

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

Application of Southern California Gas Company (U 904 G) and San Diego Gas & Electric Company (U 902 G) for (A) Approval of the Forecasted Revenue Requirement Associated with Certain Pipeline Safety Enhancement Plan Projects and Associated Rate Recovery, and (B) Authority to Modify and Create Certain Balancing Accounts

Application 17-03-021  
(Filed on March 30, 2017)

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AND SAN DIEGO GAS & ELECTRIC COMPANY (U 902 G) IN SUPPORT OF THEIR  
APPLICATION FOR (A) APPROVAL OF THE FORECASTED REVENUE  
REQUIREMENT ASSOCIATED WITH CERTAIN PIPELINE SAFETY  
ENHANCEMENT PLAN PROJECTS AND ASSOCIATED RATE RECOVERY, AND  
(B) AUTHORITY TO MODIFY AND CREATE CERTAIN BALANCING ACCOUNTS**

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## **SUMMARY OF RECOMMENDATIONS**

### **Legal Standards**

1. Apply the preponderance of the evidence standard of proof;

### **Compliance**

2. Find that SoCalGas and SDG&E's plans to execute the twelve Phase 1B and Phase 2A safety enhancement projects presented in this Application are consistent with Decision ("D.") 14-06-007 and Public Utilities Code sections 957 and 958;
3. Find that Applicants may remediate the Line 127 project presented herein through non-destructive examination ("NDE") rather than replacement;
4. Find the disallowances previously ordered by the Commission have been properly excluded from Applicants' forecasts;

### **SoCalGas and SDG&E's Pipeline Safety Enhancement Plan**

5. Approve Applicants' proposed Phase 2A Decision Tree as presented in the Application;
6. Find it is reasonable for Applicants to address the incidental and accelerated mileage as included within the scope of projects in this Application;
7. Approve Applicants' forecasted capital costs associated with completion of the twelve projects presented in the Application in the amount of \$197.5 million;
8. Approve Applicants' forecasted operations and maintenance ("O&M") costs associated with completion of the twelve projects presented in the Application in the amount of \$57 million;

### **Regulatory Accounting Treatment**

9. Approve Applicants' request for two-way balancing accounting treatment of forecasted and actual costs associated with the twelve projects, on an aggregate basis, as presented in this Application;
10. Authorize Applicants to subdivide the existing Safety Enhancement Capital Cost Balancing Accounts ("SECCBA") accounts into the two subaccounts proposed: Phase 1A Subaccount and Phase 1B Subaccount;

11. Authorize Applicants to subdivide the existing Safety Enhancement Expense Balancing Accounts (“SEEBA”) accounts into the two subaccounts proposed: Phase 1A Subaccount and Phase 1B Subaccount;
12. Authorize Applicants to create two new balancing accounts for Phase 2 – SECCBA-P2 and SEEBA-P2 – and to transfer costs tracked in the Pipeline Safety Enhancement Memorandum Accounts (“PSEPMAs”) into these new balancing accounts;
13. Approve for filing with the Commission the proposed preliminary statements (appended to the prepared direct testimony of Reginald Austria) for the authorized balancing accounts;

### **Revenue Requirement and Cost Allocation**

14. Find that Applicants’ cumulative forecasted 2019 revenue requirement associated with completion of the twelve projects in the Application – approximately \$44.6 million for SoCalGas and \$562,000 for SDG&E – is just and reasonable;
15. Authorize Applicants to recover the cumulative forecasted 2019 revenue requirement associated with completion of the twelve projects in the Application in the amounts of approximately \$44.6 million for SoCalGas and \$562,000 for SDG&E;
16. Approve the proposal of SoCalGas and SDG&E to allocate costs on a functional basis such that costs functionalized as high pressure distribution are allocated using the existing marginal demand measures for high pressure distribution;
17. Authorize Applicants to implement in transportation rates the revenue requirements associated with the twelve projects proposed in the Application effective January 1 of the year following a decision on this Application via Tier 1 Advice Letter;
18. Authorize Applicants to balance, on an aggregate basis, the actual capital and O&M costs with the associated forecasted revenue requirements and to address any differences, as appropriate, in the Applicants’ Annual Regulatory Account Balance Update Tier 2 Advice Letter filing with the Commission;
19. Authorize Applicants to recover the ongoing capital-related revenue requirements associated with capital expenditures approved in this proceeding through a Tier 2 Advice Letter until such costs are incorporated in base rates in connection with Applicants’ next General Rate Case proceeding; and
20. Provide such other and further ratemaking relief relating to PSEP as the Commission deems necessary or appropriate.

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Pursuant to Rule 13.11 of the Rules of Practice and Procedure of the California Public Utilities Commission (“Commission”), and the Scoping Memo and Ruling of Assigned Commissioner dated August 28, 2017 (“Scoping Memo”)<sup>1</sup>, Southern California Gas Company (“SoCalGas”) and San Diego Gas & Electric Company (“SDG&E”) (jointly, “Applicants”) hereby submit this Reply Brief in support of their Application for (“A.”) Approval of the Forecasted Revenue Requirement Associated with Certain Pipeline Safety Enhancement Plan Projects and Associated Rate Recovery, and (B.) Authority to Modify and Create Certain Balancing Accounts dated March 30, 2017.

**I. INTRODUCTION.**

The standard of proof applicable to this proceeding is preponderance of the evidence, which means the prevailing party “must present more evidence that supports the requested result than would support an alternative outcome,”<sup>2</sup> and must present “such evidence as, when weighed with that opposed to it, has more convincing force and the greater probability of truth.”<sup>3</sup>

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<sup>1</sup> Scoping Memo and Ruling of Assigned Commissioner dated August 28, 2017 (“Scoping Memo”) at p. 7.

<sup>2</sup> D.14-07-007, mimeo., at p. 13.

<sup>3</sup> D.14-07-007, mimeo., at p. 13; D.08-12-058 citing Witkin, Calif. Evidence, 4<sup>th</sup> Edition, Vol. 1, 184.

While The Utility Reform Network and Southern California Generation Coalition (“TURN/SCGC”) and the Office of Ratepayer Advocates (“ORA; with TURN/SCGC, “Intervenors”) offer “alternative outcomes,” none of their proposals meet the preponderance of the evidence standard. Intervenors propose various methodologies for estimating what they argue to be the reasonable costs to complete the twelve projects presented in this Application with the apparent purpose of reducing the amount authorized by the Commission for Applicants to complete these safety enhancement projects. The resulting forecasts they propose for Commission adoption do not comply with the Commission’s directive that the cost forecasts be based on “detailed plans.”<sup>4</sup> Indeed, Intervenors’ methodologies consider only 1-4 project characteristics (length and/or diameter, in the case of ORA; and length, diameter, terrain, and/or degree of urbanization (i.e., density) in the case of TURN/SCGC) that fall far short of “detailed plans.” Intervenors readily admit that the “detailed plans” submitted by Applicants – following extensive engineering, design, and planning work by experienced professionals for each unique project – are largely irrelevant to the estimates they derive from their non-project-specific methodologies.<sup>5</sup>

Intervenors additionally seek to overturn the Commission’s authorization of two-way balancing account treatment for PSEP without offering any justification for doing so. By coupling this proposed regulatory accounting change with substantially lower forecasts that are insufficient to complete the specific projects presented in this Application, Intervenors seek to impose a penalty on Applicants, notwithstanding the Commission’s admonition otherwise. In D.14-06-007 (“PSEP Decision”), the Commission stated unequivocally:

*This decision does not propose or adopt any penalty for SDG&E or SoCalGas. We do however identify certain costs that should be absorbed by shareholders instead of ratepayers. Consistent with long-standing ratemaking principles, ratepayers will generally bear the reasonable costs for a safe and reliable natural gas transmission system.*<sup>6</sup>

To support their untenable position, TURN/SCGC make sweeping statements about the purpose of balancing accounts in their opening brief that either are not supported by citations to authority

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<sup>4</sup> D.14-06-007, mimeo., at p. 23.

<sup>5</sup> Hearing Transcript (Yap) at pp. 141:18-25, 149:12-152:7; (Molla) at pp. 245:11-24, 269:2-18.

<sup>6</sup> D.14-06-007, mimeo., at p. 31.



at all or pertain to Pacific Gas and Electric Company (“PG&E”).<sup>7</sup> TURN/SCGC highlight that PG&E’s transmission integrity management program (“TIMP”) was denied balancing account treatment,<sup>8</sup> but ignore that Applicants’ integrity management programs (including TIMP) *are* subject to two-way balancing account treatment.<sup>9</sup> Similarly, TURN/SCGC note that PG&E does not have two-way balancing account treatment for their PSEP, but ignore the fact that Applicants’ PSEP does have two-way balancing account treatment.<sup>10</sup> Indeed, most of the projects presented in this application are already subject to two-way balancing account treatment under the Commission’s prior decisions. That the Commission determined it was appropriate to apply different regulatory mechanisms to two differently situated utilities is not surprising.<sup>11</sup> In any event, Intervenor’s proposals to reverse prior Commission decisions that approved two-way balancing account treatment for Phase 1 of SoCalGas and SDG&E’s PSEP, in order to impose one-way balancing treatment on a subset of Phase 1 projects solely because SoCalGas and SDG&E presented detailed cost estimates of those projects for Commission review, is untenable and should not be adopted.

Nowhere is it more evident that Intervenor’s intent is punitive than in their shared position against two-way balancing account treatment for operations and maintenance (“O&M”) costs, which effectively constitutes a cap. As TURN/SCGC acknowledge,<sup>12</sup> O&M costs are a pure pass-through.<sup>13</sup> While capital costs have a Commission-authorized rate of return associated with them, O&M costs do not. Imposing a cap – especially one that is significantly lower than Applicants’ historical actual cost of hydrotesting<sup>14</sup> – would serve no purpose but to penalize Applicants for executing safety enhancement work and is contrary to the Commission’s

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<sup>7</sup> Opening Brief of The Utility Reform Network and The Southern California Generation Coalition Concerning the Phase 1B and 2A Pipeline Safety Enhancement Projects (“TURN/SCGC Opening Brief”) at pp. 4, 7-16.

<sup>8</sup> TURN/SCGC Opening Brief at pp. 9-10.

<sup>9</sup> D.13-05-010, mimeo, at p. 1094 (COL 24, 25).

<sup>10</sup> D.14-06-007, mimeo., at pp. 22, 26-27.

<sup>11</sup> Based on differing factual findings, the Commission determined to treat differently situated utilities differently. *See, e.g.*, D.12-12-030, mimeo., at p. 121 (Conclusion of Law 13): “It is reasonable for PG&E’s shareholders to absorb the portion of the Implementation Plan costs which were caused by imprudent management.” *See also id.* (Conclusion of Law 8): “TURN’s proposal to disallow all Implementation Plan costs should be denied.”

<sup>12</sup> TURN/SCGC Opening Brief at p.14.

<sup>13</sup> TURN/SCGC Opening Brief at p. 14; Hearing Transcript (Yap) at pp. 180:27- p.181:10.

<sup>14</sup> Opening Brief of the Office of Ratepayer Advocates in A.17-03-021 (Mar. 26, 2018) (“ORA Opening Brief”) at p.2.

expressly stated intent in the PSEP Decision that “ratepayers will generally bear the reasonable costs for a safe and reliable natural gas transmission system.”<sup>15</sup>

To the extent Intervenor contend this dramatic reversal is necessary to ensure ratepayers continue to pay only the reasonable costs of implementing this mandated safety enhancement work, the same objective can be accomplished through far less punitive means — the Commission may implement a process to review any costs that exceed the authorized revenue requirement, as it has done in other instances where it has adopted two-balancing account treatment.<sup>16</sup> TURN/SCGC propose this be accomplished through a formal application process;<sup>17</sup> however, consistent with prior Commission precedent, a more-efficient advice letter filing process is appropriate, particularly in light of the detailed scopes of work and forecasts presented by Applicants for Commission and Intervenor review in this proceeding.<sup>18</sup> A stand-alone advice letter filing, consistent with the regulatory mechanisms adopted by the Commission for other safety enhancement programs, strikes the right balance between affording the Commission and Intervenor an opportunity to review the reasonableness of costs while complying with the Commission’s directive to transition away from the after-the-fact reasonableness review process toward a forward-looking forecast ratemaking based on detailed cost estimates.

## **II. CONTINUING TWO-WAY BALANCING ACCOUNT TREATMENT FOR PHASE 2 OF PSEP IS AMPLY SUPPORTED BY THE RECORD, PUBLIC POLICY AND COMMISSION PRECEDENT.**

### **A. The Commission Previously Determined Two-Way Balancing Account Treatment Is Appropriate for PSEP.**

When the Commission authorized Phase 1 in the PSEP Decision, the Commission determined that two-way balancing account treatment is appropriate for PSEP.<sup>19</sup> While two-way balancing account treatment was specifically ordered for Phase 1, because only Phase 1 was

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<sup>15</sup> D.14-06-007, mimeo., at p. 31.

<sup>16</sup> D.13-05-010, mimeo., at pp. 387, 398 (granting two-way balancing account treatment for TIMP and DIMP, subject to an advice letter process for amounts incurred over the authorized level).

<sup>17</sup> TURN/SCGC Opening Brief at pp. 16-17.

<sup>18</sup> Opening Brief of Southern California Gas Company (U 904 G) and San Diego Gas & Electric Company (U 902 G) in Support of Their Application for (a) Approval of the Forecasted Revenue Requirement Associated with Certain Pipeline Safety Enhancement Plan Projects and Associated Rate Recovery, and (b) Authority to Modify and Create Certain Balancing Accounts (“Applicants’ Opening Brief”) at p. 34.

<sup>19</sup> D.14-06-007, mimeo., at pp. 22, 26-27.

authorized by the Commission at the time, the PSEP Decision does not directly address two-way balancing account treatment with respect to Phase 2. There is no indication that the Commission intended the status quo of two-way balancing account treatment to apply just Phase 1 of PSEP. The Commission has not signaled an intent for the transition to forecast ratemaking through this Application and subsequent general rate cases to affect the previously authorized two-way balancing account treatment for PSEP. Intervenors have failed to demonstrate that a reversal of the status quo is necessary or appropriate.

As noted above, the nine Phase 1 projects presented for review in this proceeding are already subject to two-way balancing account treatment pursuant to the PSEP Decision.<sup>20</sup> These projects are included in this proceeding in order to provide Intervenors with what they sought – an opportunity to review Applicants’ scope of work for addressing the projects prior to construction.<sup>21</sup> Having had the opportunity to review the detailed scopes of work for the twelve projects, Intervenors have not taken issue with any portion of them. Intervenors agree that all the proposed work should be performed and either agree with (TURN/SCGC) or do not oppose (ORA) Applicants’ proposal for non-destructive examination for Line 127.<sup>22</sup>

The best way to ensure the scope of work for each project can be safely executed as soon as practicable, while being sure “to strike a fair balance between ratepayers and shareholders” that was ordered in the PSEP Decision<sup>23</sup> is to continue two-way balancing account treatment for Phase 2 of PSEP.

**B. TURN/SCGC’s Proposal to Treat Twelve Projects Like a Utility’s Multi-Year General Rate Case Is Patently Unreasonable.**

In their most recent general rate case (“GRC”) filings, SDG&E requested authority to implement a \$2.199 billion<sup>24</sup> revenue requirement and SoCalGas requested authority to implement a \$2.99 billion revenue requirement for 2019, the first year of the GRC cycle. This

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<sup>20</sup> D.14-06-007, mimeo., at pp. 22, 26-27.

<sup>21</sup> Motion for Official Notice in Support of Opening Brief of Southern California Gas Company (U 904 G) and San Diego Gas & Electric Company (U 902 G) in Support of Their Application for (a) Approval of the Forecasted Revenue Requirement Associated with Certain Pipeline Safety Enhancement Plan Projects and Associated Rate Recovery, and (b) Authority to Modify and Create Certain Balancing Accounts (“MON Opening Brief”), Ex. A at p. 10; *see also* Applicants’ Opening Brief at p. 15.

<sup>22</sup> Ex. TURN/SCGC-01 (Yap) at p. 8; ORA Opening Brief at p. 14.

<sup>23</sup> D.14-06-007, mimeo., at pp. 19, 22.

<sup>24</sup> SDG&E seeks \$433 million for gas and \$1.766 billion for electric. A.17-10-007, mimeo., at p. 1.

revenue requirement reflects the reasonable costs of each utility's base business activities, which include operations, facilities, infrastructure, and other functions and activities necessary to provide utility service to their customers for the year.<sup>25</sup> TURN/SCGC's proposal that just twelve PSEP projects – with a combined revenue requirement of \$562,000 for SDG&E and \$44.6 million for SoCalGas – be treated like the GRC<sup>26</sup> is patently unreasonable. In the GRC, if one particular activity or project runs over budget one year, dollars can be reallocated to this activity or project from any one or multiple other activities or projects during the GRC cycle. There is no opportunity for this type of reallocation to occur when there are only twelve discrete projects presented for Commission review in a standalone application. Moreover, the GRC is largely based on historical trends, which is not a reliable measure when a small number of unique projects are forecasted based on detailed engineering, design, and planning, as is the case with these twelve projects.<sup>27</sup> Because the GRC is comprised of numerous activities, projects and programs, the utilities have significant flexibility using GRC authorized revenues to manage cost over and under runs. That is simply not the case when a utility is executing 12 projects, and has already executed them through the detailed engineering, design and planning stages of project execution and developed detailed pre-construction cost estimates.

Furthermore, even programs approved in Applicants' prior GRCs, and included in the current GRC, have been accorded two-way balancing account treatment. TURN/SCGC argue that PG&E's TIMP program was denied two-way balancing account treatment,<sup>28</sup> but fail to note that the Commission was concerned that PG&E might not recover the necessary funds to comply with new TIMP requirements and thus authorized a memorandum account so as to "preserve [for PG&E] the opportunity to seek recovery of these costs at a later date."<sup>29</sup> Even more relevant to this proceeding, TURN/SCGC also fail to note that Applicants' TIMP (and similar integrity management programs for distribution and storage, which are discussed further *infra*) is subject

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<sup>25</sup> Note that Applicants have sought a third attrition year so as to have a four-year rate cycle in the general rate case. *See* A.17-10-007, mimeo., at p. 6.

<sup>26</sup> TURN/SCGC Opening Brief at pp. 42-43.

<sup>27</sup> In the GRC this is referred to as a "zero-base" forecast. Applicants' PSEP proposal in the 2019 GRC pursuant is also zero-based. *See* MON Reply Brief, Ex. A at p. RDP-A-22 (Revised Direct Testimony of Rick Phillips, Pipeline Safety and Enhancement Plan). This is contrary to Witness Yap's testimony. Ex. TURN/SCGC-01 (Yap) at pp. 5-6.

<sup>28</sup> TURN/SCGC Opening Brief at pp. 9-10.

<sup>29</sup> D.16-06-056, mimeo., at p. 254.

to two-way balancing account treatment.<sup>30</sup> Contrary to the cherry-picked examples TURN/SCGC cite to support their argument that two-way balancing account treatment is solely for new programs where costs are uncertain,<sup>31</sup> TIMP is not a new program.<sup>32</sup>

In approving the Natural Gas Leak Abatement Program Consistent with Senate Bill 1371 in D.17-06-015 handed down on June 15, 2017, the Commission explained the purpose of various different regulatory accounting mechanisms:

- A one-way cost balancing account ensures that if a utility spends less on a particular program than the amount authorized, it credits the remaining budget back to ratepayers.
- Two-way balancing accounts authorize a utility to collect more or less than the authorized revenue requirement for a given program depending on actual costs, and are intended to ensure that the utility does not make or lose money due to uncertainties in the scope of work.

The Commission typically reviews the entries and the net balance in a balancing account, and authorizes recovery from or refunds to ratepayers on an annual basis. A memorandum account, on the other hand, allows the utility to book amounts for tracking purposes, in order to later ask the Commission for recovery.<sup>33</sup>

Whether the Commission orders two-way balancing account treatment for a program depends on the particular facts presented. PSEP is not unlike Applicants' integrity programs for transmission (TIMP), distribution ("DIMP"), and storage ("SIMP"), all of which have two-way balancing account treatment.<sup>34</sup> TIMP and DIMP are mandatory programs that require

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<sup>30</sup> D.13-05-010, mimeo, at p. 1094 (COL 24, 25) (TIMP and DIMP); D.16-06-054, mimeo, at p. 323 (COL 72) (SIMP).

<sup>31</sup> TURN/SCGC Opening Brief at pp. 10-11

<sup>32</sup> D.13-05-010, mimeo, at p. 381 n.64 ("The TIMP was established as the result of the Pipeline Safety Improvement Act of 2002 and the enactment of 49 CFR Part 192 Subpart O.")

<sup>33</sup> D.17-06-015, mimeo., at p. 131.

<sup>34</sup> D.13-05-010, mimeo, at p. 1094 (COL 24, 25) (TIMP and DIMP); D.16-06-054, mimeo, at p. 323 (COL 72) (SIMP). In support of their argument that the costs of hydrotesting and replacement should be knowable, and thus not afforded two-way balancing account treatment, TURN/SCGC state that "hydrotesting or replacing natural gas transmission pipelines... is the type of work that the company has performed for decades as part of its construction and maintenance of the gas transmission system." TURN/SCGC Opening Brief at pp. 10, 12. However, this is patently untrue. As an initial matter, pipeline construction is not the same as pipeline testing or replacement. Many of the pipelines that are subject to PSEP are old – in this proceeding alone 90% of total mileage of the Phase 1B pipelines proposed for replacement are over 80 years old. Ex. SCG-03 (Gonzalez) at p. 5. Moreover, the Commission has never ordered this type of pipeline assessment work on such a massive scale. D.12-12-030, at p. 86 (noting "the unprecedented number of pressure tests and pipeline replacement construction that will be performed in the upcoming years"). Re-testing pipeline (i.e., pressure testing) also is not a

compliance within certain time periods for safety reasons.<sup>35</sup> Similarly, Applicants did not propose to execute PSEP; it was ordered by the Commission and has been codified into law.<sup>36</sup> PSEP is further akin to Applicants' integrity management programs in that all programs involve pipeline assessment, which inherently involves a level of uncertainty. No matter the diligence in scoping a project, the conditions found underground are largely unknown until the pipeline is excavated.<sup>37</sup> A two-way balancing account allows the operator the flexibility to adjust to unanticipated changes and conditions while still completing the mandated work.

If there were a very large number of projects, significantly more than the twelve discrete projects presented in this Application or the 22-29 projects presented in Applicants' pending GRC,<sup>38</sup> balancing account treatment might not be so essential, because there might be a sufficient number of projects for those that come in under the forecast and those that come in over the forecast to offset the differences. Without a very large number of projects<sup>39</sup> for this offsetting of costs to occur, two-way balancing account treatment is necessary to achieve the Commission's goal of having ratepayers bear the reasonable costs of safety enhancement work.

As ORA's Witness Stannik admitted under oath,

As far as what the projects will ultimately cost, no one knows for certain what those will cost, not me, not anyone here. It won't be 100 percent certain until those are done. So I wouldn't want to say I know for sure or I can even be quite sure exactly what those are going to cost when they're completed because no one can.<sup>40</sup>

Based on the foregoing uncertainties associated with execution of PSEP, the limited number of projects presented, and the Commission's determination that customers should bear

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regular part of Applicants' base business, except in connection with Applicants' integrity management programs like TIMP and DIMP. These integrity management programs precede PSEP and have two-way balancing account treatment. To this extent, TURN/SCGC's statement that "it is difficult to understand why pipeline replacement and testing projects should be more 'difficult' to estimate than of the multiple other pipeline-related projects that the utilities fund through forecast test year ratemaking" is also misleading. TURN/SCGC Opening Brief at p. 13.

<sup>35</sup> D.13-05-010, mimeo, at p. 381 n.64; D.16-06-054 at p. 245.

<sup>36</sup> D.11-06-017, mimeo., at pp. 1-11; Pub. Util. Code §§ 957, 958.

<sup>37</sup> MON Reply Brief, Ex. C at pp. 33-34 (Chapter II Direct Testimony of Rick Phillips).

<sup>38</sup> MON Reply Brief, Ex. A (A.17-10-008, Revised Testimony of Rick Phillips (Pipeline Safety Enhancement Plan)). The number of projects is dependent on whether the Commission authorizes an additional attrition year, as requested by Applicants.

<sup>39</sup> Witness Gonzalez estimated that 200-300 projects would be better suited for this. Hearing Transcript at p. 76:10-18.

<sup>40</sup> Hearing Transcript at pp. 328:26 – 329:5.

responsibility for the reasonable costs of safety enhancement, two-way balancing account treatment should continue for PSEP.

**C. Without a Two-Way Balancing Account, Applicants Could Be Penalized for Prudent and Reasonable Actions.**

The *Merriam-Webster Online Dictionary* defines “penalty” as:

1: the suffering in person, rights, or property that is annexed by law or judicial decision to the commission of a crime or public offense trespassing forbidden under penalty of imprisonment.

2: the suffering or the sum to be forfeited to which a person agrees to be subjected in case of nonfulfillment of stipulations. A penalty was imposed on the contractor for breach of contract.

3a: disadvantage, loss, or hardship due to some action. Loss of privacy is one of the penalties you pay for fame.

b: a disadvantage (such as loss of yardage, time, or possession of the ball or an addition to or subtraction from the score) imposed on a team or competitor for violation of the rules of a sport. The team was given a penalty for the foul.

4: points scored in bridge by the side that defeats the opposing contract — usually used in plural.<sup>41</sup>

By proposing that Applicants bear all revenue requirement that exceeds Intervenors’ proposed cost caps, TURN/SCGC and ORA seek to impose a penalty upon Applicants, notwithstanding the Commission’s clear statement in the Applicants’ PSEP Decision that “[t]his decision does not propose or adopt any penalty for SDG&E or SoCalGas.”<sup>42</sup>

1. ORA’s Methodology Inherently Entails Imposition of a Penalty.

ORA has a penalty built into its methodology. ORA acknowledges that its use of the 80% prediction interval only “leads to a cost upper bound that is expected to be greater than the actual project cost *the vast majority of the time.*”<sup>43</sup> Not all the time, but the vast majority of the time. To this extent, even assuming ORA’s methodologies produce accurate forecasts – which they do not – ORA’s proposal imposes a penalty the 10% of the time its upper bound is

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<sup>41</sup> “Penalty.” Merriam-Webster.com. Accessed April 13, 2018. <https://www.merriam-webster.com/dictionary/penalty>.

<sup>42</sup> D.14-06-007, mimeo., at p. 31.

<sup>43</sup> ORA Opening Brief at p. 7.

expected, by the inherent nature of the methodology itself, to fall short. To further ensure that Applicants are deprived of sufficient funding, ORA applies its own methodology inconsistently—when its methodology produces an estimate that is lower than SoCalGas and SDG&E’s estimate, it asks the Commission to adopt the lower ORA estimate; when ORA’s methodology produces an estimate that is higher than SoCalGas and SDG&E’s estimate, ORA asks the Commission to adopt the lower SoCalGas and SDG&E estimate.<sup>44</sup> In this way, ORA virtually ensures that its methodology will result in a penalty for SoCalGas and SDG&E.

2. Intervenors Propose a Penalty to the Extent Applicants’ O&M Costs Exceed Their Proposed Caps.

Both ORA’s and TURN/SCGC’s proposals regarding treatment of the O&M costs of the twelve projects entail a cap. TURN/SCGC readily acknowledge that, under their proposal, any O&M costs incurred by Applicants that exceed the authorized level would not be recoverable by Applicants.<sup>45</sup> ORA, as discussed in Applicants’ Opening Brief and *infra*, proposes a cost-per-mile for hydrotesting that is 34% lower than the actual costs incurred by Applicants in hydrotesting pipeline in their territories and, thus, is inadequate to complete the work in this proceeding.<sup>46</sup> By coupling these meager forecasts with a proposal for a one-way downward balancing account,<sup>47</sup> ORA virtually assures a penalty.

Neither ORA’s nor TURN/SCGC’s proposals include an opportunity for the Commission or Intervenors to review costs over the authorized level to determine whether or not they were reasonably incurred; the amount simply would not be recoverable *ipso facto*. In this way, Intervenors propose to assess a penalty against Applicants without providing any reason to the

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<sup>44</sup> Ex. ORA-03 (Yunge) at p. 6; Hearing Transcript at p. 292:4-12.

<sup>45</sup> TURN/SCGC Opening Brief at p. 14.

<sup>46</sup> In A.16-09-005, Applicants calculated their actual costs of hydrotesting as \$1.795 million per mile for the purpose of calculating disallowances. In that proceeding, ORA proposed excluding hydrotest projects that also involved replacement in order to derive a historical cost-per-mile of \$1.8 million. MON Opening Brief, Ex. D at pp. 2-4 (A.16-09-005, Ex. ORA-02 (N. Stannik) ORA Prepared Testimony Regarding System-Wide Average Hydrotesting Costs).

<sup>47</sup> Ex. ORA-04 at p. 3.



Commission to compel it to reverse the Commission's prior determination that no penalty is appropriate against Applicants.

3. Multiple Penalties Would Be Imposed on Applicants If Capital Costs Exceed the Cap Proposed by TURN/SCGC.

With respect to capital costs, ORA does not oppose Applicants' request for two-way balancing account treatment.<sup>48</sup> TURN/SCGC, however, oppose balancing treatment altogether, even though it has already been authorized by the Commission for nine out of the ten capital projects presented in this Application. They alternately minimize the fact that their proposal could impose a penalty on Applicants,<sup>49</sup> and also acknowledge the nature of the penalty but argue that it should not matter because its financial impact would be relatively minimal.<sup>50</sup>

To be clear, contrary to what TURN/SCGC suggest in their Opening Brief, costs incurred above the level authorized by the Commission will *not* automatically be rolled into rate base in Applicants' next general rate case.<sup>51</sup> The costs first would have to be determined to be reasonable, and all indications from TURN/SCGC in this and prior PSEP proceedings suggest that TURN/SCGC (and other intervenors) would contest the reasonableness of the costs. In essence, there would essentially be a reasonableness review within the next general rate case. If the Commission is inclined to couple this forecast Application with another reasonableness review, it would be less punitive and more efficient to have this review occur through an advice letter filing process, as suggested by Applicants.<sup>52</sup>

On top of the penalty that would be imposed on Applicants if Intervenors oppose rolling into rate base costs that exceed the authorized level, TURN/SCGC's proposal also entails a second, and *absolute*, penalty: what TURN/SCGC refer to as the "carrying costs"<sup>53</sup> of amounts

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<sup>48</sup> ORA Opening Brief at p. 13.

<sup>49</sup> TURN/SCGC Opening Brief at pp. 14-15. TURN/SCGC is wrong in stating, "the only difference in cost recovery with and without a balancing account is that without the balancing account, the company may not be able to recover the capital-related revenue requirements during the 'interim period' prior until the next rate case." There is no certainty that even reasonably incurred costs would not be opposed by Intervenors or other parties.

<sup>50</sup> *Id.*

<sup>51</sup> TURN/SCGC's Witness Yap acknowledges this to be the case as well. *See* Hearing Transcript at pp. 180:21-181:10.

<sup>52</sup> Applicants' Opening Brief at p. 34.

<sup>53</sup> TURN/SCGC Opening Brief at pp. 14-16. Carrying costs are composed of depreciation and taxes, and a return that is authorized by the Commission. This proceeding is not the appropriate venue for TURN/SCGC to urge the Commission to reconsider the authorized return.

incurred in excess of the authorized level would never be able to be recovered.<sup>54</sup> These types of costs are referred to as “stranded costs” – they are accrued, but there is no mechanism for their review or recovery. TURN/SCGC claim such a penalty would be “very small;”<sup>55</sup> but, even if this is accepted as true, and SoCalGas and SDG&E do not agree that it is, there is no evidence in the record that would justify imposing any penalty on Applicants, particularly given that the PSEP Decision explicitly contemplates imposing no penalty on Applicants for executing PSEP.

4. Intervenors’ Cost Cap Proposals Penalize Applicants Even If Costs Above the Authorized Levels Are Out of Applicants’ Control or Otherwise Prudently and Reasonably Incurred.

Without two-way balancing account treatment, the above-described penalties on O&M and capital costs would be imposed on Applicants regardless of whether costs are prudently or reasonably incurred. Applicants might exceed forecasted costs for any number of reasons. TURN/SCGC’s argument that reversal of two-way balancing account treatment is necessary to incentivize the company to manage costs assumes that the costs are capable of being managed.<sup>56</sup> In support of their contention, TURN/SCGC cite a statement by Witness Austria out of context.<sup>57</sup> In response to ALJ Ayoade’s question, “[I]sn’t it true that forcing you to work with a budget is better for ratepayer[s] because you’re more economical because you know you may not be able to recover this money in time, if at all? Is that a good assumption to make,” Witness Austria responded, “Well, I believe some of these projects we need to do. Whether we have the budget or not, we’re obligated to provide safe and reliable service to our customers so I think the incentive for us as a proven operator is to complete these projects.”<sup>58</sup> The point Witness Austria makes is that, regardless of the authorized funding level the Commission orders, Applicants have an obligation to execute these PSEP projects. As noted above, all of these projects have already proceeded through the engineering, design and planning stages of project execution. The majority of costs yet to be incurred on these projects will be incurred during construction, and the scope of construction has already been established through the engineering, design and planning activities that SoCalGas and SDG&E have already undertaken. Not all costs to be

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<sup>54</sup> Hearing Transcript at pp. 219:13-22:15, 221:25-222:12.

<sup>55</sup> TURN/SCGC Opening Brief at pp. 4, 9; *see also id.* at p. 16.

<sup>56</sup> TURN/SCGC Opening Brief at pp. 2, 16.

<sup>57</sup> TURN/SCGC Opening Brief at pp. 8-9.

<sup>58</sup> Hearing Transcript at p. 217:4-16.

incurred during construction are within Applicants' control or susceptible to "management;" to this extent, it is up to the Commission to determine whether Applicants even have an opportunity to be "economical" with respect to this important safety work as to be able to complete it within the cost caps recommended by Intervenors.

For example, just since the hearings in this proceeding concluded, the federal government of the United States imposed a 25% tariff on imported steel.<sup>59</sup> Applicants do not yet know the impact of this new tariff; however, to the extent this unanticipated tariff has an impact on the cost of materials for projects in this proceeding, Applicants should have an opportunity to recover the excess revenue requirement. This is not a cost that can be "managed."

Similarly, at the time Applicants prepared their forecasts, they did not anticipate that Caltrans would seek to impose an expensive permitting condition on the Line 36-37 Section 11 project.<sup>60</sup> Caltrans determined that the planned method for replacement – the standard practice of laying the replacement pipe parallel to existing pipe and subsequently abandoning the old pipe in place – would not be permitted, and instead the old line must be excavated and removed completely.<sup>61</sup> Although Applicants will attempt to negotiate this permit condition to reduce costs for customers, if they are not successful and must implement Caltrans' proposed permit conditions, the cost of this project is anticipated to increase by at least \$8 million.<sup>62</sup> Without a two-way balancing account, Applicants would have to absorb this cost increase – effectively penalizing SoCalGas and SDG&E by depriving them of the ability to fully recover safety enhancement costs, which the Commission explicitly stated was not intended.<sup>63</sup> Importantly, Intervenors are aware of the Caltrans permitting requirement but have offered no proposal for dealing with this type of unexpected cost increase.<sup>64</sup> TURN/SCGC admitted in their opening

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<sup>59</sup> Motion for Official Notice, Ex. B (<https://www.whitehouse.gov/presidential-actions/presidential-proclamation-adjusting-imports-steel-united-states/>).

<sup>60</sup> Ex. SCG-04 (Gonzalez) at p. 22.

<sup>61</sup> Ex. SCG-04 (Gonzalez) at p. 22.

<sup>62</sup> Ex. SCG-04 (Gonzalez) at p. 22.

<sup>63</sup> D.14-06-007, mimeo., at p. 31.

<sup>64</sup> Indeed, even armed with this knowledge, ORA recommends a reduction of \$30,255,859, and TURN/SCGC a reduction of \$17,637,786, to Applicants' forecast of \$64,672,023. Even Applicants' own forecast for this project will be approximately \$8 million less than the cost of the project if Caltrans enforces its indicated permit conditions. ORA Opening Brief at p. 6; TURN/SCGC Opening Brief at p. 19.

brief, however, that the Commission approves balancing accounts when “costs are driven by external factors not subject to utility control.”<sup>65</sup>

These are but two examples of the types of costs that were not within Applicants’ contemplation at the time the forecasts were prepared, and moreover are outside Applicants’ control. These, and other penalties that may not even be contemplated by the parties’ or Commission at this time, can be avoided with a two-way balancing account mechanism, which can be coupled with an advice letter filing requirement for review of any costs that exceed the authorized level. In this way, the two-way balancing account can be set up in a manner that enables Applicants to implement the revenue requirement associated with the reasonable costs of executing PSEP, establishes a mechanism for review by the Commission and intervenors of any costs that exceed the authorized revenue requirement and avoids an unintended penalty.

**D. Applicants Are Already Incentivized to Reduce Costs While Executing Safety Enhancement Work.**

Intervenors ask the Commission to assume that Applicants will drive up the costs of executing PSEP if the Commission does not reverse course and deny two-way balancing account treatment, saying such regulatory accounting treatment amounts to a “blank check.”<sup>66</sup> There is no basis for promoting such an idea. First, the fact that such regulatory accounting treatment already exists for PSEP as well as similar pipeline assessment work validates it is reasonable treatment for the kind of work that largely occurs underground on pipelines that were installed more than fifty years ago and, therefore, inherently involves a level of uncertainty.<sup>67</sup>

Second, Applicants have been implementing PSEP under the auspices of reasonableness reviews. The PSEP Decision called for reasonableness reviews and it was not until D.16-08-003 that the Commission ordered this forecast Application and integration into the general rate cases.<sup>68</sup> Further, this integration will be phased over time such that reasonableness reviews will continue to take place in Applicants’ general rate cases.<sup>69</sup> Intervenors’ theory that Applicants

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<sup>65</sup> TURN/SCGC Opening Brief at p. 10.

<sup>66</sup> Hearing Transcript at pp. 180:17-20.

<sup>67</sup> MON Reply Brief, Ex. C at pp. 33-34 (Chapter II Direct Testimony of Rick Phillips).

<sup>68</sup> D.14-06-007, mimeo., at 59. The Applicants’ initial means of recovering the full revenue requirement associated with executing PSEP was under the auspices of two reasonableness review applications; Applicants will file another reasonableness review application this year; and will have a reasonableness review of costs in the next general rate case. D.16-08-003, mimeo., at p. 11.

<sup>69</sup> *Id.*

will change their practices and imprudently execute just the twelve projects presented for review in this proceeding, while continuing to prudently manage execution of the other projects subject to reasonableness review, is not credible. Applicants have developed and implemented practices designed to promote reasonable costs, and they will continue to do so.<sup>70</sup> The notion that Applicants would not act prudently is further contradicted by the fact that Applicants' first reasonableness review application was granted and the Commission found costs to be reasonably incurred.<sup>71</sup>

Third, the PSEP Decision granted the Safety and Enforcement Division ("SED") broad audit rights in order to promote reasonable management and costs:

Safety Div. may inspect, inquire, review, examine and participate in all activities of any kind related to Safety Enhancement. San Diego Gas & Electric Company (SDG&E), Southern California Gas Company (SoCalGas), all of their contractors shall immediately provide any document, analysis, test result, plan, of any kind related to Safety Enhancement as requested by Safety Div.'s staff or its contractors. Safety Div. must subsequently confirm all requests in written form, however all responses to must be immediate."<sup>72</sup>

As noted in A.16-09-005, "SED has closely interacted with SoCalGas and SDG&E in the successful execution of PSEP projects. As ordered by D.14-06-007, SED provides oversight on various aspects of PSEP with emphasis on construction activities and recordkeeping. SED personnel are routinely onsite at PSEP construction projects and monitor compliance with applicable regulations."<sup>73</sup> Indeed, a limited examination was performed by the Office of Ratepayer Advocates of Applicants' "financial records for the period from February 24, 2011 to June 12, 2014 regarding SCG & SDG&E's Application A.14-12-016," i.e., in Applicants' first PSEP reasonableness review.<sup>74</sup> "The purpose of ORA's audit was to verify SCG's and SDG&E's spending, but not to ascertain reasonableness of the expenditures."<sup>75</sup> The audit

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<sup>70</sup> See Applicants' Opening Brief at p. 22 (Section IV.C.1).

<sup>71</sup> D.16-12-063, granting A.14-12-016. The decision declined to authorize recovery of costs for PSEP-specific insurance based on insufficient evidence (without prejudice to Applicants' ability to seek these costs in a future proceeding). *Id.* at pp. 54, 58-59 (COL 1-22).

<sup>72</sup> D.14-06-007, mimeo., at pp. 59-60 (Ordering Paragraph 3).

<sup>73</sup> MON Reply Brief, Ex. C at pp. 13-14 (Direct Testimony of Rick Phillips).

<sup>74</sup> MON Opening Brief, Ex. C at pp. 1-3 (A.14-12-016, Ex. ORA-02 (J. Lee) Prepared Testimony on Southern California Gas Company and San Diego Gas & Electric Company Application for Pipeline Safety and Reliability Memorandum Account (PSRMA) Cost Recovery, ORA Audit Report, dated August 7, 2015).

<sup>75</sup> *Id.* at p. 1.

concluded, “[b]ased solely on the audit, ORA recommends no adjustment to the SCG and SDG&E request of \$9.7 million Capital and \$48.4 million O&M costs recorded in the PSRMA memorandum account during the period from February 24, 2011 to June 12, 2014.”<sup>76</sup>

This type of oversight is expected to continue with the twelve projects that are the subject of this proceeding as well as all other projects until PSEP has been fully executed. Given the level of scrutiny SED and Intervenors have applied and likely will continue to apply to Applicants’ execution of PSEP, TURN/SCGC’s speculation that Applicants may drive up costs unless the Commission discontinues two-way balancing account treatment for PSEP is unfounded.

**E. To the Extent Intervenors Contend Applicants’ Forecasts Are Too High, a Two-Way Balancing Account Protects Ratepayers.**

As part of their unsupported narrative, TURN/SCGC claim utilities, as a matter of custom, would forecast costs as high as possible if the Commission were to approve a revenue requirement based on the utility’s estimates.<sup>77</sup> This is false. First, as Intervenors have repeatedly pointed out, Applicants are bound by section 451 of the Public Utilities Code, which provides in relevant part:

All charges demanded or received by any public utility, or by any two or more public utilities, for any product or commodity furnished or to be furnished or any service rendered or to be rendered shall be just and reasonable. Every unjust or unreasonable charge demanded or received for such product or commodity or service is unlawful.<sup>78</sup>

There is no basis to assume Applicants would deliberately violate this statute. No evidence in the record supports TURN/SCGC’s repeated and unsupported statement that Applicants’ forecasts are inflated.<sup>79</sup>

Second, even if actual costs do turn out to be lower than forecasted, the protection for ratepayers in any scenario where costs come in under forecast is two-way balancing account

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<sup>76</sup> *Id.*

<sup>77</sup> TURN/SCGC Opening Brief at p. 3. TURN/SCGC also suggest Applicants might forecast higher costs as a way to “eliminate any risk to utility profits if costs are higher than expected.” This statement is unsupported and misleading – there is no profit whatsoever if costs are not actually reasonably incurred in executing PSEP.

<sup>78</sup> Cal. Pub. Util. Code § 451.

<sup>79</sup> TURN/SCGC Opening Brief at p. 39.

treatment. As TURN/SCGC acknowledge, “[a] forecast is never exactly right. Sometimes it is too high, and sometimes it is too low.”<sup>80</sup> To the extent there is an over-collection in rates, the over-collected amount bears interest for the benefit of ratepayers and is refunded to ratepayers.<sup>81</sup> In this way, consistent with the Commission’s directive, ratepayers do not pay any more than the actual costs of executing PSEP.

Third, the Commission has determined that ratepayers benefit by having PSEP executed in full.<sup>82</sup> Even if the Commission were to deem Applicants’ forecasts too high, Intervenor’s significantly lower forecasts, especially when coupled without two-way balancing account treatment, are not sufficient for Applicants to complete the scope of work for the twelve safety projects in this proceeding. Intervenor has offered no solution for a scenario in which Applicants do not have sufficient funding to complete the necessary work, other than to impose a financial penalty against Applicants. Given the mandate that these safety projects must be executed, Applicants should be allowed to use their professional judgment as prudent operators to take the steps necessary to complete the projects and, if the costs exceed the authorized revenue requirement, present the increased costs to the Commission and Intervenor for review. This allows PSEP work to continue as expeditiously as possible, while being fair to both ratepayers and Applicants. The existing two-way balancing account mechanism allows for this. The approaches proposed by Intervenor would not.

**F. ORA Has Articulated No Reason for Distinguishing Between Capital and O&M Costs.**

ORA does not oppose Applicants’ request for two-way balancing account treatment for any of the eight replacement projects, de-rate project, de-rate and abandon project, or for the capital component of the two hydrotest projects.<sup>83</sup> While ORA opposes two-way balancing account treatment just for the O&M costs of hydrotesting, ORA does not articulate any reason why the O&M costs of hydrotesting should be treated differently than the capital costs of hydrotesting or the costs of replacement projects. Indeed, there is no valid reason for treating

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<sup>80</sup> TURN/SCGC Opening Brief at pp. 31-32.

<sup>81</sup> Ex. SCG-07 (Austria) at pp. 2, 4-6.

<sup>82</sup> D.14-06-007, mimeo., at p. 4.

<sup>83</sup> Hearing Transcript at p. 309:7-20.

portions of the costs on each hydrotest project differently. As discussed in Section II.C, *supra*, it appears the intent behind the proposal to treat O&M costs differently is to impose a penalty.

### **III. INTERVENORS' PROPOSED FORECASTS DO NOT SATISFY THE COMMISSION'S MANDATE THAT FORECAST RATEMAKING BE BASED ON "DETAILED PLANS" AND THUS SHOULD BE REJECTED AS A MATTER OF LAW.**

The Commission stated in the PSEP Decision, "It is only fair that ratepayers should have the benefit of detailed plans for this Commission to consider before authorizing or preapproving the expenditure of many hundreds of millions of dollars."<sup>84</sup> This decision followed assertions by Intervenor that the Class 5 or Class 4 estimates submitted by Applicants in that proceeding were too rudimentary for ratemaking.<sup>85</sup> TURN argued that the "Commission should defer adopting a forecast-based revenue requirement until it has the benefit of the more detailed engineering and design."<sup>86</sup> SCGC argued that "Applicants should be required to submit cost estimates in EAD proceedings that are no worse than Class 3 estimates and hopefully much better,"<sup>87</sup> and later that the cost estimates "should be at least Class 3 estimates."<sup>88</sup>

In accordance with this directive and in light of the arguments by Intervenor that Class 5 and Class 4 estimates are not appropriate for ratemaking purposes, Applicants sought and obtained authority to incur and record the costs of completing the engineering, design, and planning activities that form the foundation for Class 3 estimates in order to prepare the detailed Class 3 estimates submitted by Applicants in this proceeding.<sup>89</sup>

As discussed further in Applicants' Opening Brief<sup>90</sup> and *infra* at Section III, Intervenor do not offer the "detailed plans" the Intervenor previously argued were needed and the Commission ordered to be provided in order to approve ratemaking.<sup>91</sup> ORA's hydrotest proposals are based on a single project characteristic: length.<sup>92</sup> Although its replacement

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<sup>84</sup> D.14-06-007, mimeo., at p. 23.

<sup>85</sup> MON Reply Brief, Ex. E at pp. 76-79 (A.11-11-002, Opening Brief of The Utility Reform Network on Pipeline Safety Enhancement Plan Issues).

<sup>86</sup> *Id.* at p. 79.

<sup>87</sup> MON Reply Brief, Ex. F at p. 30 (Southern California Generation Coalition Opening Brief, A.11-11-002).

<sup>88</sup> MON Reply Brief, Ex. G at p. 5 (Southern California Generation Coalition Reply Brief, A.11-11-002).

<sup>89</sup> D.16-08-003, mimeo., at p. 1; Ex. SCG-19-C; Applicants' Opening Brief at pp. 22-32 (Section IV.C).

<sup>90</sup> Applicants' Opening Brief at pp. 22-32 (Section IV.C).

<sup>91</sup> D.14-06-007, mimeo., at p. 23.

<sup>92</sup> Ex. ORA-04 (Stannik) at pp. 4-5.



proposals are based on one additional characteristic (diameter),<sup>93</sup> this does not satisfy the Commission's requirement that ratemaking be based on "detailed plans."<sup>94</sup> Nor do TURN/SCGC's proposals based, occasionally, on the additional project characteristics of terrain and density.<sup>95</sup> Neither of their methodologies would satisfy their prior arguments regarding the minimum level of detail required for an estimate to be used for ratemaking purposes.

As discussed further *infra* at Section IV.B, Intervenor largely rely on averages. The Commission has been clear to specify the use of an average when that is the Commission's intent. For example, the Commission has directed that Applicants are to use "the system *average* cost of actual pressure testing" to calculate certain disallowances applicable to post-1955 pipeline replacement projects.<sup>96</sup> With respect to the projects in this proceeding, the Commission did not order the average cost of projects to be used for ratemaking purposes; instead, the Commission stated, "ratepayers should have the benefit of detailed plans for this Commission to consider before authorizing or preapproving the expenditure of many hundreds of millions of dollars."<sup>97</sup> Applicants have engaged in significant detailed engineering, design, and planning activities and proposed bottoms-up forecasts based thereupon; but Intervenor have merely relied on averages and medians of a sampling of other projects based on 1-4 project attributes. These rudimentary<sup>98</sup> proposals that are not based on any sort of detailed analysis of the projects presented do not satisfy the Commission's directive. They are more akin to the forecasts presented by SoCalGas and SDG&E in 2011, opposed by the Intervenor as insufficient for ratemaking purposes, and rejected by the Commission as "too rudimentary." Intervenor offer no explanation for their inexplicable about-face. Now that SoCalGas and SDG&E have undertaken the extensive engineering, design and planning work necessary to prepare Class 3

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<sup>93</sup> Ex. ORA-01 (Stannik) at p. 4.

<sup>94</sup> D.14-06-007, mimeo., at p. 23.

<sup>95</sup> Ex. TURN/SCGC-01 (Yap) at pp. 6-7.

<sup>96</sup> D.14-06-007, mimeo., at p. 35 (emphasis added). This is the context in which ORA has calculated SoCalGas and SDG&E's historical system average cost of hydrotesting as \$1.8 million per mile. MON Opening Brief at Ex. D at pp. 2-4 (A.16-09-005, Ex. ORA-02 (N. Stannik) ORA Prepared Testimony Regarding System-Wide Average Hydrotesting Costs). ORA proposes a cap of \$1.216 million/mile, but in A.16-09-005, Applicants' second PSEP reasonableness review, ORA proposed a system average cost of hydrotesting – based on its calculation of Applicants' actual costs of hydrotesting – of \$1.85 million/mile. *Id.*

<sup>97</sup> D.14-06-007, mimeo., at p. 23.

<sup>98</sup> Intervenor's rudimentary proposals are similar to the ones Applicants proposed in 2011 and the Commission rejected. D.14-06-007, mimeo., at p. 2.

estimates, Intervenors propose the Commission now reject detailed estimates in favor of rudimentary ones.

#### **IV. APPLICANTS' FORECASTS CARRY A GREATER PROBABILITY OF ACCURACY THAN THE FORECASTS PRESENTED BY INTERVENORS.**

##### **A. Applicants Utilize the Same Method for Forecasting All Their Projects; Intervenors Cherry-Pick Methods to Reduce Their Proposed Forecasts.**

Even though they both use benchmarking methodologies, neither ORA nor TURN/SCGC use consistent methodologies to derive their forecasts for replacement and hydrotest projects. The lack of consistency to determine their proposed forecasts suggests Intervenors' intent to commit to whichever methodology results in the lowest forecast.<sup>99</sup> Applicants' forecasts are consistently derived in the exact same way and, as ordered by the Commission, are based on detailed plans. No Intervenor has presented evidence to show that Applicants' forecasts are improperly weighted or calculated. Rather, Intervenors speculate that Applicants' forecasts must be too high. The record, however, does not support this argument. Neither TURN/SCGC nor ORA have demonstrated with admissible evidence that their methods result in forecasts that carry a greater probability of truth than Applicants' project-specific, detailed forecasts based on extensive engineering, design and planning work.

##### 1. Applicants' Consistent Use of a Robust Estimating Methodology Results in Forecasts that Carry a Greater Probability of Accuracy than Intervenors' Proposals.

Each of the twelve projects in this proceeding was forecast by Applicants using a bottoms-up method of estimating, as described further in Applicants' Opening Brief.<sup>100</sup>, <sup>101</sup> Contrary to TURN/SCGC's repeated assertion that Applicants' deem these twelve projects to be

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<sup>99</sup> TURN/SCGC find it noteworthy that they used different methods for calculating forecasts than ORA yet came up with estimates that are only about \$1 million apart. TURN/SCGC Opening Brief at p. 5. This is misleading. ORA's estimates are extremely understated in that they are neither loaded nor escalated. Ex. ORA-02 (Molla) at pp. 1-3. Furthermore, the differences between TURN/SCGC's and ORA's project estimates are dramatic. For example, ORA forecasts the Line 36-37 Section 11 project at approximately \$34 million, but TURN/SCGC's forecast is over \$12 million higher at approximately \$47 million. Ex. ORA-03 (Yunge) at p. 6; Ex. TURN/SCGC-01 at p. 20. *See also* ORA Opening Brief at p. 6; TURN/SCGC Opening Brief at p. 19.

<sup>100</sup> *See* Applicants' Opening Brief at pp. 23-27 (Section IV.C.2).

<sup>101</sup> Ex. SCG-04 (Gonzalez) at p. 5.

completely unlike and incomparable to prior PSEP projects,<sup>102</sup> Applicants' estimates are in fact based on Applicants' actual experiences executing PSEP, which includes the same Phase 1A projects that are in ORA's database and TURN/SCGC's models.<sup>103</sup> TURN/SCGC falsely state, "Mr. Gonzalez contends, the projects in this Phase 2A of the PSEP are all uniquely different, and all more expensive, than prior completed projects,"<sup>104</sup> but Mr. Gonzalez has made no such suggestion. Mr. Gonzalez's statement that all projects are unique refers to the fact that all projects have different characteristics and different cost drivers. For example, a project with environmental challenges,<sup>105</sup> steep topography,<sup>106</sup> or restrictive traffic control requirements<sup>107</sup> can lower the pace of productivity.<sup>108</sup> These characteristics should be factored into a project forecast when they are anticipated; but, when they are not anticipated, they need not be factored into the forecast. Applicants do not promote such a notion because it results in higher forecasts for some of the 12 projects. For some projects, Applicants' forecasts are *lower* than those offered by Intervenors.<sup>109</sup> It is evident that a robust forecast that is project-specific and ascribe costs for attributes that are anticipated is more reliable than the rudimentary forecasts based on benchmarking proposed by Intervenors.

Applicants' method for forecasting differs from Intervenors' various methods in that, as noted by TURN/SCGC, Applicants account for "tens or hundreds"<sup>110</sup> of variables rather than the 1-4 focused on by TURN/SCGC and ORA. While TURN/SCGC criticize Applicants' use of the "subjective inputs of its subject matter experts,"<sup>111</sup> this is the level of detail that the Commission has required for forecast ratemaking. The Commission did not indicate forecasts should be prepared based on 1-4 project characteristics that, as discussed further *infra*, are not even cost drivers.

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<sup>102</sup> TURN/SCGC Opening Brief at pp. 19, 24-26, 38, 40-41, 44.

<sup>103</sup> Ex. SCG-04 (Gonzalez) at p. 11.

<sup>104</sup> TURN/SCGC Opening Brief at p. 26.

<sup>105</sup> Ex. SCG-04 (Gonzalez) at p. 9.

<sup>106</sup> Ex. SCG-04 (Gonzalez) at p. 15.

<sup>107</sup> Ex. SCG-04 (Gonzalez) at p. 8; Ex. SCG-10 at p. WP-II-A-18.

<sup>108</sup> Hearing Transcript at pp. 81:10-82:7.

<sup>109</sup> For example, Applicants' forecast for the Phase 2A replacement project Line 38-556 is *lower* than TURN/SCGC's forecast. See Ex. SCG-10 at p. WP-II-A66, TURN/SCGC Opening Brief at p. 18.

<sup>110</sup> TURN/SCGC Opening Brief at p. 38.

<sup>111</sup> TURN/SCGC Opening Brief at pp. 17-18, 21-22.

2. ORA's Two Different Methods for Forecasting Are Flawed, and the Evidence in the Record Indicates the Assumptions Underlying Them Are Not True.

ORA uses two different methodologies to derive its proposed estimates.<sup>112</sup> For replacement projects, ORA used a linear regression which only uses two characteristics -- length and diameter -- to determine how much a project would cost.<sup>113</sup> ORA is adamant that this method results in “more accurate and project-specific predictions than a simple average.”<sup>114</sup> However, for hydrotest costs, “ORA found that none of the linear regression options explored for hydrotest costs were suitable as predictive models since they failed to be significantly more accurate than a *simple average*.”<sup>115</sup> ORA first derides the use of a simple average (for replacement projects), then promotes the use of a simple average for hydrotest projects, even though the evidence declares a simple average to be unsuitable for this purpose. For example, the two hydrotest projects in this proceeding, which are on the same pipeline, have very different costs because each project possesses unique characteristics.<sup>116</sup>

Moreover, it belies credulity that 90% of projects in ORA's hydrotest database (which, for the reasons explained in Applicants' Opening Brief, wrongly threw out projects 3 miles or less in length<sup>117</sup>) came in at a cost under \$1.216 million per mile given that Applicants have calculated their actual average cost of hydrotesting -- for purposes of disallowances, when Applicants presumably have an incentive to calculate the cost as low as possible -- as \$1.7 million per mile.<sup>118</sup>

According to ORA, both of ORA's methods for deriving project estimates are dependent on two assumptions.<sup>119</sup> The first assumption for deriving forecasts for ten projects (ORA does not provide forecasts for the de-rate and de-rate and abandon projects Line 36-37 Section 12 and

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<sup>112</sup> Ex. ORA-02 (Molla) at pp. 9-10; Ex. ORA-04 (Stannik) at pp. 3-4. ORA's methodologies' shortcomings are described further at Applicants' Opening Brief at pp. 28-30 (Section IV.C.3.a).

<sup>113</sup> ORA Opening Brief at p. 4.

<sup>114</sup> ORA Opening Brief at pp. 3-4.

<sup>115</sup> ORA Opening Brief at p. 4 (emphasis added).

<sup>116</sup> Line 2000-C has a per-mile cost of approximately \$1.4 million while Line 2000-D is expected to have a per-mile cost of approximately \$2.5 million. Ex. SCG-10 at pp. WP-II-A97, 99, 108, 110.

<sup>117</sup> Ex. ORA-04 (Stannik) at pp. 3-4; Hearing Transcript at pp. 266:15 – 269:28. This is important to note given that the vast majority of segments in the two hydrotest projects in this proceeding are well under 3 miles in length. Ex. SCG-10 at pp. WP-II-A97- WP-II-A98, WP-II-A108 – WP-II-A109.

<sup>118</sup> MON Opening Brief, Ex. D at pp. 2-4 (A.16-09-005, Ex. ORA-02 (N. Stannik) ORA Prepared Testimony Regarding System-Wide Average Hydrotesting Costs).

<sup>119</sup> Ex. ORA-02 (Molla) at pp. 1-2.

Line 36-1002) is that “[t]he database of completed PSEP projects from which inferences are drawn are accurate with regards to the costs and characteristics of the completed projects.”<sup>120</sup> This assumption, however, has proven to be false: ORA itself acknowledges that the costs assigned to PG&E’s hydrotest projects, which amount to 83 of the 86 hydrotest projects used from its database,<sup>121</sup> are understated because they do *not* include the capital component of hydrotesting.<sup>122</sup> Thus, the costs are not “accurate,”<sup>123</sup> and the first of ORA’s two assumptions has failed.

The second assumption, that the costs in ORA’s database for PSEP projects “are representative of future replacement and hydrotest projects”<sup>124</sup> has not been validated to be true, and the evidence in the record (primarily regarding the unexpected onerous Caltrans permitting requirements discussed *supra* at Section II.C.4) suggests it, too, is false. And, even if a cost such as the \$8 million Caltrans permitting requirement is in fact represented in ORA’s database, ORA’s model does not consider the ten percent of projects that cost the most, and thus such a cost most likely would not be accounted for.

### 3. TURN/SCGC Also Uses Different Methods Which Are Not “Conservative” As Purported

Like ORA, TURN/SCGC also use different methods for the different types of projects.<sup>125</sup> For replacement projects, TURN/SCGC compare projects based on only four different characteristics: length, diameter, terrain, and density.<sup>126</sup> Even though TURN/SCGC argue their benchmarking of replacement projects is better than Applicants’ model because Applicants rely on subjective inputs,<sup>127</sup> Witness Yap clearly uses her subjective judgment to determine which projects have comparable terrain and density.<sup>128</sup> And, while, TURN/SCGC credit themselves as being “conservative” because they used allegedly more expensive urban projects to compare to

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<sup>120</sup> Ex. ORA-02 (Molla) at pp. 1-2.

<sup>121</sup> Ex. ORA-06-C-A (Confidential Workpapers) at p. 8.

<sup>122</sup> Ex. SCG-11 (ORA Response to SCG-SDGE DR-01) at pp. 9-10.

<sup>123</sup> Ex. ORA-02 (Molla) at p. 1.

<sup>124</sup> Ex. ORA-02 (Molla) at p. 2.

<sup>125</sup> Ex. TURN/SCGC-01 (Yap) at pp. 6-7. TURN/SCGC’s methodologies’ shortcomings are described further at Applicants’ Opening Brief at pp. 30-32 (Section IV.C.3.b).

<sup>126</sup> Ex. TURN/SCGC-01 (Yap) at pp. 6-7; Hearing Transcript at p. 135: 7–15.

<sup>127</sup> TURN/SCGC Opening Brief at p. 17.

<sup>128</sup> Ex. TURN/SCGC-01 (Yap) at pp. 6-7; Hearing Transcript at p. 135: 7–15.

allegedly less expensive rural projects,<sup>129</sup> Witness Yap clearly states that she used urban projects to compare to urban projects and rural projects to compare to rural projects.<sup>130</sup> Thus, notwithstanding TURN/SCGC's self-congratulatory proclamation, its replacement project forecasts are not in fact conservative.<sup>131</sup>

When it comes to hydrotest projects, Witness Yap considers only length, on the basis that there were not sufficient hydrotest projects in order to try to "match up" more characteristics.<sup>132</sup> And, for the de-rate and de-rate and abandon projects, Witness Yap confesses that, because there is only one completed abandonment project for her to compare, "[t]his provides a more limited benchmarking."<sup>133</sup> Nevertheless, Witness Yap utilizes her methodology and, in so doing, assumes the projects in this proceeding will have identical costs (when adjusted for length) to that of the single abandonment project that was executed by Applicants. It is neither conservative nor accurate to assume that all projects cost the same.

**B. Intervenor's Benchmarked Forecasts Do Not Account for the Costs of Different Project Variables.**

1. ORA's Forecast Methods Do Not Capture the Costs Associated with Each Identified Project.

In addition to the foregoing issues and those described in Applicants' Opening Brief,<sup>134</sup> ORA's forecasts suffer from a fundamental problem: they do not account for the costs of different project variables. Although ORA stresses that its two methodologies capture all the various costs that can be incurred in projects,<sup>135</sup> it is evident that ORA's forecasts can only capture the costs associated with the attributes of the projects that are in its database.<sup>136</sup> ORA

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<sup>129</sup> TURN/SCGC Opening Brief at pp. 23-24, 26-27, 36-37. To be clear, there are two urban projects in this Application which make up 30% of the total forecasted costs. Hearing Transcript at p. 100:2-8; Ex. SCG-10 at pp. WP-II-A17-26, WP-II-A57-65.

<sup>130</sup> Ex. TURN/SCGC-01 (Yap) at p.10.

<sup>131</sup> TURN/SCGC even acknowledge the "two de-rate/abandonment projects ... [were forecast] consistent with Ms. Yap's differentiation between urban and rural projects." TURN/SCGC Opening Brief at pp. 43-44.

<sup>132</sup> Ex. TURN/SCGC-01 (Yap) at pp. 14-16. For example, the Line 36-9-09-N Section 2B project that Ms. Yap uses to benchmark against the two hydrotest projects in this proceeding is of a different diameter. Ex. TURN/SCGC-02-C (Confidential Workpapers), Attachment C at pp. WP-III-A77, WP-III-A201, WP-III-A301; Ex. SCG-10-C (Workpapers) at pp. WP-II-A97, WP-II-A108.

<sup>133</sup> TURN-SCGC-01 (Yap) at p. 16.

<sup>134</sup> Applicants' Opening Brief at pp. 30-32 (Section IV.C.3.b).

<sup>135</sup> Ex. ORA-02 (Molla) at p. 2; Hearing Transcript at pp. 270:12-271:1.

<sup>136</sup> Hearing Transcript at pp. 270:12-271:1.

assumes that all projects executed in the future will not differ from the projects already in its database.<sup>137</sup> However, ORA has not explained why this would be true, and this very likely is not true. For example, the Caltrans permitting condition that has been proposed for the Line 36-37 Section 11 project, which adds a cost of over \$8 million to Applicants' previously calculated forecast, is an unusual permitting condition which Applicants have not previously encountered in executing PSEP. Because ORA focuses only on the length and/or diameter of the pipeline projects in its database, and completely discounts the value of attributes that are not objectively quantifiable,<sup>138</sup> it is unknown whether such an onerous permitting condition has been accounted for in the projects in ORA's database. Moreover, it seems unlikely that such a significant cost – an increase of over \$8 million – would even be captured in ORA's 80% confidence interval methodologies because they exclude the 10% of projects that are most costly.<sup>139</sup> To this extent, ORA's model most likely would not account for such a cost, even assuming some of the projects in ORA's database incurred similar costs. Indeed, even Applicants' forecast for this project did not account for this unanticipated cost.

While ORA's database may constitute a composite of the attributes of all the projects in it, ORA only focuses on two variables: length and/or diameter.<sup>140</sup> This creates an implicit bias that length and diameter are cost drivers, even though Applicants already have demonstrated this to be untrue. For example, the shorter of the two hydrotest projects (Line 2000-D) has been forecasted by Applicants to cost significantly more than the longer hydrotest project (Line 2000-C).<sup>141</sup> Similarly, both the Line 45-120 Section 1 and Line 33-120 Section 2 projects, which Ms. Yap uses as benchmarks for the Line 36-37 Section 12 replacement project, have the same diameter; however, the cost per mile is \$11.6 million for the former project and \$27.4 million for the latter.<sup>142</sup>

By (a) relying on methodologies that exclude the costs of ten percent of projects, (b) giving undue influence to length and/or diameter, and (c) assuming all projects in the future will be just like historical projects, ORA produces forecasts that do not account for all project costs.

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<sup>137</sup> Ex. ORA-02 (Molla) at p. 2; ORA Opening Brief at p. 2.

<sup>138</sup> Hearing Transcript at pp. 250:25 to 252:6.

<sup>139</sup> Ex. ORA-04 (Stannik) at p.6.

<sup>140</sup> Ex. ORA-02 (Molla) at p. 2; Hearing Transcript at pp. 270:12-271:1.

<sup>141</sup> Ex. SCG-04 (Gonzalez) at pp. 15-16.

<sup>142</sup> TURN-SCGC-01 (Yap) at pp. 18-20.

Based on the evidence in the record, Applicants' project-specific forecasts carry the greater probability of truth.

2. TURN/SCGC's Forecasts Based on Averages Do Not Account for the Full Extent or Magnitude of Each Specific Project's Variables.

The results of both of TURN/SCGC's methodologies for their forecasts for replacement and hydrotest projects constitute averages in the sense that the full extent and magnitude of the costs for each variable are not accounted for. TURN/SCGC's benchmarks for each project in this proceeding are 1-5 historical SoCalGas/SDG&E projects.<sup>143</sup> And, while TURN/SCGC do not automatically exclude the project attributes that are not objectively quantifiable (as ORA does), TURN/SCGC only include two attributes in addition to length and diameter: terrain and density (which are *not* considered for hydrotest, de-rate, and de-rate and abandon projects).<sup>144</sup> TURN/SCGC cite resource constraints for not being able to analyze the hundreds of different variables that compose each project;<sup>145, 146</sup> but this is not a justification for subverting the Commission's decision that the reasonable costs of executing PSEP be borne by ratepayers and that Applicants are not being penalized.<sup>147</sup>

The results of TURN/SCGC's models do not account for the full extent of the various attributes of an identified project and their associated costs. For example, assuming a specified project has X attribute, TURN/SCGC's model accounts for this attribute as follows: any of the 1-5 projects may have this attribute, but the weight accorded to the attribute would be averaged (or diffused) by the number of benchmarks (i.e., if the projects are ABCD, ABCDX, ABCDY, and ABCDZ, then the output of this model would ascribe 1/4 X to the forecast; or, where the projects are ABCD, ABCDY, and ABCDZ, then the output would ascribe 0 weight to X). Witness Yap attempts to justify the shortcomings of her model by stating that the projects she used for benchmarking purposes all had many "problems,"<sup>148</sup> and thus the costs for various

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<sup>143</sup> TURN-SCGC-01 (Yap) at p. 14.

<sup>144</sup> TURN-SCGC-01 (Yap) at p. 19.

<sup>145</sup> TURN/SCGC Opening Brief at p. 38 ("Any individual project has tens or hundreds of different inputs. It is literally impossible for intervenors with limited staff to review each and every line item input.").

<sup>146</sup> For its part, ORA states that Applicants did not break down costs in more than extremely general categories. ORA Opening Brief at p. 9. However, this is belied by Ex. SCG-19-C. Moreover, Applicants have not treated *any* costs as fixed costs as each project characteristic listed in Ex. SCG-19-C has been ascribed a project-specific value. *See, e.g.*, Ex. SCG-19-C at pp. 33-90 (Line 2000-C).

<sup>147</sup> D.14-06-007, mimeo., at p. 31.

<sup>148</sup> Hearing Transcript at p. 134:24-27.



issues – both similar and dissimilar to those encountered in the benchmark projects – are accounted for in her forecasts.<sup>149</sup> Even if this were accepted as true, this still does not change the fact that the weight accorded to various attributes is diffused, if accounted for at all. In the first example above, the forecast output would be  $ABCD\frac{1}{4}X\frac{1}{4}Y\frac{1}{4}Z$ , where each of X, Y, and Z are accorded a one-fourth weighting. If this aligns with the actual costs of a project (if  $\frac{1}{4}X + \frac{1}{4}Y + \frac{1}{4}Z$  sum to X), it would be purely by coincidence because TURN/SCGC has not assigned costs to each project variable depending on the attributes of each individual project in the way that Applicants have with their project-specific estimates.<sup>150</sup> Compounding the inaccuracy, to the extent that the subject project has X attribute in addition to Y and Z attributes, the costs of each may be further minimized by TURN/SCGC's model.

An additional shortcoming with TURN/SCGC's model is that, because it does not treat projects as unique, it does not properly account for the magnitude of project attributes. X will not always carry the same cost. Sometimes the cost of an attribute may be 1X; but sometimes the same attribute may lead to a cost of 3X.

Ms. Yap states she accounts for this kind of variability by adjusting all projects for length so they are normalized;<sup>151</sup> but, as with ORA's models, this assumes that length is a principal driver for cost. As demonstrated *supra*, this is not true. It will not always be the case that L (where L is length) = X. Indeed, for one project, the cost for 1L could be 3X while for another project 2L could be 4X, and for yet another project 3L could be 5X. TURN/SCGC's model does not account for the known fact that project costs are not necessarily correlated to length.<sup>152</sup> TURN/SCGC's model simply takes 1-5 projects<sup>153</sup> and averages them to determine what a unique project with unique attributes should cost. This method of forecasting the costs of projects does not carry a greater probability of truth than Applicants' bottoms-up approach to estimating.

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<sup>149</sup> TURN/SCGC Opening Brief at pp. 24, 26-34, 41-42.

<sup>150</sup> Ex. SCG-19-C.

<sup>151</sup> Ex. TURN/SCGC-01 (Yap) at p. 18.

<sup>152</sup> Ex. SCG-04 (Gonzalez) at pp. 15-16; Ex. SCG-19-C; *see also supra* at Section IV.B.1.

<sup>153</sup> Ex. TURN/SCGC (Yap) at p. 7. In reality Ms. Yap's benchmark projects actually range from 0-5 because in the case of Line 36-1002, she discounts her benchmark and proposes instead that Applicants' forecast be used for the project. *Id.* at p. 19.

**C. Intervenor's Admit Their Proposed Forecasts Are Understated; Thus, They Necessarily Do Not Carry a Greater Probability of Truth.**

**1. ORA's Proposed Forecasts Are Understated.**

ORA's proposed forecasts for hydrotest projects are based on a database that is composed primarily of PG&E's completed projects, which do not include the capital costs of hydrotesting.<sup>154</sup> This highlights a fundamental flaw in ORA's model of comparing costs incurred by different utilities to each other: the costs are not apples-to-apples. It is known that PG&E's costs do not include the capital costs of hydrotesting and thus are understated; however, it is not known what other costs were or were not included in PG&E's or Southwest Gas's costs that differ from those included or excluded from Applicants' forecasts.<sup>155</sup> PG&E and Southwest Gas are not parties to this proceeding.

PG&E projects make up 90% of the 429 projects in ORA's database.<sup>156</sup> Because PG&E's projects do not include the capital component of hydrotest projects, ORA's values necessarily are understated and do not carry a greater probability of truth than Applicants' forecasts.

Even more, ORA's proposed forecasts have been neither loaded nor escalated.<sup>157</sup> These are significant costs, but are not accounted for in ORA's proposed forecasts.<sup>158</sup>

**2. TURN/SCGC's Forecasts Also Are Understated.**

The forecasts provided for each project by TURN/SCGC are not inclusive of Allowance for Funds Used During Construction ("AFUDC") and Property Tax.<sup>159</sup> To this extent, they are understated. TURN/SCGC acknowledge this but propose a solution that is unfounded and erroneous. Without citing to fact or law, TURN/SCGC propose reducing AFUDC and property tax correlating to Applicants' forecasts in an amount proportional to the reduction in forecast

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<sup>154</sup> Ex. SCG-11 (ORA Response to SCG-SDGE DR-01) at pp. 9-10; Hearing Transcript at p. 259:5-17.

<sup>155</sup> Witness Molla testified she was not aware whether Applicants' forecasts for hydrotesting included capital costs. Hearing Transcript at p. 259:14-17.

<sup>156</sup> Ex. ORA-02 (Molla) at p. 3; Ex. SCG-04 (Gonzalez) at p. 4; Ex. ORA-06-C-A (Confidential Workpapers) at pp. 5-8.

<sup>157</sup> Ex. ORA-02 (Molla) at pp. 1-3. As the projects used by ORA in its database go back five years and they have not even been escalated to present day, ORA's predicted costs for the projects are further understated.

<sup>158</sup> Ex. SCG-10 (Workpapers) at pp. WP-2-1; Ex. SCG-05 (Pech) at pp. 2, 7.

<sup>159</sup> TURN/SCGC Opening Brief at p. 6.

requested by TURN/SCGC.<sup>160</sup> Again, TURN/SCGC cite to no evidence to support this request. TURN/SCGC fundamentally misunderstand how AFUDC and Property Tax are calculated in assuming a dollar-for-dollar relationship between capital expenditures and AFUDC and Property Tax. This is not the case. To the extent there is any reduction to Applicants' proposed authorized capital funding level for the projects in this proceeding, Applicants will calculate the AFUDC and Property Tax accordingly.<sup>161</sup> TURN/SCGC's erroneous proposal to address one of the shortcomings of its forecasting methods should not be adopted.

## V. UNCONTESTED ISSUES.

ALJ Ayoade asked the Parties to submit a Stipulated Statement of Fact.<sup>162</sup> Although Applicants proactively took the lead reaching out to Intervenors to confirm the items to which the Parties would stipulate, none of Intervenors responded to Applicants' communication.<sup>163</sup> Nevertheless, notwithstanding their lack of attention to the ALJ's request, it appears from the Parties' opening briefs that the following issues from the Scoping Memo are not contested.

Issue 1, namely, whether Applicants' application of the Commission-approved Decision Tree to Phase 2A of PSEP is appropriate. ORA does not oppose this issue,<sup>164</sup> and TURN/SCGC have not opposed it in the record or their opening brief.

Issue 4, namely, whether Applicants should be permitted to conduct non-destructive examination of a segment of Line 127 rather than replacing it as provided in the Decision Tree. ORA does not oppose this issue,<sup>165</sup> and TURN/SCGC have indicated in the record that they support the non-destructive examination option for Line 127.<sup>166</sup>

Issue 11, namely, whether Applicants' proposal in the Application for allocating the revenue requirement by functional area is consistent with prior Commission directive. ORA

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<sup>160</sup> TURN/SCGC Opening Brief at pp. 6-7.

<sup>161</sup> TURN/SCGC put no evidence in the record to support their contention that AFUDC and property tax should be reduced in direct proportion to the forecast. Since this proposal was not put into evidence, Applicants did not have an opportunity to rebut this erroneous assertion on the record.

<sup>162</sup> Hearing Transcript at p. 58:3-14.

<sup>163</sup> Applicants' Opening Brief at p. 13 n. 63.

<sup>164</sup> ORA Opening Brief at p. 13.

<sup>165</sup> ORA Opening Brief at p. 14.

<sup>166</sup> TURN-SCGC-01 (Yap) at p. 8.

does not oppose this issue,<sup>167</sup> and TURN/SCGC have not opposed it in the record or their opening brief.

Issue 12, namely, whether Applicants may implement in transportation rates, through a Tier 1 Advice Letter, the revenue requirements associated with the twelve projects proposed in this Application effective January 1 of the year following a decision on the Application. ORA does not oppose this issue,<sup>168</sup> and TURN/SCGC have not opposed it in testimony or their opening brief.

As stated in greater detail in Applicants' Opening Brief,<sup>169</sup> Issues 16 and 17 are mooted by the facts that Applicants' detailed cost estimates have been admitted into the record in this proceeding<sup>170</sup> and ORA obtained, and based its forecast recommendations on, cost information obtained by it from other utilities.<sup>171</sup> Thus, the Commission need not determine whether Applicants should be directed to provide this information in this proceeding – it is already in the record in this proceeding.

## **VI. CONCLUSION**

Applicants' objective in this proceeding is singular: to obtain authorization and sufficient funding to comply with the Commission's directive to execute PSEP safety enhancement projects "as soon as practicable."<sup>172</sup> Consistent with the Commission's directive, Applicants engaged in detailed engineering, design, and planning work in order to prepare the robust estimates – which are based on their knowledge and experience in implementing PSEP – for the scope of work presented to the Commission for review. The associated forecasted revenue requirement has been substantiated with evidence sufficient to meet Applicants' burden by a preponderance of the evidence. Accordingly, Applicants respectfully request that the Commission authorize the relief requested in the Summary of Recommendations.

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<sup>167</sup> ORA Opening Brief at p. 14.

<sup>168</sup> ORA Opening Brief at p. 14.

<sup>169</sup> Applicants' Opening Brief at pp. 13-14 (Section II.E).

<sup>170</sup> See Ex. SCG-19-C.

<sup>171</sup> Ex. ORA-06-C-A (Confidential Workpapers).

<sup>172</sup> D.11-06-017, mimeo, at p. 19.

Respectfully submitted on behalf of SoCalGas and SDG&E,

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