or mechanism to provide the GRC applicant with an appropriate level of authorized revenues for the PTYs in order to address increases and additional costs due to inflation and capital investments. For the first PTY, the mechanism is normally reflected as a percentage increase of the revenue requirement authorized for the TY. For succeeding PTYs, the revenue requirement is based on the PTY immediately preceding it. This is because GRC applications are extremely complex which makes it highly infeasible to review revenue requirement proposals on an annual basis. Instead, the rate case plan adopts a more scrutinized review of individual programs and projects for the TY and applies an escalation-oriented review of a proposed mechanism to determine and calculate the revenue requirement for PTYs. *This does not mean that specific programs and projects will not be conducted during PTYs. However, the overall revenue requirement that will fund these programs and projects are determined using an adopted PTY mechanism as opposed to individual review of these programs and projects.*[13]

The above discussion notes the differences between review of RAMP submissions, test year forecasts, and PTY proposals. As assigned Administrative Law Judge (ALJ) Lirag noted at the Companies' 2019 RAMP proceeding prehearing conference, attrition year increases are based on a formula that adjusts currently authorized rates, not on an assessment of individual cost forecasts:

> [H]ow we look at attrition years is basically looking at a formula on how to adjust the current revenue requirement into attrition year and another attrition year.
>
> So we're not looking at individual costs. We are looking at more or less a formula to determine what the revenue requirement will be for those attrition years, and it will be based on the then current rates.[14]

The Rate Case Plan Decision similarly states:

> [T]he Commission's decision on the test year is based on its examination of detailed utility budgets for a year very close in the future, while the revenue requirement for each subsequent attrition year is often established using escalation factors that are bound to be less precise for each successive attrition year.[15]

---

[13] D.20-09-004 at 10-11 (emphasis added).

[14] (I.)19-11-010/-011 (cons.), Reporter's Transcript, Vol. 1, (ALJ Lirag), Tr. at 11:17-28-12:1 (February 26, 2020).

[15] D.20-01-002 at 37.

Exhibit SCG-03-S/SDG&E-03-S explains that formula-based PTY ratemaking requests and project- and program-based RSE calculations are incongruent, especially because SoCalGas and SDG&E are not proposing specific projects in the post-test years (with the exceptions noted in Table KN-5 of Ex. SCG-40 and Table MH-5 of Ex. SDG&E-45). For this reason, as described in Ex. SCG-03-S/SDG&E-03-S, the Companies have aligned the calculation of PTY RSEs with how the Companies are seeking PTY funding in this GRC.

III. CONCLUSION

SoCalGas's and SDG&E's post-test year ratemaking mechanism is consistent with Commission direction and precedent. It is a fair and reasonable mechanism to provide the level of funding necessary to support important safety, reliability, and sustainability projects in the post-test years and at the same time offers flexibility to respond to emergent issues that arise. As described in the concurrently served supplemental testimony of Gregory Flores and Scott Pearson (Ex. SCG-03-S/SDG&E-03-S), the Companies calculated RSEs in the post-test years by applying their proposed post-test year mechanism consistent with the PTY funding requests in this GRC and adopted post-test year ratemaking in prior GRCs, as explained in the above discussion.

APPENDIX

Glossary of Terms

APPENDIX – GLOSSARY OF TERMS

Acronym	Definition
A.	Application
ALJ	Administrative Law Judge
Commission or CPUC	California Public Utilities Commission
Companies	SoCalGas and SDG&E
D.	Decision
Ex.	Exhibit
Global Insight	IHS Markit Global Insight
GRC	General Rate Case
O&M	Operations and Maintenance
PTY	Post-Test Year
R.	Rulemaking
RAMP	Risk Assessment Mitigation Phase
RDF	Risk-Based Decision-Making Framework
ROR	Rate of Return
RSE	Risk Spend Efficiency
SCE	Southern California Edison Company
SDG&E	San Diego Gas and Electric Company
SoCalGas	Southern California Gas Company
TY	Test Year