Company: Southern California Gas Company (U904G)
Proceeding: 2016 General Rate Case
Application: A.14-11-004
Exhibit: SCG-217

SOCALGAS

REBUTTAL TESTIMONY OF JILL TRACY

(ENVIRONMENTAL SERVICES)

June 2015

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Doc# 297628

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I. SUMMARY OF DIFFERENCES

TOTAL O&M - Constant 2013 ($000)			
	Base Year 2013	**Test Year 2016**	**Change**
SoCalGas	11,168	12,995	1,827
ORA	11,168	11,535	367

II. INTRODUCTION

A. Office of Ratepayer Advocates (ORA)

ORA issued its report on Environmental Services on April 24, 2015.[1] ORA proposes a reduction of $1,460K in my test year 2016 forecast for total operations and maintenance (O&M) expense. The following is a summary of ORA's positions:

- In non-shared services O&M, ORA recommends $8.627 million for 2016, which is $900K (9%) less than my request. This proposed reduction impacts two cost categories: Environmental Compliance and NERBA.[2] ORA reduces $215K (6%) in Environmental Compliance,[3] and $796K (14%) in NERBA.[4]
- ORA does not oppose my request to continue and update the NERBA.[5]
- In shared services O&M, ORA recommends $2.908 million for 2016, which is $560K (16%) less than my request. This proposed reduction impacts Environmental Programs only (as ORA proposes no change to my forecast for Policy, Oversight & Compliance).[6,7]

B. Environmental Defense Fund (EDF)

EDF submitted testimony on May 15, 2015.[8] The following is a summary of EDF's positions:

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[1] Exhibit ORA-14, Report on Environmental Services (S. Chia), (full title truncated) (ORA-14).
[2] ORA-14, p. 64, lines 16-19.
[3] ORA-14, p. 64, lines 21-25.
[4] ORA-14, p. 66, lines 18-19.
[5] ORA-14, p. 66, lines 23-24.
[6] ORA-14, p. 67, lines 10-12.
[7] ORA-14, p. 69, lines 18-20.
[8] Opening Testimony of Environmental Defense Fund (EDF/O'Connor).

- EDF does not oppose my request to continue and update the NERBA. EDF does not oppose or support a specific dollar amount request,[9] but recommends leak quantification reporting that EDF presumes will be adopted in Rulemaking (R.) 15-01-008, filed January 15, 2015, and is still in process.
- EDF recommends the Commission adopt one of two options for allocating funds to meet the objective of having utilities perform leak quantification: one-way, or two-way balancing account similar to the NERBA.[10]
- EDF states that the GRC should be held open until the conclusion of the R.15-01-008 proceeding to address the leak detection and repair program.[11]

III. REBUTTAL TO ORA'S O&M PROPOSALS

A. Non-Shared Services O&M

1. Environmental Compliance

	Test Year 2016 Constant 2013 ($000)	
SoCalGas	3,624	
ORA	3,520	(104)

ORA does not oppose my forecast for adding 2.9 Full-Time Equivalents (FTEs) in Environmental Compliance, but reduces my forecasted cost for consulting fees related to two Treatment, Storage and Disposal Facilities by $104K.[12] Upon review of ORA's analysis, SoCalGas does not oppose ORA's reduction.

2. NERBA Costs

	Test Year 2016 Constant 2013 ($000)	
SoCalGas	5,903	
ORA	5,107	(796)

ORA uses a three-year average (2012-2014) of non-shared recorded expense for NERBA to develop its alternate forecast. Focusing on the lower level of 2014 recorded costs in non-

[9] EDF/O'Connor, p. 10, lines 7-8.
[10] EDF/O'Connor, p. 20, lines 6-12.
[11] EDF/O'Connor, p. 20, lines 13-14.
[12] ORA-14, p. 65, lines 1-7.

shared NERBA, ORA suggests that its forecast should provide adequate funding for any incremental work in 2016.[13]

ORA's historical averaging, using a particularly low year (2014), does not represent a more reasonable or supportable forecast method than my method using base year 2013 costs and factoring in incremental cost pressures. ORA does not appear to challenge that SoCalGas will experience upward cost pressures in 2016, including costs driven by the Leak Detection and Repair (LDAR) and Municipal Separate Storm Sewer Systems (MS4) costs; and, ORA does not oppose the addition of these two new cost items in the NERBA. ORA does not dispute my cost forecast for LDAR of $838K, which is an incremental expected cost. Therefore, the specific area of dispute is over the existing NERBA items: AB 32 Administrative Fees and Subpart W costs. While 2014 costs for these two items were particularly low, there are facts to suggest the cost levels will not remain low. For instance, on AB 32 Administrative Fees, cost levels are determined by total gas deliveries and changes in the common carbon costs.[14] The recorded data set is not predictable enough to project upward pressures, as I mention, or downward pressures. Further, with Subpart W costs, SoCalGas anticipates substantial changes in both the federal and state Subpart W regulatory language and requirements that were recently revised.[15]

A historical averaging methodology does not adequately account for these factors related to existing NERBA costs. Over the period of 2010-2014, NERBA costs have fluctuated from year-to-year, and in my opinion, there is not enough historical data available to suggest a trend given the evolving nature of environmental laws, regulations, and requirements that the NERBA addresses. Although I continue to support my base year 2013 forecast methodology, if a historical averaging methodology were to be employed, it would be reasonable and supportable to incorporate a five-year average instead of a three-year average, to levelize the fluctuations. Thereafter, incremental cost drivers would be applied to that number. Borrowing from ORA's table below:

Description	2009	2010	2011	2012	2013	2014	SCG 2016	ORA 2016
NERBA	0	5,085	7,046	6,152	5,017	4,141	5,903	5,107

[13] ORA-14, p. 66, lines 16-19.
[14] Exhibit (Ex.) SCG-17-R, p. JT-8 and p. JT-9, lines 17-20 and 1-6, respectively.
[15] Ex. SCG-17-R, p. JT-10, lines 1-13.

A five-year average (2010-2014) would yield a figure of $5,488K, as compared to ORA's $5,107K. The incremental LDAR costs alone would add another $838K to that base forecast, yielding $6,326K under a five-year methodology (or $5,945 under a three-year methodology). I therefore maintain that my base year 2013 forecast methodology, which represents a conservative base upon which to add the incremental LDAR costs of $838K as well as $48K of incremental Subpart W costs,[16] yields a more supportable and reasonable cost forecast given the incremental upward pressures we expect to face in the test year. ORA's forecast in contrast was derived without due consideration to the evidence presented on upward cost pressures, especially the new LDAR costs.

B. Shared Services O&M

ORA proposes a test year forecast of $2,908K in shared services O&M in comparison to my forecast of $3,468K. ORA did not oppose my forecast for costs to support the Policy, Oversight & Compliance Management function, but did reduce my forecast for Environmental programs by $560K. Upon review of ORA's analysis, SoCalGas does not oppose ORA's reduction or its test year forecast for shared services O&M.

IV. REBUTTAL TO EDF

EDF did not support a specific dollar amount increase or reduction to SoCalGas' requested expenses. Rather, EDF recommends that the Commission adopt one of two options for allocating funds to meet the objective of having utilities perform leak quantification. The first option is a two-way balancing account similar to the NERBA, so that any overestimation of funds must be returned to the ratepayers. In the event of an underestimation, SoCalGas may continue to address the issue and be granted the necessary additional funding at a later date.[17] Second, if the Commission prefers a one-way balancing account, EDF suggests that funding determination be held open until a cost estimate can be calculated in R.15-01-008.[18] With either option, EDF claims the Commission and parties will benefit from the information gained through R.15-01-008.[19] SoCalGas disagrees with EDF's recommendation for a one-way balancing account and to keep the GRC open until the resolution of the Rulemaking as follows. SoCalGas' GRC forecasts its test year costs, which include costs associated with leak-related work. The

[16] Ex. SCG-17-WP-R, p. 20.
[17] EDF/O'Connor, p. 20, lines 7-10.
[18] EDF/O'Connor, p. 20, lines 10-12.
[19] EDF/O'Connor, p. 20, lines 12-14.

GRC establishes a test year cost of service revenue requirement, and costs associated with leak-related work are part of SoCalGas' expected cost of service. However, the GRC is not attempting to present or resolve the issues raised in the Rulemaking. Therefore, EDF's recommendation to keep the GRC open until resolution of that Rulemaking is neither feasible nor desirable. The two proceedings have their respective scope, process, and evidence. In fact, the Rulemaking's final scope, objectives, and procedural schedule have yet to be determined at this stage, with the first prehearing conference scheduled for June 8.

My understanding is that the Rulemaking established a two-phase process. The Rulemaking is still in the information-gathering Phase 1; parties' proposals for rules and procedures to comply with SB 1371, including metrics and methodologies for quantification, will not occur until 2016, based on the preliminary schedule. Thus, EDF's claim that the utilities should have included costs associated with leak quantification in their GRC requests would have resulted in those estimated costs being premature and perhaps speculative in lieu of any Commission requirements that have yet to be established by the Rulemaking. It would also cause undue delay in this GRC to keep this proceeding open until that Rulemaking is closed. Because the Rulemaking is only in the initial information-gathering phase, it will likely not reach a final decision adopting requirements until sometime in 2016. In the event the Rulemaking requires incremental costs to be incurred during the GRC cycle, SoCalGas' NERBA, which proposes to add an LDAR component, is a two-way regulatory mechanism that SoCalGas can seek to record those incremental costs. In short, the two proceedings can and should proceed independently.

Establishing a one-way balancing account should not be adopted by the Commission because to reasonably estimate a hard cap for authorized spending associated with complying with SB1371 requirements is uncertain at this early stage of the Rulemaking and would therefore unfairly restrict cost recovery if costs should be above those initially authorized, even if such costs are prudently incurred.

V. CONCLUSION

While maintaining our disagreement with ORA's reduced recommendation for NERBA costs, SoCalGas can support and requests a total O&M forecast of $12.331 million, which is $664K less than my original forecast of $12.995 million. EDF's recommendation to balance all leak related costs in a one-way balancing account, or to alternatively hold the GRC open until R.15.01-008 concludes, should be rejected.

This concludes my prepared rebuttal testimony.