

Application of Southern California Gas Company
for authority to update its gas revenue requirement
and base rates effective on January 1, 2012.
(U904G)

Application 10-12-____
Exhibit No.: (SCG-34)

PREPARED DIRECT TESTIMONY OF
GREGORY D. SHIMANSKY
ON BEHALF OF SOUTHERN CALIFORNIA GAS COMPANY

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

DECEMBER 15, 2010



TABLE OF CONTENTS

I. INTRODUCTION..... 1

A. Purpose of Testimony 1

B. Summary of Request..... 1

II. REGULATORY ACCOUNTS 2

A. Proposed Disposition of Forecasted Balances 2

1. Forecasted Balances as of December 31, 2011..... 2

2. Disposition Proposal 2

B. Additional Requests..... 4

1. Review and Continued Ratemaking Treatment Currently Adopted..... 4

2. Establishment of the NERBA 5

III. CONCLUSION 6

IV. WITNESS QUALIFICATIONS..... 8

PREPARED DIRECT TESTIMONY OF
GREGORY D. SHIMANSKY
ON BEHALF OF SOUTHERN CALIFORNIA GAS COMPANY
(REGULATORY ACCOUNTS)

I. INTRODUCTION

A. Purpose of Testimony

The purpose of my testimony is to: (1) identify Southern California Gas Company's (SoCalGas') regulatory accounts that are associated with the General Rate Case (GRC); (2) present the forecast of regulatory account balances as of December 31, 2011 to be addressed in this proceeding; (3) propose the disposition of these balances including future ratemaking treatment; and (4) request approval of a new balancing account mechanism (New Environmental Regulation Balancing Account, or "NERBA") effective January 1, 2012.

B. Summary of Request

The following regulatory accounts and associated ratemaking proposals are addressed in my testimony:

1. The Distribution Integrity Management Program Balancing Account (DIMPBA) is forecasted to be \$2.186 million overcollected which is proposed to be incorporated into customer rates with the implementation of the 2012 GRC. My proposal also includes no longer balancing these costs beyond 2011 (See testimony of Gas Engineering Witness Raymond K. Stanford [Exhibit SCG-05]). Any residual balance at the end of 2012 will be transferred to the Core Fixed Cost Account (CFCA) and Noncore Fixed Cost Account (NFCA) and the DIMPBA eliminated.
2. Research Development & Demonstration Expense Account (RDDEA) is forecasted to be \$0.098 million overcollected which is proposed to be incorporated into customer rates with the implementation of the 2012 GRC; SoCalGas proposes to continue balancing these costs during the next GRC cycle (See testimony of Customer Services-Information Witness Gillian Wright [Exhibit SCG-09]).
3. Polychlorinated Biphenyls Expense Account (PCBEA) is forecasted to be \$1.232 million undercollected which is proposed to be incorporated into customer rates with the implementation of the 2012 GRC and the PCBEA eliminated at the end of

1 the amortization period. Any future PCB costs are proposed to be recorded to the
2 Integrated Transmission Balancing Account (ITBA).

3 4. Propose continued ratemaking treatment for the Pension Balancing Account (PBA)
4 and Post Retirement Benefits Other Than Pension Balancing Account (PBOPBA)
5 as authorized in Commission Decision (D.)09-09-011¹.

6 5. Request to establish a new regulatory account, the NERBA, to record authorized
7 revenues and actual costs associated with certain new and proposed greenhouse gas
8 (GHG) environmental legislations.

9 **II. REGULATORY ACCOUNTS**

10 **A. Proposed Disposition of Forecasted Balances**

11 **1. Forecasted Balances as of December 31, 2011 - (over) undercollection:**

	(in Thousands)
Distribution Integrity Management Program Balancing Account	\$ (2,186)
Research Development & Demonstration Expense Account	(98)
Polychlorinated Biphenyls Expense Account	1,232
Total Balance (excluding FF&U)	\$ (1,052)

12 The forecasted balances are based on recorded data through May 31, 2010 and estimated
13 activity for the period June 1, 2010 through December 31, 2011. SoCalGas will file a late-filed exhibit
14 in 2011 as part of this 2012 GRC application requesting authority to incorporate updated December
15 31, 2011 forecasted regulatory account balances. The late-filed exhibit will ensure that the December
16 31, 2011 forecasted balances include the most current information available. SoCalGas proposes that
17 the revenue requirement associated with the regulatory account balances as presented in the late-filed
18 exhibit be incorporated into the development of the adopted 2012 GRC rates as presented in the
19 testimony of Revenues at Present & Proposed Rates Witness Gary G. Lenart [Exhibit SCG-40].

20 **2. Disposition Proposal**

21 **Distribution Integrity Management Program Account (DIMPBA)**

22 The DIMPBA is an interest-bearing balancing account recorded on SoCalGas' financial
23 statements. The purpose of the DIMPBA is to record the difference between actual and authorized

¹ In this decision, the Commission granted a Joint Petition for Modification (PFM) of SoCalGas/SDG&E to modify the 2008 GRC Decision 08-07-046 to annually amortize in rates the balances in its PBA and PBOPBA.

1 operating and maintenance (O&M) costs associated with SoCalGas' Distribution Integrity
2 Management Program (DIMP) pursuant to D-08-07-046².

3 The forecasted balance as of December 31, 2011 in the DIMPBA account is \$2.186 million
4 overcollected. SoCalGas proposes to amortize the forecasted balance of \$2.186 million overcollection
5 to gas customers on an equal-percent-of-authorized-margin (EPAM) basis upon the implementation of
6 its 2012 GRC revenue requirement as authorized in this proceeding³. SoCalGas also requests to
7 transfer any remaining balance in the DIMPBA at the end of the amortization period to the CFCA and
8 NFCA and that the DIMPBA be eliminated if the proposal by Gas Engineering Witness Raymond K.
9 Stanford [Exhibit SCG-05] to include these costs in base margin as part of the 2012 GRC cycle is
10 accepted.

11 **Research, Development, and Demonstration Expense Account (RDDEA)**

12 The RDDEA is an interest-bearing balancing account recorded on SoCalGas' financial
13 statements. The purpose of the RDDEA is to record the difference between actual and authorized
14 costs associated with non-public research, development, and demonstration (RD&D) programs
15 pursuant to D-08-07-046⁴.

16 The forecasted balance as of December 31, 2011 in the RDDEA for the 2008-2011 program
17 cycle is \$0.098 million overcollected to be allocated on an EPAM basis. SoCalGas proposes to
18 continue current ratemaking treatment of this account for the RD&D program costs discussed by
19 Customer Services-Information Witness Gillian Wright [Exhibit SCG-09].

20 **Polychlorinated Biphenyls Expense Account (PCBEA)**

21 The PCBEA is a memorandum account recorded on SoCalGas' financial statements. The
22 purpose of this account is to record the costs associated with the testing, management, removal, and
23 disposal of PCBs existing in SoCalGas' natural gas system, including capital costs. Under the prior
24 arbitration agreement with Transwestern Pipeline Company (Transwestern), which Transwestern
25 terminated on December 31, 2009, Transwestern reimbursed SoCalGas for 86% of PCB clean-up
26 costs. The forecast provided herein assumes no future revenues from Transwestern to offset PCB
27 costs incurred by SoCalGas.

² Commission decision authorizing SoCalGas' 2008 GRC including authorization of this account and a threshold of \$10 million annually.

³ The disposition in the DIMPBA balance reflected in SoCalGas' Commission-approved preliminary statement states, "any unspent DMIP funds at the end of the current GRC cycle will be returned to gas customers in rates in the next GRC cycle."

⁴ Commission decision authorizing SoCalGas' 2008 GRC including authorization of this account and a threshold of \$10 million annually.

1 The PCBEA balance as of December 31, 2011 is forecasted to be \$1.232 million
2 undercollected. SoCalGas proposes to amortize the PCBEA balance in gas customers' rates on an
3 equal cents per therm (EPCT) basis with the implementation of the 2012 GRC, transfer any residual
4 balance at the end of the amortization period to its ITBA, and eliminate the PCBEA. SoCalGas
5 proposes that any future PCB costs be recorded to the ITBA⁵, reduced for any future reimbursements
6 from Transwestern.

7 **B. Additional Requests**

8 **1. Review and Continued Ratemaking Treatment Currently Adopted** 9 **Pension Balancing Account (PBA)**

10 The purpose of the account is to balance the difference between the forecasted and actual
11 minimum contributions to SoCalGas' pension fund. Forecasted pension costs are discussed in the
12 testimony of Pensions and PBOPs Witness David I. Sarkaria [Exhibit SCG-20]. The account consists
13 of both O&M and capital components. The O&M component reflects pension costs adjusted for costs
14 capitalized to utility ratebase and intercompany pension costs billed by or charged to San Diego Gas &
15 Electric Company (SDG&E). The capital component reflects pension costs recovered through
16 depreciation including the return associated with the unamortized balance of pension costs capitalized
17 to utility ratebase.

18 **Post Retirement Benefits Other Than Pension Balancing Account (PBOPBA)**

19 The purpose of the account is to balance the annual PBOP costs embedded in authorized rates
20 with the lesser of the PBOP costs calculated in accordance with Financial Accounting Standards
21 (FAS) 106 or based on actual tax-deductible contributions to the PBOP trust. Forecasted PBOP costs
22 are discussed in the testimony of Pensions and PBOPs Witness David I. Sarkaria [Exhibit SCG-20].
23 The account consists of both O&M and capital components. The O&M component reflects PBOP
24 costs adjusted for costs capitalized to utility ratebase and intercompany pension costs billed by or
25 charged to SDG&E. The capital component reflects PBOP costs recovered through depreciation
26 including the return associated with the unamortized balance of PBOP costs capitalized to utility
27 ratebase.

28 **PBA and PBOPBA Ratemaking Treatment**

29 In 2008, SoCalGas and SDG&E filed a Petition for Modification (PFM) of their 2008 GRC
30 D.08-07-046 to accelerate recovery of increased contributions to their pension and PBOP Trusts that

⁵ There are no new or incremental PCB costs proposed in this GRC. The costs of on-going activities associated with PCB removal will be recorded to the ITBA on an actual basis.

1 were required due to declines in pension fund values and the rising costs of other benefits. In D.09-
2 09-011, the Commission approved this request giving SoCalGas and SDG&E the authorization to
3 annually amortize their PBA and PBOPBA balances as part of the Annual Regulatory Account Update
4 Advice Letter Filing. SoCalGas proposes to continue this annual recovery process for both the PBA
5 and PBOPBA. Detailed workpapers, which include recorded information and forecast information
6 based on the latest actuarial studies, are included in connection with the Annual Regulatory Account
7 Update Filing.

8 **2. Establishment of the NERBA**

9 SoCalGas proposes to establish a two-way, interest-bearing balancing account (“NERBA”) to
10 record the incremental O&M and capital-related costs associated with certain new and proposed
11 federal and state GHG requirements. The NERBA will record the actual costs that have been
12 proposed in this application against the corresponding revenue requirement that is authorized in this
13 GRC. Specifically, these costs include: 1) an allocation of administrative fees charged by the
14 California Air Resources Board (CARB) which are an authorized recoverable by CARB under
15 Assembly Bill 32 (AB 32); 2) costs associated with CARB’s proposed cap-and-trade (C&T) program;
16 and 3) additional monitoring and reporting requirements required by the Environmental Protection
17 Agency (EPA) under a proposed new “Subpart W” of the GHG Mandatory Reporting Rule (MRR).
18 These costs are described in more detail in the testimony of Environmental Services Witness Lisa
19 Gomez [Exhibit SCG-15], Gas Distribution Witness Gina Orozco-Mejia [Exhibit SCG-02], and
20 Engineering Witness Raymond K. Stanford [Exhibit SCG-05].

21 SoCalGas proposes to establish sub-accounts within the NERBA for the types of costs
22 associated with new environmental regulation to facilitate the allocation of the cost to the appropriate
23 customers. The sub-account structure and proposed disposition of the sub-account balance are
24 detailed below.

- 25 • AB32 Admin Fees Sub-account - CARB administrative fees, which are included in
26 the funding request proposed in the testimony of Gas Engineering Witness
27 Raymond K. Stanford [Exhibit SCG-05], will be recorded to this sub-account.⁶
- 28 • C&T Sub-account (large industrial sources) The C&T costs relate to the C&T
29 program applicable to SoCalGas’ operating facilities, which are included in the

⁶ SoCalGas and SDG&E, along with Pacific Gas and Electric Company and Southern California Edison Company, filed Joint Application 10-08-002 on August 2, 2010 to establish a regulatory accounting mechanism to recover AB 32 administrative fees in the interim period until the fees are incorporated in the utilities’ next respective general rate cases.

1 funding request proposed in the testimony of Gas Engineering Witness Raymond K.
2 Stanford [Exhibit SCG-05].

- 3 • C&T Sub-account (natural gas) - SoCalGas proposes to track the costs associated
4 with the C&T program requirements applicable to SoCalGas' natural gas deliveries
5 (see testimony of Environmental Services Witness Lisa Gomez [Exhibit SCG-15]).
6 These costs are not anticipated to occur until 2017 and are therefore outside the
7 GRC period and not included in our proposed revenue requirement in this GRC.
8 Nevertheless, SoCalGas may later determine that it is both advantageous and
9 possible to purchase "allowances" for its natural gas delivery-related compliance
10 needs during this GRC period. Therefore, SoCalGas proposes to track these costs,
11 if any, in this sub-account and address the disposition of the balance in SoCalGas'
12 next GRC application or other appropriate application.
- 13 • Sub-part W Sub-account – Costs include the monitoring and reporting of emissions
14 at a variety of facilities on SoCalGas' transmission, storage, and distribution
15 systems. These costs are part of the proposed Test Year revenue requirement as
16 proposed in the testimony of Gas Distribution Witness Gina Orozco-Mejia [Exhibit
17 SCG-02] and Gas Engineering Witness Raymond K. Stanford [Exhibit SCG-05].

18 The disposition of the NERBA balance will be incorporated in rates using the approved
19 allocation methodology in connection with SoCalGas' Annual Regulatory Account Update Advice
20 Letter Filing. On an interim basis, unless otherwise stated, the allocation methodology will be
21 consistent with the current base margin, but will be re-addressed in the next Triennial Cost Allocation
22 Proceeding (TCAP) or appropriate cost allocation filing.

23 **III. CONCLUSION**

24 In conclusion, the Commission should approve the following:

- 25 1. The regulatory account balances as forecasted through December 31, 2011 noted
26 above, subject to the late-filed exhibit, as well as the disposition of such regulatory
27 account balances;
- 28 2. The proposed transfer of the remaining balance and elimination of the DIMPBA at
29 the end of the amortization period, pending authorization of the disposition of the
30 balance in the DIMPBA and the proposal to include DIMP funding as a part of base

1 margin as presented by Gas Engineering Witness Raymond K. Stanford [Exhibit
2 SCG-05];

3 3. Incorporate the RDDEA balance associated with the 2008-2011 program cycle into
4 customer rates with the implementation of the 2012 GRC, and continue the RDDEA
5 mechanism through the GRC period;

6 4. Incorporate the PCBEA balance into customer rates with the implementation of the
7 2012 GRC, transfer any residual balance at the end of the amortization period to the
8 ITBA, eliminate the PCBEA, and record any future PCB costs to the ITBA for
9 future rate recovery, reduced for any future reimbursements from Transwestern;

10 5. The continuation of the current authorized process for addressing PBA and
11 PBOPBA balances annually; and

12 6. Establish the NERBA to record the incremental costs associated with certain new
13 and proposed GHG requirements.

14 This concludes my prepared direct testimony.

15

1 **IV. WITNESS QUALIFICATIONS**

2 My name is Greg Shimansky. I am employed by San Diego Gas & Electric Company
3 (SDG&E), as the Regulatory Accounts Manager in the Financial Analysis Department. My business
4 address is 8330 Century Park Court, San Diego, California 92123. My current responsibilities include
5 managing the process for the development, implementation, and analysis of regulatory balancing and
6 memorandum accounts. I assumed my current position in July 2010

7 I have been employed with SDG&E and Sempra Energy since June 30, 2003. In addition to
8 my current position in Regulatory Affairs, I served as Financial Planning Manager for Sempra Energy
9 Corporate (Parent) and was responsible for the completion of the 5-year financial plan and
10 accompanying analysis. I held that role from June 2009 through April 2010. From August 2008 to
11 June 2009, I worked for SDG&E as the Regulatory Reporting Manager in charge of the monthly close
12 and reporting of revenues, cost of goods sold and balancing accounts for both of Sempra Energy
13 regulated utilities. Further I was responsible for the filing of financial data as required to the CPUC
14 and FERC – such as FERC form 1 reports. From June 2003 through August 2008, I worked for
15 SDG&E in the Utility planning department working my way up to Financial Planning Manager in
16 charge of yearly outlooks, the 5-year forecast, monthly actual variance reporting, and ad hoc analysis.

17 I received a Bachelors of Science degree in Economics from the University of California, Los
18 Angeles in June 1993. I also received a Masters of Science in Management, with concentrations in
19 Finance and Marketing, from Purdue University in May 1998.

20 I have not previously testified before this Commission.