

Company: Southern California Gas Company (U904G)  
Proceeding: 2016 General Rate Case  
Application: A.14-11-004  
Exhibit: SCG- 206

**SOCALGAS**

**REBUTTAL TESTIMONY OF PHILLIP E. BAKER**

**UNDERGROUND STORAGE**

June 2015

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





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**SOCALGAS REBUTTAL TESTIMONY OF PHILLIP E. BAKER**  
**UNDERGROUND STORAGE**

**I. SUMMARY OF DIFFERENCES**

<b>TOTAL O&amp;M - Constant 2013 (\$000)</b>			
	<b>Base Year 2013</b>	<b>Test Year 2016</b>	<b>Change</b>
SoCalGas	<b>\$30,995</b>	<b>\$40,181</b>	<b>\$9,186</b>
ORA	<b>\$30,994</b>	<b>\$36,375</b>	<b>\$5,381</b>

<b>TOTAL CAPITAL - Constant 2013 (\$000)</b>			
	<b>2014</b>	<b>2015</b>	<b>2016</b>
SoCalGas	<b>\$71,429</b>	<b>\$74,270</b>	<b>\$90,523</b>
ORA	<b>\$71,069</b>	<b>\$74,270</b>	<b>\$90,523</b>

**II. INTRODUCTION**

**A. ORA**

The Office of Ratepayer Advocates (ORA) issued its report on Underground Storage on April 24, 2015.<sup>1</sup> ORA’s positions are summarized as follows:

- For Routine Spending, ORA disagrees with Southern California Gas Company’s (SoCalGas) use of a five-year trending methodology using the 2009 – 2013 timeframe. Instead, ORA proposes using a five-year average that includes 2014 (2010 – 2014).
- ORA generally supports SoCalGas’ Storage Integrity Management Program (SIMP) proposal and does not oppose the SoCalGas’ O&M and capital requests associated with the initiative. ORA does, however, propose a one-way balancing account instead of the two-way balancing account proposed by SoCalGas.
- For capital, ORA recommends adopting SoCalGas’ actual adjusted-recorded capital amount for 2014 and agrees with SoCalGas’ capital forecasts for 2015 and 2016.
- ORA does not oppose the New Environmental Regulatory Balancing Account (NERBA) O&M expense request.

**B. UCAN**

The Utility Consumers Action Network (UCAN) submitted testimony on May 15, 2015.<sup>2</sup> The following is a summary of UCAN’s positions:

<sup>1</sup> Exhibit (Ex.) ORA–11, Report on the Results of Operations for San Diego Gas & Electric Company and Southern California Gas Company, Test Year 2016 General Rate Case, SoCalGas – Gas Transmission, Underground Storage, Engineering, and Pipeline Integrity, pages 7 – 11.

<sup>2</sup> Testimony of Mark Fulmer on behalf of the Utility Consumers’ Action Network Concerning Sempra’s Revenue Requirement Proposals for San Diego Gas & Electric and SoCalGas (Ex. UCAN/Fulmer), pages 69-75.

- UCAN proposes routine GRC treatment for SIMP costs instead of the two-way balancing account proposed by SoCalGas.
- In the alternative, UCAN offers support for ORA's recommendation for a one-way SIMP balancing account instead of the two-way balancing account proposed by SoCalGas and also as an alternative, UCAN proposes that a Tier 3 advice letter process be used if a two-way balancing account treatment is established for SIMP.<sup>3</sup>

**C. UWUA**

The Utility Workers Union of America (UWUA) submitted testimony on May 15, 2015.<sup>4</sup> UWUA generally supports SoCalGas' funding requests and initiatives, but also proposes the establishment of a working group to coordinate operations and maintenance efforts for pipe and facilities in the storage fields. UWUA proposes that the working group's approach would provide the basis for a comprehensive storage revenue requirement in the 2019 GRC.

**III. REBUTTAL TO PARTIES' O&M PROPOSALS**

**A. Non-Shared Services O&M**

<b>NON-SHARED O&amp;M - Constant 2013 (\$000)</b>			
	<b>Base Year 2013</b>	<b>Test Year 2016</b>	<b>Change</b>
SCG Routine	<b>\$30,681</b>	<b>\$34,101</b>	<b>\$3,420</b>
ORA Routine	<b>\$30,681</b>	<b>\$30,295</b>	<b>(\$386)</b>
SCG NERBA	<b>\$314</b>	<b>\$404</b>	<b>\$90</b>
ORA NERBA	<b>\$313</b>	<b>\$404</b>	<b>\$90</b>
SCG SIMP	<b>\$0</b>	<b>\$5,676</b>	<b>\$5,676</b>
ORA SIMP	<b>\$0</b>	<b>\$5,676</b>	<b>\$5,676</b>
SCG Total	<b>\$30,995</b>	<b>\$40,181</b>	<b>\$9,186</b>
ORA Total	<b>\$30,994</b>	<b>\$36,375</b>	<b>\$5,381</b>

**1. Routine Spending**

**a. ORA**

ORA disagrees with the use of a five year trending methodology (using 2009 – 2013 data) to establish the 2016 forecast for Routine Spending O&M. Instead, ORA proposes using

<sup>3</sup> UCAN's proposed advice letter process is addressed in the rebuttal testimony of SoCalGas Witness Reginald Austria. See the SIMPBA rebuttal testimony of SoCalGas witness Reginald Austria (Ex. SCG-233).

<sup>4</sup> Testimony of Paul Carriera and Carl Wood on behalf of the Utility Workers Union of America Concerning Sempra's Revenue Requirement Proposals for SoCalGas (Ex. UWUA/Wood) page 8 and (Ex. UWUA/Carriera) pages 3-7.

1 the most recent 2010 - 2014 five-year average. ORA argues that the slight decrease in spending  
2 from 2012 to 2013 and 2014 warrants the use of a five-year average instead of a five-year trend.

3 The decrease in spending over the most recent two-year period, however, does not justify  
4 using a five-year average methodology to establish a 2016 forecast. As explained in my direct  
5 testimony, the five-year trending methodology proposed by SoCalGas to forecast O&M costs is  
6 the most reasonable forecasting approach.<sup>5</sup> This is because the five-year average proposed by  
7 ORA does not appropriately account for expected increases to O&M costs resulting from  
8 increased pipeline integrity inspection requirements, increased frequency and depth of regulatory  
9 audits (and resulting compliance activities), additional focus on employee training and  
10 supervisory qualification, increased permitting and reporting to regulatory agencies, along with  
11 new and existing environmental regulations.

12 Additionally, the five year average does not appropriately consider the impact of gas  
13 throughput on O&M costs. Increased gas throughput causes more wear on the compressors and  
14 equipment, and requires additional use of chemical consumables. Because gas throughput within  
15 the storage fields is trending higher, it is expected that O&M costs will also trend higher.

16 As an alternative to SoCalGas' proposed forecast, for this cost category, an updated five-  
17 year trending methodology that includes the recently produced 2014 adjusted-recorded costs  
18 would not be unreasonable. This methodology yields a TY2016 forecast of \$31,131, as opposed  
19 to the ORA TY2016 forecast of \$30,295 for Routine O&M Spending.

## 20 **2. SIMP Cost Recovery Mechanism**

### 21 **a. ORA**

22 ORA generally supports SoCalGas' proposed SIMP, but does take issue with the  
23 proposed use of a two-way balancing account.<sup>6</sup> Instead, ORA argues that SIMP costs should  
24 receive one-way balancing account treatment to "better protect ratepayers."<sup>7</sup>

25 Although SoCalGas and ORA are aligned in their support of the forecasted cost for  
26 SIMP, SoCalGas and ORA's positions diverge on the appropriate balancing account mechanism.  
27 SoCalGas disagrees with ORA on its proposed one-way accounting treatment of SIMP. As  
28 previously stated in the Underground Storage Testimony SCG-06, SoCalGas recommends that

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<sup>5</sup> See Testimony of SoCalGas witness Phillip E. Baker (Ex. SCG-06) page 14 lines 9-15 and page 15 lines 1-22.

<sup>6</sup> See Testimony of ORA-11 page 8 lines 15-16.

<sup>7</sup> See Testimony of ORA-11 page 8 lines 16-18.

1 SIMP related costs be recovered through a two-way balancing account due to the unpredictable  
2 and potentially variable nature of inspection and remediation costs.<sup>8</sup> Again, there are  
3 uncertainties related to the work to be performed under SIMP. Because of uncertainties related  
4 to the work, there are related cost uncertainties. A one-way balancing account does not allow  
5 appropriate flexibility to address these uncertainties. In contrast, a two-way balancing account  
6 appropriately allows flexibility in addressing unforeseen work and issues, returns overcollections  
7 to customers, and provides a process to review and collect reasonable undercollections.

8         Again, a two-way balancing account is in the best interest of all stakeholders.

9 Underspending would be returned to the customers. If SoCalGas finds that it is prudent to incur  
10 additional costs for well safety, it may incur these costs and is allowed an opportunity to present  
11 them to the Commission and, if deemed reasonable, recover them in rates. The two-way  
12 balancing account as proposed will support the common goal of well safety while providing  
13 flexibility to manage safety concerns and fiscal oversight.

14         Additionally, as explained in my direct testimony, SIMP is similar to the already existing  
15 Transmission Integrity Management Program (TIMP) and Distribution Integrity Management  
16 Program (DIMP). Here, SoCalGas proposes a two-way balancing account treatment for SIMP  
17 that is similar to that supported by ORA for the TIMP and the DIMP. From a system-wide  
18 perspective, the safety objectives, project uncertainties, and unpredictable nature of inspection  
19 and repair work for DIMP, TIMP, and SIMP are identical. It is reasonable that the balancing  
20 account treatment should be consistent among all three of these important safety, system  
21 integrity, and risk management initiatives.

22         The regulatory accounting treatment of the proposed SIMP balancing account (SIMPBA)  
23 is further addressed in the rebuttal testimony of Reginald Austria (Ex. SCG-233).

24                 **b.       UCAN**

25         UCAN proposes routine GRC treatment for SIMP or, in the alternative, a one-way or a  
26 two-way balancing account. SoCalGas' response to UCAN on the SIMP cost recovery  
27 mechanism is that, for the reasons stated in section II.A.2.a above, a two-way balancing account  
28 is appropriate.

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<sup>8</sup> See Testimony of SoCalGas witness Phillip E. Baker (Ex. SCG-06) page 21 lines 21-30.

1                   **c.      UWUA**

2                   UWUA generally supports SoCalGas’ funding requests and initiatives, but also proposes  
3 the creation of a working group to coordinate an approach to operations and maintenance efforts  
4 for pipe and facilities in the storage fields.<sup>9</sup> UWUA proposes that the working group’s approach  
5 would provide the basis for a comprehensive storage revenue requirement in the 2019 GRC.<sup>10</sup>

6                   SoCalGas respectfully disagrees that a working group is necessary to coordinate or  
7 manage the operation and maintenance of SoCalGas’ Storage system. SoCalGas is committed to  
8 safely and reliably operating our system to promote public, employee and environmental safety.  
9 Further, there are already substantial regulations and oversight in place both from the  
10 Commission and from other regulatory entities. Indeed, SoCalGas’ practices in Storage  
11 operations are appropriate and frequently review by this Commission. While SoCalGas supports  
12 efforts by the Commission to improve safety, imposing a working group to monitor operations  
13 and maintenance and recommend a revenue requirement in the 2019 GRC is unwarranted and  
14 unsupported.

15 **IV.     REBUTTAL TO PARTIES’ CAPITAL PROPOSALS**

<b>TOTAL CAPITAL - Constant 2013 (\$000)</b>			
	<b>2014</b>	<b>2015</b>	<b>2016</b>
SoCalGas	<b>\$71,429</b>	<b>\$74,270</b>	<b>\$90,523</b>
ORA	<b>\$71,069</b>	<b>\$74,270</b>	<b>\$90,523</b>

16                   **A.     Total Capital**

17                   **1.     ORA**

18                   SoCalGas does not oppose ORA’s use of the 2014 adjusted-recorded capital amount;  
19 totaling \$71,069 for 2014. ORA agrees with the SoCalGas’ capital forecasts of \$74,270 for  
20 2015, and the \$90,523 that includes SIMP for 2016. No other interveners opposed the capital  
21 forecasts. The Commission should adopt the capital amounts of \$71,069 in 2014, \$74,270 in  
22 2015, and \$90,523 in 2016.

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<sup>9</sup> Testimony of Paul Carriera on behalf of the Utility Workers Union of (Ex. UWUA/Carriera) at pages 6-7.

<sup>10</sup> Id.



1 **V. CONCLUSION**

2 To summarize, SoCalGas recommends that the Commission should:

- 3 • For Routine Spending O&M, (non-SIMP, non-NERBA), adopt SoCalGas' original  
4 TY2016 forecast. As an alternative, SoCalGas proposes the use of a five-year  
5 trending methodology that includes the most recent adjusted-recorded 2014 data to  
6 establish a TY2016 forecast of \$31,131 for Routine Spending O&M.
- 7 • For NERBA, adopt the O&M cost of \$404k as supported by both ORA and  
8 SoCalGas.
- 9 • For the SIMP program, adopt the O&M and capital forecasted costs of \$5,676 and  
10 \$24,272 respectively, as supported by ORA and SoCalGas.
- 11 • Establish a two-way balancing account for SIMP, identical to the recovery  
12 mechanisms previously established for TIMP and DIMP.
- 13 • For capital, adopt the capital forecasts of \$71,069 for 2014, \$74,270 for 2015, and  
14 \$90,523 in 2016.

15 This concludes my prepared rebuttal testimony.