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Witness: Reginald M. Austria

Application of Southern California Gas Company (U 904 G) and San Diego Gas & Electric Company (U 902 G) to Proceed With Phase 2 of Their Pipeline Safety Enhancement Plan and Establish Memorandum Accounts to Record Phase 2 Costs.

Application 15-06-____
(Filed June 17, 2015)

CHAPTER 2
REGULATORY ACCOUNTING TREATMENT
PREPARED DIRECT TESTIMONY OF
REGINALD M. AUSTRIA
PHASE 2
PIPELINE SAFETY ENHANCEMENT PLAN

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

June 17, 2015

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PREPARED DIRECT TESTIMONY OF

REGINALD M. AUSTRIA

PHASE 2

PIPELINE SAFETY ENHANCEMENT PLAN

I. PURPOSE

The purpose of my testimony is to present the regulatory accounting treatment for the planning and engineering design costs associated with developing detailed project cost estimates for Phase 2 of the Pipeline Safety Enhancement Plan (PSEP) for Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E).¹ The estimated costs for planning and engineering design are \$22.2 million.

II. PHASE 2 PSEP COST ESTIMATE

The cost estimate associated with Phase 2 PSEP is derived from forecasted incremental planning and engineering design costs related to Phase 2 PSEP. The costs reflected herein include direct costs, adjusted for applicable overhead loaders, escalation, and other necessary costs associated with planning and engineering design efforts for the development of detailed project cost estimates that will be used in a future project cost recovery application.

Overhead rates are applied to each direct cost input, consistent with its classification as company labor, contract labor or purchased services and materials.² Overhead rates are estimated using Year 2014 actuals, but are only intended to be illustrative for forecasting

¹ Recovery of Phase 2 project cost revenue requirements will be included in a separate application (*i.e.*, to be filed in 2016), including the planning and engineering design costs recorded in the memorandum accounts as proposed herein. At this time, it is anticipated that Phase 2 PSEP may only apply to SoCalGas; however, the future recovery of Phase 2 PSEP costs will be allocated to both SoCalGas and SDG&E through system integration rates.

² The inclusion of overhead costs for incremental Capital and Operations and Maintenance (O&M) costs is consistent with other approved incremental projects such as SoCalGas’ and SDG&E’s advanced meter infrastructure projects and Phase 1 PSEP.

1 purposes. Actual overhead rates for each year will be used in the calculation of the actual costs
2 recorded to the proposed PSEP memorandum accounts described in Section III. Only overheads
3 associated with incremental labor and additional procurement activities are included in the total
4 cost estimate. The overhead-loaded constant-dollar values for the Phase 2 PSEP incremental
5 capital and O&M costs are escalated for inflation using the escalation factors published in IHS
6 Global Insight's First Quarter 2015 Utility Cost Forecast. In addition, the estimated costs
7 include other components required to support the investment during the construction period, such
8 as allowance for funds used during construction (AFUDC) and capitalized property taxes
9 associated with Phase 2 PSEP capital expenditures. Based on the assumptions and methodology
10 described above, the estimated fully loaded and escalated costs for Phase 2 PSEP are \$22.2
11 million.³

12 **III. REGULATORY ACCOUNT MECHANISM**

13 SoCalGas and SDG&E propose to establish a memorandum account, the Pipeline Safety
14 Enhancement Plan Memorandum Account ("PSEPMA"), at each respective company to record
15 actual planning and engineering design costs for Phase 2 PSEP. SoCalGas and SDG&E
16 generally would propose to establish a memorandum account via a Tier 2 advice letter filed
17 within 30 days of a California Public Utilities Commission (Commission) decision on the
18 application, with the effective date of the memorandum account as the date of the decision.
19 However, to begin work on Phase 2 PSEP in an expeditious manner, SoCalGas and SDG&E will
20 instead file a motion to establish the PSEPMA's and make them effective on the date the
21 application is filed for recording of actual costs in the memorandum accounts. SoCalGas and

³ These costs are associated with both Phase 2 PSEP capital and O&M projects. Only Phase 2 PSEP O&M costs will be recorded to the memorandum account; capital-related costs (*i.e.*, depreciation, return and taxes) associated with Phase 2 PSEP capital projects will not be recorded in the memorandum account until the PSEP asset is placed into service.

1 SDG&E propose that the disposition of the PSEPMA balances be addressed in connection with
2 its subsequent application addressing the recovery of overall Phase 2 PSEP project costs.

3 **IV. CONCLUSION**

4 The regulatory accounting treatment for planning and engineering design costs is
5 reasonable and should be adopted for Phase 2 PSEP, which will be addressed in a subsequent
6 application for the recovery of the overall revenue requirements associated with Phase 2 PSEP
7 project costs.

8 This concludes my prepared direct testimony.

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1 **V. WITNESS QUALIFICATIONS**

2 My name is Reginald M. Austria. I am employed by SoCalGas. My business address is
3 555 West Fifth Street, Los Angeles, California, 90013-1011. I am the Regulatory Accounts
4 Manager of the Regulatory Accounts group within the Accounting and Finance Department
5 which supports the regulatory accounting and reporting activities for SoCalGas. I have held my
6 current position since April 1, 2002. I am responsible for managing SoCalGas' authorized
7 regulatory balancing, tracking and memorandum accounts. My responsibilities include:
8 implementation of regulatory accounting procedures for compliance with Commission decisions,
9 quantifying and recording the monthly entries and adjustments to the Commission-authorized
10 regulatory account mechanisms, and managing the general administration of SoCalGas'
11 authorized regulatory accounts. Prior to April 1, 2002, I was the Utility Accounting Manager for
12 SoCalGas in which I had similar responsibilities to my current duties.

13 I received my Bachelor of Science degree in Accounting from California State
14 University, Long Beach in 1982. I am a Certified Public Accountant and a member of the
15 American Institute of Certified Public Accountants and the California Society of Certified Public
16 Accountants. I began my employment with SoCalGas in 1983 in the Accounting and Finance
17 Department. I have held various positions of increasing responsibility in Internal Audit, Cost
18 Accounting, General Accounting, and Utility Regulatory Accounting before assuming my
19 current position.

20 I have previously testified before the Commission.
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