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Witness	:	Sabino

DIVISION OF RATEPAYER ADVOCATES
CALIFORNIA PUBLIC UTILITIES COMMISSION

DRA Report on the Pipeline Safety Enhancement Plan of Southern California Gas Company and San Diego Gas & Electric Company

Revenue Requirements

San Francisco, California
June 19, 2012

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I. INTRODUCTION

In August 2011, Southern California Gas Company ("SoCalGas") and San Diego Gas and Electric Company ("SDG&E"), (collectively referred to as "Sempra," the "Sempra utilities," or the "Applicants") submitted their Proposed Natural Gas Pipeline Safety Enhancement Plan and supporting testimony. In December, 2011, the Applicants submitted an Amended Plan and Amended Testimony.

In April 2012, the Commission issued a decision transferring consideration of the Sempra Natural Gas Transmission Pipeline Comprehensive Pressure Testing Implementation Plan to the Applicants' Triennial Cost Allocation Proceeding.[1] Pursuant to the Scoping Memo and Ruling of the Assigned Commissioner ("Scoping Memo") issued in the Triennial Cost Allocation Proceeding, the Commission will consider the Sempra utilities' Pipeline Safety Enhancement Plan in Phase 1, and Cost Allocation in Phase 2.[2]

The Scoping Memo in A. 11-11-002 provides that Phase 1 of the proceeding will address shareholder versus ratepayer cost responsibility for the proposed Pipeline Safety Enhancement Plans (also referred to as "Safety Enhancement") while Phase 2 will address all other rate design and cost allocation issues.[3] The Scoping Memo states:[4]

> The only issue of cost allocation applicable to Phase 1 and not Phase 2 is the first-level determination of whether any portion, and if so, how much, of the Safety

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[1] *Decision Transferring Consideration of Natural Gas Transmission Pipeline Comprehensive Pressure Testing Implementation Plans of San Diego Gas & Electric Company and Southern California Gas Company to the Triennial Cost Allocation Proceeding* (TCAP) (April 2011) D.12-04,-021, p. 1. D.12-04-021 also transferred the Technical Report of the Consumer Protection and Safety Division ("CPSD") regarding the SoCalGas and SDG&E Pipeline Safety Plan to the TCAP.

[2] Assigned Commissioner's Scoping Memo and Ruling (Scoping Memo), p. 11.

[3] Id., p.9.

[4] Id., p.5.

> Enhancement costs should be borne by shareholders and not ratepayers. This is a reasonableness issue: whether any portion of the proposed Safety Enhancement is not a true enhancement to pipeline safety but is instead remediation of past neglect or failure by SDG&E or SoCalGas to properly operate and maintain the system or to spend the full allocation of funding included in prior rates.

In its Application, the Sempra utilities request Commission approval of what they refer to as the "Proposed Case" Pipeline Safety Enhancement Plan.[5] Phase 1A of the Plan covers the years 2012 – 2015.[6] Applicants' capital cost estimate for the Proposed Case Pipeline Safety Enhancement Plan for Phase 1A is $1.2 billion for SoCalGas, and $229 million for SDG&E.[7] Applicants' Proposed Case Operations and Maintenance (O&M) cost estimate for Phase 1A is $255 million for SoCalGas, and $7 million for SDG&E.[8] The Sempra utilities acknowledge that the Proposed Case Plan includes projects "that are not strictly required to meet the Commission's directives in D.11-06-017."[9]

Applicants include a "Base Case" estimate of costs for work required under D.11-06-017, but only for "comparison purposes."[10] Applicants' capital cost estimate for the Base Case Pipeline Safety Enhancement Plan for Phase 1A is $938 million for SoCalGas, and $222 million for SDG&E.[11] Applicants'

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[5] Amended Testimony of Southern California Gas Company and San Diego Gas & Electric Company in Support of Proposed Natural Gas Pipeline Safety Enhancement Plan (Amended Testimony), p. 103.

[6] Amended Testimony, p. 104, Table IX-1. See also page 19 where Applicants state that Phase 1A spans 2012 through 2015.

[7] Amended Testimony, pp.104-105, Table IX-1 and 2.

[8] Amended Testimony, pp.104-105, Tables IX-1 and 2.

[9] Amended Testimony, p. 14.

[10] Amended Testimony, p. 105.

[11] Amended Testimony, p.107, Tables IX-3 and 4.

Base Case Operations and Maintenance (O&M) cost estimate for Phase 1A is $246 million for SoCalGas, and $6 million for SDG&E.[12]

The Division of Ratepayer Advocates ("DRA") reviewed and analyzed Applicant's proposals. DRA presents its analysis and recommendations on direct costs in DRA Exhibits 2, 2A, and 3 and on cost recovery policy in Exhibit 1. This Exhibit 4 presents the analyses and recommendations of DRA on the revenue requirements corresponding to the Applicants' proposals for the allocation of Phase 1 Safety Enhancement program costs to ratepayers.

II. SUMMARY OF RECOMMENDATIONS

Based on its review and analysis, DRA recommends that the Commission:

1. Adopt DRA's recommendation that ratepayers be responsible for $57 million and $12 million for SoCalGas and SDG&E, respectively, in Pipeline Safety Enhancement Plan direct costs that would correspond to $21.7 million and $4.5 million for SoCalGas and SDG&E, respectively, in total revenue requirements in Phase 1A as shown in Table 2.
2. Reject the Applicants' request for the Pipeline Safety Enhancement Cost Recovery Account.
3. Reject the Applicants' request for an expedited advice letter process to request Commission approval of adjustments to the approved funding level for the Pipeline Safety Enhancement Plan.
4. Approve DRA's proposal that the Sempra utilities conduct hydrostatic testing of transmission pipelines in Phase 1A rather than replacing the pipes, absent a satisfactory showing that a particular pipeline needs to be replaced during the timeframe of Phase 1. If SoCalGas/SDG&E is granted authority to conduct pipeline replacement, then the Commission should reject the proposed Expedited Advice Letter process.

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[12] Amended Testimony, p.107, Tables IX-3 and 4.

According to the Sempra utilities, they derived the revenue requirements associated with plan Safety Enhancement from "... the forecasted incremental Capital costs related to the Pipeline Safety Enhancement Plan as well as estimates of incremental O&M costs."[13] The utilities state that the costs set forth in the first nine sections of their testimony "...are direct costs only; they do not include overhead, escalation, or other necessary costs to support the investment."[14] The Applicants state the direct costs include contingencies.[15]

Table 1 presents a comparative summary of DRA's recommended PSEP Direct Costs (with cost recovery policy) versus Applicants' Proposed Case:[16]

The unloaded and unescalated direct Safety Enhancement costs (in 2011 $) in Table 1 are adjusted based on DRA's recommendations on cost recovery policies. The direct costs for PSEP recommended by DRA to receive ratepayer recovery are then loaded and escalated using the SoCalGas/SDG&E RO assumptions.

Table 2 presents a comparative summary of Sempra's and DRA's recommended revenue requirements. The figures in this summary correspond to the yearly revenue requirements using the loaded and escalated costs for the above DRA PSEP direct cost recommendations.

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13 Amended Testimony, p.121.

14 Amended Testimony, p. 122.

15 Response to DRA-PZS5 Question 6.

16 Based on inputs received from DRA Exhibits 1, 2, 2A and 3.

Table 1 PSEP Direct Cost Summary (in millions of 2011$)[17]

Line #	Description	2012	2013	2014	2015	Total
1	SoCalGas Capital	159.76	345.28	339.39	338.78	1183.21
2	SoCalGas Expense	59.00	64.61	65.59	65.78	254.98
3	Total SoCalGas	218.76	409.89	404.98	404.56	1438.19
4	SDG&E Capital	30.40	66.57	65.93	65.76	228.65
5	SDG&E Expense	1.09	0.22	4.76	0.46	6.53
6	Total SDG&E	31.49	66.79	70.69	66.22	235.18
7	Total SoCalGas SDG&E	250.24	476.68	475.67	470.78	1673.37
8	DRA SoCalGas Capital	3.31	13.38	15.70	15.70	48.09
9	DRA SoCalGas Expense	5.10	1.01	1.47	1.49	9.07
10	DRA Total SoCalGas	8.41	14.39	17.17	17.19	57.16
11	DRA SDG&E Capital	2.69	2.69	3.08	3.08	11.54
12	DRA SDG&E Expense	0.61	0.08	0.17	0.19	1.05
13	DRA Total SDG&E	3.30	2.77	3.25	3.27	12.59
14	DRA Total Recommended SoCalGas/SDG&E	11.71	17.16	20.42	20.46	69.75
15	Difference Proposed vs DRA Recommended	238.53	459.52	455.25	450.32	1603.62

Source: SoCalGas/SDG&E RO Model and DRA Workpapers for Exhibit 4.

[17] Unloaded and unescalated direct costs mean the overhead, escalation or other necessary costs to support the investment are not included. See Amended Testimony, p.122. These numbers do not include return on capital over the life of the assets.

Table 2 PSEP Annual Revenue Requirements 2012-2015 (in $ Millions)

Line #	Description	2012	2013	2014	2015	Total
1	**SoCalGas Capital**	(8.29)	25.99	103.09	163.93	284.72
2	**SoCalGas Expense**	66.03	74.25	79.21	82.76	302.25
3	**Total SoCalGas**	57.74	100.25	182.30	246.69	586.98
4	**SDG&E Capital**	(0.90)	4.76	18.24	29.34	51.45
5	**SDG&E Expense**	1.24	0.43	6.28	1.39	9.34
6	**Total SDG&E**	0.35	5.189	24.532	30.73	60.79
7	**Total SoCalGas SDG&E**	58.09	105.434	206.83	277.42	647.77
8	**DRA SoCalGas Capital**	0	0.62	3.15	6.06	9.83
9	**DRA SoCalGas Expense**	5.98	1.33	2.21	2.34	11.86
10	**DRA Total SoCalGas**	5.98	1.95	5.36	8.40	21.68
11	**DRA SDG&E Capital**	0	0.514	0.999	1.570	3.083
12	**DRA SDG&E Expense**	0.702	0.122	0.285	0.325	1.434
13	**DRA Total SDG&E**	0.702	0.637	1.284	1.894	4.516
14	**DRA Total Recommended SoCalGas/SDG&E**	6.68	2.59	6.64	10.29	26.20
15	**Difference SoCalGas/SDG&E Proposed and DRA Recommended**	51.41	102.85	200.19	267.13	621.57

Note: Numbers shown above for the Applicants are derived from the SoCalGas/SDG&E RO model provided to DRA DRA numbers are based on Workpapers for Exhibit 4.

III. DISCUSSION / ANALYSIS OF DRA RECOMMENDATIONS

A. Background

For purposes of the Commission's review of the reasonableness of the Applicants' proposal in Phase 1, the issue before the Commission is "whether any portion of the proposed Safety Enhancement is not a true enhancement to pipeline safety but is instead remediation of past neglect or failure by SDG&E or SoCalGas to properly operate and maintain the system or to spend the full allocation of funding included in prior rates."[18] The Commission should note that the task for this reasonableness determination is made more challenging by the fact that, beyond the self-reported information in the Report of SoCalGas and SDG&E on Actions Taken in Response to the National Transportation Safety Board Safety submitted on April 15, 2011 (and any updates to that report), very little else is currently known about the circumstances surrounding the extent of Sempra's missing records, or the reason(s) for the state of their database[19], or any past negligence pertaining to natural gas transmission pipelines, or any behavior inconsistent with the what these utilities call their "culture of safety."[20]

DRA conducted discovery in this proceeding relating to the Applicants' Pipeline Safety Enhancement Plan and Testimony, but from the responses the Sempra utilities provided, it is not altogether clear how the information is

[18] Scoping Memo, p.5.

[19] See Response to DRA-DAO-TCAP-PSEP-34-01 where the Applicants identified any and all databases and applications which they currently use for (a) records and (b) data management of transmission and distribution pipelines. About 11 items of different database and applications were identified in the response.

[20] The Report was filed with the Commission on April 15, 2011 in R.11-02-019 in response to the NTSB urgent safety recommendations in connection with its investigation of the natural gas pipeline rupture in San Bruno on September 9, 2010. The Report states in the conclusion section that "SoCalGas and SDG&E have a culture of safety that guides everyday operations at every level of their integrated natural gas system."

tied to the SoCalGas/SDG&E database.[21] It also appears that the Sempra utilities are still conducting their records review.[22] These two utilities have not been subject to the same level of scrutiny as PG&E since the San Bruno and Rancho Cordova gas pipeline investigations. To DRA's knowledge, there has been no independent expert assessment of the Applicants' record-keeping, or a review or audit of their financial records and spending, or interviews with their officers and employees, or an examination of the way they have conducted their transmission pipeline integrity management program.[23]

In Resolution L-410 and in R. 11-02-019, the Commission ordered PG&E, SoCalGas, and SDG&E to:

> [a]ggressively and diligently search for all as-built drawings, alignment sheets, and specifications, and all design construction, inspection, testing, maintenance and other related records, including those records and locations controlled by personnel or firms other than PG&E, relating to pipeline system components, such as pipe segments, valves, fittings, and weld seams for

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[21] Refer for instance the discussion in DRA Exhibit 2 starting page 17 regarding Sempra database.

[22] Amended Testimony, p.50, where the Applicants state "Although the possibility remains that additional records will be evaluated as part of the detailed planning of the pressure testing or abandonment of pipelines, SoCalGas and SDG&E have completed their active review of pressure test records for the NTSB Criteria Miles…The records review of transmission segments in non-High Consequence Area Class I and 2 locations is underway and is expected to be completed by July 12." Also in response to DRA-DAO-21 Question 1, Applicants state that the safety margin validation effort is still progress.

[23] In the case of PG&E, the independent reports, all post-San Bruno, exposed important information hitherto unknown about the utility and its pipeline safety practices. After the San Bruno tragedy, PG&E was the subject of the National Transportation Safety Board Pipeline Accident Report adopted on August 30, 2011. Also, PG&E's record-keeping was the subject of a Price Waterhouse Coopers Report in the Records OII, in addition to reports submitted by CPSD Consultant Duller and North and as well as Consultant Margaret Felts on recordkeeping. Further, PG&E's pipeline safety spending was also the subject of an Overland Consulting Report entitled "Focused Audit of Pacific Gas & Electric Gas Transmission Pipeline Safety-Related Expenditures For the period 1996 to 2010," dated December 30, 2011 submitted to the CPSD. Other reports on PG&E include : (1) the Report of the Independent Review Panel on San Bruno explosion prepared for the CPUC dated June 24, 2011 (revised version), which had a wide-ranging scope of investigation but focused on PG&E's pipeline integrity management; and (2) the CPSD Staff Report dated January 12, 2012 alleging PG&E's violation of laws and regulations led to the San Bruno pipeline rupture.

> PG&E natural gas transmission lines in Class 3 and Class 4 locations and Class 1 and Class 2 high consequence areas that have not had MAOP established through prior hydrostatic testing. These records should be traceable, verifiable, and complete.

On April 15, 2011, the Sempra utilities summarized their findings as follows::[24]

> we have determined that approximately 73% (1,033 miles) of SoCalGas' 1,416 Criteria Miles and 69% (142 miles) of SDG&E's Criteria Miles have documentation of hydrostatic or equivalent pressure tests (designated as Categories 1, 2 and 3 in the attached report). For the remaining 383 of SoCalGas' Criteria Miles and 64 of SDG&E's Criteria Miles (designated as Category 4), we have not yet located records sufficient to document that the pipelines have been strength tested per the NTSB recommendations. As we discuss at page nine of our report, we took a very conservative approach to the phrase "traceable, verifiable, and complete records" in the NTSB's recommendations. The maximum allowable operating pressures (MAOP) for these pipelines were established through existing regulations and are operated—as are all our pipelines—in a manner that meets or exceeds applicable rules and regulations.

SoCalGas and SDG&E have said that "it is very difficult, if not infeasible, to locate records for all pipeline materials in the specified areas."[25] Nonetheless, the Commission has said that "SoCalGas and SDG&E should complete their work in response to the NTSB's recommendations and the Commission's order."[26]

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[24] Report of Southern California Gas Company and San Diego Gas & Electric Company On Actions Taken In Response To The National Transportation Safety Board Safety Recommendations, in R.11-02-019, dated April 15, 2011, p.2.

[25] D.11-06-017, Finding of Fact #3.

[26] D.11-06-017, Conclusion of Law# 2.

B. The Applicants' Proposal

In this proceeding, DRA recommends that the Commission review only the Applicants' proposal for the amount of spending in Phase 1A, and assess the funding requests for the remaining years in the next SoCalGas/SDG&E General Rate Case(s).[27] At this time, even the Applicants agree their Phase 2 cost estimates are highly uncertain.[28]

1. Proposed Case Estimated Costs and Revenue Requirements

Applicants describe their "Proposed Case" Pipeline Safety Enhancement Plan as follows: [29]

> A plan to test or replace pipeline segments that do not have sufficient documentation of pressure testing to meet the requirements set forth in D.11-06-017, a plan to replace pipeline segments that contain pre-1946 construction and fabrication techniques, interim safety enhancement measures, which have already been implemented, a plan to in-line inspect (ILI) piggable pipelines, a Valve Enhancement Plan to install additional ASV/RCV capability on larger diameter, higher pressure transmission pipeline segments, proposed technology enhancements to detect third-party damage and provide earlier leak-detection capability, and a proposal to design a comprehensive Enterprise Asset Management System to ensure that all pipeline-related documentation is integrated and readily available."

The Applicants request a combined total of approximately $1.94 billion in direct costs for Phase 1A of the Proposed Case (in loaded and escalated

[27] Amended Application, pp.58-59.

[28] Amended Testimony, p.119 where Applicants state "Because we have not yet completed our review of records for Phase 2 pipelines, we are unable to provide Phase 2 cost estimates to any level of certainty."

[29] Amended Testimony, p.103.

nominal $), or approximately $1.67 billion in direct costs if expressed in unloaded and in 2011 $ price level. A summary of the direct costs requested for the SoCalGas/SDG&E Proposed Case PSEP Phase 1A is provided below:

LOADED & ESCALATED DIRECT COSTS PHASE 1A (Nominal $ Millions)					
Utility	**2012**	**2013**	**2014**	**2015**	**Total**
SoCalGas	**$244.25**	**$464.51**	**$473.32**	**$485.96**	**$1,668.04**
SDG&E	**$ 34.50**	**$74.17**	**$81.02**	**$77.67**	**$267.36**
Total	**$278.75**	**$538.68**	**$554**	**$563.63**	**$1,935.40**

Source: Table X-4, SoCalGas/SDG&E Amended Prepared Testimony, p.124.

UNLOADED DIRECT PHASE 1A COSTS (in 2011 $ Millions)			
Utility	**Capital Cost**	**O&M Cost**	**Total Cost**
SoCalGas	**$1,183**	**$255**	**$1,438**
SDG&E	**$ 229**	**$ 7**	**$ 236**
Total	**$1,412**	**$262**	**$1,674**

Source: Tables IX-1 & IX-2, SoCalGas/SDG&E Amended Prepared Testimony, pp.104-105

For the above Proposed Case Phase 1A costs, SoCalGas/SDG&E request Commission approval of approximately $648 million in combined annual revenue requirements for the period 2012 -2015 as shown below:

REVENUE REQUIREMENT SUMMARY (Nominal $ Millions)					
Utility	**2012**	**2013**	**2014**	**2015**	**Total**
SoCalGas	**$57.74**	**$100.25**	**$182.30**	**$246.69**	**$586.98**
SDG&E	**$0.35**	**$ 5.18**	**$ 24.53**	**$ 30.73**	**$ 60.79**
Total	**$58.09**	**$105.43**	**$206.83**	**$277.42**	**$647.77**

Source: Table X-5, SoCalGas/SDG&E Amended Prepared Testimony, p.124.

In addition to the above request for the period 2012-2015, SoCalGas/SDG&E request approval and recovery of the revenue requirements resulting from the capital and O&M forecasts for the Safety

Enhancement plan for the year 2011.[30] In the Applicants' Amended Testimony, the year 2011 revenue requirements are approximately $6.4 million for SoCalGas and $0.9 million for SDG&E. These amounts are the 2011 costs for interim safety enhancements.[31] The Applicants state that the execution of Phase 1A is targeted for completion by 2015. Therefore, the Phase 1A Proposed Case revenue requirements request for the years 2012 through 2015 are in the amount of $587 million and $61 million for SoCalGas and SDG&E, respectively.[32]

2. Base Case Estimated Costs and Revenue Requirements

The Applicants do not request approval of their "Base Case" Pipeline Safety Enhancement Plan.[33] Their Base Case does not include the additional elements that are not required by D.11-06-017. The Base Case excludes costs associated with the replacement of pipeline segments to mitigate pre-1946 construction and manufacturing methods, costs associated with proposed technology enhancements, and costs associated with the development and design of an Enterprise Asset Management System.[34]

For the Base Case, the forecast estimated direct costs provided by SoCalGas/SDG&E amount to approximately $1.4 billion (in 2011 $) for both utilities.[35] When these direct costs are loaded and escalated, the Base Case

[30] Amended Testimony, p.121.

[31] Amended Testimony, pp.104-105, Tables IX-1 and IX-2. Pages 63 through 66 of the Amended Testimony describe the proposed interim safety enhancement measures. Workpapers IX-4-1 through IX-4-6 seem to suggest that the records search is part of the interim safety enhancement measures for SoCalGas while Workpapers IX-4-14 through IX-4-15 seem to suggest the same for SDG&E.

[32] Amended Testimony, p.124.

[33] Amended Testimony, p.105.

[34] Amended Testimony, p.105.

[35] Amended Testimony, p.107, Tables IX-3 and IX-4.

Phase 1A total costs amount to approximately $1.63 billion (in nominal $) for the combined utilities.[36] The revenue requirements that correspond to the Base Case Phase 1A costs amount to approximately $567.5 million for the 2012-2015 period.[37]

3. Ratemaking and Regulatory Accounting Treatment

The Applicants seek to recover the Proposed Case Pipeline Safety Enhancement Plan costs through a new "PSEP Surcharge" that is proposed as a separate line-item to be reflected in the customer bills on a monthly basis.[38] SoCalGas/SDG&E ask to continue recovery of the Pipeline Safety Enhancement Plan costs through the PSEP Surcharge even though the costs may be rolled into other proceedings in the future.[39]

The Applicants seek to establish a Pipeline Safety Enhancement Cost Recovery Account for each utility to recover costs associated with their Safety Enhancement plan.[40] In these accounts, the Sempra utilities would record the difference between the authorized revenue requirements collected through the PSEP Surcharge and the actual O&M and capital-related revenue requirements associated with the Plan. The proposed new PSEP Surcharge would include costs based upon (1) Pipeline Safety Enhancement Plan revenue requirements, including costs to be tracked in the Pipeline Safety and Reliability Memorandum Account as proposed by SoCalGas/SDG&E in their Joint Motion filed on May 4, 2011[41] and (2) any balances in the Pipeline

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[36] Amended Testimony, p.125, Table X-7.

[37] Amended Testimony, p.125, Table X-8.

[38] Amended Testimony, p.121.

[39] Amended Testimony, p.121.

[40] Amended Testimony, p.126.

[41] The requested Pipeline Safety and Reliability Memorandum Accounts were subsequently approved in D.12-04-021. Ordering Paragraph#3 says that SoCalGas/SDG&E "must file a Tier 2 Advice Letter creating a memorandum account to record for later Commission ratemaking consideration the escalated direct and incremental overhead costs of its Pipeline Safety Enhancement Plan, as described in Attachment A to their January 13, 2012, filing,

(continued on next page)

Safety Enhancement Plan Cost Recovery Account to be incorporated into rates.[42] Upon implementation of the Commission decision in this proceeding, Applicants propose that the costs be incorporated into rates and be updated on January 1 of each subsequent year, as part of the Annual Consolidated Update Filing.[43]

Based on the Applicants' proposed cost allocation methodology referred to as "Equal Percent Authorized Margin" or EPAM, SoCalGas/SDG&E propose to allocate costs to customers and recover them through the new PSEP Surcharge.[44] According to the Scoping Memo in this case, the cost allocation and rates for the SoCalGas/SDG&E Pipeline Safety Enhancement Plan are issues for Phase 2 of this proceeding, and DRA will address them there.

Applicants seek authorization to file expedited advice letters requesting approval for any adjustments to the overall level of Pipeline Safety Enhancement Plan funding requirements previously approved.[45] The Applicants say that the expedited advice letter process they request is not a reasonableness review process of the actual costs incurred. According to the Applicants, "Rather it is a change in the forecast of the funding requirements necessary to implement the Commission-approved PSEP that was not reflected in the original estimates provided in this proceeding, as that information was not available at that time."[46]

(continued from previous page)
and costs of document review and interim safety measures as set forth in Attachment B to the January 13, 2012, filing."

42 Amended Testimony, p.131.

43 Amended Testimony, p.131.

44 Amended Testimony, p.131.

45 Amended Testimony, p.127.

46 Response to DRA-PZS-TCAP-PSEP-13-01(c).

4. Other Requests By the Applicants

SoCalGas and SDG&E request Commission approval of their phased approach and prioritization process for the pressure testing or replacement of gas transmission pipelines.[47] Applicants show their phased approach in Figure II-1 of their Amended Testimony: Phase 1A corresponds to the 4-year period 2012-2015, Phase 1B corresponds to the 6-year period 2016-2021, and Phase 2 is proposed to run in parallel with Phase IB in the 6-year period 2016-2021.[48]

The Applicants request Commission approval of the following elements of their Pipeline Safety Enhancement Plan:[49]

(1) Proposed criteria for determining whether to pressure test or replace pipeline segments;

(2) The use of state-of-the-art in-line inspection tools as part of the Applicants' pressure testing and assessment process;

(3) The continued use of the Applicants' proposed interim safety measures;

(4) The enhancement of the Applicants' valve infrastructure through the retrofit of existing valves, installation of additional remote control and automated shutoff valves, and installation of supporting equipment and system features on transmission pipelines greater than twelve inches in diameter, including the use of an average of six miles valve system enhancement intervals;

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47 Amended Testimony, p.3.

48 Id., pp.19-20. In Phase 1A, Applicants propose to test or replace transmission pipelines in Class 3 and 4 locations and High Consequence Areas that do not have sufficient documentation of pressure testing. In Phase 1B, Applicants propose to address any Phase 1A pipeline segments that cannot be tested or replaced with "manageable customer impacts" within that time frame. In Phase 1B, Applicants also propose to replace pre-1946 pipeline segments that were manufactured using non-state-of-the-art construction and fabrication methods. In Phase 2, all other transmission pipelines that do not have sufficient documentation of pressure testing will be addressed.

49 Id., pp.3-4.

(5) The retrofitting of the Applicants' transmission pipelines to include advanced fiber optic and methane detection technology; and

(6) The design of an Enterprise Asset Management System that will integrate the Applicants' historical and current transmission pipeline data and systems to have all transmission pipeline documentation readily available.

The above project components of the SoCalGas/SDG&E Proposed Case filing are addressed in Exhibits 2, 2A and 3.

C. DRA's Review and Analysis

1. PSEP Costs and Revenue Requirements in Phase 1A

The Proposed Case includes project elements that the Applicants acknowledge are beyond the requirements of D.11-06-017.[50] Under their Proposed Case, the Applicants request Commission approval of approximately $1.67 billion of Phase 1A direct costs (in unloaded and unescalated 2011 $).[51] That would correspond to the equivalent of $1.94 billion of Phase 1A direct costs (in loaded and escalated nominal $).[52] SoCalGas and SDG&E request that the Commission approve total revenue requirements of $647.8 million for the Phase 1A over the 2012-2015 period, and propose to recover all costs from their ratepayers through the collection of new PSEP Surcharge rates.[53]

Based on the review of the Sempra Pipeline Safety Enhancement Plan by DRA's witnesses and their direct cost recommendations, DRA presents the results of running the SoCalGas/SDG&E Results of Operations ("RO") model for the PSEP to generate the incremental revenue requirements recommended by DRA for both utilities. The SoCalGas/SDG&E RO model is

[50] Amended Testimony, p.2.

[51] Amended Prepared Testimony, pp.104-105, Tables IX-1 and IX-2.

[52] Amended Prepared Testimony, p.124, Table X-4.

[53] Amended Prepared Testimony, p.124, Table X-5.

internally referred to by the Applicants as the “Project Evaluation Tool” (or PET for short) and is based on the excel program. Each tab of the PET model is referred to as an “engine” and is modeled by asset function. The revenue requirements generated by the RO model are considered incremental revenue requirements to the extent that these are outside the rate cycle for the GRC. The summary Table 3 below is illustrative and presents DRA’s estimated direct costs to the PSEP for SoCalGas in Phase 1A in unloaded and unescalated dollars absent the implementation of any of DRA’s cost recovery policies.[54]

The summary Table 4 below is illustrative and presents DRA’s estimated direct costs for SDG&E in Phase 1A of the Pipeline Safety Enhancement Plan in unloaded and unescalated dollars absent the implementation of any of DRA’s cost recovery policies.[55]

The estimated direct costs in Tables 3 and 4 do not consider DRA’s cost recovery policies with respect to the PSEP costs that should be allocated to ratepayers. These direct costs result in the revenue requirements in Table 5.

[54] Refer to cost recovery policies discussed in DRA Exhibit 1 in this proceeding.

[55] Refer to DRA Exhibit 1 in this proceeding.

Table 3 DRA's Estimated PSEP Direct Costs for SoCalGas by Program Component for the Period 2012-2015 (in $ millions) Absent Implementation of DRA Cost Recovery Policy

PR	**2012**	**2013**	**2014**	**2015**	**Total Ph 1A**
Total Capital	0	0	0	0	0
Total O&M	0	0	0	0	0
Total PR	0	0	0	0	0
PT	**2012**	**2013**	**2014**	**2015**	**Total Ph 1A**
Total Capital	0	0	0	0	0
Total O&M	14.58	19.43	19.43	19.43	72.88
Total PT	14.58	19.43	19.43	19.43	72.88
ILI	**2012**	**2013**	**2014**	**2015**	**Total Ph 1A**
Total Capital	0	0	0	0	0
Total O&M	0	0	0	0	0
Total ILI	0	0	0	0	0
ISE	**2012**	**2013**	**2014**	**2015**	**Total Ph 1A**
Total Capital	0	0	0	0	0
Total O&M	4.15	0.20	0.15	0.10	4.60
Total ISE	4.15	0.20	0.15	0.10	4.60
RCASV	**2012**	**2013**	**2014**	**2015**	**Total Ph 1A**
Total Capital	3.31	13.38	15.70	15.70	48.09
Total O&M	0.03	0.15	0.66	0.73	1.57
Total RCASV	3.34	13.53	16.36	16.43	49.66
IC	**2012**	**2013**	**2014**	**2015**	**Total Ph 1A**
Total Capital	0	0	0	0	0
Total O&M	0.42	0	0	0	0.42
Total IC	0.42	0	0	0	0.42
Total PSEP	**2012**	**2013**	**2014**	**2015**	**Total Ph 1A**
Total Capital	3.31	13.38	15.70	15.70	48.09
Total O&M	19.19	19.78	20.24	20.26	79.47
SCG PSEP	22.50	33.16	35.94	35.96	127.56

Note:

PR = Pipeline Replacements
PT = Pressure Testing
RCASV = Remote Control and Automatic Shutoff Valves
ILI = In-Line Inspections
ISI = Interim Safety Enhancements
IC = Implementation Costs

Table 4 DRA's Estimated PSEP Direct Costs for SDG&E by Program Component, for the period 2012-2015 (in $ millions) Absent Implementation of DRA Cost Recovery Policy

PR	**2012**	**2013**	**2014**	**2015**	**Total Ph 1A**
Total Capital	0	0	0	0	0
Total O&M	0	0	0	0	0
Total PR	0	0	0	0	0
PT	**2012**	**2013**	**2014**	**2015**	**Total Ph 1A**
Total Capital	0	0	0	0	0
Total O&M	1.05	1.40	1.40	1.40	5.25
Total PT	1.05	1.40	1.40	1.40	5.25
ILI	**2012**	**2013**	**2014**	**2015**	**Total Ph 1A**
Total Capital	0	0	0	0	0
Total O&M	0	0	0	0	0
Total ILI	0	0	0	0	0
ISE	**2012**	**2013**	**2014**	**2015**	**Total Ph !A**
Total Capital	0	0	0	0	0
Total O&M	0.51	0.01	0.01	0.01	0.53
Total ISE	0.51	0.01	0.01	0.01	0.53
RCASV	**2012**	**2013**	**2014**	**2015**	**Total Ph !A**
Total Capital	2.69	2.69	3.08	3.08	11.54
Total O&M	0.01	0.03	0.12	0.13	0.28
Total RCASV	2.70	2.72	3.20	3.21	11.82
IC	**2012**	**2013**	**2014**	**2015**	**Total Ph 1A**
Total Capital	0	0	0	0	0
Total O&M	0.06	0	0	0	0.06
Total IC	0.06	0	0	0	0.06
Total PSEP	**2012**	**2013**	**2014**	**2015**	**Total Ph 1A**
Total Capital	2.69	2.69	3.08	3.08	11.54
Total O&M	1.63	1.44	1.52	1.54	6.13
SDG&E PSEP	4.31	4.12	4.61	4.62	17.66

Note:

PR = Pipeline Replacements
PT = Pressure Testing
RCASV = Remote Control and Automatic Shutoff Valves
ILI = In-Line Inspections
ISI = Interim Safety Enhancements
IC = Implementation Costs

Table 5 DRA Estimated Revenue Requirements for PSEP Phase 1A For the Period 2012-2015 (in $ millions) Absent DRA Cost Recovery Policy Implementation

Line	Utility	2012	2013	2014	2014	Total
1	SoCalGas	21.42	23.44	27.45	31.13	103.44
2	SDG&E	1.81	2.21	2.91	3.56	10.49
3	Combined	23.32	25.66	30.36	34.69	113.93

Source: DRA Workpapers for Exhibit 4.

When cost recovery policies are adopted by the Commission as DRA recommends, the PSEP direct costs which Sempra's ratepayers should be responsible for are further reduced to the combined amount of $69.7 million as summarized in Table 6:

Table 6 DRA Recommended Direct PSEP Cost for Cost Recovery in PSEP Phase 1A For the Period 2012-2015 (in $ millions)

Line	Utility	2012	2013	2014	2014	Total
1	SoCalGas	8.41	14.39	17.17	17.19	57.16
2	SDG&E	3.30	2.77	3.25	3.27	12.59
3	Combined	11.71	17.16	20.42	20.46	69.75

Source: DRA Workpapers for Exhibit 4.

Based on the DRA recommended amount of PSEP direct costs of $69.7 million that should be allocated to ratepayers for cost recovery, the corresponding DRA recommended revenue requirements for Phase 1A Pipeline Safety Enhancement Plan costs amount to $26.2 million as presented below:

Table 7 DRA Recommended Revenue Requirements for PSEP Phase 1A For the Period 2012-2015 (in $ millions)

Line	Utility	2012	2013	2014	2014	Total
1	SoCalGas	5.97	1.95	5.36	8.40	21.68
2	SDG&E	0.702	0.636	1.284	1.895	4.517
3	Combined	6.672	2.586	6.644	10.295	26.197

Source: DRA Workpapers for Exhibit 4.

The assumptions of the model that generated the revenue requirements include the following:

- In-service schedule
- Overhead loading
- Escalation
- Cost of capital

For purposes of determining the SoCalGas /SDG&E revenue requirements for the PSEP, the model assumption is that on average, the project goes into service in a year's time following the direct cost spending for the project. The Applicants explain the reason behind this assumption: the estimates for the PSEP are very high level and project-specific design and engineering work could not be completed prior to filing.[56] Based on this assumption, the year 2013 would be the first year when projects go into service for SoCalGas.[57] The in-service assumption for SDG&E projects is the same as with SoCalGas with the exception of the SDG&E transmission pipeline L-1600.[58]

The Applicants clarified that for supplemental cost portions for SDG&E, the capital supplemental costs go into service the year these are spent.[59] The Applicants explain in the workpapers that the supplemental costs are for supplemental labor and non-labor costs which "are for the support services within the company that will be necessary to implement the PSEP. Included are customer and public outreach, fleets, building and real estate, training, environment and safety, permitting, right of way, legal, human resources, information technology, accounting and finance, etc."[60] DRA's review of the

[56] Response to DRA-PZS-TCAP-PSEP-12-02.
[57] Response to DRA-PZS-TCAP-PSEP-12-02.
[58] Response to DRA-PZS-TCAP-PSEP-12-03.
[59] Response to DRA-PZS-TCAP-PSEP-12-03.
[60] Amended Capital Workpapers WP-IX-34.

RO model shows that, for the 2012-2015 period, the total amount of approximately $4.17 million of capital supplemental costs go into service the year these are spent. The plant asset associated with the supplemental capital costs are not yet “used and useful” plant and these supplemental capital costs are not in service. DRA’s Exhibit 2 reviews the proposed SDG&E project L-1600. When the detailed engineering costs and more project-specific information are in place, the Applicants should revisit its assumption regarding in-service dates.

The pipeline replacement project for Line 1600 is expected to span both Phase 1A and Phase 1B. SoCalGas/SDG&E state “It is estimated that approximately 4% of the total costs will occur in Phase 1A (2012-2015) and the remaining 96% of the costs will occur in the first three years of Phase 1B (2016-2018).[61] DRA asked the Applicants to clarify whether the portion of Line 1600 that will have spending in Phase 1A will be assumed to go into service (and become part of the rate base) a year after the spending occurs. DRA asked the Applicants to explain whether the portion of Line 1600 which will have spending occur in Phase 1A will be deemed to become a used and useful plant even before the remaining 96% occur in Phase 1B. The Applicants provided the following response for the SDG&E L-1600:[62]

> The L-1600 replacement project is significant in terms of scope and mileage, and as such it is anticipated that only engineering, design, and permitting activities will likely occur in Phase 1A. When calculating the revenue requirement for the filing, it was assumed that these costs would not be capitalized until Phase 1B, when construction is expected to commence.

With respect to the escalation rate assumptions, SoCalGas/SDG&E used escalation indices published in the Global Insight 1st Quarter 2011 Utility

[61] Amended Capital Workpaper WP-IX-34.

[62] Response to DRA-PZS-TCAP-PSEP-12-06.

Cost Forecast for purposes of the PSEP.[63] In their original December 2010 GRC filings, the Applicants escalation factors were based on Global Insight's 1st Quarter 2010 utility cost forecast.[64] On February 17, 2012, SoCalGas and SDG&E filed update testimony which updated escalation factors based on Global Insight's 3rd Quarter 2011 utility forecast.

With respect to overhead loading, Applicants state:[65]

> Overhead rates are applied to each direct cost input, according to its classification as company labor, contract labor, purchased services and materials. Overhead rates are estimated using year 2010 actuals, but are only intended to be indicative for forecasting purposes; actual overhead rates each year will be used in the calculation of the actual revenue requirement. Only overheads that are considered incremental to each Pipeline Safety Enhancement Plan Case are included.

It will be important to make sure that “only those considered incremental to the PSEP will include any overheads” as the Applicants’ assert. The overhead loaders are shown by the Applicants in Table X-1 of their Amended Testimony. In footnote 74, Applicants state that “Pension and Post-retirement Benefits Other Than Pensions overhead costs are excluded, as these costs are subject to a separate balancing account mechanism and addressed in connection with the General Rate Case.” DRA asked the Applicants to explain how the Commission can verify and be assured that “only those considered incremental to the PSEP will include any overheads.” The Applicants’ response is below:[66]

> In developing the fully loaded and escalated PSEP costs, SoCalGas and SDG&E included overheads that are associated with the direct PSEP costs. These overheads are expenses that indirectly support the business operations of the utilities and are driven by certain direct costs (cost drivers). As the cost drivers change, the associated overheads change accordingly. Since the direct PSEP costs are incremental to SoCalGas and SDG&E’s

[63] See Amended Workpapers, WP-X-1-10.

[64] Response to DRA-PZS6-8.

[65] Amended Testimony, p.122.

[66] Response to DRA-PZS-TCAP-PSEP-13-03.

2012 General Rate Case requests, so are the overheads associated with these direct costs. For instance, as SoCalGas and SDG&E add internal company labor to implement the Proposed Pipeline Safety Enhancement Plan, associated labor overhead costs, such as payroll taxes and benefit costs, will increase. These overheads, which will change according to the change in the cost drivers, are considered incremental and are applied to the associated direct PSEP costs (cost drivers) to derive the fully loaded costs. For detailed descriptions and respective cost drivers of overheads included in the PSEP costs, see Response DRA-PZS-02.

The Applicants indicate that overheads were automatically assumed to be incremental since these are associated with PSEP direct costs, which are also assumed to be incremental (i.e., being outside of the 2012 GRC requests). The Applicants say that since PSEP direct costs are incremental to SoCalGas and SDG&E's 2012 General Rate Case requests, so are the overheads associated with these direct costs. DRA disagrees. The burden of proof is on the Applicants to demonstrate that the PSEP direct costs are truly incremental costs rather than just make the assertion.

The Applicants' calculation of the SoCalGas revenue requirement uses the current authorized rate of return of 8.68% based on a 10.82% return on equity (ROE).[67] The calculation of the SDG&E revenue requirement uses the current authorized rate of return of 8.40% based on 11.10% return on equity.[68] In the years since 1998 for SoCalGas, and 1994 for SDG&E, the Applicants' actual ROE earnings have consistently exceeded the rate of return on equity authorized by the Commission.[69]

DRA's calculation of the revenue requirements would exclude those PSEP direct costs from the PET RO model consistent with DRA's cost recovery policy recommendations. For any pipes that will be replaced with the installation dates post 1955, DRA recommends the Applicants not receive cost recovery for any remaining balances on the old pipes being retired. To

[67] Amended Testimony, p.123.

[68] Id.

[69] See Attachment 1 to this testimony, Response DRA-PZS-TCAP-PSEP-12-01 2nd Rev Final 060412.

the extent that DRA Exhibits 2 and 2A recommend zero pipeline replacements in Phase 1A, the RO results do not reflect any of these cost recovery policies on pipeline replacements.

For the pressure testing expenses, DRA's cost recovery policy would provide ratepayer funding of the costs of testing pipes installed to the extent that those pipes for testing had installation dates before 1935.[70] For those pipes installed from 1935 and beyond, DRA recommends no expense cost recovery from ratepayers. The foregoing recommendations are consistent with DRA's cost recovery policy in this proceeding.[71]

2. Regulatory Treatment

With respect to the proposed PSEP Cost Recovery Account, DRA recommends that the Commission reject the Applicants' proposal. According to their proposal, the balances in the cost recovery accounts would be incorporated into rates via the annual regulatory account balance update filings in October of each year without any proposed prior reasonableness review from the Commission. This means there would be no opportunity for the Commission to evaluate whether those costs are reasonable before they were incorporated into rates. DRA is not opposed to a PSEP cost recovery mechanism based on its proposed forecast as a maximum annual cap for PSEP funding.

DRA asked the Applicants to clarify and explain whether there would be any opportunity for the Commission to weigh in on the reasonableness of those costs before being incorporated into rates. In response, SoCalGas/SDG&E said:[72]

[70] Id.

[71] Refer to DRA Exhibit 1.

[72] Response to DRA-PZS-TCAP-PSEP-13-01 (a) and (b).

(a) To clarify, SoCalGas/SDG&E plan to incorporate the balance recorded in their Pipeline Safety and Reliability Memorandum Accounts (PSRMA) in connection with their annual regulatory balance update filings. The balance in the PSRMAs represents the difference between the authorized revenue requirements collected through the PSEP Surcharge and the actual O&M and capital-related costs associated with the Pipeline Safety Enhancement Plan approved by the Commission. The PSRMA balances, similar to other regulatory accounts included in the annual regulatory account filing submitted in October, will reflect recorded costs through August, and a forecast of PSEP costs for the remainder of the year. This PSRMA balance, combined with next year's authorized revenue requirement, will be incorporated in PSEP surcharge rates effective January 1st of the following year.

To the extent SoCalGas/SDG&E determine, based on new information, that the forecasted costs to implement their PSEPs will exceed the funding requirements previously approved in this proceeding, SoCalGas/SDG&E propose to utilize the expedited advice letter process to obtain approval of additional funding, which is a separate process from the annual regulatory account update filing. If such additional funding is approved by the Commission prior to SoCalGas/SDG&E's annual regulatory account balance filing in October, the additional revenue requirements will be incorporated in that filing; otherwise, the additional revenue requirements that are approved by the Commission will be incorporated in SoCalGas/SDG&E's consolidated rate update filing in December.

(b) Please see response (a). SoCalGas/SDG&E plan to incorporate in the PSEP Surcharge rates the authorized revenue requirements that are approved by the Commission in this proceeding. As indicated in Testimony, Section X.B.4, SoCalGas/SDG&E plan to provide an annual status report on their progress in implementing their Commission-approved PSEP. Any additional funding requested in the expedited advice letter process beyond the levels adopted in this proceeding will not be incorporated in rates until Commission approval is obtained.

This explanation does not justify the extraordinary result Applicants seek of getting funding in rates of capital project costs the Commission has not found reasonable.

DRA asked the Applicants whether there was a cap to the advice letter request and the Applicants responded that they do not propose any maximum amount or cap in the advice letter.[73] With no caps on the expedited advice letter requests, the Applicants' Safety Enhancement costs could increase without limits, beyond those approved in this proceeding.[74]

DRA asked the Applicants for the basis of the requested expedited treatment. The Applicants' main concern appears to be ensuring the timely update of the revenue requirements incorporated into rates, as indicated in their response below:[75]

> SoCalGas/SDG&E are requesting an expedited advice letter process, in lieu of an application, for approval of any necessary additional funding to ensure that adequate funding is available to implement and complete their Commission-approved PSEPs. The expedited advice letter process will ensure that the advice letter is approved in time to implement the adjustment in rates effective the 1st of the following month. Using the regular advice letter process may, due to timing of the filing, delay the rate adjustment until the subsequent month. This process will ensure the timely update of the revenue requirements incorporated in PSEP Surcharge rates, thereby avoiding any significant undercollections from accumulating in SoCalGas/SDG&E's Pipeline Safety Enhancement Plan Cost Recovery Accounts (PSEPCRAs) and associated rate increases to customers.

This is not a good reason to shorten the opportunity for review and scrutiny by DRA and other parties regarding the reasonableness of such proposed funding adjustments. DRA recommends that the proposed expedited advice letter process be rejected.

IV. CONCLUSION

Based on the foregoing review, DRA respectfully requests the Commission adopt DRA's recommendations as discussed herein.

[73] Id.

[74] Response to DRA-PZS-TCAP-PSEP-13-01 (e).

[75] Response to DRA-PZS-TCAP-PSEP-13-01 (d).

A T T A C H M E N T 1
DATA RESPONSES

2

QUESTION DRA-PZS-TCAP-PSEP-12-01:

Please provide the historical authorized and actual recorded rate of return on equity for each of SoCalGas and SDG&E over the period starting from 1990 through the present time.

QUESTION DRA-PZS-TCAP-PSEP-12-01:

Attached are the historical authorized and actual recorded rates of return on equity (ROE) for SoCalGas for the years 1998 – 2011. Information prior to these dates is unavailable. We require additional time to prepare the information for SDG&E and expect to provide a response on or before May 25, 2012.

Please note the ROEs were calculated in a manner that is consistent with our traditional PBR sharing calculations for CPUC base business. The ROEs in this table do NOT represent total company financial ROEs but rather are imputed CPUC specific calculations based on achieved RORs.

Earned and Auth ROE			
SoCalGas			
		CPUC Only	
Year Effective	**Decision / Advice Letter**	**Earned ROE %**	**Authorized ROE %**
2011	AL 3199-A	12.96%	10.82
2010	AL 3199-A	15.58%	10.82
2009	AL 3199-A	16.09%	10.82
2008	AL 3199-A	14.97%	10.82
2007	AL 3199-A	14.05%	10.82
2006	AL 3199-A	13.85%	10.82
2005	AL 3199-A	14.04%	10.82
2004	AL 3199-A	13.28%	10.82
2003	AL 3199-A	9.68%	10.82
2002	D.96-11-060	11.85%	11.60
2001	D.96-11-060	12.07%	11.60
2000	D.96-11-060	14.67%	11.60
1999	D.96-11-060	11.92%	11.60
1998	D.96-11-060	10.23%	11.60

1

Attached are the historical authorized and actual recorded rates of return on equity (ROE) for SDG&E for the years 1994 – 2011. Information prior to these dates is unavailable.

Please note the ROEs were calculated in a manner that is consistent with our traditional PBR sharing calculations for CPUC base business (and exclude FERC Transmission for SDG&E). The ROEs in this table do NOT represent total company financial ROEs but rather are imputed CPUC specific calculations based on achieved RORs.

Note that we are revising the response sent to you on 5/25/12 due to a posting error in the calculation of the 2010 earned ROE %.

Earned and Authorized ROE			
SDG&E			
		CPUC Only	
Year Effective	**Decision / Advice Letter**	**Earned ROE %**	**Authorized ROE %**
2011	D. 07-12-049	12.74%	11.10
2010	D. 07-12-049	12.43%	11.10
2009	D. 07-12-049	12.81%	11.10
2008	D. 07-12-049	13.05%	11.10
2007	D.05-12-043	11.01%	10.70
2006	D.05-12-043	10.66%	10.70
2005	AL 1930 E/L 1679 G	10.83%	10.37
2004	D.02-11-027	11.84%	10.90
2003	D.02-11-027	8.09%	10.90
2002	D. 99-06-054	7.61%	10.60
2001	D. 99-06-055	10.68%	10.60
2000	D. 99-06-056	13.75%	10.60
1999	D. 99-06-057	15.61%	10.60
1998	D. 99-06-057 / D. 01-05-054	13.39%	11.60
1997	D.96-11-060	16.61%	11.60
1996	D.95-11-062	14.33%	11.60
1995	D.94-11-076	14.84%	12.10
1994	D.93-12-022	14.05%	11.00

QUESTION DRA-PZS-TCAP-PSEP-12-02:

DRA understands that for purposes of determining the SoCalGas revenue requirements for the PSEP, the assumption is that the project goes into service in a year's time following the direct cost spending for the project. Please clarify whether this understanding is correct. If correct, and further assuming that SoCalGas/SDG&E expect to start spending for projects in the year 2012, then is it reasonable to assume that the year 2013 would be the first year when projects go into service for SoCalGas? If not, please explain.

RESPONSE DRA-PZS-TCAP-PSEP-12-02:

Yes, in determining SoCalGas' revenue requirements, this assumption is correct. Due to the fact that the estimates for the PSEP are very high level and project-specific design and engineering work could not be completed prior to filing, SoCalGas assumed that, on average, each project would take one year from the time of the capital expenditure until it is placed in-service. Therefore, if assuming SoCalGas starts spending for projects in year 2012, then it is reasonable to assume that this project will go into service in year 2013. This response was also provided in Response DRA-PZS-06-2.

2

QUESTION DRA-PZS-TCAP-PSEP-12-03:

Please clarify whether the assumption on project in-service date is different for SDG&E, or the same as that for SoCalGas. Also, a note in the transmission pipelines tab of the SDG&E PSEP Revenue Requirements excel model states that capital supplemental costs go into service the year these are spent. Please explain whether this note pertains only to the in-service date assumption for SDG&E for supplemental cost portion or project costs or whether it is the assumption for all project costs of SDG&E. In addition, please clarify the basis of this assumption for SDG&E.

RESPONSE DRA-PZS-TCAP-PSEP-12-03:

The assumption on project in-service date for SDG&E is the same as SoCalGas with the exception of SDG&E transmission pipeline L-1600, for which the in-service schedule was provided in training with DRA on March 2nd and also in Responses DRA-PZS-06-9 and DRA-PZS-06-10. See Response DRA-PZS-TCAP-PSEP-12-06 for the basis of the L-1600 in-service schedule. The note in the transmission pipeline tab only pertains to the in-service date assumption for SDG&E for supplemental cost portions and not to all project costs.

2

QUESTION DRA-PZS-TCAP-PSEP-12-04

In Response to PZS2-1(g), SoCalGas and SDG&E provided the recorded data for the metrics showing both utilities' safety record from 2003 through 2010. These metrics showed recorded data for failures, incidents, and leaks over that time period. Based on the recorded data, is it fair to conclude that the transmission pipelines show a declining rate of failures, incidents, and leaks? If so, then would it also be fair to conclude that both SoCalGas and SDG&E should have experienced some benefits such as reductions in operating and maintenance expenses for these transmission pipelines? If you agree, please explain how the recorded data on the metrics could translate into benefits in terms of reduced costs. If you disagree, please explain.

RESPONSE DRA-PZS-TCAP-PSEP-12-04

Based on the data between 2003 – 2010 it is not fair to conclude that there is a declining rate of failures, incidents, and leaks. Baseline assessments will not even be complete until December 17, 2012. Therefore, this data cannot be used for trending until the baseline assessments and several assessment cycles are complete on each HCA segment. Once this data is available it can be analyzed to see if a conclusion can be made on the rate of failures, incidents, and leaks.

2

QUESTION DRA-PZS-TCAP-PSEP-12-05

If recorded data for the year 2011 is now available, please provide an update to the Response to PZS2-1(g).

RESPONSE DRA-PZS-TCAP-PSEP-12-05

SoCalGas and SDG&E

Year	Failures	Incidents	Leaks
2011	0	0	2

2

QUESTION DRA-PZS-TCAP-PSEP-12-06

DRA understands that the pipeline replacement project for Line 1600 is expected to span both Phase 1A and Phase 1B. Further, in the Capital Workpaper WP-IX-34, SoCalGas/SDG&E states “It is estimated that approximately 4% of the total costs will occur in Phase 1A (2012-2015) and the remaining 96% of the costs will occur in the first three years of Phase 1B (2016-2018). Please clarify whether the portion of Line 1600 that will have spending in Phase 1A will be assumed to go into service (and become part of the rate base) a year after the spending occurs. Please explain whether the portion of Line 1600 which will have spending occur in Phase 1A will be deemed to become a used and useful plant even before the remaining 96% occur in Phase 1B. Please explain your responses fully.

RESPONSE DRA-PZS-TCAP-PSEP-12-06

The L-1600 replacement project is significant in terms of scope and mileage, and as such it is anticipated that only engineering, design, and permitting activities will likely occur in Phase 1A. When calculating the revenue requirement for the filing, it was assumed that these costs would not be capitalized until Phase 1B, when construction is expected to commence. As stated in Response DRA-PZS-TCAP-12-03, there are supplemental program-level costs captured in the PSEP cost estimates in addition to the project specific replacement costs. These supplemental costs are assumed to be capitalized the year they are spent.

2

QUESTION DRA-PZS-TCAP-PSEP-13-01:

In the above exhibit reference, SoCalGas/SDG&E state on p.127: "As stated above, in connection with our annual regulatory account balance update filings in October of each year, the current-year-end balances in the pipeline Safety Enhancement Plan Cost Recovery Accounts, combined with the revenue requirements for the coming year, will be incorporated into rates, as appropriate. We propose to file expedited advice letters requesting approval for any adjustments to the overall level of Pipeline Safety Enhancement Plan funding requirements previously approved. These advice letters will include an explanation for changes from the original revenue requirements, as previously proposed and approved. We also propose to use this advice letter process in requesting any additional revenue requirement associated with the Enterprise Asset management System or the expansion of the pipeline Safety Enhancement Plan for pipeline safety enhancement activities not covered by this filing that may subsequently be adopted by the Commission." In addition, in Response to PZS8 Question 5, SoCalGas/SDG&E state that they are proposing to recover actual costs.

(a) Please explain fully whether the above statements mean that SoCalGas/SDG&E will incorporate into rates all the actual costs incurred, including costs those that exceed the Commission approved and adopted forecast revenue requirements for the SoCalGas/SDG&E PSEP Phase 1A that will be authorized in the Commission decision in the proceeding.

(b) Based on your response to item (a), please explain whether there is a proposed process in the PSEP wherein the Commission determines the reasonableness of the actual costs incurred **before** these are incorporated by SoCalGas/SDG&E into rates. Please describe this process fully. Please explain whether this process for reasonableness is different from the annual regulatory account balance update filings in October of each year.

(c) Is the expedited advice letter process described in the statements above a reasonableness review process of the actual costs incurred? Please fully explain in your response whether that advice letter process would determine both reasonableness of actual costs incurred and at the same time increase the adopted forecast revenue requirement from the levels that are approved as a result of this proceeding.

(d) Please explain why SoCalGas/SDG&E are requesting for approval of an expedited advice letter process for the adjustments as described in the above statements.

(e) Please explain whether the above statements propose any maximum amount or cap as to the amount of the adjustments under the advice letter process.

(f) Please clarify whether SoCalGas/SDG&E propose to refund to customers differences between actual spending and authorized spending, should actual spending be below the authorized amounts.

RESPONSE DRA-PZS-TCAP-PSEP-13-01:

(a) To clarify, SoCalGas/SDG&E plan to incorporate the balance recorded in their Pipeline Safety and Reliability Memorandum Accounts (PSRMA) in connection with their annual regulatory balance update filings. The balance in the PSRMAs represents the difference between the authorized revenue requirements collected through the PSEP Surcharge and the actual O&M and capital-related costs associated with the Pipeline Safety Enhancement Plan approved by the Commission. The PSRMA balances, similar to other regulatory accounts included in the annual regulatory account filing submitted in October, will reflect recorded costs through August, and a forecast of PSEP costs for the remainder of the year. This PSRMA balance, combined with next year's authorized revenue requirement, will be incorporated in PSEP surcharge rates effective January 1st of the following year.

To the extent SoCalGas/SDG&E determine, based on new information, that the forecasted costs to implement their PSEPs will exceed the funding requirements previously approved in this proceeding, SoCalGas/SDG&E propose to utilize the expedited advice letter process to obtain approval of additional funding, which is a separate process from the annual regulatory account update filing. If such additional funding is approved by the Commission prior to SoCalGas/SDG&E's annual regulatory account balance filing in October, the additional revenue requirements will be incorporated in that filing; otherwise, the additional revenue requirements that are approved by the Commission will be incorporated in SoCalGas/SDG&E's consolidated rate update filing in December.

(b) Please see response (a). SoCalGas/SDG&E plan to incorporate in the PSEP Surcharge rates the authorized revenue requirements that are approved by the Commission in this proceeding. As indicated in Testimony, Section X.B.4, SoCalGas/SDG&E plan to provide an annual status report on their progress in implementing their Commission-approved PSEP. Any additional funding requested in the expedited advice letter process beyond the levels adopted in this proceeding will not be incorporated in rates until Commission approval is obtained.

(c) No, the expedited advice letter process described above is not a reasonableness review process of the actual costs incurred. Rather it is a change in the forecast of the funding requirements necessary to implement the Commission-approved PSEP that was not reflected in the original estimates provided in this proceeding, as that information was not available at that time.

(d) SoCalGas/SDG&E are requesting an expedited advice letter process, in lieu of an application, for approval of any necessary additional funding to ensure that adequate funding is available to implement and complete their Commission-approved PSEPs. The expedited advice letter process will ensure that the advice letter is approved in time to implement the adjustment in rates effective the 1st of the following month. Using the regular advice letter process may, due to timing of the filing, delay the rate adjustment until the subsequent month. This process will ensure the timely update of the revenue requirements incorporated in PSEP Surcharge rates, thereby avoiding any significant undercollections from accumulating in SoCalGas/SDG&E's Pipeline Safety Enhancement Plan Cost Recovery Accounts (PSEPCRAs) and associated rate increases to customers.

(e) SoCalGas/SDG&E do not propose any maximum amount or cap in the advice letter process.

(f) Should actual spending be below authorized amounts upon completion of SoCalGas/SDG&E's Commission-approved PSEP, the difference will be refunded to customers or carried forward to offset the authorized funding requirements of future phases of the PSEP.

QUESTION DRA-PZS-TCAP-PSEP-13-02:

In chapter X of the above subject, SoCalGas/SDG&E request approval and recovery of the revenue requirements resulting from the Capital and O&M forecasts of the PSEP for the years 2011 through 2015 to coincide with the utilities' anticipated next general Rate Case. In Tables IX-1 and IX-2, Phase 1A appears to exclude the year 2011. Further, SoCalGas/SDG&E state that the PSEP Phase 1A O&M cost for SoCalGas is $255 million and for SDG&E is $7 million.

(a) Please clarify whether the year 2011 is considered part of Phase 1A for purposes of the SoCalGas/SDG&E PSEP. If so, please explain the apparent exclusion of the year 2011 for Phase 1A in Tables IX-1 and IX-2.

(b) Please state whether any costs have actually been incurred by SoCalGas/SDG&E for the PSEP Phase 1A in the year 2011. Please provide the year 2011 PSEP actual costs incurred in terms of $ amounts, describe nature of the cost incurred and identify the specific PSEP project component/s these costs are supposed to be part of.

(c) Please clarify whether SoCalGas/SDG&E has incurred actual PSEP costs for the year 2012. Please provide the year 2012 costs in terms of $ amounts, describe the nature of the cost incurred, and identify the specific project component/s these costs are supposed to be part of.

RESPONSE DRA-PZS-TCAP-PSEP-13-02:

(a) Phase 1A, per the PSEP filing, is considered to cover years 2012 through 2015. Year 2011 is not considered part of Phase 1A. The costs identified in year 2011 in Tables IX-1 and IX-2 are explained on page 112 of the testimony as follows:

> "Incremental costs are being incurred and tracked since February 2011, as a result of increased efforts above and beyond the existing pipeline integrity management program. These costs include employee overtime pay to implement the additional leak surveys and pipeline patrols, costs for contractors to assist in the record review process, incremental costs associated with coupon sampling to determine material properties, and incremental costs associated with

the installation of pressure control equipment to facilitate the lowering of pressure on some segments."

(b) No costs were incurred in year 2011 for PSEP Phase 1A activities.

(c) The Pipeline Safety and Reliability Memorandum Account was just recently established, effective May 20, 2012. Project set-up, mobilization, and planning activities are being kicked off. PSEP activities and costs will be included in the monthly updates as required by Decision 12-04-021 with the first update planned in July 2012 for activities and costs incurred through June 2012.

QUESTION DRA-PZS-TCAP-PSEP-13-03:

On page 122 of the exhibit reference, SoCalGas/SDG&E state that "only overheads that are considered incremental to each Pipeline Safety Enhancement Plan Case are included." Please explain fully how the Commission can verify and be assured that "only overheads that are considered incremental to each Pipeline Safety Enhancement Plan Case are included" in the loaded and escalated PSEP costs and the corresponding proposed revenue requirements.

RESPONSE DRA-PZS-TCAP-PSEP-13-03:

In developing the fully loaded and escalated PSEP costs, SoCalGas and SDG&E included overheads that are associated with the direct PSEP costs. These overheads are expenses that indirectly support the business operations of the utilities and are driven by certain direct costs (cost drivers). As the cost drivers change, the associated overheads change accordingly. Since the direct PSEP costs are incremental to SoCalGas and SDG&E's 2012 General Rate Case requests, so are the overheads associated with these direct costs. For instance, as SoCalGas and SDG&E add internal company labor to implement the Proposed Pipeline Safety Enhancement Plan, associated labor overhead costs, such as payroll taxes and benefit costs, will increase. These overheads, which will change according to the change in the cost drivers, are considered incremental and are applied to the associated direct PSEP costs (cost drivers) to derive the fully loaded costs. For detailed descriptions and respective cost drivers of overheads included in the PSEP costs, see Response DRA-PZS-02.

2

A T T A C H M E N T 2

QUALIFICATION STATEMENT

2

QUALIFICATIONS AND PREPARED TESTIMONY
OF
PEARLIE Z. SABINO

Q.1. Please state your name and business address.

A.1. My name is Pearlie Z.Sabino. My business address is 505 Van Ness Avenue, San Francisco, California 94102.

Q.2. By whom are you employed and in what capacity?

A.2. I am employed by the State of California at the California Public Utilities Commission (CPUC) as a Regulatory Analyst in the Division of Ratepayer Advocates (DRA).

Q.3. Please describe your educational background and professional experience.

A.3. I have an M.A. in Economics from Ateneo de Manila University and a B.S. in Business Economics from the University of the Philippines. I graduated from the Executive Training Program in Energy Planning and Policy of the University of Pennsylvania. I have worked for 19 years with the largest electric utility in the Philippines in various professional capacities in the areas of economic research, marginal cost studies, project evaluation, corporate budgeting and monitoring, and project financing.

I joined the Commission staff in 1997. In the last 15 years, I have worked on a number of electric and natural gas matters including but not limited to the following: the review of SoCalGas' Gas Cost Incentive Mechanism; the review of Biennial Cost Allocation Proceeding (BCAP) applications for PG&E, SoCalGas and SDG&E; various gas transportation contracts (such as Guardian, Ruby, US Gypsum), various applications pertaining to the grant of Certificate of Public Convenience and Necessity (CPCN) for gas storage contracts, including amendments; SoCalGas/SDG&E system integration and firm access rights proceedings, including the FAR Update proceeding, the Joint SCE/SoCalGas/SDG&E Omnibus proceeding, and the Joint Application for Public Purpose Program Cost Reallocation proceeding, the PG&E Gas Transmission & Storage rate case which resulted in Gas Accord V Settlement, and the PG&E Pipeline Safety Enhancement Plan in R.11-02-019.

Q.4. What is your area of responsibility in this proceeding?

A.4 I am sponsoring DRA's Exhibit 4 Prepared Testimony in A.11-11-002 with respect to the revenue requirements for SoCalGas and SDG&E's Pipeline Safety Enhancement Plan submitted on August 26, 2011, as amended.