

Company: Southern California Gas Company (U 904 G)  
Proceeding: 2019 General Rate Case  
Application: A.17-10-\_\_\_\_\_  
Exhibit: SCG-40

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

**October 6, 2017**

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



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## **SUMMARY**

- Cost escalators are used to adjust for inflation the utility's labor, materials, and services costs from Base Year 2016 nominal dollars into Test Year 2019 nominal dollars.
- IHS/Markit Global Insight is used to forecast external national/regional-level utility industry cost inputs (with the exception of represented labor costs, which use the utility's actual union contract escalations).
- To aggregate escalators, inputs are weighted based on the utility's actual Base Year 2016 expenses.



1           **A.     Labor O&M Escalation**

2           SoCalGas' labor escalation index is a weighted average of three Global Insight wage and  
3 salary cost indexes: CEU4422000008, "Utility Service Workers" (weighted 50.619%);  
4 ECIPWMBFNS, "Managers and Administrators" (weighted 20.179%); and ECIPWPARNNS,  
5 "Professional and Technical Workers" (weighted 29.202%). The weightings are based on  
6 recorded 2016 labor earnings for the three corresponding categories of SoCalGas employees:  
7 represented employees; non-represented supervisory employees including managers, directors,  
8 and executives; and non-represented, non-supervisory employees. The utility service workers'  
9 portion incorporates wage increases already stipulated by labor contract for SoCalGas'  
10 represented employees from 2009 through 2018.

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

12           In the 2008 GRC Decision, D.08-07-046, SoCalGas was ordered to file subsequent GRCs  
13 using the "cost center" system of internal accounting and control rather than convert and allocate  
14 the O&M data to approximate the FERC accounts.<sup>2</sup> To be consistent with the cost-center  
15 presentation requirements, SoCalGas has combined various weighted Global Insight utility cost  
16 series to develop a single escalation index for non-labor O&M expenses, labeled as  
17 "JGTOTALMSX\_SCG." This index's component weights are based on SoCalGas' recorded  
18 Base Year 2016 expenses. Table SRW-1 shows each component's weighting in  
19 JGTOTALMSX\_SCG, its series name, and description.  
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<sup>2</sup> Decision 08-07-046 at 11 and Ordering Paragraph 22 at 106.

**Table SRW-1**  
**Global Insight Series Components in Southern California Gas Company's**  
**Non-Labor O&M Cost Index JGTOTALMSX\_SCG**

<b><u>Weight</u></b>	<b><u>Series Name</u></b>	<b><u>Description</u></b>
<b>100.00%</b>	<b>JGTOTALMSX_SCG</b>	SoCalGas Composite Gas Non-Labor O&M Index
<b>38.18%</b>	<b>JGUSOMMS</b>	Gas Storage (underground)
<b>12.23%</b>	<b>JGTOMMS</b>	Gas Transmission
<b>19.00%</b>	<b>JGDOMMS</b>	Gas Distribution
<b>9.53%</b>	<b>JGCAOMS</b>	Gas Customer Accounts
<b>5.86%</b>	<b>JGCSIOMS</b>	Gas Customer Service & Information
<b>15.20%</b>	<b>JGADGOMMS_X926</b>	Gas Admin & General, excluding Pensions & Benefits

All of the component cost escalators in Table SRW-1 come from Global Insight's utility O&M cost model, with the exception of the Administrative & General (A&G) series. Most of SoCalGas' pensions and benefits costs (FERC Account 926) are treated separately and are therefore excluded from regular cost escalations. Pensions have separate balancing account treatment, as discussed in the Corporate Center – Pensions and PBOPs testimony of Debbie Robinson (Exhibit SCG-31/SDG&E-29). Employee medical expenses (in FERC Account 926.3) are also treated separately and are discussed in the Corporate Center – Compensation and Benefits testimony of Debbie Robinson (Exhibit SCG-30/SDG&E-28). The Pensions and Benefits cost component was removed from Global Insight's utility A&G cost series JGADGOMMS. The resulting adjusted series JGADGOMMS\_X926 was used to escalate SoCalGas' non-labor, non-FERC Account 926 A&G costs.

The single cost escalation series for SoCalGas' shared services and working cash was based on a weighted average of labor and non-labor O&M indexes. Weights were based on actual 2016 SoCalGas shared-service cost charges by FERC account to labor (weighted 46.40%) and to the six non-labor cost categories (weighted an aggregate total of 53.60%) described above in Table SRW-1.

1 **C. Capital Cost Escalation**

2 The construction cost index used by SoCalGas and forecasted by Global Insight is based  
3 on the recorded Handy-Whitman cost series for the Pacific Region (encompassing the states of  
4 California, Oregon, and Washington). The forecasted Global Insight utility construction cost  
5 series JUG@PCF, "Total Gas Plant—Pacific Region," was used to escalate SoCalGas' capital  
6 construction costs.

7 **III. POST-TEST YEAR COST ESCALATORS**

8 Beyond TY 2019, SoCalGas proposes that its base margin revenue requirements be  
9 updated each year according to the PTY ratemaking mechanism described in the Post-Test Year  
10 Ratemaking testimony of Jawaad Malik (Exhibit SCG-44).

11 A gas O&M utility input price index (GOMPI) is calculated and used to adjust O&M  
12 expenses to reflect the expected cost inflation of goods and services comprising inputs that  
13 SoCalGas will use to serve its customers. The GOMPI's underlying PTY escalation indexes are  
14 the same O&M indexes described in Section II for escalations from 2016 to TY 2019. Based on  
15 SoCalGas' recorded 2016 expenses, the gas labor index is weighted 56.76%, and the non-labor  
16 O&M cost index JGTOTALMSX\_SCG is weighted 43.24%, to form a single GOMPI. For  
17 implementation and ease of calculation in PTY adjustments, the values of GOMPI and its  
18 component indexes will be re-based from BY 2016 = 1.0000 to TY 2019 = 1.0000.

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

20 **Table SRW-2**  
21 **Southern California Gas Company**  
22 **Summary of Cost Escalation Indexes**

<b>Annual Percent Changes</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
<b>Shared Services</b>	2.00%	1.91%	1.75%	0.96%	1.25%	2.23%	2.15%	2.42%	2.55%	2.42%	2.36%
<b>Operations &amp; Maintenance</b>											
Labor O&M Index	2.25%	2.41%	2.26%	2.35%	2.45%	2.60%	2.94%	3.15%	3.04%	2.96%	2.88%
Gas Nonlabor O&M Index	1.99%	1.63%	1.57%	-0.58%	0.26%	2.04%	1.48%	1.87%	2.24%	2.05%	2.06%
Post-Test-Year GOMPI	2.14%	2.06%	1.95%	1.05%	1.49%	2.36%	2.31%	2.60%	2.70%	2.58%	2.53%
<b>Capital-Related</b>											
Total Gas Plant	7.93%	-0.58%	1.10%	-1.40%	-0.75%	3.62%	3.23%	2.97%	2.77%	2.37%	2.50%

23 This concludes my prepared direct testimony.  
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1 **IV. WITNESS QUALIFICATIONS**

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

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

12 I received a Bachelor of Science degree in Agricultural & Managerial Economics from  
13 the University of California at Davis in 1982 and a Master of Science degree in Agricultural  
14 Economics from U.C. Davis in 1986.

15 I have previously testified before the California Public Utilities Commission.



## LIST OF ACRONYMS

<b>ACRONYM</b>	<b>DEFINITION</b>
A&G	Administrative & General
CPUC	California Public Utilities Commission
FERC	Federal Energy Regulatory Commission
GOMPI	Gas O&M utility price index
GRC	General Rate Case
O&M	Operations and Maintenance
PTY	Post-Test Year
SoCalGas	Southern California Gas Company
TY	Test Year
UCIS	Utility Cost Information Service