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Exhibit: SCG-17-R

REVISED
SOCALGAS
DIRECT TESTIMONY OF JILL TRACY
(ENVIRONMENTAL SERVICES)

March 2015

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA



A  Sempra Energy utility

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SUMMARY

ENVIRONMENTAL			
Shown in Thousands of 2013 Dollars	2013 Adjusted-Recorded	TY2016 Estimated	Change
Total Non-Shared	8,305	9,527	1,222
Total Shared Services (Incurred)	2,863	3,468	605
Total O&M	11,168	12,995	1,827

Summary of Requests

- SoCalGas' Environmental Services Department is requesting adoption of its 2016 Test Year forecast of \$12.995 million for operations and maintenance (O&M) expenses.
- Requesting authorization to continue the New Environmental Regulatory Balancing Account (NERBA) with three proposed updates: the removal of Cap and Trade related costs and the addition of two new environmental costs associated with forecasted activities.
- Requesting costs for water quality compliance and programmatic permits, which can streamline the permitting process, provide uniform compliance requirements and reduce project costs.
- Requesting the addition of five full time equivalents (FTEs) to support new and/or expanding regulatory and operational requirements and SoCalGas environmental sustainability program.
- Provides environmental policy support for other operational witnesses who sponsor costs that are impacted by environmental regulations and pressures.

**SOCALGAS DIRECT TESTIMONY OF JILL TRACY
(ENVIRONMENTAL SERVICES)**

I. INTRODUCTION

A. Summary of Costs

I sponsor the Test Year (TY) 2016 forecasts for O&M costs for both non-shared and shared services associated with the Environmental Services area for SoCalGas. I do not sponsor any capital projects. Table 1 summarizes my sponsored costs.

**TABLE 1
Test Year 2016 Summary of Total Costs**

ENVIRONMENTAL			
Shown in Thousands of 2013 Dollars	2013 Adjusted-Recorded	TY2016 Estimated	Change
Total Non-Shared	8,305	9,527	1,222
Total Shared Services (Incurred)	2,863	3,468	605
Total O&M	11,168	12,995	1,827

In addition to this testimony, please also refer to my workpapers, Ex. SCG-17-WP-R, for additional information on the activities described herein.

B. Summary of Activities

Environmental Services oversees compliance for federal, state, regional and local environmental statutes, rules and regulations, including laws protecting air quality, water quality, hazardous materials, waste, cultural resources, land planning and natural resources. Environmental Services' responsibilities include: tracking and analyzing pending and final environmental regulations; developing compliance policies, procedures and tools; developing and supporting sustainability efforts; developing and delivering training material; developing and implementing internal quality assurance and quality control procedures; screening planned projects for environmental compliance and efforts to avoid and/or minimize project environmental impacts, contamination considerations, permitting needs and potential impacts; providing compliance oversight; and developing and obtaining environmental permits and plans. Environmental Services is also responsible for managing two SoCalGas Treatment, Storage and Disposal Facilities (TSDFs), the remediation of contaminated media at current and former utility third party sites, and for responding to emergency release events.

1 **C. Importance of Environmental Protection and Compliance**

2 SoCalGas believes in protecting the environment while providing safe, reliable and
3 affordable energy services. We strive to avoid environmental impacts in our project design and
4 operations and to minimize impacts when avoidance is not possible. SoCalGas minimizes its
5 environmental impacts and its environmental risks with its comprehensive, multifaceted
6 approach of clear guidance, training, early project environmental review, assessment, auditing,
7 field monitoring and compliance certification. Environmental Services has a published library of
8 environmental field policies and procedures and company-specific employee training, much of
9 which is web-based or “e-learning” to provide real time access. Environmental Services
10 leverages a Geographic Information System (GIS) mapping technology to review and screen all
11 planned projects that have the potential to disturb soil and result in an environmental impact.
12 This review process involves multiple environmental disciplines that track, manage, document,
13 and report permitting requirements and compliance issues. Early involvement in the planning
14 and designing phase helps to identify related environmental issues to avoid and minimize
15 environmental impacts. Biological and cultural monitoring is conducted as needed.

16 Annually, Environmental Services, along with the Safety department, conducts an
17 internal certification of program compliance and identifies opportunities for process
18 improvement. Key components of our environmental compliance management program include
19 internal assessments to help support and monitor compliance, hazardous waste vendors audit
20 program, and environmental contract terms and conditions for our vendors to abide by.
21 Additionally, Environmental Services conducts regulatory review by subject matter experts to
22 analyze the potential impacts of proposed regulations as well as provide early planning for
23 compliance with new legislation. Field-based environmental representatives are located at
24 SoCalGas operations sites to support day-to-day operations. A comprehensive governance
25 program is in place that partners with operations management and crews to focus on compliance
26 requirements and leading practices. Environmental Services also supports 24-hour on call
27 environmental subject matter experts to assist field operations.

28 There are numerous acronyms for the various programs, agencies and requirements
29 encountered by Environmental Services and described in this testimony. In addition to
30 describing the acronym in this text, I have included a Glossary of Acronyms in an appendix for
31 helpful reference.

1 **D. Support To/From Other Witnesses**

2 In addition to sponsoring my own organization’s costs, I also provide business or policy
3 justification for the following other witnesses who sponsor operational costs driven by
4 environmental regulation or pressures:

- 5 • Mr. Frank Ayala, witness for Gas Distribution (Ex. SCG-04-R), is sponsoring O&M
6 costs for leak reduction efforts, which are supported by environmental requirements
7 to reduce greenhouse gas (GHG) emissions as part of Senate Bill 1371 (SB1371);
- 8 • Mr. John Dagg, witness for Gas Transmission (Ex. SCG-05), is sponsoring O&M for
9 the California State Water Resources Control Board’s (SWRCB’s) annual permit
10 fees, which are related to water quality mandates;
- 11 • Mr. Phillip Baker, witness for Underground Storage (Ex. SCG-06), is sponsoring
12 O&M costs related to Subpart W of the Code of Federal Regulations (CFR), Title 40,
13 Part 98;
- 14 • Mr. Raymond Stanford, witness for Gas Engineering & Emergency Services (Ex.
15 SCG-07), is sponsoring Capital and O&M cost for Mojave Desert Air Quality
16 Management District (MDAQMD), and O&M costs for Hydrostatic Test Water and
17 Dewatered Groundwater Treatment for Permits;
- 18 • Ms. Carmen Herrera, witness for Fleet Services & Facilities (Ex. SCG-15) is
19 sponsoring facilities O&M costs for California SWRCBs Industrial General Permit
20 Renewal and annual permit fees, which are driven by water quality mandates.
21 Additionally, Ms. Herrera is sponsoring O&M costs for forecasted work related to
22 Municipal Separate Storm Sewer Systems (MS4) requirements.
- 23 • Mr. Christopher Olmsted, witness for Information Technology (Ex. SCG-18-R), is
24 sponsoring capital costs for a GHG and Environmental Management Tool.

25 The business/policy environmental support for each of the witnesses listed above is addressed
26 after the discussion of my sponsored costs, in Section IV of my testimony. As for reference, I
27 have also included a Witness Matrix for SoCalGas Environmental Policy and Costs in Appendix

28 A.
29 //
30 //

1 **II. NON-SHARED COSTS**

2 **A. Introduction**

3 Environmental Services' non-shared O&M costs are contained in two cost categories:
4 Environmental Compliance and NERBA. Table 2 summarizes the total non-shared O&M
5 forecasts for the listed cost categories.

6 **TABLE 2**
7 **Non-Shared O&M Summary of Costs**

ENVIRONMENTAL			
Shown in Thousands of 2013 Dollars			
Categories of Management	2013 Adjusted-Recorded	TY2016 Estimated	Change
A. Environmental Compliance	3,288	3,624	336
B. New Environmental Reg Balancing Acct (NERBA)	5,017	5,903	886
Total	8,305	9,527	1,222

8 **B. Environmental Compliance**

9 **1. Description of Costs and Activities**

10 The compliance activities in this non-shared O&M cost category include management of
11 hazardous waste and TSDf operations, oversight of daily environmental compliance activities
12 and permits, and support for sustainability and compliance with all operations and maintenance
13 activities and associated facilities. There are currently 22.1 Full-Time Equivalent (FTEs)
14 supporting this cost category. The incremental increase of \$336K includes a request for labor
15 adjustment for full year funding (0.9 FTEs), two incremental subject matter experts to support
16 environmental sustainability programs (2 FTEs), and non-labor costs associated with renewal of
17 hazardous waste permit fees for two TSDfS. The fulfillment of this request will result in 25
18 FTEs in this non-shared service category.

19 **2. Forecast Method**

20 A base year forecasting methodology was used to forecast labor and non-labor for this
21 cost category. This method is most appropriate because it identifies specific new environmental
22 regulatory and program-related requirements impacting the company during the GRC period,
23 which are incremental to base year incurred costs. The costs in this cost category have risen in
24 each consecutive year since 2009; therefore, traditional averaging based on historically recorded

1 costs would yield an unreliable and low forecast, and would fail to capture the incremental costs
 2 forecasted for TY 2016. Our compliance requirements will change additively with new
 3 requirements that would not be captured using historic year averages. For example, new water
 4 quality requirements are resulting in cost upward pressures. SoCalGas faces specific fee
 5 increases, new permit conditions, and is partnering with other utilities to share costs for
 6 programmatic permits, which will help to control long-term costs. The other upward pressures
 7 are environmental compliance related or for system enhancements to support GHG reporting.
 8 These costs are also additive to our base year operations. Starting with the base year represents a
 9 reasonable base upon which to apply forecasted incremental cost pressures described below. See
 10 workpapers for 2EV000.000 (Ex. SCG-17-WP-R).

11 **3. Cost Drivers**

12 The following is a breakdown of the components of our incremental cost request of
 13 \$447K for this cost category:

Breakdown of Costs in Environmental Compliance (\$000)	
2EV000.000: Environmental Compliance	
• Labor full year funding (2.9 FTEs)	\$180
• Consulting Fee for renewal of hazardous waste permit for two TSDFs ¹	\$156

14 Environmental Sustainability Operational Support. My organization needs two
 15 Environmental Specialists by 2016 to support and run the company’s Green Operations
 16 Initiative. Beginning in 2013, Environmental Services assumed responsibility for coordinating
 17 and supporting SoCalGas Green Operations Initiative. The objective of the Green Operations
 18 Initiative is to establish a company-wide baseline environmental footprint and
 19 develop/implement a 10-year plan to mitigate and/or reduce that footprint. This initiative will
 20 support regulatory requirements (e.g., Assembly Bill 32 (AB32)), give SoCalGas the ability to
 21 anticipate and respond to issues vital to California (e.g., drought and climate change) and bring
 22 innovation and sustainability to company operations. Through the Green Operations Initiative,
 23 SoCalGas will be developing GHG emissions reduction goals.

24 The Green Operations Initiative will include developing a centralized environmental data
 25 collection system, identifying key performance indicators, setting goals for reducing the

¹ The cost forecast for the TSDF Department of Toxic Substances Control Permit Renewal was corrected in SCG-17-WP-R, Non-Shared O&M workpapers for 2EV000.000.

1 company's environmental footprint, analyzing operational processes for efficiencies and cost
2 reduction opportunities, and establishing an annual cycle of monitoring with operations.
3 Currently, one FTE is responsible for managing and implementing the Green Operations
4 Initiative for the company. Thus, my department lacks the expertise and resources needed to
5 develop the data collection system and to carry out the functions of the Green Operations
6 Initiative. As one of the largest natural gas utilities in the country, SoCalGas is an integral player
7 in the efforts to reduce emissions and promote a cleaner environment in California. SoCalGas
8 needs the resources to execute its goals. The incremental investment in two dedicated FTEs is
9 both reasonable and necessary to get the Green Operations Initiative operational and to keep the
10 company on track to meet the longer-term goals of minimizing the company's environmental
11 footprint. See workpapers for 2EV000.000 (Ex. SCG-17-WP-R).

12 TSDF Department of Toxic Substances Control Permit Renewal.² SoCalGas maintains
13 and operates two hazardous waste TSDFs to efficiently consolidate and manage its hazardous
14 wastes for the company. Located within in the City of Pico Rivera and the City of Los Angeles,
15 both of these TSDFs have a Standardized Series B permit that will expire on July 30, 2017 and
16 May 4, 2017, respectively. The permit application process requires a consultant to support
17 development of the TSDF permit renewal, associated technical documents, agency meetings and
18 inquiries and public outreach. SoCalGas anticipates \$267K will be the total cost for the permit
19 development process and permit fees. Approximately, \$110K of the \$267K associated with
20 Olympic TSDF would be subject to recovery from a third party and the remaining cost of \$156K
21 is the forecast expense for 2016. The permit development process will take place in 2016, and
22 the associated non-labor costs incurred in 2016. The development process for a Standardized
23 Series B permit is a technical process that takes about a minimum of 450 days, which includes
24 preparing and submitting an application, providing and updating emergency response plans and
25 associated paperwork as well as technical review time by agency. See workpapers for
26 2EV000.000 (Ex. SCG-17-WP-R).

27 **C. NERBA**

28 **1. Description of Costs and Activities**

29 **a. Background**

² See Footnote 1.

1 In the 2012 GRC, the Commission approved the NERBA as a two-way balancing
2 account, and adopted cost forecasts for the costs SoCalGas proposed to record in the NERBA.³
3 The currently authorized NERBA costs include (1) AB32 Administration Fees; (2) Gas Cap and
4 Trade related costs; and (3) Subpart W costs. The intent of the NERBA is to record costs
5 meeting the following key criteria: (1) uncertainty as to the scope, magnitude, and mechanics of
6 the compliance requirements associated with new, proposed, or evolving environmental rules or
7 regulations; and (2) potential for incurring significant incremental costs.

8 **b. Proposal**

9 Environmental Services is requesting that the existing NERBA two-way balancing
10 account be authorized to continue during this GRC cycle (for AB32 Administrative Fees and
11 Subpart W costs) with the following three updates:

- 12 1. Removal of the Cap and Trade related costs from the NERBA, upon the condition
13 that the Commission authorize recording of these costs pursuant to Rulemaking (R.)
14 14-03-003.⁴ Because the rulemaking is an active proceeding that deals squarely with
15 gas Cap and Trade, Cap and Trade related costs, it is appropriate and logical to
16 transition these costs and related ratemaking proposals to R.14-03-003. To facilitate
17 this proposal, SoCalGas has removed any historical/forecasted costs from the GRC.
18 However, until a final decision is reached in the rulemaking, and a mechanism is
19 adopted and implemented to record Cap and Trade related costs, SoCalGas will
20 continue to use NERBA to record these costs, and will use the advice letter process to
21 facilitate any transfer or disposition of NERBA balances.
- 22 2. Inclusion of O&M costs for compliance with the anticipated MS4 compliance
23 requirements as a new cost to be recorded in the NERBA for inclusion into rates. The
24 MS4 O&M costs relate to facilities expenses and thus sponsored by Ms. Herrera (Ex.
25 SCG-15). A discussion of the MS4 compliance related costs is contained in the cost
26 drivers section.
- 27 3. Inclusion of costs for Leak Detection and Repair (LDAR) program activities as a new
28 cost to be recorded in the NERBA for inclusion into rates. A discussion of the LDAR
29 related costs are contained in the cost drivers section.

³ See Decision (D.) 13-05-010 (2012 GRC decision) and implementing Advice Letter 4507-G.

⁴ R.14-03-003, Order Instituting Rulemaking to Address Natural Gas Distribution Utility Cost and Revenue Issues Associated with Greenhouse Gas Emissions, March 13, 2014.

A complete snapshot of SoCalGas' proposed NERBA is shown below.

Overview Scope of NERBA (\$000)			
<u>NERBA Item</u>	<u>2016 Cost</u>	<u>Status</u>	<u>Witness Reference</u>
AB32 Administrative Fees	\$4,966	Continue in 2016 GRC period	Tracy, Jill
Cap and Trade	N/A	Remove from NERBA	Tracy, Jill
LDAR Impact Program	\$838	Add to NERBA	Tracy, Jill
MS4 Local Ordinance Compliance	\$130	Add to NERBA	Herrera, Carmen
	\$ 0		Tracy, Jill
Subpart W	\$99	Continue in 2016 GRC period	Tracy, Jill
	\$404		Baker, Phillip

The regulatory accounting for the NERBA is addressed by Mr. Reginald Austria, witness for Regulatory Accounts (Ex. SCG-33).

2. Forecast Method

A base year forecast methodology plus incremental upward pressures was used to determine cost requirements for NERBA as a cost category. The proposed new additions to NERBA (MS4 O&M and LDAR) are treated as incremental costs to the base year amount. Historical averaging is a less reliable methodology for this cost category. For example, AB32 Administrative Fees, which comprise the largest portion of NERBA, began in 2010. A 5-year average would yield an unreasonably low forecast because it would factor in zero costs for 2009. Base year 2013 is a conservative starting point for applying incremental pressures to calculate our test year requirements. See workpapers for 2EV000.001 (Ex. SCG-17-WP-R).

3. Cost Drivers

This cost category currently has 0.6 FTEs. The incremental increase of \$886K includes a request for one subject matter expert to support greenhouse LDAR Impact Program (1 FTE), and non-labor costs associated with Subpart W, MS4, and LDAR.

AB32 Administrative Fees. Since 2010, SoCalGas has paid AB32 Administrative Fees, which are for the CARB to recover its costs to implement AB32. AB32 requires public utility gas corporations, such as SoCalGas, to pay annual administrative fees for each therm of natural gas they deliver to any end user in California, excluding natural gas delivered to electric

1 generating facilities and to wholesale providers. SoCalGas cannot determine either the fuel
2 delivered to customers or the exact common carbon cost to provide very detailed projections.
3 However, we have not observed total gas deliveries and the changes in the common carbon cost
4 resulting in any predictable upward pressures. As such, SoCalGas is not seeking additional
5 dollars for the AB32 Administrative Fees beyond base year levels, although it is prudent to
6 continue to balance this cost item due to these restrictions on developing a detailed projection.

7 Subpart W. Both the federal and state mandatory GHG Reporting Rules require
8 Petroleum and Natural Gas Systems to report GHG emissions annually. The federal requirement
9 is embodied in Title 40, CFR, Part 98, Subpart W. The state requirement is contained in Title
10 17, California Code of Regulations (CCR), Sub-Article 5, beginning with section 95150.

11 Typical activities that must be conducted per Subpart W requirements include:

- 12 • Gas Distribution Subpart W compliance monitoring, recordkeeping and reporting
13 (MRR) conducted by contractors and/or internal labor such as leak surveys on meter
14 and regulation stations each year;
- 15 • Compliance MRR tools and software such as optical imaging, high flow sampling or
16 other required leak surveying equipment and associated software to support
17 compliance MRR;
- 18 • Compliance MRR conducted by contractors and/or internal labor such as
19 development and maintenance of the Best Available Monitoring Methods (BAMM)
20 and monitoring plans as well as leak surveying and internal labor oversight and
21 management of contractors performing any compliance MRR functions;
- 22 • Transmission and Storage Operations Subpart W compliance MRR conducted by
23 contractors and/or internal labor such as development and maintenance of the BAMM
24 and monitoring plans as well as leak surveying and internal labor oversight and
25 management of contractors performing any compliance MRR functions;
- 26 • Environmental Services Subpart W compliance MRR by contractors and/or internal
27 labor such as reporting to EPA's electronic GHG reporting tool, rule language review
28 and analysis;
- 29 • Environmental Services Subpart W compliance MRR software and tools;
- 30 • Gas Engineering Subpart W compliance MRR support such as activities to measure
31 compressor venting/fugitive emissions, purchasing and training on survey equipment
32 (e.g., at elevated locations with optical gas imaging cameras) and support of BAMM;
- 33 • Internal labor for administrative support and oversight of Subpart W compliance

1 Substantial changes in both the federal and state Subpart W regulatory language and
2 requirements have been approved within the past year. The regulation changes dictate how and
3 when SoCalGas compliance MRR activities are both carried out in the field as well as reported to
4 the respective agencies. Even though the state regulatory language seeks to incorporate various
5 portions of 40 CFR 98 by reference, there are also key differences between the two.

6 As a result of the extensive regulatory changes, significant time and effort has been spent
7 by Environmental Services, Gas Transmission and Storage Personnel and third party consultants
8 to provide comments on rule changes and subsequently make substantial modifications to MRR
9 Monitoring Plans for each affected SoCalGas facility. In addition, the cost of verification
10 services for affected facilities has increased significantly now that MRR verification activities
11 are critical to Cap and Trade compliance for all major sources. Finally, training of field
12 personnel and reporting/management tools and documentation are needed due to the rule
13 updates. These factors account for the considerable upward pressures that drive projections for
14 2014-2016 to exceed the 2013 actual spend. See Mr. Baker's testimony (Ex. SCG-06) and my
15 workpapers for cost category 2EV000.001 (Ex. SCG-17-WP-R).

16 MS4 Local Ordinance Compliance. The RWQCBs issue National Pollutant Discharge
17 Elimination System (NPDES) permits to MS4 owners/operators that include counties, cities, and
18 flood control districts. Municipalities and MS4 owners/operators, in turn, must regulate
19 dischargers located within their jurisdiction, including commercial facilities. This includes
20 requiring commercial facilities to minimize discharge of pollutants to the MS4 through the
21 implementation of Best Management Practices (BMPs). Since NPDES permits are renewed on a
22 five-year cycle and are generally becoming more stringent, municipalities may become more
23 stringent in enforcing BMP implementation on commercial facilities. MS4 owners/operators are
24 required to inspect and regulators can enforce BMP implementation at these facilities and can
25 impose further compliance requirements if the facility is located in a watershed of an impaired
26 waterbody that has a Total Maximum Daily Loading (TMDL). One of the most cost effective
27 BMPs is good housekeeping and sweeping. Currently, most SoCalGas facilities are swept on a
28 monthly basis. To lower potential pollutant discharge from commercial activities and vehicular
29 traffic at SoCalGas facilities, it may be necessary to increase sweeping to a frequency of twice a
30 month for approximately 52 facilities. See Ms. Herrera's testimony (Ex. SCG-15) for O&M
31 forecasted cost related to MS4 compliance activities.

1 LDAR Impact Program. SB1371⁵ was enacted on September 21, 2014. It requires
2 California Public Utilities Commission to adopt rules and procedures governing the natural gas
3 leakage abatement for those commission-regulated gas pipeline facilities that are intrastate
4 transmission and distribution lines to reduce emissions of natural gas pursuant to the California
5 Global Warming Solutions Act of 2006.

6 When considering the California Global Solution Act of 2006, it is important to note that
7 the recent CARB AB32 Climate Change Scoping Plan updates indicated the intent to minimize
8 methane emissions from natural gas transmission and distribution systems. The Scoping Plan
9 proposes that CARB work with local air agencies to develop regulations to reduce GHG fugitive
10 emissions from these systems. The requirements of SB1371 differ from current requirements
11 under Environmental Protection Agency (EPA) Subpart W for fugitive emission monitoring and
12 leak detection in that the intent is to minimize gas distribution system leaks and any associated
13 fugitive methane emissions through rigorous leak testing and repairs establishing a reduction
14 requirement that is not currently present in EPA Subpart W.

15 SB1371 rulemaking is expected to be completed during the rate case period 2014-2016
16 with initial costs to SoCalGas in 2016. Impacts and anticipated costs of the new requirements
17 cannot be precisely calculated at this time, although cost estimates developed herein permits
18 flexibility to adjust target methane emissions reductions and actual costs necessary to meet the
19 anticipated regulatory requirements for emission reductions in either the test year or post-test
20 years.

21 Because the final conditions of the requirements in SB1371 cannot be exactly known or
22 precisely accounted for at this time, this would be appropriate candidate for inclusion to the
23 existing NERBA two-way balancing account. SoCalGas would therefor propose that it be added
24 to the existing NERBA two-way balancing account as a new component with authorized expense
25 tracking. See workpapers for 2EV000.001 (Ex. SCG-17-WP-R).

26 The new emergent environmental requirements noted above have the same characteristics
27 as the legislation that prompted SoCalGas to propose the NERBA in the last GRC. The
28 rulemaking for LDAR and MS4 is expected to be completed during the rate case period 2014-
29 2016 with initial costs to SoCalGas in 2016. The anticipated costs of the new requirement

⁵ California Legislative Information, Senate Bill 1371 - Natural gas: leakage abatement (September 21, 2014), http://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=201320140SB1371.

cannot yet be precisely calculated, although a range can be estimated, the anticipated range of costs exceeds an amount that might be reasonably absorbed in routine operations in either the test year or post-test years. Because of these characteristics, this new requirement would appear to be a suitable candidate to add to the existing NERBA two-way balancing account.

III. SHARED COSTS

A. Introduction

Environmental Services’ shared O&M costs are contained in two cost categories: Environmental Programs and Policy, Oversight & Compliance. Table 3 summarizes the total shared O&M forecasts for the listed cost categories.

TABLE 3
Shared O&M Summary of Costs

ENVIRONMENTAL			
Shown in Thousands of 2013 Dollars Incurred Costs (100% Level)			
Categories of Management	2013 Adjusted-Recorded	TY2016 Estimated	Change
A. Environmental Programs	2,580	3,140	560
B. Policy, Oversight & Compliance Management	283	328	45
Total Shared Services (Incurred)	2,863	3,468	605

I am sponsoring the forecasts on a total incurred basis, as well as the shared services allocation percentages related to those costs. Those percentages are presented in my shared services workpapers, along with a description explaining the activities being allocated. See Ex. SCG-17-WP-R. The dollar amounts allocated to affiliates are presented in our Shared Services Policy and Procedures testimony. See Ex. SCG-25.

B. Environmental Programs

1. Description of Costs and Activities

The compliance activities in this shared service O&M cost category includes labor cost associated with day-to-day environmental compliance activities in water quality environmental permitting, conducting project screening for potential environmental impacts, and providing compliance guidance and oversight and currently has 16.9 FTEs. The incremental increase of \$605K includes a request for labor full year funding for an Air Quality Specialist (0.9 FTEs), two

1 incremental water quality subject matter experts (2 FTEs), and non-labor costs associated with
2 increasing water quality stringent permit requirements and development of programmatic permits
3 and supporting GHG reporting,. The fulfillment of this request will result in 19.8 FTEs in this
4 shared service category.

5 **2. Forecast Method**

6 A base year forecast methodology plus incremental upward pressures was used to
7 determine cost requirements. This method is most appropriate because it identifies specific
8 environmental regulatory changes and their related costs impacting the company during the GRC
9 period. The specific cost drivers are more appropriately applied to base year spend to derive a
10 Test Year forecast. Historical averaging would ignore those cost drivers in developing a
11 forecast. See workpapers for cost center 2200-2176 (Ex. SCG-17-WP-R).

12 **3. Cost Drivers**

13 The following breaks down the components of the \$560K increase for this cost category.

Breakdown of Costs in Environmental Programs (\$000)	
2200-2176.000: Environmental Programs	
• Labor full year funding (2.9 FTEs)	\$285
• California SWRCB Annual Permit Fees	\$ 6
• Water Quality Programmatic Permits	\$147
• GHG and Environmental Sustainability Management Tool Project	\$122

14 California SWRCB General Permit for Storm Water Discharges Associated with
15 Industrial Activities. On April 1, 2014, the SWRCB adopted the Industrial Storm Water General
16 Permit Order 2014-0057-DWQ (Industrial General Permit) superseding the previous Order 97-
17 03-DWQ. The Industrial General Permit is a NPDES permit authorized by the Federal Clean
18 Water Act (CWA) that regulates discharges associated with nine broad categories of industrial
19 activities. The Industrial General Permit requires the implementation of management measures
20 that will achieve the performance standard of Best Available Technology Economically
21 Achievable and Best Conventional Pollutant Control Technology. SoCalGas has seven facilities
22 (Aliso Canyon, Goleta, Honor Rancho, Montebello, Playa Del Rey, Olympic and Pico Rivera)
23 subject to the requirements of the Industrial General Permit. To meet the new changes to this
24 permit, SoCalGas will be required to increase internal and consultant support, amend the
25 facilities' Storm Water Pollution Prevention Plans, increase the sampling and testing frequencies

1 at each of the facilities, manage additional reporting requirements to the SWRCB, and
2 implement minimum required BMPs as well as advanced structural BMPs to comply with
3 Numerical Action Levels. See workpapers for cost center 2200-2176 and supplemental
4 workpapers (Ex. SCG-17-WP-R).

5 California SWRCB Annual Permit Fees. SWRCB has a fee schedule for the initial
6 application and annual fees for the permits and water quality certifications that are issued by the
7 SWRCB and the RWQCBs. These fees are reviewed on an annual basis. A revised fee schedule
8 is normally adopted each September, effective from the previous July 1 to the following June 30.
9 Fee incremental increases are based on historic fee increases using base year forecasting.

10 Water Quality Programmatic Permits. Federal and state water quality laws and
11 regulations require SoCalGas to obtain prior authorization through permits and/or certifications
12 from the applicable water quality agencies (e.g., SWRCB, Army Corps of Engineers ACOE) for
13 some of SoCalGas' utility O&M and construction activities. Obtaining permits and certifications
14 for each individual project may cause project delays and inconsistent permit requirements, and
15 may result in increased costs for the projects. In contrast, programmatic permits can be used for
16 multiple projects and establish standard application and approval processes and uniform
17 compliance requirements which provide for more certain approval times and consistency in
18 permit requirements between projects and can result in an overall reduction in project costs.
19 Because of the advantages of programmatic permits, SoCalGas is working with other utility
20 companies in California to obtain two different types of programmatic permits from SWRCB.

21 SoCalGas is requesting funding for its share of the consultant costs associated with the
22 development of the following water quality programmatic permits: 1) Programmatic CWA
23 Section 401 Water Quality Certification and associated Waste Discharge Requirements (WDRs)
24 for natural gas, electric and telecommunications linear projects, and 2) Programmatic NPDES
25 discharge permit for natural gas projects.

26 Some of SoCalGas' natural gas utility O&M and construction activities, even after
27 implementing avoidance measures, must disturb areas regulated as "jurisdictional waters" (e.g.,
28 streams, rivers) under federal and/or state water quality laws. Work in Waters of the United
29 States requires water quality permits to be obtained under CWA Section 404 through the ACOE.
30 Each Section 404 permit must have an accompanying Section 401 Water Quality Certification
31 (WQC) issued by the SWRCB or RWQCB. California WDRs are also required for similar

1 “dredge or fill-type” impacts to state-only jurisdictional waters. Similar activities and similar
2 permitting is required of other natural gas, electric and telecom companies that conduct linear
3 underground/overhead projects (LUPs) in California. To facilitate permitting for these activities,
4 reduce permitting delays and to obtain uniform permit requirements throughout the state, a
5 number of natural gas, electric and telecom companies will request a programmatic Section 401
6 WQC and associated WDRs from the SWRCB. The costs to develop these permits will be
7 shared by the participating companies.

8 Natural gas pipeline O&M and construction activities require trenching and excavation to
9 uncover existing buried pipelines and/or installation of new pipelines. In some cases, when
10 trenching and excavation occurs, groundwater is encountered and will likely be removed to
11 complete these activities. Additionally, required hydrostatic pressure tests of new or existing
12 pipelines generates wastewater, for which we would generally need a permit to discharge it to
13 surface waters. Similar activities and similar permitting is required of all of the major natural
14 gas pipeline operators in the state of California. To facilitate permitting for these activities and
15 other pipeline activities, and to obtain uniform permit requirements throughout the state,
16 SoCalGas, in partnership with San Diego Gas & Electric Company (SDG&E) and Pacific Gas
17 and Electric Company, is requesting one or more NPDES programmatic permits from the
18 SWRCB. These permits focus only on wastewater discharges from natural gas facility activities.
19 Costs are to fund third party consultants to develop a statewide, programmatic NPDES permit(s)
20 for construction and maintenance work on natural gas facilities. See workpapers for cost center
21 2200-2176 and supplemental workpapers (Ex. SCG-17-WP-R).

22 Water Quality Programs Staffing. Additional staff is needed at the total labor upward
23 pressure of \$196K for two additional in-house FTEs to support the new water quality compliance
24 requirements described above. See workpapers for cost center 2200-2176 and supplemental
25 workpapers (Ex. SCG-17-WP-R).

26 GHG and Environmental Sustainability Management Tool Project. SoCalGas conducts
27 both voluntary and mandatory reporting of its GHG inventory. SoCalGas’ voluntary GHG
28 inventory reporting was initially to The California Climate Action Registry, now The Climate
29 Registry. Pressure is increasing on businesses to have solid environmental data management
30 tools in place for ensuring consistency, accuracy, traceability, and compliance. Currently
31 SoCalGas is using various manual methods (i.e. spreadsheets) for collecting such data from

1 operations and customers for environmental requirements and it is difficult to quality assure for
2 accurate inventorying and reporting needed to satisfy compliance obligations, analyze trends,
3 forecast , and traceability. With the onset of increasingly complex environmental regulations
4 such as the mandatory federal and state GHG requirements and the need to meet strategic
5 objectives related to Corporate Responsibility/Sustainability and Green Operations Initiatives, a
6 new tool is needed for the purpose of centralizing, analyzing, forecasting, reporting, monitoring,
7 and quality assuring the GHG information. SoCalGas requires the O&M costs associated with
8 the development of a new GHG and Environmental Sustainability Management Tool to manage
9 the complex data collection, increased timeliness and accuracy of data analysis and reporting
10 requirements needed for GHG compliance and to support the tracking of metrics that help to
11 reduce SoCalGas' environmental footprint. This software development is a shared service
12 project with SDG&E for operational synergies and cost sharing. For capital costs associated
13 with the development of the GHG and Environmental Management Tool, see Mr. Olmsted
14 testimony (Ex. SCG-18-R). For O&M costs associated with the ongoing maintenance of the
15 tool, see my workpapers for cost center 2200-2176.

16 **C. Policy, Oversight & Compliance Management**

17 **1. Description of Costs and Activities**

18 The compliance activities in this shared service O&M cost category include
19 Environmental Director oversight function and administrative assistants that support the
20 organization and currently has 2.1 FTEs. The incremental increase of \$45K is an adjustment to
21 annualize existing labor costs as well as capture incremental labor costs required to support my
22 organization.

23 **2. Forecast Method**

24 A base year forecast methodology plus incremental upward pressures was used to
25 determine cost requirements. These are costs related to staffing of the management activities for
26 Environmental Services. The incremental upward pressures, which are attributed to reflecting
27 full year funding for these FTE positions, are best applied to a conservative base year level of
28 costs. Traditional averaging or trending of historical costs would not appropriately capture the
29 current and future staffing profile related to this cost center, while a base year starting point
30 better reflects the activities and responsibilities of SoCalGas' management function for
31 Environmental Services. See workpapers for cost center 2200-2012 (Ex. SCG-17-WP-R).

1 **3. Cost Drivers**

2 As described above, the primary reason for the incremental cost increase is annualizing
3 existing labor costs and reflecting the incremental labor costs to perform this function.

4 **IV. SUPPORT FOR OTHER COST WITNESSES**

5 **A. Leak Reduction Efforts (support for F. Ayala - Gas Distribution)**

6 Mr. Ayala is sponsoring O&M costs for the leak reduction efforts, which are in part
7 supported by environmental requirements to reduce GHG emissions. In anticipation of
8 legislative and regulatory methane reduction requirements Gas Distribution in addition to
9 continuing with its trend of historical leak repairs included in the base forecast is taking action
10 towards significantly reducing its pending leaks and proactively replace a larger number of
11 services in a system wide effort to aggressively mitigate leaks starting in 2014. This effort will
12 reduce the number of pending main leaks, pending service leaks and leak maintenance and repair
13 from 2014 through 2016. The project will complement a larger effort of SoCalGas' quest to
14 work down the leakage backlog.

15 As mentioned earlier in this testimony, SB1371 will require the Commission to adopt
16 rules and procedures governing the operation, maintenance, repair and replacement of
17 Commission-regulated gas pipeline facilities.⁶ SB1371 proposes to minimize leaks as a hazard
18 to be mitigated pursuant to the Natural Gas Pipeline Safety Act of 2011 and to reduce emissions
19 of natural gas from those facilities to the maximum extent feasible. Mr. Ayala addresses the
20 costs forecasted for Gas Distribution pursuant to SB1371.

21 **B. SWRCB (support for J. Dagg - Gas Transmission)**

22 Mr. Dagg is sponsoring O&M for the California State Water Resources Control Board's
23 (SWRCB) annual permit fees, which are related to water quality mandates. Earlier in my Shared
24 Costs section (Environmental Programs), I discussed the underlying environmental policies for
25 this item in justification of my sponsored costs. That discussion also supports Mr. Dagg's
26 forecasted costs.

27 **C. Subpart W (support for P. Baker - Underground Storage)**

28 Mr. Baker is sponsoring O&M costs related to Subpart W. Earlier in my Non-Shared
29 Costs section (NERBA), I discuss the underlying environmental policies for this item in

⁶ California Legislative Information, Senate Bill 1371 - Natural gas: leakage abatement (September 21, 2014), http://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=201320140SB1371.

1 justification of my sponsored Subpart W costs. That discussion also supports Mr. Baker's
2 forecasted costs.

3 **D. MDAQMD and RWQCB (support for R. Stanford - Gas Engineering &**
4 **Emergency Services)**

5 **1. MDAQMD (Air Quality)**

6 Mr. Stanford is sponsoring Capital and O&M costs for 1) Mojave Desert Air Quality
7 Management District (MDAQMD), pursuant to its Rule 1160 on Internal Combustion Engines.
8 SoCalGas anticipates that MDAQMD will revise Rule 1160 in a manner that will require
9 SoCalGas to meet new emission limits and monitoring requirements at North and South Needles,
10 Blythe, Adelanto, Kelso and Newberry Compressor Stations. Rule 1160 is included in the
11 MDAQMD's 2014 Master Rule Development Calendar and it indicates that MDAQMD will
12 amend Rule 1160 to:

13 Analyze [particulate matter] measures for cost effectiveness. Update for
14 [Reasonably Available Control Technology]. Conform to [Air Toxics Control
15 Measure], [National Emission Standards for Hazardous Air Pollutants] and [New
16 Source Performance Standards].⁷

17 MDAQMD Rule 1160 was initially adopted in 1994 and has not been amended in over
18 fifteen years. There is significant interest at MDAQMD to revise the rule. SoCalGas
19 participated in several recent discussions with the MDAQMD concerning the amendments. The
20 agency indicated that they expect to publish the draft staff report and/or draft rule language by
21 August 2014. We anticipate that MDAQMD's Rule 1160 amendments will establish emission
22 limits and other requirements in a manner similar to South Coast Air Quality Management
23 District (SCAQMD) Rule 1110.2, Emissions From Gaseous- and Liquid-Fueled Engines
24 (amended September 7, 2013). Mr. Stanford addresses the costs forecasted pursuant to Rule
25 1160 amendments.

26 **2. RWQCB (Water Quality)**

27 Mr. Stanford is sponsoring O&M costs for Hydrostatic Test Water and Dewatered
28 Groundwater Treatment for permit compliance, which relates to water quality mandates.
29 Hydrostatic test and dewatering permits are NPDES permits renewed by the Regional Water

⁷ Mojave Desert Air Quality Management District 2014 Master Rule Development Calendar (February 2014), <http://www.mdaqmd.ca.gov/Modules/ShowDocument.aspx?documentid=3766>.

1 Quality Control Board (RWQCB) on a five-year cycle. Each year, conditions and effluent limits
2 may become more stringent. Additionally, Total Maximum Daily Loading water quality
3 standards may apply in certain impaired waterbodies; therefore, discharges in specific areas may
4 have requirements that are more stringent. In order to meet permit conditions, treatment of
5 wastewater prior to discharge may be necessary to comply with effluent limitations. Cost
6 estimate is based on work conducted with a wastewater treatment vendor in 2013.

7 **E. SWRCB and MS4 (support for C. Herrera - Fleet Services & Facilities)**

8 **1. SWRCB**

9 Ms. Herrera is sponsoring facilities O&M costs for California SWRCBs Industrial
10 General Permit Renewal and annual permit fees, which I discuss in my Shared Costs section
11 (Environmental Programs) to support my own O&M costs related to this item. That discussion
12 also supports Ms. Herrera's forecasted costs.

13 **2. MS4**

14 Ms. Herrera is sponsoring forecasted facilities O&M costs related to MS4 ordinance
15 compliance, which I discuss earlier in my Non-Shared Costs section (NERBA). That discussion
16 also supports Ms. Herrera's forecasted costs.

17 **F. GHG and Environmental Management Tool (support for C. Olmsted - IT)**

18 Mr. Olmsted is sponsoring the capital costs associated with the development of the GHG
19 and Environmental Management Tool, pursuant to the Green Operations Initiative. Earlier in my
20 Shared Costs section (Environmental Programs), I discussed the underlying environmental
21 policies for this item in justification of my sponsored O&M costs. That discussion also supports
22 Mr. Olmsted's forecasted capital costs.

23 **V. CONCLUSION**

24 My testimony and workpapers provide support for the costs I sponsor for Environmental
25 Services, and the reasonableness of the methodologies used to derive those costs. Environmental
26 Compliance is a critical element of our business and ecological stewardship. Our 2016 Test Year
27 forecasts represent a modest and justified increase over base year costs, and we respectfully ask
28 the Commission to fully fund our important work so SoCalGas can continue to meet its
29 obligations to applicable regulations and environmental stewardship. This concludes my revised
30 prepared direct testimony.

1 **VI. WITNESS QUALIFICATIONS**

2 My name is Jill Tracy. My business address is 555 West Fifth Street, Los Angeles,
3 California, 90013. My current position is Director of Environmental Services within the
4 Operations Support organization. The Environmental Services organization provides services to
5 both SoCalGas and SDG&E. I joined Sempra Energy, the parent company of SDG&E and
6 SoCalGas, in 2007, where I served as a senior environmental counsel. I have been in my current
7 position at SoCalGas since 2014.

8 I hold a Bachelor's of Art Degree in Independent Studies from the Vassar College and a
9 Juris Doctorate from the University of New Hampshire School of Law.

10 I have not previously testified before the Commission.

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APPENDIX A - WITNESS MATRIX FOR SOCALGAS ENVIRONMENTAL POLICY AND COSTS

Witness Matrix for SoCalGas Environmental Policy and Costs				
#	Issue	AREA	Witness Sponsor for Environmental Policy	Witness Sponsor for Environmental Cost
01	California SWRCB Annual Permit Fees	Environmental Services	Tracy, Jill (SCG-17-R)	Tracy, Jill (SCG-17-WP-R)
		Gas Transmission		Dagg, John (SCG-05-WP)
		Real Estate, Land & Facilities		Herrera, Carmen (SCG-15-WP)
02	California SWRCB Industrial General Permit Renewal	Real Estate, Land & Facilities	Tracy, Jill (SCG-17-R)	Herrera, Carmen (SCG-15-WP)
		Gas Storage		Baker, Phillip (SCG-06-WP)
03	Environmental Sustainability Operational Support	Environmental Services	Tracy, Jill (SCG-17-R)	Tracy, Jill (SCG-17-WP-R)
04	Greenhouse Gas and Environmental Sustainability Management Tool Project	IT (Capital)	Tracy, Jill (SCG-17-R)	Olmsted, Christopher (SCG-18-CWP-R)
		Environmental Services (O&M)		Tracy, Jill (SCG-17-WP-R)
05	Hydrostatic Test Water and Dewatered Groundwater Treatment for Permit Compliance	Gas Engineering	Tracy, Jill (SCG-17-R)	Stanford, Raymond (SCG-07-WP)
06	Leak Reduction Effort (SB1371)	Gas Distribution	Tracy, Jill (SCG-17-R)	Ayala, Frank (SCG-04-WP)
07	NERBA – AB32 Admin Fees	Environmental Services	Tracy, Jill (SCG-17-R)	Tracy, Jill (SCG-17-WP-R)
08	NERBA - Leak Detection and Repair (LDAR) Impact Program	Environmental Services	Tracy, Jill (SCG-17-R)	Tracy, Jill (SCG-17-WP-R)
09	NERBA - Municipal Separate Storm Sewer Systems (MS4)	Environmental Services	Tracy, Jill (SCG-17-R)	Herrera, Carmen (SCG-15-WP)
10	NERBA – Regulatory Accounts	Regulatory Accounts	Austria, Reginald (SCG-34)	Austria, Reginald (SCG-34)
11	NERBA – Subpart W	Environmental Services	Tracy, Jill (SCG-17-R)	Tracy, Jill (SCG-17-WP-R)
		Gas Transmission & Storage		Baker, Phillip (SCG-06-WP)
12	Rule 1160 - (MDAQMD)	Gas Engineering	Tracy, Jill (SCG-17-R)	Stanford, Raymond (SCG-07-WP) (SCG-07-CWP)
13	SWRCB CWA Section 401 Water Quality Certification For Linear Utilities Projects	Environmental Services	Tracy, Jill (SCG-17-R)	Tracy, Jill (SCG-17-WP-R)
14	SWRCB NPDES discharge permit for Natural Gas Pipeline Projects	Environmental Services	Tracy, Jill (SCG-17-R)	Tracy, Jill (SCG-17-WP-R)

APPENDIX B – GLOSSARY OF ACRONYMS

AB	Assembly Bill
ACOE	Army Corps of Engineers
BAMM	Best Available Monitoring Methods
BMP	Best Management Practice
CARB	California Air Resources Board
CCR	California Code of Regulations
CFR	Code of Federal Regulations
CWA	Clean Water Act
EPA	Environmental Protection Agency
GHG	Greenhouse Gas
LDAR	Leak Detection and Repair
LUPs	Linear Underground/Overhead Projects
M&R	Meter and Regulation
MDAQMD	Mojave Desert Air Quality Management District
MRR	Monitoring, Recordkeeping and Reporting
MS4	Municipal Separate Storm Sewer Systems
NERBA	New Environmental Regulatory Balancing Account
NPDES	National Pollutant Discharge Elimination System
RWQCB	Regional Water Quality Control Board
SB	Senate Bill
SCAQMD	South Coast Air Quality Management District
SWRCB	California State Water Resources Control Board
TMDL	Total Maximum Daily Loading
TSDf	Treatment Storage and Disposal Facilities
VOC	Volatile Organic Compound
WDR	Waste Discharge Requirement
WQC	Water Quality Certification
WQIP	Water Quality Improvement Plan

SoCal Gas 2016 GRC Testimony Revision Log – March 2015

Exhibit	Witness	Page	Line	Revision Detail
SCG-17	Jill Tracy	JT-iii	Table	Updated Summary Table to reflect the changes related to the TSDf.
SCG-17	Jill Tracy	JT-iii	Bullet	Updated amount for 2016 Test Year Forecast from \$13.1 million to \$12.995 million, bullet number 1, Summary of Requests.
SCG-17	Jill Tracy	JT-1	9	Updated Table for Test Year 2016 Summary of Total Cost to reflect the changes related to the TSDf.
SCG-17	Jill Tracy	JT-4	7	Updated Table for Non-Shared O&M Summary of Costs to reflect the changes related to the TSDf.
SCG-17	Jill Tracy	JT-4	14	Change the incremental increase from \$447K to \$336K to reflect the changes related to the TSDf.
SCG-17	Jill Tracy	JT-5	13	Updated Table for Consulting Fee for renewal of hazardous waste permit for two TSDFs from \$267 to \$156.
SCG-17	Jill Tracy	JT-5	Footnote	<i>Revised Footnote 1 to indicate correction in workpapers related to the correction of an errata item related to the cost forecast for the TSDf Department of Toxic Substances Control Permit Renewal.</i>
SCG-17	Jill Tracy	JT-6	20	<i>Added "SoCalGas anticipates \$267K will be the total cost for the permit development process and permit fees. Approximately, \$110K of the \$267K associated with Olympic TSDf would be subject to recovery from a third party and the remaining cost of \$156K is the forecast expense for 2016."</i>