ENERGY DIVISION DATA REQUEST
REGARDING COST OF OWNERSHIP CALCULATIONS
R.17-07-007 – RULE 21 WORKING GROUP 3
ERRATA TO SDG&E RESPONSE

Date Received: March 27, 2019
Date Submitted: April 9, 2019
Date Amended: April 11, 2019

QUESTION 1:

What are your existing policies and cost accounting practices related to COO? Please be specific and detailed. For example, when replaced items get zeroed out in GRC, is depreciation included and how is it treated? How are total costs vs. incremental costs or replacements treated?

Additional questions submitted by Tesla separate from the Data Request:

- **How are the IOU's defining each of the individual items that go into the COO? Can they provide the documentation that outlines COO and the associate term definitions to the working group for reference?**
- **Is there currently some level of reporting that the IOU's might have internally that shows how much of the COO funds are used vs what has been charged?**
- **Would like to get IOU thoughts on True-ups for actuals to where there is a potential refund to the customer at the end of a specified term.**
- ***Example of what Tesla would like to see happen:* Customer paid COO in one-time lump payment including replacement and perpetuity of $1,000.00, at the end of PG&E's 12-year term for the Special Facilities Agreement the unused COO costs are $600.00 after end of term true up evaluation. The $600.00 is refunded via check or wire transfer to the customer within 30 to 60 business days of this determination.**

RESPONSE 1:

The questions asked in this data request are beyond the scope of Rule 21 and relate to other tariffs, especially to Rule 2. SDG&E does not believe that distributed energy resources (DERs) should receive preferential treatment in the application of Cost of Ownership, as SDG&E applies the tariff equitably to all applicants and customers. Nonetheless, SDG&E submits the following response to this data request.

SDG&E's existing policies and practices for all customer requests are outlined in Electric Rule 15 "Distribution Line Extensions,"[1] Rule 16 "Service Extensions,"[2] and Rule 2 Section I "Special Facilities and Maintenance."[3] The issue brief comingles COO with Special Facilities, which are activated when a customer requests services that require facilities beyond normal service facilities already provided by SDG&E. Rule 2 Special Facilities contracts are triggered when a customer's service request requires facilities different from what is required for standard load service.

When a customer requests a Special Facility under the Rule 2 tariff requirements, the cost to the customer is determined based upon the specific replacement equipment requested by the applicant. The costs include a capital charge and an operations and maintenance (O&M) charge

[1] See: https://www.sdge.com/sites/default/files/elec_elec-rules_erule15.pdf
[2] See: https://www.sdge.com/sites/default/files/elec_elec-rules_erule16.pdf
[3] See: https://www.sdge.com/sites/default/files/elec_elec-rules_erule2.pdf, at 10-14.

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for each piece of equipment. The portion of the COO that is applied to capital and O&M depends on multiple factors, including asset type, associated book life of that asset, and the specific type of replacement equipment requested by the applicant. SDG&E defines the components of COO as a variety of current and future costs in this calculation, such as O&M expense, depreciation, and taxes.

Additionally, the tariff provides for Rule 2 payment finance factors. Depending on whether an applicant chooses to pay a lump sum payment or an annual payment option, the payment received for the cost of capital charge is estimated to represent the cost to construct or install the requested equipment. If a lump-sum payment is applied to those costs, SDG&E would reflect an asset in its accounting records with a zero basis (i.e. ratepayers do not bear the responsibility for the special facilities). The Rule 2 finance factors are calculated to represent future or ongoing costs related to the replacement equipment, the payment of the Rule 2 finance factors is recorded to miscellaneous revenue, offsets the future costs of the asset, and reduces the revenues needed to be collected from ratepayers as these costs are incurred.

When existing equipment is replaced with a special facility, the cost of the asset does not get "zeroed out in GRC." If a customer requests a special facility and SDG&E replaces equipment that had been previously installed to serve the utility ratepayer load requirements and approved through its GRC process, SDG&E would continue to recover the cost of the asset from ratepayers. SDG&E's recovery mechanism is through depreciation expense over the average service life of the asset. The old equipment has its accounting, and the new special facility has its own associated accounting. Both are separate and distinct. When a customer requests a special facility, SDG&E has not fully recovered its investment in the equipment, as the recovery mechanism occurs over time. When an asset is removed from service, SDG&E follows the FERC regulatory guidelines[4] to retire the asset. Any remaining net book value of the asset will continue to be recovered from ratepayers.

Special Facilities requested by customers under Rule 2 are generally classified as mass assets, which are defined by FERC as high-volume or low-cost assets. Mass assets reflect all costs for groups of new "retirement units" and contain various supporting materials, but these items are summarized with all other installation costs (such as labor, various materials, contractor services, overheads, etc.) and are not recorded as individual or segregated asset records. Therefore, there is not currently any level of reporting that SDG&E might have internally that shows how much of the COO funds are used relative to what has been charged. As there is no individual reporting of these equipment upgrades (or the related individual cost and payment components) as part of the mass-asset process, a true-up of estimates to actuals would not be possible within the current process. Therefore, it is not possible to do a "true-up" and provide customers with a refund check, as Tesla proposes as an example.

[4] 18 C.F.R. Pt. 101

QUESTION 2:

For equipment that received GRC approval for COO cost recovery and is replaced with equipment that is financed by a customer:

a. **How does the utility ensure that O&M and depreciation are no longer collected from ratepayers?**
b. **Are there currently cases where ratepayers continue to pay O&M that would cover the new equipment in whole or in part?**

RESPONSE 2:

If a customer requests a special facility and SDG&E replaces equipment that had been previously installed to serve the utility ratepayer load requirements and approved through its GRC process, SDG&E would continue to recover the cost of the asset from ratepayers. SDG&E's recovery mechanism is through depreciation expense over the average service life of the asset. Therefore, when a customer requests a special facility, SDG&E has not fully recovered its investment in the equipment as the recovery mechanism occurs overtime. When an asset is removed from service, SDG&E follows the FERC regulatory guidelines[5] to retire the asset. Any remaining net book value of the asset will continue to be recovered from ratepayers.

The future maintenance costs for Special Facilities under Rule 2 are borne by the applicant and are a factor in the COO calculation. The future cost components included in this calculation are recorded to Miscellaneous Revenue (benefiting ratepayers upfront) and effectively offset future O&M costs over the life of the asset. If the estimated O&M costs are not accurately calculated and received from the applicant, the ratepayers would bear the future responsibility of those O&M costs as there is not a look-back provision or true up mechanism. Therefore, it is possible that ratepayers could continue to pay O&M that would cover the new equipment in whole or in part, but SDG&E has no way of knowing the true extent of O&M actually needed for any one facility over the entire life of that facility at the time of installation.

QUESTION 3a:

SCE does not charge O&M for equipment replacement that is like for like. How is this defined? Does it include reconductoring and transformer upsizing?

RESPONSE 3a:

This question is not applicable to SDG&E.

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[5] 18 C.F.R. Pt. 101

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QUESTION 3b:

Would PG&E and SDG&E consider not charging O&M for equipment replacement that is like for like?

RESPONSE 3b:

The type of equipment being replaced (i.e. different equipment or "like for like") does not alter the financial impact of replacing existing equipment that is currently providing service to the utility ratepayer. Special facilities result in capital costs and operating costs incurred by SDG&E, beyond the costs of standard facilities that are normally installed to serve utility ratepayer load requirements, approved in SDG&E's GRC filing process, and therefore supported by customer rates. All SDG&E costs not incurred to serve utility ratepayer load requirements and included in a GRC authorization process should be appropriately charged to the requesting applicant.

QUESTION 3c:

SCE does not charge depreciation, return on investment, or income tax for upgrades that are customer financed. Is that true for PG&E and SDG&E?

RESPONSE 3c:

That is not true for SDG&E. In order to appropriately treat current and future costs incurred by SDG&E for the applicant's benefit and not burden all ratepayers with these applicant costs, SDG&E does include return of capital (i.e. depreciation), return on ~~investment~~ capital, and income taxes for upgrades that are customer-financed.

QUESTION 3d:

PGE does not charge COO for moving the location of a facility. Is that true for SCE and SDG&E?

RESPONSE 3d:

SDG&E charges all customers for customer-requested relocation of any facility.

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QUESTION 3e:

What are the customer options for whether to pay upfront for replacement after a certain number of years? Is the one-time payment option only available if the customer elects replacement in perpetuity? SCE stated that the one-time payment is available only if replacements in perpetuity are pre-paid, but a GRC document seems to indicate it is also available if replacement is only within a 20-year term (2015 GRC, Results of Operations Volume 1, SCE-10, p. 88). Please clarify. PG&E stated that all or most of its COO one-time payment assessments are for a 12-year term. Please verify and explain how that works.
Additional questions submitted by Tesla separate from the Data Request:

- **Is there an option to revise this policy to allow for one-time option to exclude the replacement and perpetuity costs with added language that they acknowledge the cost will be invoiced if replacement is needed in the future?**
- **Is it possible to have a side by side comparison made via a chart to show how the 3 separate IOU's are similar and differ regarding the COO charge calculation?**

RESPONSE 3e:

This question is not applicable to SDG&E. SDG&E does not charge a set replacement cost, so there are no payment options specific to replacement.