Company: Southern California Gas Company (U904G)
Proceeding: 2016 General Rate Case
Application: A.14-11-004
Exhibit: SCG-235

SOCALGAS

REBUTTAL TESTIMONY OF RONALD M. VAN DER LEEDEN

POST-TEST YEAR RATEMAKING

June 2015

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

SoCalGas
A Sempra Energy utility

Doc#297682

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SOCALGAS REBUTTAL TESTIMONY OF RONALD M. VAN DER LEEDEN

POST-TEST YEAR RATEMAKING

I. INTRODUCTION

A. ORA

The Office of Ratepayer Advocates ("ORA") issued its report on Post-Test Year Ratemaking ("PTYR") on April 24, 2015.[1] ORA makes a set of primary recommendations and a set of alternate recommendations should the Commission not adopt ORA's primary recommendations. The following is a summary of ORA's primary PTYR positions:

- A four-year General Rate Case ("GRC") term (2016-2019);[2]
- Post-test year revenue increases of 3.5% annually for each of 2017-2019;[3]
- Updating the post-test year revenue requirements through an annual advice letter process (in agreement with Southern California Gas Company ("SoCalGas"));[4]
- Continuation of the existing Z-Factor mechanism but with the clarification that the Z-Factor mechanism is only effective for the post-test years;[5]
- The impacts of any extension of Bonus Depreciation beyond 2014 should be flowed back to customers via the annual PTYR revenue requirement advice letter filings.[6] Please see the rebuttal testimony of Mr. Ragan Reeves (Ex. SCG-228) for SoCalGas' response to this proposal.

The following is a summary of ORA's alternative PTYR positions:

- *Post-test year escalation rates*: ORA supports the SoCalGas proposed methodology for establishing O&M margin escalation rates. If a third post-test year is adopted, ORA proposes to use the 2018 O&M margin escalation as the interim escalation rate for 2019 and then use the IHS Global Insight forecasts available in September 2018 to determine the actual O&M margin escalation increase for 2019.[7] Should a third test year be adopted, SoCalGas supports this recommendation.

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[1] Ex. ORA-23, April 24, 2015, ORA Report on Post-Test Year Ratemaking and SCG Advanced Metering Infrastructure Policy, (C. Tang).
[2] *Id*. at 13:11-12.
[3] *Id*. at 15:18-19.
[4] *Id*. at 17:10-13.
[5] *Id*. at 17:18-20.
[6] *Id*. at 17:22-18:2.
[7] *Id*. at 20:7-10.

- *O&M Escalation Cap*: ORA also proposes a 200 basis point cap on any upward adjustments to the O&M margin escalation rate made in September of each year prior to the target post-test year.[8]
- *Medical Cost Escalation*: ORA recommends medical cost escalation of 5.0% in 2017, 4.3% in 2018 and 3.6% in 2019 based on an alternative forecast of group health insurance escalation rates.[9] Please see the rebuttal testimony of Ms. Debbie Robinson (Ex. SCG-221) for SoCalGas' response to this proposal.
- *Capital-related Adjustments*: ORA agrees with the use of an escalated 7-year (2010-2016) average of capital additions as a proxy for 2017 and 2018 capital additions, but recommends using 2014 recorded capital additions instead of SoCalGas' forecast 2014 additions and using 2015 and 2016 adopted capital additions instead of SoCalGas' forecast 2015 and 2016 additions. If a third post-test year is adopted, then the escalated 7-year average level of capital additions should also be used for 2019.[10]

ORA also proposes two recommendations associated with SoCalGas' Advanced Metering Infrastructure project in their PTYR report:

- Extend the Advanced Metering Infrastructure Balancing Account (AMIBA) through 2018 if a three-year General Rate Case ("GRC") term is adopted (in agreement with SoCalGas), or through 2019 if a four-year GRC term is adopted.[11]
- Should the Commission adopt TY2016 expense levels that reflect Advanced Meter Infrastructure (AMI) benefits already included in the AMI revenue requirement, SoCalGas should be allowed to file a Tier 3 advice letter to revise the per meter benefit used to calculate AMI benefits.[12]

Please see the rebuttal testimony of Mr. Rene Garcia (Ex. SCG-239) for SoCalGas' response to ORA's AMI proposals.

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[8] *Id*. at 19:20-25.
[9] *Id*. at 20:13-16.
[10] *Id*. at 21:13-22:4.
[11] *Id*. at 24:3-8.
[12] *Id*. at 24:19-23.

B. SCGC

Southern California Generation Coalition ("SCGC") submitted testimony on May 15, 2015. SCGC also proposes primary and alternative PTYR mechanisms.[13] The following is a summary of SCGC's primary PTYR position:

- A three-year GRC term (2016-2018, in agreement with Applicants);[14]
- Adopt ORA's proposed post-test year revenue increases of 3.5% annually for each of 2017 and 2018;[15]

The following is a summary of SCGC's alternative PTYR position:

- Adopt ORA's proposed post-test year mechanism with one modification: base the 7-year average of capital additions on 2008-2014 recorded levels rather than 2010-2014 recorded and 2015 and 2016 adopted levels.

C. UCAN

The Utility Consumers Action Network ("UCAN") submitted testimony on May 15, 2015.[16] UCAN also proposes primary and alternative PTYR mechanisms. Following is a summary of UCAN's primary PTYR positions:

Capital Additions:

- Continue the existing TY2012 GRC PTYR mechanism, which escalates post-test year capital additions based on CPI-Urban plus 75 basis points.[17]

Non-Medical O&M Cost Escalation

- Continue the existing TY2012 GRC PTYR mechanism, which escalates post-test year O&M costs based on CPI-Urban plus 75 basis points.[18]

Medical Cost Escalation

- Medical costs should be treated the same as non-medical costs.[19]

The following is a summary of UCAN's alternative PTYR positions:

Capital Additions:

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[13] Direct testimony of Catherine E. Yap on behalf of Southern California Gas Coalition, pp. 4-9.
[14] *Id*. at 9:14-15.
[15] *Id*. at 4:4-8.
[16] May 15, 2015 Testimony of Brian A. Kobor, Laura Norin, and Mark Fulmer on Behalf of the Utility Consumers Action Network Concerning Sempra's Revenue Requirement Proposals for San Diego Gas & Electric and SoCalGas, pp. 48-53.
[17] UCAN (Norin) at 56:8-9.
[18] *Id.* at 57:3-4.
[19] *Id.* at 57:11-12.

- Adopt ORA's proposed post-test year revenue increases of 3.5% annually;[20]
- Or, if SoCalGas' proposal is adopted, modify it to exclude historical non-GRC spending, use 2014 recorded capital additions instead of forecast 2014 capital additions and only use the recorded period 2010-2014.[21]

Non-Medical O&M Cost Escalation

- Use SoCalGas O&M cost escalation proposal but subject to a 200 basis point annual cap as proposed by ORA.[22]

Medical Cost Escalation

- Medical costs should be treated the same as non-medical costs.[23]

II. SUMMARY OF DIFFERENCES

A summary of the primary positions of ORA, SCGC and UCAN is provided in Tables 1 and 2 below.

Table 1: Summary of Primary Positions

Issue	SoCalGas	ORA	SCGC	UCAN
GRC Term	3 years	4 years	3 years	-
Z-factor	All years of GRC	Only PTY	-	-
Bonus Depreciation	Didn't forecast extension	If extended, benefits should flow to ratepayers	-	-
Capital Related	Revenue requirement of 7-year average of recorded (2010-2013) and forecasted (2014-2016) capital additions	3.5% Increase to TY	3.5% Increase to TY	CPI-U + 75bps Increase to TY
O&M	Escalate TY by IHS Global Insight forecast	3.5% Increase to TY	3.5% Increase to TY	CPI-U + 75bps Increase to TY
Medical	Escalate TY by Towers Watson Forecast	3.5% Increase to TY	3.5% Increase to TY	CPI-U + 75bps Increase to TY

20 *Id*. at 56:10-11.
21 *Id*. at 56:11-13.
22 *Id*. at 57:4-7.
23 *Id*. at 53:4-8.

Table 2: Summary of Post-Test Year Revenue Requirement Increases[24]

	2017	2018	2019
SoCalGas	$125.0	$93.9	N/A
ORA	$75.1	$77.7	$80.4
SCGC*	$75.1	$77.7	$80.4
UCAN**	$63.0	$(0.1)	N/A

* SCGC did not provide revenue requirement increases in Ms. Yap's testimony. Since SCGC's primary proposal is to adopt the ORA position, the ORA revenue requirement changes are used as a proxy for those increases.

** Ms. Norin's testimony did not include a quantification of the dollar amount of revenue requirement increase UCAN is proposing. To calculate the UCAN dollar amounts included in the Table 2 above, SoCalGas reduced its post-test year proposal by the amounts included in Table 10 of Ms. Norin's testimony (the 2017 calculation is $125.0 - $62 = $63.0 and the 2018 calculation is $93.9 - $94 = -$0.1).

Ms. Norin proposes continuation of the current PTY mechanism of CPI-U plus 75 basis points, which is approximately 3[25]%. Multiplying SoCalGas' 2017 revenue requirement of approximately $2.2B by 3% results in a 2018 revenue requirement increase of approximately $60 million. When compared to the -$0.1 million shown in Table 2 above, it appears that Table 10 in Ms. Norin's testimony contains mathematical errors, particularly related to the 2018 revenue requirement increases.

In addition, although UCAN proposes to continue the same mechanism as adopted for the TY2012 GRC (D.13-05-010), Ms. Norin references a different CPI-U index than what was used in D.13-05-10. To be consistent with the current TY2012 GRC mechanism, UCAN should use the IHS Global Insight CPI-U cost escalation index. The most current projections (May 2015) for the IHS Global Insight CPI-U escalation index are 2.45% for 2017 and 2.60% for 2018 which, after adding 75 basis points, equates to increases of 3.20% for 2017 and 3.35% for 2018. When adjusting for this difference, UCAN's proposed base margin increases (excluding FF&U) are $70 million and $76 million for 2017 and 2018, respectively.

[24] Ex. SCG-35-R (van der Leeden) at RMV-1; Ex. ORA-23 (Tang) at 2; and calculated from Ex. SCG-35-R (van der Leeden) at RMV-1 and UCAN (Norin) at 56, Table 10.
[25] UCAN (Norin) at 56:8-9.

Similarly, Ms. Norin's Table 10 figures for "ORA's proposal" and "Sempra proposal with UCAN corrections" appear to be inaccurate. For example, Ms. Norin's Table 10 reduction related to ORA's 3.5% escalation proposal is $48 million in 2017 and $62 million in 2018. Referencing the ORA testimony table, the year-over-year reductions would actually be $49.9 million for 2017 and $16.2 million for 2018.[26]

III. REBUTTAL TO PROPOSALS

A. ORA recommends a 4-year GRC term.

ORA proposes a four-year GRC term (2016-2019).[27] While SoCalGas is not opposed to the concept of a four-year GRC term, the resulting schedule should not result in a conflict with the GRCs of either Pacific Gas & Electric Company ("PG&E") or Southern California Edison Company ("SCE"). ORA's proposal would put SoCalGas and San Diego Gas & Electric Company ("SDG&E") on track for TY2020 GRCs. Given that PG&E's last GRC was TY2014, and PG&E is currently on a 3-year GRC cycle, PG&E would also be on track for a TY2020 GRC. As noted in my direct testimony[28], the TY2012 GRCs for SoCalGas, SDG&E and SCE were overlapping, and resulted in significant processing delays. ORA shared this concern in the SoCalGas/SDG&E TY2012 proceeding, noting in their report that their proposed 2012 GRC term:

> …would reestablish the prior GRC schedule in which only one major GRC proceeding is being litigated at the CPUC in a given year.[29]

If the Commission believes that a four-year GRC cycle is preferable, any changes to the GRC schedules of the major investor owned utilities should be done at the statewide level to ensure no overlap between the GRCs of SoCalGas, SDG&E, PG&E and SCE.

B. Primary Proposals For Post-Test Year Revenue Requirement Adjustments (ORA, SCGC, UCAN)

ORA's primary proposal is for a fixed 3.5% annual revenue increases for each of 2017, 2018 and 2019 (should the Commission adopt ORA's proposal for a third attrition year).[30] ORA states that their post-test year percentage factors are guided by:

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[26] Ex. SCG-35-R (van der Leeden) at RMV-1; Ex. ORA-23 (Tang) at 2; and calculated from Ex. SCG-35-R (van der Leeden) at RMV-1 and UCAN (Norin) at 56, Table 10.
[27] Ex. ORA-23 (Tang) at 13:11-12.
[28] Ex. SCG-35-R (van der Leeden) at RMV-2:9-13.
[29] A.10-11-005/006 (cons.) Ex. DRA-38 at 13:24, 14:1.
[30] Ex. ORA-23 (Tang) at 15:18-19.

- A recent forecast of the All-Urban Consumer Price Index (CPI or CPI-U), equal to 2.2% for 2017, 2.2% for 2018, and 2.3% for 2019.
- Attrition increases adopted by the Commission in recent GRCs.
- The most recent post-test year increase adopted for the Sempra Utilities in D.13-05-010, which provided an additional 75 basis points above CPI.[31]

ORA states that their proposed increases, "(1) to some extent recognizes Sempra's forecasted rate base growth; and (2) would provide SDG&E and SoCalGas with greater revenue increases compared to the post-test year percentage increases authorized (in) the 2012 GRC.[32] SoCalGas considers ORA's proposal to be a version of CPI-U plus a basis point adder. UCAN's primary proposal is to continue the existing TY2012 GRC PTYR mechanism, which "is to increase the utilities' revenue requirement by the CPI-Urban annual increase plus 75 basis points."[33]

As discussed in my revised direct testimony, SoCalGas believes the use of the Consumer Price Index modified by a basis point adder is an imperfect PTY cost escalation methodology[34]:

> In its TY2012 GRC, SoCalGas opposed the use of CPI-Urban ("CPI-U") as a utility cost escalator on a standalone basis since it is based on a representative basket of goods and services purchased by a typical U.S. household, and accordingly has very little relationship to the SoCalGas cost structure.[35] The Commission recognized this lack of relationship in the TY2012 GRC final decision (D.13-05-010):
>
> > Instead, we adopt a variation of DRA's proposal to use the CPI-Urban approach to determine the PTY revenue requirements of SDG&E and SoCalGas. DRA recommends an increase of 1.9% for 2013, 2.0% for 2014, and 2.0% for 2015. The Applicants have pointed out in their comments on the proposed decision that an attrition adjustment based on the CPI-Urban will not reflect the labor rate increases and medical cost increases the Applicants will face in the attrition years, and is inconsistent with what the Commission has adopted in other GRC decisions. Taking those factors into accounts, as well as the other considerations mentioned above, it is reasonable to add 75 basis points (0.75%) to DRA's

[31] *Id*. at 15:18-16:3.
[32] *Id*. at 16:14-18.
[33] UCAN (Norin) at 40:7-9.
[34] Ex. SCG-35-R (van der Leeden) at RMV-3:22 – RMV-4:27.
[35] Revised Prepared Direct Testimony of Herbert S. Emmrich: A.10-12-006, Exhibit 400; Prepared Rebuttal Testimony of Herbert Emmrich: A.10-12-006, Exhibit 402.

> recommended percentages, as the attrition adjustments that should be adopted for the PTY period.[36]

The Commission reiterated this finding more recently when discussing attrition-year methodology in the PG&E TY2014 GRC final decision (D.14-08-032):

> We adopt a two-part mechanism to capture distinctions driving attrition increases (a) for expenses versus (b) for capital expenditures. We decline to adopt DRA's primary proposal to set post-test-year revenue increases simply based on a single index, with no distinction between expenses versus capital additions. While applying a single index, as proposed by DRA, offers simplicity, we conclude that such an approach fails to adequately capture the distinctions between expense and capital expenditure attrition. We also decline to apply the CPI as an escalation factor. The CPI reflects consumer retail price changes, not the escalation in wholesale purchases of utility goods and services. Accordingly, we generally adopt industry-specific escalation factors, rather than use of the CPI.[37]

SoCalGas continues to disagree with the use of CPI-U as a utility cost escalator on a standalone basis for its TY2016 GRC, for the same reasons as discussed above and as recognized by the Commission in D.13-05-010 and D.14-08-032. However, rather than making a basis point adjustment to CPI-U in an attempt to better align it with the actual drivers of SoCalGas' costs, SoCalGas believes that a better approach for O&M escalation is to rely on utility price indices, which are already representative of the changes in costs faced by the utility sector, as discussed by Mr. Scott Wilder (Exhibit SCG-31). SoCalGas proposes that PTY O&M escalation be based on the GI Utility Cost Information System Power Planner Forecast.

The mechanism ORA proposes goes part of the way toward recognizing the overall O&M and capital-related cost growth projected by SoCalGas via its proposed post-test year mechanism. However, ORA's proposal fails to fully recognize the full impact of SoCalGas' projected O&M and capital-related cost growth in the post-test year period. Table 3 provides a comparison of the differences between the ORA and SoCalGas post-test year proposals:

Table 3: Annual Attrition ($MM)

	2017	**2018**	**2019**
SCG	125.0	93.9	NA
ORA	75.1	77.5	80.4
Difference	**(49.9)**	**(16.4)**	**NA**

As shown in Table 3, ORA's proposal would result in significant revenue shortfalls as compared to the SoCalGas proposed mechanism. Accordingly, the Commission should instead

[36] D.13-05-010 at 1010.
[37] D.14-08-032 at 653.

adopt the SoCalGas proposed post-test year escalation methodology for 2017 and 2018 as discussed in my direct testimony. Should the Commission adopt an additional attrition year (2019), the attrition methodology proposed by applicants and described in my revised testimony (Ex. SCG-35-R) should be used, as outlined below:

- 2019 O&M escalation increase based on Global Insights September 2018 forecast.
- 2019 medical escalation increase based on the Towers Watson forecast.
- 2019 capital related revenue requirement based on the escalated average of the recorded 2010-2013 capital additions and the forecasted 2014-2016 capital additions as outlined in my direct testimony.

SCGC recommends that the ORA proposal to escalate revenue requirement by 3.5% annually for 2017 and 2018 should be adopted.[38] In supporting the ORA level of PTY attrition, SCGC notes:

> The PTYR mechanism should be fashioned to provide some relief to SoCalGas while maintaining pressure on management to keep costs down.[39]

And in describing why the SoCalGas proposal is not appropriate, SCGC notes:

> Comparing the utility to itself or similarly situated businesses reduces the pressure on the utility to attain stretch efficiency goals.[40]

SCGC fails to note that one key element of the SoCalGas PTY mechanism is to absorb costs associated with customer growth as a productivity factor.[41] Ms. Rose-Marie Payan forecasts customer growth to be 0.82% in 2017 and 0.85% in 2018 (Exhibit SCG-30, workpapers), and, should the economy improve faster than currently forecast, SoCalGas takes the business risk associated with even higher customer growth rates. So the fairness and efficiency incentive that SCGC desires is already an integral part of the SoCalGas PTY mechanism. As such, it would be inappropriate to design a PTY attrition mechanism that intentionally understates the anticipated level of revenue requirement growth to accomplish the same goal.

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[38] SCGC (Yap) at 4:1-12.
[39] SCGC (Yap) at 4:22-24.
[40] SCGC (Yap) at 5:2-4.
[41] SCG-35-R (van der Leeden) at RMV-5:6-12.

C. Z-Factor Mechanism (ORA)

SoCalGas disagrees with ORA's recommendation that the Z-factor mechanism only be effective for the post-test years, and not the test year. The Z-factor was established to protect both the utility and ratepayers by preventing both windfall profits and large financial losses as a result of unexpected and uncontrollable events. These events can take place at any time during the rate case cycle.

The Commission established nine specific criteria for evaluating Z-factor events which were summarized in D.94-06-011. In D.99-05-030, the Commission established a Z-factor mechanism for SoCalGas based on the nine criteria first identified in D.94-06-011. This mechanism included a $5 million deductible for each Z-factor event.[42] In D.05-03-023 the Commission continued the Z-factor mechanism established by D.99-05-030 but eliminated one of the original nine criteria.[43] In a final decision granting SDG&E Z-factor treatment for increased insurance premiums, the Commission used the following criteria for Z-factor recovery:[44]

1. Caused by an event exogenous to SDG&E;
2. Caused by an event that occurred after the implementation of rates;
3. Costs that SDG&E cannot control;
4. Costs that are not a normal cost of doing business;
5. Caused by an event that affects SDG&E disproportionately;
6. Costs that have a major impact on SDG&E;
7. Costs that have a measureable impact on SDG&E; and
8. Costs that SDG&E has reasonably incurred.

The Commission did not include in this list the additional requirement ORA suggests: that the Z-factor mechanism only be effective for the post-test years, and not the test year. Rather, the timing of the Z-factor event is required to be "caused by an event that occurred after the implementation of rates."

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[42] D.99-05-030, mimeo., at 58 and 76 (Ordering paragraph No. 7).
[43] See D.05-03-023, mimeo., at 78 (Ordering Paragraph No. 2 authorizing SDG&E and SoCalGas to file for rate adjustments using the mechanisms described in the Settlement Agreement) and p.12 of Appendix C (Settlement Agreement). The eliminated criteria provided that the costs and event are not part of the rate update mechanism.
[44] D.10-12-053 at 42 (Finding of Fact 2).

In D.10-12-053, the Commission ruled that SDG&E met its burden of proof that the increase in liability insurance costs met all eight Z-factor criteria, and granted recovery of the associated costs. In the decision, the Commission answered the question, "Was SDG&E's Increase in Insurance Liability Costs Caused by an Event That Occurred After the Implementation of Rates?" as follows:

> In D.08-07-046 we authorized SDG&E's Test Year 2008 revenue requirement (including both liability insurance and deductible expense), with an effective date retroactive to January 1, 2008. Specific information regarding the unexpected changes in liability insurance was unknown to SDG&E until early 2009 when the effort to procure insurance for the next 12-month period began. The exact liability insurance premium expense increase was not known until the renewal date of June 26, 2009. Thus, we conclude that the incurred costs caused by increases in insurance occurred in 2009, **after the implementation of rates in 2008**, thus satisfying the second Z-factor criterion.[45] (emphasis added)

SoCalGas emphasizes that in its evaluation of the second criterion above, the Commission references the **test year** of 2008 as the effective date of the rate change. In fact, the Commission states that the effective date is the **first day** of the test year, January 1, 2008. Since the Z-factor event occurred after the first day of rate implementation, the Commission granted SDG&E's requested Z-factor treatment. The Commission's decision demonstrates that the Z-factor is in effect during both the test year and the post-test years. SoCalGas proposes that this same treatment be continued for the TY 2016 GRC cycle.

D. Bonus Depreciation (ORA)

Please see the rebuttal testimony of Mr. Ragan Reeves (Ex. SCG-228) for SoCalGas' response to this proposal.

E. Alternative PTY Mechanisms

1. ORA

i. O&M (Labor and Non-Labor) Margin Escalation Cap

ORA recommend that limits be placed on how much the escalation rates can be adjusted. They recommend a 200 basis points (2.00%) cap above the currently forecasted rates.

SoCalGas disagrees with ORA's proposal to set limits on the post-test year O&M (Labor and Non-Labor) escalation rates. Using the index is fair and equitable for both ratepayers and shareholders, and provides protections to both parties. This is the best available data as to

[45] D.10-12-053 at 32-33.

forecast expected cost escalation specific to a utility. Capping the index is arbitrary and provides no protection to SoCalGas during a period of rapid market changes.

ii. Medical Escalation Rates

Witness Debbie Robinson (Compensation and Benefits, SCG-221) rebuts ORA's proposed medical escalation methodology.

iii. Capital Related Revenue Requirement

ORA does not oppose the use of an escalated 7-year average of capital additions, but recommends using the 2014 recorded capital additions, and the Commission-adopted 2015 and 2016 capital additions forecasts.[46]

SoCalGas disagrees with ORA's proposal to use 2014 recorded capital additions, and the Commission-adopted 2015 and 2016 capital additions forecasts. SoCalGas' 2014 recorded capital additions are constrained to the authorized capital spend from the TY2012 GRC decision, D.13-05-010. This spend is not representative of what SoCalGas forecasts it will need for the TY2016 GRC cycle. SoCalGas' forecasted capital additions for 2014-2016 represent the best available estimate of its anticipated future capital-related costs and should be used in the determination of escalated average capital additions.

2. SCGC

i. Capital Additions

As part of its alternative PTYR mechanism, SCGC recommends that the 2008-2014 recorded level of capital expenditures be used to calculate capital-related cost escalation.[47] SoCalGas understands this proposal to actually refer to recorded 2008-2014 capital <u>additions</u> and will respond accordingly.

While the use of historical data to calculate capital-related cost escalation is not inappropriate, SoCalGas believes that a hybrid method that combines historical 2010-2013 capital additions with forecast 2014-2016 capital additions is more likely to correctly estimate the anticipated growth in capital-related costs in PTY period. SoCalGas' capital forecasts are necessarily forward-looking, designed to provide a best estimate of a TY2016 capital-related revenue requirement. SCGC would first swap out forecast with recorded 2014 capital additions, and second swap out 2015 and 2016 forecast with recorded 2008 and 2009 capital additions. As

[46] Ex. ORA-23 (Tang) at 21:17-19.
[47] SCGC (Yap) at 7:11-13.

mentioned above, in rebuttal to ORA, 2014 recorded capital additions are constrained to the authorized capital spend from the TY2012 GRC decision, D.13-05-010. This spend is not representative of what SoCalGas forecasts it will need for the 2016 GRC cycle. 2008 and 2009 recorded capital additions are even less representative of what SoCalGas forecasts it will need for the 2016 GRC cycle, being seven years out of date.

3. UCAN

i. Alternative O&M and Capital Additions Escalation

If their primary proposal is not adopted, UCAN proposes that the ORA proposal to escalate total revenues by 3.5% annually for 2017 and 2018 be adopted.[48] Rebuttal to this proposal is provided in Section III.B above. UCAN also recommends that should the SoCalGas O&M escalation methodology be adopted, it should be modified to include ORA's alternative proposal to cap annual escalation increases at 200 basis points. Rebuttal to this proposal is provided in Section III.E.1.i. above.

UCAN proposes that should the SoCalGas proposal for capital additions escalation be adopted, it be modified in two ways: first, remove projects originally funded outside of the GRC process from the historical period and second, only use the 2010-2014 recorded capital additions to establish the escalatable average level of capital additions for 2017 and 2018.[49]

SoCalGas does not object to the removal of projects originally funded outside of the GRC from the historical period. SoCalGas does object to the use of 2014 recorded data and the removal of the forecast years 2015 and 2016 from the proposed seven year average of capital additions. Rebuttal on the use of 2014 historical data is discussed in Section III.E.1..iii above. Regarding the use of 2015 and 2016 forecasted capital additions, SoCalGas' forecasted capital additions for 2015 and 2016 represent the best available estimate of its anticipated future capital-related costs and should be used in the determination of escalated average capital additions.

ii. Medical Escalation Rates

Witness Debbie Robinson (Ex. SCG-221) rebuts UCAN's proposed medical escalation methodology.

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[48] UCAN (Norin) at 43:7-10.
[49] UCAN (Norin) at 56:6-13.

IV. CONCLUSION

To summarize, SoCalGas has proposed a set of PTY ratemaking proposals that fairly balance the interests of both ratepayers and shareholders. SoCalGas believes that a reasonable PTY mechanism should meet the following goals: (1) not result in a future conflict with the GRCs of any of the major IOUs as currently scheduled, use O&M and medical cost escalation indices that are representative of SoCalGas actual cost drivers and use capital additions cost escalation that balances the certainty of historical spending with the best available estimates of future period capital additions.

For the reasons discussed above, the proposals of ORA, SCGC and UCAN fail to meet these goals. SoCalGas has proposed a 3-year GRC term which would avoid conflicts with the future GRCs of PG&E and SCE as currently scheduled, O&M cost escalation and medical cost escalation indices that are closely aligned with SoCalGas cost drivers and capital additions cost escalation that balances the use of recorded and forecasted costs to best represent the anticipated capital-related costs for SoCalGas in the PTY period.

This concludes my prepared rebuttal testimony.

V. WITNESS QUALIFICATIONS

My name is Ronald M. van der Leeden. My business address is 555 West Fifth Street, Los Angeles, California 90013. I am employed by SoCalGas as Director – Regulatory Affairs in the Regulatory and Legislative Affairs Department. I have been in this position since March 2015. In addition, over the last 20 years I have held positions of increasing responsibility in the SoCalGas Regulatory Affairs Department including Rate Analyst, Regulatory Case Administrator, Regulatory Case Manager, Manager – Cost of Service and Director – Rates & Revenues, Director – Revenue Requirements and Director – Financial & Operational Planning. Outside of SoCalGas, I held the position of Managing Director at Micronomics from 1998-2000 specializing in energy economics.

My academic qualifications are as follows: I earned an undergraduate degree in Economics from University of California Santa Barbara in 1983 and a Master of Arts Degree in Economics from University of California Santa Barbara in 1994.

I have previously testified before this Commission