

**DRA DATA REQUEST
DRA-SCG-096-KCL
SOCALGAS 2012 GRC – A.10-12-006
SOCALGAS RESPONSE
DATE RECEIVED: JUNE 2, 2011
DATE RESPONDED: JUNE 21, 2011**

Exhibit Reference: SCG-02 and SCG-02-CWP

Subject: Distribution Operations Capital Expenditures

Please provide the following:

1. SoCalGas Response to Question 1 of data request DRA-SCG-073-KCL shows for the New Business category 2010 adjusted-recorded capital expenditures of \$12,350,000 as compared to an estimated of \$31,395,000 in Table SCG-GOM-27 of Exhibit SCG-02. Please explain in detail.

SoCalGas Response:

The drivers for the variance between 2010 Actual expenditures and the 2010 GRC forecast are lower new meter installations, lower payments on trench reimbursements, and the cost per installation. The projected 2010 meter set installation forecast was 45,526. SoCalGas' actual new meter installation for 2010 was 26,585 resulting in a 42% decline over forecasted new meter sets. This change alone resulted in approximately \$11.9 million, or roughly 62%, of the actual to forecasted difference. Trench reimbursements were down nearly \$2.6 million, or 14% of the actual to forecasted difference, reflective of the overall lower new business activity. The remaining variance of \$4.6 million is attributable to a decline in the installation costs per unit. The cost per unit is mainly driven by the type of work required to provide service to customers including the mix of installations for residential, commercial and industrial customers as well as the of amount, diameter and material type of the main installed to reach new developments

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2. SoCalGas Response to Question 1 of data request DRA-SCG-073-KCL shows for the Main Replacements category 2010 adjusted-recorded capital expenditures of \$43,982,000 as compared to an estimated of \$32,063,000 in Table SCG-GOM-27 of Exhibit SCG-02. Please explain in detail.

SoCalGas Response:

In Testimony Ms. Orozco-Mejia (Exhibit SCG-02, GOM-68) states that costs recorded to this work category include:

- The installation of new mains to replace existing mains.
- Service line replacements associated with main replacements.
- Existing service line “tie-overs” to newly installed replacement main.
- Meter set re-builds associated with newly installed replacement main.
- Main replacements completed in advance of public infrastructure improvement projects.

These replacements can be initiated due to an anticipated increase in leakage maintenance expenses, the relative cost to maintain cathodic protection, and/or deterioration of pipe materials, pipe wrap, or coating. Based on information collected during various O&M activities and field observations, technical staff determines and prioritizes the pipeline segments for replacement.

Based on levels of other construction activity at the time, availability of resource, and planning and construction conditions, SoCalGas was provided the opportunity to complete additional main replacement work. Higher spending in this one year is not inconsistent with SoCalGas' forecasting technique of using the 5-year average for this capital category.

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3. SoCalGas Response to Question 1 of data request DRA-SCG-073-KCL shows for the Meters and Regulators category 2010 adjusted-recorded capital expenditures of \$20,289,000 as compared to an estimated of \$24,797,000 in Table SCG-GOM-27 of Exhibit SCG-02. Please explain in detail.

SoCalGas Response:

In summary, the variance between the 2010 Actual and GRC-Forecast expenditures are attributable to either the number of units required or the type of unit purchased deviating from plan within the included budget categories. Both of these metrics are driven by contemporaneous business conditions. Over 75% of the reduction in expenditure, or \$3.4 million of the \$4.3 million differential, is attributable to new meter purchases, which are highly-dependent on the level of new business activity. It is also noteworthy that budget Codes 180, 181, 280 and 281 include equipment with approximate unit purchase costs ranging from \$500 to \$6,000 and associated installation cost ranging from \$300 to \$7,000. This wide variation in unit cost, depending on final mix of actual purchases and installations, can create a wide variation in between forecasted and actual spending in a single year.

Table DR-1

2010 Meter and Regulator Cost Summary Table								
Budget Code	2010	2010	Difference		2010	2010 Actual		
	Projected Cost (\$000)	Actual Cost (\$000)	(\$000)	%	Projected Units	Units Purchased	Difference	%
<u>BC 163 Meters</u>	\$19,351	\$15,937	(\$3,414)	-18%	234,506	198,341	(36,165)	-15%
<u>BC 164 Regulators</u>	\$3,535	\$3,731	\$196	6%	97,867	95,133	(2,734)	-3%
<u>BC 180 New Gas Measurement Device</u>	\$241	\$78	(\$163)	-68%	90	6	(84)	-93%
<u>BC 280 Replace Gas Measurement Devices</u>	\$719	\$308	(\$411)	-57%	196	179	(17)	-9%
<u>BC 181 New EPMs*</u>	\$904	\$401	(\$503)	-56%	181	200	19	10%
<u>BC 281 Replace EPMs</u>	\$47	\$44	(\$3)	-6%	29	22	(7)	-24%
Grand Total	\$24,797	\$20,499	(\$4,298)	-17%	332,869	293,881	(38,988)	-12%

*In 2010, 87 EPMs were charged to BC 265. Total costs for these units (\$210,000) are included in the actual 2010 cost for BC 181, in Table DR-1.

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SoCalGas Response to Q3 (continued):

BC 163 – The primary driver for the variance between 2010 actual expenditures and the 2010 GRC forecast is a lower number of meters were purchased than forecasted. The actual number of meters purchased was under the forecasted plan by 15% due to two factors: 1) purchases for new meter sets were 42% below the forecasted plan as a result of downturn in the housing market; and 2) purchases for meter replacements and resets were 3% under the forecasted plan due to lower meter change activity than forecasted. Meters vary in size and cost depending on the customers' load requirements, i.e., the larger the load, the larger and more expensive the meter.

BC 164 – The variance between 2010 actual expenditures and the 2010 GRC forecast is due to variation in the number and type of regulators purchased relative to forecast. The actual number of regulators purchased fell short of forecasted plan by 3%, while the change in the purchase mix from forecast (with weighting to more expensive units) resulted in a higher overall average unit cost. Regulators vary in size and cost depending on the customers' load requirements, i.e., the larger the load, the larger and more expensive the regulator.

BC 180 – The variance between 2010 actual expenditures and the 2010 GRC forecast is largely due to an increase in instrument repairs (in lieu of new purchases) and the downturn in the local economy reducing the number of installations required.

BC 280 – The variance between 2010 actual expenditures and the 2010 GRC forecast is due to fewer than planned instrument purchases (down 9%) and the blend of instrument types purchased that resulted in a lower overall average unit rate.

BC 181 – The number of Electronic Pressure Monitors (EPM) purchased exceeded the forecast by 19 units (10%), while the total actual costs fell short of the forecast by \$503,000 (56%) due to the following: 1) 81 less EPMs were installed than planned due to workforce availability; and 2) installations were completed at some of the least complicated and lowest-cost locations, which reduced the average per unit cost in 2010.

BC 281 – The variance between 2010 actual expenditures and the 2010 GRC forecast is due to timing. One order, which scheduled for receipt in 2010 was not booked and received until early 2011.

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4. SoCalGas filed Advice Letter No. 4245, Submission of Three Advanced Metering Infrastructure (AMI) Contracts in Compliance with Decision (D.) 10-04-027, on May 27, 2011. This AL indicates that D.10-04-027 authorizes \$1,050.7 million of capital and O&M expenditures for SoCalGas' AMI project. Please explain whether there is any connection between this AMI capital expenditures authorization and the current GRC, and if there is, show how they are connected.

SoCalGas Response:

There is no connection between the costs shown in this GRC application and the AMI capital expenditures authorized in the SoCalGas Advice Letter No. 42455, Submission of Three Advanced Metering Infrastructure (AMI) Contracts in Compliance with Decision (D.) 10-04-027. Once the AMI project is completed, the costs related to continuing operations will be addressed in future GRC applications.