Application No:	A.14-08-XXX
Exhibit No:	
Witness:	Johnny M. Huleis

Application of Southern California Gas Company (U904G) to establish a Combined Heat and Power and Distributed Energy Resources Tariff	Application 14-08-XXX (Filed August 8, 2014)

CHAPTER III

COST TRACKING & REGULATORY TREATMENT

PREPARED DIRECT TESTIMONY OF

JOHNNY M. HULEIS

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

August 8, 2014

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PREPARED DIRECT TESTIMONY OF

JOHNNY M. HULEIS

I. PURPOSE

The purpose of this testimony is to describe the procedures and methods that will be used to protect ratepayers from the costs associated with Southern California Gas Company's ("SoCalGas") proposed Distributed Energy Resource ("DER") Tariff from those included in general rates. This testimony will outline: how costs will be tracked; the request to establish a tracking and balancing account; and the regulatory treatment of the DER Tariff assets.

II. TRACKING OF DISTRIBUTED ENERGY RESOURCES

The cost of completing an activity or project consists of both direct costs, as charged to that activity, and a share of indirect or overhead costs. The sum of direct costs and overhead costs make up fully-loaded costs. Direct costs are those activities and services that benefit a specific project, such as salaries of staff employees (labor costs) and materials required for a specific project (non-labor costs). These costs are charged directly to the project since they are readily identifiable and can be directly traced. Overhead costs are those activities and services that are associated with direct costs—such as payroll taxes and pension and benefits—or are costs which benefit a project but which cannot be economically and efficiently direct-charged.

Direct costs are defined as the specific labor and/or non-labor costs of each specific work activity performed in the delivery of the DER Tariff. There are two accounting methods available for capturing the direct costs associated with providing the proposed tariff: (1) direct charging, where the actual labor and non-labor spent in providing or supporting the DER Tariff are recorded; and (2) allocation, where the costs associated with provision of labor and non-labor activities are determined by formula, such as percentage of some portion of direct costs.

SoCalGas will use direct charging as the primary method for capturing direct costs related to the DER Tariff, and since many associated activities are identifiable and can be easily tracked, direct charging is the preferable method to account for the costs. For example, the majority of costs associated with the provision of the DER Tariff will be incremental charges from third-party service providers; these charges will be recorded directly to the appropriate internal order. To properly identify and segregate all costs associated with the DER Tariff, specific internal orders will be created within the SAP financial system. For example, a specific internal order will be created to track the costs associated with an individual DER Tariff customer. This process provides SoCalGas with the accounting data needed to validate that all costs incurred in providing services under the DER Tariff are properly tracked and will be paid for by customers receiving the services. On a monthly basis the internal orders created for tracking DER Tariff projects will be reviewed for cost associated with the use of embedded resources. Any embedded resources charged to DER Tariff internal orders will be credited to a balancing account to reflect the refund due to ratepayers.

III. REGULATORY ACCOUNTING TREATMENT OF DISTRIBUTED ENERGY RESOURCES COSTS

SoCalGas is requesting, in this application, the creation of tracking and balancing accounts. The purpose of a tracking account will allow SoCalGas to track the difference between the revenue collected from DER Tariff customers and the actual operations and maintenance and capital-related revenue requirements associated with providing the DER Tariff. The tracking account will be mainly used by SoCalGas to monitor the effectiveness of providing the DER Tariff to customers. The tracking account is not reflected on SoCalGas' financial statements. The purpose of the balancing account is to credit ratepayers for any General Rate Case ("GRC") embedded costs used in providing the DER Tariff. The balancing account will be an interest bearing account recorded on SoCalGas' financial statements. Additionally, in each annual October regulatory account balance update filing, SoCalGas will amortize the projected year-end balance effective January 1 of the following year.

Additionally, SoCalGas will capitalize the assets used in providing the DER Tariff as non-utility plant. By recording the asset as non-utility plant, the DER Tariff asset will be entirely separated and excluded from rate base assets that are recovered in the GRC, thereby holding ratepayers harmless and having shareholders bear the associated costs.

SoCalGas' currently authorized 2012 GRC filing contains no requests for additional funding for the DER Tariff activities in the test year or any forecasted revenues from offering these services. SoCalGas did not undertake any such activities or incur such costs in the historical period upon which the GRC test year forecast was based. Thus, neither authorized base margin nor general base rates in the 2012 GRC are impacted by the DER Tariff costs. Additionally, since the recovery of costs associated with the DER Tariff services will be collected directly from DER Tariff customers, these costs and revenues will be excluded from recovery in SoCalGas' future GRC.

IV. WITNESS QUALIFICATIONS

My name is Johnny M. Huleis. My business address is 555 West Fifth Street, Los Angeles, California, 90013. I am employed by SoCalGas as a Principal Business Analyst – Supervisor in the Affiliate Billing and Costing department. I hold a Bachelor of Arts degree in Economics from the University of California at Los Angeles and a Master of Business Administration degree from Pepperdine University. I have been in the Affiliate Billing and Costing department since June 2014. Previously, I worked in the Financial and Strategic Analysis department since January 2011. In my previous position, my responsibilities include financial analysis and the development of revenue requirements in support of new investment opportunities. I have not previously testified before the California Public Utilities Commission.