

Application No: A.15-07-014
Exhibit No.: _____
Witness: Khai Nguyen

Application of Southern California Gas Company
(U 904 G) and San Diego Gas & Electric Company
(U 902 G) for Authority to Revise their Natural Gas
Rates Effective January 1, 2017 in this Triennial
Cost Allocation Proceeding Phase 2

A.15-07-014
(Filed July 8, 2015)

PREPARED SUPPLEMENTAL TESTIMONY OF
KHAI NGUYEN
SOUTHERN CALIFORNIA GAS COMPANY
SAN DIEGO GAS & ELECTRIC COMPANY

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

March 28, 2016

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1 **I. PURPOSE**

2 The purpose of my Prepared Supplemental Testimony on behalf of Southern California
3 Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E) is to respond to
4 items addressed in the March 8, 2016 Administrative Law Judge’s Ruling Directing the
5 Applicants to Serve Written Testimony Regarding Aliso Canyon (Ruling). Specifically, this
6 Supplemental Testimony provides the total amount of normal, previously approved costs to own
7 and operate the Aliso Canyon storage facility.

8 **II. BACKGROUND**

9 The Ruling requests that SoCalGas and SDG&E provide testimony regarding the
10 following:

11 For each of the years 2017, 2018, and 2019, the total amount of
12 normal, previously approved costs to own and operate Aliso
13 Canyon that SoCalGas seeks to recover through the rates and
14 charges adopted in this proceeding (A.15-07-014), including
15 depreciation, rate-of-return, taxes, operations and maintenance,
16 administrative and general, and all other direct and indirect costs to
17 own and operate Aliso Canyon (excluding costs incurred in
18 response to the recent gas leak).¹

19 The Ruling further clarifies that the same information should be provided for SDG&E.² SDG&E
20 does not have any normal, previously approved costs to own and operate Aliso Canyon, as the
21 storage facility is a SoCalGas asset.³ As explained below, SoCalGas can only provide normal,
22 previously approved costs for 2015, because that is the last year for which SoCalGas has an
23 approved General Rate Case (GRC) revenue requirement.

¹ Ruling at 2.

² *Id.* at 3.

³ In the ratemaking process, SDG&E customers are allocated a portion of SoCalGas’ storage costs in their rates, which is why the Prepared Supplemental Testimony of Jason Bonnett shows rate impacts for both utilities’ customers despite the only revenue requirement change occurring at SoCalGas.

1 As background, except for large incremental projects where approval is sought separately
2 (e.g. Advanced Meter, the North/South pipeline, etc.) SoCalGas and SDG&E's operating costs
3 are generally approved in GRC proceedings. The rates shown in Triennial Cost Allocation
4 Proceeding (TCAP) applications are illustrative rates that utilize the most recent GRC authorized
5 revenue requirement as of the date of their filing. It should be emphasized that SoCalGas and
6 SDG&E are not requesting approval for any revenue requirement, including for Aliso Canyon, in
7 this Phase 2 TCAP. These costs are approved outside of the TCAP process. The Phase 2 TCAP
8 simply develops a process for taking the previously approved costs and allocating those costs to
9 utility functions (e.g. transmission, storage, etc.) and customer classes (e.g. residential,
10 commercial and industrial, etc.). If SoCalGas and SDG&E's approved costs are increased or
11 decreased between TCAP cycles, rates are adjusted according to the process established by the
12 most recent TCAP.

13 SoCalGas and SDG&E's most recently approved GRC is their Test Year 2012 GRC,
14 approved by D.13-05-010, which set base rates for Test Year 2012 and implemented a post-test
15 year ratemaking mechanism for 2013-2015. When SoCalGas and SDG&E filed their TCAP
16 Phase 2 Application, A.15-07-014, the illustrative rates were shown at 2015 authorized levels,
17 consistent with past practice in TCAPs. Since the time of filing the Phase 2 TCAP, SoCalGas
18 and SDG&E's rates have remained at the same level while awaiting the outcome of their Test
19 Year 2016 GRC.

20 On November 14, 2014, SoCalGas and SDG&E filed an application (A.14-11-003/004)
21 with the Commission for authority to update its revenue requirement to adjust base rates for Test
22 Year 2016 and implement a post-test year ratemaking mechanism for 2017-2018. Per the rate
23 case plan, 2019 would be the Test Year for SoCalGas and SDG&E's next GRC application.

1 Therefore, SoCalGas and SDG&E do not have “previously approved” costs for 2017-2019.
2 SoCalGas and SDG&E are, however, currently operating at 2015 approved budgets, and will
3 continue to do so until a Commission decision in A.14-11-003/004. In conclusion, the normal,
4 previously approved costs to own and operate Aliso Canyon embedded in 2015 approved rates
5 can be estimated in order to respond to the Ruling. The methodology for doing so is described in
6 the following section.

7 **III. TOTAL BASE MARGIN**

8 SoCalGas and SDG&E’s Test Year 2012 GRC, approved by D.13-05-010, established
9 2012 authorized revenue requirements of \$1,958.7 million and \$292.3 million (gas) respectively.
10 Of the total authorized revenue requirement, \$1,855.6 million and \$286.9 million was authorized
11 to be collected from ratepayers through rates (base margin) for SoCalGas and SDG&E (gas),
12 respectively. When taking into account post-test year attrition mechanisms as well as a change
13 in SoCalGas and SDG&E’s authorized rate of return,⁴ SoCalGas and SDG&E’s 2015 authorized
14 base margins are \$1,984.2 million and \$306.4 million (gas) respectively. While SoCalGas and
15 SDG&E await a Commission decision in the Test Year 2016 GRC, these are the base margins
16 used to set current transportation rates, subject to true-up.

17 **IV. COSTS TO OWN AND OPERATE ALISO CANYON**

18 As stated previously, SDG&E does not have any normal, previously approved costs to
19 own and operate Aliso Canyon since Aliso Canyon is a SoCalGas asset. Using the approach
20 described below, SoCalGas’ normal, previously approved costs to own and operate Aliso
21 Canyon at 2015 rate levels are estimated to be \$35.2 million. This includes depreciation, rate-of-
22 return, taxes, operations and maintenance, administrative and general, and all other direct and
23 indirect costs to own and operate Aliso Canyon (excluding costs incurred in response to the

⁴ See D.12-12-034.

1 recent gas leak). Subtracting this amount from SoCalGas' 2015 authorized base margin yields
 2 an adjusted 2015 base margin of \$1,949.0 million.

3 The total costs to own and operate Aliso Canyon are not explicitly identified in D.13-05-
 4 010. In order to impute this number, the Aliso Canyon-related base margin for the test year 2012
 5 was extracted from the 2012 Results of Operations (RO) model used in D.13-05-010. Similar to
 6 the methodology used to calculate the total company authorized 2015 base margin, the post-test
 7 year attrition mechanism and authorized rate of return were applied to the Aliso Canyon test year
 8 base margin to get to the 2015 authorized base margin for Aliso Canyon. The following table
 9 provides a summary of SoCalGas' 2015 authorized base margin for Aliso Canyon.

10 **TABLE 1**
 11 **2015 Authorized Base Margin for Alison Canyon**

Line	Description	Test Year		2013 Cost of	2013	2014	2015
		2012	2013	Capital	Revised		
				Adjustment			
1	O&M	\$ 11.3	\$ 11.6	\$ -	\$ 11.6	\$ 11.9	\$ 12.2
2	<u>Capital Related Expenses</u>						
3	Depreciation	8.4	8.6	-	8.6	8.9	9.1
4	Taxes	4.2	4.3	(0.1)	4.2	4.3	4.4
5	Return	9.4	9.7	(0.7)	9.0	9.2	9.5
6	Total Capital Expenses	22.0	22.6	(0.8)	21.8	22.4	23.0
7	Base Margin	<u>\$ 33.2</u>	<u>\$ 34.1</u>	<u>\$ (0.8)</u>	<u>\$ 33.3</u>	<u>\$ 34.2</u>	<u>\$ 35.2</u>
8	Escalation Factors		2.65%			2.75%	2.75%

12
 13 **V. QUALIFICATIONS**

14 My name is Khai Nguyen. My business address is 555 West Fifth Street, Los Angeles,
 15 California, 90013-1011. I am currently employed by SoCalGas as the General Rate Case
 16 Financial Analysis Manager responsible for developing the revenue requirement forecasts for
 17 both SDG&E and SoCalGas.

1 I received a Bachelor of Science Degree in Accounting from California State University,
2 Northridge. I am a Certified Public Accountant (CPA) and a member of the American Institute
3 of Certified Public Accountants (AICPA) and the California Society of Certified Public
4 Accountants. I was first employed by SoCalGas in 1998 and have held various positions in the
5 Regulatory Affairs and Accounting and Finance areas of the company; including Cost
6 Accounting, Affiliate Billing & Costing, and Financial Systems. I have previously testified
7 before the Commission.

8 This concludes my prepared Supplemental Testimony.