

Application: A.22-09-  
Witness: Eric Dalton  
Jack Guidi  
Marjorie Schmidt-Pines  
Chapter: 6

**PREPARED DIRECT TESTIMONY OF  
ERIC DALTON, JACK GUIDI, AND MARJORIE SCHMIDT-PINES  
ON BEHALF OF SAN DIEGO GAS & ELECTRIC COMPANY  
(REGULATORY ACCOUNTING, COST RECOVERY,  
REVENUE REQUIREMENT, AND RATES)**

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

September 8, 2022

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1 **CHAPTER 6**

2 **PREPARED DIRECT TESTIMONY OF ERIC DALTON, JACK M. GUIDI,**  
3 **AND MARJORIE SCHMIDT-PINES**  
4 **(Regulatory Accounting, Cost Recovery, Revenue Requirement, and Rates)**

5 **I. PURPOSE**

6 The purpose of this chapter is to present San Diego Gas & Electric Company's (SDG&E)  
7 cost recovery proposal related to: 1) the accounting treatment and recovery of costs associated  
8 with the Hydrogen Blending Demonstration Project of SDG&E (Project) as described in Chapter  
9 3, Direct Testimony of Melanie Davidson and Pooyan Kabir; and 2) the request of SDG&E to  
10 establish a balancing account. This chapter will also present SDG&E's revenue requirement  
11 associated with the Project and provide the cost allocation method for the proposed balancing  
12 account.

13 **II. SDG&E REGULATORY ACCOUNTING AND COST RECOVERY**

14 SDG&E proposes to establish the Hydrogen Blending Demonstration Project Balancing  
15 Account (HBDPBA). The HBDPBA will be an interest-bearing, two-way balancing account  
16 recorded on SDG&E's financial statements. The HBDPBA will record the difference between  
17 the authorized funding in rates approved in this Application and actual incremental operations  
18 and maintenance (O&M) and capital-related costs (i.e., depreciation, taxes, and return), including  
19 applicable incremental overhead costs, associated with the Project. SDG&E proposes to include  
20 the balance of the HBDPBA in its Annual Regulatory Accounts Update Filing for amortization  
21 in gas transportation rates. In addition, SDG&E proposes to include the Project's capital assets  
22 in its next General Rate Case (GRC) proceeding, so SDG&E will discontinue recording in the  
23 HBDPBA the capital-related costs associated with these assets upon implementation of its next  
24 GRC Decision to avoid double-recovery. At the end of the amortization period, SDG&E will

1 transfer any residual balance in the HBDPBA to the Core Fixed Cost Account (CFCA) and  
2 Noncore Fixed Cost Account (NFCA) and eliminate the HBDPBA.

### 3 **III. SDG&E ILLUSTRATIVE REVENUE REQUIREMENT**

#### 4 **A. PURPOSE AND SUMMARY**

5 The purpose of this prepared direct testimony on behalf of SDG&E is to present the  
6 revenue requirement associated with the Hydrogen Blending Demonstration Project. The  
7 forecasted revenue requirement for this project is \$15.0 million over the years 2023 through  
8 2097. Since this proposal includes costs above and beyond those authorized by the California  
9 Public Utilities Commission (Commission or CPUC) in SDG&E’s most recent GRC, all costs  
10 associated with this project are incremental, and thus are additive to any currently authorized  
11 levels of revenue requirement.

### 12 **IV. CAPITAL AND O&M COSTS**

13 Table 6-1 below summarizes the direct costs described in the testimony of Melanie  
14 Davidson and Pooyan Kabir (Chapter 3)<sup>1</sup>. These costs do not yet reflect the impact of loaders,  
15 escalation, allowance for funds used during construction (AFUDC), or capitalized property tax.

16 **Table 6-1: Direct Costs**  
17 *(In Millions)*

	<b>2023</b>	<b>2024</b>	<b>2025-2027</b>	<b>Total</b>
<b>Capital</b>	\$0.05	\$0.26	\$0.01	<b>\$0.32</b>
<b>O&amp;M</b>	\$ 2.87	\$6.75	\$2.24	<b>\$11.86</b>
<b>Total Request</b>	<b>\$ 2.92</b>	<b>\$7.01</b>	<b>\$2.5</b>	<b>\$12.18</b>

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<sup>1</sup> Prepared Direct Testimony of Melanie Davidson and Pooyan Kabir (Chapter 3) at Table 5. References to “testimony” herein are to the prepared direct testimony served in support of this application, unless otherwise indicated.

1           **B.     Overhead Allocations**

2           Overhead allocations are directly associated with project costs and are used to account for  
3 costs that cannot be economically direct-charged, such as payroll taxes and administrative and  
4 general costs. Overhead allocations are added to project costs, consistent with those costs’  
5 classification as company labor, contract labor, or purchased services and materials. Overhead  
6 loaders used to develop the revenue requirement for the project are for illustrative purposes and  
7 subject to change. The overhead allocations in this application adhere to the methodology  
8 established by the Federal Energy Regulatory Commission (FERC)<sup>2</sup> and were derived using the  
9 same methodology used in SDG&E’s 2019 GRC filing.<sup>3</sup> Only overhead allocations considered  
10 incremental to the project are applied in the determination of the revenue requirement.

11           **C.     Escalation**

12           Escalation is applied to direct costs to properly account for inflation. SDG&E applied the  
13 indices published in IHS Global Insight’s 1<sup>st</sup> Quarter 2022 Utility Cost Forecast for this  
14 application.

15           **D.     AFUDC and Capitalized Property Tax**

16           SDG&E is authorized to apply AFUDC rates on capital as it is spent and remains in  
17 Construction Work in Progress (CWIP). Similarly, capitalized property tax represents property  
18 tax incurred during the project development period prior to the project being placed in service.

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<sup>2</sup> FERC guidelines reference the Statement of Federal Financial Accounting Standards 4: Managerial Cost Accounting Standards and Concepts.

<sup>3</sup> Application (“A.”) 17-10-007/-008 (cons.), Second Revised SoCalGas/SDG&E Direct Testimony of James Vanderhye (Shared Services & Shared Assets Billing, Segmentation & Capital Reassignments), Ex. SCG-34-2R/SDG&E-32-2R (April 6, 2018).

1 Both AFUDC<sup>4</sup> and capitalized property tax<sup>5</sup> are included as part of the total capital cost of the  
2 project.

### 3 **E. Total Capital and O&M**

4 Table 6-2 below summarizes the total amount of capital for the Proposed Project, as well  
5 as the total loaded and escalated O&M cost. The capital costs include escalation, overhead  
6 loaders, AFUDC, and capitalized property tax.

7 **Table 6-2: Total Capital and O&M**

8 *(In Millions, includes escalation, overheads, AFUDC, and capitalized property tax)*

	<b>2023</b>	<b>2024</b>	<b>2025-2027</b>	<b>Total</b>
<b>Capital</b>	\$0.1	\$0.3	<b>\$0.0</b>	<b>\$0.4</b>
<b>O&amp;M</b>	\$3.1	\$7.3	<b>\$2.9</b>	<b>\$13.3</b>
<b>Total Request</b>	<b>\$3.2</b>	<b>\$7.6</b>	<b>\$2.9</b>	<b>\$13.7</b>

## 9 **V. REVENUE REQUIREMENT**

10 The revenue requirement consists of the total O&M and capital costs stated above, as  
11 well as SDG&E's return on investment, federal and state income taxes, property taxes, working  
12 cash, and franchise fees and uncollectibles (FF&U).<sup>6</sup> The sections below cover these  
13 components in greater detail.

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<sup>4</sup> 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.]. 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.

<sup>5</sup> See D.13-05-010.

<sup>6</sup> 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.



1           **D.     SDG&E’s Authorized Capital Structure and Rate of Return**

2           SDG&E’s authorized capital structure is comprised of common equity, long-term debt,  
3 and preferred stock. The Cost of Capital proceeding is the regulatory forum that establishes  
4 SDG&E’s capital structure and its authorized costs of financing. SDG&E’s current authorized  
5 rate of return based on its weighted capital structure is 7.55 percent.<sup>10</sup> SDG&E’s weighted  
6 average rate of return is multiplied by rate base to determine the amount of funds required for the  
7 revenue requirement.

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

9           The revenue requirement includes costs related to the payment of income taxes, property  
10 taxes, and FF&U. Federal income tax expense is based on the current corporate federal income  
11 tax rate of 21.00 percent. State income tax expense is based on the current California Franchise  
12 Tax rate of 8.84 percent. Property tax expense is based on SDG&E’s current average system-  
13 wide rate of 1.569 percent. FF&U covers payments made to counties and incorporated cities  
14 pursuant to local ordinances granting right of way access, as well as uncollectible expenses  
15 incurred by SDG&E.<sup>11</sup>

16           **F.     Forecasted Revenue Requirement**

17           Table 6-4 below illustrates the final forecasted revenue requirement for the Hydrogen  
18 Blending Demonstration Project.

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<sup>10</sup> 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 at 3.

<sup>11</sup> FF&U multipliers used for these revenue requirements are consistent with those supported in D.19-09-051.

1 **Table 6-4: Forecasted Revenue Requirement Summary**

2 *(In Millions)*

	2023	2024	2025	2026	2027	2028-2097	Total
<b>Revenue Requirement</b>	\$3.3	\$7.6	\$0.7	\$2.3	\$0.2	\$1.0	\$15.0

3 The above revenue requirement is based on the forecasted costs provided in this  
4 application. SDG&E will determine the actual capital and any applicable O&M costs of the  
5 Proposed Project as it is completed and will calculate the actual revenue requirements associated  
6 with those costs for recovery in rates. Details on cost recovery of the actual revenue requirement  
7 are discussed in the testimony of Eric Dalton. Details of the rate impacts of the revenue  
8 requirement are discussed in the testimony of Marjorie Schmidt-Pines.

9 **VI. SDG&E GAS RATES AND BILL IMPACT**

10 SDG&E proposes to recover the costs of this project and any balances recorded to the  
11 HBDPBA in transportation rates using the Equal Cents Per Therm (ECPT) cost allocation  
12 methodology. The ECPT cost allocation method allocates costs across customer classes based  
13 on each customer class's respective share of total average year gas demand. SDG&E used the  
14 ECPT method to allocate costs across customer classes such as the allocation of the California  
15 Alternate Rates for Energy (CARE) program costs for low income customers.

16 Table MSP-1 shows the class average rate and residential bill impacts of the project for  
17 2023 to 2027. The table below shows current and proposed class average gas transportation rates  
18 by major customer class upon recovery of costs associated with the project.

19 As shown in the table above, the highest revenue requirement for the project is in 2024,  
20 resulting in largest rate impact that year. Even for that year, the residential Non-CARE bill  
21 impacts for this project is minimal. The 2024 average monthly bill of 24 therms/month is  
22 expected to increase by \$0.15 per month, or 0.3%, increasing from \$48.65 to \$48.80.

1

## MSP-1

**Illustrative Class Average Transportation Rates and Residential Bill Impacts**  
**\$/therm except as noted**

	2022	2023	Change \$	Change %	2024	Change \$	Change %
<b>SDG&amp;E Rates \$/th</b>							
<b>CORE</b>							
Residential	\$1.4713	\$1.4745	\$0.0033	0.22%	\$1.4790	\$0.0078	0.53%
Commercial & Industrial	\$0.6107	\$0.6140	\$0.0033	0.54%	\$0.6184	\$0.0078	1.27%
Total Core	\$1.1056	\$1.1088	\$0.0032	0.29%	\$1.1131	\$0.0075	0.68%
<b>Non-CORE</b>							
C&I	\$0.1147	\$0.1170	\$0.0023	2.04%	\$0.1202	\$0.0055	4.81%
Electric Generation	\$0.0491	\$0.0498	\$0.0007	1.53%	\$0.0509	\$0.0018	3.73%
Total Non-CORE	\$0.0544	\$0.0553	\$0.0009	1.62%	\$0.0565	\$0.0021	3.92%
System	\$0.5587	\$0.5607	\$0.0020	0.35%	\$0.5634	\$0.0047	0.84%
<b>SDG&amp;E Non-CARE</b>							
<b>Residential Bill \$/month</b>	\$48.65	\$48.70	\$0.05	0.10%	\$48.80	\$0.15	0.31%

2

	2022	2025	Change \$	Change %	2026	Change \$	Change %
<b>SDG&amp;E Rates \$/th</b>							
<b>CORE</b>							
Residential	\$1.4713	\$1.4719	\$0.0007	0.05%	\$1.4736	\$0.0024	0.16%
Commercial & Industrial	\$0.6107	\$0.6114	\$0.0007	0.11%	\$0.6130	\$0.0024	0.39%
Total Core	\$1.1056	\$1.1063	\$0.0007	0.06%	\$1.1079	\$0.0023	0.21%
<b>Non-CORE</b>							
C&I	\$0.1147	\$0.1152	\$0.0005	0.44%	\$0.1164	\$0.0017	1.46%
Electric Generation	\$0.0491	\$0.0493	\$0.0002	0.38%	\$0.0496	\$0.0006	1.12%
Total Non-CORE	\$0.0544	\$0.0546	\$0.0002	0.39%	\$0.0551	\$0.0006	1.18%
System	\$0.5587	\$0.5591	\$0.0004	0.08%	\$0.5601	\$0.0014	0.26%
<b>SDG&amp;E Non-CARE</b>							
<b>Residential Bill \$/month</b>	\$48.65	\$48.65	\$0.00	0.00%	\$48.68	\$0.02	0.05%

3

	2022	2027	Change \$	Change %
<b>SDG&amp;E Rates \$/th</b>				
<b>CORE</b>				
Residential	\$1.4713	\$1.4715	\$0.0002	0.02%
Commercial & Industrial	\$0.6107	\$0.6109	\$0.0002	0.04%
Total Core	\$1.1056	\$1.1059	\$0.0002	0.02%
<b>Non-CORE</b>				
C&I	\$0.1147	\$0.1149	\$0.0002	0.15%
Electric Generation	\$0.0491	\$0.0491	\$0.0001	0.12%
Total Non-CORE	\$0.0544	\$0.0545	\$0.0001	0.12%
System	\$0.5587	\$0.5588	\$0.0001	0.03%
<b>SDG&amp;E Non-CARE Residential Bill \$/month</b>				
	\$48.65	\$48.65	\$0.0000	0.00%

1 **VII. CONCLUSION**

2 For all the reasons discussed above, SDG&E requests that the Commission adopt its cost  
3 recovery, revenue requirement, and rate impact proposals as discussed above, and find the  
4 request to be just and reasonable. This concludes the joint prepared direct testimony.

1 **VIII. QUALIFICATIONS**

2 **Eric Dalton**

3 My name is Eric Dalton. I am employed by SDG&E as the Regulatory Reporting and  
4 Accounts Manager in the Controller’s Division. My business address is 8330 Century Park  
5 Court, San Diego, California 92123. My current responsibilities include managing the process  
6 for the development, implementation, analysis and accounting for regulatory balancing and  
7 memorandum accounts. I assumed my current position in August 2014 as the Regulatory  
8 Reporting Manager and assumed the Regulatory Accounts Manager position in July 2019.

9 I received a Bachelor of Science in Accounting in 1999 from the University of Kansas. I  
10 am a Certified Public Accountant (“CPA”) licensed in the State of California since 2003.

11 I have been employed with SDG&E since 2006. In addition to my current position in  
12 Regulatory Reporting & Accounts, I have held various other positions increasing in  
13 responsibility since September 2006. I served as the Billable Project Supervisor in Plant  
14 Accounting (January 2013 – August 2014), Bank Reconciliation Supervisor (July 2011 –  
15 December 2012), and Financial Accounting Senior and Principal Accountant (September 2006 -  
16 June 2011).

17 I have previously testified before this Commission.

18  
19 **Jack M. Guidi**

20 My name is Jack M. Guidi. I am employed by San Diego Gas & Electric. My business  
21 address is 8330 Century Park Court, San Diego, California 92123.

22 I am employed by SDG&E as the Financial and Strategic Analysis Manager. My  
23 principal responsibilities include overseeing the financial analysis and development of revenue  
24 requirements for SDG&E projects and programs. I have held this position since July of 2020.

1 Prior to this position, I was the Asset & Project Accounting Manager at SDG&E for three years.  
2 In that position, I was responsible for accounting for plant assets; billable projects (including  
3 new business accounting); development of rate base; capital expenditure planning; depreciation,  
4 and related policy and compliance. I have been employed by SDG&E and/or Sempra Energy  
5 since July 2007. In addition to the positions that I have listed above, I have served as Manager –  
6 Natural Gas Accounting at Sempra Infrastructure; Manager, Financial Reporting and Accounting  
7 Research at Sempra U.S. Gas & Power; Manager, SOX Compliance and Policies at SDG&E; and  
8 Manager, Accounting Research and Policies at Sempra Energy.

9 Prior to joining Sempra Energy, I was employed by PricewaterhouseCoopers, LLP as an  
10 Audit Manager. I am a Certified Public Accountant in the state of California. I continue to  
11 maintain an active status license by fulfilling the continuing professional education requirements.

12 I received a Bachelor of Science in Business Administration degree with an emphasis in  
13 Accounting from San Diego State University in December of 1999.

14 I have previously testified before the Commission.  
15

16 **Marjorie Schmidt-Pines**

17 My name is Marjorie A. Schmidt-Pines. My business address is 555 West Fifth Street,  
18 Los Angeles, California, 90013-1011. I am a Senior Principal Regulatory Economic Advisor in  
19 the CPUC/FERC Gas Regulatory Affairs Department for SoCalGas and SDG&E as of December  
20 2017. I hold a Bachelor of Science degree in Business Administration with an emphasis in  
21 Accounting from California State University at Northridge, California. I have been employed by  
22 SoCalGas since 1981 and have held positions of increasing responsibilities as an Accountant and  
23 Senior Accountant in the Accounting & Finance department, as an Analyst and a Budget

1 Coordinator in the Gas Supply department, as a Market Advisor for the Marketing and Customer  
2 Services departments and Principal Regulatory Economic Advisor in the Regulatory Affairs  
3 Department. As Senior Principal Regulatory Economic Advisor, I represent the Gas Rate Design  
4 Group for both SoCalGas and SDG&E in the role of Project Manager, Senior Analyst and  
5 witness in various major regulatory proceedings and filings dealing with allocating authorized  
6 revenue requirements to functions and customer rate classes, developing the design of the rate  
7 for each class, calculating customer rate changes, and computing the impact on customers'  
8 monthly bills. I have previously testified before the Commission.