Application No: A.16-09-XXX
Exhibit No.:
Witness: H. Mejia

Application of Southern California Gas Company (U 904 G) and San Diego Gas & Electric Company (U 902 G) to Recover Costs Recorded in the Pipeline Safety and Reliability Memorandum Accounts, the Safety Enhancement Expense Balancing Accounts, and the Safety Enhancement Capital Cost Balancing Accounts	Application 16-09-XXX

CHAPTER VII

DIRECT TESTIMONY OF

HUGO MEJIA

ON BEHALF OF

SOUTHERN CALIFORNIA GAS COMPANY

AND

SAN DIEGO GAS & ELECTRIC COMPANY

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

September 2, 2016

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I. PURPOSE AND OVERVIEW OF TESTIMONY

The purpose of my testimony is to describe and demonstrate the reasonableness of SoCalGas and SDG&E's Pipeline Safety Enhancement Plan (PSEP) project support activities and costs. These project support efforts occur at the PSEP program level and directly contribute to PSEP execution through the development of processes and procedures to enhance PSEP efficiency and quality. Through these efforts, SoCalGas and SDG&E avoid costs for customers, maximize the effectiveness of safety investment, improve organizational and project execution efficiency, and provide consistency in the implementation of PSEP projects. To account for these support costs, SoCalGas and SDG&E created PSEP General Management and Administration (GMA) internal orders (IO) to track costs for later allocation to PSEP pipeline replacement, hydrotest, abandonment, and valve projects (PSEP GMA cost tracking and allocation is addressed in Chapter VIII (Tran)). As discussed below, these support costs were prudently incurred to both enable and enhance PSEP execution.

II. PSEP SUPPORT COSTS

PSEP implementation is guided by efforts to achieve four overarching objectives: 1) Fully comply with the directives of the Commission as set forth in Decision (D.) 11-06-017; 2) Enhance public safety; 3) Minimize customer impacts; and 4) Maximize project efficiencies and record keeping of infrastructure investments for the benefit of our customers. As part of accomplishing these objectives, SoCalGas and SDG&E developed a dedicated PSEP organization and PSEP-specific policies, procedures, and practices. These efforts were necessary for PSEP, but are not attributable to individual PSEP projects. Because they were not attributable to individual projects, these support costs are tracked and charged to PSEP GMA IOs based on the GMA activity undertaken: (1) Program Management Office (PMO); (2) Construction; (3) Engineering; (4) Environmental; (5) Supply Management; (6) Gas Control; (7)

Non-PMO General Administration; (8) Communication and Outreach and (9) Training. Through the PSEP GMA categories, PSEP developed PSEP-specific processes to support the effective execution of PSEP.

A. PMO GMA

The PMO GMA includes cost reasonably incurred to promote the management and oversight of the numerous disparate and unique projects being undertaken by PSEP at any given time. As explained in Chapter II (Phillips), the PSEP PMO's responsibility is to provide program-wide management of PSEP. The PMO establishes processes and procedures for managing the day-to-day operations. Because of the range of PMO responsibilities, there are subgroups within the PMO responsible for different functions. These include Business and Administration,[1] Regulatory and Support,[2] and Governance.[3] For example, the GMA PMO includes costs incurred to develop Delcon (formerly PMCS) a document management system that enables access to PSEP project documentation throughout the project life cycle and allows for life of asset documentation to be transferred from PSEP to SoCalGas and SDG&E's documentation management system. Additionally, costs are included in this category for the development of a Management of Change (MOC) process, which enables tracking and managing of change orders to project scope, cost, or schedule. The MOC process provides a means to review and document changes, increasing transparency and providing consistent documentation regarding the reasons for cost, schedule, and scope changes.

[1] Business and Administration manages the financial reporting for PSEP, including coordination of budget development, budget forecasting, and budget variance reporting.
[2] Regulatory and Support provides regulatory coordination support for the Reasonableness Review filings, reviews Commission directives to inform on filing requirements, coordinate and supports PSEP-related data requests.
[3] Governance ensures a consistent implementation of the processes and procedures for PSEP. This includes managing reporting and tracking metrics and KPIs.

B. Construction GMA

The Construction GMA includes costs incurred for the direct management of construction-related activities during the execution of the PSEP projects. This support function was created to centralize SoCalGas and SDG&E's PSEP construction management expertise to promote employee safety and to help promote consistency for system valve automation and replacement and hydrotest pipe work. In furtherance of these goals, this group provides oversight of construction contractor management, safety, and project inspection. They also manage the necessary and required construction documentation related to work in the field. This promotes a more consistent process for PSEP project execution. For example, PSEP created Job Book templates for construction inspection purposes. The intent of the standardized job books was for the construction teams to have available drawings and other job files with consistent information regarding the project. As another example, in an effort to streamline and improve management of PSEP construction documentation a pilot program – Many 2 Many (M2M) – was implemented to utilize computer tablets to capture data and inspection information in the field. M2M improves the ability of inspectors to capture the required data and information, such as daily field inspection reports, pipe coating tracking, inspections, and repairs. In addition to reducing the amount of paper in inspection records, the use of computer tablets results in greater conformity in the inspections and accelerates the project closeout process.

C. Engineering GMA

The Engineering GMA includes costs associated with the PSEP Engineering Support Group, which oversees project planning, engineering and execution for the PSEP organization. The group oversees the planning and engineering design of the necessary requirements, including the scope definitions. They manage the execution oversight across the PSEP projects from initiation until closeout.

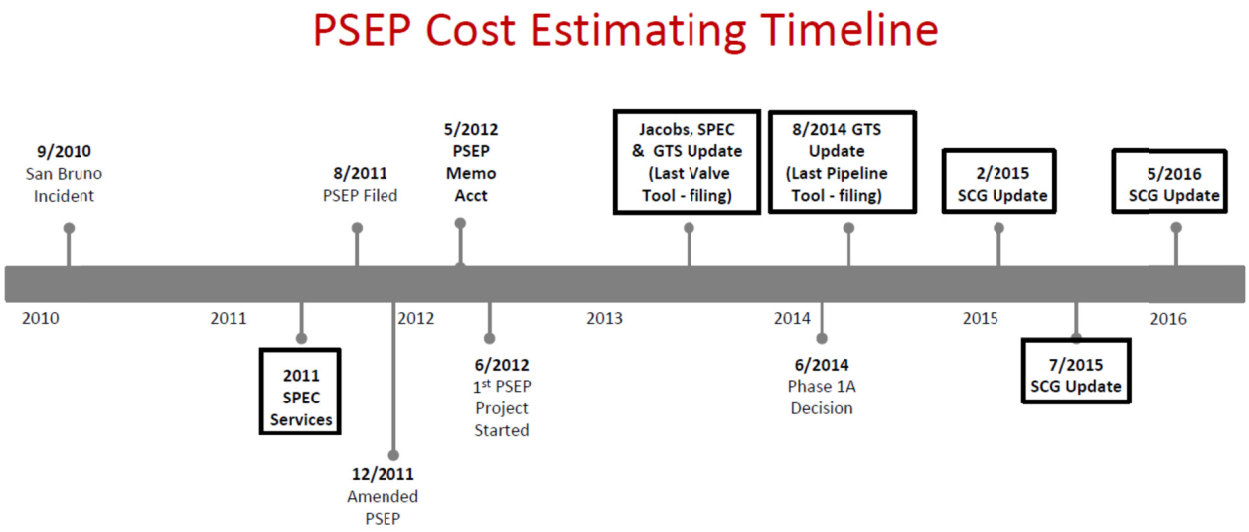
For example, PSEP initiated the Engineering and Design Action Team (EDAT) with membership made of up of key representatives from each of the primary design contractors and the utilities' engineering leadership to review standards and requirements for design packages. Through these efforts, standard design templates were developed as reference documentation for all project teams and design firms to utilize. As another example, because SoCalGas and SDG&E survey teams did not have the capacity to support PSEP, PSEP determined that a PSEP Survey Program would be needed to support implementation. In response, a Survey Program Manager (SPM) developed a comprehensive program to manage surveying and mapping, potholing and subsurface utility engineering activities. This enhanced the management and coordination of survey activities throughout the project life cycle, from initial planning, design, construction and close-out for consistent deliverables.

Additionally, the Engineering GMA includes costs associated with the PSEP Land Services Team (discussed in greater length in Chapter II (Phillips), a dedicated team for permitting and land right acquisition. The team monitors permit activities, assists with land negotiations, and supports permit package submissions. The PSEP Land Services Team works closely with SoCalGas and SDG&E Regional Public Affairs and the PSEP Community Outreach Teams to assist in resolving lingering issues that delay the issuance of permits and promote the issuance of permits in a timely manner.

Finally, the Engineering GMA includes costs to develop, manage, and enhance PSEP estimates, estimating tool (Stage 3 Tool[4]), and processes. The first version of the estimating tool was produced in 2011 and was used to expeditiously develop cost estimates for the purpose of filing the initial PSEP. The 2011 estimates were generated early in the projects' maturity and

[4] The Stage 3 Tool estimates are used to establish the Total Installed Cost estimate (TIC) for a project.

without the benefit of preliminary design, engineering and scoping. In 2013, enhancements were made to the estimating tool for Stage 3, such that the tool was more comprehensive and included additional factors that improved the estimates generated by the tool. Since 2013, there have been ongoing efforts to update estimate accuracy by incorporating recent cast data to better reflect current market conditions. In addition, a dedicated estimating team was assigned to the function of developing cost estimates for PSEP. The below timeline highlights five separate revisions of the PSEP Cost estimating tool with the latest revision occurring in May 2016. The PSEP Cost Estimating Tool (Stage 3 tool) has been refined over time (see PSEP Cost Estimating Timeline below) to incorporate actual costs incurred during PSEP implementation.



D. Environmental GMA

The Environmental GMA includes costs associated with the Environmental Support Group, which is responsible for supporting the PSEP environmental strategy and compliance oversight. The Environmental Support Group works within PSEP, SoCalGas, SDG&E and external stakeholders (such as regulatory agencies and contractors) to identify and address environmental requirements related to the PSEP program. As part of this effort, the group oversees environmental project reviews, permitting, and agency consultations. This activity

includes, but is not limited to, providing environmental oversight for field work during the planning and construction phases of the projects, confirming permit conditions are met during and post construction, maintaining environmental files, and closing out the project. This includes establishment of environmental processes for reviewing and supporting projects; including the development of forms, templates, guidelines and training tools. Some of the guidelines and templates that were developed include but are not limited to a Field Sampling Plan and Quality Assurance Project Plan, Environmental Review practices by discipline, Worker Environmental Awareness Procedure Template and Photo Documentation Procedures. Early efforts for Environmental GMA also included the development of a GIS model to complete the desktop portion of the high level and detailed project reviews. The Environmental GMA is also utilized to maintain updates to the model and also for program level reporting efforts.

E. Supply Management GMA

The Supply Management GMA includes costs associated with the PSEP Supply Management Support Group, which provides supply chain-related support for the PSEP organization. This activity includes managing the procurement procedures to identify and define the processes, methods and material management systems that are used in the procurement of materials and performance services. The Supply Management support group also identifies long lead and critical path equipment and materials. Working with the Engineering and Construction teams, Supply Management initiates and generates the material inquiry, as well as reviews and assists in the development of all project equipment and material requests. Supply Management is also responsible for the supervision of the program contracting and procurement effort. This activity includes contract sourcing activities, bulk ordering of materials, negotiating with suppliers, developing and implementing contracts, managing contracts, and warehousing and logistic activities.

For example, bulk ordering was an early effort to develop material requirements at a program level versus ordering project-by-project. A team was formed to review upcoming projects and develop material needs for long lead items such as pipe, fittings, and valves. This effort led to the successful procurement of bulk material with favorable prices compared to individual purchase. In addition, Bill of Material Standardization was accomplished by forming a team that standardized all the material descriptions, implementing these descriptions into the ordering process and establishing unique number identifiers for individual items. This improvement led to an automated requisition builder that reduced the time it took to complete a requisition. The unique identifier follows the material from order, through purchase, and later delivery to the field for installation. The unique identifier follows the material from ordering through completion drawings and aids in more accurate material reporting throughout a project's life. By standardizing the descriptions, approval needs decreased as these materials were "preapproved" (e.g., verified through the design process) for installation.

F. Gas Control GMA

The Gas Control GMA includes costs associated with the Gas Control Support Group, which provides SoCalGas PSEP gas control support, including the monitoring and control of the physical gas deliveries in the system. The Gas Control group remotely adjusts pressure regulator settings, operate compressor stations and dispatch storage fields to maintain system integrity in order to meet system gas demand. The group also coordinates with PSEP and non-PSEP to manage and schedule transmission pipeline shutdowns and works with Supervisory Control and Data Acquisition (SCADA) staff to support PSEP valve upgrades and Gas Control to schedule when tie-ins can occur. Gas Control is a key participant in the Customer Impact Report/Meetings, which is cross functional team that was developed early in PSEP to assist track all potential customer and system impacts that may result from replacement, test and valve

projects. The Gas Control representative are key member to this monthly meeting that coordinates PSEP projects to assist and minimize impacts to the gas system and customers.

G. Non-PMO GMA

The Non-PMO GMA includes costs associated with program wide support from project controls, Quality Assurance (QA)/Quality Control (QC), and project wide documentation control. These activities are primarily undertaken by Project Controls and Technology and the QA/QC support team.

Project Controls and Technology provides project control oversight and reporting, working with the execution teams to develop project schedules, update project costs and maintain the master project schedule. The group works closely with the project team to update and verify forecasted project costs as a basis for coordinating and managing project activities to achieve program cost objectives. In addition, PSEP Project Controls provides cost and schedule metrics for all of PSEP from the roll-up information from the project cost engineers and schedulers. One of the key reports issued weekly is the 30-day look ahead for construction start, test and tie-in dates. This program level information provides support and operation groups visibility to projects that are upcoming and may require their support.

The QA/QC team implements and manages the PSEP quality plan. The team facilitates SoCalGas and SDG&E's understanding and adherence to PSEP procedures and processes across the program. The QA/QC group provides a check of the processes and documentation at key points in the project work process, performs periodic inspections, and reviews to verify compliance with the PSEP procedures and quality plan. As PSEP expanded its activities to meet its targeted schedule, its functional teams expanded and enhanced its various tools and references, such as checklists, flowcharts, and work instructions in order to incorporate the best practices of quality management from the PSEP Quality Plan (PQP).

H. Communication and Outreach GMA

The Communication and Outreach GMA includes costs associated with the development of internal and external communications of PSEP status to key stakeholders. The purpose is to establish communication and outreach strategies, while proactively educating internal and external stakeholders. For example, the Communication and Outreach GMA developed a program-wide outreach plan to brief local Elected and Government Officials. The outreach team also informs and educates residents and businesses of upcoming PSEP construction activities and schedules. The Communication and Outreach group participated in several forums, such as the League of Cities to provide an overview of PSEP and the potential schedule and impacts to their communities. These early education efforts were valuable in reaching out to key city and county officials to provide them a solid understand of the PSEP objectives to validate the safety of SoCalGas and SDG&E pipelines.

I. Training GMA

The Training GMA includes PSEP training-related activities such as costs incurred to develop and provide onboarding training, expenditures for PSEP trainers, Instructional Design, and training of field personnel supporting PSEP specific projects. As PSEP ramped up an onboarding training package was developed to help new members understand the PSEP objectives, provide background, and outline the roles and responsibilities of the PSEP team members. This supported SoCalGas and SDG&E efforts to promptly onboard staff and provide the necessary background information and logistical needs such as system access and passwords to have the engage and contribute immediately. Training reasonably improves safety and efficiency by promoting consistency across projects and supports continued and consistent compliance with applicable laws, regulations, and established procedures and policies.

J. Direct Project Support

In addition to the PSEP GMA support costs, direct project support personnel allocate their time to the specific projects. These individuals are part of the "project team" and support the overall efforts to execute the project. Examples of these project support activities and personnel are:

- Project Manager who has the overall responsibility of managing the scope, cost and schedule for their assigned projects.
- Project Engineers who are responsible for the engineering and design efforts for the project.
- Designers who have the responsibility of developing detailed drawings.
- Project schedulers who regularly update detailed project schedules for the team and communicate those schedules to the PMO.
- Cost engineers who monitor cost and provide project forecast and outlook to the PMO.
- Business Analyst who provide project support in evaluating accuracy of invoices and charges to each project.
- Permitting and Land Services representative that support the project team obtain the required permits and land easements.
- Environmental representative who has the overall responsibility for project compliance with environmental regulations for construction activities and water management.
- Material Coordinators who have the responsibility of requesting material orders and tracking it through the project life cycle.
- Construction Team who has responsibility of reviewing designs for constructability and ultimate responsibility of managing construction activities.

- Community outreach liaison who has responsibility of working with the impacted community for specific projects.
- Project Control Schedulers and Document Control

These team members provide day to day support for their assigned projects and allocate their time accordingly.

III. PSEP GMA IS A PRUDENT MEANS TO ADDRESS PSEP SUPPORT COSTS

PSEP GMA costs are captured in the above functional areas. Each of these functional areas have activities that directly contribute to PSEP at a program wide level, but are not direct charged to one PSEP project; rather allocated to pipeline and valve projects on a percentage basis.[5] These costs are incurred to create and support a dedicated PSEP organization in order to implement the policies and procedures to promote the prudent and reasonable execution of such a large safety enhancement effort supporting all PSEP projects and activities. PSEP GMA costs support the successful execution of PSEP test, replace, abandonment, and valve projects. The intent of the PSEP GMA is to capture costs that support the entire PSEP program. As described in Chapter VIII (Tran), the PSEP GMA is unique in that it captures functional supporting costs for the PSEP organization that are not captured in SoCalGas and SDG&E's non-incremental overheads typically charged to projects.[6] The implementation of the nine GMAs is a means to track and allocate program support costs to the PSEP projects. This is a standard practice in the industry to capture and allocate costs across several projects for day-to-day operations of a business, and in this case, the day-to-day operations of the PSEP organization.

[5] For more details on allocation methods, refer to Chapter VIII (Tran).
[6] For details on incremental versus non-incremental overheads please refer to Chapter VIII (Tran) and Chapter IX (Huleis).

As outlined in Chapter VIII (Tran), SoCalGas and SDG&E implemented a process to monitor, review, and approve GMA charges prior to allocating the costs to the PSEP hydrotest, replacement, abandonment, and valve projects. The PSEP GMAs enable the allocation of reasonable PSEP program support costs to the PSEP projects. The GMAs support similar functions as the non-incremental loaders and, as stated in Chapter VIII (Tran), in some instances the GMA costs serve to replace non-incremental overheads. The development of PSEP GMAs to support the PSEP organization has created an opportunity to manage activities distinct to PSEP and reduce overall GMAs and project cost. As an example, based on analysis performed in March of 2016, these initial efforts have enabled an estimated savings of approximately $27 million in combined (incremental) "overheads" versus the normal utility (incremental and non-incremental) overheads, thus reducing the overall costs for SoCalGas PSEP projects. The PSEP GMAs have resulted in lower overall costs to execute PSEP projects and PSEP GMA costs should be deemed reasonable.

IV. CONCLUSION

My testimony describes the prudent support departments created to execute PSEP and supports the reasonableness of the associated support effort costs.

This concludes my prepared Direct Testimony.

V. WITNESS QUALIFICATIONS

My name is Hugo Mejia. I have been employed by Southern California Gas Company since 1990. I have held various positions at SoCalGas in the Engineering, Environmental, Transmission, Storage, and PSEP Organizations. These roles included working as the Engineering Analysis Center Manager, Environmental Services Manager, Gas Transmission Technical Services Manager, Senior Engineer in Storage Operations and PSEP Project and Execution Manager.

I am currently employed as the Manager in Major Programs and Project Controls. My principal responsibility is managing close out activities for all PSEP projects and Phase 2 Implementation.

I received a Bachelor's Degree in Engineering from California State University, Northridge and I am a Registered Mechanical Engineer in the State of California.

I have previously testified before the Commission.