

INDICATED SHIPPER DATA REQUEST
IS-SCG-011
SOCALGAS 2019 GRC – A.17-10-008
SOCALGAS RESPONSE
DATE RECEIVED: JUNE 26, 2018
DATE RESPONDED: JULY 6, 2018

11-01: Please identify all risk organization members, risk owners and risk managers that participate in the Functional Capital Committee and the Capital Planning Committee.

SoCalGas Responses 11-01:

As discussed in Diana Day's Revised Prepared Direct Testimony¹, the Capital Planning Committee (CPC) is comprised of directors and financial representatives from each of the functional areas and is responsible for having cross-functional discussions of funding needs and determining the appropriate prioritization of work. By contrast, the Functional Capital Committees, as described in Patrick D. Moersen's Revised Prepared Direct Testimony², are organized by the nature and type of capital investment or function: Gas Operations; Customer Services; Information Technology; and Facilities/Environmental/Other. The directors within these functional areas may participate in the Functional Capital Committee sessions and many of them are an assigned risk manager.

Among the risk organization members, the Director of Enterprise Risk Management participates in the CPC. In addition, the CPC currently contains several risk managers, some of whom are responsible for managing multiple risks.

¹ December 2017, Revised Direct Testimony of Diana Day, SCG-01R, appendix C page 37

² April 6, 2018, Second Revised Direct Testimony of Patrick D. Moersen, SCG-35-2R, page PDM-3, lines 1-4.

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11-02: Please describe how the Functional Capital Committee and Capital Planning Committee incorporate the product of the annual risk management meeting in investment planning, and regulatory rate impact planning.

SoCalGas Responses 11-02:

The Revised Prepared Direct Testimony of Diana Day³³ outlines the investment management process at SoCalGas. The Enterprise Risk Management (ERM) process occurs annually. It involves appropriate experts from functional areas across the Company. As a part of the annual risk management process, the ERM organization established and formalized the Company's risk registry. The risk registry is the central hub for the Company's risk management information and the foundation for annual risk reporting to the Company's Board of Directors.

The annual risk management process includes three key officer sessions (the Risk Assessment Session, the Risk Prioritization Session and the Risk Mitigation Planning Session). These risk sessions provide the necessary risk information that feeds into the investment planning process. As a part of the investment planning process, the Company's enterprise risk registry is used as an input to the discussions that take place at the Executive Finance Committee (EFC). The EFC is where funding allocation decisions are made to meet compliance requirements and address any safety and reliability concerns that the Company must manage as a part of its operations. Figure 5 in Appendix C of Day's testimony⁴ depicts the annual planning process. Figures 11 and 12 in Appendix C illustrate the process and the interactions between the various entities involved in investment planning.

Further, the capital planning process discussed in Patrick D. Moersen's Prepared Direct Testimony⁵⁵ is SoCalGas' current process for prioritizing funding based on risk-informed priorities and input from operations. As stated in Mr. Moersen's Testimony, the Functional Capital Committee (FCC) is made up of managers and subject matter experts. The FCC performs a high-level assessment of the capital requirements for serving customers to ensure that infrastructure is maintained and developed to provide safe, reliable service, with the highest risk mitigation at the lowest attainable cost. Finally, the SoCalGas Executive Finance Committee (EFC) establishes a total annual capital expenditure target consistent with the Company's authorized GRC funding for that period.

³ December 2017, Revised Direct Testimony of Diana Day, SCG-01R (SCG-01 (Day)), Appendix C.

⁴ *Id.*

⁵ April 6, 2018, Second Revised Direct Testimony of Patrick D. Moersen, SCG-35-2R, pages PDM-2 – PDM-4.

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11-03: At PDM-5:10-11, Mr. Moersen states “weighted average plant-in-service is projected to increase by approximately \$3,361 million, or 27%, when comparing record year 2016 to TY 2019. Will SoCalGas ratepayers see an increase in rates to compensate the utility for the increases in plant in-service? Please identify and explain impact on revenue requirement and rates caused by increase to plant in-service.

SoCalGas Responses 11-03:

As discussed in my testimony¹, weighted average plant-in-service is part of Fixed Capital, which is a component of total weighted average depreciated rate base. Weighted average depreciated rate base is impacted by changes in plant-in-service — but also by changes to working capital, other deductions, and deductions for reserves, including taxes and depreciation. As discussed in the testimony of Ryan Hom², weighted average depreciated rate base is one of several components of the revenue requirement requested by SoCalGas in the 2019 GRC filing. But, holding all other components unchanged, an increase in weighted plant-in-service would increase the revenue requirement. For specific information related to the calculation of revenue requirement, please refer to the testimony of Ryan Hom².

¹ April 6, 2018, Second Revised Direct Testimony of Patrick D. Moersen, SCG-35-2R, page PDM-2, lines 9-10.

² April 6, 2018, Second Revised Direct Testimony of Ryan Hom, SCG-43-2R.

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11-04: Assume:

- Utility has \$1 billion in plant in-service in Year 0.
- Utility has \$500 million in non-routine projects expected to be entered in-service in Year 1.
- Utility has an additional \$500 million in non-routine projects to be entered in-service in Year 2.

Please provide the percentage growth in net plant in-service from:

- a. Year 0 to Year 1
- b. Year 1 to Year 2
- c. Year 0 to Year 2

SoCalGas Responses 11-04:

SoCalGas objects to this question due to the question being vague and ambiguous and calls for speculation. For this hypothetical, the percentage growth in net plant-in-service cannot be calculated because the data provided in the question is incomplete. To provide the percentage growth in net plant-in-service, SoCalGas would need to know more specifics on the type of non-routine project, the in-service date of the new additions, and the FERC Account to determine the appropriate depreciation impact.

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11-05: Assume:

- Utility has \$1 billion in plant in-service in Year 0.
- Utility has \$250 million in non-routine projects expected to be entered in-service in Year 1.
- Utility has an additional \$750 million in non-routine projects to be entered in-service in Year 2.

Please provide the percentage growth in net plant in-service from:

- a. Year 0 to Year 1
- b. Year 1 to Year 2
- c. Year 0 to Year 2

SoCalGas Responses 11-05:

SoCalGas objects to this question due to the question being vague and ambiguous and calls for speculation. For this hypothetical, the percentage growth in net plant-in-service cannot be calculated because the data provided in the question is incomplete. To provide the percentage growth in net plant-in-service, SoCalGas would need to know more specifics on the type of non-routine project, the in-service date of the new additions, and the FERC Account to determine the appropriate depreciation impact.

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11-06: Assume:

- Utility has \$1 billion in plant in service in Year 0.
- Utility has \$750 million in non-routine projects expected to be entered in-service in Year 1.
- Utility has an additional \$250 million in non-routine projects to be entered in-service in Year 2.

Please provide the percentage growth in net plant in-service from:

- a. Year 0 to Year 1
- b. Year 1 to Year 2
- c. Year 0 to Year 2

SoCalGas Responses 11-06:

SoCalGas objects to this question due to the question being vague and ambiguous and calls for speculation. For this hypothetical, the percentage growth in net plant-in-service cannot be calculated because the data provided in the question is incomplete. To provide the percentage growth in net plant-in-service, SoCalGas would need to know more specifics on the type of non-routine project, the in-service date of the new additions, and the FERC Account to determine the appropriate depreciation impact.

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11-07 Assume:

- Utility has \$1 billion in plant in service in Year 0.
- Utility has \$250 million in non-routine projects expected to be entered in-service in Year 1.
- Utility has an additional \$250 million in non-routine projects to be entered in-service in Year 2.
- Utility has an additional \$500 million in non-routine projects to be entered in-service in Year 3.

Please provide the percentage growth in net plant in-service from:

- a. Year 0 to Year 1
- b. Year 1 to Year 2
- c. Year 2 to Year 3
- d. Year 0 to Year 3

SoCalGas Responses 11-07:

SoCalGas objects to this question due to the question being vague and ambiguous and calls for speculation. For this hypothetical, the percentage growth in net plant-in-service cannot be calculated because the data provided in the question is incomplete. To provide the percentage growth in net plant-in-service, SoCalGas would need to know more specifics on the type of non-routine project, the in-service date of the new additions, and the FERC Account to determine the appropriate depreciation impact.

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11-08: Assume:

- Utility has \$1 billion in plant in service in Year 0.
- Utility has \$250 million in non-routine projects expected to be entered in-service in Year 1.
- Utility has an additional \$250 million in non-routine projects to be entered in-service in Year 2.
- Utility has an additional \$250 million in non-routine projects to be entered in-service in Year 3.
- Utility has an additional \$250 million in non-routine projects to be entered in-service in Year 4.

Please provide the percentage growth in net plant in-service from:

- a. Year 0 to Year 1
- b. Year 1 to Year 2
- c. Year 2 to Year 3
- d. Year 3 to Year 4
- e. Year 0 to Year 4

SoCalGas Responses 11-08:

SoCalGas objects to this question due to the question being vague and ambiguous and calls for speculation. For this hypothetical, the percentage growth in net plant-in-service cannot be calculated because the data provided in the question is incomplete. To provide the percentage growth in net plant-in-service, SoCalGas would need to know more specifics on the type of non-routine project, the in-service date of the new additions, and the FERC Account to determine the appropriate depreciation impact.

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11-010: At RDP/SC-24, the testimony states: “SoCalGas developed its cost estimate by having its subject matter experts develop the most probable cost for approximately 30 different individual cost components.”

- a. Are the subject matter expert estimates developed consistent with industry standards?
- b. Do the subject matter estimates developed include contingencies consistent with industry standard?

SoCalGas Responses 11-10:

- a. Yes.
- b. No, the subject matter experts don't include an explicit contingency amount in their estimates. The subject matter experts provide assessments of risks for the individual line items, consistent with industry practice. Through the Risk Assessment process, the project team compiles their input for a risk model. The output of the risk model is a single contingency figure for the project. This process is consistent with industry standards. Indeed, the attached industry publication, *Cost Contingency as the Standard Deviation of the Cost Estimate* by Dr. Geoffrey Rothwell (in particular, paragraphs two through four), describes the industry method followed by SoCalGas.

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11-09: Please provide the change in pension funding expense if the pension contribution is based on a 15.42-year amortization of underfunding rather than the 7-year amortization proposed in Ms. Robinson's Direct Testimony.

Please refer to the rebuttal testimony of SoCalGas Witness Rick Phillips and Sharim Chaudhury (Exhibit SCG-215).

SoCalGas Responses 11-09:

SoCalGas does not have the requested information and objects to this request to the extent that IS requests SoCalGas to create it. Creating this new analysis would require SoCalGas to hire third-party consultants to do the work, which is unduly burdensome and costly.

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11-010: At RDP/SC-24, the testimony states: “SoCalGas developed its cost estimate by having its subject matter experts develop the most probable cost for approximately 30 different individual cost components.”

- a. Are the subject matter expert estimates developed consistent with industry standards?
- b. Do the subject matter estimates developed include contingencies consistent with industry standard?

SoCalGas Responses 11-10:

- a. Yes.
- b. No, the subject matter experts don't include an explicit contingency amount in their estimates. The subject matter experts provide assessments of risks for the individual line items, consistent with industry practice. Through the Risk Assessment process, the project team compiles their input for a risk model. The output of the risk model is a single contingency figure for the project. This process is consistent with industry standards. Indeed, the attached industry publication, *Cost Contingency as the Standard Deviation of the Cost Estimate* by Dr. Geoffrey Rothwell (in particular, paragraphs two through four), describes the industry method followed by SoCalGas.