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2 **I. PURPOSE**

3 The purpose of my direct testimony on behalf of Southern California Gas Company  
4 (SoCalGas) and San Diego Gas & Electric Company (SDG&E) is to present the SoCalGas  
5 revenue requirement resulting from the capital and operations and maintenance (O&M) forecasts  
6 of the North-South Project for the years 2014 through 2039. The total revenue requirement is  
7 \$2,697.8 million for the period 2014 to 2096.

8 **II. REVENUE REQUIREMENT**

9 The revenue requirement associated with the North-South Project is computed from the  
10 forecasted incremental capital and O&M costs related to the North-South Project sponsored by  
11 witness, Mr. Buczkowski. The capital and O&M costs discussed in previous sections of this  
12 application represent direct costs only and are stated in base year 2013 dollars. They do not  
13 include overhead, escalation, or other necessary costs to support the investment. A summary of  
14 the full cost recovery forecast of the North-South Project is shown in Table 5 below.

15 The incremental capital and O&M costs are adjusted upward to include applicable  
16 overhead and escalation rates. Overhead rates are applied to each direct cost input, consistent  
17 with its classification as company labor, contract labor or purchased services and materials.  
18 Overhead rates are estimated using 2012 actuals, but are only intended to be illustrative for  
19 forecasting purposes. Actual overhead rates for each year will be used in the calculation of the  
20 actual revenue requirement and only overheads that are incremental to the North-South Project  
21 are included. For example, overheads associated with incremental labor and additional  
22 procurement activities are included whereas Pension and Post-Retirement Benefits Other Than  
23 Pensions overhead costs are excluded, as these costs are subject to a separate balancing account

1 mechanism treatment authorized in D.13-05-010. Table 1 below shows overhead rates that were  
 2 applied in this analysis.

3 **Table 1**  
 4 ***North-South Project Overhead Loaders (Illustrative)***

Overhead Category	Overhead Rate	Loading Base
Payroll Taxes	7.80%	Direct Labor
Vacation and Sick Time	16.37%	Direct Labor
Pension and Benefits (non-balanced only)	22.04%	Direct Labor
Workers' Compensation	4.98%	Direct Labor
Public Liability / Property Damage	2.55%	Direct Labor
Incentive Compensation Plan	17.94%	Management and Associate Direct Labor
Purchased Services and Materials	0.84%	Contract Labor, Services and Purchased Materials
Administrative and General	2.76%	Direct Capital Costs

5 The overhead-loaded, constant-dollar values for incremental capital and O&M costs are  
 6 escalated for inflation using the following escalation factors for the period 2013 to 2039. As  
 7 these factors vary over the project horizon, Table 2 shows the range of annual escalation rates  
 8 applied to each cost type.

9 **Table 2**  
 10 ***North-South Project Escalation Rates<sup>1</sup>***

Cost Category	Escalation Factor	Range of Annual % Change (2013 Base)
Capital (Labor & Non-Labor)	Gas Plant (Various)	-1.7% — 3.0%
O&M (Non-Labor)	Gas Utility O&M Non-Labor	1.9% — 2.6%

11 The revenue requirement computation assumes all capital costs, including Allowance for  
 12 Funds Used during Construction (AFUDC), are recovered through depreciation over the current  
 13 authorized book-life of the assets. Consistent with the current ratemaking treatment adopted by  
 14 the Commission, the forecasted capital costs do not include cost of removal associated with the  
 15 existing Adelanto Compressor Station. These costs are accounted for in authorized depreciation  
 16 rates. In addition to all incremental capital and O&M expenditures, the revenue requirement

<sup>1</sup> Factors shown are from escalation indices published in IHS Global Insight's 3rd Quarter 2013 Utility Cost Forecast.

1 includes all other components of costs required to support the investment such as the authorized  
 2 return on investment, depreciation, income and property taxes, and franchise fees and  
 3 uncollectibles.<sup>2</sup> The revenue requirement calculation uses the current authorized rate of return of  
 4 8.02% based on 10.10% return on equity.<sup>3</sup>

5 Table 3 below summarizes total incremental direct costs for the North-South Project.

6 **Table 3**  
 7 **Direct Costs Summary<sup>4</sup>**  
 8 *(In Millions of 2013 Dollars)*

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024 - 2039	Total
Capital	7.4	10.2	17.9	188.0	229.8	174.2	0.1	0.1	0.1	0.1	0.8	628.6
O&M	0.5	0.3	0.3	0.3	0.0	0.0	-	-	-	-	-	1.5
<b>Total</b>	<b>7.9</b>	<b>10.5</b>	<b>18.2</b>	<b>188.3</b>	<b>229.8</b>	<b>174.2</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.8</b>	<b>630.1</b>

10 Incremental direct costs are loaded and escalated into forecasted nominal spending with  
 11 the factors described in Table 1 and Table 2. Table 4 below summarizes the fully loaded and  
 12 escalated direct costs from Table 3.

13 **Table 4**  
 14 **Fully Loaded and Escalated Costs Summary**  
 15 *(In Millions of Dollars, Nominal)*

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024 - 2039	Total
Capital	8.9	12.2	21.0	208.9	262.3	205.1	0.1	0.1	0.1	0.1	1.4	720.1
O&M	0.5	0.3	0.3	0.4	0.0	0.0	-	-	-	-	-	1.6
<b>Total</b>	<b>9.4</b>	<b>12.5</b>	<b>21.3</b>	<b>209.3</b>	<b>262.3</b>	<b>205.2</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>1.4</b>	<b>721.7</b>

16 Table 5 below summarizes the forecasted revenue requirement for SoCalGas to construct  
 17 the project. In addition to the fully loaded and escalated costs shown in Table 4, this revenue  
 18 requirement captures all costs necessary to support the investment, including AFUDC.

<sup>2</sup> The revenue requirement components and the rate base calculations are computed based on Commission approved methodology and are shown in workpapers supporting this testimony.

<sup>3</sup> SoCalGas' rate of return was authorized in the company's 2013 Test Year Cost of Capital proceeding in Decision 12-12-034.

<sup>4</sup> Incremental O&M costs related to office space and other office related costs are only anticipated for 2014-2019.

**Table 5**  
**Revenue Requirement Summary**  
*(In Millions of Dollars, Nominal)*

2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024 - 2096	Total
0.5	0.3	0.4	0.4	0.0	5.9	125.0	117.6	113.7	109.9	2,224.0	2,697.8

For the purposes of my and Mr. Mock’s testimony, the project is assumed to be complete and placed into service by November 30, 2019. As stated in the testimony of Mr. Buczkowski, it is possible that certain components may be placed into service prior to this date. Upon project completion, SoCalGas will compute the actual capital and O&M costs and associated revenue requirement. SoCalGas 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 SoCalGas’ Consolidated Rate Filing for rates effective January 1<sup>st</sup> of the following year. This process will continue until addressed in SoCalGas’ next General Rate Case or other applicable proceeding. The details of the rate impact are discussed in the testimony of Mr. Mock, and the regulatory accounting treatment is discussed in the testimony of Mr. Ahmed.

**III. QUALIFICATIONS**

My name is Garry G. Yee. My business address is 555 W. Fifth Street, Los Angeles, California, 90013-1011. I am employed by SoCalGas as the Financial Services & Strategic Analysis Manager. I am responsible for overseeing the financial analysis and development of revenue requirements in support of new investment opportunities, rate base and depreciation planning, and SoCalGas’ treasury function. I joined SoCalGas in 1990 and have held various positions of increasing responsibility in Audit Services, Cost Accounting, Financial &

1 | Regulatory Accounting, Activity-Based Costing, Financial Planning, and Financial Services.

2 | Prior to SoCalGas, I was employed by Price Waterhouse as an auditor.

3 | I received a Bachelor of Science degree in Accounting from Loyola Marymount

4 | University and I am a Certified Public Accountant and Chartered Global Management

5 | Accountant.

6 | I have previously testified before this Commission.

7 | This concludes my prepared direct testimony.