

Company: Southern California Gas Company (U904G)  
Proceeding: 2016 General Rate Case  
Application: A.14-11-004  
Exhibit: SCG-233

**SOCALGAS**

**REBUTTAL TESTIMONY OF REGINALD M. AUSTRIA**

**(REGULATORY ACCOUNTS)**

June 2015

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





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**SOCALGAS REBUTTAL TESTIMONY OF REGINALD M. AUSTRIA  
(REGULATORY ACCOUNTS)**

**I. SUMMARY OF DIFFERENCES**

	<b>TIMPBA</b>	<b>Post-2011 DIMPBA</b>	<b>SIMPBA</b>
SoCalGas	<ul style="list-style-type: none"> <li>Two-way balancing account</li> <li>Undercollection recovery via tier 2 advice letter</li> </ul>	<ul style="list-style-type: none"> <li>Two-way balancing account</li> <li>Undercollection recovery via tier 2 advice letter</li> </ul>	<ul style="list-style-type: none"> <li>Two-way balancing account</li> <li>Undercollection recovery via tier 2 advice letter</li> </ul>
ORA	<ul style="list-style-type: none"> <li>No opposition</li> </ul>	<ul style="list-style-type: none"> <li>No opposition</li> </ul>	<ul style="list-style-type: none"> <li>One-way balancing account</li> </ul>
UCAN	<ul style="list-style-type: none"> <li>One-way balancing account</li> <li>If two-way balancing account, undercollection recovery via tier 3 advice letter</li> </ul>	<ul style="list-style-type: none"> <li>One-way balancing account</li> <li>If two-way balancing account, undercollection recovery via tier 3 advice letter</li> </ul>	<ul style="list-style-type: none"> <li>No balancing of SIMP costs.</li> <li>One-way balancing if SIMPBA is adopted</li> <li>If two-way balancing account, undercollection recovery via tier 3 advice letter</li> </ul>

**II. INTRODUCTION**

**A. ORA**

Office of Ratepayer Advocates (ORA) issued its report on SoCalGas – Gas Transmission, Underground Storage, Engineering, and Pipeline Integrity on April 24, 2015.<sup>1</sup> To summarize ORA’s recommendations on the regulatory accounts proposed in this GRC for gas operations areas:

- ORA does not raise any opposition to SoCalGas’ Transmission Integrity Management Program Balancing Account (TIMPBA) and Post-2011 Distribution Integrity Management Program Balancing Account (Post-2011 DIMPBA) proposals.

<sup>1</sup> Exhibit ORA-11, Report on the Results of Operations for San Diego Gas & Electric Company and Southern California Gas Company, Test Year 2016 General Rate Case, SoCalGas – Gas Transmission, Underground Storage, Engineering, and Pipeline Integrity (ORA-11), page 8, lines 12-18.

- 1 • ORA supports SoCalGas’ proposal to create the Storage Integrity Management Program  
2 (SIMP), but recommends that the SIMP Balancing Account (SIMPBA) be adopted as a  
3 one-way balancing account.

4 **B. UCAN**

5 The Utility Consumers’ Action Network (UCAN) submitted testimony on May 15,  
6 2015.<sup>2</sup> The following is a summary of UCAN’s positions:

- 7 • The TIMPBA and Post-2011 DIMPBA should be adopted as one-way balancing  
8 accounts.
- 9 • SIMP costs should not be subject to balancing account treatment, but if the SIMPBA is  
10 authorized, it should be a one-way balancing account.
- 11 • If two-way balancing accounts are approved for costs associated with TIMP, DIMP, and  
12 SIMP, the recovery of any undercollected balances should continue to be requested  
13 through a tier 3 advice letter.

14 **III. REBUTTAL TO PARTIES’ PROPOSALS**

15 **A. TIMPBA and Post-2011 DIMPBA**

16 **1. ORA**

17 ORA’s report does not address SoCalGas’ TIMPBA and Post-2011 DIMPBA proposals.

18 **2. UCAN**

19 **a. Two-Way Balancing**

20 UCAN takes issue with SoCalGas’ proposal that the TIMPBA and Post-2011 DIMPBA  
21 continue as two-way balancing accounts for the 2016 GRC cycle. UCAN states that both  
22 TIMPBA and Post-2011 DIMPBA should be converted to one-way balancing accounts because  
23 SoCalGas has had time through the 2012 GRC cycle to adjust to new regulations and gain more  
24 experience in performing work needed to comply with these new regulations that SoCalGas  
25 should be able to develop and be held to reliable estimates.<sup>3</sup> However, UCAN appears to  
26 acknowledge the capital shortfall phenomenon I raised in my direct testimony (Ex. SCG-33 at

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<sup>2</sup> Testimony of Briana Kobor, Laura Norin, and Mark Fulmer on behalf of the Utility Consumers’ Action Network Concerning Sempra’s Revenue Requirement Proposals for San Diego Gas & Electric and SoCalGas (UCAN/Fulmer), page 58-75.

<sup>3</sup> UCAN/Fulmer at 62-63

1 RMA-6).<sup>4</sup> Further, UCAN also identifies subsets of TIMP and DIMP spending that could be  
2 two-way balanced, and specifically mentions significant incremental spending arising from  
3 Safety and Enforcement Division audit of TIMP, or other unanticipated and significant  
4 regulatory changes implemented over the GRC cycle.<sup>5</sup>

5 SoCalGas disagrees with UCAN's recommendation rationale and recommendation for  
6 one-way balancing treatment of TIMP and DIMP costs, for the reasons addressed in the rebuttal  
7 testimony of Maria Martinez (Ex. SCG-207). For additional consideration, SoCalGas was  
8 undercollected in the TIMPBA as of December 31, 2013, for which it is seeking recovery via the  
9 advice letter process. SoCalGas was also undercollected in the DIMPBA over that same period,  
10 however, SoCalGas decided not to pursue recovery of that undercollection at that time due to the  
11 magnitude of the balance which has since turned around to a minor overcollection balance as of  
12 December 31, 2014 due to lower spending compared to authorized levels in 2014. However, the  
13 TIMPBA undercollection balance as of December 31, 2014 has increased and, as a result,  
14 SoCalGas plans to file another tier 3 advice letter to seek recovery of the 2014 undercollection  
15 activity. Although there are more historical data sets to better inform SoCalGas' cost estimates  
16 for this GRC cycle, the factors Ms. Martinez raises in her rebuttal testimony demonstrate that  
17 costs continue to be impacted by fluctuations and regulatory uncertainty.

18 Further, UCAN appears to acknowledge that two-way balancing is appropriate to fully  
19 capture any shortfalls in recovering the capital-related revenue requirement.<sup>6</sup> UCAN specifically  
20 references capital-related costs related to pre-GRC projects. As discussed in my direct testimony  
21 (Ex. SCG-33 at RMA-6) and in detail in Advice Letter (AL) No. 4632, the compounding of  
22 capital-related costs is not related to pre-GRC projects, but is a result of new TIMP and DIMP  
23 capital additions within the GRC cycle and is not directly related to the level of actual capital  
24 expenditures under or above authorized. Any undercollection as a result of this phenomenon  
25 will continue to grow throughout the GRC cycle and SoCalGas should be able to recover any  
26 shortfalls. It makes little practical sense to continue a two-way balancing account to capture this  
27 shortfall, and adopt a one-way balancing account to capture the rest of TIMP and DIMP O&M  
28 costs. Furthermore, UCAN's opinion that a two-way balancing account essentially amounts to a  
29 "blank check" is not substantiated by facts. Witness Maria Martinez can address SoCalGas'

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<sup>4</sup> UCAN/Fulmer at 67.

<sup>5</sup> UCAN/Fulmer at 68.

<sup>6</sup> UCAN/Fulmer at 67.

1 commitment to pipeline integrity work through its TIMP and DIMP programs, under which a  
2 significant scope of work has been completed and is projected to take place in this GRC cycle.  
3 Projects are certainly subject to changes in priority, timing, and scope; however, SoCalGas  
4 would disagree with any notion that its investments and work on pipeline integrity provide  
5 opportunity or incentive to be imprudent or excessive. Further, as described below, SoCalGas'  
6 recovery of any TIMPBA or DIMPBA undercollections would still be subject to the review and  
7 scrutiny by Commission Staff and protesting parties.

8 **b. Undercollection Recovery via Tier 2 Advice Letter**

9 UCAN does not agree with SoCalGas' proposal to request recovery of an undercollected  
10 balance in the TIMPBA and Post-2011 DIMPBA through a tier 2 advice letter rather than a tier 3  
11 advice letter if a two-way balancing account is approved. UCAN argues that a tier 2 advice letter  
12 would not provide the necessary scrutiny needed to review the excess costs recorded to the  
13 balancing accounts.<sup>7</sup>

14 SoCalGas does not agree with this argument. SoCalGas has filed a tier 3 advice letter to  
15 request recovery of the undercollected balance recorded in the TIMPBA as of December 31,  
16 2013.<sup>8</sup> While protests were received from ORA and other parties expressing their position that  
17 there was a lack of evidence proving the reasonableness of the overspending above authorized  
18 levels, SoCalGas remained fully open and prepared to demonstrate the reasonableness of its costs  
19 before the Commission and other parties. No parties submitted requests or performed an  
20 independent review, but relied on the Energy Division to perform a review of recorded TIMP  
21 costs. Commission Staff is capable and well-positioned to conduct the reasonableness review  
22 without having to then present its findings as a resolution to go for a full Commission vote.

23 Draft Resolution G-3499 states:

24 The Energy Division reviewed 2012 and 2013 costs recorded in the  
25 TIMP Balancing Account and also examined some invoices on a  
26 selective, sampling basis. Aside from two minor cost items, the  
27 Energy Division found that the costs reviewed appeared to be  
28 appropriately recorded and incurred.<sup>9</sup>

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<sup>7</sup> UCAN/Fulmer at 68.

<sup>8</sup> AL No. 4632 was filed on April 11, 2014.

<sup>9</sup> Draft Resolution G-3499, page 5

1           However, it has been over a year and SoCalGas has not received full Commission vote  
2 authorizing recovery of its costs incurred in 2012 and 2013. SoCalGas is not trying to avoid a  
3 reasonableness review by proposing recovery of costs above authorized levels through a tier 2  
4 advice letter, but is trying to promote timely recovery.<sup>10</sup>

5           **B.     SIMPBA**

6                   **1.     Two-Way Balancing**

7                           **a.     ORA**

8           ORA supports SoCalGas' proposal to create the SIMP to improve safety at the storage  
9 fields.<sup>11</sup> However, ORA opposes SoCalGas' proposal to create a two-way balancing account.  
10 ORA recommends SIMP costs be subject to a one-way balancing account treatment to better  
11 protect ratepayers. ORA does not provide additional arguments to support one-way balancing.  
12 Storage witness, Phillip Baker, addresses why two-way balancing is appropriate and justifiable  
13 for this program (Ex. SCG-206). I offer an additional reason why two-way is essential. The  
14 issue with the compounding of actual capital-related costs in comparison to authorized that  
15 we've experienced with TIMP and DIMP would likewise occur with SIMP, since capital  
16 expenditures are part of the proposed SIMP. A two-way mechanism will enable SoCalGas to  
17 recover its full capital revenue requirement, otherwise, a significant and compounding  
18 undercollection would be left stranded.

19                           **b.     UCAN**

20           UCAN did not agree with SoCalGas' proposal to create a two-way balancing account for  
21 the proposed new program, SIMP. UCAN recommends not allowing balancing account  
22 treatment for SIMP and proposes routine GRC treatment of SIMP costs.<sup>12</sup> However, if the  
23 SIMPBA is authorized, UCAN proposes SIMPBA be a one-way balancing account.<sup>13</sup> UCAN  
24 argues that there is no need for a two-way balancing account since there is no federal or state  
25 mandate or regulations requiring the development of this new program.<sup>14</sup> Philip Baker (Ex.  
26 SCG-206) addresses why SIMP costs should be two-way balanced. For the same two reasons

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<sup>10</sup> A draft resolution was not issued on AL No. 4632 until over a year later on April 21, 2015 and could receive Commission approval at the next Commission meeting on June 11, 2015.

<sup>11</sup> ORA-11 at 8.

<sup>12</sup> UCAN/Fulmer at 74.

<sup>13</sup> UCAN/Fulmer at 74.

<sup>14</sup> UCAN/Fulmer at 71.



1 provided in rebuttal to ORA in section (a) above, SoCalGas maintains that two-way balancing is  
2 appropriate for SIMPBA.

3 **2. Undercollection Recovery via Tier 2 Advice Letter**

4 **a. ORA**

5 ORA does not raise any opposition to SoCalGas' request for tier 2 review of  
6 undercollections because ORA's recommendation for one-way balancing would deny SoCalGas  
7 the ability to recover an undercollection.

8 **b. UCAN**

9 UCAN disagrees that SIMPBA undercollections should be sought through a tier 2 advice  
10 letter if SIMPBA is adopted as a two-way balancing account. UCAN argues that it is incorrect to  
11 model SIMP after TIMP and DIMP since SoCalGas does not have historical experience with the  
12 program. SoCalGas can agree with UCAN's recommendation for a tier 3 advice letter provided  
13 SIMPBA is adopted as a two-way balancing account. Although SoCalGas does not have the cost  
14 history for SIMP that exists for TIMP and DIMP, this GRC cycle will allow SoCalGas to build  
15 the cost history with which SoCalGas can revisit this proposal in the next GRC.

16 **IV. CONCLUSION**

17 ORA does not oppose SoCalGas' TIMPBA and DIMPBA proposals, but opposes two-  
18 way balancing for SIMPBA. SoCalGas presents valid reasons why SIMP costs should be two-  
19 way balanced, and my testimony supports Mr. Baker's rationale for two-way balancing of this  
20 vital, proactive integrity program. UCAN's objection to two-way balancing of TIMP and DIMP  
21 costs, and all of SoCalGas' SIMPBA proposals, do not outweigh the reasons why these programs  
22 should be two-way balanced. SoCalGas does not oppose UCAN's recommendation that SIMP  
23 undercollections be subject to the tier 3 advice letter process should SIMPBA be adopted as a  
24 two-way balancing account. However, SoCalGas maintains that a tier 2 process for TIMPBA  
25 and DIMPBA would not weaken the Commission's ability to scrutinize and review  
26 undercollections recorded in the balancing accounts, but instead would facilitate the timely  
27 resolution of that review without having to put forth a resolution requiring a full Commission  
28 vote.

29 This concludes my prepared rebuttal testimony.