

BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA



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Application of Southern California Gas Company (U904G) and San Diego Gas & Electric Company (U902G) to Recover Costs Recorded in the Pipeline Safety and Reliability Memorandum Accounts, the Safety Enhancement Expense Balancing Accounts, and the Safety Enhancement Capital Cost Balancing Accounts.

Application 16-09-005  
(Filed September 2, 2016)

**PROTEST OF THE OFFICE OF RATEPAYER ADVOCATES**

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## **PROTEST OF THE OFFICE OF RATEPAYER ADVOCATES**

### **I. INTRODUCTION**

In accordance with the Commission’s Rules of Practice and Procedure (Rules), the Office of Ratepayer Advocates (ORA) submits this protest to San Diego Gas & Electric Company’s (SDG&E) and Southern California Gas Company’s (SoCalGas) (collectively referred to as “Applicants”) Application to recover Costs Recorded in the Pipeline Safety and Reliability Memorandum Accounts (PSRMA), the Safety Enhancement Expense Balancing Accounts (SEEBA), and the Safety Enhancement Capital Cost Balancing (SECCBA) in customer rates.

The notice of the filing of the Application appeared on the Commission’s Daily Calendar on September 8, 2016, and, therefore, pursuant to Rule 2.6(a), ORA’s protest is timely filed.

### **II. BACKGROUND**

Following the San Bruno pipeline explosion in September 2010, the Commission issued Rulemaking (R.)11-02-019. In Decision (D.)11-06-017, the Commission ordered all California natural gas transmission pipeline operators “to prepare and file a comprehensive Implementation Plan to replace or pressure test all natural gas transmission pipeline in California that has not been tested or for which reliable records are not available.”<sup>1</sup> In D.12-04-021, the Commission transferred the SoCalGas and

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<sup>1</sup> D.11-06-017, mimeo, p. 18.

SDG&E's Pipeline Safety Enhancement Program (PSEP) to Application (A.)11-11-002 and authorized SoCalGas and SDG&E to create a "memorandum account to record for later Commission ratemaking consideration the escalated direct and incremental overhead costs of its Pipeline Safety Enhancement Plan..."<sup>2</sup> On May 18, 2012, the PSRMAs were established pursuant to SoCalGas and SDG&E Advice Letters 4359-G and 2106-G, respectively.

As acknowledged by Applicants, in order to recover PSEP costs, they were ordered to "file an application with testimony and work papers to demonstrate the reasonableness of the costs incurred which would justify rate recovery."<sup>3</sup> As provided by D.14-06-007, the Commission set forth the following minimum filing requirements pertaining to SoCalGas' and SDG&E's future Safety Enhancement reasonableness applications:

When SDG&E and SoCalGas file applications to demonstrate the reasonableness of Safety Enhancement they will bear the burden of proof that the companies used industry best practices and that their actions were prudent. This is not a "perfection" standard: it is a standard of care that demonstrates all actions were well planned, properly supervised and all necessary records are retained. At a minimum we would expect that SDG&E and SoCalGas could document and demonstrate an overview of the management of Safety Enhancement which might include: ongoing management approved updates to the Decision Tree and ongoing updates similar to the Reconciliation. The companies should be able to show work plans, organization charts, position descriptions, Mission Statements, etc., used to effectively and efficiently manage Safety Enhancement. There would likely be records of contractor selection controls, project cost control systems and reports, engineering design and review controls, and of course proper retention of constructions records, retention of pressure testing records, and retention of all other construction test and inspection

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<sup>2</sup> D.12-04-031, mimeo, p. 12.

<sup>3</sup> D.14-06-007, mimeo, p. 39.

records, and records of all other activities mandated to be performed and documented by state or federal regulations.<sup>4</sup>

In December 2014, Applicants filed A.14-12-016, their first PSRMA Reasonableness Review application, for after-the-fact rate recovery pertaining to a smaller group of certain projects. A proposed decision is to be considered at the Commission's October 13, 2016 meeting.

The instant Application, filed on September 2, 2016, is the second PSRMA Reasonableness Review application. The Application identifies where in accompanying testimony Applicants discuss specific elements identified in pages 36-37 of D.14-06-007. The Application also characterizes the filing components consisting of testimony describing Decision Tree Updates, Mileage Reconciliation, Work Plans, Organization Charts, Position Descriptions, Mission Statement Contractor Selection Controls, Project Cost Control Systems and Reports, and Engineering and Design and Review Controls.<sup>5</sup> ORA intends to review these components to determine whether they comply with the minimum filing requirements provided in D.14-06-007.

### **III. ISSUES IDENTIFIED IN ORA'S PRELIMINARY REVIEW**

#### **A. ESTABLISHMENT OF REASONABLENESS**

ORA's preliminary review suggests that the Applicants' initial showing exhibits similar deficiencies as A.14-12-016, as it does not meet the minimum filing requirements of D.14-06-007, and therefore is insufficient to establish the reasonableness of Applicants' actions and decisions.

##### **1. Deficiencies in Applicants' Present Showing**

Examples of deficiencies in the present application include the following:

- Project plans (timelines, GANTT charts, scope, etc.);
- Results of tests or replacements;
- Names and other necessary details concerning contractors, suppliers, or vendors used;

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<sup>4</sup> D.14-06-007, mimeo, p. 37.

<sup>5</sup> Application, p. 7.

- Cost information by specific category (for example, overtime labor vs. contract labor costs; travel costs, rented testing equipment vs. company-owned test equipment costs, etc.); and
- Documentation and explanation of changes to projects since previous PSEP filings.

As noted above, the information presented by the Applicants is insufficient to establish reasonableness of costs. However, in the absence of any additional information or explanation, ORA has noted a number of high-level project costs<sup>6</sup> that exhibit the deficiencies shown above, and warrant further investigation:

- An abandoned project (apparently without a replacement pipeline installation) with a cost of over \$5 million, which are all in capital costs;
- A large-scale test and replacement project with a cost of well over \$4 million/mile;
- A large-scale replacement project with a cost of well over \$6 million/mile;
- Numerous short test or replacement projects<sup>7</sup> with costs in excess of \$10-15 million/mile;
- Valve project costs that vary by orders of magnitude, both in total project cost and cost per valve; and
- Post-completion costs for projects previously evaluated in the PSRMA.

As part of SoCalGas and SDG&E's Application and opening testimony, the Commission should require specific cost-related information for these projects, in order to evaluate reasonableness. Without it, SoCalGas and SDG&E likely will not have met their burden, ORA will not have the necessary detail to investigate these and other issues, and the Commission likely will not have sufficient evidence in the record to determine the reasonableness of the Applicants' actions. The deficiencies with Applicant's showing, identified in the first paragraph of this subsection, are similar to deficiencies with the

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<sup>6</sup> See: Direct Testimony of Rick Phillips, pp. 2-3 (Table 1) and pp. 14-15 (Tables 5 through 8).

<sup>7</sup> Short test or replacement projects refers to a test project or replacement project that is short in physical length.

showing in Applicants' last PSRMA application, which are identified immediately below:

- The Applicants have not met their burden to show reasonableness of incurred costs. Cost recordkeeping systems and practices are insufficiently granular or detailed, lack unit costs, and lack the ability to be compared to estimates or similar projects.<sup>8</sup>
- Evidence of prudence in engineering and construction decisions; evidence of cost control systems and methodology; the ability to track project progress; and the ability to compare recorded cost to estimates and benchmarks are lacking in Applicants' showing given the documentation and evidence provided and obtained through the discovery process. The fact that critical unit cost information is lacking in sufficient detail both in the original application and in response to intervenors' discovery indicates that Applicants are not meeting the requirements established by the Commission to demonstrate reasonableness.<sup>9</sup>
- The Application includes no recorded data or calculations of unit costs, comparisons to similar work by other utilities, similar non-utility projects, or even Applicants' past projects in any depth or detail.<sup>10</sup>

## **2. Recommendations to Correct the Deficiencies in the Instant Showing**

To remedy Applicants' showing deficiencies identified in section III.A. ORA recommends the Commission immediately adopt a minimum filing requirement supplement to D.14-06-007. ORA recommends the following minimum filing requirement supplements, which ORA also identified in testimony as part of Applicants' last PSRMA application.<sup>11</sup>

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<sup>8</sup> See ORA Testimony (Exhibit ORA-01) in A. 14-12-016, p. 3.

<sup>9</sup> See ORA Testimony (Exhibit ORA-01) in A. 14-12-016, p. 6.

<sup>10</sup> ORA Opening Brief, p. 13, Citing footnote 69, (Exhibit ORA-01), p. 10.

<sup>11</sup> See these details also provided in ORA Testimony (Exhibit ORA-01) in A. 14-12-016, pp. 7-8.

- Detailed comparisons to similar projects undertaken in the past;
- Detailed comparisons to similar projects in other regions or states;
- Detailed comparisons of actual costs to Applicants' own estimated costs;
- Documentation and justification of recorded and estimated unit costs (for example, dollars per mile tested, dollars per unit of water purchased, etc.);
- Clear tracking and documentation of changes to project scope or scale;
- Evidence of efforts to control costs;
- Evidence of efforts to reduce costs over time; and
- Evidence of efforts to find and reduce inefficiencies.
- Detailed comparisons of project costs with those of other similar projects by other California based operators.

Additionally, to remedy Applicants' showing deficiencies in this proceeding, Applicants should be required to do the following things, which ORA also identified in its opening brief in the last PSRMA application:<sup>12</sup>

- Identify in opening testimony each of the variabilities Applicants anticipate will apply for upcoming pipeline safety enhancement projects including those to come in future Applications.
- Provide a quantitative analysis of potential variabilities to determine the extent to which the cost of each variability can be quantified; how frequently each variability occurs in a project; what factors affect the cost of each variability (such as location or project length); and methods that can be used to account for and reduce the cost uncertainty associated with variabilities (such as comparisons with other projects).
- To the extent that costs of certain variabilities cannot be reasonably projected and shown, Applicants should

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<sup>12</sup> See these recommendations provided in ORA Opening Brief, in A.14-12-016, p. 21, which were made in order to address similar showing deficiencies identified in that proceeding.

provide a clear and thorough quantitative demonstration that this is the case. [fn omitted] Where costs of a variability cannot be reasonably projected and shown, Applicants should present a plan or approach for dealing with such uncertainty to limit shareholder and ratepayer risk. One approach to dealing with such uncertainty could be to provide a range of cost associated with a given variability.

- Any variabilities that occur during a project, but were unforeseeable at the time Applicants provided a cost estimate as part of A.11-11-002, should be explained.

## **B. PROJECT IMPLEMENTATION**

In addition to the project-specific concerns raised above, after preliminary review ORA is also concerned about programs or costs not associated with a specific project, including:

- PSEP classroom training costs;
- PSEP office space rented in San Diego;
- The addition of two new phases (coined “Phase 0” and “Phase 0.5”) to Applicants’ 7-Stage Review Process for valve projects; and
- Applicants’ “Technology Plan”.

## **IV. OTHER ISSUES**

### **A. SCHEDULE**

Consistent with the recommendations provided in Section III.A.1, the Commission should direct Applicants to serve supplemental testimony to correct existing deficiencies, and provide appropriate, necessary, and detailed information to help establish reasonableness. In order to do so, ORA would recommend a longer schedule to accommodate for the inclusion of supplemental testimony.

Below is a preliminary schedule. However, given other proceedings that may issue scoping memos before the Pre-hearing conference, ORA may be in a better position to discuss schedule by the time of the PHC.

October 10	Protests Due
January 2017	SDG&E and SoCalGas Supplemental Testimony
April 2017	Intervenor Testimony
May 2017	Rebuttal Testimony
June 2017 (mid)	Hearings
September 2017 (mid)	Opening Briefs
October 2017 (mid)	Reply Briefs

**B. CATEGORIZATION**

SoCalGas and SDG&E propose that this proceeding be categorized as “ratesetting” under Rule 1.3(e) because the Application will have a potential future effect on SoCalGas and SDG&E’s rates.<sup>13</sup> ORA agrees that this proceeding should be categorized as “ratesetting.”

**V. CONCLUSION**

ORA recommends that this matter be set for evidentiary hearings, and that the scope of the proceeding includes, but not be limited to, the issues identified in this protest. As ORA’s review is in the preliminary stages, ORA’s ongoing review and discovery may reveal additional issues. ORA reserves the right to raise additional issues in testimony.

Respectfully submitted,

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<sup>13</sup> Application, p. 19.