

**SOUTHERN CALIFORNIA GAS COMPANY**  
**Compression Services Application**  
**(A.11-11-011)**  
**(2nd DATA REQUEST FROM DRA)**

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**Question 1:**

- a. On page 15, lines 11-13 of his rebuttal testimony, Jeffrey Reed on behalf of SCG states that “The proposed Compression Services Tariff employs a structure wherein the tariff customer guarantees payments to cover the pre-calculated cost of service over the life of the contract.” On line 14 he refers to these projects being “amenable to accurate pre-calculation of costs.” Please provide an overview of the methodology used for this pre-calculation.
  
- b. In addition, please provide a year over year breakdown of costs and obligations for a sample compression services project over the full life of the facility. Include a cost breakdown for all phases of the project including customer outreach, contract development, engineering and cost estimation, engineering oversight, procurement and construction, operations and servicing and/or all other appropriate project phases. Please estimate a timeframe for each phase. For each phase of the project, indicate costs and revenues, and indicate whether these costs and revenues accrue to ratepayers, tariff customers, or shareholders. Please specify the specific point in time at which ratepayers are made whole (i.e., tariff revenues credited  $\geq$  ratepayer funded revenues in rates for the facility). Also include the estimated total service life of the project and typical contract duration for the tariff customers.

A sample table is included below, which breaks down the project into phases and clearly delineates responsibilities.

**SOUTHERN CALIFORNIA GAS COMPANY**  
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**(A.11-11-011)**  
**(2nd DATA REQUEST FROM DRA)**

Year	Project Phase	Ratepayers	Tariff Customer	Shareholders
0	Customer Outreach			Incur Proj Costs of \$XXX
	Contract Development		<ul style="list-style-type: none"> <li>• Incur Proj Feasibility Fee of \$X</li> <li>• Incur site evaluation and design fees of \$Y</li> </ul>	Incur Proj Costs of \$YYY
	Engineering/ Cost Estimation	<ul style="list-style-type: none"> <li>• Pay Revenue Require of \$XXX</li> </ul>		Receive Return on Investment of \$XXX
	Engineering Oversight			Receive Return on Investment of \$XXX
	Procurement and Construction	<ul style="list-style-type: none"> <li>• Pay Revenue Require of \$XXX</li> <li>• Credited Tariff Revenues of \$YYY</li> </ul>		Receive Return on Investment of \$XXX
1	Operations and Servicing	<ul style="list-style-type: none"> <li>• Pay Revenue Require of \$XXX</li> <li>• Credited Tariff Revenues of \$YYY</li> </ul>	Incur Annual Service Fee of \$XXX	Receive Return on Investment of \$XXX
2			Incur Annual Service Fee of \$XXX	Receive Return on Investment of \$XXX
....			Incur Annual Service Fee of \$XXX	
Yr X	Tariff Contract ends			Receive Return on Investment of \$XXX
....	Ratepayers made whole	Total Revenues paid = Tariff Revenues credited		Receive Return on Investment of \$XXX
Yr 45	Facility End of Life			Receive Return on Investment of \$XXX
	Facility Removed			Receive Return on Investment of \$XXX

**Response 1:**

- a. Pre-calculation of capital costs involves definition of the project scope, specifications and layout followed by estimation of costs for engineering, equipment and site construction. These estimates are generally provided by outside engineering consultants or internal engineering staff. Operations and maintenance costs are estimated using historical cost information and analysis provided by qualified consulting engineers and/or internal resources. For both capital and O&M, SoCalGas will, as a general practice, seek supplier bids prior to finalization of contract price in order to

**SOUTHERN CALIFORNIA GAS COMPANY**  
**Compression Services Application**  
**(A.11-11-011)**  
**(2nd DATA REQUEST FROM DRA)**

---

ensure accurate cost estimation. As appropriate, a contingency will be added to cost estimates in order to reach a high level of confidence that revenues will cover or exceed project costs.

Once the base capital and O&M costs have been developed, standard utility overheads are added according to the procedures described in detail in the testimony of Mr. Reyes.

**b. To be provided separately.**

**SOUTHERN CALIFORNIA GAS COMPANY**  
**Compression Services Application**  
**(A.11-11-011)**  
**(2nd DATA REQUEST FROM DRA)**

---

**Question 2:**

In Opening Testimony Chapter II, page 22, lines 14-19, the witness discusses a preliminary assessment of feasibility and cost.

- a. Please elaborate on the details of all of the elements and tasks that are included in this assessment of feasibility.
- b. Please provide a ballpark estimate of how much an assessment of feasibility will cost?
- c. How and when will the assessment of feasibility be recovered by the potential tariff customer?
- d. Please identify in the proposed Tariff or contract documents where the assessment of feasibility is located.
- e. If a potential Tariff customer decides not to take on the gas compression tariff service after an assessment of feasibility is completed, from who (i.e., ratepayers, potential tariff customer, shareholders) and when are those abandoned costs recovered?
- f. Please send all details, including costs and invoices for any gas compression service assessments of feasibility that SoCalGas has completed or is in process.

**Response 2:**

- a. The account representative will help the customer complete a Project Assessment form. The information provided by the customer will be analyzed by technical staff to develop a very high level assessment of project scope and cost and any factors that may make the project infeasible. This process is expected to average about 6 hours of labor.
- b. This cost of the feasibility assessment is expected to average approximately \$620 per prospective customer, fully loaded.
- c. These costs will be recovered through a standard cost adder to each contract to cover the average cost of this activity including projects that don't proceed.

**SOUTHERN CALIFORNIA GAS COMPANY**  
**Compression Services Application**  
**(A.11-11-011)**  
**(2nd DATA REQUEST FROM DRA)**

---

- d. Neither the customer nor the utility are under any obligation to act upon the results of the feasibility assessment; thus it is not included in the tariff or the contract.
- e. The costs of preliminary assessments which do not result in a signed contract are recovered in indirect charges paid for by tariff customers. Thus, “abandoned costs” are recovered from those customers who do in fact sign contracts.
- f. As discussed above, the cost of preliminary assessments are recovered through indirect charges and paid for by tariff customers; thus no invoices will be issued for this activity.

**SOUTHERN CALIFORNIA GAS COMPANY**  
**Compression Services Application**  
**(A.11-11-011)**  
**(2nd DATA REQUEST FROM DRA)**

---

**Question 3**

In Opening Testimony Chapter II, page 22, lines 14-19, the witness discusses that potential Tariff customers will be required to fund a site evaluation and design activities prior to execution of a tariff agreement.

- a. Please elaborate on the details of all of the elements and tasks that are included in this site evaluation and design activities. Also explain the differences between an “assessment of feasibility” and “site evaluation and design activities.”
- b. Please provide a ballpark estimate of how much a site evaluation and design activities will cost?
- c. How and when will the site evaluation and design activities be recovered by the potential tariff customer?
- d. Please identify in the proposed Tariff or contract documents where the site evaluation and design activities is located. If there is an additional contract document that discusses this Tariff customer requirement, please send that document.
- e. If a potential Tariff customer decides not to take on the gas compression tariff service after a site evaluation and design activities is completed, from who (i.e., ratepayers, potential tariff customer, shareholders) and when are those costs recovered?
- f. If the potential Tariff customer is responsible for the site evaluation and design activities costs and refuses to pay, from who (i.e., ratepayers, potential tariff customer, shareholders) and when are those abandoned costs recovered?
- g. Please send all relevant details, including costs and invoices for any gas compression service site evaluation

**SOUTHERN CALIFORNIA GAS COMPANY**  
**Compression Services Application**  
**(A.11-11-011)**  
**(2nd DATA REQUEST FROM DRA)**

---

**Response 3**

- a. Most of the site evaluation and design activities, which differs from the preliminary assessment in level of detail, will be outsourced to contractors with the desired expertise in this area. Elements and tasks included in “site evaluation and design activities” are expected to include the following:
- Review of preliminary feasibility assessment.
  - Meeting with customer to determine and/or verify compression services facility design options and requirements.
  - On-site review of proposed compression services facility location, including review of electrical and gas utility infrastructure.
  - Development of preliminary schematic and design plan, including all equipment required.
  - Development of preliminary cost estimate, including equipment, construction, and testing/startup costs.
  - Meeting with customer to review preliminary schematic and design plan and cost estimate and revise as needed.
- b. Site evaluation and design activities are expected to cost in the range of \$2,000 - \$10,000 depending on project scope and complexity.
- c. Site evaluation and design activity costs will be recovered from tariff customers as part of their contract price.
- d. SoCalGas expects to charge customers the actual cost of completing site evaluation and design.
- e. SoCalGas will invoice customers for site evaluation and design activities if, for whatever reason, they do not sign a Compression Services contract with SoCalGas. Thus, every customer for whom site evaluation and design activities are conducted will pay a fee for this work whether or not they eventually become a tariff customer.

**SOUTHERN CALIFORNIA GAS COMPANY**  
**Compression Services Application**  
**(A.11-11-011)**  
**(2nd DATA REQUEST FROM DRA)**

---

- f. In the unlikely event that a potential customer signs an agreement but refuses to pay for site evaluation and design activities, SoCalGas will make every reasonable effort to collect these charges. Any under collection of this work will be added to indirect costs paid for by participating tariff customers to ensure full recovery.
- g. SoCalGas is proposing a new tariff and thus has not incurred any such costs to date and received no invoices for site evaluations.



**SOUTHERN CALIFORNIA GAS COMPANY**  
**Compression Services Application**  
**(A.11-11-011)**  
**(2nd DATA REQUEST FROM DRA)**

---

**Question 4**

In Reed Rebuttal Testimony, page 21, lines 21-24, the witness discusses that the estimated Tariff includes a “contingency.”

- a. Please elaborate on the details of the contingency (e.g., list all factors that the contingency is planned to cover).
- b. Please elaborate on the methodology for calculating the contingency.
- c. Please provide a ballpark estimate of how much the contingency might be for a typical gas compression service facility.
- d. Please send all relevant details, including costs for any gas compression service contingency calculation that SoCalGas has completed or is in process.

**Response 4**

- a. For any cost items for which SoCalGas sees material uncertainty in estimating cost, a contingency will be added to the cost estimate in order to provide a high-level of confidence that the cost will not exceed the estimate. Contingency levels are established by expert technical staff based on degree of certainty beginning with scoping estimates, through layouts, specifications and eventually detailed design. Wherever possible, SoCalGas seeks firm bids in advance of development of final pricing to minimize the need for contingency.
- b. The application of contingencies depends on whether the bid is turnkey or whether SoCalGas bids out individual services. The contingency amount also depends on the scope, complexity and overall risk of the project. SoCalGas plans to be conservative in the application of such contingencies (e.g., err on the safe side) in order to ensure full recovery of all costs.
- c. The contingency amount will depend on the scope, complexity and risk of the project as well as whether SoCalGas bids out services individually or turnkey. It is reasonable to assume that contingency adders typically could fall in the range of 5% to 15% unless circumstances dictate otherwise.

**SOUTHERN CALIFORNIA GAS COMPANY**  
**Compression Services Application**  
**(A.11-11-011)**  
**(2nd DATA REQUEST FROM DRA)**

---

d. No such details exist

**SOUTHERN CALIFORNIA GAS COMPANY**  
**Compression Services Application**  
**(A.11-11-011)**  
**(2nd DATA REQUEST FROM DRA)**

---

**Question 5**

In Reed Rebuttal Testimony, page 2, lines 2-3, the witness discusses that the proposed gas compression services tariff is nearly identical to an existing tariff. Please identify the existing tariff and demonstrate how it is nearly identical to the proposed gas compression service tariff.

**Response 5**

As SoCalGas has stated in Chapter 2 of Mr. Reed's direct testimony (page 2, line 12 through page 4, line 4) and in his rebuttal testimony (page 3, section a), Rule 2 provides authority for the utility to deliver above standard gas pressure at the request of customers. Relevant features of Rule 2 are as follows:

- Section C – For connected loads of one million Btu/hour or greater, delivery pressures can be provided upon request and acceptance by the utility at two pounds, five pounds, service at as-available fluctuating pressures from the point of service or such other pressure as the utility and the customer agree to.
- Section O - enables the utility to install special facilities at the customer's request and utilities agreement under defined rate treatment.

**SOUTHERN CALIFORNIA GAS COMPANY**  
**Compression Services Application**  
**(A.11-11-011)**  
**(2nd DATA REQUEST FROM DRA)**

---

**Question 6**

In Reed Rebuttal Testimony, page 2, lines 22-23, the witness discusses that the proposed gas compression services tariff follows identical principles to other tariff services approved by the Commission. Please identify and fully describe and compare and contrast all tariff services approved by the Commission that follow the same principles as the proposed gas compression services tariff.

**Response 6**

The statement cited above in Mr. Reed's rebuttal testimony refers to a comparison with the proposed tariff with Rule 2. Please refer to the answer to Question 5 above.

**SOUTHERN CALIFORNIA GAS COMPANY**  
**Compression Services Application**  
**(A.11-11-011)**  
**(2nd DATA REQUEST FROM DRA)**

---

**Question 7:**

In Reed Rebuttal Testimony, page 2, lines 16-18, the witness discusses the very small risk of ratepayers incurring unreimbursed costs. Please quantify the “very small risk (e.g., 1%, 5%, 20%, 50%).” Please provide the workpapers that provide the calculation of the “very small risk.”

**Response 7:**

The currently authorized allowance for uncollectable revenue is below 0.3% of revenue. This reflects SoCalGas’ historical rate of uncollectable revenue and SoCalGas believes this to be the appropriate estimate for the proposed tariff. Each Compression Services Tariff contract includes the authorized uncollectable revenue charge. The low risk is reinforced by SoCalGas credit requirements and support such as contractual terms and, for example, parent guarantees where appropriate. Furthermore, SoCalGas believes the small risk to ratepayers is more than adequately compensated by ratepayer benefits which include an increase in system throughput (thus helping to offset the cost of ratepayer fixed assets) and environmental benefits as discussed in Chapter 2 of Mr. Reed’s testimony, page 23, section IV.