

Application: A.22-09-006
Witness: Eric Dalton
Jack Guidi
Marjorie Schmidt-Pines
Chapter: 7

**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**

March 1, 2024



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1 rates. In addition, SDG&E proposes to include the Project’s capital assets, if any, in a future
2 General Rate Case (GRC) proceeding.

3 **III. SDG&E ILLUSTRATIVE REVENUE REQUIREMENT (J. GUIDI)**

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 \$21.1 million over the years 2025 through
8 2029. 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 **B. O&M Costs**

13 Table 7-1 below summarizes the direct costs described in the testimony of Pooyan Kabir
14 (Chapter 3).¹ These costs do not yet reflect the impact of loaders and escalation.

15 **Table 7-1: Direct Costs**
16 **(In Millions)**

	2025	2026	2027	2028	2029	Total
O&M	\$ 7.2	\$6.4	\$0.6	\$1.8	\$0.1	\$16.1

18 **C. Overhead Allocations**

19 Overhead allocations are directly associated with project costs and are used to account for
20 costs that cannot be economically direct-charged, such as payroll taxes and administrative and
21 general costs. Overhead allocations are added to project costs, consistent with those costs’
22 classification as company labor, contract labor, or purchased services and materials. Overhead
23 loaders used to develop the revenue requirement for the project are for illustrative purposes and
24 subject to change. The overhead allocations in this application adhere to the methodology
25 established by the Federal Energy Regulatory Commission (FERC) and were derived using the
26

¹ Prepared Direct Testimony of Pooyan Kabir (Chapter 3) at Table 7. References to “testimony” herein are to the prepared direct testimony served in support of this application, unless otherwise indicated.

1 same methodology used in SDG&E’s 2019 GRC filing.^{2,3} Only overhead allocations considered
2 incremental to the project are applied in the determination of the revenue requirement.

3 **D. Escalation**

4 Escalation is applied to direct costs to properly account for inflation. SDG&E applied the
5 indices published in IHS Global Insight’s First Quarter 2023 Utility Cost Forecast for this
6 application.

7 **E. Total O&M**

8 Table 7-2 below summarizes the total amount of loaded and escalated O&M for the
9 Proposed Project.

10 **Table 7-2: Total O&M**
11 *(In Millions, includes escalation and overheads)*

	2025	2026	2027	2028	2029	Total
O&M	\$ 8.8	\$8.1	\$0.9	\$2.2	\$0.2	\$20.2

12 **F. Revenue Requirement**

13 The revenue requirement consists of the total O&M costs stated above, as well as
14 working cash and franchise fees and uncollectibles (FF&U).⁴ The sections below cover these
15 components in greater detail.

16 **1. O&M Expenses**

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

19 **2. Working Cash**

20 Working cash is “the funding supplied by investors to meet day-to-day utility operational
21 requirements, and to cover the time that expenditures are made for services until the time
22

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

³ 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).

⁴ 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 revenues are collected for those services.”⁵ It is included as a component of the total revenue
2 requirement.

3 **3. FF&U**

4 The revenue requirement includes costs related to FF&U. FF&U covers payments made
5 to counties and incorporated cities pursuant to local ordinances granting right of way access, as
6 well as uncollectible expenses incurred by SDG&E.⁶

7 **4. Forecasted Revenue Requirement**

8 Table 7-3 below illustrates the final forecasted revenue requirement for the Hydrogen
9 Blending Demonstration Project.

10 **Table 7-3: Forecasted Revenue Requirement Summary**
11 *(In Millions)*

	2025	2026	2027	2028	2029	Total
Revenue Requirement	\$9.1	\$8.5	\$0.9	\$2.3	\$0.2	\$21.1

12 The above revenue requirement is based on the forecasted costs provided in this
13 application. SDG&E will determine the actual O&M costs of the Project as it is completed and
14 will calculate the actual revenue requirements associated with those costs for recovery in
15 rates. Details on cost recovery of the actual revenue requirement are discussed in the testimony
16 of Eric Dalton. Details of the rate impacts of the revenue requirement are discussed in the
17 testimony of Marjorie Schmidt-Pines.

18 **IV. SDG&E GAS RATES AND BILL IMPACT (M. SCHMIDT-PINES)**

19 SDG&E proposes to recover the costs of this Project and any balances recorded to the
20 HBDPBA in transportation rates using the Equal Cents Per Therm (ECPT) cost allocation
21 methodology. The ECPT cost allocation method allocates costs across customer classes based
22 on each customer class’s respective share of total average year gas demand forecast from the
23 TCAP D.20-02-2045. The allocation is 48.0% to Core customers, of which 28.2% is allocated
24 to the Residential class, and 52% is allocated to noncore customers. SDG&E used the ECPT
25 method to allocate costs across customer classes such as the allocation of the California Alternate
26

⁵ A.17-10-007/-008 (cons.), Second Revised SDG&E Direct Testimony of Steven P. Dais (Working Cash), Ex. SDG&E-36-2R (April 6, 2018) at SPD-2.

⁶ FF&U multipliers used for these revenue requirements are consistent with those supported in D.19-09-051.

Rates for Energy (CARE) program costs for low-income customers. CARE program costs are recovered in the Public Purpose Program Surcharge (PPPS).⁷ Another example of the application that uses the ECPT method is the cost recovery in transportation rates of the balance in the Residential Uncollectible Balancing Account (RUBA).⁸

Table 7-4 shows the class average rate and residential bill impacts of the project for 2025 to 2028. The table below shows current and proposed class average gas transportation rates by major customer class upon recovery of costs associated with the project.

As shown in the table above, the highest revenue requirement for the project is in 2025, resulting in largest rate impact that year. Even for that year, the residential Non-CARE bill impacts for this project is minimal. The 2025 average monthly bill of 24 therms/month is expected to increase by \$0.40 per month, or 0.7%, increasing from \$54.92 to \$55.31.

**Table 7-4:
Illustrative Class Average Gas Transportation Rates and Residential Bill Impacts
\$/therm except as noted**

	2024	2025	Change \$	Change %	2026	Change \$	Change %
SDG&E Rates \$/th							
CORE							
Residential	\$1.6232	\$1.6399	\$0.0167	1.03%	\$1.6352	\$0.0121	0.74%
Commercial & Industrial	\$0.7053	\$0.7220	\$0.0167	2.37%	\$0.7173	\$0.0121	1.71%
Total Core	\$1.2324	\$1.2487	\$0.0163	1.32%	\$1.2441	\$0.0117	0.95%
Non-CORE							
C&I – Distribution	\$0.3943	\$0.4110	\$0.0167	4.24%	\$0.4064	\$0.0121	3.06%
Electric Generation – Distribution	\$0.2460	\$0.2556	\$0.0096	3.92%	\$0.2516	\$0.0056	2.28%
Electric Generation - Transmission Class Average	\$0.2547	\$0.2641	\$0.0094	3.69%	\$0.2600	\$0.0053	2.10%
Total Non-CORE	\$0.1220	\$0.1318	\$0.0098	8.00%	\$0.1277	\$0.0057	4.68%
System	\$0.6547	\$0.6676	\$0.0129	1.97%	\$0.6632	\$0.0086	1.31%
SDG&E Non-CARE Residential Bill \$/month							
	\$54.92	\$55.31	\$0.40	0.72%	\$55.20	\$0.29	0.52%

⁷ See SDG&E Advice No. 3245-G.

⁸ See Resolution E-5114, which directed SDG&E to recover the costs of forgiven gas arrearages through gas transportation rates allocated across customer classes using ECPT.

	2024	2027	Change \$	Change %	2028	Change \$	Change %
SDG&E Rates \$/th							
CORE							
Residential	\$1.6232	\$1.6266	\$0.0034	0.21%	\$1.6279	\$0.0047	0.29%
Commercial & Industrial	\$0.7053	\$0.7087	\$0.0034	0.48%	\$0.7100	\$0.0047	0.67%
Total Core	\$1.2324	\$1.2357	\$0.0033	0.27%	\$1.2370	\$0.0046	0.37%
Non-CORE							
C&I – Distribution	\$0.3943	\$0.3977	\$0.0034	0.86%	\$0.3990	\$0.0047	1.20%
Electric Generation – Distribution	\$0.2460	\$0.2486	\$0.0026	1.07%	\$0.2489	\$0.0029	1.19%
Electric Generation - Transmission Class Average	\$0.2547	\$0.2573	\$0.0026	1.03%	\$0.2575	\$0.0029	1.12%
Total Non-CORE	\$0.1220	\$0.1246	\$0.0026	2.17%	\$0.1249	\$0.0030	2.42%
System	\$0.6547	\$0.6576	\$0.0029	0.45%	\$0.6584	\$0.0037	0.57%
SDG&E Non-CARE Residential Bill \$/month							
	\$54.92	\$55.00	\$0.08	0.15%	\$55.03	\$0.11	0.21%

1 **V. 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. Specifically,
4 SDG&E requests that the Commission approve the following:

- 5 1. Authorize SDG&E to establish and implement its proposed Project, including
6 entering into the necessary contracts and/or agreements with third parties to
7 implement the Project;
- 8 2. Authorize SDG&E to recover all costs related to the Projects as set forth above;
- 9 3. Authorize SDG&E to create two-way balancing account (*i.e.*, the HBDPBA) to
10 track and recover the estimated costs to implement the Project;
- 11 4. Authorize SDG&E to create a subaccount on the HBDPBA to record its
12 proportional share of the cost allocation for any shared plans, studies and
13 reporting required by D.22-12-057; and
- 14 5. Granting of such other relief as is necessary and proper.

15 This concludes the joint prepared direct testimony.

1 **VI. QUALIFICATIONS**

2 **A. Witness Qualification of 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 **B. Witness Qualification of Jack M. Guidi**

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

21 I am employed by SDG&E as the Financial and Strategic Analysis Manager. My
22 principal responsibilities include overseeing the financial analysis and development of revenue
23 requirements for SDG&E projects and programs. I have held this position since July of 2020.
24 Prior to this position, I was the Asset & Project Accounting Manager at SDG&E for three years.
25 In that position, I was responsible for accounting for plant assets; billable projects (including
26 new business accounting); development of rate base; capital expenditure planning; depreciation,
27 and related policy and compliance. I have been employed by SDG&E and/or Sempra Energy
28 since July 2007. In addition to the positions that I have listed above, I have served as Manager –
29 Natural Gas Accounting at Sempra Infrastructure; Manager, Financial Reporting and Accounting

1 Research at Sempra U.S. Gas & Power; Manager, SOX Compliance and Policies at SDG&E; and
2 Manager, Accounting Research and Policies at Sempra Energy.

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

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

8 I have previously testified before the Commission.

9 **C. Witness Qualification of Marjorie Schmidt-Pines**

10 My name is Marjorie A. Schmidt-Pines. My business address is 555 West Fifth Street,
11 Los Angeles, California, 90013-1011. I am a Senior Principal Regulatory Economic Advisor in
12 the CPUC/FERC Gas Regulatory Affairs Department for SoCalGas and SDG&E as of December
13 2017. I hold a Bachelor of Science degree in Business Administration with an emphasis in
14 Accounting from California State University at Northridge, California. I have been employed by
15 SoCalGas since 1981 and have held positions of increasing responsibilities as an Accountant and
16 Senior Accountant in the Accounting & Finance department, as an Analyst and a Budget
17 Coordinator in the Gas Supply department, as a Market Advisor for the Marketing and Customer
18 Services departments and Principal Regulatory Economic Advisor in the Regulatory Affairs
19 Department. As Senior Principal Regulatory Economic Advisor, I represent the Gas Rate Design
20 Group for both SoCalGas and SDG&E in the role of Project Manager, Senior Analyst and
21 witness in various major regulatory proceedings and filings dealing with allocating authorized
22 revenue requirements to functions and customer rate classes, developing the design of the rate
23 for each class, calculating customer rate changes, and computing the impact on customers'
24 monthly bills.

25 I have previously testified before the Commission.