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Proceeding: 2016 General Rate Case
Application: A.14-11-004
Exhibit: SCG-215

SOCALGAS

REBUTTAL TESTIMONY OF CARMEN L. HERRERA

FLEET SERVICES & FACILITY OPERATIONS

June 2015

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



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SOCALGAS REBUTTAL TESTIMONY OF CARMEN L. HERRERA
FLEET SERVICES & FACILITY OPERATIONS

I. SUMMARY OF DIFFERENCES

TOTAL O&M (Shared & Non-Shared) - Constant 2013 (\$000)			
	Base Year 2013	Test Year 2016	Change
SCG	62,028	88,023	25,995
ORA	62,028	78,034	16,006
TURN	62,028	73,643	11,615

TOTAL CAPITAL - Constant 2013 (\$000)			
	2014	2015	2016
SCG	31,097	36,050	38,011
ORA	27,628	33,000	33,000

II. INTRODUCTION

A. ORA

Office of Ratepayer Advocates (ORA) issued its report on Fleet Services on April 24, 2015.¹ The following is a summary of ORA's position(s). ORA is recommending \$74.555 million for Fleet Services and Facility Operations, which is \$9.989 million less than SoCalGas' forecast.² ORA's recommendation is broken into six major categories:

1. ORA is recommending \$31.448 million for Fleet Services' Ownership Non-Shared O&M costs which is \$5.691 million or 15% less than SoCalGas' forecast for TY 2016.³
2. ORA is recommending \$23.328 million⁴ for Maintenance Operations Costs which is \$4.298 or 16% less than SoCalGas' forecast for TY 2016.
3. ORA is recommending \$93.628 million for Fleet Services and Facility Operations Capital Expenditures Forecast which is \$11.5 million or 11% less than SoCalGas' forecast for TY 2016.
4. SoCalGas is requesting \$2.907 million for TY 2016 which is an increase of \$37,000 or 1% above 2013 recorded expenses for Fleet Management. ORA does not oppose SoCalGas' request for this category.⁵

¹ ORA-14, Chia, Report on the Results of Operations for San Diego Gas & Electric Company Southern California Gas Company Test Year 2016 General Rate Case, Supply Management & Supplier Diversity, Fleet Services, Real Estate, Land Services & Facilities, and Environmental Services, April 24, 2015.

² Ex. ORA-14, p. 53.

³ Ex. ORA-14, p. 53.

⁴ Ex. ORA-14, p. 59.

1 5. SoCalGas is requesting \$16.872 million for TY 2016 which is an increase of \$1.863
2 million or 12% above 2013 recorded expenses for Facility Operations. ORA does not
3 oppose SoCalGas' request for this category.⁶

4 6. SoCalGas is requesting \$3.479 million for TY 2016 which constitutes a \$0 or 0%
5 change from 2013 recorded expenses for Shared Facility Operations. ORA does not
6 oppose SoCalGas' request for this category.⁷

7 **B. The Utility Reform Network (TURN)**

8 The Utility Reform Network (TURN) served its intervener testimony on May 15, 2015⁸.

9 In their testimony, TURN states that there are three problems with the SoCalGas' assertions and
10 forecasts regarding fleet ownership costs. TURN believes that SoCalGas forecast: (1) did not
11 provide any life-cycle analysis for the Commission to rely on for its vehicle replacements; (2)
12 offer little support for the numbers they project; and, (3) the total stock of utility vehicles vary
13 without trend over the 2009-2014 period. TURN is recommending the Commission adopt a 6
14 year average for SoCalGas for its Amortization, Interest forecast, and Salvage forecast. TURN
15 recommends a \$22.8 million for SoCalGas' Fleet Ownership Cost forecasts which is \$14.4
16 million lower than SoCalGas' original request. The total recommendation is broken into four
17 major categories:

- 18 1. TURN is recommending \$19.319 million for the Amortization forecast which is
19 \$11.432 million or 37% less than SoCalGas' forecast for TY 2016.
- 20 2. TURN is recommending \$2.625 million for Interest forecast which is \$1.142 million
21 or 30% less than SoCalGas' forecast for TY 2016.
- 22 3. TURN is recommending \$2.169 million for License Fees Forecast which is \$1.7
23 million or 44% less than SoCalGas' forecast for TY 2016.
- 24 4. TURN is recommending vehicle salvage proceeds of \$1.354 million for TY 2016
25 which is \$106,000 or 8.5% more than SoCalGas' forecast.

⁵ Ex. ORA-14, p.60.

⁶ Ex. ORA-14, p.60.

⁷ Ex. ORA-14, p.61.

⁸ Testimony of Garrick F Jones in San Diego Gas & Electric and Southern California Gas Companies' 2016 Test Year General Rate Cases, May 15, 2015.

1 **III. REBUTTAL TO PARTIES' O&M PROPOSALS**

2 **A. Non-Shared Services O&M**

NON-SHARED O&M - Constant 2013 (\$000)			
	Base Year 2013	Test Year 2016	Change
SoCalGas	58,549	84,544	25,995
ORA	58,549	74,555	16,006
TURN	58,549	70,164	11,615

3 **1. Ownership Costs**

4 **a. ORA**

5 ORA takes issue with the Test Year O&M forecast for Ownership Costs, which are
6 separated into four categories: 1) Amortization, 2) Interest, 3) Salvage, and 4) License Fees.

7 **Amortization** - Amortization is further separated into five categories, three of which
8 ORA opposes.

SoCalGas & ORA Fleet Amortization Forecast (In Thousands of Dollars)	ORA 2016	SoCalGas 2016
Current Fleet	\$ 15,641	\$ 15,641
Fleet Replacements 2014 through 2016	\$ 2,429	\$ 3,155
Replacements with Alternative Fuel Vehicles	\$ 6,430	\$ 8,350
Incremental Fleet for Business Needs	\$ 2,553	\$ 3,315
Diesel Particulate Filter Retrofits/Replacements	\$ 290	\$ 290
Total	\$ 27,343	\$ 30,751

9 SoCalGas forecasts \$30.751 million for fleet amortization costs for TY 2016. ORA is
10 recommending \$27.343 million which is \$3.408 million or 11% less than SoCalGas' forecast for
11 TY 2016 amortization cost.⁹ ORA reached its recommendation by deriving a percentage value
12 from the number of 2014 vehicles acquisitions and compared it to the number of vehicles
13 forecasted and then applied this proportion to the three categories it opposed. SoCalGas
14 acquired 507 of the 656 units it had forecasted in 2014 which was 77% of the total fleet units it
15 forecasted for Fleet Replacements and Incremental Fleet for Business Needs for 2014. ORA used
16 the 77% figure to forecast the TY 2016 amortization costs for the three categories of fleet

⁹ Ex. ORA-14, p. 56.

1 purchases: (1) Fleet Replacements 2014 through 2016, (2) Replacements with Alternative Fuel
2 Vehicles, and (3) Incremental Fleet for Business Needs.

3 SoCalGas is forecasting fleet amortization to be \$30.751 million in TY 2016 which is
4 \$16.153 million or 110% above 2013 expense.¹⁰ SoCalGas derived its forecast based on
5 individual lease schedules. The cost associated with lease amortization for 2014 through 2016 is
6 based on year-end 2013 actual vehicles under lease financing plus the planned replacement
7 vehicles scheduled each year and requested incremental vehicle additions each year. The
8 increase in amortization costs in 2016 is due primarily to increasing lease balances of
9 replacement vehicles following the replacement lifecycles and the requests for incremental
10 vehicles required by other SoCalGas business units.¹¹ Additionally, the added increase to
11 SoCalGas' lease balances are rising due to SoCalGas' committed planned purchases of Alternate
12 Fuel Vehicles (AFV) as well the overall increased purchase price of the vehicles. Further, on
13 February 27, 2015, AB 857¹² was introduced into the California State Legislature to support
14 investment in the NGV Heavy Duty Truck market. AB 857 (Perea) addresses the need to
15 increase funding for deployment of zero- and near-zero emission heavy-duty trucks, which
16 includes natural gas trucks. AB 857 provides a tremendous opportunity to increase and
17 accelerate the adoption of alternative fuels (such as CNG) in the transportation sector.

18 SoCalGas disagrees with ORA's methodology of applying its derived proportion of
19 vehicles purchased in 2014 to forecasted purchases. Fleet assets continue to age and will have to
20 be replaced to ensure the safe and reliable operation of the fleet. Older vehicles will become
21 obsolete with limited and increasingly expensive options to repair and maintain them as
22 replacement parts are no longer available or become very costly. ORA's method of applying a
23 percentage to derive its forecast recommendation does not consider the merits of the individual
24 vehicle needs, and SoCalGas recommends its discrete incremental method as a preferred means
25 to estimate that future expense. Limiting the expense to a proportion based on 2014 acquisitions
26 would hinder Fleet's ability to acquire new vehicles to consistently serve our customers. It
27 should be noted that fleet does not consist solely of passenger cars and light trucks, but also of
28 vehicle-mounted work equipment, off highway construction equipment, and many specialized
29 pieces of utility-specific equipment such as hydraulic cranes and customized crew and tool

¹⁰ Ex. SCG-15, p. CLH-8.

¹¹ Ex. SCG-15, p. CLH-10.

¹² http://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=201520160AB857.

1 trucks. Limiting SoCalGas' ability to incorporate new technologies and tools associated with
2 these vehicles leads to antiquated equipment. ORA's recommendation would not factor in the
3 accumulation of amortization costs that will exist for replacement vehicles acquired from 2014 to
4 2016. Amortization is expensed rather than capitalized. By applying its percentage to TY 2016,
5 ORA's methodology would permit SoCalGas to acquire only 77% of its replacement vehicles for
6 each of its GRC cycle years 2016-2018, which would not meet the requirements of the
7 workforce. SoCalGas supports its forecast as a preferred method to forecast the adequate funding
8 needed for its vehicle fleet needs in 2016.

9 **Interest** - ORA is recommending \$2.901 million for interest cost for TY 2016, which is
10 \$866,000, or 23% less than SoCalGas' forecast. ORA again recommends using the 77% figure as
11 the basis to forecast the TY 2016 interest expense.¹³

12 ORA has applied the same methodology of using 2014 acquisitions as the basis for 2016
13 interest costs. Interest costs in each forecast year are based on monthly outstanding balances
14 multiplied by the London Interbank Offered Rate ("LIBOR") contained in the Global Insight
15 Forecast for the payment month, then summed for the year.¹⁴ SoCalGas disagrees with ORA's
16 methodology as it would unfairly arbitrarily apply the 77% factor to the entirety of interest costs
17 including those predating the forecast years, also ignoring the accumulated lease balances
18 remaining in 2016 from the acquisitions made between 2014 and 2016. This is the reason
19 SoCalGas used a zero-based forecast to more accurately predict costs based on standard
20 replacement of vehicles. ORA's methodology would result in an inaccurate value and assumes
21 that the sum total of all vehicle lease balances will be 23% less than forecasted in TY 2016.

22 **Salvage** - ORA is recommending vehicle salvage proceeds of \$1.775 million for TY
23 2016 which is \$527,000 or 42% more than SoCalGas' forecast. ORA recommends using the
24 three-year average (2012 to 2014) of recorded total vehicle salvage proceeds to forecast TY 2016
25 vehicle salvage proceeds.¹⁵ Salvage proceeds offset other costs, therefore an over-estimation of
26 salvage proceeds leads to an increase of fleet expenses.

27 Though ORA acknowledges that the number of units salvaged is related to forecasted
28 number of vehicle replacements,¹⁶ it severs the relationship between vehicles acquired and

¹³ Ex. ORA-14, p. 56.

¹⁴ Ex. SCG -15, p. CLH-12.

¹⁵ Ex. ORA-14, p. 57.

¹⁶ Ex. ORA-14, p. 57.

1 vehicles salvaged by recommending a 3-year average using 2014. ORA departs from the
2 methodology it used to recommend amortization and interest expenses (the 77%), in this case
3 choosing to use a 3 year average including 2014 which were 129% higher than that recorded in
4 2013.¹⁷ SoCalGas points out that 2014 was an anomalous year for salvage credits due to the
5 increased and disproportionate number of medium duty and heavy duty trucks that were retired
6 and salvaged to comply with California Air Resources Board regulations requiring the reduction
7 of diesel emissions by retrofitting or replacing diesel vehicles and off-road equipment in 2013.¹⁸
8 Additionally, ORA's method appears to presume that year-end vehicle counts closely correlate
9 with the same number of vehicles salvaged that year, in some cases, where SoCalGas reduced its
10 fleet size, it appears that SoCalGas salvaged more vehicles than it replaces.¹⁹ SoCalGas points
11 out that year-end count are influenced heavily by the timing of new vehicle deliveries; the
12 monthly fleet count varies appreciably as the timing of salvaged vehicles sales lags the incoming
13 vehicles counts. SoCalGas continues to support its zero-based forecast for Salvage to represent
14 the most accurate reflection of salvage credits in 2016.

15 **License Fees** - ORA is recommending \$2.979 million for TY 2016 which is \$890,000 or
16 23% less than SoCalGas' forecast for License Fees. ORA recommends using the 77% of the fleet
17 units that SoCalGas purchased out of the fleet units forecasted in 2014 to forecast the TY 2016
18 license expense. ORA recommends authorizing 77% of the license expenses that SoCalGas
19 forecasts for 2016 which is \$2.979 million.²⁰

20 SoCalGas disagrees with ORA for similar reasons as with authorization and interest
21 where ORA has applied the same methodology of using 2014 acquisitions as the basis for 2016
22 license costs. Motor vehicle license fees in the State of California are comprised of three
23 components: an annual registration fee and an annual weight fee, both of which are generally
24 fixed for the life of the vehicle, and an annual vehicle license fee that uses a scalar factor of
25 original vehicle sale price and renewal age to determine the annual renewal fee.²¹ These fees
26 must be paid on all vehicles within the fleet, including those that predate the new vehicle
27 acquisitions represented in my testimony. SoCalGas opposes ORA's methodology as it would

¹⁷ Ex. ORA-14, p. 57.

¹⁸ Ex. SCG-15, p. CLH-3.

¹⁹ Ex. ORA-14, p. 57.

²⁰ Ex. ORA-14, p. 58.

²¹ Ex. SCG-15-WP, p. 28.

1 unfairly and arbitrarily apply the 77% factor to the entirety of license costs, disregarding the total
 2 number of vehicles that will exist in the fleet in 2016. ORA’s methodology would presume that
 3 23% of the fleet will no longer exist. For this reason, SoCalGas recommends its zero-based
 4 forecast as the more accurate forecast.

5 **b. TURN**

SoCalGas Fleet Ownership Cost	SoCalGas Request	TURN 6 Yr. Avg.
Amortization	\$30,751	\$19,319
Interest	\$3,767	\$2,625
Salvage	(\$1,248)	(\$1,354)
License Fees	\$3,869	\$2,169
Total	\$37,139	\$22,759

6 TURN takes issue with the Test Year O&M forecast for Ownership Costs, which are
 7 separated into four categories: Amortization, Interest, Salvage, and License Fees.

8 **Amortization** - TURN is recommending \$19.319 million for the Amortization forecast
 9 which is \$11.432 million or 37% less than SoCalGas’ forecast for TY 2016. TURN asserts that
 10 SoCalGas has not provided the Commission with life-cycle analysis for the Commission to rely
 11 on. TURN believes that SoCalGas has provided little support for the numbers SoCalGas projects
 12 and therefore recommends adopting a six year average for Amortization.²² This is questionable
 13 since SoCalGas has provided responses to a variety of discovery requests from TURN in which
 14 TURN could request any additional support it felt necessary.²³ SoCalGas also made available all
 15 public responses to ORA’s data requests, which was available to TURN. Additionally, TURN
 16 asserts that SoCalGas offers little to no support for the projected number of replacements in their
 17 forecast. To the contrary, SoCalGas has provided supporting documentation for its vehicle
 18 forecast in their work papers²⁴. Further, TURN questions SoCalGas’ fleet vehicle count and the
 19 reasoning behind why the trend of vehicle count varies during the 2009-2014 periods. Quite
 20 simply, the year-end count variations are caused more by the timing of vehicle replacement
 21 deliveries versus sold vehicles departing the fleet.

²² Prepared Testimony of Garrick F. Jones of behalf of TURN, p. 7.

²³ TURN-SCG-DR-11.

²⁴ Workpapers to Prepared Direct Testimony of Carmen L. Herrera, p.11.

1 As stated above, SoCalGas is forecasting fleet amortization to be \$30.751 million in TY
2 2016 which is \$16.153 million or 110% above 2013 expense. SoCalGas derived its forecast
3 based on each vehicle lease schedule. The cost associated with lease amortization for 2014
4 through 2016 is based on year-end 2013 actual vehicles under lease financing plus the planned
5 replacement vehicles scheduled each year and requested incremental vehicle additions each year.
6 The vehicle replacement schedule is based on remaining economic life which is determined by
7 lowest total cost of ownership and utility industry best practices in order to have safe and reliable
8 working vehicles in SoCalGas' fleet. The increase in amortization costs in 2016 is due primarily
9 to increasing lease balances of new replacement vehicles following the required replacement
10 lifecycles, the requests for incremental vehicles required by other SoCalGas business units, as
11 well as the increase in the number of Alternative Fuel Vehicles.

12 SoCalGas disagrees with TURN's methodology of a six year average forecast. Fleet
13 assets continue to age and will have to be replaced to ensure the safe and reliable operation of the
14 fleet. Older vehicles will become obsolete with limited options to repair and maintain as
15 replacement parts are no longer available or become more costly. Additionally, the acquisition
16 of Alternative Fuel Vehicles to "green" the fleet to reduce greenhouse gas emissions is included
17 in SoCalGas' forecasts. In 2005, changes in California law expanded the definition of ratepayer
18 interest; indeed, effective January 1, 2006, PUC section 740.8 was modified to require that health
19 and environmental benefits, greenhouse gas emission reductions, and increasing alternative fuel
20 use be among the interests of ratepayers to be considered by the Commission in evaluating utility
21 programs²⁵. The legislature's definition of "ratepayer interest" along with the recent issuance of
22 the LCFS ("Low Carbon Fuel Standard") Executive Order and passage of legislation discussed
23 above makes it abundantly clear that the goal of the State is to aggressively promote the use of
24 alternative transportation fuels to achieve its environmental goals. SoCalGas' request in this
25 application provides for an increased capability for its fleet to support the growth of low
26 emission vehicles in the State which generates benefits to all ratepayers and provides
27 environmental and health benefits that are clearly consistent with § 740.8.

²⁵ "As used in Section 740.3, 'interests' of ratepayers, short- or long-term, mean direct benefits that are specific to ratepayers in the form of safer, more reliable, or less costly gas or electrical service, consistent with Section 451, and activities that benefit ratepayers and that promote energy efficiency, reduction of health and environmental impacts from air pollution, and greenhouse gas emissions related to electricity and natural gas production and use, and increased use of alternative fuels." California Public Utilities Code § 740.8.

1 SoCalGas disagrees with TURN's methodology of a six year average forecast as TURN
2 has chosen to ignore SoCalGas' cost drivers in its originally filed forecast. If TURN's request for
3 a six year average is granted, it would hinder Fleet's ability to acquire new vehicles to
4 consistently serve our customers and provide safe and reliable service to ratepayers TURN's
5 methodology is inaccurate and doesn't factor in the accumulation of amortization costs that will
6 exist for replacement vehicles acquired from 2014 to 2016.. Therefore, SoCalGas' forecast is
7 sound and will ensure adequate funding for its vehicle needs in 2016.

8 **Interest & Salvage-** TURN is recommending \$2.625 million for interest cost for TY
9 2016 which is \$1.142 million or 30% less than SoCalGas' forecast. TURN is also recommending
10 vehicle salvage proceeds of \$1.354 million for TY 2016 which is \$106,000 or 8.5% more than
11 SoCalGas' forecast. TURN suggests using a six year average to forecast the TY 2016 interest
12 expense and salvage proceeds. As described above, interest costs in each forecast year are based
13 on monthly outstanding balances multiplied by the London Interbank Offered Rate ("LIBOR")
14 contained in the Global Insight Forecast for the payment month, then summed for the year.
15 SoCalGas opposes TURN's methodology to apply a six year average for 2016 costs which
16 ignores the accumulated existing lease balances in 2016 from the current fleet and vehicle
17 acquisitions made between 2014 through 2016. This is the reason SoCalGas used a zero-based
18 forecast to more accurately predict costs based on standard replacement of vehicles. TURN's
19 methodology is inaccurate and assumes that the sum total of all vehicle lease balances will be
20 30% less than forecasted in TY 2016. Further, SoCalGas takes issue with TURN's six year
21 average methodology for salvage as 2014 was an anomalous year for salvage credits due to the
22 increased and disproportionate number of medium duty and heavy duty trucks salvaged to
23 comply with California Air Resources Board regulations requiring the reduction of diesel
24 emissions by retrofitting or replacing diesel vehicles and off-road equipment in 2013. SoCalGas
25 does not anticipate reducing the fleet size to increase its salvage returns to meet TURN's
26 recommendation and continues to assert that its zero-based forecast for Salvage represents the
27 most accurate reflection of credits in 2016.

28 **License Fees -** TURN is recommending \$3.869 million for License Fees Forecast which
29 is \$1.7 million or 44% less than SoCalGas' forecast for TY 2016. TURN recommends using a
30 six year average of License Fees as a percentage of Amortization expense, 11.2%, to forecast the
31 TY 2016 license expense. SoCalGas disagrees with TURN because motor vehicle license fees in

1 the State of California are comprised of three components: an annual registration fee and an
2 annual weight fee, both of which are generally fixed for the life of the vehicle, and an annual
3 vehicle license fee that uses a scalar factor of original vehicle sale price and renewal age to
4 determine the annual renewal fee. These fees must be paid on all vehicles within the fleet.
5 SoCalGas opposes TURN's methodology as it assumes costs will remain constant and ignores
6 the total number of vehicles that will exist in the fleet in 2016 as well as the increased cost
7 impacts of new replacements and alternative fuel vehicles. For this reason, SoCalGas
8 recommends its zero-based forecast as the most accurate forecast.

9 **2. Maintenance Operations**

10 **a. ORA**

11 ORA takes issue with the Test Year O&M forecast for Maintenance costs, which are
12 separated into two categories: Vehicle Servicing & Repairs and Automotive Fuels.

13 **Vehicle Servicing & Repairs** - ORA is recommending \$11.598 million for Vehicle
14 Servicing and Repairs which is \$2.879 million or 20% less than SoCalGas' request for TY 2016.
15 ORA recommends using the three-year historical average by using the recorded years of 2012-
16 2014 instead of the three-year historical average of 2011 to 2013 and the addition of incremental
17 costs used by SoCalGas.²⁶

18 ORA's use of the 3-year average happens to include the two lowest years of the past six.
19 SoCalGas had used a 3 year average 2011-2013, to which it had added incremental programs.
20 Basing a recommendation on only the 3-year average would not consider the merits of the
21 incremental programs requested by SoCalGas, such as²⁷ : (1) Training needs for vehicle
22 technicians as a result of the increase in alternative fuel vehicles and various State of California
23 regulatory and environmental requirements; (2) Diesel Particular Filter cleaning to meet
24 compliance; (3) incremental fleet to meet business needs necessary to support business
25 operations; (4) implementation of the smog program to meet State of California mandated
26 requirements; and (5) equipment and installation for backup sensors and backup cameras for
27 current fleet units to bring the fleet in compliance with (early adoption of) NHTSA standards.

28 SoCalGas' forecast should be adopted by the Commission as representative of the actual
29 costs that will be incurred by SoCalGas.

²⁶ Ex. ORA-14, pp. 59-60.

²⁷ SCG-15-WP, pp 37-39.

1 **Automotive Fuel** - ORA is recommending \$11.730 million, which is \$1.419 million or
2 11% less than SoCalGas' forecast. ORA recommends using the three-year historical average by
3 using the recorded years of 2012-2014 instead of the three-year historical average of 2011 to
4 2013 and the addition of fuel for incremental vehicles used by SoCalGas.²⁸

5 Fuel prices have fluctuated significantly over the last decade, and as the current
6 environment shows, will continue to be volatile and unpredictable. SoCalGas strongly believes
7 that using a 3-year historical average for the 2011 to 2013 period reflect an appropriate average
8 estimation of costs and representative of the costs that will be incurred by SoCalGas.

9 Additionally, ORA's method does not consider incremental fuel costs due to incremental fleet
10 additions to meet business needs necessary to support business operations. SoCalGas
11 recommends that its forecast should be adopted by the Commission as representative of the
12 actual costs that will be incurred by SoCalGas.

13 **3. Fleet Management**

14 **a. ORA**

15 ORA agreed with SoCalGas' forecast for this cost category. The Commission should
16 adopt SoCalGas' forecast as reasonable.

17 **4. Facility Operations**

18 **a. ORA**

19 ORA agreed with SoCalGas' forecast for this cost category. The Commission should
20 adopt SoCalGas' forecast as reasonable.

21 **B. Shared Services O&M**

SHARED O&M - Constant 2013 (\$000)			
	Base Year 2013	Test Year 2016	Change
SoCalGas	3,479	3,479	0
ORA	3,479	3,479	0

22 **1. Shared Facility Operations**

23 **a. ORA**

24 ORA agreed with SoCalGas' forecast for this cost category. The Commission should
25 adopt SoCalGas' forecast as reasonable.

²⁸ Ex. ORA-14, pp. 60.

1 **IV. REBUTTAL TO PARTIES' CAPITAL PROPOSALS**

2 **A. ORA**

Capital Proposals	SoCalGas Proposed			ORA Recommended		
	2014	2015	2016	2014	2015	2016
Infrastructure & Improvements	\$18,066	\$18,066	\$18,066	\$19,871	\$16,538	\$15,684
Facility Renovation for Future Requirements	\$5,880	\$7,000	\$12,000	\$-	\$6,408	\$10,418
Sustainability Projects	\$1,500	\$2,855	\$1,840	\$4,456	\$2,613	\$1,597
Compliance/Systems Upgrades	\$2,201	\$4,009	\$1,650	\$991	\$3,670	\$1,433
CNG Refueling Stations	\$3,450	\$4,120	\$4,455	\$2,310	\$3,771	\$3,868
Total	\$31,097	\$36,050	\$38,011	\$27,628	\$33,000	\$33,000

3 ORA states that it used SoCalGas' 2014 recorded capital expenditures for Facility
 4 Operations to derive its recommendation for an 11% decrease to SoCalGas' capital expenditures
 5 for 2014.²⁹ Additionally, for both 2015 and 2016 ORA recommends \$33 million which is an
 6 8.5% and 13% decrease to SoCalGas' forecast. SoCalGas TY 2016 capital expenditures request
 7 is \$31.097 million in 2014, \$36.050 million in 2015, and \$38.011 million in 2016. Many of these
 8 capital improvement projects are either mandated by state or federal law and help to meet
 9 California's overall goals for GHG reduction. SoCalGas' capital expenditures forecast include
 10 base dollars required to renovate SoCalGas buildings to meet compliance requirements, sustain
 11 reliable refueling for fleet and the public vehicles, and address changing technology and
 12 operational needs. SoCalGas expenditures forecast also includes costs for CNG refueling
 13 upgrades to make more widely available a transportation fuel that reduces air pollution,
 14 greenhouse gas emissions and improves associated public health while serving as an exclusively
 15 domestic energy alternative to gasoline and diesel fuel.

16 SoCalGas' forecast was carefully developed and the requested funding is essential for the
 17 continuation of SoCalGas' commitment to public and employee safety. ORA's suggested
 18 reduction to SoCalGas' capital request significantly underfunds SoCalGas' fundamental needs to
 19 maintain its offices, operating bases and update and expand its CNG fuel capabilities in order to
 20 implement its alternative vehicle fueling strategy and help others do the same, in direct support
 21 of State GHG reduction goals. ORA's method to forecast facility operations capital is the use of

²⁹ ORA-14 at page 71, line 12.

1 a five year average (2010-2014)³⁰. The reliance on a historical average would disregard the
2 merits of important individual projects and is not consistent with these objectives. SoCalGas
3 recommends its forecasts as preferred over ORA’s averaging method. Some of those projects are
4 discussed as follows.

5 **B. Disputed Capital Projects**

6 **1. CNG Refueling Stations**

7 SoCalGas continues to work toward its target of a majority natural gas vehicle fleet.
8 SoCalGas currently owns and operates 24 CNG fleet refueling stations. Eleven of those 24
9 stations provide public vehicle fueling access in addition to supporting utility operations. The
10 forecast for CNG Refueling Stations for 2014, 2015, and 2016 is \$3.450 million, \$4.120 million,
11 and \$4.455 million, respectively. ORA is recommending \$2.310 million for 2014, \$3.771
12 million for 2015, and \$3.868 million for 2016. The requested capital will fund added fueling
13 capacity at three existing public accessible and heavy use stations, add secondary compression at
14 select SoCalGas CNG fleet-public fueling stations to improve reliability and capacity and
15 upgrade existing public fueling station driveways and fueling islands to allow access for larger
16 fleet vehicles (tractor trailer trucks, buses, refuse truck, etc.). The use of natural gas as a
17 transportation fuel currently has reached only a small fraction of its potential to meet the State’s
18 clean air policy goals for the transportation sector. The growth in CNG fuel consumption is
19 tracking below the “conservative” case forecast laid out in the State Alternative Fuels Plan
20 developed by the California Energy Commission in 2007. The growth rate in the use of natural
21 gas for transportation in California has been 4.7% per year over the period 2006 to 2010
22 compared to the State’s moderate forecast plan of 12.9% per year and the conservative forecast
23 of 6.5% per year during this same period³¹. The market is clearly failing to develop to the
24 potential identified in the State’s plan. In order to help the State reach these goals, SoCalGas’
25 requested capital will fund the expansion of existing public and private fuelling stations.
26 Furthermore, on February 27th AB 1074 (Garcia)³² was introduced into the California State
27 Legislature to support investment in the NGV Heavy Duty Truck market. AB 1074 provides an
28 opportunity to increase and accelerate the adoption of CNG in the transportation sector. AB

³⁰ ORA-14, page 72 line 5.

³¹ California Energy Commission & CARB, “Natural Gas Scenarios”, AB1007 State Alternative Fuels Plan, May 31, 2007.

³² http://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=201520160AB1074.

1 1074 would require the Commission to conduct an assessment and develop an integrated strategy
2 to maximize the benefits and scope of an alternative refueling infrastructure to help the state
3 achieve its climate change, air quality, and economic goals and this newly stated policy³³.
4 SoCalGas capital funding request will also help fund the design, construction and commissioning
5 of new CNG fueling stations at strategic locations throughout SoCalGas service territory. These
6 stations will support both SoCalGas fleet vehicles and public vehicle fueling where feasible in
7 new geographic areas to promote expanded use of CNG which reduces the health and
8 environmental impacts from air pollution, reduces greenhouse gas emissions, and increases the
9 adoption of the use of natural gas as a vehicle fuel. During 2014, SoCalGas started the process of
10 expanding its existing public and private fuelling stations but permitting delays impacted
11 SoCalGas' ability to complete and commission two of these projects, the commission of which
12 will extend into 2015. Although SoCalGas did not complete its estimated CNG expansion in
13 2014, SoCalGas is still on track to complete the upgrades and enhancements to its CNG fueling
14 stations as filed by 2016. In addition to these stations, many of SoCalGas' CNG fueling stations
15 are over 25 years old and in need of replacement or equipment upgrades to support basic
16 customer fueling requirements. While SoCalGas' natural gas fueling infrastructure has aged, our
17 customer load has increased along with fueling system performance expectations. SoCalGas
18 continues to manage thru some of these issues with a combination of rapid response time for
19 repairs and capital upgrades to avoid significant degradation of station fueling system
20 availability. These funds directly support SoCalGas' objective to maintain reliable and effective
21 natural gas fueling stations for both the public and SoCalGas' fleet use. Furthermore, SoCalGas'
22 proposed CNG refueling stations expansion will help close the gap between current NGV growth
23 rates and the states target levels for the use of natural gas in the transportation sector. SoCalGas
24 believes it is in a unique position to cost-effectively support such a mission through its proposed
25 capital plan for CNG refueling assets

26 **C. Compliance/System Upgrades**

27 The forecast for Compliance & Systems Upgrades represent projects for planned
28 compliance requirements on many of SoCalGas facilities. Specifically, these projects are needed
29 to fund new/replacement garage equipment such as diagnostic tools and emissions related
30 equipment, which are shared across 48 SoCalGas garages. Further, SoCalGas requires smog

³³ http://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=201520160AB1074.

1 opacity equipment to perform testing of engines for output of particulate matter to meet and
2 comply with mandated regulations set by the EPA. In addition, work will also be included on
3 SoCalGas' Underground Storage Tanks and piping removal and replacement which can require
4 upgrades to meet the Assembly Bill ("AB") 2481 standard, obsolete dispenser removal &
5 replacement, and Under Dispenser Containment ("UDC") removal and replacement to also meet
6 AB 2481 standards. A reduction in SoCalGas' forecast for Compliance & Systems Upgrades
7 would mean increased risk of leaks from SoCalGas' aging Underground Storage Tanks (USTs).
8 The Environmental Protection Agency states on their website that the greatest potential threat
9 from a leaking UST is contamination of groundwater, the source of drinking water for nearly half
10 of all Americans³⁴. SoCalGas needs these funds in order to establish a routine replacement plan
11 for all USTs in the system to ensure any UST is either under warranty or within the standard life
12 expectancy for the tank. Additionally, to ensure the UST's are in compliance, SoCalGas will
13 also be standardizing unleaded UST to a 15,000 gallon capacity to ensure adequate inventory
14 levels, allow for emergency response fuel requirements, and to allow for a more strategic
15 ordering process to ensure fuel is purchased at the best possible price at the time of ordering.
16 SoCalGas will also install a new Fuel Management System to replace the current system that has
17 become obsolete and can no longer support the business needs of SoCalGas. The new system
18 will allow SoCalGas to better maintain, control and monitor fuel usage in order to increase fuel
19 economy, decrease GHG's and optimize the use of SoCalGas' assets.

20 **D. Facility Renovations for Future Requirements**

21 The forecast for Facility Renovations for Future Requirements includes renovations that
22 are necessary due to SoCalGas' aging facilities that no longer meet workforce space
23 requirements. The forecast for Facility Renovations for Future Requirements is \$5.880 million,
24 \$7.000 million, and \$12.000 million, for 2014, 2015, and 2016, respectively. ORA is
25 recommending 0 dollars for 2014, \$6.408 million for 2015, and \$10.418 million for 2016.
26 SoCalGas' facilities have an average age of 44 years and these facilities are currently
27 functionally outdated and continue to degrade as they have not been renovated since they were
28 first constructed. These renovations will support SoCalGas' changing workplace requirements
29 and improve the functionality of SoCalGas' buildings and/or sites that support the work patterns
30 of SoCalGas' employees. In addition, these renovations will also help SoCalGas proactively

³⁴ <http://www.epa.gov/oust/>.

1 manage its portfolio of assets and optimize facility cost of ownership. Further, SoCalGas utilized
2 2014 as a planning and design phase thus no capital dollars were spent on renovation projects in
3 2014. As such, SoCalGas believes they should not be penalized for not spending 2014 dollars on
4 facility renovations as SoCalGas needs the original requested dollar amount for renovation
5 projects to the aging facilities that are no longer able to meet the need of our workspace
6 requirements. Further, If SoCalGas cannot implement these renovations, then the utility will be
7 forced to look at other alternatives such as leasing to meet its work space needs. Thus, SoCalGas
8 requests the Commission approve the original requested dollar amount in order for the utility to
9 continue to utilize its existing facilities to meet the need of our workspace requirements.

10 **E. Infrastructure and Improvements**

11 Facility Operations is responsible for the operations and maintenance of utility facilities,
12 which encompass 80 manned locations of general offices, bases, multi-use sites, and branch
13 offices. The forecast for the Infrastructure & Improvements category for 2014, 2015, and 2016 is
14 \$18.066 million per year. ORA is recommending \$19.871 million for 2014, \$16.538 million
15 2015 and 15,684 million for 2016. This request is necessary to fund numerous basic facility
16 improvements to adequately support business operations, extend the life of Company assets,
17 protect employees and company property, adhere to codes and regulations, and ensure safety and
18 environmental compliance. SoCalGas' capital renewal program identifies facilities to be
19 repaired or improved, as needed, based on the criticality of the facility, the age of the asset, and
20 the implications for failure to complete the replacement or upgrade. Further, 2014 was the first
21 year that SoCalGas adopted the capital renewal rate methodology provided by International
22 Facility Management Association ("IFMA"). A capital renewal program is a systemic
23 management process to plan and budget for known cyclic repair and replacement requirements
24 that extend the life and retain usable condition of facilities and systems that are not normally
25 contained in the annual operating budget. Additionally, capital renewal is a planned investment
26 program that ensures that facilities will function at levels commensurate with the utility
27 operation priorities to ensure safe and reliable service. Furthermore, IFMA's index is a
28 benchmarking tool that supports the investment necessary to maintain SoCalGas' existing
29 infrastructures. If SoCalGas' assets are not maintained then further degradation and
30 deterioration can occur which can create hazardous conditions as well as increased O&M costs.
31 In order to properly adopt SoCalGas' new practice of utilizing a methodology that is focused

1 more on a predictive strategy for its facility improvements, the utility believes that the
2 commission should adopt its original request of 18.066 million per year.

3 **F. Sustainability Projects**

4 SoCalGas requested \$6.195 million for sustainability projects in order to improve energy
5 conservation and to reduce our carbon footprint. ORA recommended a total of \$8.166 million for
6 SoCalGas' sustainability projects. SoCalGas does not oppose ORA's recommendation.

7 **V. CONCLUSION**

8 SoCalGas' requested forecast for Fleet Services and Facilities Operations is essential to
9 the continuation of SoCalGas efforts and commitment to public and employee safety. Fleet
10 Services is an integral part of SoCalGas' ability to provide service to its customers and respond
11 to routine and emergency situations. SoCalGas' forecasts were developed using reasonable
12 forecasts and known cost drivers. ORA and TURN focus primarily on deriving lower 2016
13 forecasts based primarily on arithmetic derivation without giving consideration to SoCalGas'
14 operational needs. ORA's and TURN's reductions therefore would hinder this vital utility
15 service function and leave it vulnerable to the effects of underfunding, which directly impacts the
16 company's ability to provide operations and customer services safely and to meet its compliance
17 obligations. Furthermore, SoCalGas capital expenditures forecast include base dollars required to
18 renovate SoCalGas buildings to meet compliance requirements, sustain reliable CNG refueling
19 for fleet and the public vehicles, and address changing technology and operational needs.
20 Additionally, the request forecast dollars ensures that facilities will function at levels
21 commensurate with the utility operation priorities to ensure safe and reliable service. SoCalGas
22 forecasts were carefully developed and represent a prudent level of funding for the critical
23 activities to take place in this GRC term in order to allow SoCalGas to adhere to state and federal
24 compliance laws, help California meet its water and GHG reduction goals and increase the use
25 of natural gas as a transportation fuel. SoCalGas believes its forecast methods should be
26 preferred and respectfully request that its funding for Fleet Services be granted.

27 This concludes my prepared rebuttal testimony.