Company: San Diego Gas & Electric Company (U902M); Southern California Gas Company (U904G)
Proceeding: 2016 General Rate Case
Application: A.14-11-003; A.14-11-004
Exhibit: SDG&E-243; SCG-242

SDG&E / SOCALGAS

REBUTTAL TESTIMONY OF GREGORY D. SHIMANSKY

(RESULT OF EXAMINATION AND OTHER FINANCIAL ISSUES)

June 2015

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

SDGE
A Sempra Energy utility®

SoCalGas
A Sempra Energy utility

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TABLE OF CONTENTS

SDG&E / SOCALGAS REBUTTAL TESTIMONY OF GREGORY D. SHIMANSKY (RESULT OF EXAMINATION AND OTHER FINANCIAL ISSUES)

I. SUMMARY OF DIFFERENCES

In Exhibit ORA-24,[1] the Office of Ratepayer Advocates (ORA) presents the audit procedures and resulting audit findings and recommendations for San Diego Gas & Electric Company (SDG&E) and Southern California Gas Company (SCG or SoCalGas) for their Test Year (TY) 2016 General Rate Cases (GRC). For SDG&E, ORA recommends removal of $526,000 in total from years 2011, 2013 and 2014 – $159,000 in 2011, $165,000 in 2013, and $202,000 in 2014 related to costs for audits protected from disclosure by the attorney-client privilege. For SoCalGas, ORA recommends removal of $230,000 in total from years 2011 and 2013 – $20,000 in 2011, and $210,000 in 2013 related to costs for audits protected from disclosure by the attorney-client privilege. SDG&E and SoCalGas dispute ORA's recommendations as contrary to the law (SDG&E and SoCalGas should not have to waive their attorney-client privilege in order to recover the cost of such audits).

The San Diego Consumers' Action Network (SDCAN)[2] claims that SDG&E earnings and profits are too high.[3] SDCAN, therefore calls for the Commission to arbitrarily reduce SDG&E's authorized revenues by over $100 mi1lion[4] without providing any basis for the proposed revenue reduction nor justifying where the cuts should take place or why they are necessary. "Slicing through SDG&E's inflated budgets and 'rightsizing' the company's profitability"[5] is not supported by any facts and is neither a sound conclusion nor a reasonable suggestion for the Commission to pursue. SDCAN does not support this with comparisons to other utility earnings or peer benchmarking in their testimony and lays this out as a blanket judgment statement that SDG&E earnings are too high. This unsupported judgmental assessment should not be the basis on which the Commission should make decisions.

[1] Exhibit ORA-24; The Office of Ratepayer Advocates Report on the Results of Examination for San Diego Gas & Electric Company Southern California Gas Company Test Year 2016 General Rate Case, dated April 24, 2015 (ORA-24).
[2] Prepared testimony of Michael Shames, SDCAN Evaluation of San Diego Gas and Electric Company's Customer Service and External Affairs Activities, dated May 15, 2015; at pp 5-8 (SDCAN/Shames).
[3] SDCAN/Shames, p. 5.
[4] SDCAN/Shames, p. 7.
[5] *Id*..

II. INTRODUCTION

A. ORA

ORA issued its report on the Results of Examination for San Diego Gas & Electric Company Southern California Gas Company Test Year 2016 General Rate Case on April 24, 2015. The following is a summary of ORA's findings:

- For SDG&E, ORA recommends removal of $526,000 in total from years 2011, 2013 and 2014 – $159,000 in 2011, $165,000 in 2013, and $202,000 in 2014. These adjustments are to be made in the RO model.[6] For SoCalGas, ORA recommends removal of $230,000 in total from years 2011 and 2013 – $20,000 in 2011, and $210,000 in 2013. These adjustments are to be made in the RO model.[7] These are the privileged audit-related costs described above.
- ORA does not recommend any adjustments as a result of its review of Sempra's Claims Payments, Corporate Center – General Administration, Claims Payments, and O&M expenses for base years 2009 to 2013.
- ORA noted no reportable exceptions in its review of Utility Plant for SDG&E and SCG.
- ORA does not object to the utilities' application of the FERC formula for recording AFUDC.
- ORA recommends no adjustments to any of the 11 balancing accounts reviewed; and
- ORA makes no recommendations as to the reasonableness of the Sempra Utilities' "Compliance" testimony.

Further, in a response to a data request, ORA witness Waterworth confirmed "all procedures are done and there are no recommendations" (see Attachment A) with respect to any procedures mentioned in the testimony as not being complete.

B. SDCAN

SDCAN issued its report on the Evaluation of San Diego Gas and Electric Company's Customer Service and External Affairs Activities on May 15, 2015. My rebuttal testimony addresses SDCAN's proposed $100 million macro-level cut and shows that it does not consider cost-based evidence and contains numerous errors. The following is a summary of SDCAN's recommendations:

- SDCAN claims that SDG&E's profits have almost doubled in the past 10 years and that this trend apparently will continue[8] without regard to level-setting the earnings for

[6] Ex. ORA-24. p. 2, lines 6-9.
[7] Ex. ORA-24, p. 2. lines 10-12.
[8] SDCAN/Shames, p. 5.

authorized incentives granted by the Commission or consideration of the non-CPUC jurisdictional earnings that are outside of the scope of this case.

- SDCAN recommends a reduction to SDG&E's authorized revenues by over $100 million, claiming that, "The Commission must reduce SDG&E earnings to comport with industry norms and should be tied to the prices it charges to customers (relative to other similarly situated utilities)."[9]

- SDCAN states, "SDG&E earnings in 2012 were $484 million, $431 million in 2011 and **$369 million in 2010**. Notably, **in 2010, SDG&E's earnings were only $344 million,**"[10] showing one of many errors that make the testimony difficult to follow and derive any specific recommendation.

- Figure 2 – SDG&E Earnings Increase (by year)[11] contains math errors that may distort the record if not corrected.

- SDCAN implies that SDG&E's profits are somehow tied to natural gas prices and the drop in gas prices illustrates a disconnect between profits and the economy, when in fact commodity prices – both natural gas and the electricity created using natural gas – are passed through to customers due to decoupling.

II. REBUTTAL TO PARTIES' O&M PROPOSALS

A. ORA's Recommendation To Remove Audit Costs Is Flawed

ORA conducted its examination of the Applicants' financial records in accordance with the authority and mandates set forth in the Public Utilities Code sections 314, 314.5 and 309.5. For SDG&E, ORA recommends removal of $526,000 in total from years 2011, 2013 and 2014, consisting of – $159,000 in 2011, $165,000 in 2013, and $202,000 in 2014.[12] For SoCalGas, ORA recommends removal of $230,000 in total from years 2011 and 2013 – $20,000 in 2011, and $210,000 in 2013.[13] ORA makes no claim that the expenses incurred were incorrect or imprudent, but merely that because they were not granted access to 12 audit reports, those corresponding expenses should be removed. These audit reports, however, are marked confidential and privileged, since they are protected from disclosure by the attorney client privilege and/or attorney work product doctrine. SDG&E and SoCalGas explained these facts to ORA's auditors and continue to maintain that the reports are protected from disclosure, but are nevertheless legitimate expenses and should be considered in this GRC as part of the history of

[9] SDCAN/Shames, p. 8.
[10] SDCAN/Shames, p. 6, emphasis added.
[11] SDCAN/Shames. P. 6.
[12] Ex. ORA-24, p. 2, lines 6-8.
[13] Ex. ORA-24, p. 2, lines 10-11.

these accounts. The Commission has long recognized the validity of these privileges and there should be no automatic penalty to a regulated entity simply for exercising its legal rights. Indeed, doing so would result in a waiver of SDG&E's and SoCalGas' attorney-client privilege for these documents.

In addition, it should be noted that when ORA calculated the reduction, it did not use the actual cost of those audits, but instead used a ratio of the audit hours over the total year's hours multiplied by the total audit expense for the year. This approach is flawed because performing these audits did not amount to an incremental expense, as one would conclude by removing the implied and calculated costs of these audits. Accordingly, SDG&E and SoCalGas dispute ORA's argument that these costs should be removed.

B. SDCAN's Request For An Unspecified $100 Reduction to Revenue Requirement Is Based On Errors And Flawed Reasoning

In an attempt to compare SDG&E rate increases to earnings over the past 10 years, SDCAN makes several inaccurate claims. First, SDCAN relies on the "almost doubling" of earnings as a reason for rate increases over that time. However, SDCAN ignores electric commodity costs (e.g., the cost of gas and electricity), which are not part of the GRC nor a contributor to earnings, but certainly a contributor to rate increases. Commodity costs are unbundled in California, and as such, the costs are passed-through to ratepayers. Moreover, when policy and legislative mandates from the state increase SDG&E's need to procure renewable commodity resources, rates tend to go up with no impact at all to earnings. As for SDCAN's claims about a doubling of earnings, a more realistic way of looking at earnings growth is through a Compound Annual Growth Rate (CAGR).[14] Just as a hypothetical 10% growth over one year is not the same as a hypothetical 10% growth over 10 years (as there could be ups and down in that span), an analyst needs to look at the compounding nature of any year-over-year growth. In this case, using the 10-year simple growth rate creates the appearance of a higher percentage growth. A CAGR, on the other hand, would show year-over-year growth for 10 years of 7.6%.[15] Considering inflation over this time period, SDG&E growth rates on a real basis would be even lower still. As described below, this growth rate still does not tell the whole story.

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[14] CAGR calculation is defined as ((last year amount / first year amount)^(1/number of years))-1, where ^ represents the exponential "to the power of"; see http://www.investopedia.com/terms/c/cagr.asp.
[15] Calculated as follows for the period 2005 to 2015: { ((507/262)^(1/9))-1 }.

Earnings that are recorded in any given year are affected by the amount of incentives that the company has achieved. These incentives benefit both shareholders and ratepayers and are put in place to change the utility's behaviors to fit Commission and legislative directives. Further, a simple comparison of total SDG&E earnings year-over-year ignores earnings associated with transmission-related assets that are outside the scope of this GRC and governed by the Federal Energy Regulatory Commission (FERC). SDCAN ignores these facts and lumps all earnings together as though related to this GRC filing, which they are not. Lastly, earnings are impacted by management direction to create and maintain efficiencies in operations. These efficiencies may materialize as earning in the very short term but are then incorporated, or trued-up, in the next GRC. SDG&E's rate cases, such as this one, are based on historical costs. When those historical costs reflect the reduction realized by through cost efficiency initiatives, the future forecast that depends on that history is also lower than otherwise.

SDCAN's testimony also includes what appear to be a number of calculation errors. For example, in back to back sentences, SDCAN claims (at SDCAN/Shames page 6) that "SDG&E earnings in 2012 were $484 million, $431 million in 2011 and $369 million in 2010." Then in the next sentence says "Notably, in 2010, SDG&E's earnings were only $344 million." SDCAN follows that with a claim that "(SDG&E's) annual earnings increased by double digits in 7 of the 10 years."[16] The table SDCAN uses to support that claim does not show 7 years of double digit increases. At most, it shows 5, and if one considers the one-time charge in 2013 related to SONGS offset by adoption of the 2012TY GRC (that SDCAN shows as footnote 3 on page 6) there were only 4 years of earnings increases of 10% or more (2007, 2008, 2011, and 2012).

The most glaring error in the table on page 6 ("Figure 2 – SDG&E's Earnings Increases (by year)") is the total of 458,688. SDCAN's calculation of 458,688 cannot be correct. Further, the total "% increase" in the table shows 395%. Nowhere in SDG&E's testimony or in SDCAN's testimony does anyone claim there is a 395% increase in earnings over 10 years. This figure is neither the cumulative results of the column nor is it the mathematical result of 2014 earnings compared to 2005 earnings. Thus, it is not clear how SDCAN came up with this % increase. Lastly, the % increase reported in 2006 shows a 10% increase over 2005 when in fact earnings <u>declined</u> that year. In light of all these errors, SDCAN's testimony should be afforded

[16] SDCAN/Shames, p. 6.

little to no weight and the Commission has no choice but to disregard the SDCAN's conclusions and reject its proposal to reduce SDG&E's revenue requirement by $100 million.

For all these reasons, SDCAN's allegation that earnings increases at SDG&E are directly responsible for rate increases is unfounded. Moreover, its claim that an arbitrary $100 million reduction to revenue requirement is warranted shows a lack of understanding of SDG&E's earnings and is based on a number of calculation errors. GRC revenue requirement reductions must be based on either a dispute on the ratebase determination or other cost of service components, neither of which are presented in the SDCAN testimony.

IV. CONCLUSION

To summarize, ORA's proposed $526,000 at SDG&E and $230,000 at SoCalGas adjustment to base year expense is improper and should be rejected. In addition, SDCAN's testimony includes a number of errors, should not be relied upon by the Commission, and has failed to substantiate its unspecified request for a $100 million reduction to SDG&E's revenue requirement.

This concludes my prepared rebuttal testimony.

V. WITNESS QUALIFICATIONS

My name is Gregory D. Shimansky. My business address is 8330 Century Park Court, San Diego, California 92123. I am employed by SDG&E as the GRC Program Manager for both SDG&E and SoCalGas. I have held this position since June of 2013. Prior to this position I was the Regulatory Accounts and Financial Services Manager at SDG&E in the Financial Analysis Department for 3 years. In that position, I was responsible for managing the process for the development, implementation, and analysis of regulatory balancing and memorandum accounts as well as supervising the treasury function at SDG&E.

I have been employed with SDG&E, SoCalGas and Sempra Energy since June 30, 2003. In addition to my current position in the GRC organization, I served as the Financial Planning Manager for Sempra Energy, the Regulatory Reporting Manager at SDG&E/SoCalGas, and from June 2003 through August 2008, I worked for SDG&E in utility planning. I earned a Bachelor of Science degree in Economics from the University of California, Los Angeles in June 1993. I also earned a Master of Science in Management, with concentrations in Finance and Marketing, from Purdue University in May 1998.

I have previously provided testimony to the Commission.

ATTACHMENT A:

ORA Response to Sempra Energy Utilities' Data Request SEU-ORA-DR-05

ORA

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California Public Utilities Commission

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ORA Response to Sempra Energy Utilities' Data Request
San Diego Gas & Electric Co. Test Year 2016 General Rate Case, A.14-11-003
Southern California Gas Co. Test Year 2016 General Rate Case, A.14-11-004

Origination Date: May 1, 2015
Due Date: May 15, 2015
Response Date: May 13, 2015

To: Chuck Manzuk
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From: Clayton Tang and Truman Burns, Project Coordinators
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Data Request No: SEU-ORA-DR-05
Exhibit Reference: ORA-24
Subject: Results of Examination

The following is ORA's response to Sempra's data request. If you have any questions, please contact the responder at the phone number and/or email address shown above.

Q.1: On page 15, lines 19 and 20, ORA testimony mentions that the procedures for many of the accounts were not completed by the report date. Can you confirm that all procedures are done and there are no recommendations?

A.1: Yes, all procedures are done and there are no recommendations.

Q.2: On page 23, line 17, ORA testimony mentions that the procedures related to the SCG TIMPBA are still in progress. For all other accounts, ORA mentions no recommendations. Can you confirm that all procedures for the SCG TIMPBA are done and there are no recommendations?

A.2: Yes, all procedures for the SCG TIMPBA are done and there are no recommendations.

END OF RESPONSE
