

Company: Southern California Gas Company (U 904 G)  
Proceeding: 2016 General Rate Case  
Application: A.14-11-\_\_\_\_\_  
Exhibit: SCG-31

**SOCALGAS**

**DIRECT TESTIMONY OF SCOTT R. WILDER**

**(COST ESCALATION)**

**November 2014**

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





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## SUMMARY

- Cost escalators are to inflation-adjust the utility's labor, materials, and services costs from Base Year 2013 nominal dollars into Test Year 2016 nominal dollars.
- Uses forecasted external national/regional-level utility industry cost inputs from IHS Global Insight (with the exception of represented labor costs, which use the utility's actual union contract escalations).
- Inputs are weighted to aggregate escalators using weightings based on the utility's actual Base Year 2013 expenses.

1                                   **SOCALGAS DIRECT TESTIMONY OF SCOTT R. WILDER**  
2   **(COST ESCALATION)**

3 **I.       SCOPE AND PURPOSE**

4           My prepared direct testimony presents the cost escalation factors used to reflect the effect  
5 of external inflation in Southern California Gas Company’s (“SoCalGas”) labor operations and  
6 maintenance (“O&M”), non-labor O&M, and capital-related costs in its Test Year (“TY”) 2016  
7 General Rate Case (“GRC”) Application. I present these escalations as reasonable forecasts that  
8 should be adopted by the California Public Utilities Commission (“CPUC” or “Commission”) in  
9 determining SoCalGas’ TY 2016 revenue requirement and annual PTY adjustments.

10           Per the Commission’s Rate Case Plan, D.07-07-004, the escalation factors discussed in  
11 this testimony will be updated after hearings and before implementation, based on the same  
12 indexes used in original presentation during hearings.

13 **II.       COST ESCALATION METHODOLOGY TO TEST YEAR 2016**

14           SoCalGas requests the CPUC to include in its revenue requirement expenses it expects to  
15 incur in 2016 for labor, materials, and services. It is necessary to account for the effects of  
16 inflation on SoCalGas’ expenses between 2013 and 2016. Cost escalators were used to inflation-  
17 adjust costs from 2013 nominal dollars into TY 2016 nominal dollars, using escalation series  
18 from Global Insight’s Utility Cost Information Service (“UCIS”). The SoCalGas forecast  
19 incorporates escalators from IHS Global Insight’s 4th Quarter 2013 Power Planner forecast  
20 released in February 2014.<sup>1</sup> The Global Insight O&M escalators are based on recorded utility  
21 cost data gathered by the Federal Energy Regulatory Commission (“FERC”) according to its  
22 Uniform System of Accounts (“FERC accounts”), then forecasted by Global Insight by  
23 functional categories (e.g., gas distribution, customer services, etc.) of grouped FERC accounts.  
24 Further details of data and weighting calculations are in the workpapers for this testimony.

25 **A.       Labor O&M Escalation**

26           SoCalGas’ labor escalation index is a weighted average of three Global Insight wage and  
27 salary cost indexes: CEU4422000008, “Utility Service Workers” (weighted 51.401%);  
28 ECIPWMBFNS, “Managers and Administrators” (weighted 19.728%); and ECIPWPARNS,  
29 “Professional and Technical Workers” (weighted 28.871%). The weightings are based on

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<sup>1</sup> IHS Global Insight is an internationally recognized econometric forecasting firm. The firm’s forecasts have been used in many regulatory proceedings.

1 recorded 2013 labor earnings for the three corresponding categories of SoCalGas employees:  
 2 represented employees; non-represented supervisory employees including managers, directors,  
 3 and executives; and non-represented, non-supervisory employees. The utility service workers'  
 4 portion incorporates wage increases already stipulated by labor contract for SoCalGas'  
 5 represented employees from 2009 through 2015.

6 **B. Non-Labor O&M Escalation**

7 In the 2008 GRC Decision, D.08-07-046, SoCalGas was ordered to file subsequent GRCs  
 8 using the “cost center” system of internal accounting and control rather than convert and allocate  
 9 the O&M data to approximate the FERC accounts.<sup>2</sup> To be consistent with the cost-center  
 10 presentation requirements, SoCalGas has combined various weighted Global Insight utility cost  
 11 series to develop a single escalation index for non-labor O&M expenses,  
 12 “JGTOTALMSX\_SCG”. Its component weights are based on SoCalGas’ recorded Base Year  
 13 2013 expenses. Table SCG-SRW-1 shows each component’s weighting in  
 14 JGTOTALMSX\_SCG, its series name and description.

15 **TABLE SCG-SRW-1: GLOBAL INSIGHT SERIES COMPONENTS IN SOUTHERN**  
 16 **CALIFORNIA GAS COMPANY’S NON-LABOR O&M COST INDEX**  
 17 **JGTOTALMSX\_SCG**

<u>Weight</u>	<u>Series Name</u>	<u>Description</u>
<b>100.00%</b>	<b>JGTOTALMSX_SCG</b>	SoCalGas Composite Gas Non-Labor O&M Index
<b>8.43%</b>	<b>JGUSOMMS</b>	Gas Storage (underground)
<b>25.30%</b>	<b>JGTOMMS</b>	Gas Transmission
<b>24.36%</b>	<b>JGDOMMS</b>	Gas Distribution
<b>14.52%</b>	<b>JGCAOMS</b>	Gas Customer Accounts
<b>4.07%</b>	<b>JGCSIOMS</b>	Gas Customer Service & Information
<b>23.32%</b>	<b>JGADGOMMS_X926</b>	Gas Admin & General, excluding Pensions & Benefits

18 All of the component cost escalators in Table SCG-SRW-1 come from Global Insight’s  
 19 utility O&M cost model, with the exception of the Administrative & General (“A&G”) series.  
 20 Most of SoCalGas’ pensions and benefits costs (FERC Account 926) are treated separately and

<sup>2</sup> D.08-07-046, pp. 11 and Ordering Paragraph 22.

1 are therefore excluded from regular cost escalations. Pensions have separate balancing account  
2 treatment, as discussed in Exhibit SCG-22 – the Pensions and PBOPS testimony of witness  
3 David I. Sarkaria. Employee medical expenses (in FERC Account 926.3) are also treated  
4 separately and are discussed in Exhibit SCG-21 – the Compensation and Benefits testimony of  
5 witness Debbie S. Robinson. The Pensions and Benefits cost component was removed from  
6 Global Insight’s utility A&G cost series JGADGOMMS. The resulting adjusted series  
7 JGADGOMMS\_X926 was used to escalate SoCalGas’ non-labor, non-FERC Account 926 A&G  
8 costs.

9 The single cost escalation series for SoCalGas’ shared services and working cash was  
10 based on a weighted average of labor and non-labor O&M indexes. Weights were based on  
11 actual 2013 SoCalGas shared-service cost charges by FERC account to labor (weighted 61.45%)  
12 and to the six non-labor cost categories (weighted an aggregate total of 38.55%) described above  
13 in Table SCG-SRW-1.

#### 14 **C. Capital Cost Escalation**

15 The construction cost index used by SoCalGas and forecasted by Global Insight is based  
16 on the recorded Handy-Whitman cost series for the Pacific Region (encompassing the states of  
17 California, Oregon, and Washington). The forecasted Global Insight utility construction cost  
18 series JUG@PCF, “Total Gas Plant—Pacific Region”, was used to escalate SoCalGas’ capital  
19 construction costs.

### 20 **III. POST-TEST-YEAR COST ESCALATORS**

21 Beyond TY 2016, SoCalGas proposes that its base margin revenue requirements be  
22 updated each year according to the Post-Test-Year (PTY) ratemaking mechanism described in  
23 Exhibit SCG-35, the testimony of Mr. Ron van der Leeden.

24 For capital costs, the forecasted Global Insight utility construction cost series JUG@PCF,  
25 “Total Gas Plant—Pacific Region”, is applied to plant additions as described in Mr. van der  
26 Leeden’s testimony.

27 A gas O&M utility input price index (“GOMPI”) is calculated and used to adjust O&M  
28 expenses to reflect the expected cost inflation of goods and services comprising inputs that  
29 SoCalGas will use to serve its customers. The GOMPI’s underlying PTY escalation indexes are  
30 the same O&M indexes described in Section II for escalations from 2013 to TY 2016. Based on  
31 SoCalGas’ recorded 2013 expenses, the gas labor index is weighted 63.17%, and the non-labor

O&M cost index JGTOTALMSX\_SCG is weighted 36.83%, to form a single GOMPI. For implementation in PTY adjustments, the values of GOMPI and its component indexes will be rebenchmarked to TY 2016 = 1.0000.

Table SCG-SRW-2 shows annual percentage changes for each cost escalator.

**TABLE SCG-SRW-2: SOUTHERN CALIFORNIA GAS COMPANY  
SUMMARY OF COST ESCALATION INDEXES**

<b><i>Annual Percent Changes</i></b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
<b><u>Shared Services</u></b>	1.68%	2.40%	2.73%	2.17%	2.23%	2.09%	2.42%	2.54%	2.59%	2.48%
<b><u>Operations &amp; Maintenance</u></b>										
Labor O&M Index	2.52%	2.58%	2.59%	2.26%	2.41%	2.26%	2.47%	2.58%	2.68%	2.59%
Gas Nonlabor O&M Index	-0.70%	2.52%	3.92%	2.19%	1.76%	1.69%	2.12%	2.23%	2.24%	2.14%
Post-Test-Year GOMPI	1.31%	2.56%	3.08%	2.24%	2.17%	2.05%	2.34%	2.45%	2.52%	2.42%
<b><u>Capital-Related</u></b>										
Total Gas Plant	-1.05%	4.29%	9.46%	7.93%	-0.32%	1.38%	1.52%	1.80%	2.10%	1.54%

This concludes my prepared direct testimony.



1 **IV. QUALIFICATIONS OF SCOTT R. WILDER**

2 My name is Scott R. Wilder. I am employed by SoCalGas as a Business/Economics  
3 Advisor in the Gas Regulatory Affairs Department for SoCalGas and SDG&E. My business  
4 address is 555 West Fifth Street, Los Angeles, California 90013-1011.

5 I have held my current position since February 2004. Since 1993 I have been employed  
6 at SoCalGas in various economic forecasting and analysis positions of increasing responsibility.  
7 From 1986 to 1993, I was employed by Pacific Gas and Electric Company in San Francisco in  
8 various positions involving economic forecasting, planning and analysis. From 1982 to 1984, I  
9 worked as a Development Project Manager with the Southern Baptist International Mission  
10 Board, working with farmers and engineers to build irrigation aqueducts in the Andes Mountains  
11 of Peru.

12 I received a Bachelor of Science degree in Agricultural & Managerial Economics from  
13 the University of California at Davis in 1982, and a Master of Science degree in Agricultural  
14 Economics from U.C. Davis in 1986. I have previously testified before the California Public  
15 Utilities Commission.