

Application No: A.17-05-
Exhibit No.: _____
Witness: K. Chan, R. Gonzales

Application of Southern California Gas Company
(U 904 G) for Approval To Extend the
Mobilehome Park Utility Upgrade Program.

Application 17-05-_____
(Filed May 5, 2017)

CHAPTER 5
REVENUE REQUIREMENT
PREPARED DIRECT TESTIMONY OF
KAREN C. CHAN AND RAMON GONZALES
ON BEHALF OF
SOUTHERN CALIFORNIA GAS COMPANY

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

May 5, 2017

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1 **I. PURPOSE**

2 The purpose of our direct testimony on behalf of Southern California Gas Company
3 (“SoCalGas”) is to present the revenue requirements resulting from the capital and operations
4 and maintenance (“O&M”) forecasts for the proposed Mobilehome Park (“MHP”) Program. The
5 forecasted revenue requirement for SoCalGas’ preferred proposal of continuing conversions as a
6 joint effort with SoCalGas’ Investor Owned Utility (“IOU”) counterparts is \$512.3 million for
7 the period 2018 to 2092. Alternatively, the forecasted revenue requirement for performing gas-
8 only conversions without joint trenching is \$584.9 million for the period 2018 to 2092.

9 **II. REVENUE REQUIREMENT**

10 The revenue requirement associated with the program is based on the forecasted
11 incremental capital and O&M costs described in the Chapter 3 prepared direct testimony of
12 Hector Moreno. The capital and O&M costs presented in this Application include overhead,
13 escalation, and other necessary costs to support the investment during construction and over its
14 useful life. A summary and comparison of the fully loaded and escalated costs of SoCalGas’
15 preferred and alternate proposals are shown in Table 1, and the illustrative revenue requirements
16 resulting from these fully loaded costs are shown in Table 2.

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

1 and O&M costs are escalated for inflation. SoCalGas applied the indices published in IHS
 2 Global Insight’s 4th Quarter 2016 Utility Cost Forecast for this Application. The revenue
 3 requirement calculation assumes all capital costs, including direct costs, overhead, escalation,
 4 and Allowance for Funds Used during Construction (“AFUDC”), are recovered through
 5 depreciation over the current authorized book-life of the assets. Consistent with the current
 6 ratemaking treatment adopted by the Commission, the forecasted capital costs do not include
 7 costs of removal associated with the existing infrastructure; these costs are accounted for in
 8 already authorized depreciation rates.¹ In addition to all incremental capital and O&M
 9 expenditures, the revenue requirement includes other costs required to support the investment,
 10 such as the authorized return on investment, taxes, and franchise fees and uncollectibles. The
 11 revenue requirement calculation uses the current authorized rate of return of 8.02%.²

12 Table 1 summarizes the fully loaded and escalated costs of the proposed MHP Program,
 13 including capitalized property tax and AFUDC.

14 **Table 1**
 15 **Comparison of Fully Loaded & Escalated Costs**
 16 *(In Millions of Dollars, Nominal)*

| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | Total |
|-------------------------------|--------|---------|---------|---------|---------|---------|--------|----------|
| Request - Joint IOU Effort | \$ 4.2 | \$ 46.9 | \$ 59.5 | \$ 60.8 | \$ 61.0 | \$ 39.8 | \$ 0.1 | \$ 272.2 |
| Alternate Proposal - Gas Only | \$ 4.2 | \$ 53.3 | \$ 67.9 | \$ 69.5 | \$ 69.7 | \$ 45.0 | \$ 0.1 | \$ 309.8 |
| Change | \$ - | \$ 6.4 | \$ 8.5 | \$ 8.7 | \$ 8.7 | \$ 5.2 | \$ 0.0 | \$ 37.6 |

17
 18 Table 2 summarizes the forecasted revenue requirements for the proposed MHP Program.
 19 In addition to the fully loaded and escalated costs shown in Table 1, these revenue requirements

¹ SoCalGas’ depreciation rates were authorized in the company’s 2016 Test Year General Rate Case proceeding in D.16-06-054.

² SoCalGas’ rate of return was authorized in the company’s 2013 Test Year Cost of Capital proceeding in D.12-12-034. A Petition for Modification of this Decision is pending approval before the Commission. Similar to SoCalGas’ proposed treatment of overheads, SoCalGas will apply the actual rate of return that is in effect when the actual revenue requirement is determined.

1 capture other capital-related costs, such as income taxes and return needed to support the
2 investment over its useful life.

3 **Table 2**
4 **Comparison of Forecasted Revenue Requirements**
5 *(In Millions of Dollars, Nominal)*

| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024-2092 | Total |
|-------------------------------|--------|--------|---------|---------|---------|---------|-----------|----------|
| Request - Joint IOU Effort | \$ 0.5 | \$ 3.9 | \$ 12.7 | \$ 22.9 | \$ 33.0 | \$ 41.0 | \$ 398.3 | \$ 512.3 |
| Alternate Proposal - Gas Only | \$ 0.5 | \$ 4.3 | \$ 14.1 | \$ 25.7 | \$ 37.1 | \$ 46.2 | \$ 457.0 | \$ 584.9 |
| Change | \$ - | \$ 0.3 | \$ 1.4 | \$ 2.8 | \$ 4.1 | \$ 5.2 | \$ 58.7 | \$ 72.6 |

6 Consistent with the Pilot Program, SoCalGas will determine the actual capital and O&M
7 costs of conversion as parks are completed, and will calculate and record the actual revenue
8 requirements associated with those costs in the approved regulatory account for recovery in rates.
9 Further details of the regulatory accounting treatment of the actual revenue requirements
10 associated with completed parks are discussed in the Chapter 4 prepared direct testimony of
11 Reginald Austria.

12 SoCalGas uses the forecasted revenue requirement for purposes of illustrating the
13 potential rate impact as a result of the proposed MHP Program. The details of the illustrated rate
14 impact are discussed in the Chapter 6 prepared direct testimony of Marjorie Schmidt-Pines.

15 This concludes our direct testimony.

1 **III. QUALIFICATIONS – KAREN C. CHAN**

2 My name is Karen C. Chan, and I am the Financial and Strategic Analysis Manager for
3 SoCalGas. My business address is 555 West 5th Street, Los Angeles, CA 90013-1011.

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

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

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

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

19 I have not previously testified before this Commission.

20 **IV. QUALIFICATIONS – RAMON GONZALES**

21 My name is Ramon Gonzales. My business address is 555 West 5th Street, Los Angeles,
22 CA 90013-1011. I am employed by SoCalGas as the Manager of Accounting Systems and
23 Compliance. My current position includes management responsibility for Financial Systems,

1 Business Controls, and Affiliate Billing and Costing. I have been in my current position since
2 December 2010. Prior to my current position I was the Customer Services Business Planning
3 Manager.

4 I have been employed by Southern California Gas Company since September 1994. My
5 past responsibilities include internal auditing, business planning and budgets, and financial
6 systems. I hold a Master of Science Degree in Accountancy from California State University
7 Northridge.

8 I have previously testified before the California Public Utilities Commission.