

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

Application of San Diego Gas & Electric Company
(U 902 M) for Authority, Among Other Things, to
Increase Rates and Charges for Electric and Gas
Service Effective on January 1, 2016.

Application No. 14-11-003
(Filed November 14, 2014)

Application of Southern California Gas Company
(U 904 G) for Authority to Update its Gas Revenue
Requirement and Base Rates Effective on January
1, 2016.

Application No. 14-11-004
(Filed November 14, 2014)

**REPLY BRIEF ON NON-SETTLED ISSUES
OF SAN DIEGO GAS & ELECTRIC COMPANY (U902M) AND
SOUTHERN CALIFORNIA GAS COMPANY (U904G)**

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SUMMARY OF RECOMMENDATIONS

Introduction and Summary

- The Commission should grant the pending September 11, 2015 motions for settlement filed by SDG&E, SoCalGas, ORA and a majority of active parties in the above-captioned consolidated proceeding. Pursuant to the settlement agreements, SDG&E's combined electric and gas authorized revenue requirement for TY 2016 will be approximately \$1,811 million, of which \$1,500 million is electric and \$311 million is gas, and SoCalGas' authorized revenue requirement for TY 2016 will be approximately \$2,219 million. No party raised a recommendation to lower the settled amounts in opening briefs or comments to the settlement agreements.
- For the attrition years 2017 and 2018, the settlement agreements set forth escalation rates of 3.5% for each year, for both SDG&E and SoCalGas.
- The pending motions for settlement also request Commission adoption of several bilateral agreements between the parties to the settlement. No party raised an objection to any of the bilateral agreements in opening briefs or comments to the settlement agreements.
- The parties to the settlements agreed to resolve, without prejudice, all contested issues such that there remain no outstanding issues to litigate amongst parties to the settlements in this GRC proceeding, with the exception of a tax issue raised by TURN and identified in the bilateral agreement between SDG&E/SoCalGas and TURN/UCAN. In light of the settlements, SoCalGas takes issue with UWUA's Opening Brief, which requests additional relief from the Commission.

Safety and Risk Management Policy

- In their direct cases, SDG&E and SoCalGas recognized the Commission's ongoing efforts in transitioning toward a risk-informed GRC proceedings and presented a heightened evidentiary showing to demonstrate SDG&E and SoCalGas': (1) longstanding commitment to a well-developed safety culture; (2) safety philosophy and practices, demonstrating an operational commitment to risk management through targeted programs and initiatives; and (3) commitment to the continued growth and development of our existing risk management processes into a more fully integrated enterprise risk management (ERM) governance structure.
- The record evidence connects SoCalGas and SDG&E's TY 2016 GRC forecast requests (and therefore the pending TY 2016 Settlement Agreements) and the utilities' safety-related culture, practices, projects and activities. CCUE's, UWUA's, and MGRA's arguments to the contrary should be rejected.

Electric Distribution Capital

- The Commission should adopt the settlement agreements and reject CCUE's and MGRA's other recommendations and proposals regarding SDG&E's electric distribution operations.

- CCUE’s balancing account proposal for reliability spending should be rejected, as it would not allow SDG&E the flexibility it needs to prioritize safety issues as they arise. The record does not support CCUE’s pole loading study recommendation; in light of the record evidence regarding SDG&E’s Corrective Maintenance Program and Fire Risk Mitigation program pole inspection activities, CCUE’s proposal is unnecessary and duplicative. Moreover, the record demonstrates SDG&E’s excellent, award-winning reliability performance record, despite CCUE’s claims to the contrary.
- MGRA’s proposal to adopt metrics and tracking requirements in this proceeding should be rejected, as they would duplicate the Commission’s efforts to develop these procedures and standards in accordance with the Commission’s decision (D.14-12-025) in R.13-11-006 (the “Risk OIR”). Among other things, D.14-12-025 initiated the S-MAP and RAMP proceedings and a requirement to provide annual verification reports, including a Risk Mitigation Accountability Report and a Risk Spending Accountability Report.

Electric Distribution Operations and Maintenance (O&M)

- The Commission should adopt the settlement agreements and reject CCUE’s and MGRA’s other recommendations and proposals regarding SDG&E’s electric distribution operations.
- CCUE’s recommendation that the Commission should require SDG&E to hire and train employees is inconsistent with the evidence showing SDG&E’s excellent and continued reliability performance record, and should be rejected.
- The Commission should adopt SDG&E’s electric reliability incentive mechanism as proposed. CCUE’s proposed modifications to SDG&E’s performance-based ratemaking (PBR) would result in a “penalty-only” mechanism that would not incentivize or reward excellent performance, and should be rejected.

Environmental Services

- CCUE’s opening brief on SDG&E Environmental Services raises issues that fall within the scope of an ongoing Commission rulemaking (R.15-01-008), not this GRC. In terms of addressing leak detection and repair costs that may be incurred in this GRC cycle, SDG&E’s Test Year 2016 Settlement Agreement, and the EDF Settlement, provide a reasonable path for cost recovery that does not impinge on the determinations to be made in the rulemaking.

Compensation and Benefits

- The TY 2016 Settlement Agreements resolve all issues regarding compensation and benefits that were timely raised in this case before the close of evidentiary hearings. MGRA’s newly found ICP argument is illogical, bad policy, not properly before the Commission in this proceeding, and should be rejected.

Taxes

- TURN’s opening brief continues to perpetuate a one-sided portrayal of the impacts of the elections made by SDG&E and SoCalGas to change their respective accounting methods for the repair deduction. Evidence on the substantial ratepayer benefits negates TURN’s entire case, as a matter of fact. As a matter of law and policy, TURN cannot effectively distinguish its proposal from the case law on retroactive ratemaking; and, TURN cannot reconcile its proposal with the Commission’s own ratemaking policy, principles, and procedures on flow through taxation and future test year ratemaking.

Other Issues – UWUA Recommendations

- UWUA’s opening brief attempts to seek a “litigated” outcome of its recommendations which were clearly contested in the record and clearly intended to be settled between SoCalGas and UWUA. On the merits, UWUA’s recommendations ultimately amount to matters that should be raised and determined between the parties in collective bargaining, not the GRC. Adoption of any of UWUA’s vaguely worded recommendations would impinge upon that process.

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1. Intro/Summary of Recommendations

Pursuant to Commission Rule 13.11 and Administrative Law Judge (ALJ) Wong’s September 8, 2015 scheduling ruling, San Diego Gas & Electric Company (SDG&E) and Southern California Gas Company (SoCalGas or SCG) (collectively, Applicants) submit their reply brief (Reply Brief) on non-settled issues in the above-captioned consolidated General Rate Case (GRC) proceeding. Applicants filed their Opening Brief on October 9, 2015, and herein reply to the opening briefs also filed individually by Coalition of California Utility Employees (CCUE), Mussey Grade Road Alliance (MGRA), and the Utility Workers Union of America (UWUA), and jointly by The Utility Reform Network (TURN), Utility Consumers’ Action Network (UCAN), and San Diego Consumers’ Action Network (SDCAN).¹

This Reply Brief is organized and numbered similarly to the Applicants’ Opening Brief, in the common briefing outline format established for this proceeding. Although Applicants may

¹ The intervenor opening briefs are referred to herein as “CCUE Opening Brief,” “MGRA Opening Brief,” “UWUA Opening Brief,” and the “TURN Opening Brief,” respectively.

not specifically respond to each argument raised in opening briefs, it should not be assumed that Applicants have conceded any issue. Issues that were not raised in intervenors' opening briefs are not briefed herein and have been eliminated from the common briefing outline format for purposes of this Reply Brief.

2. Procedural Background

The Procedural Background for this proceeding was set forth in Applicants' Opening Brief; a summary of that background is provided again here for ease of reference: Applicants filed their respective Test Year (TY) 2016 Applications (A.)14-11-003 and A.14-11-004, on November 14, 2015. The Commission issued its Scoping Memo and Ruling (on February 5, 2015, which established the issues to be litigated and the litigation schedule. ORA issued its comprehensive reports on April 24, 2015. Other intervenors served their testimony on May 15, 2015.²

An all-party settlement conference was held on August 28, 2015 in San Francisco, California, and concurrently by teleconference. After additional negotiations, on September 11, 2015, SDG&E, SoCalGas, ORA, TURN, UCAN, FEA, EDF, and JMP filed the "Joint Motion for Adoption of Settlement Agreements Regarding [SDG&E's] Test Year 2016 General Rate Case, Including Attrition Years 2017 and 2018" (Joint SDG&E Motion) and the "Joint Motion for Adoption of Settlement Agreements Regarding [SoCalGas'] Test Year 2016 General Rate Case, Including Attrition Years 2017 and 2018" (Joint SoCalGas Motion). SDCAN also joined in the Joint SDG&E Motion, and UWUA also joined in the Joint SoCalGas Motion. Pursuant to

² Intervenors sponsoring testimony in this proceeding are: Office of Ratepayer Advocates (ORA), The Utility Reform Network (TURN), the Utility Consumers' Action Network (UCAN), Federal Executive Agencies (FEA), Joint Minority Parties (JMP), Environmental Defense Fund (EDF), Mussey Grade Road Alliance (MGRA), California Coalition of Utility Employees (CCUE), Utility Workers Union of America (UWUA), San Diego Consumers Action Network (SDCAN), and Southern California Generation Coalition (SCGC).

the settlement agreements for each utility, identified as the “TY 2016 Settlement Agreement” in each respective motion, SDG&E’s combined electric and gas authorized revenue requirement for TY 2016 will be approximately \$1,811 million, of which \$1,500 million is electric and \$311 million is gas, and SoCalGas’ authorized revenue requirement for TY 2016 will be approximately \$2,219 million. For the attrition years 2017 and 2018, the TY 2016 Settlement Agreements set forth escalation rates of 3.5% for each year, for both SDG&E and SoCalGas. Also on September 11, 2015, SDG&E and ORA filed the “Joint Motion of [SDG&E, SoCalGas, and ORA] for Adoption of Settlement Agreement Regarding the Post-Test Year Period” (Joint PTY Motion). These joint motions are currently pending before the Commission.

The Settling Parties moved for adoption of these settlements as a complete and final resolution of all issues among them in this proceeding, with the exception of a tax issue raised by TURN which, as specified in the TURN/UCAN Settlement, is not covered by the settlements and was the subject of the TURN Opening Brief. However, the settlement agreements do not resolve all the outstanding contested issues raised by non-settling parties, which are: CCUE, MGRA, and SCGC. SCGC did not file an opening brief on October 9, 2015.

As set forth in Applicants’ Opening Brief and the pending joint motions, Applicants support Commission adoption of the TY 2016 Settlement Agreements as “reasonable in light of the whole record, consistent with law, and in the public interest,” as required by Rule 12.1(d). Although Applicants address issues raised in intervenors’ opening briefs that were presented as part of Applicants’ prepared direct and rebuttal testimony prior to reaching settlement, such briefing should be interpreted consistently with the TY 2016 Settlement Agreements. Applicants request a Commission decision implementing the terms of the settlements as a full resolution of

the issues raised in this proceeding and allowing for implementation of the settled revenue requirement as reflected in the TY 2016 Settlement Agreements.

3. Burden of Proof

As set forth in the Opening Brief, Applicants have the burden of proving the reasonableness of the positions addressed herein by a preponderance of the evidence.³

6. Safety and Risk Management Policy

CCUE offers workforce, balancing account, and pole loading study recommendations in its opening brief that it claims should be adopted for SDG&E, in part due to the Commission's "renewed focus on Commission oversight of safety regulation"⁴ CCUE raises objections to the SDG&E TY 2016 Settlement Agreement for that same reason.⁵ Although a signatory to the SoCalGas TY 2016 Settlement Agreement, UWUA's Opening Brief also proposes certain workforce recommendations based in part on the Commission's recent efforts in developing safety and risk processes for GRCs.⁶ Similarly, MGRA bases several briefing recommendations on its belief that the Commission should determine metrics and tracking requirements for SDG&E in this proceeding, rather than in accordance with the Commission's Risk OIR decision,⁷ which established a procedural framework and timeline for the Commission's Safety

³ D.09-03-025 at 8.

⁴ CCUE Opening Brief at 5.

⁵ See October 12, 2015, Opening Comments of [CCUE] on Joint Motion for Adoption of Settlement Agreements Regarding SDG&E's Test Year 2016 General Rate Case, *passim*.

⁶ UWUA Opening Brief at 1-6.

⁷ Rulemaking (R.) 13-11-006, the "Risk OIR," and Decision (D.)14-12-025, the "Decision Incorporating A Risk-Based Decision-Making Framework Into The Rate Case Plan And Modifying Appendix A Of Decision 07-07-004."

Model Assessment Proceeding (S-MAP)⁸ and Risk Assessment and Mitigation Phase (RAMP) proceedings.⁹

CCUE's, UWUA's and MGRA's arguments ignore the extensive record evidence in this proceeding that demonstrates SDG&E and SoCalGas': (1) longstanding commitment to a well-developed safety culture; (2) safety philosophy and practices, demonstrating an operational commitment to risk management through targeted programs and initiatives; (3) commitment to the continued growth and development of our existing risk management processes into a more fully integrated enterprise risk management (ERM) governance structure. In testimony supporting the Applications, SDG&E and SoCalGas recognized the Commission's expectation of "an evolution in the way utilities identify safety and reliability risks and justify the value of investments and operations expenses in relation to how well those risks are mitigated,"¹⁰ and responded by presenting a heightened evidentiary showing related to safety and risk management in their direct cases, demonstrating a link between SoCalGas and SDG&E's TY 2016 GRC forecast requests and their safety-related culture, practices, projects and activities. Applicants presented their first GRC panel of risk policy witnesses offering detailed testimony regarding the ongoing and developing safety and risk management practices and associated revenue requirement requests at both utilities, as follows:

⁸ SDG&E's S-MAP is currently underway in Application (A.) 15-05-002, the "Application of San Diego Gas & Electric Company (U902M) for Review of its Safety Model Assessment Proceeding Pursuant to Decision 14-12-025." Each other investor-owned utility (IOU) has also initiated S-MAP proceedings in compliance with the Risk OIR decision: SoCalGas (A.15-05-004), PG&E (A.15-05-003) and SCE (A.15-05-005). SDG&E is scheduled to file its RAMP Phase application on November 30, 2016. R.13-11-006/D.14-12-025, at page 41 and Ordering Paragraph 1 at page 54.

⁹ See MGRA Opening Brief at 16 ("We ... believe that SDG&E's suggestion that the MGRA analysis belongs within the scope of R.15-06-006 is incorrect.").

¹⁰ Risk OIR, p. 6, *quoted by* Ex. 13 SCG/Day at 3; Ex. 15 SDG&E/Day at 3.

- **Diana Day, the Vice President of Enterprise Risk Management for SDG&E and SoCalGas.**¹¹ Ms. Day’s direct testimony describes SoCalGas’ and SDG&E’s commitment to maintaining a mature, successful safety culture while incorporating ERM governance and risk management principles and practices into its operations. Ms. Day also provides a road map of SDG&E and SoCalGas operations witnesses sponsoring TY 2016 revenue requirement requests tied to safety and risk mitigation, and sponsors a revenue requirement request of \$5.556 million in direct O&M costs for both utilities, to implement an integrated ERM organization.
- **David Geier, the Vice President of Electric Transmission and System Engineering for SDG&E.**¹² Mr. Geier’s direct testimony provides an overview of SDG&E’s risk priorities, asset programs and investments requested to support them. Mr. Geier describes SDG&E’s past and ongoing efforts to grow its safety culture and risk management practices regarding electric distribution operations, including the introduction of behavior based safety (BBS) training in the 1990s to further improve the safety culture and practices of our employees, and upgrading SDG&E’s Geographical Information Systems (GIS) in the mid-2000s to, among other things, provide more comprehensive asset data. Mr. Geier testifies that SDG&E has focused very specifically on the organization, tools and procedures to minimize fire risk in the last decade, and in this case seeks revenue requirement for wildfire risk management efforts such as the Fire Risk Mitigation (FiRM) project. Mr. Geier also describes SDG&E’s priority risk categories and the link between SDG&E’s TY 2016 electric operations funding requests and risk mitigation processes, intended to allow SDG&E to maintain its strong reliability and safety record into the future.
- **Douglas Schneider, the Vice President of Gas Engineering and System Integrity for SDG&E and SoCalGas.**¹³ Mr. Schneider’s direct testimony provides an overview of SoCalGas and SDG&E’s natural gas operations work over the last 30 years to address safety and security risks and current risk mitigation efforts. Mr. Schneider describes SoCalGas and SDG&E’s past and ongoing efforts to grow its safety culture and practices regarding gas distribution operations, including formalized and ongoing training, employee membership on safety committees to reduce or eliminate hazards, prevent injuries and raise safety awareness through person-to-person interaction, and implementation of SoCalGas

¹¹ Ms. Day sponsors Exhibits 13, 14, 15, 16, 17, and 18, which comprise her direct and rebuttal testimonies and workpapers for both utilities on Enterprise Risk Management and Policy, as well as her “Response to the Safety and Enforcement Division Risk Assessment Section Staff Report on SDG&E/SoCalGas’ 2016 GRC.”

¹² Mr. Geier sponsors Exhibits 21 and 22, his direct testimony and workpapers regarding Electric Operations Risk Policy for SDG&E.

¹³ Mr. Schneider sponsors Exhibits 19, 20, 21, and 22, his direct testimony and workpapers regarding Gas Operations Risk Policy for SoCalGas and SDG&E.

and SDG&E's natural gas safety plans. Mr. Schneider explains that, over the past decade, SDG&E and SoCalGas' governance, methods, processes, and measures have expanded to include programs reflecting leading risk management practices, including defining, analyzing, prioritizing, and monitoring risks. In this case SoCalGas and SDG&E seek revenue requirement for well-developed risk management processes and programs in place for gas operations, from daily O&M activities to the extensive Integrity Management Programs for transmission (TIMP) and distribution (DIMP) facilities, and SoCalGas seeks to implement a new Storage Integrity Management Program for underground storage wells (SIMP). These programs and other initiatives are enabling SoCalGas and SDG&E to maintain its gas operations infrastructure in a manner that meets or exceeds applicable federal and state regulations and requirements. Mr. Schneider also describes SoCalGas' and SDG&E's priority risk categories and the link between SoCalGas' and SDG&E's TY 2016 gas distribution operations revenue requirement requests and its risk mitigation processes, which are intended to allow SoCalGas and SDG&E to maintain their system's strong safety and reliability record into the future.

As summarized in Ms. Day's, Mr. Geier's, and Mr. Schneider's testimony, numerous other SDG&E and SoCalGas witnesses also offered extensive detail regarding SoCalGas and SDG&E's operational commitments to safety and risk management:

- Exhibits 1 and 2: Direct Testimony of Bret Lane, Caroline Winn & Scott Drury regarding SoCalGas and SDG&E governing policy consisting of employee safety, customer and public safety, and the safety of the utilities' delivery systems. Also addressed are: safety culture, and the utilities' commitments to safety and efforts toward risk management, cyber and physical security and environmental stewardship, as discussed in subsequent witness testimonies.
- Exhibits 25, 27, 29 and 32: Direct and Rebuttal Testimony of Raymond K. Stanford regarding Gas Engineering and Gas Transmission Capital, addressing pipeline design standards and mitigation of risks associated with infrastructure integrity, system reliability and physical security of gas facilities and compressor stations.
- Exhibit 35, 40 and 43: Direct Testimony of John L. Dagg and Rebuttal Testimony of Beth Musich regarding SoCalGas and SDG&E's Gas Transmission Operations, and its reliance on real-time information for risk management related to gas delivery and safety. Also addressed is the routine inspection and maintenance not only of high-pressure transmission pipeline and compressor stations, but also of new infrastructure such as valves, actuators and related components installed under SoCalGas' PSEP plan that are needed to isolate and depressurize critical pipelines in the event of rupture.
- Exhibits 45 and 48: Direct and Rebuttal Testimony of Phillip E. Baker regarding management of the integrity of the storage wells, meeting the requirements of the

California Department of Oil, Gas and Geothermal Resources (DOGGR), and SoCalGas' new and proactive Storage Integrity Management Program ("SIMP"), with characteristics similar to the federally-mandated Transmission Integrity Management Program (TIMP).

- Exhibits 49, 52, 53 and 56: Direct and Rebuttal Testimony of Maria T. Martinez regarding Pipeline Integrity for Transmission & Distribution, addressing Pipeline and Hazardous Materials Safety Administration ("PHMSA") compliance, the Transmission Integrity Management Program ("TIMP"), the Distribution Integrity Management Program ("DIMP"), risk mitigation assessment and prioritization, replacement of Aldyl-A plastic pipe, the Gas Infrastructure Protection Program ("GIPP"), Programs and Activities to Assess Risk ("PAARs"), the Sewer Lateral Inspection Program ("SLIP"), and anodeless risers.
- Exhibits 58, 61, 62 and 65: Direct and Rebuttal Testimony of Frank B. Ayala regarding Gas Distribution, addressing public and employee safety, regulatory and legislative compliance and distribution system reliability, and in particular the prioritization of such work as leak detection and mitigation, risk-ranking of main and service pipeline segments, emergency dispatch scheduling and operator qualification training.
- Exhibits 70 and 72: Revised Direct and Rebuttal Testimony of Jonathan T. Woldemariam regarding Electric Distribution O&M, addressing the Fire Risk Mitigation ("FiRM") program, the development of the Reliability Improvements for Rural Areas ("RIRAT") team, vegetation management, fire response planning, the use of dedicated meteorological and fire response personnel, the development of sophisticated fire risk mapping and real-time monitoring systems, Red Flag warning operations, elevated wind condition operational procedures and protocol, safety patrol costs for restoration of outages in high risk fire areas, and electric reliability performance incentives.
- Exhibit 266: Rebuttal Testimony of Mason Withers regarding Electric Reliability Performance Incentives, addressing additional details of SDG&E's proposed electric reliability performance indicators, including its historical context and status in light of fire safety programs.
- Exhibits 134 and 136: Revised Direct and Rebuttal Testimony of John Jenkins regarding Electric Distribution Capital, addressing capital project efforts for the FiRM program, risk mitigation alternatives evaluation, selection and prioritization of risk mitigation projects, and various capital budget categories for reliability improvements, facility physical security, provision of new business services, and system upgrades and hardening.
- Exhibits 74 and 77: Direct and Rebuttal Testimony of Carl LaPeter regarding Electric Generation and capital projects, addressing system reliability, physical security, and natural disaster.

- Exhibit 84: Direct Testimony of Sue E. Garcia regarding Electric and Fuel Procurement, addressing the assessment of energy resource availability and reliability both for present and future resource planning.
- Exhibits 86, 88, 89 and 91: Direct and Rebuttal Testimony of Sara A. Franke regarding Customer Service Field Operations, addressing safe and reliable provision of gas and electric service through trained and experienced Field Technicians.
- Exhibits 110 and 113: Direct and Rebuttal Testimony of Evan Goldman regarding Customer Service Office Operations, addressing customer contact in the case of emergencies, service dispatching in response to those emergency calls, and dispatch practices for non-emergency field safety inspections.
- Exhibits 101 and 104: Direct and Rebuttal Testimony of Brad Baugh regarding Customer Service Operations, Information and Technologies, addressing customer contact in the case of emergencies, service dispatching in response to those emergency calls, and dispatch practices for non-emergency field safety inspections.
- Exhibits 106 and 108: Direct and Rebuttal Testimony of Mark Serrano addressing SoCalGas Safety Operations, Safety Compliance, and Wellness Programs that support public and employee safety and reduce the incidence of accidents and injuries.
- Exhibits 121 and 123: Direct and Rebuttal Testimony of Sarah E. Edgar regarding Human Resources and Safety, addressing Safety Operations, Safety Compliance, and Wellness Programs that support public and employee safety and reduce the incidence of accidents and injuries, and SDG&E's Emergency Operations Center ("EOC"), Regional Emergency Operations, and Business Continuity and Resumption Planning.
- Exhibits 148, 151, 153 and 156: Direct and Rebuttal Testimonies of Christopher R. Olmsted and Stephen J. Mikovits regarding Information Technologies, addressing cyber security, customer data privacy, control system security, data loss, corruption or theft, key risk indicators for cyber security, and monitoring and mitigation of system intrusions or breaches.
- Exhibits 162, 165, 166 and 168: Direct and Rebuttal Testimony of Carmen Herrera regarding Fleet Services, addressing vehicle design and operational safety in compliance to NHTSA and OSHA requirements, routine vehicle and equipment inspections and maintenance, and contribution of fleet services' activities to the provision of reliable gas and electric service by technicians and work crews.
- Exhibits 174, 176, 177, and 179: Direct and Rebuttal Testimonies of Jill Tracy and Scott Pearson regarding Environmental Services, addressing the importance of environmental protection and compliance, and SDG&E's efforts to meet those compliance requirements and emerging legislation.

- Exhibits 270 and 273: Direct and Rebuttal Testimony of James Seifert regarding Real Estate, Land and Facilities, addressing facility-related projects categorized as safety and environmental improvements, as well as facility management services to operate and maintain fire safety systems, facility security and access control systems, back-up emergency generators and uninterruptable power systems among others.

Ms. Day confirmed SDG&E and SoCalGas' belief that their "commitments are directionally aligned with the CPUC and, based on all of our risk witnesses' testimonies, that SDG&E's and SoCalGas' TY 2016 GRCs are based on an assessment of the safety, reliability and security risks of SDG&E and SoCalGas systems."¹⁴

Thus, despite CCUE's, UWUA's and MGRA's claims, SoCalGas and SDG&E's TY 2016 GRC presentation recognizes the important safety and risk management work underway in several Commission proceedings (including the Risk OIR, S-MAP and upcoming RAMP proceedings), as California utilities transition into a new GRC construct, and responds with a heightened evidentiary showing regarding safety and risk management. The report of the Commission's Safety and Enforcement Division (SED Report) recognized SDG&E and SoCalGas' evidentiary showing regarding risk management, safety and reliability, as well as this GRC transition period, in its report regarding this proceeding, stating:

Because this GRC application was submitted prior to the final decision in the Risk OIR, Sempra was not required to follow the framework adopted in the Risk OIR. Consistent with the direction of D. 14-12-025, however, SDG&E and SoCalGas have submitted testimony about their Risk Management programs and identified top risk categories with reference to their proposed safety and reliability investments as part of their GRC applications.¹⁵

Applicants thus appropriately presented a comprehensive and complete body of safety and risk management direct evidence to support their TY 2016 GRC proposals during this transition period.

¹⁴ Ex. 13 SCG/Day at 11; Ex. 15 SDG&E/Day at 11.

¹⁵ Ex. 23, March 27, 2015 SED Risk Assessment Staff Report at 8.

CCUE and UWUA both use the Commission’s ongoing efforts to more fully develop a safety- and risk-informed GRC process underway in several Commission proceedings (including the Risk OIR, S-MAP and upcoming RAMP proceedings) as a basis of support for their increased workforce and training proposals, and CCUE’s two-way balancing account proposals.¹⁶ But as noted above, and contrary to CCUE and UWUA’s contentions, SDG&E and SoCalGas have a fully developed evidentiary record on safety and risk management efforts in this case that is tied to and supports the settled-upon revenue requirement amounts in the pending TY 2016 Settlement Agreements.¹⁷ Testimony from SDG&E and SoCalGas’ risk policy panel of witnesses and several operations witnesses provided a comprehensive body of evidence regarding safety and risk management from an ERM perspective and from an electric distribution and gas distribution operations perspective, as well as from other operational perspectives. CCUE’s proposals are not supported by the evidence regarding policy or operations, as further discussed below in Sections 11, 12 and 24. UWUA’s proposals similarly are not supported by the evidence and should be rejected, as discussed below in Section 47.1.

MGRA’s Opening Brief offers several tracking, risk scoring, and measuring recommendations¹⁸ based on its premise that the Commission’s Risk OIR, S-MAP, and RAMP processes are moving too slowly,¹⁹ and that SDG&E may be waiting for a “committee consensus”²⁰ before beginning work on more formalized ERM processes. MGRA’s

¹⁶ CCUE Opening Brief at 2-7; UWUA Opening Brief at 2-7.

¹⁷ See related discussion in the October 27, 2015 “Joint Reply to Comments on Joint Motion for Adoption of Settlement Agreements Regarding San Diego Gas & Electric Company’s Test Year 2016 General Rate Case,” *passim*.

¹⁸ MGRA Opening Brief at 5-7.

¹⁹ MGRA Opening Brief at 12-21.

²⁰ MGRA Opening Brief at 21.

recommendations should not be adopted because they conflict with ongoing and upcoming Commission efforts in the Risk OIR, S-MAP, and RAMP proceedings;²¹ moreover, MGRA’s claims regarding SDG&E’s evolving ERM processes are incorrect and have no basis in the record facts. Ms. Day testified to Applicants’ commitment to developing, improving and formalizing ERM practices in the present and going forward. At the time SDG&E and SoCalGas filed their applications initiating this GRC, Ms. Day had been recently appointed to the newly created position of Vice President of Risk Management, an executive position dedicated to growing an enterprise-wide risk management (ERM) organization for both SoCalGas and SDG&E.²² Ms. Day testified that SDG&E and SoCalGas’ developing ERM organization and processes will provide a consistent framework for addressing risk that incorporates leading practices from both internal and external organizations, as follows:

SDG&E and SoCalGas are committed to the continued advancement of risk management principles and practices. As our risk management practices grow and mature, we will strive to:

- Continue to incorporate safety and security risk management as an integral part of key organizational decision-making processes;
- Evaluate and address risks in a more systematic, structured, transparent and timely manner;
- More closely integrate risk, asset and investment management; and
- More fully inform our risk, asset and investment management decisions with qualitative and quantitative analysis.

²¹ For example, several of MGRA’s proposals duplicate requirements described in D.14-12-025 regarding an upcoming “Risk Mitigation Accountability Report” and the “Risk Spending Accountability Report.” D.14-12-025. The Commission should decline to adopt MGRA’s recommended requirements here that would conflict and overlap with requirements that are being developed in other proceedings.

²² *Id.* at 7.

SoCalGas' and SDG&E's risk management governance will continue to allow for the review and discussion of safety and security risks, mitigation strategies, and related investments. This ERM structure will improve consistency for SoCalGas and SDG&E in risk identification, analysis, evaluation and prioritization, to focus on the risks that are most critical. The framework will be refined, as needed, to reflect ongoing changes in the risk environment of business unit operations, industry practices, Commission priorities, and new regulations. The approaches we use to identify, prioritize and mitigate risks will conform to the stated and emerging expectations of the Commission.²³

At hearings, the risk policy panel of Ms. Day, Mr. Schneider, and Mr. Geier testified at length regarding the relationship between SDG&E and SoCalGas' growing ERM organization and their operational units.²⁴ Mr. Geier confirmed that "risk analysis has always been part of operations,"²⁵ and explained how SDG&E is using new data sources to address wildfire threat.²⁶ Ms. Day explained that ERM "provides governance and tools" for risk owners in the operational units,²⁷ by "formalizing and ensuring consistency, adding new tools and programs, and in sharing best practices across different departments that are each individually [making] risk-informed decisions."²⁸ Mr. Schneider provided an example of the working relationship between ERM and operations as follows:

The Transmission Integrity Management Program is a good example of where we have...taken data and other risk concepts and integrated it into how we manage the system [and] how we perform assessments.... Enterprise Risk Management will...allow us to have...better...tools, better comparisons between different types of programs across the organization.²⁹

²³ *Id.* at 7-8.

²⁴ *See, e.g.*, Tr. V12:809:2 – 820:11 (Panel). MGRA was not present at the evidentiary hearings for this proceeding and did not cross-examine the SDG&E/SoCalGas risk policy panel.

²⁵ Tr. V12:801:3-4 (Geier).

²⁶ *See, e.g.*, Tr. V12:844:23-28 – 846:23 (Geier).

²⁷ Tr. V12:810:5-9 (Day) ("[T]he ERM function is a function that provides governance and tools. The actual risk owners and risk management, risk managers for the operations reside in the operational units.").

²⁸ Tr. V12:816:22-26.

²⁹ Tr. V12:814:21-28 – 815:1-3 (Schneider).

Ms. Day, Mr. Schneider, and Mr. Geier’s complete body of testimony in this GRC (as well as the testimony of the above-listed witnesses) thus demonstrates SoCalGas and SDG&E’s strong commitment to implementing and developing a comprehensive ERM structure, consistent with leading practices and Commission expectations,³⁰ while continuing to build on SoCalGas and SDG&E’s existing mature and successful safety culture and practices.

MGRA’s impatience with the Commission’s processes does not justify adopting its short-cut proposals here, as MGRA recommends.³¹ Ms. Day’s testimony confirms that SDG&E and SoCalGas are appropriately responding to Commission efforts to undertake “a more ‘comprehensive reconsideration’ of how it addresses the prioritization of safety, security and reliability issues in general rate cases,”³² while also recognizing the need for “incorporation of safety, reliability, and security risk into the CPUC’s ratemaking processes [to] evolve carefully and thoughtfully, as the associated utility business structures and processes continue to mature.”³³ As previously noted, however, this does not mean that SDG&E and SoCalGas are waiting to implement ERM processes. SDG&E’s testimony served in support of its recently filed S-MAP Application also demonstrates the continuing development of SDG&E’s ERM organization, process and modeling since the filing of the instant proceeding in November 2014, as follows:

³⁰ The SED report also noted SDG&E and SoCalGas’ evolving ERM program throughout its report; stating, for example: “Although some form of ERM program existed previously, Sempra continues to develop its program to address changing needs, in particular regulatory directives that promote more risk-informed decision-making.” SED Report at 13.

³¹ See MGRA Opening Brief at 5-7.

³² Ex. 13 SCG/Day at 2; Ex. 15 SDG&E/Day at 2.

³³ Ex. 13 SCG/Day at 2; Ex. 15 SDG&E/Day at 2.

- The Prepared Direct Testimony of Jorge Da Silva provides information concerning SDG&E’s policy and Enterprise Risk Management, an overview of SDG&E’s testimony and existing models, SDG&E’s Risk Taxonomy, and proposed Risk Lexicon.
- The Prepared Direct Testimony of Mason Withers provides information concerning the Wildfire Risk Reduction Model (WRRM) used to provide risk analysis related to SDG&E’s Fire Risk Mitigation Program (FiRM).
- The Prepared Direct Testimony of Scott King provides information concerning SDG&E’s cybersecurity modeling.³⁴

The Commission should decline MGRA’s requests to prejudge issues regarding risk mitigation scoring, measuring and tracking that are yet-to-be decided in other proceedings. As also discussed below in Section 11, MGRA’s recommendations should be rejected as unfounded and not supported by the record.

11. Electric Distribution Capital (SDG&E-Only)

As mentioned in Applicants’ Opening Brief, the prepared rebuttal testimony of John Jenkins addressed Electric Distribution Capital cost-related testimony by several intervenors, including CCUE and MGRA.³⁵ Issues raised by ORA, TURN, UCAN, and FEA have all been addressed by the settlement agreements, which are pending Commission review.

Both CCUE’s and MGRA’s Opening Briefs offer various arguments criticizing SDG&E’s reliability, risk reduction and wildfire prevention activities.³⁶ As a preliminary matter, contrary to CCUE’s and MGRA’s claims, SDG&E has proven that it does an excellent job of keeping up with aging infrastructure, and has shown year after year that SDG&E’s system works through strong reliability metrics.³⁷ Just recently, SDG&E received the 2015 PA Consulting

³⁴ SDG&E’s May 1, 2015 S-MAP Application (A.)15-05-002 at 3.

³⁵ Ex. 136 SDG&E/Jenkins (addressing Ex. 317-18 MGRA/Mitchell and Ex. 337 CCUE/Marcus).

³⁶ CCUE Opening Brief at 7-10; MGRA Opening Brief at 24-40.

³⁷ Ex. 136 SDG&E/Jenkins at 31.

award for Outstanding Reliability for the West Region for the tenth straight year in a row,³⁸ thus confirming its longstanding and continued excellent reliability record. SDG&E was also named the Recipient of the prestigious 2014 ReliabilityOne™ National Reliability Excellence Award, which was the second time in five years that SDG&E has received this prestigious national honor.³⁹ The ReliabilityOne™ National Reliability Excellence Award is given to the regional award recipient that has demonstrated sustained leadership, innovation and achievement in the area of electric reliability.⁴⁰ And SDG&E's proposed Performance-Based Ratemaking mechanism (PBR), addressed herein in Section 12.1, provides incentives for SDG&E to continue to strive for excellence in reliability performance.

PA Consulting also recently recognized SDG&E for its excellence in responding to the May 2014 fires,⁴¹ by giving SDG&E its 2015 "Outstanding Response to a Major Outage Event"

³⁸ SDG&E requests that the Commission take official notice of this fact as stated in PA Consulting's October 27, 2015 press release, a source of reasonably indisputable accuracy, in accordance with Commission Rule 13.9 and California Evidence Code § 452(h), *available at* <http://www.prnewswire.com/news-releases/pa-consulting-group-honors-north-american-utilities-for-excellence-in-reliability-at-the-2015-reliabilityone-awards-ceremony-300165366.html>, *and* <http://timesofsandiego.com/business/2015/10/27/sdge-ranked-most-reliable-utility-in-the-west-for-10th-year/>. Mr. Jenkins' testimony demonstrates that SDG&E also won this PA Consulting award for the previous nine years. Ex. 136 SDG&E/Jenkins at 22 (citing press release available at: <http://finance.yahoo.com/news/sdg-e-awarded-best-nation-004700085.html>).

³⁹ Ex. 136 SDG&E/Jenkins at 22.

⁴⁰ Ex. 136 SDG&E/Jenkins at 22.

⁴¹ See discussion regarding May 2014 fires in the SDG&E/SoCalGas Opening Brief at 11-12 (citing Ex. 70 SDG&E/Woldemariam at 3-4; Tr. V12 at 844:12-22 (Geier); and Tr. V26 at 2887:24-2888:13 (Withers). See also Tr. V12 at 844:1-846:23 (Geier) (discussing new wildfire threat challenges and risk management activities, including those related to the 2014 fire); Tr. V15 at 1434:18-28 (Woldemariam) (same).

award.⁴² The evidence on SDG&E's Fire Risk Mitigation (FiRM) capital project and other wildfire threat management activities is consistent with these awards, because the record also demonstrates the high priority SDG&E places on its capital fire hardening projects, everyday operational activities, and wind and fire risk emergency response protocol activities.⁴³ SDG&E witness David Geier explained that SDG&E comprehensively addresses fire risk as a top priority threat:

SDG&E continues to address as a top priority the safety and operational risks caused by the extreme Santa Ana wind conditions throughout SDG&E's service territory, given that fire risk is extremely high during wind events, and the consequences of a fire can be catastrophic. SDG&E has implemented fire risk mitigation measures that are unprecedented (in both California and the electric industry) to minimize both the likelihood of fire and any damage caused by fire should an incident occur. Given current severe drought conditions in California and the increasing number of year-round wind events in our service territory, SDG&E has needed to even further increase its fire risk mitigation efforts to adapt to changing field conditions.⁴⁴

Mr. Geier also explained that SDG&E has prioritized its FiRM fire-hardening activities "from a threat perspective":

Our FiRM Program is ...an aggressive program on our distribution system where we are [replacing] wood poles with steel poles, but looking at more of a system perspective and also addressing other items that have a potential fire risk, particularly on the distribution system in the fire threat zone. We have areas that have very small wire. We know that wire is prone to breaking in extreme winds. So we are actually going through and

⁴² SDG&E requests that the Commission take official notice of this fact as stated in PA Consulting's October 27, 2015 press release, a source of reasonably indisputable accuracy, in accordance with Commission Rule 13.9 and California Evidence Code § 452(h), *available at* <http://www.prnewswire.com/news-releases/pa-consulting-group-honors-north-american-utilities-for-excellence-in-reliability-at-the-2015-reliabilityone-awards-ceremony-300165366.html> *and* <http://timesofsandiego.com/business/2015/10/27/sdge-ranked-most-reliable-utility-in-the-west-for-10th-year/>.

⁴³ *See, e.g.*, Ex. 134 SDG&E/Jenkins at 6-11, 128-129; Ex. 72 SDG&E/Woldemariam at 5-13; Ex. 21 SDG&E/Geier at 4-6.

⁴⁴ Ex. 21 SDG&E/Geier at 4-6.

rebuilding our system. The FiRM Program is rebuilding our system, adding steel poles, adding stronger wire. And all of that has been prioritized from a threat perspective.⁴⁵

SDG&E thus prioritizes investing a tremendous amount of resources into reducing the potential for catastrophic wildfires, and reducing the impact on the electric system resulting from wildfires, through the FiRM capital project and SDG&E's comprehensive operating procedures. SDG&E witness John Jenkins explained that FiRM is "the largest distribution project the company has ever undertaken," addressing "the single biggest risk that's been identified for San Diego Gas and Electric";⁴⁶ therefore, it is a very important program for the company.

CCUE's and MGRA's Opening Briefs ignore the evidence in this case showing SDG&E's strong record on safety and reliability. CCUE's Opening Brief recommends: (1) that the Commission should authorize two-way balancing account treatment for pole replacement⁴⁷ and reliability improvement costs;⁴⁸ and (2) that the Commission require SDG&E to conduct a pole-loading study and increase its replacement rate for wood-to-steel pole conversions.⁴⁹ As discussed below, the record shows that CCUE's recommendations should be rejected, as they would not allow SDG&E the appropriate flexibility to prioritize safety-related projects over reliability projects.

⁴⁵ Tr. V12:803:3-21 (Geier) (emphasis added).

⁴⁶ Tr. V19:2111:18-23 (Jenkins); *see also* Ex. 136 SDG&E/Jenkins at 12.

⁴⁷ CCUE Opening Brief at 7-9.

⁴⁸ CCUE Opening Brief at 10. In prepared testimony, CCUE also recommended a significant increase over SDG&E's requested authorized amounts for electric distribution and gas distribution reliability improvements (\$280.8 million total increase over the 2016 to 2018 period for poles, cable, and system devices (circuit breakers, capacitors, SF6 switches)). (Ex. 337 CCUE/Marcus at 4.) In addition, CCUE scaled up overheads for the recommended capital increases. (Ex. 337 CCUE/Marcus at 50.) CCUE also recommended in testimony that the Commission establish a mechanism to bind SDG&E to spend the authorized amounts for reliability improvements, proposing the use of two-way balancing accounts. (Ex. 337 CCUE/Marcus at 10.)

⁴⁹ CCUE Opening Brief at 7-9.

MGRA’s testimony did not recommend any reduction in SDG&E’s requested revenue requirement for Electric Distribution Capital;⁵⁰ however, MGRA recommended accelerating the FiRM project. MGRA’s Opening Brief acknowledges SDG&E’s “superior knowledge of its own system,”⁵¹ but offers criticisms suggesting proposed micromanagement of SDG&E’s FiRM activities.⁵² MGRA’s Opening Brief recommendations regarding prioritizing, tracking and measuring benefits of FiRM spending⁵³ are largely outside the scope of this proceeding and are not supported by the record, as discussed in Section 6 herein.⁵⁴

11.1 Reply to CCUE

11.1.1 CCUE’s Two-Way Balancing Account Proposals Are Misguided, and Would Not Allow SDG&E Flexibility to Prioritize Safety Over Reliability.

In testimony and in briefing, CCUE takes issue with SDG&E’s proposed preventative infrastructure replacements for electric distribution, regarding poles, underground cables, capacitors, and underground switches,⁵⁵ and specifically recommends a pole replacement study. CCUE also recommends that the Commission establish a mechanism to inflexibly bind SDG&E to spend the authorized amounts for reliability improvements, proposing the use of two-way balancing accounts strictly for pole replacement and reliability improvements. CCUE’s testimony recommended an increase to infrastructure spending of \$280.8 million (including gas distribution) over the 2016 to 2018 period for poles, cable, and system devices (*e.g.*, circuit

⁵⁰ CCUE provided forecasts for 2016-2018 and proposed higher expenditures for electric distribution and gas distribution capital (\$280.8 million over 2016-2018). Ex. 136 SDG&E/Jenkins at 1.

⁵¹ MGRA Opening Brief at 34.

⁵² See MGRA Opening Brief at 24-40.

⁵³ MGRA Opening Brief, *passim*.

⁵⁴ See Ex. 136 SDG&E/Jenkins.

⁵⁵ Ex. 337 CCUE/Marcus; CCUE Opening Brief at 7-11.

breakers, capacitors, and SF6 switches).⁵⁶ In addition, CCUE scaled up overhead costs corresponding to the capital increases it recommends.⁵⁷

CCUE's Opening Brief ignores the record evidence on the significant work that SDG&E is undertaking with FiRM,⁵⁸ as well as SDG&E's longstanding history of award-winning reliability performance.⁵⁹ SDG&E affirms that the TY2016 Settlement Agreement as a whole would allow SDG&E to maintain its high standard of reliability for its customers. SDG&E does not agree with CCUE's recommendation of using two-way balancing accounts for Electric Distribution Capital funding, as it would reduce SDG&E's ability to reprioritize and adjust funds between different kinds of assets and efforts to address changing, new or emergent safety issues and to meet our customer's needs.⁶⁰ The capital management process is dynamic, as Mr. Jenkins testified,⁶¹ and SDG&E requires flexibility to prioritize safety and reliability spending on an ongoing basis throughout the GRC period. For example, Mr. Jenkins testified that the FiRM project was developed in response to new information regarding safety and risk management, as that new information became known:

There are times where SDG&E begins down a path to reduce one risk, and finds additional risks that need to be mitigated as well. For example, in 2013, SDG&E began

⁵⁶ Ex. 136 SDG&E/Jenkins at 30-31 (addressing Ex. 337 CCUE/Marcus at 4).

⁵⁷ *Id.* at 31 (addressing Ex. 337 CCUE/Marcus at 33).

⁵⁸ *See* Exs. 134 and 136 SDG&E/Jenkins, *passim*.

⁵⁹ *See* Ex. 136 SDG&E/Jenkins at 22 (citing press release available at: <http://finance.yahoo.com/news/sdg-e-awarded-best-nation-004700085.html>); *see also* PA Consulting's October 27, 2015 press release, available at <http://www.prnewswire.com/news-releases/pa-consulting-group-honors-north-american-utilities-for-excellence-in-reliability-at-the-2015-reliabilityone-awards-ceremony-300165366.html>, and <http://timesofsandiego.com/business/2015/10/27/sdge-ranked-most-reliable-utility-in-the-west-for-10th-year/>.

⁶⁰ *See id.* (addressing Ex. 337 CCUE/Marcus at 50).

⁶¹ Ex. 134 SDG&E/Jenkins at 2-11; *id.* at 6 ("Priorities are adjusted, depending on whether or not risks are being adequately addressed, if new risks materialize based on new data, and depending on overall budget status.").

developing a program to address pole loading concerns in fire prone areas. As SDG&E progressed in creating the program to address pole loading, the project team scoured the RIRAT data and determined that overloaded poles were not the only risk in the FTZ. Based on historical data, splices, connectors, aged conductor, and overloaded poles all appeared to be risks. SDG&E's proposed pole loading program then turned into a more comprehensive risk mitigation program, the FiRM program.⁶²

Thus, in the 2nd Quarter of 2014, SDG&E decided not to wait to move forward with FiRM – which, as Mr. Jenkins explained, is a high priority safety and risk management project⁶³ – even though funding was not originally allocated for activities of that scale through the capital management process.⁶⁴ This would not have been possible if SDG&E's Electric Distribution Capital funding were not appropriately flexible.

Mr. Jenkins explained on the stand that CCUE's balancing account proposal would not allow SDG&E the flexibility it needs to prioritize safety issues as they arise:

CCUE: So how then does a two-way balancing account reduce SDG&E's ability to reprioritize and adjust funds?

Mr. Jenkins: Because in the current way [SDG&E's proposal], the rate case decision would be rendered. We would get the distribution capital allotment of money based on the hearings here and other factors. And we would be able to [redistribute] the money based on priorities that may come up that differ from this day and time when we filed this or even as of now. And so if we had a safety and risk management project that needed more money, say, the FiRM for various reasons that came up throughout the process of that project, we could shift dollars from the reliability bucket of money to fund projects that we would consider [to] have a greater priority need.⁶⁵

⁶² Ex. 134 SDG&E/Jenkins at 11.

⁶³ See, e.g., Tr. V19:2111:15-23 (Jenkins).

⁶⁴ Ex. 136 SDG&E/Jenkins at 11.

⁶⁵ Tr. V26: 2877:9-26 (Jenkins) (emphasis added). Mr. Jenkins also clarified that SDG&E is not proposing a one-way balancing account, as CCUE apparently believed:

CCUE: And SDG&E is proposing a one-way balancing account for reliability projects; is that right?

Mr. Jenkins: No.

CCUE: No. Okay. So there's no balancing account proposed?

Mr. Jenkins: No.

Tr. V26: 2877:27 – 2878:5.

CCUE's briefing theory that a two-way balancing account would increase the rate of spend for pole replacements and reliability projects⁶⁶ is misguided. Mr. Jenkins testified that CCUE's balancing account recommendations and complaints regarding delays in the categories of pole, switch, underground cable, and capacitor replacement⁶⁷ do not take into account other limitations that affect projects, such as City or County permits that are required during the design process and add significant time to the work order preparation process.⁶⁸ At hearing, Mr. Jenkins elaborated on the types of reliability projects (including pole replacement) that may experience permitting delays in the pre-construction and planning phase of a project.⁶⁹ Environmental issues may also arise during the construction process that must be addressed and can add significant time to the construction schedule.⁷⁰ As Mr. Jenkins explained during cross-examination from CCUE:

It's become increasingly tough to do anything with the environmental restrictions. And so, for example, if we're going to do a pole replacement out even in an area we already have a pole – we're just putting a pole right next to an existing pole – we still have to do a cultural assessment for any cultural artifacts that could be found during the course of construction. If the access road crosses some sort of water crossing, we could have to get a permit in order to do that work. Those are the examples of environmental approvals that we would need to get to do some of the work you're discussing.⁷¹

SDG&E affirms that the project amounts forecasted in testimony and settled in the TY 2016 Settlement Agreement take into account these limitations.

⁶⁶ CCUE Opening Brief at 7-10.

⁶⁷ Ex. 136 SDG&E/Jenkins at 20.

⁶⁸ *Id.*

⁶⁹ Tr. V26: 2871:20 – 2874:28 (Jenkins).

⁷⁰ Ex. 136 SDG&E/Jenkins at 20.

⁷¹ Tr. V26: 2875:5-20 (Jenkins).

11.1.2 CCUE's Recommendation Regarding a Pole-Loading Study Ignores SDG&E's Important Ongoing FiRM Project.

CCUE's Opening Brief recommendation that SDG&E should be required to conduct a pole loading study ignores the vast evidentiary record in this case regarding SDG&E's ongoing FiRM capital project.⁷² CCUE recommends "that the Commission require SDG&E to complete a pole loading study, similar to the study SCE [Southern California Edison] completed before its last GRC application."⁷³ But the record evidence shows that SDG&E's FiRM program undertakes and was developed out of SDG&E's independent pole loading study efforts, which were subsumed into the larger FiRM program.⁷⁴ As Mr. Jenkins explained:

In 2013, SDG&E combined the fire hardening efforts with a program designed to address pole loading issues, creating a program called the Fire Risk Mitigation (FiRM) program. FiRM is aggressively addressing fire risk by hardening critical areas by replacing antiquated line elements, utilizing advanced technology, and safeguarding facilities from known local weather conditions.⁷⁵

Mr. Geier similarly explained that "[t]he FiRM program will address electric system hardening and pole loading issues in fire prone areas, replacing aged conductors, equipment and/or line elements known to have a heightened probability of failure."⁷⁶ CCUE's Opening Brief recommendations fail to acknowledge any of SDG&E's record testimony regarding the inherent and explicit linkage of pole-loading assessment and FiRM, and fail to recognize that adoption of CCUE's pole-loading recommendations would duplicate those ongoing FiRM efforts.⁷⁷

⁷² CCUE Opening Brief at 7-9.

⁷³ CCUE Opening Brief at 8.

⁷⁴ See Ex. 134 SDG&E/Jenkins at 10, 68, 123, 125, and 128; Ex. 136 SDG&E/Jenkins at 13.

⁷⁵ Ex. 134 SDG&E/Jenkins at 123. (emphasis added)

⁷⁶ Ex. 21 SDG&E/Geier at 5:10. (emphasis added)

⁷⁷ Tr. V26: 2111:15-17 (Jenkins).

For example, CCUE's Opening Brief recommends that the Commission order SDG&E to perform a pole-loading study similar to SCE's, but Mr. Jenkins testified that the comprehensively designed FiRM blanket project was developed in part with SCE's required pole-loading study in mind:

[FiRM] ... is the largest distribution project that the company's ever undertaken. [Wildfire] also remains the single biggest risk that's been identified for San Diego Gas and Electric. Therefore, [FiRM] is a very important program to us. ... FiRM ... is a project that is started out as fire hardening a lot of our infrastructure in our high fire risk areas and fire threat zone. Then another issue came up with regards to pole loading ... as a result of ... an incident in Southern California Edison's territory. And they were ordered to go through and do some pole loading analysis. And so we proactively wanted to incorporate that into a lot of the work we do. So FiRM kind of merged those fire hardening activities with the pole loading activities, and that's where we get Phases 1, 2, and 3. And in Phases 1 and 2, we're attacking the high priority areas being the high fire risk areas. We have over ... 150 weather stations out in our service territory now where we're monitoring wind speeds through certain areas where we have infrastructure. We have fire coordinators that are constantly updating our maps and showing us where available fuel is for fires to propagate. We have information on equipment failures. We have information on facilities that have No. 6 solid wire. That's a really small old wire that was used a long time ago. A lot of these areas in the back country could be 70, 80 years old, and that's where we encounter some of ... these problems. So [FiRM] Phases 1 and 2 are going in and assessing what we have there and what we need to fix it. And so it could be changing a couple poles here and there or it could be completely rebuilding ten spans just depending on the situation. We're also taking a look at clearances with data from aerial surveying that we're doing, and it's kind of a newer technology that we're using on the distribution side for engineering and designing our system. But then also Phase 3 is taking a look at individual pole loading issues ... and so in addition to fire hardening the system, we're also taking care of individual pole loading issues. ... So that is Phases 1, 2, and 3 of the FiRM Program.⁷⁸

Thus, FiRM encompasses much more than the pole loading study efforts CCUE proposes, in a systematic and synergistic way, consistent with other risk-management strategies and efforts. As described in part in the introduction to this section, SDG&E witness Mr. Geier explained that FiRM is an "aggressive program" that is replacing wood poles with steel poles,

⁷⁸ Tr. V19:2111:18 – 2113:25 (Jenkins) (emphasis added).

among other fire-hardening activities, and is essentially “rebuilding” SDG&E’s system.⁷⁹

Further, Mr. Geier emphasized that SDG&E has prioritized its FiRM fire-hardening activities “from a threat perspective.”⁸⁰ SDG&E witness Mr. Jenkins explained that FiRM is “the largest distribution project the company has ever undertaken,” addressing “the single biggest risk that’s been identified for San Diego Gas and Electric.”⁸¹ CCUE’s duplicative proposal is unnecessary in light of the record facts.

CCUE complains that the pace of SDG&E’s pole replacement has been too slow, and the related spend has been low in recent years.⁸² But CCUE’s arguments are not consistent with the record on SDG&E’s routine pole inspection, restoration, and replacement program (Corrective Maintenance Program or CMP), which is designed to meet or exceed the requirements of General Order 165 and General Order 95, improve the integrity of the overhead distribution system, minimize customer safety risks, and mitigate the need for extensive capital replacements.⁸³ Under SDG&E’s plan, all electric distribution poles and associated equipment are visually patrolled on an annual basis in urban and rural areas, inspected in detail every five years, and given a wood pole intrusive inspection on average every ten years.⁸⁴ Pole replacement candidates are identified through the CMP, and steel and fiberglass pole implementation is incorporated into these replacements going forward. Mr. Jenkins’ direct

⁷⁹ Tr. V12:803:3-19 (Geier).

⁸⁰ Tr. V12:803:19-21 (Geier).

⁸¹ Tr. V19:2111:18-23 (Jenkins); *see also* Ex. 136 SDG&E/Jenkins at 12.

⁸² CCUE Opening Brief at 7-9.

⁸³ Ex. 134 SDG&E/Jenkins at 68.

⁸⁴ Ex. 134 SDG&E/Jenkins at 68.

testimony explained that SDG&E's routine pole replacement rate has been going up, and is expected to increase to a higher rate in the future:

[T]he recent change in the testing and inspection standard,⁸⁵ to focus more on pole loading analysis going forward, is expected to generate a higher replacement rate. ... There were also more pole replacements done in 2013 than in previous years. We expect to have about the same numbers of pole replacement in 2014, based on a 12-month backlog, and project a slight increase in the level of work in 2015 and 2016.⁸⁶

Moreover, with SDG&E's implementation of the FiRM program, pole replacement activity is expected to increase even more. Mr. Jenkins explained that FiRM is a high priority safety and risk management capital project, and after a ramping up period,⁸⁷ SDG&E is on pace to meet its 2015 forecast:

[As] I mentioned, [FiRM] is a very important program to the company. And we are currently on pace to meet our 2015 forecast...in that we don't have any plans of delaying any work or slowing down because safety and risk management is very important to the company. And [FiRM] is ... the lead project in that effort.⁸⁸

Moreover, Mr. Jenkins testified that the "blanket" nature of the FiRM project will allow SDG&E to manage delays:

Blanket projects typically go on from year to year and incorporate a bunch of smaller projects.... This is what FiRM is. As I mentioned, we're going to go in and look at on a priority basis areas that we want to assess and analyze what to do and come up with projects ... to mitigate whatever situation we may find. ...[I]f we get held up because of permitting or construction issues on one area, there's a whole bunch of other smaller projects around that we can shift resources to and move to. So it's a project that will be

⁸⁵ For example, R.08-11-005, Order Instituting Rulemaking to Revise and Clarify Commission Regulations Relating to the Safety of Electric Utility and Communications Infrastructure Provider Facilities, November 6, 2008 which modifies both General Orders 95 and 165 with D.09-08-029, D.12-01-032 and D.14-02-015 generally aimed at reducing fire hazards and D.14-02-015 which includes changes to GO95 regarding pole strength requirements and loading calculations.

⁸⁶ Ex. 134 SDG&E/Jenkins at 69.

⁸⁷ Tr. V19:2010:2-19 (Jenkins) ("[T]here was a ramp up period in order for us to sort of work out the kinks in those processes and work flows and get the right resources allocated to do this work. And we feel very confident that we have now done that and we are now on track for the spending in 2015 thus far.")

⁸⁸ Tr. V19:2113:25-2114:5 (Jenkins).

able to keep moving and going and won't get held up with some of the other things that [our] single budget projects get held up with.⁸⁹

Thus, FiRM's blanket nature incorporates analyzing and assessing risks with addressing them; therefore, it is an ongoing project that will continue to conduct important fire-hardening activities into the future and should not be expected to slow down.

For all of the above reasons, the Commission should reject CCUE's recommendations and approve the TY 2016 Settlement Agreements' resolution of all Electric Distribution Capital issues, without modification.

11.2 Reply to MGRA

As discussed in the response to CCUE, fire risk reduction activities are deeply ingrained in daily operations at SDG&E, and fire risk is the reason why the FiRM project was developed. MGRA's Opening Brief acknowledges the SDG&E TY 2016 Settlement Agreement's resolution between the Settling Parties on FiRM spending, and "agrees that FiRM should be appropriately funded and expeditiously executed, [but has] remaining concerns regarding the way the FiRM project elements were prioritized and how the effectiveness of FiRM will be measured."⁹⁰ Based on the stated concerns in MGRA's Opening Brief, MGRA proposes "that SDG&E develop and track circuit metrics that identify proxy for fire risk before and after FiRM upgrades."⁹¹

As also discussed in Section 6, MGRA's requests are directly related to requirements stemming from the Commission's decision (D.14-12-025) in R.13-11-006 (the "Risk OIR"). Among other things, D.14-12-025 initiated the S-MAP and RAMP proceedings and a requirement to provide annual verification reports, including a Risk Mitigation Accountability

⁸⁹ Tr. V19:2114:11 - 2115:5 (Jenkins).

⁹⁰ MGRA Opening Brief at 25.

⁹¹ MGRA Opening Brief at 41.

Report and a Risk Spending Accountability Report. Although SDG&E agrees that examination of safety issues is not exclusive to any one proceeding, the types of issues MGRA raises will be addressed in SDG&E's S-MAP proceeding,⁹² to which MGRA is a party, and/or will be addressed in SDG&E's upcoming RAMP proceeding. For example, SDG&E's Prepared Direct Testimony of Mason Withers in support of A.15-05-002 provides information concerning the Wildfire Risk Reduction Model (WRRM) used to provide risk analysis related to FiRM.⁹³ MGRA's recommendations thus have not been fully examined in this proceeding, and would prejudice issues that are or will be fully examined and under consideration in other Commission proceedings, which could result in conflicting, duplicative, and overlapping Commission decisions. For these reasons, and as also shown in Section 6, MGRA's recommendations should be rejected.

12. Electric Distribution O&M (SDG&E-Only)

Jonathan Woldemariam's rebuttal testimony on Electric Distribution Operations and Maintenance (O&M) addressed issues raised by several intervenors, including CCUE,⁹⁴ as mentioned in Applicants' Opening Brief.⁹⁵ Issues raised by ORA, FEA, UCAN, and SDCAN have all been addressed by the SDG&E TY 2016 Settlement Agreement, which is pending Commission approval.

CCUE did not recommend a reduction to SDG&E's requested forecasts or the settled amounts in the SDG&E TY 2016 Settlement Agreement for Electric Distribution O&M. Rather, CCUE recommends that the Commission "require SDG&E to increase staffing and training for

⁹² SDG&E's May 1, 2015 S-MAP Application (A.)15-05-002.

⁹³ A.15-05-002 at 3.

⁹⁴ Ex. 72 SDG&E/Woldemariam (addressing Ex. 337 CCUE/Marcus).

⁹⁵ Opening Brief at 6.

outage-response employees.”⁹⁶ Specifically, CCUE’s Opening Brief recommends that SDG&E should be required to hire new employees from the outside and/or promote from the inside as appropriate, to address a decreased number of Troubleshooters.⁹⁷ CCUE claims, without record citation, that “...SDG&E has drastically cut the number of its outage response employees ...” and implies that “...reliability has worsened...” as a result.⁹⁸ Mr. Woldemariam disagreed with these claims in rebuttal.⁹⁹ Moreover, the record evidence demonstrates SDG&E’s long history of award-winning reliability performance, as well as its significant efforts to maintain staffing levels while confronted with an aging and retiring workforce.

SDG&E agrees that its Electric Troubleshooters are a key resource and act as SDG&E’s first responders.¹⁰⁰ As Mr. Woldemariam testified, Electric Troubleshooters must be highly trained and have the specific skills necessary to timely restore electric service during emergencies and unplanned interruptions while protecting public and employee safety.¹⁰¹ During service interruptions, Electric Troubleshooters are tasked with isolating affected areas of SDG&E’s distribution system and implementing restoration efforts that will minimize the impact of any service interruptions to SDG&E customers. During emergencies, Electric Troubleshooters work closely with emergency response agencies to protect the public and SDG&E’s employees from potentially hazardous conditions. Electric Troubleshooters act as the primary interface with customers who are experiencing service problems. Electric

⁹⁶ CCUE Opening Brief at 16.

⁹⁷ CCUE Opening Brief at 19 (citing CUE (Marcus) at 56:7-9).

⁹⁸ CCUE Opening Brief at 16.

⁹⁹ Ex. 72 SDG&E/Woldemariam at 17-18.

¹⁰⁰ Ex. 70 SDG&E/Woldemariam at 16.

¹⁰¹ *Id.*

Troubleshooters perform a variety of additional tasks including substation and field switching, substation patrols, and routine safety patrols related to SDG&E's inspection and maintenance Compliance Management Program (CMP), in fulfillment of the requirements of General Order 165.¹⁰²

As Mr. Woldemariam testified, SDG&E trains all of its Troubleshooters in-house.¹⁰³ SDG&E agrees that attrition and an aging workforce has decreased the number of Troubleshooters, but the evidence shows that SDG&E is addressing this with plans to add Electric Troubleshooter training classes in 2014, 2015, and 2016.¹⁰⁴ These classes train first-responders for restoration needs, system reliability and public safety. The SDG&E Electric Troubleshooter course is designed to provide qualified Journeymen Linemen with the necessary skills to perform required tasks on the SDG&E electric system – professionally, competently, and safely.¹⁰⁵ SDG&E is also increasing efforts for Relief Electric Troubleshooters, Relief Fault Finding Specialists, Electric Meter Test Electricians and lead cable splicers.¹⁰⁶

The Troubleshooter position is a natural progression opportunity from within SDG&E's lineman ranks.¹⁰⁷ Mr. Woldemariam's testimony shows that SDG&E is increasing efforts to sustain its Apprentice Lineman population, in order to mitigate projected Journeymen attrition and declining levels of Apprentices.¹⁰⁸ Along with each Apprentice class, 22 additional Line Assistants are planned to begin training to fill the vacated positions as employees advance into

¹⁰² *Id.*

¹⁰³ Ex. 72 SDG&E/Woldemariam at 18.

¹⁰⁴ Ex. 70 SDG&E/Woldemariam at 22.

¹⁰⁵ *Id.*

¹⁰⁶ Ex. 70 SDG&E/Woldemariam at 21.

¹⁰⁷ Ex. 72 SDG&E/Woldemariam at 18.

¹⁰⁸ Ex. 70 SDG&E/Woldemariam at 22.

the Apprentice classification.¹⁰⁹ These employees will remain in this classification until the next Apprentice class begins. Electric overhead and underground training for Apprentices is required to last 155 weeks over a 3-year period. Upon successful completion of the Apprentice Program and the Journeyman Linemen’s test, employees will be assigned to different districts within the SDG&E service territory. This process promotes a robust workforce that is responsive to its customers’ needs as well as maintaining the system’s safety and reliability.¹¹⁰

Thus, CCUE’s complaint that SDG&E is only hiring linemen or ignoring “the changing mix of employees and its implications for reliability” is misguided. SDG&E is hiring linemen to backfill lineman positions that became vacant due to some linemen becoming relief Troubleshooters, and those relief Troubleshooters becoming permanent Troubleshooters.¹¹¹ By backfilling linemen, SDG&E is also backfilling the vacant Troubleshooter positions.¹¹² Moreover, CCUE’s Opening Brief “recognizes that the Settlement Agreement addresses Troubleshooting, and forecasts \$7.965 million for Troubleshooting expenses.”¹¹³ This settled amount for Troubleshooting is the same as proposed in SDG&E’s direct testimony.¹¹⁴ This should reassure the Commission that SDG&E has not compromised safety or reliability in negotiating settlement on these issues.

Finally, as previously discussed in Section 11, *supra*, SDG&E has proven that it does an excellent job of keeping up with aging infrastructure, and has shown year after year that

¹⁰⁹ Ex. 70 SDG&E/Woldemariam at 22.

¹¹⁰ Ex. 70 SDG&E/Woldemariam at 22.

¹¹¹ Ex. 72 SDG&E/Woldemariam at 19.

¹¹² Ex. 72 SDG&E/Woldemariam at 19.

¹¹³ CCUE Opening Brief at 19.

¹¹⁴ Ex. 70 SDG&E/Woldemariam at 8.

SDG&E's system works through strong reliability metrics.¹¹⁵ Just recently, SDG&E recently received the 2015 PA Consulting award for Outstanding Reliability for the West Region for the tenth straight year in a row,¹¹⁶ thus confirming its longstanding and continued excellent reliability record. SDG&E was also named the Recipient of the prestigious 2014 ReliabilityOne™ National Reliability Excellence Award, which was the second time in five years that SDG&E has received this prestigious national honor.¹¹⁷ The ReliabilityOne™ National Reliability Excellence Award is given to the regional award recipient that has demonstrated sustained leadership, innovation and achievement in the area of electric reliability.¹¹⁸ And SDG&E's proposed Performance-Based Ratemaking mechanism (PBR), addressed herein in Section 12.1, provides incentives for SDG&E to continue to strive for excellence in reliability performance.

PA Consulting also recently recognized SDG&E for its excellence in responding to the May 2014 fires,¹¹⁹ by giving SDG&E its 2015 "Outstanding Response to a Major Outage Event"

¹¹⁵ Ex. 136 SDG&E/Jenkins at 22.

¹¹⁶ SDG&E requests that the Commission take official notice of this fact as stated in PA Consulting's October 27, 2015 press release, a source of reasonably indisputable accuracy, in accordance with Commission Rule 13.9 and California Evidence Code § 452(h), *available at* <http://www.prnewswire.com/news-releases/pa-consulting-group-honors-north-american-utilities-for-excellence-in-reliability-at-the-2015-reliabilityone-awards-ceremony-300165366.html>, *and* <http://timesofsandiego.com/business/2015/10/27/sdge-ranked-most-reliable-utility-in-the-west-for-10th-year/>. Mr. Jenkins' testimony demonstrates that SDG&E won this PA Consulting award for the previous nine years. Ex. 136 SDG&E/Jenkins at 22 (citing press release available at: <http://finance.yahoo.com/news/sdg-e-awarded-best-nation-004700085.html>).

¹¹⁷ Ex. 136 SDG&E/Jenkins at 22.

¹¹⁸ Ex. 136 SDG&E/Jenkins at 22.

¹¹⁹ See discussion regarding May 2014 fires in the SDG&E/SoCalGas Opening Brief at 11-12 (citing Ex. 70 SDG&E/Woldemariam at 3-4; Tr. V12 at 844:12-22 (Geier); and Tr. V26 at 2887:24-2888:13 (Withers). See also Tr. V12 at 844:1-846:23 (Geier) (discussing new wildfire threat challenges and risk management activities, including those related to the 2014 fire); Tr. V12 at 1434:18-28 (Woldemariam) (same).

award.¹²⁰ As Mr. Woldemariam testified, SDG&E enlisted all available crews and several contract crews in response to the event, to help restore power and replace approximately 130 poles in affected communities.¹²¹ SDG&E crews coordinated with emergency services to safely work around the-clock in order to restore service to the affected customers.¹²² SDG&E's recognition for "Outstanding Response to a Major Outage Event" is consistent with the extensive evidentiary record in this proceeding showing the high priority SDG&E places on wind and fire risk emergency response activities, and is inconsistent with CCUE's reliability claims.

For all of the above reasons, SDG&E requests the Commission reject CCUE's proposals regarding Electric Distribution O&M and approve the SDG&E TY 2016 Settlement Agreement's resolution of all Electric Distribution O&M issues, without modification.

12.1 Performance-Based Ratemaking

CCUE's Opening Brief argues in support of adopting SDG&E's performance-based ratemaking (PBR) mechanism in this proceeding, but without updating SDG&E's proposed benchmark based on recent data.¹²³ As noted in the Opening Brief, SDG&E's proposed PBR uses a Commission-approved methodology to update benchmarks at the start of the GRC cycle that will allow SDG&E to be judged against its recent operational environment of heightened fire

¹²⁰ SDG&E requests that the Commission take official notice of this fact as stated in PA Consulting's October 27, 2015 press release, a source of reasonably indisputable accuracy, in accordance with Commission Rule 13.9 and California Evidence Code § 452(h), *available at* <http://www.prnewswire.com/news-releases/pa-consulting-group-honors-north-american-utilities-for-excellence-in-reliability-at-the-2015-reliabilityone-awards-ceremony-300165366.html> *and* <http://timesofsandiego.com/business/2015/10/27/sdge-ranked-most-reliable-utility-in-the-west-for-10th-year/>.

¹²¹ Ex. 70 SDG&E/Woldemariam at 4. 186 Emergency Operations Center (EOC) responders reported during the May 13-18 time period, taking shifts that totaled 2,353 hours. *Id.* at 4, n.1.

¹²² Ex. 70 SDG&E/Woldemariam at 4.

¹²³ CCUE Opening Brief at 11-15.

safety.¹²⁴ Using the most recent five years of data to adjust benchmarks allows SDG&E and the Commission to properly account for current and important public safety concerns. SDG&E will continue to have incentives for improved reliability, because it can only receive a reward if it achieves a better result than recent history minus the amount of the dead-band and any applicable annual improvement factors, as Mr. Withers testified:

The benchmarks are based upon recent historical results. Therefore, setting the benchmark against those, the average of the five years, you're comparing yourself to recent history. So the only way that the company can receive benefit, a payout of reward is to exceed the level of the five-year average, which to me means you're improving the reliability from recent history.¹²⁵

In contrast, CCUE's proposal aims to hold SDG&E's reliability performance to an idealistic standard that can only make reliability a harder and harder goal to achieve, regardless of regulatory priorities or environmental conditions. SDG&E would not be allowed to account for the reliability impacts that may result from redirected efforts necessary for immediate attention to higher priorities, such as recent fire safety measures or other circumstances that have a close linkage to reliability. Using the most recent five-year average allows SDG&E to be compared to recent circumstances.

The Commission has stated its expectation that PBR rewards should be "sufficient to induce improvements," and penalties should be "a comparable inducement to avoid backsliding or declining performance."¹²⁶ The Commission has not viewed "unbalanced" or unrealistic incentive proposals in a favorable light.¹²⁷ CCUE argues that "[d]egrading performance

¹²⁴ Applicants' Opening Brief at 6-16.

¹²⁵ Tr. V26 at 2887:4-13 (Withers).

¹²⁶ D.08-07-046 at 53.

¹²⁷ See discussion at D. 08-07-046 at 50-51.

measures does not ... incent SDG&E to improve, or even maintain, current reliability.”¹²⁸ But SDG&E’s proposal sets current reliability data as a new benchmark; thus, CCUE’s argument is based on an incorrect premise. SDG&E only requests to reset its reliability benchmarks to realign with current reliability according to the GRC cycle, consistent with all past PBRs. This resetting would not “degrade” performance measures, it would merely reset performance measures to realign with current reliability data, just as in past GRCs. Moreover, as the Commission recognized in D.08-07-046, balancing rewards and penalties is important to ensuring that an incentive mechanism would properly induce improved performance. A balanced reward/penalty structure also reduces the potential for unintended consequences or perverse incentives. CCUE’s argument is contrary to this Commission guidance, because it suggests that the only good PBR is one that does not reset benchmarks with each GRC cycle, such that benchmarks never go up (or in CCUE’s words, “degrade”), and only ratchet downward, regardless of current reliability data. If this were the case, a utility could quickly reach the point where the PBR could offer it no rewards, because reliability benchmarks are set too low in comparison with current reliability data. This would result in a “penalty-only” PBR, which is not in line with SDG&E’s proposal, and is contrary to Commission policy that a PBR must be balanced, realistic, and reasonable.

As Mr. Woldemariam testified, actual experience shows that SAIDI numbers will go up and down over a period of years, such that reliability performance must be measured over a span of recent history:

The SAIDI numbers or the reliability performance indices vary over the span of years, so ... when we look at reliability performance, we look at an average of five years typically. And when you look at the number of years, you do have some – some years that are

¹²⁸ CCUE Opening Brief at 14.

higher, some years that are lower ... [I]f you look at the 2009 against 2014, you may have a – a 20 percent, as you say, increase. But when you look at the different years, it does come down and up. And when you look at the overall performance as you know, recognized by reliability performance awards that we've had in nine consecutive years, we have a very good reliability performance.¹²⁹

CCUE's Opening Brief claim that SDG&E's reliability performance has gone down ignores the record facts showing that reliability does fluctuate over periods of time and that SDG&E's reliability record is among the best in the nation. CCUE's remarks would leave the Commission with the impression that any negative variation means that SDG&E is irreversibly falling behind in reliability performance relative to other utilities. This is simply not the case. As CCUE is well aware, SDG&E received the ReliabilityOne National Reliability Excellence Award in 2010 and 2014.¹³⁰ Just recently, SDG&E received the 2015 PA Consulting award for Outstanding Reliability for the West Region for the tenth straight year in a row,¹³¹ thus confirming its longstanding and continued excellent reliability record. SDG&E's SAIDI and SAIFI results are consistently among the nation's leaders. Although SDG&E has recently put in place many fire prevention programs that may exert negative pressures on certain reliability

¹²⁹ Tr. V15 at 1417:18-1418:7 (Woldemariam).

¹³⁰ Ex. 266 SDG&E/Withers at 8. The ReliabilityOne™ National Reliability Excellence Award is given to the regional award recipient that has demonstrated sustained leadership, innovation and achievement in the area of electric reliability. The selection criteria for the ReliabilityOne™ National Reliability Excellence Award are both quantitative and qualitative including: superior regional performance, sustained performance over time, improved performance over time, leadership in outage data collection and reporting systems, processes, procedures and controls, organizational and cultural focus on reliability, communication, planning, preparation, and response to major outage events contributions to regional system security and reliability.

¹³¹ SDG&E requests that the Commission take official notice of this fact as stated in PA Consulting's October 27, 2015 press release, a source of reasonably indisputable accuracy, in accordance with Commission Rule 13.9 and California Evidence Code § 452(h), *available at* <http://www.prnewswire.com/news-releases/pa-consulting-group-honors-north-american-utilities-for-excellence-in-reliability-at-the-2015-reliabilityone-awards-ceremony-300165366.html>, *and* <http://timesofsandiego.com/business/2015/10/27/sdge-ranked-most-reliable-utility-in-the-west-for-10th-year/>. Mr. Withers' testimony demonstrates that SDG&E also won this PA Consulting award for the previous nine years. Ex. 266 SDG&E/Withers at 8.

statistics (e.g., turning off reclosers to exclude them as a source of ignition), SDG&E's reliability results are still better than before the 2007 fires. The average SAIDI during the 5 years leading up to 2007 (years 2003 through 2007) was 66.01 minutes. The worst result SDG&E has had since 2007 was 64.6 minutes. In short, SDG&E has been able to focus on both fire safety and reliability since 2007. This is a form of "balance" that SDG&E must exercise, undertaking efforts aimed at the higher fire-risk priority while at the same time knowing that those efforts will have a concomitant impact to system reliability. SDG&E's success at this balance is reflected by the awards it has received. Even though SDG&E's SAIDI results have gone up and down in the past few years, the SAIDI results have remained among the best in the industry throughout this period.¹³²

As shown in the Opening Brief, SDG&E has been implementing electric reliability PBRs since the mid-1990s, as part of its GRC applications, and is accustomed to proposing PBRs anew with each GRC cycle.¹³³ CCUE's Opening Brief position that the PBR benchmarks set via D.14-09-005 should continue through this GRC cycle without resetting, and its claimed surprise by SDG&E's proposal to reset the PBR in accordance with the GRC cycle¹³⁴, is not consistent with Commission precedent and the history between the SDG&E and CCUE. In D.08-07-046, the Commission found reasonable and approved a settled-upon safety incentive mechanism between SDG&E and CCUE as follows: "The proposed settlement with CCUE sets annual targets which are more stringent over the rate cycle than the flat rate proposed by DRA."¹³⁵ This PBR duration

¹³² *Id.*

¹³³ Tr. V26 at 2902:12-17 (Withers).

¹³⁴ See CCUE Opening Brief at 14 (arguing that "[n]othing in SDG&E's proposal justifies weakening performance targets in the very first year after setting them.").

¹³⁵ D.08-07-046 at 94, Finding of Fact 36 (emphasis added).

was not unique to the settlement between SDG&E and CCUE; the Commission approved each incentive mechanism in that case, if accepted, to last “for the duration of [the] rate cycle.”¹³⁶ Moreover, just as the Joint PFM granted by D.14-09-005 did not specify an end date, the settlement agreement between SDG&E and CCUE in D.08-07-046 also did not specify an end date, but there was no apparent misunderstanding between the parties or the Commission that the PBR would last for the term of the GRC cycle.¹³⁷ Thus CCUE should not be unfamiliar with the notion that Commission authority to implement an incentive mechanism is granted for the duration of one rate case cycle.

CCUE’s position is also inconsistent with matching the opportunity for a PBR reward or penalty with the GRC funding authorized for those reliability efforts. As described by Mr.

Withers:

Having the timing of the utility’s funding mechanism match the incentive mechanism is appropriate and allows the utility to strategize and consider how best to spend its funds.¹³⁸

SDG&E is not aware of any precedent that would call for PBR benchmarks to be automatically carried through to the next GRC cycle without Commission review.

Laying aside differences in opinion on this issue, CCUE’s current arguments on resetting targets and annual improvement factors ignore the negative public policy consequences of its position. Indeed, although CCUE is well aware of SDG&E witness Mason Withers’ testimony that CCUE’s proposal would have the negative consequence of penalizing SDG&E for

¹³⁶ D.08-07-046 at 105 OP 16 (emphasis added).

¹³⁷ See D.08-07-046 at Appendix 5 (the October 9, 2007 “Settlement Agreement Regarding Employee Safety Incentive Measure” between SDG&E and CCUE).

¹³⁸ Ex. 266 SDG&E/Withers at 9.

implementing additional fire threat safety measures since 2008,¹³⁹ CCUE's Opening Brief does not acknowledge or address this important public safety issue at all. Mr. Withers explained that failing to reset PBR benchmarks in the GRC, as CCUE proposes, fails to incentivize reliability in the proper context of serious fire threat:

[I]n 2014 we had fire – elevated fire conditions which was unlike any other year that we've had. When we go into elevated fire conditions, we do something to our operations which actually is negative to reliability. And the typical elevated conditions last three or four months. This is on average between 2008 and 2013. In 2014 we were in elevated conditions for nine months. So when we say the words “is reliability improving or getting worse,” we don't just look at it as the bottom line number. We look at it in the context of the environment that we're working under. And we think we've done pretty well given the environment of having a prolonged elevated fire condition.¹⁴⁰

In this case, failing to look at reliability in context would have the negative consequence of penalizing SDG&E for addressing fire threat as it occurred in 2014, in the interest of public safety. SDG&E considers fire threat to be the “predominant risk” that SDG&E faces, at the top of its list of known risks.¹⁴¹ SDG&E has responded to fire threat with a variety of programs and projects aimed at mitigating fire risk, including turning off reclosing in its Fire Threat Zone during fire-prone conditions.¹⁴² Changes in operational practices, like the reclosing policy, have negative reliability impacts that are directly correlated to the duration of elevated fire conditions.¹⁴³

CCUE's failure to address this serious flaw in its proposal in its Opening Brief demonstrates inflexibility on this issue and ignores the record facts regarding public safety

¹³⁹ See, e.g., Ex. 266 SDG&E/Withers at 7-8.

¹⁴⁰ Tr. V26 at 2887:24-2888:13 (Withers).

¹⁴¹ Ex. 21 SDG&E/Geier at 7:13-15.

¹⁴² Ex. 21 SDG&E/Geier at 7:13-15; Ex. 266 SDG&E/Withers at 7.

¹⁴³ Ex. 266 SDG&E/Withers at 7-8 (“The impact to reliability due to this safety-first approach is that, when reclosers are off, momentary outages become sustained outages. Therefore, SAIDI and SAIFI will rise when reclosers are off, if all else is held the same.”).

concerns. CCUE's argument that "the Commission has explicitly recognized the relationship between safety and reliability"¹⁴⁴ also mischaracterizes Commission policy. As noted in the Opening Brief, the Commission recently explicitly declined to modify the Commission's Rate Case Plan governing GRCs in a way that would prioritize reliability as highly as safety.¹⁴⁵

Finally, CCUE's Opening Brief did not address its PBR-related proposal regarding a Value of Service (VOS) study in SDG&E's next GRC,¹⁴⁶ to which SDG&E's Opening Brief objected on grounds that it is unnecessary and not supported by the evidence in this case. This proposal should be rejected for the reasons set forth in the Opening Brief and because CCUE has waived the opportunity to brief this issue.

For all of the reasons stated above and in the Opening Brief, the Commission should reject CCUE's proposal as inconsistent with the public interest, Commission precedent, the law, and Commission policy. The Commission should approve SDG&E's proposed benchmark based on the most recent five years of data, which will provide SDG&E with reliability incentives that appropriately award improvements and prevent declining performance within the context of SDG&E's recent operational environment of heightened fire safety.

¹⁴⁴ CCUE Opening Brief at 14-15.

¹⁴⁵ See December 4, 2014, "Decision Incorporating a Risk-Based Decision-Making Framework into the Rate Case Plan and Modifying Appendix A of Decision 07-07-004," D.14-12-025 at 19 ("We do not believe that we need to expand the methods and methodologies being developed in this proceeding to include an assessment of making reliability a top priority.").

¹⁴⁶ Ex. 337 CCUE/Marcus at 62:10-13.

24. Environmental Services

24.2 SDG&E Issues - CCUE

CCUE opposes adoption of the settlements for SDG&E.¹⁴⁷ CCUE's opening brief argues for investment in Picarro technology specifically,¹⁴⁸ an accelerated rate of Aldyl-A pipe,¹⁴⁹ and to accelerate repair of non-hazardous leak backlog.¹⁵⁰ CCUE is candid about what it would take to meet its aforementioned proposals related to the gas system: more staff and more money.¹⁵¹ CCUE claims it will take more staff and more money than what SDG&E originally requested and ultimately settled on to remedy the system safety issues that CCUE believes exist on the SDG&E system.

However, SDG&E and Settling Parties have reached reasonable outcomes in settlement, on revenue requirement as well as on environmental policy issues that were contested.¹⁵² As to the latter, CCUE indicates that it recognizes that SDG&E and EDF reached a settlement on EDF's proposals regarding Senate Bill (SB) 1371 compliance and related costs, and that it supports the EDF Settlement insofar as it proposes two-way balancing in the New Environmental Regulation Balancing Account (NERBA) to cover costs incurred to comply with SB 1371.¹⁵³ However, CCUE urges the Commission to render decisions in this GRC on SB 1371 compliance

¹⁴⁷ CCUE opening comments at 6.

¹⁴⁸ CCUE opening brief at 21.

¹⁴⁹ *Id.* at 22.

¹⁵⁰ *Id.* at 24.

¹⁵¹ *See e.g.*, Ex. 337 CCUE/Marcus at 21.

¹⁵² *See Joint Motion for Adoption of Settlement Agreements Regarding San Diego Gas & Electric Company's Test Year 2016 General Rate Case, Including Attrition Years 2017 and 2018* (filed September 11, 2015) (SDG&E Joint Motion) at 2.

¹⁵³ CCUE opening brief at 21.

even though the Commission has opened a rulemaking to specifically address this matter, on a state-wide basis.¹⁵⁴

SDG&E requests that the Commission reject CCUE's proposals because on matters related to methane leaks, those proposals attempt to bypass the ongoing evaluation, and prejudice the outcomes, taking place in the SB 1371 rulemaking. On matters of Aldyl-A pipe replacement, CCUE simply proposes to double the rate of SDG&E's forecasted replacement rate of what CCUE believes to be dangerous pipe, and by extension, to compel the hiring of employees to perform that rate of replacement.

A. Leak Detection Technology (Picarro)

CCUE highly endorses the leak detection technology known as Picarro.¹⁵⁵ CCUE criticizes SDG&E's test year request because it does not reflect the same embrace for Picarro: "[c]learly, SDG&E refuses to implement new, advanced leak detection technology."¹⁵⁶ And later, "[t]he Commission should reject SDG&E's stodgy reliance on traditional methodologies, and require SDG&E to begin using Picarro or comparable new technologies."¹⁵⁷ SDG&E's forecasted expenditure for leak detection, which CCUE argues is too low, does not translate to a refusal to implement technology, so long as that technology proves viable and cost effective. As SDG&E witness, Frank Ayala, testified:

Picarro technology is being evaluated by SoCalGas, which is a shared service Technologies are evaluated by our engineering, our pipeline integrity group, whenever we are looking at new technology. And SDG&E comes under that

¹⁵⁴ *Id.* at 20.

¹⁵⁵ *Id.* at 21.

¹⁵⁶ *Id.*

¹⁵⁷ *Id.* at 7.

umbrella, we support them. And it is being evaluated. We have one unit that is out there, and it continues to be evaluated.¹⁵⁸

Mr. Ayala also testified that:

SDG&E's commitment to thoroughly evaluate and apply emerging leak detection technologies was demonstrated in 2013 by the replacement of the primary leak survey instrument. The older generation flame ionization (FI) handheld leak detectors were replaced with new state of the art Detecto Pak-Infrared (DP-IR) units. SDG&E completed this upgrade prior to the 2016 GRC and therefore not a part of the current capital funding request.¹⁵⁹

These facts do not support CCUE's contention that SDG&E is unwilling to consider, test, and ultimately invest in new technologies in the area of leak detection, including Picarro. The TY 2016 Settlement will allow SDG&E to operate safely, reliably, and efficiently over the GRC cycle, during which SDG&E will continue to evaluate technologies that will enhance safety, even without adoption of CCUE's specific proposal. CCUE's technology-based proposal provides no clear or superior path to enhanced system safety, and essentially seeks the Commission to endorse and mandate investment in Picarro before that technology is fully tested by SDG&E.

Furthermore, the causes of methane emissions on the SDG&E system (whether by pipe leaks, non-pipe leaks, or other sources of emission) and the technologies used to detect methane emissions, are within the scope of matters being evaluated and litigated in the Commission's SB 1371 rulemaking. According to that rulemaking's scoping memo, "The first phase of this proceeding shall consider the following issues:

2. As set forth in Pub. Util. Code § 975(e), the rules and procedures adopted in this proceeding, among other things must be "technologically feasible, cost effective, and use best practices." What are the appropriate objective criteria to achieve and balance these goals and achieve "best value for ratepayers"?

¹⁵⁸ Tr. V14: 1301:16-24 (Ayala).

¹⁵⁹ Ex. 65 SDG&E/Ayala at 32-33.

How should the Commission take into account Pub. Util. Code § 977's cost consideration (i.e. "affordability of gas service for vulnerable customers") before adoption of Pub. Util. Code § 975(b)(2)'s climate change purpose?

- a. How should "cost-effective" be defined for purposes of this proceeding? What methodology should be used to determine cost-effectiveness?
- b. How should "technologically feasible" be defined for purposes of this proceeding? Should best practices be limited to commercially available technologies?
- c. Should technological feasibility and cost-effectiveness be established before requirements to use best practices and technologies are adopted in this proceeding? How should best practices, technologies, and costs be vetted in this proceeding?
- d. Is it appropriate to allow different utilities to have different approaches or best practices for leak management?
- e. Should objective criteria in order to determine cost-effectiveness be established per utility, by groups of utilities (e.g., large utilities versus small utilities) or some other approach?¹⁶⁰

It would be premature to render any findings on those technology issues in this GRC ahead of the rulemaking, which would unduly prejudice the ongoing efforts in that docket.

B. Aldyl-A Replacement

In its comments opposing the SDG&E Joint Motion, CCUE states:

While SDG&E's proposal to replace 16.5 miles of unsafe pipe in this GRC cycle is a tiny improvement over its abysmal performance to date, the Commission should not allow the utility to continue its absurdly inadequate rate of replacing known dangerous pipe. To put it bluntly, on this issue both the original SDG&E proposal and the Settlement Agreement are an embarrassment. The Commission cannot credibly claim it cares about safety while letting Aldyl-A pipe remain in San Diego neighborhoods for the next century. If for no other reason, the Commission must reject the Settlement Agreement because it allows unsafe pipe to remain in service for the next 99 years.¹⁶¹

¹⁶⁰ R.15-01-008, *Scoping Memo and Ruling of Assigned Commissioner* at 6-7 (July 24, 2015). The docket, which contains the scoping memo for this rulemaking, is a matter of public record.

¹⁶¹ CCUE opening comments at 13.

SDG&E replaced 5 miles of Aldyl-A pipe in the past 5 years.¹⁶² This averages to 1 mile per year. SDG&E proposed in this GRC to increase the replacement of Aldyl-A pipe to 16.5 miles per year.¹⁶³ That is a significant increase, both on a marginal basis (increase of 1550%) and absolute basis (15.5 additional miles per year). While CCUE criticizes not only the past rate of replacement but also the test year increase, that criticism is based on CCUE's characterization of non-state-of-the-art Aldyl-A as dangerous pipe, a conclusion which the record does not establish as fact. SDG&E witness, Maria Martinez, testified that Aldyl-A has shown susceptibility to brittleness or slow crack growth,¹⁶⁴ but did not testify that Aldyl-A serving SDG&E's service territory is dangerous pipe.¹⁶⁵ She also testified that Aldyl-A is specific to medium pressure and does not operate at a high pressure.¹⁶⁶

While CCUE claims all non-state-of-the-art Aldyl-A pipe in SDG&E's service territory is dangerous and needs to be taken out of the ground, it provides no concrete evidence that dangerous situations have or will transpire. If CCUE truly believed, and factually established, that all Aldyl-A pipe is dangerous, then its own proposal to increase replacement from 17 miles to 34 miles per year¹⁶⁷ would still leave what CCUE claims is dangerous pipe in the ground for a half century.

Unlike CCUE's approach to simply double SDG&E's rate of replacement, SDG&E's determination of what pipe to replace and at what rate is developed under a systematic and risk-

¹⁶² Tr. V14: 1203:3-8 (Martinez).

¹⁶³ Tr. V14: 1205:5-13 (Martinez).

¹⁶⁴ Tr. V14: 1200:26-28 (Martinez).

¹⁶⁵ See Tr. V14: 1200:23 – 1201:3 (Martinez).

¹⁶⁶ Ex. 52 SCG/Martinez at 6.

¹⁶⁷ Ex. 337 CCUE/Marcus at 20.

based methodology which assesses risk of all pipe, not just Aldyl-A.¹⁶⁸ Like SoCalGas, SDG&E's Distribution Integrity Management Program (DIMP) evaluates pipe replacement using the DIMP DREAMS¹⁶⁹ risk assessment tool, which is more holistic in that it takes into consideration a variety of key factors in identifying and prioritizing pipelines for replacement.¹⁷⁰ Aldyl-A pipe, as with other pipe in the ground, is scored under that methodology.¹⁷¹ SDG&E measures, monitors, and evaluates the effectiveness of the DREAMS program in consideration with other threats on the system to determine if changes to the replacement levels are needed.¹⁷² SDG&E is vigilant about maintaining the safety and integrity of its pipeline system, and is not dismissive of research and concerns over risks associated with its pipe, whether Aldyl-A plastic, bare steel, or something else, the company manages its operations, including pipeline replacements, methodically, in contrast to CCUE's approach.

CCUE also proposes that "[t]he Commission should also require SDG&E to map the Aldyl-A pipe on its system in order to provide a factual basis for Aldyl-A mitigation and removal strategy."¹⁷³ However, this proposal is not necessary or warranted given SDG&E is already engaging in this effort. As Ms. Martinez testified, "we actually already looked into that process and have an ongoing effort to update our records based on review of installation, purchasing records and through information collected during leak repair."¹⁷⁴

¹⁶⁸ Ex. 56 SDG&E/Martinez at 3.

¹⁶⁹ DREAMS stands for Distribution Risk Evaluation and Monitoring System.

¹⁷⁰ Ex. 56 SDG&E/Martinez at 15.

¹⁷¹ Tr. V14: 1204:17-26 (Martinez).

¹⁷² Ex. 56 SDG&E/Martinez at 3.

¹⁷³ CCUE opening brief at 22.

¹⁷⁴ Tr. V14: 1204:1-11 (Martinez).

As San Diego’s gas utility provider, SDG&E fully understands and meets its responsibility to operate its natural gas delivery system safely and reliably. SDG&E’s forecasts for its DIMP were reasonably developed, and its full forecast was agreed to by Settling Parties,¹⁷⁵ which demonstrates that the settlements are in the public interest and support gas system safety and reliability efforts. SDG&E also requested that DIMP costs continue to be two-way balanced, and the Settling Parties agreed (or did not oppose) this mechanism, with certain conditions.¹⁷⁶ Thus, if SDG&E encounters the need to accelerate distribution pipeline integrity work, including pipe replacement, it has the regulatory means to balance and seek recovery of costs exceeding its forecast.

C. Leak Backlog

CCUE’s opening brief states, “[t]he Commission should require SDG&E to develop and implement a plan to repair its backlog known as Grade 3 leaks during this GRC cycle.”¹⁷⁷ CCUE further states, “SDG&E should repair Grade 3 leaks found in the future so that the backlog of unrepaired Grade 3 leaks does not return.”¹⁷⁸ SDG&E testified that SDG&E does not have a leak backlog for the distribution gas system mains and services, and that at the end of 2013, SDG&E had a total of 30 leaks pending and scheduled for repair.¹⁷⁹

Moreover, as with CCUE’s Picarro proposals, its leak grading proposals are within the scope of Phase 1 of the SB 1371 rulemaking:

¹⁷⁵ *Joint Reply Comments on Joint Motion for Adoption of Settlement Agreements Regarding San Diego Gas & Electric Company’s Test Year 2016 General Rate Case, Including Attrition Years 2017 and 2018* (SDG&E Joint Reply Comments) at 8, Tables 1 and 2 (filed October 27 2015).

¹⁷⁶ SDG&E Joint Motion, Attachment 1 (SDG&E TY 2016 Settlement Agreement) and Attachment 5 (TURN/UCAN Settlement).

¹⁷⁷ CCUE opening brief at 24.

¹⁷⁸ *Id.*

¹⁷⁹ Ex. 65 SDG&E/Ayala at 33

“3. Should the gas leak (“1-2-3”) grading and repair timelines be changed to reflect SB 1371? What alternative approaches should be considered? What issues exist with a “uniform” approach and how should they be addressed?

- a. Should the repair timelines for Grade 2 leaks be prioritized by the amount of gas escaping from the leak. If so, how should the repair timeline requirements be determined?
- b. Should the repair timelines for Grade 3 be prioritized by the amount of gas escaping from the leak. If so, how should the repair timeline requirements be determined?”¹⁸⁰

The underlying basis behind CCUE’s proposal is not supported by the factual record.

Further, CCUE’s requested relief is premature given the leak grading determinations listed above are yet to be made in the SB 1371 rulemaking. The Commission should therefore reject CCUE’s leak backlog proposals in this GRC.

30. Compensation And Benefits

30.2 Short-Term Variable Pay

All short-term variable pay issues between the Settling Parties have been resolved for purposes of this proceeding via the SDG&E TY 2016 Settlement Agreement. Several of the Settling Parties raised various issues regarding Applicants’ short-term variable pay (also referred to as “ICP”) throughout the course of this proceeding, including ORA, TURN, UCAN, FEA, and JMP. The SDG&E TY 2016 Settlement Agreement states that the Settling Parties have stipulated to a compromise forecast of \$32 million but did “not resolve any policy issues regarding variable pay compensation.”¹⁸¹ MGRA’s Opening Brief does not take a position on

¹⁸⁰ *Supra* at 7.

¹⁸¹ SDG&E Joint Settlement Motion, SDG&E TY 2016 Settlement Agreement, SDG&E Settlement Comparison Exhibit at 12.

this settled amount;¹⁸² rather, MGRA seeks to inject into this proceeding a new issue related to SDG&E's short-term incentive compensation program.¹⁸³

... [MGRA] became aware of a 10% wildfire litigation recovery clause when Assigned Commissioner Picker issued an ACR requesting consideration of admitting SDG&E data request responses to questions by the Energy Division into the record of this GRC. This component of the SDG&E Incentive Compensation Plan (ICP) states that: "*The Compensation Committee of the Sempra Energy Board of Directors will exercise its discretion in including up to 10% of the earnings impact of wildfire litigation for ICP purposes.*" ... [MGRA] asserts that this provision in the ICP plan incentivizes SDG&E employees to litigate against ratepayers before the Commission at the risk of being punished through reduced bonuses *regardless of whether the requested recovery is justifiable. Such a provision is unquestionably contrary to ratepayer and Commission interests and should be specifically excluded from any settlement plan adopted by the Commission.*

As detailed below, MGRA's newly found ICP argument is illogical, bad policy, and is not properly before the Commission in this proceeding. Because MGRA's tardy assertions are not properly in the record as evidence, this reply assumes, for the sake of argument, the following facts asserted by MGRA:¹⁸⁴

1. Recovery of wildfire litigation expenses is currently included in the SDG&E earnings target.
2. A Commission decision to refuse SDG&E the right to recover wildfire litigation costs under this plan may result in reduced ICP compensation for SDG&E employees due to the loss of earnings.
3. SDG&E has not determined whether the provision to include 10% of the earnings impact of wildfire litigation will be included in the ICP for future calendar years (*i.e.*, 2016 on).

¹⁸² See MGRA Opening Brief at 41-49.

¹⁸³ MGRA brief at 41-43, original emphasis, footnotes omitted. MGRA's suggestion that it first learned of the issue recently is dubious. Contrary to MGRA's claim, this statement has been part of the evidentiary record as attachments to TURN testimony served on all parties on May 15, 2015. As detailed below, MGRA could have but did not address the issue in discovery or testimony at that time.

¹⁸⁴ MGRA Opening Brief at 42-43.

SDG&E’s reply to MGRA’s contentions will rely on the logical and policy implications of MGRA’s assertions and officially-noticeable facts because MGRA’s assertions come after the close of evidentiary hearings.

30.2.1 MGRA’s argument is illogical – any utility recovery will be “litigated” before the Commission and there is nothing “unjustifiable” about a utility seeking recovery of expenses in rates.

MGRA’s contention is grounded in a *non-sequitur* – that the subject ICP provision improperly incents employees to seek an unjustifiable recovery of wildfire litigation expenses before the Commission. The short answer is that the Commission will determine in A.15-09-010¹⁸⁵ whether and to what extent the subject wildfire expenses should be recovered in rates. This GRC is not the proper venue to determine whether recovery of such wildfire expenses in rates is “justifiable.” Yet that is precisely why MGRA asks the Commission to remove any earnings effect from the ICP that relates to wildfire litigation expenses – because such expenses are not “justifiable.” MGRA has improperly prejudged the merits of a case that has not yet been decided by the Commission.

In any event, MGRA’s contention misunderstands a fundamental premise of public utility regulation – to mediate potential conflicts of interests between utility ratepayers and shareholders. As SDG&E and SoCalGas witness Robert Schlax testified, “[T]he Commission sets rates based on the well-established principle that a ‘utility is entitled to all of its reasonable costs and expenses, as well as an opportunity to earn a rate of return on the utilities’ rate

¹⁸⁵ A.15-09-010, Application of ... [SDG&E] (U 902 E) for Authorization to Recover Costs Related to the 2007 Southern California Wildfires Recorded in the Wildfire Expense Memorandum Account (WEMA), filed September 25, 2015. Perhaps the motive behind MGRA’s tardy and misguided ICP issue is to have the Commission pre-judge the reasonableness of this very recent application in the context of this GRC.

base.”¹⁸⁶ Utility earnings are recovered through Commission-approved rates, which are based on a utility’s reasonable costs and expenses. Here, SDG&E’s direct case only requested ratepayer funding for the “target” level of performance, as opposed to actual,¹⁸⁷ and the TY 2016 Settlement Agreement provides that ratepayers will fund only 64% of target ICP at SDG&E.¹⁸⁸ Shareholders would fund the remaining 36% of target level payout, and all of the difference between target and actual, under the TY 2016 Settlement Agreement.¹⁸⁹ Thus, funding for SDG&E’s short-term variable pay, as proposed and settled, already balances ratepayer and shareholder interests.

Incentive compensation can help align the interests of utility shareholders and ratepayers by incenting “reasonable” employee behavior – such as safe operation of the utility system – such that utility expenses are also reasonable and should be recovered in rates.¹⁹⁰ Muting the impact of wildfire litigation also aligns ratepayer and shareholder interests, by training the focus

¹⁸⁶ Ex. 200 SDG&E/Schlax at 3 (emphasis added, *quoting* D.03-02-035); *see also* D.14-08-011, at 31 (“[T]he basic principle [of ratemaking] is to establish a rate which will permit the utility to recover its cost and expenses plus a reasonable return on the value of the property devoted to public use[.]”).

¹⁸⁷ Ex. 193 SDG&E/Robinson at 7:19-21 (“SDG&E is requesting recovery of ICP based on **target** performance. If actual ICP performance exceeds target performance, the differential is funded by shareholders and is not recoverable in rates.”) (original emphasis).

¹⁸⁸ September 11, 2015 Joint Motion for Adoption of Settlement Agreements Regarding San Diego Gas & Electric Company’s Test Year 2016 General Rate Case, Including Attrition Years 2017 and 2018, Joint Settlement Comparison Exhibit of San Diego Gas and Electric Company at 329, Item 6.

¹⁸⁹ *Id.*; Ex. 193 SDG&E/Robinson at 7:19-21.

¹⁹⁰ As the Commission noted in D.13-05-010 (SDG&E/SoCalGas TY2012 GRC decision) at 881-882, ratepayers benefit from the ICP:

We disagree with DRA’s contention that the primary focus of the executives, and others who qualify for the ICP, is on the interests of shareholders. The operating and individual performance metrics benefit ratepayers in ensuring that the executives are carrying out directives and activities to ensure the operational safety and reliability of the utility systems. . . . At the same time, the financial and company performance metrics are of benefit to shareholders who in theory will see the price of the stock move upwards. The financial metric may benefit ratepayers as a result of the companies’ lower borrowing costs.

of ICP incentives on safe, reliable, and efficient ongoing operation of the utility, rather than on the potential impact of a one-time event.

30.2.2 The Commission has declined to "micromanage" ICP as a policy matter.

The foregoing reinforces why the Commission has declined to tamper with the mechanics of utility incentive compensation programs. In the TY2012 GRC decision, the Commission found that:

... [w]ith respect to the argument of TURN and UCAN that the metrics for the ICPs of SDG&E and SoCalGas should be revised, we do not adopt that suggestion. SDG&E and SoCalGas are in the best position to decide what metrics to use to measure the performance of its employees, and to revise the metrics as UCAN has suggested would result in the Commission's micromanaging of the Applicants' variable compensation.¹⁹¹

Given the specious logic described above, it would be especially bad policy to tamper with SDG&E's ICP for the reasons MGRA urges here. The protective measure with which MGRA takes issue represents good employee compensation policy to protect the variable component of employee compensation from a one-time event that could otherwise dramatically impact an employee's ICP in a given year. Because wildfires can impact earnings over a span of several years, failing to mute the effects of such one-time events could create intergenerational inequities amongst employees.

Moreover, the record in this case demonstrates that SDG&E offers a competitive, market-driven total employee compensation program, of which variable pay is an important component.¹⁹² The record also demonstrates that SDG&E operates in an environment that faces the "top priority" threat of wildfires caused by extreme Santa Ana wind and severe drought

¹⁹¹ D.13-05-010 at 882. *See also, id.* at 1079, finding of fact 380.

¹⁹² *See* Ex. 193 SDG&E/Robinson at 5-13.

conditions,¹⁹³ as well as an environment in which SDG&E may be held strictly liable for wildfire damages regardless of fault.¹⁹⁴ MGRA's argument seems to wrongly suggest that SDG&E should not be allowed to take these known, serious, business risks into account in determining its employee compensation policy, for irrational and unfounded reasons. MGRA has presented no reason here for the Commission to stray from its policy that declines micromanagement of SDG&E's ICP.

30.2.4. MGRA's tardy showing should be given no weight.

The ICP contentions in MGRA's opening brief were the subject of a motion to strike,¹⁹⁵ which was denied by ALJ Lirag's October 26 email ruling. In addition, MGRA's contentions were the basis of its October 9, 2015 comments seeking admission of certain data request responses into the record in response to the September 21 ACR.¹⁹⁶ SDG&E does not seek here to re-argue the motion to strike nor its comments in reply to MGRA's comments on the ACR.¹⁹⁷ But SDG&E does submit that the arguments presented in the motion to strike and the reply comments are pertinent here with respect to consideration of what weight to give MGRA's contentions regarding ICP.

¹⁹³ Ex. 21 SDG&E/Geier at 4-6.

¹⁹⁴ See Ex. 210 SDG&E/Carbon at 7-8 (citing 146 FERC ¶ 63,017 at P 23, P 61 ("presence or absence of fault by the public entity ordinarily is irrelevant") (quoting *Pacific Bell v. City of San Diego*, 81 Cal. App. 4th 596, 602 (2000); *Pacific Bell v. S. Cal. Edison Co.*, 208 Cal. App. 4th 1400, 1408 (2012) (finding that strict liability applies to inverse condemnation cases involving power lines)).

¹⁹⁵ October 21, 2016, [SDG&E and SoCalGas's] Expedited Motion to Strike Portions of [MGRA's] Brief and Comments.

¹⁹⁶ September 21, 2015, Assigned Commissioner's Ruling Inviting Comments on Data Responses and Other Responsive Pleading to Proposed Inclusion of Data Responses in the Evidentiary Record (ACR).

¹⁹⁷ October 16, 2015, Reply comments of [SDG&E and SoCalGas] on Assigned Commissioner's Ruling.

Those arguments go to the procedural deficiencies of MGRA's presentation. In sum, SDG&E put on a case that did not present the mechanics of the ICP for approval.¹⁹⁸ MGRA's ICP contention focuses on the following statement in SDG&E's short-term incentive compensation program: "The Compensation Committee of the Sempra Energy Board of Directors will exercise its discretion in including up to 10% of the earnings impact of wildfire litigation for ICP purposes."¹⁹⁹ This statement is included in the 2012-2014 ICP documents that are attachments to the testimony of TURN witness John Sugar,²⁰⁰ which TURN served to all parties on May 15, 2015, and which was entered into the evidentiary record on July 15, 2015. Instead of raising this issue in testimony or at hearing, MGRA seeks now to have admitted into the record SDG&E's responses to data requests MGRA issued on September 28, 2015 (the MGRA Appendix).²⁰¹ MGRA offers no reason why it did not discover and develop facts, testimony and cross-examination regarding ICP or the above statement as a party to this case in accordance with the schedule set forth in the Commission's February 5, 2015 Scoping Memo and Ruling (Scoping Ruling).²⁰² MGRA did not conduct discovery on ICP or address any ICP issue in testimony or at evidentiary hearings. MGRA issued no discovery on this issue until September 28, 2015 – more than two months after the conclusion of evidentiary hearings, which MGRA did not attend. Consequently, MGRA was not present at evidentiary hearings to cross-

¹⁹⁸ This is consistent with the Commission's finding in its TY2012 GRC decision that, as a policy matter, declined to tamper with the mechanics utility incentive compensation programs. D.13-05-010 at 882, 1079 and finding of fact 380.

¹⁹⁹ MGRA Brief at 12, 41-50; MGRA Comments at 10, 13-14.

²⁰⁰ Ex. 403, TURN/Sugar at 57, 58, 64, 74, 80, 90, 98, 99, 100.

²⁰¹ MGRA Comments Appendix A (the MGRA Appendix).

²⁰² The Commission has found additional testimony unacceptable where a sponsoring party failed to explain why the additional testimony was not served with prepared testimony, pursuant to the requirement in Rule 13.8(b) of the Rules of Practice and Procedure. *In re California American Water*, D.10-06-038 at 45.

examine any witnesses who testified regarding ICP matters, and its untested briefing conclusions with citations to witness testimony on ICP matters should be weighted with this in mind.

SDG&E – and the Commission – have been placed in the position of responding to MGRA’s contentions without the benefit of evidence from SDG&E’s subject matter experts. To reinforce the integrity of the Commission’s own processes, MGRA’s ICP contentions should be given no weight. Such treatment of MGRA’s contention would be consistent with how the Commission has handled in the past similar flouting of its processes, where a motion to strike the offending material was denied.²⁰³ In addition, MGRA has not shown how it would use any material from the data request responses it would place in evidence in response to the September 21 ACR. MGRA’s brief does not rely on any such material, and its comments do not explain with any particularity how the record might benefit from this material. Thus there is no point to be served by expanding the record at this late date. Regardless of whether the data request responses are admitted, MGRA’s ICP contention should be given no weight.

36. Taxes

In response to the opening brief filed by TURN (jointly with UCAN and SDCAN), which largely tracks the arguments made in TURN’s testimony, Applicants have already addressed those arguments in its opening brief and rebuttal testimony. Several assertions raised in TURN’s

²⁰³ See, e.g., *In re Application of Golden State Water Company for an Order Authorizing it to Increase Rates for Water Service*, D.07-11-037 at 113-114 (acknowledging the Commission’s “‘preferred practice’ of ‘admit[ting] the testimony into the record, but then . . . afford[ing] it only so much weight as the presiding officer considers appropriate.’”); see also, *Rulemaking to Govern Open Access to Bottleneck Services and Establish Framework for Network Architecture Development of Dominant Carrier Networks*, D.99-11-050 at n. 34 (acknowledging that where an ALJ allowed testimony to remain in the record, arguments made by parties opposing admission of the testimony “go to the weight of the testimony rather than to its admissibility”); see also, *Decision Extending the Multifamily Affordable Solar Housing and Single Family Affordable Solar Homes Programs Within the California Solar Initiative*, D.15-01-027 at 54 (denying Motion to Strike but finding that the evidence presented carries minimal weight).

opening brief highlight the core misconceptions TURN continues to perpetuate, but which the Commission must reject based on the record and on legal grounds. A fact check of TURN's opening brief demonstrates the weakness of TURN's arguments.

A. Response to TURN's Opening Brief Assertions

1. **TURN states:** "There is little dispute regarding the nature of the underlying transaction or its central characteristics."²⁰⁴ And later, "There is no material dispute between the parties regarding the fundamental elements of TURN's argument."²⁰⁵

Fact check: TURN continues to omit the evidence of the substantial ratepayer benefits generated by the accounting method change in its discussion of items not in dispute. As quantified in testimony and opening briefs, that benefit for SoCalGas ratepayers beginning in 2016 and onward is approximately \$50 million in reduced revenue requirement each and every year, net of the ratepayer costs as quantified by TURN.²⁰⁶ For SDG&E ratepayers, the continuing long-term benefit is approximately \$45 million each and every year, on a net basis.²⁰⁷ These figures alone neutralize TURN's *entire* case, which is why TURN doesn't even acknowledge them in testimony, and tries to brush them aside as "no big deal"²⁰⁸ in its brief. TURN's continued refusal to acknowledge the ratepayer benefits illustrates exactly how much of a "big deal" these benefits are.

²⁰⁴ Opening Brief of The Utility Reform Network, Utility Consumers' Action Network, and San Diego Consumers Action Network on Tax-Related Issues (TURN opening brief), p. 5 (filed October 12, 2015).

²⁰⁵ *Id.* at 7.

²⁰⁶ Applicants opening brief at 21-22.

²⁰⁷ *Id.* at 43-44.

²⁰⁸ TURN opening brief at 21.

Compared to TURN's quantification of ratepayer costs--on a nominal and net present value basis--the benefits significantly overshadow the costs.²⁰⁹ Further, these are benefits our ratepayers would not have otherwise realized had SDG&E and SoCalGas not proactively and thoroughly researched the method change, then made the election for the method change, while continuing to bear the risk of IRS audit. In other words, if the IRS takes issue with the manner and extent by which the utilities implemented the election, the IRS could disallow amounts claimed under the new accounting method, a risk borne by shareholders.

When the Commission considers the evidence demonstrating that ratepayers will actually benefit (and not be burdened) by the accounting method change pursued by SDG&E and SoCalGas, the following TURN briefing arguments become exposed as factually incomplete and unbalanced:

- that “holding all else equal, the effect of increasing the repairs deduction is a reduction in the amount of taxes due in the near-term (because there is a greater deduction in the near-term), and a corresponding increased tax expense in the long-term (because of the corresponding decrease in the long-term tax depreciation deduction);”²¹⁰
- that “during the 2016 tax year and continuing through 2043, the Sempra Utilities’ ratepayers would face \$492 million of higher revenue requirements (nominal dollars) or \$194 million (NPV);”²¹¹
- that there is need “to protect ratepayers from paying higher rates in 2016-2042 period due to the tax savings reaped by the utilities in 2011-2014;”²¹²
- that ratepayers “receive disproportionately fewer benefits while bearing disproportionately greater costs;”²¹³

²⁰⁹ Applicants opening brief at 21-22 and 43-44.

²¹⁰ TURN opening brief at 2.

²¹¹ *Id.*

²¹² *Id.* at 3.

²¹³ *Id.*

- that “[w]hile the utilities may not have done anything wrong, they certainly did not do right by their customers;”²¹⁴
- that Applicants have not “materially challenged TURN’s characterization of the higher costs that their customers will bear from 2016 and thereafter as a result;”²¹⁵
- that Applicants “continue to defend an outcome that would have their customers paying higher rates in 2016 and for decades to follow in order to fund the benefits that the utilities delivered to their shareholders in 2011-2014;”²¹⁶
- that “there are associated revenue requirement increases that will occur for decades to come;”²¹⁷
- that “for the next 30 years, the utilities’ income tax amounts will be correspondingly higher as a result of the change in calculation and treatment of the repairs deduction;”²¹⁸
- that “while the change in methods as applied to the 2016 test year provide near term benefits to ratepayers in the form of reduced tax expense forecasts, ratepayers will also bear substantial future costs from the longer-term impacts in the form of increased income tax payments and rate base;”²¹⁹
- that “[f]or the 2011-2015 period, though, the utilities seek a fundamentally inequitable outcome, one that would enable their shareholders to reap substantial near-term benefits from reduced income tax payments but require ratepayers to bear substantial longer-term cost increases that will result from the change;”²²⁰
- that “the Sempra Utilities realize a benefit to the tune of \$262 million during 2011-2015, and leave their ratepayers on the hook for \$492 million of higher revenue requirements from 2016-2043 (nominal dollars) or \$194 million (NPV);”²²¹

²¹⁴ *Id.*

²¹⁵ *Id.* at 3-4.

²¹⁶ *Id.* at 4.

²¹⁷ *Id.* at 6.

²¹⁸ *Id.*

²¹⁹ *Id.* at 7.

²²⁰ *Id.*

²²¹ *Id.*

- that “Sempra Utilities will directly benefit from the reduced income tax expenses of \$262 million during 2011-2015 (approximately \$131 million each), while ratepayers will see higher costs of \$492 million in 2016-2043, with a net present value of \$194 million;”²²²
- that “[t]he Commission should adopt TURN’s recommendations to avoid having ratepayers pay higher rates starting in 2016 as a result of the Utilities’ Actions to reduce their 2011-2015 tax payments;”²²³
- that “[t]he Commission should take reasonable and appropriate steps to insulate ratepayers from bearing increased costs for decades to come . . . ;”²²⁴
- that Applicants’ customers are “burdened with higher rates and costs going forward where those higher rates and costs are the by-product of tax changes that flowed primarily and disproportionately to the benefit of shareholders;”²²⁵
- that ratepayers will “see adverse 2016-2042 revenue requirement impacts from the 2011-2014 tax savings captured by the utilities;”²²⁶
- that ratepayers will be “paying higher rates in the 2016-2042 period due to the tax savings reaped by the utilities in 2011-2014;”²²⁷
- that “[h]aving not received the direct benefit of the 2011-2015 tax expense reductions from the repairs deduction change, utility ratepayers would be saved from having to pay higher rates for the next 25-30 years as an ongoing bill associated with the \$262 million near-term benefits;”²²⁸
- that “the utilities have failed to materially challenge TURN’s calculation of adverse impacts to the tune of \$194 million (net present value) increase to revenue requirements;”²²⁹

²²² *Id.* at 8.

²²³ *Id.* at 9.

²²⁴ *Id.*

²²⁵ *Id.*

²²⁶ *Id.*

²²⁷ *Id.*

²²⁸ *Id.* at 10.

²²⁹ *Id.* at 22.

- that adopting TURN’s recommendations would result in “ensuring ratepayers to not face adverse 2016-2042 revenue requirement impacts from the 2011-2014 tax savings captured by the Sempra Utilities.”²³⁰

All of these statements are nullified by TURN’s failure to factor the substantial ratepayer benefits beginning in 2016 and over the next 25-30 years in its calculation of the impact to ratepayers, which Applicants extrapolated, from record evidence,²³¹ to be approximately \$1.25 billion for SoCalGas and \$1.125 billion for SDG&E over a 25 year period.²³² TURN states, “the Commission has cause to wonder if ratepayer impacts (positive or negative) were given any serious consideration during the utilities’ analysis of the opportunity presented by the repairs deduction tax change.”²³³ TURN only presents and argues the “negative.” The Commission now has the full picture from which to evaluate whether the actions taken by SDG&E and SoCalGas result in a ratepayer impact that is positive or negative.

2. **TURN states:** “The Sempra Utilities’ responses to these proposals rely heavily on their assertions that they did not do anything wrong in taking advantage of an IRS-provided opportunity to reduce their income tax expense.”²³⁴

Fact check: At TURN’s request, Applicants provided during discovery detailed explanations of the timing and circumstances around the accounting method change for repairs.²³⁵ TURN attempted to draw negative conclusions from those facts, to which Applicants provided a response in rebuttal testimony. Applicants are not on the defensive, and don’t need to “rely heavily on their assertions that they did nothing wrong,” because the facts speak for themselves.

²³⁰ *Id.* at 25.

²³¹ *See* Ex. 246 SCG/Reeves at Appendix B, Ex. 249 SDG&E/Reeves at Appendix B, and Ex. 400 TURN/Marcus at 12 (reference to 25-30 years).

²³² Applicants opening brief at 22 and 43-44.

²³³ TURN opening brief at 22.

²³⁴ *Id.* at 3.

²³⁵ Ex. 401 TURN/Marcus (attachments).

SDG&E and SoCalGas acted within the Commission's rules, and proceeded appropriately and prudently with respect to researching, then making, the method change. Their actions not only resulted in short-term benefits to shareholders (due to the timeline of events) but substantially larger long-term benefits to their customers in the form of *net* lower rates beginning in 2016, in comparison to the utilities not having made their respective elections.

In terms of the timeline of events as they pertain to the 2012 GRC proceeding, here again, Applicants acted in a manner wholly consistent with the Commission's Rate Case Plan and Rules of Practice and Procedure. Under those rules, Applicants (and all active parties for that matter), are required to follow the procedural steps of creating the evidentiary record, which must close so that the case can be officially submitted to the Commission for review and drafting of a decision. In the 2012 GRC, pursuant to the Administrative Law Judge's written ruling, the proceeding was officially to be submitted on July 31, 2012,²³⁶ at which point the evidentiary record would be closed. The proposed and final decisions were over 1,000 pages long and discussed a multitude of costs and issues based on the evidentiary record. Because GRCs involve future test year ratemaking and forecasts based on information up to a point-in-time, a record must close such that the Commission can render determinations as to the reasonableness of forecasts impacting the test year revenue requirement. Meanwhile, business and operational situations are dynamic, such that facts and circumstances are naturally in a constant state of flux. Parties to a GRC cannot constantly seek to introduce new or changed facts into the record that could impact test year forecasts; otherwise, rate cases would never close and the Commission

²³⁶ A.10-12-005/006, *Administrative Law Judge's Ruling Regarding Remaining Exhibits, Transcript Corrections, and Submission Date* (June 22, 2012).

could never render a determination on the multitude of individual costs and issues raised in a GRC.

The Rate Case Plan is very prescriptive of when and in what manner elements of the case can be updated. Applicants followed those rules.²³⁷ The Rules of Practice and Procedure are also prescriptive of how the record can be reopened. No party moved to re-open the record after it was closed July 31, 2012 and prior to the rendering of a proposed and final GRC decision. These are not procedural technicalities or loopholes that Applicants mention to suggest that the Commission is precluded from remedying any wrongdoing or protecting ratepayers from harm. However, in the absence of any claim or evidence of wrongdoing or ratepayer harm, it would be unjust, as a matter of policy, to adopt remedies that punish utilities that have followed all the rules, and acted in a manner consistent with longstanding Commission precedent.

3. **TURN states:** “[t]he Commission should direct the Sempra Utilities to Act in a manner that will prevent this situation from happening again” and “can and should discourage any gamesmanship by making clear that it expects the benefits to flow to ratepayers no matter when the voluntary tax change goes into effect. . . .”²³⁸

Fact check: The record does not support any gamesmanship on the part of Applicants.²³⁹ If TURN believes that *any* sharing of benefits with shareholders is objectionable as a matter of policy, such that the Commission must act to prevent this situation in the future, TURN fails to reconcile this belief with the Commission’s longstanding policy articulated in the *General Telephone* decision:

In the short term, between general rate proceedings, the shareholders benefit when the company’s management can ‘do it for less’, and correspondingly,

²³⁷ *Id.* at 45.

²³⁸ TURN opening brief at 11.

²³⁹ *See* Ex. 246 SCG/Reeves at 15-20 and Appendix C; Ex. 249 SDG&E/Reeves at 15-24 and Appendix C.

ratepayers ultimately benefit because the productivity improvement will be reflected periodically when there is a comprehensive review of the utility's revenue requirement. Keeping this incentive for utility management is a cornerstone of ratemaking. . . .²⁴⁰

4. **TURN states:** "the relief TURN seeks is entirely prospective in nature; the utilities have yet to explain what it is about the authorized revenue requirement from the 2012 GRC or that were otherwise in effect until January 15, 2015 that would change under TURN's proposal."²⁴¹

Fact check: Applicants have already explained it, and provided the legal support for why TURN's proposal amounts to impermissible retroactive ratemaking, in rebuttal testimony.²⁴² Applicants' opening brief explained it again, and provided additional Commission and appellate case law support demonstrating how TURN's proposal bears all the attributes of a retroactive change to an item that was clearly and visibly part of the 2012 authorized rates calculation. TURN acknowledges this important fact in its own brief, stating, "[i]n the 2012 GRC, each utility had calculated its repairs deduction using the percentage repair allowance (PRA), and incorporated the results into its income tax forecast for the 2012 test year. This element of the tax forecast was not challenged by any party and the adopted 2012 test year revenue requirement was based on the utilities calculations"²⁴³

The fact that TURN filed a motion to establish a memorandum account for 2015, viewed alongside TURN's arguments that Applicants could have (but didn't) seek memorandum account treatment for the years between GRC cycles, and TURN's entire discussion of Commission Resolution L-411 (which involved the establishment of a tax memorandum account for a tax law change), clearly demonstrates that absent a memorandum account, TURN's relief cannot be

²⁴⁰ Applicants opening brief at 31-32.

²⁴¹ TURN opening brief at 4.

²⁴² See Ex. 246 SCG/Reeves at 11-15; Ex. 249 SDG&E/Reeves at 11-15.

²⁴³ TURN opening brief at 5.

granted as it amounts to impermissible retroactive ratemaking. TURN's Resolution L-411A argument is discussed next.

5. **TURN states:** "Like the memorandum account discussed in Resolution L-411A, TURN's proposal only affects the Sempra Utilities' revenue requirement prospectively. And as in Resolution L-411A, the Commission should therefore conclude that the effect of TURN's proposal being entirely prospective, does not constitute retroactive ratemaking."²⁴⁴

Fact check: In establishing a memorandum account in Resolution L-411A, the Commission specifically limited the amounts to be tracked to the impact of a new tax law (allowing for 100% bonus depreciation on qualifying assets) and specifically denied TURN's request to expand the scope of the memorandum account.²⁴⁵ The Commission would not have also expanded the scope of the memorandum account to any type of administrative guidance related to taxes. Instead, such relief would only be granted under specific facts and circumstances, and would be narrowly applied, as was the case in the Administrative Law Judge's January 15, 2105 ruling. The Commission stated, "[t]his mechanism simply allows the Commission to determine at a future date whether rates should be changed, without the impediment of claims of retroactive ratemaking."²⁴⁶ The Commission recognized and ruled that the effective date of the memorandum account, and thus the earliest date for which relevant costs could be tracked, could be no sooner than the date of the issuance of the Resolution (April 14, 2011), which was several months after the enactment of the statute.

In the present GRC, the Commission was likewise purposeful and precise in granting TURN's motion for a memorandum account to be effective January 15, 2015, the date of the ruling, and not January 1. The relief granted in the Resolution, as well as in the ALJ's ruling in

²⁴⁴ *Id.* at 17.

²⁴⁵ Ex. 246 SCG/Reeves at 23, n. 69.

²⁴⁶ Resolution L-411A at 11.

this GRC, demonstrates that Commission takes the statutory prohibition against retroactive ratemaking very seriously and has exhibited extreme care in adopting regulatory mechanisms that do not contravene that prohibition.

6. **TURN states:** “this GRC is the Commission’s first opportunity to review the impact of the changes SDG&E and SoCalGas made in response to the IRS’s Revenue Procedures. If the utilities’ retroactive ratemaking argument is correct, it would necessarily mean that the Commission would never have the opportunity to review the ratemaking impacts of such tax changes . . .”²⁴⁷

Fact check: In the context of what constitutes retroactive ratemaking, the operative fact is whether the repair deduction is a first-time event. It is not. The repair deduction has been part of Applicants’ tax expense calculation for several GRCs.²⁴⁸ TURN’s recommendation bears a direct relationship to the amount of that deduction as reflected in the 2012 GRC revenue requirement. Moreover, the facts in this GRC are in contrast to situations where the Commission has sought to track tax-related impacts in between rate case cycles, such as a change in tax legislation. This is a material distinction.

The IRS revenue procedures that allowed for the voluntary accounting method changes at issue here were not law changes or changes in tax regulation. Revenue procedures are administrative guidance documents (which are common and frequently issued) that allow a taxpayer to change from one acceptable method of accounting for repairs to another acceptable method of accounting for repairs. The repairs deduction is not a new item of tax expense. To the contrary, the deduction has been around for many years.

There is no dispute that the proper treatment of the repairs deduction according to Commission precedent is flow-through (TURN admits this), and it has been treated as such by

²⁴⁷ TURN opening brief at 4 (original emphasis).

²⁴⁸ Applicants opening brief at 19-20.

the Commission for decades.²⁴⁹ There is also no dispute that the repairs deduction was included and considered by the Commission in our 2012 rate case and prior rate cases. Thus, the only impact of the method change was to provide additional certainty as to what qualifies as a "repair" under *existing* law, with the result of increasing the *amount* of the repairs deduction over what it had been historically under the PRA method. TURN cannot circumvent the prohibition against retroactive ratemaking by arguing that researching, then implementing, an IRS guidance document, constitutes a creation of a new tax expense item. Even assuming that it can be viewed this way, it still does not create any exemption to the prohibition against retroactive ratemaking, and longstanding Commission precedent against tax-related true-ups for items that were specifically considered and included in a prior GRC, as is the case here with Applicants' repairs deductions.

B. TURN's Recommendation Creates Perverse Incentives to Engage in Further Retroactive Ratemaking by Simply Applying a Remedy Prospectively

If TURN's proposed rate base offset is adopted, which relate back to past period elections, virtually any adjustment that relates to past years covered by prior, closed rate cases can avoid retroactive ratemaking by simply applying the adjustment "prospectively" (*e.g.*, by adjusting rate base in a subsequent test year). Under this logic, for example, a utility could spend money on a project in a year covered by a prior GRC over its authorized amount and ask for rate recovery in a subsequent test year by arguing it only impacts rates prospectively. Also, both utilities and the Commission could seek a true-up of a forecasted tax expense based on the ultimate resolution of an IRS audit (which as stated earlier is a risk solely being borne by shareholders). This could be accomplished by making the true-up adjustment related to the prior

²⁴⁹ Ex. 400 TURN/Marcus at 15.

tax year “prospectively” through an adjustment to rate base equal to the amount of the IRS true-up in the next GRC test year.

As discussed in detail in the record to this GRC, the Commission has been very clear and consistent in rejecting attempts to true up tax expense forecasts to reflect IRS audit adjustments related to past years, because allowing such true-ups would violate the rule against retroactive ratemaking. TURN’s recommended remedy would open the door for such methods of circumventing the statutory prohibition against retroactive ratemaking to reach a desired result. As discussed in Applicants’ opening brief, the Commission has “looked through” the labels to examine the substance of proposals, and has found that those proposals amounted to retroactive ratemaking.²⁵⁰ In the instances where the Commission did not, the appellate courts have.²⁵¹

47 Other Issues

47.1 SoCalGas Issues

A. Summary

The Utility Workers Union of America (UWUA) is a party to the *Joint Motion for Adoption of Settlement Agreements Regarding Southern California Gas Company’s Test Year 2016 General Rate Case, Including Attrition Years 2017 and 2018* (SoCalGas Joint Motion).²⁵² Both SoCalGas and UWUA, as Settling Parties, have represented to the Commission that the SoCalGas Test Year (TY) 2016 Settlement Agreement provides a revenue requirement that will allow SoCalGas to operate its system safely, reliably, and efficiently and at reasonable rates.²⁵³ Both parties have also represented that: “it is the intent of Settling Parties to move for adoption

²⁵⁰ Applicants opening brief at 34-35.

²⁵¹ *Id.* at 35-39.

²⁵² Filed September 11, 2015.

²⁵³ SoCalGas Joint Motion, Attachment 1 (SoCalGas TY 2016 Settlement Agreement) at 1.

of these settlements as a complete and final resolution of *all issues* among them in this proceeding”²⁵⁴ and “the Settling Parties have agreed to resolve *all contested issues* between them.”²⁵⁵

In light of these representations, SoCalGas takes issue with UWUA’s opening brief being used as a vehicle to request additional relief from the Commission. It was not SoCalGas’ intent to continue to litigate UWUA’s “policy” issues in briefs, because SoCalGas considered those issues as no longer contested in this GRC proceeding per the express terms of the SoCalGas TY 2016 Settlement Agreement and the SoCalGas Joint Motion. Thus, UWUA’s request for additional relief on its policy issues is problematic and impermissible as it creates a conflict with the letter and spirit of the SoCalGas TY 2016 Settlement Agreement as resolving all contested issues between UWUA and SoCalGas in this proceeding.

B. UWUA’s Recommendations

UWUA requests relief in three primary areas: (1) safety culture, (2) adequate workforce, and (3) Aldyl-A pipe.²⁵⁶ While these are issues that are within the scope of this GRC, and while UWUA witnesses offer the union’s perspectives on matters of system safety, UWUA’s ultimate recommendations all point to one goal: the hiring of more *union* employees and the promotion and expansion of *represented* employees’ rights and ranks. During the litigation phase of this

²⁵⁴ SoCalGas Joint Motion at 2 (emphasis added).

²⁵⁵ *Id.* at 3-4 (emphasis added).

²⁵⁶ *Opening Brief of Utility Workers Union of America (UWUA)* (UWUA opening brief) at 6, 10, and 13 (filed October 12, 2015).

proceeding, SoCalGas contested UWUA’s assertions and recommendations raised by UWUA witnesses.²⁵⁷

At their crux, UWUA recommendations deal with matters that are appropriately addressed in collective bargaining, not GRCs.²⁵⁸ The Commission has recognized that some issues are appropriate for collective bargaining. In SoCalGas’ 2008 GRC,²⁵⁹ for instance, the Commission rejected a proposed settlement between SoCalGas and UWUA Local 483, stating,

[w]e find the terms of the settlement are not in response to any litigated issues which needs to be resolved, and impinges upon collective bargaining between SoCalGas and a labor union. Finally, we believe this proposal would unreasonably address matters which are properly within the scope of collective bargaining. SoCalGas and Local 483 are in fact “negotiating” a labor agreement as part of a rate case²⁶⁰

SoCalGas and UWUA have not entered into any settlement that attempts to negotiate collective bargaining matters in the context of the Test Year 2016 GRC. However, UWUA, on its own accord, is essentially trying to obtain Commission approval (and therefore leverage) of labor-related matters outside of the collective bargaining context. UWUA should not place the Commission in a position where it must interject itself in labor negotiations between the company and union leadership under the mantra of advancing safety.

1. Safety Culture

a. Represented Union Safety Officers (RESOs)

²⁵⁷ See Exs. 38 SCG/Musich at 7-10; 48 SCG/Baker at 5; 52 SCG/Martinez at 5-6; 61 SCG/Ayala at 77-79; 91 SCG/Franke at 55-61; and 108 SCG/Serrano at 14-15. During evidentiary hearings, and UWUA’s cross examination of these aforementioned SoCalGas witnesses, it was also apparent that SoCalGas disagreed with UWUA assertions and recommendations. See e.g., Tr. V18: 1811:3-1812:4 (Serrano).

²⁵⁸ See e.g., Ex. 91 SCG/Franke at 57 and Ex. 108 SCG/Serrano at 15.

²⁵⁹ A.06-12-010.

²⁶⁰ D.08-07-046 (*mimeo*) at 78.

UWUA's opening brief states, "[t]he Commission should approve such a [RESO] program in concept in its final order, leaving the details to be worked out between UWUA and SoCalGas within the revenue requirements established by the [Settlement Agreement], with a report back delivered through the RAMP (Risk Assessment and Mitigation Proceeding) stage of the next GRC."²⁶¹ However, the record contains evidence disputing the need for or efficacy of RESOs, as that need is premised upon the opinion of UWUA's witness that employees "do not have the self-confidence, experience and knowledge" to stop the job or otherwise refuse unsafe work assignments."²⁶² As argued by UWUA witness, Robin Downs, the RESO program by design would exclude an employee's direct supervisor and/or manager from the discussion of a perceived safety problem, for fear of retribution.²⁶³ SoCalGas does not agree that safety is enhanced by eliminating communication between employees and their direct supervisors or managers. Furthermore, SoCalGas disputes any notion that direct supervisors or managers who are not union members are unqualified to address the safety concerns raised by field employees, or are prone to retaliation when employees voice their concerns or take action to prevent a perceived safety incident.

SoCalGas testified that it "does not view the RESO program as described by UWUA as necessary at this time, given that these RESOs appear to primarily act as a buffer between supervisors and represented employees."²⁶⁴ SoCalGas witness, Mark Serrano, provided the company's perspective, which stands in contrast to UWUA's perspective:

²⁶¹ UWUA opening brief at 8.

²⁶² *Id.* at 7- 8.

²⁶³ Ex. 322 UWUA/Downs at 4:4-16.

²⁶⁴ Ex. 108 SCG/Serrano at 14.

A. [SCG/Serrano] The employee has the right and responsibility to Stop the Job in that condition.

Q. [UWUA/Julian] And to tell – and to reject the direct instruction of his supervisor?

A. Yes, that is correct.

Q. Or her supervisor. If the supervisor is relatively inexperienced and the employee is relatively inexperienced, is it your testimony that the employee can countermand (*sic*) the direct order of the supervisor and be free of any adverse action at the moment that the job is stopped?

A. Yes.

Q. So the remedies available, or the actions available to the employee that you described previously taking it to other levels of supervision, to perhaps his union or to your safety organization, those would come after the employee actually said I'm not going to do this work as you have directed?

A. Yes, sir.

Q. But in the moment the employee is under this policy is empowered to reject the command or the detective (*sic*); is this correct?

A. Absolutely, yes.²⁶⁵

Mr. Serrano further testified that stopping the job does not subject an employee to negative consequences if done in good faith:

A. We would – your Honor, we would explain to the employee what the proper procedures would be. There would be no retribution taken with an employee who in good faith stops a job.²⁶⁶

There is no record evidence demonstrating that SoCalGas management has, or direct supervisors have, retaliated against employees who have stopped the job in good faith. On the contrary, employee feedback on safety issues or concerns is received seriously by the company, which speaks to the safety culture fostered by management. SoCalGas' safety culture was

²⁶⁵ Tr. V18: 1817:24 – 1818:21 (Serrano).

²⁶⁶ Tr. V18: 1826:4-8 (Serrano).

independently evaluated and ranked by the National Safety Council.²⁶⁷ SoCalGas ranked in the 96th percentile for supervisors enforcing safety job procedures and for supervisors maintaining a high safety performance standard.²⁶⁸ SoCalGas ranked in the 92nd percentile for frequency of employee/management interactions and for supervisors understanding workers' job safety problems.²⁶⁹ SoCalGas ranked in the 91st percentile for belief that management does more than the law requires, and 90th percentile for management setting a positive safety example.²⁷⁰ These survey results are compiled from feedback provided by employees.²⁷¹ While SoCalGas continues to be vigilant on matters of safety of its system, employees, and customers, the company is encouraged that its safety culture compares very favorably to those of peer utilities and companies.²⁷²

Notwithstanding, SoCalGas testified that it is willing to keep an open dialogue with union leadership on the underlying causes of UWUA's concerns giving rise to its RESO recommendation, as part of the collective bargaining process.²⁷³ In the meantime, SoCalGas testified to the numerous channels already available to employees to raise safety concerns to union leadership, or anonymously if so desired.²⁷⁴

²⁶⁷ Ex. 1 SCG/Lane at 9.

²⁶⁸ *Id.*

²⁶⁹ *Id.*

²⁷⁰ *Id.*

²⁷¹ *Id.*

²⁷² *Id.*

²⁷³ Ex. 108 SCG/Serrano at 15; Tr. V18: 1827:8-12 (Serrano); and Ex. 38 SCG/Musich at 8.

²⁷⁴ Ex. 108 SCG/Serrano at 14-15.

Therefore, the Commission should not adopt or endorse a RESO program that has yet to be proven as necessary or prudent, and that can be addressed as a part of the collective bargaining process.

b. Employee Coaching, Mentoring, and Training

UWUA’s opening brief states UWUA witnesses “made a comprehensive proposal to overhaul the SoCalGas training programs,” and “described the benefits of expanded mentoring and coaching in specific functional areas.”²⁷⁵ UWUA recommends that, “[t]he Commission should approve such a [training/coaching/mentoring/job shadowing] program in concept in its final order, leaving the details to be worked out between UWUA and SoCalGas within the revenue requirements established by the [Settlement Agreement], with a report back delivered through the RAMP (Risk Assessment and Mitigation Proceeding) stage of the next GRC.”²⁷⁶

There is no dispute over whether employees should be adequately trained or provided with coaching and mentoring. SoCalGas has sponsored testimony advocating the merits of job shadowing and knowledge transfer.²⁷⁷ SoCalGas also rebutted UWUA’s training proposals, stating, “UWUA witness Jami Simon may not be aware that CSF technicians and meter readers are not placed into the job until they successfully pass training. Pursuant to the parties’ collective bargaining agreement, employees must remain in their current positions until training is available.”²⁷⁸ However, SoCalGas disputes any notion that SoCalGas’ approach in administering effective training and mentoring is deficient or inferior to UWUA’s approach, which again advances only UWUA’s central goal of hiring and elevating union-only employees.

²⁷⁵ UWUA opening brief at 8-9.

²⁷⁶ *Id.* at 10.

²⁷⁷ *See e.g.*, Ex. 35 SCG/Dagg at 9; Ex. 61 SCG/Ayala at 14, 21, and 33; Ex. 91 SCG/Franke at 59.

²⁷⁸ Ex. 91 SCG/Franke at 58-59.

For example, UWUA’s opening brief states, “[t]he Mentor-Coach (UWUA lead worker as reflected in SoCalGas job descriptions) is a role model who shares knowledge and advice to help the employee grow professionally,”²⁷⁹ and “[t]his problem can be addressed only through increasing the time available to Leads. In reality this means adding additional LPAs and additional PAs. I estimate that a minimum of 10% of my time annually should be allocated for this purpose.”²⁸⁰

The need for a skilled and adequate workforce is not a disputed item as a matter of policy, as SoCalGas has also advocated for maintaining a highly qualified and skilled workforce in the litigated phase of this proceeding. However, whether a workforce is best trained or coached by union employees as opposed to non-union employees, how many PAs (planning associates) and LPAs (lead planning associates) should be hired, and whether 10% (as opposed to some other percentage) of an employee’s time should be devoted to coaching and mentoring—these matters are squarely within the purview of the collective bargaining process.²⁸¹ They do not require or warrant a GRC factual finding, legal conclusion, or order in this GRC because these matters are representative of the very topics that UWUA would raise with the company on a regular basis during labor negotiations.

2. Adequate Workforce

UWUA’s opening brief states, “[t]he Commission should direct the creation of working groups to address each of these problem areas in preparation for the next GRC, including the

²⁷⁹ UWUA opening brief at 8.

²⁸⁰ *Id.* at 9-10.

²⁸¹ For example, SoCalGas witness, Sara Franke, testified that UWUA is not the only union at SoCalGas and that “[a]ny potential role in training for UWUA and/or the UWUA’s national Power for America Training Trust would be subject to collective bargaining and need to include in the discussion the other union on SoCalGas’ property that also represents CSF and Meter Reading employees.” Ex. 91 SCG/Franke at 59.

RAMP.”²⁸² SoCalGas disputes UWUA’s assertions regarding workforce levels. As SoCalGas witness, Frank Ayala, testified:

While Gas Distribution’s test year requests address the company’s workforce needs, the suggestion that SoCalGas maintains a level of workforce that would create “grave implications,” or has infrastructure that poses safety risks to the public and employees, is objectionable. Gas Distribution strives to have in place an optimal workforce to efficiently and effectively maintain our system and address issues that impact safe and reliable operations.²⁸³

There is certainly work to be done to maintain and enhance the safety and reliability of the gas distribution system; however, SoCalGas does not share UWUA’s opinion quoted above, which implies a lack of safety culture.²⁸⁴

SoCalGas disagrees with UWUA’s assessment that it is plagued with chronic understaffing. Again, UWUA’s motivations are clear. While incremental increases in the workforce are part of Gas Distribution’s GRC request, SoCalGas cannot reasonably support the levels of hiring that UWUA desires.²⁸⁵

In short, UWUA’s assertions and recommendations on adequacy of workforce is a contested item; and, the SoCalGas TY 2016 GRC Settlement Agreement was intended to resolve all contested issues that exist between UWUA and SoCalGas in this GRC. Moreover, as discussed in the previous section, UWUA’s ultimate motive is an increase in the union workforce, which should be left for the collective bargaining process. Even on their own merits, UWUA’s recommendations lack merit and should be rejected.

²⁸² UWUA opening brief at 12.

²⁸³ Ex. 61 SCG/Ayala at 77.

²⁸⁴ *Id.*

²⁸⁵ *Id.* at 78.

3. Aldyl-A Pipe

UWUA's opening brief requests Commission approval of UWUA witness Don Kick's Aldyl-A recommendations.²⁸⁶ However, Mr. Kick's views and recommendations on Aldyl-A pipe replacement were contested by SoCalGas witness, Maria Martinez, who testified:

SoCalGas understands UWUA's concerns associated with Aldyl-A pipe; however, SoCalGas believes UWUA's recommendations are not an efficient manner of mitigating overall risk to the distribution pipeline system.²⁸⁷

SoCalGas' replacement approach is based on a risk methodology that looks at the system in a holistic manner and takes into consideration a variety of key factors in identifying and prioritizing pipelines for replacement. Under this holistic approach, SoCalGas identifies system threats and risks such as bare steel, which is part of the DREAMS main replacement program. Bare steel has been recognized by PHMSA to be a high risk to the pipeline infrastructure . . .
²⁸⁸

As with all of UWUA's recommendations, UWUA purports a safety problem, then argues the only solution is one that ultimately requires the company to hire more represented employees. SoCalGas does not want to suggest that the population of our workforce that is union represented is not integral to the important work. However, SoCalGas must take a more holistic approach than what UWUA proposes, and must manage costs and explore all available resources (*e.g.*, new technology, non-represented employees/experts, vendor services) to manage its pipeline integrity program, including pipe replacements. Again, it was not SoCalGas' intent to continue litigating issues which it believed was clear to all Settling Parties (including UWUA) were resolved in this GRC. Also, as UWUA's recommendations once again deal with employment numbers at their core, this is another area where UWUA and SoCalGas can continue to work towards some resolution in the collective bargaining process.

²⁸⁶ UWUA opening comments at 14-15.

²⁸⁷ Ex. 52 SCG/Martinez at 5-6.

²⁸⁸ *Id.* at 6.

C. Conclusion

SoCalGas appreciates UWUA's explicit support for the SoCalGas TY 2016 Settlement Agreement. However, UWUA's attempt at seeking a litigated outcome on several of its contested recommendations should be denied to avoid conflict with joint representations UWUA made regarding the intent of Settling Parties. Further, UWUA's recommendations potentially impact the interests of other Settling Parties, who have all followed the Commission's rules and rulings regarding settlements and on briefing non-settled issues only. Therefore, UWUA's opening brief should not be used to undermine the settlement, prejudice other Settling Parties' interests, or caveat UWUA's support for the settlement. UWUA's workforce-related proposals should be raised in the context of collective bargaining. UWUA's opinions and recommendations on system safety and reliability issues on gas operations, and what information should be required or reported in the RAMP proceeding, can be raised in the open rulemaking (R.13-11-006), which addresses RAMP and other safety- and risk-related issues on a state-wide basis.

48. Conclusion

In conclusion, Applicants request that the Commission grant the motions for settlement filed September 11, 2015 by SDG&E, SoCalGas, ORA and a majority of active parties in the above-captioned consolidated proceeding. Pursuant to the TY 2016 Settlement Agreements, SDG&E's combined electric and gas authorized revenue requirement for TY 2016 will be approximately \$1,811 million, of which \$1,500 million is electric and \$311 million is gas, and SoCalGas' authorized revenue requirement for TY 2016 will be approximately \$2,219 million. For the attrition years 2017 and 2018, the settlement agreements set forth escalation rates of

3.5% for each year, for both SDG&E and SoCalGas. The Commission should reject all proposals that are inconsistent with the TY 2016 Settlement Agreements.

The Commission should adopt SDG&E's electric reliability incentive mechanism as proposed. CCUE's proposed modifications to SDG&E's performance-based ratemaking (PBR) would result in a "penalty-only" mechanism that would not incentivize or reward excellent performance, and should be rejected.

The Commission should reject TURN's proposal to change the ratemaking treatment of repairs as reflected in the prior GRC, as it contravenes longstanding regulatory policy and precedent on flow-through taxes, future test year ratemaking, and retroactive ratemaking. TURN's proposal to refund amounts to ratepayers through a rate base adjustment amounts to impermissible retroactive ratemaking and should be rejected.

The Commission should reject the proposals of CCUE, UWUA, and MGRA, which ignore the comprehensive evidentiary showing to demonstrate SDG&E and SoCalGas': (1) longstanding commitment to a well-developed safety culture; (2) safety philosophy and practices, and an operational commitment to risk management through targeted programs and initiatives; and (3) commitment to the continued growth and development of our existing risk management processes into a more fully integrated enterprise risk management (ERM) governance structure. CCUE's and UWUA's proposals are not supported by the record evidence and should be rejected. MGRA's proposals are also not supported by the evidence and would conflict with issues that are properly before the Commission in other proceedings.

Finally, pursuant to Rule 13.13, SDG&E and SoCalGas requests the opportunity to present oral argument before the Commission. SDG&E and SoCalGas may determine that oral

argument is not necessary after reviewing the Proposed Decision; until that time, SDG&E and SoCalGas hereby request oral arguments to preserve this right under Rule 13.13.

Respectfully submitted,

**SAN DIEGO GAS & ELECTRIC COMPANY
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