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|---|---|---|
| Docket | : | A.17-10-007/008 |
| Exhibit Number | : | ORA-31 |
| Commissioner | : | L. Randolph |
| ALJ | : | R. Lirag |
| Witness | : | C. Tang |


**OFFICE OF RATEPAYER ADVOCATES**
**CALIFORNIA PUBLIC UTILITIES COMMISSION**


# Report on the Results of Operations for San Diego Gas & Electric Company Southern California Gas Company Test Year 2019 General Rate Case

## Post-Test Year Ratemaking

San Francisco, California
April 13, 2018

# TABLE OF CONTENTS


POST-TEST YEAR RATEMAKING ........ 1

I. INTRODUCTION ........ 1

II. SUMMARY OF RECOMMENDATIONS ........ 2

A. SDG&E PTY Revenue Increases ........ 2

B. SoCalGas PTY Revenue Increases ........ 3

C. ORA's PTYR Recommendations ........ 4

1. GRC Term ........ 4

2. PTYR Mechanism ........ 4

3. Other PTYR Issues ........ 4

4. Alternate PTYR Mechanism ........ 5

III. BACKGROUND ........ 5

A. Utilities are not Automatically Entitled to Post-Test Year Revenue Increases ........ 5

B. Post-Test Year Revenue Increases in Recent General Rate Cases ........ 6

IV. SEMPRA UTILITIES' POST-TEST YEAR RATEMAKING PROPOSALS ........ 8

A. GRC Term ........ 8

B. Post-Test Year Ratemaking Mechanism ........ 9

1. O&M Expenses ........ 9

a. O&M Margin Escalation ........ 9

b. Medical Cost Escalation ........ 10

2. Capital Additions ........ 11

a. GRC Incremental Adjustment ........ 12

b. SoCalGas PSEP Adjustment ........ 13

c. Rate Base ........ 14

C. Z-Factor Mechanism ........ 15

D. Regulatory Filings ........ 15

V. ORA's POST-TEST YEAR RATEMAKING RECOMMENDATIONS ........ 16

A. GRC Term ........ 16

B. ORA's Primary PTYR Mechanism Provides Reasonable GRC Revenue Increases ..... 17
1. Perspective on SDG&E's and SoCalGas' Request ..... 17
2. ORA's Position ..... 19
3. Attrition Revenues for SDG&E ..... 19
4. Attrition Revenues for SoCalGas ..... 19
C. Regulatory Filings ..... 20
D. Z-Factor Mechanism ..... 20
E. Rate Base Adjustments ..... 21
F. Tax Cuts and Jobs Act ..... 21
VI. ORA's ALTERNATE POST-TEST YEAR RATEMAKING MECHANISM ..... 22
A. O&M Expense Adjustments ..... 22
1. O&M (Labor and Non-Labor) Margin Escalation ..... 22
2. O&M Escalation Rate Updates ..... 23
3. Medical Cost Escalation ..... 24
B. Capital-Related Adjustments ..... 24
1. GRC Incremental Adjustment ..... 24
2. SoCalGas PSEP Adjustment ..... 25
3. Rate Base ..... 25
WITNESS QUALIFICATIONS ..... 26
*ATTACHMENTS*

# POST-TEST YEAR RATEMAKING

## I. INTRODUCTION

This exhibit presents the analyses and recommendations of the Office of Ratepayer Advocates (ORA) regarding the Post-Test Year Ratemaking (PTYR) proposals of San Diego Gas & Electric Company (SDG&E) and Southern California Gas Company (SoCalGas or SCG), otherwise known as the Sempra Utilities (Sempra), for their Test Year (TY) 2019 General Rate Case (GRC).

Sempra proposes a 4-year GRC term comprising a test year (2019) and three post-test years (2020, 2021 and 2022). SDG&E seeks Commission authorization for an attrition mechanism which would yield estimated revenue increases of $158.5 million (7.22%) for 2020, $121.4 million (5.16%) for 2021, and $124.7 million (5.04%) for 2022.[1] SoCalGas seeks Commission authorization for an attrition mechanism which would yield estimated revenue increases of $255.8 million (8.56%) for 2020, $201.1 million (6.20%) for 2021, and $213.1 million (6.18%) for 2022.[2,3]

The figures presented in this exhibit compare ORA's and the utilities' proposed post-test year revenue increases without the impacts from the Tax Cuts and Jobs Act (TCJA).

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[1] Ex. SDG&E-43-R, p. KJD-ii.

[2] Ex. SCG-44-R, p. JAM-ii.

[3] SoCalGas' request includes Pipeline Safety Enhancement Plan (PSEP) capital-related revenue increases of $15.7 million in 2020, $38.9 million in 2021, and $46.3 million in 2022, associated with proposed capital expenditures for those years. ORA estimates that sans PSEP, SoCalGas' proposed post-test year revenue increases would be $240.1 million (8.03%) for 2020, $162.2 million (5.00%) for 2021, and $166.8 million (4.84%) for 2022.

## II. SUMMARY OF RECOMMENDATIONS

ORA agrees with SDG&E's and SoCalGas' proposal for three post-test years, and does not oppose a Post-Test Year Ratemaking (PTYR) mechanism which provides them with a reasonable level of revenue increases in 2020, 2021 and 2022.

ORA recommends revenue increases of 4.00% per year in 2020, 2021 and 2022 for SDG&E and SoCalGas, plus additional revenues for SoCalGas' post-test year Pipeline Safety Enhancement Plan (PSEP) capital additions. This effectively increases SoCalGas' attrition adjustments to 4.56%, 5.25%, and 5.40% for 2020, 2021, and 2022, respectively.

**ORA recommends annual revenue increases of 4.00% for SDG&E and SoCalGas in 2020, 2021, and 2022, plus additional revenues for SoCalGas' post-test year PSEP capital additions**

### A. SDG&E PTY Revenue Increases

Based on ORA's forecast of SDG&E's 2019 revenue requirement, ORA's recommended PTYR methodology yields estimated revenue increases of $79.6 million for 2020, $82.8 million for 2021, and $86.1 million for 2022.[4] These post-test year increases result in revenue requirement levels equal to $2.071 billion in 2020, $2.153 billion in 2021, and $2.240 billion in 2022.

Based on SDG&E's and ORA's 2019 respective revenue requirement forecasts, the differences between SDG&E's proposed and ORA's recommended PTYR revenue increases for the three post-test years are shown below:

[4] See Ex. ORA-34 for ORA's recommended attrition increases for SDG&E with the impacts of the Tax Cuts and Jobs Act.

**Table 31-1**
**SDG&E Proposed vs. ORA Recommended**
**Post-Test Year Revenue Increases for 2020, 2021 and 2022**
**(in Millions of Dollars)**

| Description (a) | 2020 (b) | 2021 (c) | 2022 (d) |
|---|---|---|---|
| SDG&E Proposed[5] | $158.5 | $121.4 | $124.7 |
| ORA Recommended | $79.6 | $82.8 | $86.1 |
| Amount SDG&E>ORA | $78.9 | $38.6 | $38.6 |

### B. SoCalGas PTY Revenue Increases

Based on ORA's forecast of SoCalGas' 2019 revenue requirement, ORA's recommended PTYR methodology yields estimated revenue increases of $110.7 million for 2020, $115.1 million for 2021, and $119.8 million for 2022. In addition, based on the Pipeline Safety Enhancement Plan (PSEP) capital expenditure forecasts presented in Ex. ORA-03, ORA estimates PSEP-related revenue increases of $15.5 million, $36.7 million, and $44.7 million for 2020, 2021, and 2022, respectively. Hence, ORA forecasts revenue increases totaling $126.2 million for 2020, $151.8 million for 2021, and $164.5 million for 2022.[6] These post-test year increases result in revenue requirement levels equal to $2.894 billion in 2020, $3.046 billion in 2021, and $3.211 billion in 2022.

Based on SoCalGas' and ORA's 2019 respective revenue requirement forecasts, the differences between SoCalGas' proposed and ORA's recommended PTYR revenue increases for the three post-test years are shown below:

[5] Ex. SDG&E-43-R, p. KJD-ii.

[6] See Ex. ORA-34 for ORA's recommended attrition increases for SoCalGas with the impacts of the Tax Cuts and Jobs Act.

**Table 31-2**
**SoCalGas Proposed vs. ORA Recommended**
**Post-Test Year Revenue Increases for 2020, 2021 and 2022**
**(in Millions of Dollars)**

| Description (a) | 2020 (b) | 2021 (c) | 2022 (d) |
|---|---|---|---|
| SoCalGas Proposed[7] | $255.8 | $201.1 | $213.1 |
| ORA Recommended | $126.2 | $151.8 | $164.5 |
| Amount SoCalGas>ORA | $129.6 | $49.3 | $48.6 |

## C. ORA's PTYR Recommendations

### 1. GRC Term

ORA agrees with SDG&E's and SoCalGas' proposal for a 4-year GRC term (2019-2022).

### 2. PTYR Mechanism

ORA recommends a PTYR mechanism whereby attrition base revenue increases for SDG&E and SoCalGas are set at 4.00% for 2020, 2021 and 2022, plus additional revenues for SoCalGas' post-test year PSEP capital additions. ORA's recommended percentage increase is guided by a recent forecast of Consumer Prices, attrition increases adopted by the Commission in recent large energy utility GRCs, and the post-test year revenue increases authorized by the Commission for the Sempra Utilities in Decision (D.) 13-05-010 (TY 2012 GRC) and D.16-06-054 (TY 2016 GRC).

### 3. Other PTYR Issues

- ORA does not oppose continuation of implementing post-test year revenue requirements annually through the advice letter process.
- ORA does not oppose continuation of the Z-factor mechanism, but recommends that the mechanism be effective only during the post-test years, and not for the test year.
- ORA will update its post-test year forecasts to reflect the revenue requirement impacts due to the Tax Cuts and Jobs Act of 2017.

[7] Ex. SCG-44-R, p. JAM-ii.

### 4. Alternate PTYR Mechanism

If the Commission does not adopt ORA's primary PTYR mechanism, and prefers a mechanism similar to that which SDG&E and SoCalGas proposes, then ORA recommends the following alternative:

- Regarding post-test year increases for operational expenses:
  - ✓ ORA does not oppose the O&M margin escalation rates proposed by SDG&E (2.66% for 2020, 2.59% for 2021, and 2.55% for 2022) and SoCalGas (2.70% for 2020, 2.58% for 2021, and 2.53% for 2022);
  - ✓ ORA does not oppose SDG&E's and SoCalGas' proposal that they be allowed to update their O&M margin escalation rates for the post-test years, but limits should be placed on how much the rates can be adjusted; and
  - ✓ ORA recommends that post-test year medical escalation rates be set at 4.25%, as opposed to SDG&E's and SoCalGas' proposed escalation rates of 6.50% for 2020, 6.00% for 2021, and 5.50% for 2022.
- In determining the GRC incremental capital-related attrition allowance, ORA recommends: (a) using an escalated 7-year (2013-2019) average of capital additions instead of a 5-year (2015-2019) average; and (b) using 2017 recorded capital additions, as well as Commission-adopted 2018 and 2019 capital additions forecasts, as part of the 7-year average instead of using SDG&E's and SoCalGas' 2017-2019 forecasts.

## III. BACKGROUND

### A. Utilities are not Automatically Entitled to Post-Test Year Revenue Increases

Before 1982, the base revenue requirement was generally adjusted only during GRC proceedings. In the period between GRC proceedings, base rates would not change, but the utilities received additional income from customer growth. Post-Test Year, otherwise known as attrition, rate adjustments were implemented in the early 1980's primarily because of the unprecedented high inflation and lower rates of customer growth and sales in the late 1970's and early 1980's. Since the mid-1980's, inflation has generally declined to more modest historical levels. The utilities have also had various forms of revenue balancing account protection from sales fluctuation. Additionally, utility fuel-related costs that had high volatility, and over which utilities have limited control, were removed from base rates and are now recovered through separate mechanisms with balancing accounts.

The GRC proceeding periodically reviews and sets reasonable rates for utilities for a specific test year, in this case, 2019. For the period between GRC proceedings, the Commission has, in some cases, granted attrition-type increases and, in other cases, has not provided such increases. In the past, the Commission has stated:

> The attrition mechanism is not an entitlement. Nor is it a method of insulating the company from the economic pressures which all business experience…Neither the Constitution nor case law has ever required automatic rate increases between general rate case applications.[8]

In Pacific Gas and Electric's (PG&E) 1999 GRC decision, the Commission denied attrition increases for year 2000. In D.02-02-043, the Commission granted PG&E a 2001 attrition increase of approximately $151 million. In D.03-03-034, however, the Commission denied PG&E's attrition increase request for 2002. It is clear that utilities are not automatically entitled to attrition rate increases between rate cases, even though the Commission has included provisions for post-test year rate relief in some GRC decisions.

## B. Post-Test Year Revenue Increases in Recent General Rate Cases

**In recent GRCs, large energy utilities have typically received annual post-test year revenue increases ranging from 3.0% to 5.0%**

Post-Test Year revenue increases granted by the Commission to the large California energy utilities in each of their last two GRCs have been as follows:

<u>Sempra Utilities</u>

- For the Sempra Utilities' 2012 GRC, the Commission authorized attrition increases based on the All-Urban Consumer Price Index

[8] D.93-12-043, 52 CPUC 2d 471, 492.

(CPI-U), plus 75 basis points, which translated into increases of 2.65% for 2013, 2.75% for 2014, and 2.75% for 2015.[9]

- The Commission adopted a settlement agreement in the Sempra Utilities' 2016 GRC, authorizing attrition increases of 3.5% per year for 2017 and 2018 for both utilities.[10]

Southern California Edison

- For the SCE 2012 GRC, the Commission essentially authorized attrition increases of 3.9% for 2013 and 5.7% for 2014.[11]
- For the SCE 2015 GRC, the Commission authorized attrition increases of 4.0% for 2013 and 5.0% for 2014.[12]

Pacific Gas and Electric

- For the PG&E 2014 GRC, the Commission authorized attrition increases of 4.57% for 2015 and 5.0% for 2016.[13]
- The Commission adopted a settlement agreement in the PG&E 2017 GRC, authorizing attrition increases of 5.5% for 2018 and 4.3% for 2019.[14]

With the exception of a few instances, the Commission has generally authorized attrition increases ranging from approximately 3.0% to 5.0% per year for the large energy utilities.

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[9] D.13-05-010, *mimeo.*, at pp. 1010-1011.

[10] D.16-06-054, *mimeo.*, at p. 4.

[11] D.12-11-051, *mimeo.*, at p. 3, indicates that, for SCE, the Commission adopted revenue requirement levels of $5.671 billion for 2012, $6.078 billion for 2013, and $6.426 billion for 2014. Based on ORA's calculations, this equates to revenue increases of $407 million (7.2%) in 2013 and $348 million (5.7%) in 2014. However, excluding the $188 million in revenues (see page 13, Table 6, line 3 of SCE's Advice 2826-E, dated December 19, 2012, included as **Attachment 1** to this exhibit) rolled in from SCE's SmartConnect program beginning in 2013 (which were previously recovered through the Edison SmartConnect Balancing Account, or ESCBA), the net post-test year revenue increase would have been $219 million (3.9%) in 2013.

[12] D.15-11-021, *mimeo.*, at p. 2.

[13] D.14-08-032, *mimeo.*, at p. 2.

[14] D.17-05-013, *mimeo.*, at p. 2.

## IV. SEMPRA UTILITIES' POST-TEST YEAR RATEMAKING PROPOSALS

This section briefly summarizes SDG&E's and SoCalGas' proposals regarding the GRC term, Post-Test Year Ratemaking mechanism, Z-factor mechanism, and PTY-related regulatory filings.

### A. GRC Term

Both SDG&E and SoCalGas propose a 4-year GRC term (2019-2022) for this GRC cycle.[15] If this proposal is adopted by the Commission, the Sempra Utilities' next rate case would be for TY 2023.

SDG&E states that it "…supports the adoption of the 4-year GRC term because it would free up resources needed to litigate a GRC every three years and allow the utility to maintain focus on clean, safe, and reliable operations and customer service. Over the last several years, the GRC process has become more complex and subject to extended delays, which is now compounded by new processes, reviews, and reporting required by the Risk OIR decisions incorporating Safety Model Assessment Proceedings (S-MAP) and Risk Assessment and Mitigation Phase (RAMP)."[16]

SoCalGas adds that "…[m]oving to a four-year GRC cycle would give both the Commission and the utilities more flexibility to manage additional responsibilities created by the integrated S-MAP, RAMP and GRC proceedings. The four-year GRC term would reduce the administrative burden on all parties, and allow the utility to more effectively operate its business while implementing new risk-mitigation and accountability structures, processes and reporting requirements."[17]

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[15] Ex. SDG&E-43-R, p. KJD-ii; Ex. SCG-44-R, p. JAM-ii.

[16] Ex. SDG&E-43-R, p. KJD-2, lines 15-21.

[17] Ex. SCG-44-R, p. JAM-3, lines 9-13.

### B. Post-Test Year Ratemaking Mechanism

SDG&E seeks post-test year revenue increases of $158.5 million (7.22%) for 2020, $121.4 million (5.16%) for 2021, and $124.7 million (5.04%) for 2022.[18] SoCalGas seeks post-test year revenue increases of $255.8 million (8.56%) for 2020, $201.1 million (6.20%) for 2021, and $213.1 million (6.18%) for 2022.[19]

There are two basic components to the Sempra Utilities' proposed PTYR mechanism: (1) operations and maintenance (O&M) escalation; and (2) capital additions.

#### 1. O&M Expenses

SDG&E and SoCalGas each propose a PTYR mechanism that escalates adopted 2019 O&M expenses (labor, non-labor, and medical). SDG&E and SoCalGas propose to:[20]

- absorb increased operating costs from customer growth through productivity improvements;
- treat miscellaneous revenues as fixed amounts without escalation; and
- apply franchise fees and uncollectibles as fixed rates for the post-test year period (i.e., franchise fees and uncollectible expense items are not subject to escalation).

##### a. O&M Margin Escalation

SDG&E and SoCalGas propose a PTYR mechanism that escalates labor costs using the 1st Quarter 2017 IHS Markit Global Insight's Power Planner (Global Insight or GI) forecast, as described in Exhibits SDG&E-39 and SCG-40. The two utilities also rely on various Global Insight cost series to develop escalation indices for non-labor costs.[21]

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[18] Ex. SDG&E-43-R, p. KJD-ii.

[19] Ex. SCG-44-R, p. JAM-ii.

[20] Ex. SDG&E-43-R, p. KJD-4, lines 18-23; Ex. SCG-44-R, p. JAM-5, lines 6-14.

[21] Ex. SDG&E-43-R, p. KJD-4, line 28 thru p. KJD-5, line 6; Ex. SCG-44-R, p. JAM-5, lines 25-29, and line 31.

For simplicity in calculating post-test year O&M escalation, the Sempra Utilities then created a single weighted-average escalation factor for each year, covering labor and non-labor expenses.[22,23] SDG&E and SoCalGas propose the following post-test year O&M escalation rates and associated revenue requirement:

**Table 31-3**
**SDG&E and SoCalGas Post-Test Year Labor & Non-Labor Escalation[24]**
**(in Millions of Dollars)**

| O&M Margin Escalation | 2020 | | 2021 | | 2022 | |
|---|---|---|---|---|---|---|
| SDG&E | 2.66% | $20.4 | 2.59% | $20.5 | 2.55% | $20.6 |
| SoCalGas | 2.70% | $38.5 | 2.58% | $37.8 | 2.53% | $38.1 |

SDG&E and SoCalGas propose a one-time update their cost escalation forecasts as part of their GRC Update Testimony. The Sempra Utilities propose using the Global Insight forecasts available in June 2018 to determine the 2019 labor and non-labor O&M escalation indices; the resultant post-test year O&M escalation amounts are then fixed throughout the attrition period (i.e., not updated every year to reflect more current escalation forecasts).[25]

### b. Medical Cost Escalation

The Sempra Utilities state that "…[m]edical costs have grown at a higher rate than the broad-based inflation in the general economy…"[26] and because post-test year "…medical costs are expected to increase above general utility cost inflation,

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[22] Ex. SDG&E-43-R, p. KJD-5, lines 7-9; Ex. SCG-44-R, p. JAM-5, lines 29-30.

[23] SDG&E and SoCalGas refer to the single weighted-average escalation factor as the Gas and Electric O&M Utility Input Price Index (GEOMPI).

[24] Ex. SDG&E-43-R, p. KJD-5, line 10; Ex. SCG-44-R, p. JAM-6, line 2.

[25] Ex. SDG&E-43-R, p. KJD-5, lines 12-16; Ex. SCG-44-R, p. JAM-6, lines 4-8.

[26] Ex. SDG&E-43-R, p. KJD-5, lines 19-20; Ex. SCG-44-R, p. JAM-6, lines 11-12.

medical costs are escalated separately based on actuarial forecasts…by Willis Towers Watson…,"[27] as described in Exhibits SDG&E-28 and SCG-30.

SDG&E and SoCalGas propose the following post-test year medical escalation rates and associated revenue requirement:

**Table 31-4**
**SDG&E and SoCalGas Post-Test Year Medical Cost Escalation[28]**
**(in Millions of Dollars)**

| Medical Cost Adjustment | 2020 | | 2021 | | 2022 | |
|---|---|---|---|---|---|---|
| SDG&E | 6.50% | $1.8 | 6.00% | $1.8 | 5.50% | $1.8 |
| SoCalGas | 6.50% | $4.5 | 6.00% | $4.4 | 5.50% | $4.3 |

The two utilities note that "…this forecasted rate is similar to the post-test year medical expense escalation rate (7.0%) that Southern California Edison Company (SCE) proposed in its Test Year 2018 GRC."[29]

### 2. Capital Additions

SDG&E and SoCalGas request the following post-test year capital-related revenue requirement adjustments:

**Table 31-5**
**SDG&E and SoCalGas Post-Test Year Capital-Related Revenue Increases[30]**
**(in Millions of Dollars)**

| Capital-Related Adjustment | 2020 | 2021 | 2022 |
|---|---|---|---|
| SDG&E | $135.6 | $98.4 | $101.5 |
| SoCalGas | $212.0 | $158.2 | $170.0 |

SDG&E's forecast comprises GRC incremental capital-related revenue adjustments, while SoCalGas' forecast comprises GRC incremental and PSEP capital-related revenue adjustments.

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[27] Ex. SDG&E-43-R, p. KJD-5, lines 20-23; Ex. SCG-44-R, p. JAM-6, lines 12-15.

[28] Ex. SDG&E-43-R, p. KJD-6, line 2; Ex. SCG-44-R, p. JAM-6, line 20.

[29] Ex. SDG&E-43-R, p. KJD-5, lines 25-26; Ex. SCG-44-R, p. JAM-6, lines 16-18.

[30] Ex. SDG&E-43-R, p. KJD-8, line 3; Ex. SCG-44-R, p. JAM-9, line 2.

### a. GRC Incremental Adjustment

SDG&E and SoCalGas request the following post-test year GRC incremental capital-related revenue requirement adjustments:

**Table 31-6**
**SDG&E and SoCalGas Post-Test Year GRC Incremental Capital-Related Revenue Increases[31]**
**(in Millions of Dollars)**

| Capital-Related Adjustment | 2020 | 2021 | 2022 |
|---|---|---|---|
| SDG&E | $135.6 | $98.4 | $101.5 |
| SoCalGas | $196.3 | $119.2 | $123.7 |

The Sempra Utilities propose an adjustment to capital-related revenue requirements[32] to reflect the cost of estimated post-test year plant additions (capital additions net of retirements) for rate base, based on using "…the escalated five-year average level of capital additions (2015-2016 recorded and 2017-2019 forecast as presented in this TY 2019 GRC) as a proxy for the annual PTY 2020, 2021, and 2022 actual level of capital additions."[33,34]

SDG&E and SoCalGas indicate that this methodology is similar to the PTY mechanism in the PG&E 2014 and 2017 GRCs, which relied on a 7-year average of capital additions to derive post-test year capital-related revenue requirement adjustments. However, they assert that using "…a five-year average of capital additions…better captures the current utility business environment…"[35] SDG&E

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31 Ex. SDG&E-43-R, p. KJD-8, line 3; Ex. SCG-44-R, p. JAM-9, line 2.

32 Comprising authorized return on rate base, depreciation expense, and taxes.

33 Ex. SCG-44-R, p. JAM-7, lines 15-17. ORA chooses not to quote Ex. SDG&E-43-R as it presents the same argument as SCG, though worded slightly differently.

34 The 2015-2019 recorded and forecast capital additions would be escalated to the appropriate PTY dollars and then averaged. Capital escalation rates would be based on IHS Markit major plant category indices as described in Ex. SDG&E-39 and Ex. SCG-40.

35 Ex. SDG&E-43-R, p. KDJ-7, lines 2-3; Ex. SCG-44-R, p. JAM-8, lines 1-3.

and SoCalGas state that their capital programs are "…continuing to evolve, with a primary focus on increasing investment in utility safety and reliability, while supporting California's clean energy and environmental initiatives."[36] The two utilities also assert that a five-year average serves to "…normalize year-to-year variability in utility spending and eliminates the administrative burden of conducting line-by-line reviews…" of forecasted capital spending.[37]

### b. SoCalGas PSEP Adjustment

In addition to the GRC-related incremental capital-related revenue requirement adjustment shown on the table above, SoCalGas also adds a component for forecasted Pipeline Safety Enhance Plan (PSEP) capital additions, which are booked to Federal Energy Regulatory Commission (FERC) Accounts 376 (Distribution Mains) and 367 (Transmission Mains):

**Table 31-7**
**SoCalGas Post-Test Year PSEP Capital Additions**
**(in Millions of Dollars)**

| PSEP | 2020 | 2021 | 2022 |
|---|---|---|---|
| Capital Additions (direct costs)[38] | $177.9 | $310.4 | $115.7 |
| Capital Additions (fully loaded and escalated)[39] | $218.6 | $389.5 | $148.6 |
| Capital-Related Revenue Increase[40] | $15.7 | $38.9 | $46.3 |

According to SoCalGas, D.16-08-003 authorized the Sempra Utilities to include certain PSEP costs as part of the 2019 GRC.[41] SoCalGas states that the

[36] Ex. SDG&E-43-R, p. KDJ-7, lines 4-5; Ex. SCG-44-R, p. JAM-8, lines 3-5.

[37] Ex. SDG&E-43-R, p. KDJ-7, lines 9-11; Ex. SCG-44-R, p. JAM-8, lines 9-10.

[38] Ex. SCG-44-WP-R, p. JAM PSEP-5, sum of the direct costs shown on lines 1 and 9 for years 2020, 2021, and 2022.

[39] Ex. SCG-44-WP-R, p. JAM PSEP-5, line 17 for years 2020, 2021, and 2022.

[40] Ex. SCG-44-R, p. JAM-10, line 10.

PSEP capital-related revenue requirement adjustment "…is necessary because majority of PSEP capital expenditures are expected to close to plant in service in 2020, 2021, and 2022, and therefore the associated capital-related costs will not be fully reflected in the TY 2019 revenue requirement."[42,43]

SoCalGas' total (GRC incremental and PSEP) capital-related revenue adjustment is shown on the following table:

**Table 31-8**
**SoCalGas Total Post-Test Year Capital-Related Revenue Increases[44]**
**(in Millions of Dollars)**

| Capital-Related Adjustment | 2020 | 2021 | 2022 |
|---|---|---|---|
| Incremental Capital-Related | $196.3 | $119.2 | $123.7 |
| PSEP Capital-Related | $15.7 | $38.9 | $46.3 |
| Total | $212.0 | $158.2 | $170.0 |

SDG&E does not forecast any attrition-year PSEP capital additions or capital-related revenue requirement increases.

### c. Rate Base

For the post-test years, SDG&E and SoCalGas are "…not proposing to adjust the rate base elements of materials and supplies, customer advances, or working cash."[45] However, the two utilities do propose rate base adjustments "…for the phase down of Internal Revenue Code (IRC) section 168(k) bonus depreciation and the repairs deduction as ordered in D.16-06-054."[46]

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(continued from previous page)

41 Ex. SCG-44-R, p. JAM-9, lines 6-13.

42 Ex. SCG-44-R, p. JAM-9, lines 19-21.

43 The details associated with the PSEP projects and costs are presented in Ex. SCG-15.

44 Ex. SCG-44-R, p. JAM-10, line 14.

45 Ex. SDG&E-43-R, p. KJD-6, lines 10-11; Ex. SCG-44-R, p. JAM-7, lines 6-7.

46 Ex. SDG&E-43-R, p. KJD-6, lines 11-12; Ex. SCG-44-R, p. JAM-6, lines 7-9.

### C. Z-Factor Mechanism

The Sempra Utilities propose, for this 2019-2022 GRC cycle, to keep in place the existing, currently authorized, Z-factor mechanism. The mechanism uses eight criteria outlined in D.94-06-011 to "…identify exogenous cost changes that qualify for rate adjustments prior to the next GRC test year. If all eight criteria are met, the Z-factor mechanism allows for rate adjustments for only the portion of the Z-factor costs not already contained…" in SDG&E's and SoCalGas' respective "…annual revenue requirement and only for costs that exceed a $5 million deductible per event."[47] Neither utility proposes to change the current identification of Z-factors.

In case of a potential Z-factor event, SDG&E and/or SoCalGas would "…notify the Commission's Executive Director by letter, providing all relevant and available information about the event, and will activate the Z-factor Memorandum Account for potential entries."[48] Following such notification, SDG&E and/or SoCalGas "…would have the option to file an application for a revenue requirement supplement if the Z-factor event exceeds the $5 million per event deductible."[49]

### D. Regulatory Filings

The Sempra Utilities currently update their attrition revenue requirements through an annual advice letter filing, and they propose continuing the process for the 2020-2022 post-test years.

SDG&E and SoCalGas would make their respective annual PTY advice letter filing on or before November 1 (beginning November 2019) to update the authorized revenue requirement, according to the adopted PTY ratemaking mechanism. "The resulting customer rate adjustments to recover the updated revenue requirement would be effective the following January 1. The advice letter will contain all

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[47] Ex. SDG&E-43-R, p. KJD-8, lines 8-11; Ex. SCG-44-R, p. JAM-11, lines 2-5.

[48] Ex. SDG&E-43-R, p. KJD-8, lines 14-16; Ex. SCG-44-R, p. JAM-11, lines 6-8.

[49] Ex. SDG&E-43-R, p. KJD-8, lines 17-18; Ex. SCG-44-R, p. JAM-11, lines 9-10.

calculations necessary to update the revenue requirement for the subsequent year."[50]

## V. ORA's POST-TEST YEAR RATEMAKING RECOMMENDATIONS

ORA does not oppose a PTYR mechanism which will provide SDG&E and SoCalGas with revenue increases in 2020, 2021, and 2022, but recommends one which would result in more reasonable attrition year revenue increases than the amounts requested by the Sempra Utilities.

> **ORA's proposed PTYR mechanism would provide SDG&E and SoCalGas with higher revenue increases compared to their last GRCs but lower increases compared to their requests**

### A. GRC Term

Both SDG&E and SoCalGas propose a 4-year GRC term (2019-2022) for this GRC cycle,[51] comprising a test year (2019) and three post-test years (2020, 2021, and 2022). ORA ***STRONGLY*** supports and agrees with Sempra's request, and urges the Commission to adopt the proposal.[52]

With a 3-year GRC cycle, as currently specified in the Rate Case Plan, test years of the initial case serve as base years for the following rate case. This presents issues because recorded test year costs may not be representative of future costs, as utilities often initiate new programs during the test year, and initial costs may not reflect a more stable or steady-state level of expenses or expenditures. A 4-year GRC term allows for better utility financial and operational management of spending and investment.

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[50] Ex. SDG&E-43-R, p. KJD-9, lines 3-5; Ex. SCG-44-R, p. JAM-11, lines 15-18.

[51] Ex. SDG&E-43-R, p. KJD-ii; Ex. SCG-44-R, p. JAM-ii.

[52] ORA will propose 4-year GRC terms for PG&E and SCE in their next GRC applications (TY2020 for PG&E and TY2021 for SCE).

A 4-year term for this rate case would also be consistent with SDG&E's and SoCalGas' GRCs for Test Years 2008 (2008-2011) and 2012 (2012-2015). If the Commission adopts a 4-year GRC cycle for the Sempra Utilities, their next rate case would be for Test Year 2023.

In the Sempra Utilities' 2016 GRC, ORA, SDG&E, and SoCalGas reached a settlement on a third attrition year in which both utilities would have received a 4.3% revenue increase for 2019. Several Parties opposed the proposed settlement and, ultimately, the Commission did not adopt it. In retrospect, adopting a 4.3% increase for 2019 would have saved the ratepayers millions of dollars compared to the 10.9% and 21.7% revenue increases (over 2018 authorized revenues) sought by SDG&E and SoCalGas, respectively, for 2019 in this GRC. ORA recommends that the Commission authorize a third attrition year (in 2022) for this GRC term.[53]

### B. ORA's Primary PTYR Mechanism Provides Reasonable GRC Revenue Increases

SDG&E seeks post-test year revenue increases of $158.5 million (7.22%) for 2020, $121.4 million (5.16%) for 2021, and $124.7 million (5.04%) for 2022,[54] while SoCalGas seeks revenue increases of $255.8 million (8.56%) for 2020, $201.1 million (6.20%) for 2021, and $213.1 million (6.18%) for 2022.[55] ORA recommends post-test year GRC revenue increases of 4.00% in 2020, 2021 and 2022, for both SDG&E and SoCalGas, plus additional revenues for SoCalGas' post-test year PSEP capital additions.

#### 1. Perspective on SDG&E's and SoCalGas' Request

The Sempra Utilities' proposed attrition increases in this rate case are higher than the increases granted by the Commission in their past two GRCs. As discussed in the "Background" section of this exhibit, the Commission has found it

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[53] "Those who cannot remember the past are condemned to repeat it." George Santayana, author from the late 19th and early 20th Centuries.

[54] Ex. SDG&E-43, p. KJD-ii.

[55] Ex. SCG-44, p. JAM-ii.

reasonable to adopt PTYR mechanisms providing attrition increases for California energy utilities based on forecasted Consumer Price Index (CPI) rates, or similar methods. In many cases, ORA has supported and recommended using the CPI as a basis for determining attrition increases.

For its 2012 GRC, Sempra proposed separate formulas applied to the O&M-related and capital-related revenue requirements. In D.13-05-010, the Commission adopted a mechanism for SDG&E and SoCalGas which allowed attrition increases of CPI plus 75 basis points.[56] In that decision, the Commission stated:

> …we do not adopt the PTY ratemaking framework that SDG&E and SoCalGas have proposed as it would essentially lead us down a path that allows SDG&E and SoCalGas to recover much of the PTY costs and expenses that they incur. SDG&E and SoCalGas should only be given a reasonable opportunity to ensure their authorized rate of return, and not a mechanism that brings them closer to achieving that target.[57]

> ...it is reasonable to add 75 basis points (0.75%) to DRA's recommended percentages, as the attrition adjustments that should be adopted for the PTY period. Adding 75 basis points to DRA's recommended percentages will align the attrition adjustment for the Applicants closer to what we have done in other recent GRC decisions, while recognizing that attrition increases for the PTY period should reflect current economic circumstances.[58]

In D.16-06-054, by adopting a settlement agreement for the 2016 GRC, the Commission authorized attrition increases of 3.5% per year for 2017 and 2018, for both utilities.[59]

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[56] D.13-05-010, *mimeo.*, at p. 1010.

[57] D.13-05-010, *mimeo.*, at p. 1010.

[58] D.13-05-010, *mimeo.*, at pp. 1010-1011.

[59] D.16-06-054, *mimeo.*, at p. 4.

### 2. ORA's Position

For this rate case, ORA proposes attrition increases for both utilities, equal to 4.00% per year for 2020, 2021, and 2022, plus additional revenues for SoCalGas' post-test year PSEP capital additions. ORA's recommendation is guided by:

- a recent forecast of the annual percent change in Consumer Prices, equal to 2.8% for 2020, 2.6% for 2021, and 2.4% for 2022;[60]
- recognition of capital investment programs which require additional revenues above a strict increase in Consumer Prices;
- attrition increases adopted by the Commission in recent large energy utility GRCs; and
- the two most recent post-test year percentage increases adopted for the Sempra Utilities in D.13-05-010 and D.16-06-054.

ORA's recommended 4.00% annual post-test year revenue increase for this GRC (plus additional PSEP revenues for SoCalGas) is higher than the most recent post-test year increases adopted by the Commission for the Sempra Utilities' past two GRCs (Test Years 2012 and 2016).

### 3. Attrition Revenues for SDG&E

Based on ORA's forecast of SDG&E's 2019 revenue requirement,[61] ORA's recommended PTYR methodology yields estimated revenue increases of $79.6 million for 2020, $82.8 million for 2021, and $86.1 million for 2022. These post-test year increases result in revenue requirement levels equal to $2.071 billion in 2020, $2.153 billion in 2021, and $2.240 billion in 2022.

### 4. Attrition Revenues for SoCalGas

Based on ORA's forecast of SoCalGas' 2019 revenue requirement,[62] ORA's recommended PTYR methodology yields estimated revenue increases of $110.7 million for 2020, $115.1 million for 2021, and $119.8 million for 2022. In addition,

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[60] IHS Markit US Economic Outlook, January 2018, page 13, Summary of the US Economy, Prices & Wages Percent Change, Consumer Prices. (See **Attachment 2**.)

[61] *See* Ex. ORA-02.

[62] *See* Ex. ORA-02.

based on the PSEP capital expenditure forecasts presented in Ex. ORA-03, ORA estimates[63] PSEP-related revenue increases of $15.5 million, $36.7 million, and $44.7 million for 2020, 2021, and 2022, respectively, in contrast to SoCalGas' forecasted increases of $15.7 million, $38.9 million, and $46.3 million. Hence, ORA forecasts revenue increases totaling $126.2 million for 2020, $151.8 million for 2021, and $164.5 million for 2022.[64] These post-test year increases result in revenue requirement levels equal to $2.894 billion in 2020, $3.046 billion in 2021, and $3.211 billion in 2022.

### C. Regulatory Filings

SDG&E and SoCalGas currently update their attrition revenue requirements through an annual advice letter filing, and they propose continuing the process of implementing post-test year revenue requirements annually through the advice letter process. ORA agrees with this request.

### D. Z-Factor Mechanism

The Sempra Utilities propose continuation of the existing, currently authorized, Z-factor mechanism which uses eight criteria outlined in D.94-06-011, and a $5 million per event deductible.

ORA does not oppose continuation of the Z-factor mechanism, but recommends that the mechanism be effective only during the post-test years, and

[63] SoCalGas provided ORA with an Excel spreadsheet which shows how it developed its PSEP-related revenue forecast based on its PSEP capital expenditure forecast. The spreadsheet is not dynamically linked in a manner which generates alternate revenue forecasts based on different capital forecasts, so ORA was unable to rely on it in order to estimate ORA's PSEP-related revenue forecast based on its PSEP capital expenditure forecast. Therefore, ORA developed its estimate of PSEP-related revenues by relying on ratios and pro-rated amounts based on its forecast of PSEP capital additions relative to SoCalGas' forecasts.

[64] See Ex. ORA-34 for ORA's revised forecasts of attrition revenue increases for SoCalGas, with the impacts of the Tax Cuts and Jobs Act.

not for the test year. This is consistent with ORA's recommendation in the PG&E 2014 and 2017 GRCs, which were adopted by the Commission.[65]

ORA notes that:

- the Z-factor mechanism covers cost increases or decreases; and
- as stated in D.13-05-010, "[a]ny Z-factor costs that will result in an increase in costs shall be filed as an application."[66]

### E. Rate Base Adjustments

SDG&E and SoCalGas propose rate base adjustments "…for the phase down of Internal Revenue Code (IRC) section 168(k) bonus depreciation and the repairs deduction as ordered in D.16-06-054."[67] ORA confirmed that adjustments were ordered in D.16-06-054,[68] and does not oppose SDG&E's and SoCalGas' proposals. However, these adjustments may be re-evaluated in conjunction with the new tax reform update.

### F. Tax Cuts and Jobs Act

The Results of Operations (RO) Model that ORA used to generate its Summary of Earnings and revenue requirement forecasts for its testimony served on April 13, 2018, models the federal income corporate tax rate at 35% and bonus depreciation[69] for 2017, 2018, and 2019 at 50%, 40%, and 30%, respectively. However, the Tax Cuts and Jobs Act (TCJA) lowered the corporate tax rate to 21%

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[65] D.14-08-032, *mimeo.*, at p. 662 and D.17-05-013, *mimeo.*, at pp. 52-53.

[66] D.13-05-010, *mimeo.*, at p. 1011.

[67] Ex. SDG&E-43, p. KJD-6, lines 11-12; Ex. SCG-44, p. JAM-6, lines 7-9.

[68] D.16-06-054, *mimeo.*, at p. 192 and Appendix B, page 2 of 15.

[69] Bonus depreciation is a method of accelerated depreciation which allows a business to make an additional deduction of, for example, 50% of the cost of qualifying property in the year in which it is put into service. Bonus depreciation is typically taken in the first year that the depreciable item is placed in service.

and repealed bonus depreciation for utility property acquired after September 27, 2017.

The updated RO model which Sempra provided to ORA with its April 6, 2018 Tax Update testimony reflects the new corporate tax rate and bonus depreciation provisions, and their impact on SDG&E's and SoCalGas' 2019 revenue requirement requests. ORA's forecasts of SDG&E's and SoCalGas' test year and post-test year revenue requirement, with the tax update, were developed using the April 2018 RO model, and are presented in Ex. ORA-34 and Ex. ORA-35.

# VI. ORA's ALTERNATE POST-TEST YEAR RATEMAKING MECHANISM

If the Commission does not adopt ORA's primary recommendation of setting fixed percentage increases for the Sempra Utilities' post-test year revenue increases, and instead prefers a mechanism similar to their proposal, then ORA recommends that the Commission adopt ORA's alternate recommendations, discussed below.

## A. O&M Expense Adjustments

SDG&E and SoCalGas propose escalating test year operating expenses by using a weighted average escalation factor (based on IHS Markit) for labor and non-labor costs, and a separate escalation factor (by Willis Towers Watson) for medical costs.

### 1. O&M (Labor and Non-Labor) Margin Escalation

For simplicity in calculating post-test year escalation, the Sempra Utilities developed a single weighted average factor for O&M (labor and non-labor) escalation. SDG&E proposes O&M margin escalation rates of 2.66% for 2020, 2.59% for 2021, and 2.55% for 2022,[70] while SoCalGas proposes O&M margin escalation rates of 2.70% for 2020, 2.58% for 2021, and 2.53% for 2022.[71]

ORA does not oppose this approach nor the forecasted rates. Given that SDG&E and SoCalGas are proposing to update the O&M margin escalation rates, the rates shown above serve as placeholders for the time being.

### 2. O&M Escalation Rate Updates

As previously discussed, SDG&E and SoCalGas intend to update their cost escalation forecasts as part of their GRC Update Testimony. The Sempra Utilities propose using the Global Insight forecasts available in June 2018 to determine the 2019 and post-test year labor and non-labor O&M escalation indices.[72]

ORA generally does not oppose this request, but recommends that limits be placed on how much the escalation rates can be automatically adjusted. Rather than automatically allowing SDG&E and SoCalGas to account for prospective changes in escalation rates, ORA recommends a cap which limits such changes to no more than 100 basis points (1.00%) above the currently forecasted rates when the Sempra Utilities update rates in June 2018.

For example, SoCalGas currently forecasts a 2.70% O&M margin escalation rate, and the June 2018 update—which is two months after ORA serves its testimony—should not allow the rate to exceed 3.70%.[73] ORA's proposal still allows SDG&E and SoCalGas to automatically adjust O&M margin escalation rates, still allows SDG&E and SoCalGas to implement higher than currently forecasted rates during the GRC cycle up to a certain level, and protects ratepayers against a "blank check" approach if the June 18 forecasts of escalation rates are significantly higher than current forecasts.

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[70] Ex. SDG&E-43, p. KJD-5, line 10.

[71] Ex. SCG-44, p. JAM-6, line 2.

[72] Ex. SDG&E-43, p. KJD-5, lines 12-16; Ex. SCG-44, p. JAM-6, lines 4-8.

[73] Calculation: 2.70% + 1.00% = 3.70%.

If the June 2018 update exceeds the recommended 1.00% cap, SDG&E and SoCalGas can file a Tier 2 advice letter to request, explain, and justify why a greater change is necessary.

#### 3. Medical Cost Escalation

SDG&E and SoCalGas forecast post-test year increases to medical expenses, and propose medical escalation rates of 6.50% for 2020, 6.00% for 2021, and 5.50% for 2022.[74] For the post-test years, ORA recommends a lower-cost alternative to the Sempra Utilities' forecast, and proposes an annual medical escalation rate of 4.25%, as recommended in Ex. ORA-22.

### B. Capital-Related Adjustments

#### 1. GRC Incremental Adjustment

The Sempra Utilities propose an adjustment to capital-related revenue requirements to reflect the cost of post-test year capital additions, based on using the escalated 5-year (2015-2019) average level of net plant additions (capital additions net of retirements) as a proxy for the 2020, 2021, and 2022 level of net plant additions.

ORA does not oppose the use of an escalated multi-year average of capital additions as a proxy for post-test year capital additions, but recommends a 7-year average (2013-2019) instead of Sempra's proposed 5-year average. The Commission previously adopted the 7-year average methodology in PG&E's 2014 GRC, but has not adopted a 5-year average of capital additions as a proxy for post-test year capital additions in any recent large energy utility GRC.

Sempra's proposed 5-year average relies more on forecasted capital additions rather than recorded data (i.e., 2 years of recorded data, from 2015 and 2016, and 3 years of forecasts, for 2017-2019). ORA's recommendation of using a 7-year average from 2013-2019 seeks a more equitable balance, whereby two additional years of recorded capital additions, from 2013 and 2014, are included as part of the averaging methodology.

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[74] Ex. SDG&E-43, p. KJD-6, line 2; Ex. SCG-44, p. JAM-6, line 20.

In calculating the 7-year average, ORA also recommends using the 2017 recorded capital additions, and the Commission-adopted 2018 and 2019 capital additions forecasts, instead of SDG&E's and SoCalGas' 2017-2019 forecasts. Using the actual capital additions from 2017 eliminates another year of forecast uncertainty from the 7-year average.[75]

### 2. SoCalGas PSEP Adjustment

SoCalGas proposes post-test year capital-related revenue requirement adjustments associated with forecasted Pipeline Safety Enhance Plan (PSEP) capital additions.

As discussed earlier, ORA does not oppose SoCalGas' request for post-test year revenues associated with PSEP capital expenditures in 2020, 2021, and 2022, but recommends that the Commission adopt ORA's PSEP capital expenditure forecasts as presented in Ex. ORA-03. Based on those forecasts, ORA estimates that the revenue requirement impact equals $15.5 million, $36.7 million, and $44.7 million for 2020, 2021, and 2022, respectively.

### 3. Rate Base

ORA agrees with SDG&E's and SoCalGas' proposal to not adjust the rate base elements of materials and supplies, customer advances, or working cash. As previously indicated, ORA does not oppose the utilities' proposed rate base adjustments for the phase down of Internal Revenue Code (IRC) section 168(k) bonus depreciation and the repairs deduction as ordered in D.16-06-054.[76] However, these adjustments may be re-evaluated in conjunction with the new tax reform update.

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[75] Unless noted otherwise, ORA witnesses who are addressing the Sempra Utilities' capital expenditures have incorporated 2017 recorded capital expenditures into their forecasts.

[76] D.16-06-054, *mimeo.*, at p. 192 and Appendix B, page 2 of 15.

# WITNESS QUALIFICATIONS

My name is Clayton K. Tang. My business address is 505 Van Ness Avenue, San Francisco, California. I am employed by the Office of Ratepayer Advocates (ORA) as a Program and Project Supervisor in the Energy Cost of Service and Natural Gas Branch.

I received a Master of Business Administration degree from San Francisco State University and a Bachelor of Science degree in Mechanical Engineering from San Jose State University. I am a registered Professional Engineer in Mechanical Engineering in the State of California.

Since joining the Commission in 1986, I have worked on numerous general rate cases (GRCs) in an advocacy role with ORA (1986-1997 and 2005-present), and on various matters in an advisory role with the Energy Division (1997-2005). I am one of ORA's Project Coordinators for this GRC.

This completes my prepared testimony.

# *ATTACHMENTS*

Attachment 1

SOUTHERN CALIFORNIA EDISON
An EDISON INTERNATIONAL Company

**Akbar Jazayeri**
Vice President of Regulatory Operations

December 19, 2012

**ADVICE 2826-E**
**(U 338-E)**

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA
ENERGY DIVISION

**SUBJECT:** Implementation of the Test Year 2012 General Rate Case (GRC) Adopted Revenue Requirement, 2013 GRC Post Test Year Revenue Requirement and Ratemaking Mechanisms in Accordance with Decision 12-11-051

In accordance with the California Public Utilities Commission ("Commission" or "CPUC") Decision (D.) 12-11-051, Southern California Edison Company (SCE) hereby submits for filing the following changes to its tariff schedules. The revised tariff sheets and filed forms are listed on Attachment A and are attached hereto.

## PURPOSE

The purpose of this advice filing is to (1) implement GRC-authorized revenue requirements for the 2012 Test Year and 2013 Post Test Year;[1] (2) modify the Preliminary Statement section of SCE's tariffs to establish new ratemaking mechanisms, modify existing ratemaking mechanisms, and eliminate those ratemaking mechanisms no longer needed consistent with D.12-11-051; (3) set forth the entries recorded in the 2012 GRC Revenue Requirement Memorandum Account; and (4) implement Commission-authorized Other Operating Revenue (OOR) fees.

## BACKGROUND

On November 23, 2010, SCE filed Application (A.) 10-11-015 requesting, among other things, an increase in its base revenue requirements for the 2012 Test Year and 2013 and 2014 Post Test Years. SCE's base revenue requirements include the costs of operating, maintaining, and investing in SCE's generation, distribution, and general functions, and exclude costs of fuel and power procurement.

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1 SCE has identified some errors in the Results of Operations model. SCE intends to work in collaboration with the Commission's Energy Division to determine if and when these errors will be corrected and filed via a subsequent advice letter.

Party Implemented Projects, Form 14-905; and On-Bill Financing Agreement Local Government/Institutional Customer Projects, Form 14-914 are revised to reflect a return check charge of $8.00.

## GRC REVENUE REQUIREMENT CHANGE

Table 6 below summarizes the net revenue requirement change that will be reflected in SCE's 2012 and 2013 rate levels as the result of implementing D.12-11-051. As shown on Line No. 2 of Table 6, the 2012 Authorized Base Revenue Requirement (ABRR) is $5.671 billion. In order to determine the GRC-related revenue requirement increase, there are several adjustments that need to be made to the 2011 GRC-related ABRR. These adjustments are shown on Line Nos. 4 and 5 of Table 6. The authorized 2012 ABRR increase of $338 million is shown on line 7 of Table 6.

The 2012 ABRR increase is then adjusted for 2013 to reflect: 1) recovery of the $389 million, 2012 balance recorded in the GRC Memorandum Account; 2) an increase of $351 million to include the 2013 post test-year change pursuant to D.12-11-051; 3) the change in GRC-related balancing accounts for 2012; 4) the change in the other Commission authorized revenue requirements (e.g. ERRA) as the result of the FF&U factors adopted in D.12-11-051; and 5) a reduction for the Edison SmartConnect ™ revenue requirement included in 2012 rate levels.

**Table 6**
**Southern California Edison Company**
**Revenue Requirement Change (D.12-11-051)**

| | | ($millions) | Authority |
|---|---|---|---|
| 1. | **2012 Increase** | | |
| 2. | 2012 Authorized Base Revenue Requirement | 5,671 | D.12-11-051 |
| 3. | 2011 Authorized Base Revenue Requirement | 5,202 | D.09-03-025 |
| 4. | Plus: 2 Refuelings (2011 Rev Rqmt In 2012 Rates) | 103 | |
| 5. | Solar PV Rev Rqmt In 2012 Rates | 28 | |
| 6. | Subtotal (In Rates Prior To 2012 GRC Decision) | 5,333 | |
| 7. | 2012 Base Revenue Requirement Increase | 338 | (Line No. 2 - Line No. 6) |
| 8. | **2013 Increase** | | |
| 9. | Plus: 2012 GRC Memorandum Account | 389 | |
| 10. | 2013 Post Test-Year Increase | 351 | D.12-11-051 ($6.022M for 2013 - $5.671M for 2012) |
| 11. | GRC-Related Balancing Accounts | (2) | (Pensions, PBOP, Palo Verde, and Medical Programs) |
| 12. | FF&U on all non-GRC Rev. Rqmts | (1) | |
| 13. | Less: Edison SmartConnect™ in 2012 Rates | 188 | |
| 14. | | | |
| 15. | 2013 Base Revenue Requirement Increase | 549 | (Sum of Line Nos. 9 through 12 - Line No. 13) |
| 16. | | | |
| 17. | Combined 2012 and 2013 Increase | 887 | (Line No. 7 + Line No. 15) |

SCE plans to implement the authorized 2013 ABRR of $6.022 billion in rates on January 1, 2013. The overall combined 2012 and 2013 GRC-related increase above the 2011 GRC revenue requirement is $887 million.

Attachment 2

IHS Markit™

# US Economic Outlook

January 2018

Table 2

## Summary of the US Economy

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Composition of Real GDP, Percent Change** | | | | | | | | | | | | | |
| Gross Domestic Product | 2.5 | 1.6 | 2.2 | 1.7 | 2.6 | 2.9 | 1.5 | 2.2 | 2.7 | 2.6 | 2.0 | 1.8 | 2.0 |
| Final Sales of Domestic Product | 1.1 | 1.7 | 2.1 | 1.5 | 2.7 | 2.6 | 1.9 | 2.3 | 2.5 | 2.5 | 2.1 | 1.9 | 2.0 |
| Gross Domestic Income | 2.7 | 2.2 | 3.3 | 1.2 | 3.1 | 3.0 | 0.9 | 1.7 | 2.5 | 2.6 | 2.0 | 1.8 | 2.0 |
| Avg. of GDP and GDI | 2.6 | 1.9 | 2.7 | 1.5 | 2.8 | 2.9 | 1.2 | 2.0 | 2.6 | 2.6 | 2.0 | 1.8 | 2.0 |
| Total Consumption | 1.9 | 2.3 | 1.5 | 1.5 | 2.9 | 3.6 | 2.7 | 2.7 | 2.7 | 2.5 | 2.2 | 2.1 | 2.2 |
| Durables | 6.1 | 6.1 | 7.4 | 6.2 | 6.9 | 7.7 | 5.5 | 6.5 | 5.8 | 3.9 | 3.7 | 3.4 | 3.9 |
| Nondurables | 2.2 | 1.8 | 0.6 | 1.7 | 2.5 | 3.1 | 2.8 | 2.4 | 2.8 | 2.0 | 1.9 | 2.1 | 2.2 |
| Services | 1.2 | 1.8 | 0.8 | 0.6 | 2.4 | 3.2 | 2.3 | 2.2 | 2.2 | 2.4 | 2.0 | 1.9 | 1.9 |
| Nonresidential Fixed Investment | 2.5 | 7.7 | 9.0 | 3.5 | 6.9 | 2.3 | -0.6 | 4.8 | 5.5 | 5.0 | 3.5 | 2.8 | 2.4 |
| Equipment | 15.9 | 13.6 | 10.8 | 4.6 | 6.6 | 3.5 | -3.4 | 5.1 | 7.9 | 6.0 | 4.0 | 2.7 | 1.8 |
| Information Processing Equipment | 9.9 | 1.6 | 6.0 | 4.8 | 3.7 | 4.3 | 1.8 | 7.7 | 7.7 | 5.7 | 3.7 | 3.0 | 2.9 |
| Industrial Equipment | -0.5 | 21.1 | 9.0 | -1.5 | 4.2 | 1.1 | 2.3 | 8.2 | 12.7 | 6.9 | 4.9 | 3.6 | 2.4 |
| Transportation equipment | 94.0 | 33.7 | 19.6 | 11.0 | 11.7 | 10.4 | -7.3 | -0.3 | 0.7 | 4.6 | 4.1 | 1.1 | -1.4 |
| Aircraft | 24.7 | 26.5 | 4.7 | 8.3 | 10.9 | 5.9 | -25.1 | 19.7 | 14.4 | 16.3 | 5.6 | 3.3 | 3.3 |
| Other Equipment | 8.6 | 10.9 | 11.2 | 3.9 | 7.1 | -2.6 | -9.8 | 5.2 | 11.7 | 7.1 | 3.3 | 3.0 | 3.2 |
| Intellectual Property Products | 1.9 | 3.6 | 3.9 | 3.4 | 4.6 | 3.8 | 6.3 | 4.2 | 4.3 | 3.7 | 3.0 | 2.7 | 2.9 |
| Structures | -16.4 | 2.3 | 12.9 | 1.4 | 10.5 | -1.8 | -4.1 | 5.2 | 2.6 | 4.6 | 3.4 | 3.2 | 2.6 |
| Commercial & Health Care | -24.9 | -0.5 | 8.6 | 3.5 | 12.9 | 10.6 | 14.6 | 4.2 | 5.2 | 9.4 | -0.2 | 2.0 | 4.2 |
| Manufacturing | -27.5 | -4.2 | 14.8 | 4.1 | 13.0 | 33.8 | -6.4 | -13.6 | 2.2 | 10.4 | 2.7 | -1.4 | -3.8 |
| Power & Communication | -16.1 | -7.8 | 21.0 | -4.4 | 15.0 | -3.4 | 4.6 | -6.2 | -3.9 | -3.4 | -3.2 | -2.8 | -2.2 |
| Mining & Petroleum | 17.1 | 26.4 | 11.7 | 1.8 | 6.5 | -28.5 | -43.2 | 55.9 | 1.8 | 1.6 | 16.9 | 15.1 | 7.7 |
| Other | -26.7 | -9.4 | 9.5 | 4.3 | 7.1 | 10.5 | 7.4 | 2.4 | 6.5 | 3.8 | 4.2 | 1.5 | 2.3 |
| Residential Fixed Investment | -2.5 | 0.5 | 13.5 | 11.9 | 3.5 | 10.2 | 5.5 | 1.7 | 2.7 | 5.3 | 4.7 | 2.8 | 2.4 |
| Exports | 11.9 | 6.9 | 3.4 | 3.5 | 4.3 | 0.4 | -0.3 | 3.4 | 5.3 | 4.3 | 3.7 | 3.4 | 3.5 |
| Imports | 12.7 | 5.5 | 2.2 | 1.1 | 4.5 | 5.0 | 1.3 | 3.8 | 6.2 | 4.8 | 4.2 | 3.8 | 3.1 |
| Federal Government | 4.3 | -2.7 | -1.9 | -5.8 | -2.4 | -0.1 | 0.0 | -0.2 | -0.4 | -0.2 | 0.0 | -0.3 | 0.0 |
| State & Local Government | -2.7 | -3.3 | -1.9 | -0.8 | 0.5 | 2.3 | 1.2 | 0.0 | 0.9 | 0.9 | 1.1 | 1.0 | 0.8 |
| **Billions of Dollars** | | | | | | | | | | | | | |
| Real GDP | 14783.8 | 15020.6 | 15354.6 | 15612.2 | 16013.3 | 16471.5 | 16716.2 | 17091.6 | 17546.7 | 17995.1 | 18363.4 | 18698.3 | 19066.3 |
| Nominal GDP | 14964.4 | 15517.9 | 16155.3 | 16691.5 | 17427.6 | 18120.7 | 18624.5 | 19382.4 | 20301.2 | 21288.5 | 22237.8 | 23162.9 | 24144.1 |
| **Prices & Wages, Percent Change** | | | | | | | | | | | | | |
| GDP Deflator | 1.2 | 2.1 | 1.8 | 1.6 | 1.8 | 1.1 | 1.3 | 1.8 | 2.0 | 2.3 | 2.4 | 2.3 | 2.2 |
| Consumer Prices | 1.6 | 3.1 | 2.1 | 1.5 | 1.6 | 0.1 | 1.3 | 2.1 | 1.7 | 1.9 | 2.8 | 2.6 | 2.4 |
| Producer Prices, Finished Goods | 4.2 | 6.0 | 1.9 | 1.2 | 1.9 | -3.3 | -1.0 | 3.2 | 2.3 | 1.7 | 3.0 | 2.3 | 2.3 |
| Employment Cost Index - Total Comp. | 1.9 | 2.2 | 1.9 | 1.9 | 2.1 | 2.1 | 2.1 | 2.5 | 2.7 | 3.1 | 3.4 | 3.4 | 3.4 |
| **Other Key Measures** | | | | | | | | | | | | | |
| Brent Crude, Spot Price ($/bbl) | 79.91 | 110.96 | 111.77 | 108.74 | 99.83 | 52.68 | 44.24 | 54.81 | 56.71 | 57.58 | 67.03 | 73.16 | 78.62 |
| Productivity (%ch.) | 3.3 | 0.1 | 0.9 | 0.3 | 1.0 | 1.2 | 0.0 | 1.3 | 1.5 | 1.6 | 1.5 | 1.6 | 1.5 |
| Total Industrial Production (%ch.) | 5.5 | 3.1 | 2.9 | 2.0 | 3.1 | -0.7 | -1.2 | 1.9 | 3.3 | 3.0 | 2.2 | 1.8 | 2.1 |
| Factory Operating Rate | 70.7 | 73.7 | 74.8 | 74.7 | 75.4 | 75.5 | 75.1 | 75.7 | 77.0 | 77.1 | 76.6 | 76.1 | 76.1 |
| Nonfarm Inven. Chg. (Bil. 2009 $) | 65.9 | 36.6 | 72.7 | 73.0 | 74.0 | 102.8 | 34.5 | 15.0 | 45.2 | 64.2 | 55.6 | 50.7 | 51.7 |
| Consumer Sentiment Index | 71.8 | 67.4 | 76.5 | 79.2 | 84.1 | 92.9 | 91.8 | 96.8 | 99.7 | 99.2 | 97.6 | 97.4 | 97.2 |
| Light Vehicle Sales (Mil. units) | 11.55 | 12.74 | 14.43 | 15.53 | 16.45 | 17.40 | 17.47 | 17.15 | 16.93 | 16.85 | 16.81 | 16.64 | 16.51 |
| Housing Starts (Mil. units) | 0.586 | 0.612 | 0.784 | 0.928 | 1.001 | 1.107 | 1.177 | 1.211 | 1.289 | 1.402 | 1.449 | 1.473 | 1.496 |
| Exist. House Sales (Total, Mil. units) | 4.183 | 4.277 | 4.657 | 5.078 | 4.923 | 5.234 | 5.440 | 5.548 | 5.712 | 5.836 | 5.980 | 6.042 | 6.036 |
| Unemployment Rate (%) | 9.6 | 8.9 | 8.1 | 7.4 | 6.2 | 5.3 | 4.9 | 4.4 | 3.9 | 3.7 | 3.8 | 4.1 | 4.3 |
| Payroll Employment (%ch.) | -0.7 | 1.2 | 1.7 | 1.6 | 1.9 | 2.1 | 1.8 | 1.5 | 1.6 | 1.5 | 0.7 | 0.3 | 0.4 |
| Federal Surplus (Unified, FY, bil. $) | -1294.2 | -1296.8 | -1089.2 | -680.2 | -483.6 | -439.1 | -587.4 | -665.7 | -687.7 | -974.0 | -1023.1 | -1133.4 | -1273.3 |
| Current Account Balance (Bil. $) | -430.7 | -444.6 | -426.2 | -349.5 | -373.8 | -434.6 | -451.7 | -460.7 | -476.8 | -474.1 | -515.6 | -535.7 | -538.5 |
| **Financial Markets, NSA, Quarter Average** | | | | | | | | | | | | | |
| Federal Funds Rate (%) | 0.18 | 0.10 | 0.14 | 0.11 | 0.09 | 0.13 | 0.40 | 1.00 | 1.82 | 2.52 | 3.09 | 3.45 | 3.45 |
| 3-Month Treasury Bill Rate (%) | 0.14 | 0.05 | 0.09 | 0.06 | 0.03 | 0.05 | 0.32 | 0.93 | 1.69 | 2.28 | 2.78 | 3.10 | 3.10 |
| 10-Year Treasury Note Yield (%) | 3.21 | 2.79 | 1.80 | 2.35 | 2.54 | 2.14 | 1.84 | 2.33 | 3.01 | 3.54 | 3.72 | 3.72 | 3.69 |
| 30-Year Fixed Mortgage Rate (%) | 4.69 | 4.46 | 3.66 | 3.98 | 4.17 | 3.85 | 3.65 | 3.99 | 4.54 | 5.05 | 5.31 | 5.39 | 5.38 |
| S&P 500 Stock Index | 1139 | 1269 | 1380 | 1643 | 1931 | 2061 | 2092 | 2448 | 2677 | 2625 | 2631 | 2685 | 2761 |
| (Percent change) | 20.3 | 11.4 | 8.7 | 19.1 | 17.5 | 6.8 | 1.5 | 17.0 | 9.4 | -2.0 | 0.2 | 2.0 | 2.8 |
| Exchange Rate, Broad Index of Partners | 0.964 | 0.920 | 0.945 | 0.956 | 0.986 | 1.109 | 1.161 | 1.158 | 1.154 | 1.166 | 1.171 | 1.173 | 1.170 |
| (% change, annual rate) | -3.6 | -4.6 | 2.8 | 1.1 | 3.1 | 12.5 | 4.7 | -0.3 | -0.3 | 1.0 | 0.4 | 0.2 | -0.3 |
| **Incomes** | | | | | | | | | | | | | |
| Personal Income (% ch.) | 3.2 | 6.2 | 5.0 | 1.1 | 5.3 | 5.0 | 2.4 | 3.1 | 4.4 | 5.2 | 5.0 | 4.6 | 4.4 |
| Real Disposable Income (%ch.) | 1.0 | 2.5 | 3.1 | -1.4 | 3.6 | 4.2 | 1.4 | 1.3 | 3.8 | 3.7 | 2.5 | 2.5 | 2.3 |
| Saving Rate (%) | 5.6 | 6.1 | 7.6 | 5.0 | 5.7 | 6.1 | 4.9 | 3.5 | 4.3 | 5.3 | 5.5 | 5.8 | 5.9 |
| After-Tax Profits (Billions of $) | 1470 | 1428 | 1683 | 1688 | 1744 | 1651 | 1688 | 1832 | 1987 | 2072 | 2082 | 2114 | 2159 |
| (Percent change) | 22.2 | -2.9 | 17.9 | 0.3 | 3.3 | -5.3 | 2.2 | 8.5 | 8.5 | 4.3 | 0.5 | 1.6 | 2.1 |

Source: IHS Markit