

Application No: A.15-09-013
Exhibit No.: _____
Witness: M. Woodruff

In The Matter of the Application of San Diego Gas
& Electric Company (U 902 G) and Southern
California Gas Company (U 904 G) for a Certificate
of Public Convenience and Necessity for the Pipeline
Safety & Reliability Project

Application 15-09-013
(Filed September 30, 2015)

PREPARED DIRECT TESTIMONY OF
MICHAEL R. WOODRUFF
ON BEHALF OF
SAN DIEGO GAS & ELECTRIC COMPANY
AND
SOUTHERN CALIFORNIA GAS COMPANY

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

March 21, 2016

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1 **I. PURPOSE AND OVERVIEW**

2 The purpose of my prepared direct testimony on behalf of San Diego Gas & Electric
3 Company (SDG&E) and Southern California Gas Company (SoCalGas) (collectively, the
4 Utilities) is to present SDG&E's revenue requirements resulting from the Pipeline Safety &
5 Reliability Project (PSRP or Proposed Project)¹ which encompasses the construction of a new
6 Line 3602 transmission pipeline (Line 3602) capital spend forecasted for the years 2014 through
7 2021, as well as the Line 1600 De-rating (Line 1600 De-Rate) capital spend forecasted for the
8 years 2014 through 2022. As shown in Neil Navin's testimony, direct costs are expected to be
9 \$441.9 million.² Total project costs included in the forecasted revenue requirement calculations
10 encompass direct costs, loaders, escalation, property taxes to be capitalized, and Allowance for
11 Funds Used During Construction (AFUDC), totaling \$633.2 million. The total revenue
12 requirements from 2014 through 2063 for the Proposed Project, namely Line 3602 and the Line
13 1600 De-Rate are estimated at \$1,988 million and \$112 million, respectively.

14 **II. REVENUE REQUIREMENT**

15 The revenue requirements associated with the Proposed Project are derived from (1) the
16 forecasted incremental capital costs related to a new 36-inch diameter natural gas transmission
17 pipeline (Line 3602), and (2) forecasted incremental capital costs related to de-rating Line 1600,
18 a 16-inch diameter natural gas transmission pipeline which would be adjusted to function in a
19 distribution capacity. The capital costs discussed in Neil Navin's direct testimony represent

¹ The Proposed Project consists of: (1) the construction of a new approximately 47-mile long, 36-inch diameter natural gas transmission pipeline and associated facilities, and (2) de-rating the existing Line 1600 between the proposed Rainbow Pressure Limiting Station and Kearney Villa Pressure Limiting Station.

² The direct cost estimate presented in the Prepared Direct Testimony of Neil Navin includes \$2.3 million associated with removing existing assets for Line 1600 de-rate costs. These costs are excluded from the revenue requirement requested for recovery in this application as the costs associated with removing existing assets is assumed to be recovered through the revenue requirement associated with the original asset.

1 direct costs³ and are stated in base year 2015 dollars. A summary of the fully loaded forecasts
 2 submitted for approval and recovery of the Proposed Project is shown in Tables 3A and 3B.

3 The constant-dollar values for incremental capital costs are escalated for inflation using
 4 the following escalation factors for the period 2016 to 2022. As these factors vary over the
 5 project horizon, Tables 1A and 1B show the range of annual escalation rates applied to each cost
 6 type.

7 **TABLE 1A**
 8 ***Line 3602 Escalation Rates⁴***

Cost Category	Escalation Factor	Range of Annual % Change		
Capital (Labor & Non Labor)	Gas Plant (Various)	1.12%	-	3.53%

9 **TABLE 1B**
 10 ***Line 1600 De-rate Escalation Rates⁴***

Cost Category	Escalation Factor	Range of Annual % Change		
Capital (Labor & Non Labor)	Gas Plant (Various)	1.03%	-	2.96%

11 The escalated incremental capital costs are further adjusted to include applicable
 12 overheads. Overhead rates are applied to each direct cost input, consistent with its classification
 13 as company labor, contract labor, or purchased services and materials. Overhead rates that were
 14 applied are based on August 2015 Internal Planning estimates, and intended to be illustrative for
 15 forecasting purposes. Actual overhead rates for each year will be used in the calculation of the
 16 actual revenue requirement and only overheads that are incremental to the Proposed Project are
 17 included. For example, overheads associated with incremental labor and additional procurement
 18 are included. Tables 2A and 2B show overhead rates that were applied.

³ Direct costs do not include overheads, escalation, and other costs to support the investment.

⁴ Factors shown are from escalation indices published in IHS Global Insight's 2nd Quarter 2015 Power Planner Utility Cost Forecast, released September 8, 2015.

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TABLE 2A
Line 3602 Overhead Loaders (Illustrative)

Overhead Category	SDG&E Labor Overhead Rate	SDG&E Non-Labor Overhead Rate	SCG Labor Overhead Rate	Loading Base Description
Payroll Taxes	7.71%		7.37%	Company Lbr
Vacation and Sick Time	18.81%		17.90%	Company Lbr (non-union) ST & ST Portion of OT
Pension and Benefits (non-balanced only)	29.49%		21.19%	Company Lbr ST & ST Portion of OT
Workers Compensation	1.20%		2.04%	Company Lbr ST & ST Portion of OT
Public Liability / Property Damage	3.98%		1.95%	Company Lbr ST & ST Portion of OT
Incentive Compensation Plan	38.70%		24.17%	Company Lbr ST & ST Portion of OT
Union Contract Labor	0.00%			Union Labor
Purchased Services and Materials		0.70%		Purchased Materials, Services, Warehouse Issuances, and Contract Costs
Engineering / Gas Transmission	1.93%	1.93%		Company Lbr & Contract Costs
Fleet Distribution			4.60%	Company Lbr
Administrative and General Capital – Affiliate			34.93%	Total Direct Costs
Administrative and General Capital	4.12%	4.12%		Total Direct Costs

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TABLE 2B
Line 1600 De-rate Project Overhead Loaders (Illustrative)

Overhead Category	SDG&E Labor Overhead Rate	SDG&E Non-Labor Overhead Rate	SCG Labor Overhead Rate	Loading Base Description
Payroll Taxes	7.71%		7.37%	Company Lbr
Vacation and Sick Time	18.81%		17.90%	Company Lbr (non-union) ST & ST Portion of OT
Pension and Benefits (non-balanced only)	29.49%		21.19%	Company Lbr ST & ST Portion of OT
Workers Compensation	1.20%		2.04%	Company Lbr ST & ST Portion of OT
Public Liability / Property Damage	3.98%		1.95%	Company Lbr ST & ST Portion of OT
Incentive Compensation Plan	38.70%		24.17%	Company Lbr ST & ST Portion of OT
Union Contract Labor	0.00%			Union Labor
Purchased Services and Materials		0.70%		Purchased Materials, Services, Warehouse Issuances, and Contract Costs
Engineering / Gas Distribution	64.73%	64.73%		Company Lbr & Contract Costs
DOH Gas Distribution	31.44%	31.44%		Company Lbr & Contract Costs
Fleet Distribution			4.60%	Company Lbr
Administrative and General Capital – Affiliate			34.93%	Total Direct Costs
Administrative and General Capital	4.12%	4.12%		Total Direct Costs

3

1 The revenue requirement evaluation assumes all capital costs, including AFUDC, are
 2 recovered through depreciation over the book-lives of the assets. In addition to the actual
 3 expenditure amounts, the revenue requirements include all other expenses required to support the
 4 investment, including authorized return on investment, income and property taxes, franchise
 5 fees, and uncollectibles.⁵ The revenue requirement calculations use the current authorized rate of
 6 return of 7.79% based on a 10.30% return on equity.⁶

7 Tables 3A and 3B summarize the total incremental direct costs for the Proposed Project
 8 (new Line 3602 and Line 1600 De-Rate).

9 **TABLE 3A**
Line 3602 Direct Costs Summary
(In Millions of 2015 Dollars)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024 Thereafter	Total
Capital	3.3	6.8	5.9	14.7	95.4	108.3	187.6	4.8	-	-	-	426.8
O&M	-	-	-	-	-	-	-	-	-	-	-	-
Total	3.3	6.8	5.9	14.7	95.4	108.3	187.6	4.8	-	-	-	426.8

10 **TABLE 3B**
Line 1600 De-Rate Direct Costs Summary
(In Millions of 2015 Dollars)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024 Thereafter	Total
Capital	-	-	-	0.8	2.7	0.4	8.4	0.4	0.1	-	-	12.8
O&M	-	-	-	-	-	-	-	-	-	-	-	-
Total	-	-	-	0.8	2.7	0.4	8.4	0.4	0.1	-	-	12.8

11 ⁵ The revenue requirement components and the rate base calculations are computed based on the Commission-approved methodology and are shown in work papers supporting this testimony.

⁶ D.12-12-034 (TY 2013 Cost of Capital for Major Utilities), Ordering Paragraph 2, at 52.

1 Incremental direct costs are escalated and loaded with the factors described in Tables
 2 1A/1B and Tables 2A/2B. Tables 4A and 4B summarize the fully escalated and loaded direct
 3 costs from Tables 3A/3B.

4 **TABLE 4A**
L3602 Fully Escalated and Loaded Costs Summary⁷
(In Millions of Dollars, Nominal)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024 Thereafter	Total
Capital	4.3	8.2	7.0	19.4	113.8	133.7	233.7	8.3	-	-	-	528.5
O&M	-	-	-	-	-	-	-	-	-	-	-	-
Total	4.3	8.2	7.0	19.4	113.8	133.7	233.7	8.3	-	-	-	528.5

5 **TABLE 4B**
L1600 De-Rate Fully Escalated and Loaded Costs Summary⁸
(In Millions of Dollars, Nominal)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024 Thereafter	Total
Capital	-	-	-	1.7	5.9	1.0	19.7	1.0	0.2	-	-	29.5
O&M	-	-	-	-	-	-	-	-	-	-	-	-
Total	-	-	-	1.7	5.9	1.0	19.7	1.0	0.2	-	-	29.5

6 Tables 5A and 5B summarize the forecasted revenue requirement for SDG&E to
 7 construct the project. The forecasted revenue requirement captures costs necessary to support
 8 the investment, including the fully escalated and loaded costs shown in Tables 4A/4B.

⁷ Excludes AFUDC and Capitalized Property Taxes. Total costs inclusive of these two items are \$600.2M for L3602.

⁸ Excludes AFUDC and Capitalized Property Taxes. Total costs inclusive of these two items are \$33.0M for L1600 De-Rate.

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TABLE 5A
L3602 Revenue Requirement Summary
(In Millions of Dollars, Nominal)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024 Thereafter	Total
Rev Req	-	-	-	-	-	-	3.5	85.9	85.6	82.8	1,729.9	1,987.8

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TABLE 5B
L1600 De-Rate Revenue Requirement Summary
(In Millions of Dollars, Nominal)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024 Thereafter	Total
Rev Req	-	-	-	-	-	-	-	4.0	4.7	4.8	98.4	111.9

3

Upon project completion, SDG&E will compute the actual capital and operations and maintenance (O&M)⁹ costs and associated revenue requirement. SDG&E will file an advice letter within 60 days after the assets are placed into service to incorporate the actual revenue requirement in rates on the first day of the next month following advice letter approval. The revenue requirement in rates will be updated in subsequent years in connection with SDG&E’s Consolidated Rate Advice Letter Filing for rates effective January 1st of the following year.

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This process will continue until SDG&E’s next General Rate Case or other applicable proceeding. The illustrative rate impacts are discussed in the Prepared Direct Testimony of Jason Bonnett, and the regulatory accounting treatment is discussed in the Prepared Direct Testimony of John Roy.

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⁹ O&M costs are not requested for recovery in this Application and are not included in submitted revenue requirement calculations. As explained in the Prepared Direct Testimony of John Roy, SDG&E and SoCalGas request that ongoing O&M associated with the Proposed Project be booked to the proposed memorandum account.

1 **III. QUALIFICATIONS**

2 My name is Michael R. Woodruff. My business address is 8330 Century Park Court, San
3 Diego, California 92123. I am employed by SDG&E as a Project Manager in Financial Services
4 & Strategic Analysis. I am responsible for overseeing the financial analysis and development of
5 revenue requirements for SDG&E projects. I joined SDG&E in 2011. Prior to SDG&E, I was
6 employed by Wells Fargo & Co. for twelve years, six years as a Financial Analyst and six years
7 as a Finance Manager.

8 I received a Bachelor of Science degree in Liberal Arts and Sciences from Iowa State
9 University in 1994. I received a Master of Business Administration degree with an emphasis in
10 Finance from the University of Iowa in 1999.

11 I have not previously testified before the California Public Utilities Commission.

12 This concludes my prepared direct testimony.