

**DRA DATA REQUEST
DRA-SCG-125-KCL
SOCALGAS 2012 GRC – A.10-12-006
SOCALGAS RESPONSE
DATE RECEIVED: JULY 18, 2011
DATE RESPONDED: AUGUST 5, 2011**

Exhibit Reference: SCG-05 and SCG-05-CWP

Subject: Gas Engineering and Transmission Capital Expenditures

Please provide the following:

1. The project cost tables for several capital projects shown in SCG-05-CWP include collectible amount for Year 2011 and 2012. These projects include Budget Numbers 0311.00 on page RKS-CWP-83, 0311.04 on page RKS-CWP-87, 0313.00 on page RKS-CWP-211, 0314.00 on page RKS-CWP-212, 0314.03 on page RKS-CWP-215, and 0314.06 on page RKS-CWP-216, . I assume the collectible amount will be reimbursed by the external agencies that ordered the work. Please explain why the Total Direct Capital was used for the SCG capital expenditures in the GRC instead of the Net Capital. Please also provide the details on how the reimbursed amount will be accounted for in the SCG accounting system and whether the ratepayers will be responsible any of the collectible amounts.

SoCalGas Response:

1. Total direct capital as shown in testimony represents the total cost to perform the work. The offsetting collectible costs are shown to reflect third party reimbursements. Both components are shown in the work papers and processed in the Results of Operations (RO) model to ensure overhead loaders (i.e., indirect costs) are appropriately computed, allocated and captured. Fully loaded (direct and indirect costs) net capital costs are included in rate base. Whereas, fully loaded collectible costs are reimburse from third parties and excluded from rate base. This process segregates both components and precludes any cross-subsidization issues.

Capital-related collectible costs billable to third parties are recorded to 11063XX by general work order. At the time of billing, 1106000 – Accounts Receivable is debited and 1106052 – Unbilled Revenue is credited. When combined, the balance in 11063XX (debit balance) and 1106052 (credit balance) will offset and net to \$0 by general work order. Accounts receivable (1106000) is eliminated when paid. Capital-related collectible costs are not recorded in rate base for rate recovery. A third party deposit is recorded as a credit to 11063XX in order to offset capital costs recorded in the same account. Once again, costs net to \$0 with no rate base impact.

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2. Several capital expenditure categories in Gas Distribution show capital expenditure reductions to reflect anticipated improved operational efficiency by the introduction of new technology and business processes (see discussion on page GOM-61 of Exhibit SCG-02). Does Gas Engineering and Transmission participate in the same or similar operational efficiency improvement effort? Does Gas Engineering and Transmission anticipate any cost reduction from future operational efficiency improvement in 2011 and 2012?

SoCalGas Response:

There was only minor functionality provided in the OpEx projects that affected Gas Engineering and none for Gas Transmission capital expenditures in 2011 or 2012. For Engineering, these amounted to \$47,000 in 2011 and \$69,000 in 2012. The Gas Engineering and Gas Transmission departments have had no formal program or specifically funded program intended to result in operational efficiency gains similar to those described in Exhibit SCG-02.

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3. Under Budget Code 617 on page RKS-80 of SCG-05, lines 11-12 state “the most cost-effective solution to the new regulations is ownership and control of the adjacent sites, especially when property values are relatively low.” Did SCG conduct any cost and benefit study on this issue? Please provide the result of the study if one was performed.

SoCalGas Response:

A formal cost/benefit study was not conducted. However, there are several reasons why SoCalGas is proposing to establish buffer zones around Blythe, North Needles and Newberry compressor stations. These sites date from 1949 to the mid-1970's, are all powered with natural gas fueled reciprocating engines, and were at that time in regions quite remote from residential and commercial development. Coupled with increasing environmental regulations, heightened security concerns, and the present availability of land, purchasing surrounding land is deemed to be a prudent business decision.

Among these reasons are:

1. Each of these compressor facilities is an integral part of the SoCalGas system. An increased buffer zone allows for additional security measures around these sites.
2. Prevents, in the event of development of adjacent lands, the occurrence of concerns, complaints or claims related to operating these large industrial plants at very high pressures adjacent to homes and/or businesses.
3. Resolves some of the uncertainty, in the event of development of adjacent lands, the occurrence of sensitive receptors near the plant to help prevent agency and community conflicts with air quality concerns. The buffer helps ensure that the emissions from the plant will not impact sensitive receptors and potentially would avoid the cost of electrification if air quality impacts have to be mitigated beyond current technological controls for these legacy engines. Even if an emissions mandate could be met by existing technology, which could very expensive. For example, installing oxidation catalysts has cost as much as \$2 million at other compressor facilities. The buffer provides a known solution and removes the cost and technological uncertainty over complying with emissions mandates. If no technological solution is available, SoCalGas could be forced to replace the existing compressor engines with electric motors. Based on SoCalGas' experience with the Sylmar compressor station, the electrification of Blythe, North Needles and Newberry Springs are estimated to average over \$33 million per site. To create site specific estimates it would be necessary to get current costs and perform an analysis of the characteristics of each station to come up with a more accurate cost.

For these reasons establishing buffer zones around these sites are essential, timely, and prudent acquisitions.