Company: Southern California Gas Company (U 904 G)
Proceeding: 2019 General Rate Case
Application: A.17-10-008
Exhibit: SCG-47-R

REVISED

SOCALGAS

DIRECT TESTIMONY OF JOSEPH S. VELASQUEZ

(MOBILEHOME PARK UTILITY UPGRADE PROGRAM)

DECEMBER 2017

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

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SUMMARY

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Southern California Gas Company
Capital and O&M Mobilehome Park Utility Upgrade (MHP) Pilot Program through 2016

MHP Pilot Program	Costs Incurred for MHP Projects Completed through 2016 ($Million)
Capital	15.5
O&M	0.3
Total	**15.8**

Southern California Gas Company (SoCalGas) asserts the reasonableness of $15.8 million ($15.5 million in capital expenditures and $0.3 million in O&M expenditures) incurred in executing the ongoing Mobilehome Park Utility Upgrade Pilot Program (MHP Pilot Program). These costs were incurred for activities related to the conversion of MHP Projects through 2016 pursuant to the MHP Pilot Program Decision (D.) 14-03-021. In accordance with the directive in D.14-03-021, these costs are being presented in SoCalGas' General Rate Case (GRC). These costs are reasonable and justified in that:

- The activities are consistent with the Commission's approved MHP Pilot Program Decision and tariffs, applicable codes and standards established by local, state, and federal authorities and SoCalGas standards;
- The activities enhance the safety and reliability of Mobilehome Park Communities;
- The activities are conducted by qualified employees and contractors; and
- The activities support SoCalGas' commitment to enhance public safety and system reliability.

REVISED SOCALGAS DIRECT TESTIMONY OF JOSEPH S. VELASQUEZ (MOBILEHOME PARK UTILITY UPGRADE PROGRAM)

I. INTRODUCTION

A. Summary of the Mobilehome Park Utility Upgrade Program

The purpose of this section of my testimony is to establish the reasonableness of $15.8 million ($15.5 million in capital expenditures and $0.3 million in O&M expenditures) incurred in executing the ongoing Mobilehome Park Utility Upgrade Pilot Program (MHP Pilot Program). My testimony (1) describes the activities and reasonableness of costs recorded by SoCalGas in executing the MHP Pilot Program as directed by the Commission in D.14-03-021 (MHP Decision), and (2) in accordance with Ordering Paragraph (OP) 8 of the MHP Decision, submits as reasonable the costs reported in SoCalGas' 2017 Mobile Home Park Utility Upgrade Program Report.[1] Reasonableness review of costs is limited to recorded costs and excludes any program cost forecasts.

As of December 31, 2016, SoCalGas completed conversion of 32 MHPs (of 199 MHPs currently in scope that represent 11,619 spaces or approximately 9% of all MHP master meter spaces in SoCalGas' territory). The 32 MHPs represent a combined total of 1,665 spaces (of 11,619 spaces currently in scope).

II. PROCEDURAL BACKGROUND

R.11-02-018 was commenced to "examine what the Commission can and should do to encourage the replacement by direct utility service of the master-meter / submeter systems that supply electricity, natural gas, or both to mobile home parks and manufactured housing communities located within the franchise areas of electric and/or gas corporations."[2] The rulemaking "grapple[d] with issues that have proven intractable for decades"[3] and, "[a]fter three

[1] *See* SoCalGas Mobilehome Utility Upgrade Program, February 1, 2017, Report, appended hereto as Appendix A.

[2] Rulemaking (R.)11-02-018, *Decision Granting Petition in Part and Instituting Rulemaking Into Issues Concerning Transfer of Electric and Natural Gas Master-Metered Service at Mobilehome Parks and Manufactured Housing Communities to Direct Service by Electric And/Or Natural Gas Corporations*, issued February 25, 2011, at 1.

[3] Decision (D.)14-03-021 at 3. The Commission also discussed efforts commenced in the 1990s to encourage California MHPs with master-metered service to convert to direct utility service, noting that over a period of 17 years little more than two dozen conversions occurred. *Id.* at 4-5.

years of review,"[4] the Commission ordered SoCalGas and other utilities to execute the MHP Pilot Program.

The MHP Pilot Program was ordered to be a three-year program (2015-2017) to convert master-metered/sub-metered natural gas and/or electric services to direct utility services for approximately ten percent (10%) of spaces in mobilehome parks and manufactured housing communities (collectively, MHPs) in SoCalGas' service territory. The focus of the conversions is primarily on safety and secondarily on system reliability/capacity.[5]

The MHP Decision ordered that conversions must be completed on a "to the meter" (TTM) and "beyond the meter" (BTM) basis.[6]

Regarding cost recovery for this Commission-mandated safety and reliability program, the Commission stated:

> Utilities will be authorized to fully recover the reasonably incurred, actual costs of the conversion program in distribution rates. Reasonable incremental expenses for program development and administration, not otherwise recovered in rates, should be entered as incurred for annual recovery in the utility's pilot program balancing account. Reasonable expenditures for actual construction costs should be entered as incurred and recovered in the year following cut over to direct utility service. "To the meter" construction costs will be capitalized at the utility's then-current authorized rate of return on rate base, based on actual (not forecast) expenditures. "Beyond the meter" construction costs also will be capitalized based on actual (not forecast) expenditures but, consistent with their status as a regulatory asset, will be amortized over ten years at the utility's then-current authorized return on rate base.[7]

The Commission made provisions for program oversight: annual reports that include specific information are required to be filed in the first quarter of every year, and the reasonableness of program costs are to be reviewed by the Commission in an after-the-fact reasonableness review. Specifically, the Commission ordered:

> Each electric and/or gas corporation is authorized to fully recover in distribution rates the costs of the conversion program approved in Ordering Paragraph 2, subject to reasonableness review. The following ratemaking is approved: actual, prudently incurred program costs shall be entered in a balancing account for recovery in the first year following cut over of service; "to the meter"

[4] *Id.* at 2.
[5] *Id.* at 3.
[6] *Id.* at 75 (Ordering Paragraph (OP) 2).
[7] *Id.* at 3.

> construction costs must be capitalized based on actual (not forecast) expenditures at the utility's then-current authorized return on rate base; "beyond the meter" construction costs must be capitalized based on actual (not forecast) expenditures and consistent with their status as a regulatory asset, these costs must be amortized over ten years at a rate equivalent to the utility's then-current authorized return on rate base. Review for reasonableness of "to the meter" costs will occur in the general rate case where those costs are put into rate base. Review for reasonableness of "beyond the meter" costs will occur in the first general rate case after service cut over.[8]

III. SAFETY CULTURE

In D.14-03-021, the Commission states:

> This rulemaking grapples with issues that have proven intractable for decades. Central to them all is how to ensure the safe, reliable and fairly-priced delivery of electricity, natural gas, or both, to the residents of mobilehome parks and manufactured housing communities (collectively, MHPs) located within the franchise areas of electric and/or natural gas corporations, those Commission-regulated entities commonly referred to as public utilities.[9]

Based on the results of the MHP Pilot Program to date, the Commission-approved MHP Pilot Program has been successful in enhancing the safety and reliability of the delivery of natural gas to the residents of mobilehome parks and manufactured housing communities that have participated in the MHP Pilot Program. The MHP Pilot Program has been an effective means for significantly increasing the number of conversions to direct utility service.

The program team has established a safety policy that achieves the program's safety objectives and is consistent with SoCalGas' safety-first foundation. To date, all MHP Pilot Program projects have been executed with a zero-incident safety record for both internal employees and contractor crews. SoCalGas' MHP Pilot Program annual safety statistics are summarized further in my testimony.

IV. STANDARD OF REVIEW AND OTHER COMMISSION GUIDANCE

This section of my testimony summarizes the applicable standard of review and other applicable Commission guidance.

[8] *Id.* at 77 (OP 8).
[9] *Id.* at 3-4.

A. Preponderance of the Evidence Standard

The standard of proof to be applied by the Commission in an after-the-fact reasonableness review is preponderance of the evidence.[10] Preponderance of the evidence is defined "in terms of probability of truth, e.g., 'such evidence as, when weighed with that opposed to it, has more convincing force and the greater probability of truth.'"[11] In other words, SoCalGas "must present more evidence that supports the requested result than would support an alternative outcome."[12]

B. Reasonable Manager Standard

To assess the reasonableness of incurred costs, the Commission applies the reasonable manager standard.[13] To meet this standard, "[t]he act of the utility should comport with what a reasonable manager of sufficient education, training, experience and skills using the tools and knowledge at his disposal would do when faced with a need to make a decision and act."[14] As explained by the Commission, "reasonable and prudent acts do not require perfect foresight or optimum outcomes, but may fall within a spectrum of possible acts consistent with utility needs, ratepayer interests, and regulatory requirements."[15] Under this standard, the Commission holds utilities to "a standard of reasonableness based upon the facts that are known or should be known at the time."[16] In so doing, the Commission looks to the decision-making process and information available to the manager to assess whether the course of action was within the "bounds of reasonableness, even if it turns out not to have led to the best possible outcome."[17] As explained by the Commission, this is to "avoid the application of hindsight in reviewing the reasonableness of a utility decision."[18]

In the case of the MHP Pilot Program, the Commission recognized that "the physical conditions at MHP master-meter/submeter systems will vary greatly, depending upon age, type

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[10] Application (A.)14-12-016, *Assigned Commissioner and Administrative Law Judges' Scoping Memo and Ruling*, filed April 1, 2015, at 5; *see also* D.14-06-007 at 13.
[11] D.14-06-007 at 13 (citing Witkin, Calif. Evidence, 4th Edition, Vol. 1, 184).
[12] *Id*.
[13] A.14-12-016, *Assigned Commissioner and Administrative Law Judges' Scoping Memo and Ruling*, filed April 1, 2015, at 5-6.
[14] D.90-09-088 at 16.
[15] D.97-08-055 at 54.
[16] D.90-09-088 at 15 (citing D.88-03-036 at 5).
[17] D.89-02-074 at 169 (Conclusion of Law 3).
[18] D.90-09-088 at 15.

of materials used in prior construction, existing MHP design, terrain and other factors,"[19] and thus "numerous uncertainties"[20] existed before the MHP Pilot Program commenced and will remain true for the duration of the MHP Pilot Program.

V. PROGRAM ORGANIZATION AND GOVERNANCE CONTROLS

A. Master Meter Balancing Account and Nature of Recorded Costs

The Master Meter Balancing Account was authorized by Advice Letter 4643-G on June 25, 2014.

SoCalGas records to the MMBA to-the-meter costs, which include costs for utility and contracted labor, purchased services and materials, and trenching and paving. Utility labor costs include civil construction, setting meters, gas service turn-on, purging of legacy systems, removal of master meters, as well as the procurement and warehousing of materials. To-the-meter costs also include MHP Pilot Program management costs, which are inclusive of: Program Outreach, such as primary customer contact and coordination before, during, and after construction activities in accordance with the Commission-reviewed statewide Outreach Plan; Program Construction Management, which includes construction management and planning; and Program Management Office (PMO) activities which include program strategy, project controls during the project life cycle, regulatory reporting, and the MHP Pilot Program's finance, budgeting, and accounting functions. PMO activities also include communicating progress to various stakeholders.

SoCalGas also recorded beyond-the-meter costs, which include work related to the connection of new utility services from the utility meter to the mobilehome. Beyond-the-meter work is performed by contractors selected by the MHP owners/operators.[21] As such, beyond-the-meter costs are not directly managed or under the control of SoCalGas.

The regulatory accounting treatment of costs recorded to the MMBA is discussed in the Regulatory Accounts testimony of Rae Marie Yu (Exhibit SCG-42).

[19] D.14-03-021 at 49.
[20] *Id.*
[21] *Id.* at 47 (Construction).

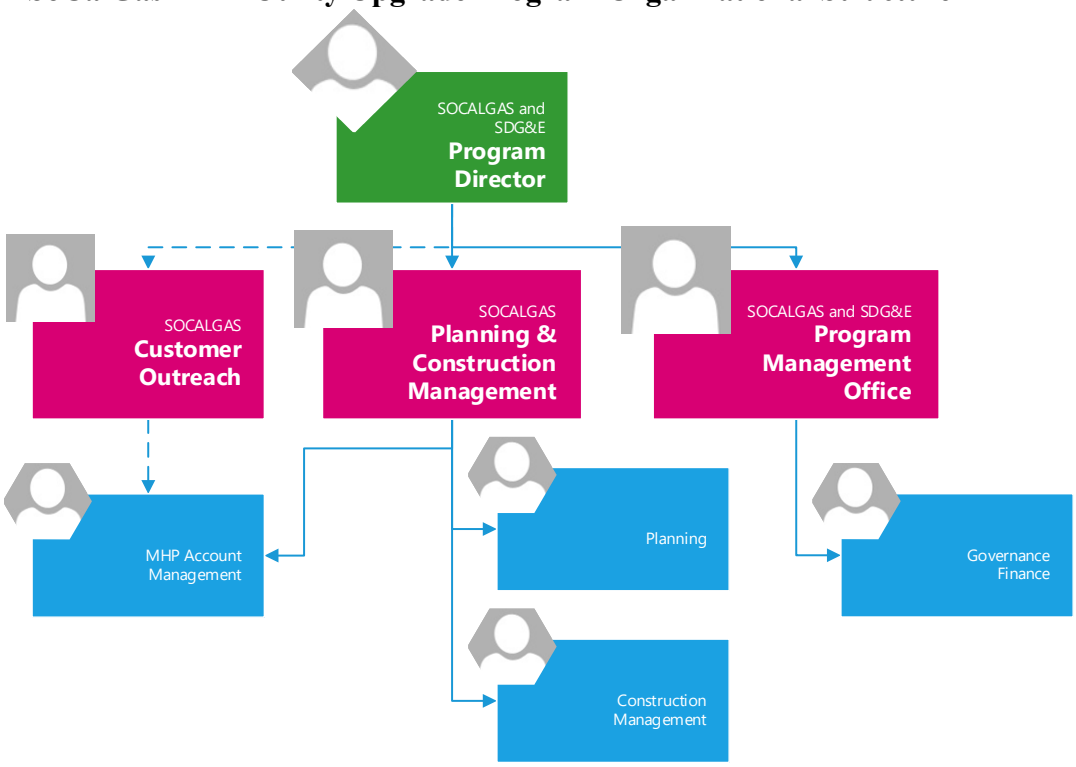
B. Program Management

SoCalGas' MHP Pilot Program management team implemented a series of tools and controls to enable identification of risks and issues which could negatively impact scope, schedule, or cost. These practices include the following:

1. Experienced Management Staff

To implement the MHP Pilot Program, SoCalGas formed an organization led by management personnel experienced in each of the core competencies required by the MHP Pilot Program (*i.e.*, Program Outreach, Planning and Construction, PMO Governance, and Finance). In support of a lean organization that shares both costs and lessons learned, certain roles, including the Program Director, PMO Manager, Governance Manager, and Finance Manager, are shared across SoCalGas and San Diego Gas & Electric Company's (SDG&E) MHP Pilot Programs. Figure JSV-1 depicts the MHP Pilot Program organizational structure.

FIGURE JSV-1
Southern California Gas Company
SoCalGas MHP Utility Upgrade Program Organizational Structure



The responsibilities of each workstream in the MHP Pilot Program organization are briefly described as follows:

- Customer Outreach and MHP Account Management - The SoCalGas Outreach team is responsible for outreach and education to impacted communities, mobilehome parks, and residents before, during, and after execution of the program and individual projects. To promote efficient and streamlined project execution, the Outreach team works closely with the Planning and Construction Management team to assess and resolve project risks and issues. Additionally, the Account Management executives work closely with MHP Owners/Operators to implement project-driven outreach and education plans compliant with the statewide MHP Utility Upgrade Program Outreach and Education Plan.
- Planning and Construction Management - The SoCalGas Planning and Construction team manages the design through construction components of the MHP utility upgrades.
    - Planning - The Planning team assesses each individual project and designs the new gas distribution system per SoCalGas' standards.
    - Construction Management - The Construction Management team consists of project managers and inspectors responsible for reviewing and assessing to-the-meter work performed in the mobilehome parks. The construction management team manages the schedule, scope, and budget of each individual project. While the construction management team does not manage the beyond-the-meter construction work performed by MHP owner/operator-selected contractors, it reviews the scope and costs of beyond-the-meter bids and coordinates with the beyond-the-meter contractor regarding meter locations and procedures for interconnection and turn-on at each mobilehome.
- Program Management Office (PMO) - The PMO defines and maintains standards of project management and compliance within the MHP Pilot Program.
    - Governance - As part of the PMO, the Governance team is responsible for establishing and implementing program controls and processes needed to execute the MHP Pilot Program. This includes risk

management, issue management, schedule management, change management, monitoring of key performance indicators (KPIs), project reporting, and business process design.

- Finance - The Finance team, also part of the PMO, is responsible for establishing and implementing cost and budget controls to confirm accurate cost tracking. Activities include cost accounting and invoice processing, change management, budgeting, and financial reporting.

2. MHP Pilot Program's Ongoing Efforts To Minimize Project Execution Costs

The procurement of services (construction contractors, design, etc.) is the largest individual category of MHP Pilot Program expenditures. Approximately 40% of MHP Pilot Program costs are for purchased services and materials. As such, an important aspect of the prudent execution of the MHP Pilot Program is sourcing and retaining capable contractors and vendors at reasonable rates. In an effort to control program costs through pre-negotiated rates, SoCalGas and Southern California Edison Company (SCE) jointly conducted a competitive solicitation for to-the-meter construction activities within their service territories to identify and select qualified and licensed construction contractors. Contractors known to perform the type of work needed for MHP projects were selected by an experienced team of construction management and sourcing employees from both SoCalGas and SCE. A total of twenty-one contractors responded to a Request for Information and ten of those contractors, along with an additional five qualified by SCE, participated in a Request for Proposal process. Using a competitive bid process, SoCalGas and SCE awarded Program Master Service Agreements to nine contractors.

- Partnerships/Cost Saving/Trench Splitting – When appropriate due to service territory overlap, SoCalGas works in close cooperation with other utilities and shares the cost for relevant MHP conversion costs such as trenching costs. This approach has resulted in 72% (23 of 32) of mobilehome parks being jointly converted through December 31, 2016, which enabled customers of both utilities to share the civil construction costs. SoCalGas estimates this joint conversion rate will increase as the MHP Pilot Program continues.

- Project Monitoring – SoCalGas' MHP Construction Management team oversees to-the-meter construction activities to confirm that work is safely performed in accordance with project scope, schedule, and budget. Each project is assigned a project manager and inspector responsible for reviewing and assessing the activities of the to-the-meter contractor. At the onset of each project, the project managers and inspectors hold a pre-construction meeting with the selected contractor to review project details, reporting, safety, and other deliverables. Frequent monitoring is performed by the inspector and changes, issues, or questions that arise are timely addressed by the project inspector and/or project manager.
- Estimation – SoCalGas tracks the costs of construction for each project through internal Work Order Authorizations (WOAs), which are used to track actual costs against the original estimate of total project costs. Costs in excess of estimates require further review and approval through reauthorizations.
- Invoice Validation – Each invoice for to-the-meter or beyond-the-meter work is reviewed by the program's Finance group and Construction Project Managers to validate that work has been completed in accordance with contractual agreements at the negotiated rates and within authorized limits.
- Project Close-Out/Quality Assurance – SoCalGas performs reconciliation and quality assurance following completion of every project to affirm that: (1) records in support of both program and project compliance are reviewed; (2) oversight was provided for project decisions and/or associated changes that occurred; (3) documents are stored in centralized repositories for proper records management; and (4) when final costs have been recorded, total project financial records are reviewed for validity and compared against estimates.
- Diverse Business Enterprises (DBE) – The MHP Pilot Program supports SoCalGas' commitments consistent with GO 156 through inclusion of DBE participation as a KPI of the program. During the to-the-meter construction contractor competitive solicitation process, expanding opportunities to DBE contractors was a consideration in the evaluation of contractors. The project is performing at approximately a forty-percent (40%) DBE level.

- Program Monitoring – SoCalGas produces periodic financial and schedule reporting for its management teams to allow continuous oversight over the program, to monitor project progress, and enable early identification of risks and issues impacting schedule and costs.
- Policies and Procedures – SoCalGas established a Program Governance Plan (PGP) to document the MHP Pilot Program's guidelines and core processes and to facilitate uniformity of repeatable processes. The PGP and its supporting documentation are periodically modified and updated to reflect lessons learned through MHP Pilot Program activities. In addition, the PGP documents major decisions, including alternatives contemplated, that affect program activities.
- Clarity of Engagement Scope – SoCalGas strives to maintain clearly-defined program goals with contributing and impacted program stakeholders by working closely with MHP owners/operators through focused outreach efforts to clarify MHP Pilot Program components and the commitments required to reduce the risk of ambiguity in covered and non-covered costs. Through outreach efforts, SoCalGas works with MHP owners/operators to seek multiple bids for beyond-the-meter activities, thereby promoting cost awareness and competition. SoCalGas also provides workshops to beyond-the-meter contractors to promote awareness of the program, including its components and goals, and engages beyond-the-meter contractors throughout the planning processes, including inviting participation in MHP site walks to more accurately estimate scope, schedule, and budget.
- Communication and Guidance – SoCalGas fosters open channels of communication with external program stakeholders, including the Commission's Safety and Enforcement Division (SED), the California Department of Housing and Community Development (HCD), and other local and state entities to promote awareness of the program, share observations and findings, seek guidance, and provide information to better coordinate activities such as inspections.
- Zero-Incident Safety Record – Safety is a primary driver of the SoCalGas MHP Pilot Program and one of its KPIs. The program team consulted with SoCalGas' Safety and Wellness department, as well as other Major Projects teams, to establish a safety policy that achieves the program's safety objectives and is consistent with SoCalGas' safety-

first foundation. Additionally, SoCalGas continues to work with SED to review projects, as requested. To date, all MHP Pilot Program projects have been executed with a zero-incident safety record for both internal employees and contractor crews. SoCalGas' MHP Pilot Program annual safety statistics are summarized in Table JSV-2 below.

Table JSV-2
Southern California Gas Company
SoCalGas MHP Utility Upgrade Program Safety Statistics

INCIDENT TYPE	2014	2015	2016	2017 (YTD)
Lost Time Injury (LTI)	0	0	0	0
OSHA-Recordable	0	0	0	0

- Continuous Improvement – Consistent with SoCalGas' ongoing commitment to continuous improvement, SoCalGas continually evaluates and implements improvements to its MHP Pilot Program processes. Though not exhaustive, the following are examples of continuous improvements applied through program implementation:
    - Organizational changes to improve planning and estimation at the onset of individual projects;
    - Organizational changes to support sufficient regional coverage and address workload and geographical spread;
    - Improving cost controls through adoption and improvement of unit-based tasking with to-the-meter contractors and bid and bid-review templates for beyond-the-meter contractors;
    - Introduction and adaptation of change management and close-out processes;
    - Working closely with each MHP owner/operator to adapt the Outreach and Education Plan to best suit their needs and minimize project issues;
    - Regularly cadenced joint meetings with partner utilities to discuss project schedules, risks, and issues; and
    - Development of multiple MHP owner/operator funding options for beyond-the-meter costs (*i.e.*, payment assignment and utilization of iBank) to further encourage participation.

Through continuous efforts to improve existing processes and the implementation of each of these changes, the efficiency and cost effectiveness of future MHP Pilot Program projects are also improved.

C. Preliminary Cost Summary

As directed by the MHP Decision, on February 1, 2017, SoCalGas filed its second Annual MHP Utility Upgrade Program Report,[22] which summarizes the MHP Pilot Program's preliminary findings and includes: (1) a program timeline and progress towards that timeline; and (2) a preliminary quantification of construction costs recorded per space, with to-the-meter and beyond-the-meter costs of conversions incurred through December 31, 2016, identified separately.[23] These costs are summarized in Table JSV-3.

[22] *See* Appendix A.
[23] D.14-03-021 at 78 (OP 10).

Table JSV-3
Southern California Gas Company
MHP Pilot Conversion Preliminary Costs through 12/31/2016

SoCalGas MHP Utility Upgrade Program	
To-the-Meter	
Contractor Costs	
Civil / Trenching	$4,294,587
Gas System	
Labor	$1,259,160
Materials/Structures	$641,722
Program Management Costs	
Program Management Office (PMO)	$652,264
Outreach	$249,222
Construction Management (CM)	$2,466,950
Other To-the-Meter Costs	
Labor	$2,253,922
Non-Labor	$214,629
Property Taxes	$8,954
AFUDC	$60,817
Subtotal To-the-Meter Costs	**$12,102,225**
Beyond-the-Meter Contractor Costs	
Gas System	
Labor	$2,117,036
Materials/Structures	$839,427
Other[24]	$784,411
Subtotal Beyond-the-Meter Costs	**$3,740,874**
Total (Preliminary Costs) to 12/31/2016	**$15,843,099**

Table JSV-3 details preliminary costs for each of the following categories:

- To-the-Meter Contractor Costs, which include contractor costs for to-the-meter activities, such as trenching and paving, which are often shared with other participating electric utilities where service territories overlap.[25]
- Other To-the-Meter Costs: This includes the costs of company labor in support of the program, including to-the-meter work for selected MHPs, setting meters and turning on gas service, purging the legacy system, removal of the master meter, as well as the procurement and warehousing of materials.

[24] Includes City, Local Enforcement Agency and/or HCD fees.
[25] *I.e.*, Pacific Gas and Electric Company, Southern California Edison Company, and San Diego Gas & Electric Company.

- Beyond-the-Meter Contractor Costs, which are costs reimbursed to the MHP owner/operator to perform beyond-the-meter construction work. Beyond-the-meter contractors are selected by the MHP owner/operator; and
- Program Management Costs, which comprise:
  - PMO Costs, which include overall Program Management (*e.g.*, Program strategy, risk management, change management, schedule management) and the Program's Finance functions;
  - Construction Management Costs, which include: construction project management; preliminary planning and full design activities; planners and designers who perform work for multiple parks; Project Managers, Construction Contractor Administration staff, and other support personnel who also perform work at multiple construction sites; and
  - Outreach activities, which include primary customer and stakeholder contact and coordination before, during and after construction, consistent with the Commission-approved statewide Outreach Plan.

Program Management Costs are tracked separately from to-the-meter costs and beyond-the-meter contractor costs and allocated to each MHP as part of the project close-out process, based on the number of spaces converted. To most efficiently utilize PMO resources, selected PMO staff provide management and services to both SoCalGas and SDG&E and costs for such staff are allocated at a rate of 50% to each utility.

The above costs are fully loaded and include Company overheads consisting of Payroll Tax, Incentive Compensation Plan, Pension and Benefits, Worker's Compensation, Vacation and Sick, Personal Liability and Property Damage Overhead, Purchasing, Warehouse, Shop Overhead, Small Tools, and Administrative and General capital. The overheads applied to the program are driven by incremental costs incurred as the result of implementing the MHP Pilot Program.

Please see Appendix A for supplemental workpapers providing additional information regarding recorded Program costs.

The observed preliminary average per-space cost for the period ending December 31, 2016 are summarized in Table JSV-4.

Table JSV-4
Southern California Gas Company
MHP Utility Upgrade Preliminary Average
Per-Space Cost as of December 31, 2016

SoCalGas	Average Cost Per Space	Spaces Converted
To-the-Meter	$7,269	1,665
Beyond-the-Meter	$2,564	1,459
Total Average Cost Per Space	$9,833	

VI. CONCLUSION

My testimony demonstrates that the $15.8 million in costs recorded to the MMBA through December 31, 2016 in the ongoing execution of the MHP Pilot Program have been reasonably incurred. These costs directly support achievement of the Commission's stated objective to convert higher risk master-meter/submeter systems that supply natural gas to mobilehome parks or manufactured housing communities to enhance the safety and reliability of MHP communities.[26] In accordance with the reasonable manager standard, SoCalGas designed and executed the MHP Pilot Program to enhance the safety and reliability of utility service to the many MHP communities that have participated in the Program while maintaining reasonable conversion costs through prudent planning and oversight.

[26] D.14-03-021 at 75 (OP 3).

VII. WITNESS QUALIFICATIONS

My name is Joseph S. Velasquez. My business address is 8306 Century Park Court, San Diego, California 92123. I am employed by SoCalGas and SDG&E as the Director of the Master Meter Customer Program for the Southern California Gas Company and San Diego Gas & Electric Company. My present responsibilities include the overall management and implementation of SoCalGas' and SDG&E's Mobilehome Park Utility Upgrade Program.

I have been employed by SoCalGas/SDG&E since 1986 and have held various positions of responsibilities including Director of Supply Management and Supplier Diversity for SDG&E, Director of Commercial and Industrial Services for SDG&E and Interim Director of Commercial and Industrial Services for SoCalGas.

I received a Bachelor of Science Degree in Chemical Engineering from California State University, Northridge and a Master in Business Administration from Pepperdine University.

I have previously testified before this Commission.

LIST OF ACRONYMS

ACRONYM	DEFINITION
AL	Advice Letter
BTM	beyond the meter
(D.)	Decision
DBE	Diverse Business Enterprises
HCD	California Department of Housing and Community Development
MHP	Mobilehome Park Utility Upgrade Pilot Program
MMBA	Master Meter Balancing Account
O&M	Operations and Maintenance
OP	Ordering Paragraph
PGP	Program Governance Plan
PMO	Program Management Office
SED	Safety and Enforcement Division
SCE	Southern California Edison
SDG&E	San Diego Gas & Electric Company
SOCALGAS	Southern California Gas Company
TTM	to the meter
WOA	Work Order Authorization

APPENDIX A

SOUTHERN CALIFORNIA GAS COMPANY
2017 MOBILEHOME PARK UTILITY UPGRADE PROGRAM REPORT
FEBRUARY 1, 2017

On February 1, 2017, in accordance with Ordering Paragraph 10 of the Decision, SoCalGas filed its second Annual Report, which summarizes the MHP Pilot Program's preliminary quantification of construction costs incurred per space identified separated by To-the-Meter (TTM) and Beyond-the-Meter (BTM) costs for mobilehome park (MHP) conversions through December 31, 2016. This Appendix provides a copy of this report.

Mobilehome Park Utility Upgrade Program

FEBRUARY 1, 2017 Report

SOCALGAS MOBILEHOME PARK UTILITY UPGRADE PROGRAM
FEBRUARY 1, 2017 REPORT

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Mobilehome Park Utility Upgrade Program
FEBRUARY 1, 2017 Report

1. Executive Summary

On March 13, 2014, the California Public Utilities Commission ("Commission") approved and authorized Southern California Gas Company ("SoCalGas") to execute the *Mobilehome Park Utility Upgrade Program* ("Program") through D.14-03-021 ("Decision"). The Program is a three-year pilot (2015-2017) to convert master-metered/sub-metered natural gas and/or electric services to direct utility services for qualified mobile home parks and manufactured housing communities (collectively "MHPs").

The Decision directs each electric and/or gas utility to annually prepare a status report for the Program on February 1 of each year. Pursuant to Ordering Paragraph ("OP") 10 of the Decision each electric and/or gas utility filed their first status report on February 1, 2016; and must file a second and third report on February 1 of 2017 and 2018, respectively. In SoCalGas' February 1, 2016 Report, SoCalGas provided a timeline for implementation of the three-year pilot, its current status on the timeline, the number of initial applications received, information on the MHPs that would be converted, and the number of spaces to be converted.

In accordance with OP 10 of the Decision, this report provides information on the following: (1) a Program timeline and the current progress towards that timeline, and (2) a preliminary quantification of construction costs incurred per space identified separated by "to the meter" and "beyond the meter." The Decision further requires that on both "to the meter "and "beyond the meter" bases, cost should be broken out to identify: civil work/trenching; other gas system construction (if applicable); other electric system construction (if applicable); and other costs such as permits and easements.

As of December 31, 2016, SoCalGas has completed conversion of 32 MHPs (of 199 MHPs currently in scope) with a combined total of 1,665 spaces (of 11,619 spaces currently in scope). An additional 59 MHPs are in various stages of construction. The total conversion cost for the 32 MHPs is $15,843,099. These costs may be adjusted as trailing and other costs are received and charged to their respective MHPs.

2. Program Timeline and Where SoCalGas is on the Timeline

The Program has been planned to achieve the conversion, on a combined To-The-Meter ("TTM") and Beyond-The-Meter ("BTM") basis of 10% of the estimated spaces in SoCalGas' service territory, which currently represents approximately 12,800 spaces. However, there have been a number of MHPs that have elected not to move forward which has resulted in a current space count of 11,619 across 199 MHPs or approximately 9% of all MHP master meter spaces in SoCalGas' territory. To reach all participating MHP spaces, SoCalGas developed the timeline shown in Figure 1 ("Timeline for Implementation of Three-Year Pilot") noting that, where possible, dual conversions (natural gas and electric) have been planned through joint efforts with the respective electric service providers. Additionally, joint trenching opportunities may be leveraged with the MHP's existing telecommunications[1] provider(s).

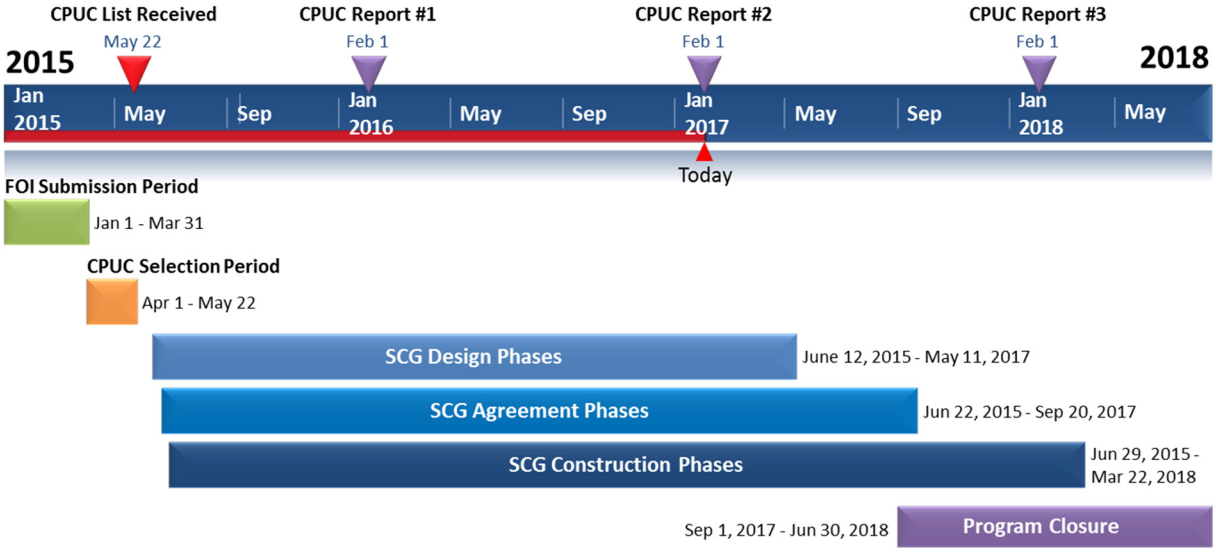
A number of assumptions are inherent in the Schedule, specifically; it assumes that there are no constraints which may prevent the MHP's participation in the Program, such as the MHP owner's ability and willingness to complete and move forward with a detailed application, execute the Program Agreement, grant the required easements, secure a qualified BTM contractor, successfully address any environmental issues, finance the BTM construction activities and removal of the legacy system as necessary and meet the prescribed program schedule. The timeline also assumes that the total number of MHP spaces indicated on the Form of Intent ("FOI") completed by the MHP owners is accurate. Further assumptions include, but are not limited to, the ability for a joint schedule to be developed, acceptable, and executable by all impacted utilities where shared territory requires joint construction. Also, the schedule is dependent on availability of both TTM and BTM contractors having qualified crews to perform construction and the California Department of Housing and Community Development ("HCD") and/or other jurisdictional agencies having available trained resources to perform timely inspections on completed portions of the projects. SoCalGas' schedule is expected to continue to change throughout the Program's life as Agreements are signed and MHPs decline or opt to participate.

As of December 31, 2016, SoCalGas has 167 MHP designs completed and has 91 MHPs currently in the construction stage or where construction has completed.

Based on its current schedule, SoCalGas forecasts starting all 11,619 currently participating MHP spaces by August 30, 2017, and completing conversion of approximately 80% of the goal by December 31, 2017, whereby major construction activities would be substantially underway.

[1] As of December 31, 2016, one telecommunications provider has participated in one MHP conversion.

Figure 1. Timeline for Implementation of Three-Year Pilot and current status



3. Preliminary Cost Assessment

As of December 31, 2016, SoCalGas has converted[2] 32 MHPs (of 199 MHPs currently in scope) with a combined total of 1,665 spaces (of 11,619 spaces currently in scope). In accordance with OP 10 of the Decision, SoCalGas' preliminary quantification of construction costs incurred per space are shown in Table 1 ("SoCalGas Preliminary Quantification of Construction Costs") below. These costs may be adjusted as trailing costs or other changes are required and allocated to their respective MHPs.[3]

Table 1 details preliminary costs for each category of:

(1) TTM Contractor Costs, which include contractor costs for gas-only MHPs as well as the portion paid by SoCalGas for TTM activities which are shared with other participating utilities where service territories overlap.[4] These are comprised but not limited to including trenching and paving;

(2) Utility Crews and Material Cost: This includes the loaded costs of company labor in support of the program including to-the-meter work for selected MHPs, setting meters and tuning on gas service, purging the legacy system, removal of the master meter, as well as the procurement and warehousing of materials.

(3) BTM Contractor Costs, which are costs reimbursed to the MHP owner/operator to perform the BTM construction work. BTM contractors are selected by the MHP owner/operator; and

(4) Program Management Costs ("PMC"), which are comprised of:

  (a) Project Management Office ("PMO") which includes overall Program Management (e.g. program strategy, risk management, change management, schedule management) and the program's Budgeting and Accounting functions;

  (b) Construction Management ("CM"), which includes Construction Project Management, preliminary planning and full design activities. Planners and designers perform work for multiple parks. Project Managers, Construction Contractor Administration staff, and other support personnel also perform work at multiple construction sites; and

[2] SoCalGas labels "Converted" MHPs as those where System Cutover has occurred, Master Meter has been removed, and all TTM, BTM, PMC costs are expected to have been received and allocated to each MHP. SoCalGas established and strives to meet a "Closing Period" of 180-days beyond Master Meter removal to allow for these activities to occur. This report includes MHPs which have completed or are in the Closing Period.

[3] "Trailing charges" may include, but are not limited to, contractor invoices, internal labor charges, or other costs which may not have been received within SoCalGas' Closing Period.

[4] *I.e.*, Pacific Gas & Electric Company, Southern California Edison Company and San Diego Gas and Electric Company.

(c) Outreach activities which include primary customer contact and coordination before, during and after construction consistent with the Commission-reviewed statewide Outreach Plan.

PMC are tracked separately from TTM costs and BTM Contractor costs and allocated to each MHP based on the number of spaces converted. PMC are allocated as part of SoCalGas' project close activities. To most efficiently utilize PMO resources, selected PMO staff provides management and services to both SoCalGas and SDG&E and costs for such staff are allocated at a rate of 50% to each utility.

TABLE 1. SOCALGAS PRELIMINARY QUANTIFICATION OF CONSTRUCTION COSTS

	SoCalGas	
1	**To The Meter (TTM) Contractor Costs**	
2	Civil / Trenching	$4,294,587
3	Electric System	N/A
4	Labor	
5	Materials/Structures	
6	Gas System	
7	Labor	$1,259,160
8	Materials/Structures	$641,722
9	**Sub-Total TTM Contractor Costs**	**$6,195,469**
10		
11	Other TTM Non-Labor Costs	
12	Property Taxes	$8,954
13	AFUDC	$60,817
14	**Sub-Total Other TTM Non-Labor Costs**	**$69,770**
15	**Sub-Total TTM Costs**	**$6,265,239**
16		
17	**Beyond The Meter (BTM) Contractor Costs**	
18	Civil / Trenching	-
19	Electric System	N/A
20	Labor	
21	Materials/Structures	
22	Gas System	$2,956,463
23	Labor	$2,117,036
24	Materials/Structures	$839,427
25	Other[5]	$784,411
26	**Sub-Total BTM Costs**	**$3,740,874**
27		
28	**Costs for Utility Crews (UC) supporting Program[6]**	
29	Labor	$2,253,922
30	Materials purchasing, warehouse	$214,629
31	**Sub-Total TTM Utility Crew Costs**	**$2,468,551**
32		

[5] Includes city, Local Enforcement Agency (LEA) and/or HCD fees.

[6] Includes meter Installation and turn-on, legacy system purging, master meter removal, company crews performing civil, trenching, construction, and installation for selected MHPs.

33	**Program Management Costs (PMC)**	
34	Program Management Office (PMO)	$652,264
35	Outreach	$249,222
36	Construction Management (CM)	$2,466,950
37	**Subtotal Program Management Costs**	**$3,368,435**
38		
39	**TOTAL**	**$15,843,099**

40

41	**Total Spaces Converted**	**TTM**	**BTM**
42	Gas	1,665	1,459
43	Electric	N/A	N/A

44

45	**Average Cost / Space**	**TTM**	**BTM**	**UC**	**PMC**	**TOTAL**
46	Gas	$3,763	$2,564	$1,483	$2,023	$9,833
47	Electric	N/A	N/A	N/A	N/A	$0
48	**Total Average Cost / Space**	**$3,763**	**$2,564**	**$1,483**	**$2,023**	**$9,833**

4. Conclusion

This concludes the second annual filing in accordance with OP 10 of D.14-03-021.

Additional Program information can be found online on SoCalGas' website at https://www.socalgas.com/stay-safe/safety-and-prevention/mobilehome-park-utility-upgrade-program

APPENDIX B

SOUTHERN CALIFORNIA GAS COMPANY
MOBILEHOME PARK UTILITY UPGRADE PROGRAM CONSTRUCTION DETAILS

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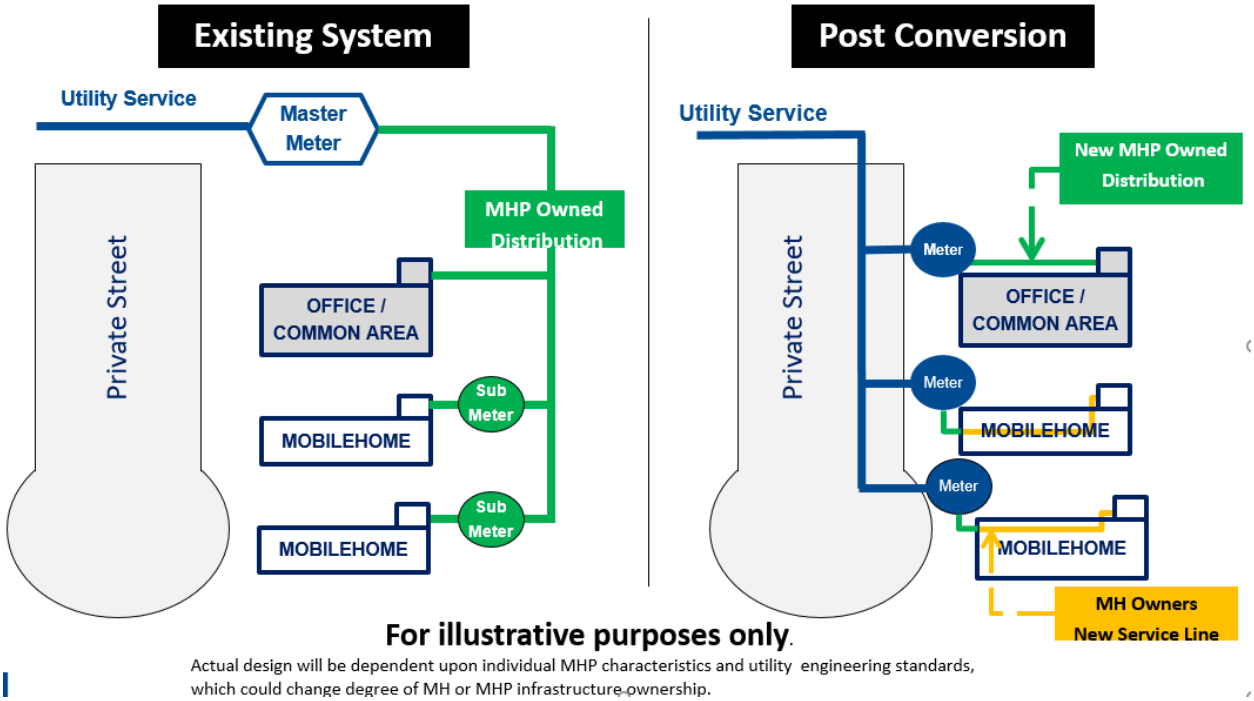
WP-MHP-MHPConversionChanges

Fig. 1: Changes between the legacy system owned by the MHP Owner/Operator and the new system owned by SoCalGas and the MHP Owner/Operator.



WP-MHP-ConstructionProcess

Mobilehome Park Utility Upgrade Program Construction Process

The conversion of a mobilehome park under the MHP Utility Upgrade Program can be categorized by two components: To-The-Meter (TTM) Construction and Beyond-The-Meter (BTM) Construction.

The TTM Construction consists of trenching and installation of the natural gas facilities necessary to complete the distribution line and service extensions to the Service Delivery Points (e.g. metering facility) within the MHP, as well as the paving upon project completion. This work is completed almost exclusively by the contractors selected in the RFP process. Fig. 2 – 5 below illustrates examples of TTM Construction activities.

The BTM Construction consists of installation of the natural gas facilities required to establish the Service Delivery Points, along with the infrastructure necessary to connect the Service Delivery Points to the point of connection on the mobilehomes. This work is completed exclusively by the contractor selected by the MHP's Owner/Operator. Fig. 6 - 10 illustrates examples of BTM Construction activities.

Upon completion of BTM Construction and inspection by the California Department of Housing and Community Development (HCD) and/or the authority having jurisdiction (AHJ), SoCalGas's internal Customer Service Field technicians install meters, perform gas appliance safety checks, and perform cutover of the park to the new MHPUUP-installed gas system.

The legacy gas system is then purged and disconnected per SoCalGas procedures by SoCalGas representatives to ensure safety. Subsequent legacy system abandonment is performed by the MHP owner's representative and conducted as directed per the park's AHJ.

Fig. 1: Contractors must pothole the MHP prior to full commencement of construction. This minimizes the risk of striking existing utility lines.

Fig. 2: Digging trench (through atypical pavement) and laying pipe

Fig. 3: Digging and hauling equipment used during trenching

Fig. 4: Construction space limitations are common at mobilehome parks

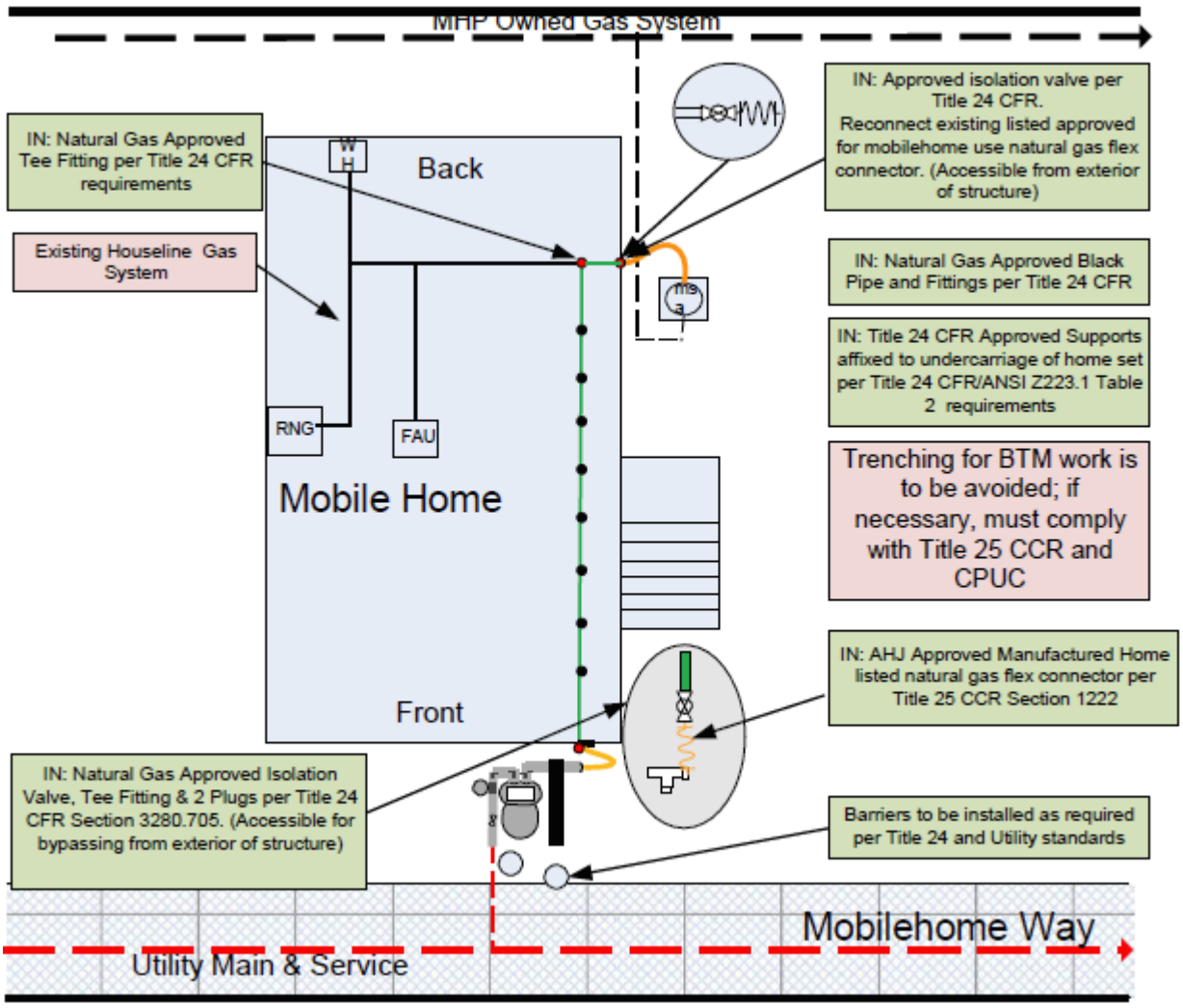
Fig. 5: Conditions of BTM service prior to conversion activities vary between mobilehome parks

Fig. 6: Example of BTM service prior to conversion activities

Fig.7: Newly installed utility meters at the front of a mobile home lot installed in accordance with current safety standards

WP-MHP-BTMGuidance

Example of Gas BTM houseline drawing as provided in California Department of Housing and Community Development (HCD) inspection standards for BTM Contractors



SCG 2019 GRC Testimony Revision Log – December 2017

Exhibit	Witness	Page	Line	Revision Detail
SCG-47	*Joseph Velasquez*	*JSV-ii*	*Table*	*Deleted "(2016$)" in Row 1, Column one of the table*
SCG-47	*Joseph Velasquez*	*JSV-ii*	*Table*	*Changed "000s" to "$ Million)"in Row 2, Column two of the table*