CHAPTER IV

DIRECT TESTIMONY OF

KAREN C. CHAN

ON BEHALF OF

SOUTHERN CALIFORNIA GAS COMPANY

AND

SAN DIEGO GAS & ELECTRIC COMPANY

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

March 30, 2017
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I.  PURPOSE

The purpose of my direct testimony on behalf of Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E) is to present the revenue requirements resulting from the capital and operations and maintenance (O&M) forecasts of the in-scope Pipeline Safety Enhancement Plan (PSEP) Phase 1B and Phase 2 projects. SoCalGas is seeking approval to recover in rates the forecasted revenue requirement of $531.0 million for the period 2017 to 2090.

II.  REVENUE REQUIREMENT

The revenue requirement associated with the PSEP projects is based on the forecasted incremental capital and O&M costs described in the Prepared Direct Testimony of Ronn Gonzalez (Chapter II). The capital and O&M costs presented in this application include overhead\(^1\), escalation, and other necessary costs to support the investment during construction and over its useful life. A summary of the fully loaded and escalated costs of the in-scope PSEP projects is shown in Table 1, and the illustrative revenue requirement resulting from these fully loaded costs are shown in Table 2 below.

The methodology to determine the forecasted revenue requirement involves several steps and considerations. First, the incremental capital and O&M costs are adjusted to include applicable overheads, which are applied to each direct cost input consistent with its classification as company labor, contract labor or purchased services and materials. SoCalGas used December 2016 Internal Planning rates for illustrative purposes in this application, however actual overheads will be applied in the determination of the actual revenue requirement for true-up purposes. Next, the overhead-loaded, constant-dollar values for incremental capital and O&M

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\(^1\) Also referred to as “indirect costs.” Overhead costs are costs that indirectly support the business operations of SoCalGas and SDG&E and are included for cost recovery.
costs are escalated for inflation. SoCalGas applied the indices published in IHS Global Insight’s 3rd Quarter 2016 Utility Cost Forecast for this application. The revenue requirement calculation assumes all capital costs, including direct costs, overhead, escalation, and Allowance for Funds Used during Construction (AFUDC), are recovered through depreciation over the current authorized book-life of the assets. Consistent with the current ratemaking treatment adopted by the Commission, the forecasted capital costs do not include costs of removal associated with the existing infrastructure; these costs are accounted for in already authorized depreciation rates. In addition to all incremental capital and O&M expenditures, the revenue requirement includes other costs required to support the investment, such as the authorized return on investment, taxes, and franchise fees and uncollectibles. The revenue requirement calculation uses the current authorized rate of return of 8.02%.2

Table 1 below summarizes the fully loaded and escalated costs, including capitalized property tax and AFUDC.

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<tbody>
<tr>
<td>Capital</td>
<td>0.9</td>
<td>6.2</td>
<td>11.7</td>
<td>7.0</td>
<td>75.7</td>
<td>60.9</td>
<td>27.9</td>
<td>7.1</td>
<td>197.5</td>
</tr>
<tr>
<td>O&amp;M</td>
<td>-</td>
<td>-</td>
<td>6.5</td>
<td>0.8</td>
<td>35.2</td>
<td>14.5</td>
<td>-</td>
<td>-</td>
<td>57.0</td>
</tr>
<tr>
<td>Total</td>
<td>0.9</td>
<td>6.2</td>
<td>18.3</td>
<td>7.8</td>
<td>110.9</td>
<td>75.4</td>
<td>27.9</td>
<td>7.1</td>
<td>254.5</td>
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</table>

Table 2 summarizes the forecasted revenue requirement for SoCalGas to test or replace the in-scope PSEP projects. In addition to the fully loaded and escalated costs shown in Table 1, this revenue requirement captures other capital-related costs, such as income taxes and return needed to support the investment over its useful life.

2 SoCalGas’ rate of return was authorized in the company’s 2013 Test Year Cost of Capital proceeding in Decision 12-12-034.
3 Additional details may be found in WP-IV-3-1.
4 Additional details may be found in WP-IV-4-1.
As the projects are completed, SoCalGas will calculate and record the actual capital and O&M costs and associated revenue requirement in the approved regulatory accounts. To the extent that actual costs of these Phase 1B projects are incurred and any 50% interim recovery realized in rates prior to the Commission’s approval of this application, SoCalGas will reduce the total forecasted revenue requirement presented in this application by the amount recovered under the existing mechanism prior to implementing in customers’ rates. This approach is reasonable to avoid duplicate rate recovery. In addition, should there be differences between actual and authorized revenue requirements, these differences will be addressed, as needed, in SoCalGas’ Consolidated Advice Letter Rate Filing for rates effective January 1 of the following year.

Further details of the proposed regulatory accounting treatment, including the accounting treatment of Phase 1 costs subject to 50% interim rate recovery under D.16-08-003, are discussed in the Prepared Direct Testimony of Reginald Austria (Chapter V).

The details of the illustrated rate impact based on the forecasted revenue requirement are discussed in the Prepared Direct Testimony of Sharim Chaudhury (Chapter VI).

Table 2
Revenue Requirement Summary
(In Millions of Dollars, Nominal)

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<thead>
<tr>
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<tr>
<td>Distribution</td>
<td>-</td>
<td>-</td>
<td>2.0</td>
<td>11.3</td>
<td>20.3</td>
<td>24.9</td>
<td>25.4</td>
<td>24.7</td>
<td>23.9</td>
<td>23.2</td>
<td>275.5</td>
<td>431.1</td>
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<tr>
<td>Backbone Transmission</td>
<td>6.1</td>
<td>0.7</td>
<td>32.8</td>
<td>15.0</td>
<td>1.6</td>
<td>1.6</td>
<td>1.5</td>
<td>1.5</td>
<td>1.4</td>
<td>21.7</td>
<td>85.6</td>
<td></td>
</tr>
<tr>
<td>Local Transmission</td>
<td>0.7</td>
<td>0.1</td>
<td>3.6</td>
<td>1.9</td>
<td>0.4</td>
<td>0.4</td>
<td>0.4</td>
<td>0.4</td>
<td>0.4</td>
<td>5.6</td>
<td>14.3</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>6.8</td>
<td>0.8</td>
<td>38.4</td>
<td>28.2</td>
<td>22.4</td>
<td>26.9</td>
<td>27.4</td>
<td>26.6</td>
<td>25.8</td>
<td>25.0</td>
<td>302.8</td>
<td>531.0</td>
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III. WITNESS QUALIFICATIONS

My name is Karen C. Chan, and I am the Financial and Strategic Analysis Manager for SoCalGas. My business address is 555 West Fifth Street, Los Angeles, California 90013-1011.

I received a Bachelor of Science degree in Accounting from California State Polytechnic University, Pomona in 2008 where I graduated summa cum laude. I am a Certified Public Accountant and a Certified Internal Auditor.

In my career, my roles have included conducting financial statement and internal controls audits and reviews; conducting fraud interviews and walkthroughs of business cycles; risk assessing financial and operational processes in areas such as inventory management, cash controls, natural gas trading, and capital project management; and I have provided financial expertise for regulatory concepts including revenue requirement, return on rate base, and rate recovery to aid clients with decision making and business case development.

I have been employed by SoCalGas in the Financial and Strategic Analysis department since February 2013, and am responsible for overseeing the financial analysis and development of revenue requirements in support of new investment opportunities.

Prior to joining SoCalGas, I was employed with Sempra Energy where I held positions of increasing responsibility in Audit Services. Prior to Sempra Energy, I was employed by Deloitte & Touche, LLP as an auditor.

I have not previously testified before the Commission.

This concludes my direct testimony.