

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

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 on September 2, 2016)

**REPLY BRIEF OF SOUTHERN CALIFORNIA GAS COMPANY (U 904 G)  
AND SAN DIEGO GAS & ELECTRIC COMPANY (U 902 G) IN SUPPORT OF THEIR  
APPLICATION 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**

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Pursuant to Rule 13.11 of the Rules of Practice and Procedure of the California Public Utilities Commission (“Commission”) and the Amended Assigned Commissioner and Administrative Law Judge’s Scoping Memo and Ruling dated April 24, 2017 (“Scoping Memo”)<sup>1</sup>, Southern California Gas Company (“SoCalGas”) and San Diego Gas & Electric Company (“SDG&E”) (jointly, “Applicants”) hereby submit this Reply Brief in support of their Application 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, dated September 2, 2016 (“Application”).

**I. INTRODUCTION**

In their opening briefs filed on January 19, 2018, the Office of Ratepayer Advocates (“ORA”) and The Utility Reform Network (“TURN”) and Southern California Generation Coalition<sup>2</sup> (“SCGC;” collectively, “Intervenors;” Intervenors and Applicants together, “Parties”)

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<sup>1</sup> Amended Assigned Commissioner and Administrative Law Judge’s Scoping Memo and Ruling dated April 24, 2017 (“Scoping Memo”) at p. 7.

<sup>2</sup> TURN and SCGC filed their Opening Brief of the Utility Reform Network and Southern California Generation Coalition dated January 19, 2018 (“TURN/SCGC Opening Brief”) jointly.

do not oppose recovery of \$176,281,733 of the \$188,070,804 of Pipeline Safety Enhancement Plan (“PSEP”) costs Applicants present for review in this proceeding; instead, they argue Applicants should take additional disallowances – or transfer costs for recovery outside of PSEP – in the additional amounts of \$1,305,048 (by ORA) and \$10,484,023 (by TURN/SCGC). Table 1 below summarizes the positions of the Parties. Note that ORA’s and TURN/SCGC’s disallowance or transfer requests are not mutually exclusive from each other; indeed, certain of their requests overlap.<sup>3</sup>

**Table 1 - Summary of Parties’ Requests**

<b>Project Name</b>	<b>Amount Submitted for Recovery by SoCalGas and SDG&amp;E<sup>4</sup></b>	<b>Disallowance Deducted by SoCalGas and SDG&amp;E</b>	<b>ORA Proposed Disallowance or Transfer<sup>5</sup></b>	<b>TURN/SCGC Proposed Disallowance or Transfer<sup>6</sup></b>
Line 1005	\$6,472,280	\$4,122	\$4,223	\$2,420,643
Line 1011	\$2,656,749	\$0	Uncontroverted	Uncontroverted
Line 1013	\$2,705,367	\$32,614	\$45,394	\$45,050
Line 1014	\$925,097	\$2,715	\$5,630	\$4,930
Line 1015	\$2,643,102	\$3,079,167	\$3,165,461	\$5,248,758
Line 2000 W Sec 1, 2, 3	\$24,769,287	\$69,545	\$261,584	\$116,749
Line 2001 W A Sec 15,16	\$822,206	\$0	Uncontroverted	Uncontroverted
Line 2001 W B Sec 10,11,14	\$13,025,271	\$0	\$5,278	\$3,049,486
Line 2003	\$9,568,423	\$42,470	\$43,987	\$146,129
Line 235 West – Sawtooth Canyon	\$2,050,065	\$0	\$579,569	Uncontroverted

<sup>3</sup> For example, it appears ORA’s and TURN/SCGC’s requests for disallowances on the Line 1014 project are in the same amount and for the same reasons.

<sup>4</sup> Reduced in an amount equal to disallowances already recorded by SoCalGas and SDG&E.

<sup>5</sup> In the Opening Brief Reasonableness Review dated January 19, 2018 of the Office of Ratepayer Advocates (“ORA Opening Brief”), ORA did not note the amount of disallowance it sought for each specific project; it only aggregated its requests by disallowance category. Moreover, as referenced herein, the numbers stated in ORA’s Opening Brief do not sum (e.g., Table 1) and are inconsistent both within the brief and with ORA’s workpapers that are in evidence in this proceeding. Therefore, the project-specific disallowance requests attributed to ORA herein are derived from ORA’s workpapers admitted in this proceeding as Ex. ORA-03, at pp. 5-18. Where a disallowance amount could not be determined even from ORA’s workpapers, Applicants attempted to derive the proper allocation based on ORA’s testimony and other workpapers.

<sup>6</sup> All amounts are from the TURN/SCGC Opening Brief.

Line 33-120 Sec 2	\$7,634,170	\$0	\$11,261	Uncontroverted
Line 35-20 N	\$266,383	\$18,278	\$19,002	\$22,270
Line 36-1032 Sec 1, 2, 3	\$10,953,327	\$0	Uncontroverted	\$33,720
Line 36-37	\$1,200,126	\$2,150	\$2,111	\$2,040
Line 36-9-09 North Sec 2B	\$2,566,211	\$0	Uncontroverted	Uncontroverted <sup>7</sup>
Line 36-9-09 North Sec 6A	\$2,785,427	\$0	Uncontroverted	Uncontroverted
Line 38-539	\$16,915,804	\$0	Uncontroverted	\$1,597,006
Line 406	\$10,475,451	\$0	Uncontroverted	Uncontroverted
Line 407	\$6,964,626	\$2,789	\$378,253	\$6,907
Line 41-30-A	\$483,725	\$0	Uncontroverted	Uncontroverted
Line 45-120 Sec 1	\$6,418,206	\$0	\$19,354	Uncontested
Line 45-120X01	\$857,395	\$0	Uncontroverted	\$857,395
Line 49-14	\$4,669,251	\$32,973	\$34,134	\$53,720
Line 49-22	\$5,034,329	\$0	\$704	Uncontroverted
Line 49-32	\$4,393,207	\$0	\$5,982	Uncontroverted
Playa del Rey Storage Phase 4, 5	\$1,964,447	\$3,371,923	\$3,371,923 (Uncontroverted)	\$3,371,923 (Uncontroverted)
Palmdale with Line 235 and Supply Line 44-654 Valve Bundle Project	\$13,455,031	\$101,606	\$111,550	\$267,649
Arrow & Haven Valve Bundle Project	\$1,157,969	\$0	Uncontroverted	Uncontroverted
Bain St Valve Bundle Project	\$1,063,539	\$0	Uncontroverted	Uncontroverted
Brea Valve Bundle Project	\$295,027	\$0	Uncontroverted	Uncontroverted
Chino Valve Bundle Project	\$1,237,040	\$0	Uncontroverted	Uncontroverted
Haskell Valve Bundle Project	\$805,126	\$0	Uncontroverted	Uncontroverted
Moreno Large Valve Bundle Project	\$616,166	\$0	Uncontroverted	Uncontroverted

<sup>7</sup> TURN/SCGC Opening Brief at pp. 42-43.

Moreno Small Valve Bundle Project	\$861,101	\$0	Uncontroverted	Uncontroverted
Pixley Valve Bundle Project	\$1,549,003	\$0	Uncontroverted	Uncontroverted
Prado Valve Bundle Project	\$1,411,385	\$0	Uncontroverted	Uncontroverted
Puente Valve Bundle Project	\$19,486	\$0	Uncontroverted	Uncontroverted
Santa Fe Springs Valve Bundle Project	\$813,358	\$0	Uncontroverted	Uncontroverted
SGV -Fern & Walnut Valve Bundle Project	\$5,783,560	\$0	Uncontroverted	Uncontroverted
Victoria Valve Bundle Project	\$1,734,650	\$0	Uncontroverted	Uncontroverted
Whitewater Valve Bundle Project	\$815,990	\$0	Uncontroverted	Uncontroverted
Descoped Projects	\$199,000	\$0	Uncontroverted	Uncontroverted
Facilities Lease Costs	\$6,237,763	\$0	Uncontroverted	Uncontroverted
Post Completion Adjustments	\$320,539	\$0	Uncontroverted	Uncontroverted
Methane Pilot	\$475,139	\$0	Uncontroverted	Uncontroverted
	<b>Amount Submitted for Recovery by SoCalGas and SDG&amp;E</b>	<b>Disallowances Deducted by SoCalGas and SDG&amp;E</b>	<b>ORA Proposed Disallowance or Transfer</b>	<b>TURN/SCGC Proposed Disallowance or Transfer</b>
<b>TOTAL</b>	<b>\$188,070,803<sup>8</sup></b>	<b>\$6,760,352</b>	<b>\$8,065,400<sup>9</sup></b>	<b>\$17,244,375</b>

As indicated in Table 1, ORA and TURN/SCGC do not oppose SoCalGas and SDG&E's cost recovery requests on the following six PSEP pipeline projects: Line 1011, Line 2001 West

<sup>8</sup> The associated initial revenue requirement is \$60,981,747 for SoCalGas and \$2,622,458 for SDG&E.

<sup>9</sup> ORA notes in the ORA Opening Brief that it is seeking disallowances totaling \$8.48 million; however, the total stated in Table 1 of the ORA Opening Brief is \$8,065,419, and the amount stated in ORA's workpapers provided with ORA's testimony in this proceeding is \$8,065,400 (as rounded). ORA Opening Brief at p. 2 and Ex. ORA-03 at pp. 5-7. For the reasons stated in note 5, Applicants rely upon ORA's workpapers.



A Sections 15 and 16, Line 36-9-09 North Section 2B, Line 36-9-09 North Section 6A, Line 406, and Line 41-30-A; and the following fourteen valve bundle projects: Arrow & Haven, Bain Street, Brea, Chino, Haskell, Moreno Large, Moreno Small, Pixley, Prado, Puente, Santa Fe Springs, SGV-Fern & Walnut, Victoria, and Whitewater. Neither ORA nor TURN/SCGC oppose Applicants' requests to recover costs associated with descoped projects, facilities lease costs, post-completion costs, or costs associated with the two methane-sensing pilot programs. Thus, *all Parties agree that Applicants are entitled to cost recovery of at least \$176,281,733.*<sup>10</sup>

Table 1 also reflects that ORA and TURN/SCGC seek to transfer incurred costs outside of PSEP tracking accounts or impose disallowances in addition to those already deducted by Applicants on 20 of the 41 projects submitted for review in this proceeding. These requests are based primarily on misinterpretation of the Commission's prior orders and/or misapplication of the reasonable manager standard. Disallowances have been calculated and deducted by Applicants in accordance with Commission directives. Table 1 shows that Applicants recorded disallowances of \$6,760,352; thus, shareholders already have borne over 3% of the total costs Applicants incurred in executing the PSEP projects presented for review in this proceeding. Each of the 26 pipeline projects, 15 bundled valve projects, and two methane-sensing equipment pilot projects under the Commission-ordered PSEP was managed and executed prudently. For these reasons, Applicants should be authorized to recover the full amounts sought in this Application, which are exclusive of the disallowances ascribed to SoCalGas and SDG&E in Table 1.

## **II. ARGUMENT IN SUPPORT OF AUTHORIZING RECOVERY OF THE AMOUNTS SOUGHT BY SOCALGAS AND SDG&E**

As demonstrated in Table 1, ORA's and TURN/SCGC's requests to further reduce the amounts submitted for review by Applicants are project-specific (rather than program-wide); however, they fall into just a few categories. Each of ORA's and TURN/SCGC's categories is addressed first, followed by their project-specific requests for disallowances.

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<sup>10</sup> The uncontroverted amount is even greater once the overlap in ORA's and TURN/SCGC's is taken into account.

**A. ORA’s Proposals for Additional Disallowances Are Unsupported, Unreasonable, and, Simply, Wrong.**

ORA proposes disallowances in the aggregate amount of \$8,065,400, an increase of \$1,305,048 over disallowances already recorded by Applicants, on two theories: (i) the “system average” cost of pressure testing that is used to calculate disallowances for certain “Post-55”<sup>11</sup> projects that do not have records of a pressure test<sup>12</sup> should be calculated based on ORA’s proposed methodology; and (ii) Post-55 projects (both replacement and pressure test projects) that do have records of a pressure test are not within the scope of PSEP and thus are not recoverable in this proceeding. Under ORA’s first theory, which is not supported by Commission precedent, ORA proposes incremental disallowances of less than \$100,000.<sup>13</sup> The remainder of ORA’s disallowance proposals are based on ORA’s second theory, which is not supported by the evidence in the record.

1. Relevant Commission Guidance on Calculation of Post-55 Disallowances.

As acknowledged in Applicants’ Opening Brief,<sup>14</sup> the Post-55 disallowances were ordered by the Commission in two separate decisions. First, in Decision (“D.”) 14-06-007, the Commission ordered:

[F]or pipeline installed after July 1, 1961, where either SDG&E or SoCalGas cannot produce records that provide the minimum information required by these regulations to demonstrate compliance with the regulatory strength testing and record keeping requirements of General Order 112 and its revisions, as well the requirements of 49 CFR, Part 192 and its revisions beyond the effective date of Part 192, the shareholders must bear the costs of retesting these pipelines.<sup>15</sup>

The means for calculating the amount to be borne by shareholders was also set forth:

Where replacement of the pipeline is planned rather than test existing pipelines, the system average cost of actual pressure testing should be an offset against the

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<sup>11</sup> “Post-55” disallowances are those set forth *infra* at Section II.A.1 and at D.14-06-007 at pp. 34-36 and D.15-12-020 at pp. 18-19.

<sup>12</sup> D.14-06-007, mimeo., at pp. 34-36; D.15-12-020, mimeo., at pp. 18-19.

<sup>13</sup> As explained in note 5, the precise amounts proposed by ORA are difficult to determine.

<sup>14</sup> Opening Brief of Southern California Gas Company (U 904 G) and San Diego Gas & Electric Company (U 902 G) in Support of Their Application 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 dated January 19, 2018 (“SoCalGas and SDG&E’s Opening Brief”) at pp. 49-51.

<sup>15</sup> D.14-06-007, mimeo., at p. 34.

replacement costs of the pipelines for revenue requirement purposes. In this way shareholders bear the costs of remedial pressure tests and ratepayers pay for all other costs of testing or replacing a pipeline.<sup>16</sup>

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As we discussed elsewhere, for any pipeline abandoned or replaced that was installed after July 1, 1961, shareholders must absorb the remaining undepreciated book value. And, as also discussed, ratepayers bear the revenue requirement of the net replacement costs as they benefit from having a new safe and reliable pipeline.<sup>17</sup>

The Commission’s decision also includes the following table:<sup>18</sup>

<b>SDG&amp;E and SoCalGas</b>	<b>Pipeline Miles<sup>(d)</sup> Phase 1A/B</b>	<b>Pressure Testing &amp; Replacement Cost Responsibility</b>
Pre-1946 Pipeline	269	Ratepayers Pay for Pressure Testing and/or New Pipeline
1946 Through June 1961	511	Ratepayers Pay for Pressure Testing and/or New Pipeline
July 1961 Through November 1970	29	When SDG&E or SoCalGas Cannot Produce Records Shareholders Pay for Pressure Testing & Absorbs Undepreciated Balances; Ratepayers Pay for New Pipeline
November 1970 to Present	74	When SDG&E or SoCalGas Cannot Produce Records Shareholders Pay for Pressure Testing & Absorbs Undepreciated Balances; Ratepayers Pay for New Pipeline

The issue was subsequently re-visited in D.15-12-020, when the Commission reversed, in part, its determination in D.14-06-007:

[W]e conclude pursuant to D.15-03-049 that the costs of pressure testing pipelines installed between 1955 and 1961 should not be included in the Utilities’ revenue requirement for recovery from ratepayers.

Further, where such pipeline segment is replaced rather than pressure tested, the utility must absorb an amount equal to the average cost of pressure testing a similar segment, or where such pipeline segment is abandoned, the utility must absorb the undepreciated plant in service balance.<sup>19</sup>

<sup>16</sup> D.14-06-007, mimeo., at p. 35.

<sup>17</sup> D.14-06-007, mimeo., at p. 36.

<sup>18</sup> D.14-06-007, mimeo., at p. 36 (footnote omitted).

<sup>19</sup> D.15-12-020, mimeo., at pp. 18-19 (footnote omitted).

Thus, the Commission expanded the scope of disallowed costs to include pipeline installed as of January 1, 1956, or “Post-55.”

2. Applicants Have Calculated the System Average Costs Correctly; ORA’s Proposal Is Neither Feasible nor Grounded in Commission Precedent.

Applicants have demonstrated in the record their method for calculating the system average cost of pressure testing comports with the Commission’s decisions: Applicants take the total costs associated with actual pressure tests conducted as part of PSEP from its inception through June 30, 2015 – the date projects presented in this proceeding completed construction – and determine the average cost per mile.<sup>20</sup> This comports with the Commission’s directive to use “the system average cost of actual pressure testing” to calculate disallowances for Post-55 pipeline replacement projects.<sup>21</sup>

Contrary to Commission guidance, ORA proposes to omit certain projects from the system average calculation such that the system average would not reflect the “actual cost of pressure testing.” Specifically, ORA seeks to calculate the system average from projects that exclusively involve hydrotests, i.e., projects which do not have any replacement portion, on the basis that the pressure testing portion of replacement projects is “fundamentally different than hydrotest projects.”<sup>22</sup> However, far from being consistent, ORA does not seek to include all hydrotest-only projects in its calculation: it seeks to exclude from its system average calculation two hydrotest-only projects at the Playa del Rey storage field on the unsupported basis that they are “substantially different” and “do not appear representative of projects where disallowances were being calculated, most notably in project type (transmission/distribution vs. storage field) and work environment.”<sup>23</sup> There is no support in Commission decisions for ORA’s proposal. Indeed, the notion of determining whether projects are similar or dissimilar for the purpose of estimating pressure testing costs is antithetical to the Commission’s order to use an *average*. The Commission has not ordered Applicants to determine what the cost of pressure testing that particular project would have been; the Commission has ordered Applicants to use a system average as a proxy, with the understanding that Applicants will execute many hydrotest (either

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<sup>20</sup> Ex. SCG-15 (Ng) at p. 15.

<sup>21</sup> D.14-06-007, mimeo., at p. 35.

<sup>22</sup> ORA Opening Brief at p. 13, citing Ex. ORA-02 (Stannik) at p. 4.

<sup>23</sup> Ex. ORA-02 (Stannik) at pp. 4-5.

hydrotest-only or hydrotest-and-replace combination) projects over the course of executing PSEP. Furthermore, including the costs of all hydrotests – including hydrotests conducted in conjunction with replacement projects – reflects the reality that hydrotests sometimes occur in conjunction with replacement projects and sometimes occur as standalone projects.

Moreover, ORA’s argument regarding calculating the system average as of the date of the application for a proceeding is not only difficult to follow; it is not, as ORA purports it is, grounded in Commission decisions.<sup>24</sup> ORA contends the following statement from D.15-12-020 supports its proposal: “Decision 14.-06-007 is modified to clarify that future after-the-fact reasonableness review applications should include hydrotest projects when completed.”<sup>25</sup> This statement is cited entirely out of context. The discussion on this topic in D.15-12-020 is not lengthy; the Commission stated:

On October 19, 2015, SoCalGas, SDG&E, ORA, TURN, and the Southern California Generation Coalition filed a Petition for Modification of D.14-06-007. The petitioning parties stated that they requested modification to D.14-06-007 solely to clarify that future after-the-fact reasonableness review applications should include hydrotest projects that have been completed. This modification will apply to the twelve in-progress projects originally included in A.14-12-016 but subsequently removed by the July 31, 2015, Assigned Commissioner and Administrative Law Judge’s Amended Scoping Memo and Ruling in A.14-12-016.<sup>26</sup> All future hydrotest projects will similarly be reflected in after-the-fact reasonableness reviews when the project is completed. The petitioning parties state that the modifications proposed are consistent with the Ruling and intended to “reflect the clarified intent of D.14-06-007.” No party opposed the petition for modification.<sup>27</sup>

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### **4.3 Petition for Modification of D.14-06-007**

We find that it is reasonable to modify D.14-06-007 to clarify that future after-the-fact reasonableness review applications should include all hydrotest projects when completed, and specifically the 12 in-progress projects originally included in Application (A.) 14-12-016 but subsequently removed by the July 31, 2015, by assigned Commissioner and Administrative Law Judge’s Amended Scoping Memo and Ruling. Those 12 projects, Line 404, Line 406, Line 407, Line 1004, Line 1015, Line 2003, Line 2000 West, Line 2001 West, Line 32-21, Line 37-18F, Line

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<sup>24</sup> ORA Opening Brief at pp. 11-13.

<sup>25</sup> ORA Opening Brief at p. 11, citing D.15-12-020, mimeo., at p. 25 (Ordering Paragraph 3).

<sup>26</sup> The 12 in-progress projects include: Line 404, Line 406, Line 407, Line 1004, Line 1015, Line 2003, Line 2000 West, Line 2001 West, Line 32-21, Line 37-18F, Line 41-116BP1, and Playa Del Rey Storage Phase 5.

<sup>27</sup> D.15-12-020, mimeo., at pp. 4-5.

41-116BP1, and Playa Del Rey Storage Phase 5, as well as any future hydrotest projects should be presented for reasonableness review when completed.<sup>28</sup>

Since ORA was an active party in that proceeding, ORA, too, must be aware of the origins of the out-of-context statement it quotes, namely, that it refers to presenting completed projects for reasonableness review to the Commission, *not* to calculating the system average. For this reason, the following statement by ORA is misleading and should be disregarded: “SoCalGas/SDG&E had the opportunity to raise these concerns prior to the Commission’s establishment of the cutoff date requirements in D.15-12-020, but did not. It is not timely to raise them now.”

Indeed, the record evinces numerous reasons why ORA’s proposal to calculate the system average up until the application date is not only arbitrary, but also, as a practical matter, infeasible. First, “logic dictates that the system average cost calculation called for in the Commission’s decision should generally occur around the time the projects complete construction and are placed into service. Otherwise, the disallowances would continuously require adjustment as the system average constantly changes as the implementation of PSEP moves forward.”<sup>29</sup> Second, “SoCalGas and SDG&E must perform the calculation sufficiently in advance of the filing of a reasonableness review application to finalize the costs presented in the application. ORA’s proposal that SoCalGas and SDG&E somehow include projects that complete construction up to the day an application is filed is unreasonable and unworkable.”<sup>30</sup> Third, “once a project completes construction, costs continue to accrue as invoices trail in and are booked to the proper utility tracking accounts. Under ORA’s proposal, the costs of the various projects used to calculate the system average pressure testing costs would not yet be final and would adjust over time. This could result in inadvertent inaccuracies in the amounts presented to the Commission for review, because the actual system average would differ from the amount presented in a reasonableness review application.”<sup>31</sup>

To the extent ORA’s arbitrary and unworkable proposals for calculating the system average are driven by an effort to increase disallowance amounts, it bears noting that, as SoCalGas and SDG&E move from Phase 1 to Phase 2 and execute longer pressure test projects

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<sup>28</sup> D.15-12-020, mimeo., at p. 19.

<sup>29</sup> Ex. SCG-15 (Ng) at p. 15.

<sup>30</sup> Ex. SCG-15 (Ng) at p. 16.

<sup>31</sup> Ex. SCG-15 (Ng) at p. 16.

in less populated areas, it is anticipated that the average cost of pressure testing may decrease.<sup>32</sup> In any event, the Commission should reject ORA’s proposal to re-calculate the system average for the sole purpose of increasing disallowances. Applicants request the Commission confirm that Applicants used the correct methodology and therefore properly calculated the system average cost of pressure testing as \$1.792 million per mile.<sup>33</sup>

3. The Record Does Not Support ORA’s Opinion that Certain Post-55 Replacement and Pressure Test Projects Have Records Evidencing Testing to Modern Standards.

ORA’s recommendations to disallow \$611,943 for “replacement of pipe having proper test records that are compliant with Title 49 of the Code of Federal Regulations (CFR) Part 192, Subpart J”<sup>34</sup> and \$677,353<sup>35</sup> for “re-tests of pipe segments that were installed after 1955 and have records of pressure tests that are compliant with 49 CFR Part 192, Subpart J”<sup>36</sup> suffer from a fatal flaw: there is no evidence in the record that these projects have records of a pressure test *to the modern standards embodied in 49 CFR Part 192, Subpart J* (“Subpart J”).<sup>37, 38</sup> Applicants have demonstrated that records of a pressure test exist, but they pre-date the existence of Subpart J. Most importantly, Applicants have *not* stated that the records establish compliance with Subpart J.<sup>39</sup> The evidence ORA cites in support of its opinion regarding the pressure test records is its own response to Applicants’ data request to identify where, as contended by ORA, “Applicants

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<sup>32</sup> Ex. SCG-15 (Ng) at pp. 15-16.

<sup>33</sup> Ex. SCG-15 (Ng) at p. 15.

<sup>34</sup> ORA Opening Brief at p. 4.

<sup>35</sup> ORA refers to both \$690,687 and \$690,867 as the disallowance amount it is seeking. ORA Opening Brief at p. 7. Applicants were not able to discern which figure ORA intended. For the reasons stated in note 5, Applicants relied on the figures in ORA’s workpapers.

<sup>36</sup> ORA Opening Brief at p. 7.

<sup>37</sup> ORA cites to its own unsupported data request response – Ex. SCG-17 at 1-2 -- in support of its opinion, or merely states its opinion as fact without citing any evidence (e.g., ORA Opening Brief at p. 6, n.22: “Although today’s Subpart J requirements became effective in 1970, and these test records show testing completed before 1970, the testing is shown to have met these 1970 requirements.”).

<sup>38</sup> For purposes of this proceeding, ORA acknowledges that pipeline that have records of a pressure test must evidence compliance with the modern standards embodied in 49 Code of Federal Regulations Part 192, Subpart J (“Subpart J”); pipeline with records that do not demonstrate compliance with Subpart J must be remediated by Applicants as part of PSEP. These are categorized by Applicants as Phase 2B of PSEP.

<sup>39</sup> Ex. SCG-15 (Ng) at pp. 3-4. Subpart J of 49 CFR Part 192 is made up of §§192.501 – 192.517 and can be found at: <https://www.law.cornell.edu/cfr/text/49/part-192/subpart-J> and <https://www.ecfr.gov/cgi-bin/text-idx?SID=389d9fffb99861abb6544359401d44e1&mc=true&node=pt49.3.192&rgn=div5#sp49.3.192.j>.

indicate that the .37 miles of accelerated pipe... have records of a pressure test that are compliant with modern (49 Code of Federal Regulations Part 192, Subpart J) standards.”<sup>40</sup> In this response, ORA refers to the 1955 American Standard Association (“ASA”) standards and states, “Since Subpart J testing requirements are more restrictive than the ASA testing standards, pipe installed prior to 1970 that complied with Subpart J would also comply with the ASA standards.”<sup>41</sup> However, this circular statement does not address the issue at hand. The Commission has not ordered compliance with the ASA standards; the Commission has ordered compliance with the modern standards embodied in Subpart J.<sup>42</sup> Indeed, ORA’s discussion on compliance with Subpart J refers only to “test duration” and “year of install;”<sup>43</sup> but these are not the only requirements of Subpart J. For example, ORA makes no reference at all to compliance with the seven requirements set forth in 49 CFR section 192.517, which is part of Subpart J.

ORA’s opinion is directly contradicted by the requirements of Subpart J. Accordingly, ORA’s requests for disallowances in the amounts of \$611,943 for Post-55 replacement or replacement combination projects with records of a pressure test and \$677,353 for Post-55 pressure tests projects with records of a pressure test therefore should be denied.

**B. TURN/SCGC’s Proposals for Additional Cost Reductions Are Based on Misapplication of the Reasonable Manager Standard And Misinterpretation of Commission Decisions.**

TURN/SCGC seek \$17,244,375 in disallowances, or to transfer cost recovery outside of the PSEP accounts. This is \$10,484,023 more than the \$6,760,352 in disallowances already taken by Applicants. Although TURN/SCGC find it noteworthy that the “incremental disallowance recommended by [them] is only about 5 percent of the total \$195.4 million... presented in the Applicants’ application,”<sup>44</sup> Applicants take issue with the notion that SoCalGas and SDG&E should be deprived of the opportunity to recovery in rates any reasonably incurred safety enhancement costs. Applicants have already incurred these expenditures in furtherance of executing the projects presented for review herein pursuant to a Commission-ordered and State-

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<sup>40</sup> Ex. SCG-17 at 1-2.

<sup>41</sup> Ex. SCG-17 at 1-2.

<sup>42</sup> D.11-06-017 at 29 (Conclusion of Law No. 5) and 31 (Ordering Paragraph No. 5).

<sup>43</sup> ORA Opening Brief at p. 4, citing Ex. ORA-03-C at pp. 5-7.

<sup>44</sup> TURN/SCGC Opening Brief at p. 11.



mandated safety program. The costs presented here are the actual costs of prudently executing these projects (less noted disallowances) and, as such, should be authorized for recovery in rates.

TURN/SCGC propose incremental disallowances purportedly based on three requirements: (i) the costs recorded to the Commission-ordered accounts must be properly incurred as PSEP costs;<sup>45</sup> (ii) the costs must be reasonably incurred;<sup>46</sup> and (iii) disallowances must be properly calculated.<sup>47</sup> Applicants do not disagree that these are threshold requirements, nor do they disagree that costs that do not fall into these categories should not be recovered in this proceeding. However, TURN/SCGC mischaracterize costs as failing to satisfy these requirements when, in fact, they do.

1. Phase 2B Costs Are PSEP Costs.

Notwithstanding the agreement of the Parties that is reflected in the Scoping Memorandum and Ruling in this proceeding,<sup>48</sup> TURN/SCGC seek to disallow costs associated with Phase 2B footages for the mere fact that they are categorized as Phase 2B. The Parties specifically agreed to the following: “[r]ecovering the cost of ‘incidental’ and/or ‘accelerated’ pressure testing or replacement of segments may be considered in this proceeding;”<sup>49</sup> and “[t]he recovery of the costs of ‘standalone’ Phase 2B segments will be addressed in a forecast application or Applicants’ General Rate Case to be filed in the future, at which time parties may assert their positions.”<sup>50</sup> In other words, the Parties agreed that the fact that mileage is characterized by Applicants as accelerated Phase 2B does not, by itself, support a request for a disallowance. The issue of whether Applicants should proceed to execute projects comprised entirely of Phase 2B mileage has been ruled by the Commission to be within the scope of Applicants’ General Rate Case, A.17-10-007 and A.17-10-008.<sup>51</sup> As the Parties already agreed, they can state their respective positions in that proceeding. TURN/SCGC’s arguments on this

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<sup>45</sup> TURN/SCGC Opening Brief at p. 7. TURN/SCGC argue that these costs need not necessarily be disallowed, but they should be transferred for recovery outside of the PSEP accounts.

<sup>46</sup> TURN/SCGC Opening Brief at p. 8.

<sup>47</sup> TURN/SCGC Opening Brief at pp. 8-9,

<sup>48</sup> Amended Assigned Commissioner and Administrative Law Judge’s Scoping Memo and Ruling dated April 24, 2017 (“Scoping Memo”) at p. 5; *see also* SoCalGas and SDG&E Opening Brief at pp. 9-10.

<sup>49</sup> Scoping Memo at pp. 4-5.

<sup>50</sup> *Id.*

<sup>51</sup> A.17-10-007/17-10-008, Assigned Commissioner’s Scoping Memorandum and Ruling dated January 29, 2018 at p. 5.

point are expressly beyond the scope of *this* proceeding and thus should be disregarded. Doing so also avoids the possibility of different outcomes on the same issue in different proceedings, and affords ORA an opportunity to state its position (which it has not done in this proceeding,<sup>52</sup> in accordance with the Scoping Memo and the agreement of the Parties).

Nevertheless, the record is replete with reasons why Applicants were reasonable in including Phase 2B mileage on an accelerated basis when executing Phase 1A projects.<sup>53</sup> The Commission expressly ordered pipeline operators to address those pipelines categorized by SoCalGas and SDG&E as Phase 2B, i.e., the Commission expressly mandated that all pipelines not tested in accordance with the federal regulations adopted in 1970 must be pressure tested to those standards. The Commission stated:

Natural gas transmission pipelines placed in service prior to 1970 were not required to be pressure tested, and were exempted from then-new federal regulations requiring such tests. These regulations allowed operators to operate a segment at the highest actual operating pressure of the segment during the five-year period between July 1, 1965 and June 30, 1970.<sup>54</sup> Natural gas transmission pipeline operators should be required to replace or pressure test all transmission pipeline *that has not been so tested*.<sup>55</sup>

Notwithstanding the clarity of the directive, TURN/SCGC ignore this language and, instead, selectively quote from Commission decisions regarding the calculation of disallowances associated with testing or replacing Post-55 vintage pipeline segments (which, to be clear, are not the same).<sup>56</sup> TURN/SCGC cite Ordering Paragraph 3 of D.11-06-017: “A pressure test record must include all elements required by the regulations in effect when the test was conducted. For pressure tests conducted prior to the effective date of General Order 112, one hour is the minimum acceptable duration for a pressure test.”<sup>57</sup> TURN/SCGC state further,

In subsequent decisions, the Commission made it abundantly clear that the PSEP does not include pipeline segments for which the Applicants have a record of a pressure test that met the standards that applied at the time of the pressure test. In D.14-06-007, the Commission said that *the cost* of pressure tests for the facilities installed after July 1, 1961, when General Order 112 took effect, “must be absorbed by the shareholders of SDG&E and SoCalGas in situations where the company has

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<sup>52</sup> ORA Opening Brief at pp. 6-8.

<sup>53</sup> Ex. SCG-15 (Ng) at pp. 4-7.

<sup>54</sup> D.11-06-017, mimeo., at p. 28 (Finding of Fact No. 6).

<sup>55</sup> D.11-06-017, mimeo., at p. 28 (Finding of Fact No. 7) (emphasis added).

<sup>56</sup> TURN/SCGC Opening Brief at pp. 3-6.

<sup>57</sup> TURN/SCGC Opening Brief at pp. 3-4 (emphasis added).

failed to maintain records of strength testing required at the time of installation of the pipeline.”<sup>58</sup>

They also state, “about eighteen months later, in D.15-12-020, the Commission said there should be a *disallowance* ‘where pressure test records are not available that provide the minimum information to demonstrate compliance with the industry or regulatory strength testing and record keeping requirements then applicable....’”<sup>59</sup>

The matter of who should bear costs (i.e., whether costs should be borne by customers) is a separate issue from whether the Commission has mandated pipeline operators to bring pipelines into compliance with Subpart J pressure testing requirements, and none of the language quoted by TURN/SCGC addresses the latter issue. Unless the Commission modifies the language in prior decisions directing all California pipeline operators to bring the State’s transmission pipelines into compliance with modern standards, and also modifies the language that expressly requires pipeline operators to pressure test or replace all transmission pipelines that have not been tested to post-1970 pressure test standards, SoCalGas and SDG&E are required to comply with these Commission directives. As such, it was prudent and reasonable for SoCalGas and SDG&E to include adjacent Phase 2B pipeline segments within the scope of Phase 1 projects on an accelerated basis in order to reduce overall costs for customers and minimize system and community impacts.<sup>60</sup>

TURN/SCGC’s witness states that, with respect to “accelerated Phase 2B” project costs, she was “conservative” and did not propose disallowance of the costs if the work could be re-categorized as incidental.<sup>61</sup> Notwithstanding this claim of being reasonable, however, TURN/SCGC’s witness re-defines “incidental” as “mileage [that] was included in the project solely to minimize the cost of conducting the Phase 1A pressure test or replacement project.” This is not the definition of incidental that the Parties agreed to, as memorialized in the Scoping Memo. The Scoping Memo states, “[T]he parties agree to the following: ... Incidental miles are miles not scheduled to be addressed in PSEP, but are included where their inclusion is determined to improve cost *and program efficiency, address implementation constraints, or*

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<sup>58</sup> TURN/SCGC Opening Brief at p. 4 citing D.14-06-007, mimeo., at pp. 4, 9 n.7 (emphasis added).

<sup>59</sup> Ex. TURN/SCGC-01 (Yap) at p. 7.

<sup>60</sup> TURN/SCGC Opening Brief at pp. 8, 11-12.

<sup>61</sup> TURN/SCGC Opening Brief at pp. 8, 11-12.

*facilitate continuity of testing.*”<sup>62</sup> Incidental miles are not as narrowly defined as TURN/SCGC’s witness purports.

For all these reasons,<sup>63</sup> the Commission should reject TURN/SCGC’s requests for additional disallowances in the aggregate amount of \$7,434,752 for this category.

## 2. The Reasonable Manager Standard Is Not a Perfection Standard.

A significant portion of TURN/SCGC’s proposed disallowances is based on a misapplication of the reasonable manager standard.<sup>64</sup> The Commission’s longstanding standard of reasonableness is “based upon the facts that are known or should be known at the time.”<sup>65</sup> Rather than applying the Commission’s reasonable manager standard, TURN/SCGC apply a perfection standard which the Commission explicitly has disavowed.<sup>66</sup> They focus on costs associated with unexpected occurrences – weather, late delivery of materials, and a contractor’s drawing error, for example – and, in doing so, engage in an after-the-fact, hindsight review of “how the decision holds up in light of future developments”<sup>67</sup> that is plainly antithetical to the reasonable manager standard.<sup>68</sup> Indeed, the Commission has acknowledged that the existence of unexpected occurrences does not fail the reasonable manager standard; maintaining the flexibility to address unexpected occurrences prudently satisfies the standard.<sup>69</sup> As set forth in detail for each affected project, Applicants have satisfied the reasonable manager standard with respect to every cost submitted herein for review. A retrospective critique does not warrant assessing additional disallowances.

Furthermore, although TURN/SCGC are dismissive of SoCal Gas and SDG&E’s continuous improvement efforts,<sup>70</sup> SoCalGas and SDG&E act as reasonable managers in

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<sup>62</sup> Scoping Memo at pp. 9-10 (emphasis added).

<sup>63</sup> See also SoCalGas and SDG&E Opening Brief at pp. 55-57, Section V.B.2, *SoCalGas and SDG&E’s Determination to Accelerate Certain Phase 2B Mileage Comports with the Commission’s Decision to Bring All Transmission Pipelines into Compliance with the Federal Regulations Adopted in 1970; Associated Costs Should Not Be Disallowed.*

<sup>64</sup> TURN/SCGC Opening Brief at p. 8.

<sup>65</sup> D.90-09-088, mimeo., at p. 15 (citing D.88-03-036 at p. 5).

<sup>66</sup> D.14-06-007, mimeo., at p. 36.

<sup>67</sup> Scoping Memo at p. 5, n. 5, citing D.02-08-064 at 5 and 6, and D.88-02-036.

<sup>68</sup> See also SoCalGas and SDG&E Opening Brief at pp. 51-55, Section V.B.1, *Intervenors’ Disallowance Recommendations Based upon the Reasonable Manager Standard are Inconsistent with the Commission’s Reasonable Manager Standard and Should Not Be Adopted.* Applicants state therein why it would be

<sup>69</sup> D.87-06-021, mimeo., at p. 23.

<sup>70</sup> TURN/SCGC Opening Brief at p. 45.

executing PSEP by continually seeking opportunities to improve and implementing process enhancements. The projects presented for review in this proceeding were executed at least two-to-four years ago, when PSEP was a nascent program still ramping up.<sup>71</sup> As Applicants learn from executing PSEP, they implement process improvements that achieve greater and greater cost reductions and efficiencies over time. One such example is the many improvements made in the supply chain process (including, but not limited to, adding expeditors, analyzing and tracking lead times, and placing bulk orders).<sup>72</sup> As a result of these improvements, *no* demobilizations have occurred due to material delivery delays since January 2015.<sup>73</sup>

Finally, contrary to TURN/SCGC's assertions, infrequent delays to projects do not evidence a lack of reasonable management. As discussed in SoCalGas and SDG&E's Opening Brief,<sup>74</sup> Applicants balance a multitude of unique risks in managing and executing the unprecedented volume and nature of PSEP projects; only very occasionally does a risk come to fruition, and this single fact does not evidence that Applicants were not reasonable managers in assuming and mitigating that risk.<sup>75</sup> Indeed, the infrequency with which this occurs indicates just the opposite – that Applicants acted as reasonable managers.

### 3. Disallowances Have Been Properly Calculated and Deducted by Applicants.

Finally, TURN/SCGC purport that Applicants have not correctly calculated Post-55 disallowances for projects where Applicants addressed incidental miles in addition to Phase 1A Criteria<sup>76</sup> miles. In order to comply with the Commission-ordered Post-55 disallowances described in Section II.A.1, *supra*, Applicants calculate disallowances as follows:

(i) For pressure test projects for Post-55 pipeline without sufficient record of a pressure test, SoCalGas and SDG&E identify the length of pipeline without record of a pressure test, and then calculate a percentage of disallowance based on the disallowed mileage relative to the total mileage, i.e., *Disallowed Footage / Total Footage = Disallowed Percentage*. The resulting Disallowance Percentage is multiplied by the total project costs to determine the amount of

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<sup>71</sup> Ex. SCG-04 (Phillips) at p. 10.

<sup>72</sup> Ex. SCG-04 (Phillips) at p.p. 8-10.

<sup>73</sup> Ex. SCG-04 (Phillips) at p. 10.

<sup>74</sup> SoCalGas and SDG&E Opening Brief at pp. 51-55.

<sup>75</sup> Ex. SCG-04 (Phillips) at pp. 4-6.

<sup>76</sup> Ex. SCG-16 at p. WP-G-3.

disallowed costs for project, i.e., *Disallowed Percentage \* Project Costs = Disallowed Project Costs*.<sup>77</sup>

(ii) For replacement projects for Post-55 pipeline without sufficient record of a pressure test, SoCalGas and SDG&E calculate the system average cost of actual pressure testing and multiply the disallowed footage by the system average cost of pressure testing to calculate the capital disallowance, i.e., *Disallowed Footage \* \$1.792 million/mile = Disallowed Project Costs*.<sup>78</sup>

TURN/SCGC offer alternatives to these disallowance methodologies that are supported neither by Commission precedent nor reason.

- a. *Incidental Mileage in Pressure Test Projects Should Be Allocated as Applicants Have, i.e., Consistent with Commission Precedent.*

Where incidental miles are implicated in pressure test projects, even though the Commission's orders in D.14-06-007 and D.15-12-020 only expressly require SoCalGas and SDG&E to take disallowances associated with costs of pressure testing Post-55 pipeline that do not have records of a pressure test that comply with then-applicable industry standards or regulations, SoCalGas and SDG&E apply the same methodologies to incidental pipeline footage where doing so implements the Commission's guidance, i.e., to hold shareholders responsible for the costs associated with completing a scope of work attributable to a lack of pressure test records that should have been retained under then-applicable regulations or industry standards.<sup>79</sup> Applicants use a three-step process for projects with Post-55 pipeline that include incidental pipe in order to determine how that footage should be treated.<sup>80</sup> First, Applicants examine the reason for including incidental pipe. If it is included in order to facilitate construction of the portion of pipe that is subject to disallowance, then the incidental footage is treated as Disallowed Footage for purposes of calculating the disallowance.<sup>81, 82</sup> Second, once the Disallowed Footage is

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<sup>77</sup> Ex. SCG-15 (Ng) at pp. 8-9.

<sup>78</sup> Ex. SCG-15 (Ng) at p. 9.

<sup>79</sup> Ex. SCG-15 (Ng) at p. 9.

<sup>80</sup> Ex. SCG-15 (Ng) at p. 9.

<sup>81</sup> *Id.*

<sup>82</sup> The corollary is also true: if the incidental footage is included to facilitate construction of pipe that is *not* subject to disallowance, then the incidental pipe is not treated as Disallowed Footage. And when the incidental footage is included to facilitate construction of both disallowed and recoverable pipe, the incremental pipe is allocated to both disallowed and allowed pipe footage on a pro rata basis. *See id.*

calculated, Applicants perform the following calculation:  $Disallowed\ Footage\ (Criteria\ Footage + Disallowed\ Incidental\ Footage) / Total\ Project\ Footage\ (Criteria\ Footage + Accelerated\ Footage + All\ Incidental\ Footage) = Disallowed\ Percentage$ .<sup>83</sup> Third, SoCalGas and SDG&E multiply the Disallowed Percentage by total project costs to derive the total costs subject to disallowance:  $Disallowed\ Percentage * Total\ Project\ Costs = Total\ Disallowed\ Project\ Costs$ .<sup>84</sup>

Although the Commission has not mandated this treatment for incidental footage in pressure test projects, Applicants apply these disallowances to further the Commission's stated objective to hold shareholders responsible for the costs associated with completing a scope of work attributable to a lack of pressure test records that should have been retained under then-applicable regulations or industry standards.<sup>85</sup> TURN/SCGC skip the first step Applicants engage in when incidental mileage is implicated in a pressure test project and instead propose a simplistic methodology:  $Disallowed\ Footage / Criteria\ Footage = Disallowed\ Footage$ .<sup>86</sup> This methodology can only be construed as random as it does not seek to apply the Commission's guidance or further the Commission's objectives. Indeed, to the extent the Commission has not ordered disallowance of incidental footage, TURN/SCGC's proposal has no support in Commission decisions and thus should be rejected.

b. *Incidental Mileage in Replacement Projects Should Not Be Included in the Calculation of Disallowances.*

For disallowances associated with replacement projects with Post-55 pipeline, the following is the Commission's guidance in D.14-06-007:

Where replacement of the pipeline is planned rather than test existing pipelines, the system average cost of actual pressure testing should be an offset against the replacement costs of the pipelines for revenue requirement purposes. In this way shareholders bear the costs of remedial pressure tests and ratepayers pay for all other costs of testing or replacing a pipeline.<sup>87</sup>

Where Phase 1 pipelines are replaced without testing SDG&E and SoCalGas should absorb and amount equal to the average cost of pressure testing where the company

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<sup>83</sup> *Id.* at p. 9.

<sup>84</sup> *Id.*

<sup>85</sup> *Id.* at p. 11.

<sup>86</sup> Ex. SCG-15 (Ng) at p. 10, citing Ex. TURN/SCGC-01 (Yap) at p. 18.

<sup>87</sup> D.14-06-007, mimeo., at pp. 34-35.

cannot produce pressure test records after the adoption of the General Order 112, effective July 1, 1961.<sup>88</sup>

And, as also discussed, ratepayers bear the revenue requirement of the net replacement costs as they benefit from having a new safe and reliable pipeline.<sup>89</sup>

Subsequently, in D.15-12-020, the Commission stated:

Further, where such pipeline segment is replaced rather than pressure tested, the utility must absorb an amount equal to the average cost of pressure testing a similar segment, or where such pipeline is abandoned, the utility must absorb the undepreciated plan in service balance.<sup>90</sup>

Where pipelines are replaced without testing, SDG&E and SoCalGas should absorb an amount equal to the average cost of pressure testing where the company cannot produce pressure test records after the adoption of 1955 Code effective January 1, 1956.<sup>91</sup>

To comply with the Commission's directives, Applicants identify the pipeline footage within a replacement project involving Post-55 footage without sufficient record of a pressure test and multiply the identified disallowed footage by the system average cost to pressure test: *Disallowed Footage \* \$1.792 million/mile = Disallowed Replacement Cost.*<sup>92</sup> The resulting amount is expensed as a capital disallowance. In this way, a disallowance is assessed and customers bear the revenue requirement of the net replacement costs since, as the Commission explained, they "benefit from having a new safe and reliable pipeline."<sup>93</sup> Accelerated and incidental mileage need not be incorporated into the disallowance calculation because SoCalGas and SDG&E have sufficient records of pressure tests for these segments, and the segments have been included in the project scope in order to realize efficiencies or improve constructability.<sup>94</sup> In other words, shareholders bear the costs of remedial pressure testing when there is not sufficient record of a pressure test, and customers bear the remaining costs of the new replacement pipeline, as expressly ordered by the Commission.<sup>95</sup>

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<sup>88</sup> *Id.* at p. 57 (Conclusion of Law No. 14).

<sup>89</sup> *Id.* at 36.

<sup>90</sup> D.15-12-020, mimeo., at pp. 18-19.

<sup>91</sup> *Id.* at p. 23 (Conclusion of Law No. 9).

<sup>92</sup> Ex. SCG-15 (Ng) at p. 13.

<sup>93</sup> D.14-06-007, mimeo., at p. 36.

<sup>94</sup> Ex. SCG-15 (Ng) at pp. 13-14.

<sup>95</sup> D.14-06-007, mimeo., at pp. 34-35.



In contravention of the Commission’s guidance, TURN/SCGC instead propose that incidental footage should be included in the disallowance calculation because the incidental mileage would not have been addressed absent a project replacing Phase 1A Criteria mileage.<sup>96</sup> In some instances, this recommendation could lead to the entire replaced footage of a project being subject to disallowance, even though SoCalGas and SDG&E have sufficient records of a pressure test for portions of the pipeline.<sup>97</sup> This is not what was ordered by the Commission, and TURN/SCGC’s efforts to adjust the calculation methodology to inflate the scope of disallowances should be denied.

**C. ORA’s and TURN/SCGC’s Proposals for Additional Disallowances or Transfers of Costs Outside of PSEP Are Inconsistent with Commission Decisions.**

1. Line 1005 Replacement Project.

The following Table 2 summarizes the disallowances/transfers proposed by Intervenors as well as the disallowances already taken by Applicants:

**Table 2**

<b>Line 1005 - \$6,472,280 Presented for Review</b>		
<b><u>Party</u></b>	<b><u>Proposed Disallowance / Transfer</u></b>	<b><u>Reason</u></b>
SoCalGas and SDG&E	\$4,122	Post-55 Disallowance
ORA	\$4,223	Higher System Average Calculation
TURN/SCGC	\$15,301	Disallowance Methodology
TURN/SCGC	\$2,134,824	Phase 2B
TURN/SCGC	\$270,518	Reasonable Manager Standard - Materials Delay

Applicants calculated the disallowance amount as \$4,122 based on their assessment that twelve feet of pipe was installed post-1955 and did not have sufficient records to preclude a disallowance calculated based on the system average cost of pressure testing.<sup>98</sup>

ORA proposes a disallowance of an additional \$101 based on its proposal for a higher system average calculation. For the reasons stated in Section II.A.2, ORA’s effort to impose a

<sup>96</sup> TURN/SCGC Opening Brief at p. 12.

<sup>97</sup> Ex. SCG-15 (Ng) at p. 12.

<sup>98</sup> Ex. SCG-16 at p. WP-III-A17.

different methodology for calculating the system average is untenable, unreasonable, and contrary to Commission guidance and therefore should be rejected.

TURN/SCGC also propose a greater disallowance amount, \$15,301, based on their proposal to include incidental mileage in the disallowance calculation and to reclassify Phase 2B mileage as incidental. However, for the reasons stated in Section II.B.3.b, this is contrary to the Commission's guidance and thus also should be rejected.

In addition to reclassifying Phase 2B mileage as incidental and including incidental mileage in the disallowance calculation, TURN/SCGC propose to disallow all costs associated with the portion replaced as accelerated Phase 2B – \$2,134,824 – on the basis that Phase 2B work has not been authorized. However, as discussed in detail in Section II.B.1, this is not supported by the Commission's decisions, is not within the scope of this proceeding, and is contrary to the Parties' agreement as set forth in the Scoping Memo.<sup>99</sup> For all these reasons, TURN/SCGC's proposal for an additional disallowance for the Phase 2B portion of this project should be rejected.

Finally, TURN/SCGC seek to disallow \$270,518 associated with the demobilization and remobilization of construction attributable to the late availability of certain materials on the basis that Applicants failed to satisfy the reasonable manager standard by commencing construction before the materials were delivered.<sup>100</sup> There are numerous reasons why this argument is flawed. First, based on what the Applicants knew at the time, it was reasonable to commence construction because the subject materials were not required for construction until four to five weeks after construction began.<sup>101</sup> Idling until every unknown – in this case, the delivery date of one of many materials required for this project – is untenable and contrary to the Commission's mandate to execute PSEP "as soon as practicable."<sup>102, 103</sup> As a general matter, it is more efficient to initiate construction before all items are in hand.<sup>104</sup> Avoiding all demobilization risk such that no construction project is scheduled until all known variables are resolved would reduce efficiencies and increase costs.<sup>105</sup> Second, Applicants thoughtfully sequence the 15 - 30 PSEP

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<sup>99</sup> Scoping Memo at pp. 9-10.

<sup>100</sup> TURN and ORA Opening Brief at pp. 14-17.

<sup>101</sup> Ex. SCG-04 (Phillips) at p. 13.

<sup>102</sup> Ex. SCG-04 (Phillips) at p. 2.

<sup>103</sup> D.11-06-007, mimeo., at p. 19.

<sup>104</sup> Ex. SCG-04 (Phillips) at p. 5.

<sup>105</sup> Ex. SCG-04 (Phillips) at p. 6.

construction projects that are in progress at any given time so as to reduce overall PSEP costs for the benefit of ratepayers. Many different project components must come together to keep the symphony that is construction progressing without having to demobilize,<sup>106</sup> and Applicants orchestrate and maneuver these components strategically to keep the workforce productive.<sup>107</sup> In this respect, it is possible that delaying this one project until all materials arrived could have resulted in costs greater than those associated with the demobilization and remobilization that TURN/SCGC complain of. Third, all construction projects require balancing competing risks.<sup>108</sup> SoCalGas and SDG&E empower their experienced project managers – who are best equipped to make these decisions based on their familiarity with the project, the project team, the vendors, etc. – to determine whether to mobilize based on what is known to them at the time the decision to mobilize is made.

A hindsight review by TURN/SCGC shining a spotlight on an instance where a risk came to fruition is inconsistent with the reasonable manager standard. The Commission articulated that SoCalGas and SDG&E are not expected to make the optimal decision every time, stating, “[t]his is not a ‘perfection’ standard: it is a standard of care that demonstrates all actions were well planned, properly supervised and all necessary records are retained.”<sup>109</sup> Therefore, TURN/SCGC’s request for a disallowance based on an isolated demobilization without considering all the evidence presented by Applicants that the decision to mobilize was reasonable based on the facts known at the time must be denied.

## 2. Line 1013 Replacement Project.

The following Table 3 summarizes the disallowances/transfers proposed by Intervenors as well as the disallowances already taken by Applicants:

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<sup>106</sup> Ex. SCG-04 (Phillips) at pp. 3-5.

<sup>107</sup> Ex. SCG-04 (Phillips) at pp. 3-4.

<sup>108</sup> Ex. SCG-04 (Phillips) at pp. 5-6.

<sup>109</sup> Scoping Memo at 5, n. 5, citing D.02-08-064 at pp. 5-6 and D.88-02-036.

**Table 3**

<b>Line 1013 - \$2,705,367 Presented for Review</b>		
<b><u>Party</u></b>	<b><u>Proposed Disallowance / Transfer</u></b>	<b><u>Reason</u></b>
SoCalGas and SDG&E	\$32,614	Post-55 Disallowance
ORA	\$33,781	Higher System Average Calculation
ORA	\$11,613	Disallowance Methodology
TURN/SCGC	\$45,050	Disallowance Methodology

Applicants calculated a disallowance amount of \$32,614 based on their assessment that 96 feet of Phase 1A pipe was installed post-1955 and did not have sufficient records to preclude a disallowance calculated based on the system average cost of pressure testing.<sup>110</sup> ORA’s calculation is slightly higher based on its use of its proposed higher system average calculation. However, for the reasons stated in Section II.A.2, ORA’s proposal for a different methodology for calculating the system average is untenable, unreasonable, and contrary to Commission guidance and therefore should be rejected.

ORA also seeks an additional disallowance based upon the mistaken contention that Applicants were required to maintain a record of a pressure test with respect to a 34-foot segment of this project.<sup>111</sup> However, that 34-foot segment was operated at less than 30% SMYS, so there was no requirement at the time to maintain a record of a pressure test under then-applicable industry standards.<sup>112</sup> As such, Applicants are not required to, and did not, assess a disallowance on this amount. ORA’s request based on a non-existent recordkeeping requirement should be rejected.

TURN/SCGC base their request for a higher disallowance calculation on their proposal to include incidental mileage in the disallowance calculation. In this case, that results in a disallowance recommendation of the entire 129 feet of Phase 1A pipeline addressed in this project.<sup>113</sup> TURN/SCGC request full disallowance of the costs of the entire project, even though the 34-foot section of this project was not subject to the requirement to retain records of a

<sup>110</sup> Ex. SCG-16 at p. WP-III-A44.

<sup>111</sup> Ex. ORA-03 at pp. 5-7.

<sup>112</sup> Ex. SCG-09 (Mejia) at pp. 6-7. When the 34-foot segment was constructed in 1956, there were no applicable regulations that required pressure testing. The segment was in a Class 1 location and was operated below 30% SMYS level.

<sup>113</sup> Ex. SCG-09 (Mejia) at p. 6.

pressure test under the then-applicable industry standards.<sup>114</sup> Thus, notwithstanding the fact that the 34-foot segment was in compliance with then-applicable recordkeeping requirements, TURN/SCGC seek to impose disallowances thereupon. This is not supported by Commission precedent, nor is it reasonable. For this reason, and the reasons stated in Section II.B.3.b, TURN/SCGC’s proposal is contrary to the Commission’s guidance and thus should be rejected. The Commission should determine that Applicants correctly calculated the applicable disallowances for the Line 1013 replacement project.

3. Line 1014 Replacement Project.

The following Table 4 summarizes the disallowances/transfers proposed by Intervenors as well as the disallowances already taken by Applicants:

**Table 4**

<b>Line 1014 - \$925,097 Presented for Review</b>		
<b><u>Party</u></b>	<b><u>Proposed Disallowance / Transfer</u></b>	<b><u>Reason</u></b>
SoCalGas and SDG&E	\$2,715	Post-55 Disallowance
ORA	\$2,815	Higher System Average Calculation
ORA	\$2,815	Subpart J Compliance
TURN/SCGC	\$4,930	Disallowance Methodology

Applicants calculated the disallowance amount \$2,715 based on their assessment that eight feet were installed post-1955 and lacked sufficient records to preclude a disallowance calculated based on the system average cost of pressure testing.<sup>115</sup> ORA’s calculation is higher by \$100 based on its use of its proposed higher system average calculation. However, for the reasons stated in Section II.A.2, ORA’s proposal for a different methodology for calculating the system average is untenable, unreasonable, and contrary to Commission guidance and therefore should be rejected.

TURN/SCGC base their request for a higher disallowance calculation on their proposal to include incidental mileage in the disallowance calculation. In this case, TURN/SCGC re-classified accelerated Phase 2B mileage as incidental, and then included the incidental mileage in

<sup>114</sup> Ex. SCG-09 (Mejia) at pp. 6-7.

<sup>115</sup> Ex. SCG-16 at p. WP-III-A57.

the disallowance calculation.<sup>116, 117</sup> However, for the reasons stated in Section II.B.3.b, TURN/SCGC’s proposal is contrary to the Commission’s guidance and thus should be rejected. The Commission should determine that Applicants correctly calculated the applicable disallowances for the Line 1014 replacement project.

ORA seeks the same disallowances which, for the same reasons TURN/SCGC’s request should be rejected, should be denied.

4. Line 1015 Hydrotest and Replacement Project.

The following Table 5 summarizes the disallowances/transfers proposed by Intervenor as well as the disallowances already taken by Applicants:

**Table 5**

<b>Line 1015 - \$2,643,102 Presented for Review</b>		
<b><u>Party</u></b>	<b><u>Proposed Disallowance / Transfer</u></b>	<b><u>Reason</u></b>
SoCalGas and SDG&E	\$3,071,282	Post-55 Disallowance (O&M)
SoCalGas and SDG&E	\$7,885	Post-55 Disallowance (Capital)
ORA	\$3,165,461	Subpart J Compliance
TURN/SCGC	\$5,241,278	Phase 2B
TURN/SCGC	\$7,480	Post-55 Disallowance (Capital)

Applicants calculated an O&M disallowance amount of \$3,071,282 based on their determination that 59% of the scope of the hydrotest project was comprised of disallowed Phase 1A pipe (i.e., lacking sufficient records of a pressure test), and a Capital disallowance amount of \$7,885 based on the determination that 23 feet of the replacement project lacked sufficient records of a pressure test.<sup>118</sup> TURN/SCGC agree with the Capital disallowance calculation for the replacement portion of the project.<sup>119</sup>

<sup>116</sup> TURN/SCGC Opening Brief at p. 24.

<sup>117</sup> The “incidental” mileage at issue was included to “remove a wedding band (from the seven-foot segment) and fire control assembly (from the one-foot segment) installed at the same time as the Phase 1A pipe [and thereby] further [enhanced] the integrity of the pipeline by removing appurtenances that no longer are necessary.” Ex. TURN/SCGC-01, Att. C, Applicants’ Response to TURN-SCGC-03, Q.3.1.1.2. It is hardly appropriate to assess a disallowance for work that benefits ratepayers.

<sup>118</sup> Ex. SCG-16 at p. WP-III-A75.

<sup>119</sup> The amount sought to be disallowed by TURN/SCGC is less than the disallowance taken by Applicants and thus is uncontested by TURN/SCGC.

ORA’s Capital disallowance calculation is slightly higher than Applicants’ because they added 12 feet into their disallowance calculation based on an unsupported contention that the pipe had sufficient records to demonstrate compliance with Subpart J.<sup>120</sup> However, there is no evidence in the record to support this claim and, for the reasons stated in Section II.A.3, ORA’s argument must be rejected.

TURN/SCGC propose to impose a significantly higher O&M disallowance for the hydrotest portion of this project based on their proposal to include incidental mileage in the disallowance calculation. In this case, TURN/SCGC re-classified accelerated Phase 2B mileage as incidental, and then included the incidental mileage in the disallowance calculation.<sup>121</sup> TURN/SCGC contend that the incidental mileage – including the Phase 2B mileage – would not have been pressure tested had it not been necessary to pressure test or replace the disallowed Phase 1A mileage.<sup>122</sup> However, for the reasons stated in Section II.B.3.a, TURN/SCGC’s proposal is illogical and contrary to the Commission’s guidance and thus should be rejected. The Commission should determine instead that Applicants correctly calculated the applicable O&M and Capital disallowances for the Line 1015 project.

5. Line 2000 West Sections 1, 2, and 3 Hydrotest Project.

The following Table 6 summarizes the disallowances/transfers proposed by Intervenors as well as the disallowances already taken by Applicants:

**Table 6**

<b>Line 2000 West Sec 1, 2, 3 - \$24,769,287 Presented for Review</b>		
<b><u>Party</u></b>	<b><u>Proposed Disallowance / Transfer</u></b>	<b><u>Reason</u></b>
SoCalGas and SDG&E	\$68,470	Post-55 Disallowance (O&M)
SoCalGas and SDG&E	\$1,075	Post-55 Disallowance (Capital)
ORA	\$261,584	Subpart J Compliance
TURN/SCGC	\$115,729	Disallowance Methodology (O&M)
TURN/SCGC	\$1,020	Post-55 Disallowance (Capital)

<sup>120</sup> Ex. ORA-03 at pp. 5-7.

<sup>121</sup> TURN/SCGC Opening Brief at pp. 24-25.

<sup>122</sup> TURN/SCGC Opening Brief at p. 25.

Applicants calculated an O&M disallowance amount of \$68,470 based on their determination that 0.42% of the hydrotest project lacked sufficient records of a pressure test, and a Capital disallowance amount of \$1,075 based on their determination that three feet of the replacement project did not have sufficient records.<sup>123</sup> TURN/SCGC agree with Applicants' calculation of the Capital disallowance amount for the replacement portion of the project.<sup>124</sup>

ORA's disallowance calculation is higher than Applicants' because they added 947 feet into their disallowance calculation based on an unsupported contention that the pressure test records for the pipe complied with Subpart J.<sup>125</sup> However, there is no evidence in the record of this and thus, for the reasons stated in Section II.A.3, ORA's argument must be rejected.

TURN/SCGC propose a significantly higher O&M disallowance for the hydrotest portion of the project based on their proposal to include incidental mileage in the disallowance calculation. In this case, TURN/SCGC re-classified accelerated Phase 2B mileage as incidental, and then included the incidental mileage in the disallowance calculation.<sup>126</sup> TURN/SCGC contend that the incidental mileage – including the Phase 2B mileage – would not have been pressure tested had it not been necessary to pressure test or replace the disallowed Phase 1A mileage.<sup>127</sup> However, for the reasons stated in Section II.B.3.a, TURN/SCGC's proposal is illogical and contrary to the Commission's guidance and thus should be rejected. The Commission should determine that Applicants correctly calculated the applicable O&M and Capital disallowances for the Line 2000 West project.

6. Line 2001 West B Sections 10, 11, and 14 Hydrotest and Replacement Project.

The following Table 7 summarizes the disallowances/transfers proposed by Intervenors as well as the disallowances already taken by Applicants:

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<sup>123</sup> Ex. SCG-16 at p. WP-III-A75.

<sup>124</sup> The amount sought to be disallowed by TURN/SCGC is lower than the disallowance taken by Applicants and thus is uncontested by TURN/SCGC.

<sup>125</sup> Ex. ORA-03 at pp. 5-7.

<sup>126</sup> TURN/SCGC Opening Brief at pp. 25-26.

<sup>127</sup> TURN/SCGC Opening Brief at p. 26.



**Table 7**

<b>Line 2001 West B Sec 10, 11, 14 - \$13,025,271 Presented for Review</b>		
<b><u>Party</u></b>	<b><u>Proposed Disallowance / Transfer</u></b>	<b><u>Reason</u></b>
SoCalGas and SDG&E	\$0	N/A
ORA	\$5,278	Subpart J Compliance
TURN/SCGC	\$2,605,934	Not PSEP – Operating District Responsibility
TURN/SCGC	\$145,459	Not PSEP – Operating District Responsibility
TURN/SCGC	\$298,093	Reasonable Manager Standard - Weather

The combination hydrotest and replacement PSEP project was coordinated with an Operating District project and an immediately adjacent PSEP valve project that entailed, *inter alia*, replacement of pipeline and installation of a mainline valve (“MLV”).<sup>128</sup> No pipeline installed post-1955 was addressed by this project; thus, no disallowances ordered by the Commission were implicated in the three sections of this project presented for review.<sup>129</sup>

Notwithstanding this, ORA seeks to impose disallowances applicable to pipeline installed post-1955. ORA includes 15 feet in its disallowance calculation based on an unsupported contention that the pressure test records for this pipe footage complied with Subpart J.<sup>130</sup> However, there is no evidence in the record of this and, for the reasons stated in Section II.A.3, ORA’s argument must be rejected.

TURN/SCGC recommend that \$2,605,934 in costs be transferred to the operating district for the non-PSEP portion of this project based on a 32% allocation of project management, engineering and environmental costs they conclude should have been attributed to the MLV project, and thus to the operating district.<sup>131</sup> TURN/SCGC base their recommended allocation of non-contractor project costs on the pro rata contractor cost for each of the projects: Section 10, Section 11, Section 14 and MLV project.<sup>132</sup> Alternatively, TURN/SCGC note that the labor and

<sup>128</sup> Ex. SCG-16 at p. WP-III-A112.

<sup>129</sup> Ex. SCG-16 at p. WP-III-A131.

<sup>130</sup> Ex. ORA-03 at pp. 5-7.

<sup>131</sup> TURN/SCGC Opening Brief at pp. 28-34.

<sup>132</sup> *Id.*

non-construction cost could be distributed evenly across the four projects (although this is not TURN/SCGC's preferred option).<sup>133</sup>

Neither of these options should be adopted by the Commission because they would lead to an inaccurate allocation that is not reflective of the comprehensive engineering and project management effort required for these highly diverse yet integrated projects.<sup>134</sup> Nor would these allocation proposals take into account the efficiencies of shared project management across departments.<sup>135</sup> It is not possible to accurately isolate the portions of time spent by internal and contract personnel supporting execution of the hydrotest versus replacement versus MLV scopes of work on this project.<sup>136</sup> For this reason, and because it would not have been a reasonable investment of administrative time and associated expense to attempt to do so, SoCalGas and SDG&E did not attempt to separate and apportion the non-contractor costs.<sup>137</sup> This, of course, does not mean that the money was not reasonably incurred nor allocated as best as possible – costs were evaluated and then allocated based on the individual components of the scope of work provided by PSEP pipeline project managers, PSEP valve project managers, and Transmission Technical Services project managers.<sup>138</sup> Planning the projects together undoubtedly resulted in cost savings for the benefit of customers that are not recognized by TURN/SCGC.

TURN/SCGC's two alternative proposals recommend either a 32% allocation based on the percentage of contractor costs or a leveled 25% distribution across all four projects.<sup>139</sup> These allocation models do not take into account the varying level of effort required to execute these types of projects and over-allocate the non-contractor costs to the MLV project.<sup>140</sup> It is unreasonable to assume that the non-construction costs should be evenly split across these four very diverse projects as there are far too many varying engineering, environmental and other factors involved in a valve project versus a two-mile hydrotest project or a short segment replacement project.<sup>141</sup> For example, pipeline projects undergo a PSEP Decision Tree analysis wherein pipeline attributes are analyzed and considered and a test-versus-replace analysis is

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<sup>133</sup> *Id.* at p. 33.

<sup>134</sup> Ex. SCG-09 (Mejia) at p. 3.

<sup>135</sup> *Id.*

<sup>136</sup> *Id.*

<sup>137</sup> *Id.*

<sup>138</sup> Ex. TURN/SCGC-01 (Yap) at Attachment D, pp. 31-32 (responses 4.3.1.9, 4.3.1.10, 4.3.1.11).

<sup>139</sup> TURN/SCGC Opening Brief at pp. 32-34.

<sup>140</sup> Ex. SCG-09 (Mejia) at p. 4.

<sup>141</sup> *Id.*

conducted to consider multiple scenarios before a more detailed plan is executed.<sup>142</sup> A hydrotest project must determine placement of the test heads, resolve pipeline anomalies that require remediation and procure and properly dispose of water.<sup>143</sup> A valve project has none of these engineering or environmental complexities to address.<sup>144</sup>

TURN/SCGC acknowledge SoCalGas and SDG&E's efforts to manage and execute these projects simultaneously with Operating District projects "may create efficiencies."<sup>145</sup> In planning PSEP projects, SoCalGas and SDG&E actively seek opportunities to coordinate PSEP projects with adjacent non-PSEP projects to realize efficiencies on the planning, execution and construction of projects to minimize customer impacts and cost.<sup>146</sup> This approach was used when projects planned by other departments were coordinated with PSEP projects to minimize the impacts to the operating system and customers. The inverse is also true — when Operating District projects are in the planning stages and there is a known PSEP project slated for the same pipeline, the projects are coordinated to realize the same overall efficiencies for the benefit of customers.<sup>147</sup> In the case of Line 2001 West, the PSEP organization was the "lead" and addressed the Phase 1A segments and incorporated the Operating District work into the overall project plan.<sup>148</sup> Conversely, Line 235 West Sawtooth and Line 404 Section 4 are examples of projects where the Operating District was the lead and the PSEP scope of work was added to the Operating District's planning and execution efforts.<sup>149</sup> The accounting and tracking of costs was handled similarly and PSEP accounted for the contractor and construction materials costs of the PSEP scope and the Operating District project absorbed the non-contractor costs.<sup>150</sup> The end result is that coordinating projects in this manner results in efficiencies that help reduce overall costs for the benefit of customers.<sup>151</sup> Had the projects been planned separately – which was certainly possible – it would have resulted in greater costs to ratepayers. As such, it is

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<sup>142</sup> *Id.*

<sup>143</sup> *Id.*

<sup>144</sup> *Id.*

<sup>145</sup> Ex. TURN/SCGC-01 (Yap) at p. 18.

<sup>146</sup> Ex. SCG-09 (Mejia) at p. 4.

<sup>147</sup> *Id.* at pp. 4-5.

<sup>148</sup> *Id.*

<sup>149</sup> *Id.* at p. 5.

<sup>150</sup> *Id.*

<sup>151</sup> *Id.*

reasonable and prudent for SoCalGas and SDG&E to implement PSEP projects in coordination with Operating District projects in this manner.

TURN/SCGC further propose to transfer an additional \$145,459 to the Operating District based on the alleged theory that Applicants did not sufficiently allocate costs to the Operating District.<sup>152</sup> Applicants attribute \$139,403 out of \$620,416 in costs to PSEP based on hydrotesting delays on this project.<sup>153</sup> TURN/SCGC contest this allocation, instead arguing that the full costs should be borne by the Operating District.<sup>154</sup> However, the primary project driver for section 10 of this project was the PSEP requirement to test 2.029 miles of Category 4 criteria mileage, and PSEP was the lead organization coordinating project execution efforts for this hydrotest project in coordination with a mainline valve installation for PSEP and a separate Operating District project.<sup>155</sup> Since the primary project driver was the PSEP hydrotest project for section 10, allocating the entire cost due the test head material delay to the Operating District simply would not be an equitable cost assignment.

Finally, TURN/SCGC seek to disallow \$298,093 on the basis that Applicants failed to act as reasonable managers by mobilizing a construction project at the beginning of the winter heating season.<sup>156</sup> This is an unreasonable argument for two primary reasons. First, unseasonably cold weather was the cause of the demobilization. As part of the normal project planning process, SoCalGas and SDG&E work with the Gas Control department to plan the dates and duration for taking a pipeline out of service.<sup>157</sup> PSEP had previously received the necessary authorization from Gas Control to take the necessary segment of Line 2001 out of service on October 27, 2014.<sup>158</sup> When weather forecasts indicated an unseasonably cold weather front was approaching, Gas Control rescinded its authorization to remove the line from service in order to reduce the risk of a system problem during the upcoming expected cold front.<sup>159</sup> Again, this was a balancing of risks. All projects, whenever planned to commence construction, carry a

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<sup>152</sup> TURN/SCGC Opening Brief at pp. 34-35.

<sup>153</sup> Ex. TURN/SCGC-01, at Att. K, Applicants' Response to TURN-SCGC-13, Q.13.2.1.

<sup>154</sup> TURN/SCGC Opening Brief at p. 35.

<sup>155</sup> Ex. SCG-16 Amended SoCalGas and SDG&E Workpapers (11-20-2017) at p. WP-III-A120.

<sup>156</sup> TURN/SCGC Opening Brief at pp. 35-37.

<sup>157</sup> Ex. SCG-04 (Phillips) at p. 12.

<sup>158</sup> *Id.*

<sup>159</sup> *Id.*

risk that circumstances may require a change in plans.<sup>160</sup> In this particular instance, an unanticipated early cold snap led to the demobilization.

Second, it simply is not prudent to plan jobs only in the Spring and Fall seasons because doing so would result in higher overall program costs and longer duration to complete critical safety work that was ordered to be commenced “as soon as practicable.”<sup>161</sup>

SoCalGas and SDG&E believe the demobilization of Line 2001 West was a reasonable and prudent decision based on the information known and circumstances existing at the time. Demobilizing – rather than not demobilizing and incurring even greater costs<sup>162</sup> – is precisely the kind of flexibility the Commission has stated is exemplary of the reasonable manager standard.<sup>163</sup>

7. Line 2003 Hydrotest and Replacement Project.

The following Table 8 summarizes the disallowances/transfers proposed by Intervenors as well as the disallowances already taken by Applicants:

**Table 8**

<b>Line 2003 - \$9,568,423 Presented for Review</b>		
<b><u>Party</u></b>	<b><u>Proposed Disallowance / Transfer</u></b>	<b><u>Reason</u></b>
SoCalGas and SDG&E	\$42,470	Post-55 Disallowance
ORA	\$43,987	Higher System Average Calculation
TURN/SCGC	\$45,720	Disallowance Methodology
TURN/SCGC	\$100,409	Reasonable Manager Standard - Design Error

Applicants calculated the disallowance amount for the replacement portion of this project as \$42,470 based on their determination that 125 feet of Phase 1A pipe was installed post-1955 and lacked sufficient records of a pressure test.<sup>164</sup>

<sup>160</sup> *Id.* at pp. 12-13.

<sup>161</sup> D.11-06-017 at 29 (Conclusion of Law No. 5) and 31 (Ordering Paragraph No 5).

<sup>162</sup> Ex. TURN/SCGC-01 (Yap) at p. 236, Att. K: Applicants’ Response to TURN-SCGC-13-excerpts (data response 13.5.1).

<sup>163</sup> D.87-06-021, mimeo., at p. 23.

<sup>164</sup> Ex. SCG-16 at p. WP-III-A151.

ORA proposes the disallowance of an additional \$1,517 based on its proposal for a higher system average figure. For the reasons stated in Section II.A.2, ORA's proposal for a different methodology for calculating the system average is untenable, unreasonable, and contrary to Commission guidance and therefore should be rejected.

TURN/SCGC propose a higher disallowance calculation of \$45,720 based on their proposal to include incidental mileage in the disallowance calculation, noting that the incidental mileage would not have had occasion to be addressed but for the disallowed Phase 1A mileage that had to be remediated.<sup>165</sup> However, for the reasons stated in Section II.B.3.b, TURN/SCGC's proposal is contrary to the Commission's guidance and thus should be rejected.

Finally, TURN/SCGC seek a disallowance of \$100,409 on the basis that SoCalGas and SDG&E did not act as reasonable managers because an engineering contractor incorrectly marked a pipeline in a construction survey map.<sup>166</sup> As discussed in SoCalGas and SDG&E's Opening Brief,<sup>167</sup> a contractor's drawing error does not mean Applicants failed to act as reasonable managers. Thousands of surveys in the execution of PSEP have been marked correctly.<sup>168</sup> A single mismarked pipeline does not rise to the level of establishing failure to comply with the reasonable manager standard.

TURN/SCGC further suggest Applicants should seek recovery for the cost of the delay from the engineering firm that created the map.<sup>169</sup> This is a short-sighted recommendation that seeks, contrary to the reasonable manager standard, to hold SoCalGas and SDG&E, and their contractors, to a perfection standard. Moreover, requiring SoCalGas and SDG&E's contractors to take on large construction-related liabilities would lead to increased costs for customers and lower participation by small firms.<sup>170</sup>

TURN/SCGC state "the very fact that thousands of surveys during the course of the PSEP have been 'marked correctly' show that it is reasonable to expect that construction survey

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<sup>165</sup> TURN/SCGC Opening Brief at pp. 39-40.

<sup>166</sup> Ex. TURN/SCGC-01 (Yap) at p. 26.

<sup>167</sup> SoCalGas and SDG&E Opening Brief at pp. 53-54, Section V.B.1, *Intervenors' Recommended Disallowances Are Not Consistent with Commission Guidance and Should Be Rejected*.

<sup>168</sup> Ex. SCG-04 (Phillips) at pp. 5-6.

<sup>169</sup> Ex. TURN/SCGC-01 (Yap) at p. 26.

<sup>170</sup> Ex. SCG-04 (Phillips) at pp. 5-6. *See also* SoCalGas and SDG&E Opening Brief at pp. 53-54, Section V.B.1, *Intervenors' Recommended Disallowances Are Not Consistent with Commission Guidance and Should Be Rejected*.

maps will be correct before commencing construction of a project.”<sup>171</sup> Applicants did expect the survey to be correct – this is the reason Applicants did not take the additional steps to further validate the survey prior to commencing construction. TURN/SCGC also acknowledge it was reasonable to expect the survey to be accurate, and thus their request for a disallowance based on the theory that Applicants failed to meet the reasonable manager standard is puzzling. The Commission should determine that Applicants correctly calculated the applicable disallowances for the Line 2003 hydrotest and replacement project.

8. Line 235 West – Sawtooth Canyon Replacement Project.

The following Table 9 summarizes the disallowances/transfers proposed by Intervenors as well as the disallowances already taken by Applicants:

**Table 9**

<b>Line 235 West Sawtooth Canyon - \$2,050,065 Presented for Review</b>		
<b><u>Party</u></b>	<b><u>Proposed Disallowance / Transfer</u></b>	<b><u>Reason</u></b>
SoCalGas and SDG&E	\$0	N/A
ORA	\$579,569	Disallowance Methodology

ORA proposes to impose a disallowance on this project based on the unsupported assertion that the pressure test records for this pipe were compliant with applicable standards.<sup>172</sup> However, this pipe was tested to 1.1 times MAOP, not 1.25 times MAOP, which is the applicable threshold for determining whether to pressure test a segment to 1.25 times MAOP under the approved PSEP Decision Tree.<sup>173</sup> As such, this pipe was required to be addressed as part of PSEP.<sup>174</sup>

9. Line 33-120 Section 2 Replacement Project.

The following Table 10 summarizes the disallowances/transfers proposed by Intervenors as well as the disallowances already taken by Applicants:

<sup>171</sup> TURN/SCGC Opening Brief at p. 39.

<sup>172</sup> Ex. ORA-03 at pp. 5-7.

<sup>173</sup> Ex. SCG-09 (Mejia) at p. 8.

<sup>174</sup> *Id.*

**Table 10**

<b>Line 33-120 Section 2 - \$7,634,170 Presented for Review</b>		
<b><u>Party</u></b>	<b><u>Proposed Disallowance / Transfer</u></b>	<b><u>Reason</u></b>
SoCalGas and SDG&E	\$0	N/A
ORA	\$11,261	Subpart J Compliance

ORA seeks to impose the disallowances applicable to pipe installed post-1955 on this project based on the unsupported contention that 32 feet of pipe were compliant with Subpart J.<sup>175</sup> However, there is no evidence in the record to support this claim and, for the reasons stated in Section II.A.3, ORA’s argument must be rejected. No Post-55 pipeline disallowances were are applicable for this project.

10. Line 35-20 North Replacement Project.

The following Table 11 summarizes the disallowances/transfers proposed by Intervenorors as well as the disallowances already taken by Applicants:

**Table 11**

<b>Line 35-20 N - \$266,383 Presented for Review</b>		
<b><u>Party</u></b>	<b><u>Proposed Disallowance / Transfer</u></b>	<b><u>Reason</u></b>
SoCalGas and SDG&E	\$18,278	Post-55 Disallowance
ORA	\$19,002	Higher System Average Calculation
TURN/SCGC	\$22,270	Disallowance Methodology

Applicants calculated a disallowance amount of \$18,278 based on their determination that 54 feet of Phase 1A pipe was installed post-1955 and lacked sufficient records of a pressure test.<sup>176</sup> ORA’s calculation is slightly higher based on its use of its proposed higher system average calculation. However, for the reasons stated in Section II.A.2, ORA’s proposal for a different methodology for calculating the system average is untenable, unreasonable, and contrary to Commission guidance and therefore should be rejected.

<sup>175</sup> Ex. ORA-03 at pp. 5-7.

<sup>176</sup> Ex. SCG-16 at pp. WP-III-A189-90.



TURN/SCGC also propose a greater disallowance amount based on their proposal to include incidental mileage in the disallowance calculation. However, for the reasons stated in Section II.B.3.b, this is contrary to the Commission’s guidance and thus should be rejected.

11. Line 36-1032 Sections 1, 2, and 3 Replacement Project.

The following Table 12 summarizes the disallowances/transfers proposed by Intervenor as well as the disallowances already taken by Applicants:

**Table 12**

<b>Line 36-1032 Sec 1, 2, 3 - \$10,953,327 Presented for Review</b>		
<b><u>Party</u></b>	<b><u>Proposed Disallowance / Transfer</u></b>	<b><u>Reason</u></b>
SoCalGas and SDG&E	\$0	N/A
TURN/SCGC	\$33,720	Reasonable Manager Standard - Materials Delay

No portions of pipeline addressed in this PSEP project were installed post-1955.<sup>177</sup> TURN/SCGC nevertheless propose a disallowance on the basis that the tardy delivery of a vault caused a demobilization and subsequent remobilization and thus SoCalGas and SDG&E failed to act as reasonable managers.<sup>178</sup> This disallowance is not warranted because Applicants acted prudently and reasonably based on the information available to them at the time decisions were required to be made.

For this particular project, the vault manufacturer provided a date of delivery that would have met the schedule and not resulted in a demobilization.<sup>179</sup> At the time SoCalGas and SDG&E mobilized construction for the projects, there was no reason to believe the vault would not be received in time to prevent a demobilization.<sup>180</sup> In fact, SoCalGas and SDG&E had procured vaults from this manufacturer many times in the past and, based on prior experience, had no reason to expect late delivery.<sup>181</sup> Nevertheless, the vault manufacturer did not meet the delivery date, which in turn caused a remobilization after all other work on the project was

<sup>177</sup> Ex. SCG-16 at p. WP-III-A255.

<sup>178</sup> Ex. SCG-04 (Phillips) at pp. 16-17.

<sup>179</sup> *Id.*

<sup>180</sup> *Id.*

<sup>181</sup> *Id.*

completed.<sup>182</sup> It was not unreasonable for Applicants to have expected timely delivery based on their prior experience.

Moreover, TURN/SCGC err in their calculation of \$33,720 as the cost of remobilization for the vault delay (and failed to correct this error after they was alerted to it<sup>183</sup>). TURN/SCGC calculated the disallowance by summing the costs of item numbers 1, 2, 3, 4, 5 and 8 of the contractor's change order.<sup>184</sup> However, only item numbers 1-4 are related to the delay.<sup>185</sup> The four items related to the delay equate to \$11,277, including TURN/SCGC's indirect cost factor percentage.<sup>186</sup> Item 5 of the change order was related to restoring driveways damaged during construction; this scope of work would have had to be completed regardless of the delay.<sup>187</sup> Item 8 was related to the rental of equipment to install the vault, a cost that similarly would have been incurred regardless of the delay.<sup>188</sup>

TURN/SCGC express dissatisfaction that the many improvement practices (discussed in SoCalGas and SDG&E's Opening Brief and *supra* at Section II.B.2 herein) had not been instituted prior to this project going into construction.<sup>189</sup> The response to this puzzling statement is self-evident – progress occurs in the future. TURN/SCGC's assessment that a tardy delivery amounts to failing to act as a reasonable manager should be rejected.

## 12. Line 36-37 Replacement Project.

The following Table 13 summarizes the disallowances/transfers proposed by Intervenors as well as the disallowances already taken by Applicants:

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<sup>182</sup> *Id.*

<sup>183</sup> Ex. SCG-04 (Phillips) at p. 17.

<sup>184</sup> Ex. TURN/SCGC-01 (Yap), at p. 30, n. 155.

<sup>185</sup> Ex. SCG-04 (Phillips) at p. 17.

<sup>186</sup> *Id.*

<sup>187</sup> *Id.*

<sup>188</sup> *Id.*

<sup>189</sup> TURN/SCGC Opening Brief at p. 45.

**Table 13**

<b>Line 36-37 - \$1,200,126 Presented for Review</b>		
<b><u>Party</u></b>	<b><u>Proposed Disallowance / Transfer</u></b>	<b><u>Reason</u></b>
SoCalGas and SDG&E	\$2,150	Post-55 Disallowance
ORA	\$2,111	Higher System Average Calculation
TURN/SCGC	\$2,040	Post-55 Disallowance <sup>190</sup>

Applicants calculated the disallowance amount as \$2,150 based on their determination that six feet of Phase 1A pipe was installed post-1955 and lacked sufficient records of a pressure test.<sup>191</sup>

ORA’s calculation of the disallowance is slightly higher based on its use of its proposed higher system average calculation. However, for the reasons stated in Section II.A.2, ORA’s proposal to impose a different methodology for calculating the system average is untenable, unreasonable, and contrary to Commission guidance and therefore should be rejected.

13. Line 38-539 Replacement Project.

The following Table 14 summarizes the disallowances/transfers proposed by Intervenor as well as the disallowances already taken by Applicants:

**Table 14**

<b>Line 38-539 - \$16,915,804 Presented for Review</b>		
<b><u>Party</u></b>	<b><u>Proposed Disallowance / Transfer</u></b>	<b><u>Reason</u></b>
SoCalGas and SDG&E	\$0	N/A
TURN/SCGC	\$1,200,219	Reasonable Manager Standard - Materials Delay
TURN/SCGC	\$396,787	Reasonable Manager Standard - Weather

<sup>190</sup> This amount is equal to the disallowance taken by Applicants and thus is uncontested by TURN/SCGC.

<sup>191</sup> Ex. SCG-16 at pp. WP-III-A199.

No portions of pipeline addressed by this PSEP project were installed post-1955.<sup>192</sup> TURN/SCGC nevertheless propose disallowances based on two alleged failures by Applicants to act in accordance with the reasonable manager standard.<sup>193</sup>

First, TURN/SCGC claim that Applicants failed to act as reasonable managers because they opted to commence construction “six weeks before the start of the winter months”<sup>194</sup> and expected “few Tule fog delays” prior to January 5, 2015, the date Applicants expected to complete construction.<sup>195</sup> Without any citation to evidence in the record, other than to their own witness, whose qualifications fail to note any meteorological or Tule fog expertise,<sup>196</sup> TURN/SCGC contend that it was a virtual certainty that Tule fog would impact Applicants’ construction schedule on this project.<sup>197</sup> On this basis they recommend a \$396,787 disallowance. This ignores the evidence in the record concerning the benefits of scheduling projects on a year-round basis, which far outweigh the infrequent weather delays that could necessitate a demobilization.<sup>198</sup> SoCalGas and SDG&E balance countervailing risks when deciding to approve the commencement of PSEP construction projects. Based on information known to Applicants at the time the decision was made to commence construction on this project, the decision to proceed with the construction schedule for this project was reasonable. That this was not an unreasonable decision has further support: of the four PSEP projects that were in construction in the San Joaquin Valley during the November through February timeframe, only this project experienced a demobilization due to Tule fog.<sup>199</sup>

In contrast, the outcome of TURN/SCGC’s suggestion of not starting projects during certain times of the year would lead to higher overall program costs and increase the time to complete PSEP.<sup>200</sup>

TURN/SCGC seek an additional disallowance based on their contention that Applicants failed to act as reasonable managers because material delays resulted in two demobilizations.<sup>201</sup>

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<sup>192</sup> Ex. SCG-16 at p. WP-III-A273.

<sup>193</sup> TURN/SCGC Opening Brief at pp. 46-52.

<sup>194</sup> TURN/SCGC Opening Brief at p. 46.

<sup>195</sup> Ex. TURN/SCGC-01, Att. G, Applicants’ Response to TURN-SCGC-07, Q.7.2.7.1.

<sup>196</sup> Ex. TURN/SCGC-01, Attachment A: Qualifications of Catherine E. Yap at pp. 45-47.

<sup>197</sup> TURN/SCGC Opening Brief at pp. 46-47.

<sup>198</sup> Ex. SCG-04 (Phillips) at pp. 2-6, 17.

<sup>199</sup> *Id.*

<sup>200</sup> Ex. SCG-04 (Phillips) at p. 17.

<sup>201</sup> TURN/SCGC Opening Brief at pp. 47-52.

Again, this is inconsistent with the reasonable manager standard. At the time of the first demobilization on December 20, 2014, the project team did not have all materials onsite, but was informed the required materials should be available by January 4, 2015.<sup>202</sup> The project team considered the daily stand-by cost for labor and equipment, amounting to approximately \$55,000 per day, with the daily stand-by charge of approximately \$26,000 per day for the equipment only.<sup>203</sup> During partial demobilizations, equipment remains at the site and daily rental charges continue to accrue, but craft labor is idled and not paid.<sup>204</sup> The project team determined that the least-cost approach would be to partially demobilize since they were not assured the needed materials would arrive by the anticipated January 4 date.<sup>205</sup>

In late December the project and construction teams received information that led them to believe that sufficient material would arrive to provide enough work for the contractor to begin again.<sup>206</sup> The project team then notified the contractor to have its workforce arrive for work on January 6.<sup>207</sup> On January 6, the material was not at the jobsite, and different estimated arrival dates from the material vendors were provided for each of the materials.<sup>208</sup> At this point, the project team had to determine whether the materials' projected arrival dates might again be delayed.<sup>209</sup> The team considered all of the following: the daily costs of having labor and equipment paid while on standby; the knowledge that there was not another project to which to shift the construction contractor personnel; and the uncertainty of when material would arrive.<sup>210</sup> Ultimately, the decision was made completely to demobilize because having the contractor idle its workforce would result in cessation of labor charges and enable the contractor to remove its equipment, thereby ceasing daily rental charges.<sup>211</sup>

Each decision was made by an experienced project manager based on his or her knowledge and expertise. SoCalGas and SDG&E made prudent decisions based on the

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<sup>202</sup> Ex. SCG-04 (Phillips) at p. 17.

<sup>203</sup> *Id.*

<sup>204</sup> *Id.*

<sup>205</sup> *Id.*

<sup>206</sup> *Id.* at 18.

<sup>207</sup> *Id.*

<sup>208</sup> *Id.*

<sup>209</sup> *Id.*

<sup>210</sup> *Id.*

<sup>211</sup> *Id.*

information known and circumstances existing at the time, and thus TURN/SCGC’s proposed disallowance of \$1,200,219 for material delays should be rejected.

14. Line 407 Hydrotest Project.

The following Table 15 summarizes the disallowances/transfers proposed by Intervenor as well as the disallowances already taken by Applicants:

**Table 15**

<b>Line 407 - \$6,964,626 Presented for Review</b>		
<b><u>Party</u></b>	<b><u>Proposed Disallowance / Transfer</u></b>	<b><u>Reason</u></b>
SoCalGas and SDG&E	\$2,789	Post-55 Disallowance
ORA	\$378,253	Subpart J Compliance
TURN/SCGC	\$4,118	Not PSEP
TURN/SCGC	\$2,789	Post-55 Disallowance <sup>212</sup>

Applicants calculated a disallowance amount of \$2,789 based on their determination that 0.43% of the hydrotest project was composed of disallowed Phase 1A pipe (i.e., lacking sufficient records of a pressure test).<sup>213</sup> TURN/SCGC agree with the disallowance amount.<sup>214</sup>

In addition, TURN/SCGC propose to transfer outside of PSEP \$4,118 for work performed by Applicants when excavation work on this project revealed a nearby pipe support required replacing for integrity reasons.<sup>215</sup> TURN/SCGC do not contend Applicants should not have performed that work.<sup>216</sup> Rather, TURN/SCGC claim that PSEP pipeline work is *either* pressure testing *or* replacing pipelines that have been identified in SoCalGas and SDG&E’s PSEP.<sup>217</sup> This statement implies that a pressure test project would never include pipeline repairs to achieve a successful hydrotest project and, therefore, is not accurate.<sup>218</sup>

In SoCalGas and SDG&E’s approved PSEP, SoCalGas and SDG&E explained that it is both prudent and cost effective to address known anomalies prior to pressure testing to mitigate

<sup>212</sup> This amount is equal to the disallowance taken by Applicants and thus is uncontested by TURN/SCGC.

<sup>213</sup> Ex. SCG-16 at pp. WP-III-A319-20.

<sup>214</sup> TURN/SCGC Opening Brief at pp. 52-53.

<sup>215</sup> TURN/SCGC Opening Brief at p. 53.

<sup>216</sup> *Id.* at pp. 52-53.

<sup>217</sup> TURN/SCGC Opening Brief at pp. 52-53.

<sup>218</sup> Ex. SCG-09 (Mejia) at p. 5.

the risk of pipeline failures: “By mitigating potential sources of pressure test failures before conducting the pressure test, planners can avoid the pitfalls associated with entering into a cycle of pressure test failures.”<sup>219</sup> While the damaged pipe support encountered in this project is not a pipeline anomaly, the same reasoning applies — it is prudent for a pipeline operator to address conditions or features that could lead to a pressure test failure or otherwise damage the pipe during pressure testing as part of the scope of PSEP.<sup>220</sup>

As a prudent pipeline operator, when SoCalGas and SDG&E identified a damaged pipe support when the pipe was exposed for construction, they assessed whether the support should be repaired as part of the in-progress pressure test project.<sup>221</sup> The scope of the Line 407 project included pressure testing the pipeline with water, which would add weight to the pipe as it was being tested.<sup>222</sup> SoCalGas and SDG&E therefore determined it would be prudent to complete the minor repair of the pipe support that supports the lateral in order to avoid placing additional external stresses on the pipe.<sup>223</sup> The repair of the damaged pipe support for the lateral connection that connects Lines 407 and 3003 was a necessary component of the hydrotest project and thus its inclusion as a PSEP cost was reasonable and prudent.<sup>224</sup> TURN/SCGC’s request to have this cost disallowed should be denied.

ORA seeks to impose additional disallowances on top of what Applicants have already taken. Applicants took a disallowance based on seven feet of pipeline installed post-1955; however, ORA includes 924 feet in their disallowance calculation based on the unsupported allegation that the records for that portion of pipe complied with Subpart J.<sup>225</sup> However, there is no evidence in the record of this and, for the reasons stated in Section II.A.3, ORA’s argument must be rejected.

#### 15. Line 45-120 Section 1 Replacement Project.

The following Table 16 summarizes the disallowances/transfers proposed by Intervenors as well as the disallowances already taken by Applicants:

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<sup>219</sup> A.11-11-002, Ex. 4, Amended Direct Testimony of Douglas Schneider at p. 57.

<sup>220</sup> Ex. SCG-09 (Mejia) at pp. 5-6.

<sup>221</sup> *Id.*

<sup>222</sup> *Id.*

<sup>223</sup> *Id.*

<sup>224</sup> *Id.*

<sup>225</sup> Ex. ORA-03 at pp. 5-7.

**Table 16**

<b>Line 45-120 Sec 1 - \$6,418,206 Presented for Review</b>		
<b><u>Party</u></b>	<b><u>Proposed Disallowance / Transfer</u></b>	<b><u>Reason</u></b>
SoCalGas and SDG&E	\$0	N/A
ORA	\$19,354	Disallowance Methodology

No portions of pipeline addressed in this PSEP project were installed post-1955.<sup>226</sup> Although ORA does not state with specificity the basis for its proposed disallowance on this project, Applicants believe ORA seeks a disallowance on this project based on their mistaking the “year of install” identified for this pipeline in Applicants’ data request response as the vintage of the pipeline.<sup>227</sup> However, there is a distinction between the two, and the vintage of the pipeline is 1930s, as stated in Applicants’ workpapers.<sup>228</sup> Thus, there is no basis for ORA’s requested disallowance.

16. Line 45-120XO1 Replacement Project.

The following Table 17 summarizes the disallowances/transfers proposed by Intervenor as well as the disallowances already taken by Applicants:

**Table 17**

<b>Line 45-120X01 - \$857,395 Presented for Review</b>		
<b><u>Party</u></b>	<b><u>Proposed Disallowance / Transfer</u></b>	<b><u>Reason</u></b>
SoCalGas and SDG&E	\$0	N/A
TURN/SCGC	\$857,395	Reasonable Manager Standard - Project Coordination

No portions of pipeline addressed by this PSEP project were installed post-1955.<sup>229</sup> TURN/SCGC nevertheless seek to impose a disallowance for the full project based on the contention that Applicants failed to act as reasonable managers by planning and replacing pipeline and subsequently abandoning it as part of a later project.<sup>230</sup> However, an explanation of

<sup>226</sup> Ex. SCG-16 at p. WP-III-A343.

<sup>227</sup> Ex. SCG-22 at pp. 7, 15.

<sup>228</sup> Ex. SCG-16 at pp. WP-III-A335, WP-III-A337, WP-III-343.

<sup>229</sup> Ex. SCG-16 at pp. WP-III-A354-55.

<sup>230</sup> TURN/SCGC Opening Brief at pp. 53-56.



the full facts concerning this sequence of events makes clear that this project was, at all times, conducted in accordance with the reasonable manager standard.

TURN/SCGC's argument is seemingly founded on the premise that SoCalGas and SDG&E should have coordinated the design of all three projects simultaneously, and this, theoretically, might have avoided the abandonment of this short (57-foot) section of pipe.<sup>231</sup>

This faulty analysis ignores the directive of the Commission to begin PSEP work as soon as practicable,<sup>232</sup> and also glosses over the fact that one of the three pipelines was a Phase 1B pipeline that was sequenced by the Commission to follow Phase 1A projects. To be clear – this was one of the very earliest PSEP projects executed by Applicants – construction both began and completed in 2013.<sup>233</sup>

a. *Lines 45-120XO1 and 45-120 Projects – Design Timeline*

When SoCalGas and SDG&E started ramping up to begin the detailed design to test or replace pipelines in 2012 and 2013, they took the approach of parceling out work to different teams that were forming to start work in parallel on the 199 pipelines listed in the 2011 PSEP filing.<sup>234</sup> Pipelines 45-120XO1 and 45-120 were part of that initial list.<sup>235</sup> Line 85 South was identified in the filing as a Phase 1B project.<sup>236</sup>

Line 45-120XO1 is a small project constituting only a 57-foot replacement.<sup>237</sup> This smaller project was planned and constructed by the Operating District as a way to implement PSEP immediately, while the PSEP Organization was being staffed and processes developed to coordinate and manage the simultaneous execution of numerous individual projects.<sup>238</sup> The Operating District took on this project in late 2012, shortly after the Commission authorized SoCalGas and SDG&E to immediately commence implementation of PSEP pending a Commission decision approving the proposed PSEP.<sup>239</sup>

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<sup>231</sup> Ex. SCG-04 (Phillips) at pp. 19-20.

<sup>232</sup> D.11-06-017 at 29 (Conclusion of Law No. 5) and 31 (Ordering Paragraph No. 5).

<sup>233</sup> Ex. SCG-16 at p. WP-III-A353.

<sup>234</sup> Ex. SCG-04 (Phillips) at p. 20, citing R.11-02-019; Workpapers Supporting A.16-09-005 at WP-IX-1.

<sup>235</sup> *Id.*

<sup>236</sup> *Id.*

<sup>237</sup> *Id.*

<sup>238</sup> *Id.*

<sup>239</sup> *Id.*

Line 45-120, a 4.3-mile project, was assigned to a PSEP design team in February 2013.<sup>240</sup> While it was known that the two pipelines, 45-120XO1 and 45-120, would need to interconnect, the norm is for one pipe to butt up against the other pipe, so it was not contemplated that a large portion of Line 45-120XO1 ultimately would be removed and abandoned when Line 45-120 tied into it in the future.<sup>241</sup> This level of detail is not known until Stage 3 or 4 of the Seven Stage Construction Process.<sup>242</sup> Line 45-120 did not get to Stage 3/4 until November 2013, i.e., after Line 45-120XO1 had already ended construction in October 2013.<sup>243</sup>

A key activity during the detailed design phase that is not known earlier in the design process is the identification of substructures under the pavement.<sup>244</sup> The location of substructures must be known so that the new pipe is designed to avoid conflict and so that the tie-in location has sufficient working space for a safe tie-in.<sup>245</sup> After detailed design of Line 45-120, the location for tying-in to the recently built Line 45-120XO1 was selected based on safety and cost considerations.<sup>246</sup> The selected tie-in location provided a safe amount of working space for welders and other construction personnel to weld the new tie-in piping to the recently installed crossover line.<sup>247</sup> While SoCalGas and SDG&E recognized that the tie-in location would cause abandonment of 46 feet of the recently-installed portion of Line 45-120XO1, this location was chosen because there were other substructures in the immediate vicinity that would have made it more difficult, more costly, and less safe to perform the tie-in operation at the end of Line 45-120XO1.<sup>248</sup> PSEP has a strong safety-based culture and works to enhance designs to ensure personnel safety during installation and tie-in operations.<sup>249</sup> The design was also selected as the best design to route a branch of the new pipeline into Newhall Station.<sup>250</sup>

It is not reasonable to expect SoCalGas and SDG&E would have anticipated the second project to abandon such a large portion of the first.<sup>251</sup> Nevertheless, this is what ultimately

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<sup>240</sup> *Id.*

<sup>241</sup> *Id.* at pp. 20-21.

<sup>242</sup> Ex. SCG-16 at pp. WP-Intro-3-4.

<sup>243</sup> Ex. SCG-04 (Phillips) at p. 21.

<sup>244</sup> *Id.*

<sup>245</sup> *Id.*

<sup>246</sup> *Id.*

<sup>247</sup> *Id.*

<sup>248</sup> *Id.*

<sup>249</sup> *Id.*

<sup>250</sup> *Id.*

<sup>251</sup> *Id.*

resulted based on decisions made at the time for safety, constructability, and cost reasons.<sup>252</sup> If the only goal were to minimize the abandonment of pipe of the first project, the second project could have achieved this but simultaneously would have increased the safety risk, at a higher cost, due to slower construction to work around nearby substructures and a less direct routing into Newhall Station.<sup>253</sup>

b. *Line 85 South Project - Design Timeline*

Line 85 South was included in the SoCalGas and SDG&E PSEP filing as a Phase 1B project.<sup>254</sup> At the time Line 45-120XO1 was designed and constructed, SoCalGas and SDG&E did not know additional Phase 1A, Category 4 pipe associated with Line 85 South would be identified as a result of a class location/high consequence area review and update.<sup>255</sup> TURN/SCGC mischaracterize SoCalGas and SDG&E as having knowledge that Line 85 South would include PSEP footage in the proximity of Line 45-120XO1.<sup>256</sup> As stated in workpapers,<sup>257</sup> the Line 85 South project was not initiated until August 2014.<sup>258</sup>

TURN/SCGC assert that SoCalGas and SDG&E should have coordinated the designs of the three projects and, if they had, they would have recognized the need to abandon part of Line 45-120XO1 before it was replaced.<sup>259</sup> The notion of coordinating all designs before beginning work on projects is precisely the reason Line 85 South was discovered to have a small Phase 1A segment.<sup>260</sup> In mid-2014, as a result of periodic reviews of changes to class locations and high consequence areas, PSEP became aware of two new high consequence areas impacting Line 225.<sup>261</sup> Prior to that time, Line 225 was neither a Phase 1A nor Phase 1B project.<sup>262</sup> PSEP Management assigned this new Line 225 project to one of its project managers and, being aware that Line 85 South parallels Line 225 in the area of the two high consequence areas, PSEP management assigned the Line 85 South Phase 1B project to the same project manager in the

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<sup>252</sup> *Id.*

<sup>253</sup> *Id.*

<sup>254</sup> *Id.* at p. 22.

<sup>255</sup> *Id.*

<sup>256</sup> Ex. TURN/SCGC-01 (Yap) at pp. 38-39.

<sup>257</sup> Ex. SCG-16 at p. WP-III-A359.

<sup>258</sup> Ex. SCG-04 (Phillips) at p. 22.

<sup>259</sup> TURN/SCGC Opening Brief at pp. 54-56.

<sup>260</sup> Ex. SCG-04 (Phillips) at pp. 22.

<sup>261</sup> *Id.*

<sup>262</sup> *Id.*

event there might be synergies between the two projects.<sup>263</sup> When the project manager began his review, he discovered the Line 85 South Category 4 pipe in Newhall Station.<sup>264</sup> Prior to this point in time, PSEP Management, based on its knowledge of the system, had no reason to expect any Category 4 pipe associated with Line 85 South at Newhall Station.<sup>265</sup> This understanding was based on PSEP Management being aware of a replacement project in the early 1990s whereby a multi-mile section of Line 85 was replaced northwestward from Newhall Station.<sup>266</sup> This is exactly the type of activity TURN/SCGC suggest SoCalGas and SDG&E should have performed. To be clear – SoCalGas and SDG&E performed this activity.

The Line 85 project team developed a prudent design to remove the Category 4 pipe at Newhall Station, which improved safety during construction and for future operations by moving a valve out of the heavily traveled roadway and into Newhall Station.<sup>267</sup>

If the goal had been to avoid abandoning any of the recently installed Line 45-120XO1 crossover, an alternative design could have been made such that no Line 45-120XO1 piping was removed.<sup>268</sup> This would have led to higher construction costs due to a greater amount of construction work in the street and future safety risks for operations personnel and the public when servicing or operating the valve.<sup>269</sup>

The actions taken by SoCalGas and SDG&E in the execution of this project were reasonable based on the information known at the time and existing circumstances. A retrospective critique does not warrant disallowances. For the reasons stated above, SoCalGas and SDG&E acted prudently in the planning and execution of the Line 45-120XO1, Line 45-120 Section 1, and Line 85 South projects, and the costs associated with the Line 45-120XO1 project should not be disallowed.

#### 17. Line 49-14 Replacement Project.

The following Table 18 summarizes the disallowances/transfers proposed by Intervenorors as well as the disallowances already taken by Applicants:

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<sup>263</sup> *Id.*

<sup>264</sup> *Id.* at pp. 22-23.

<sup>265</sup> *Id.* at p. 23.

<sup>266</sup> *Id.*

<sup>267</sup> *Id.*

<sup>268</sup> *Id.*

<sup>269</sup> *Id.*

**Table 18**

<b>Line 49-14 - \$4,669,251 Presented for Review</b>		
<b><u>Party</u></b>	<b><u>Proposed Disallowance / Transfer</u></b>	<b><u>Reason</u></b>
SoCalGas and SDG&E	\$32,973	Post-55 Disallowance
ORA	\$34,134	Higher System Average Calculation
TURN/SCGC	\$53,720	Phase 2B

Applicants calculated a disallowance of \$32,973 based on their determination that 97 feet of pipe was post-1955 and did not have sufficient records of a pressure test.<sup>270</sup> ORA’s calculation is slightly higher based on its use of its proposed higher system average calculation. However, for the reasons stated in Section II.A.2, ORA’s proposal for a different methodology for calculating the system average is untenable, unreasonable, and contrary to Commission guidance and therefore should be rejected.

TURN/SCGC base their proposal for a higher disallowance calculation on their including incidental mileage in the disallowance calculation. In this case, TURN/SCGC re-classified accelerated Phase 2B mileage as incidental, and then included the incidental mileage in the disallowance calculation.<sup>271</sup> However, for the reasons stated in Section II.B.3.b, TURN/SCGC’s proposal is contrary to the Commission’s guidance and thus should be rejected. The Commission should determine that Applicants correctly calculated the applicable disallowances for the Line 49-14 replacement project.

18. Line 49-22 Abandonment Project.

The following Table 19 summarizes the disallowances/transfers proposed by Intervenor as well as the disallowances already taken by Applicants:

**Table 19**

<b>Line 49-22 - \$5,034,329 Presented for Review</b>		
<b><u>Party</u></b>	<b><u>Proposed Disallowance / Transfer</u></b>	<b><u>Reason</u></b>
SoCalGas and SDG&E	\$0	N/A
ORA	\$704	Subpart J Compliance

<sup>270</sup> Ex. SCG-16 at p. WP-III-A379.

<sup>271</sup> TURN/SCGC Opening Brief at pp. 56-57.

This project did not include any pipeline installed post-1955.<sup>272</sup> Notwithstanding this, ORA’s seeks incremental disallowances. ORA includes 2 feet in their disallowance calculation based on the unsupported allegation that the pipe complied with the requirements of Subpart J.<sup>273</sup> However, there is no evidence in the record to support this claim and, for the reasons stated in Section II.A.3, ORA’s argument must be rejected. Moreover, it is illogical even to consider Subpart J compliance in the context of abandoning pipeline.

19. Line 49-32 Replacement Project.

The following Table 20 summarizes the disallowances/transfers proposed by Intervenor as well as the disallowances already taken by Applicants:

**Table 20**

<b>Line 49-32 - \$4,393,207 Presented for Review</b>		
<b><u>Party</u></b>	<b><u>Proposed Disallowance / Transfer</u></b>	<b><u>Reason</u></b>
SoCalGas and SDG&E	\$0	N/A
ORA	\$5,982	Subpart J Compliance

This project did not include any pipeline installed post-1955.<sup>274</sup> Notwithstanding this, ORA seeks Post-55 disallowances. ORA includes 17 feet in their disallowance calculation based on the unsupported allegation that the pipe complied with the requirements Subpart J.<sup>275</sup> However, there is no evidence in the record to support this claim and, for the reasons stated in Section II.A.3, ORA’s argument must be rejected.

20. Playa del Rey Storage Phases 4 and 5 Hydrotest Project.

The following Table 21 summarizes the disallowances/transfers proposed by Intervenor as well as the disallowances already taken by Applicants:

<sup>272</sup> Ex. SCG-16 at p. WP-III-A394.

<sup>273</sup> Ex. ORA-03 at pp. 5-7.

<sup>274</sup> Ex. SCG-16 at p. WP-III-A412.

<sup>275</sup> Ex. ORA-03 at pp. 5-7.

**Table 21**

<b>Playa del Rey Storage Phases 4 and 5 - \$1,964,447 Presented for Review</b>		
<b><u>Party</u></b>	<b><u>Proposed Disallowance / Transfer</u></b>	<b><u>Reason</u></b>
SoCalGas and SDG&E	\$3,371,923	Post-55 Disallowance
ORA <sup>276</sup>	\$3,371,923	Uncontested
TURN/SCGC	\$3,371,923	Uncontested

Applicants calculated a disallowance amount of \$3,371,923 based on their determination that 63% of the hydrotest project was comprised of disallowed Phase 1A pipe (i.e., lacking sufficient records of a pressure test).<sup>277</sup> Intervenor has not sought incremental disallowances in addition to those already recorded by Applicants.

21. Line 235 West, Supply Line 44-654, and Palmdale Valve Bundle Project.

The following Table 22 summarizes the disallowances/transfers proposed by Intervenor as well as the disallowances already taken by Applicants:

**Table 22**

<b>Line 235, Supply Line 44-654, and Palmdale Valve Bundle Project – \$37,455,031 Presented for Review</b>		
<b><u>Party</u></b>	<b><u>Proposed Disallowance / Transfer</u></b>	<b><u>Reason</u></b>
SoCalGas and SDG&E	\$101,606	Post-55 Disallowance
ORA	\$111,550	Subpart J Compliance
TURN/SCGC	\$132,163	Disallowance Methodology
TURN/SCGC	\$135,486	Reasonable Manager Standard - Materials Delay

Applicants calculated the disallowance amount of \$101,606 based on their determination that 299 feet of Phase 1A pipe was post-1955 and did not have sufficient records of a pressure test.<sup>278</sup>

<sup>276</sup> ORA refers to \$79,028 of the disallowance as related to Phase 2B. It appears that ORA determined this by relying on an outdated SoCalGas and SDG&E response to ORA-05, which was subsequently amended to indicate all Post-55 footage did not have a record of a pressure test. As a result, there is no disagreement among the parties.

<sup>277</sup> Ex. SCG-16 at p. WP-III-A428.

<sup>278</sup> Ex. SCG-16 at pp. WP-V-A203.

ORA proposes additional disallowances based on its unsupported allegation that an additional 18 feet of pipe complied with the requirements of Subpart J.<sup>279</sup> However, there is no evidence in the record to support this claim and, for the reasons stated in Section II.A.3, ORA's argument must be rejected.

TURN/SCGC seek significantly higher disallowances for the replacement portion of this project based on their proposal to include incidental mileage in the disallowance calculation. TURN/SCGC contend that the incidental mileage would not have been pressure tested had it not been necessary to replace the disallowed Phase 1A mileage.<sup>280</sup> However, for the reasons stated in Section II.B.3.a., TURN/SCGC's proposal is illogical and contrary to the Commission's guidance and thus should be rejected.

Finally, TURN/SCGC contend that Applicants failed to act as reasonable managers because they "failed to obtain essential materials before mobilizing" these projects.<sup>281</sup> As explained *supra*, it is more costly and inefficient, not to mention unreasonable, to wait for all contingencies to be resolved before commencing construction.<sup>282</sup> Applicants already sequence construction events so as to maximize time, labor, and cost efficiencies. To penalize Applicants for every instance of delay is nothing short of holding Applicants to a perfection standard which the Commission explicitly has disavowed.<sup>283</sup>

### III. CONCLUSION

Based on the foregoing, and all the arguments in SoCalGas and SDG&E's Opening Brief in this proceeding, the Commission should determine that SoCalGas and SDG&E incurred the costs submitted herein for review as reasonable and prudent managers and calculated and excluded disallowances in accordance with the Commission's directive, and further deny the

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<sup>279</sup> Ex. ORA-03 at pp. 5-7.

<sup>280</sup> TURN/SCGC Opening Brief at pp. 59-60.

<sup>281</sup> *Id.*

<sup>282</sup> Ex. SCG-04 (Phillips) at 6.

<sup>283</sup> Ex. SCG-04 (Phillips) at 6.



