

Company: Southern California Gas Company (U904G)  
Proceeding: 2019 General Rate Case  
Application: A.17-10-007/-008 (cons.)  
Exhibit: SCG-225

**SOCALGAS**

**REBUTTAL TESTIMONY OF DARRELL JOHNSON**

**(ENVIRONMENTAL SERVICES)**

**JUNE 18, 2018**

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





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1 **SOCALGAS REBUTTAL TESTIMONY OF DARRELL JOHNSON**  
2 **(ENVIRONMENTAL SERVICES)**

3  
4 **I. SUMMARY OF DIFFERENCES**

<b>TOTAL O&amp;M - Constant 2016 (\$000)</b>			
	<b>Base Year 2016</b>	<b>Test Year 2019</b>	<b>Change</b>
SOCALGAS	<b>11,753</b>	<b>17,243</b>	<b>5,490</b>
ORA	<b>11,753</b>	<b>15,131<sup>1</sup></b>	<b>3,378</b>

5  
6 **II. INTRODUCTION**

7 This rebuttal testimony regarding SoCalGas' request for Environmental Services  
8 addresses the following testimony from other parties:

- 9 • The Office of Ratepayer Advocates (ORA) as submitted by Mr. L. Mark  
10 Waterworth (Exhibit ORA-19), dated April 13, 2018.

11 As a preliminary matter, the absence of a response to any particular issue in this rebuttal  
12 testimony does not imply or constitute agreement by SoCalGas with the proposal or contention  
13 made by these or other parties. The forecasts contained in SoCalGas' direct testimony,  
14 performed at the project level, are based on sound estimates of its revenue requirements at the  
15 time of testimony preparation.

16 **A. ORA**

17 ORA issued its report on Environmental Services on April 13, 2018.<sup>2</sup> The following is a  
18 summary of ORA's position(s):

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<sup>1</sup> SoCalGas revised its forecast to reflect reduced Environmental Programs costs provided in the December 2017, Revised Direct Testimony of Darrell Johnson Addressing Environmental Services, on behalf of Southern California Gas Company [SoCalGas], Exhibit SCG-25-R (Johnson). ORA did not reflect SoCalGas' revised forecast in its testimony. SoCalGas assumes ORA's recommendation would be \$15,114 had ORA used SoCalGas' revised testimony.

<sup>2</sup> April 13, 2018, ORA Report on the Results of Operations for San Diego Gas & Electric Company Southern California Gas Company Test Year 2019 General Rate Case, SCG – Supply Management & Logistics and Supplier Diversity; Fleet Services; Real Estate, Land Services and Facilities; and Environmental Services, Part 4, Exhibit ORA-19 (Mark Waterworth).

- ORA accepts SoCalGas’ TY 2019 forecasts for the following work groups<sup>3</sup>:
  - Environmental Programs (non-shared);
  - NERBA AB32 Administrative Fees (non-shared);
  - NERBA MS4 Local Ordinance Compliance (non-shared);
  - Director of Environmental Services (shared); and,
  - Environmental Programs (shared).
- ORA recommends that the SoCalGas’ forecast for the New Environmental Regulatory Balancing Account (NERBA) LDAR Impact Program for TY2019 be reduced by 50% to \$2.129 million. ORA asserts that there is “uncertainty regarding when and what amount of costs will be incurred by SoCalGas” for Leak Detection and Repair activities.<sup>4</sup>

**III. REBUTTAL TO PARTIES’ O&M PROPOSALS**

**A. Non-Shared Services O&M**

<b>NON-SHARED O&amp;M - Constant 2016 (\$000)</b>			
	<b>Base Year 2016</b>	<b>Test Year 2019</b>	<b>Change</b>
SOCALGAS	<b>11,028</b>	<b>16,607</b>	<b>5,579</b>
ORA	<b>11,028</b>	<b>14,495<sup>5</sup></b>	<b>3,450</b>

**1. Disputed Cost**

**a. ORA**

In its testimony, ORA states the following:

“[T]here is uncertainty regarding when and what amount of costs will be incurred by SoCalGas; therefore, ORA’s forecast for the LDAR costs is 50% of SoCalGas’ request. ORA’s recommendation will result in a reduction of \$2.129 million.”<sup>6</sup>

<sup>3</sup> *Id.*

<sup>4</sup> *Id.* at 41.

<sup>5</sup> SoCalGas revised its forecast to reflect reduced Environmental Programs costs provided in Ex. SCG-25-R (Johnson). ORA did not reflect SoCalGas’ revised forecast in its testimony. SoCalGas assumes ORA’s recommendation would be \$14,478 had ORA used SoCalGas’ revised testimony.

<sup>6</sup> Ex. ORA-19 (Waterworth) at 41.

1           **B.       ORA’s LDAR forecast of \$2.129 million, which is only 50% of SoCalGas’**  
2           **request, is unfounded and unsupported by ORA’s testimony.**

3           First, ORA’s assertions regarding uncertainty regarding when and what LDAR Impact  
4 Program related costs will be incurred are accounted for within the overall framework and intent  
5 of NERBA. SoCalGas’ forecast considered a myriad of factors to derive a reasonable and  
6 appropriate estimate of expected costs. The forecast is based on historical cost information from  
7 existing regulatory compliance work, and also specific identified work for each impacted  
8 business organization based on required activities in traditional LDAR programs. Information  
9 regarding these forecasted costs was provided to ORA in response to a data request.<sup>7</sup>

10           ORA does not challenge the underlying assumptions or methodology of SoCalGas’  
11 forecast. Instead, ORA simply cites to uncertainty (which is already accounted for in the NERBA  
12 two-way balancing account framework), and arbitrarily slashes 50% of SoCalGas’ NERBA  
13 LDAR Impact Program-related forecasts. No other rationale is expressed, or given.

14           ORA, argues that “as the account is a two-way balancing account, this will not unduly  
15 impact SCG should the utility incur costs higher than ORA’s forecast.”<sup>8</sup> SoCalGas disagrees  
16 with this assertion. Indeed, underfunding the NERBA can leave SoCalGas exposed to  
17 uncertainties in the swings of new regulatory costs, and potentially with insufficient funding to  
18 complete the necessary efforts to provide safe and reliable service. Ratepayers may thus be  
19 exposed to delayed or cancelled work elsewhere as SoCalGas reallocates funding to meet the  
20 requirements of NERBA-related regulations. In addition, ratepayers may also be exposed to  
21 large accumulated under-collection balances that may result in rate volatility when under-  
22 collection balances are recovered in the following year’s rates. In the event that the NERBA  
23 over-collects funds, the ratepayer is protected by the two-way mechanism such that any  
24 overcollection is returned. Reducing the authorized NERBA funding provides no significant  
25 advantage to ratepayers, but it can expose both ratepayers and SoCalGas to the resultant effects  
26 of funding reallocation. In addition, ratepayers may also be exposed to large accumulated under-

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<sup>7</sup> See SoCalGas’ response to ORA SCG-17-LMW, included as Appendix A, which provided ORA with detailed information regarding SoCalGas’ forecast assumptions and methodology for NERBA LDAR Impact Program forecasts.

<sup>8</sup> Ex. ORA-19 (Waterworth) at 41.

1 collection balances that may result in rate volatility when under-collection balances are  
2 recovered in the following year's rates.

3 Because ORA's forecast is unsubstantiated by reduction method or rationale, and  
4 SoCalGas' forecast is based on supported cost estimates and business assumptions, ORA's  
5 forecasts should be rejected and SoCalGas' forecast should be adopted.

6 **C. Shared Services O&M**

<b>SHARED O&amp;M - Constant 2016 (\$000)</b>			
	<b>Base Year 2016</b>	<b>Test Year 2019</b>	<b>Change</b>
SOCALGAS	<b>725</b>	<b>636</b>	<b>-89</b>
ORA	<b>725</b>	<b>636</b>	<b>-89</b>

7  
8 **1. Disputed Cost**

9 **a. ORA**

10 ORA accepts SoCalGas' forecast for shared services O&M costs. The Commission  
11 should adopt SoCalGas' forecast as reasonable.

12 **IV. CONCLUSION**

13 ORA's proposed \$2.129 million reduction to SoCalGas' TY2019 NERBA LDAR Impact  
14 Program forecast is unsupported and arbitrary. The Commission should reject ORA's proposed  
15 disallowance and adopt SoCalGas' forecasts for Environmental Services in their entirety.

16 This concludes my prepared rebuttal testimony.

**APPENDIX A**  
**Data Request ORA-SCG-017-LMW**



**ORA DATA REQUEST  
ORA-SCG-017-LMW  
SOCALGAS 2019 GRC – A.17-10-008  
SOCALGAS RESPONSE  
DATE RECEIVED: NOVEMBER 27, 2017  
DATE RESPONDED: DECEMBER 11, 2017**

**Exhibit Reference:** SCG-25, Workpapers

**SDG&E Witness:** Johnson

**Subject:** NERBA

**Please provide the following:**

1. Referring to SCG's testimony page DJ-17, there are new, emergent LDAR costs for requirements associated with CARB Oil and Gas and SB887 estimated in the amount of \$4,258,000 in TY2019. Based on this please answer/provide the following:
  - a. Confirm these costs will be part of the NERBA two way balancing account?
  - b. The support beyond the workpaper adjustments showing the various components and costs used to derive the estimate.

**SoCalGas Response 1:**

**Response a:**

Yes. The emergent LDAR costs forecasted for \$4,258,000 will be part of the NERBA two-way balancing account. In the process of preparing a response for this data request, it was determined that the actual forecasted amount for emergent LDAR costs were \$4,528,000 (see estimate details in response b below) or \$270,000 higher than the forecast entered in testimony and workpapers. The testimony of Darrell Johnson (Ex. SCG-25) will be footnoted to describe the discrepancy, but neither the revenue requirement nor results of operations will be updated to reflect the higher forecasts at this time.

**Response b:**

Cost estimates were made for 3 key areas identified in the regulation for both Underground Storage Facilities and Transmission Compressor Stations. The cost areas captured are: daily leak screening at storage wells, quarterly Leak Detection and Repair (LDAR), and replacement of reciprocating compressor rod packings. Costs are itemized in the table below:

**ORA DATA REQUEST  
ORA-SCG-017-LMW  
SOCALGAS 2019 GRC – A.17-10-008  
SOCALGAS RESPONSE  
DATE RECEIVED: NOVEMBER 27, 2017  
DATE RESPONDED: DECEMBER 11, 2017**

**SoCalGas Response 1 Continued:**

<b>CARB Oil and Gas Compliance Item</b>	<b>Estimated Annual Cost</b>
Daily (manual) leak screening – storage wells at 4 facilities	\$3,600,000
Quarterly Leak Detection and Repair – 9 Gas Transmission Facilities	\$180,000
Quarterly Leak Detection and Repair – 4 Underground Storage Facilities	\$620,000
Compressor Rod Packing Replacement (Transmission and Storage Facilities)	\$128,000
<b>Estimated Annual Costs for the above activities</b>	<b>\$4,528,000</b>

The cost estimates were derived from information provided by operations groups that had conducted similar activities as follows:

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ORA-SCG-017-LMW  
SOCALGAS 2019 GRC – A.17-10-008  
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**SoCalGas Response 1 Continued:**

**Natural Gas Underground Storage Facility Monitoring Requirements - Daily Leak Screening**

Historical cost information from the daily leak screening activities at the Aliso Canyon facility form the basis for costs estimates below. Records from the Storage Risk Management Team show that the facility spends approximately \$200,000/month for daily leak inspection activities conducted by three separate leak survey contractors.

$\$200,000 / \text{month} \times 12 \text{ months} = \$2,440,000/\text{year} (\$2.4 \text{ MM}/\text{year})$

The Storage Risk Management Team anticipated negotiation of lower rates in future years (due to longer contract periods). Future cost estimates for the Aliso Canyon Facility were adjusted down to \$1.8 MM/year.

Storage Risk Personnel estimated cost for a total of 6 additional leak detection teams to cover the additional 3 storage fields at a cost of \$600,000/year apiece.

**Daily air monitoring at storage wells (annual cost)**

• La Goleta	\$ 600,000
• Playa del Rey	\$ 600,000
• Honor Rancho	\$ 600,000
• <u>Aliso Canyon</u>	<u>\$ 1,800,000</u>
<b>Total</b>	<b>\$3,600,000</b>

**Transmission and Storage Facility Leak Detection and Repair**

Cost estimates for Leak Detection and Repair (LDAR) are derived from company historic EPA Subpart W Leak survey activities at select Storage Fields and Compressor Stations. Note that subpart W activities do not require repairs, thus only leak detection costs are estimated:

**Underground Storage Leak Survey Costs**

Aliso Canyon and Honor Rancho combined surveys (\$80k/year):

- Quarterly survey costs: 4 x \$80K \$320k/year

La Goleta and Playa del Rey (smaller storage fields - \$60k/year)

- Quarterly survey costs: 4 x \$60K \$240k/year

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**SoCalGas Response 1 Continued:**

- Compressor Services Technical Support: \$60K/year

**Gas Transmission Leak Survey Cost**

- Quarterly leak surveys covering 8 facilities \$100k/year
- Compressor Services Technical Support: \$80K/year

<b>Storage:</b>	\$320K + \$240K + \$60K	\$620K/year
<b>Transmission:</b>	\$100K + \$80K	\$180K/year
<b>Total T&amp;S survey cost estimate:</b>		<b>\$800K/year</b>

**Compressor Rod Packing Replacement:**

Compressor Rod Packing replacement activities have historically been tracked due to participation in the EPA Gas STAR Program. The Air Quality Compressor Services Group had at that time estimated replacement costs to be approximately **\$8000/packing replacement**.

The annual number of rod packings replaced over the years has been around 16 packings/year

**Estimated cost:** \$8000/packing x 16 packings/year = **\$128,000/year**