

Application No: A.16-09-005
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 16-09-005
(Filed September 2, 2016)

REBUTTAL 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

October 20, 2017

TABLE OF CONTENTS

	<u>PAGE</u>
I. PURPOSE AND OVERVIEW OF TESTIMONY	1
II. IT WAS REASONABLE FOR SOCALGAS AND SDG&E TO INCLUDE PHASE 2B MILEAGE WITHIN THE SCOPE OF THE LINE 1005 REPLACEMENT PROJECT.....	2
III. SOCALGAS AND SDG&E’S ALLOCATION OF COSTS BETWEEN THE OPERATING DISTRICT AND PSEP IS REASONABLE.	3
IV. COSTS ASSOCIATED WITH MINOR REPAIRS TO ACHIEVE A SUCCESSFUL HYDROTEST WITHOUT DAMAGING A PIPELINE SHOULD NOT BE REALLOCATED TO THE OPERATING REGION.	5
V. SOCALGAS AND SDG&E’S CALCULATION OF THE DISALLOWANCE FOR THE LINE 1013 REPLACEMENT PROJECT COMPLIES WITH COMMISSION DECISIONS; TURN AND SCGC’S RECOMMENDED CALCULATION DOES NOT.....	6
VI. SOCALGAS AND SDG&E’S DISALLOWANCE CALCULATION FOR THE LINE 235 SAWTOOTH PROJECT COMPLIES WITH COMMISSION DECISIONS; ORA’S RECOMMENDED DISALLOWANCE CALCULATION DOES NOT.	7
VII. SOCALGAS AND SDG&E AGREE THERE IS AN INADVERTENT ERROR IN THE DISALLOWANCE CALCULATION FOR THE PLAYA DEL REY PHASES 4 AND 5 HYDROTEST PROJECT.....	8
VIII. SOCALGAS AND SDG&E CORRECTLY DETERMINED NO DISALLOWANCE IS REQUIRED FOR THE LINE 45-120 PROJECT.	9

1 **I. PURPOSE AND OVERVIEW OF TESTIMONY**

2 The purpose of my testimony is to respond to the October 8, 2017 Revised Direct
3 Testimony of Catherine E. Yap on behalf of The Utility Reform Network (TURN) and the
4 Southern California Generation Coalition (SCGC) and the September 15, 2017 Direct Testimony
5 of Matthew Yunge and Nils Stannik on behalf of the Office of Ratepayer Advocates (ORA).
6 Specifically, my testimony responds to the following proposals by TURN, SCGC and ORA:

7 **TURN and SCGC**

- 8 • The costs associated with Phase 2B footage included within the scope of the Line
9 1005 Replacement Project should be disallowed.
- 10 • Capital costs associated with the Line 2001 West B Section 10 project should be
11 reallocated to the Operating District.
- 12 • The costs of repairing a pipeline lateral prior to pressure testing Line 407 should be
13 reallocated to the Operating District.
- 14 • The disallowance calculation for Lines 45-120, 1013, and Playa Del Rey Phases 4
15 and 5 Hydrotest Project should be revised.¹

16 **ORA**

- 17 • San Diego Gas & Electric Company (SDG&E) and Southern California Gas
18 Company (SoCalGas) should recalculate the disallowances associated with the
19 Line 235 Sawtooth Project.

20 In my testimony below, I address each of these proposals by TURN, SCGC and ORA and
21 further explain why the reasoning and actions taken by SoCalGas and SDG&E are reasonable.

¹ ORA proposes similar disallowances for the Line 1013 and Playa del Rey Phases 4 and 5 projects. See ORA Confidential Workpapers at 9.

1 **II. IT WAS REASONABLE FOR SOCALGAS AND SDG&E TO INCLUDE PHASE**
2 **2B MILEAGE WITHIN THE SCOPE OF THE LINE 1005 REPLACEMENT**
3 **PROJECT.**

4 TURN and SCGC propose the disallowance of the 52 feet of Phase 2B pipe included
5 within the scope of the Line 1005 Replacement project. The justification for this proposal
6 provided by TURN and SCGC is simply: “the applicant should not have replaced the 52 feet of
7 what they call ‘Phase 2B’ pipe without Commission authorization.”

8 The basis for TURN and SCGC’s proposed disallowance is factually erroneous. As
9 explained in the Direct Testimony of Deana M. Ng, categorization of Phase 2B pipeline
10 segments as accelerated comports with the Commission’s directives to bring all transmission
11 pipelines into compliance with federal regulations adopted in 1970.²

12 In addition, as explained in response to data requests from TURN and SCGC, including
13 this 52-foot portion of pipe within the scope of the project not only realized efficiencies but also
14 enhanced the integrity of the pipeline and was a more prudent approach. By extending the
15 pipeline replacement by 52 feet, SoCalGas connected to a Category 1 (hydrostatically pressure
16 tested) pipe segment installed in 2004. SoCalGas maximized efficiencies by addressing the
17 52-foot section of Phase 2B pipe while the pipeline already was taken out of service and thereby
18 eliminated the need for a future Phase 2B project and associated cost.³

19 Replacement of this 52-foot portion of pipe enabled SoCalGas and SDG&E to remove a
20 small portion of 1951-vintage pipe sandwiched between segments of post-2000 vintage pipe that,
21 at the time the decision was made, SoCalGas and SDG&E reasonably expected to hydrotest in a
22 future Phase 2B project. SoCalGas and SDG&E also identified yet another advantage:

² Rebuttal Testimony of Deana M. Ng on behalf of SoCalGas and SDG&E at 4.

³ Amended Direct Testimony of Catherine E. Yap on behalf of TURN and SCGC (TURN/SCGC Amended Direct Testimony (Yap)), Attachment B at 3.

1 replacement of the 52 feet of 1951-vintage 22-inch diameter pipe, which is a non-standard size
2 no longer installed in the SoCalGas/SDG&E gas transmission system, with standard diameter
3 pipe results in a continuous 194-foot section of standard diameter pipe that has been tested to
4 modern standards. Thus, replacement of the 52-foot, 22-inch diameter portion of 1951-vintage
5 pipe as part of the 1005 Replacement Project was a reasonable and prudent decision.

6 **III. SOCALGAS AND SDG&E'S ALLOCATION OF COSTS BETWEEN THE**
7 **OPERATING DISTRICT AND PSEP IS REASONABLE.**

8 TURN and SCGC recommend a disallowance of \$2,605,934 for Line 2001 West B
9 Sections 10, 11 and 14 based on a 32% allocation of project management, engineering and
10 environmental costs they have determined should have been attributed to the Mainline Valve
11 (MLV) project. TURN and SCGC base their recommended allocation of non-contractor project
12 costs on the pro rata contractor cost for each of the projects: Section 10, Section 11, Section 14
13 and MLV project. Alternatively, TURN and SCGC recommend distribution of the labor and
14 non-construction cost evenly across the four projects.

15 SoCalGas and SDG&E do not support either of these options because they would lead to
16 an inaccurate allocation that is not reflective of the comprehensive engineering and project
17 management effort required for these highly diverse yet integrated projects. Nor would these
18 allocation proposals take into account the efficiencies of shared project management across
19 departments. It is not possible to accurately isolate the portions of time spent by internal and
20 contract personnel supporting execution of the hydrotest versus replacement versus MLV scopes
21 of work on this project. For this reason, and because it would not have been a reasonable
22 investment of administrative time and associated expense to attempt do so, SoCalGas and
23 SDG&E did not attempt to separate and apportion the non-contractor costs.

1 TURN and SCGC’s two alternative proposals recommend either a 32% allocation based
2 on the percentage of contractor costs or a 25% even distribution across all four projects. These
3 allocation models do not take into account the varying level of effort required to execute these
4 types of projects and over-allocate the non-contractor costs to the MLV project. It is
5 unreasonable to assume that the non-construction costs should be evenly split across these four
6 very diverse projects as there are far too many varying engineering, environmental and other
7 factors involved in a valve project versus a two-mile hydrotest project or a short segment
8 replacement project. For example, pipeline projects undergo a decision tree review where
9 pipeline attributes are analyzed and considered and a test-versus-replace analysis is conducted to
10 consider multiple scenarios before a more detailed plan is executed. A hydrotest project must
11 consider placement of the test heads, resolve pipeline anomalies that require remediation and
12 procure and properly dispose of water. A valve project has none of these engineering or
13 environmental challenges to address.

14 In their testimony TURN and SCGC acknowledge SoCalGas and SDG&E’s efforts to
15 manage and execute these projects simultaneously with Operating District projects “may create
16 efficiencies.”⁴ In planning PSEP projects, SoCalGas and SDG&E actively seek opportunities to
17 combine PSEP scope driven projects to realize efficiencies on the planning, execution and
18 construction of projects to minimize customer impacts and cost. This approach was used when
19 projects planned by other departments were coordinated with PSEP projects to minimize the
20 impacts to the operating system and customers. The reverse is also true—when Operating
21 District projects are in the planning stages and there is a known PSEP project slated for the same
22 pipeline, the projects are combined to realize the same overall efficiencies. In the case of Line

⁴ TURN/SCGC Amended Direct Testimony (Yap) at 18.

1 2001 West, the PSEP Organization was the “lead” and addressed the Category 4 segments and
2 incorporated the District work into the overall project plan. In a similar manner, Line 235 West
3 Sawtooth and Line 404 Section 4 are examples of projects where the District was the lead and
4 the PSEP scope of work was added to the District’s planning and execution efforts. The
5 accounting and tracking of cost was handled similarly and PSEP accounted for the contractor and
6 construction materials costs of the PSEP scope and the District project absorbed the non-
7 contractor costs. The end result is that coordinating projects in this manner results in efficiencies
8 that help reduce overall costs for the benefit of customers. As such, it was reasonable and
9 prudent for SoCalGas and SDG&E to implement PSEP projects in coordination with the
10 Operating District in this manner.

11 **IV. COSTS ASSOCIATED WITH MINOR REPAIRS TO ACHIEVE A SUCCESSFUL**
12 **HYDROTEST WITHOUT DAMAGING A PIPELINE SHOULD NOT BE**
13 **REALLOCATED TO THE OPERATING REGION.**

14 TURN and SCGC recommend the Commission exclude \$4,118 in repair costs from
15 SoCalGas and SDG&E’s capital related costs for the Line 407 Hydrotest project.⁵ TURN and
16 SCGC claim that PSEP pipeline work is *either* pressure testing *or* replacing pipelines that have
17 been identified in SoCalGas and SDG&E’s PSEP.⁶ This statement implies that a pressure test
18 project would never include pipeline repairs to achieve a successful hydrotest project and,
19 therefore, is not accurate.

20 In SoCalGas and SDG&E’s approved PSEP, SoCalGas and SDG&E explained that it is
21 both prudent and cost effective to address known anomalies prior to pressure testing to mitigate
22 the risk of pipeline failures: “By mitigating potential sources of pressure test failures before
23 conducting the pressure test, planners can avoid the pitfalls associated with entering into a cycle

⁵ TURN/SCGC Amended Direct Testimony (Yap) at 37-38.

⁶ TURN/SCGC Amended Direct Testimony (Yap) at 38.

1 of pressure test failures.”⁷ While this damaged pipe support is not a pipeline anomaly, the same
2 reasoning applies—it is prudent for a pipeline operator to address conditions or features that
3 could lead to a pressure test failure or otherwise damage the pipe during pressure testing as part
4 of the scope of PSEP.

5 As a prudent pipeline operator, when SoCalGas and SDG&E identified a damaged pipe
6 support when the pipe was exposed for construction, they assessed whether the support should be
7 repaired as part of the in-progress pressure test project. The scope of the Line 407 project
8 included pressure testing the pipeline with water, which would add weight to the pipe as it is
9 being tested. SoCalGas and SDG&E therefore determined it would be prudent to complete the
10 minor repair of the pipe support that supports the lateral in order to avoid placing additional
11 external stresses on the pipe. The repair of the damaged pipe support for the lateral connection
12 that connects Lines 407 and 3003 was a necessary component of the hydrotest project and thus
13 its inclusion was reasonable and prudent.

14 **V. SOCALGAS AND SDG&E’S CALCULATION OF THE DISALLOWANCE FOR**
15 **THE LINE 1013 REPLACEMENT PROJECT COMPLIES WITH COMMISSION**
16 **DECISIONS; TURN AND SCGC’S RECOMMENDED CALCULATION DOES**
17 **NOT.**

18 TURN and SCGC recommend “a capital disallowance of \$45,050 instead of the
19 Applicants’ proposed \$30,770 disallowance” for the Line 1013 Replacement project.⁸ In making
20 this recommendation, TURN and SCGC propose to disallow the costs associated with the entire
21 129 feet of Phase 1A pipeline addressed in this project.⁹ SoCalGas and SDG&E calculated the
22 applicable disallowance based on 96 feet of 1956-vintage pipe that lack sufficient records of a

⁷ Amended Direct Testimony of Douglas Schneider at 57, Exhibit No. 4 in A.11-11-002.

⁸ TURN/SCGC Amended Direct Testimony (Yap) at 14.

⁹ ORA proposes a similar disallowance in the amount of \$454,394.32. *See* ORA Confidential Supporting Workpapers at 9.

1 pressure test. The remaining 34-foot portion of pipe was not subject to the requirement to retain
2 records of a pressure test under the then-applicable industry standards. As such, this 34-foot
3 portion of pipe is not subject to disallowance under governing Commission decisions.¹⁰

4 In 1956, when the 34-foot segment was constructed, there were no applicable regulations
5 that required pressure testing. The applicable industry standard that recommended pressure
6 testing prior to adoption of federal pressure testing regulations in 1970 is the American Society
7 of Mechanical Engineers Code for Pressure Piping B31.1. This industry standard recommended
8 that pipeline operators retain records of a pressure test for the life of pipelines in Class 1
9 locations operated at or above 30% SMYS. The industry standard did not recommend that
10 pipeline operators retain records of pressure tests for pipelines in Class 1 locations operated
11 below 30% SMYS. The subject 34-foot portion of pipeline was in a Class 1 location and
12 operated below the 30% SMYS level. Accordingly, SoCalGas and SDG&E were not required to
13 keep records of a pressure test for this portion of pipe under the then-applicable industry
14 standards and are in compliance with the then-applicable industry standards. As such, this 34-
15 foot section of pipe is not subject to disallowance.

16 **VI. SOCALGAS AND SDG&E'S DISALLOWANCE CALCULATION FOR THE**
17 **LINE 235 SAWTOOTH PROJECT COMPLIES WITH COMMISSION**
18 **DECISIONS; ORA'S RECOMMENDED DISALLOWANCE CALCULATION**
19 **DOES NOT.**

20 ORA created a Cost Allocation Review Process (CARP) to calculate disallowances based
21 on pipe vintage.¹¹ In reviewing the methodology used by ORA to determine disallowances, I
22 noted that ORA simply looks at (1) the vintage of the portion of pipeline, and (2) whether or not

¹⁰ The applicable Commission decisions governing the calculation of disallowances are discussed in the Rebuttal Testimony of Deana M. Ng on behalf of SoCalGas and SDG&E, served concurrently herewith.

¹¹ ORA Prepared Testimony (Yunge) at 3.

1 SoCalGas and SDG&E indicate this portion of pipe lacks record of a pressure test to at least 1.25
2 times the MAOP to determine whether a disallowance is required. This methodology assumes
3 that *all* post-1956 pipeline segments were required to have records of a pressure test to at least
4 1.25 times the MAOP under then-applicable regulations or industry standards. This assumption
5 is false.

6 In identifying pipeline segments for testing or replacement in PSEP, SoCalGas and
7 SDG&E placed pipelines in one of four categories. Category 4 pipeline segments are those that
8 do not have documentation of a post-construction pressure test to at least 1.25 times the
9 MAOP.¹² Contrary to ORA’s analysis, mere identification of a pipeline segment as Category 4
10 does not equate to an admission that SoCalGas and SDG&E are out of compliance with then-
11 applicable pressure testing or recordkeeping requirements. The then-applicable industry
12 standards (and, indeed, current federal and state regulations) only required a pressure test to at
13 least 1.1 times the MAOP of pipelines operated in Class 1 locations. SoCalGas and SDG&E
14 have sufficient record of a pressure test to at least 1.1 times the MAOP for this pipeline segment.
15 As such, this portion of the Line 235 Sawtooth Project is not subject to disallowance and ORA’s
16 proposal to disallow \$579,569 in costs for this project is unfounded.

17 **VII. SOCALGAS AND SDG&E AGREE THERE IS AN INADVERTENT ERROR IN**
18 **THE DISALLOWANCE CALCULATION FOR THE PLAYA DEL REY PHASES**
19 **4 AND 5 HYDROTEST PROJECT.**

20 TURN and SCGC recommend an expense disallowance of \$3,371,923, which is 63
21 percent of the total cost of the pressure test, as opposed to the Applicants’ filed disallowance of

¹² D.14-06-007 at 24-25, 59 (Ordering Paragraph No. 1), and Attachment 1 (the approved Decision Tree);
See also Amended Direct Testimony of Douglas Schneider at 61 n. 36, Exhibit No. 4 in A.11-11-002
(noting that SoCalGas and SDG&E’s proposal “would require a 1.25*MAOP pressure test in Class 1
areas, which is beyond the 1.1*MAOP standard required under the Federal code and American Society
of Mechanical Engineers B31.8”).

1 \$3,067,096, which is 57% of the total cost for the Playa del Rey Phases 4 and 5 Hydrotest
2 Project.¹³ Similarly, ORA also proposes a disallowance of \$3,371,923 for this project in
3 supporting workpapers, but did not submit testimony regarding its calculation methodology for
4 this specific project.¹⁴ The footage in question is that of 18 bridles that connect from a header
5 into the fin-fan coolers. These bridles were installed in two phases: the first phase of the
6 installation occurred in 1955, and the bridles were part of the header installation; and the second
7 phase occurred in 1965 and connected the pipe from the header to the cooling fin-fans. When
8 calculating the disallowance for these bridles, SoCalGas and SDG&E inadvertently used the
9 1955 lengths, which were shorter than the 1965 portion of the bridle. SoCalGas and SDG&E
10 agree with the disallowance percentage of 63% proposed by TURN, SCGC and ORA for a total
11 revised disallowance amount of \$3,371,923.

12 **VIII. SOCALGAS AND SDG&E CORRECTLY DETERMINED NO DISALLOWANCE**
13 **IS REQUIRED FOR THE LINE 45-120 PROJECT.**

14 As described in the Line 45-120 workpaper on page WP-III-A337, Supply Line 45-120
15 had a 55-foot segment that was initially identified as 1990s vintage, but was actually part of the
16 original 1930s installation of this pipeline. The vintage dates in the database were not updated to
17 reflect the corrected 1930s vintage, since the PSEP project to replace the pipe was already in the
18 planning stage and would substitute this segment with new pipe. In calculating a proposed
19 disallowance for the Supply Line 45-120 project, ORA includes this 55-foot segment in the
20 calculation based on the 1990 installation date versus the actual 1930s installation date.
21 SoCalGas and SDG&E recommend these 55 feet not be included in the disallowance calculation,
22 as proposed by ORA; no disallowances should be calculated for this project.

¹³ TURN/SCGC Amended Direct Testimony (Yap) at 42.

¹⁴ Confidential Workpapers of ORA at 9.

This concludes my prepared Rebuttal Testimony.